

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 2006B Bonds and the Series 2006C 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 tax 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. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2006B Bonds and the Series 2006C 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 2006B Bonds and the Series 2006C Bonds. See "TAX MATTERS" herein. In the opinion such Special Tax Counsel to the NMFA, interest on the Series 2006D Bonds is not excludable from gross income for federal income tax purposes. See "TAX MATTERS" herein.

NEW MEXICO FINANCE AUTHORITY

\$40,085,000
STATE TRANSPORTATION REVENUE AND
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006B

\$220,000,000
ADJUSTABLE RATE STATE TRANSPORTATION
REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006C
SUBSERIES C-1 THROUGH C-3

\$50,400,000
ADJUSTABLE RATE STATE TRANSPORTATION
REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006D
(TAXABLE)
SUBSERIES D-1 THROUGH D-2

Dated: Delivery Date**Due:** As shown on inside front covers

The New Mexico Finance Authority's State Transportation Revenue and Refunding Revenue Bonds (Subordinate Lien), Series 2006B (the "Series 2006B Bonds"), its Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006C (the "Series 2006C Bonds") and its Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006D (Taxable) (the "Series 2006D Bonds" and together with the Series 2006B Bonds and the Series 2006C Bonds, the "2006 Subordinate Lien Bonds") are being issued as fully registered bonds. The Series 2006B Bonds will bear interest at a Fixed Rate and will be in denominations of \$5,000 or any integral multiple thereof. While in the Auction Period, the Series 2006C Bond and the Series 2006D Bonds are issuable in denominations of \$25,000 or any integral multiple thereof. The Depository Trust Company ("DTC") will act as securities depository for all of the 2006 Subordinate Lien Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the 2006 Subordinate Lien Bonds will be registered in the name of Cede & Co. Individual purchases of the 2006 Subordinate Lien Bonds will be made in book-entry form only, and Beneficial Owners of the 2006 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 payments to DTC participants for subsequent disbursement to the Beneficial Owners of the 2006 Subordinate Lien Bonds.

The 2006 Subordinate Lien Bonds are being issued by the New Mexico Finance Authority (the "NMFA") at the direction of the State Transportation Commission (the "Commission") of the State of New Mexico (the "State"). The proceeds of the Series 2006B Bonds and the Series 2006C Bonds will be used to provide funds for certain transportation projects authorized by the Legislature of the State (the "Legislature") that the New Mexico Department of Transportation (the "Department") has determined to be necessary or desirable. The proceeds of the Series 2006B Bonds also will be used to refund and restructure certain outstanding bonds of the Commission. The proceeds of the Series 2006D Bonds will be used to provide funds for an escrow required to be established by the Joint Use Agreement between the Department and BNSF Railway Company. Proceeds from the sale of the 2006 Subordinate Lien Bonds will be used for purposes of paying costs of issuance relating to the 2006 Subordinate Lien Bonds.

Interest on the Series 2006B Bonds is payable on June 15 and December 15 of each year, commencing on June 15, 2007, as more fully described herein. Principal on the Series 2006B Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedule set forth on the applicable inside front cover. The Series 2006C Bonds and the Series 2006D Bonds initially will bear interest at an Auction Rate. For a description of the method of determination of interest rates, interest payment dates and certain other terms applicable to the Series 2006C Bonds and the Series 2006D Bonds while in an Auction Rate Period, see the applicable inside front covers. Each Subseries of the Series 2006C Bonds and each Subseries of the Series 2006D 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 2006C Bonds and such Subseries of the Series 2006D Bonds is changed to another Interest Rate, in which event such Subseries of the Series 2006C Bonds and such Subseries of the Series 2006D 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 2006C Bonds and the Series 2006D Bonds only during the Auction Rate Period and not the terms which will apply in the event that the Series 2006C Bonds or the Series 2006D Bonds are converted to a new ARS Rate as described herein.***

SEE MATURITY SCHEDULES
ON INSIDE FRONT COVERS

The 2006 Subordinate Lien Bonds are subject to redemption prior to maturity as more fully described herein.

The 2006 Subordinate Lien Bonds are special, limited obligations of the NMFA payable, together with additional bonds currently outstanding in the amount of \$1,082,315,000 and 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 2006 Subordinate Lien Bonds on such revenues is subordinate to the lien thereon securing other bonds currently outstanding in the amount of \$700,000,000 and issued concurrently with the 2006 Subordinate Lien Bonds in the amount of \$150,000,000 and which may hereafter be issued by the NMFA. The 2006 Subordinate Lien Bonds do not constitute or 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 2006 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.

Simultaneously with the delivery of the 2006 Subordinate Lien Bonds, a financial guaranty insurance policy (the "Bond Insurance Policy") will be issued by XL Capital Assurance Inc. (the "Bond Insurer") insuring the payment of principal of and interest on the 2006 Subordinate Lien Bonds. See "BOND INSURANCE" and "FORM OF FINANCIAL GUARANTY INSURANCE POLICY" in Appendix G.



The NMFA and the Department have undertaken, for the benefit of owners of the 2006 Subordinate Lien 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 Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the 2006 Subordinate Lien 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 2006 Subordinate Lien Bonds. It is expected that a single certificate for each maturity of the 2006 Subordinate Lien Bonds will be delivered to DTC or its agent on or about October 19, 2006. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the 2006 Subordinate Lien Bonds.

UBS Investment Bank

Goldman, Sachs & Co.
RBC Capital Markets

Citigroup

Dated: September 28, 2006

\$40,085,000
NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION REVENUE AND
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006B

Maturity Schedule

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number</u>
06/15/2007	\$2,350,000	4.000%	3.530%	64711RDU7
12/15/2007	2,225,000	4.000%	3.530%	64711RDV5
12/15/2008	925,000	3.500%	3.580%	64711RDW3
12/15/2008	2,240,000	4.000%	3.580%	64711RDX1
12/15/2009	800,000	3.500%	3.590%	64711RDY9
12/15/2009	1,545,000	4.000%	3.590%	64711RDZ6
12/15/2010	665,000	3.550%	3.600%	64711REA0
12/15/2010	1,435,000	4.000%	3.600%	64711REB8
12/15/2011	730,000	3.550%	3.620%	64711REC6
12/15/2011	495,000	4.000%	3.620%	64711RED4
12/15/2012	980,000	3.600%	3.650%	64711REE2
12/15/2012	290,000	4.000%	3.650%	64711REF9
12/15/2013	465,000	3.650%	3.690%	64711REG7
12/15/2013	855,000	4.000%	3.690%	64711REH5
12/15/2014	75,000	3.700%	3.740%	64711REJ1
12/15/2014	1,300,000	4.000%	3.740%	64711REK8
12/15/2015	275,000	3.750%	3.790%	64711REL6
12/15/2015	1,160,000	5.000%	3.790%	64711REM4
12/15/2016	365,000	3.750%	3.840%	64711REN2
12/15/2016	1,135,000	4.000%	3.840%	64711REP7
12/15/2017	250,000	3.800%	3.890%	64711REQ5
12/15/2017	1,315,000	5.000%	3.890%*	64711RER3
12/15/2018	1,645,000	5.000%	3.930%*	64711RES1
12/15/2019	1,730,000	5.000%	3.970%*	64711RET9
12/15/2020	1,820,000	5.000%	4.010%*	64711REU6
12/15/2021	1,910,000	5.000%	4.040%*	64711REV4
12/15/2022	525,000	4.000%	4.070%	64711REW2
12/15/2022	1,480,000	5.000%	4.070%*	64711REX0
12/15/2023	2,105,000	5.000%	4.100%*	64711REY8
12/15/2024	2,215,000	5.000%	4.120%*	64711REZ5
12/15/2025	2,330,000	5.000%	4.140%*	64711RFA9
12/15/2026	2,450,000	5.000%	4.160%*	64711RFB7

* Priced to par call on December 15, 2016.

\$220,000,000
NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006C

consisting of

\$70,000,000 Subseries 2006C-1

\$80,000,000 Subseries 2006C-2

\$70,000,000 Subseries 2006C-3

The initial interest rate for each Subseries of the Series 2006C 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 2006C 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 2006C 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 2006C Bonds are set forth below.

Aggregate Principal Amount: \$220,000,000

Maturity: December 15, 2026

<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>
2006C-1	October 26, 2006	each Thursday	7-day	October 27, 2006	each Friday	64711RFD3
2006C-2	October 26, 2006	each Thursday	7-day	October 27, 2006	each Friday	64711RFE1
2006C-3	October 26, 2006	each Thursday	7-day	October 27, 2006	each Friday	64711RFF8

⁽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 2006C Bonds may be changed as described herein. The Series 2006C 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 2006C 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 2006C 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) with respect to the Initial Auction Periods shown above, settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in the Series 2006C 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 2006C Bonds. Goldman, Sachs & Co. will serve as the initial Broker-Dealer for the Subseries 2006C-1 Bonds. UBS Securities LLC will serve as the initial Broker-Dealer for the Subseries 2006C-2 Bonds. RBC Capital Markets will serve as the initial Broker-Dealer for Subseries 2006C-3 Bonds.

\$50,400,000
NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006D
(TAXABLE)

consisting of

\$25,200,000 Subseries 2006D-1

\$25,200,000 Subseries 2006D-2

The initial interest rate for each Subseries of the Series 2006D 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 2006D 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 2006D 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 2006D Bonds are set forth below.

Aggregate Principal Amount: \$50,400,000

Maturity: December 15, 2026

<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>
2006D-1	October 26, 2006	each Thursday	7-day	October 27, 2006	each Friday	64711RFG6
2006D-2	October 26, 2006	each Thursday	7-day	October 27, 2006	each Friday	64711RFH4

⁽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 2006D Bonds may be changed as described herein. The Series 2006D 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 2006D 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 2006D 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) with respect to the Initial Auction Periods shown above, settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in the Series 2006D 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 2006D Bonds. Goldman, Sachs & Co. will serve as the initial Broker-Dealer for the Subseries 2006D-1 Bonds. Citigroup Global Markets Inc. will serve as the initial Broker-Dealer for the Subseries 2006D-2 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 2006 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 furnished by the NMFA and the Department or obtained from other sources which are believed by the NMFA, the Commission, and the Department 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 Department or others since the date of this Official Statement.

The 2006 Subordinate Lien Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Indenture Act of 1939, in reliance upon exemptions contained in such acts. The registration and qualification of the 2006 Subordinate Lien Bonds in accordance with applicable provisions of the securities laws of the states in which the 2006 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 2006 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 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.

THE PRICES AT WHICH THE 2006 SUBORDINATE LIEN BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE INSIDE COVER PAGES. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE 2006 SUBORDINATE LIEN BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2006 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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Bank of Albuquerque, N.A.
Albuquerque, New Mexico

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OFFICIAL STATEMENT

\$40,085,000
NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION REVENUE AND
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006B

\$220,000,000
NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006C

\$50,400,000
NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2006D
(TAXABLE)

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering of \$40,085,000 aggregate principal amount of State Transportation Revenue and Refunding Revenue Bonds (Subordinate Lien), Series 2006B (the “Series 2006B Bonds”), \$220,000,000 aggregate principal amount of Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006C (the “Series 2006C Bonds”), and \$50,400,000 aggregate principal amount of Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006D (Taxable) (the “Series 2006D Bonds” and, together with the Series 2006B Bonds and Series 2006C Bonds, the “2006 Subordinate Lien Bonds”), to be issued by the New Mexico Finance Authority (the “NMFA”), at the direction of the State Transportation 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”) as supplemented and amended by the Third Series Indenture of Trust dated as of October 1, 2006 (the “Third Series Indenture”) and the Fourth Series Indenture of Trust dated as of October 1, 2006 (the “Fourth 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 B. The Master Indenture, as previously amended and supplemented, the Third Series Indenture and the Fourth Series Indenture are collectively referred to herein as the “Indenture.” See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix B.

The 2006 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 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 2006 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 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 2006 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 covers 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 2006 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 “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 and to provide assistance and advice of the NMFA’s Public Project Revolving Fund Program. The NMFA voluntarily conducts its financing of State-level projects in coordination with the Governor’s Finance Council, which will approve, prior to closing, the issuance of the 2006 Subordinate Lien Bonds. For additional information concerning the NMFA, see “NEW MEXICO FINANCE AUTHORITY.”

Purposes of the 2006 Subordinate Lien Bonds

Proceeds from the sale of the Series 2006B Bonds and the Series 2006C Bonds will be used to provide funds for certain transportation projects authorized by the Legislature that the Department has determined to be necessary or desirable as part of Governor Richardson’s Investment Partnership (the “GRIP Transportation Projects”) as more fully described herein. For information concerning the GRIP Transportation Projects, see “THE PROJECTS—GRIP Transportation Projects.” Proceeds of the Series 2006B Bonds also will be used to refund and restructure certain outstanding bonds of the Commission. See “THE PROJECTS—The Refunding Project.” Proceeds from the sale of the Series 2006D Bonds will be used to provide funds for an escrow required to be maintained by the Department pursuant to a Joint Use Agreement between the Department and the BNSF Railway Company. Proceeds will also be used for purposes of paying costs of issuance relating to the 2006 Subordinate Lien Bonds.

Authority for Issuance

The 2006 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 2006 Subordinate Lien Bonds

Payments

The 2006 Subordinate Lien Bonds will be dated the date of their initial delivery (the “Delivery Date”). Interest on the Series 2006B Bonds is payable on June 15 and December 15 of each year, commencing June 15, 2007. The Series 2006B 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 applicable inside front cover hereof.

The Series 2006C Bonds and the Series 2006D Bonds will be issued initially as bonds that bear interest at ARS Rates (as defined in “Appendix F—ARS PROCEDURES”) but may be converted at the option of the NMFA, subject to certain restrictions, to bonds that bear interest at different rates including Daily Rates, Weekly Rates, Commercial Paper Rates, Semiannual Rates, Term Rates or Fixed Rates. Each Subseries of the Series 2006C Bonds and the Series 2006D Bonds will be dated the date of delivery, and will bear interest from their date of delivery for the applicable Initial Period set forth on the applicable inside front cover of this Official Statement at the rates

established by Goldman, Sachs & Co. and thereafter at the applicable ARS Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the applicable Initial Period, each Subseries of the Series 2006C Bonds and the Series 2006D Bonds will initially bear interest for Auction Periods set forth on the applicable inside front cover of the Official Statement but can be converted to a daily, seven-day, 14-day, 28-day, 35-day, three-month, six-month or a Special Auction Period. The Special Auction Period is any period of 182 days or less which is divisible by seven and which is not another Auction Period or any period of more than 182 days which ends not later than the final maturity of such Subseries of the Series 2006C Bonds or such Subseries of the Series 2006D Bonds. Upon conversion from an ARS Rate Period to a Daily Rate Period, a Weekly Rate Period, a Commercial Paper Period, a Semiannual Rate Period, a Term Rate Period or a Fixed Rate Period, the Series 2006C Bonds and the Series 2006D Bonds will be subject to mandatory tender, payable solely from the proceeds of the remarketing of the Series 2006C Bonds and the Series 2006D Bonds to be converted, on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Interest on the Series 2006C Bonds and the Series 2006D Bonds in a daily, seven-day, 14-day, 28-day, 35-day, a three-month, or a Special Auction Period of 180 days or less will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest on the Series 2006C Bonds and the Series 2006D Bonds in a six-month Auction Period or a Special Auction Period of more than 180 days will be computed on the basis of a 360-day year of twelve 30-day months. See “THE 2006 SUBORDINATE LIEN BONDS—Description of the Auction Rate Securities” and “Appendix F—ARS PROCEDURES.” ***This Official Statement, in general, describes the terms of the Series 2006C Bonds and the Series 2006D Bonds only during the Auction Rate Period and not the terms which will apply in the event that the Series 2006C Bonds and the Series 2006D Bonds are converted to a new Interest Rate as described herein.***

Denominations

The Series 2006B Bonds are issuable in denominations of \$5,000 or integral multiples thereof. While in the Auction Period, the Series 2006C Bond and Series 2006D Bonds are issuable in denominations of \$25,000 or any integral multiple thereof.

Book-Entry System

Individual purchases will be made in book-entry only form, and purchasers of the 2006 Subordinate Lien Bonds will not receive physical delivery of bond certificates except as more fully described in Appendix E—“BOOK-ENTRY ONLY SYSTEM.” Payments of principal of and interest on the 2006 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 defined below) for subsequent disbursement to the Beneficial Owners of the 2006 Subordinate Lien Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the 2006 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 2006 Subordinate Lien Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in Appendix E, and (2) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption of the 2006 Subordinate Lien Bonds

Certain of the Series 2006B Bonds are subject to redemption prior to maturity. See “THE 2006 SUBORDINATE LIEN BONDS – Redemption of the Series 2006B Bonds.” The Series 2006C Bonds and the Series 2006D Bonds are also subject to redemption prior to maturity. See “THE 2006 SUBORDINATE LIEN BONDS—Redemption of the Series 2006C Bonds and the Series 2006D Bonds.”

Mandatory Tender of the Series 2006C Bonds and the Series 2006D Bonds

The Series 2006C Bonds and the Series 2006D Bonds are subject to mandatory tender for purchase as described in “THE 2006 SUBORDINATE LIEN BONDS—Mandatory Tender of the Series 2006C Bonds and the Series 2006D Bonds.”

Special, Limited Obligations

The 2006 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 2006 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 and premium, if any, on the 2006 Subordinate Lien Bonds do not constitute or give rise to a personal 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 2006 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 state corporation commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes 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 2006 SUBORDINATE LIEN BONDS—Pledged Revenues.”

Outstanding and Additional Bonds

Bonds with a lien on a portion of the Pledged Revenues senior to that of the Outstanding Senior Lien Bonds have been previously issued by the Commission and are currently outstanding in an aggregate principal amount of \$363,490,000. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2006 SUBORDINATE LIEN BONDS—Outstanding Closed Lien Obligations.” 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 Outstanding Senior Lien Bonds may be issued by the NMFA or the Commission.

The Act authorizes the NMFA to issue up to \$1,585,000,000 aggregate principal amount of “new money” bonds (including the 2006 Subordinate Lien 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. In 2004, the NMFA issued \$700,000,000 of its State Transportation Revenue Bonds (Senior Lien), Series 2004A (the “Series 2004A Bonds”) representing its 2003 and 2004 annual increments. Contemporaneously with the issuance of the Series 2004A Bonds, the NMFA issued its \$237,950,000 State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (the “Series 2004B Bonds”) and its \$200,000,000 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”). Contemporaneously with the issuance of the 2006 Subordinate Lien Bonds, the NMFA expects to issue its \$150,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2006A (the “Series 2006A Bonds”). The Series 2006A Bonds, when issued, will be senior lien bonds payable from the Pledged Revenues and with a lien on the Pledged Revenues subordinate to the Outstanding Closed Lien Obligations, on a parity with the NMFA’s

outstanding Series 2004A Bonds (and together with the Series 2006A Bonds, the “Outstanding Senior Lien Bonds”) and senior to the lien of the NMFA’s outstanding 2004 Subordinate Lien Bonds and the 2006 Subordinate Lien Bonds. The timing, amount and other details of additional Senior Lien Bonds, other than the Outstanding Senior Lien Bonds, and Subordinate Lien Obligations, other than the 2004 Subordinate Lien Bonds and the 2006 Subordinate Lien Bonds, are not known as of the date of this Official Statement.

The NMFA, pursuant to the Indenture, may only issue obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Outstanding Senior Lien Bonds in compliance with the requirements of the Indenture applicable to the NMFA’s issuance of additional Senior Lien Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2006 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 2006 Subordinate Lien Bonds, must meet certain requirements prior to the issuance of Subordinate Lien Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2006 SUBORDINATE LIEN BONDS—Additional Subordinate Lien Obligations.” The NMFA also must meet certain requirements prior to the issuance of Junior Subordinate Lien Obligations.

Interest Rate Swaps

Contemporaneously with the issuance of the 2004 Subordinate Lien Bonds, the NMFA entered into forward-starting interest rate exchange agreements (collectively, the “Forward-Starting Swap Agreements”) under which the NMFA will be a fixed rate payor beginning on December 15, 2006 and ending on December 15, 2026 and having an aggregate notional amount of \$220,000,000 indicating an expectation on the part of the NMFA that it would be issuing variable rate obligations, which would be expected to be Subordinate Lien Bonds in a similar aggregate principal amount by that date. The issuance of the Series 2006C Bonds will fulfill this expectation. Contemporaneously with the issuance of the 2004 Subordinate Lien Bonds, the NMFA also entered into other interest rate exchange agreements (the “2004 Swap Agreements”). Payment obligations, other than termination payment obligations, of the NMFA with respect to the 2004 Swap Agreements and the Forward-Starting Swap Agreements (collectively, the “Swap Agreements”) are Subordinate Lien Obligations. The Swap Agreements were 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 monitors the Swap Agreements to market monthly and a joint committee of the NMFA, the Commission and the Department regularly monitors the Swap Agreements. 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.”

On August 7, 2006, NMFA entered into swap documents in connection with a basis interest rate exchange agreement (the “Basis Swap Agreement”) with Citibank, N.A. (the “Basis Swap Counterparty”) having an initial notional amount of \$100,000,000. The Basis Swap Agreement overlays \$100 million of the 2004 Swap Agreements, and was entered into in order to realize savings whenever longer term interest rates are higher than shorter term interest rates. Under the Basis Swap Agreement, NMFA will pay 68% of the 30-day London Interbank Offered Rate on the relevant notional amount, and the Basis Swap Counterparty will pay to NMFA 63.05% of the five year International Swap and Derivatives Association, Inc. (“ISDA”) Swap Rate.

In the near future, the NMFA may choose to enter into additional forward starting swap agreements payable from the Pledged Revenues.

Continuing Disclosure

The NMFA and the Department have undertaken for the benefit of the Owners that, so long as the 2006 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 2006 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.”

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2006 Subordinate Lien Bonds, Sutin, Thayer & Browne A Professional Corporation, 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 Series 2006 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 Series 2006 Subordinate Lien Bonds. See "FINANCIAL ADVISOR."

The Department's financial statements for the year ended June 30, 2005, an extract from which is included in Appendix A, have been audited by the State Auditor and Meyners + Company, LLC, Albuquerque, New Mexico. See also "FINANCIAL STATEMENTS." The Department expects that its financial statements for the year ended June 30, 2006 will be available in January 2007.

Offering and Delivery of the 2006 Subordinate Lien Bonds

The 2006 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 2006B Bonds, for each Subseries of the Series 2006C Bonds and for each Subseries of the Series 2006D Bonds will be delivered to DTC or its agent on or about October 19, 2006.

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 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

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 2006 Subordinate Lien Bonds.

THE 2006 SUBORDINATE LIEN BONDS

Generally

Set forth below is a summary of certain provisions of the 2006 Subordinate Lien Bonds. Other information describing the 2006 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 2006 Subordinate Lien Bonds. For a description of certain provisions of the Indenture, see "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B. Copies of the Indenture are available as provided in "ADDITIONAL INFORMATION."

The 2006 Subordinate Lien Bonds are being issued pursuant to the Act and the Indenture. The Series 2006B Bonds and the Series 2006C Bonds are being issued to provide funds for GRIP Transportation Projects authorized by the Legislature that the Department has determined to be necessary or desirable. The Series 2006B

Bonds are also being issued to provide funds to refund and restructure certain outstanding bonds of the Commission. The Series 2006D Bonds are being issued to provide funds for an escrow required to be established by the Joint Use Agreement dated December 19, 2005, between the Department and BNSF Railway Company to fund the purchase of certain property and assets by the Department from BNSF, and established by the Escrow Agreement dated March 17, 2006 between the Department, BNSF Railway Company and the Trustee. Proceeds from the sale of the 2006 Subordinate Lien Bonds also will be used for the purpose of paying costs of issuance relating to the 2006 Subordinate Lien Bonds. See “SOURCES AND USES OF FUNDS” and “THE PROJECTS.”

Description of the Series 2006B Bonds

The Series 2006B Bonds will be dated the Delivery Date. The Series 2006B Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the applicable inside front cover (unless redeemed prior to maturity).

The Series 2006B Bonds are issuable in denominations of \$5,000 or integral multiples thereof (the “Authorized Denominations for the Series 2006B Bonds”). Interest on the Series 2006B Bonds will accrue from the Delivery Date at the rates set forth on the applicable 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 June 15, 2007.

Description of the Auction Rate Securities

General

Each Subseries of the Series 2006C Bonds and each Subseries of the Series 2006D Bonds will initially bear interest at an Auction Rate (while bearing interest at an Auction Rate, referred to collectively as the “Auction Rate Securities” or “ARS Bonds”) as shown on the applicable inside front cover of this Official Statement. ***This Official Statement, in general, describes the Series 2006C Bonds and the Series 2006D Bonds only during the Auction Rate Period and not the terms which will apply in the event that the Series 2006C Bonds or the Series 2006D Bonds are converted to a new Interest Rate as described herein.***

The Series 2006C Bonds and the Series 2006D Bonds will be issued pursuant to the Indenture. The Series 2006C Bonds of each Subseries and the Series 2006D Bonds of each Subseries will be issued initially as bonds that bear interest at ARS Rates but may be converted at the option of the NMFA, subject to certain restrictions, to bonds that bear interest at different rates including Daily Rates, Weekly Rates, Commercial Paper Rates, Semiannual Rates, Term Rates or Fixed Rates. The Series 2006C Bonds of each Subseries and the Series 2006D Bonds of each Subseries will be dated the date of delivery, and will bear interest from their date of delivery for the applicable Initial Period set forth on the applicable inside front cover of this Official Statement at the rates established by Goldman, Sachs & Co. and thereafter at the applicable ARS Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the applicable Initial Period, the Series 2006C Bonds of each Subseries and Series 2006D Bonds of each Subseries will initially bear interest for Auction Periods set forth on the applicable inside front cover of the Official Statement but can be converted to a daily, seven-day, 14-day, 28-day, 35-day, three-month, six-month or a Special Auction Period. The Special Auction Period is any period of 182 days or less which is divisible by seven and which is not another Auction Period or any period of more than 182 days which ends not later than the final maturity of such Series 2006C Bonds of such Subseries or Series 2006D Bonds of such Subseries. Upon conversion from an ARS Rate to a Daily Rate Period, a Weekly Rate Period, a Commercial Paper Rate Period, a Semiannual Rate Period, a Term Rate Period or a Fixed Rate Period, the Series 2006C Bonds of such Subseries or Series 2006D Bonds of such Subseries will be subject to mandatory tender, payable solely from the proceeds of the remarketing of the Series 2006C Bonds of such Subseries or the Series 2006D Bonds of such Subseries to be converted, on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Interest on the Series 2006C Bonds of any Subseries and the Series 2006D Bonds of any Subseries in a daily, seven-day, 14-day, 28-day, 35-day, a three-month or a Special Auction Period of 180 days or less will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest on the Series 2006C Bonds of any Subseries and the Series 2006D Bonds of any Subseries in a six-month Auction Period or a Special Auction Period of more than 180 days will be computed on the basis of a 360-day year of twelve 30-day months. See “Appendix F—ARS PROCEDURES.”

The Series 2006C Bonds and the Series 2006D Bonds will be issued as fully registered bonds without coupons and in denominations of \$25,000 or any integral multiple thereof. The Series 2006C Bonds and the Series 2006D Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's book-entry only system. Purchases of beneficial interests in the Series 2006C Bonds and the Series 2006D Bonds will be made in book-entry form, without certificates. If at any time the book-entry only system is discontinued for the Series 2006C Bonds and the Series 2006D Bonds, the Series 2006C Bonds and the Series 2006D Bonds will be exchangeable for other fully registered certificated Series 2006C Bonds and Series 2006D Bonds of the same series in any authorized denominations, maturity and interest rate. See "book-entry only system" herein. The Trustee may impose a charge sufficient to reimburse the Issuer or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Series 2006C Bonds and the Series 2006D Bonds. The cost, if any, of preparing each new Series 2006C Bonds and the Series 2006D Bonds issued upon such exchange or transfer, and any other expenses of the Issuer or the Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer.

Interest on the Series 2006C Bonds and the Series 2006D Bonds will be payable by check mailed to the registered owners thereof. However, interest on the Series 2006C Bonds and the Series 2006D Bonds will be paid to any owner of \$1,000,000 or more in aggregate principal amount of the Series 2006C Bonds and the Series 2006D Bonds by wire transfer to a wire transfer address within the continental United States upon the written request of such owner received by the Trustee not less than five days prior to the Record Date. As long as the Series 2006C Bonds and the Series 2006D Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See "Book-Entry Only System" herein.

Interest Rates and Auction Periods

"ARS Rate" means with respect to Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries, while such Series 2006C Bonds of such Subseries and such Series 2006D Bonds of such Subseries bear interest at an ARS Rate, the rate of interest to be borne by such Series 2006C Bonds of such Subseries or such Series 2006D Bonds of such Subseries during each Auction Period which (other than for the Initial Period) will equal the Auction Rate for each Auction Period; provided, however, that, if the Auction Agent fails 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 will be the same as the preceding Auction Period and the ARS Rate for the new Auction Period will be the same as the ARS 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 will be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the ARS Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended, and, in the event Auction Period is extended as set forth in clause (ii) an Auction will be held on the last Business Day of the Auction Period as so extended 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 had the prior Auction Period not been extended; provided, further, that in no event will the ARS Rate exceed the Maximum Interest Rate; and, provided further, in the event of a failed conversion from an ARS Rate to a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Semiannual Rate, a Term Rate or a Fixed Rate or the conversion from one Auction Period to another Auction Period, the affected Series 2006C Bonds of such Subseries or 2006D Bonds of such Subseries will continue as Series 2006C Bonds of such Subseries or 2006D Bonds of such Subseries with a seven-day Auction Period and bear interest at the Maximum Interest Rate for the next Auction Period. Notwithstanding the foregoing, no ARS Rate will be extended for more than 35 days. If at the end of 35 days the Auction Agent fails to calculate or provide the Auction Rate, the ARS Rate will be the Maximum Interest Rate.

"Maximum Interest Rate" means the lesser of twelve percent 12% or the maximum rate permitted by applicable law.

"Interest Payment Date" with respect to each Subseries of the Series 2006C Bonds and Series 2006D Bonds bearing interest at ARS Rates means, the dates set forth on the applicable inside front cover of this Official Statement for the respective Initial Period, and thereafter: (a) when used with respect to any Auction Period other than a daily Auction Period or a Special 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 Special Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Special Auction Period, or (ii) more than 182 days, each June 15 and December 15 and on the Business Day immediately following such Special Interest Period.

“Auction Date” means with respect to the Series 2006C Bonds of any Subseries or 2006D Bonds of any Subseries, (a) if such Series 2006C Bonds or the 2006D Bonds of such Subseries are in a daily Auction Period, each Business Day unless such day is the last Business Day prior to the conversion from a daily Auction Period to another Auction Period, (b) if the Series 2006C Bonds of such Subseries or 2006D Bonds of such Subseries are in a Special Auction Period, the last Business Day of the Special Auction Period, and (c) if the Series 2006C Bonds or 2006D Bonds of such Subseries are in any other Auction Period, the Business Day next preceding each Interest Payment Date for the Series 2006C Bonds of such Subseries or 2006D Bonds of such Subseries (whether or not an Auction is conducted on such date); provided, however, that the last Auction Date with respect to a Subseries of the Series 2006C Bonds or 2006D Bonds in an Auction Period other than the daily Auction Period or Special Auction Period is the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the conversion date for the Series 2006C Bonds of such Subseries or 2006D Bonds of such Subseries and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Series 2006C Bonds or 2006D Bonds of such Subseries; and provided, further, that if the Series 2006C Bonds of such Subseries or 2006D Bonds of such Subseries are in a daily Auction Period, the last Auction Date is the earlier of (x) the Business Day next preceding the conversion date for such Series 2006C Bonds of such Subseries or 2006D Bonds of such Subseries and (y) the Business Day next preceding the final maturity date for such Series 2006C Bonds of such Subseries or 2006D Bonds of such Subseries. The last Business Day of a Special Auction Period is the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be one Auction for the first Auction Period following the conversion.

“Auction Period” means with respect to each Subseries of ARS Bonds:

- (a) a Special Auction Period;
- (b) with respect to each Subseries of ARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;
- (c) with respect to each Subseries of ARS Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, 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 Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (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) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(g) with respect to a Subseries of ARS Bonds in a three-month Auction Period, 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 (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(h) with respect to a Subseries of ARS Bonds in a six-month Auction Period, 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 14 or December 14;

provided, however, that

(a) if there is a conversion of a Subseries of ARS Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Sunday (unless such Sunday 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 seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Sunday (unless such Sunday 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 (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and will end on Sunday (unless such Sunday 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 no more than 35 days from such date of conversion;

(b) if there is a conversion of a Subseries of ARS Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday 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 seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday 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 (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on Monday (unless such Monday 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 no more than 35 days from such date of conversion;

(c) if there is a conversion of a Subseries of ARS Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and will 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), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will 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 seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will 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 (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on 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 no more than 35 days from such date of conversion;

(d) if there is a conversion of a Subseries of ARS Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday 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 seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday 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 (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and will end on Wednesday (unless such Wednesday 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 no more than 35 days from such date of conversion; and

(e) if there is a conversion of a Subseries of ARS Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Thursday (unless such Thursday 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 seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Thursday (unless such Thursday 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 (iv) and from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on Thursday (unless such Thursday 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 no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Interest Rate, the Auction Period will automatically change to a seven-day Auction Period.

Auction Procedures

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 2006C Bonds or any Subseries of the Series 2006D Bonds, change the length of the Auction Period with respect to such Subseries.

Auction Agent and Broker-Dealers for Series 2006C Bonds and the Series 2006D Bonds

Contemporaneously with the issuance of the Series 2006C Bonds and the Series 2006D 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 2006C Bonds and the Series 2006D Bonds, the Auction Agent will enter into a Broker-Dealer Agreement with Goldman, Sachs & Co. pursuant to which Goldman, Sachs & Co. will act as the initial Broker-Dealer for the Subseries 2006C-1 Bonds, a Broker-Dealer Agreement with UBS Securities LLC pursuant to which UBS Securities LLC will act as the initial Broker-Dealer for the Subseries 2006C-2 Bonds, a Broker-Dealer Agreement with RBC Capital Markets pursuant to which RBC Capital Markets will act as the initial Broker-Dealer for the Subseries 2006C-3 Bonds, with Goldman, Sachs & Co. pursuant to which Goldman, Sachs & Co. will act as the initial Broker-Dealer for the Subseries 2006D-1 Bonds and a Broker-Dealer Agreement with Citigroup Global Markets Inc. pursuant to which Citigroup Global Markets Inc. will act as the initial Broker-Dealer for the Subseries 2006D-2 Bonds.

Auction Date

An Auction to determine the interest rate with respect to the Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries for the next succeeding Auction Period will be held on each Business Day while such Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries are in a daily Auction Period, on the last Business Day of the Special Auction Period while such Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries are in a Special Auction Period, and the Business Day next preceding each Interest Payment Date while such Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries are in any other Auction Period. The first Auction for the Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries will take place on the date set forth on the applicable inside front cover of this Official Statement.

Order from Existing Owners and Potential Owners

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix F, as are the particulars with regard to the determination of the Auction Rate and the allocation of the Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries bearing interest at ARS Rates (collectively, the “Auction Procedures”).

Amendment of Auction Procedures

The provisions of the Indenture concerning the Auction Procedures including without limitation the definitions of All Hold Rate, Maximum Interest Rate, Index, Interest Payment Date and ARS Rate may be amended by obtaining the consent of the owners of all Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries affected by the amendment. All owners will be deemed to have consented if on the first Auction Date occurring at least 20 days after the Auction Agent mailed notice to such owners the ARS Rate determined for such date is the Winning Bid Rate.

Conversion of Auction Rate Securities to Another Rate Period

At the option of the NMFA, any Subseries of the Series 2006C Bonds and any Subseries of the Series 2006D Bonds may be converted to bear interest at Daily Rates, Weekly Rates, Commercial Paper, Semiannual Rates, Term Rates or Fixed Rates. On the Conversion Date applicable to the Series 2006C Bonds of such Subseries or the Series 2006D Bonds of such Subseries to be converted, the Series 2006C Bonds of such Subseries or the Series 2006D 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 principal portion of the purchase price of the Series 2006C Bonds or the Series 2006D Bonds so tendered is payable solely from the proceeds of the remarketing of such Series 2006C Bonds or the Series 2006D Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable Series 2006C Bonds and Series 2006D Bonds on a mandatory tender date, the Series 2006C Bonds or the Series 2006D Bonds will not be subject to mandatory tender,

will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate. **It is currently anticipated that, should the Series 2006C Bonds or the Series 2006D Bonds be converted to bear interest at Daily Interest Rates, Weekly Interest Rates, Commercial Paper Rates, Semiannual Rates, Term Rates or Fixed Rates, a remarketing memorandum or remarketing circular will be distributed describing the Series 2006C Bonds and the Series 2006D Bonds during such period.**

Book-Entry Only System

The Depository Trust Company (“DTC”) will act as securities depository for all of the 2006 Subordinate Lien Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2006B Bonds, each Subseries of the Series 2006C Bonds and each Subseries of the Series 2006D Bonds will be registered in the name of Cede & Co. Individual purchases of 2006 Subordinate Lien Bonds will be made in book-entry form only, and Beneficial Owners of the 2006 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 2006 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 2006 Subordinate Lien Bonds

Optional Redemption for the Series 2006B Bonds

The Series 2006B Bonds maturing prior to December 15, 2017 shall not be subject to redemption prior to maturity at the option of the NMFA. The Series 2006B Bonds maturing on or after December 15, 2017 shall be subject to redemption prior to maturity at the option of the NMFA, on or after December 15, 2016, in whole or in part at any time, at a Redemption Price equal to 100% of the principal amount thereof plus the accrued interest thereon to the date of redemption.

Optional Redemption for the Series 2006C Bonds and the Series 2006D Bonds

During an Auction Rate Period, the Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries may be redeemed in whole or in part on the Interest Payment Date immediately following an Auction Period, at the principal amount of the Series 2006C Bonds or the Series 2006D Bonds to be redeemed without premium; provided however, in the event of a partial redemption of the Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries bearing interest at an ARS Rate, the aggregate principal amount not so redeemed shall be an integral multiple of \$25,000 and the aggregate principal amount of the Series 2006C Bonds or the Series 2006D Bonds of such Subseries to be redeemed which will remain outstanding is at least \$10,000,000 unless otherwise consented to by the Broker-Dealer.

Mandatory Sinking Fund Redemption of the Series 2006C Bonds

The Series 2006C Bonds of each Subseries are subject to mandatory sinking fund redemption as set forth below, at a price equal to 100% of the principal amount of each Series 2006C Bond of such Subseries 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, the Series 2006C Bonds of each Subseries shall be subject to mandatory sinking fund redemption in the required amounts on the Interest Payment Date immediately preceding such redemption date.

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<u>Mandatory Redeemed Date</u>	<u>Subseries 2006C-1 Principal to be Redeemed</u>	<u>Subseries 2006C-2 Principal to be Redeemed</u>	<u>Subseries 2006C-3 Principal to be Redeemed</u>
June 15, 2023	\$ 3,575,000	\$ 4,050,000	\$ 3,575,000
June 15, 2025	\$ 30,450,000	\$ 34,800,000	\$ 30,450,000
June 15, 2026	\$ 32,025,000	\$ 36,650,000	\$ 32,025,000
December 15, 2026*	\$ 3,950,000	\$ 4,500,000	\$ 3,950,000

*Final Maturity

If less than all of a Subseries of the Series 2006C 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 2006C Bonds.

Notwithstanding the foregoing, while the Series 2006C Bonds of any Subseries bear interest at an Auction Period Rate, in any Auction Period other than a daily Auction Period, if such June 15th is not an Interest Payment Date, the redemption shall occur on the Interest Payment Date immediately preceding such June 15th. Series 2006C Bonds in a Special Auction Period may be redeemed prior to the end of the Special Auction Period pursuant to the sinking fund redemption schedule.

Selection of Bonds to be Redeemed

If less than all of the 2006 Subordinate Lien Bonds are called for prior redemption, the NMFA, by written direction to the Trustee, shall select in the NMFA's discretion the maturities of the Bonds to be redeemed. If less than all of a maturity of the Bonds is to be redeemed, the Trustee shall select the portions to be redeemed by lot in such manner as the Trustee shall deem fair and appropriate (giving proportionate weight to Bonds in denominations larger than the Authorized Denominations for the Bonds. In the event a portion of any Bonds is so redeemed, the Trustee shall, without charge to the owner of such Bond, authenticate a replacement Bond for the unredeemed portion thereof.

Notice of Redemption

In the event any of the 2006 Subordinate Lien Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Owners of 2006 Subordinate Lien 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 2006 Subordinate Lien 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 2006 Subordinate Lien Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the 2006 Subordinate Lien 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 2006 Subordinate Lien 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.

Mandatory Tender of the Series 2006C Bonds or the Series 2006D Bonds

The Series 2006C Bonds of any Subseries and the Series 2006D 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 2006C Bonds of such Subseries and the Owners of the Series 2006D Bonds of such Subseries not less than 20 days before the Conversion Date. Interest on any Series 2006C Bond or any Series 2006D 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 2006C Bonds and Series 2006D Bonds will be deemed to have been purchased on the date fixed for purchase thereof, and ownership of such Series 2006C Bonds or such Series 2006D Bonds will be transferred to the purchaser. The Owner of such Series 2006C Bond or Series 2006D Bond is not entitled to the benefits of the Indenture with respect to such Series 2006C Bond or Series 2006D Bond except for the payment of the purchase price thereof upon surrender of such Series 2006C Bond or Series 2006D Bond from monies held by the Paying Agent for such payment.

SECURITY AND SOURCES OF PAYMENT FOR THE 2006 SUBORDINATE LIEN BONDS

Special, Limited Obligations

The 2006 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 2006 Subordinate Lien Bonds do not constitute or 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 2006 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 also “BOND INSURANCE.”

Pledged Revenues

The principal of and interest on the 2006 Subordinate Lien Bonds will be payable from a portion of 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 B. The 2006 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 the 2006 Subordinate Lien Bonds and any other Subordinate Lien Obligations are to be applied to the 2004 Subordinate Lien Bonds, the 2006 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 and the 2006 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 is to issue warrants for payment of those amounts from the State Road Fund and/or the Highway Infrastructure Fund to the NMFA and the NMFA is to cause the amounts to be deposited with the Trustee in the Revenue Fund. Only the Pledged Revenues so transferred by the Department (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 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (the “1998A Bonds”); Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (the “1998B Bonds”); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (the “1999 Bonds”); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (the “2000 Bonds”); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (the “2001 Bonds”); Senior Subordinate Lien Tax

Revenue Highway Bonds, Series 2002A (the “2002A Bonds”); Subordinate Lien Tax Revenue Highway Bond, Series 2002B (the “2002B Bonds”); Highway Infrastructure Fund Revenue Bonds, Series 2006C (the “2002C Bonds”); 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, the 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 (collectively, the “Closed Lien State Revenues”). The Outstanding Closed Lien Obligations are currently outstanding in the following aggregate principal amounts:

Outstanding Closed Lien Obligations

<u>Issue</u>	<u>Outstanding Principal Amount (as of 9/1/06)</u>
Senior Subordinate Lien Bonds	
Series 1998A	\$17,760,000
Series 1999	24,165,000
Series 2000	53,815,000
Series 2001	123,815,000
Series 2002A	44,700,000
Series 2002C	32,945,000
Series 2002D	5,770,000
Junior Subordinate Lien Bonds	
Series 1998B	34,435,000
Series 2002B	<u>26,085,000</u>
TOTAL	\$363,490,000

The lien of the 2004 Subordinate Lien Bonds and 2006 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 Pledged 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 and the 2006 Subordinate Lien Bonds on the Closed Lien HIF Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Obligations 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 Senior Lien Bonds, including the Series 2004A Bonds and the Series 2006A Bonds. A portion of the proceeds of the Series 2006B Bonds will be used to defease a portion of the 2007 and 2008 maturities of the 1999 Bonds to their respective maturity dates and to redeem a portion of the 2009 and 2010 maturities of the 1998A Bonds.

Outstanding and 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 out of the eighteen calendar months 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 B. The Commission may not issue any additional obligations payable from and secured by a lien on the Pledged Revenues on a parity with Senior Lien Bonds unless it receives future statutory authorization to do so, and has resolved that, in the event of such future statutory authorization, it will issue such additional obligations only subject to the satisfaction of the same conditions that apply to the issuance of additional Senior Lien Bonds by the NMFA.

The NMFA has previously issued and there are currently outstanding \$700,000,000 in aggregate principal amount of its Series 2004A Bonds. Contemporaneously with the issuance of the 2006 Subordinate Lien Bonds, the NMFA expects to issue \$150,000,000 in aggregate principal amount of its Series 2006A Bonds. The Series 2004A Bonds and the Series 2006A Bonds will have a lien on the Pledged Revenues senior to the lien thereon of the 2006 Subordinate Lien Bonds.

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 2004 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 B.

The NMFA has issued and there are currently outstanding \$182,315,000 in aggregate principal amount of its Series 2004B Bonds and \$200,000,000 in aggregate principal amount of its Series 2004C Bonds (collectively, the “2004 Subordinate Lien Obligations”), payable from and secured by a lien on the Pledged Revenues subordinate and junior to the lien on the Pledged Revenues of the Series 2004A Bonds and the Series 2006A Bonds and on a parity with the lien on the Pledged Revenues of the 2006 Subordinate Lien Bonds. Payment obligations, other than termination payment obligations, of the NMFA on the Forward-Starting Swap Agreements and the 2004 Swap Agreements also are Subordinate Lien Obligations.

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 and the 2006 Subordinate Lien Bonds, including Junior 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.

Additional Superior Obligations Prohibited

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

General

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 on highway debentures issued to anticipate the collection of the taxes and fees attributable to the State Road Fund as the principal and interest becomes due. 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 2003 tax and fee increases and general revenue growth currently yield approximately \$60,000,000 per fiscal year. 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 motor 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 approximately 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 became effective July 1, 2004. There have been no subsequent legislative changes to the tax and fee structure.

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 discussion below). As of February 2006, 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 (14 cents per gallon).

Wholesale Exemption: Tax Sharing Agreements. 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. There have been no subsequent legislative changes to the wholesale exemption.

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 on June 23, 2004. 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 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be in effect for at least the next ten years as a result of the gasoline tax sharing agreements.

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 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, 17 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 exemptions and other factors (such as more fuel efficient vehicles and higher gasoline prices), the Department expects a slow rate of growth in gasoline excise taxes paid into the State Road Fund over the next several years. Fiscal year 2003 taxable gasoline distributions in the State totaled 851,912,805 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 101,282,754 gallons. Fiscal year 2004 taxable gasoline distributions in the State totaled 871,450,733 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 98,405,152 gallons. Fiscal year 2005 taxable gasoline distributions in the State totaled 879,435,089 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 62,606,965 gallons. The Department estimated that in fiscal year 2006 the tax exempt Native American activity would total \$64,180,000 gallons and result in an exclusion of approximately \$8,321,057 from the State Road Fund. The Department estimates that future Native American retail sales of gasoline within reservation, pueblo grant and trust land boundaries will remain constant at the fiscal year 2006 level.

Collection Procedures. The gasoline excise 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 excise 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 excise tax are paid into the State Road Fund.

Historical Gasoline Excise Tax Receipts. Set forth below is a 10-year history of taxable gallons of gasoline and gasoline excise taxes paid into the State Road Fund.

Historical Gasoline Excise Taxes

Fiscal Year Ended June 30	Taxable Gallons (000s)	Percent Change (%)	State Road Fund Distribution (000s)	Percent Change (%)
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
2004	871,451	2.29	112,107	1.49
2005	879,435	0.92	109,456	-2.37
2006	900,288 ⁽¹⁾	2.37	112,044	2.33

⁽¹⁾ Estimated.

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 had been at a rate of 18 cents per gallon (effective from July 1, 1993 through June 30, 2004). The tax rate increased 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.

Historical Special Fuel Excise Taxes

Fiscal Year Ended June 30	Taxable Gallons (000s)	Percent Change (%)	State Road Fund Distribution (000s)	Percent Change (%)
1997	341,684	5.24	\$53,926	5.51
1998	373,747	9.38	59,732	10.77
1999	398,425	6.60	63,763	6.75
2000	411,197	3.21	66,648	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
2004	463,073	7.48	74,546	7.29
2005	459,998	-6.64	87,902	17.92 ⁽¹⁾
2006	513,315 ⁽²⁾	11.59	97,534	10.96

⁽¹⁾ Increase is a result of increase in special fuel excise tax rates effective July 1, 2004.

⁽²⁾ Estimated.

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-14 NMSA 1978. The tax is imposed on the registered owners and operators of motor vehicles having a declared gross weight or gross vehicle weight of 26,001 or more pounds operated on the State's highways that are registered with TRD. Effective July 1, 2004, the weight distance tax rate on motor vehicles increased by approximately 38%. The tax levied on motor vehicles other than buses is based on a detailed schedule, by gross vehicle weight, ranging from 11.01 mills per mile on motor vehicles having a declared gross vehicle weight between 26,001 and 28,000 pounds and 43.78 mills per mile on motor vehicles having a declared vehicle weight of 78,001 pounds or more for round-trip hauls. The tax on one-way hauls ranges from 7.34 mills per mile on motor vehicles having a declared gross vehicle weight between 26,001 and 28,000 pounds to 29.19 mills per mile on motor vehicles having a declared gross vehicle weight of 78,001 pounds or more.

The tax levied on buses also is based on a detailed schedule ranging from 7.97 mills per mile on buses having a declared gross vehicle weight between 26,001 and 28,000 pounds to 27.29 mills per mile on buses having a declared gross vehicle weight of 54,001 pounds or more. The tax levied on buses also increased effective July 1, 2004, ranging from 11.01 mills per mile on buses having a declared gross vehicle weight between 26,001 and 28,000 pounds to 27.29 mills per mile on buses having a declared gross vehicle weight of 54,001 pounds or more.

Motor carriers pay the weight distance tax quarterly on January 31, April 30, July 31 and October 31 for the preceding calendar quarter. In addition, each person required to pay the weight distance tax is subject to an annual registration fee of \$5.00 per motor vehicle, payable on January 31 of the following year. Effective July 1, 2004, revenue generated from the annual registration fee is distributed to TRD to reimburse the cost of administering the weight distance tax identification permit and enforcing weight distance tax identification permit use.

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. In addition, commercial motor carrier vehicles, as defined in Section 7-15-2.1 NMSA 1978, while operating exclusively within 10 miles of a border with Mexico in conjunction with crossing the border with Mexico 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(B) NMSA 1978, as amended. Set forth below is a 10-year history of weight distance taxes paid into the State Road Fund.

Historical Net Weight Distance Tax Receipts

<u>Fiscal Year</u> <u>Ended</u> <u>June 30</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
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
2004	51,574	0.35
2005	69,044	33.87 ⁽¹⁾
2006	77,852 ⁽²⁾	12.76

⁽¹⁾ Reflects the increase in weight distance excise tax rates for buses and motor vehicles effective July 1, 2004.

⁽²⁾ Estimated.

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. Since 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.

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 pounds 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 vehicles weighing more than 6,000 pounds are charged registration fees equal to two-thirds of the respective rates for trucks and buses.

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.

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

Historical Motor Vehicle Registration Fees

<u>Fiscal Year Ended June 30</u>	<u>State Road Fund Distribution (000s)</u>	<u>Percent Change (%)</u>
1997	\$38,583	2.53
1998	40,162	4.09
1999	42,537	5.91
2000	44,302	4.15
2001	41,600	-6.10
2002	44,137	6.10
2003	43,993	-0.33
2004	52,996	20.46 ⁽²⁾
2005	67,768	27.87
2006	71,012	4.79

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

⁽²⁾ Reflects the increase in motor vehicle registration fees effective March 1, 2004.

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 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 persons 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 Government 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.

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Set forth below is a ten-year history of the portion of the leased vehicle gross receipts taxes payable into the Highway Infrastructure Fund:

Historical Net Leased Vehicle Gross Receipts Taxes

Fiscal Year Ended <u>June 30</u>	Leased Vehicle Gross Receipts Taxes (000s) ⁽¹⁾	Percent Change (%)
1999	\$354	-
2000	4,596	1,198.31
2001	4,810	4.66
2002	4,507	-6.30
2003	4,465	0.93
2004	4,536	1.59
2005	4,524	0.27
2006	5,172 ⁽¹⁾	16.53

⁽¹⁾ Estimated.

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 TRD along with motor 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. 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.

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

Historical Net Tire Recycling Fees

Fiscal Year Ended <u>June 30</u>	Tire Recycling Fees (000s)	Percent Change (%)
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
2004	1,421	-15.37
2005	1,950	37.23
2006	1,756 ⁽¹⁾	-9.95

⁽¹⁾ Includes 10 months of actual collections and 2 months of estimated collections.

Source: New Mexico Department of Transportation.

The Federal Aid Highway Program

The term Federal Aid Highway Program (“FAHP”) encompasses most of the federal programs providing highway funds to the states, such as the Interstate Maintenance Program, the Bridge Program, the National Highway System Program, and the Surface Transportation Program. The FAHP must be periodically reauthorized by Congress. Authorizing legislation for highways began with the Federal Aid Road Act of 1916 and the Federal Highway Act of 1921. These acts provided the foundation for the FAHP as it exists today. Since that time, the FAHP has been continued or renewed through the passage of multi-year authorization acts. Since 1978, Congress has passed highway legislation as part of larger, more comprehensive, multi-year surface transportation acts. There is no guarantee, however, that reauthorization of the FAHP will occur on a multi-year basis. The current multi-year authorization, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), became law on August 10, 2005 and expires on September 30, 2009. SAFETEA-LU also extends the imposition of highway-user taxes, generally at the rates imposed by prior federal law, through September 30, 2011. See “SAFETEA-LU” below.

The Federal Highway Administration (“FHWA”) is the federal agency within the U.S. Department of Transportation responsible for administering the FAHP. Title 23, United States Code, entitled “Highways”, includes most of the laws that govern the FAHP arranged systematically or codified. Generally, Title 23 embodies those substantive provisions of highway law that Congress considers to be continuing and which need not be reenacted each time the FAHP is reauthorized. Periodically, sections of Title 23 may be amended or repealed through surface transportation acts.

The FAHP is a reimbursement program. Once projects are approved by FHWA and funds are obligated, the federal government makes payments to the states for costs as they are incurred on projects, which may include debt service on obligations issued to finance a project. With few exceptions, the federal government does not pay for the entire cost of a federal aid project. Federal reimbursements are typically to be matched with state and/or local funds. The maximum federal share is specified in the federal legislation authorizing the program. Under current law, most projects have an 80 percent federal share, while Highway Safety Program and Interstate Maintenance Program projects, as well as certain interstate highway construction projects, are funded with a 90 percent federal share.

Funding under the FAHP is provided to states through a multi-step funding cycle that includes: (i) multi-year authorization by Congress of the funding for various highway programs; (ii) apportionment and allocation of funds to the States each federal fiscal year (“FFY”) according to statutory formulas or, for some funding categories, through administrative action; (iii) obligation of funds, which is the federal government’s legal commitment to pay or reimburse states for the federal share of a project’s eligible costs; (iv) appropriations by Congress specifying the amount of funds available for the year to liquidate obligations; (v) program implementation which covers the programming and authorization phases; and (vi) reimbursement by the federal government of the eligible project costs. Each of these steps is described in more detail under “Federal Aid Funding Procedures” below.

The terms and conditions of participation in the FAHP as described herein are subject to change at the discretion of Congress, and there can be no assurance that the laws and regulations now governing the FAHP will not be changed in the future in a manner that may adversely affect the ability of the State to receive adequate FHWA funds to pay the debt service on the 2006 Subordinate Lien Bonds.

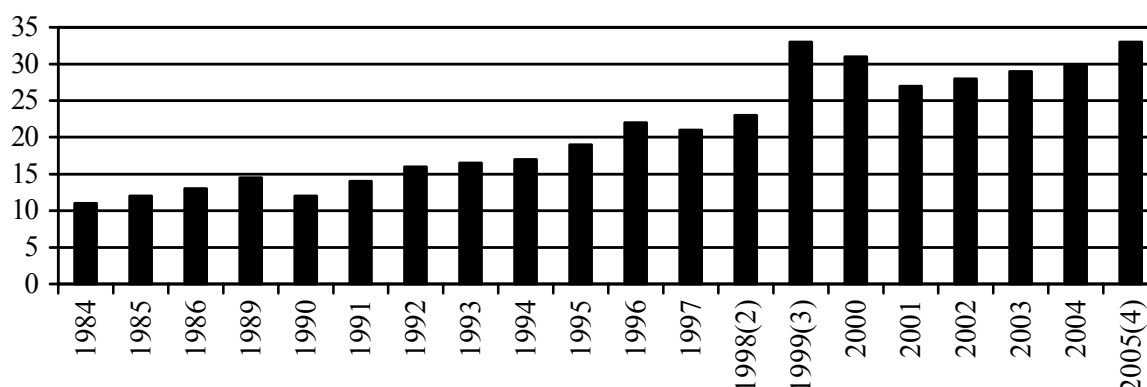
Federal Highway Trust Fund

The FHWA administers payments to states under the FAHP through the federal Highway Trust Fund (“HTF”). Funded by collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a dedicated fund with dedicated revenues that are held in trust for reimbursement of the states’ cost of transportation projects, including highway projects. The HTF presently contains a Highway Account and a Mass Transit Account. Using revenues in the Highway Account of the HTF, the FHWA reimburses states for expenditures related to approved highway projects. The FHWA distributes these revenues to states based on apportionment and allocation rules prescribed by federal law. In New Mexico, the Department bills the FHWA monthly for amounts payable to the Department under the FAHP and the FHWA transfers such amount for the State Treasurer for deposit in the State Road Fund.

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 authorizations 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.

Federal gasoline excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including 15.4 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account. The following table shows annual and projected HTF Collections in the Highway Account for the period FFY 1984 to FFY 2005.

Payments into the Highway Account of the Highway Trust Fund ⁽¹⁾
Federal Fiscal Years 1984-2005 (in billions)



(1) Exclusive of interest earnings.

(2) Reflects the redirection of 3.44 cents of the Gas Tax from deficit reduction to the Highway Account of the HTF.

(3) FHWA estimates that \$5.0 billion in FFY 1998 receipts were not received until FFY 1999 due to the Tax Payer Relief Act of 1997. Accordingly, adjusted FFY 1998 receipts would be \$28.1 billion and adjusted FFY 1999 receipts would be \$28.7 billion.

(4) FFY 2005 estimate from the President's FFY 2006 budget.

Source: FFY 1984-2004, FHWA, Highway Statistics (2004) Table FE-210.

Collection of HTF taxes ("HTF Collections"), like the FAHP itself, must periodically be reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized to operate for limited periods of time. The life of the HTF has been reauthorized several times since its inception, most recently by SAFETEA-LU. SAFETEA-LU authorized HTF Collections through FFY 2011, and the transfer of the taxes to the HTF through FFY 2009. The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for federal revenues can be met.

SAFETEA-LU

SAFETEA-LU authorizes a total of \$286.4 billion for federal surface transportation programs in FFY 2004 through FFY 2009. This represents a 38% increase in authorization over the Transportation Equity Act for the 21st Century ("TEA-21"). The core federal aid highway program will be funded at these levels:

<u>Federal Fiscal Year</u>	<u>Funding (in billions)</u>
2005	\$34.4
2006	36.0
2007	38.2
2008	39.6
2009	41.2

SAFETEA-LU retains the budgetary firewall and minimum guarantee provisions of TEA-21, increasing each state's minimum rate of return of HTF contributions from 90.5% (FFY 2005 and FFY 2006) to 92% (FFY 2008). In any given year, no state is to receive less than a specified percentage (117% in FFY 2005 to 121% in FFY 2009) of its average annual apportionments and High Priority Projects under TEA-21. Depending on the particular funding category, New Mexico is scheduled to receive average annual increases of approximately 20% to 40% above the funds provided by TEA-21. See "Pledged Revenues History and Estimates" below.

The distribution of funds using a formula provided in law is called an apportionment. Most federal aid funds are distributed to states through apportionments. Each FFY the FHWA has responsibility for apportioning authorized funding for the various highway programs among the states according to formulas established in the authorizing statute, currently SAFETEA-LU. When there are no formulas in law, the distributions of funds are termed "allocations" which may be made at any time during the FFY. In most cases, allocated funds are divided among states with qualifying projects applying general administrative criteria provided in the law. See "Federal Aid Revenues" below.

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 any given FFY is called its obligation authority. See "Federal Aid Revenues" below.

A limitation on obligations and the process for distribution is included for each of the years in SAFETEA-LU. Through the limitation of obligations, Congress controls the program, making it more responsive to prevailing budget and economic policy each year. The obligation ceilings set in SAFETEA-LU for FFY 2005 through FFY 2009 were based on a guaranteed level of spending for transportation through the Equity Bonus Program discussed below. SAFETEA-LU contains provisions which attempt to maintain funding levels for transportation through reduced incentives to divert such funds to other uses (*i.e.*, reductions in highway or transit spending as a result of federal deficit reduction legislation will not allow increased spending in other non-transportation programs). Unlike TEA-21 where approximately 10% of its authorizations was unprotected and part of the general discretionary budget category available to Congress in the annual appropriations process, SAFETEA-LU protects its entire \$244.1 billion multi-year authorizations.

Protected Funding

SAFETEA-LU extends the practice (established in TEA-21) of establishing separate budget categories for highway and transit discretionary spending and establishing budgetary "firewalls" between highway and transit discretionary spending and all other domestic discretionary programs. Prior to TEA-21, the highway and transit discretionary programs competed for annual budgetary resources with other domestic programs. Currently, both programs are still subject to budget constraints, but reductions in highway or transit spending can only be used for deficit reduction and cannot be used to increase spending in other non-transportation programs. This removes a principal incentive for Congress to limit highway or transit spending in the budget/appropriation process.

The highway firewall protects the obligation limitations for highways and highway safety programs. The firewall amount for highways is tied to the projected receipts of the Highway Account of the HTF and beginning with FFY 2007 will be adjusted each year during development of the President's budget as new receipt projections and actual receipts become available. When the firewall is adjusted, equal adjustment will be made to authorizations called Revenue Aligned Budget Authority and to highway obligation limits. To smooth out the effects of any adjustment, the adjustment will be split over two years.

Under SAFETEA-LU, a total of \$244.1 billion in funding for surface transportation is guaranteed to be available for obligation. The total protected amount available for highways and highway safety under SAFETEA-LU is \$198.8 billion. The protected amount available for highways had two components: the amount behind the budgetary firewall of \$195.9 billion and the amount of \$3.7 billion for programs exempt from the obligation limitation. The protected funding for transit programs has a single component – the firewall amount of \$45.3 billion that was not tied to HTF receipts.

Equity Bonus Program

Federal aid highway funds for individual programs are apportioned by formula using factors relevant to the particular program. After those computations are made, additional funds are distributed to ensure that each state receives an amount based on equity considerations. In SAFETEA-LU, this provision is called the Equity Bonus (replaces TEA-21's Minimum Guarantee) and ensure that each state will be guaranteed a minimum rate of return on its share of contributions to the Highway Account of the HTF, and a minimum increase relative to the average dollar amount of apportionments under TEA-21, and that certain states will maintain the share of total apportionments they each received during TEA-21. An open-ended authorization is provided, ensuring that there will be sufficient funds to meet the objectives of the Equity Bonus.

Each state's share of apportionments from the Interstate Maintenance Program, the National Highway System Program, the Highway Bridge Program, the Surface Transportation Program, the Highway Safety Improvement Program, the Congestion Mitigation and Air Quality Improvement Program, the Coordinated Border Infrastructure Program and several small programs, the Equity Bonus program itself, along with certain high priority projects, will be at least a specified percentage of that state's share of contributions to the Highway Account of the HTF. The specified percentage, referred to as a "relative rate of return", is 90.5% for FFY 2005 and FFY 2006, 91.5% for FFY 2007, and 92% for FFY 2008 and FFY 2009. States with certain characteristics (e.g., low population density or total population, low median household income, high interstate fatality rate, high indexed state motor fuel rate) are guaranteed a share of apportionments and high priority projects not less than the state's average annual share under TEA-21. In any given year, no state is to receive less than specified percentage (117% for FFY 2005, 118% for FFY 2006, 119% for FFY 2007, 120% for FFY 2008, and 121% for FFY 2009) of its average annual apportionments and high priority projects under TEA-21.

Federal Aid Funding Procedure

The FAHP continues to reimburse a large percentage of state expenditures for approved highway projects. The financial assurance provided by the FAHP is unusual among federal programs in that: (i) the FAHP is based on dedicated revenues, from a user-tax source, deposited in a dedicated trust fund, the HTF; (ii) the budget and contract authority of the FHWA is typically established by a multi-year authorization act rather than annually through appropriation acts; and (iii) contract authority is not at risk during the annual appropriations process (as budget authority is in most other federal programs), although an appropriations act is required in order to liquidate obligations. A summary of the major steps in funding the FAHP follows.

Authorization. The first and most important step in financing the FAHP, is the development and enactment of authorizing legislation. Such highway authorization acts: establish the taxes that fund the HTF and extend their life (reauthorization); establish the specific programs and procedures through which states receive federal financial assistance for their highway programs; and set upper limits on funding for specific programs and for overall FAHP.

Once Congress has established authorizations, the next step involves how funds are made available to states. Typically, federal programs operate using appropriated budget authority which means that funds, although authorized, are not available until passage of an appropriations act. However, most programs within the FAHP do not require this two-step process. Through what is termed "contract authority" authorized amounts become available for obligation according to the provisions of the authorization act without further legislative action. For the FAHP, funds authorized for a FFY are available for distribution through apportionments or allocations. The use of contract authority gives the states advance notice of the level of federal funding at the time an authorization act is enacted, eliminating much of the uncertainty associated with the authorization-appropriation sequence.

The existence of dedicated revenues in the HTF and of multi-year contract authorizations are designed to provide a predictable and uninterrupted flow of reimbursements to the states. The risk of contract authority lapsing between authorizing acts is minimal, since sufficient unobligated balances generally exist that can be used by the state, with the approval of Congress, to cover gaps in funding between multi-year reauthorization acts.

Lapsing of Authorization. All federal programs must be authorized through enacted legislation that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary in order to create budget authority. Indeed, for most federal domestic discretionary programs, a lapsed

authorization may have little or no effect on a program, so long as revenues are appropriated. For the FAHP, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide obligation authority by administrative action.

Though recent multi-year federal surface transportation legislation has been authorized for four to six years at a time, there occasionally have been periods in which the previous authorizing legislation had expired and the future multi-year legislation had yet to be enacted. In such circumstances, Congress and/or the FHWA have found ways to avoid disruptions to state highway programs and, more importantly, have been able to maintain the flow of federal revenues to states in each instance. Two mechanisms in particular have kept revenues flowing:

Short-Term Authorization. TEA-21 expired on September 30, 2003 and Congress enacted nine interim authorization measures for varying periods over twenty-two months until the enactment of SAFETEA-LU on August 10, 2005. Additionally, since most states have unobligated balances of at least half of their normal annual obligation authority levels and an authorization act need not be in place for the FHWA to give states new obligation authority, states were able to send down prior unfunded federal apportionments (contract authority) with newly allocated obligation authority. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the HTF. Similarly, the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) expired on September 30, 1997 and until approval of TEA-21 on June 9, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorization legislation, states were provided an upper limit on obligation authority through passage of an appropriations act plus access to their unobligated balances. On November 14, 1997, Congress passed the Surface Transportation Extension Act of 1997 (“STEA”), which provided a six-month authorization for highway funding and established a limit on the amount of new obligation authority states could use at funding levels equal to about a quarter of FFY 1997 authorization levels.

Access to Unobligated Balances. The 1987 Surface Transportation and Uniform Relocation Assistance Act (“STURAA”) expired on September 30, 1991 and ISTEA was not enacted until December 18, 1991. The FHWA was able to act administratively to keep federal aid funding flowing because states could use their unobligated balances to provide contract authority to use new obligation authority.

ALTHOUGH THESE MEASURES HAVE BEEN ENACTED BY CONGRESS AND/OR FHWA IN THE PAST, NO ASSURANCE CAN BE GIVEN THAT SUCH MEASURES WOULD OR COULD BE ENACTED IN THE FUTURE TO MAINTAIN THE FLOW OF FEDERAL AID FUNDING UPON TERMINATION OF AN AUTHORIZATION PERIOD.

Apportionment and Allocation. For most components of the FAHP, the authorization acts set the distribution of spending authority among states. The primary methods used to distribute authorized federal highway revenues are apportionment and allocation:

Apportionments. The contract authority created by authorization acts such as SAFETEA-LU is distributed annually among the 50 states, the District of Columbia, and Puerto Rico using a process called apportionment of revenues. Apportionments indicate the maximum amount of contract authority that each state can expend for eligible projects in specific programs. For each FFY, the FHWA has responsibility for apportioning authorized funding for the various programs among the states according to formulas established in the authorizing statute. Annual apportionments are generally made on the first day of the FFY, which is October 1.

Allocations. While most highway revenues are distributed to states through apportionments, some funding categories do not contain legislatively-mandated apportionment formulas. Distribution of revenues where there are no statutory formulas is called “allocation” or “discretionary allocation”. In most cases, allocated federal funding is divided among states using criteria determined administratively by the federal Department of Transportation or as provided in a statute, often through competitive grant procedures.

Federal aid highway apportionments are available to state for use for more than one year. Their availability does not terminate at the end of the FFY, as is the case with most other federal programs. In general, apportionments are available for three years plus the year that they are apportioned. Consequently, when new apportionments or

allocations are made, the amounts are added to a state's carryover apportionments from the previous year. Should a state fail to obligate a year's apportionment within the period of availability specified for a given program (usually a total of four year), the authority to obligate any remaining amount lapses.

Obligation. Obligation is the commitment of the federal government to pay, through reimbursement to a state, the federal government's share of an approved project's eligible costs, which may include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. Once an obligation is made, the federal government is to reimburse the states when bills or payments become due. However, Congress places a restriction or "ceiling" on the amount of federal assistance that may be promised (obligated) during a specified time period. The obligation limitation is the amount of authorized funding that Congress allows states to obligate in an individual year. This is a statutory budgetary control that does not affect the apportionment or allocation of funds. Rather, it controls the rate at which these funds can be used.

Once Congress establishes an overall obligation limitation and after deducting amounts for certain exempt programs and various set-aside⁽¹⁾, FHWA distributes obligation authority to states proportionately based on each state's share of apportioned and allocated revenues. The actual ratio of obligation authority to apportionment and allocations may vary from state to state, since some federal aid programs are exempt from the obligation limitation. During the FFY, states submit requests to FHWA to obligate funds, representing the federal share of specific projects. As a state obligates funds, its balance of obligation authority is reduced. A state's obligation authority (unlike its apportionments and allocations of authorized funding) must be used before the end of the FFY for which it is made available; if not, it will be distributed to other states to ensure that the total limitation nationwide will be used. A state may receive additional obligation authority through a redistribution process each year in August which reallocates obligation authority from states or programs unable to fully obligate their share to other states that are able to obligate more than their initial share.

Although a ceiling on obligations restricts how much funding may be used in a FFY, the state has flexibility within the overall limitation to mix and match the type of program funds it obligates, based on its individual needs, as long as it does not exceed the ceiling in total. Also, the unobligated balance of apportionments or allocations that the state has remaining at the end of any FFY is carried over for use by that state during the next FFY.

Program Implementation. 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"). 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 FFY 2006 through FFY 2011 was approved by the Commission on August 18, 2005. The STIP is subject to change from month to month. The first half (three years) of the STIP represents \$802,782,000 of projects to be undertaken during FFY 2006 through FFY 2008. 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. States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states. The Department uses a new integrated financial management, procurement, and human resource

system to track all detail budget, expenditures, and expenses for all projects, including bond financed projects. This system also includes all necessary reporting capabilities and the FHWA federal billing functionality.

Once federal authorizations (obligations) have occurred for any phase of development or for construction in the committed delivery year in the HCIP, a confirmed revenue source for reimbursement of the eligible project costs has been established. Such obligation amounts become the phase specific project control budgets against which charges are made under the Department's financial management system. The Department then regularly bills the FHWA (or any other funding partner) for their portion of the phase specific costs to date. Costs are typically incurred by the Department, private consultants and construction contractors.

States may request FHWA approval for eligible projects either through the traditional process or through the advanced construction procedure as discussed below:

Traditional Approach. Under the traditional highway funding approach, a state obligates the full federal share of the funding for a project at the beginning of the project, concurrent with authorization.

The first step in the fiscal management process begins when a state requests authorization to use federal funding on a project. The project sponsor submits plans, specifications and estimates ("PS&Es") for a project to the FHWA division office, and requests that the FHWA approve the use of federal funding for the appropriate federal share of the project. The project must be in the STIP and the PS&Es must identify the category of federal funding that will be used.

The FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements (*e.g.*, design standards). Provided that all requirements are satisfied, the FHWA authorizes federal participation in the project, and obligates the federal share of project costs. By obligating the revenues, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of that state's obligation authority, and also sets aside an equivalent amount of apportioned revenues by program (or programs). Accordingly, the state must have sufficient obligation authority to cover the level of federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. Based on actual costs identified in bids, the state awards the contract to the lowest qualified bidder and submits a request to the FHWA asking for any necessary adjustments to federal obligations for the project. If approved, the amounts agreed to are included in a project agreement which identifies the revenues that will be encumbered by the state (formally applied against the state's resources), and the amount that will be reimbursed by the federal government.

Advance Construction Approach. The advance construction approach for authorizing projects allows states to finance projects that are eligible for federal aid without obligating the federal share of costs at the outset of the project. This allows states to begin a project before amassing all of the obligation authority needed to cover the federal share of that project. As with the traditional approach, the state submits PS&Es to the FHWA and requests project authorization. Under advance construction, however, the FHWA is asked to authorize the project without obligating federal revenues. As a result, the state will cover the entire cost of the project and later may request the obligation of revenues, when sufficient obligation authority is available and is desired by the state. Further, the state may then take credit for state expenditures, made from project approval to that date, as a basis for earning reimbursements.

Once the FHWA authorizes a project for federal assistance, the state follows the same procedure to advertise a project, to award the contract, and to reconcile the level of state and federal funding required. The state may request that the FHWA convert its advance construction amount to an obligation at any time, provided the state has sufficient obligation authority. This conversion of advance construction to obligation authority must occur in order for the state to be reimbursed for the federal share of the project. The state can convert advance construction to obligation authority long after state expenditures are made.

Under partial conversion of advance construction, moreover, a state follows the steps to apply for advance construction but converts, obligates, and receives reimbursement for only a portion of its funding of an advance

construction project in a given year. This removes any requirement to wait until the full amount of obligation authority is available. The state can thus obligate varying amounts for the project's eligible cost in each year, depending on how much of the state's obligation authority is available. Using the technique to partially convert the federal share makes bond and note financing more viable and federal aid funds available to support a greater number of projects. The National Highway System Act of 1995 provided additional flexibility in the use of advance construction by allowing partial conversion of advance construction as implemented through a Federal Register Notice dated July 19, 1995.

Reimbursement. As work progresses on a federal aid highway project, a state will pay the contractor for completed work from available state funds. The state electronically transmits vouchers for the federal share of completed work and the FHWA certifying officer certifies the claims for payment. After review and approval by the FHWA Division office, payment is scheduled. The timing of the federal payment to the state is governed by an agreement between the state and the United States Treasury. The FHWA's payments are generally deposited in the state's account on the same day payments to the contractor are made.

Federal Aid Revenues

New Mexico is a "donee" state, currently receiving \$1.28 in Federal Aid Revenues for every \$1.00 it contributes in motor-fuel tax revenue. Below are tables identifying prior authorizations, obligation limitations and reimbursements received by the State and the Department from FFY 1998 through the Federal Aid Authorization ending September 30, 2009. The ability to pay debt service on the 2006 Subordinate Lien Bonds will depend upon the amount of funding provided to the State under the FAHP and the State's ability to use such funding.

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Set forth below is a history of the aggregate authorization and obligation limitation amounts received by the Department under TEA-21:

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS – TEA-21

	Federal Fiscal Year 1998	Federal Fiscal Year 1999	Federal Fiscal Year 2000	Federal Fiscal Year 2001	Federal Fiscal Year 2002	Federal Fiscal Year 2003	Federal Fiscal Year 2004	Totals
Aggregate Authorization	\$223,502,095	\$261,985,213	\$282,146,076	\$294,049,448	\$298,809,162	\$291,032,534	\$307,511,183	\$1,959,035,711
<u>Obligation Limitation</u>								
National Highway System	51,242,669	60,396,028	64,829,792	69,623,960	75,731,875	75,387,486	80,688,917	477,900,727
Bridge	8,451,991	10,539,910	12,195,954	12,899,034	15,345,467	13,312,643	14,619,751	87,364,750
Surface Transportation Program ⁽¹⁾	35,098,908	41,234,645	43,731,955	46,293,425	48,625,970	49,073,310	49,258,893	313,317,106
Minimum Guarantee	31,643,371	31,128,866	30,538,964	30,036,771	30,238,728	29,907,334	29,921,754	213,415,788
Surface Transportation Program (Urban Areas)	7,024,385	8,252,338	8,751,975	9,569,909	10,268,213	10,476,349	10,327,305	64,670,474
Interstate Maintenance	47,402,238	54,989,802	58,821,241	63,417,400	69,159,815	62,761,855	73,421,464	429,973,815
Congestion Mitigation/Air Quality Improvement	5,987,999	6,852,293	7,370,310	8,047,929	8,607,408	8,550,135	9,389,632	54,805,706
Recreational Trails	484,517	636,744	786,604	663,358	836,354	925,057	977,896	5,310,530
Metro Planning	715,807	812,831	814,638	846,711	912,523	1,037,559	1,164,707	6,304,776
Research Program	935,236	1,069,027	1,134,011	1,206,418	1,306,496	1,295,229	1,429,600	8,376,017
Planning Programs	2,805,708	3,207,080	3,402,030	3,619,253	3,919,486	3,885,685	3,538,700	24,377,942
High Priority Projects	7,816,298	10,562,887	13,270,044	13,951,387	13,697,860	15,520,683	10,866,985	85,686,144
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>8,118,746</u>	<u>18,267,977</u>
Aggregate Obligation Limitation	\$200,738,715	\$231,612,473	\$247,696,221	\$262,245,671	\$280,388,689	\$273,365,633	\$293,724,350	\$1,789,771,752

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

⁽²⁾ Although funds were distributed to the State on a TEA-21 basis, FFY 2004 was part of SAFETEA-LU. For this reason FFY 2004 numbers are not comparable for purposes of this table.

Source: New Mexico Department of Transportation.

REIMBURSEMENT FROM FEDERAL FUNDS – TEA 21

<u>Federal Fiscal Year</u>	<u>Aggregate Reimbursements</u>
1998	\$161,304,000
1999	213,328,000
2000	277,983,000
2001	260,146,000
2002	278,897,000
2003	263,226,000
2004	<u>243,531,000</u>
Total	\$1,697,415,000

The State received \$292,847,438 (unaudited) in reimbursements from the FHWA during federal fiscal year 2005.

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Set forth below is a history of aggregate authorization and obligation limitations to be available for bond payments under SAFETEA-LU.

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS – SAFETEA-LU

	<u>Federal Fiscal Year 2005</u>	<u>Federal Fiscal Year 2006⁽¹⁾</u>	<u>Federal Fiscal Year 2007⁽¹⁾</u>	<u>Federal Fiscal Year 2008⁽¹⁾</u>	<u>Federal Fiscal Year 2009⁽¹⁾</u>
Interstate Maintenance	\$64,251,895	\$65,286,769	\$66,338,307	\$67,406,777	\$68,492,451
National Highway System	76,482,689	77,714,418	78,964,299	80,236,014	81,528,206
Surface Transportation Program ⁽¹⁾	58,812,919	53,584,797	54,244,235	55,051,306	55,937,790
Surface Transportation Program: Approximate (Large Urban Area) Suballocation from STP Apportionment	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)
Bridge	13,821,540	14,044,167	14,270,379	14,500,233	14,733,788
Congestion Mitigation/Air Quality	8,232,073	8,364,628	8,499,317	8,636,175	8,775,237
Recreational Trails	1,026,452	1,199,957	1,286,709	1,373,461	1,460,213
Metro Planning	1,469,376	1,448,969	1,472,634	1,496,045	1,519,833
Planning Programs- Suballocation from Core Program funds	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)
Research Program – Suballocation from Planning Program funds	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)
Highway Safety Improvement Program	-	9,724,197	9,914,691	10,108,251	10,304,929
Rail-Highway Crossing	-	1,493,538	1,490,053	1,488,934	1,488,934
Safe-Routes to School	1,000,000	1,000,000	1,000,000	1,000,000	1,157,178
Border Infrastructure Program	925,343	1,090,851	1,241,313	1,429,391	1,579,853
High Priority Projects	30,920,000	30,920,000	30,920,000	30,920,000	30,920,000
Equity Bonus	<u>76,085,543</u>	<u>71,408,088</u>	<u>86,008,248</u>	<u>94,605,501</u>	<u>94,015,134</u>
Aggregate Authorization	\$333,027,830	\$333,280,379	\$355,650,185	\$368,252,088	\$371,913,547
Aggregate Obligation Limitation	\$246,000,000	\$250,952,000	\$271,112,000	\$280,718,000	\$283,509,000

⁽¹⁾ Estimated; based on an aggregate authorization for the reauthorization period.

⁽²⁾ Includes large urban area (Albuquerque and Sunland Park) population suballocations.

Source: New Mexico Department of Transportation.

Note that the Department may allocate its obligation authority among SAFETEA-LU program categories (as well as TEA-21 categories) as it desires, subject to the aggregate authorization and allocation amount in each category and the aggregate obligation limit. Aggregate authorization does not represent federal revenues. Federal revenues are limited by obligation limitation, and are received through reimbursements for expenditures made on construction activities. Reimbursement amounts vary significantly year-to-year depending on construction schedules. Over time, reimbursement revenues are approximately equal to the obligation limitation. STP/URBAN areas over 200,000 population and planning/research programs are suballocations from the core funding category apportionments shown for information purposes.

Once federal revenues are obligated, they may be spent (and therefore reimbursed) over a three-year period, adding to the unpredictability of annual reimbursements. The Department's practice is to obligate all amounts available in each year. This practice, and the larger size of the Department's construction program, will allow the Department to accelerate projects in order to increase reimbursements in any particular year if necessary to pay bondholders.

Pledged Revenues History and Estimates

Set forth below is an eight-year history of Pledged Revenues and an estimate of Pledged Revenues for the fiscal year ended June 30, 2006 and the next four fiscal years. The estimates are based on Department projections as of March 14, 2006. Such projections are based on certain assumptions that may not be realized. See "SPECIAL FACTORS RELATING TO THE 2006 SUBORDINATE LIEN BONDS" and "FORWARD-LOOKING STATEMENTS."

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

	<u>FY98</u> <u>Actual</u>	<u>FY99</u> <u>Actual</u>	<u>FY00</u> <u>Actual</u>	<u>FY01</u> <u>Actual</u>	<u>FY02</u> <u>Actual</u>	<u>FY03</u> <u>Actual</u>	<u>FY04</u> <u>Actual</u>	<u>FY05</u> <u>Actual</u>	<u>FY06</u> <u>Estimate</u> ⁽⁴⁾	<u>FY07</u> <u>Estimate</u> ⁽⁵⁾	<u>FY08</u> <u>Estimate</u> ⁽⁵⁾	<u>FY09</u> <u>Estimate</u> ⁽⁵⁾	<u>FY10</u> <u>Estimate</u> ⁽⁵⁾
<u>State Road Fund:</u>													
Gasoline Tax	\$117,880	\$115,660	\$111,961	\$108,534	\$108,941	\$110,465	\$112,107	\$109,456	\$112,044	\$110,900	\$113,500	\$115,500	\$117,500
Special Fuel Tax	59,732	63,763	66,648	66,940	65,689	69,478	74,546	87,902	97,534	96,000	102,200	106,900	111,500
Weight/Distance	47,603	52,670	54,098	50,851	50,903	51,394	51,574	73,781	77,852	75,700	76,500	77,200	77,900
Trip Tax	9,050	9,656	9,727	7,731	6,194	4,348	4,050	5,724	8,508	8,000	9,000	9,000	9,000
Vehicle Registration	40,162	42,537	44,302	41,600	44,137	43,993	52,996	67,768	71,012	70,300	72,400	72,400	74,500
Vehicle Transaction	1,062	1,242	1,178	1,111	1,144	1,115	1,132	1,130	1,583	1,100	1,100	1,100	1,100
Driver's License	3,456	3,497	4,484	4,361	4,799	4,542	4,238	4,072	3,919	4,200	4,300	4,300	4,400
Oversize/Overweight	1,381	1,426	1,250	1,316	1,303	1,140	1,157	3,232	4,483	4,000	4,000	4,000	4,000
Public Regulatory	3,700	3,842	3,964	3,655	3,549	3,391	3,298	3,526	3,715	3,400	3,600	3,600	3,600
Commission Fees													
Penalty Assessments	1,095	1,111	1,098	1,122	1,024	1,138	1,085	1,273	258	0	0	0	0
(Reinstatement Fees)													
MVD Miscellaneous Fees	1,249	1,645	1,226	881	898	997	923	1,200	2,649	2,350	2,200	2,200	1,828
Leased, Vehicle Gross	2,325	2,107	0	0	0	0	0	0	0	0	0	0	0
Receipts Tax													
State 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>395</u>	<u>1,239</u>	<u>1,801</u>	<u>1,700</u>	<u>1,400</u>	<u>1,400</u>	<u>1,500</u>
Total State Road Fund⁽¹⁾	292,425	301,418	302,007	289,816	289,583	292,510	307,501	360,303	385,358	377,650	390,200	397,600	406,828
Percent Change	-	3.1%	0.2%	-4.0%	-0.1%	1.0%	5.1%	17.2%	7.0%	-2.0%	3.3%	1.9 %	2.3%
<u>Highway Infrastructure Fund:</u>													
Leased Vehicle Gross	n/a	n/a	4,596	4,810	4,507	4,465	4,536	4,524	5,272	4,740	4,890	4,980	5,095
Receipts													
Tire Recycling Fees	n/a	n/a	1,455	1,411	1,655	1,679	1,421	1,950	1,756	1,750	1,800	1,775	1,860
Interest	<u>n/a</u>	<u>n/a</u>	<u>168</u>	<u>328</u>	<u>152</u>	<u>115</u>	<u>64</u>	<u>124</u>	<u>237</u>	<u>268</u>	<u>210</u>	<u>220</u>	<u>226</u>
Total Highway Infrastructure Fund⁽¹⁾	-	-	6,219	6,549	6,314	6,259	6,021	6,598	7,265	6,758	6,900	6,975	7,181
Percent Change	-	-	-	5.3%	-3.6%	-0.9%	-3.8%	9.6%	10.1%	-7.0%	2.1%	1.1%	3.0%
<u>Federal Funds:</u>													
Reimbursement/Obligation	161,304⁽²⁾	213,328⁽²⁾	277,983⁽²⁾	260,146⁽²⁾	278,897⁽²⁾	263,226⁽²⁾	243,531⁽²⁾	246,000⁽³⁾	250,952⁽³⁾	271,111⁽³⁾	280,718⁽³⁾	283,509⁽³⁾⁽⁶⁾	292,104⁽³⁾⁽⁶⁾
Limitation													
Percentage Change	32.3%	32.3%	30.3%	-6.4%	7.2%	-5.6%	-7.5%	1.0%	2.0%	8.0%	3.5%	1.0%	3.0%
<u>Total Pledged Revenues⁽¹⁾:</u>	453,729	514,746	586,209	556,511	574,794	561,995	557,053	612,901	643,575	655,519	677,818	688,084	706,113
Percent Change	-	13.4%	13.9%	-5.1%	3.3%	-2.2%	-0.9%	10.0%	5.0%	1.9%	3.4%	1.5%	2.6%

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

⁽²⁾ Reflects actual reimbursements received by the State from the FHWA.

⁽³⁾ Reflects the State's obligation limitation. Obligation limitations and actual reimbursements received may vary significantly in any given fiscal year.

⁽⁴⁾ Reflects unadjusted actuals as of June 30, 2006.

⁽⁵⁾ Based on 20 year plan dated March 14, 2006. Future revenue estimates may reflect a decline in certain tax revenues.

⁽⁶⁾ Based on the Department's fiscal year 2009 revenue estimate.

Source: New Mexico Department of Transportation.

SPECIAL FACTORS RELATING TO THE 2006 SUBORDINATE LIEN BONDS

Each investor or prospective investor in the 2006 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 2006 Subordinate Lien Bonds and could affect the market price of the 2006 Subordinate Lien Bonds to an extent that cannot be determined at this time.

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 Legislature has amended laws imposing or distributing taxes paid into the State Road Fund on several occasions in recent years. Examples include changes with respect to the distribution and sale of gasoline on Indian reservations, pueblos and Indian trust lands, special fuel taxes, weight distance taxes, motor vehicle registration fees, leased vehicle gross receipts taxes and tire recycling fees. See “THE PLEDGED REVENUES-The State Road Fund and Highway Infrastructure Fund.”

Revisions to laws of the State imposing or distributing taxes paid into the State Road Fund could be adopted in the future by the Legislature. Proposals affecting such taxes are frequently considered by the State Legislature. There is no assurance that any future revisions to State laws will not adversely affect taxes paid into the State Road Fund.

Uncertainties in Federal Funding

The Federal Revenues have historically been authorized under multiple-year authorizing legislation. Until the enactment of SAFETEA-LU on August 11, 2005, immediately prior legislative authorization was provided by the TEA-21, which went into effect on October 1, 1997 and expired on September 30, 2003. SAFETEA-LU extends the authorization of the Federal Aid Highway Program for a period ending September 30, 2009. There can be no assurance that new multi-year authorization or continuing resolution reauthorization will be adopted effective for any period subsequent to September 30, 2009, or if adopted, that any such legislation will be signed into law by the President. SAFETEA-LU includes 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 2006 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 - The Federal Aid Highway Program.”

Limited Obligations

The 2006 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 2006 SUBORDINATE LIEN BONDS” and “BOND INSURANCE.” The ability of the NMFA, the Commission and the Department to realize Pledged Revenues in amounts sufficient to pay debt service on the 2006 Subordinate Lien Bonds and other obligations payable from the Pledged Revenues senior to or on a parity with the 2006 Subordinate Lien 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 2006 Subordinate Lien Bonds will be payable from the Pledged Revenues, and the lien on a portion of the Pledged Revenues securing the 2006 Subordinate Lien 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 2006 Subordinate Lien Bonds will also be subject and subordinate to the lien on the Pledged Revenues that secure the Outstanding Senior Lien Bonds. To this extent, the 2006 Subordinate Lien Bonds will be subject to prior payment of the Outstanding Closed Lien Obligations and the Outstanding Senior Lien Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2006 SUBORDINATE LIEN BONDS—Outstanding Closed Lien Obligations” and “—Additional Senior Lien Bonds.”

Additional Parity and Subordinate Obligations

Additional Senior Lien Bonds and other obligations may be issued with a lien on the Pledged Revenues superior to the lien of the Outstanding Subordinate Lien Obligations on the Pledged Revenues upon satisfaction of certain conditions. In addition to the 2004 Subordinate Lien Bonds and the 2006 Subordinate Lien Bonds, additional Subordinate Lien Obligations may be issued on a parity with the 2004 Subordinate Lien Bonds and the 2006 Subordinate Lien Bonds and other subordinate obligations may be issued subordinate to the 2004 Subordinate Lien Bonds and the Series 2006 Subordinate Lien Bonds with respect to the Pledged Revenues upon satisfaction of certain conditions. See, “SECURITY AND SOURCES OF PAYMENT FOR THE 2006 SUBORDINATE LIEN BONDS—Additional Senior Lien Bonds,” “—Additional Subordinate Lien Obligations” and “—Subordinate Debt.”

Certain Considerations Affecting Auction Rate Securities

Role of Broker-Dealers

Goldman, Sachs & Co., UBS Securities LLC, RBC Capital Markets and Citigroup Global Markets Inc. (the “Broker-Dealers”) have been appointed to serve as the broker-dealers in the auctions for auction rate securities and are paid by the issuers for their services. The Broker-Dealers receive broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through broker-dealers in auctions.

The Broker-Dealers are designated in the Broker-Dealer Agreements as the Broker-Dealers to contact existing holders and potential holders and solicit Bids for the Series 2006C Bonds and the Series 2006D Bonds. The Broker-Dealers will receive Broker-Dealer Fees from the NMFA with respect to the Series 2006C Bonds and the Series 2006D Bonds sold or successfully placed through them in Auctions. The Broker-Dealers may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction.

Bidding by Broker-Dealers

The Broker-Dealers are permitted, but not obligated, to submit Orders in Auctions for their own accounts either as buyers or sellers and routinely do so in the auction rate securities market in their sole discretion. If a

Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through them in that Auction and thus could determine the rate and size of its Order so as to increase the likelihood that (i) its Orders will be accepted in the Auction and (ii) the Auction will clear at a particular rate. For this reason, and because the Broker-Dealers are appointed and paid by the NMFA to serve as Broker-Dealers in the Auction, the Broker-Dealers' interests in serving as Broker-Dealers in an Auction may differ from those of existing holders and potential holders who participate in Auctions. See "Role of the Broker-Dealers." No Broker-Dealer would have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

Where a Broker-Dealer is the only Broker-Dealer appointed by the NMFA to serve as Broker-Dealer in the Auction, it would be the only Broker-Dealer that submits Orders to the Auction Agent in that Auction. As a result, in such circumstances, the Broker-Dealer could discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealers may place bids in auctions including auctions for securities other than the Series 2006C Bonds and the Series 2006D Bonds for their own accounts to acquire securities for their inventories to prevent an "Auction Failure" (which occurs if there is a lack of sufficient clearing bids and results in auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealers believe does not reflect the market for such securities. The Broker-Dealers may place one or more Bids in an Auction for their own accounts to acquire the Series 2006C Bonds and the Series 2006D Bonds for their inventories, to prevent an Auction Failure or to prevent Auctions clearing at a rate that the Broker-Dealers believe does not reflect the market for such Series 2006C Bonds and Series 2006D Bonds. The Broker-Dealers may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through them. When Bidding in an Auction for their own accounts, a Broker-Dealer may also Bid inside or outside the range of rates that it posts in its respective Price Talk. See "Price Talk."

The Broker-Dealers routinely encourage bidding by others in auctions for which they serve as Broker-Dealers including auctions for securities other than the Series 2006C Bonds and the Series 2006D Bonds.

Bids by the Broker-Dealers or by those they may encourage to place Bids are likely to affect (i) the Auction Rate - including preventing the Auction Rate from being set at the Maximum Interest Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealers not Bid or not encouraged others to Bid and (ii) the allocation of the Series 2006C Bonds and the Series 2006D Bonds being auctioned - including displacing some Bidders who may have their Bids rejected or receive fewer Series 2006C Bonds and Series 2006D Bonds than they would have received if the Broker-Dealers had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the Series 2006C Bonds and the Series 2006D Bonds involves no significant liquidity or credit risk. The Broker-Dealers are not obligated to continue to place such Bids or not encourage other Bidders to do so in any particular Auction to prevent an Auction Failure or an Auction from clearing at a rate the Broker-Dealers believe does not reflect the market for the Series 2006C Bonds and the Series 2006D Bonds. Investors should not assume that the Broker-Dealers will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealers or by those they may encourage to place Bids may cause lower Auction Rates to occur.

In any particular Auction, if all outstanding Series 2006C Bonds and Series 2006D Bonds are the subject of submitted hold orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If the Broker-Dealers hold any Series 2006C Bonds or Series 2006D Bonds for their own accounts on an Auction Date, it is the Broker-Dealers' practice to submit a Sell Order into the Auction with respect to such Series 2006C Bonds and Series 2006D Bonds, which would prevent that Auction from being an All Hold Auction. The Broker-Dealers may, but are not obligated to, submit Bids for their own accounts in that same Auction, as set forth above.

Price Talk

Before the start of an Auction, the Broker-Dealers, in their discretion, may make available to their customers who are existing holders and potential holders the Broker-Dealers' good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction will be within the Price Talk, and existing holders and potential holders are free to use it or ignore it. the Broker-Dealers may occasionally update and change the Price Talk based on changes in NMFA credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Holders should confirm with the Broker-Dealers the manner by which the Broker-Dealers will communicate Price Talk and any changes to Price Talk.

"All-or-Nothing" Bids

The Broker-Dealers will not accept "all-or-nothing" Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Series 2006C Bonds and Series 2006D Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes

The Broker-Dealers provide no assurance as to the outcome of any Auction. The Broker-Dealers also do not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Series 2006C Bonds or Series 2006D Bonds purchased or retained in the Auction may be lower than the market rate for similar investments.

Deadlines

Each particular Auction has a formal deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealers impose an earlier deadline - called the "Internal Submission Deadline" - by which Bidders must submit Bids to the Broker-Dealers. The Internal Submission Deadline is subject to change by the Broker-Dealers. Potential Holders should consult with the Broker-Dealers as to its Internal Submission Deadline. The Broker-Dealers may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. The Broker-Dealers may submit Bids for their own account at any time until the Submission Deadline.

Existing Holder's Ability to Resell Auction Rate Securities May Be Limited

An Existing Owner may sell, transfer or dispose of a Series 2006C Bond or Series 2006D Bond (i) in an Auction only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction, only to or through the Broker-Dealers.

Existing holders will be able to sell all of the Series 2006C Bonds and Series 2006D Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Series 2006C Bonds and Series 2006D Bonds in the Auction. If Sufficient Clearing Bids have not been made, existing holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the Series 2006C Bonds and Series 2006D Bonds subject to such Submitted Sell Orders. As discussed above (see "Bidding by Broker-Dealers"), the Broker-Dealers may submit Bids in an Auction to avoid an Auction Failure, but they are not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealers Bidding in the Auction for their own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the NMFA's credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealers were unable or unwilling to Bid.

Between Auctions, there can be no assurance that a secondary market for the Series 2006C Bonds and the Series 2006D Bonds will develop or, if it does develop, that it will provide existing holders the ability to resell the Series 2006C Bonds and Series 2006D Bonds on the terms or at the times desired by an existing holder. The Broker-Dealers, in their own discretion, may decide to buy or sell the Series 2006C Bonds and Series 2006D Bonds in the secondary market for their own accounts from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Series 2006C Bonds and the Series 2006D Bonds. However, the Broker-Dealers are not obligated to make a market in the Series 2006C Bonds and Series 2006D Bonds and may discontinue trading in the Series 2006C Bonds and Series 2006D Bonds without notice for any reason at any time. Existing holders who resell between Auctions may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a Series 2006C Bond or a Series 2006D Bond through a dealer which is not one of the Broker-Dealers for the securities, such Existing Owner's ability to sell its security may be affected by the continued ability of its dealer to transact trades for the Series 2006C Bonds and the Series 2006D Bonds through the Broker-Dealers.

The ability to resell the Series 2006C Bonds or Series 2006D Bonds will depend on various factors affecting the market for the Series 2006C Bonds and the Series 2006D Bonds, including news relating to the NMFA, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Series 2006C Bonds and the Series 2006D Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Series 2006C Bonds and the Series 2006D Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Settlement" below) or press reports, financial reporting cycles and market conditions generally. Demand for the Series 2006C Bonds and the Series 2006D Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealers could impact the Ability to Hold Auctions

The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice to the NMFA and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreements provide that the Broker-Dealers thereunder may resign upon 90 days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that replacement Broker-Dealers be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealers, it will not be possible to hold Auctions, with the result that the interest rate on the Series 2006C Bonds and the Series 2006D Bonds will be determined as described in Appendix F.

Securities and Exchange Commission Settlement

On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation of fifteen firms, including Goldman, Sachs & Co., RBC Capital Markets and Citigroup Global Markets Inc. (the "Settling Broker-Dealers"), that participate in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Settling Broker-Dealers agreed to pay civil penalties. In addition, each of the Settling Broker-Dealers, without admitting or denying the SEC's allegations, agreed to provide to customers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Broker-Dealers to conduct the auction process in accordance with disclosed procedures. The Broker-Dealers can offer no assurance as to how the settlement may affect the market for auction rate securities or the Series 2006C Bonds and the Series 2006D Bonds. No action was taken by the SEC against UBS Securities LLC and UBS Securities LLC is not aware of any ongoing inquiries on this matter related to UBS Securities LLC.

Tax Status of the 2006 Subordinate Lien Bonds

The opinion expressed by Special Tax Counsel is based on existing law as of the delivery date of the Series 2006B Bonds and the Series 2006C Bonds. No assurance can be given that any future legislation or clarification of the Internal Revenue Code of 1986, as amended (the “Code”), or State law, will not cause interest on the Series 2006B Bonds and Series 2006C 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 Series 2006B Bonds and Series 2006C Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series 2006B Bonds or Series 2006C Bonds, or bonds which present similar tax issues, will not affect the market price for Series 2006B Bonds or Series 2006C Bonds. Prospective purchasers of the 2006 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.

In the opinion of Special Tax Counsel, interest on the Series 2006D Bonds is not excluded from gross income for federal income tax purposes.

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. 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 on June 23, 2004. 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 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. 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 the gasoline tax sharing agreements.

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 Department expects a 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*.”

BOND INSURANCE

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by NMFA as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the 2006 Subordinate Lien Bonds or the advisability of investing in the 2006 Subordinate Lien Bonds.

General

XL Capital Assurance Inc. (the “Insurer” or “XLCA”) is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Insurer is an indirect wholly owned subsidiary of Security Capital Assurance Ltd (“SCA”), a company organized under the laws of Bermuda. Through its subsidiaries, SCA provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. XL Capital Ltd beneficially owns approximately 63% of SCA’s outstanding shares. The common shares of SCA are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: SCA). **SCA is not obligated to pay the debts of or claims against the Insurer.**

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer’s insurance financial strength is rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s and Fitch, Inc. (“Fitch”). In addition, the Insurer has obtained a financial enhancement rating of “AAA” from Standard & Poor’s. These ratings reflect Moody’s, Standard & Poor’s and Fitch’s current assessment of the Insurer’s creditworthiness and claims-paying ability as well as the reinsurance arrangement with XL Financial Assurance Ltd. (“XLFA”) described under “Reinsurance” below.

The above ratings are not recommendations to buy, sell or hold securities, including the 2006 Subordinate Lien Bonds and are subject to revision or withdrawal at any time by Moody’s, Standard & Poor’s or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the 2006 Subordinate Lien Bonds. The Insurer does not guaranty the market price of the 2006 Subordinate Lien Bonds nor does it guaranty that the ratings on the 2006 Subordinate Lien Bonds will not be revised or withdrawn.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 75% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer’s obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2005, XLFA had total assets, liabilities, redeemable preferred shares and shareholders’ equity of \$1,394,081,000, \$704,007,000, \$39,000,000 and \$651,074,000, respectively, determined in accordance with generally accepted accounting principles in the United

States (“US GAAP”). XLFA’s insurance financial strength is rated “Aaa” by Moody’s and “AAA” by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of “AAA” from S&P.

The ratings of XLFA or any other member of the SCA group of companies are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody’s, Standard & Poor’s or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Bondholders will have direct recourse against the Insurer only, and XLFA will not be directly liable to the Bondholders.

Capitalization of the Insurer

Based on the audited financials of XLCA, as of December 31, 2005, XLCA had total assets, liabilities, and shareholder’s equity of \$953,706,000, \$726,758,000, and \$226,948,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$328,231,000, total liabilities of \$139,392,000, total capital and surplus of \$188,839,000 and total contingency reserves of \$13,031,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities (“SAP”).

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the “Commission”) by SCA, with respect to all periods ending after August 4, 2006, and by XL Capital Ltd, with respect to all periods ending prior to August 4, 2006, and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by SCA or XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the 2006 Subordinate Lien Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in the reports filed with the Commission by SCA or XL Capital Ltd is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2006 Subordinate Lien Bonds are set forth in the following table.

SOURCES:

Series 2006B Bonds Par Amount	\$40,085,000
Net Premium Series 2006B Bonds	1,712,863
Series 2006C Bonds Par Amount	220,000,000
Series 2006D Bonds Par Amount	<u>50,400,000</u>
TOTAL SOURCES:	\$312,197,863

USES:

Deposit to Escrow Fund for Refunded Bonds	\$10,071,197
Deposit to Project Account	299,675,871
Costs of Issuance ⁽¹⁾	<u>2,450,795</u>
TOTAL USES:	\$312,197,863

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

Contemporaneously with the issuance of the 2006 Subordinate Lien Bonds, the NMFA expects to issue \$150,000,000 of its Series 2006A Bonds for the purpose of financing GRIP Transportation Projects authorized by the Legislature that the Department has determined to be necessary or desirable. The NMFA may, from time to time and upon satisfaction of certain requirements, issue additional bonds or other obligations with a lien on the Pledged Revenues superior or on a parity with the lien on the Pledged Revenues of the 2006 Subordinate Lien Bonds. The timing, amount and other details of additional Senior Lien Bonds, other than the Series 2006A Bonds, and Subordinate Lien Obligations, other than the 2006 Subordinate Lien Bonds, are not known as of the date of this Official Statement.

THE PROJECTS

GRIP Transportation Projects

The 2006 Subordinate Lien Bonds are being issued to finance a variety of GRIP Transportation Projects authorized by the Legislature that the Department has determined to be necessary or desirable. Those projects are part of GRIP's plan to upgrade and improve highways throughout the State and to develop a broad based, intermodal transportation plan that includes, commuter rail, park and ride, airport improvements, bike paths and hiking trails. The central part of GRIP is a funding program that utilizes bonding, pay-as-you-go and other financing programs to

pay for highway reconstruction projects statewide over an eight-year period. GRIP is the initial work product of Governor Richardson's Finance Council that was established to develop finance strategies for the challenges facing the State.

Some or all of the following GRIP Transportation Projects will be financed in whole or in part with the proceeds of the Series 2006A Bonds, the Series 2006B Bonds and the Series 2006C Bonds. The GRIP Transportation Projects include the reconstruction and improvement of:

- (1) the Interstate 25 corridor from Belen to Santa Fe to accommodate public transportation elements including commuter rail;
- (2) United States Highway 54 from Tularosa to Santa Rosa;
- (3) United States Highway 64/87 from Raton to Clayton;
- (4) United States Highway 491 from Tohatchi to Shiprock;
- (5) United States Highway 491 from Shiprock to the Colorado state line;
- (6) United States Highway 62/180 from the Texas state line to Carlsbad;
- (7) various sections of Interstate 40 from Newkirk to Tucumcari;
- (8) various sections of Interstate 40 between Gallup and the Arizona state line;
- (9) various sections of Interstate 40 between Thoreau and Grants;
- (10) Interstate 40 in Albuquerque from Carlisle Boulevard to Juan Tabo Boulevard;
- (11) Interstate 40 east of Albuquerque from Carnuel to Sedillo;
- (12) Interstate 40 in Albuquerque from Central Avenue to Coors Boulevard;
- (13) Interstate 40 at various locations from the Pueblo of Laguna to Mesita;
- (14) Interstate 40 from Canoñcito to Rio Puerco;
- (15) Interstate 40 in Moriarty from the west interchange to the east interchange;
- (16) Interstate 10 from Lordsburg to the junction of State Highway 146;
- (17) accommodate public transportation elements of Interstate 10 from the Texas state line to Las Cruces;
- (18) United States Highway 84/285 from Pojoaque to Española;
- (19) State Highway 45 in Albuquerque from the junction above Interstate 25 north to Central Avenue;
- (20) State Highway 128 from State Highway 31 to the Texas state line;
- (21) State Highway 11 from Columbus to Deming;
- (22) United States Highway 60 from Abo to Willard;
- (23) United States Highway 56 from Springer east to Abbott;
- (24) United States Highway 380 west of Tatum east to the Texas state line;
- (25) various sections of United States Highway 380 from Capitan to Hondo;
- (26) various sections of United States Highway 64 from the San Juan-Rio Arriba County line to the junction of United States Highway 84;
- (27) State Highway 8 from Eunice to the United States Highway 62;
- (28) United States Highway 285 from Encino to Clines Corners;
- (29) various sections of United States Highway 84 from Interstate 25 south to Dilia;
- (30) various sections of State Highway 26 between Deming and Hatch;
- (31) State Highway 83 from Lovington to the junction of State Highway 132;
- (32) of State Highway 209 from NM 268 to Grady;
- (33) United States Highway 84 from Fort Sumner to Santa Rosa;
- (34) various sections of United States Highway 62/180 from the Texas state line to the Lea-Eddy County line;
- (35) United States Highway 285 from Clines Corners to Lamy; and
- (36) United States Highway 180 from Deming to Bayard;
- (37) the interchange at Interstate 40 and West Central in Albuquerque and Bernalillo County;

as well as

- (38) the reconstruction of the interchange at the intersection of Coors Boulevard and Interstate 40 in Albuquerque;
- (39) improvements to the physical facilities of the Department of Transportation; and

- (40) construction of the Rio Bravo boulevard extension and interchange to access Mesa del Sol in Albuquerque and Bernalillo County.

A portion of each of these projects are part of the National Highway System and are therefore eligible for Federal Aid Highway funds under Title 23; however, at the present time, the Department does not plan to seek reimbursement for the projects identified in items 1 and 40 above. For a discussion of the Federal Aid Highway Program see “THE PLEDGED REVENUES – Federal Revenue” herein.

The proceeds of the Series 2006D Bonds will be used to provide funds for an escrow required to be maintained by the Department pursuant to a Joint Use Agreement dated December 5, 2005 between the Department and the BNSF Railway Company.

The Refunding Project

A portion of the Series 2006B Bonds are being issued to provide funds to redeem a portion of the 2009 and 2010 maturities of the 1998A Bonds at a redemption price of 100% of the principal amount thereof plus accrued interest to a June 15, 2008 redemption date and to defease a portion of the 2007 and 2008 maturities of the 1999 Bonds to their respective maturity dates (the “Refunded Bonds”). A portion of the proceeds of the Series 2006B Bonds will be deposited in the Escrow Fund for the Refunded Bonds (the “Escrow Fund”) and used to provide funds 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 entered 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 were 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 68% of the 30-day London Interbank Offered Rate on the relevant notional amount. The rates to be paid 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 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 entered 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 were 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. The NMFA is issuing the Series 2006C Bonds in a principal amount equal to the aggregate notional amount of the Forward-Starting Swap Agreements; however, there can be no assurance that the actual rate payable by the NMFA on the Series 2006C 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 the Series 2006C 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. The Forward-Starting Swap Agreements include options whereby the Forward-Starting Counterparties may, but are not required to, terminate the Forward-Starting Swap Agreements if the daily weighted average of the BMA Index for the preceding 180 day period is greater than 7%.

On August 7, 2006, the NMFA entered into Swap Documents in connection with a basis interest rate exchange agreement (the “Basis Swap Agreement”) with Citibank, N.A. (the “Basis Swap Counterparty”) having an initial notional amount of \$100,000,000. The Basis Swap Agreement essentially overlays \$100,000,000 of the 2004 Swap Agreements, and was entered into in order to realize savings whenever the interest yield curve attains more positive slope; *i.e.*, whenever longer term interest rates are higher than shorter term interest rates. Under the Basis Swap Agreement, the NMFA will pay 68% of the 30-day London Interbank Offered Rate on the relevant notional amount, and the Basis Swap Counterparty will pay to NMFA 63.05% of the five year International Swap and Derivatives Association, Inc. (“ISDA”) Swap Rate.

Payments (other than termination payments as described below) by the NMFA on the Swap Agreements and the Basis Swap Agreement 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 and the 2006 Subordinate Lien Bonds.

Each of the Swap Agreements and the Basis Swap Agreement provides that the NMFA may bid for termination of the Swap Agreement or the Basis Swap Agreement at any time prior to its termination date and that the Swap Agreement or the Basis Swap Agreement may be terminated prior to its termination date by the relevant 2004 Counterparty, Forward-Starting Counterparty or Basis Swap Counterparty (each a “Counterparty”) under certain circumstances. If a Swap Agreement or the Basis 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 and the Basis Swap Agreement is subject to periodic “mark-to-market” valuations. If the mark-to-market valuation exceeds the limitations set in the Swap Agreement or the Basis 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 or the Basis Swap Agreement. The Swap Agreements and the Basis Swap Agreement were 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 marks the Swap Agreements and the Basis Swap Agreement to market monthly and a joint committee of the NMFA, the Commission and the Department regularly monitors the Swap Agreements and the Basis Swap Agreement.

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 or the 2006 Subordinate Lien Bonds from the Pledged

Revenues. Because each of the Swap Agreements and the Basis Swap Agreement is subject to termination upon the occurrence of certain events, no assurance can be given that it will continue to be in effect. Neither Swap Agreements nor the Basis Swap Agreement provide a source of credit or security for the 2004 Subordinate Lien Bonds or the 2006 Subordinate Lien Bonds. The Owners of the 2004 Subordinate Lien Bonds and 2006 Subordinate Lien Bonds will not have any rights under any Swap Agreement or the Basis Swap Agreement or against any Counterparty.

If a Counterparty is unable to perform its obligations under the relevant Swap Agreement or the Basis 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.

In the near future, the NMFA may choose to enter into additional forward starting swap agreements payable from the Pledged Revenues.

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ANNUAL DEBT SERVICE REQUIREMENTS

Debt Service for the 2006 Subordinate Lien Bonds

The following schedule shows the total debt service payable for the 2006 Subordinate Lien Bonds for each fiscal year through their final maturity date.

Fiscal Year	<u>Series 2006B Bonds</u>		<u>Series 2006C Bonds</u>		<u>Series 2006D Bonds</u>		Total Fiscal Year Debt Service Requirements
	<u>Principal⁽¹⁾</u>	<u>Interest⁽²⁾</u>	<u>Principal⁽³⁾</u>	<u>Interest⁽⁴⁾</u>	<u>Principal⁽⁵⁾</u>	<u>Interest⁽⁶⁾</u>	
2007	\$2,350,000	\$1,168,348	-	\$6,824,596	-	\$2,065,000	\$12,407,944
2008	2,225,000	1,643,725	-	10,410,400	-	3,150,000	17,429,125
2009	3,165,000	1,538,238	-	10,410,400	-	3,150,000	18,263,638
2010	2,345,000	1,432,350	-	10,410,400	-	3,150,000	17,337,750
2011	2,100,000	1,346,946	-	10,410,400	-	3,150,000	17,007,346
2012	1,225,000	1,283,585	-	10,410,400	-	3,150,000	16,068,985
2013	1,270,000	1,237,288	-	10,410,400	-	3,150,000	16,067,688
2014	1,320,000	1,188,261	-	10,410,400	-	3,150,000	16,068,661
2015	1,375,000	1,135,288	-	10,410,400	-	3,150,000	16,070,688
2016	1,435,000	1,073,744	-	10,410,400	-	3,150,000	16,069,144
2017	1,500,000	1,010,044	-	10,410,400	-	3,150,000	16,070,444
2018	1,565,000	942,875	-	10,410,400	-	3,150,000	16,068,275
2019	1,645,000	864,125	-	10,410,400	-	3,150,000	16,069,525
2020	1,730,000	779,750	-	10,410,400	-	3,150,000	16,070,150
2021	1,820,000	691,000	-	10,410,400	-	3,150,000	16,071,400
2022	1,910,000	597,750	-	10,410,400	-	3,150,000	16,068,150
2023	2,005,000	502,500	\$11,200,000	10,410,400	-	3,150,000	27,267,900
2024	2,105,000	402,375	-	9,880,416	-	3,150,000	15,537,791
2025	2,215,000	294,375	95,700,000	9,880,416	-	3,150,000	111,239,791
2026	2,330,000	180,750	100,700,000	5,351,892	-	3,150,000	162,112,642
2027	<u>2,450,000</u>	<u>61,250</u>	<u>12,400,000</u>	<u>293,384</u>	<u>\$50,400,000</u>	<u>1,575,000</u>	<u>67,179,634</u>
TOTAL	\$40,085,000	\$19,374,567	\$220,000,000	\$198,797,104	\$50,400,000	\$63,490,000	\$642,546,671

⁽¹⁾ Payable on December 15 of each year, with the exception of the payment due June 15, 2007.

⁽²⁾ Payable on June 15 and December 15, commencing June 15, 2007.

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

⁽⁴⁾ Based on the fixed rate of 4.732% per annum payable by the NMFA under the Forward-Starting Swap Agreements.

⁽⁵⁾ Payable on December 15th.

⁽⁶⁾ Calculated using an interest rate of 6.25% per annum, including support costs.

Source: First Southwest Company.

Debt Service and Projected Coverage

The following table sets forth for each fiscal year from 2007 through 2027, the amounts in each such fiscal year of estimated Pledged Revenues, the estimated amounts required in each such year for debt service on the Outstanding Closed Lien Obligations, the Series 2004A Bonds, the Series 2006A Bonds, the 2004 Subordinate Lien Obligations, the 2006 Subordinate Lien Obligations and the projected debt service coverage ratios. Estimated Pledged Revenues are based on Department projections as of March 14, 2006. Such projections are based on

certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE 2006 SUBORDINATE LIEN BONDS” and “FORWARD-LOOKING STATEMENTS.” Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE 2006 SUBORDINATE LIEN BONDS” and “FORWARD-LOOKING STATEMENTS.”

Fiscal Year	Debt Service Payments					Debt Service Payments							Total Closed Lien, Senior Lien and Subordinate Lien Bonds	Projected Debt Service Coverage
	Estimated Pledged Revenues ⁽¹⁾	Total Outstanding Closed Lien Obligations ⁽²⁾	Series 2004A and Series 2006A Bonds	Total Closed Lien and Senior Lien Obligations	Projected Debt Service Coverage	2004 Subordinate Lien Bonds ⁽³⁾	Series 2006B Bonds Principal	Series 2006B Bonds Interest	Series 2006C Bonds Principal	Series 2006C Bonds Interest ⁽⁴⁾	Series 2006D Bonds Principal	Series 2006D Bonds Interest ⁽⁵⁾		
2007	\$655,039,000	\$70,436,440	\$41,118,615	\$111,555,055	5.87x	\$36,657,615	\$2,350,000	\$1,168,348	-	\$6,824,596	-	\$2,065,000	\$160,620,613	4.08x
2008	677,131,000	72,009,634	43,694,166	115,703,800	5.85x	28,976,265	2,225,000	1,643,725	-	10,410,400	-	3,150,000	162,109,190	4.18x
2009	687,776,000	74,116,984	43,694,166	117,811,150	5.84x	25,950,765	3,165,000	1,538,238	-	10,410,400	-	3,150,000	162,025,553	4.24x
2010	706,113,000	77,014,853	43,694,166	120,709,019	5.85x	23,977,385	2,345,000	1,432,350	-	10,410,400	-	3,150,000	162,024,154	4.36x
2011	706,113,000	39,839,659	43,694,166	83,533,825	8.45x	50,564,085	2,100,000	1,346,946	-	10,410,400	-	3,150,000	151,105,256	4.67x
2012	706,113,000	36,461,311	43,929,366	80,390,678	8.78x	41,567,050	1,225,000	1,283,585	-	10,410,400	-	3,150,000	138,026,713	5.12x
2013	706,113,000	32,853,061	43,876,056	76,729,118	9.20x	45,174,800	1,270,000	1,237,288	-	10,410,400	-	3,150,000	137,971,605	5.12x
2014	706,113,000	19,577,859	63,286,171	82,864,030	8.52x	39,091,400	1,320,000	1,188,261	-	10,410,400	-	3,150,000	138,024,091	5.12x
2015	706,113,000	6,496,896	107,645,041	114,141,938	6.19x	7,868,000	1,375,000	1,135,288	-	10,410,400	-	3,150,000	138,080,625	5.11x
2016	706,113,000	6,499,406	107,805,904	114,305,310	6.18x	7,868,000	1,435,000	1,073,744	-	10,410,400	-	3,150,000	138,242,454	5.11x
2017	706,113,000	6,499,563	107,974,016	114,473,579	6.17x	7,868,000	1,500,000	1,010,044	-	10,410,400	-	3,150,000	138,412,023	5.10x
2018	706,113,000	-	114,654,673	114,654,673	6.16x	7,868,000	1,565,000	942,875	-	10,410,400	-	3,150,000	138,590,948	5.09x
2019	706,113,000	-	114,865,516	114,865,516	6.15x	7,868,000	1,645,000	864,125	-	10,410,400	-	3,150,000	138,803,041	5.09x
2020	706,113,000	-	115,079,525	115,079,525	6.14x	7,868,000	1,730,000	779,750	-	10,410,400	-	3,150,000	139,017,675	5.08x
2021	706,113,000	-	115,311,350	115,311,350	6.12x	7,868,000	1,820,000	691,000	-	10,410,400	-	3,150,000	139,250,750	5.07x
2022	706,113,000	-	115,552,850	115,552,850	6.11x	7,868,000	1,910,000	597,750	-	10,410,400	-	3,150,000	139,489,000	5.06x
2023	706,113,000	-	40,233,100	40,233,100	17.55x	72,243,000	2,005,000	502,500	\$11,200,000	10,410,400	-	3,150,000	139,744,000	5.05x
2024	706,113,000	-	24,704,638	24,704,638	28.58x	140,960,488	2,105,000	402,375	-	9,880,416	-	3,150,000	181,202,916	3.90x
2025	706,113,000	-	26,941,375	26,941,375	26.21x	-	2,215,000	294,375	95,700,000	9,880,416	-	3,150,000	138,181,166	5.11x
2026	706,113,000	-	26,526,250	26,526,250	26.62x	-	2,330,000	180,750	100,700,000	5,351,892	-	3,150,000	138,238,892	5.11x
2027	706,113,000	-	69,956,250	69,956,250	10.09x	-	2,450,000	61,250	12,400,000	293,384	\$50,400,000	1,575,000	137,135,844	5.15x
Total		\$441,805,666	\$1,454,237,361	\$1,896,043,026		\$568,106,853	\$40,085,000	\$19,374,567	\$220,000,000	\$198,797,104	\$50,400,000	\$63,490,000	\$3,056,296,547	

⁽¹⁾ Based on Department projections. Pledged Revenues for 2007 through 2010 are based on Pledged Revenues estimated for fiscal year 2006 by the Department. For purposes of this table, the Department has used its Pledged Revenues estimated for fiscal year 2010 as Pledged Revenues for fiscal years 2011 through 2027. See “THE PLEDGED REVENUES—Pledged Revenues History and Estimates.”

⁽²⁾ Reflects anticipated debt service subsequent to the refunding of the Series 1998A and the Series 1999 Bonds.

⁽³⁾ 2004C Subordinate Lien Bonds debt service calculated using an annual interest rate of 3.934% per annum, the fixed rate payable by the NMFA under the 2004 Swap Agreement and does not reflect the terms of the Basis Swap Agreement.

⁽⁴⁾ Series 2006C Bond debt service calculated using an interest rate of 4.732% per annum (the fixed rate payable by the NMFA under the Forward-Starting Swap Agreements).

⁽⁵⁾ Series 2006D Bond debt service calculated using an interest rate of 6.25% per annum, including support costs.

Source: First Southwest Company.

NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate 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 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 comprised of 12 members who also constitute the NMFA's board of directors and currently employs 33 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the 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 and alter an official seal;
- to make and alter bylaws for its organization and internal management and to adopt, subject to the review and approval of the NMFA oversight committee, such rules as are necessary and appropriate to implement the provisions of the 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 Act;
- to acquire, construct, hold, improve, grant or accept mortgages of, sell, lease, convey or dispose of real and personal property for its public purposes;
- to acquire, construct or improve real property, buildings and facilities for lease and to pledge rentals and other income received from such leases to the payment of bonds;
- to make loans and leases and to purchase securities and to contract to make loans and leases and to purchase securities;
- to make grants from the Water and Wastewater Project Grant Fund and Local Government 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;
- to accept, administer, hold and use all funds made available to the NMFA from any sources;
- to borrow money and to issue bonds and provide for the rights of holders of the bonds;

- to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts;
- to invest and reinvest its funds and to take and hold property as security for the investment of such funds;
- to employ attorneys, accountants, underwriters, financial advisers, trustees, paying agents, architects, engineers, contractors and such other advisers, consultants and agents as may be necessary and to fix and pay their compensation;
- to apply for and accept gifts or grants of property, funds, services or aid in any form from the United States, any unit of government or any person and to comply, subject to the provisions of the Act, with the terms and conditions of the gifts or grants;
- to maintain an office at any place in the state it may determine;
- subject to any agreement with bondholders to: (1) renegotiate any loan, lease or agreement; (2) consent to any modification of the terms of any loan, lease or agreement; and, (3) purchase bonds, which may upon purchase be canceled; and
- to do any and all things necessary or convenient to carry out its purposes and exercise the powers given and granted in the Act.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members, seven of whom are ex officio members designated in the Act and five of whom are appointed by the Governor with the advice and consent of the State senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the state. The seven ex officio members include four 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), one is a State agency official (the State Investment Officer), and two are chief executive directors of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the governor and the appointed members serve four-year terms. Vacancies are filled by appointment for the remainder of any unexpired term. Any member is eligible for reappointment.

The 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 and takes testimony from State and local officials on State and local capital needs;
- 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 State legislature (the “Legislature”), and makes available the report and proposed legislation 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. The Executive Order designates the Chief Executive Officer and Chairman of the NMFA and the Secretary of the Department as members of the Governor’s Finance Council along with the Governor’s Chief of Staff, the Secretary of the Department of Finance and Administration, the Secretary of the TRD, a Board member of the State Board of Finance, the Director of the State Board of Finance, the Chair of the Mortgage Finance Authority, the Director of the Mortgage Finance Authority, the Director of the State Investment office and the Secretary of the Economic Development Department. Although the consent of the Governor’s Finance Council is not legally required, the NMFA voluntarily conducts its financing of State-level projects in coordination with the Governor’s Finance Council.

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Governing Body and Key Staff Members

Current members of the NMFA, and their respective occupations and term expiration dates, are presented below:

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Gary Bland ⁽¹⁾	State Investment Officer, State Investment Council	not applicable
John Carey ⁽²⁾	President and CEO, Association of Commerce and Industry	01/01/08
Gustavo Cordova ⁽¹⁾	Executive Director, New Mexico Association of Counties	not applicable
Ron Curry ⁽¹⁾	Secretary, Environment Department, State of New Mexico	not applicable
Stephen R. F lance ^{(2) (3)} (Chairman)	Owner/CEO, The F lance Company Santa Fe, New Mexico	12/31/09
William Fulginiti ⁽¹⁾ (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia ⁽²⁾	President, Garcia Honda Albuquerque, New Mexico	01/01/09
Rick Homans ⁽¹⁾	Secretary, Economic Development Department, State of New Mexico	not applicable
Katherine B. Miller ⁽¹⁾	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Jennifer Taylor ⁽²⁾	Associate Vice President for Business and Finance, New Mexico State University	12/31/07
Joanna Prukop ⁽¹⁾ (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves ⁽²⁾ (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	01/01/08

⁽¹⁾ *Ex officio* member.

⁽²⁾ Appointed by the Governor of the State.

⁽³⁾ Chairman F lance's previous term expired on January 1, 2006. The Governor of the State reappointed Chairman F lance on January 4, 2006 to a term expiring on December 31, 2009. The Chairman's name was duly submitted for confirmation by the State Senate as required by the Act. The Legislature adjourned prior to a Senate vote being held to confirm the Chairman's reappointment. On February 22, 2006, the Governor signed a letter reiterating his appointment of Chairman F lance to the term expiring December 31, 2009, stating that Chairman F lance shall remain as a member under "holdover" status until he or a successor is duly qualified under the New Mexico Constitution. Confirmation is expected to be considered during the next session of the Legislature which commences in January 2007.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the 2006 Subordinate Lien Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Chief Executive Officer. Mr. Sisneros serves as the Chief Executive Officer of the NMFA. Mr. Sisneros was appointed as the principal administrative officer in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development consulting, and land development process consulting. He graduated from the University of Colorado at Boulder with a Master's Degree in Public Administration. In addition, Mr. Sisneros served as City Manager of Santa Fe, New Mexico; Town Manager of Taos, New Mexico; Assistant City Manager of Boulder, Colorado; and Administrative Assistant in Englewood, Colorado. In Santa Fe, Mr. Sisneros served on the Executive Board of St. Vincent Hospital, as President of the

Santa Fe Chamber of Commerce, as Chairman of the Industrial Park for Santa Fe Economic Development Inc., on the Board of Directors of Open Hands and of New Mexico CARES, and New Mexico First each of which are New Mexico nonprofit corporations.

Jerome L. Trojan, Chief Operating Officer. Mr. Trojan joined the NMFA in January 2005. He has extensive experience in local government, having served as Assistant City Manager for the Cities of Las Cruces, New Mexico and Mountlake Terrace, Washington, Administrative Services Director for Santa Fe, New Mexico, Finance Director for Las Cruces, New Mexico, and Finance Director for Bay City, Michigan. In addition, Mr. Trojan has experience in higher education, having held the position of the Vice Chancellor of Administration at the University of Alaska-Fairbanks and served as an Accountant at Delta Community College in Bay City, Michigan. A Certified Public Accountant, he graduated from Central Michigan University with a Master of Business Administration with a concentration in Finance and from Western Michigan University with a Bachelor of Business Administration, with a major in Accounting and a minor in Economics. Mr. Trojan has taken the required courses for a Doctorate in International Management from Nova Southeastern University. While at the City of Las Cruces, Mr. Trojan led the City's effort to reduce electric utility costs to the community. He is active in the International City Managers Association and was instrumental in the establishment of the New Mexico Finance Officers Association.

Joseph Gosline, Chief Financial Officer. Mr. Gosline joined the NMFA in October 2005. Mr. Gosline has 15 years of experience in financial management. He previously worked with the NMFA for 5 ½ years, leaving to work for one year at a financial company that primarily advises state and public agencies on housing bonds. His responsibilities include developing, recommending and implementing NMFA internal financial management programs; managing and supervising day-to-day administrative operations related to accounting; establishing control and procedures for account management, delinquency limits; and overseeing the preparation of tax reports annually, quarterly and monthly as required. Mr. Gosline holds a B.B.A. in accounting and a Master of Business Administration in finance from the College of Santa Fe.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 17 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 of Science degree from Marquette University, Milwaukee, Wisconsin.

Jeremy Turner, Chief Financial Advisor. Mr. Turner joined the NMFA in July 2000 as a financial analyst and was appointed Chief Financial Advisor in September 2005. Mr. Turner has been responsible for \$203.5 million in financings for the NMFA. Mr. Turner earned from New Mexico State University a Bachelor of Science in Agricultural Economics/Agricultural Business and a Master of Business Administration.

John Duff, Chief Investment Officer. Mr. Duff joined the NMFA in the newly-created position of Chief Investment Officer on February 13, 2006. Mr. Duff has more than 20 years experience in investment management, financial management, and public accounting experience. He has held positions as COO and CFO of publicly held corporations, and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. As Chief Investment Officer, Mr. Duff is responsible for management of the NMFA's investment portfolio. Mr. Duff has a B.A. degree in economics from Oberlin College and an M.B.A. from Miami University in accounting and finance.

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

In addition to transportation financings, 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 2006 Subordinate Lien Bonds.

The Public Project Revolving Fund Program

The New Mexico Finance Authority Act (Section 6-21-1 through 6-21-32, NMSA 1978) created the Public Project Revolving Fund (the “PPRF”) Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of \$1 million per project require specific legislative authorization. As of June 30, 2006, the NMFA had made 528 PPRF loans totaling \$856,747,262.55. To implement the PPRF 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 (1) a loan to a qualified entity, (2) a purchase or sale of securities individually or on a pooled basis, or (3) the performance of its duties and execution of any of its powers under the Act;
- to purchase, hold or sell securities at prices and in a manner the NMFA considers advisable, giving due consideration to the financial capability of the qualified entity, and sell securities acquired or held by it at prices without relation to cost and in a manner the NMFA considers advisable;
- to prescribe the form of application or procedure required of a qualified entity for a loan or purchase of its securities, fix the terms and conditions of the loan or purchase and enter into agreements with qualified entities with respect to loans or purchases;
- 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, whether or not the loan is made or the securities purchased;
- to fix and establish terms and provisions with respect to: (1) a purchase of securities by the NMFA, including date and maturities of the securities; (2) redemption or payment before maturity; and (3) any other matters that in connection with the purchase are necessary, desirable or advisable in the judgment of the NMFA;
- to the extent permitted under its contracts with the holders of bonds of the NMFA, consent to modification of the rate of interest, time and payment of installment of principal or interest, security or any other term of a bond, contract or agreement of any kind to which the NMFA is a party;
- 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 fee simple, leasehold, mortgagor’s or mortgagee’s interests in real and personal property and to sell, mortgage, convey or lease that property for NMFA purposes; and
- 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 2006 Legislature authorized the NMFA to use the Public Project Revolving Fund to purchase bonds used to capitalize programs authorized by law and administered by the NMFA and to finance projects of non-profit or other support organizations affiliated with public institutions of higher education located in the State. The recipients of such loans originated with moneys in the PPRF will be required to repay the borrowed funds.

Workers' Compensation Administration Building Financing

In 1994, the Legislature authorized the NMFA to sell \$6,000,000 in revenue bonds for the acquisition of land and site improvements to the land and the planning, design, construction, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided for the pledge to the NMFA for payment of the revenue bonds associated with the WCA project of a portion of the quarterly Workers' Compensation assessment paid to the State. 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 the construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

University of New Mexico Health Sciences Center Project. In 2003, the Legislature authorized the NMFA to issue up to \$60,000,000 of revenue bonds payable from a separate and distinct portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. In 2005, the Legislature authorized an additional \$15 million of revenue bonds. NMFA is authorized to secure the additional bonds by a pledge of funds from the PPRF with a lien priority on the PPRF, as determined by 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. The NMFA issued the first series of the bonds in an aggregate principal amount of \$39,035,000 on April 1, 2004 and a second series of the bonds in an aggregate principal amount of \$10,000,000 on September 22, 2004. On August 30, 2005, the NMFA issued the third series in an aggregate principal amount of \$23,630,000 and purchased these bonds using proceeds of PPRF Subordinate Lien Revenue Bonds Series 2005E.

Department of Health Projects. Also, in 2005, the Legislature authorized the NMFA to issue another series of revenue bonds secured by a separate distribution of cigarette tax receipts in an aggregate amount not to exceed \$39,000,000 for improvements to the southern New Mexico rehabilitation center, the Las Vegas medical center, the Fort Bayard medical center and for purchasing land, building, designing and constructing and equipping a state laboratory facility in Bernalillo County for the New Mexico Department of Health.

Behavioral Health Care Capital Fund. The 2004 Legislature created the Behavioral Health Capital Fund to provide low-cost financing to non-profit behavioral health clinics for their capital equipment and infrastructure projects. In 2005, the New Mexico Legislature authorized the NMFA to issue up to \$2,500,000 secured by a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA to capitalize the NMFA's Behavioral Health Capital Fund. Pursuant to the 2005 legislative authorization, the NMFA issued on February 28, 2006, \$2,500,000 of taxable cigarette tax bonds which it placed privately with a New Mexico based financial institution.

Child Care Revolving Loan Fund

Created by the 2003 Legislature, the Child Care Revolving Loan Fund partners the NMFA with the Children Youth and Families Department to provide low-cost financing to licensed child care providers.

Statewide Economic Development Finance Act

With the passage of the Statewide Economic Development Finance Act ("SWEDFA"), the 2003 Legislature authorized the NMFA to issue taxable and tax-exempt bonds, make loans and provide loan and bond guarantees on behalf of private for-profit and not-for-profit entities. The 2005 Legislature appropriated \$10 million to the Economic Development Revolving Fund authorized under SWEDFA from which the NMFA will buy

portions of bank loans made to New Mexico businesses. The NMFA has funded one loan participation in the amount of \$4.9 million.

Primary Care Capital Fund

In 1994, a \$5,000,000 revolving fund was created in the State treasury to be administered by the NMFA and from which loans and contracts for services would be provided to primary care health clinics and agencies in rural or other healthcare underserved areas of the State. 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 Department of Health and the NMFA have negotiated a joint powers agreement whereby the Department of Health 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 Department of Health 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 13 loans totaling \$6,629,659.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the “Drinking Water Fund Act”) was created in 1997. The Drinking Water Fund Act creates the New Mexico Drinking Water State Revolving Loan Fund (“DWRLF”). The NMFA administers the DWRLF. The purpose of the Drinking Water Fund Act is to provide local authorities with low-cost financial assistance in the construction and rehabilitation of drinking water facilities necessary to protect drinking water quality and 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. The State has been awarded approximately \$75,500,000 in capitalization grants from the U.S. Environmental Protection Agency through December 31, 2005, approximately \$67,200,000 of which is dedicated solely to the Drinking Water Revolving Loan Fund, and the NMFA has provided a total state match of approximately \$15,100,000, all of which is deposited in the Drinking Water Revolving Loan Fund. As of June 30, 2006, the NMFA had funded 22 loans totaling approximately \$39,087,225. The DWRLF has binding commitments to fund five additional loans totaling approximately \$17,893,350.

Water and Wastewater Grant Fund Program

The Legislature established the Water and Wastewater Project Grant Fund in 1999. In 2000, the 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 Legislature appropriated \$40,910,000 to the Water and Wastewater Grant Fund Program to fund 76 public water and wastewater systems. The Legislature has appropriated and authorized the use of \$15,000,000 to the Water and Wastewater Grant Fund for emergency public purposes. In 2004, the Legislature authorized the NMFA to make grants to benefit 153 projects. The NMFA funds grants for these projects on a first come, first served basis. As of June 30, 2006, the NMFA had made 144 grants totaling \$55,960,367 and had approved an additional 15 projects, totaling \$10,308,735. All funds in the Water and Wastewater Grant Fund have been obligated.

Local Government Planning Fund Program

The Water and Wastewater Planning Fund was created by the 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 and to pay the administrative costs of the program. In 2005, the Legislature changed the name of the fund to the Local Government Planning Fund and expanded the scope of the types of grants allowed under the statute to include water conservation plans, long-term master plans and economic development plans. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued \$1,000,000 in revenue bonds to capitalize this grant fund. The 2003 Legislature appropriated an additional \$1,000,000 to this fund. As of June 30, 2006, the NMFA had made 39 grants totaling \$844,890.

State Building Bonding Fund Program

The Legislature in 2001 authorized the NMFA to issue revenue bonds in an amount not to exceed \$75,000,000 to finance several State building projects in Santa Fe, namely the National Education Association Building, a new office building with integrated parking at the West Capitol Complex, the Public Employees Retirement Association Building (the “PERA Building”), and the purchase of land adjacent to the District 5 Office of the State Highway and Transportation Department. In 2005, the Legislature authorized an additional \$15 million in revenue bonds and expanded the list of projects that would benefit from the bond proceeds to include a central capitol campus parking structure and a state laboratory facility in Bernalillo County.

Bonds issued under the State Building Bonding Fund Program are payable from the State Building Bond Fund, consisting of funds appropriated and transferred to the fund as well as gross receipts tax revenues distributed to the Fund. 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. In September 2006, the NMFA issued its State Building Tax Revenue Bonds, Series 2006A in the amount of \$23,190,000 for purpose of purchasing, renovating, equipping and furnishing the PERA Building. In September 2006, the NMFA also issued its State Building Tax Revenue Bonds, Series 2006B in the amount of \$29,175,000 for the purpose of refunding the Outstanding State Office Building Tax Revenue Bonds, Series 2002A.

The 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 were issued and purchased as securities with moneys on deposit in the public project revolving fund as authorized by State law.

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	12/31/2006
David Schutz	Vice-Chairperson	Santa Fe	01/01/2008
Gregory T. Ortiz	Secretary	Milan	01/01/2008
Norman Assed	Member	Albuquerque	12/31/2010
Jim Franken	Member	Las Vegas	12/31/2010
John Hummer	Member	Las Cruces	12/31/2006

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 began providing commuters rail service between Belen and Bernalillo in July 2006 and expects to begin providing commuter rail service between Bernalillo and Santa Fe in December 2008. 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 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 2006, 51.8% of the Department's revenues consisted of State-generated income to the State Road Fund and bond proceeds and 43.2% consisted of federal grants and other federal reimbursements. The balance, 5.0%, 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 Department annually. Excerpts from the most recently available of such audited financial statements, for the fiscal year ended June 30, 2005, are attached as Appendix A. The Department expects that its audited financial statements for the fiscal year ended June 30, 2006 will be available in January 2007.

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"). SAFETEA-LU, TEA-21 and ISTEA 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 Administration and the Environmental Protection Agency. See "THE PLEDGED REVENUES".

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 2006 through 2011 was approved by the Commission on August 18, 2005. The STIP is subject to change from month to month. The first half (three years) of the STIP represents \$802,782,000 of projects to be undertaken during federal fiscal years 2006 through 2008.

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, for the bonds issued to finance the GRIP Transportation Projects.

The Department, the Commission and the NMFA have entered into a memorandum of understanding with respect to the Senior Lien Bonds, the 2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds and other Senior Lien Bonds, Subordinate Lien Bonds and Junior Lien Obligations under which the Department, the Commission and the NMFA will cooperate in various administrative, managerial and reporting matters.

The Department and the FHWA also have entered into a memorandum of understanding documenting the procedures for managing the stewardship and oversight of debt service relating to the finance plan for construction of GRIP Transportation Projects. Pursuant to the memorandum of understanding the Department will, among other things, assure that debt service will not adversely impact the ability to maintain federal aid funded projects based on an annual certificate prepared for FHWA review and approval. As part of the annual certification, the Department must demonstrate that, during any year in which the memorandum of understanding is in place, the Department has not exceeded \$122 million in debt service.

LITIGATION

There is no litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2006 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 2006 Subordinate Lien Bonds or in any way contesting or affecting the validity or enforceability of the 2006 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 2006 Subordinate Lien Bonds.

UNDERWRITING

Goldman, Sachs & Co., UBS Securities LLC, RBC Dain Rauscher Inc. (doing business under the name RBC Capital Markets) and Citigroup Global Markets Inc. (collectively, the “Underwriters”) have agreed to purchase the Series 2006B Bonds from the NMFA pursuant to a Bond Purchase Agreement dated September 28, 2006 (the “Fixed Rate Bond Purchase Agreement”), at an aggregate price of \$41,606,488.29 (being the aggregate principal amount plus a net original issue premium of \$1,712,863.40 and less Underwriters’ discount of \$191,375.11). The Fixed Rate Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2006B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Fixed Rate Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriters will agree to purchase the Series 2006C Bonds and the Series 2006D Bonds from the NMFA pursuant to a Bond Purchase Agreement to be dated October 12, 2006 (the “ARS Bond Purchase Agreement”), at an aggregate price of \$269,493,293.86 (being the aggregate principal amount less Underwriters’ discount of \$906,706.14). The ARS Bond Purchase Agreement will provide that the Underwriters will purchase all of the Series 2006C Bonds and Series 2006D Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the ARS Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the 2006 Subordinate Lien Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the inside front covers 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

Series 2006B and Series 2006C Bonds

The Code contains a number of requirements and restrictions which apply to the Series 2006B Bonds and the Series 2006C 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 Series 2006B Bonds and the Series 2006C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2006B Bonds and the Series 2006C 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 Series 2006B Bonds and the Series 2006C 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 Series 2006B Bonds and the Series 2006C 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.

Although Special Tax Counsel will render an opinion that interest on the Series 2006B Bonds and the Series 2006C 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 2006B Bonds and the Series 2006C 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 Series 2006B Bonds and the Series 2006C Bonds.

Original Issue Premium. Certain of the Series 2006B 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 2006B Bond through reductions in the holder's tax basis for the Series 2006B 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 2006B Bond rather than creating a deductible expense or loss. Series 2006B Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount. Certain of the Series 2006B 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 2006B Bond accrues as tax-exempt interest periodically over the term of the Series 2006B Bond. The accrual of original issue discount increases the holder's tax basis in the Series 2006B Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2006B Bondholders should consult their tax advisors for an explanation of the accrual rules.

Series 2006D Bonds

In the opinion of Special Tax Counsel, interest on the Series 2006D Bonds is not excludable from gross income for federal income tax purposes.

The ownership or disposition of, or the accrual or receipt of interest on, the Series 2006D 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 ownership or disposition of, or the accrual or receipt of interest on, the Series 2006D Bonds.

The material under this caption, “TAX MATTERS” concerning the tax consequences of ownership of the Series 2006D Bonds, was written to support the marketing of the Series 2006D Bonds, and each Bondholder should seek advice based on the Bondholder’s particular circumstances from an independent tax advisor. This material was not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer.

State of New Mexico Income Tax

In the opinion of Special Tax Counsel, under laws of the State of New Mexico as currently enacted and construed, interest on the 2006 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 2006 Subordinate Lien Bonds, Sutin, Thayer & Browne A Professional Corporation, 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 2006 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, 2005, an extract from which is included as Appendix A to this Official Statement, have been audited by the State Auditor and by Meyners + Company, LLC, certified public accountants, Albuquerque, New Mexico, as set forth in their report therein dated December 9, 2005. Such financial statements represent the most current audited financial information available for the Department. The Department expects that its financial statements for the year ended June 30, 2006 will be available in January 2007. The State Auditor and Meyners + Company, LLC, 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 (the “SEC”), the NMFA and the Department will execute and deliver in connection with the issuance of the 2006 Subordinate Lien Bonds a Continuing Disclosure Undertaking pursuant to which the Department will agree to provide the following to the NMFA, and the NMFA will agree to provide the following information to each nationally recognized municipal securities information repository (“NRMSIR”) or to any filing system approved by the SEC for transmission of filings under the Rule for submission to the NRMSIRS, including the central post office known as Disclosure USA (the “Repository Agent”):

- (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 2007 and will be made available, in addition to each NRMSIR, or a Repository Agent, or a Depository Agent, to each holder of the 2006 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, or to a Repository Agent notice of the occurrence of any of the following events (if applicable) with respect to the 2006 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 Series 2006B Bonds or the Series 2006C 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 2006 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 2006 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 will provide its annual report to Digital Assurance Certification, L.L.C. (“DAC”), as dissemination agent, to file with each NRMSIR and with the State information depository, if any. The NMFA will provide the notices of material events to DAC to file with each NRMSIR or the MSRB, and with the State information repository, if any.

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 2006 Subordinate Lien Bonds and is to be enforceable by the Owners; provided that, the right to enforce the provisions of the 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 2006 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 in compliance with their respective current continuing disclosure undertakings relating to the Series 2004A Bonds, the 2004 Subordinate Lien Bonds and the Outstanding Closed Lien Obligations.

Continuing disclosure undertakings previously entered into by the NMFA in relation to its Public Project Revolving Fund Program called for it to file certain annual financial information and operating data and audited financial statements for the NMFA and any governmental unit meeting the objective criteria described in those undertakings with each NRMSIR no later than 270 days after the end of each fiscal year. In September 2004, the NMFA discovered that for fiscal years 2000-01 and 2001-02 only the audited financial statements of the NMFA were filed with the NRMSIRs. For fiscal year 2002-03 annual financial information and operating data and audited financial statements for the NMFA were filed with each NRMSIR, but the audited financial statements for the governmental units meeting the objective criteria were not filed. On October 1, 2004, NMFA notified the MSRB of its failure to file the annual financial information and operating data and the audited financial statements for the governmental units meeting the objective criteria. The NMFA filed annual financial information and operating data and the audited financial statements for the City of Albuquerque, New Mexico and the Energy, Minerals and Natural Resources Department of the State of New Mexico on October 4, 2004. NMFA believes that, since October 4, 2004, it has been in compliance with its continuing disclosure undertakings. The NMFA engaged Digital Assurance Certification, L.L.C., as dissemination agent, to assist with continuing disclosure compliance matters.

RATINGS

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services (“S&P”) have assigned ratings of “Aaa” and “AAA,” respectively, to the 2006 Subordinate Lien Bonds, based on the understanding that upon the delivery of the 2006 Subordinate Lien Bonds, a policy of municipal bond insurance will be issued by XL Capital Assurance Inc. In addition, Moody’s and S&P have assigned underlying (*i.e.*, without regard to the policy of municipal bond insurance) long-term ratings of “Aa3 and “AA,” respectively, to the 2006 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 2006 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 2006 Subordinate Lien Bonds may have an adverse effect on the market price of the 2006 Subordinate Lien Bonds.

The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the 2006 Subordinate Lien Bonds any proposed revision or withdrawal of the ratings on the 2006 Subordinate Lien Bonds, or to oppose any such proposed revision or withdrawal.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

At the time of delivery of the Series 2006B 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 portion of the proceeds of the Series 2006B Bonds used to provide for payment of principal of, interest on and premiums due in connection with the defeasance of portions of the 2007 and 2008 maturities of the 1999 Bonds and the redemption of portions of the 2009 and 2010 maturities of the 1998A 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 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

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 2006 Subordinate Lien Bonds.

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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 Chief Executive Officer.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance
Chairman of the Board of Directors

By /s/ William C. Sisneros
William C. Sisneros
Chief Executive Officer

APPENDIX A
DEPARTMENT FINANCIAL INFORMATION

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NEW MEXICO
DEPARTMENT OF
TRANSPORTATION
Financial Statements
for the Year Ended
June 30, 2005,
and Independent
Auditors' Report

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Official Roster



Year Ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

**Members of the Commission
New Mexico Department of Transportation and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor**

We have audited the accompanying basic financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2005, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2005, as listed in the table of contents. We also have audited the combined budget comparisons for the special revenue and debt service funds presented as required supplemental information. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions 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 the 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 opinions.

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 aggregate remaining 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, 2005, 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 respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2005, and the respective changes in

Members of the Commission
New Mexico Department of Transportation and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

financial position and cash flows, where applicable, thereof, and the budgetary comparison for major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Department, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the budget comparisons for the nonmajor governmental funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1 to the financial statements, the Department changed to the modified accrual basis for the encumbrances and the budgetary comparisons.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 opinions on the basic financial statements and the combining and individual financial statements of the Department. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparisons of the Department as of June 30, 2005, and for the year then ended, in conformity with accounting principles generally accepted in the United States of America. 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. Also, the schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are 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 stated in all material respects in relation to the financial statements taken as a whole.

Mayneiro + Company, LLC

December 9, 2005

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, 2005. 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 31 through 82 of this audit report.

Financial Highlights

The Department's net assets declined by approximately \$235 million mainly due to depreciation expense of approximately \$502 million being recorded for the year ended June 30, 2005. The Department's governmental fund balances decreased by approximately \$111 million due to increases in contractual services, capital outlay and debt service expenditures related to the GRIP Bond Projects started in the current year.

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 and 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 future fiscal periods.

Government-Wide Financial Statements - continued

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 20 through 22 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 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 resources and use of spendable resources, as well as on balance 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 funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department has 34 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 as least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund expenditures.

Fund Financial Statements - continued

- *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.

2004A GRIP Bond Project Fund – The bond project fund was created when the \$700,000,000 New Mexico State Transportation Subordinate Lien Revenue Bonds Series 2004A were issued through the New Mexico Finance Authority (NMFA) in May 2004. The funds from the sale of the Debentures were required to be deposited in a special account with the NMFA. Unspent proceeds are on deposit with the NMFA and recorded as due from other state agencies. The funds are used to finance State Transportation projects.

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.

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) 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. Funding is received from state excise taxes.

Debt Service Fund - 2004A GRIP – This fund was created when the \$700,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bond Series 2004A were issued through the New Mexico Finance Authority in 2004.

Fund Financial Statements - continued

Debt Service Fund - 2004B and C GRIP – This fund was created when the \$237,950,000 and \$200,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bonds Series 2004B and Series 2004C were issued through the New Mexico Finance Authority in May 2004.

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the two major funds. Data from the other 28 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 84 through 102.

➤ **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 20 through 22 and the cash flow statement is on page 23 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 31 through 82 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.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. At June 30, 2005, the Department's assets exceeded liabilities by \$6,633,409,570.

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 are still outstanding. Although the Department's investment 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.

The Department's Net Assets

As of June 30, 2005 and 2004, 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. Table A-1 summarizes the Department's net assets for the fiscal years ended June 30, 2005 and 2004.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

**Table A-1
The Department's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 992,747,097	1,049,784,122	25,717,013	20,808,575	1,018,464,110	1,070,592,697
Capital assets and other	<u>7,319,984,025</u>	<u>7,586,660,079</u>	<u>-</u>	<u>-</u>	<u>7,319,984,025</u>	<u>7,586,660,079</u>
Total assets	8,312,731,122	8,636,444,201	25,717,013	20,808,575	8,338,448,135	8,657,252,776
Current liabilities	214,137,729	157,949,637	7,401,160	2,805,691	221,538,889	160,755,328
Long-term liabilities	<u>1,483,499,676</u>	<u>1,567,333,612</u>	<u>-</u>	<u>-</u>	<u>1,483,499,676</u>	<u>1,567,333,612</u>
Total liabilities	1,697,637,405	1,725,283,249	7,401,160	2,805,691	1,705,038,565	1,728,088,940
Net Assets:						
Invested in capital assets, net of related debt and unspent bond proceeds	5,998,598,694	6,800,527,963	-	-	5,998,598,694	6,800,527,963
Restricted	<u>616,495,023</u>	<u>110,632,989</u>	<u>18,315,853</u>	<u>18,002,884</u>	<u>634,810,876</u>	<u>128,635,873</u>
Total net assets	\$ <u>6,615,093,717</u>	<u>6,911,160,952</u>	<u>18,315,853</u>	<u>18,002,884</u>	<u>6,633,409,570</u>	<u>6,929,163,836</u>

Analysis of the Department's Operations: Table A-2 provides a summary of the Department's operations for the years ended June 30, 2005 and 2004. Governmental activities declined the Department's net assets by \$255,923,450 in 2005 and by \$153,696,734 in 2004. Business-type activities increased the Department's net assets by \$312,969 in 2005 and by \$199,953 in 2004 due to interest income earned during the year.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

**Table A-2
Changes in the Department's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Capital grants	\$ 292,939,098	310,747,143	-	-	292,939,098	310,747,143
Operating grants	14,624,653	13,397,885	-	-	14,624,653	13,397,885
Charges for services	4,109,036	5,163,562	-	-	4,109,036	5,163,562
General revenues:						
Taxes	383,418,826	338,239,869	-	-	383,418,826	338,239,869
Interest income	13,052,347	3,082,833	312,969	199,953	13,365,316	3,282,786
Gain on disposal of assets	<u>646,533</u>	<u>431,326</u>	-	-	<u>646,533</u>	<u>431,326</u>
Total revenues	708,790,493	671,062,618	312,969	199,953	709,103,462	671,262,571
Expenses:						
Public works	375,622,936	279,933,160	-	-	375,622,936	279,933,160
Depreciation	502,651,435	493,462,502	-	-	502,651,435	493,462,502
Interest on long-term debt	77,615,938	42,873,000	-	-	77,615,938	42,873,000
Other	<u>896,939</u>	<u>1,161,557</u>	-	-	<u>896,939</u>	<u>1,161,557</u>
Total other expenses	956,787,248	817,430,219	-	-	956,787,248	817,430,219
Net revenues (loss) before transfers and reversions	(247,996,755)	(146,367,601)	312,969	199,953	(247,683,786)	(146,167,648)
Transfers and reversions	<u>(7,926,695)</u>	<u>(7,329,133)</u>	<u>-</u>	<u>-</u>	<u>(7,926,695)</u>	<u>(7,329,133)</u>
(Decrease) increase in net assets	(255,923,450)	(153,696,734)	312,969	199,953	(255,610,481)	(153,496,781)
Net assets, beginning of year	6,911,160,952	7,064,857,686	18,002,884	17,802,931	6,929,163,836	7,082,660,617
Adjustments	<u>(40,143,785)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,143,785)</u>	<u>-</u>
Net assets, end of year	\$ <u>6,615,093,717</u>	<u>6,911,160,952</u>	<u>18,315,853</u>	<u>18,002,884</u>	<u>6,633,409,570</u>	<u>6,929,163,836</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

The changes in net assets for the Department's major funds for 2005 are as follows:

State Road Fund	\$ 11,019,619
2004 GRIP Bond Project Fund	(118,433,268)
Local Government Road Fund	2,214,711
2004B/C GRIP Debt Service	-
Federal Planning & Development	229,933
2004A GRIP Debt service	<u>(1,639,383)</u>
Major funds, net change in assets	\$ <u>(106,608,388)</u>

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 2005 fiscal year, the Department's governmental funds reported combined ending fund balances of \$859,491,968, an increase of \$129,850,764 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 provide for inventories, long term assets and prepaid items and other reserved items of \$68,190,037, (2) to pay for debt service of \$1,665,549, and (3) to provide for capital projects for the Department of \$2,744,282. The unreserved and undesignated fund balance is \$789,636,382.

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 Note 3 for reconciliation of governmental fund types to the budgetary basis. The Department made revisions to the original approved budget by \$(54,138,044). Overall, these changes were caused by the following significant budget adjustments.

Increase in budget for District Highway Maintenance and Rest Area Maintenance	\$ 13,000,000
Increase in budget to replenish D-6's budget used for warranty work on U.S. 550	471,680

Budgetary Highlights - continued

Increase in budget for critical roadway improvements	\$ 4,000,000
Increase in budget to provide budget to all districts for gas, oil and vehicle maintenance	874,000
Increase in budget to fund projected shortfall in personal services and employee benefits	1,412,733
Increase in budget for field supplies, fuel repair and vehicle maintenance	<u>1,513,900</u>
	\$ <u>21,272,313</u>

Capital Assets Overview

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$7,319,984,025 (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 transportation 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 2004-2005 Active Projects with a contract amount of \$5 million or more:

I-40, Coors Interchange
 I-40, Pennsylvania to Tramway MP 163.64 to MP 167.88
 I-40, Canoncito to Rio Puerco for 6,880 miles
 I-40, Louisiana Interchange for 4,192 km
 I-40, MP 180.08 to 182.74, Sedillo Hill for 4,360 km
 I-40, Santa Rosa West Interchange - East for 1.739 miles
 I-40, Newkirk Interchange - East MP 300 to MP 308 for 8,570 miles
 I-40, Milagro Interchange MP 243/I-40 US 84 Interchange MP
 I-10, Lordsburg, MP 20.6 to MP 34.2 for 13,600 miles

Capital Assets Overview - continuedMajor Infrastructure Projects - continued

US 70 D/B, MP 264.2 to MP 302.1, Ruidoso Downs to Riverside
 US 84/285 North of Santa Fe from Santa Fe Opera House
 US 84/285, Santa Fe Relief Route to Santa Fe Opera

Equipment

For fiscal year 2005, the Equipment non-GAAP budget total was \$10.5 million. Of this budget, \$10.5 million was fully expended at June 30, 2005. 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.

Table A-3
 Department's Capital Assets

		<u>2005</u>	<u>2004</u>
Land	\$	5,064,678	4,515,243
Right of way		360,549,775	351,424,885
Infrastructure		15,069,367,358	15,108,598,578
Equipment and Furniture		50,050,041	34,463,902
Buildings		36,706,531	48,886,796
Vehicles		159,575,253	154,112,287
Accumulated depreciation		<u>(8,361,329,611)</u>	<u>(8,174,868,235)</u>
Total	\$	<u>7,319,984,025</u>	<u>7,527,133,456</u>

Additional information on the Department's capital assets can be found in Note 10 of this report.

Debt Administration

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

At June 30, 2005, the Department had a total outstanding debt, including capitalized leases and bonds, of \$1,536,635,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

Table A-4
Department's Outstanding Debt

	<u>2005</u>	<u>2004</u>
Bonds, net	\$ 1,536,635,000	1,576,462,893
Loans payable	-	-
Capital leases	-	<u>778,571</u>
Total	\$ <u>1,536,635,000</u>	<u>1,577,241,464</u>

The Department's total bond debt decreased by 2.5% or \$77,049,362. Total outstanding bond debt at the end of the fiscal year was \$1,536,635,000 compared to \$1,577,241,464 at the end of the 2004 fiscal year. Key factors affecting the Department's 12 outstanding bonds during the current fiscal year included bond principal repayments totaling \$74,135,001. The Department did not issue any new bonds during the current fiscal year.

The Department paid a total of \$3,129,671 of rebatable arbitrage to the Internal Revenue Service for excess income earned on the following bond issues: 1999 CHAT Bonds - \$1,215,280, and 2000 CHAT Bonds - \$1,914,391. The Department did not have any remaining arbitrage liability at the end of the fiscal year.

Economic Factors and Revenue ForecastsEconomic and Demographic Characteristics

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 1990s, the State was the twelfth 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.

Economic Factors and Revenue Forecasts - continuedEconomic and Demographic Characteristics - continued

Most of this population growth is occurring in or near the larger cities. There are three Metropolitan Statistical Areas (MSA) in the state. The Albuquerque MSA is comprised on Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is Dona 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 Dona Ana.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing and mining. In 2002, the value of energy resources production (crude petroleum, natural gas and coal) was approximately \$6.5 billion. Total value of energy and other mineral production was \$7.8 billion. The mining industry employed about 14,000 New Mexicans in 2002. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The state's major transportation routes include Interstate-25, running north-south from El Paso, Texas through Las Cruces, Albuquerque, Santa Fe, Las Vegas and Raton, New Mexico toward Pueblo and Denver, Colorado. Major east-west routes, especially important to interstate commercial carrier traffic, include Interstate-10 from El Paso, Texas to Tucson and Phoenix, Arizona, and Interstate-40 from Amarillo, Texas through Tucumcari, Albuquerque and Gallup, New Mexico to Flagstaff, Arizona.

Revenue Forecasts and BudgetsFederal Revenue

FHWA Revenue: The amount of FHWA revenue (obligation authority) available to all states declined in recent years as a result of Congress' failure to pass a transportation reauthorization bill, and to rely on continuing resolutions to provide FHWA funds. The amounts available to New Mexico declined from \$278.9 million in FY2002 to \$263.2 million in FY2003, and \$243.5 million in FY2004. In FY2005, the continuing resolution continued to limit the expenditure of FHWA funds through the year. However, a reauthorization bill was finally passed toward the end of the year that increased funding for FY2005 and the subsequent four years. The reauthorization bill provides "apportionment" amounts, but the real spending amount (the "obligation limitation") is determined by the appropriation levels in each year's federal budget bill.

As of November 2005, the Department projects FHWA "obligation authority" should increase over the next four years as follows: \$318.7 million in FY2005, \$319.3 million in FY2006, \$336.6 million in FY2007, \$348.5 million in FY2008, and \$351.9 million in FY2009.

Economic Factors and Revenue Forecasts - continued

Federal Revenue - continued

Federal Transit and Traffic Safety Revenue: The six-year reauthorization of federal transportation funding to the states that was recently passed by Congress is entitled the "Safe, Accountable, Flexible, and Efficient Transportation Equity Act for the 21st Century – A Legacy for Users" (SAFETEA-LU). 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. The Department anticipates the total amount of funding from the Federal Transit Administration (FTA) and federal traffic safety (NHTSA) will increase from the \$13 million level in past years to \$19.5 million in FY2007.

DOE Revenue: The Department of Energy will continue to provide New Mexico with more than \$20 million per year through FY2011 pursuant to an agreement in connection with the Waste Isolation Pilot Project in Carlsbad, New Mexico. The amount of this revenue budgeted for debt service was \$20.7 million in FY2004, \$21.1 million in FY2005, \$19.8 million in FY2006, and \$15.7 million in FY2007.

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 year 2005 estimate prepared in December 2003 had assumed a gradual improving economy that would provide a stable base for the tax rate increases passed during the 2003 Special Legislative Session, resulting in a year-over-year revenue increase of some \$56.5 million.

In FY2005, gasoline tax revenue came in very close to the budget forecast, with gains associated with tribal tax sharing agreements being offset by losses associated with higher gasoline retail prices and slight decreases in consumption. Diesel fuel tax revenue came in stronger than forecast, and reflected an invigorated trucking industry relative to the prior few years. Other truck taxes came in close to forecast, but reflected some degree of tax compliance problems, since one would expect those taxes to show the same strength shown in diesel fuel tax. Vehicle registration revenue came in close to the forecast, although at certain times through the year there had been some worry that vehicle registration revenue might be running a bit weak. Overall, total state-source revenue was about \$4.5 million (1%) stronger than forecast. State Road Fund revenue from tax and fee sources was \$2 million (0.6%) stronger than forecast.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue - continued

The budget revenue forecast for FY2006 assumed a scenario of a continued healthy national economy, but was soon revised (after the budget was passed by the legislature) to incorporate concern about ongoing motor fuel retail price increases. The Department closely monitored fuel prices throughout the summer of 2005, and concerns among the general public finally peaked with the Hurricane Katrina/Rita motor fuel price increases. Since the September/October 2005 (post-hurricane) price levels appear to have moderated even more quickly than forecast, and since the Department had already planned for weaker fuel tax revenue than had been forecast for budget purposes, the Department does not expect any fiscal crisis regarding FY2006 revenue.

The revenue forecast for the FY2007 proposed budget has assumed a continued healthy national economy, but with motor fuel retail prices settling at a new higher level (generally in the \$2.35 to \$2.65 range). Compliance improvements in Trip Tax revenue associated with the new vehicle-specific weight-distance tax identification permit appear to have been dramatic, and the Trip Tax forecast will be increased significantly in December 2005.

Background -- Trip Tax and the Weight-Distance Tax Identification Permit: The elimination of the \$6 fee associated with Weight-Distance Tax Identification Permits (tax qualification cards), pursuant to the settlement of *C.R. England v. New Mexico*, resulted in a reported large increase in the number of tax qualification cards requested by the industry in 2003 and 2004, and probably explains 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 required 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, but not widespread until January 1, 2005) was expected to enhance tax compliance efforts and gradually augment Trip Tax revenue to some degree beginning in calendar year 2005. Beginning in March 2005, Trip Tax revenue began to increase dramatically.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue - continued

Background -- Gasoline Tax and Tribal Tax Sharing Agreements: 2003 and 2004 legislation allowed the state to enter into "tax sharing agreements" with the two Native American Pueblos that were previously entitled to market a limited amount of state-tax-free gasoline outside reservation boundaries. Under the agreements, 40% of the tax collected on 30 million gallons of gasoline per year will be shared with each of the two Pueblos, in exchange for the Pueblos ceasing their sales activities outside reservation boundaries. The result of these agreements (entered into on January 1, 2004 and July 1, 2004) should be a small revenue gain for the state and significantly more predictable gasoline revenues.

The state 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. The growth in tribal market share has out-paced the overall growth rate of gasoline in recent years as a result of competitive pricing, casino traffic, and development of new tribal travel centers. It is anticipated that the tribal market share will continue to grow, but at a decreasing rate over the next few years.

Contacting the Agency's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, legislators and investors and creditors with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Attn: Financial Reporting Manager
New Mexico Department of Transportation
1120 Cerrillos Road
P.O. Box 1149
Santa Fe, New Mexico 87504-1149
(505) 827-5155

FINANCIAL STATEMENTS

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets

AS OF JUNE 30, 2005

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 3):			
Unrestricted	\$ 119,974,049	-	119,974,049
Restricted	704,023,709	15,311,281	719,334,990
Receivables:			-
Tax receivable	28,899,683	-	28,899,683
Accounts receivable, net (Note 4)	1,764,019	-	1,764,019
Severance tax bond proceeds receivable (Note 5)	44,379,303	-	44,379,303
Interest receivable	457,343	32,385	489,728
Notes and loans receivable (Note 6)	30,429	10,373,347	10,403,776
U.S. Department of Transportation, net (Note 7)	16,417,211	-	16,417,211
Capitalized issuance costs	833,960	-	833,960
Inventories (Note 9)	11,358,947	-	11,358,947
Prepaid expense - warranty	3,878,934	-	3,878,934
Property held for resale, net	5,225,879	-	5,225,879
TOTAL CURRENT ASSETS	937,243,466	25,717,013	962,960,479
NON-CURRENT ASSETS:			
Capitalized issuance costs	10,555,165	-	10,555,165
Prepaid expense - warranty	44,948,466	-	44,948,466
Capital assets, net (Note 10)	7,319,984,025	-	7,319,984,025
TOTAL NON-CURRENT ASSETS	7,375,487,656	-	7,375,487,656
TOTAL ASSETS	\$ 8,312,731,122	25,717,013	8,338,448,135

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets - continued

AS OF JUNE 30, 2005

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable and contracts payable, including retainage of \$4,259,678	\$ 55,174,986	-	55,174,986
Due to other state agencies	308,581	-	308,581
Accrued payroll, taxes and withholdings	6,327,731	-	6,327,731
Accrued interest	3,125,128	-	3,125,128
Deferred revenue	15,675,403	-	15,675,403
Arbitrage rebate obligation (Note 21)	-	-	-
Other liabilities	44,379,303	-	44,379,303
Due to others - Severance Taxes	-	7,401,160	7,401,160
Current portion of long-term obligations (Note 12):			
Compensated absences	3,740,132	-	3,740,132
Debentures payable	81,130,000	-	81,130,000
Capitalized bond premium	4,276,465	-	4,276,465
TOTAL CURRENT LIABILITIES	214,137,729	7,401,160	221,538,889
LONG-TERM LIABILITIES:			
Arbitrage rebate obligation (Note 21)	-	-	-
Long-term obligations (Note 12):			
Compensated absences	2,013,917	-	2,013,917
Debentures payable	1,422,913,248	-	1,422,913,248
Capitalized bond premium	58,572,511	-	58,572,511
TOTAL LONG-TERM LIABILITIES	1,483,499,676	-	1,483,499,676
TOTAL LIABILITIES	1,697,637,405	7,401,160	1,705,038,565
NET ASSETS:			
Invested in capital assets, net of any related debt and unspent debt proceeds	5,998,598,694	-	5,998,598,694
Restricted for:			
Capital projects	3,991,214	-	3,991,214
Road projects	602,507,905	-	602,507,905
Debt Service	1,665,549	-	1,665,549
Loans	-	18,315,853	18,315,853
Specific purposes	8,330,355	-	8,330,355
TOTAL NET ASSETS	\$ 6,615,093,717	18,315,853	6,633,409,570

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities



YEAR ENDED JUNE 30, 2005

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
PROGRAM EXPENSES:			
Public works - roads	\$ 374,152,509	-	374,152,509
Depreciation	502,651,435	-	502,651,435
Interest	77,371,010	-	77,371,010
Other expenses	<u>2,612,294</u>	<u>-</u>	<u>2,612,294</u>
TOTAL PROGRAM EXPENSES	956,787,248	-	956,787,248
PROGRAM REVENUES:			
Charges for services	4,109,036	-	4,109,036
Operating grants	14,624,653	-	14,624,653
Capital grants	<u>292,939,098</u>	<u>-</u>	<u>292,939,098</u>
TOTAL PROGRAM REVENUES	<u>311,672,787</u>	<u>-</u>	<u>311,672,787</u>
NET PROGRAM (EXPENSE) REVENUE	(645,114,461)	-	(645,114,461)
GENERAL REVENUES:			
User and fuel taxes	383,418,826	-	383,418,826
Interest income	13,052,347	312,969	13,365,316
Gain on disposal of assets	<u>646,533</u>	<u>-</u>	<u>646,533</u>
TOTAL GENERAL REVENUES (EXPENSES)	397,117,706	312,969	397,430,675
TRANSFERS:			
Transfers to other state agencies and local governments, net (Note 15)	<u>(7,926,695)</u>	<u>-</u>	<u>(7,926,695)</u>
TOTAL TRANSFERS	<u>(7,926,695)</u>	<u>-</u>	<u>(7,926,695)</u>
NET GENERAL REVENUES AND TRANSFERS	<u>389,191,011</u>	<u>312,969</u>	<u>389,503,980</u>
CHANGE IN NET ASSETS	(255,923,450)	312,969	(255,610,481)
NET ASSETS, BEGINNING OF FISCAL YEAR	6,911,160,952	18,002,884	6,929,163,836
Restatement (Note 23)	<u>(40,143,785)</u>	<u>-</u>	<u>(40,143,785)</u>
NET ASSETS, BEGINNING OF FISCAL YEAR	6,871,017,167	18,002,884	6,889,020,051
NET ASSETS, END OF FISCAL YEAR	\$ <u>6,615,093,717</u>	<u>18,315,853</u>	<u>6,633,409,570</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Cash Flows
Business-type Activities - Enterprise Fund



YEAR ENDED JUNE 30, 2005

	<u>State Infrastructure Bank</u>
Cash flows provided from operating activities:	
Interest income received	\$ 335,475
Cash flows used from financing activities:	
Decrease in Due to other Funds	(2,805,695)
Loans issued	(360,667)
Loans repaid	<u>161,794</u>
Net decrease in cash and cash equivalents	(2,669,093)
Cash and cash equivalents at June 30, 2004	<u>17,980,374</u>
Cash and cash equivalents at June 20, 2005	\$ <u><u>15,311,281</u></u>
Reconciliation of operating income to net cash provided from operating activities:	
Operating income	\$ 312,969
Adjustment to reconcile operating income to net cash by operating activities:	
Collection of accrued interest	<u>22,506</u>
	\$ <u><u>335,475</u></u>

AS OF JUNE 30, 2005

		Major Funds		
		State Road Fund	Bond Project Fund (2004A GRIP)	Local Government Road Fund
ASSETS:				
Cash and cash equivalents (Note 3):				
Unrestricted	\$	98,317,910	-	18,069,161
Restricted		30,418,791	613,435,505	
Receivables:				
Taxes receivable		26,747,014	-	1,865,463
Accounts receivable, net (Note 4)		1,564,750	198,377	-
Severance tax bond proceeds receivable (Note 5)		44,379,303	-	-
Interest receivable		250,996	66,603	38,264
Notes and loans receivable (Note 6)		30,429	-	-
Due from:				
U.S. Department of Transportation, net (Note 7)		14,840,819	-	-
Due from other funds (Note 8)		51,513,498	9,542,927	-
Other state agencies (Note 15)		-	-	-
Inventories (Note 9)		11,358,947	-	-
Prepaid expense - warranty		48,827,400	-	-
Property held for resale, net		5,225,879	-	-
TOTAL ASSETS	\$	333,475,736	623,243,412	19,972,888
LIABILITIES:				
Accounts and contracts payable, including retainage of \$4,259,678	\$	44,638,875	3,910,670	1,189,153
Due to other state agencies		308,581	-	-
Accrued payroll, taxes and withholdings		5,962,033	-	-
Accrued compensated absences (Note 12)		314,445	-	-
Deferred revenue (Note 2)		14,927,022	-	-
Due to other funds (Note 8)		64,279,272	-	1,103,359
Due to others		44,379,303	-	-
TOTAL LIABILITIES		174,809,531	3,910,670	2,292,512
FUND BALANCES:				
Reserved for inventories and prepaid warranty		60,186,347	-	-
Reserved for subsequent years' expenditures		-	-	-
Reserved for petty cash		3,100	-	-
Reserved for debt service		-	-	-
Reserved for notes receivable		30,429	-	-
Reserved for property held for resale		5,225,879	-	-
Reserved for capital projects		-	-	-
Unreserved-undesignated (deficit) (Note 23)		93,220,450	619,332,742	17,680,376
TOTAL FUND BALANCES		158,666,205	619,332,742	17,680,376
TOTAL LIABILITIES AND FUND BALANCES	\$	333,475,736	623,243,412	19,972,888

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Balance Sheet - Governmental Funds

Major Funds				
Federal Planning & Development	Debt Service (2004A GRIP)	Debt Service (2004B/C GRIP)	Other Governmental Funds	Total Governmental Funds
-	-	-	3,586,978	119,974,049
-	-	-	60,169,413	704,023,709
-	-	-	287,206	28,899,683
-	-	-	892	1,764,019
-	-	-	-	44,379,303
-	-	-	101,480	457,343
-	-	-	-	30,429
782,745	-	-	793,647	16,417,211
119,771	-	-	12,934,079	74,110,275
-	-	-	-	-
-	-	-	-	11,358,947
-	-	-	-	48,827,400
-	-	-	-	5,225,879
<u>902,516</u>	<u>-</u>	<u>-</u>	<u>77,873,695</u>	<u>1,055,468,247</u>
653,208	1,639,383	-	3,143,697	55,174,986
-	-	-	-	308,581
17,229	-	-	34,024	6,013,286
-	-	-	-	314,445
-	-	-	748,381	15,675,403
2,146	-	-	8,725,498	74,110,275
-	-	-	-	44,379,303
672,583	1,639,383	-	12,651,600	195,976,279
-	-	-	-	60,186,347
-	-	-	-	-
-	-	-	-	3,100
-	-	-	1,665,549	1,665,549
-	-	-	-	30,429
-	-	-	-	5,225,879
-	-	-	2,744,282	2,744,282
<u>229,933</u>	<u>(1,639,383)</u>	<u>-</u>	<u>60,812,264</u>	<u>789,636,382</u>
<u>229,933</u>	<u>(1,639,383)</u>	<u>-</u>	<u>65,222,095</u>	<u>859,491,968</u>
<u>902,516</u>	<u>-</u>	<u>-</u>	<u>77,873,695</u>	<u>1,055,468,247</u>

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



YEAR ENDED JUNE 30, 2005

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$	859,491,968
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds.

The cost of capital assets is:	\$	15,681,313,636
Accumulated depreciation is:		<u>(8,361,329,611)</u>

Total capital assets		7,319,984,025
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Long-term debt not recorded as liabilities in the governmental
funds, but recorded as long-term liabilities in the Statement of
Net Assets:

Debentures Payable		(1,502,327,893)
Compensated Absences		(5,754,049)
Amortization of Deferred Costs on Refunding not recorded by the government funds		(1,715,355)

Accrued of interest on long-term obligations not recorded by the governmental funds until paid.		(3,125,128)
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Capitalized issuance costs not recorded in the governmental funds as an asset, net of amortization.		11,389,125
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Capitalized bond premiums not recorded in the governmental funds as a liability, net of amortization.		<u>(62,848,976)</u>
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Net assets of governmental activities (Statement of Net Assets)	\$	<u><u>6,615,093,717</u></u>
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YEAR ENDED JUNE 30, 2005

	Major Funds		
	State Road Fund	Bond Project Fund (2004A GRIP)	Local Government Road Fund
REVENUES:			
User and fuel taxes	\$ 358,606,351	-	20,900,495
U.S. Department of Transportation	241,969,563	-	-
U.S. Department of Energy	22,737,949	-	-
NM Department of Human Services	-	-	-
NM Department of Finance and Administration	-	-	-
Other revenues	5,273,415	-	-
Interest	2,800,836	8,585,653	383,485
TOTAL REVENUES	631,388,114	8,585,653	21,283,980
CURRENT EXPENDITURES:			
Personal services	85,000,716	-	-
Employee benefits	36,500,200	-	-
Travel	15,320,703	-	-
Maintenance and repairs	9,435,411	-	-
Supplies	33,259,074	-	-
Contractual services	141,526,590	-	-
Operating costs	9,271,914	-	-
Grants and services	4,132,706	-	19,069,269
Other costs	38,372	-	-
Out of state travel	330,574	-	-
Capital outlay	146,069,028	127,018,921	-
Debt service:			
Bond issuance costs	-	-	-
Advance refunding of debt	-	-	-
Principal	778,571	-	-
Interest	3,189,035	-	-
TOTAL EXPENDITURES	484,852,894	127,018,921	19,069,269
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	146,535,220	(118,433,268)	2,214,711
OTHER FINANCING SOURCES (USES):			
Operating transfers - other funds (Note 11)	(157,186,590)	-	-
Transfers from /to other state agencies and local governments, net (Note 15)	(7,926,695)	-	-
Severance tax bond revenue (Note 5)	17,886,425	-	-
State general fund revenue	11,711,259	-	-
NET OTHER FINANCING SOURCES (USES)	(135,515,601)	-	-
NET CHANGES IN FUND BALANCES	11,019,619	(118,433,268)	2,214,711
FUND BALANCE, BEGINNING OF YEAR	187,743,561	737,766,010	15,478,247
RESTATEMENTS (Note 23)	(40,096,975)	-	(12,582)
FUND BALANCE, BEGINNING OF YEAR, Adjusted	147,646,586	737,766,010	15,465,665
FUND BALANCE, END OF YEAR	\$ 158,666,205	619,332,742	17,680,376

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

Major Funds				
Federal Planning & Development	Debt Service (2004A GRIP)	Debt Service (2004 B/C GRIP)	Other Governmental Funds	Total Governmental Funds
-	-	-	3,911,980	383,418,826
4,794,420	-	-	5,550,741	252,314,724
-	-	-	-	22,737,949
2,908,394	-	-	-	2,908,394
5,000	-	-	-	5,000
-	-	-	5,322	5,278,737
-	-	-	1,282,373	13,052,347
<u>7,707,814</u>	<u>-</u>	<u>-</u>	<u>10,750,416</u>	<u>679,715,977</u>
111,339	-	-	577,785	85,689,840
26,374	-	-	188,887	36,715,461
3,271	-	-	48,988	15,372,962
-	-	-	104,302	9,539,713
38,361	-	-	31,196	33,328,631
246	-	-	2,465,685	143,992,521
8,106	-	-	89,069	9,369,089
7,615,995	1,639,383	-	7,280,809	39,738,162
-	-	-	-	38,372
1,143	-	-	36,044	367,761
1,867	-	-	22,935,356	296,025,172
-	-	-	-	-
-	-	-	-	-
-	-	27,695,000	46,440,000	74,913,571
-	40,603,339	17,372,489	24,981,612	86,146,475
<u>7,806,702</u>	<u>42,242,722</u>	<u>45,067,489</u>	<u>105,179,733</u>	<u>831,237,730</u>
(98,888)	(42,242,722)	(45,067,489)	(94,429,317)	(151,521,753)
328,821	40,603,339	45,067,489	71,186,941	-
-	-	-	-	(7,926,695)
-	-	-	-	17,886,425
-	-	-	-	11,711,259
<u>328,821</u>	<u>40,603,339</u>	<u>45,067,489</u>	<u>71,186,941</u>	<u>21,670,989</u>
229,933	(1,639,383)	-	(23,242,376)	(129,850,764)
-	-	41,327,687	47,171,012	1,029,486,517
-	-	(41,327,687)	41,293,459	(40,143,785)
-	-	-	88,464,471	989,342,732
<u>229,933</u>	<u>(1,639,383)</u>	<u>-</u>	<u>65,222,095</u>	<u>859,491,968</u>

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2005

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$	(129,850,764)
Amounts reported for governmental activities in the Statement of Activities are different because:		
In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The decrease in the liabilities for the fiscal year was:		896,939
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:		
Capital outlay	\$ 296,025,175	
Depreciation expense	(502,651,435)	
Sale of fixed asset, net book value	<u>(523,168)</u>	
Excess of depreciation expense over capital outlay		(207,149,428)
Repayment of debentures recorded as expenditures in the governmental funds, recorded as a reduction in long-term liabilities in the Statement of Net Assets.		74,135,000
Deferred amount of debt recorded as a reduction of long-term liabilities in the Statement of Activities		
Bond 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 \$4,276,465, recorded as a reduction of interest expense in the Statement of Activities.		4,276,465
Bond issuance costs recorded in the governmental funds as other costs, recorded as an asset in the Statement of Net Assets, net of amortization of \$833,960, recorded as an expense in the Statement of Activities.		(833,960)
Principal repayment on Capital Leases recorded as an expenditure in the governmental funds, as a reduction in long-term debt in the Statement of Net Assets		(778,571)
Net change in accrual of long-term debt interest expense not recorded in the governmental funds until paid.		<u>3,380,869</u>
Change in net assets of governmental activities (Statement of Activities)	\$	<u>(255,923,450)</u>

NATURE OF ORGANIZATION

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.

Financial Reporting Entity

The accompanying financial statements of the Department include 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. Effective July 1, 2003, GASB 39, *Determining Whether Certain Organizations are Component Units*, expands the criteria of component units. GASB 39 has no impact on the Department and the Department has no blended or discretely presented component units during the year ended June 30, 2005.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB has issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and Statement No. 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. The Department has prepared required supplementary information entitled, *Management's Discussion and Analysis*, which precedes the basic financial statements.

◆ *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 charging interest on the loans. Operating income for the SIB is interest income. All other income, if any, would be non-operating income to the SIB.

◆ *Basis of Presentation*

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Government-Wide and Fund Financial Statements - continued**

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 ten 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 five percent of the total for both governmental *and* enterprise funds of any of the items for which it met the ten percent criterion.

The Department's major governmental funds are the following:

State Road Fund-CAS Fund No. 201 - 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. Section 67-3-59 NMSA establishes that this is a non-reverting fund.

Bonds Project Fund-2004A GRIP - The bonds project fund was created when the \$700,000,000 New Mexico State Transportation Senior Lien Revenue Bonds Series 2004A were issued through the New Mexico Finance Authority in May 2004. The funds from the sale of the Debentures were required to be deposited in a special account with the NMFA. Unspent proceeds are on deposit with the NMFA and recorded as due from other state agencies. The funds are used to finance transportation projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. The fund does not receive state general fund appropriations that are subject to reversion.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

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. The fund does not receive state general fund appropriations that are subject to reversion.

Debt Service Fund - 2004A GRIP - This fund was created when the \$700,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bond Series 2004A were issued through the New Mexico Finance Authority in 2004. The fund does not receive state general fund appropriations that are subject to reversion.

Debt Service Fund - 2004B and C GRIP - This fund was created when the \$237,950,000 and \$200,000,000 New Mexico State Transportation Subordinate Lien Refunding Revenue Bonds Series 2004B and Series 2004C were issued through the New Mexico Finance Authority in May 2004. The fund does not receive state general fund appropriations that are subject to reversion.

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) 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. Funding is received from state excise taxes. The fund does not receive state general fund appropriations that are subject to reversion.

◆ ***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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

◆ **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

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 GASB Statement No. 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 FASB pronouncements 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, 2005, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

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. 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 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 transportation system within the State of New Mexico. These funds do not receive state general fund appropriations that are subject to reversion.

Local Government Road Fund (CAS Fund #203). 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.

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

State Aviation Fund (CAS Fund #205). 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.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

◆ *Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*

Special Revenue Funds - continued

Motorcycle Training Fund (CAS Fund #206). 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.

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 (CAS Fund #207). 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.

Bond Project Fund (1993 Bonds) (CAS Fund #394). 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.

Bond Project Fund (WIPP Bonds) (CAS Fund #789 and 004). 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 Bonds Series 1998B issued in October 1998. 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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

◆ *Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*

Special Revenue Funds - continued

Bond Project Fund (WIPP Bonds) (CAS Fund #789 and 004) - continued. 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.

Bond Project Fund (1998 & 1999 CHAT) (CAS Fund #546). 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 Bonds 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 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.

Bond Project Fund (2000 CHAT) (CAS Fund #345). 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 Bonds 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 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.

Bond Project Fund (2001 CHAT) (CAS Fund #006). 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 Bonds 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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

◆ **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

Special Revenue Funds - continued

Bond Project Fund (2001 CHAT) (CAS Fund #006) - continued.

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.

Bond Project Fund (2002A CHAT) (CAS Fund #368). 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 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.

Bond Project Fund (2002C HIF) (CAS Fund #361). 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 Series 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 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.

Bond Project Fund (2002D CHAT) (CAS Fund #115). 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 Bonds 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 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

◆ **Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

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. These funds do not receive state general fund appropriations that are subject to reversion.

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

Debt Service - WIPP Bonds (CAS Fund #211, 677 and 972). 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, issued in October 1998.

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

Debt Service - 1998 NMFA Loan. Created when the \$100,230,000 loan agreement with the New Mexico Finance Authority was signed in October 1998.

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

Debt Service - 2000 CHAT Bonds (CAS Fund #432). Created when the \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A were issued in May 2001.

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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

◆ *Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued*

Debt Service Funds - continued

Debt Service - 2001 NMFA Loan. Created when the \$18,535,000 loan agreement with the New Mexico Finance Authority was signed in March 2001.

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

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

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

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

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. As it is a nonmajor fund, it is shown in the accompanying financial statements. Appropriations are received on a reimbursement basis as expenditures occur; therefore, only budgetary reversions are made when applicable.

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 within 60 days after year-end 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

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.

◆ 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 Modified Accrual Budget 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.

Amendments to the budget require approval by the Budget Division of the Department of Finance and Administration (DFA). 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 that authorized the appropriation.

The budgetary legal authorization to incur obligations is on a basis that differs from the basis of accounting required by accounting principles generally accepted in the United States of America (GAAP). Significant differences between the budgetary basis and GAAP include the following:

- The budgetary basis does not consider reversions or other transfers to or from other agencies.

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued***

◆ ***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 11 and 15) in the governmental fund financial statements.

◆ ***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 \$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 \$95,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (CHAT Bonds); the \$79,920,000 Senior 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 Highway Bonds, 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 that 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 3).

◆ ***Taxes Receivable***

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

◆ ***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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

◆ *Accounts Receivable - continued*

historical collection experience. The Department does not require collateral on these accounts receivable (Note 4).

◆ *Severance Tax Bonds Proceeds Receivable*

The State of New Mexico Legislature has authorized the State Board of Finance to issue and sell revenue bonds that 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 5).

◆ *Notes and Loans Receivable*

Notes receivable represent:

- Funds advanced to various state and local agencies to promote van-pooling activities within the state. The Federal Highway Administration (FHWA) provides matching funds (90%) for the purchase of vehicles by various non-profit van-pooling organizations.
- The funds advanced to such organizations are payable to the Department and are designated for future vehicle purchases.
- 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.

Loans receivable 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, 2005. 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 non-accrual status (Note 6).

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

◆ *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 that 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 7).

◆ *Due From/To Other Funds*

Due from/to other funds represents amounts due from and to other funds within the Department (Note 8) and are included in the governmental fund financial statements. Inter-fund transactions are eliminated in the GAAP-basis governmental-wide financial statements.

◆ *Inventory*

Inventory is valued at cost using the first-in, first-out method. Inventory of the Special Revenue Fund consists of materials used in the Department’s operations.

The costs are recorded as expenditures when consumed rather than when purchased. Reported inventories are equally offset by the fund balance reserve, which indicates that it does not constitute “available spendable resources” (Note 9) even though they are a component of current assets.

◆ *Prepaid Expense - Warranty*

\$34,295,084 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 \$14,532,317 of the warranty represents the no-fault warranty that the structures will meet performance criteria. This amount is being amortized over 11 ½ years.

◆ *Property Held for Resale*

Property held for resale represents 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Capital Assets**

Capital assets, which include property, plant, equipment, software in the equipment category, 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. The Department has no internally developed software that requires capitalization. Capital assets are defined by the state as assets that 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 or estimated historical cost. The Department has not capitalized any construction period interest expense. Donated capital assets are recorded at their estimated fair value at the date of donation.

- 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 Note 10 to the financial statements.
- The Department follows the depreciation method to record infrastructure. This method requires the Department to allocate the cost of infrastructure assets over their useful lives as depreciation expense. Another allowable 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**
◆ Capital Assets - continued

- The Department records its other capital assets (buildings, machinery and equipment) at historical cost and depreciates 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

◆ 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 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 has received pass-through federal funds in advance from the New Mexico Department of Human Services for the temporary assistance of needy families. Revenue is recognized when eligible expenditures are incurred for these projects and programs and all eligibility requirements are met.

◆ Compensated Absences

The Department accounts for the accumulated vacation and sick leave on the accrual basis in accordance with GASB 16. Accrued vacation up to 240 hours is recorded in the Statement of Net Assets at 100% of the employee's hourly wage. In addition, accrued sick leave over 600 up to 720 hours less the amount classified as current is recorded in the Statement of Net Assets at 50% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA). Employees exempt from coverage by FLSA earn one hour of compensatory time for each overtime hour. The accrual for compensated absences is calculated at pay rates in effect at June 30, 2005, and include direct and incremental salary related payments, such as the employees' share of social security taxes.

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

◆ *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 straight line 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 also amortized straight line 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.

◆ *Net Assets*

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

Investments in Capital Assets - is intended to reflect the portion of net assets which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Assets - are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory or granting agency) limitation on their use. When there is an option, the Department spends restricted resources first.

Unrestricted Assets - are all other net assets that do not meet the definition of "restricted assets" or "investments in capital assets".

◆ *Encumbrances*

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end with the exception of the Capital Projects Fund. Encumbrances outstanding in this fund at year-end are reported as

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

◆ *Encumbrances - continued*

reservations of fund balance on the balance sheets (in the fund financial statement) and do not constitute expenditures or liabilities because the commitment will be honored during the subsequent year.

It is necessary to include the budgetary basis consistent with the Department's legally adopted budget as presented in the required supplementary information. Unused and excess encumbrances are adjusted in the year it is determined the funds will not be spent.

◆ *Reservations*

Reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated, or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of fund balance accounts are summarized below:

Reserved for Encumbrances - This reserve was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the Department but not completed as of the close of the fiscal year.

Reserved for Inventory - This reserve was created to represent the portion of fund balance that is not available for expenditures because the Department expects to use the resources within the next budgetary period.

◆ *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.

◆ *Use of Estimates*

The preparation of 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 at 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.

◆ *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

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*◆ *Eliminations - continued*

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 Government-wide financial statements.

2. *BUDGETARY COMPARISONS*

The Combined Statement of Revenues and Expenditures - Budget (non-GAAP Budgetary Basis) and Actual - General, Special Revenue, Capital Projects, and Debt Service, is presented in accordance with the state's legal budgetary basis; and, therefore, includes encumbrances as current period expenditures and excludes expenditures made on prior year encumbrances. The following presentation reconciles the differences between this basis and GAAP.

	Special Revenue and Debt Service Funds	Capital Projects Funds
Governmental Funds Basis Revenues (per Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds)	\$ 679,715,977	-
State General Fund	11,711,259	-
Severance Tax Revenue	17,886,425	-
Accruals and adjustments	<u>60,391,646</u>	<u>-</u>
Budgetary Basis Revenues	\$ <u>769,705,307</u>	<u>-</u>
Governmental Funds Basis Expenditures	\$ 831,237,730	190,189
Current year encumbrances outstanding at year-end	240,318,859	80,423
Prior year encumbrances paid in current year	(317,538,006)	-
Accruals and adjustments	(18,602,192)	229,211
Warranty amortization expenditure for GAAP purposes not shown as budgetary expenditure	<u>(3,878,934)</u>	<u>-</u>
	\$ <u>731,537,457</u>	<u>499,823</u>

3. CASH AND CASH EQUIVALENTS

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 a 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 that invests in short-term U.S. Treasury securities. The reconciled balances at June 30, 2005, are as follows:

	<u>CAS Account Number</u>		<u>Amount</u>
Unrestricted:			
Road Fund - General	201	\$	94,308,691
Road Fund - Payroll	788		2,122,945
Local Government Fund	203		18,069,161
Aviation Fund	205		1,023,601
Motorcycle Training Fund	206		98,371
DWI Prevention Fund	207		421,079
Traffic Safety	208		2,006,802
Rubberized Asphalt	820		1,921,035
Petty Cash Funds	N/A		<u>2,364</u>
		\$	<u><u>119,974,049</u></u>

3. *CASH AND CASH EQUIVALENTS - continued*

	<u>CAS Account Number</u>	<u>Amount</u>
Restricted:		
Road Fund (1998 and 2001 NMFA loan proceeds in money market mutual funds)	N/A	\$ 655,891,140
Road Fund (relates to WIPP bond projects and various other road projects)	201/431	23,760,810
Highway Infrastructure Fund	202	6,657,981
Bond Project Fund (1993 Bonds)	394/569	1,405,437
Bond Project Fund (1998 WIPP Bonds)	004/789	35,125
Bond Project Fund (1999 CHAT Bonds)	430	212,656
Bond Project Fund (2000 CHAT Bonds)	345	4,392
Bond Project Fund (2001 CHAT Bonds)	006	8,609,675
Bond Project Fund (2002A CHAT Bonds)	368	135,601
Bond Project Fund (2002C HIF Bonds)	361	1,288,635
Bond Project Fund (2002D CHAT Bonds)	115	4,998,621
Debt Service Fund (1993 Bonds)	261	49,122
Debt Service Fund (1998 WIPP Bonds)	677/972/211	97,404
Debt Service Fund (1998 CHAT Bonds)	548	122,839
Debt Service Fund (1999 CHAT Bonds)	434	119,208
Debt Service Fund (2000 CHAT Bonds)	432	177,060
Debt Service Fund (2001 CHAT Bonds)	007	224,164
Debt Service Fund (2002A CHAT Bonds)	547	72,506
Debt Service Fund (2002B WIPP Bonds)	750	96,231
Debt Service Fund (2002C HIF Bonds)	363	53,989
Debt Service Fund (2002D CHAT Bonds)	187	11,113
State Infrastructure Bank	893	15,311,281
		\$ 719,334,990

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, 2005.

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.

4. *ACCOUNTS RECEIVABLE*

The aging of accounts receivable as of June 30, 2005, is as follows:

Number of Days Outstanding

0 - 30	\$ 660,627
31 - 60	429,275
61 - 120	77,976
Beyond 120	<u>2,418,391</u>
	3,586,269
Allowance for Uncollectible Accounts	<u>(1,822,250)</u>
	\$ <u>1,764,019</u>

The allowance for uncollectible accounts has been established from experience based on the records of the respective activities.

5. *SEVERANCE TAX BOND PROCEEDS RECEIVABLE*

Severance tax bonds proceeds receivable as of June 30, 2005, 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	\$ 33,060,161
Sale and reauthorization of severance tax bonds	18,057,891
Funding from the State Board of Finance	(6,567,283)
Reversion to the State Board of Finance	<u>(171,466)</u>
Balance, end of year	\$ <u>44,379,303</u>

The funding for the year ended June 30, 2005 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.

6. NOTES AND LOANS RECEIVABLE

Notes receivable as of June 30, 2005, consist of the following:

A note receivable from a private entity, non-interest-bearing, in accordance with federal statutes, due on December 1, 2005, collateralized by various property.	\$ <u>30,429</u>
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Loans receivable funded by the SIB consist of the following:

City of Albuquerque, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	\$ 2,972,187
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County of Bernalillo, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	<u>7,401,160</u>
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	\$ <u>10,373,347</u>
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7. DUE FROM U.S. DEPARTMENT OF TRANSPORTATION

Due from the U.S. Department of Transportation (USDOT) consists of the following at June 30, 2005:

Agency**Federal Highway Administration:**

Billed	\$ 1,112,333
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Unbilled	<u>13,728,486</u>
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Total Federal Highway Administration, net	14,840,019
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Other USDOT Agencies - Billed	<u>1,576,392</u>
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Total USDOT	\$ <u>16,417,211</u>
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Subsequent to June 30, 2005, the Federal Highway Administration unbilled portion was billed and the amounts were collected by the Department. No allowance was needed at June 30, 2005.

8. *DUE FROM AND DUE TO OTHER FUNDS*

The following are short-term amounts (due within one year) owed between funds and are classified as due from/to other funds:

	Due From Other Funds	Due to Other Funds
Special Revenue Funds:		
State Road Fund	\$ 51,513,498	64,279,272
Local Government Road Fund	-	1,103,359
Federal Planning and Development Fund	119,771	2,146
State Aviation Fund	461,215	636,313
Federal Traffic Safety Fund	3,334,212	2,897,560
Driver Improvement Program Fund	255,910	-
Bond Project Fund	-	37,804
Bond Project Fund - CHAT 1998A	3,088,612	1,224,580
Bond Project Fund - CHAT 2000	<u>1,788,987</u>	<u>1,914,391</u>
Total Special Revenue Funds	60,562,205	72,095,425
Debt Service Funds:		
Debt Service Funds	100	-
WIPP Debt Service Fund	13,829	-
GRIP 2004A	9,542,927	-
CHAT 2002A Debt Service Fund	<u>-</u>	<u>859,261</u>
Total Debt Service Funds	9,556,856	859,261
Capital Projects Fund:		
Capital Improvements Project	<u>3,991,214</u>	<u>1,155,589</u>
Total Capital Projects Fund	<u>3,991,214</u>	<u>1,155,589</u>
Total	\$ <u>74,110,275</u>	<u>74,110,275</u>

9. *INVENTORY*

Inventory as of June 30, 2005 consists of the following:

Highway maintenance materials stockpiled	\$ 6,010,178
Repair parts and expendable supplies	4,864,899
Fuel, oil and lubricants	<u>483,870</u>
	\$ <u>11,358,947</u>

10. *CAPITAL ASSETS*

A summary of changes in capital assets follows:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2005</u>
Non-depreciable assets:				
Land	\$ 4,515,243	549,435	-	5,064,678
Right of way	351,424,885	9,124,890	-	360,549,775
Depreciable Assets:				
Infrastructure	15,108,598,578	269,240,571	(308,471,791)	15,069,367,358
Equipment and furniture	48,886,796	2,727,472	(1,564,227)	50,050,041
Vehicles	154,112,287	11,720,525	(6,257,559)	159,575,253
Buildings	<u>34,463,902</u>	<u>2,662,279</u>	<u>(419,650)</u>	<u>36,706,531</u>
Total	15,702,001,691	296,025,172	(316,713,227)	15,681,313,636
Less accumulated depreciation:				
Infrastructure	(8,021,073,955)	(487,612,772)	308,471,791	(8,200,214,936)
Equipment and furniture	(31,901,204)	(3,446,313)	1,467,562	(33,879,955)
Vehicles	(101,313,826)	(10,492,923)	6,194,402	(105,612,347)
Buildings	<u>(20,579,250)</u>	<u>(1,099,427)</u>	<u>56,304</u>	<u>(21,622,373)</u>
Total accumulated depreciation	(8,174,868,235)	(502,651,435)	316,190,059	(8,361,329,611)
Net Total	\$ <u>7,527,133,456</u>	<u>(206,626,263)</u>	<u>(523,168)</u>	<u>7,319,984,025</u>

10. CAPITAL ASSETS - continued

Current year depreciation expense was \$502,651,435. There were no software costs to capitalize as of year-end.

11. OPERATING TRANSFERS

The following is a summary of interfund transfers (in)/out in the governmental fund financial statements for the year ended June 30, 2005:

	State Road Fund	Major Debt Service Funds	Special Revenue Funds	Non-Major Debt Service Funds
(1) \$	(156,857,769)	85,670,828	-	71,186,941
(2)	<u>(328,821)</u>	<u>-</u>	<u>328,821</u>	<u>-</u>
\$	<u>(157,186,590)</u>	<u>85,670,828</u>	<u>328,821</u>	<u>71,186,941</u>

- (1) The transfer from the State Road fund to the following debt service funds for the debt repayments required by the State of New Mexico Highway Debentures:
- (2) To transfer federal revenue received in the State Road Fund for Federal Planning and Development.

12. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2005:

Governmental Activities	Balance at June 30, 2004	Increase	Decrease	Balance at June 30, 2005
1998 CHAT Bonds	\$ 21,960,000	-	-	21,960,000
1998 WIPP Bonds	37,220,000	-	-	37,220,000
1999 CHAT Bonds	44,985,000	-	(6,400,000)	38,585,000
2000 CHAT Bonds	76,605,000	-	(11,090,000)	65,515,000
2001 CHAT Bonds	153,475,000	-	(14,785,000)	138,690,000
2002 CHAT Bonds, Series A	58,720,000	-	(6,840,000)	51,880,000
2002 WIPP Bonds, Series B	41,140,000	-	(7,325,000)	33,815,000
2002 HIF Bonds, Series C	32,945,000	-	-	32,945,000
2002 CHAT Bonds, Series D	5,770,000	-	-	5,770,000
2004 Series A	700,000,000	-	-	700,000,000
2004 Series B	237,950,000	-	(27,695,000)	210,255,000
2004 Series C	200,000,000	-	-	200,000,000
Deferred amount on refunding	(34,307,107)	-	1,715,355-	(32,591,752)
Compensated absences payable	6,650,988	5,751,814	(6,648,753)	5,754,049
Capital leases	<u>778,571</u>	<u>-</u>	<u>(778,571)</u>	<u>-</u>
Total obligations	1,583,892,452	5,751,814	(81,562,324)	1,509,797,297
Less current portion	<u>81,168,818</u>			<u>84,870,132</u>
Net long-term obligations	\$ <u>1,502,723,634</u>			<u>1,423,211,810</u>

The State Road Fund is used to liquidate other long-term liabilities, such as compensated absences and capital leases. 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 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 6-15-8 through 6-14-11 of the NMSA (1978), as amended.

12. LONG-TERM OBLIGATIONS - 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 cost of issuance for the Series 1998A and Series 1998B Bonds was \$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 the Series 1998A Bonds (CHAT) is payable as follows on June 15, and interest is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Series 1998A Bonds (CHAT), including interest payments of \$5,078,619 based on interest rates that range from 4.5% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998A:			
2006	\$ -	1,125,450	1,125,450
2007	-	1,125,450	1,125,450
2008	-	1,125,450	1,125,450
2009	10,705,000	1,125,450	11,830,450
2010	<u>11,255,000</u>	<u>576,819</u>	<u>11,831,819</u>
Total	\$ <u>21,960,000</u>	<u>5,078,619</u>	<u>27,038,619</u>

12. *LONG-TERM OBLIGATIONS - continued*

Principal of the Series 1998B Bonds (CHAT) is payable as follows on June 15, and interest is payable semi-annually on June 15 and December 15 through the year 2011.

The Department's future scheduled annual requirements to amortize the Series 1998B Bonds (1998 WIPP Bonds), including interest payments of \$9,007,100 based on interest rates that range from 3.8% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998B:			
2006	\$ 2,785,000	1,890,862	4,675,862
2007	-	1,751,613	1,751,613
2008	-	1,751,612	1,751,612
2009	10,545,000	1,751,613	12,296,613
2010	11,460,000	1,224,362	12,684,362
2011	<u>12,430,000</u>	<u>637,038</u>	<u>13,067,038</u>
Total	\$ <u>37,220,000</u>	<u>9,007,100</u>	<u>46,227,100</u>

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, \$8,468,451 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 1. Total issue costs were \$2,144,423 net of \$1,656,807 of the premium received from the sale of the NMFA bonds.

12. *LONG-TERM OBLIGATIONS - continued*

Principal of the loan was paid in May 2004 with funds provided from the issuance of the Series 2004B and 2004C NMFA State Transportation Refunding Revenue Bonds.

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 15. Interest, with rates ranging from 4.75% to 5.75% per annum, is payable semi-annually on June 15 and December 15 through the year 2009.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$5,453,112, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1999:			
2006	\$ 8,920,000	2,090,706	11,010,706
2007	9,385,000	1,622,406	11,007,406
2008	9,870,000	1,141,425	11,011,425
2009	<u>10,410,000</u>	<u>598,575</u>	<u>11,008,575</u>
Total	\$ <u>38,585,000</u>	<u>5,453,112</u>	<u>44,038,112</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.

12. *LONG-TERM OBLIGATIONS - continued*

Principal of the Bonds is payable annually each June 15. Interest, with rates ranging from 5.5% to 6.0% per annum, is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$15,403,325, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2000:			
2006	\$ 11,700,000	4,391,825	16,091,825
2007	12,340,000	3,781,875	16,121,875
2008	13,060,000	3,138,375	16,198,375
2009	13,810,000	2,420,650	16,230,650
2010	<u>14,605,000</u>	<u>1,670,600</u>	<u>16,275,600</u>
Total	\$ <u>65,515,000</u>	<u>15,403,325</u>	<u>80,918,325</u>

The Department issued \$198,800,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A, in November 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 underwriting fees was approximately \$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 2001A 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 4.3% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2013.

12. *LONG-TERM OBLIGATIONS - continued*

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$34,410,011, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2001A:			
2006	\$ 14,875,000	7,088,398	21,963,398
2007	16,730,000	6,344,648	23,074,648
2008	17,685,000	5,508,147	23,193,147
2009	14,630,000	4,623,898	19,253,898
2010	9,545,000	3,892,397	13,437,397
2011 - 2013	<u>65,225,000</u>	<u>6,952,523</u>	<u>72,177,523</u>
Total	\$ <u>138,690,000</u>	<u>34,410,011</u>	<u>173,100,011</u>

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 was paid in May 2004, with funds provided from the issuance of the Series 2004B and 2004C NMFA State Transportation Refunding Revenue Bonds.

12. *LONG-TERM OBLIGATIONS - continued*

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 premium. The cost of issuance including underwriting 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 in 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 15. Interest, with rates ranging from 5.0% to 5.5% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$13,707,050, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002A:			
2006	\$ 7,180,000	2,737,100	9,917,100
2007	7,540,000	2,378,100	9,918,100
2008	7,935,000	1,982,250	9,917,250
2009	-	1,585,500	1,585,500
2010	8,750,000	1,585,500	10,335,500
2011 - 2014	<u>20,475,000</u>	<u>2,312,475</u>	<u>22,787,475</u>
Total	\$ <u>51,880,000</u>	<u>13,707,050</u>	<u>65,587,050</u>

12. *LONG-TERM OBLIGATIONS - continued*

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 \$82,007,147 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 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 as follows on June 15. Interest at a rate of 5% per annum is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$4,838,000, are as follow:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002B:			
2006	\$ 7,730,000	1,690,750	9,420,750
2007	8,115,000	1,304,250	9,419,250
2008	8,525,000	898,500	9,423,500
2009	-	472,250	472,250
2010	9,445,000	472,250	9,917,250
Total	\$ <u>33,815,000</u>	<u>4,838,000</u>	<u>38,653,000</u>

12. *LONG-TERM OBLIGATIONS - continued*

The Department issued \$67,750,000 of the New Mexico State 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 funds projects identified by the Department and the Legislature.

Principal of the Bonds is payable as follows on June 15. Interest with rates ranging from 3.25% to 5.375% per annum is payable semi-annually on June 15 and December 15 through the year 2017.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$15,866,340, are as follow:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002C:			
2006	\$ -	1,709,524	1,709,524
2007	-	1,709,524	1,709,524
2008	-	1,709,524	1,709,524
2009	3,000,000	1,709,524	4,709,524
2010	2,000,000	1,559,524	3,559,524
2011 - 2015	15,905,000	6,509,752	22,414,752
2016 - 2017	<u>12,040,000</u>	<u>958,568</u>	<u>12,998,968</u>
Total	\$ <u>32,945,000</u>	<u>15,866,340</u>	<u>48,811,340</u>

12. *LONG-TERM OBLIGATIONS - 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 as follows on June 15. Interest with rates ranging from 3.9% to 5.00% per annum is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds including interest payments of \$1,540,000 are as follow:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002D:			
2006	\$ -	254,825	254,825
2007	1,200,000	254,825	1,454,825
2008	-	194,825	194,825
2009	-	194,825	194,825
2010	1,360,000	194,825	1,554,825
2011 - 2014	<u>3,210,000</u>	<u>445,875</u>	<u>3,655,875</u>
	\$ <u>5,770,000</u>	<u>1,540,000</u>	<u>7,310,000</u>

12. *LONG-TERM OBLIGATIONS - continued*

The Department issued \$700,000,000 through the New Mexico Finance Authority's (NMFA) State Transportation Revenue Bonds (Senior Lien), Series 2004A, in May 2004. The gross proceeds to the Department were \$738,787,815, including \$43,556,815 of an original issue premium. The cost of issuance including underwriter fees was \$6,368,367. The Bonds are special limited obligations of the Department, together with additional bonds hereafter issued, solely from and secured 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 not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2004A Bonds were issued to provide funds for certain transportation projects authorized by the State Legislature and that the Department has determined to be necessary or desirable.

The Department is responsible for the NMFA issuance costs and must annually pay the NMFA 25 basis points on the outstanding principal balance. Principal of the Bonds is payable as follows on June 15. Interest, with rates ranging from 3.8% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2024.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$507,927,926, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004A:			
2006	\$ -	36,216,759	36,216,759
2007	-	36,216,759	36,216,759
2008	-	36,216,759	36,216,759
2009	-	36,216,759	36,216,759
2010	-	36,216,759	36,216,759
2011 - 2015	80,665,000	180,136,915	260,801,915
2016 - 2020	384,850,000	123,559,778	508,400,778
2021 - 2024	<u>234,485,000</u>	<u>22,156,438</u>	<u>256,641,438</u>
	<u>\$ 700,000,000</u>	<u>506,927,926</u>	<u>1,206,927,926</u>

12. LONG-TERM OBLIGATIONS - continued

The Department issued \$237,950,000 and \$200,000,000 of bonds through the New Mexico Finance Authority's (NMFA) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B and Series 2004C, in May 2004. The gross proceeds to the Department for both issuances were \$451,069,205, including \$16,347,187 of an original issue premium. The cost of issuance including underwriter fees was \$4,228,696. Following is the detail of the Series 2004B and Series 2004C bonds issued.

The \$237,950,000 Series 2004B Bonds are special limited obligations of the Department, together with additional bonds hereafter issued, solely from and secured 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 not otherwise pledged exclusively to the payment of outstanding bonds and debentures, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding bonds of the NMFA and the Commission.

Principal of the Bonds is payable as follows on June 15. Interest, with rates ranging from 2.0% to 5.0% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$56,739,230 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004B:			
2006	\$ 27,940,000	10,038,865	37,978,865
2007	19,985,000	8,804,615	28,789,615
2008	13,170,000	7,938,265	21,108,265
2009	10,735,000	7,347,765	18,082,765
2010	9,230,000	6,879,385	16,109,385
2011 - 2014	<u>129,195,000</u>	<u>15,739,335</u>	<u>144,925,335</u>
Total	\$ <u>210,255,000</u>	<u>56,739,230</u>	<u>266,994,230</u>

12. LONG-TERM OBLIGATIONS - continued

The Series 2004C Bonds are special limited obligations of the Department 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 Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C bonds or which may hereafter be used through the NMFA. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

Refunding

The Department issued the 2004B and 2004C Bonds to advance refund various older debt issues. The net proceeds of \$408,855,812 plus an additional \$7,285,997 were used to purchase U.S. governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from the Department's long-term obligations. On June 30, 2005, \$381,835,000 of bonds outstanding are considered defeased.

The deferred amount on the refunding of \$34,307,107 recorded as a reduction of the Department's long-term obligation is the difference between the reacquisition price (funds required to refund the old debt including call provisions) and the net carrying amount of the old debt including unamortized old bond issuance costs. The deferred amount on the refunding is recorded to the government-wide financial statements and is required to be amortized as additional interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The Department is responsible for the issuance costs and must annually pay the 25 basis points on the outstanding principal balance, which will be \$500,000 a year through 2022 and \$339,063 during 2023. Principal of the Bonds is payable as follows on June 15, with interest payable semi-annually on June 15 and December 15 through the year 2023. Interest is based on interest rate swap agreements as disclosed below.

12. LONG-TERM OBLIGATIONS - continued**Interest Rate Swaps**

Objective of the swaps. In April of 2004, the Department through NMFA entered into three swaps with three counterparties to synthetically refund outstanding Bonds which provided the Department through NMFA with present value savings of approximately \$11,524,000, or 3.02% of the Refunded Bonds. The swap structure was used as a means to increase the Department's savings, when compared against fixed-rate bonds at the time of issuance. In addition, through this structure the Department was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swaps was to effectively change the Department's interest rate on the bonds to a fixed rate.

Terms. The swaps were executed with Goldman Sachs Mitsui Marine Derivative (Goldman), Lehman Brothers Derivative Products, Inc. (Lehman) and Royal Bank of Canada (RBC) at respective initial amortizing notional amount of \$50,000,000, \$50,000,000 and \$100,000,000. The counterparties were, at the trade date, rated AA+/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's, respectively. All three swaps commenced on May 20, 2004, and will mature on June 15, 2024. Under the swaps, the Department pays a fixed rate of 3.934% and receives a variable rate computed as the BMA index until June 15, 2006, on which date the variable interest rate received will switch to 68% of the one month London Interbank Offered Rate (LIBOR) until maturity. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair value. As of June 30, 2005, the Lehman swap and Goldman swap each had a negative fair value of \$5,157,441, while the RBC swap had a negative value of \$10,314,882. The total negative fair value on all the swaps was \$20,629,764. Since the coupons on the Department's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

12. LONG-TERM OBLIGATIONS - continued**Interest Rate Swaps - continued**

Risks. As of June 30, 2005, the Department is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. After June 15, 2006, the Department will be exposed to tax risk as reflected by the relationship between the rate paid on the outstanding bonds and 68% of one month LIBOR the rate received on the swap. Tax risk is a form of basis risk where the Department is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events.

Objective of the swaps. In April of 2004, the Department through the NMFA entered into two forward starting swaps on behalf of NMDOT with two counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Department to fund part of Governor Richardson's Investment Partnership (GRIP) which is a \$1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Department typically has between \$175 million and \$200 million in cash, which will act as a natural hedge if the swap is knocked-out.

Terms. The swaps were entered into with J.P. Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+ S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072%, based on an amortizing notional schedule with a combined \$220,000,000 initial amount. Under the swaps, the Department pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

10. AGENCY TRANSACTIONS - continued**Interest Rate Swaps - continued**

Fair value. As of June 30, 2005, the swaps had a negative fair value of \$33,840,224 without the option. The options had a negative value of \$11,128,234 in isolation of the swaps; thus the swaps including the options had a total negative value of \$44,968,458. Since the coupons on the Department's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Risks. As of June 30, 2005, the Department is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Agreement (the CSA) are adjusted based on counterparty ratings as set forth in the CSA. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Department would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Department has substantial case reserves which will mitigate this risk by generating variable rate income.

12. *LONG-TERM OBLIGATIONS - continued*Interest Rate Swaps - continued

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
Series 2004C:				
2006	\$ -	2,100,000	5,768,000	7,868,000
2007	-	2,100,000	5,768,000	7,868,000
2008	-	2,100,000	5,768,000	7,868,000
2009	-	2,100,000	5,768,000	7,868,000
2010	-	2,100,000	5,768,000	7,868,000
2011 - 2015	-	10,500,000	28,840,000	39,340,000
2016 - 2020	-	10,500,000	28,840,000	39,340,000
2021 - 2024	<u>64,375,000</u>	<u>7,724,063</u>	<u>21,215,426</u>	<u>93,314,489</u>
	<u>64,375,000</u>	<u>39,224,063</u>	<u>107,735,426</u>	<u>211,334,489</u>

Capital Leases

The Department has in the past entered into several lease agreements as lessee for financing the acquisition of computer equipment. During 2005, the Department took advantage of the lease buy-out clauses in the lease agreements. As a result, the Department has eliminated all capital leases as of June 30, 2005. These lease agreements qualified as capital leases for accounting purposes and, therefore, had been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases had interest rates that range from 10% to 19%. A total of \$1,023,499 was paid during the 2005 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 2005 fiscal year.

There are no future minimum lease obligations to report as of June 30, 2005.

12. *LONG-TERM OBLIGATIONS - continued*Capital Leases - continued

Total future principal and interest obligation repayments are as follows:

<u>Year Ended June 30,</u>	<u>Bonds and Loans</u>	<u>Capital Lease</u>	<u>Total</u>
2006	\$ 150,365,064	-	150,365,064
2007	156,325,065	-	156,325,065
2008	139,718,132	-	139,718,132
2009	139,749,809	-	139,749,809
2010	139,793,421	-	139,793,421
2011 - 2015	580,326,038	-	580,326,038
2016 - 2020	560,739,746	-	560,739,746
2021 - 2024	485,580,927	-	485,580,927
Total	\$ 2,352,598,202	-	2,352,598,202

An obligation amounting to \$5,754,049 at June 30, 2005, has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences.

13. *RETIREMENT AND HEALTH PLANS (STATE PERA)*◆ *PERA 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. A copy of that report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

13. *RETIREMENT AND HEALTH PLANS (STATE PERA) - continued*

◆ *Funding Policy*

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department are 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 ending June 30, 2005, 2004 and 2003 were \$18,165,681, \$12,192,028, and \$12,182,210, respectively, equal to the amount of the required contribution for each year.

14. *RETIREE HEALTH CARE/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 been retired from certain public service in New Mexico. The New Mexico Retiree Health Care Department (NMRHCA) 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 the 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 consist of 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 Retirements Act, the Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

Eligible retirees are: (1) retirees who make 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 before the employer's NMRHCA effective date, in which event the time period for required employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement, or (2) retirees defined by the Act who retired prior to July 1, 1990, and former legislators who served at least two years.

14. RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS - continued

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 medical plus basic life plan and an additional \$5 if eligible participant retired prior to the employer's NMRHCA effective date, or is a former legislator, and made no contributions to the plan. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including terminations 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, 401 Roma Avenue NW, Albuquerque, New Mexico 87102-2122.

For the fiscal year ended June 30, 2005, the Department remitted \$986,137 in employer contributions and \$483,659 in employee contributions to the Retiree Health Care Authority.

15. TRANSFERS TO/FROM OTHER STATE AGENCIES AND LOCAL GOVERNMENTS

The following is a summary of interagency cash transfers as a result of the 2004 General Appropriations Act for an employee assistance assessment to the General Services Department, for collective bargaining to the Department of Finance and Administration, and for an office lease to the Taxation and Revenue Department. The transfer to Department of Public Safety is a result of an appropriation for the motor transportation division from the State Road Fund.

	<u>Agency Number</u>	<u>Operating Transfers Out</u>
Transfers to Other Agencies:		
Department of Public Safety	01-790	\$ 7,894,000
Department of Finance and Administration	01-341	23,520
State Personnel Office	01-378	9,175
Total Transfers to Other Agencies		\$ <u>7,926,695</u>

16. COOPERATIVE AND JOINT POWERS AGREEMENTS

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%. None of these cooperative and joint power agreements have created legally separate organizations that need to be included as component units or joint ventures in the Department's financial statements.

JOINT POWER AGREEMENTS			
Contract Number	Contractor	Description	Expended 2005
J00118	City of El Paso Metropolitan Planning Organization	Provide for making available federal planning funds to the El Paso MPO. These funds are to be used for administrative and technical planning activities performed on behalf of Sunland Park and the Department.	87,243
J00253	Middle Rio Grande Council of Governments "MRGCOG"	In accordance with 23 USC Section 134(g), the MRGCOG shall prepare and update periodically a Long-Range Transportation Plan (PLAN) for a 20-year forecast period.	4,711,349
J00267	City of Albuquerque	Provide for the purchase of compressed natural gas vehicles from original equipment manufacturers.	1,660,000
J00399	University of New Mexico (UNM)	Provide for SHTD's participation in ATRI, so as to further the collaboration of the parties in implementing the Consortium, and furthering the parties' goals of transportation research, planning, testing and development, including efforts to secure third-party funding for such efforts.	745,285
J00654	City of Las Vegas	Specify and delineate the rights and duties for the purpose of remodeling and renovating the 2,962 square foot Las Vegas Railway Depot building.	-
J00658	New Mexico Institute of Mining And Technology (NM Tech)	Provide for the transfer of Department property to NM Tech in exchange for training of Department personnel and LTAP students.	-
J00659	Pueblo of Isleta	Construction of a traffic signal at milepost 40 on NM 47 (the Signal) and roadway lighting from Isleta Lakes Road within the boundaries of the Pueblo.	-
J00660	Santa Clara Pueblo	Install the School Crossing Flasher at the location of the Santa Clara Day School, NM 30 mile marker seven (7), Santa Clara Pueblo.	-
J00664	Navajo Nation	Road improvement for school bus routes south of Interstate 40 in the Baca chapter in McKinley County.	12,869
J00665	Navajo Nation	Plan, design and acquire rights of way at the Little Water and Lake Valley chapter in McKinley County.	99,854

16. *COOPERATIVE AND JOINT POWERS AGREEMENTS - continued*

JOINT POWER AGREEMENTS - continued			
Contract Number	Contractor	Description	Expended 2005
J00666	Navajo Nation	Acquire rights of way at the Whitehorse chapter in McKinley County.	-
J00667	Navajo Nation	Provide archaeological clearances, environmental assessments and other surveys on N69 school bus route near Naschitti in San Juan County.	39,999
J00672	NM State Fair	Transfer equipment in exchange for NM State Fair booth fees.	-
J00676	Historic Preservation Division/OCA	Maintain an inventory of cultural properties in the State of New Mexico.	75,000
J00680	Acoma Pueblo	Improvements to North Frontage Road.	99,234
J00686	Pueblo of Acoma	Fund and share the conduct of a feasibility study to replace the Acomita Interchange on I-40.	-
J00687	Bureau of Land Management	Implement designed construction measures necessary to restore a two-mile stream segment of the Rio Puerco in Sandoval County back into its historic meandering channel.	160,000

17. *RISK MANAGEMENT*

The Department is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the agency carries insurance (Workers' Compensation, Unemployment Compensation, Employee Liability and Transportation Property), with the State of New Mexico Risk Management Division (RMD) of the General Services Department. There are no pending or known threatened legal proceedings involving material matters to which the Department is party.

18. *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, 2005, the following allotments granted to the State of New Mexico had not been converted to commitments because FHWA did not award sufficient obligation authority to the Department:

18. FEDERAL HIGHWAY ADMINISTRATION (FHWA) ALLOTMENTS - continued**Year in which allotments expire:**

September 30, 2005	\$ <u>70,404</u>
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The Department anticipates that all future allotments will be fully used in the following year.

19. LITIGATION

The Department is subject to various legal proceedings, claims and liabilities, including right-of-way condemnation proceedings, contractor claims and employee claims, which arise in the ordinary course of the Department's operations. There are various contractor lawsuits and claims against the Department for various reasons. The Department contests these claims and if a likelihood of a loss is probable, the Department accrues the loss in the accompanying financial statements. 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.

20. OPERATING LEASE COMMITMENT

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, 2005, was \$1,467,142.

The future minimum lease payments under operating leases as of June 30, 2005 are approximately as follows:

Years ending June 30:	<u>Lease Amounts</u>
2006	\$ 705,000
2007	548,000
2008	470,000
2009	481,000
2010	-
2011 and Thereafter	-
	<u>\$ 2,204,000</u>

21. COMMITMENTS AND CONTINGENCIES

◆ *Arbitrage Rebate Obligation*

As of June 30, 2005, the Department has paid all arbitrage rebates due to the Internal Revenue Service (IRS) on the excess interest income earned on the 1999 CHAT and 2000 CHAT bond proceeds. The next arbitrage rebate calculation is scheduled for April 2006.

◆ *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, 2005 may be impaired. In the opinion of the Department, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

◆ *Warranty Claim*

The Department has filed a notice of deficiency regarding New Mexico 44 (now U.S. 550) under the design and construction warranty provided by the contractor. The Department has not specified a dollar amount of the cost of the repairs or replacement attributable to its claim made under the warranty. Accordingly, no amount for the claim receivable is accrued for in the June 30, 2005 financial statements.

22. UNRESERVED, UNDESIGNATED FUND BALANCE (DEFICIT)

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

23. PRIOR PERIOD ADJUSTMENT

The following errors related to 2004 B/C GRIP were corrected as of June 30, 2004:

	2004 B/C GRIP	
	Debt Service Fund	Bond Project Fund
FUND BALANCE, BEGINNING OF YEAR	\$ 41,327,687	-
ADJUSTMENTS:		
The following fund balance was transferred at year end	(41,327,687)	41,327,687
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u> -</u>	<u>41,327,687</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

23. *PRIOR PERIOD ADJUSTMENT - continued*

The following errors in the State Road Fund were corrected as of June 30, 2004:

	<u>State Road Fund</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 187,743,561
ADJUSTMENTS:	
To correct invalid accounts payable balances	2,592,315
To correct invalid taxes receivable balances	(64,000)
To record amounts due to other entities as a result of severance tax appropriations recognized as revenue in prior years	<u>(42,625,290)</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>147,646,586</u>

	<u>Local Government Road Fund</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 15,478,247
ADJUSTMENTS:	
To correct prior year understated taxes receivable/revenue	<u>(12,582)</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>15,465,665</u>

The following errors in the Special Revenue Funds were corrected as of June 30, 2004:

	<u>Driver Improvement Program</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 358,622
ADJUSTMENTS:	
To correct invalid taxes receivable balances	<u>(32,605)</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>326,017</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

23. PRIOR PERIOD ADJUSTMENT - continued

	<u>Debt Service 1999 CHAT</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 117,069
ADJUSTMENTS:	
To correct invalid interest receivable balances	<u>(2,849)</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>114,220</u>
	<u>Motorcycle Training Fund</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 85,136
ADJUSTMENTS	<u>1,226</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>86,362</u>

	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds				
		Major Funds				
	All Funds	State Road Fund	Local Gov Road Fund	2004B/C GRIP DS	Total Major	Non-Major Funds
2004B/C GRIP Debt Service Fund	\$ (41,327,687)	-	-	(41,327,687)	(41,327,687)	-
2004B/C GRIP Bond Project Fund	41,327,687	-	-	-	-	41,327,687
State Road Fund	2,592,315	2,592,315	-	-	2,592,315	-
State Road Fund	(64,000)	(64,000)	-	-	(64,000)	-
State Road Fund	(42,625,290)	(42,625,290)	-	-	(42,625,290)	-
Local Government Fund	(12,582)	-	(12,582)	-	(12,582)	-
Driver Improvement Program Fund	(32,605)	-	-	-	-	(32,605)
Debt Service 1999 CHAT	(2,849)	-	-	-	-	(2,849)
Motorcycle Training Fund	1,226	-	-	-	-	1,226
Total net assets	\$ <u>(40,143,785)</u>	<u>(40,096,975)</u>	<u>(12,582)</u>	<u>(41,327,687)</u>	<u>(81,437,244)</u>	<u>41,293.459</u>

SUPPLEMENTARY INFORMATION

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet - By Fund Type -
Non-Major Governmental Funds

AS OF JUNE 30, 2005

	Non-Major Special Revenue Funds	Non-Major Debt Service Funds	Non-Major Capital Project Fund	Total Non-Major Governmental Funds
ASSETS:				
Cash and cash equivalents:				
Unrestricted	\$ 3,586,978	-	-	3,586,978
Restricted	58,519,977	1,649,436	-	60,169,413
Receivables:				
Taxes receivable	287,206	-	-	287,206
Accounts receivable, net	892	-	-	892
Interest receivable	99,296	2,184	-	101,480
Due from:				
U.S. Department of Transportation, net	793,647	-	-	793,647
NM Department of Human Services	-	-	-	-
Other funds	8,928,936	13,929	3,991,214	12,934,079
Other state agencies	-	-	-	-
TOTAL ASSETS	<u>72,216,932</u>	<u>1,665,549</u>	<u>3,991,214</u>	<u>77,873,695</u>
LIABILITIES:				
Accounts and contracts payable, including retainage of \$377,908	3,132,777	-	10,920	3,143,697
Accrued payroll, taxes and withholdings	34,024	-	-	34,024
Due to other funds	7,569,909	-	1,155,589	8,725,498
Deferred revenue	<u>748,381</u>	-	-	<u>748,381</u>
TOTAL LIABILITIES	11,485,091	-	1,166,509	12,651,600
FUND BALANCES:				
Reserved for encumbrances	-	-	80,423	80,423
Reserved for debt service	-	1,665,549	-	1,665,549
Reserved for capital projects	-	-	2,744,282	2,744,282
Unreserved-undesignated	<u>60,731,841</u>	-	-	<u>60,731,841</u>
TOTAL FUND BALANCES	<u>60,731,841</u>	<u>1,665,549</u>	<u>2,824,705</u>	<u>65,222,095</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>72,216,932</u>	<u>1,665,549</u>	<u>3,991,214</u>	<u>77,873,695</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - By Fund Type - Non-Major Governmental Funds



YEAR ENDED JUNE 30, 2005

	Non-Major Special Revenue Funds	Non-Major Debt Service Funds	Non-Major Capital Project Fund	Total Non-Major Governmental Funds
REVENUES:				
User and fuel taxes	\$ 3,911,980	-	-	3,911,980
U.S. Department of Transportation	5,550,741	-	-	5,550,741
NM Department of Human Services	-	-	-	-
Other revenues	5,322	-	-	5,322
Interest	<u>633,066</u>	<u>649,307</u>	<u>-</u>	<u>1,282,373</u>
TOTAL REVENUES	10,101,109	649,307	-	10,750,416
EXPENDITURES:				
Current:				
Personal services	577,785	-	-	577,785
Employee benefits	188,887	-	-	188,887
Travel	48,988	-	-	48,988
Maintenance and repairs	104,302	-	-	104,302
Supplies	31,196	-	-	31,196
Contractual services	2,465,685	-	-	2,465,685
Operating Costs	89,069	-	-	89,069
Grants and services	7,280,809	-	-	7,280,809
Out-of-state travel	36,044	-	-	36,044
Capital outlay	22,745,167	-	190,189	22,935,356
Debt service:				
Bond issuance costs	-	-	-	-
Advance refunding of debt	-	-	-	-
Principal	-	46,440,000	-	46,440,000
Interest	<u>234,671</u>	<u>24,746,941</u>	<u>-</u>	<u>24,981,612</u>
TOTAL EXPENDITURES	33,802,603	71,186,941	190,189	105,179,733
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(23,701,494)	(70,537,634)	(190,189)	(94,429,317)
OTHER FINANCING SOURCES (USES):				
Operating transfers	-	71,186,941	-	71,186,941
Reversion to the State Road Fund	-	-	-	-
Highway debentures proceeds	-	-	-	-
Bond premium	-	-	-	-
Payment to bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(23,701,494)	649,307	(190,189)	(23,242,376)
FUND BALANCE, BEGINNING OF YEAR	43,137,027	1,019,091	3,014,894	47,171,012
ADJUSTMENTS	<u>41,296,308</u>	<u>(2,849)</u>	<u>-</u>	<u>41,293,459</u>
FUND BALANCE, BEGINNING OF YEAR, Adjusted	<u>84,433,335</u>	<u>1,016,242</u>	<u>3,014,894</u>	<u>88,464,471</u>
FUND BALANCE, END OF YEAR	\$ <u>60,731,841</u>	<u>1,665,549</u>	<u>2,824,705</u>	<u>65,222,095</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Schedule of Revenues and Expenditures - Capital Project Fund -
Budget and Actual (Non-GAAP Budgetary Basis)

AS OF JUNE 30, 2005

CAPITAL PROJECTS FUND									
	Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance From Final Budget Over (Under)	
	Original	Final							
Expenditures for 2004 multi-year projects Capital outlay	\$ 2,000,000	2,000,000	-	-	-	1,804,124	1,804,124	195,876	
Expenditures for 2001 multi-year projects Capital outlay	2,238,000	2,238,000	17,350	-	17,350	2,118,149	2,135,499	102,501	
Expenditures for 2000 multi-year projects Capital outlay	2,094,300	2,943,000	183,235	2,129	185,364	2,636,817	2,822,181	120,819	
Expenditures for 1999 multi-year projects Capital outlay	\$ 2,238,000	18,065,877	218,816	78,293	297,109	17,768,768	18,065,877	-	
Total expenditures					\$ 499,823				

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combining Balance Sheet -
Non-Major Special Revenue Funds**

AS OF JUNE 30, 2005

	<u>Traffic Safety Fund</u>	<u>State Aviation Fund</u>	<u>Motorcycle Training Fund</u>	<u>Driver Improvement Program Fund</u>
ASSETS:				
Cash and cash equivalents:	\$			
Unrestricted	2,006,802	1,023,601	98,371	2,000
Restricted	-	-	-	-
Receivables:				
Taxes receivable	250,895	36,311	-	-
Accounts receivable, net	740	152	-	-
Interest receivable	4,032	-	179	-
Due from:				
U.S. Dept. of Transportation	793,647	-	-	-
Other funds	<u>3,334,212</u>	<u>461,215</u>	<u>-</u>	<u>255,910</u>
TOTAL ASSETS	\$ <u>6,390,328</u>	<u>1,521,279</u>	<u>98,550</u>	<u>257,910</u>
LIABILITIES:				
Accounts and contracts payable,				
including retaining of \$367,284	\$ 1,173,012	41,672	-	-
Accrued payroll, taxes & withholding	-	34,024	-	-
Due to other funds	2,897,560	636,313	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	4,070,572	712,009	-	-
FUND BALANCES:				
Unreserved, undesignated (deficit)	<u>2,319,756</u>	<u>809,270</u>	<u>98,550</u>	<u>257,910</u>
TOTAL FUND BALANCES	<u>2,319,756</u>	<u>809,270</u>	<u>98,550</u>	<u>257,910</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>6,390,328</u>	<u>1,521,279</u>	<u>98,550</u>	<u>257,910</u>

STATE OF NEW MEXICO
DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet -
Non-Major Special Revenue Funds - continued

AS OF JUNE 30, 2005

	DWI Prevention & Education Fund	Bond Project Fund (93 Bonds)	Bond Project Fund (WIPP Bonds)	Bond Project Fund (1998 & 1999 CHAT)
ASSETS:				
Cash and cash equivalents:	\$			
Unrestricted	421,080	-	35,124	-
Restricted	-	1,405,437	-	212,656
Receivables:				
Taxes receivable	-	-	-	-
Accounts receivable, net	-	-	-	-
Interest receivable	-	2,920	56	449
Due from:				
U.S. Dept. of Transportation	-	-	-	-
Other funds	-	-	-	3,088,612
TOTAL ASSETS	\$ 421,080	1,408,357	35,180	3,301,717
LIABILITIES:				
Accounts and contracts payable, including retaining of \$367,284	\$ 50,483	-	19,405	-
Accrued payroll, taxes & withholding	-	-	-	-
Due to other funds	-	37,804	-	1,224,580
Deferred revenue	-	-	-	-
TOTAL LIABILITIES	50,483	37,804	19,405	1,224,580
FUND BALANCES:				
Unreserved, undesignated (deficit)	370,597	1,370,553	15,775	2,077,137
TOTAL FUND BALANCES	370,597	1,370,553	15,775	2,077,137
TOTAL LIABILITIES AND FUND BALANCES	\$ 421,080	1,408,357	35,180	3,301,717

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet -
Non-Major Special Revenue Funds - continued

AS OF JUNE 30, 2005

	Bond Project Fund (2000 CHAT)	Bond Project Fund (2001 CHAT)	Bond Project Fund (2002A CHAT)	Bond Project Fund (2002C HIF)
ASSETS:				
Cash and cash equivalents:	\$			
Unrestricted	-	-	-	-
Restricted	4,392	8,609,675	135,601	1,288,635
Receivables:				
Taxes receivable	-	-	-	-
Accounts receivable, net	-	-	-	-
Interest receivable	9	18,900	495	2,841
Due from:				
U.S. Dept. of Transportation	-	-	-	-
Other funds	<u>1,788,987</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>1,793,388</u>	<u>8,628,575</u>	<u>136,096</u>	<u>1,291,476</u>
LIABILITIES:				
Accounts and contracts payable, including retaining of \$367,284	\$ 32,300	313,414	3,036	148,707
Accrued payroll, taxes & withholding	-	-	-	-
Due to other funds	1,914,391	-	859,261	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	1,946,691	313,414	862,297	148,707
FUND BALANCES:				
Unreserved, undesignated (deficit)	<u>(153,303)</u>	<u>8,315,161</u>	<u>(726,201)</u>	<u>1,142,769</u>
TOTAL FUND BALANCES	<u>(153,303)</u>	<u>8,315,161</u>	<u>(726,201)</u>	<u>1,142,769</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>1,793,388</u>	<u>8,628,575</u>	<u>136,096</u>	<u>1,291,476</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combining Balance Sheet -
Non-Major Special Revenue Funds - continued**

AS OF JUNE 30, 2005

	Bond Project Fund <u>(2002D CHAT)</u>	Bond Project Fund <u>(2004 B/C GRIP)</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents:	\$		
Unrestricted	-	-	3,586,978
Restricted	4,998,621	41,864,960	58,519,977
Receivables:			
Taxes receivable	-	-	287,206
Accounts receivable, net	-	-	892
Interest receivable	11,597	57,818	99,296
Due from:			
U.S. Dept. of Transportation	-	-	793,647
Other funds	<u>-</u>	<u>-</u>	<u>8,928,936</u>
TOTAL ASSETS	\$ <u>5,010,218</u>	<u>41,922,778</u>	<u>72,216,932</u>
LIABILITIES:			
Accounts and contracts payable,			
including retaining of \$367,284	\$ 1,350,748	-	3,132,777
Accrued payroll, taxes & withholding	-	-	34,024
Due to other funds	-	-	7,569,909
Deferred revenue	<u>-</u>	<u>748,381</u>	<u>748,381</u>
TOTAL LIABILITIES	1,350,748	748,381	11,485,091
FUND BALANCES:			
Unreserved, undesignated (deficit)	<u>3,659,470</u>	<u>41,174,397</u>	<u>60,731,841</u>
TOTAL FUND BALANCES	<u>3,659,470</u>	<u>41,174,397</u>	<u>60,731,841</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>5,010,218</u>	<u>41,922,778</u>	<u>72,216,932</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Non-Major Special Revenue Funds

YEAR ENDED JUNE 30, 2005

	Traffic Safety Fund	State Aviation Fund	Motorcycle Training Fund	Driver Improvement Program Fund
REVENUES:				
User and fuel taxes	\$ 1,576,250	1,902,118	75,998	195,529
U.S. Dept. of Transportation	4,547,895	1,002,846	-	-
NM Dept. of Human Services	-	-	-	-
Other revenues	-	5,322	-	-
Interest	<u>41,101</u>	<u>-</u>	<u>3,190</u>	<u>-</u>
TOTAL REVENUES	6,165,246	2,910,286	79,188	195,529
EXPENDITURES:				
Current:				
Personal services	230,247	347,538	-	-
Employee benefits	86,325	102,562	-	-
Travel	1,955	47,033	-	-
Maintenance and repairs	-	104,302	-	-
Supplies	11,584	19,612	-	-
Contractual services	-	1,613,961	-	-
Operating costs	18,442	70,627	-	-
Grants and services	6,245,793	634,656	67,000	263,636
Other costs	-	-	-	-
Out-of-state travel	17,275	18,769	-	-
Capital outlay	-	9,754	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	6,611,621	2,968,814	67,000	263,636
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(446,375)	(58,528)	12,188	(68,107)
OTHER FINANCING SOURCES:				
Operating transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET OTHER FINANCING SOURCES	-	-	-	-
NET CHANGE IN FUND BALANCES	(446,375)	(58,528)	12,188	(68,107)
FUND BALANCES, JUNE 30, 2004	2,766,131	867,798	85,136	358,622
Adjustments to beginning Balance	<u>-</u>	<u>-</u>	<u>1,226</u>	<u>(32,605)</u>
FUND BALANCES, JUNE 30, 2004, Adjusted	2,766,131	867,798	86,362	326,017
FUND BALANCES, JUNE 30, 2005	\$ <u>2,319,756</u>	<u>809,270</u>	<u>98,550</u>	<u>257,910</u>

STATE OF NEW MEXICO
DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Non-Major Special Revenue Funds - continued

YEAR ENDED JUNE 30, 2005

	DWI Prevention & Education Fund	Bond Project Fund (93 Bonds)	Bond Project Fund (WIPP Bonds)	Bond Project Fund (1998 & 1999 CHAT)
REVENUES:				
User and fuel taxes	\$ 162,085	-	-	-
U.S. Dept. of Transportation	-	-	-	-
NM Dept. of Human Services	-	-	-	-
Other revenues	-	-	-	-
Interest	-	27,497	951	5,067
TOTAL REVENUES	162,085	27,497	951	5,067
EXPENDITURES:				
Current:				
Personal services	-	-	-	-
Employee benefits	-	-	-	-
Travel	-	-	-	-
Maintenance and repairs	-	-	-	-
Supplies	-	-	-	-
Contractual services	-	-	-	-
Operating costs	-	-	-	-
Grants and services	69,724	-	-	-
Other costs	-	-	-	-
Out-of-state travel	-	-	-	-
Capital outlay	-	-	-	-
Interest	-	-	-	81,280
TOTAL EXPENDITURES	69,724	-	-	81,280
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	92,361	27,497	951	(76,213)
OTHER FINANCING SOURCES:				
Operating transfers	-	-	-	-
NET OTHER FINANCING SOURCES	-	-	-	-
NET CHANGE IN FUND BALANCES	92,361	27,497	951	(76,213)
FUND BALANCES, JUNE 30, 2004	278,236	1,343,056	14,824	2,153,350
Adjustments to beginning Balance	-	-	-	-
FUND BALANCES, JUNE 30, 2004, Adjusted	278,236	1,343,056	14,824	2,153,350
FUND BALANCES, JUNE 30, 2005	\$ 370,597	1,370,553	15,775	2,077,137

STATE OF NEW MEXICO
DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Non-Major Special Revenue Funds - continued

YEAR ENDED JUNE 30, 2005

	Bond Project Fund (2000 CHAT)	Bond Project Fund (2001 CHAT)	Bond Project Fund (2002A CHAT)	Bond Project Fund (2002C HIF)
REVENUES:				
User and fuel taxes	\$ -	-	-	-
U.S. Dept. of Transportation	-	-	-	-
NM Dept. of Human Services	-	-	-	-
Other revenues	-	-	-	-
Interest	<u>88</u>	<u>251,254</u>	<u>54,667</u>	<u>59,180</u>
TOTAL REVENUES	88	251,254	54,667	59,180
EXPENDITURES:				
Current:				
Personal services	-	-	-	-
Employee benefits	-	-	-	-
Travel	-	-	-	-
Maintenance and repairs	-	-	-	-
Supplies	-	-	-	-
Contractual services	-	-	-	50,534
Operating costs	-	-	-	-
Grants and services	-	-	-	-
Other costs	-	-	-	-
Out-of-state travel	-	-	-	-
Capital outlay	-	7,443,437	5,999,685	5,236,279
Interest	<u>153,391</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>153,391</u>	<u>7,443,437</u>	<u>5,999,685</u>	<u>5,286,813</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(153,303)	(7,192,183)	(5,945,018)	(5,227,633)
OTHER FINANCING SOURCES:				
Operating transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(153,303)	(7,192,183)	(5,945,018)	(5,227,633)
FUND BALANCES, JUNE 30, 2004	-	15,507,344	5,218,817	6,370,402
Adjustments to beginning Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2004, Adjusted	-	15,507,344	5,218,817	6,370,402
FUND BALANCES, JUNE 30, 2005	\$ <u>(153,303)</u>	<u>8,315,161</u>	<u>(726,201)</u>	<u>1,142,769</u>

STATE OF NEW MEXICO
DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Non-Major Special Revenue Funds - continued

YEAR ENDED JUNE 30, 2005

	Bond Project Fund (2002D CHAT)	Bond Project Fund (2004B/C GRIP)	Total
REVENUES:			
User and fuel taxes	\$ -	-	3,911,980
U.S. Dept. of Transportation	-	-	5,550,741
NM Dept. of Human Services	-	-	-
Other revenues	-	-	5,322
Interest	<u>143,912</u>	<u>46,159</u>	<u>633,066</u>
TOTAL REVENUES	143,912	46,159	10,101,109
EXPENDITURES:			
Current:			
Personal services	-	-	577,785
Employee benefits	-	-	188,887
Travel	-	-	48,988
Maintenance and repairs	-	-	104,302
Supplies	-	-	31,196
Contractual services	801,190	-	2,465,685
Operating costs	-	-	89,069
Grants and services	-	-	7,280,809
Other costs	-	-	-
Out-of-state travel	-	-	36,044
Capital outlay	3,856,563	199,449	22,745,167
Interest	<u>-</u>	<u>-</u>	<u>234,671</u>
TOTAL EXPENDITURES	<u>4,657,753</u>	<u>199,449</u>	<u>33,802,603</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,513,841)	(153,290)	(23,701,494)
OTHER FINANCING SOURCES:			
Operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
NET OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(4,513,841)	(153,290)	(23,701,494)
FUND BALANCES, JUNE 30, 2004	8,173,311	-	43,137,027
Adjustments to beginning Balance	<u>-</u>	<u>41,327,687</u>	<u>41,296,308</u>
FUND BALANCES, JUNE 30, 2004, Adjusted	8,173,311	41,327,687	84,433,335
FUND BALANCES, JUNE 30, 2005	\$ <u>3,659,470</u>	<u>41,174,397</u>	<u>60,731,841</u>

**STATE OF NEW MEXICO
DEPARTMENT OF TRANSPORTATION**

**Combining Balance Sheet -
Non-Major Debt Service Funds**



AS OF JUNE 30, 2005

	Debt Service (1993 Bonds)	Debt Service (WIPP Bonds)	Debt Service (1998 CHAT)	Debt Service (1998 NMFA Loan)
ASSETS:				
Cash - restricted	\$ 49,118	107,039	128,574	-
Interest receivable	105	207	262	-
Due from:				
Other funds	100	13,829	-	-
Other State Agencies	-	-	-	-
TOTAL ASSETS	\$ 49,323	121,075	128,836	-
LIABILITIES:				
Deferred revenue	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Reserved for debt service	49,323	121,075	128,836	-
TOTAL FUND BALANCES	49,323	121,075	128,836	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 49,323	121,075	128,836	-

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combining Balance Sheet -
Non-Major Debt Service Funds - continued**

AS OF JUNE 30, 2005

	Debt Service (1999 CHAT)	Debt Service (2000 CHAT)	Debt Service (2001 CHAT)
ASSETS:			
Cash - restricted	\$ 200,357	318,770	423,140
Interest receivable	254	378	479
Due from:			
Other funds	-	-	-
Other State Agencies	-	-	-
TOTAL ASSETS	\$ <u>200,611</u>	<u>319,148</u>	<u>423,619</u>
LIABILITIES:			
Deferred revenue	-	-	-
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Reserved for debt service	<u>200,611</u>	<u>319,148</u>	<u>423,619</u>
TOTAL FUND BALANCES	<u>200,611</u>	<u>319,148</u>	<u>423,619</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>200,611</u>	<u>319,148</u>	<u>423,619</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combining Balance Sheet -
Non-Major Debt Service Funds - continued**

AS OF JUNE 30, 2005

	Debt Service (2001 NMFA Loan)	Debt Service (2002A CHAT)	Debt Service (2002B WIPP)
ASSETS:			
Cash - restricted	\$ -	161,795	185,529
Interest receivable	-	155	205
Due from:			
Other funds	-	-	-
Other State Agencies	-	-	-
TOTAL ASSETS	\$ <u>-</u>	<u>161,950</u>	<u>185,734</u>
LIABILITIES:			
Deferred revenue	-	-	-
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Reserved for debt service	-	<u>161,950</u>	<u>185,734</u>
TOTAL FUND BALANCES	-	<u>161,950</u>	<u>185,734</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>-</u>	<u>161,950</u>	<u>185,734</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combining Balance Sheet -
Non-Major Debt Service Funds - continued**

AS OF JUNE 30, 2005

	Debt Service (2002C HIF)	Debt Service (2002D CHAT)	Total
ASSETS:			
Cash - restricted	\$ 62,702	12,412	1,649,436
Interest receivable	115	24	2,184
Due from:			-
Other funds	-	-	13,929
Other State Agencies	-	-	-
TOTAL ASSETS	\$ <u>62,817</u>	<u>12,436</u>	<u>1,665,549</u>
LIABILITIES:			
Deferred revenue	-	-	-
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Reserved for debt service	<u>62,817</u>	<u>12,436</u>	<u>1,665,549</u>
TOTAL FUND BALANCES	<u>62,817</u>	<u>12,436</u>	<u>1,665,549</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>62,817</u>	<u>12,436</u>	<u>1,665,549</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Non-Major Debt Service Funds**

YEAR ENDED JUNE 30, 2005

	Debt Service (1993 Bonds)	Debt Service (WIPP Bonds)	Debt Service (1998 CHAT)	Debt Service (1998 NMFA Loan)
REVENUES:				
U.S. Dept. of Transportation	\$ -	-	-	-
Interest	<u>1,084</u>	<u>11,591</u>	<u>8,202</u>	<u>-</u>
TOTAL REVENUES	1,084	11,591	8,202	-
EXPENDITURES:				
Current:				
Other costs	-	-	-	-
Debt service:				
Bond issuance costs	-	-	-	-
Advance refunding of debt	-	-	-	-
Principal	-	-	-	-
Interest	<u>-</u>	<u>1,890,863</u>	<u>1,125,450</u>	<u>-</u>
TOTAL EXPENDITURES	<u>-</u>	<u>1,890,863</u>	<u>1,125,450</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,084	(1,879,272)	(1,117,248)	-
OTHER FINANCING SOURCES:				
Operating transfers - other funds	-	1,890,863	1,125,450	-
Highway debentures proceeds	-	-	-	-
Bond premium	-	-	-	-
Payment to bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET OTHER FINANCING SOURCES	<u>-</u>	<u>1,890,863</u>	<u>1,125,450</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,084	11,591	8,202	-
FUND BALANCES, JUNE 30, 2004	48,239	109,484	120,634	-
Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2004, Adjusted	<u>48,239</u>	<u>109,484</u>	<u>120,634</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2005	\$ <u><u>49,323</u></u>	<u><u>121,075</u></u>	<u><u>128,836</u></u>	<u><u>-</u></u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Non-Major Debt Service Funds - continued

YEAR ENDED JUNE 30, 2005

	Debt Service (1999 CHAT)	Debt Service (2000 CHAT)	Debt Service (2001 CHAT)
REVENUES:			
U.S. Dept. of Transportation	\$ -	-	-
Interest	<u>86,391</u>	<u>145,267</u>	<u>203,478</u>
TOTAL REVENUES	86,391	145,267	203,478
EXPENDITURES:			
Current:			
Other costs	-	-	-
Debt service:			
Bond issuance costs	-	-	-
Advance refunding of debt	-	-	-
Principal	<u>6,400,000</u>	<u>11,090,000</u>	<u>14,785,000</u>
Interest	<u>2,410,706</u>	<u>4,391,825</u>	<u>7,827,648</u>
TOTAL EXPENDITURES	<u>8,810,706</u>	<u>15,481,825</u>	<u>22,612,648</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,724,315)	(15,336,558)	(22,409,170)
OTHER FINANCING SOURCES:			
Operating transfers - other funds	<u>8,810,706</u>	<u>15,481,825</u>	<u>22,612,648</u>
Highway debentures proceeds	-	-	-
Bond premium	-	-	-
Payment to bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>
NET OTHER FINANCING SOURCES	<u>8,810,706</u>	<u>15,481,825</u>	<u>22,612,648</u>
NET CHANGE IN FUND BALANCES	86,391	145,267	203,478
FUND BALANCES, JUNE 30, 2004	117,069	173,881	220,141
Adjustments	<u>(2,849)</u>	<u>-</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2004, Adjusted	<u>114,220</u>	<u>173,881</u>	<u>220,141</u>
FUND BALANCES, JUNE 30, 2005	\$ <u><u>200,611</u></u>	<u><u>319,148</u></u>	<u><u>423,619</u></u>

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Non-Major Debt Service Funds - continued**

YEAR ENDED JUNE 30, 2005

	Debt Service (2001 NMFA Loan)	Debt Service (2002A CHAT)	Debt Service (2002B WIPP)
REVENUES:			
U.S. Dept. of Transportation	\$ -	-	-
Interest	-	<u>90,745</u>	<u>91,231</u>
TOTAL REVENUES	-	90,745	91,231
EXPENDITURES:			
Current:			
Other costs	-	-	-
Debt service:			
Bond issuance costs	-	-	-
Advance refunding of debt	-	-	-
Principal	-	6,840,000	7,325,000
Interest	-	<u>3,079,100</u>	<u>2,057,000</u>
TOTAL EXPENDITURES	-	<u>9,919,100</u>	<u>9,382,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(9,828,355)	(9,290,769)
OTHER FINANCING SOURCES:			
Operating transfers - other funds	-	9,919,100	9,382,000
Highway debentures proceeds	-	-	-
Bond premium	-	-	-
Payment to bond escrow agent	-	-	-
NET OTHER FINANCING SOURCES	-	<u>9,919,100</u>	<u>9,382,000</u>
NET CHANGE IN FUND BALANCES	-	90,745	91,231
FUND BALANCES, JUNE 30, 2004	-	71,205	94,503
Adjustments	-	-	-
FUND BALANCES, JUNE 30, 2004, Adjusted	-	<u>71,205</u>	<u>94,503</u>
FUND BALANCES, JUNE 30, 2005	\$ <u>-</u>	<u>161,950</u>	<u>185,734</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Non-Major Debt Service Funds - continued**

YEAR ENDED JUNE 30, 2005

	Debt Service (2002C HIF)	Debt Service (2002D CHAT)	Total
REVENUES:			
U.S. Dept. of Transportation	\$ -	-	-
Interest	<u>9,796</u>	<u>1,522</u>	<u>649,307</u>
TOTAL REVENUES	9,796	1,522	649,307
EXPENDITURES:			
Current:			
Other costs	-	-	-
Debt service:			
Bond issuance costs	-	-	-
Advance refunding of debt	-	-	-
Principal	-	-	46,440,000
Interest	<u>1,709,524</u>	<u>254,825</u>	<u>24,746,941</u>
TOTAL EXPENDITURES	<u>1,709,524</u>	<u>254,825</u>	<u>71,186,941</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,699,728)	(253,303)	(70,537,634)
OTHER FINANCING SOURCES:			
Operating transfers - other funds	1,709,524	254,825	71,186,941
Highway debentures proceeds	-	-	-
Bond premium	-	-	-
Payment to bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>
NET OTHER FINANCING SOURCES	<u>1,709,524</u>	<u>254,825</u>	<u>71,186,941</u>
NET CHANGE IN FUND BALANCES	9,796	1,522	649,307
FUND BALANCES, JUNE 30, 2004	53,021	10,914	1,019,091
Adjustments	<u>-</u>	<u>-</u>	<u>(2,849)</u>
FUND BALANCES, JUNE 30, 2004, Adjusted	<u>53,021</u>	<u>10,914</u>	<u>1,016,242</u>
FUND BALANCES, JUNE 30, 2005	\$ <u><u>62,817</u></u>	<u><u>12,436</u></u>	<u><u>1,665,549</u></u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Combined Schedule of Revenues and Expenditures -
Special Revenue and Debt Service Fund Types -
Budget and Actual (Non-GAAP Budgetary Basis)**



YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE AND DEBT SERVICE FUNDS			
	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary Basis)	Over (Under)
REVENUES:				
Federal funds	\$ 300,724,244	327,800,494	279,255,990	(48,544,504)
Other state funds	391,301,256	412,997,120	478,738,058	65,740,938
State General Fund	<u>676,000</u>	<u>676,000</u>	<u>11,711,259</u>	<u>11,035,259</u>
TOTAL REVENUES	<u>692,701,500</u>	<u>741,473,614</u>	<u>769,705,307</u>	<u>28,231,693</u>
PRIOR YEAR CASH BALANCE				
CARRY FORWARD	<u>14,696,100</u>	<u>20,062,030</u>		
	\$ <u>707,397,600</u>	<u>761,535,644</u>		

This schedule contains budget to actual data on all major and nonmajor Special Revenue and Debt Service Funds of the Department.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -
Special Revenue and Debt Service Fund Types -
Budget and Actual (Non-GAAP Budgetary Basis) - continued

YEAR ENDED JUNE 30, 2005

	Current Year					Variance Over (Under)	
	Budgeted Amounts		Expenditures	Outstanding Encumbrances	Actual Amounts (Budgetary Basis)		
	Original	Final					
EXPENDITURES - current and capital outlay:							
Aviation:							
Personal services and benefits	\$	428,100	453,100	451,147	-	451,147	1,953
Contractual services		254,000	1,141,800	814,163	327,637	1,141,800	-
Other costs		1,892,400	1,892,400	529,645	1,287,326	1,816,971	75,429
		2,574,500	3,487,300	1,794,955	1,614,963	3,409,918	77,382
Construction:							
Personal services and benefits		51,811,600	51,811,600	47,049,825	-	47,049,825	4,761,775
Contractual services		243,302,300	264,898,499	80,750,849	125,449,398	206,200,247	58,698,252
Other costs		179,099,100	187,044,907	175,642,758	9,167,819	184,810,577	2,234,330
		474,213,000	503,755,006	303,443,432	134,617,217	438,060,649	65,694,357
Maintenance:							
Personal services and benefits		47,490,800	48,202,850	48,187,529	-	48,187,529	15,321
Contractual services		47,529,400	60,395,991	40,696,326	16,001,480	56,697,806	3,698,185
Other costs		63,523,000	66,505,600	57,838,967	8,388,550	66,227,517	278,083
		158,543,200	175,104,441	146,722,822	24,390,030	171,112,852	3,991,589

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -
Special Revenue and Debt Service Fund Types -
Budget and Actual (Non-GAAP Budgetary Basis) - continued

YEAR ENDED JUNE 30, 2005

EXPENDITURES - current and capital outlay - continued:	Current Year					
	Budgeted Amounts		Expenditures	Outstanding Encumbrances	Actual	
	Original	Final			Amounts (Budgetary Basis)	Variance Over (Under)
Program Support:	\$					
Personal services and benefits	25,012,800	25,713,483	25,641,151	-	25,641,151	72,332
Contractual services	1,463,600	1,463,600	1,018,165	264,585	1,282,750	180,850
Other costs	16,622,700	16,622,700	14,281,762	1,547,490	15,829,252	793,448
Other financing uses	7,894,000	7,894,000	7,894,000	-	7,894,000	-
	50,993,100	51,693,783	48,835,078	1,812,075	50,647,153	1,046,630
Traffic Safety:						
Personal services and benefits	827,700	859,132	825,485	-	825,485	33,647
Other	10,429,300	14,171,067	3,889,196	7,226,314	11,115,510	3,055,557
	11,257,000	15,030,199	4,714,681	7,226,314	11,940,995	3,089,204
Transportation:						
Personal services and benefits	529,600	529,600	452,575	-	452,575	77,025
Contractual services	1,652,200	1,902,200	1,471,674	169,038	1,640,712	261,488
Other costs	7,635,000	10,033,115	6,384,320	3,416,912	9,801,232	231,883
	9,816,800	12,464,915	8,308,569	3,585,950	11,894,519	570,396
TOTAL ANNUAL BUDGETED EXPENDITURES	707,397,600	761,535,644	513,819,537	173,246,549	687,066,086	74,469,558

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -
Special Revenue and Debt Service Fund Types -
Budget and Actual (Non-GAAP Budgetary Basis) - continued

YEAR ENDED JUNE 30, 2005

		Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
		Original	Final						
TOTAL ANNUAL BUDGETED EXPENDITURES	\$	707,397,600	761,535,644	513,819,537	173,246,549	687,066,086	-	687,066,086	74,469,558
Multi-year Budgets - Special Revenue Funds:									
Expenditures for 2005 multi-year projects:									
Severance tax -									
Contractual services		19,111,750	23,764,750	2,266,585	14,494,334	16,760,919	-	16,760,919	7,003,831
General fund -									
Contractual services		10,743,657	11,791,221	2,240,810	9,172,159	11,412,969	-	11,412,969	378,252
Total expenditures for 2005 multi-year budgeted projects		29,855,407	35,555,971	4,507,395	23,666,493	28,173,888	-	28,173,888	7,382,083
Expenditures for 2004 multi-year projects:									
Severance tax -									
Contractual services		7,961,349	7,665,349	1,575,683	4,247,456	5,823,139	1,595,988	7,419,127	246,222
General fund -									
Contractual services		10,451,228	10,403,665	632,996	4,169,701	4,802,697	2,034,445	6,837,142	3,566,523
Total expenditures for 2004 multi-year budgeted projects		18,412,577	18,069,014	2,208,679	8,417,157	10,625,836	3,630,433	14,256,269	3,812,745
Expenditures for 2003 multi-year projects:									
Severance tax -									
Contractual services		9,342,100	9,262,100	1,263,965	2,631,322	3,895,287	5,170,759	9,066,046	196,054
Total expenditures for 2003 multi-year budgeted projects		9,342,100	9,262,100	1,263,965	2,631,322	3,895,287	5,170,759	9,066,046	196,054

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -
Special Revenue and Debt Service Fund Types -
Budget and Actual (Non-GAAP Budgetary Basis) - continued

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
	Original	Final						
Expenditures for 2002 multi-year projects:								
Severance tax -								
Contractual services	\$ 347,500	345,469	176,900	9,797	186,697	158,771	345,468	1
Total expenditures for 2002 multi-year budgeted projects	347,500	345,469	176,900	9,797	186,697	158,771	345,468	1
Expenditures for 2001 multi-year projects:								
Severance tax -								
Contractual services	6,910,784	6,848,528	528,567	602,610	1,131,177	5,563,165	6,694,342	154,186
General fund -								
Contractual services	2,577,500	2,542,129	169,088	289,398	458,486	1,948,068	2,406,554	135,575
Total expenditures for 2001 multi-year budgeted projects	9,488,284	9,390,657	697,655	892,008	1,589,663	7,511,233	9,100,896	289,761
Expenditures for 2000 multi-year projects:								
Severance tax -								
Contractual services	5,677,682	5,478,958	-	-	-	5,213,907	5,213,907	265,051
Total expenditures for 2000 multi-year budgeted projects	5,677,682	5,478,958	-	-	-	5,213,907	5,213,907	265,051

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Schedule of Revenues and Expenditures -
Special Revenue and Debt Service Fund Types -
Budget and Actual (Non-GAAP Budgetary Basis) - continued

YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Current Year Expenditures	Life-to-Date Outstanding Encumbrances	Total Actual	Prior Year Actual	Total Expenditures	Variance Over (Under)
	Original	Final						
Expenditures for 1999 multi-year projects:								
Severance tax -								
Contractual services	\$ 8,985,435	7,964,561	-	-	-	7,946,543	7,946,543	18,018
Total expenditures for 1999								
multi-year budgeted projects	\$ 8,985,435	7,964,561	-	-	-	7,946,543	7,946,543	18,018
TOTAL ANNUAL AND MULTI-YEAR BUDGETED EXPENDITURES					\$ 731,537,457			

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP Budgetary Basis)**



YEAR ENDED JUNE 30, 2005

STATE INFRASTRUCTURE BANK				
		Budgeted Amounts		Actual
		Original	Final	Amounts (Budgetary Basis)
				Variance Over (Under)
REVENUES:				
Interest	\$	-	-	<u>280,584</u>
TOTAL REVENUES		-	-	<u>280,584</u>
REBUDGETED CASH		<u>17,980,374</u>	<u>17,980,374</u>	<u>17,980,374</u>
TOTAL BUDGETED REVENUES	\$	<u>17,980,374</u>	<u>17,980,374</u>	<u>18,260,958</u>
EXPENDITURES:				
Contractual services	\$	<u>15,095,099</u>	<u>15,095,099</u>	<u>7,401,160</u>
TOTAL BUDGETED EXPENDITURES	\$	<u>15,095,099</u>	<u>15,095,099</u>	<u>7,401,160</u>

SUPPLEMENTAL SCHEDULES

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Severance Tax Bonds

AS OF JUNE 30, 2005

Chapter	Laws	Bonds Appropriated	Bonds Sold	Funds Reauthorized	Funds Reverted	Bond Balance After Reauthorization	Amount Received	Expended To Date	Balance Available
118	1998	\$ 3,895,000	3,895,000	100,000	(489,554)	3,505,446	3,505,446	3,505,446	-
7	1998	5,052,950	5,052,950	-	(593,842)	4,459,108	4,459,108	4,459,108	-
2	1999	5,973,321	5,973,321	-	(389,044)	5,584,277	5,336,821	5,336,821	247,456
23	2000	7,278,284	7,228,284	102,391	(79,875)	7,250,800	6,148,581	6,148,581	1,102,219
110	2002	9,468,100	9,468,100	13,000	(50,953)	9,430,147	6,003,664	6,003,664	3,426,483
429	2003	7,594,100	7,694,100	404,249	(1,495)	8,096,854	3,005,743	3,005,743	5,091,111
126	2004	23,758,750	23,741,750	297,000	-	24,038,750	1,776,513	1,776,513	22,262,237
		12,190,000	12,190,000	100,000	-	12,290,000	-	100,000	12,190,000
		105,000	105,000	-	-	105,000	45,203	45,203	59,797
	\$	<u>75,315,505</u>	<u>75,348,505</u>	<u>1,016,640</u>	<u>(1,604,763)</u>	<u>74,760,382</u>	<u>30,281,079</u>	<u>30,381,079</u>	<u>44,379,303</u>

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Special Appropriations



AS OF JUNE 30, 2005

<u>Special Revenue Funds</u>		Appropriation Amount	Expenditures Inception to 6/30/2005	Encumbrance Balance as of 6/30/2005	Reappropriation Amount	Reversion Amount	Balance as of 6/30/2005
Avof 1991, Cha	pter 10	\$ 250,000	-	-	-	-	250,000
* Avof 1994, State House Memorial	110	11,505,000	9,386,782	-	-	2,118,218	-
* Avof 1994, Senate Memorial	130	11,278,000	9,179,460	-	-	2,098,540	-
Avof 2000, Cha	pter 23	2,577,500	2,117,156	289,398	-	35,370	135,576
Avof 2003, Cha	pter 385	975,500	407,460	550,000	-	-	18,040
Avof 2003, Cha	pter 429	4,631,200	659,981	3,619,701	-	47,563	303,955
Avof 2004, Cha	pter 126	4,830,728	925,134	3,627,343	-	-	278,251
Avof 2004, Cha	pter 126	5,812,930	315,676	5,397,253	-	-	100,001
		41,860,858	22,991,649	13,483,695	-	4,299,691	1,085,823
<u>Capital Projects Funds</u>							
Avof 1999, Cha	pter 2	2,943,000	2,820,052	2,129	-	-	120,819
Avof 2004, Cha	pter 126	2,000,000	1,804,124	-	-	-	195,876
		4,943,000	4,624,176	2,129	-	-	316,695
Total all fund types		\$ 46,803,858	27,615,825	13,485,824	-	4,299,691	1,402,518

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

See Notes to Financial Statements.

◆ *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 2000, Chapter 23, 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 2003, Chapter 385, 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 2008 fiscal year will revert to the State General Fund.

Under the Laws of 2003, Chapter 429, the Department was appropriated \$4,631,200 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 2008 fiscal year will revert to the State General Fund.

◆ *Capital Projects 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 2003 fiscal year was reverted to the State Road Fund. Under the laws of 2004, Chapter 126, the appropriation end date was extended for one capital project that totaled \$712,000 through the end of the 2009 fiscal year. Any unexpended or unencumbered balance remaining at the end of the 2009 fiscal year for this project will revert to the State Road Fund.

Under the Laws of 2003, Chapter 429, the Department was appropriated \$4,500,000 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2008 fiscal year will revert to the State Road Fund.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Individual Bank Accounts



AS OF JUNE 30, 2005

Account Title	CAS Number	Reconciled Balance	Bank Balance
<i>Cash on Deposit with State Treasurer:</i>			
Road Fund - General	201	\$ 92,512,665	106,963,779
Road Fund - Payroll	788	2,122,945	2,183,364
Highway Department - WIPP Project	431	23,540,698	23,540,698
Rubberized Asphalt	820	1,921,035	1,921,035
Highway Infrastructure Fund	202	6,657,981	6,065,806
Local Government Fund	203	18,069,161	17,962,666
Traffic Safety	208	2,006,802	1,967,274
Aviation Fund	205	1,023,601	957,336
Motorcycle Training Fund	206	98,371	89,887
Driver Improvement Program	206	2,000	2,000
DWI Prevention Fund	207	421,079	407,299
93 Bonds - Sinking Fund	261	49,122	49,122
CHAT-2001A Bond Project-Hyway	006	8,609,675	8,623,099
1993 Bond Projects	394	1,367,633	1,367,633
1998B WIPP Bond Projects	004	26,355	26,355
1996 Bond Projects - WIPP	789	8,770	8,770
1996 Bond - Debt Service	211	14	14
1998B WIPP Debt Service	972	84,995	84,820
State Infrastructure Bank	893	15,311,281	15,311,281
1993 Bonds - Rebate Fund	569	37,804	37,804
1999 CHAT Bond Projects	430	212,656	212,656
Bond Projects-CHAT -1998A Bonds	546	-	-
1998A CHAT Debt Service	548	122,839	122,839
1999 CHAT Debt Service	434	119,208	119,208
2000A CHAT Bond Projects	345	4,392	4,392
2000A CHAT Debt Service	432	177,060	177,060
2001A CHAT Debt Service	007	224,164	224,164
2002A CHAT Bond Projects	368	135,601	135,601
Cash Debt Service-CHAT-2002A	547	72,506	72,506

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Individual Bank Accounts - continued



AS OF JUNE 30, 2005

Account Title	CAS Number	Reconciled Balance	Bank Balance
<i>Cash on Deposit with State Treasurer - continued:</i>			
2002B WIPP Bond Project	677	\$ 12,395	12,395
Cash Debt Service-WIPP-2002B	750	96,231	96,231
2002C HIF Bond Projects	361	1,288,635	1,288,635
Cash Debt Service-HIF-2002C	363	53,989	53,989
Cash-Bond Proj.-CHAT-2002D	115	4,998,621	4,998,621
Cash-Debt Service-CHAT-2002D	187	<u>11,113</u>	<u>11,113</u>
<i>Total on Deposit with State Treasurer</i>		181,401,397	<u>195,099,452</u>
<i>NMFA Loan Proceeds in money market mutual funds</i>			
NMFA Loan Proceeds in money market mutual funds:		657,905,278	
<i>Petty Cash Checking Accounts:</i>			
Petty Cash Funds:			
Wells Fargo Bank (Deming)	006	500	
Wells Fargo Bank (Roswell)	004	500	
Bank of the West (Albuquerque)	001	500	
Bank of Las Vegas	005	134	
Wells Fargo (Santa Fe)	003	276	
Wells Fargo (Grants)	007	354	
General Office (Santa Fe)		<u>100</u>	
		<u>2,364</u>	
<i>Total Cash</i>		839,309,039	
<i>Less Unrestricted</i>		<u>119,974,049</u>	
<i>Restricted</i>		\$ <u>719,334,990</u>	

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of
State Road Fund User and Fuel Taxes



YEAR ENDED JUNE 30, 2005

Gasoline Tax	\$ 109,163,383
Special Fuel Tax	86,965,679
Weight/Distance Tax	68,396,068
Vehicle Registration Fees	67,767,881
Drivers' License Fees	4,071,678
Leased Vehicle Gross Receipts Tax	4,669,089
Trip Tax	5,724,313
Public Regulation Commission Fees	3,526,339
Tire Recycling - Vehicle Registration Fees	1,949,521
Oversize/Overweight Fees	<u>2,768,647</u>
Subtotal - Pledged Revenues	355,002,598
Miscellaneous fees	<u>3,603,753</u>
Total User and Fuel Taxes	\$ <u>358,606,351</u>

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AS OF JUNE 30, 2005

	<u>1998B-WIPP</u>	<u>1998-CHAT</u>	<u>1999-CHAT</u>	<u>2000-CHAT</u>	<u>2001-CHAT</u>
Gasoline Tax	\$ 109,163,383	109,163,383	109,163,383	109,163,383	109,163,383
Vehicle Registration Fees	67,767,881	67,767,881	67,767,881	67,767,881	67,767,881
Special Fuel Tax	87,051,941	87,051,941	87,051,941	87,051,941	87,051,941
Vehicle Transaction Fees	1,130,387	1,130,387	1,130,387	1,130,387	1,130,387
Driver's License Fees	4,071,678	4,071,678	4,071,678	4,071,678	4,071,678
Oversize/Oversight Permit	2,768,647	2,768,647	2,768,647	2,768,647	2,768,647
Public Regulation Commission Fees	3,526,339	3,526,339	3,526,339	3,526,339	3,526,339
Trip Tax	5,724,313	5,724,313	5,724,313	5,724,313	5,724,313
Weight/Distance Tax	68,396,069	68,396,069	68,396,069	68,396,069	68,396,069
Leased Vehicle Gross Receipts Tax	-	-	-	-	-
Tire Recycling - Vehicle Registration Fees	-	-	-	-	-
FHWA Revenues	-	-	-	-	-
 SUBTOTAL	 349,600,638	 349,600,638	 349,600,638	 349,600,638	 349,600,638
 Interest on Cash Balances*	 <u>1,238,524</u>	 <u>1,238,524</u>	 <u>1,238,524</u>	 <u>1,238,524</u>	 <u>1,238,524</u>
 TOTAL PLEDGED REVENUES RECEIVED	 \$ <u>350,839,162</u>	 <u>350,839,162</u>	 <u>350,839,162</u>	 <u>350,839,162</u>	 <u>350,839,162</u>
	<u>1998-WIPP</u>	<u>1998-CHAT</u>	<u>1999-CHAT</u>	<u>2000-CHAT</u>	<u>2001-CHAT</u>
Debt Service Principal Expenditures	-	-	6,400,000	11,090,000	14,785,000
Debt Service Interest Expenditures	\$ <u>1,890,863</u>	<u>1,125,450</u>	<u>2,410,706</u>	<u>4,391,825</u>	<u>7,827,648</u>
 TOTAL DEBT SERVICE	 <u>1,890,863</u>	 <u>1,125,450</u>	 <u>8,810,706</u>	 <u>15,481,825</u>	 <u>22,612,648</u>
 DEBT SERVICE COVERAGE	 \$ <u>185.54</u>	 <u>311.73</u>	 <u>39.82</u>	 <u>22.66</u>	 <u>15.52</u>

* 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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Debt Service and Coverage



<u>2002A-CHAT</u>	<u>2002C-HIF</u>	<u>2002B-WIPP</u>	<u>2002D-CHAT</u>	<u>2004A-GRIP</u>	<u>2004B-GRIP</u>	<u>2004C-GRIP</u>
109,163,383	109,163,383	109,163,383	109,163,383	109,163,383	109,163,383	109,163,383
67,767,881	67,767,881	67,767,881	67,767,881	67,767,881	67,767,881	67,767,881
87,051,941	87,051,941	87,051,941	87,051,941	87,051,941	87,051,941	87,051,941
1,130,387	1,130,387	1,130,387	1,130,387	1,130,387	1,130,387	1,130,387
4,071,678	4,071,678	4,071,678	4,071,678	4,071,678	4,071,678	4,071,678
2,768,647	2,768,647	2,768,647	2,768,647	2,768,647	2,768,647	2,768,647
3,526,339	3,526,339	3,526,339	3,526,339	3,526,339	3,526,339	3,526,339
5,724,313	5,724,313	5,724,313	5,724,313	5,724,313	5,724,313	5,724,313
68,396,069	68,396,068	68,396,068	68,396,068	68,396,068	68,396,068	68,396,068
-	4,669,089	-	-	4,669,089	4,669,089	4,669,089
-	1,949,521	-	-	1,949,521	1,949,521	1,949,521
-	-	-	-	<u>287,475,000</u>	<u>287,475,000</u>	<u>287,475,000</u>
349,600,638	356,219,247	349,600,637	349,600,637	643,694,247	643,694,247	643,694,247
<u>1,238,524</u>	<u>124,100</u>	<u>1,238,524</u>	<u>1,238,524</u>	<u>1,238,524</u>	<u>124,100</u>	<u>124,100</u>
<u>350,839,162</u>	<u>356,343,347</u>	<u>350,839,161</u>	<u>350,839,161</u>	<u>644,932,771</u>	<u>643,818,347</u>	<u>643,818,347</u>
<u>2002A-CHAT</u>	<u>2002B-WIPP</u>	<u>2002C-HIF</u>	<u>2002D-CHAT</u>	<u>2004A-GRIP</u>	<u>2004B-GRIP</u>	<u>2004C-GRIP</u>
6,840,000	-	7,325,000	-	-	27,695,001	-
<u>3,079,100</u>	<u>1,709,524</u>	<u>2,057,000</u>	<u>254,825</u>	<u>40,603,339</u>	<u>11,624,557</u>	<u>5,747,932</u>
<u>9,919,100</u>	<u>1,709,524</u>	<u>9,382,000</u>	<u>254,825</u>	<u>40,603,339</u>	<u>39,319,558</u>	<u>5,747,932</u>
<u>35.37</u>	<u>208.45</u>	<u>37.39</u>	<u>1,376.78</u>	<u>15.88</u>	<u>16.37</u>	<u>112.01</u>

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APPENDIX B

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 Section 501 of 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 an Exchange Termination Payment, unless otherwise provided in the Master Indenture (which payment, other than an Exchange Termination Payment, may be made net of any Qualified Counterparty Payment then due).

“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 Chief Executive Officer 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 the 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 Section 1106 of 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 Payment” means any payment to be made to, or for the benefit of, the Authority under a Qualified Exchange Agreement including an Exchange Termination Payment, unless otherwise provided in the

Master Indenture (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 or any portion thereof.

“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 Section 501 of 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 Section 206 of 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 Section 501 of 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 respective accounts so established as the Senior Lien Interest Account, Subordinate Lien Interest Account and the Junior Subordinate Lien Account within the Debt Service Fund so established by Section 501 of the Master Indenture.

“Interest Payment Date” means any date upon which interest on the Bonds of any Series or portion thereof 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) 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 or are guaranteed by a Person whose long term, unsecured debt obligations 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 or are guaranteed by a Person whose long term, unsecured debt obligations 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 any Series which pursuant to the applicable Series Indentures the Authority is unconditionally required (except as provided in Section 505 of 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 Service, 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 Section 1101 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 Article III of 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 Section 902 of 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 respective accounts so established as the Senior Lien Principal Account, Subordinate Lien Principal Account, and the Junior Subordinate Lien Principal Account with the Debt Service Fund established by Section 501 of 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 the Master Indenture) 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 an 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 at the time in question; 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 Section 501 of 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 Bonds 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 for any Bonds. 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 Section 501 of 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 of the Master Indenture, executed and delivered in accordance with Section 203 thereof.

“Special Record Date” for the payment of any Defaulted Interest on Bonds means a date fixed by the Trustee pursuant to Section 301 of 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 or Series 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 Section 507 of the Master Indenture or Series 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 Article IX of 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:

(a) 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;

(b) 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;

(c) 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;

(d) 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;

(e) as to a repurchase agreement, an amount equal to the unpaid repurchase price thereof plus any accrued interest thereon as of such date; and

(f) 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 Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of 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: (v) 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 Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of 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 Sections 206(a), 206(b) or 206(c) of 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 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 Section 504(a) of 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 in Sections 501(a) and 501(b) of the Master Indenture 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 Exhibit A to 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 or 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 established by the Master Indenture or any Series Indenture.

Revenue Fund

(a) (i) 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, (ii) any moneys received as Counterparty Payments, and (iii) 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 Section 502(b) of 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 Outstanding (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, whenever such Senior Lien Bonds have been duly called for redemption, 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 subparagraph (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 may also be deposited to the Subordinate Lien Principal Account, whenever such Subordinate Lien Bonds have been duly called for redemption, 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 subparagraph (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 Junior Subordinate Principal Account, whenever a Principal Installment of Bonds subordinate to the Junior 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 Junior 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 such Junior 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 Junior Subordinate Lien Principal Account, when added to any amount on deposit in the Junior 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 of such Junior 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 such Bonds, (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility), deposits in the Junior Subordinate Lien 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 Junior Subordinate Lien 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 Junior Subordinate Lien 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.

(c) 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 paragraphs (B) and (C), 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.

(d) 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 Section 606 of 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 Section 501 of 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 Accounts.* Moneys in each respective Interest Account shall be applied to pay interest on the related Bonds and any Repayment Obligations Authority Exchange Payments (other than Exchange Termination Payments) relating thereto.

(c) *Principal Accounts.* Moneys in each respective Principal Account shall be applied to pay Principal Installments on the related Bonds and any Repayment Obligations relating thereto 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 of any Series 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 of such Series 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 of any Series 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 Subordinate Lien Bonds of such Series shall be applied to pay the principal of and interest on the related Subordinate Lien Bonds of such Series 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 of such Series 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 one or more Series of Bonds. Any moneys in excess of the Debt Service Reserve Requirement, if any, for any related 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 Master 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 thereafter 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.

(c) 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 subparagraphs (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 Section 801 of 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 Senior Lien 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 in 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 Section 1101 of the Master Indenture, 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 Section 1101 of 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 Section 1101 of 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 Article VII 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) in order:

(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 Sections 704, 705 and 706 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 Article VII 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 Section 706 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 in Section 704 of the Master Indenture, as set out 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 Section 1102 of 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 Section 1102 of 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 Section 704 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; 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 Master Indenture, no amendment, supplement or modification to the Master Indenture that adversely affects any Qualified Counterparty shall be effective without the prior written consent of such Qualified Counterparty.

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APPENDIX C
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 limited 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 Series 2006A Bonds do not constitute or give rise to a personal 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 2006 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 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 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 Legislature may be 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 four Metropolitan Statistical Areas ("MSAs") in the State. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is in Doña Ana County; the Santa Fe MSA is in Santa Fe County and the

Farmington MSA is in San Juan County. The fastest growing counties in the state are Torrance, Lincoln, Valencia, Sandoval, Catron and Luna.

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 2005, the value of energy resources production (crude petroleum, natural gas and coal) was approximately \$11.886 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 fourth quarter of 2005.

**State of New Mexico
Employment by Industry Group⁽¹⁾
Fourth Quarter, 2005**

<u>Industry</u>	<u>Employment</u>
Agriculture, Forestry, Fishing & Hunting	12,381
Mining	17,772
Utilities	5,748
Construction	58,410
Manufacturing	37,432
Wholesale Trade	22,918
Retail Trade	96,868
Transportation and Warehousing	20,048
Information	15,183
Finance and Insurance	24,048
Real Estate and Rental and Leasing	11,152
Professional and Technical Services	43,256
Management of Companies and Enterprises	5,522
Administrative and Waste Services	46,691
Educational Services	82,785
Health Care and Social Assistance	107,376
Arts, Entertainment and Recreation	17,706
Accommodation and Food Services	78,867
Other Services, Except Public Administration	21,612
Public Administration	58,822
Unclassified	461

⁽¹⁾ Employment is categorized using the North American Industry Classification System (NAICS).

Source: New Mexico Department of Labor, August 2006.

State of New Mexico and United States
Wages and Salaries by NAICS Industry Sector
2004-2005⁽¹⁾
(Thousands of Dollars)

	New Mexico		United States	
	<u>2004</u>	<u>2005⁽²⁾</u>	<u>2004</u>	<u>2005⁽²⁾</u>
Farm Total	<u>\$ 173,241</u>	<u>\$ 194,000</u>	<u>\$ 19,726,000</u>	<u>\$ 22,064,000</u>
<u>Non Farm Private</u>				
Forestry, Fishing, Related Activities & Other	\$80,593	\$ 85,000	\$17,213,000	\$ 18,372,000
Mining	774,692	938,000	34,806,000	40,665,000
Utilities	225,456	245,000	41,031,000	43,213,000
Construction	1,640,782	1,874,000	292,657,000	318,640,000
Manufacturing	1,465,812	1,554,000	687,534,000	719,848,000
Wholesale Trade	899,181	962,000	305,857,000	326,678,000
Retail Trade	2,152,348	2,274,000	380,235,000	401,075,000
Transportation & Warehousing	729,437	774,000	172,057,000	182,251,000
Information	518,567	547,000	190,644,000	198,758,000
Finance & Insurance	942,346	982,000	422,180,000	442,132,000
Real Estate & Rental & Leasing	296,811	322,000	80,772,000	89,015,000
Professional & Technical Services	2,446,990	2,557,000	449,970,000	487,205,000
Management of Companies & Enterprises	237,959	269,000	136,157,000	145,295,000
Administrative & Waste Services	1,116,330	1,198,000	214,708,000	234,433,000
Educational Services	221,635	243,000	84,793,000	90,942,000
Health Care & Social Assistance	2,742,166	2,961,000	532,315,000	568,702,000
Arts, Entertainment & Recreation	149,797	161,000	56,429,000	59,066,000
Accommodation & Food Services	982,477	1,046,000	169,272,000	181,230,000
Other Services, Except Public Administration	780,615	837,000	169,532,000	179,156,000
<u>Non Farm Government</u>				
Government & Government Enterprises	\$ 7,911,645	\$ 8,219,000	\$ 926,012,000	\$ 957,936,000
Non Farm Total	<u>\$26,315,639</u>	<u>\$28,045,000</u>	<u>\$5,364,174,000</u>	<u>\$5,684,607,000</u>
TOTAL	<u>\$26,488,880</u>	<u>\$28,238,000</u>	<u>\$5,383,900,000</u>	<u>\$5,706,671,000</u>

⁽¹⁾ Revised State personal income estimates for 2001-2004 were released September 28, 2005. These estimates incorporate newly available State-level source data.

⁽²⁾ Currently only quarterly data is available for 2005. The annual figures represent the average of the quarterly data rounded to the nearest thousand.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, July 2006.

**State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1996-2005**

<u>Year</u>	<u>Civilian Labor Force</u>		<u>Number Employed</u>		<u>Unemployment Rate</u>		
	<u>N.M.</u>	<u>U.S. (000s)</u>	<u>N.M.</u>	<u>U.S. (000s)</u>	<u>N.M.⁽¹⁾</u>	<u>U.S.⁽¹⁾</u>	<u>NM as % of U.S. Rate⁽²⁾</u>
1996	812,862	133,944	751,826	126,708	7.5%	5.4%	139%
1997	822,627	136,297	768,596	129,558	6.6%	5.0%	135%
1998	835,879	137,673	783,661	131,464	6.2%	4.5%	138%
1999	839,988	139,368	793,052	133,488	5.6%	4.2%	133%
2000	852,293	142,583	810,024	136,891	5.0%	4.0%	125%
2001	863,682	143,734	821,003	136,934	4.9%	4.7%	104%
2002	875,631	144,863	827,303	136,485	5.5%	5.8%	95%
2003	893,118	146,510	840,422	137,736	5.9%	6.0%	98%
2004	914,538	147,401	862,422	139,252	5.7%	5.5%	104%
2005	935,888	149,320	886,724	141,730	5.3%	5.1%	104%

⁽¹⁾ Figures rounded to nearest tenth of a percent.

⁽²⁾ Figures rounded to nearest whole percent.

Source: U.S. Department of Labor, Bureau of Labor Statistics, July 2006.

**State of New Mexico and United States
Per Capita Personal Income
1996-2005⁽¹⁾**

<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.⁽²⁾</u>	<u>New Mexico⁽³⁾</u>	<u>U.S.⁽³⁾</u>
1996	19,029	24,175	79%	3.3%	4.8%
1997	19,698	25,334	78%	3.5%	4.8%
1998	20,656	26,883	77%	4.9%	6.1%
1999	21,042	27,939	75%	1.9%	3.9%
2000	22,134	29,845	74%	5.2%	6.8%
2001	24,085	30,574	79%	8.8%	2.4%
2002	24,246	30,810	79%	0.7%	0.8%
2003	24,892	31,484	79%	2.7%	2.2%
2004	26,184	33,050	79%	5.2%	4.7%
2005 ⁽⁴⁾	27,644	34,586	80%	5.6%	4.6%

⁽¹⁾ Revised state personal income estimates for 2001-2004 were released September 28, 2005. These estimates incorporate newly available state-level source data.

⁽²⁾ Figures rounded to nearest whole percent.

⁽³⁾ Figures rounded to nearest tenth of a percent.

⁽⁴⁾ Preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, July 2006.

APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

FORM OF OPINION OF BOND COUNSEL

October __, 2006

New Mexico Finance Authority
Santa Fe, New Mexico

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the New Mexico Finance Authority (the "NMFA") of (i) its \$40,085,000 State Transportation Revenue and Refunding Revenue Bond (Subordinate Lien), Series 2006B (the "2006B Bonds"), dated October 19, 2006, and being a series of bonds in registered form maturing on June 15, 2007, December 15, 2007, and serially thereafter on December 15 of each year through 2026, (ii) its \$220,000,000 Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006C (the "2006C Bonds") and (iii) its \$50,400,000 Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006D (Taxable) (the "2006D Bonds," and together with the 2006B Bonds and the 2006C Bonds, the "2006 Subordinate Lien Bonds"). The 2006B Bonds and the 2006C Bonds are being issued for the purpose of providing funds for certain transportation projects authorized by the New Mexico State Legislature as determined by the New Mexico State Transportation Commission (the "Commission") and the New Mexico Department of Transportation (the "Department"). Proceeds of the 2006B Bonds will also be used to refund and restructure outstanding bonds of the Commission. The 2006D Bonds are being issued for the purpose of providing funds for an escrow required to be maintained by the Department pursuant to a Joint Use Agreement between the Department and the BNSF Railway Company.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 et seq., NMSA 1978, as amended and supplemented (the "NMFA Act"). The 2006 Subordinate Lien Bonds are being issued pursuant to the August 17, 2006 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 "GRIP Financing Legislation"), the NMFA Act, resolutions adopted by the NMFA on August 24, 2006 and on September 28, 2006 (collectively, the "Resolutions"), the Master Indenture of Trust dated as of May 1, 2004 (the "Master Indenture") between the NMFA and Bank of Albuquerque, N.A., as trustee (the "Trustee") and the Fourth Series Indenture of Trust dated as of October 1, 2006 (the "Fourth Series Indenture" and collectively with the Master Indenture, the "Indenture") between the NMFA and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have examined the provisions of the NMFA Act, the GRIP Financing Legislation, the Resolutions, the Indenture, and an executed bond of the first maturity of each series of the 2006 Subordinate Lien Bonds. We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion. 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 on our examination, we are of the opinion that, under the law existing on the date of this opinion:

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 of New Mexico and has lawful authority to issue the 2006 Subordinate Lien 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 2006 Subordinate Lien 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 2006 Subordinate Lien Bonds on a parity with other Subordinate Lien Bonds issued or to be issued under the Indenture, and with a lien

subordinate to the lien of thereon of the Senior Lien Bonds issued or to be issued under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

4. The 2006 Subordinate Lien 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 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 and obligations under the 2006 Subordinate Lien Bonds, the Resolutions and the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the NMFA;

(b) we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2006 Subordinate Lien Bonds and express herein no opinion relating thereto;

(c) we express no opinion as to the validity or enforceability of, or the security provided by, the bond insurance policy issued by XL Capital Assurance Inc. with respect to the 2006 Subordinate Lien Bonds;

(d) 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;

(e) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters;

(f) 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;

(g) 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 2006 Subordinate Lien Bonds; and

(h) we express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein.

Very truly yours,

SUTIN, THAYER & BROWNE
A Professional Corporation

FORM OF OPINION OF SPECIAL TAX COUNSEL

Upon the issuance of the 2006 Subordinate Lien 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:

October __, 2006

New Mexico Finance Authority
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority State Transportation Revenue and Refunding Revenue Bonds (Subordinate Lien), Series 2006B
New Mexico Finance Authority Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006C
New Mexico Finance Authority Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006D (Taxable)

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 (a) State Transportation Revenue and Refunding Revenue Bonds (Subordinate Lien), Series 2006B in the aggregate principal amount of \$40,085,000 (the “Series 2006B Bonds”), (b) Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006C in the aggregate principal amount of \$200,000,000 (the “Series 2006C Bonds”), and (c) Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006D (Taxable) in the aggregate principal amount of \$50,400,000 (the “Series 2006D Bonds” and, collectively with the Series 2006B Bonds and Series 2006C Bonds, the “2006 Subordinate Lien Bonds”). The 2006 Subordinate Lien Bonds are being issued for the purpose of providing funds to (i) pay the costs of certain transportation projects, (ii) refund certain outstanding bonds and (iii) pay costs of issuance.

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 2006 Subordinate Lien Bonds, we are relying upon the opinion of Sutin, Thayer & Browne A Professional Corporation, 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 2006B Bonds and the Series 2006C 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 2006B Bonds and the Series 2006C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2006B Bonds and the Series 2006C 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 2006B Bonds and the Series 2006C 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 2006B Bonds and the Series 2006C 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 2006D Bonds is not excludable from gross income for federal income tax purposes.

3. Interest on the 2006 Subordinate Lien 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 2006 Subordinate Lien Bonds; and

(b) although we have rendered an opinion that interest on the Series 2006B Bonds and the Series 2006C 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 2006 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. 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 2006 Subordinate Lien Bonds.

Respectfully submitted,

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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, New York, NY, will act as securities depository for the Series 2006 Subordinate Lien Bonds. The 2006 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 2006 Subordinate Lien Bonds, each in the aggregate principal amount of such maturity, and will be deposited with 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 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 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, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), 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 the DTC system 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 ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The 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 and www.dtc.org.

Purchases of 2006 Subordinate Lien Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2006 Subordinate Lien Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006A 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 2006 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 2006 Subordinate Lien Bonds, except in the event that use of the book-entry system for the 2006 Subordinate Lien Bonds is discontinued.

To facilitate subsequent transfers, all 2006 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 2006 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 2006 Subordinate Lien Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004A 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 2006 Subordinate Lien Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2006 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 2006 Subordinate Lien Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2006 Subordinate Lien Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. 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 redemption proceeds, distributions, and dividend payments 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.

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 the NMFA does not have responsibility for distributing such notices to the Beneficial Owners.

The NMFA 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 2006 Subordinate Lien Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the 2006 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 2006 Subordinate Lien Bonds.

DTC may discontinue providing its services as securities depository with respect to the 2006 Subordinate Lien Bonds at any time by giving reasonable notice to the NMFA or the Trustee. 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 only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

APPENDIX F

ARS PROCEDURES

Definitions

In addition to the words and terms elsewhere defined in the Fourth Series Indenture, the following words and terms as used in this Appendix F and elsewhere in the Fourth Series Indenture have the following meanings with respect to Series 2006C Bonds and Series 2006D 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, 60% of the ARS Index in effect on such Auction Date.

“ARS” means the Series 2006C Bonds of any Subseries and the Series 2006D Bonds of any Subseries while they bear interest at the ARS Rate.

“ARS Index” has the meaning specified under “ARS Index” of this Appendix F.

“ARS Rate” means for each Subseries of the Series 2006C Bonds and Series 2006D Bonds, the rate of interest to be borne by the Bonds of such Subseries during each Auction Period determined in accordance with the Fourth Series Indenture as summarized under “Determination of ARS Rate” of this Appendix F; provided, however, in no event may the ARS Rate exceed the Maximum Interest Rate.

“ARS Rate Conversion Date” means with respect to any Subseries of the Series 2006C Bonds and Series 2006D Bonds, the date on which the Bonds of such Subseries convert from an interest rate period other than an ARS Rate Period and begin to bear interest at an ARS Rate.

“ARS Rate Period” means after the Initial Period any period of time commencing on the day following the Initial Period to but not including a Conversion Date and the period from and including an ARS Rate Conversion Date to but excluding the next Conversion Date.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance the Indenture and the Auction Agreement 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 Fourth Series Indenture with respect to the Series 2006C Bonds of any Subseries and to the Series 2006D 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, with respect to any Subseries of the Series 2006C Bonds or Series 2006D Bonds, (i) if the Series 2006C Bonds or the Series 2006D Bonds of such Subseries are in a daily Auction Period, each Business Day unless such day is the last Business Day prior to the conversion from a daily Auction Period to another Auction Period, (ii) if the Series 2006C Bonds or the Series 2006D Bonds of such Subseries are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the Series 2006C Bonds or the Series 2006D Bonds of such Subseries are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series 2006C Bonds or Series 2006D Bonds of such Subseries (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to a Subseries of the Series 2006C Bonds or the Series 2006D Bonds in an Auction Period other than a daily Auction Period or Special 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 2006C Bonds or the Series 2006D Bonds of such Subseries and (b) the Business Day next preceding

the Interest Payment Date next preceding the final maturity date for the Series 2006C Bonds or the Series 2006D Bonds of such Subseries; and provided, further, that if the Series 2006C Bonds of any Subseries or the Series 2006D 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 2006C Bonds of any Subseries or the Series 2006D Bonds of any Subseries and (y) the Business Day next preceding the final maturity date for the Series 2006C Bonds of any Subseries or the Series 2006D Bonds of any Subseries. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction, for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion. The first Auction Date for the Series 2006C Bonds and the Series 2006D Bonds of each Subseries is October 26, 2006.

“Auction Period” means with respect to each Subseries of ARS Bonds:

- (a) a Special Auction Period;
- (b) with respect to a Subseries of ARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the Second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;
- (c) with respect to a Subseries of ARS Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, 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 Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (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) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);
- (d) with respect to a Subseries of ARS Bonds in a 14-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 14 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 14 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 Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 14 days beginning on a Wednesday (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), (iv) Wednesdays, a period of generally 14 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 14 days beginning on a Friday (or the day following the last

day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to a Subseries of ARS Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, 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 Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (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), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to a Subseries of ARS Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, 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 Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on 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), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(g) with respect to a Subseries of ARS Bonds in a three-month Auction Period, 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 (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(h) with respect to a Subseries of ARS Bonds in a six-month Auction Period, 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 14 or December 14;

provided, however, that

(a) if there is a conversion of a Subseries of ARS Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the

(d) if there is a conversion of a Subseries of ARS Bonds with Auctions generally conducted on Wednesdays (i) 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 Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 will end on the Wednesday (unless such Wednesday 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 seven days but not more than 14 days from such date of conversion, (iii) 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 Wednesday (unless such Wednesday 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 (iv) 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 Wednesday (unless such Wednesday 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 no more than 35 days from such date of conversion; and

(e) if there is a conversion of a Subseries of ARS Bonds with Auctions generally conducted on Thursdays (i) 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 Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 Thursday (unless such Thursday 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 seven days but not more than 14 days from such date of conversion; (iii) 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 Thursday (unless such Thursday 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 (iv) 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 Thursday (unless such Thursday 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 no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Interest Rate, the Auction Period shall automatically change to a seven-day Auction Period.

“Auction Procedures” means the procedures for conducting Auctions for Series 2006C Bonds of any Subseries or Series 2006D Bonds of any Subseries during an Auction Rate Period set forth in Exhibit B to the Fourth Series Indenture and summarized in this Appendix F.

“Auction Rate” means for any Subseries of Series 2006C Bonds and Series 2006D Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of such Subseries of the Series 2006C Bonds or the Series 2006D Bonds are the subject of Submitted Hold Orders, the All Hold Rate with respect to such Subseries, and (ii) if Sufficient Clearing Bids do not exist, the Maximum Interest Rate with respect to such Subseries.

“Available Bonds” means for any Subseries of Series 2006C Bonds and Series 2006D Bonds on each Auction Date, the aggregate principal amount of Series 2006C Bonds or Series 2006D Bonds of such Subseries that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of “Auction Procedures—Orders by Existing Owners and Potential Owners” in this Appendix F.

“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 the Fourth Series Indenture and 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 set forth in the Fourth Series Indenture and described in this Appendix F, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means with respect to an Order the internal deadline established by the Broker-Dealer through which a Bidder is placing an Order after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer. Any Broker-Dealer may change the times or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice to the Bidders. Notwithstanding the foregoing, the Broker-Dealer Deadline is implemented for the benefit of the Broker-Dealers and may be waived by any individual Broker-Dealer in any particular circumstance in the sole discretion of such Broker-Dealer.

“Conversion Date” means the date on which the Series 2006C Bonds of any Subseries or the Series 2006D Bonds of any Subseries convert from one interest rate period to another interest rate period.

“Existing Owner” means, for any Subseries of the Series 2006C Bonds or Series 2006D Bonds, a Person who is listed as the Beneficial Owner of the Series 2006C Bonds of such Subseries or the Series 2006D Bonds of such Subseries in the records of the Auction Agent; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Hold Order” has the meaning specified in subsection (a) under the caption “Auction Procedures—Orders by Existing Owners and Potential Owners” of this Appendix F.

“Initial Period” means for each Subseries of the Series 2006C Bonds and the Series 2006 Bonds the period from the Closing Date to but not including the respective dates shown on the inside front covers of this Official Statement.

“Interest Payment Date” with respect to each Subseries of the 2006C Bonds and Series 2006D Bonds bearing interest at ARS Rates, means the dates shown on the respective inside front cover of this Official Statement for the Initial Period and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Special 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 Special Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Special Auction Period, or (ii) 182 or more days each June 15 and December 15 and on a Business Day immediately following such Special Auction Period.

“LIBOR,” means on any date of determination for any Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%) 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.

“Maximum Interest Rate” means, the lesser of twelve percent (12%) 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 any Subseries of the Series 2006C Bonds or the Series 2006D Bonds in addition to the Series 2006C Bonds of any Subseries or the Series 2006D Bonds of any Subseries currently owned by such Person, if any.

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the NMFA, the Trustee and each Broker-Dealer.

“Securities Depository” means The Depository Trust Company, New York, New York, and its successors and assigns, or any other securities depository selected by the NMFA.

“Sell Order” has the meaning specified in the caption “Auction Procedures—Orders by Existing Owners and Potential Owners” of this Appendix F.

“Special Auction Period” means, with respect to a series of ARS Bonds, (a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Subseries of ARS Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Subseries of ARS Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Subseries of ARS Bonds with Auctions generally conducted on Tuesdays, 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, (iv) in the case of a Subseries of ARS Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Subseries of ARS Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or (b) any period which is longer than 182 days, which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Subseries of ARS Bonds.

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date for a Subseries of the Series 2006C Bonds or the Series 2006D Bonds not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for a Subseries of the Series 2006C Bonds or the Series 2006D Bonds 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 “Auction Procedures—Determination of ARS Rate” of this Appendix F.

“Submitted Hold Order” has the meaning specified in “Auction Procedures—Determination of ARS Rate” of this Appendix F.

“Submitted Order” has the meaning specified in subsection (b) under the caption “Auction Procedures—Determination of ARS Rate” of this Appendix F.

“Submitted Sell Order” has the meaning specified in subsection (b) under the caption “Auction Procedures—Determination of ARS Rate” of this Appendix F.

“Sufficient Clearing Bids” means with respect to a Subseries of the Series 2006C Bonds or Series 2006D Bonds, an Auction for which the aggregate principal amount of the Series 2006C Bonds or Series 2006D Bonds of such Subseries that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of the Series 2006C Bonds or Series 2006D 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 Interest Rate.

“Winning Bid Rate” means with respect to a Subseries of the Series 2006C Bonds or Series 2006D Bonds, the lowest rate specified in any Submitted Bid for such Subseries which if selected by the Auction Agent as the ARS Rate would cause the aggregate principal amount of Series 2006C Bonds or Series 2006D 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 Broker-Dealer 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 a Subseries of the Series 2006C Bonds or the Series 2006D Bonds, if any, held by such Existing Owner which such Existing Owner 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 a Subseries of the Series 2006C Bonds or the Series 2006D Bonds, if any, held by such Existing Owner which such Existing Owner 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 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 a Subseries of the Series 2006C Bonds or the Series 2006D Bonds, if any, held by such Existing Owner which such Existing Owner 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, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the Subseries of the Series 2006C Bonds or the Series 2006D Bonds, if any, which each such Potential Owner 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 offer to sell:

(A) the principal amount of a Subseries of the Series 2006C Bonds or the Series 2006D 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 a Subseries of the Series 2006C Bonds or the Series 2006D Bonds to be determined as described in subsection (a)(v) under the caption “Auction Procedures—Allocation of Series 2006C Bonds or Series 2006D Bonds of any Subseries” in this Appendix F 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 a Subseries of the Series 2006C Bonds or the Series 2006D Bonds to be determined as described in subsection (b)(iv) under the caption “Auction Procedures—Allocation of Series 2006C Bonds or Series the 2006D Bonds of any Subseries” in

this Appendix F if such specified rate shall be higher than the Maximum Interest Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of a Subseries of the Series 2006C Bonds or the Series 2006D Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of a Subseries of the Series 2006C Bonds or the Series 2006D Bonds as described in subsection (b)(iv) under the caption “Auction Procedures—Allocation of Series 2006C Bonds or Series the 2006D Bonds of any Subseries” in this Appendix F if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of a Subseries of the Series 2006C Bonds or the Series 2006D Bonds 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 a Subseries of the Series 2006C Bonds or the Series 2006D Bonds as described in subsection (a)(vi) under the caption “Auction Procedures—Allocation of Series 2006C Bonds or Series 2006D Bonds of any Subseries” in this Appendix F 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 the Series 2006C Bonds or the Series 2006D Bonds of any Subseries 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 2006C Bond or Series 2006D Bond of any Subseries 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 2006C Bond or Series 2006D Bond of any Subseries 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) for purposes of any Auction, any Order by any Existing Owner or Potential Owner is revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline all Orders are irrevocable.

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, if requested, specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

- (ii) the aggregate principal amount of the Series 2006C Bonds or the Series 2006D Bonds of a 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 the Series 2006C Bonds or the Series 2006D Bonds of a Subseries, if any, subject to any Hold Order placed by such Existing Owner;
 - (B) the principal amount of the Series 2006C Bonds or the Series 2006D Bonds of a 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 the Series 2006C Bonds or the Series 2006D Bonds of a Subseries, if any, subject to any Sell Order placed by such Existing Owner; and
 - (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 2006C Bonds or all of the Series 2006D Bonds of a particular 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 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D 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 Series 2006C Bonds or Series 2006D Bonds of a 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 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D Bonds of such Subseries held by such Existing Owner over the principal amount of the Series 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D Bonds of such Subseries held by such Existing Owner over the principal amount of Series 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D Bonds of such Subseries held by such Existing Owner over the principal amount of Series 2006C Bonds of such Subseries or Series 2006D 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 the Series 2006C Bonds or the Series 2006D Bonds of such Subseries subject to Bids not considered to be Bids of an Existing Owner as described in 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 the Series the 2006C Bonds of or Series 2006D Bonds of such Subseries equal to the excess of the principal amount of the Series 2006C Bonds or Series 2006D Bonds of such Subseries held by such Existing Owner over the sum of the principal amount of the Series 2006C Bonds or Series 2006D Bonds of such Subseries considered to be subject to Hold Orders as described in paragraph (i) above and the principal amount of the Series 2006C Bonds or Series 2006D Bonds of such Subseries considered to be subject to Bids of such Existing Owner as described in paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate may 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 the Series 2006C Bonds or Series 2006D Bonds of a particular 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 ARS Rate

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for each Subseries of the Series 2006C Bonds and the Series 2006D Bonds, 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 and the ARS Index for such Subseries of the Series 2006C Bonds or Series 2006D Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for each Subseries of the Series 2006C Bonds and the Series 2006D Bonds, 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 as described in 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 the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent shall fail to calculate or, for any reason (including, but not limited to, the lack of a duly appointed Broker-Dealer), 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 ARS Rate for the new Auction Period shall be the same as the ARS 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 seventh day following the day that would have been the last day of such Auction period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the ARS Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as described in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction

Period as so extended 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. Notwithstanding the foregoing, no ARS Rate will be extended for more than 35 days. If at the end of 35 days the Auction Agent fails to calculate or provide the Auction Rate, the ARS Rate shall be the Maximum Interest Rate.

(e) In the event of a failed conversion, with respect to any Subseries of the Series 2006C Bonds or the Series 2006D Bonds, to a Daily Interest Rate, Weekly Interest Rate, Commercial Paper Rate Period, Semiannual Rate Period, Term Interest Rate or a Fixed Interest 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 ARS Rate for the next Auction Period shall be the Maximum Interest Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Series 2006C Bonds or the Series 2006D Bonds of any Subseries are no longer maintained in book-entry-only form by the Securities Depository, then the ARS Rate shall be the Maximum Interest Rate.

Allocation of Series 2006C Bonds and Series 2006D Bonds of any Subseries

(a) In the event of Sufficient Clearing Bids for a Subseries of the Series 2006C Bonds or the Series 2006A Bonds, subject to the further provisions described in subsection (c) and (d) below, Submitted Orders for such Subseries 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 2006C Bonds or Series 2006D Bonds of such 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 2006C Bonds or Series 2006D Bonds of such 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 2006C Bonds or Series 2006D Bonds of such 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 2006C Bonds or Series 2006D Bonds of such 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 2006C Bonds or Series 2006D Bonds of such Subseries that are the subject of such Submitted Bid, but only up to and including the principal amount of the Series 2006C Bonds or Series 2006D Bonds of such Subseries obtained by multiplying (A) the aggregate principal amount of Outstanding Series 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D 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 2006C Bonds of such Subseries or Series 2006D 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 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D Bonds of such Subseries that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the Series 2006C Bonds or Series 2006D Bonds of such Subseries obtained by multiplying (A) the aggregate principal amount of Outstanding Series 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D 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 for a Subseries of the Series 2006C Bonds or the Series 2006D Bonds, subject to the further provisions described in subsections (c) and (d) below, Submitted Orders for such Subseries of the Series 2006C Bonds or the Series 2006D Bonds 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 2006C Bonds or Series 2006D Bonds of such 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 Interest Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2006C Bonds or Series 2006D Bonds of such 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 Interest Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2006C Bonds or Series 2006D Bonds of such 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 Interest 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 the Series 2006C Bonds or the Series 2006D Bonds of such Subseries obtained by multiplying (A) the aggregate principal amount of the Series 2006C Bonds or Series 2006D Bonds of such Subseries held by such Existing Owner 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 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D Bonds of such Subseries held by such Existing Owner 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 2006C Bonds or Series 2006D Bonds of such Subseries; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Interest 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 the Series 2006C Bonds of such Subseries or Series 2006D Bonds of a 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 2006C Bonds or Series 2006D 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 the Series 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D 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 the Series 2006C Bonds or Series 2006D Bonds of a Subseries on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Series 2006C Bonds or Series 2006D Bonds of such Subseries for purchase among Potential Owners so that the principal amount of ARS of such Subseries 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 the Series 2006C Bonds or Series 2006D Bonds of such Subseries on such Auction Date.

Notice of ARS 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 with respect to each Subseries of the Series 2006C Bonds and the Series 2006D Bonds for which an Auction was held on such Auction Date:

- (i) the ARS 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 the Series 2006C Bonds or Series 2006D Bonds of such Subseries, 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 the Series 2006C Bonds, or Series 2006D Bonds of such Subseries, if any, to be purchased by such Potential Owner;
- (v) if the aggregate principal amount of the Series 2006C Bonds or Series 2006D Bonds of such 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 the Series 2006C Bonds or Series 2006D 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 the Series 2006C Bonds or Series 2006D 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, with respect to each Subseries of the Series 2006C Bonds or the Series 2006D Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall, if requested: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the ARS 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 Potential 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 the Series 2006C Bonds or Series 2006D Bonds of such Subseries to be purchased pursuant to

such Bid (including, with respect to the Series 2006C Bonds or Series 2006D Bonds of such Subseries 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 2006C Bonds or Series 2006D Bonds of such Subseries; 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 the Series 2006C Bonds or Series 2006D Bonds of such Subseries to be sold pursuant to such Bid or Sell Order against payment therefor.

ARS Index

(a) For ARS in an Auction Period of 35 days or less, the ARS Index is LIBOR. For ARS in an Auction Period of more than 35 days, the ARS Index is equal to the yield on the United States Treasury security on the date the Auction Period began which has a maturity which most closely matches the last day of the Auction Period.

(b) If for any reason on any Auction Date the ARS Index shall not be determined as hereinabove described in this Section, the ARS Index shall be the ARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the ARS Index as described herein shall be conclusive and binding upon the NMFA, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Series 2006C Bonds and the Owners of the Series 2006D Bonds of any Subseries.

Miscellaneous Provisions Regarding Auctions

(a) In this Appendix F, each reference to the purchase, sale or holding of Series 2006C Bonds or Series 2006D Bonds shall refer to beneficial interests in the Series 2006C Bonds or Series 2006D Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to each Subseries of the Series 2006C Bonds and the Series 2006D Bonds, the provisions of the Indenture and the definitions contained therein and described in this Appendix F, including without limitation the definitions of Maximum Interest Rate, All Hold Rate, ARS Index, Interest Payment Date and ARS Rate, may be amended pursuant to the Indenture by obtaining the consent of the owners of all affected Outstanding Series 2006C Bonds and Series 2006D Bonds bearing interest at an ARS 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 affected Outstanding Series 2006C Bonds and Series 2006D Bonds as required by the Indenture, (i) the ARS Rate which is determined on such date is the Winning Bid Rate or the All Hold 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 2006C Bonds or the Series 2006D Bonds or any Subseries thereof or any exemption from federal income tax to which the interest on the Series 2006C Bonds or the Series 2006D Bonds of any Subseries would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Series 2006C Bonds and Series 2006D Bonds of such Subseries bearing interest at an ARS Rate.

(c) If the Securities Depository notifies the NMFA that it is unwilling or unable to continue as owner of the Series 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D Bonds. Such Series 2006C Bonds or Series 2006D 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 ARS Rate Period, so long as the ownership of the Series 2006C Bonds or Series 2006D 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 2006C Bond or Series 2006D 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 2006C Bonds or Series 2006D 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 2006C Bonds or Series 2006D 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 the provision described in this paragraph if such Broker-Dealer remains the Existing Owner of the Series 2006C Bonds or Series 2006D Bonds of such Subseries to 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 ARS Rate Period, the NMFA may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Series 2006C Bonds or Series 2006D Bonds of any Subseries in an ARS Rate Period among daily, seven-days, 14-days, 28-days, 35-days, three months, six months and a Special 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 the Series 2006C Bonds or Series 2006D Bonds of such Subseries; provided, however, in the case of a change from a Special Auction Period, the date of such change will be the Interest Payment Date immediately following the last day of such Special Auction Period. 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, 14-days, 28-days, 35-days, three months, six months or a Special Auction Period and shall be for all of the Series 2006C Bonds or Series 2006D Bonds of such Subseries in an ARS Rate Period.

(iii) The change in the length of the Auction Period for any Subseries of the Series 2006C Bonds or the Series 2006D Bonds shall not be allowed unless Sufficient Clearing Bids existed at both the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period for any Subseries of the Series 2006C Bonds or the Series 2006D Bonds 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 2006C Bonds or Series 2006D Bonds of such Subseries except to the extent such Existing Owner submits an Order with respect to such the Series 2006C Bonds or Series 2006D Bonds of such Subseries. 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 Interest Rate, and the Auction Period shall be a seven-day Auction Period.

(b) *Changes in Auction Date.* During any ARS Rate Period, the Auction Agent, with the written consent of the NMFA, may specify an earlier Auction Date for any Subseries (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 2006C Bonds or Series 2006D Bonds of such 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. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Special Auction Period ends and the Interest Special Payment Date relating to a Special Auction Period will be adjusted accordingly.

Conversions from ARS Rate Periods

At the option of the NMFA, all of a Subseries of the Series 2006C Bonds or the 2006D Bonds of any Subseries may be converted from an ARS Rate Period to a Daily Rate Period, a Weekly Rate Period, a Commercial Paper Rate Period, a Semiannual Rate Period, a Term Rate Period or a Fixed Rate Period:

- (i) The Conversion Date will be the Interest Payment Date following the final Auction Period.
- (ii) The NMFA will give written notice of any such conversion to the Bond Insurer, the Trustee, the Auction Agent, the Remarketing Agent, if any, and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the owners of the conversion as described in subparagraph (iii) below. Such notice will specify Bonds to be converted the proposed Conversion Date and the new rate period. Together with such notice, the NMFA will file with the Bond Insurer and the Trustee an Opinion of Bond Counsel to the effect that the proposed conversion of the Series 2006C Bonds or the 2006D Bonds of such Subseries will not adversely affect the validity of the Series 2006C Bonds or the 2006D Bonds of such Subseries or such exemption from federal income taxation to which interest on the Series 2006C Bonds of such Subseries would otherwise be entitled. No conversion will become effective unless the NMFA will also file with the Bond Insurer and the Trustee, such an Opinion of Bond Counsel dated the Conversion Date.
- (iii) Not less than twenty (20) days prior to the Conversion Date the Trustee will mail a written notice of the conversion to the holders of all Series 2006C Bonds or the 2006D Bonds of such Subseries to be converted, specifying the Conversion Date and setting forth the matters required to be stated pursuant to the Fourth Series Indenture with respect to purchases of the Series 2006C Bonds or the 2006D Bonds of such Subseries.
- (iv) If on a Conversion Date any condition precedent to such conversion required under the Indenture is not satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later such any Subseries, the NMFA and the Bond Insurer that such conversion has not occurred, that the Series 2006C Bonds or the 2006D Bonds of such Subseries will not be purchased on the failed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to the Series 2006C Bonds or the 2006D Bonds of such Subseries which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate will continue to be the ARS Rate; provided, however, that the interest rate borne by the Series 2006C Bonds or the 2006D Bonds of such Subseries during the Auction Period commencing on such failed Conversion Date will be the Maximum Interest Rate, and the Auction Period will be the seven-day Auction Period.
- (v) Except for conversions to a Term Rate Period or a Fixed Rate Period, and as otherwise provided in the Fourth Series Indenture, unless waived by the Bond Insurer, a Liquidity Facility meeting the requirements of the Indenture is effective.

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 under the Fourth Series Indenture and the Auction Agreement 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 2006C Bonds or Series 2006D 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 the Fourth Series Indenture and the Auction Agreement 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 the Indenture by giving at least ninety (90) 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 described in this paragraph. 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 2006C Bonds or Series 2006D 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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**MUNICIPAL BOND
INSURANCE POLICY****ISSUER:** []**Policy No:** []**BONDS:** []**Effective Date:** []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a 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, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. 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 Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:
Title:

Name:
Title:

FIRST AMENDMENT TO REMARKETING MEMORANDUM
DATED JULY 22, 2010 AND
RELATING TO

NEW MEXICO FINANCE AUTHORITY

\$84,800,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008C

\$50,400,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008D (TAXABLE)

(the "Original Remarketing Memorandum")

The ratings appearing on the upper right corner of the cover page of the Original Remarketing Memorandum are hereby amended and restated to read as follows:

Series C Ratings: Moody's "Aaa/VMIG 1"
S&P "AAA/A-1+"
Series D Ratings: Moody's "Aaa/VMIG 1"
S&P "AAA/A-1+"
(See "RATINGS" herein.)

The first two paragraphs under the heading "RATINGS" on page 67 of the Original Remarketing Memorandum are hereby amended and restated to read as follows:

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P") have assigned ratings of "Aaa/VMIG 1" and "AAA/A-1+," respectively, to the Series 2008C Bonds with the understanding that the Wells Fargo Letter of Credit will be delivered simultaneously with the remarketing of the Series 2008C 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.

Moody's and S&P have assigned ratings of "Aaa/VMIG 1" and "AAA/A-1+," respectively, to the Series 2008D Bonds with the understanding that the Royal Bank Letter of Credit will be delivered simultaneously with the remarketing of the Series 2008D 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.

This First Amendment to Remarketing Memorandum is dated July 26, 2010, and the information contained herein speaks only as of that date.

NEW MEXICO FINANCE AUTHORITY

By: /s/ Stephen R. Flance
Chairman

By: /s/ John T. Duff
Chief Financial Officer