

In the opinion of Ballard Spahr LLP, Special Tax Counsel to the Finance Authority, interest on the Series 2014B Bonds is excludable from gross income for purposes of federal income tax, assuming continuing compliance with the requirements of the federal tax laws. Interest on the Series 2014B Bonds is not a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest paid to corporate holders of the Series 2014B Bonds may be indirectly subject to alternative minimum tax under circumstances described under “TAX MATTERS” herein. In the opinion of such Special Tax Counsel to the Finance Authority, under existing laws, interest on the Series 2014B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. See “TAX MATTERS” herein.

**\$61,380,000**

**STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SENIOR LIEN)
SERIES 2014B-1**

\$18,025,000

**STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2014B-2**

Dated: Delivery Date

The New Mexico Finance Authority’s State Transportation Refunding Revenue Bonds (Senior Lien), Series 2014B-1 (the “Senior Series 2014B-1 Bonds”) and State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2014B-2 (the “Subordinate Series 2014B-2 Bonds”) and, together with the Senior Series 2014B-1 Bonds, the “Series 2014B Bonds”) are being issued as fully registered bonds. Purchases of beneficial ownership interests in the Series 2014B Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple of \$5,000. The Depository Trust Company (“DTC”) will act as securities depository for all of the Series 2014B Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2014B Bonds will be registered in the name of Cede & Co. Individual purchases of the Series 2014B Bonds will be made in book-entry form only, and Beneficial Owners of the Series 2014B Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the Beneficial Owners of the Series 2014B Bonds. See “THE SERIES 2014B BONDS.”

The Series 2014B Bonds are being issued by the New Mexico Finance Authority (the “Finance Authority”) at the direction of the State Transportation Commission (the “Commission”) of the State of New Mexico (the “State”). The proceeds of the Series 2014B Bonds will be used to refund certain outstanding obligations of the Finance Authority which were issued for the purpose of financing certain projects administered by the New Mexico Department of Transportation (the “Department”). Proceeds from the Series 2014B Bonds will also be used to pay costs of issuing the Series 2014B Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Interest on the Series 2014B Bonds is payable on June 15, 2015, and semiannually thereafter on each June 15 and December 15, until maturity or earlier redemption, if applicable. Principal of the Series 2014B Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedule on the inside front cover hereof.

SEE MATURITY SCHEDULE ON INSIDE FRONT COVER

The Series 2014B Bonds are subject to redemption prior to maturity. See “THE SERIES 2014B BONDS—Redemption.”

The Series 2014B Bonds are special, limited obligations of the Finance Authority payable solely from and secured solely by proceeds received by the Department from the collection of taxes and fees that are required by law to be paid into the State Road Fund, taxes and fees required by law to be paid into the Highway Infrastructure Fund, by federal funds not otherwise obligated that are paid into the State Road Fund, and interest on such amounts (collectively, the “Pledged Revenues”). The Senior Series 2014B-1 Bonds are payable on a parity with additional senior lien bonds outstanding as of November 1, 2014, in the principal amount of \$855,620,000 (collectively, the “Outstanding Senior Lien Bonds”). The lien of the Senior Series 2014B-1 Bonds, the Outstanding Senior Lien Bonds and any additional senior lien bonds on the Pledged Revenues is superior to the lien thereon securing the Subordinate Series 2014B-2 Bonds, the subordinate lien bonds outstanding as of November 1, 2014, in the amount of \$587,670,000 (the “Outstanding Subordinate Lien Bonds”) and any additional subordinate lien obligations. The Series 2014B Bonds do not constitute or create a general obligation or other indebtedness of the State, the Finance Authority, the Commission, the Department or any political subdivision of the State within the meaning of any State constitutional or statutory debt limitation. The Finance Authority, the Commission and the Department have no taxing powers. The principal of and interest on the Series 2014B Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the Finance Authority, the Commission or the Department. No breach of any pledge, obligation or agreement of the Finance Authority 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.

Certain legal matters will be passed on by Sutin, Thayer & Browne A Professional Corporation, Santa Fe, New Mexico, Bond Counsel to the Finance Authority. Certain legal matters with respect to the tax status of the interest paid on the Series 2014B Bonds and certain matters relating to disclosure will be passed on by Ballard Spahr LLP, Salt Lake City, Utah, Special Tax Counsel and Disclosure Counsel to the Finance Authority. Certain legal matters will be passed on by the General Counsel to the Finance Authority. The Commission and the Department are being represented by their general counsel and by Kutak Rock LLP, Denver, Colorado. The Underwriters are being represented by their counsel, Hogan Lovells US LLP. Public Financial Management, Inc., San Francisco, California, has acted as financial advisor to the Department in connection with the issuance of the Series 2014B Bonds. It is expected that a single certificate for each maturity of the Series 2014B Bonds will be delivered to DTC or its agent on or about December 23, 2014.

Dated December 11, 2014.

RBC Capital Markets**BofA Merrill Lynch**

\$61,380,000
NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION REFUNDING REVENUE BONDS (SENIOR LIEN)
SERIES 2014B-1

MATURITY SCHEDULE

| Year (<u>June 15</u>) | Principal <u>Amount</u> | Interest <u>Rate</u> | <u>Yield</u> | CUSIP <u>Number</u> [†] |
|----------------------------|----------------------------|-------------------------|--------------|-------------------------------------|
| 2027 | \$61,380,000 | 5.00% | 2.41% c | 64711RL D6 |

\$18,025,000
NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION REFUNDING REVENUE BONDS (SUBORDINATE LIEN)
SERIES 2014B-2

MATURITY SCHEDULE

| Year (<u>June 15</u>) | Principal <u>Amount</u> | Interest <u>Rate</u> | <u>Yield</u> | CUSIP <u>Number</u> [†] |
|----------------------------|----------------------------|-------------------------|--------------|-------------------------------------|
| 2018 | \$1,430,000 | 5.00% | 0.97% | 64711RL E4 |
| 2019 | 1,505,000 | 5.00 | 1.26 | 64711RL F1 |
| 2020 | 1,580,000 | 5.00 | 1.53 | 64711RL G9 |
| 2021 | 1,660,000 | 5.00 | 1.75 | 64711RL H7 |
| 2022 | 1,740,000 | 5.00 | 1.98 | 64711RL J3 |
| 2023 | 1,830,000 | 5.00 | 2.12 | 64711RL K0 |
| 2024 | 1,920,000 | 5.00 | 2.23 | 64711RL L8 |
| 2025 | 2,015,000 | 5.00 | 2.37 c | 64711RL M6 |
| 2026 | 2,120,000 | 5.00 | 2.49 c | 64711RL N4 |
| 2027 | 2,225,000 | 5.00 | 2.56 c | 64711RL P9 |

c Yield to call on June 15, 2024.

† The above referenced CUSIP numbers have been assigned by an independent company not affiliated with the parties to this bond transaction and are included solely for the convenience of the holders of the Series 2014B Bonds. None of the Finance Authority, the Commission, the Department, the Trustee, or the Underwriters, is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Series 2014B Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2014B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

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 Series 2014B Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the Finance Authority 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 Finance Authority, the Commission, the Department and DTC or obtained from other sources which are believed by the Finance Authority, 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 Finance Authority, the Commission, the Department or others since the date of this Official Statement.

The Series 2014B 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 Series 2014B Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2014B 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 Series 2014B 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 Finance Authority'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 SERIES 2014B 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 FRONT COVER PAGE. 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 SERIES 2014B BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2014B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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⁽¹⁾ Designees to their respective positions as they have been appointed by the Governor of the State but are awaiting confirmation by the New Mexico State Senate.

⁽²⁾ Term has expired but continues to serve until replaced or reappointed.

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OFFICIAL STATEMENT

\$61,380,000
NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SENIOR LIEN)
SERIES 2014B-1

\$18,025,000
NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2014B-2

INTRODUCTION

This Official Statement, which includes the cover page, the inside front cover page and the appendices hereto, sets forth certain information in connection with the offering of \$61,380,000 aggregate principal amount of State Transportation Refunding Revenue Bonds (Senior Lien), Series 2014B-1 (the “Senior Series 2014B-1 Bonds”) and \$18,025,000 aggregate principal amount of State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2014B-2 (the “Subordinate Series 2014B-2 Bonds” and, together with the Senior Series 2014B-1 Bonds, the “Series 2014B Bonds”). The Series 2014B Bonds will be issued by the New Mexico Finance Authority (the “Finance Authority”), 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, as previously amended and supplemented from time to time (the “Master Indenture”), between the Finance Authority and BOKF, NA, dba Bank of Albuquerque, Albuquerque, New Mexico, as successor trustee, as trustee (the “Trustee”), and as further amended and supplemented by the Nineteenth Series Indenture of Trust, with respect to the Senior Series 2014B-1 Bonds, and by the Twentieth Series Indenture of Trust, with respect to the Subordinate Series 2014B-2 Bonds, each dated as of December 1, 2014 (the “Nineteenth Series Indenture” and “Twentieth Series Indenture,” respectively) and each between the Finance Authority and the Trustee and are set forth under “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions” in Appendix B. The Master Indenture, the Nineteenth Series Indenture and the Twentieth Series Indenture are collectively referred to herein as the “Indenture.” See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix B.

The Series 2014B Bonds are payable from and secured by a pledge of proceeds received by the New Mexico Department of Transportation (the “Department”) of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, driver’s license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, and motor vehicle registration fees, in each case that are required by law to be paid into the State Road Fund; 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, that are paid into the State Road Fund; interest on the State Road Fund, proceeds received by the Department 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 (collectively, the “Pledged Revenues”). The Series 2014B Bonds are limited obligations of the Finance Authority 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 SERIES 2014B 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, the inside front cover page 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 Series 2014B Bonds to potential investors is made only by means of the entire Official Statement.

The Department and the Commission

The Department is a cabinet level department within the executive branch of the government of the State. The Department is a multimodal transportation agency with emphasis on all modes of transportation. The Department is responsible for maintaining U.S., Interstate and state highways within the State and is the department responsible for administering State and federal transportation funds. The Department's budget is subject to review by the Commission, which is the entity responsible for all matters of policy for the Department and all policy matters pertaining to expenditure of the State Road Fund in the construction, improvement and maintenance of State highways and bridges. See "THE DEPARTMENT AND THE COMMISSION."

Purposes of the Series 2014B Bonds

Proceeds from the sale of the Series 2014B Bonds will be used to refund a portion of the Finance Authority's outstanding State Transportation Revenue Bonds (Senior Lien), Series 2006A (the "Refunded Series 2006A Bonds") and a portion of its State Transportation Revenue and Refunding Revenue Bonds (Subordinate Lien), Series 2006B (the "Refunded Series 2006B Bonds," and collectively with the Refunded Series 2006A Bonds, the "Refunded Bonds"). See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS." Proceeds from the Series 2014B Bonds will also be used to pay costs of issuing the Series 2014B Bonds.

Additional Contemplated Obligations

The Commission may issue or direct the Finance Authority to issue additional transportation bonds. At present, the Commission does not plan to direct the Finance Authority to issue any additional obligations secured by Pledged Revenues other than for refunding purposes.

Authority for Issuance

Pursuant to Section 67-3-59.3, when directed by the Commission, the Finance Authority is authorized to issue bonds payable from (1) proceeds from the collection of taxes and fees that are required to be paid into the State Road Fund, (2) taxes and fees required by law to be paid into the Highway Infrastructure Fund, and (3) federal funds not otherwise obligated that are paid into the State Road Funds. Pursuant to a resolution adopted on November 10, 2014 (the "Commission Resolution"), the Commission directed the Finance Authority to issue the Series 2014B Bonds. The Series 2014B Bonds are being issued under the authority of and pursuant to the laws of the State, including particularly Section 67-3-59.3 NMSA 1978, as amended, and the New Mexico Finance Authority Act, Section 6-21-1 *et seq.* NMSA 1978, as amended (collectively, the "Act"), the Commission Resolution, a resolution of the Finance Authority adopted on November 20, 2014, a resolution of the Finance Authority scheduled for adoption on December 11, 2014, and the Indenture.

Terms of the Series 2014B Bonds

Interest. The Series 2014B Bonds will be dated the date of their initial delivery (the "Delivery Date"). Interest on the Series 2014B Bonds is payable on June 15 and December 15 of each year, commencing June 15, 2015. The Series 2014B Bonds will mature on the dates and in the amounts and will bear interest at the rates shown on the inside front cover of this Official Statement.

Denominations. The Series 2014B Bonds are issuable in denominations of \$5,000 or integral multiples of \$5,000.

Book-Entry System. Individual purchases will be made in book-entry only form, and purchasers of the Series 2014B 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 Series 2014B 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 Series 2014B Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the Series 2014B 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 Series 2014B 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 Finance Authority, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption. The Series 2014B Bonds are subject to redemption prior to maturity. See “THE SERIES 2014B BONDS—Redemption.”

Security for the Series 2014B Bonds

The Series 2014B Bonds are special, limited obligations of the Finance Authority payable solely from the Pledged Revenues and certain funds and accounts created and maintained pursuant to the Indenture. The Series 2014B Bonds do not constitute or create a general obligation or other indebtedness of the State, the Finance Authority, the Commission or the Department within the meaning of any State constitutional or statutory debt limitation. NEITHER THE FINANCE AUTHORITY, NOR THE COMMISSION, NOR THE DEPARTMENT HAS ANY TAXING POWERS. The principal of and interest and premium, if any, on the Series 2014B Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the Finance Authority, the Commission or the Department. No breach of any pledge, obligation or agreement of the Finance Authority 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 SERIES 2014B BONDS—Special, Limited Obligations.”

Pledged Revenues. The Pledged Revenues are defined by the Indenture to mean, collectively, State Revenues and Federal Revenues. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, driver’s 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, 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 Finance Authority at the direction of the Commission. “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 otherwise pledged. For a description of the components of the Pledged Revenues, see “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 “APPENDIX B—EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts.” See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS—Pledged Revenues.” Certain sources of Pledged Revenues may only be applied to pay debt service on Bonds, the proceeds from which were used for an authorized project. The Series 2014B Bonds are issued for authorized projects.

Discussion Regarding FHWA and Federal Revenues. The Department and the New Mexico Division of the Federal Highway Administration (“FHWA”) entered into a memorandum of understanding dated June 22, 2010 (the “FHWA Memorandum”) that sets forth the procedures for managing the stewardship and oversight of debt service relating to the finance plan for construction of Grant Anticipation Revenue Vehicle Projects. Pursuant to the FHWA Memorandum, 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 annually that it has not exceeded \$122 million in Federal-Aid eligible highway program funded debt service payments billed to FHWA for reimbursement. The FHWA Memorandum provides that Federal-Aid reimbursements to the Department will be made on a semi-annual basis. Payment of Federal-Aid reimbursements is conditioned upon available funding and satisfaction by the Department of the completion of certain reports and reconciliations. Neither the Finance Authority nor the Department makes any representation regarding the amount or timeliness of payments from the FHWA. See “PLEDGED REVENUES” and “SPECIAL FACTORS RELATING TO THE SERIES 2014B

BONDS.” A concurrence letter executed by FHWA and relating to the issuance of the Series 2014B Bonds has been received by the Department.

Outstanding Senior Lien Bonds. The Act authorizes the Commission to direct the Finance Authority to issue up to \$1,585,000,000 aggregate principal amount of “new money” bonds and an unlimited amount of refunding bonds that are payable from Pledged Revenues. Pursuant to the Act and the Master Indenture, the Commission directed the Finance Authority to issue various Series of Senior Lien Bonds, which previously issued Series of Senior Lien Bonds are sometimes collectively referred to herein as the “Outstanding Senior Lien Bonds.” The Outstanding Senior Lien Bonds are outstanding in the aggregate principal amount of \$855,620,000 as of November 1, 2014. Upon the issuance of the Senior Series 2014B-1 Bonds and the refunding of the Refunded Series 2006A Bonds, there will be \$848,750,000 of Senior Lien Bonds outstanding under the Indenture. For a list of the various Series of the Outstanding Senior Lien Bonds and their current outstanding amounts, please see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS—Outstanding and Additional Senior Lien Bonds.” The Outstanding Senior Lien Bonds are Senior Lien Bonds under the Master Indenture. The lien of the Outstanding Senior Lien Bonds on Pledged Revenues will be on a parity with the Senior Series 2014B-1 Bonds and senior to the lien of the Subordinate Series 2014B-2 Bonds and the hereinafter defined Outstanding Subordinate Lien Obligations.

Outstanding Subordinate Lien Obligations. Pursuant to the Act and the Master Indenture, the Commission directed the Finance Authority to issue various Series of Subordinate Lien Bonds, which previously issued Subordinate Lien Bonds are sometimes collectively referred to herein as the “Outstanding Subordinate Lien Bonds.” The Outstanding Subordinate Lien Bonds are outstanding in the aggregate principal amount of \$587,670,000 as of November 1, 2014. Upon the issuance of the Subordinate Series 2014B-2 Bonds and the refunding of the Refunded Series 2006B Bonds, there will be \$585,920,000 of Subordinate Lien Bonds outstanding under the Indenture. For a list of the various Series of Subordinate Lien Bonds and their current outstanding amounts, please see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS—Outstanding and Additional Subordinate Lien Obligations” herein.

The Commission previously directed the Finance Authority to enter into a taxable line of credit which currently has a maximum available principal amount of \$50,000,000 (the “Taxable Line of Credit”) with Bank of America, N.A. The Taxable Line of Credit was executed to provide for the satisfaction of collateral posting requirements under certain of the hereinafter described Swap Agreements. See “INTEREST RATE SWAPS” herein. Interest on advances on the Taxable Line of Credit is payable quarterly and the principal of such advances is payable upon the termination of the Taxable Line of Credit or an event of default thereunder. Payment obligations under the Taxable Line of Credit are secured by a lien on the Pledged Revenues on a parity basis with the Outstanding Subordinate Lien Bonds and the hereinafter described BNSF Taxable Line of Credit. The Taxable Line of Credit is scheduled to expire on February 15, 2015; however the parties have tentatively agreed to a 364-day extension subject to documentation and final approval of the respective parties. Since the execution of the Taxable Line of Credit, the balance outstanding thereunder has ranged between \$0 and \$50,000,000 as the Finance Authority paid down balances and made draws under the Taxable Line of Credit. As of November 20, 2014, the Finance Authority had an outstanding balance of \$5,000,000 under the Taxable Line of Credit.

The Commission also previously directed the Finance Authority to enter into a rolling taxable revolving line of credit (the “BNSF Taxable Line of Credit”) with Wells Fargo Bank, N.A. in the amount of up to \$50,000,000 to provide for amounts to BNSF for potential liabilities in connection with the acquisition of Railrunner property. The BNSF Taxable Line of Credit is scheduled to expire on June 30, 2016; provided, however, that the BNSF Taxable Line of Credit is renewable for additional 3-year terms. Each draw under the BNSF Taxable Line of Credit shall be repaid within 180 days of its incurrence, unless the principal amount of the advance is converted to a 3-year term loan on the due date of the advance. Payment obligations under the BNSF Taxable Line of Credit are secured by a lien on the Pledged Revenues on a parity with the Outstanding Subordinate Lien Bonds and the Taxable Line of Credit. The Taxable Line of Credit, the BNSF Taxable Line of Credit and the Outstanding Subordinate Lien Bonds are sometimes collectively referred to herein as the “Outstanding Subordinate Lien Obligations.” As of the date hereof, there have been no draws made under the BNSF Taxable Line of Credit or under the cash-funded escrow which was replaced by the BNSF Taxable Line of Credit.

The Finance Authority has also entered into a Letter of Credit Reimbursement Agreement (the “Credit Facility Agreement”) with State Street Bank and Trust Company (“State Street”) pursuant to which an irrevocable, direct-pay letter of credit is outstanding to support the Series 2008A and 2008B Bonds. Amounts payable to State Street under the Credit Facility Agreement are payable from Pledged Revenues on a parity with the other Subordinate Lien Obligation. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS—Outstanding and Additional Subordinate Lien Obligations.”

The Outstanding Subordinate Lien Obligations are, and upon their issuance the Subordinate Series 2014B-2 Bonds will be, Subordinate Lien Obligations under the Indenture and will be payable from the Pledged Revenues with a lien on the Pledged Revenues subordinate to the lien of the Outstanding Senior Lien Bonds and the Senior Series 2014B-1 Bonds.

Additional Obligations. Pursuant to the Act and the Indenture, the Commission may direct the Finance Authority to issue additional Senior Lien Bonds and additional Subordinate Lien Obligations upon the satisfaction of certain conditions set forth in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS—Outstanding and Additional Senior Lien Bonds” and “—Outstanding and Additional Subordinate Lien Obligations.” However, the Commission does not have any current plans to direct the Finance Authority to issue additional transportation obligations secured by Pledged Revenues other than for refunding purposes. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS—Additional Contemplated Obligations.”

Junior Subordinate Lien Obligations. The Commission may also direct the Finance Authority to issue Junior Subordinate Lien Obligations under the Indenture, subject to the satisfaction of certain requirements. Termination Payments under the hereinafter described Swap Agreements are Junior Subordinate Lien Obligations.

The New Mexico Finance Authority

The Finance Authority, 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. Pursuant to the Act, the Commission may direct the Finance Authority to issue obligations secured by revenues received by the Department for the benefit of the Commission. The Finance Authority 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 with respect to the Finance Authority’s Public Project Revolving Fund Program. For additional information concerning the Finance Authority, see “NEW MEXICO FINANCE AUTHORITY” herein.

Professionals Involved in the Offering

At the time of the issuance of the Series 2014B Bonds, Sutin, Thayer & Browne A Professional Corporation, as Bond Counsel to the Finance Authority, will deliver its opinion included in APPENDIX D hereto and Ballard Spahr LLP, Salt Lake City, Utah, Special Tax Counsel to the Finance Authority, will deliver its opinion discussed under “TAX MATTERS” and also included in APPENDIX D hereto. Ballard Spahr LLP will also pass upon certain matters relating to disclosure as Disclosure Counsel to the Finance Authority. The Commission and the Department are being represented by their general counsel and by Kutak Rock LLP, Denver, Colorado. The Underwriters are being represented by their counsel Hogan Lovells US LLP. Certain legal matters will be passed upon for the Finance Authority by its General Counsel. See “LEGAL MATTERS.” Public Financial Management, Inc., San Francisco, California, has acted as financial advisor to the Department in connection with its issuance of the Series 2014B Bonds. See “FINANCIAL ADVISOR.”

The Department’s financial statements for the year ended June 30, 2013, an extract from which is included in APPENDIX A hereto, have been audited by Moss-Adams LLP. See also “FINANCIAL STATEMENTS.”

Offering and Delivery of the Series 2014B Bonds

The Series 2014B 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 2014B Bonds will be delivered to DTC or its agent on or about December 23, 2014.

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 Commission or the Finance Authority and upon payment to the Commission or the Finance Authority, respectively, of a charge for copying, mailing and handling at the following: for the Commission: 1120 Cerrillos Road, Santa Fe, New Mexico 87504, Attention: Bond Debt Service Program Manager; or for the Finance Authority: 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Financial Strategist.

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 Finance Authority and the purchasers or holders of any of the Series 2014B Bonds.

THE SERIES 2014B BONDS

General

Set forth below is a summary of certain provisions of the Series 2014B Bonds. Other information describing the Series 2014B 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 Series 2014B Bonds. For a description of certain provisions of the Indenture, see “APPENDIX B—EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE.” Copies of the Indenture are available as provided in “ADDITIONAL INFORMATION.”

The Series 2014B Bonds are being issued pursuant to the Act and the Indenture. Proceeds from the sale of the Series 2014B Bonds will be used to refund the Refunded Bonds and to pay costs of issuing the Series 2014B Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING.”

The Series 2014B Bonds will be dated the date of their initial delivery and interest will accrue on the Series 2014B Bonds from such date at the rates presented on the inside front cover page of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months), and is payable on June 15 and December 15 of each year, commencing June 15, 2015 (each an “Interest Payment Date”). The Series 2014B Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the inside front cover. The Series 2014B Bonds are issuable in denominations of \$5,000 or integral multiples of \$5,000.

Redemption

Optional Redemption – Senior Series 2014B-1 Bonds. The Senior Series 2014B-1 Bonds are subject to optional redemption at any time on and after June 15, 2024, in whole or in part, in such order of maturity as may be selected by the Finance Authority and by lot within each maturity (if in part, in integral multiples of \$5,000), at the option of the Finance Authority, upon notice as provided in the Indenture and at the redemption price of 100% of the principal amount of the Senior Series 2014B-1 Bonds to be redeemed, but without premium.

Optional Redemption – Subordinate Series 2014B-2 Bonds. The Subordinate Series 2014B-2 Bonds maturing on or prior to June 15, 2024 are not subject to redemption prior to maturity. The Subordinate Series 2014B-2 Bonds maturing on or after June 15, 2025 are subject to optional redemption at any time on and after June 15, 2024, in whole or in part, in such order of maturity as may be selected by the Finance Authority and by lot

within each maturity (if in part, in integral multiples of \$5,000), at the option of the Finance Authority, upon notice as provided in the Indenture and at the redemption price of 100% of the principal amount of the Subordinate Series 2014B-2 Bonds to be redeemed, but without premium.

Notice of Redemption. In the event any of the Series 2014B Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Registered Owners of Series 2014B Bonds to be redeemed at their addresses as they appear on the registration books of the Registrar at least 30 days, but not more than 60 days, prior to the redemption date.

In addition, further notice of any redemption of Series 2014B Bonds is to be given by the Trustee at least two Business Days in advance of the mailed notice to Registered Owners, by registered or certified mail or overnight delivery service, to all registered securities depositories then in the business of holding substantial amounts (as reasonably determined by the Trustee) of obligations of types comprising the Series 2014B Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the Series 2014B 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 Trustee moneys sufficient to redeem all the Series 2014B Bonds called for redemption, such notice is to state that such redemption is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date and that such notice will be of no effect unless such moneys are so deposited.

A second notice of redemption is to be given, not later than 90 days subsequent to the redemption date, to Registered Owners of Series 2014B Bonds or portions thereof redeemed but who failed to deliver Series 2014B Bonds for redemption prior to the 60th day following such redemption date. Any notice mailed will be conclusively presumed to have been duly given, whether or not the owner of such Series 2014B Bonds receives the notice. Receipt of such notice is not a condition precedent to such redemption and failure so to receive any such notice by any of such Registered Owners will not affect the validity of the proceedings for the redemption of the Series 2014B Bonds.

Partially Redeemed Bonds. In case any Series 2014B Bond is redeemed in part, upon the presentation of such Series 2014B Bond for such partial redemption, the Finance Authority will execute and the Trustee will authenticate and deliver or cause to be delivered to or upon the written order of the Registered Owner thereof, at the expense of the Finance Authority, a Series 2014B Bond or Series 2014B Bonds of the same series, interest rate and maturity and in an aggregate principal amount equal to the unredeemed portion of such Series 2014B Bond. A portion of any Series 2014B Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple of \$5,000 and, in selecting portions of such Series 2014B Bonds for redemption, the Trustee will treat each such Series 2014B Bond as representing that number of Series 2014B Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Series 2014B Bonds by \$5,000.

Defeasance

When a Series 2014B Bond has been deemed to be paid under the Indenture, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment. Any Series 2014B Bond will be deemed to be paid for all purposes of the Indenture when (1) the principal of and the applicable premium, if any, on such Series 2014B Bond (whether at maturity or prior redemption) plus interest on the Series 2014B Bond to the Series 2014B Bond's due date either have been paid or have been provided by irrevocably depositing with the Trustee or other escrow agent, in trust, and the Trustee or other escrow agent shall have irrevocably set aside exclusively for such payment moneys sufficient to make such payment, and/or noncallable Governmental Obligations maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and (2) all necessary and proper fees, compensation and expenses of the Trustee and any paying agents pertaining to the Series 2014B Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

Payment of Bond Requirements

Principal and Final Interest. The principal of and the final interest payment on any Series 2014B Bonds shall be payable to the owner thereof as shown on the registration books maintained by the Trustee upon maturity thereof and upon presentation and surrender at the principal office of the Paying Agent. The principal of and the final interest payment on the Series 2014B Bonds shall be payable in clearing house funds. If any Series 2014B Bond shall not be paid upon such presentation and surrender at or after maturity, it shall continue to draw interest (but without compounding of interest) at the rate borne by it until the principal thereof is paid in full.

Interest. The interest due on any Series 2014B Bond on any Interest Payment Date, other than the final interest payment thereon, shall be paid to the owner thereof, as shown on the registration books kept by the Trustee at the close of business on the Regular Record Date. The interest on the Series 2014B Bonds shall be payable in clearing house funds. Any such interest not so timely paid or duly provided for shall cease to be payable to the person who is the owner of such Series 2014B Bond at the close of business on the Regular Record Date and shall be payable to the person who is the owner of such Series 2014B Bond at the close of business on a Special Record Date for the payment of any such Defaulted Interest. Such Special Record Date shall be fixed in accordance with the Master Indenture.

Payment of Interest. All payments of interest (other than the final interest payment) on any Series 2014B Bond shall be paid to the person entitled thereto pursuant to the Indenture by check mailed on the Interest Payment Date to his or her address as it appears on the registration books kept by the Trustee (or, in the case of Defaulted Interest, the date selected by the Trustee for the payment of such Defaulted Interest); or, at the option of any owner of \$1,000,000 or more in principal amount of Series 2014B Bonds, by wire transfer on such date to a bank within the continental United States as directed by such owner.

Book-Entry Only System

The Depository Trust Company (“DTC”) will act as securities depository for all of the Series 2014B Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2014B Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2014B Bonds will be made in book-entry form only, and Beneficial Owners of the Series 2014B 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 Series 2014B Bonds. For a more complete description of the book-entry only system, see “APPENDIX E—BOOK-ENTRY ONLY SYSTEM.”

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS

Special, Limited Obligations

The Series 2014B Bonds are special, limited obligations of the Finance Authority payable solely from the Pledged Revenues and other moneys held in certain funds and accounts created under the Indenture. The Series 2014B Bonds do not constitute or create a general obligation or other indebtedness of the State, the Finance Authority, the Commission, the Department or any political subdivision of the State within the meaning of any State constitutional or statutory debt limitation. THE FINANCE AUTHORITY, THE COMMISSION AND THE DEPARTMENT HAVE NO TAXING POWERS. The principal of and interest on the Series 2014B Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the Finance Authority, the Commission or the Department. No breach of any pledge, obligation or agreement of the Finance Authority 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 “SPECIAL FACTORS RELATING TO THE SERIES 2014A BONDS.”

Pledged Revenues

The principal of and interest on the Series 2014B Bonds will be payable from a portion of the Pledged Revenues, which revenues are pledged and are payable as provided in the Indenture. See “PLEGGED REVENUES.” Such pledge is subject to the uses of the Pledged Revenues and other amounts pledged by, and the

priorities set forth in, the Indenture. See “APPENDIX B—EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts.” Certain sources of Pledged Revenues may only be applied to pay debt service on Bonds, the proceeds from which were used for an authorized project. The Indenture allows Bonds to be issued solely for authorized projects. The Series 2014B Bonds constitute an irrevocable lien, but not an exclusive lien, on the Pledged Revenues as set forth in the Indenture and are being issued to finance an authorized project.

Deposit of State Revenues. The Finance Authority and the Department have entered into a procedural memorandum under which the Finance Authority will, during the time that the Series 2014B Bonds are Outstanding, present requisitions to the Department for payment from the State Road Fund and the Highway Infrastructure Fund of the amounts of Pledged Revenues required for debt service to be deposited with the Trustee under the Indenture. The Department will issue warrants for payment of those amounts from the State Road Fund and/or the Highway Infrastructure Fund to the Finance Authority and the Finance Authority will 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.

Discussion Regarding Federal Revenues. The Department and the FHWA have entered into the FHWA Memorandum that sets forth the procedures for managing the stewardship and oversight of debt service relating to the finance plan for construction of Grant Anticipation Revenue Vehicle Projects. Pursuant to the FHWA Memorandum, 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 it has not exceeded \$122 million in Federal-Aid eligible highway program funded debt service payments billed to FHWA for reimbursement. The FHWA Memorandum provides that Federal-Aid reimbursements to the Department will be made on a semi-annual basis. Payment of Federal-Aid reimbursement is conditioned upon available funding and satisfaction by the Department of the completion of certain reports and reconciliations. Neither the Authority nor the Department makes any representation regarding the amount or timeliness of payments from the FHWA. A concurrence letter executed by FHWA and relating to the issuance of the Series 2014B Bonds has been received by the Department.

Outstanding and Additional Senior Lien Bonds

The Outstanding Senior Lien Bonds consist of the following Series:

OUTSTANDING SENIOR LIEN BONDS

| <u>Issue</u> | <u>Outstanding Principal Amount (as of November 1, 2014)</u> |
|-----------------------------|--|
| Series 2004A | \$61,255,000 |
| Series 2006A ⁽¹⁾ | 83,270,000 |
| Series 2009A | 15,080,000 |
| Series 2010A-1 | 33,760,000 |
| Series 2010B | 444,800,000 |
| Series 2012 | <u>217,455,000</u> |
| TOTAL | <u>\$855,620,000</u> |

⁽¹⁾ The Bonds of this Series maturing on and after December 15, 2026 will be refunded with proceeds of the Series 2014 Bonds. Upon the issuance of the Series 2014 Bonds, \$15,020,000 of this Series of Bonds will remain outstanding.

(Source: The Department.)

The Outstanding Senior Lien Bonds have, and, upon their issuance, the Senior Series 2014B-1 Bonds will have, a lien on the Pledged Revenues that is senior to the lien thereon of the Outstanding Subordinate Lien Obligations and the Subordinate Series 2014B-2 Bonds.

The Indenture provides that no additional Senior Lien Bonds may be issued (other than for purposes of refunding) by the Finance Authority 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 Senior Lien Bonds and (b) 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 Senior Lien Bonds and (y) the Senior Lien Bonds proposed to be issued. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from Trust Estate—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 Finance Authority.

Outstanding and Additional Subordinate Lien Obligations

The Outstanding Subordinate Lien Obligations consist of the following:

OUTSTANDING SUBORDINATE LIEN OBLIGATIONS

| <u>Issue</u> | <u>Outstanding Principal Amount (as of November 1, 2014)</u> |
|-----------------------------|--|
| Series 2006B ⁽¹⁾ | \$24,085,000 |
| Series 2008A | 35,200,000 |
| Series 2008B | 100,000,000 |
| Series 2010A-2 | 73,475,000 |
| Series 2011A-1 | 80,000,000 |
| Series 2011A-2 | 120,000,000 |
| Series 2011A-3 | 84,800,000 |
| Series 2014A | <u>70,110,000</u> |
| TOTAL | <u>\$587,670,000</u> |

⁽¹⁾ The Bonds of this Series maturing on and after December 15, 2017 will be refunded with proceeds of the Series 2014 Bonds. Upon the issuance of the Series 2014 Bonds, \$4,310,000 of this Series of Bonds will remain outstanding.

(Source: The Department.)

The Commission previously directed the Finance Authority to enter into the Taxable Line of Credit which currently has a maximum available principal amount of \$50,000,000 with Bank of America, N.A. The Taxable Line of Credit was executed to provide for the satisfaction of collateral posting requirements under certain of the Swap Agreements. See “INTEREST RATE SWAPS” herein. Interest on advances on the Taxable Line of Credit is payable quarterly and the principal of such advances is payable upon the termination of the Taxable Line of Credit or an event of default thereunder. Payment obligations under the Taxable Line of Credit are secured by a lien on the Pledged Revenues on a parity basis with the Outstanding Subordinate Lien Bonds and the BNSF Taxable Line of Credit. The Taxable Line of Credit is scheduled to expire on February 15, 2015; however the parties have tentatively agreed to a 364-day extension subject to documentation and final approval of the respective parties. Since the execution of the Taxable Line of Credit, the balance outstanding thereunder has ranged between \$0 and \$50,000,000 as the Finance Authority paid down balances and made draws under the Taxable Line of Credit. As of November 20, 2014, the Finance Authority had an outstanding balance of \$5,000,000 under the Taxable Line of Credit.

The Commission also previously directed the Finance Authority to enter into the BNSF Taxable Line of Credit with Wells Fargo Bank, N.A. in the amount of up to \$50,000,000 to provide for amounts to BNSF for potential liabilities in connection with the acquisition of Railrunner property. The BNSF Taxable Line of Credit is scheduled to expire on June 30, 2016; provided, however, that the BNSF Taxable Line of Credit is renewable for additional 3-year terms. Each draw under the BNSF Taxable Line of Credit shall be repaid within 180 days of its incurrence, unless the principal amount of the advance is converted to a 3-year term loan on the due date of the advance. Payment obligations under the BNSF Taxable Line of Credit are secured by a lien on the Pledged Revenues on a parity with the Outstanding Subordinate Lien Bonds and the Taxable Line of Credit. As of the date hereof, there have been no draws made under the BNSF Taxable Line of Credit or under the cash-funded escrow which was replaced by the BNSF Taxable Line of Credit.

In addition to the Subordinate Lien Obligations described above, the Finance Authority has entered into a Letter of Credit Reimbursement Agreement (the “Credit Facility Agreement”) with State Street Bank and Trust Company (“State Street”) pursuant to which an irrevocable, direct-pay letter of credit is outstanding to support the Series 2008A and 2008B Bonds. Amounts payable to State Street under the Credit Facility Agreement are payable from Pledged Revenues on a parity with the other Subordinate Lien Obligation. Under the Credit Facility Agreement, the Finance Authority is required to reimburse State Street for any amount paid by State Street on the same day such amount is paid. In the event that there is a drawing on the Letter of Credit to purchase any 2008A or 2008B Bonds which are tendered for purchase by the holders thereof, the Credit Facility Agreement provides that State Street becomes the holder of such obligations (“Bank Bonds”). The Finance Authority is required to repay such Bank Bonds over a period that is less than the remaining term to maturity of the 2008A or 2008B Bonds, as applicable, at an increased interest rate. The Credit Facility Agreement contains a number of covenants and agreements on the part of the Finance Authority, and specifies events of default and remedies. State Street’s remedies include the right to cause a mandatory tender of the 2008A and 2008B Bonds. The term of the current Credit Facility Agreement expires on June 24, 2015, unless further extended in accordance with its terms. If the Credit Facility Agreement expires and the Finance Authority is unable to secure a replacement credit facility agreement, the 2008A and 2008B Bonds will be subject to mandatory tender for purchase by the holders thereof upon such expiration. In addition, the Letter of Credit will be drawn upon to pay the purchase price of such tendered 2008A and 2008B Bonds.

All such Subordinate Lien Obligations are payable from and secured by a lien on the Pledged Revenues subordinate and junior to the lien on the Pledged Revenues of the Outstanding Senior Lien Bonds and the Senior Series 2014B-1 Bonds and, upon their issuance, on a parity with the Subordinate Series 2014B-2 Bonds. Payment obligations, other than termination payment obligations, which are Junior Subordinate Obligations, of the Finance Authority on the Swap Agreements (as defined herein) are also Subordinate Lien Obligations. See “INTEREST RATE SWAPS” for a discussion of the Swap Agreements.

The Indenture provides that no additional Subordinate Lien Obligations may be issued (other than for purposes of refunding) by the Finance Authority, 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 Senior Lien Bonds, (b) then Outstanding Subordinate Lien Obligations, (c) then Outstanding Additional Highway Bonds, and (d) the Subordinate Lien Obligations or Additional Highway Bonds proposed to be issued. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from Trust Estate—Limitations Upon Issuance of Subordinate Lien Bonds” in Appendix B.

Junior Subordinate Lien Obligations

The Finance Authority 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 Subordinate Lien Obligations, including Junior Subordinate Lien Obligations upon satisfaction of certain requirements set forth under the Indenture. Termination payment obligations of the Finance Authority on the Swap Agreements are Junior Subordinate Lien Obligations. See “INTEREST RATE SWAPS.”

Additional Superior Obligations Prohibited

The Commission will not direct the Finance Authority to issue, and the Finance Authority will not 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.

Additional Contemplated Obligations

Subsequent to the issuance of the Series 2014B Bonds, there will remain \$164.7 million of debt incurring capacity under the Act for new money purposes. At present, the Commission does not plan to direct the Finance Authority to issue any additional obligations secured by Pledged Revenues or to issue any additional transportation bonds other than for refunding purposes.

INTEREST RATE SWAPS

The Finance Authority has previously entered into 1992 ISDA (International Swap Dealers Association) Master Agreements and related Schedules, Credit Support Annexes and Confirmations (collectively, the “Swap Documents”) in connection with interest rate exchange agreements (collectively, the “Swap Agreements”), under which the Finance Authority is the fixed rate payor, paying the relevant counterparty a fixed rate per annum on the relevant notional amount, and the counterparties are floating rate payors, paying the Finance Authority a floating rate on the relevant notional amount, as described in the following table:

| <u>Swap Counterparty</u> | <u>Initial Notional Amount (in thousands)</u> | <u>Related Bonds</u> | <u>Fixed Rate Paid by Finance Authority</u> | <u>Floating Rate Payment by Counterparty</u> | <u>Termination Date</u> | <u>Mark-to-Market (as of 12/9/14)</u> |
|--|---|----------------------|---|--|-------------------------|---------------------------------------|
| Goldman Sachs Mitsui Marine Derivatives L.P. | \$50,000 | Series 2008A | 3.934% | 68% of the 30-day LIBOR | 6/15/24 | \$(11,285,840) |
| JPMorgan Chase Bank | 110,000 | Series 2008B | 5.072 | SIFMA Index plus 0.34% | 12/15/26 | (33,658,387) |
| Royal Bank of Canada ⁽¹⁾ | 100,000 | Series 2011A-1 | 3.934 | 68% of the 30-day LIBOR | 6/15/24 | (22,571,681) |
| UBS AG | 110,000 | Series 2011A-2 | 5.072 | SIFMA Index plus 0.34% | 12/15/26 | (33,658,387) |
| Deutsche Bank, AG | 50,000 | Series 2011A-3 | 3.934 | 68% of the 30-day LIBOR | 6/15/24 | (11,285,840) |

⁽¹⁾ The Royal Bank of Canada is the parent company of RBC Capital Markets, LLC, one of the Underwriters.
(Source: The Financial Advisor.)

The Swap Agreements were entered into for the purpose of hedging the exposure of the Finance Authority against interest rate fluctuations arising from the variable rates borne by the related Bonds. The rates to be paid under the Swap Agreements by the counterparties are reasonably expected to be substantially the same as the rates borne by the related Bonds, but may from time to time vary from the actual rate payable by the Finance Authority on the related Bonds. The initial notional amounts of the Swap Agreements will decline over the terms of the Swap Agreements and certain of the Swap Agreements related to the Series 2008B Bonds and the Series 2011A-2 Notes include options whereby the counterparties may, but are not required to, terminate the Swap Agreements if the daily weighted average of the SIFMA Index for the preceding 180 day period is greater than 7%.

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

Each of the Swap Agreements provides that the Finance Authority may terminate the Swap Agreement at any time prior to its termination date and that the Swap Agreement may be terminated prior to its termination date by the relevant counterparty under certain circumstances. If a Swap Agreement is terminated prior to the stated termination date, a termination payment may be owed by the Finance Authority to the relevant counterparty or by the relevant counterparty to the Finance Authority, depending on prevailing economic circumstances at the time of termination. The amount of any such termination payment, while not currently ascertainable, could be substantial. Any such termination payments payable by the Finance Authority are payable from and secured by a lien on the Pledged Revenues subject and subordinate to the lien thereon of the Subordinate Lien Obligations and on a parity with any Junior Subordinate Lien Obligations.

Each of the Swap Agreements is subject to periodic “mark-to-market” valuations. If the mark-to-market valuation exceeds the limitations set in the Swap Agreement, federal securities may be required to be delivered by the Finance Authority or the relevant counterparty as collateral securing their respective obligations under the Swap Agreement. The Commission also directed the Finance Authority to enter into the Taxable Line of Credit discussed under “Outstanding and Additional Subordinate Lien Obligations” to enable it to post collateral under the Swap Agreements in the event the need arises. As of the date hereof, the Finance Authority had an outstanding balance of \$0 under the Taxable Line of Credit to satisfy a portion of collateral posting requirements under the Swap Agreements. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS—Outstanding and Additional Subordinate Lien Obligations.” The Swap Agreements were entered into under a debt policy memorandum of understanding entered into by the Finance Authority and the Commission. Under that debt policy memorandum of understanding, an advisor to the Finance Authority, the Commission and the Department marks the Swap Agreements to market monthly and a joint committee of the Finance Authority, the Commission and the Department regularly monitors the Swap Agreements.

The arrangements made with respect to the Swap Agreements do not alter the Finance Authority’s obligations to pay principal of or interest on the related Series of Bonds from the Pledged Revenues. Because each of the Swap Agreements is subject to termination upon the occurrence of certain events, no assurance can be given that they will continue to be in effect. None of the Swap Agreements provide a source of credit or security for the related Series of Bonds. The Owners of the Bonds will not have any rights under any Swap Agreement or against any Counterparty.

If a Counterparty is unable to perform its obligations under the relevant Swap Agreement, the Finance Authority may be exposed to increased interest rate risk.

As of December 9, 2014, the payments to terminate all of the Swap Agreements would in the aggregate be equal to approximately \$112,460,135. Although the Finance Authority may enter into additional swap agreements, it does not presently plan to do so.

PLEDGED REVENUES

The Pledged Revenues are defined by the Indenture to mean, collectively, State Revenues and Federal Revenues. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, driver’s license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, and motor vehicle registration fees, 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 Finance Authority at the direction of the Commission. “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 Finance Authority.

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 state transportation projects 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 due each year on state transportation revenue bonds issued to anticipate the collection of the revenues attributable to the State Road Fund. 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”). 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). The State’s gasoline excise tax rate continues to be lower than that of any western state with the exception of Oklahoma (16 cents per gallon) and Wyoming (13 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, pueblo grant or trust land 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. Section 67-3-8.1 allows the Department to enter into “gasoline tax sharing agreements” with the Pueblos of Nambe and Santo Domingo for terms of up to twenty years. Agreements with each Pueblo were executed in 2004 and contained terms of 10 years. The original tax sharing agreement with the Pueblo of Nambe expired in January 2014, but a new tax sharing agreement was executed and became effective on January 14, 2014 (the “Nambe Agreement”). The Nambe Agreement provided that the Pueblo will not distribute gasoline for resale outside of the boundaries of the Pueblo 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). The Nambe Agreement is scheduled to expire on January 14, 2024, but may be terminated by any party with or without cause upon 12 months’ notice. The original gasoline tax sharing agreement with Santo Domingo expired on July 1, 2014; however, a new agreement took effect on the same date. The new agreement requires the Pueblo to forgo distribution of gasoline for resale outside of its boundaries in exchange for revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). The new Santo Domingo agreement has a term of ten years but may be terminated by any party with or without cause upon three years’ notice.

Retail Exemption. Chapter 190, Laws of 1999 also permits gasoline to be sold at retail by registered Native American distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax at an equal or greater amount (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. The following table sets forth the amount of taxable and tax-exempt gasoline distributions (in gallons) in the State for the fiscal years shown below:

GASOLINE DISTRIBUTIONS

| Fiscal Year Ended June 30 | Taxable Gasoline Distributions (In Gallons) | Tax-Exempt Gasoline Distributions (In Gallons) | Total Gasoline Distributions (In Gallons) | % of Taxable Gasoline Distributions of Total Gasoline Distributions |
|------------------------------|---|---|---|---|
| 2005 | 875,551,884 | 53,425,815 | 928,977,699 | 94.25% |
| 2006 | 880,614,191 | 55,432,237 | 936,046,428 | 94.08 |
| 2007 | 918,292,994 | 58,864,581 | 977,157,575 | 93.98 |
| 2008 | 877,428,632 | 57,372,420 | 934,800,632 | 93.86 |
| 2009 | 875,295,280 | 61,511,512 | 936,806,792 | 93.43 |
| 2010 | 862,129,940 | 62,418,953 | 924,548,893 | 93.25 |
| 2011 | 884,527,118 | 59,054,914 | 943,582,032 | 93.74 |
| 2012 | 872,192,236 | 56,435,102 | 928,627,338 | 93.92 |
| 2013 | 909,649,416 | 68,906,250 | 978,555,666 | 92.96 |
| 2014 | 871,916,342 | 62,873,950 | 934,790,292 | 93.27 |

(Source: The Department.)

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 the State. 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 the State 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% 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.

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HISTORICAL GASOLINE EXCISE TAXES

| Fiscal Year Ended <u>June 30</u> | Taxable <u>Gallons (000s)</u> | Percent <u>Change (%)</u> | Gasoline Taxes Paid Into | |
|-------------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|
| | | | State Road <u>Fund (000s)</u> | Percent <u>Change (%)</u> |
| 2005 | 875,552 | 0.47% | \$109,456 | n/a |
| 2006 | 880,614 | 0.58 | 109,723 | 0.24% |
| 2007 | 918,293 | 4.28 | 114,577 | 4.42 |
| 2008 | 877,429 | (4.45) | 107,671 | (6.03) |
| 2009 | 875,295 | (0.24) | 108,125 | 0.42 |
| 2010 | 862,130 | (1.50) | 109,163 | 0.96 |
| 2011 | 884,527 | 2.60 | 109,282 | 0.11 |
| 2012 | 872,192 | (1.39) | 104,987 | (3.93) ⁽²⁾ |
| 2013 | 909,649 | 4.29 | 111,795 | 6.48 |
| 2014 | 871,916 | (4.15) | 107,998 | (3.40) |

(1) Fluctuations attributable to economic conditions and gasoline prices.

(2) Decrease attributable to a delay in distributions from the New Mexico Department of Taxation and Revenue. Such delayed distribution was collected but is reflected in the Department's 2013 fiscal year results. Fiscal year 2012 results would have been similar to fiscal year 2011 results had the delayed distribution been received in the Department's 2012 fiscal year.

(Source: The Department.)

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 "Special Fuels Supplier Tax Act"). 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 United States or any agency or instrumentality thereof, the State or any political subdivision, agency or instrumentality thereof and Indian nations, tribes or pueblos and their agencies and instrumentalities, 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 was 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, although only 19 cents of that is deposited into the State Road Fund. The net receipts of the taxes, surtaxes, fees, penalties and interest 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.

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HISTORICAL SPECIAL FUEL EXCISE TAXES

| <u>Fiscal Year Ended June 30</u> | <u>Taxable Gallons (000s)</u> | <u>Percent Change (%)</u> | <u>Special Fuel Excise Taxes Paid to State Road Fund (000s)</u> | <u>Percent Change (%)</u> |
|--------------------------------------|-----------------------------------|-------------------------------|---|-------------------------------|
| 2005 | 459,405 | (0.79)% | \$87,902 | n/a |
| 2006 | 509,030 | 10.80 | 97,127 | 10.49 |
| 2007 | 509,377 | 0.07 | 101,373 | (0.12) |
| 2008 | 532,594 | 4.56 | 101,483 | 4.61 |
| 2009 | 449,459 | (15.61) | 85,559 | (15.69) ⁽¹⁾ |
| 2010 | 460,943 | 2.56 | 88,029 | 2.78 |
| 2011 | 478,153 | 3.73 | 91,078 | 3.46 |
| 2012 | 483,917 | 1.21 | 92,326 | 1.37 |
| 2013 | 484,970 | 0.22 | 92,563 | 0.26 |
| 2014 | 487,802 | 0.58 | 92,923 | 0.39 |

⁽¹⁾ Decrease attributable to the United States' economic downturn. The timing of the large fiscal year 2009 decrease closely tracked with the decline of durable goods orders in the United States beginning in the fall of 2008.

(Source: The Department.)

Weight Distance Tax. A weight distance tax is imposed by the Weight Distance Tax Act, Section 7-15A-1 through 7-15A-16 NMSA 1978, as amended (the "Weight Distance Tax Act"). The tax is imposed on the registrants, 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 increased effective July 1, 2004 and is based on a detailed schedule 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 identification permit of \$2.00 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⁽¹⁾

| Fiscal Year Ended <u>June 30</u> | Weight Distance Tax Revenues <u>Paid to State Road Fund (000s)</u> | Percent <u>Change (%)</u> |
|-------------------------------------|---|------------------------------|
| 2005 | \$73,781 | n/a |
| 2006 | 76,453 | 5.02% |
| 2007 | 88,365 | 15.58 |
| 2008 | 77,424 | (12.38) |
| 2009 | 75,485 | (2.57) |
| 2010 | 69,598 | (7.80) |
| 2011 | 74,916 | 7.64 |
| 2012 | 72,786 | (2.84) |
| 2013 | 73,489 | 1.00 |
| 2014 | 75,367 | 2.55 |

⁽¹⁾ Fluctuations are attributable to national economic conditions.

(Source: The Department.)

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 increased from 66.54% 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 gross vehicle weight and years of registration, and, for vehicles weighing more than 26,000 pounds, the proportion of their total miles traveled in the State. 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 the State. 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 annual registration fees assessed on passenger cars, trucks, buses and farm vehicles, the State assesses annual 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 or trailers of the United States, other states, the State, Indian nations, tribes or pueblos and counties and municipalities are exempt from registration fees. Passenger vehicles are also subject to an annual \$1.50 tire recycling fee and motorcycles to a \$1.00 annual fee, \$1.00 and 50 cents of which, respectively, are deposited in the Highway Infrastructure Fund.

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

HISTORICAL MOTOR VEHICLE REGISTRATION FEES

| Fiscal Year Ended <u>June 30</u> | Motor Vehicle Registration Fee Revenues Paid to <u>State Road Fund (000s)</u> ⁽¹⁾ | Percent <u>Change (%)</u> |
|-------------------------------------|--|------------------------------|
| 2005 | \$67,768 | n/a |
| 2006 | 71,470 | 5.46 |
| 2007 | 73,512 | 2.86 |
| 2008 | 73,679 | 0.09 |
| 2009 | 72,283 | (2.02) |
| 2010 | 72,863 | 0.93 |
| 2011 | 73,445 | 0.80 |
| 2012 | 75,626 | 2.97 |
| 2013 | 74,135 | (2.00) |
| 2014 | 76,218 | 2.81 |

⁽¹⁾ Amounts do not include vehicles registered in other states under IRP.
(Source: The Department.)

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 Highway Infrastructure 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 pursuant to the provisions of Laws 1998, Chapter 84 Subsections C through H of Section 1 of Chapter 85 of Laws 1998 and Sections 27 and 28 of the 2003 Act. 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, as amended. 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 and tax credits are available in certain circumstances for payers who provide for job creation. 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.

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

| <u>Fiscal Year Ended June 30</u> | <u>Leased Vehicle Gross Receipts Taxes (000s)</u> | <u>Percent Change (%)</u> |
|--------------------------------------|---|-------------------------------|
| 2005 | \$4,524 | n/a |
| 2006 | 5,144 | 13.69% |
| 2007 | 4,844 | (5.81) |
| 2008 | 6,963 | 43.74 ⁽¹⁾ |
| 2009 | 5,444 | (21.82) |
| 2010 | 5,397 | (2.23) |
| 2011 | 5,657 | 4.82 |
| 2012 | 5,731 | 1.42 |
| 2013 | 5,214 | (9.00) |
| 2014 | 5,889 | 12.93 |

⁽¹⁾ Increase attributable to successful audit by the New Mexico Department of Taxation and Revenue of various large rental car companies.

(Source: The Department.)

Tire Recycling Fees. Tire recycling fees are imposed pursuant to Sections 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. The Motor Vehicle Division has allowed a two-year registration option which allows registrants to pay twice the normal fee and be 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.

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Set forth below is a 10-year history of tire recycling fees payable into the Highway Infrastructure Fund:

HISTORICAL NET TIRE RECYCLING FEES

| <u>Fiscal Year Ended June 30</u> | <u>Tire Recycling Fees (000s)</u> | <u>Percent Change (%)</u> |
|--------------------------------------|---------------------------------------|-------------------------------|
| 2005 | \$1,950 ⁽¹⁾ | n/a |
| 2006 | 1,734 | (11.08) |
| 2007 | 1,758 | 1.38 |
| 2008 | 1,782 | 1.37 |
| 2009 | 1,604 | (9.99) |
| 2010 | 1,791 | 11.66 |
| 2011 | 1,806 | 0.84 |
| 2012 | 1,831 | 1.38 |
| 2013 | 1,807 | (1.31) |
| 2014 | 1,836 | 1.62 |

⁽¹⁾ The larger amount is directly attributable to a delayed distribution in fiscal year 2004 from the New Mexico Department of Taxation and Revenue. The delayed distribution caused fewer revenues being distributed in fiscal year 2004 and more revenues being distributed in fiscal year 2005.

(Source: The Department.)

The Federal-Aid Highway Program

The Federal-Aid Highway Program (“FAHP” or the “Program”) is an “umbrella” term that encompasses most of the federal programs providing highway funds to the states. Prior to enactment of MAP-21, the most recent authorization (see “MAP-21” below), these programs included the Interstate Maintenance Program, the Highway Bridge Replacement and Rehabilitation Program and the National Highway System Program, among others. MAP-21 consolidates many of these programs into five core funding programs: the National Highway Performance Program, the Surface Transportation Program, the Congestion Mitigation and Air Quality Improvement Program, the Highway Safety Improvement Program, the Railway-Highway Crossings Program and the Metropolitan Planning Program. The Federal Highway Administration (“FHWA”) is the federal agency within the U.S. Department of Transportation responsible for administering the FAHP. The FAHP is financed from the transportation user-related revenues deposited in the Federal Highway Trust Fund. The primary source of revenues in the Federal Highway Trust Fund is derived from the federal excise taxes on motor fuels. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes.

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. Most projects have an 80 percent federal share, while Interstate rehabilitation and maintenance projects typically have been funded with a 90 percent federal share. Federal-aid highways are under the administrative control of the state or local government responsible for their operation and maintenance.

Funding under the FAHP is provided to states through a multi-step funding cycle that includes: (1) multi-year authorization by Congress of the funding for various highway programs; (2) apportionment and allocation of funds to the states each Federal Fiscal Year according to statutory formulas or, for some funding categories, through administrative action; (3) obligation of funds, which is the federal government’s legal commitment (or promise) to pay or reimburse states for the federal share of a project’s eligible costs; (4) appropriations by Congress specifying

the amount of funds available for the year to liquidate obligations; (5) program implementation which covers the programming and authorization phases; and (6) 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. 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 TO RECEIVE FEDERAL AID REVENUES SUFFICIENT TO ENABLE THE FINANCE AUTHORITY TO PAY DEBT SERVICE ON THE BONDS.

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.

Reauthorization

The FAHP must be periodically reauthorized by Congress. Following a number of prior multi-year authorizations, the Transportation Equity Act for the 21st Century (“TEA-21”) was enacted in 1998 and authorized programs over the six-year period from federal fiscal years (“FFY”) 1998 through 2003.

SAFETEA-LU. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”) became law on August 10, 2005, and authorized programs over the four-year period from FFY 2006 through 2009. Between the expiration of TEA-21 in September 2003, and the enactment of SAFETEA-LU in August 2005, Congress enacted 12 interim authorization measures for varying periods. Since the expiration of SAFETEA-LU in September 2009, Congress has enacted 10 interim authorization measures.

MAP-21. The Moving Ahead for Progress in the 21st Century Act (“MAP-21”) was signed into law on July 6, 2012. MAP-21 extended SAFETEA-LU through the end of FFY 2012. MAP-21 authorized funding for the FAHP of approximately \$37.5 billion for FFY 2013 and \$37.8 billion for FFY 2014. MAP-21 extends the imposition of the highway-user taxes, generally at the rates that were in place when the legislation was enacted, through September 30, 2016. In addition, it extends provision for deposit of almost all of the highway-user taxes into the FHTF through September 30, 2016.

MAP-21 restructures the core federal highway programs. Activities previously carried out under the National Highway System Program, the Interstate Maintenance Program and the Highway Bridge Program, among others, are incorporated by MAP-21 into the following new core formula programs: National Highway Performance Program, Surface Transportation Program, Congestion Mitigation and Air Quality Improvement Program, Highway Safety Improvement Program, Railway-Highway Crossings and Metropolitan Planning.

MAP-21 expired on September 30, 2014; however, on August 2, 2014, Congress passed the Highway Transportation Funding Act of 2014, which among other things reauthorized on a temporary basis funding of the FHTF and disbursements to states through May 2015. While Congress continues to work on a new multi-year authorization to replace MAP-21, such as President Obama’s GROW AMERICA Act, no such measure is yet in place.

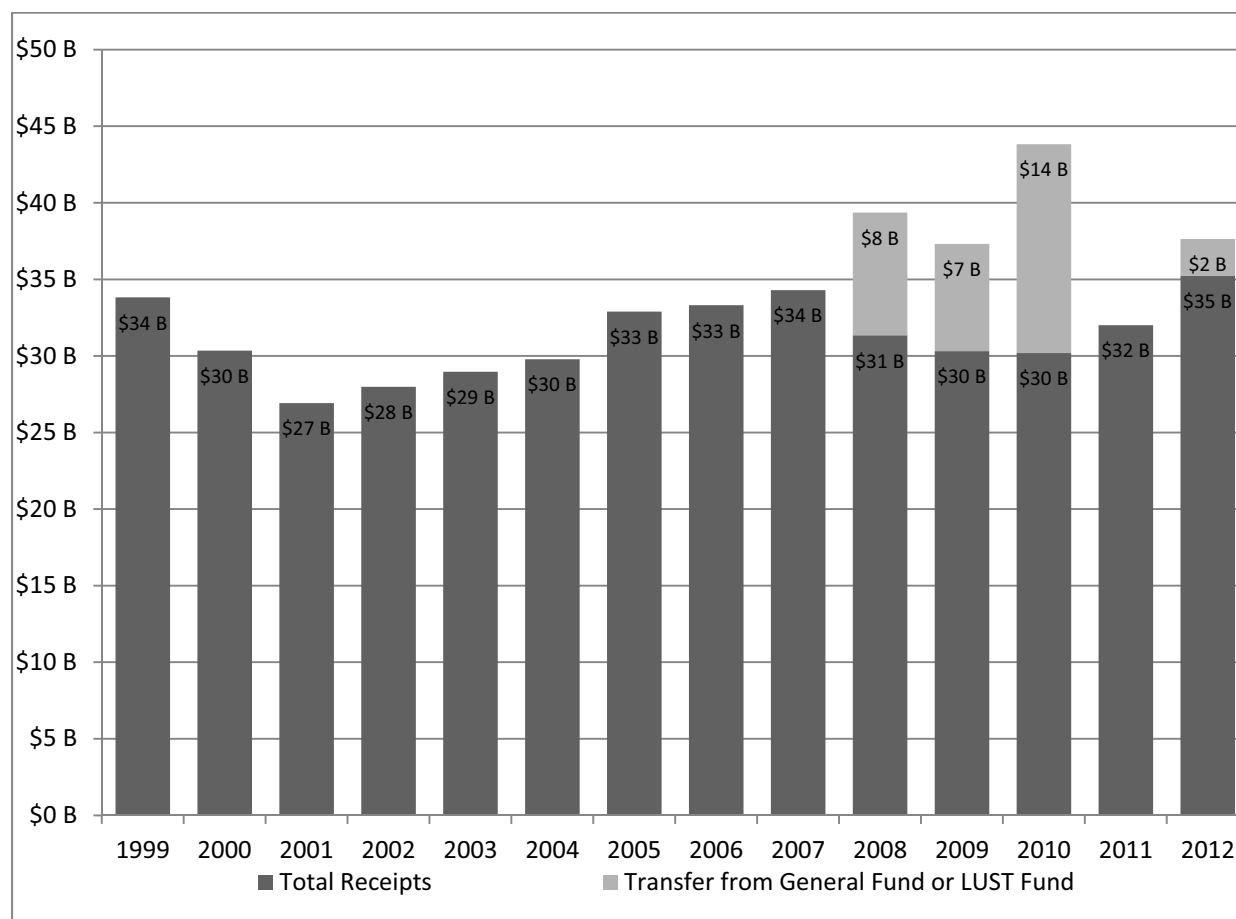
ALTHOUGH MEASURES HAVE BEEN ENACTED BY CONGRESS IN THE PAST, NO ASSURANCE CAN BE GIVEN THAT SUCH MEASURES WOULD OR COULD BE ENACTED IN THE FUTURE TO MAINTAIN THE FLOW OF FEDERAL-AID FUNDING UPON TERMINATION OF EITHER A SHORT-TERM OR MULTI-YEAR AUTHORIZATION PERIOD.

The Federal Highway Trust Fund

The Federal Highway Trust Fund (“FHTF”) provides the primary funding for the FAHP. Funded by a collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the FHTF is a fund established by law

to hold dedicated highway-user revenues that are used for reimbursement of a state's cost of eligible transportation projects (which may include debt service on obligations issued to finance a federal-aid project), including highway projects. The FHTF is composed of two accounts: the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel revenues, with the remaining share of such revenues deposited in the Mass Transit Account. Federal gasoline excise taxes are the largest revenue source for the FHTF. The majority of these tax revenues, including 15.44 cents per gallon out of the current 18.4 cents per gallon federal fuel tax, go to the Highway Account. The following table shows annual FHTF collections in the Highway Account for the period FFYs 1999 through 2012.

Receipts Into The Highway Account of the Federal Highway Trust Fund 1999–2012⁽¹⁾



(1) See the following notes:

- (a) Excludes interest on balances and TIFIA loan repayments.
- (b) In 2008, the amount of \$8,017,000,000 was transferred from the General Fund to the Highway Trust Fund. In 2009, \$7,000,000,000 was transferred. In 2010, \$14,700,000,000 was moved from the General Fund to the Highway Trust Fund, and \$1,065,125 moved to other funds from the Highway Trust Fund. In 2012, \$2,400,000,000 was transferred from the Leaking Underground Storage Tank (LUST) Trust Fund.
- (c) FFY 1999 to 2010 data from 2010 FE-210 Report (www.fhwa.dot.gov/policyinformation/statistics/2010/fe210.cfm).
- (d) FFY 2011 and 2012 data from Highway Trust Fund FE-1 Report (www.fhwa.dot.gov/highwaytrustfund/).

In Federal Fiscal Year 2013, the Highway Account had receipts of \$37.7 billion, including a transfer of approximately \$6 billion from the General Fund in November 2012, of which \$316.2 million was sequestered in August 2013. In Federal Fiscal Year 2014, the Highway Account had receipts of \$52.5 billion, including transfers

totaling approximately \$18 billion from the General Fund, of which \$748.8 million was sequestered. (See “Current FHTF Concerns–Budgetary Issues” herein.)

The imposition of the taxes that are dedicated to the FHTF, as well as the authority to place the taxes in the FHTF and to expend moneys from the FHTF, all have expiration dates which must be extended periodically by Congress. The life of the FHTF has been extended several times since its inception, most recently by MAP-21. The FHTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

Current FHTF Concerns

Amounts in the FHTF can be affected by the expenditures therefrom and a number of revenue-impacting factors. Several of these elements and their current impact on the FHTF are described below.

Deficits. Occasionally, spending levels authorized in SAFETA-LU from the FHTF exceeded the amount of revenues deposited in the FHTF. Deficits in the FHTF can be corrected by transfers from other funds or by a reduction in the spending levels. It cannot be predicted what action the federal government will take to remedy such deficits.

Fluctuations in Vehicle Miles. The primary source of funds in the FHTF is federal excise taxes on motor fuels. Fluctuations in vehicle miles traveled (“VMT”) have sometimes resulted in the FHTF receiving less revenue from gasoline and diesel sales. Reports of the FHWA indicate that Americans vary their driving habits based on a variety of factors. In addition, advances in alternative fuels and fuel efficient vehicles may also affect VMT. A decline in VMT may reduce the net tax receipts into the FHTF. It cannot be determined whether there will be a decline in VMT in future years which may have an adverse impact on the FHTF or the availability of Federal Transportation Funds.

Budgetary Issues. The Balanced Budget and Emergency Deficit Control Act, as amended by the Budget Control Act of 2011 and the Bipartisan Budget Act of 2013 (collectively, the “Balanced Budget and Emergency Deficit Control Act”) require that budgetary resources in each non-exempt budget account be reduced by an amount calculated annually as necessary (i.e. “sequestered”) by the Office of Management and Budget. Federal transportation contract authority subject to obligation limitation is exempt from reduction; however contract authority not subject to obligation limitation is subject to sequester. In federal fiscal year 2013, funds for the National Highway Performance Program, the largest core program of the FAHP, were subject to reduction at an annual rate of 5.1 percent (a reduction of \$32,589,000) and in federal fiscal year 2014, funds were subject to a 7.2 percent reduction (a reduction of \$46,008,000). The Bipartisan Budget Act of 2013 provides some relief from the sequestration for two years. However, certain FAHP programs, emergency relief funds, and transfers from the General Fund to the FHTF have been and will continue to be subject to automatic budget cuts annually if other legislation is not put into place. Nonetheless, the Department believes that such cuts will not materially affect the amount of funding provided to the State under the FAHP.

Overall, the FHTF has been experiencing budgetary shortfalls since 2008 and transfers from the federal General Fund have been required to meet its obligations. Congress is currently seeking long-term solutions to these annual shortfalls.

Other. Various proposals are being considered to address the FHTF’s current anticipated shortfall, including an increase in fuel taxes, a variety of other new taxes (including a tax on VMT) and other funding sources. There can be no assurance any of these proposals will be enacted by Congress.

Impact of Lack of Annual Appropriation Bills. 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. As described under “–Reauthorization–MAP-21” above, MAP-21 authorizes the levying and dedication of the HTF revenue sources through September 30, 2016 while also providing obligation limitation for FFY 2013 and FFY 2014. The Highway Transportation Funding Act of 2014 provides obligation limitation from October 1, 2014 through May 31, 2015. Because of the HTF’s contract authority, even in the event of a lack of annual appropriation bill, HTF revenues continue to flow to the

states. Further, FHWA employees are paid using contract authority. On September 27, 2013 the federal Department of Transportation released a report titled, “Operations During a Lapse in Annual Appropriations; Plans by Operating Administration.” In this report, it was noted that all FHWA operations continue as normal during a lapse in annual appropriations and no FHWA employee positions are to be furloughed. It was further noted that FHWA has sufficient liquidating cash to continue operations during a lapse in annual appropriations.

Federal Aid Funding Procedures

The FAHP continues to enable the construction of an extensive national transportation system through reimbursement of a large percentage of state expenditures for approved highway projects. The financial assurance provided by the FAHP is unusual among federal programs in that:

- the FAHP is funded by dedicated revenues, from a user-tax source, deposited in a special trust fund (the FHTF);
- the contract authority of the FHWA is established through a multi-year authorization act rather than through annual appropriation acts; and
- 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.

The following summarizes the major steps in funding the Federal-Aid Highway Program.

Authorization. The first and most important step in funding the FAHP is the development and enactment of authorizing legislation. 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 (i.e., four or more years) surface transportation acts. There is no guarantee, however, that reauthorization of the FAHP will occur on a multi-year basis. Congress passed SAFETEA-LU which included provisions for reauthorization of the FAHP through September 30, 2009, but was subsequently extended through September 30, 2012 by MAP-21. The authorization act not only shapes and defines programs, but also sets upper limits (authorizations) on the funding for programs and includes provisions related to the operation of the FHTF. See “Reauthorization” above.

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” (a special type of budget 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 FHTF 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 states, with the approval of Congress, to cover gaps in funding between multi-year reauthorization acts. See “Lapsing of Authorization” below.

Apportionment and Allocations. For most components of the FAHP, the authorization act sets the distribution of contract authority to be apportioned and/or allocated to the states. The authorized amount for a given FFY is distributed to the states through apportionments and allocations.

Apportionments. 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 is responsible for apportioning authorized funding for the various highway programs among the states according to formulas established in the authorizing statute. Apportionment formulas have been designed historically to ensure distribution of federal revenues among states according to program needs, but are also increasingly intended to provide states a share of total FHTF expenditures relatively close to their payments into the FHTF. Annual apportionments are generally made on the first day of the FFY. Federal law assures that, notwithstanding the funding it would receive through these formulas, each state shall receive at least a minimum guaranteed amount of funding. New Mexico is a “donee state” and in the past has received a percentage share of national apportionment that is more than its percentage share of contributions to the national FHTF and has not received funds under the minimum funding provision.

Allocations. Some categories of the FAHP do not have a legislatively mandated distribution formula. 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.

Federal-aid highway apportionments are available to states 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 apportionments within the period of availability (usually a total of four years) specified for a given program, the funds will lapse.

Obligation. Obligation is the legal commitment (or promise) of the federal government to pay, through reimbursement to a state, the federal 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.

Once Congress establishes an overall obligation limitation (see “Federal Aid Funding Procedures—Appropriations” below), FHWA distributes Obligation Authority (“OA”) to states proportionately based on each state’s share of apportioned and allocated revenues, the actual ratio of OA 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 OA is reduced. A state’s OA (unlike its apportionments and allocations of authorized funding) must be obligated before the end of the FFY for which it is made available; if not, it will be redistributed to other states to ensure that the total limitation nationwide will be used. A state may receive additional OA through a redistribution process each year in August which reallocates OA from states or programs unable to fully obligate their share to other states that are able to obligate more than their initial share.

Appropriations. Congressional appropriations committees use federal-aid highway revenues as a means of balancing the annual level of highway spending with other federal budget priorities. Thus Congress may place a restriction or “ceiling” on the amount of federal assistance that may be 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, and, in effect, can limit the amount of funds which can be used.

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, generally, the unobligated balance of apportionments or allocations that the state has remaining at the end of any FFY is carried forward into subsequent FFYs and is available for use contingent upon the availability of OA issued in each year.

Highway Program Implementation. In order to receive federal reimbursements for transportation projects, states are required to develop long-range transportation plans that are based on realistic projections of state and

federal funding. Projects are not eligible for federal reimbursements unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans and are included in the State Transportation Improvement Plan (“STIP”) which lists all projects proposed for financing in the applicable period. The STIP requires FHWA approval.

New Mexico’s Highway Capital Investment Program (HCIP) is the major component of the State’s STIP. The STIP also includes federally funded public transportation and aeronautic projects under the Department’s administrative authority. Inclusion of the HCIP in the STIP ensures the accomplishment of certain conditions necessary for receiving federal highway funding for use on projects. These conditions include ongoing public involvement in the creation and updating of the HCIP, the participation of state and local officials in the selection of projects, and consistency between Metropolitan Transportation Improvement Programs (MTIPs) and the State’s HCIP. The STIP is also required to represent a realistic project funding plan within reasonable expectations of future sources of funding. Selected projects in the MTIPs and the STIP must have been determined to conform to certain air quality attainment goals in air quality non-attainment areas to remain in the STIP.

The STIP lists all projects funded with federal funds for a period of at least four years. In New Mexico, the STIP is currently developed bi-annually, updated quarterly and covers a four-year period. The most recent four-year STIP amendment covering federal fiscal years 2014 through 2017 was approved by the Commission on December 5, 2013. The four-year STIP represents \$1,533,042,530 of projects to be undertaken during federal fiscal years 2014 through 2017, as well as federal contributions toward Department debt service.

States are required to follow federal fiscal management procedures as they implement projects that are included in the STIP. These fiscal management processes ensure that the process is managed efficiently from project authorization to actual payment of FHWA reimbursements to the state. Further, states are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states.

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

Traditional Approach. Under the traditional highway funding approach, FHWA approves the full federal share of the funding for a project at the beginning of the project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funds on a project. The project sponsor submits plans, specifications and estimates (“PS&Es”) for a project to the FHWA, 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 PS&Es must identify the category of federal funding that will be used.

FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements. Provided that all requirements are satisfied, FHWA authorizes federal participation in the project, and obligates the federal share of project costs. By obligating the funds, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of the state’s OA and also sets aside an equivalent amount of apportionments by program. Accordingly, the state must have sufficient OA 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. The state will award the contract to the lowest responsive bidder and submits a modified agreement to FHWA requesting any necessary adjustments to federal funding to reflect the actual bid amount. The project agreement identifies the funds that are estimated to be expended by the state and the amount that will be reimbursed by the Federal Government.

Advance Construction Approach. In recent years, FHWA has implemented several new fiscal management techniques that provide states additional flexibility in managing their OA and cash flow. Advance construction (“AC”) and partial conversion of advance construction are two key techniques that facilitate federal-aid project funding.

The AC approach for authorizing projects allows states to finance projects that are eligible for federal aid without obligating the full federal share of costs at the beginning of the project. This allows states to begin a project before accumulating all of the Obligation Authority needed to cover the federal share of the project. Similar to the traditional approach, the state submits PS&Es to FHWA and requests project authorization. Under AC, however, FHWA is asked to authorize the project without obligating federal funds. The state will provide the up-front financing for the project and then at a later date “convert” the advance construction project to a regular federal-aid project and obligate the full federal share of the project costs, when sufficient OA is available. At the time of conversion, the state can be reimbursed for the federal share of costs incurred up to the point of conversion.

Partial conversion of AC is a form of advance construction in which the state converts, obligates, and receives reimbursement for only a portion of its funding of an AC project in a given year. This removes any requirement to wait until the full amount of OA for the project is available. The state can therefore obligate varying amounts for the project’s eligible cost in each year, depending on how much of the state’s OA 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.

Under the FAHP, as projects are approved by FHWA, the aggregate dollar amount of each contract relating thereto will be obligated against the remaining annual amount of OA still available to the State. The State will then pay the amounts owed under each contract as the work progresses and receive reimbursement from the federal government for the federal share of the total costs. The aggregate amount of reimbursement received by the State in any year is not necessarily equal to the State’s apportionment for such year. Many projects and contracts extend over a number of years which means that the aggregate amount made available to the State in any one year, if fully obligated, may be received as reimbursement over a longer period of time relating to the actual pace of construction. The State expects to have sufficient projects which will qualify to allow it to access all Federal Transportation Funds made available to it.

Reimbursement. The FAHP is a reimbursement program. 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 certifies to FHWA that the claims for payment are in accordance with the terms of the project agreements, and applicable state and federal laws or regulations. After review and approval by the FHWA Division office, payment is scheduled for the date requested by the state. Payment is transferred directly from a Federal Reserve Bank to the state’s account at a financial institution by wire transfer, and is generally scheduled to be made within two days of the submission of the state’s electronic bill.

The Department has been made aware that FHWA will not provide federal-aid highway reimbursements or payments for any debt service payments intercepted by the U.S. Treasury Offset Program for monies owed by the State to the federal government. No guidance has been given to the Department by FHWA with respect to the U.S. Treasury Offset Program. No prior payments from FHWA to the Department have been delayed or withheld as a result of the U.S. Treasury Offset Program.

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 OA by administrative action. See “Reauthorization” above.

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Rescission of Unobligated Balances. Since late 2005, Congress has taken action to reduce unobligated balances of previously authorized funds by issuing the following rescissions:

RESCISSIONS OF UNOBLIGATED BALANCES

| <u>Date</u> | <u>National Amount</u> | <u>FHWA Notice</u> |
|-------------|------------------------------|--------------------|
| 12/28/2005 | \$1,999,999,000 | N 4510.578 |
| 3/21/2006 | 1,143,000,000 | N 4510.588 |
| 7/5/2006 | 702,362,500 | N 4510.606 |
| 3/19/2007 | 3,471,582,000 | N 4510.643 |
| 6/20/2007 | 871,022,000 | N 4510.647 |
| 3/4/2008 | 3,150,000,000 | N 4510.673 |
| 4/13/2009 | 3,150,000,000 | N 4510.707 |
| 9/30/2009 | 8,708,000,000 ⁽¹⁾ | N 4510.712 |
| 8/13/2010 | 2,200,000,000 | N 4510.729 |
| 6/30/2011 | 2,500,000,000 | N 4510.735 |

⁽¹⁾ These funds were restored in the extension of SAFETEA-LU enacted on March 18, 2010.
(Source: Excerpted from the Department of Transportation Federal Highway Administration website.)

All of the foregoing rescissions were spread among the 50 states on a proportional basis, the first three based on certain FFY 2006 apportionments, the fourth and fifth on certain FFY 2007 apportionments, the sixth on certain FFY 2008 apportionments, the seventh and eighth on certain FFY 2009 apportionments and the last on certain FFY 2011 apportionments. The aggregate amount for these rescissions for New Mexico was \$233,818,231. However, because these rescissions were all applied to reduce the unobligated apportionment balances from prior years, there was no impact on operating revenues. In addition, Congress in adopting SAFETEA-LU scheduled a rescission of unobligated apportionment balances in the total amount for all 50 states of \$8,708,000,000 that took effect on September 30, 2009; however, as noted above, these funds have since been restored and \$82,543,515 has been restored to New Mexico programs from which the funds were rescinded. The Department takes scheduled rescissions, if any, as well as the prior rescissions into account in preparation of the STIP. However, further rescissions are possible and may have a more adverse effect on the State and its highway program.

The Department also notes that under FHWA Notices 4510.762 and 4510.769 apportionments available to the State have been reduced for FFY 2013 and 2014 by \$319,627 and \$446,813, respectively, due to federal sequestration orders. (See “Current FHTF Concerns–Budgetary Issues” herein.)

Special Federal Provisions Relating to Debt-Financed Projects

The National Highway System Act (“NHS Act”) of 1995 made several changes affecting the financing of federal-aid highway projects, including AC procedures, as previously discussed, and payments to states for debt financing.

Section 311 of the NHS Act significantly expanded the eligibility of bonds, notes and other debt instrument financing costs for federal-aid reimbursement. This change to the FAHP was codified into permanent highway law as an amendment to Section 122 of Title 23 of the United States Code. Under Section 122, various debt-related costs are eligible for reimbursement, including principal and interest payments, issuance costs, insurance, and other costs incidental to a financing.

FHWA has issued guidelines for debt-financed projects. Key provisions of these guidelines are as follows:

- The project must be approved as a federal-aid, debt-financed (bond, certificate, note or other debt instrument) project in order to receive payments for eligible debt-related costs under Section 122.

Once a project is selected for debt financing, the project is submitted to the FHWA for approval as an AC project under Section 115 of Title 23. The AC designation ensures that the project follows federal-aid procedures and preserves the eligibility to reimburse debt-related costs through future federal-aid fund obligations.

- Debt-financed projects are subject to requirements of the Federal Clean Air Act and federal air quality conformity requirements.
- At the time the project agreement is signed, a state may make an election to seek reimbursement for debt service and/or related issuance costs in lieu of reimbursement for construction costs. If a state elects to receive debt service reimbursements, a debt service schedule will be included in the project agreement. If multiple projects are funded with the proceeds of a debt issue, each project will be assigned a prorated share of the debt-related costs.
- To comply with the intent of the fiscally constrained planning process, the federal share of the debt-related costs (e.g., interest and principal payments, associated issuance costs, and on-going debt servicing expenses) anticipated to be reimbursed with federal-aid funds over the life of the debt obligations should be designated as AC. The planned amount of federal-aid reimbursements (AC conversion) should be included in the STIP, in accordance with FHWA procedures.
- Periodic debt service payments (federal-aid reimbursements) on the debt obligations would represent partial conversions of designated AC amounts to federal aid. A state can obligate such federal aid annually over the life of the permanent financing or a state can make the conversion in one lump sum upon project completion to help take out construction financing. A state would follow the normal procedures for conversion of an advance construction project.
- A state may seek federal-aid reimbursements for eligible debt-related costs as these costs are incurred. Issuance costs, debt service payments, and incidental costs represent costs incurred that may be reimbursed with federal-aid funds to the extent such costs are deemed eligible.
- A state may make arrangements with the FHWA regarding the procedures under which it would submit a billing to FHWA for debt-related costs. A request for debt service payment can be timed so that reimbursements could be received shortly before the debt service payment date.
- A state may designate a trustee or other depository to receive federal-aid debt service payments directly from FHWA.

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STATE RECEIPTS OF FEDERAL TRANSPORTATION FUNDS

The following tables identify prior authorizations, obligation limitations and reimbursements received by the State and the Department under SAFETEA-LU and MAP-21. The ability to pay debt service on the Series 2014B Bonds will depend upon the amount of actual funding provided to the State under the FAHP, the legal availability thereof and the State's ability to use such funding. None of the State, the Commission, the Department or the Finance Authority is able to predict the amount of funding to be awarded to the State under the FAHP in future years.

Set forth below is a history of aggregate authorization and obligation limitations to be available for bond payments under SAFETEA-LU and MAP-21.

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS ⁽¹⁾

| | Federal Fiscal Year 2010 | Federal Fiscal Year 2011 | Federal Fiscal Year 2012 | Federal Fiscal Year 2013 ⁽²⁾ | Federal Fiscal Year 2014 ⁽²⁾ |
|--|-----------------------------|-----------------------------|-----------------------------|--|--|
| Interstate Maintenance | \$70,372,103 | \$77,651,234 | \$75,185,252 | — | — |
| National Highway System | 84,640,233 | 93,395,227 | 90,429,260 | — | — |
| National Highway Performance Program | — | — | — | \$217,768,101 | \$217,521,011 |
| Surface Transportation Program ⁽³⁾ | 60,235,017 | 66,465,591 | 64,354,833 | 100,166,489 | 100,052,835 |
| Bridge | 12,436,881 | 13,723,324 | 13,287,510 | — | — |
| Congestion Mitigation/Air Quality | 8,757,021 | 9,662,827 | 9,355,963 | 11,415,259 | 11,402,307 |
| Recreational Trails | 1,166,877 | 1,287,576 | 1,334,844 | — | — |
| Metro Planning | 1,519,833 | 1,677,041 | 1,418,867 | 1,561,801 | 1,560,029 |
| Planning Programs – Suballocation from Core Program funds | (5,254,545) | (5,715,727) | (5,336,467) | (5,322,633) | (5,268,977) |
| Research Program – Suballocation from Planning Program funds | (1,751,515) | (1,905,243) | (1,778,822) | (1,774,211) | (1,756,326) |
| Highway Safety Improvement Program | 11,259,704 | 12,424,382 | 12,029,820 | 22,347,902 | 22,289,018 |
| Rail-Highway Crossing | 1,588,797 | 1,753,139 | 1,483,249 | 1,582,659 | 1,614,390 |
| Safe-Routes to School | 1,122,276 | 1,238,362 | 1,047,720 | — | — |
| Border Infrastructure Program | 1,879,602 | 2,074,024 | 1,754,735 | — | — |
| Equity Bonus | <u>90,350,169</u> | <u>75,058,116</u> | <u>59,302,650</u> | <u>—</u> | <u>—</u> |
| Aggregate Authorization | <u>\$345,328,513</u> | <u>\$356,410,843</u> | <u>\$330,984,703</u> | <u>\$347,745,367</u> | <u>\$347,414,287</u> |
| Aggregate Obligation Limitation | <u>\$317,256,490</u> | <u>\$319,759,356</u> | <u>\$323,173,833</u> | <u>\$327,511,821</u> | <u>\$336,087,712</u> |

(1) All amounts are based on apportionment of Federal Aid Highway Program Fund for each corresponding fiscal year. This summary itself is unaudited.

(2) Implementation of MAP-21 became effective in fiscal year 2013 and combined Interstate Maintenance, Bridge, and National Highway System programs into the National Highway Performance Program. It also eliminated Equity Bonus.

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

(Source: The Department.)

Note that the Department may allocate its OA 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. STIP/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 a history of Pledged Revenues for the fiscal years ended June 30, 2005 through June 30, 2014, and an estimate of Pledged Revenues for the fiscal years ended June 30, 2015 through June 30, 2019. Historical figures from June 30, 2005 through June 30, 2014 are derived from actual results; however the figures from fiscal year 2014 are unaudited. The summary itself is unaudited. The estimates are based on Department's semi-annual estimates as of July, 2014. Such estimates are based on certain assumptions that may not be realized. Recent changes in the economy have led to fluctuations in energy prices, including dramatic increases and decreases, throughout the nation. In addition, an economic slowdown could reduce the overall demand for the fuels subject to the taxes described above and otherwise negatively impact the collection of the other taxes described herein. This may have the effect of reducing the amount of State Revenues and Federal Revenues described above that will be received by the Department. See "SPECIAL FACTORS RELATING TO THE SERIES 2014B BONDS" and "FORWARD-LOOKING STATEMENTS."

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PLEDGED REVENUES HISTORY AND ESTIMATES
(in thousands)⁽¹⁾

| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Unaudited</u> ⁽²⁾ | <u>Estimate</u> ⁽²⁾ | <u>Estimate</u> ⁽²⁾ | <u>Estimate</u> ⁽²⁾ | <u>Estimate</u> ⁽²⁾ | <u>Estimate</u> ⁽²⁾ |
| STATE ROAD FUND | | | | | | | | | | | | | | | |
| Gasoline Tax | \$109,456 | \$109,723 | \$114,577 | \$107,671 | \$108,125 | \$109,163 | \$109,282 | \$104,987 | \$111,795 | \$107,998 | \$108,600 | \$108,700 | \$108,700 | \$108,900 | \$108,900 |
| Special Fuel Tax | 87,902 | 97,127 | 97,008 | 101,483 | 85,559 | 88,029 | 91,078 | 92,326 | 92,549 | 92,856 | 94,300 | 95,800 | 97,500 | 98,700 | 99,500 |
| Weight/Distance | 73,781 | 76,453 | 88,365 | 77,424 | 75,485 | 69,598 | 74,916 | 72,786 | 73,489 | 73,367 | 75,900 | 78,600 | 81,600 | 84,200 | 86,600 |
| Trip Tax | 5,724 | 8,576 | 7,557 | 4,904 | 5,776 | 5,488 | 5,973 | 5,689 | 5,045 | 4,666 | 4,900 | 5,000 | 5,100 | 5,200 | 5,300 |
| Vehicle Registration | 67,768 | 71,470 | 73,512 | 73,679 | 72,190 | 72,863 | 73,445 | 75,626 | 74,135 | 76,218 | 76,000 | 77,700 | 76,700 | 78,400 | 77,500 |
| Vehicle Transaction | 1,130 | 1,610 | 1,191 | 1,165 | 1,070 | 1,041 | 1,065 | 1,114 | 1,163 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Driver's License | 4,072 | 3,944 | 4,329 | 4,738 | 4,622 | 4,493 | 4,718 | 4,424 | 3,628 | 3,672 | 4,200 | 4,500 | 4,500 | 4,500 | 4,500 |
| Oversize/License | 3,232 | 4,387 | 4,590 | 4,961 | 4,539 | 3,778 | 4,687 | 4,820 | 4,805 | 5,026 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Public Regulatory Commission Fees | 3,525 | 3,676 | 377 | 866 | 2,286 | 1,420 | 2,740 | 881 | 3,213 | 2,009 | 2,700 | 2,800 | 2,900 | 3,000 | 3,000 |
| Penalty Assessments (Reinstatement Fees) | 1,273 | 258 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| MVD Miscellaneous Fees | 1,200 | 2,373 | 2,452 | 2,570 | 2,569 | 2,735 | 2,725 | 2,991 | 3,701 | 3,824 | 3,300 | 3,300 | 3,300 | 3,300 | 3,300 |
| Road Fund Interest | <u>1,239</u> | <u>2,055</u> | <u>708</u> | <u>0</u> | <u>19</u> | <u>16</u> | <u>95</u> | <u>109</u> | <u>210</u> | <u>80</u> | <u>60</u> | <u>478</u> | <u>1,442</u> | <u>1,950</u> | <u>1,950</u> |
| TOTAL STATE ROAD FUND ⁽¹⁾ | 360,302 | 381,652 | 394,666 | 379,461 | 362,239 | 358,624 | 370,724 | 365,754 | 373,733 | 372,916 | 376,160 | 383,078 | 387,942 | 394,350 | 396,750 |
| Percent Change | 17.2% | 5.9% | 3.4% | -3.9% | -4.5% | -1.0% | 3.4% | -1.3% | 2.2% | -0.2% | 0.9% | 1.8% | 1.3% | 1.7% | 0.6% |
| HIGHWAY INFRASTRUCTURE FUND | | | | | | | | | | | | | | | |
| Lease Vehicle Gross Receipts | 4,524 | 5,143 | 4,844 | 6,963 | 5,444 | 5,397 | 5,657 | 5,731 | 5,214 | 5,889 | 5,630 | 5,730 | 5,830 | 5,920 | 6,010 |
| Tire Recycling Fees | 1,950 | 1,734 | 1,758 | 1,782 | 1,604 | 1,791 | 1,806 | 1,831 | 1,807 | 1,836 | 1,800 | 1,840 | 1,820 | 1,860 | 1,850 |
| Interest | <u>124</u> | <u>352</u> | <u>178</u> | <u>408</u> | <u>99</u> | <u>18</u> | <u>16</u> | <u>16</u> | <u>25</u> | <u>7</u> | <u>9</u> | <u>75</u> | <u>229</u> | <u>311</u> | <u>315</u> |
| TOTAL HIGHWAY INFRASTRUCTURE FUND | 6,598 | 7,229 | 6,780 | 9,153 | 7,147 | 7,206 | 7,479 | 7,579 | 7,047 | 7,732 | 7,439 | 7,645 | 7,879 | 8,091 | 8,175 |
| Percent Change | 9.6% | 9.6% | -6.2% | 25.9% | -28.1% | 0.8% | 3.8% | 1.3% | -7.0% | 9.7% | -3.8% | 2.8% | 3.1% | 2.7% | 1.0% |
| FEDERAL FUNDS | <u>287,475</u> | <u>292,847</u> | <u>228,392</u> | <u>253,571</u> | <u>302,428</u> | <u>325,468</u> | <u>310,655</u> | <u>323,173</u> | <u>405,490</u> | <u>372,869</u> | <u>312,782</u> | <u>312,782</u> | <u>312,782</u> | <u>312,782</u> | <u>312,782</u> |
| Percent Change | 18.0% | 1.9% | -22.0% | 11.0% | 19.3% | 7.6% | -4.6% | 4.0% | 25.5% | -8.0% | 16.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| TOTAL PLEDGED REVENUES | <u>\$654,375</u> | <u>\$681,728</u> | <u>\$629,838</u> | <u>\$642,185</u> | <u>\$671,814</u> | <u>\$691,298</u> | <u>\$688,858</u> | <u>\$696,506</u> | <u>\$786,270</u> | <u>\$753,517</u> | <u>\$696,381</u> | <u>\$703,505</u> | <u>\$708,603</u> | <u>\$715,223</u> | <u>\$717,707</u> |
| Percent Change | 17.5% | 4.2% | -7.6% | 2.0% | 4.6% | 2.9% | -0.4% | 1.1% | 12.9% | -4.2% | -7.6% | 1.0% | 0.7% | 0.9% | 0.3% |

⁽¹⁾ Details may not correspond to totals due to rounding. "Actual" figures are from audited financial statements for the fiscal years given.

⁽²⁾ Gasoline Tax, Special Fuel Tax, Weight Distance Tax, and Vehicle Registration estimates are projected using autoregressive models with national and state economic and demographic input variables. Vehicle Transaction and Driver Licenses Fees estimates are projected using trend analysis. Other taxes and fees are generally forecasted using trend analysis. Estimated federal funds in future years approximate multi-year average under MAP-21 and are assumed at a level amount. See "FORWARD-LOOKING STATEMENTS." (Source: The Department.)

SPECIAL FACTORS RELATING TO THE SERIES 2014B BONDS

Each investor or prospective investor in the Series 2014B 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 Series 2014B Bonds and could affect the market price of the Series 2014B 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. 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 “PLEDGED REVENUES—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. MAP-21 was signed into law on July 6, 2012 and became effective on October 1, 2012. MAP-21 extended SAFETEA-LU through the end of FFY 2012 and authorized funding for FFY 2013 and 2014. SAFETEA-LU originally extended the authorization of the Federal Aid Highway Program until September 30, 2009. There can be no assurance that new multi-year authorization or continuing resolution reauthorization will be adopted for any subsequent period. Nor can there be any assurance that any such legislation will be signed into law by the President. MAP-21 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.

The Department and the FHWA have entered into the FHWA Memorandum that sets forth the procedures for managing the stewardship and oversight of debt service relating to the finance plan for construction of Grant Anticipation Revenue Vehicle Projects. Pursuant to the FHWA Memorandum, 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 it has not exceeded \$122 million in Federal-Aid eligible highway program funded debt service payments billed to the FHWA for reimbursement. The FHWA Memorandum provides that Federal-Aid reimbursements to the Department will be made on a semi-annual basis, which differs from the previous

memorandum of understanding which provided for monthly payments. Payment of Federal-Aid reimbursement is conditioned upon available funding and satisfaction by the Department of the completion of certain reports and reconciliations. The FHWA Memorandum requires that it be renegotiated prior to the issuance of any future GARVEE debt. The Department has obtained a waiver of that requirement for the Series 2014B Bonds. Neither the Authority nor the Department makes any representation regarding the amount or timeliness of payments from the FHWA.

In addition to issues of reauthorization, there can be no assurance that Federal Revenues paid into the State Road Fund, together with other Pledged Revenues, will be sufficient to pay the debt service on the Series 2014B Bonds, the Senior Lien Bonds, and the Subordinate Lien Obligations. The amount of Federal Revenues 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. In addition, automatic budget cuts (i.e. sequestration) imposed by the Balanced Budget and Emergency Deficit Control Act have been in effect since January 2013 which have reduced the amount of federal funding available for highways, transit and rail programs. See "PLEDGED REVENUES—The Federal-Aid Highway Program" and "—Current FHTF Concerns—Budgetary Issues." However, the Department estimates that these budget cuts will not materially affect the amount of funding provided to the State under the FAHP. Please note that these are forward-looking statements; see "FORWARD-LOOKING STATEMENTS" herein. Events impacting the national and international economy may have a negative impact on the Federal Revenues received by the Department.

Limited Obligations

The Series 2014B Bonds are limited obligations of the Finance Authority and are payable as to principal and interest exclusively from the Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS." The ability of the Finance Authority, the Commission and the Department to realize Pledged Revenues in amounts sufficient to pay debt service on the Series 2014B Bonds and other obligations payable from the Pledged Revenues senior to, on a parity with or subordinate to the Series 2014B Bonds depends on numerous factors, many of which are not subject to the control of the Finance Authority, the Commission or the Department.

Additional Senior Lien and Subordinate Obligations

Additional Senior Lien Bonds and other obligations may and are expected to be issued with a lien on the Pledged Revenues on a parity with the lien of the Outstanding Senior Lien Bonds on the Pledged Revenues upon satisfaction of certain conditions. In addition to the Outstanding Subordinate Lien Obligations, additional Subordinate Lien Obligations may and are expected to be issued, and other subordinate obligations may be issued subordinate to the Outstanding Subordinate Lien Obligations with respect to the Pledged Revenues upon satisfaction of certain conditions. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014B BONDS—Outstanding and Additional Senior Lien Bonds," "—Outstanding and Additional Subordinate Lien Obligations," "—Additional Contemplated Obligations" and "—Junior Subordinate Lien Obligations."

Tax Status of the Series 2014B Bonds

The opinion expressed by Special Tax Counsel is based on existing law as of the delivery date of the Series 2014B 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 2014B 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 2014B Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series 2014B Bonds, or bonds which present similar tax issues, will not affect the market price for Series 2014B Bonds. Prospective purchasers of the Series 2014B Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Special Tax Counsel expresses no opinion.

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 State 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.

Section 67-3-8.1 allows the Department to enter into “gasoline tax sharing agreements” with the Pueblos of Nambe and Santo Domingo for terms of up to twenty years. Agreements with each Pueblo were executed in 2004 and contained terms of 10 years. The original tax sharing agreement with the Pueblo of Nambe expired in January 2014, but a new tax sharing agreement was executed and became effective on January 14, 2014. The Nambe Agreement provided that the Pueblo will not distribute gasoline for resale outside of the boundaries of the Pueblo 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). The Nambe Agreement is scheduled to expire on January 14, 2024 but may be terminated by any party with or without cause upon 12 months’ notice. The original gasoline tax sharing agreement with Santo Domingo expired on July 1, 2014; however, a new agreement took effect on the same date. The new agreement requires the Pueblo to forgo distribution of gasoline for resale outside of its boundaries in exchange for revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). The new Santo Domingo agreement has a term of ten years but may be terminated by any party with or without cause upon three years’ notice.

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, was 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 fluctuations in gasoline prices), the Department experienced a decline in gasoline excise taxes but expects a leveling off followed by a slow rate of growth, if any, in gasoline excise taxes paid into the State Road Fund over the next several years. See “PLEDGED REVENUES—State Road Fund—Gasoline Excise Taxes.”

The amount of gasoline excise taxes that will be collected is also subject to fluctuation based on the activities that generate those taxes, including demand for gasoline and general economic conditions. There can be no guarantee that the amount of Pledged Revenues from gasoline excise taxes collected in the future will be consistent with historical collection trends.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Series 2014B Bonds are set forth in the following table:

Sources of Funds

| | |
|-------------------------------------|------------------------|
| Series 2014B Bonds Par Amount | \$79,405,000.00 |
| Plus original issue premium | <u>17,026,112.50</u> |
| Total Sources | <u>\$96,431,112.50</u> |

Uses of Funds

| | |
|--|------------------------|
| Refund Refunded Series 2006A Bonds | \$74,263,030.68 |
| Refund Refunded Series 2006B Bonds | 21,500,816.02 |
| Costs of Issuance ⁽¹⁾ | <u>667,265.80</u> |
| Total Uses | <u>\$96,431,112.50</u> |

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

PLAN OF REFUNDING

Bonds to be Refunded

A portion of the proceeds of the Series 2014B Bonds will be deposited with BOKF, NA, dba Bank of Albuquerque, as escrow agent (the "Escrow Agent"), in an escrow fund (the "Escrow Fund") established for the Refunded Bonds (as defined below) under an Escrow Agreement dated as of December 1, 2014 (the "Escrow Agreement").

The Refunded Series 2006A Bonds. A portion of the proceeds of the Senior Series 2014B-1 Bonds will be deposited in the Escrow Fund and invested in obligations of the United States of America or obligations whose principal and interest are unconditionally guaranteed by the United States of America maturing in amounts and at rates sufficient to pay, when due, the interest on all of the Refunded Series 2006A Bonds identified below, through December 15, 2016 (the "Redemption Date") and to pay the redemption price of the Refunded Series 2006A Bonds on the Redemption Date.

The following table sets forth the maturity dates, maturity amounts, and interest rates of the Refunded Series 2006A Bonds:

| <u>Maturity Date</u> <u>(December 15)</u> | <u>Maturity Amount</u> | <u>Interest Rate</u> |
|--|------------------------|----------------------|
| 2026 | \$68,250,000 | 5.000% |

The Refunded Series 2006B Bonds. A portion of the proceeds of the Subordinate Series 2014B-2 Bonds will be deposited in the Escrow Fund and invested in obligations of the United States of America or obligations whose principal and interest are unconditionally guaranteed by the United States of America maturing in amounts and at rates sufficient to pay, when due, the interest on all of the Refunded Series 2006B Bonds identified below, through the Redemption Date and to pay the redemption price of the Refunded Series 2006B Bonds on the Redemption Date.

The following table sets forth the maturity dates, maturity amounts, and interest rates of the Refunded Series 2006B Bonds:

| <u>Maturity Date (December 15)</u> | <u>Maturity Amount</u> | <u>Interest Rate</u> |
|--|------------------------|----------------------|
| 2017 | \$250,000 | 3.800% |
| 2017 | 1,315,000 | 5.000 |
| 2018 | 1,645,000 | 5.000 |
| 2019 | 1,730,000 | 5.000 |
| 2020 | 1,820,000 | 5.000 |
| 2021 | 1,910,000 | 5.000 |
| 2022 | 525,000 | 4.000 |
| 2022 | 1,480,000 | 5.000 |
| 2023 | 2,105,000 | 5.000 |
| 2024 | 2,215,000 | 5.000 |
| 2025 | 2,330,000 | 5.000 |
| 2026 | 2,450,000 | 5.000 |

Defeasance

Upon the issuance of the Series 2014B Bonds, the Refunded Bonds will be considered defeased and will cease to be entitled to the pledge of any portion of the Pledged Revenues.

Escrow Verification

Certain mathematical computations regarding the sufficiency of and the yield on the investments held in the Escrow Fund will be verified by Grant Thornton LLP. See “ESCROW VERIFICATION” below.

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ANNUAL DEBT SERVICE REQUIREMENTS

Debt Service for the Series 2014B Bonds, the Outstanding Senior Lien Bonds, and the Outstanding Subordinate Lien Bonds

The following schedule shows the total debt service payable for the Series 2014B Bonds for each fiscal year through their final maturity date.

| Fiscal Year | Senior Series 2014B-1 Bonds | | Subordinate Series 2014B-2 Bonds | | Existing Debt Service ⁽³⁾ | | Total Fiscal Year Debt Service Requirements |
|----------------|--------------------------------|----------------------------|-------------------------------------|---------------------------|---|---|--|
| | <u>Principal⁽¹⁾</u> | <u>Interest</u> | <u>Principal⁽¹⁾</u> | <u>Interest</u> | <u>Senior Lien⁽²⁾</u> | <u>Subordinate Lien⁽²⁾</u> | |
| 2015 | — | \$1,466,300 | — | \$430,597 | \$110,784,113 | \$39,178,637 | \$151,859,647 |
| 2016 | — | 3,069,000 | — | 901,250 | 89,172,875 | 38,864,644 | 132,007,769 |
| 2017 | — | 3,069,000 | — | 901,250 | 111,588,775 | 37,291,950 | 152,850,975 |
| 2018 | — | 3,069,000 | \$1,430,000 | 901,250 | 111,590,888 | 34,635,825 | 151,626,962 |
| 2019 | — | 3,069,000 | 1,505,000 | 829,750 | 111,594,731 | 34,570,300 | 151,568,781 |
| 2020 | — | 3,069,000 | 1,580,000 | 754,500 | 111,796,975 | 34,712,525 | 151,913,000 |
| 2021 | — | 3,069,000 | 1,660,000 | 675,500 | 111,795,725 | 33,145,025 | 150,345,250 |
| 2022 | — | 3,069,000 | 1,740,000 | 592,500 | 113,694,350 | 30,313,025 | 149,408,875 |
| 2023 | — | 3,069,000 | 1,830,000 | 505,500 | 51,643,450 | 96,632,150 | 153,680,100 |
| 2024 | — | 3,069,000 | 1,920,000 | 414,000 | 16,544,700 | 153,619,653 | 175,567,353 |
| 2025 | — | 3,069,000 | 2,015,000 | 318,000 | 30,575,425 | 114,054,166 | 150,031,591 |
| 2026 | — | 3,069,000 | 2,120,000 | 217,250 | 23,108,800 | 114,625,892 | 143,140,942 |
| 2027 | \$61,380,000 | 3,069,000 | 2,225,000 | 111,250 | — | 21,378,384 | 88,163,634 |
| 2028 | — | — | — | — | — | 8,785,250 | 8,785,250 |
| 2029 | — | — | — | — | — | 8,894,250 | 8,894,250 |
| 2030 | — | — | — | — | — | 8,995,500 | 8,995,500 |
| 2031 | — | — | — | — | — | 9,103,250 | 9,103,250 |
| 2032 | — | — | — | — | — | 7,161,000 | 7,161,000 |
| TOTAL | <u>\$61,380,000</u> | <u>\$38,294,300</u> | <u>\$18,025,000</u> | <u>\$7,552,597</u> | <u>\$993,890,806</u> | <u>\$825,961,427</u> | <u>\$1,945,104,130</u> |

(1) Payable on June 15 of each year.

(2) Includes principal and interest.

(3) Assumes the issuance of the Series 2014B Bonds and the refunding of the Refunded Bonds.

(Source: The Financial Advisor.)

Historical and Projected Debt Service Coverage

The following tables set forth (i) for each fiscal year from 2005 through 2014, the amounts in each such fiscal year of the Pledged Revenues, the amounts in each such year for debt service on the Outstanding Senior Lien Bonds, the Outstanding Subordinate Lien Bonds and certain obligations which were defeased in fiscal year 2012, and the debt service coverage ratios, and (ii) for each fiscal year from 2015 through 2019, 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 Senior Lien Bonds and the Outstanding Subordinate Lien Bonds and the projected debt service coverage ratios. Estimated Pledged Revenues are based on Department projections as of July, 2014. Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE SERIES 2014B BONDS” and “FORWARD-LOOKING STATEMENTS.”

HISTORICAL DEBT SERVICE COVERAGE⁽¹⁾

(in thousands)

(This summary is unaudited.)

| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Unaudited</u> |
| State Road Fund | \$360,302 | \$381,652 | \$394,666 | \$379,461 | \$362,239 | \$358,624 | \$370,724 | \$365,754 | \$373,721 | \$372,916 |
| Highway Infrastructure Fund | 6,598 | 7,229 | 6,780 | 9,153 | 7,147 | 7,206 | 7,479 | 7,579 | 7,047 | 7,732 |
| Federal Funds | <u>287,475</u> | <u>292,847</u> | <u>228,392</u> | <u>253,571</u> | <u>302,428</u> | <u>325,468</u> | <u>310,655</u> | <u>323,173</u> | <u>327,511</u> | <u>372,869</u> |
| Total Pledged Revenues | <u>654,375</u> | <u>681,728</u> | <u>629,838</u> | <u>642,185</u> | <u>671,814</u> | <u>691,298</u> | <u>688,858</u> | <u>696,506</u> | <u>708,279</u> | <u>753,517</u> |
| Closed & Senior Lien Debt Service ⁽²⁾⁽³⁾ | 109,919 | 111,776 | 111,555 | 115,704 | 117,811 | 113,534 | 74,592 | 90,811 | 95,708 | 112,435 |
| Coverage | 5.95x | 6.10x | 5.65x | 5.55x | 5.70x | 6.09x | 9.24x | 7.67x | 7.12x | 6.70x |
| Closed, Senior Lien & Subordinate Lien Debt Service ⁽³⁾⁽⁴⁾ | N/A | N/A | 160,621 | 162,109 | 162,026 | 164,849 | 160,000 | 156,399 | 155,104 | 145,276 |
| Coverage | N/A | N/A | 3.92x | 3.96x | 4.15x | 4.19x | 4.31x | 4.45x | 4.57x | 5.19x |

⁽¹⁾ Based upon actual Pledged Revenues from audited results for Fiscal Years 2005 through 2013. Fiscal Year 2014 numbers are actual but unaudited. See “PLEDGED REVENUES—Pledged Revenues History and Estimates” for further detail regarding the Pledged Revenues.

⁽²⁾ Closed lien debt service represents debt service on bonds which were defeased in 2012.

⁽³⁾ Debt service exclusive of related Finance Authority fee, if any.

⁽⁴⁾ Interest on the Series 2008A Bonds and Series 2008B Bonds assumed at the associated swap rate. Interest on the Series 2011A-1 Notes, Series 2011A-2 Notes and Series 2011A-3 Notes assumed at the associated swap rate plus 65 basis points. Debt Service with respect to variable rate obligations is exclusive of remarketing and letter of credit facilities.

(Source: The Department.)

PROJECTED DEBT SERVICE COVERAGE⁽¹⁾

(in thousands)

(This summary is unaudited.)

| | <u>FY15</u> | <u>FY16</u> | <u>FY17</u> | <u>FY18</u> | <u>FY19</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | <u>Estimate</u> | <u>Estimate</u> | <u>Estimate</u> | <u>Estimate</u> | <u>Estimate</u> |
| State Road Fund | \$376,160 | \$383,078 | \$387,942 | \$394,350 | \$396,750 |
| Highway Infrastructure Fund | 7,439 | 7,645 | 7,879 | 8,091 | 8,175 |
| Federal Funds | <u>312,782</u> | <u>312,782</u> | <u>312,782</u> | <u>312,782</u> | <u>312,782</u> |
| Total Pledged Revenues ⁽²⁾ | <u>696,381</u> | <u>703,505</u> | <u>708,603</u> | <u>715,223</u> | <u>717,707</u> |
| Senior Lien Debt Service ⁽³⁾ | 112,250 | 92,242 | 114,658 | 114,660 | 114,664 |
| Senior Lien Coverage | 6.20x | 7.63x | 6.18x | 6.24x | 6.26x |
| Senior & Subordinate Lien Debt Service ⁽⁴⁾ | 151,860 | 132,008 | 152,851 | 151,627 | 151,569 |
| Senior & Subordinate Lien Coverage | 4.59x | 5.33x | 4.64x | 4.72x | 4.74x |
| Sensitivity Analysis – Coverage if Federal Funds were Projected at: | | | | | |
| \$322 million per year | | | | | |
| Senior Lien Coverage | 6.29x | 7.73x | 6.26x | 6.32x | 6.34x |
| Senior & Subordinate Lien Coverage | 4.65x | 5.40x | 4.70x | 4.78x | 4.80x |
| \$222 million per year | | | | | |
| Senior Lien Coverage | 5.40x | 6.64x | 5.39x | 5.45x | 5.47x |
| Senior & Subordinate Lien Coverage | 3.99x | 4.64x | 4.04x | 4.12x | 4.14x |
| \$122 million per year | | | | | |
| Senior Lien Coverage | 4.50x | 5.56x | 4.52x | 4.57x | 4.60x |
| Senior & Subordinate Lien Coverage | 3.33x | 3.88x | 3.39x | 3.46x | 3.48x |

⁽¹⁾ Assumes the issuance of the Series 2014B Bonds and the refunding of the Refunded Bonds.

⁽²⁾ Based upon estimated Pledged Revenues for Fiscal Years 2015 through 2019. State Road Fund estimates include Gasoline Tax, Special Fuel Tax and Weight Distance Tax projections using autoregressive models and Vehicle Registration, Vehicle Transaction and Driver Licenses Fees projections using trend analysis. Includes other taxes and fees which are generally forecasted using trend analysis. Federal Funds estimates approximate multi-year average under MAP-21 and are assumed at a level amount. See “PLEDGED REVENUES—Pledged Revenues History and Estimates” for further detail regarding the Pledged Revenues. See also “FORWARD-LOOKING STATEMENTS.”

⁽³⁾ Debt service exclusive of related Finance Authority fee, if any.

⁽⁴⁾ Interest on the Series 2008A Bonds and Series 2008B Bonds assumed at the associated swap rate. Interest on the Series 2011A-1 Notes, Series 2011A-2 Notes and Series 2011A-3 Notes assumed at the associated swap rate plus 65 basis points through Fiscal Year 2016 and assumed at the associated swap rate thereafter. After 2016, such rate in actuality may vary depending upon the instrument used to refinance the Series 2011A-1, A-2 and A-3 Notes. Debt Service with respect to variable rate obligations is exclusive of remarketing and letter of credit facilities.

(Source: The Department and the Financial Advisor (as to debt service).)

Projected Debt Service Coverage Based Upon Maximum Aggregate Annual Debt Service. Based on total Pledged Revenues for fiscal year 2014 of \$753,517,000 and assuming no change in such revenues, the coverage ratio for the maximum annual debt service on the Outstanding Senior Lien Bonds, including the Senior Series 2014B-1 Bonds, is 6.45x and the coverage ratio for the maximum annual debt service on the Outstanding Senior Lien and Subordinate Lien Bonds, including the Senior Series 2014B-1 Bonds and the Subordinate Series Series 2014B-2 Bonds, is 4.29x.

THE DEPARTMENT AND THE COMMISSION

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 commuter rail service between Belen and Bernalillo in July 2006 and began 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. Tom Church is currently serving as the Secretary.

The Department's finances are comprised of revenues from State and federal sources. In fiscal year 2013, 53.8% of the Department's general revenues consisted of State-generated income from user and fuel taxes and interest income to the State Road Fund and 46.2% consisted of program revenues from federal grants and other federal reimbursements. 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, 2013, are attached as Appendix A.

As a condition for receiving federal funds for transportation programs, states must develop comprehensive plans that are based upon anticipated short-term and long-term funding amounts for specific programmatic categories of the FHWA. States must fulfill these federal requirements in order to be eligible for federal transportation funds. Specific projects are not eligible for federal reimbursements unless each project is identified in a Statewide Transportation Improvement Program ("STIP"). MAP-21, SAFETEA-LU and TEA-21 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 “PLEDGED REVENUES.”

The STIP lists all projects funded with federal funds for a period of at least four years. In New Mexico, the STIP is currently developed bi-annually, updated quarterly and covers a four-year period. The most recent four-year STIP amendment covering federal fiscal years 2014 through 2017 was approved by the Commission on December 5, 2013. The four-year STIP represents \$1,533,042,530 of projects to be undertaken during federal fiscal years 2014 through 2017, as well as federal contributions toward Department debt service.

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

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

The Department and the FHWA have entered into the FHWA Memorandum that sets forth the procedures for managing the stewardship and oversight of debt service relating to the finance plan for construction of Grant Anticipation Revenue Vehicle Projects. Pursuant to the FHWA Memorandum, 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 it has not exceeded \$122 million in Federal-Aid eligible highway program funded debt service payments billed to FHWA for reimbursement. The FHWA Memorandum provides that Federal-Aid reimbursements to the Department will be made on a semi-annual basis, which differs from the previous memorandum of understanding, which provided for monthly payments. Payment of Federal-Aid reimbursement is conditioned upon available funding and satisfaction by the Department of the completion of certain reports and reconciliations. Neither the Authority nor the Department makes any representation regarding the amount or timeliness of payments from the FHWA. See “PLEDGED REVENUES” herein. A concurrence letter executed by FHWA and relating to the issuance of the Series 2014B Bonds has been received by the Department.

The Commission

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

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|---------------|-------------------------|
| Pete K. Rahn | Chairman | 12/31/16 ⁽¹⁾ |
| Ronald L. Schmeits | Vice Chairman | 12/31/16 |
| Kenneth R. White | Secretary | 12/31/18 ⁽¹⁾ |
| Jackson Gibson | Member | 12/31/14 |
| Butch Matthews | Member | 12/31/14 |
| David Sepich | Member | 3/21/2015 |

⁽¹⁾ Individual has been appointed to the term shown above but is awaiting confirmation from the New Mexico Senate.

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.

NEW MEXICO FINANCE AUTHORITY

General Information

The Finance Authority is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The Finance Authority 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 Finance Authority and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the Finance Authority has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The Finance Authority is comprised of 11 members who also constitute the Finance Authority's board of directors and currently employs 37 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the Finance Authority, subject to the policies, control and direction of the Finance Authority.

The Finance Authority staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the Finance Authority's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the Finance Authority'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.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the Finance Authority 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:

- (a) to procure insurance to secure payment on any loan, lease or purchase payments owed to the Finance Authority 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;
- (b) 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 Finance Authority;
- (c) to accept, administer, hold and use all funds made available to the Finance Authority from any sources;

- (d) to borrow money and to issue bonds and provide for the rights of holders of the bonds;
- (e) to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts;
- (f) to invest and reinvest its funds and to take and hold property as security for the investment of such funds;
- (g) 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
- (h) to do any and all things necessary or convenient to carry out its purposes and exercise the powers given and granted in the Act.

Pursuant to the Act and when directed by the Commission, the Finance Authority may issue State transportation bonds payable from and secured by the Pledged Revenues.

The Finance Authority has no authority to impose or collect taxes.

Other Finance Authority Programs

In addition to the transportation financings authorized by the Act, the Finance Authority participates in several other programs designed to provide financing for equipment and projects to both local governmental entities and state agencies, including the Finance Authority's public project revolving fund bonds (the "PPRF Bonds"). These projects are funded by various sources and do not have a lien or claim of any type on the Pledged Revenues.

LITIGATION

There is no litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2014B 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 Series 2014B Bonds or in any way contesting or affecting the validity or enforceability of the Series 2014B Bonds, the Indenture, or any proceeding and authority of the Finance Authority, the Commission or the Department taken with respect to the foregoing. The Finance Authority, the Commission, the Department and the respective general counsel of the Finance Authority and the Department will deliver no-litigation certificates as to the foregoing prior to the issuance of the Series 2014B Bonds.

UNDERWRITING

Pursuant to a Bond Purchase Agreement dated December 11, 2014 (the "Bond Purchase Agreement") between RBC Capital Markets, LLC, as representative, on behalf of itself and Merrill Lynch, Pierce, Fenner & Smith Incorporated (together, the "Underwriters") and the Finance Authority, the Underwriters have agreed to purchase (i) the Senior Series 2014B-1 Bonds from the Finance Authority at a purchase price equal to \$74,620,107.02 (being the aggregate principal amount of the Senior Series 2014B-1 Bonds plus original issue premium of \$13,398,026.40 and less an underwriting discount of \$157,919.38) and (ii) the Subordinate Series 2014B-2 Bonds at a purchase price equal to \$21,606,711.12 (being the aggregate principal amount of the Subordinate Series 2014B-2 Bonds plus original issue premium of \$3,628,086.10, and less an underwriting discount of \$46,374.98). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2014B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the Series 2014B Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the inside front cover of this Official Statement. In

addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

As noted in “INTEREST RATE SWAPS” above, The Royal Bank of Canada, the swap counterparty to the swap relating to the Subordinate Lien Series 2011A-1 Bonds, is the parent company of RBC Capital Markets, LLC. RBC Capital Markets, LLC is also remarketing agent for certain outstanding Bonds.

Merrill Lynch, Pierce, Fenner & Smith Incorporated is an affiliate of Bank of America, N.A., which has provided the Taxable Line of Credit to the Finance Authority described under “SECURITY FOR THE SERIES 2014B Bonds—Taxable Line of Credit.”

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and/or may in the future perform, various investment banking services for the Finance Authority or the Department for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Finance Authority and the Department.

TAX MATTERS

Federal Income Tax

Excludability of Interest. In the opinion of Ballard Spahr LLP, Special Tax Counsel to the Finance Authority, interest on the Series 2014B Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of delivery of the Series 2014B Bonds, assuming the accuracy of the certifications of the Finance Authority and the Department and continuing compliance by the Finance Authority and the Department with the requirements of the Internal Revenue Code of 1986. Interest on the Series 2014B Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax; however, interest on the Series 2014B Bonds held by a corporation (other than an S corporation, regulated investment company, or real estate investment trust) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder.

No Further Opinion. 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 2014B Bonds.

Original Issue Premium. The Series 2014B Bonds are offered at a premium (“original issue premium”) over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Series 2014B Bond through reductions in the holder’s tax basis for the Series 2014B Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Series 2014B Bondholders should consult their tax advisers for an explanation of the amortization rules.

Changes in Federal and State Tax Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Series 2014B Bonds or otherwise prevent holders of the Series 2014B Bonds from realizing the full benefit of the tax exemption of interest on the Series 2014B Bonds. Further, such proposals may impact the marketability or market value of the Series 2014B

Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to Series 2014B Bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Series 2014B Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2014B Bonds would be impacted thereby.

Purchasers of the Series 2014B Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Special Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2014B Bonds, and Special Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

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 Series 2014B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

RATINGS

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Moody's Investors Services ("Moody's"), have assigned ratings of "AAA" and "Aa1," respectively, with respect to the Senior Series 2014B-1 Bonds. S&P and Moody's have assigned ratings of "AA" and "Aa2," respectively, with respect to the Subordinate Series 2014B-2 Bonds. Any explanation of the significance of such ratings may be obtained from the respective rating agency.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2014B 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 Series 2014B Bonds may have an adverse effect on the market price of the Series 2014B Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2014B Bonds any proposed revision or withdrawal of the ratings on the Series 2014B Bonds, or to oppose any such proposed revision or withdrawal.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2014B Bonds, Sutin, Thayer & Browne A Professional Corporation, Santa Fe, New Mexico, as Bond Counsel to the Finance Authority, and Ballard Spahr LLP, as Special Tax Counsel to the Finance Authority, will deliver the respective opinions included in Appendix D. Certain matters relating to disclosure will be passed upon by Ballard Spahr LLP, Disclosure Counsel to the Finance Authority. Certain legal matters will be passed upon for the Finance Authority by its General Counsel. The Commission and the Department are being represented by their general counsel and by Kutak Rock, LLP, Denver, Colorado. The Underwriters are being represented by their counsel Hogan Lovells US LLP. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the Finance Authority, the Commission or the Department contained in this Official Statement.

FINANCIAL ADVISOR

Public Financial Management, Inc. is employed as Financial Advisor to the Department in connection with the issuance of the Series 2014B Bonds. Public Financial Management, Inc., 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 Series 2014B 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, 2013, an extract from which is included as Appendix A to this Official Statement, have been audited by Moss-Adams LLP, certified public accountants, Albuquerque, New Mexico, as set forth in its report therein dated December 13, 2013. Such financial statements represent the most current audited financial information available for the Department. Also included in Appendix A is certain preliminary, unaudited financial information for the Department for the year ended June 30, 2014.

Moss-Adams LLP has not been asked to consent to the use of its name or inclusion of the audited financial reports for the Department in this Official Statement. Moss-Adams LLP has not performed any procedures on any financial statements or other financial information of the Department, including any of the information contained in this Official Statement.

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to the Finance Authority'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 connection with the issuance of the Series 2014B Bonds, the Finance Authority and the Department have agreed to provide certain information and data of the type that would be required by Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), if they were subject to its requirements. The Finance Authority and the Department will execute and deliver a Continuing Disclosure Undertaking pursuant to which the Department will agree to provide to the Finance Authority certain annual financial information and operating data with respect to the Department and the Finance Authority will agree to provide such information as well as notice of the occurrence of certain events to the Municipal Securities Rulemaking Board (the "MSRB") in an electronic format. See "APPENDIX F—FORM OF CONTINUING DISCLOSURE UNDERTAKING" attached hereto and incorporated herein by reference for a form of the Continuing Disclosure Undertaking that will be executed and delivered by the Finance Authority and the Department.

A failure by the Finance Authority or the Department to comply with the undertaking will not constitute a default under the Indenture and beneficial owners of the Series 2014B Bonds are limited to the remedies described in the Continuing Disclosure Undertaking. A failure by the Finance Authority or Department to comply with the Continuing Disclosure Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2014B Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2014B Bonds and their market price. See "APPENDIX F—FORM OF CONTINUING DISCLOSURE UNDERTAKING" for the information to be provided, the events which will be noticed on an occurrence basis and the other terms of the Continuing Disclosure Undertaking, including termination, amendment and remedies.

Continuing disclosure undertakings previously entered into by the Department with respect to certain of the Bonds called for it to file certain annual financial information and operating data and audited financial statements (or unaudited financial statements, if the audit is not then available) for the Department no later than March 31 of each fiscal year or the next succeeding business day if March 31 is not a business day. For fiscal year 2009, annual financial information and operating data for the Department was filed in compliance with the Department's

undertakings, but the audited financial statements were not available and unaudited financial statements in a format similar to the audited financial statements were not filed. The Department's annual audits were subsequently filed in accordance with the Department's previous undertakings. The Department believes that it is currently in material compliance with each of its previous continuing disclosure undertakings.

In July 2012, the Finance Authority disclosed that what it believed was the audit of its financial statements for the fiscal year ended June 30, 2011 was not properly completed (the "Incomplete Audit"). Due to the Incomplete Audit, the Finance Authority was unable to file its audit for the fiscal year ended June 30, 2011 in a manner that was in material compliance with its previous undertakings. Eventually, the audit for fiscal year ended June 30, 2011 was completed and made available, and the Finance Authority filed such audit with the MSRB as specified in its disclosure undertaking.

In addition, the Finance Authority reports that it did not provide notice to the MSRB of an upgrade on its Subordinate Lien Bonds by Moody's from Aa3 to Aa2. The Finance Authority has since filed notice of such upgrade with the MSRB. Other than as described under this caption "Continuing Disclosure Undertaking," the Finance Authority believes that it is currently in compliance in all material respects with each of its previous continuing disclosure undertakings.

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 Finance Authority, may be obtained during the offering period, upon request to the Commission or the Finance Authority and upon payment to the Commission or the Finance Authority, respectively, of a charge for copying, mailing and handling, at the following, for the Commission: 1120 Cerrillos Road, Santa Fe, New Mexico 87504, Attention: Bond Debt Service Program Manager; or for the Finance Authority: 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Financial Strategist.

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 Finance Authority and the purchasers or holders of any of the Series 2014B Bonds.

APPROVAL BY THE FINANCE AUTHORITY AND THE COMMISSION

The distribution and use of the Official Statement by the Underwriters has been duly authorized and approved by the Finance Authority and the Official Statement has been executed and delivered on behalf of the Finance Authority by the Chair of its Board of Directors and the Chairman of the Commission.

NEW MEXICO FINANCE AUTHORITY

By _____ /s/ John E. McDermott
John E. McDermott
Chair

**STATE TRANSPORTATION COMMISSION OF
THE STATE OF NEW MEXICO**

By _____ /s/ Pete K. Rahn
Pete K. Rahn
Chairman

APPENDIX A

**EXTRACTS OF THE NEW MEXICO DEPARTMENT
OF TRANSPORTATION AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

**AND
EXTRACTS OF THE UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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**NM DEPARTMENT OF TRANSPORTATION
Financial Statements
for the Year Ended
June 30, 2013
and Report of
Independent Auditors**

NEW MEXICO DEPARTMENT OF TRANSPORTATION
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NEW MEXICO DEPARTMENT OF TRANSPORTATION
Official Roster

Year Ended June 30, 2013

Commission

| | | |
|-------------------|--------------|------------|
| Pete Rahn | Chairman | District 3 |
| Ronald Schmeits | Vice-Chair | District 4 |
| Dr. Kenneth White | Secretary | District 1 |
| Robert Wallach | Commissioner | District 2 |
| Butch Mathews | Commissioner | District 5 |
| Jackson Gibson | Commissioner | District 6 |

Administrative Officers

| | |
|---------------|------------------------------|
| Tom J. Church | Cabinet Secretary, Designate |
| Anthony Lujan | Deputy Secretary |
| Kathy Bender | Deputy Secretary |

REPORT OF INDEPENDENT AUDITORS

Mr. Tom Church, Cabinet Secretary, Designate
State of New Mexico Department of Transportation
and
Mr. Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information and the budgetary comparisons of the major funds of the State of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Department's non-major governmental funds and the budgetary comparisons for the non-major funds presented as supplementary information as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Mr. Tom Church, Cabinet Secretary, Designate
State of New Mexico Department of Transportation
and
Mr. Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the major funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each non-major fund of the Department as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the non-major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining fund information and all respective budgetary comparisons of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2013, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mr. Tom Church, Cabinet Secretary, Designate
State of New Mexico Department of Transportation
and
Mr. Hector H. Balderas, New Mexico State Auditor
Santa Fe, New Mexico

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements, the non-major fund financial statements and non-major fund budgetary comparisons. The additional schedules listed as other supplementary information in the table of contents as required by the New Mexico State Audit Rule and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as listed in the table of contents, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
December 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2013. 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 start on page 43 of this audit report.

1. Overview of the Financial Statements

Financial Highlights - 2013

The Department's net position decreased by \$226,658,397 and the net position of the Department's governmental activities decreased by \$226,724,922 (primarily due to depreciation of infrastructure assets exceeding additions and improvements during the current fiscal year and the reclassification of deferred charges for bond issuance costs to a prior period expense.)

Financial Highlights - 2012

The Department's net assets decreased by \$84,851,210, and the net assets of the Department's governmental activities decreased by \$84,919,852 primarily due to depreciation of infrastructure assets exceeding additions and improvements during the current fiscal year.

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 non-major 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 Position presents information on all of the Department's assets and liabilities, with the difference between the two reported as net position. 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 position 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.

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 start on page 26 of this report.

1. Overview of the Financial Statements - continued

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 the 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 Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department has 51 governmental funds. Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria:

1) 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.

2) 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(s) (Funds #10040 and 20100). The State Road Fund(s) were created by Section 67-3-65, NMSA 1978. The State Road Fund(s) are the operating fund of the Department and is used to account for substantially all of the Department's financial activities.

2008B GRIP Bond Debt Service Fund (Fund #10420). The fund was created when the \$220,000,000 New Mexico State Transportation Commission Revenue Bonds Series 2008B were issued in April 2008 to refund certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation.

1. Overview of the Financial Statements - continued

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 three major funds. Data from the other 49 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 168 through 194.

Proprietary 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 38 through 39 and the cash flows statement is on page 40 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 start on page 43.

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 position may serve over time as a useful indicator of the Department's financial position. At June 30, 2013, the Department's assets exceeded liabilities by \$5,403,702,182.

The largest portion of the Department's net position 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.

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1. Overview of the Financial Statements - continued

Net Position

As of June 30, 2013 and 2012, the Department has positive balances in two categories of net position, 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 position for the fiscal years ended June 30, 2013 and 2012.

Table A-1 The Department's Net Position

| | Governmental Activities | | Business-type Activities | |
|---|--------------------------------|-------------------------|---------------------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Assets: | | | | |
| Current and other assets | \$ 498,230,423 | \$ 617,291,608 | \$ 20,939,797 | \$ 20,723,225 |
| Capital assets and other | 6,623,581,695 | 6,986,486,203 | - | - |
| Total Assets | \$ 7,121,812,118 | \$ 7,603,777,811 | \$ 20,939,797 | \$ 20,723,225 |
| Deferred Outflows: | | | | |
| Deferred loss on refunding | \$ 85,651,424 | \$ 76,507,362 | \$ - | \$ - |
| Deferred outflow of resources | 58,445,464 | 137,082,035 | - | - |
| Total Deferred Outflows | \$ 144,096,888 | \$ 213,589,397 | \$ - | \$ - |
| Total Assets and Deferred Outflows | \$ 7,265,909,006 | \$ 7,817,367,208 | \$ 20,939,797 | \$ 20,723,225 |
| Liabilities: | | | | |
| Current liabilities | \$ 284,794,101 | \$ 76,507,362 | \$ 212,264 | \$ - |
| Long-term liabilities | 1,598,140,256 | 137,082,035 | - | - |
| Total Liabilities | \$ 1,882,934,357 | \$ 213,589,397 | \$ 212,264 | \$ - |
| Net Position: | | | | |
| Net Investment in Capital Assets | \$ 4,884,648,804 | \$ 5,001,281,378 | \$ - | \$ - |
| Restricted | 498,325,845 | 608,418,193 | 20,727,533 | 20,661,008 |
| Total Net Position | \$ 5,382,974,649 | \$ 5,609,699,571 | \$ 20,727,533 | \$ 20,661,008 |

1. Overview of the Financial Statements - continued

| Total | |
|------------------|------------------|
| 2013 | 2012 |
| <hr/> | |
| \$ 519,170,220 | \$ 638,014,833 |
| 6,623,581,695 | 6,986,486,203 |
| <hr/> | |
| \$ 7,142,751,915 | \$ 7,624,501,036 |
| | |
| \$ 85,651,424 | \$ 76,507,362 |
| 58,445,464 | 137,082,035 |
| <hr/> | |
| \$ 144,096,888 | \$ 213,589,397 |
| | |
| \$ 7,286,848,803 | \$ 7,838,090,433 |
| <hr/> | |
| | |
| \$ 285,006,365 | \$ 76,507,362 |
| 1,598,140,256 | 137,082,035 |
| <hr/> | |
| \$ 1,883,146,621 | \$ 213,589,397 |
| <hr/> | |
| | |
| \$ 4,884,648,804 | \$ 5,001,281,378 |
| 519,053,378 | 629,079,201 |
| <hr/> | |
| \$ 5,403,702,182 | \$ 5,630,360,579 |
| <hr/> | |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Management's Discussion and Analysis
Year Ended June 30, 2013

1. Overview of the Financial Statements - continued

Changes in Net Assets

Table A-2 provides a summary of the Department's operations for the years ended June 30, 2013 and 2012. Governmental activities decreased the Department's net position by \$226,724,922 in 2013 and decreased the Department's net assets by \$84,919,852 in 2012. Business-type activities increased the Department's net assets by \$66,525 in 2013 and by \$68,642 in 2012, due to interest income earned during the year.

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

| | Governmental Activities | | Business-type Activities | |
|--|--------------------------------|-------------------------|---------------------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 45,850,237 | \$ 33,838,571 | \$ - | \$ - |
| Operating grants | 20,880,640 | 30,830,847 | - | - |
| Capital grants | 441,146,787 | 440,135,455 | - | - |
| General revenues: | | | | |
| User and fuel taxes | 390,149,214 | 386,438,418 | - | - |
| Interest income | 3,804,981 | 3,895,557 | 66,525 | 68,642 |
| Special revenues: | | | | |
| Gain (loss) on disposal of assets | 1,149,083 | (71,697) | - | - |
| Total Revenues | 902,980,942 | 895,067,151 | 66,525 | 68,642 |
| Expenses: | | | | |
| Programs and infrastructure | 842,638,581 | 593,274,035 | - | - |
| Transportation and highway operations | 202,343,925 | 376,172,487 | - | - |
| Program support | 92,803,958 | 48,777,112 | - | - |
| Total Expenses | 1,137,786,464 | 1,018,223,634 | - | - |
| Net Revenues Before Transfers and Reversions | (234,805,522) | (123,156,483) | 66,525 | 68,642 |
| Transfers and Reversions | 8,080,600 | 38,236,631 | - | - |
| (Decrease) Increase in Net Position | (226,724,922) | (84,919,852) | 66,525 | 68,642 |
| Net Position, Beginning of Fiscal Year | 5,609,699,571 | 5,702,624,599 | 20,661,008 | 20,592,366 |
| Restatement (See Note 25) | - | (8,005,176) | - | - |
| Net Position, Beginning of Fiscal Year, as restated | 5,609,699,571 | 5,694,619,423 | 20,661,008 | 20,592,366 |
| Net Position, End of Fiscal Year | \$ 5,382,974,649 | \$ 5,609,699,571 | \$ 20,727,533 | \$ 20,661,008 |

1. Overview of the Financial Statements - continued

| Total | |
|---------------|---------------|
| 2013 | 2012 |
| <hr/> | |
| \$ 45,850,237 | \$ 33,838,571 |
| 20,880,640 | 30,830,847 |
| 441,146,787 | 440,135,455 |
| 390,149,214 | 386,438,418 |
| 3,871,506 | 3,964,199 |
| 1,149,083 | (71,697) |
| 903,047,467 | 895,135,793 |
| <hr/> | |
| 842,638,581 | 593,274,035 |
| 202,343,925 | 376,172,487 |
| 92,803,958 | 48,777,112 |
| 1,137,786,464 | 1,018,223,634 |
| <hr/> | |
| (234,738,997) | (123,087,841) |
| 8,080,600 | 38,236,631 |
| <hr/> | |
| (226,658,397) | (84,851,210) |
| 5,630,360,579 | 5,723,216,965 |
| - | (8,005,176) |
| 5,630,360,579 | 5,715,211,789 |
| <hr/> | |
| 5,403,702,182 | 5,630,360,579 |
| <hr/> | |

1. Overview of the Financial Statements - continued

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 2013 fiscal year, the Department's governmental funds reported combined ending fund balances of \$353,121,345 a decrease of \$117,907,354 from the prior year. Restricted fund balance indicates amounts available for expenditures in subsequent years for the purposes for which the initial revenues were intended. Non-spendable fund balance indicates amounts which have already been spent and now consist of inventories, long-term assets and prepaid items and other reserved items of \$46,745,709.

The changes in fund balance for the Department's major funds for 2013 are as follows:

| | |
|---|------------------------|
| State Road Fund(s) (Fund #10040 and 20100) | \$ (13,139,404) |
| 2008B GRIP Bond Debt Service Fund (Fund #10420) | <u>(29,643)</u> |
| Major funds, net change in fund balances | <u>\$ (13,169,047)</u> |

The net decrease in the State Road Fund(s) is due to an increase in expenditures for road maintenance and road construction.

The net decrease in the 2008B GRIP Bond Debt Service Fund is due to interest costs and SWAP collateral costs exceeding interest earnings.

1. Overview of the Financial Statements - continued

Budgetary Highlights

The Department operating budgets (excludes multi-year funds) are on a modified accrual basis and not all available funds are budgeted. The Department made revisions to the original approved budget by \$82,220,667. Overall, these changes were caused by the following significant budget adjustments:

| | |
|--|----------------------|
| Increase--State of Texas contribution for Park n Ride for El Paso to Las Cruces | \$ 323,200 |
| Increase-Federal Transit Administration grant funds for advertising of transit services between El Paso and Las Cruces | 112,374 |
| Increase-Federal Transit Administration grant funds | 1,456,029 |
| Increase-Field supplies, contract maintenance and fuel purchases | 20,000,000 |
| Increase-Special Fund Balance Appropriation for road maintenance activities | 35,000,000 |
| Increase-Debt Service for 2004B GRIP Bonds | 12,300,000 |
| Increase--Mesa PDC warranty reimbursement work on U.S. 550 | 13,029,064 |
| | <u>\$ 82,220,667</u> |

The Department's original operating budget for fiscal year 2013 was \$835,501,000. The final budget for the fiscal year was \$1,302,753,851. The \$467,252,851 increase in budget was mainly due to budget adjustments discussed above and the Department's authorized practice of rolling forward into FY13 its remaining FY12 unexpended contracts and purchase orders. The appropriation budgetary period for those FY12 unexpended contracts and purchase orders lapses at the end of the FY12 fiscal year and the Department has to re-establish the budget in FY13 to fund the roll forward of its unexpended contracts and purchase orders. The Department funds the budget increase by utilizing the balance of the unused FY12 budget revenues that were originally budgeted for the unexpended contracts and purchase orders. The roll forward budget of \$385,032,184 is not included in the above schedule of budget adjustments.

Capital Assets Overview

The Department's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$6,603,455,731 (net of accumulated depreciation). This investment in capital assets includes land, right of way, buildings, equipment, improvement and the infrastructure. Business-type activities have no capital assets.

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.

1. Overview of the Financial Statements - continued

Capital Assets Overview - continued

Fiscal Year 2012-2013 Active Projects with a contract amount of \$10 million or more:

I-10/NM 292 Interchange for 3.30 miles. - Doña Ana County
NM 136, MP 4.000 to MP 5.000 and - Doña Ana County
I-25, MP 220.500 to MP 222.860 for 2.358 miles - Bernalillo County
NM 26, MP 0.000 to MP 25.760 for 25.760 miles - Luna County
I-40, MP 14.692 to MP 21.267 for 6.575 miles - MC Kinnley County
US 84/285, MP 183.215 to MP 185.223 for 2.008 miles - Santa Fe County
I-40, MP 140.543 to MP 145.789 for 6.918 miles - Bernalillo County
US 54, MP 107.000 to MP 112.700 for 5.691 miles - Lincoln County
US 54, MP 112.700 to MP 119.000 for 6.345 miles - Lincoln County
US 62/180, MP 35.040 to MP 35.590 and US 285, MP 33.262 to - Eddy County
I-25, MP 239.686 to MP 242.208 for 2.522 miles - Sandoval County
US 64/87, MP 390.332 to MP 400.000 for 9.668 miles - Union County
US 64, MP 62.000 to 64.000 for 2.000 miles - San Juan County
US 64, MP 140.000 to MP 148.560 for 8.560 miles - Rio Arriba County
US 491, MP 67.700 to MP 77.000 for 9.300 miles - San Juan County
I-40, MP 150.042 to 152.334 for 2.292 miles - Bernalillo County
US 491, MP 77.000 to MP 85.200 for 8.220 miles - San Juan County
US 491, MP 59.05 to MP 67.74 for 8.69 miles - San Juan County
US 54, MP 163.230 to MP 175.098 for 11.866 miles - Lincoln County
US 491, MP 46.000 to MP 59.000 for 13.042 - San Juan County
I-25, MP 234.600 to MP 239.800 for 5.227 miles - Sandoval County
US64/87, MP 359.950 to MP 375.200 for 15.109 miles - Colfax County
I-10, Las Cruces to Texas State Line for 18.310 miles - Doña Ana County
I-10/I-25, Interchange for 2.255 miles. - Doña Ana County
I-40, MP 160.730 to MP 162.170 and I-40/San Mateo - Bernalillo County
US 84/285, Santa Fe Relief Route to Santa Fe Opera and - Santa Fe County

1. Overview of the Financial Statements - continued

Automotive and Major Road Fund Equipment

For fiscal year 2013, the Automotive and Major Road Fund Equipment modified accrual basis budget total was approximately \$10 million. Of this budget, approximately \$10.0 million was fully expended at June 30, 2013. Automotive and Major Road Fund 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

| | 2013 | 2012 |
|--|-------------------------|-------------------------|
| Land | \$ 5,177,044 | \$ 5,177,044 |
| Construction in Process | 193,763,345 | 193,830,627 |
| Right of Way | 488,134,031 | 485,300,485 |
| Infrastructure | 14,978,703,392 | 15,071,694,230 |
| Equipment and furniture | 29,351,500 | 30,453,316 |
| Library | 102,613 | 102,614 |
| Buildings | 48,367,059 | 45,823,291 |
| Automotive and Major Road Fund Equipment | 202,599,261 | 205,816,651 |
| Accumulated depreciation | (9,342,742,514) | (9,219,215,278) |
| Total | \$ 6,603,455,731 | \$ 6,818,982,980 |

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

1. Overview of the Financial Statements - continued

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, 2013, the Department had a total outstanding debt (bonds) of \$1,479,790,000. Outstanding bond debt is backed by the Department's anticipated state tax revenues and FHWA revenues.

Table A-4
Department's Outstanding Debt

| | <u>2013</u> | <u>2012</u> |
|--|-------------------------|-------------------------|
| Bonds (excludes deferred amounts on refunding) | <u>\$ 1,479,790,000</u> | <u>\$ 1,635,870,000</u> |

The Department's total bond debt decreased by 9.5% or (\$156,080,000). Total outstanding bond debt at the end of the 2013 fiscal year was \$1,479,790,000 compared to \$1,635,870,000 at the end of the 2012 fiscal year. The net decrease in debt resulted from \$88,448,182 in principal repayments, \$17,231,818 in net bond refunding's and \$50,400,000 in bonds defeased. See Note 13 for a detail of all outstanding bonds.

The Department did not pay any arbitrage to the Internal Revenue Service for any excess interest earned on bond proceeds during the fiscal year and did not have any arbitrage liability at the end of the fiscal year.

2. Economic Factors and Revenue Forecasts

Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. According to the decennial census the State's population as of April 1, 2010 was 2,059,179. Between 2000 and 2010, the State was the fifteenth fastest growing state, as the population increased 13.2 percent from the 2000 population of 1,819,046. Over the same period of time, the national population grew 9.7 percent. Most of this population growth is occurring in or near the larger 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 Dona Ana County; the Santa Fe MSA is Santa Fe County, and the Farmington MSA is San Juan County. The fastest growing counties in the state are Sandoval, Dona Ana, Bernalillo, Valencia and Lea.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, agriculture-agribusiness, government, and mining. In 2011, New Mexico was the 6th largest producing state of natural gas and the 6th largest producing state of onshore crude oil. In 2011 coal, copper and potash production value exceeded \$2 billion and the state ranked 13th, 3th and 1st respectively in the US. The mining and logging industry employed more than 24,000 New Mexicans in 2013. 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 Budgets

Federal Revenue:

FHWA Revenue - Federal Revenue – The amount of FHWA revenue (obligation authority) available to all states has slightly increased as a result of the passage of the 5 year transportation reauthorization bill entitled "Safe, Accountable, Flexible, and Efficient Transportation Equity Act for the 21st Century – A Legacy for Users" "SAFETEA-LU" in 2005. The amounts of "obligation limitation" available to New Mexico are \$287.5 million in FY2005, \$292.8 million in FY2006, \$271.1 million in FY2007, \$253.5 million in FY2008, \$372.5 million in FY2009, \$314.8 million in FY2010, \$321.8 million in FY2011, \$322.1 million in FY12. MAP-21 was signed and is in effect for FY13 and FY14, FY13's obligation authority was \$318.3 million.

2. Economic Factors and Revenue Forecasts - continued

Federal Transit Administration Funds - NMDOT reported revenue of \$13,182,849 in FY 2013 Federal Transit Administration grant funds.

National Highway Traffic Safety Administration Funds - NMDOT reported revenue of \$7,697,791 in FY 2013 of National Highway Traffic Safety Administration grant funds.

ARRA Revenue - \$10,230,658 revenue of FY 2013 ARRA funds from FHWA.

State Revenue:

Revenues for the New Mexico Department of Transportation over the long-term (20 years) are characterized as being steady and growing at rates associated with the Consumer Price Index (CPI). There have been periods of stronger and slower, even declining, rates of growth. From fiscal years 1988 to 2000, the average annual compound growth rate was 2.7% and from 2003 to 2007 it was 7.5%. In fiscal year 2001, there was a contraction and then a slowdown due to economic recession that lasted three years.

Department of Transportation revenues was not immune from the latest recession. However, diversity of revenue sources helped to moderate the impact. State Road Fund revenues are split roughly half and half between passenger car based and interstate trucking sourced. Those revenues associated with trucking (special fuel and weight/distance) were negatively influenced by the US economic recession during FY2008 through FY2010 and fell about 15% while passenger cars based revenues (gasoline and vehicle registrations) have been comparatively more stable. With recent current improvements in the US economy, trucking activity has begun to improve and concurrently there has been an increase in the trucking related revenues. FY 2007 was the peak year for Road Fund revenues before the recession; FY 2010 was the low point with revenues falling by over \$35 million or 9%. FY 2018 is forecast to be the year that revenues finally surpass the FY 2007 level, with the peak-to-return cycle lasting 11 years: falling for 3 years by 10% and slowly climbing for 8 years to fully recover.

The latest (July 2013) revenue forecast for the State Road Fund expects a revenue decline of 1.6% in FY2014, followed by growth in the 0.5% to 1.7% range during the subsequent four fiscal years. The revenue decline forecast for the Department as a whole is somewhat less at 1.2% for FY2014, followed by growth in the 0.5% to 1.8% range during the subsequent four fiscal years.

2. Economic Factors and Revenue Forecasts - continued

State Revenue Forecasts - Major Revenue Sources

In the fall of 2003, a special session of the New Mexico Legislature was held and transportation rates and fees were raised on special fuels (primarily diesel), weight/distance trucking rates and motor vehicle registration fees. The basis of these increases was to provide \$40 million annually for the debt service on GRIP, a large, multi-year road construction program. The increases were designed also to add \$20 million for road maintenance. These rate/fee increases, along with the strong economy, added almost \$100 million (36%) from FY 2003 to FY 2007 to the annual State Road Fund revenue levels.

The budget estimate for state tax and fee revenue is prepared in July/August and December/January for each year for the budget year ending 24 months (or 18 months) later. Each fiscal year's revenue estimate is formally assessed six times: twice before the year begins, twice during the fiscal year and twice after the end, with the final numbers being the actual audit.

In fiscal years 2005 through 2007, state revenues from gasoline, special fuels, weight/distance and vehicle registrations grew by \$47.7, \$15.9, \$18.7, million each year, respectively. In fiscal years 2008 through 2010, these same revenues declined \$13.2, \$19.0 and \$5.6 million each year. These four revenue sources constitute 93% of the state road fund. These revenues were consistent with the forecasts for the periods and did add the expected \$60 million for GRIP debt service and highway maintenance expenditures. Strong economic trends, particularly in the trucking industry, also helped to provide for strength in revenue growth in FY 2005 through FY 2007 and have led the decline in FY 2008 through FY 2010, and are now the primary contributors to the return to historic levels. On the other hand, gasoline revenue is expected plateau and decline in FY2017.

Due to the size and importance of each of these four sources, a look at each individually helps to provide a more complete picture of the Department's revenues.

Gasoline tax is the largest of State's revenue sources, providing about \$112 million in revenue in FY 2013. This tax is 17 cents per gallon of gasoline sold, with about three-fourths going to the state road fund and the remainder going primarily to municipalities and counties. It is the one major tax that was not increased during the special session of 2003. Historically, gasoline gallons sold increased until 1995, remained relatively stable from 1995 to 1999, and decreased in 2001, when they again stabilized. The peak years were 1995 to 1999, with 1998 providing \$117.9 million. When increases, slowing and plateaus are discussed in conjunction with gasoline revenues, it should be noted that they are very moderate changes.

Of much interest and frequent query, is how the gasoline usage (gallons) has fared during the dramatic price increase between 2004 and 2008 and in light of the economic slowdown. Somewhat surprisingly, for New Mexico, there was surprisingly little change in gasoline usage.

2. Economic Factors and Revenue Forecasts - continued

Special fuel tax (primarily diesel) is the second largest of the state's revenue sources, providing about \$92.5 million in FY 2013, down from the peak of \$101.5 in FY 2008. The tax per gallon was raised from 18 to 21 cents per gallon effective in FY 2005. Of the 21 cents, the State Road Fund receives 19 cents, with the remainder going to the Local Governments Road Fund. Including the 2003 special legislative session rate increase, special fuels grew by \$27.0 million, or 36%, from FY 2004 to FY 2008. Historically, special fuel revenue has grown robustly with an average annual compound growth rate of 5.2% from 1988 to 2008. After the collapse of the national housing bubble, special fuel revenue fell to a low \$85.6 million in FY 2009 and has since climbed slowly to \$92.5 million in FY 2013.

Weight/Distance tax is charged on trucks over 26,000 pounds and varies by weight and distance traveled in New Mexico. It ranges from a rate of around one cent per mile for vehicles weighing 26,001 to 28,000 pounds to slightly over 4 cents per mile for vehicles weighing over 78,000 pounds. It is historically the third largest revenue producer, with about \$73.5 million in revenue in FY 2013, down from the peak of \$77.4 million in FY 2008. Its rates, too, were raised in the fall 2003 special session. Prior to the tax rate increase, revenues averaged \$50+ million. After FY 2004, revenue increased from 43% to 50%, primarily due to the 38% tax rate increase. (It should be noted that an additional "bump" increase occurred in 2007 because of revenue accrual accounting changes.)

During the latest economic recession, declining consumer durable goods expenditures led to a fairly steep and sudden reduction in freight of all types including air, ship, rail and truck. That decline was in the range of 20% and began in December, 2008. Corresponding reductions in State Road Fund trucking related revenues began in March 2009 and, in only four months, dropped the annual revenue by \$2 million in FY2009. The full year impact in FY2010 of this Weight/Distance tax revenue decline was a \$7.8 million decrease relative to FY2008.

Motor vehicle registration fees are now the third largest revenue source at about \$74.1 million in FY 2013. These fees were raised in the 2003 Special Legislative session by about 33%, and revenue increased by about \$20.7 million or 39%, from FY 2004 to FY 2008. The fees are based on three weight classes for passenger vehicles and 14 weight classes for trucks and commercial carriers. The annual registration fees for trucks over 26,000 pounds are low because those vehicles are subject to the weight/distance taxes, discussed above. This revenue, like gasoline, has remained stable during both the economic expansions and recessionary periods.

Two revenue sources have been impacted negatively by recent federal procedure rulings and legislation. One is the Trip Tax and the other is New Mexico Public Regulation Commission common carrier registration fees. Trip Tax is charged on trucks in lieu of the weight/distance tax and vehicle registration fees for those trucks/companies not registered for weight/distance. What was called a cab card and carried in each truck was used for weight/distance registration identification. Federal regulations now prevent states from requiring the showing of state-specific taxpayer documentation cards. Trip tax rose to a peak of \$8.6 million in FY 2006 and provided revenues of about \$5.0 million in FY 2013. New Mexico is one of four states that impose a weight/distance tax and its associated trip tax. There have been strong investments recently in reporting enforcement and an optical scanning computer truck identification interface with the weight/distance tax data base. These have been accompanied by penalty increases for improper weight/distance tax filing, capital improvements at ports of entry and statewide enhanced documentation checks.

2. Economic Factors and Revenue Forecasts - continued

The New Mexico Public Regulation Commission previously collected common carrier registration fees. Because of efforts by the trucking industry to centralize registrations (because so many trucks are on the road and prorating registrations in so many states), a new common system and procedures were passed into law in the fall of 2006. In FY 2006, the Department received \$3.7 million in revenue. Under the new national system, the total fees across the country were capped at \$100 million and then apportioned such that the maximum New Mexico can now receive is \$3.2 million. Because of delays in getting the system up and running, revenue for FY 2007 came in at \$377,000, \$866,000 for FY 2008, \$2.3 million in FY 2009, and \$1.4 million in FY 2010. With improvements to this situation, FY2011 revenue came in at about \$2.7 million. Late payments from the national depository in FY 2012 led to revenue of only \$881 thousand in FY 2012 and increased revenue in FY 2013 of \$3.2 million. Future years are expected slightly under \$3 million per year.

Background - Gasoline Tax and Tribal Tax Sharing Agreements

The state permits gasoline to be sold at retail by registered Indian tribal distributors on Indian land free of State gasoline tax if the applicable Indian government imposes an equivalent or higher tax (for its own benefit) on retail gasoline sales. The growth in tribal market share initially out-paced the overall growth rate of gasoline sales as a result of competitive pricing, casino traffic, and new tribal travel centers. Over the past few years tribal sales had been declining from around 62 million to 56 million gallons per year, but grew to 68.9 million gallons in FY 2013.

In 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 wholesale sales activities outside reservation boundaries. The result of these agreements (entered into on January 1, 2004 and July 1, 2004) was significantly more predictable gasoline revenues. These agreements also resulted in a net revenue gain for the State while the gasoline excise tax was higher than the average gross receipts tax otherwise imposed. The term of the two agreements was for a period of 10 years. Chapter 15, Laws 2010 (Senate Bill 59 from the 2010 regular legislative session) allows these agreements to be extended under the same terms for an additional 10 years.

3. Contacting the Department'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: Accounting Services Director
New Mexico Department of Transportation
1120 Cerrillos Road
P.O. Box 1149
Santa Fe, New Mexico 87504-1149
(505) 827-5108

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FINANCIAL STATEMENTS

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Net Position

As of June 30, 2013

| | Governmental Activities | Business-type Activities (State Infrastructure Bank) | Total |
|--|------------------------------------|---|-------------------------|
| Current Assets: | | | |
| Cash (Note 2): | | | |
| Unrestricted | \$ 2,100 | \$ - | \$ 2,100 |
| Cash equivalents (Note 2): | | | |
| (Investment in state general fund investment pool) | | | |
| Restricted | 231,156,834 | 20,937,669 | 252,094,503 |
| Managed by NMFA | 121,162,072 | - | 121,162,072 |
| Receivables: | | | |
| Taxes receivable, net | 62,720,003 | - | 62,720,003 |
| Accounts receivable, net (Note 3) | 702,454 | - | 702,454 |
| Interest receivable | 2,969 | - | 2,969 |
| Notes and loans receivable (Note 5) | 2,649 | - | 2,649 |
| Other receivables | 20,106 | - | 20,106 |
| U.S. Department of Transportation (Note 6) | 53,678,130 | - | 53,678,130 |
| Due from other funds (Note 7) | 212,264 | - | 212,264 |
| Due from other state agencies (Note 8) | 1,951,080 | 2,128 | 1,953,208 |
| Inventories (Note 9) | 14,420,684 | - | 14,420,684 |
| Prepaid expense - other | 2,753 | - | 2,753 |
| Prepaid expense - NM44 warranty | 3,189,111 | - | 3,189,111 |
| Property held for resale, net | 9,007,214 | - | 9,007,214 |
| Total Current Assets | 498,230,423 | 20,939,797 | 519,170,220 |
| Non-Current Assets: | | | |
| Prepaid expense - NM44 warranty, net | 20,125,964 | - | 20,125,964 |
| Capital assets, net (Note 10) | 6,603,455,731 | - | 6,603,455,731 |
| Total Non-Current Assets | 6,623,581,695 | - | 6,623,581,695 |
| Total Assets | \$ 7,121,812,118 | \$ 20,939,797 | \$ 7,142,751,915 |
| Deferred Outflows of Resources: | | | |
| Deferred loss on refunding (Note 13) | 85,651,424 | - | 85,651,424 |
| Deferred outflow of resources (Note 13) | 58,445,464 | - | 58,445,464 |
| Total Deferred Outflows of Resources | \$ 144,096,888 | \$ - | \$ 144,096,888 |
| Total Assets and Deferred Outflows of Resources | \$ 7,265,909,006 | \$ 20,939,797 | \$ 7,286,848,803 |

See Report of Independent Auditors and Notes to Financial Statements

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Net Position

As of June 30, 2013

| | Governmental Activities | Business-type Activities (State Infrastructure Bank) | Total |
|---|------------------------------------|---|-------------------------|
| Current Liabilities: | | | |
| Accounts payable and contracts payable, including retainage of \$8,380,052 | \$ 92,092,148 | \$ - | \$ 92,092,148 |
| Due to other agencies (Note 12) | 35,816,037 | - | 35,816,037 |
| Due to other funds (Note 7) | - | 212,264 | 212,264 |
| Due to state general fund | 102,619 | - | 102,619 |
| Payable to other governments | 108 | - | 108 |
| Unearned revenue | 4,555,427 | - | 4,555,427 |
| Other accrued expenses | 2,399,177 | - | 2,399,177 |
| Other liabilities | 326,503 | - | 326,503 |
| Short-term note payable (taxable line of credit) (Note 13) | 23,000,000 | - | 23,000,000 |
| Current portion of long-term obligations (Note 13): | | | |
| Compensated absences | 5,884,241 | - | 5,884,241 |
| Debentures payable | 106,610,000 | - | 106,610,000 |
| Capitalized bond premium | 14,007,841 | - | 14,007,841 |
| Total Current Liabilities | 284,794,101 | 212,264 | 285,006,365 |
| Long-Term Liabilities: | | | |
| Long-term obligations (Note 13): | | | |
| Derivative instruments interest rate swap | 98,376,625 | - | 98,376,625 |
| Debentures payable | 1,373,180,000 | - | 1,373,180,000 |
| Capitalized bond premium, net | 126,583,631 | - | 126,583,631 |
| Total Long-Term Liabilities | 1,598,140,256 | - | 1,598,140,256 |
| Total Liabilities | 1,882,934,357 | 212,264 | 1,883,146,621 |
| Net Position: | | | |
| Net investment in capital assets | 4,884,648,804 | - | 4,884,648,804 |
| Restricted for: | | | |
| Unspent bond proceeds | 45,813,247 | - | 45,813,247 |
| Loans | - | 20,727,533 | 20,727,533 |
| Specific purposes | 452,512,598 | - | 452,512,598 |
| Total Net Position | 5,382,974,649 | 20,727,533 | 5,403,702,182 |
| Total Liabilities and Net Position | \$ 7,265,909,006 | \$ 20,939,797 | \$ 7,286,848,803 |

See Report of Independent Auditors and Notes to Financial Statements

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Activities

For the Year Ended June 30, 2013

| | Governmental Activities | Business-type Activities (State Infrastructure Bank) | Total |
|--|----------------------------|--|-------------------------|
| Program Expenses: | | | |
| Programs and infrastructure | \$ 842,638,581 | \$ - | \$ 842,638,581 |
| Transportation and highway operations | 202,343,925 | - | 202,343,925 |
| Program support | 92,803,958 | - | 92,803,958 |
| Total Program Expenses | 1,137,786,464 | - | 1,137,786,464 |
| Program Revenues: | | | |
| Charges for services | 45,850,237 | - | 45,850,237 |
| Operating grants | 20,880,640 | - | 20,880,640 |
| Capital grants | 441,146,787 | - | 441,146,787 |
| Total Program Revenues | 507,877,664 | - | 507,877,664 |
| Net Program Revenue (Expense) | (629,908,800) | - | (629,908,800) |
| General Revenues (Losses): | | | |
| User and fuel taxes | 390,149,214 | - | 390,149,214 |
| Interest income | 3,804,981 | 66,525 | 3,871,506 |
| Gain (loss) on disposal of assets and adjustments | 1,149,083 | - | 1,149,083 |
| Total General Revenues (Losses) | 395,103,278 | 66,525 | 395,169,803 |
| Transfers: | | | |
| Reversions to state general fund (Note 15) | (209,930) | - | (209,930) |
| Transfers from: severance tax bond appropriation (Note 4) | 13,040,000 | - | 13,040,000 |
| Transfers from (to) other state agencies and local governments, net (Note 11) | (4,749,470) | - | (4,749,470) |
| Total Transfers | 8,080,600 | - | 8,080,600 |
| Net General Revenues and Transfers | 403,183,878 | 66,525 | 403,250,403 |
| Change in Net Position/Operating Income | (226,724,922) | 66,525 | (226,658,397) |
| Net Position, Beginning of Fiscal Year, as restated (see Note 25) | 5,609,699,571 | 20,661,008 | 5,630,360,579 |
| Net Position, End of Fiscal Year | \$ 5,382,974,649 | \$ 20,727,533 | \$ 5,403,702,182 |

See Report of Independent Auditors and Notes to Financial Statements

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NEW MEXICO DEPARTMENT OF TRANSPORTATION
Balance Sheet - Governmental Funds

As of June 30, 2013

| | Major Funds | | | |
|---|---|--|-----------------------|-----------------------|
| | State Road Fund(s) (SHARE 10040 and 20100) | 2008B GRIP Bond Debt Service Fund (SHARE 10420) | Other Governmental | Total Governmental |
| Assets: | | | | |
| Cash: (Note 2) | | | | |
| Unrestricted | \$ 2,100 | \$ - | \$ - | \$ 2,100 |
| Restricted | - | - | - | - |
| Cash Equivalents: investment in state general fund investment pool) (Note 2) | | | | |
| Unrestricted | 159,172,462 | - | 71,984,372 | 231,156,834 |
| Restricted | - | - | - | - |
| Managed by NMFA | 65,032 | 23,730,932 | 97,366,107 | 121,162,071 |
| Receivables: | | | | |
| Taxes receivable, net | 57,376,319 | - | 5,343,684 | 62,720,003 |
| Accounts receivable, net (Note 3) | 702,104 | - | 350 | 702,454 |
| Interest receivable | - | 1,021 | 1,947 | 2,968 |
| Notes and loans receivable (Note 5) | 2,649 | - | - | 2,649 |
| Other receivables | 20,106 | - | - | 20,106 |
| Due from: | | | | |
| U.S. Department of Transportation (Note 6) | 43,123,426 | - | 10,554,705 | 53,678,131 |
| Other funds (Note 7) | 18,823,201 | - | 5,756,495 | 24,579,696 |
| Other state agencies (Note 8) | 35,970 | - | 1,915,107 | 1,951,077 |
| Inventories (Note 9) | 14,420,684 | - | - | 14,420,684 |
| Prepaid expenses - other | 2,753 | - | - | 2,753 |
| Prepaid expenses - risk management | - | - | - | - |
| Prepaid expense - NM44 warranty | 23,315,075 | - | - | 23,315,075 |
| Property held for resale | 9,007,214 | - | - | 9,007,214 |
| Total Assets | \$ 326,069,095 | \$ 23,731,953 | \$ 192,922,767 | \$ 542,723,815 |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 74,524,669 | \$ 176,957 | \$ 17,390,628 | \$ 92,092,254 |
| Due to other funds | 10,688,049 | 6,409,295 | 7,270,088 | 24,367,432 |
| Due to other agencies (Note 12) | 20,202,822 | - | 15,613,215 | 35,816,037 |
| Due to state general fund | - | - | 102,619 | 102,619 |
| Unearned revenue | 2,059,567 | - | 9,438,883 | 11,498,450 |
| Other accrued expenses | 2,371,242 | - | 27,931 | 2,399,173 |
| Other liabilities | 326,505 | - | - | 326,505 |
| Short-term notes payable (taxable line of credit) | - | 16,771,760 | 6,228,240 | 23,000,000 |
| Total Liabilities | 110,172,854 | 23,358,012 | 56,071,604 | 189,602,470 |
| Fund Balances: | | | | |
| Non-spendable | 46,745,709 | - | - | 46,745,709 |
| Restricted | - | 373,941 | 104,871,524 | 105,245,465 |
| Committed | 180,505,527 | - | 39,045,257 | 219,550,784 |
| Assigned | - | - | - | - |
| Unassigned | (11,354,995) | - | (7,065,618) | (18,420,613) |
| Total Fund Balances | 215,896,241 | 373,941 | 136,851,163 | 353,121,345 |
| Total Liabilities and Fund Balances | \$ 326,069,095 | \$ 23,731,953 | \$ 192,922,767 | \$ 542,723,815 |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Position

As of June 30, 2013

Total Net Position - Governmental Funds
(Governmental Fund Balance Sheet)

\$ 353,121,345

Amounts reported for governmental activities in the Statement of
Net Position are different because:

Amounts recorded as deferred revenue in the governmental funds
that were not received within the period of availability - 60 days
after year end; recorded as revenue in the Statement of Activities:

Balance Sheet - Governmental Funds

11,498,450

Statement of Net Position

(4,555,427)

Change in deferred revenue

6,943,023

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

The cost of capital assets is

15,946,198,245

Accumulated depreciation is

(9,342,742,514)

Total capital assets

6,603,455,731

Long-term debt not recorded as liabilities in the governmental
funds, but recorded as long-term liabilities in the Statement of
Net Position:

Debentures payable (bonds only)

(1,479,790,000)

Deferred loss on refunding (net of current period amortization)

85,651,424

Compensated absences

(5,884,241)

Ineffective swaps

(39,931,161)

Capitalized bond premiums not recorded in the governmental
funds as a liability, net of amortization:

(140,591,472)

Net Position of Governmental Activities (Statement of Net Position)

\$ 5,382,974,649

See Report of Independent Auditors' and Notes to Financial Statements

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Position

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NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds

For the Year Ended June 30, 2013

| | Major Funds | | | |
|--|---|--|-------------------------------|-------------------------------|
| | State Road Fund(s) (SHARE 10040 and 20100) | 2008B GRIP Bond Debt Service Fund (SHARE 10420) | Other Governmental | Total Governmental |
| Revenues: | | | | |
| User and fuel taxes | \$ 365,446,818 | \$ - | \$ 24,702,394 | \$ 390,149,212 |
| U.S. Department of Transportation | 412,775,461 | - | 42,308,942 | 455,084,403 |
| U.S. Department of Energy | - | - | - | - |
| Fees and fines | - | - | 59,416 | 59,416 |
| Licenses and permits | 8,077,279 | - | 12,717,781 | 20,795,060 |
| Charges for services | 3,290,000 | - | 660 | 3,290,660 |
| DWI interlock device | - | - | - | - |
| Other revenue | 20,750,227 | - | 1,780,140 | 22,530,367 |
| Interest earnings | 241,171 | 1,111,427 | 2,452,385 | 3,804,983 |
| Total Revenues | 810,580,956 | 1,111,427 | 84,021,718 | 895,714,101 |
| Expenditures: | | | | |
| Current: | | | | |
| Operating costs | 12,158,344 | - | 36,253 | 12,194,597 |
| Personal services | 88,948,727 | - | 1,025,179 | 89,973,906 |
| Out-of-state travel | 62,527 | - | 11,614 | 74,141 |
| Grants and services | 1,907,233 | - | 52,799,049 | 54,706,282 |
| Travel | 19,788,122 | - | 2,366 | 19,790,488 |
| Maintenance and repairs | 9,220,011 | - | 88,238 | 9,308,249 |
| Supplies | 40,077,795 | - | 20,005 | 40,097,800 |
| Contractual services | 120,098,503 | - | 1,419,758 | 121,518,261 |
| Other costs | 6,769,036 | 743,134 | 322,512 | 7,834,682 |
| Employee benefits | 40,960,229 | - | 357,319 | 41,317,548 |
| Capital outlay | 340,357,194 | - | 68,513,490 | 408,870,684 |
| Debt service: | | | | |
| Principal | 70,608,884 | - | 68,239,298 | 138,848,182 |
| Interest | 72,918,244 | 397,936 | 3,245,208 | 76,561,388 |
| Trustee and broker fees | - | - | - | - |
| Debt issuance costs | - | - | 605,845 | 605,845 |
| Total Expenditures | 823,874,849 | 1,141,070 | 196,686,134 | 1,021,702,053 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (13,293,893) | (29,643) | (112,664,416) | (125,987,952) |
| Other Financing Sources (Uses): | | | | |
| Appropriations, net of reversions (Note 15) | - | - | (209,930) | (209,930) |
| Transfers: severance | | | | |
| tax bond appropriation | - | - | 13,039,998 | 13,039,998 |
| Transfers from (to) other agencies (Note 11) | (5,710,524) | - | 961,054 | (4,749,470) |
| Transfers from (to) escrow agent (Note 11) | - | - | - | - |
| Transfers: intra-agency (Note 11) | 5,865,013 | - | (5,865,013) | - |
| Proceeds from LT notes payable (Note 11) | - | - | - | - |
| Face value of debentures payable (Note 11) | - | - | - | - |
| Premiums of debentures payable (Note 11) | - | - | - | - |
| Total Other Financing Sources (Uses) | 154,489 | - | 7,926,109 | 8,080,598 |
| Net Changes in Fund Balances | (13,139,404) | (29,643) | (104,738,307) | (117,907,354) |
| Fund Balance, June 30, 2012 | 229,035,645 | 403,584 | 241,589,470 | 471,028,699 |
| Fund Balance, June 30, 2013 | \$ 215,896,241 | \$ 373,941 | \$ 136,851,163 | \$ 353,121,345 |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental
Funds to the Statement of Activities

For the Year Ended June 30, 2013

Net Changes in Fund Balances - Total Governmental Funds

(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ (117,907,354)

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in unearned revenue adjustments from prior to current year (reported as a liability in the Balance Sheet-Governmental Funds and reported as revenue in the Statement of Activities.) 673,575

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) - are measured by the amounts earned during the year to the Governmental Funds, however, expenditure for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The increase (decrease) in the compensated absences liabilities for the fiscal year was: 77,861

The Statement of Revenues, Expenditures and Changes in Fund Balances report capital outlays as expenditures. 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 | 408,870,684 | |
| Depreciation expense | (628,024,254) | |
| Disposal of capital asset and adjustments, net book value | 1,149,083 | |
| Excess of depreciation expense over capital outlay | | (218,004,487) |

(Issuance) repayment of debentures recorded as a (source of revenue) principal expenditure in the Statement of Revenues, Expenditures and Changes in Fund Balances recorded as an (increase) reduction in long-term debentures payable in the Statement of Net Position:

| | | |
|--|---------------|--------------|
| Bond proceeds | (221,531,058) | |
| Transfer for trustee for refunding | 241,240,000 | |
| Principal payments | 138,848,182 | |
| | | 158,557,124 |
| Ineffective swaps recorded as a reduction of assets in the Statement of Net Position | | (39,931,161) |

Net change in deferred loss on refunding (including write off of unamortized balance of premiums associated with the refunded bonds), which is recorded as a reduction of long-term liabilities in the Statement of Net Position: 9,144,062

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

Additional bond premiums recorded as an other financing source in the Statement of Revenues, Expenditures and Changes in Fund Balance, recorded as a liability of \$14,007,841 in the Statement of Net Position, net of \$23,358,563 of amortization, recorded as a decrease to interest expense in the Statement of Net Position:

| | | |
|------------------------------|--------------|---------------------|
| Amortization of bond premium | 14,144,068 | |
| Premiums refunded | 9,214,495 | |
| Premium of new bonds issued | (42,693,105) | |
| | | <u>(19,334,542)</u> |

Change in Net Position of Governmental Activities (Statement of Activities)

\$ (226,724,922)

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Net Position-Proprietary Fund

As of June 30, 2013

| | <u>State Infrastructure Bank</u> |
|--|----------------------------------|
| Assets: | |
| Current Assets: | |
| Cash equivalents (Note 2): | |
| Unrestricted | \$ - |
| Restricted | - |
| Cash equivalents (Note 2): | |
| (Investment in state general fund investment pool) | |
| Unrestricted | \$ 20,937,669 |
| Restricted | - |
| Receivables: | |
| Due from other funds | - |
| Due from other state agencies | 2,128 |
| Interest receivable | - |
| Notes and loans receivable (Note 5) | - |
| Total Current Assets | <u>20,939,797</u> |
| Total Assets | <u><u>\$ 20,939,797</u></u> |
| Liabilities: | |
| Current Liabilities: | |
| Accounts payable and contracts payable | \$ - |
| Due to other funds | 212,264 |
| Due to other state agencies | - |
| Due to other governments | \$ - |
| Total Current Liabilities | <u>212,264</u> |
| Total Liabilities | <u>212,264</u> |
| Net Position: | |
| Restricted for: | |
| Loans | <u>20,727,533</u> |
| Total Net Position | <u>20,727,533</u> |
| Total Liabilities and Net Position | <u><u>\$ 20,939,797</u></u> |

See Report of Independent Auditors' and Notes to Financial Statements

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Activities-Proprietary Fund

For the Year Ended June 30, 2013

| | <u>State Infrastructure Bank</u> |
|--|----------------------------------|
| Operating Revenues (Expenses): | |
| Interest income | \$ - |
| Total Operating Revenues (Expenses) | <u>-</u> |
| Non-Operating Revenues (Expenses): | |
| Interest income | 66,525 |
| Expense | - |
| Total Non-Operating Revenues (Expenses) | <u>66,525</u> |
| Change in Net Position/Operating Income | 66,525 |
| Net Position Beginning of Fiscal Year | <u>20,661,008</u> |
| Net Position, End of Fiscal Year | <u><u>\$ 20,727,533</u></u> |

See Report of Independent Auditors' and Notes to Financial Statements

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Cash Flows-Proprietary Fund

For the Year Ended June 30, 2013

| | <u>State Infrastructure Bank</u> |
|---|----------------------------------|
| Cash flows provided from operating activities: | \$ 68,543 |
| Cash flows from financing activities: | |
| Loans issued | 669,814 |
| Loans repaid | - |
| Net increase in cash and cash equivalents | <u>738,357</u> |
| Cash and cash equivalents at June 30, 2012 | <u>20,199,312</u> |
| Cash and cash equivalents at June 30, 2013 | <u><u>\$ 20,937,669</u></u> |
| Reconciliation of operating income to net cash provided from operating activities: | |
| Operating income | \$ 66,525 |
| Adjustment to reconcile operating income to net cash by operating activities: | |
| Decrease in due from Other Agency | 2,018 |
| Decrease in due to other funds | 212,264 |
| Decrease in due to local governments | <u>(212,264)</u> |
| Cash flows provided by operating activities: | <u><u>\$ 68,543</u></u> |

See Report of Independent Auditors' and Notes to Financial Statements

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Revenues and Expenditures-Budget and Actual
(Modified Accrual Basis) - General and Major Special Revenue Funds

For the Year Ended June 30, 2013

| STATE ROAD FUND(S) (SHARE 10040 and 20100) | | | | | |
|---|-------------------------|-------------------------|-------------------------------|-----------------------|----------|
| | Budgeted Amounts | | Actual | | Variance |
| | Original | Final | Amounts (Modified Accrual) | Over (Under) | |
| Revenues: | | | | | |
| Federal funds | \$ 372,571,700 | \$ 375,571,700 | \$ 412,775,461 | \$ 37,203,761 | |
| Other state funds | 125,411,000 | 385,170,000 | 397,564,324 | 12,394,324 | |
| Interest revenue | - | - | 241,171 | 241,171 | |
| Total Revenues: | <u>497,982,700</u> | <u>760,741,700</u> | <u>810,580,956</u> | <u>\$ 49,839,256</u> | |
| Prior Year Funds Rebudgeted | <u>335,333,028</u> | <u>335,333,028</u> | | | |
| | <u>\$ 833,315,728</u> | <u>\$ 1,096,074,728</u> | | | |
| Reconciliations to GAAP Revenues: | | | | | |
| Transfers outside the Agency | | | - | | |
| Total GAAP Revenues | | | <u>\$ 810,580,956</u> | | |
| Expenditures - current and capital outlay: | | | | | |
| Programs and Infrastructure | | | | | |
| Personal services/employee benefits | \$ 23,894,300 | \$ 23,894,300 | \$ 20,990,546 | \$ 2,903,754 | |
| Contractual services | 672,811,351 | 673,246,925 | 442,568,965 | 230,677,960 | |
| Other | 162,024,932 | 162,024,932 | 148,713,633 | 13,311,299 | |
| Intra-agency transfers (in) out | - | - | (6,824,785) | 6,824,785 | |
| Reversions | - | - | - | - | |
| | <u>858,730,583</u> | <u>859,166,157</u> | <u>605,448,359</u> | <u>253,717,798</u> | |
| Transportation and Highway Ops: | | | | | |
| Personal services/employee benefits | 96,531,600 | 96,531,600 | 88,641,961 | 7,889,639 | |
| Contractual services | 51,392,462 | 83,008,190 | 2,322,652 | 80,685,538 | |
| Other | 77,965,890 | 79,379,226 | 82,841,410 | (3,462,184) | |
| | <u>225,889,952</u> | <u>258,919,016</u> | <u>173,806,023</u> | <u>85,112,993</u> | |
| Program Support | | | | | |
| Personal services/employee benefits | 22,978,600 | 22,978,600 | 20,276,449 | 2,702,151 | |
| Contractual services | 3,910,700 | 3,910,700 | 2,769,759 | 1,140,941 | |
| Other | 13,788,500 | 13,788,500 | 14,749,474 | (960,974) | |
| Intra-agency transfers (in) out | 5,764,100 | 5,700,900 | 6,670,296 | (969,396) | |
| | <u>46,441,900</u> | <u>46,378,700</u> | <u>44,465,978</u> | <u>1,912,722</u> | |
| Total Annual Budgeted Expenditures | <u>\$ 1,131,062,435</u> | <u>\$ 1,164,463,873</u> | <u>823,720,360</u> | <u>\$ 340,743,513</u> | |
| Reconciliation to GAAP expenditures: | | | | | |
| Accruals | | | - | | |
| Transfers in (out) | | | 154,489 | | |
| Amortization and reversions | | | - | | |
| Total GAAP Expenditures | | | <u>\$ 823,874,849</u> | | |

The legal level of budgetary compliance is at the appropriation unit level at the entity-wide level, except for multiyear funds.

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Revenues and Expenditures-Budget and Actual
(Modified Accrual Basis) - General and Major Special Revenue Funds

For the Year Ended June 30, 2013

| 2008B GRIP BOND DEBT SERVICE (SHARE 10420) | | | | | |
|---|----|------------------|-------|-------------------------------|----------------|
| | | Budgeted Amounts | | Actual | Variance |
| | | Original | Final | Amounts (Modified Accrual) | Over (Under) |
| Revenues: | | | | | |
| Federal funds | \$ | - | \$ - | \$ - | \$ - |
| Other state funds | | - | - | - | - |
| Interest revenue | | - | - | 1,111,427 | 1,111,427 |
| Total Revenues: | | - | - | 1,111,427 | \$ 1,111,427 |
| Prior Year Funds Rebudgeted | | | | | |
| | | - | - | | |
| | \$ | - | \$ - | | |
| Reconciliations to GAAP Revenues: | | | | | |
| Transfers outside the Agency | | | | - | |
| Total GAAP Revenues | | | | \$ 1,111,427 | |
| Expenditures - current and capital outlay: | | | | | |
| Programs and Infrastructure | | | | | |
| Personal services/employee benefits | \$ | - | \$ - | \$ - | \$ - |
| Contractual services | | - | - | - | - |
| Other | | - | - | - | - |
| Intra-agency transfers (in) out | | - | - | - | - |
| Reversions | | - | - | - | - |
| | | - | - | - | - |
| Transportation and Highway Ops: | | | | | |
| Personal services/employee benefits | | - | - | - | - |
| Contractual services | | - | - | - | - |
| Other | | - | - | - | - |
| Intra-agency transfers (in) out | | - | - | - | - |
| Reversions | | - | - | - | - |
| | | - | - | - | - |
| Program Support | | | | | |
| Personal services/employee benefits | | - | - | - | - |
| Contractual services | | - | - | - | - |
| Other | | - | - | 1,141,070 | (1,141,070) |
| Intra-agency transfers (in) out | | - | - | - | - |
| Reversions | | - | - | - | - |
| | | - | - | 1,141,070 | (1,141,070) |
| Total Annual Budgeted Expenditures | \$ | - | \$ - | 1,141,070 | \$ (1,141,070) |
| Reconciliation to GAAP expenditures: | | | | | |
| Accruals | | | | - | |
| Transfers in (out) | | | | - | |
| Amortization and reversions | | | | - | |
| Total GAAP Expenditures | | | | \$ 1,141,070 | |

The legal level of budgetary compliance is at the appropriation unit level at the entity-wide level, except for multiyear funds.

NOTES TO FINANCIAL STATEMENTS

NATURE OF ORGANIZATION

A primary government is any state or general purpose local government consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Department, therefore, is part of the primary government of the State of New Mexico and its financial data should be included in the financial data of the State.

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.

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.

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. GASB 39 and GASB 61, *Determining Whether Certain Organizations are Component Units*, expands the criteria of component units. GASB 39 and GASB 61 has no impact on the Department and the Department has no blended or discretely presented component units during the year ended June 30, 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Reporting Entity - continued

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.

Government-wide and Fund Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information of all of the activities, except for fiduciary and component units, 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 earned on the funds loaned to other entities. All other income, including interest earned on funds on hand, is 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 depreciation (in direct) (Note 10).

Components of Net Position 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, it is generally the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation - continued

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(s) (Funds #10040 and 20100). The State Road Fund(s) were created by Section 67-3-65, NMSA 1978. The State Road Fund(s) combine to create 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. This is a general fund. Individual fund data for each fund comprising the State Road Fund(s) are provided in the form of combining statements in this report. See pages 168 to 169.

2008B GRIP Bond Debt Service Fund (Fund #10420). The fund was created when the \$220,000,000 New Mexico State Transportation Commission Revenue Bonds Series 2008B were issued in April 2008 to refund certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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, 2013, 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 restriction of fund balance in the Capital Project Funds and Special Revenue Funds.

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. All governmental funds are accounted for using the modified accrual basis of accounting. The funds' 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 in the current period). "Available" is defined as 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 collectability is assured subsequent to year-end. Grant revenues are collected in advance of the period intended to finance expenditures. If the eligibility requirements are not met, they are recorded as deferred revenues.

The following are the governmental fund types used:

General Funds - The General Funds (Funds #10040 and 20100) are used to account for the proceeds of specific revenue sources that are not otherwise required to be reported in a special revenue fund. The State Road Fund(s) are the operating and general funds of the Department and are 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.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. 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.

HIF Bond Fund (Fund #20200). The Highway Infrastructure (HIF) Fund was created under Laws 1998, chapters 84 and 85. This fund is used to account for acquisition for right of ways, planning, design, engineering, construction or improvement of state highway projects. This is a non-reverting fund. The governmental fund types used by the Department were evaluated based on the provisions of GASB Statement No. 54.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Local Government Road Fund (Fund #20300). 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.

Federal Planning and Development Fund (Fund #10030). 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 Highway Safety Act of 1966, as amended, 23 U.S.C. 401 Et. Seq. and 23 U.S.C. 410, authorizes the establishment of this fund. The fund does not receive state general fund appropriations that are subject to reversion.

State Aviation Fund (Fund #20500). 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. This is a non-reverting fund.

Traffic Safety Fund(s). Previously three funds were combined for presentation as the Traffic Safety Fund(s). These were the Traffic Safety Fund (#20800), the Federal Traffic Safety Fund (#10010) and the Ignition Interlock Fund (#82600). The following three funds are now also combined into the Traffic Safety Fund(s); the Driver Improvement Program Fund (#10020), Motorcycle Training Fund (#20600) and the DWI Prevention and Education Fund (#20700). Individual fund data for each fund comprising the Traffic Safety Fund(s) are provided in the form of combining statements in this report. See pages 170 through 173.

The Federal Traffic Safety Fund (#10010). The Federal Traffic Safety Fund is the fund through which federal funds are received for various traffic safety programs. This is a non-reverting fund.

Driver Improvement Program Fund (Fund #10020). 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. This is a non-reverting fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Motorcycle Training Fund (Fund #20600). 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.

DWI Prevention and Education Fund (Fund #20700). 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. This is a non-reverting fund.

The Traffic Safety Fund (#20800). The Traffic Safety Fund was created by Section 66-7-512, NMSA 1978. The fund is used for the state match for the federal traffic safety fund programs. This is a non-reverting fund.

The Ignition Interlock Fund (#82600). The Ignition Interlock Fund was created by Section 66-8-102.3, NMSA 1978 for the administration of the Ignition Interlock program. This is a non-reverting fund.

1993 Bond Project Fund (Fund #39400). 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. Proceeds can also 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. The fund does not receive state general fund appropriations that are subject to reversion.

1999A CHAT Bond Project Fund (Fund #43000). 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. The fund does not receive state general fund appropriations that are subject to reversion.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

2001A CHAT Bond Project Fund (Fund #00600). 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. Proceeds can also 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. The fund does not receive state general fund appropriations that are subject to reversion.

2002C HIF Bond Project Fund (Fund #36100). 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. Proceeds can also 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. The fund does not receive state general fund appropriations that are subject to reversion.

ARRA Project Fund (Fund #89000). The ARRA Project Fund was created under the American Recovery and Reinvestment Act of 2009, a federal economic stimulus program. This fund tracks the expenditure and reimbursement of projects which qualify under the terms of the Act. This is a non-reverting fund. This is a special revenue fund.

WIPP Bond Project Fund (Fund #43100). The Waste Isolation Pilot Plant (WIPP) Bond Project Fund was created under US congress Public Laws Waste Isolation Pilot Plant Withdrawal Act Public Law 102-579 of 1992 and National Defense Act Public Law 104-201 of 1997. The funds provided under these acts become state funds under the purposes specified under the acts. These funds are required to be used for road projects related to the Waste Isolation Pilot Plant in Carlsbad, New Mexico. This is a non-reverting fund.

2010A Bond Project Fund (Fund #10450). The 2010A Bond Project Fund was created by the engagement of \$200,000,000 Line of Credit June 2008. The Line of Credit was engaged in with an adjustable rate and to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable as part of the GRIP transportation projects. The fund does not receive state general fund appropriations that are subject to reversion. In September 2010, the Department refunded the Line of Credit with the NMFA State Transportation Revenue and Refunding Revenue Bonds Series 2010A.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

2002D CHAT Bond Project Fund (Fund #11500). 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. Proceeds can also 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. The fund does not receive state general fund appropriations that are subject to reversion.

2004A GRIP Bond Project Fund (Fund #20400). The bond project fund was created when \$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 NMFA. Unspent proceeds are on deposit with the NMFA and recorded as restricted cash. 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 reversions.

2006A GRIP Bond Project Fund (Fund #10210). The bond project fund was created due to the issuance of the September 2006 \$150,000,000 Revenue Bond Series 2006A. The 2006A Bonds were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has deemed necessary or desirable as part of the GRIP transportation projects. The fund does not receive state general fund appropriations that are subject to reversion.

2006B GRIP Bond Project Fund (Fund #10230). The bond project fund was created due to the issuance of the September 2006 \$40,085,000 of State Transportation, Series 2006B Refunding Revenue Bonds. The series 2006B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the State Transportation Commission.

2006C GRIP Bond Project Fund (Fund #10250). The bond project fund was created due to the issuance of the September 2006 \$220,000,000 of State Transportation, Series 2006C Revenue Bonds. The series 2006C Bonds were issued as adjustable rate securities and were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable as part of the GRIP transportation projects. The fund does not receive state general fund appropriations that are subject to reversion.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

2006D GRIP Bond Project Fund (Fund #10270). The bond project fund was created due to the issuance of the September 2006 \$50,400,000 of State Transportation, Series 2006D Revenue Bonds. The series 2006D Bonds were issued to provide funds for an escrow account required to be maintained by the Department pursuant to a Joint Use Agreement between the Department and the BNSF Contingent Liability Fund. The fund does not receive state general fund appropriations that are subject to reversion.

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 monthly transfer of vehicle and gasoline tax revenues from the State Road Fund. 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.

1998A WIPP Bond Debt Service Fund (Fund #97200). The fund was created when the \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bond Series 1998B were issued in October 1998.

1998A CHAT Bond Debt Service Fund (Fund #54800). The fund was created when the \$105,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1998A were issued in October 1998.

1999 CHAT Bond Debt Service Fund (Fund #43400). The fund was created when the \$100,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1999 were issued in November 1999.

2000 CHAT Bond Debt Service Fund (Fund #43200). The fund was created when the \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A were issued in May 2001.

2001A CHAT Bond Debt Service Fund (Fund #00700). The fund was created when the \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001A were issued in March 2001.

2002A CHAT Bond Debt Service Fund (Fund #54700). The fund was created when the \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A were issued in January 2002.

2002B WIPP Bond Debt Service Fund (Fund #75000). The fund was created when the \$79,920,000 New Mexico State Highway Commission Lien Tax Revenue Bonds Series 2002B were issued in January 2002.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Debt Service Funds - continued

2002C HIF Bond Debt Service Fund (Fund #36300). The fund was created when the \$67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Bonds Series 2002C were issued in May 2002.

2002D CHAT Bond Debt Service Fund (Fund #18700). The fund was created when the \$16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D were issued in December 2002.

2004A GRIP Bond Debt Service Fund (Fund #10080). The 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.

2004B GRIP Bond Debt Service Fund (Fund #10090). The 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 2004C Revenue Bond was refunded in 2008 by the 2008A and 2008C Refunding Revenue Bonds.

2006A GRIP Bond Debt Service Fund (Fund #10220). The fund was created when the \$150,000,000 New Mexico State Highway Commission Revenue Bonds Series 2006A were issued in September 2006.

2006B GRIP Bond Debt Service Fund (Fund #10240). The fund was created when the \$40,085,000 New Mexico State Highway Commission Revenue Bonds Series 2006B were issued in September 2006.

2008A GRIP Bond Debt Service Fund (Fund #10410). The fund was created when the \$115,200,000 New Mexico State Transportation Commission Revenue Bonds Series 2008A were issued in April 2008 to refund certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation.

2008B GRIP Bond Debt Service Fund (Fund #10420). The fund was created when the \$220,000,000 New Mexico State Transportation Commission Revenue Bonds Series 2008B were issued in April 2008 to refund certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Debt Service Funds - continued

2008C GRIP Bond Debt Service Fund (Fund #10430). The fund was created when the \$84,800,000 New Mexico State Transportation Commission Revenue Bonds Series 2008C were issued in May 2008 to refund certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation.

2008D GRIP Bond Debt Service Fund (Fund #10440). The fund was created when the \$50,400,000 New Mexico State Transportation Commission Revenue Bonds Series 2008D were issued in May 2008 to refund certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation.

2009A Bond Debt Service Fund (Fund #11130). The fund was created when the \$112,345,000 NMFA's State Transportation Senior Lien Refunding Revenue Bonds, Series 2009A were issued in November 2009 to refund portions of series 1998A, 1998B, 2001A, 2002A and 2002C.

2010A Bond Debt Service Fund (Fund #11140). The fund was created when the \$174,625,000 NMFA State Transportation Senior Lien Refunding Revenue Bonds Series 2010A were issued in October 2010 to refund a portion of a borrowing under a tax-exempt line of credit with Bank of America N.A. and finance the costs of certain State Transportation Projects for the Department.

2010B Bond Debt Service Fund (Fund #20450). The fund was created when the \$461,075,000 NMFA State Transportation Senior Lien Refunding Revenue Bonds Series 2010B were issued in October 2010 to refund portions of series 2002A, 2002C, 2002D and 2004A GRIP.

2012 Refunding Bond Debt Service Fund (Fund #30850). The fund was created when the \$220,400,000 NMFA State Transportation Refunding Revenue Bonds Series 2012 were issued in December of 2012 to refund certain outstanding bonds of the State Transportation Commission and of the Finance Authority which were issued for the purpose of financing or refinancing projects administered by the New Mexico Department of Transportation.

Capital Project Funds - Capital Project Funds are used to account for the purchase or construction of facilities used in the operation of the Department or other long term Department projects specifically appropriated by the state. Expenditures are incurred to build and improve the transportation system within the State of New Mexico.

Capital Projects Fund (Fund #10050). The Capital Projects Fund is used to account for the purchase or construction of facilities used in the operation of the Department. It is a non-major fund. This fund reverts to the State Road Fund upon completion of the appropriation project or appropriation period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Capital Project Funds - continued

Severance Tax Bond Appropriations Fund (Fund #10060). The Severance Tax Bond Appropriations Fund was created to separately account for the construction of infrastructure on behalf of other governments or other long term Departmental projects in annual legislative appropriations. This is funded through the sale of Severance Tax Bonds and is distributed through the Board of Finance of the Department of Finance and Administration. This fund reverts upon completion of the appropriation project or upon expiration of the appropriation period. Appropriations are received on a reimbursement basis as expenditures occur; therefore only budgetary reversions are made when applicable. This is a capital projects fund.

General Fund Appropriations Fund (Fund #10070). The General Fund Appropriations Fund was created to separately account for the construction of infrastructure on behalf of other governments or other long term Departmental projects in annual legislative appropriations. This is funded through the transfer of funds from the State General Fund. This fund reverts to the State General Fund upon completion of the appropriation project or upon expiration of the appropriation period. This is a capital projects fund.

STB Capital Outlay Fund (Fund #89200). This fund was created to separately account for the construction of infrastructure on behalf of other governments or other long term Departmental projects in annual legislative appropriations. This is funded through the sale of Severance Tax Bonds and is distributed through the Board of Finance of the Department of Finance and Administration. This fund reverts upon completion of the appropriation project or upon expiration of the appropriation period. Appropriations are received on a reimbursement basis as expenditures occur; therefore only budgetary reversions are made when applicable. This is a capital projects fund. The existing Fund 10060 will be phased out.

GF Capital Outlay Fund (Fund #93100). This fund was created to separately account for the construction of infrastructure on behalf of other governments or other long term Departmental projects in annual legislative appropriations. This is funded through the transfer of funds from the State General Fund. This fund reverts to the State General Fund upon completion of the appropriation project or upon expiration of the appropriation period. This is a capital projects fund. The existing Fund 10070 will be phased out.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Budgets and Budgetary Accounting

Per the General Appropriations Act of 2012, Section 3M, "For the purpose of administering the General Appropriation Act of 2012, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget. Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses, and encumbrances can no longer be charged to that budget.

The legal level of budgetary control is at the appropriation unit level at the entity-wide level, except for multiyear funds.

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 (Note 11) 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. The remaining balance of the proceeds from the sale of the debentures, bonds and the NMFA loan are also classified as restricted cash because of the limited use of these funds. 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 2).

Cash and cash equivalents, for the purpose of the cash flows, has interest in the State General Fund Investment Pool of the State Treasurer's Office.

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. The revenue related to taxes is recorded when the underlying transaction occurs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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; and for other services performed by the Department. It is the policy of the Department to actively pursue collections of all valid accounts receivable and to comply with Article IV, Section 32 of the New Mexico Constitution that mandates that no amounts owed to the State can be exchanged, transferred, remitted, released or postponed. As a result of this policy, the Department does not write off any receivable balances and, instead, provides an allowance for uncollectible accounts. The Department has specific procedures in place for the treatment and collection of invoices past 30, 60, 90, and 120 days and, any receivables older than 120 days are moved to the allowance account at year end. A detail listing of all uncollectible accounts is maintained and uncollectible accounts are referred to the Department's legal department for possible legal collection actions. The balance of receivables deemed uncollectible through the end of FY13 was \$4,594,523 and a net total of \$459,229 was moved to the uncollectible account during the current fiscal year. A total of \$499,538 was recovered from the uncollectible account during the current fiscal year. (Note 3)

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. Expenditures incurred by the Department for such programs are reimbursable from the State Board of Finance. The severance tax bonds proceeds receivable represents expenditures incurred by the Department, but not yet reimbursed by the Board of Finance (Note 4).

Notes and Loans Receivable

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 and 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, 2013. There are no loans past due for more than 90 days as of the end of the fiscal year which require placement on non-accrual status (Note 5).

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 excess of project costs classification. The allowance is based on an analysis of amounts that are reasonably assured of collection (Note 6). There was no allowance for FY 2013.

Due From/To Other Funds

Due from/to other funds represent amounts due from and to other funds within the Department (Note 7) and are included in the governmental fund financial statements. Inter-fund transactions are eliminated in the GAAP-basis governmental-wide financial statements.

Due to State Treasurer's Office

The amount of negative cash balances are reported in the Due to State Treasurer's Office by fund.

Due to State General Fund (Reversions)

Reversions to the State General Fund by the Department are based on the definitions of both reverting and non-reverting funds. Reversions are calculated by applying the percentage of reverting fund (to total budget for the category) to the amount unexpended for the category at fiscal year-end.

Inventory

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

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

Prepaid Expense - NM 44 Warranty

The warranty represents the no-fault portion of 3 categories of costs that will meet performance criteria: The pavement, which originally cost \$36,100,000, is being amortized over 20 years. At the end of fiscal year 2013, the unamortized value was \$19,855,000. The structures, which originally cost \$15,916,345 is being amortized over 11 1/2 years. At the end of fiscal year 2013, the unamortized value was \$3,460,075. The remaining amount, which originally cost \$13,564,126, is fully amortized and has no net book value after fiscal year ending June 30, 2006 when it became fully amortized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 original cost plus inflation using the Consumer Price Index (CPI). Reported property held for resale is equally offset by the fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of assets.

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. As a result of House Bill 1074, effective date June 17, 2005, and Section 12-6-10 NMSA 1978 the State's capitalization policy threshold was changed from \$1,000 to \$5,000, requiring agencies to capitalize acquisitions greater than \$5,000. Assets purchased prior to June 17, 2005 were not removed and will continue to be depreciated. 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 as capital assets the specific roads, tunnels and other infrastructure it owns or over which it has primary responsibility for maintenance. According to the 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 assets. 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 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. All major infrastructure has been recorded.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets - continued

The Department records its other capital assets (buildings and 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 |

Unearned Revenue

Unearned 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 of work done from the Department of Energy (DOE) for road projects and other costs relating to the Waste Isolation Pilot Plant (WIPP). 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, 2013, and includes direct and incremental salary related payments, such as the employees' share of social security taxes.

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 column for governmental and business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts are capitalized 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 recognized as an expense in the period incurred per GASB 65.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Long-Term Obligations - continued

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 Position

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 General Appropriations Act of 2012, Section 3M establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the state of New Mexico, encumbrances related to single year appropriations lapse at fiscal year end. Appropriation periods for periods in excess of twelve months (multiple-year appropriations) lapse at the end of the appropriation period, the budget also lapses, and encumbrances can no longer be charged to that budget. Outstanding encumbrance balances for the Department's Severance Tax Bonds and Special Appropriations are shown in separate supplementary schedules. Significant unexpended encumbrance balances at June 30, 2013 for other multiple year appropriation periods are as follows:

| | | |
|-------------------------|-------|---------------|
| 2010A Bond Project Fund | 10450 | \$ 13,072,584 |
|-------------------------|-------|---------------|

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Nonspendable Fund Balance

The nonspendable category of fund balance consists of the net financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable categories of fund balances are summarized below:

Inventory - This category was created to represent the portion of fund balance that are noncash assets available for expenditures in future periods.

Property Held for Resale - This category was created to represent the portion of fund balance that are long-term noncash assets available for sale.

Prepaid Expenses - This category was created to represent disbursements made that cannot be reported as expenditures in the current period for GAAP purposes.

Restricted Fund Balance

The restricted category of fund balance consists of the net financial resources that are restricted by either (a) external imposition by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposition by law through constitutional provisions or enabling legislation.

Committed Fund Balance

The committed category of fund balance consists of the net financial resources that are constrained to be used for a specific purpose as established by the highest level of decision-making authority. This fund balance also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying these contractual requirements. The Department's highest level of decision-making authority is the Legislative and Executive branches of the State of New Mexico.

Assigned Fund Balance

The assigned category of fund balance consists of the net financial resources that are constrained to be used for a specific purpose by the Department's intent but the constraint imposed does not satisfy the criteria to be classified as restricted or committed.

Unassigned Fund Balance

The unassigned category of fund balance consists of the net financial resources that are the least constrained. In the general fund, these are amounts that have not been restricted, committed or assigned to specific purposes. In other funds, they are negative fund balances that represent shortfalls which are covered by fund balances not restricted, committed or assigned to other specific purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Pledged Revenue

The Department has pledged future gasoline excise taxes, motor vehicle registration fees, special fuel excise taxes, vehicle transactions fees, driver's license fees, oversize/overweight permit fees, trip (mileage) taxes, weight distance taxes, leased vehicle gross receipts taxes, tire recycling fees and FHWA revenues, to repay \$1.48 billion in State Transportation Revenue and Refunding Bonds issued between 2002 and 2012. Proceeds from the bonds provided funding for various transportation projects authorized by the State Legislature and that the Department has determined to be necessary or desirable, as well as to provide funds to refund and restructure certain outstanding bonds. The bonds are payable through 2027. Annual principal and interest payments on the bonds are expected to require less than 25% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$2.01 billion. Principal and interest paid for the current year and total pledged revenues were \$165,009,570 and \$793,585,618, respectively.

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 the Department as a whole in conformity with generally accepted accounting principles. Eliminations of intra-fund transfers have not been made in the aggregation in the governmental fund financial statements. Due from/to other funds and intra-fund transfers have been eliminated in the government-wide financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The Department has two items that qualify for reporting in this category. They are the deferred gain on refunding and the value of the SWAP agreements.

2. CASH AND CASH EQUIVALENTS

The Department has two types of cash equivalents--those that are deposited with the State Treasurer's Office and those that are held with trustees that are managed by NMFA.

Cash equivalents on deposit with State Treasurer's Office

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent expert diagnostic report revealed that the General Fund Investment Pool balances had not been reconciled at the business unit/fund level since the inception of the Statewide Human Resources, Accounting, and Management Reporting (SHARE) system in July of 2006. The diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance and Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting from the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

Management in FY 2012 recorded a loss contingency of \$101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

2. CASH AND CASH EQUIVALENTS (continued)

The Department is aware that the General Fund Investment Pool balances have not been reconciled at the Agency and Fund level by the Department of Finance and Administration and that any reconciling items, once determined through a future initiative, will not be allocated to the Department or other state agencies. However, the Department has established its own internal reconciliation policies and procedures to mitigate the risk that our cash balances would be misstated as of June 30, 2013. The Department is confident that our reconciliation process ensures all incoming and outgoing cash transactions are properly identified and that they are timely and accurately recorded in the financial system. Deposit transactions originated by our agency are validated and verified to source documents to ensure for accuracy and compliance before they are recorded in the financial system. Recording is not final until approved by the State Treasurer's Office who compares the recorded transactions against validated bank deposit slips provided to them by the State's Fiscal Agent Bank. Our agency then compares all deposits to financial system cash transaction and general ledger reports to ensure they have been properly and thoroughly recorded. Similarly, incoming wire cash transfers and operating cash transfers originating outside our agency and received by the State's Fiscal Agent Bank are identified, reviewed and verified to ensure they are properly authorized, recorded, reported and

State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

2. CASH AND CASH EQUIVALENTS (continued)

Cash equivalents on deposit with State Treasurer's Office (continued)

At June 30, 2013 the Department had the following invested in the General Fund Investment Pool:

| | |
|------------------------------|----------------|
| General Fund Investment Pool | \$ 252,094,503 |
|------------------------------|----------------|

Interest Rate Risk. The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk. The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

The reconciled balances at June 30, 2013, are as follows:

| | Fund Number | Amount (+) | Amount (-) |
|---|-------------|------------|------------|
| Cash: | | | |
| <i>Unrestricted</i> | 20100 | \$ 2,100 | |
| Balance Sheet - Governmental Funds Cash, Unrestricted and Statement of Net Assets Cash, Unrestricted | | \$ 2,100 | |

2. CASH AND CASH EQUIVALENTS (continued)

| | Fund Number | Amount (+) | Amount (-) |
|-----------------------------------|---|--------------|------------|
| Cash Equivalents: | | | |
| <i>Restricted:</i> | | | |
| 2001A CHAT Bond Project Fund | 00600 | \$ 4,734,419 | \$ - |
| 2001A CHAT Bond Debt Service Fund | 00700 | 234,583 | - |
| Traffic Safety Fund(s) | 10010, 10020, 20600, 20700, 20800, 82600 | 8,926,294 | - |
| Federal Planning and Development | 10030 | - | 2,028,076 |
| State Road Fund(s) | 10040 and 20100 | 159,172,462 | 20,199,938 |
| Capital Projects Fund | 10050 | 1,366,565 | - |
| STB Appropriations Fund | 10060 | - | 2,139,961 |
| General Fund Appropriations | 10070 | 598,144 | - |
| 2006A GRIP Bond Project Fund | 10210 | 582,089 | - |
| 2006B GRIP Bond Project Fund | 10230 | 49,671 | - |
| 2010A Bond Project Fund | 10450 | - | 10,624,219 |
| 2002D CHAT Bond Project Fund | 11500 | 639,261 | - |
| 2002D CHAT Bond Debt Service Fund | 18700 | 12,852 | - |
| HIF Bond Fund | 20200 | 10,345,011 | - |
| Local Government Road Fund | 20300 | 19,508,256 | - |
| 2004A GRIP Bond Project Fund | 20400 | 112,078 | - |
| State Aviation Fund | 20500 | 16,786,869 | - |
| 2002C HIF Bond Project Fund | 36100 | 1,308,522 | - |
| 2002C HIF Bond Debt Service Fund | 36300 | 62,453 | - |
| 1993 Bond Project Fund | 39400 | 1,600,121 | - |
| 1999A CHAT Bond Project Fund | 43000 | 2,125,051 | - |
| WIPP Bond Project Fund | 43100 | 1,980,339 | - |
| 2000 CHAT Bond Debt Service Fund | 43200 | 204,785 | - |
| 1999 CHAT Bond Debt Service Fund | 43400 | 267,125 | - |
| 2002A CHAT Bond Debt Service Fund | 54700 | 83,859 | - |
| 1998A CHAT Bond Debt Service Fund | 54800 | 142,073 | - |
| 2002B WIPP Bond Debt Service Fund | 75000 | 111,299 | - |
| ARRA Project Fund | 89000 | - | 640,060 |

2. CASH AND CASH EQUIVALENTS (continued)

| | Fund Number | Amount (+) | Amount (-) |
|---|-------------|------------------------------|-----------------------------|
| STB Capital Outlay Fund | 89200 | - | 67,745 |
| GF Capital Outlay | 93100 | 188,094 | - |
| 1998A WIPP Bond Debt Service Fund | 97200 | 14,559 | - |
| Balance Sheet - Governmental Funds Cash Equivalents, Restricted | | <u>231,156,834</u> | |
| State Infrastructure Bank: | | | |
| Restricted Cash Equivalents | 89300 | <u>20,937,669</u> | |
| Statement of Net Position Cash Equivalents, Restricted | | <u><u>\$ 252,094,503</u></u> | |
| Balance Sheet-Governmental Funds and Statement of Net Position included in Due to Other Agencies (See Note 12) | | | <u><u>\$ 35,699,999</u></u> |

State law requires that repurchase agreements be secured by collateral with a market value greater than 102% of the value of the agreement. The securities are held by a third party in the Department's name. The fair value of the repurchase agreement approximates the cost at June 30, 2013.

Cash equivalents managed by New Mexico Finance Authority

Money market funds are managed by New Mexico Finance Authority (fiscal agent) and held by State Treasurer authorized bank accounts at Bank of Albuquerque and Bank of New York as trustees and paying agents for Department. The sources of funds are bond proceeds and other debt service requirements. These funds are invested in short-term money market accounts that invest in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury obligations in accordance with state law. The trustees are also permitted to purchase U.S. Treasury obligations.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Department will not be able to recover the value of its collateral securities that are in the possession of an outside party. All are fully collateralized and the collateral is held in the Department's name.

Credit Risk. The Authority's investments shall be in accordance with State Law, 6-10-10 and 6-10-10.1 NMSA 1978, including but not limited to the following: Treasury Bills, Notes, Bonds, Strips and U.S. Government.

Concentration of Credit Risk. Concentration of credit risk is defined as investments of more than 5% in any one issuer. The Department is not susceptible to concentration of credit risk.

2. CASH AND CASH EQUIVALENTS (continued)

Interest Rate Risk. Interest rate risk is the risk that interest rate fluctuations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the value of securities held in a collateral portfolio will decline if market interest rates rise. In this event, the financial institution is required to provide additional collateral necessary to comply with New Mexico State Statute. Therefore, funds are not susceptible to interest rate risk as they are all fully collateralized.

| | Fund Number | Amount |
|--|-----------------|-----------------------|
| Cash Equivalents: | | |
| <i>Managed by NMFA:</i> | | |
| State Road Fund(s) | 10040 and 20100 | 65,032 |
| 2004A GRIP Bond Debt Service Fund | 10080 | 1,085,041 |
| 2004B GRIP Bond Debt Service Fund | 10090 | 33,607,671 |
| 2006A GRIP Bond Project Fund | 10210 | 162,255 |
| 2006A GRIP Bond Debt Service Fund | 10220 | 1,683,172 |
| 2006B GRIP Bond Project Fund | 10230 | 10,384 |
| 2006B GRIP Bond Debt Service Fund | 10240 | 662,981 |
| 2006C GRIP Bond Project Fund | 10250 | 179,118 |
| 2008A GRIP Bond Debt Service Fund | 10410 | 8,615,188 |
| 2008B GRIP Bond Debt Service Fund | 10420 | 23,730,932 |
| 2008C GRIP Bond Debt Service Fund | 10430 | 4,366,472 |
| 2008D GRIP Bond Debt Service Fund | 10440 | 1,874,928 |
| 2010A Bond Project Fund | 10450 | 44,760,160 |
| 2009A Bond Debt Service Fund | 11130 | 49,143 |
| 2010A/LOC Bond Debt Service Fund | 11140 | 41,501 |
| 2010B GRIP Bond Debt Service Fund | 20450 | 202,746 |
| 2012A Refunding Revenue Bond Debt Service Fund | 30850 | 65,348 |
| Balance Sheet - Governmental Funds and Statement of | | |
| Net Position Cash Equivalents, Managed by NMFA | | \$ 121,162,072 |

3. ACCOUNTS RECEIVABLE

The aging of accounts receivable as of June 30, 2013 is as follows:

| <u>Number of Days Outstanding</u> | |
|--------------------------------------|--------------------------|
| 0 - 30 | \$ 285,144 |
| 31 - 60 | 11,616 |
| 61 - 120 | 405,344 |
| Beyond 120 | <u>4,594,873</u> |
| | 5,296,977 |
| Allowance for uncollectible accounts | <u>(4,594,523)</u> |
| | <u><u>\$ 702,454</u></u> |

4. SEVERANCE TAX BOND PROCEEDS RECEIVABLE

Severance tax bonds proceeds receivable as of June 30, 2013, 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 | \$ 22,260,645 |
| Sale and reauthorization of severance tax bonds | 35,936,356 |
| Funding from the State Board of Finance | (13,040,000) |
| Reversion to the State Board of Finance | <u>(107,311)</u> |
| Balance, end of year | <u><u>\$ 45,049,690</u></u> |

The funding for the year ended June 30, 2013 was received under the Laws of 2007, Chapter 3; Laws of 2008, Chapters 9; Laws of 2009, Chapters 7; Laws of 2010, Chapter 105; Laws of 2011, Chapter 183; and Laws of 2012, Chapter 63 and 64 for projects completed ; Laws of 2013, Chapter 202.

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.

| | |
|---------------------------------|----------------------------|
| Receivable at year end (Note 8) | <u><u>\$ 1,909,588</u></u> |
|---------------------------------|----------------------------|

5. NOTES AND LOANS RECEIVABLE

Notes receivable as of June 30, 2013 consist of the following:

A note receivable from a private entity, non-interest bearing, in accordance with federal statutes, collateralized by various property.

\$ 2,649

6. DUE FROM U.S. DEPARTMENT OF TRANSPORTATION

Due from U.S. Department of Transportation (USDOT) consists of the following at June 30, 2013:

Agency

| | |
|--------------------------------|---------------|
| Federal Highway Administration | \$ 43,696,592 |
|--------------------------------|---------------|

| | |
|--|----------|
| Less allowance for uncollectible amounts | <u>-</u> |
|--|----------|

| | |
|--------------------------------------|------------|
| Total Federal Highway Administration | 43,696,592 |
|--------------------------------------|------------|

| | |
|----------------------|------------------|
| Other USDOT Agencies | <u>9,981,538</u> |
|----------------------|------------------|

| | |
|-------------|----------------------|
| Total USDOT | <u>\$ 53,678,130</u> |
|-------------|----------------------|

7. DUE FROM AND DUE TO OTHER FUNDS

These amounts represent interfund receivables and payables arising from the interfund transactions within the Department. Due from/to other funds occur for the following reasons:

- 1) The State Road Fund pays expenditures on behalf of other funds.
- 2) Grant and other funds are recorded in the State Road Fund and then transferred to the appropriate funds.

Interfund receivables and payables as of June 30, 2013 consist of the following:

| | Fund Number | Due From Other Funds | Due to Other Funds | Net (Sub-totals only) |
|---|---|-------------------------|-----------------------|--------------------------|
| Special Revenue Funds: | | | | |
| Traffic Safety Fund(s) | 10010, 10020, 20600, 20700, 20800, 82600 | \$ 139 | \$ 78,607 | |
| Federal Planning and Development | 10030 | - | 114,353 | |
| State Road Fund(s) | 10040 and 20100 | 18,823,201 | 10,688,049 | |
| HIF Bond Fund | 20200 | 13,600 | - | |
| State Aviation Fund | 20500 | - | 256 | |
| ARRA Project Fund | 89000 | 346,242 | 414,511 | |
| Total Special Revenue Funds | | 19,183,182 | 11,295,776 | 7,887,406 |
| Debt Service Funds: | | | | |
| 2001A CHAT Bond Debt Service Fund | 00700 | 1,651,520 | - | |
| 2004A GRIP Bond Debt Service Fund | 10080 | - | 574,773 | |
| 2006A GRIP Bond Debt Service Fund | 10220 | - | 1,649,100 | |
| 2006B GRIP Bond Debt Service Fund | 10240 | - | 658,193 | |
| 2008AGRIP Bond Debt Service Fund | 10410 | - | 1,370,943 | |
| 2008B GRIP Bond Debt Service Fund | 10420 | - | 6,409,295 | |
| 2008C GRIP Bond Debt Service Fund | 10430 | - | 1,009,166 | |
| 2008D GRIP Bond Debt Service Fund | 10440 | - | 1,267,688 | |
| 2012A Bond Debt Service Fund | 30850 | | 611 | |
| 2000 CHAT Bond Debt Service Fund | 43200 | 1,184,452 | - | |
| 1999 CHAT Bond Debt Service Fund | 43400 | 750,144 | - | |
| 2002A CHAT Bond Debt Service Fund | 54700 | 690,434 | - | |
| 1998A CHAT Bond Debt Service Fund | 54800 | 86,180 | - | |
| 2002B WIPP Bond Debt Service Fund | 75000 | 702,644 | - | |
| 1998 WIPP Bond Debt Service Fund | 97200 | 199,253 | - | |
| Total Debt Service Funds | | 5,264,627 | 12,939,769 | (7,675,142) |
| Capital Projects Funds: | | | | |
| Gen. Fund Appropriations Fund | 10070 | - | 131,887 | |
| GF Capital Outlay Fund | 93100 | 131,887 | | |
| Total Capital Projects Funds | | 131,887 | 131,887 | - |
| Enterprise Funds: | | | | |
| State Infrastructure Fund | 89300 | - | 212,264 | |
| Total Enterprise Funds | | - | 212,264 | (212,264) |
| Total Interfund Receivables and Payables | | \$ 24,579,696 | \$ 24,579,696 | \$ - |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Notes to Financial Statements

7. DUE FROM AND DUE TO OTHER FUNDS - continued

| | Fund Number | Due From Other Funds | Due to Other Funds | Net (Sub-totals only) |
|------------------------------------|----------------|-------------------------|-----------------------|--------------------------|
| Summary | | | | |
| Total Special Revenue Funds - net | | | | \$ 7,887,406 |
| Total Debt Service Funds - net | | | | (7,675,142) |
| Total Capital Projects Funds – net | | | | - |
| Total Governmental – net | | | | 212,264 |
| Total Enterprise Funds – net | | | | (212,264) |
| Total All Funds | | | | \$ - |

8. DUE FROM OTHER AGENCIES

| Fund Description | Fund Number | Sub-total | Total | Due From |
|-----------------------------------|-------------|-----------|-------|-----------------------------|
| State Road Fund | 20100 | \$ 3,576 | | Department of Public Safety |
| Total reauthorizations due | | | 3,576 | |
| 2001A CHAT Bond Project Fund | 00600 | 406 | | State Treasurer's Office |
| 2001A CHAT Bond Debt Service Fund | 00700 | 20 | | State Treasurer's Office |
| 2002D CHAT Bond Project Fund | 11500 | 55 | | State Treasurer's Office |
| 2002D CHAT Bond Debt Service Fund | 18700 | 1 | | State Treasurer's Office |
| State Road Fund | 20100 | 31,753 | | State Treasurer's Office |
| HIF Bond Fund | 20200 | 930 | | State Treasurer's Office |
| Local Government Road Fund | 20300 | 1,836 | | State Treasurer's Office |
| State Aviation Fund | 20500 | 1,512 | | State Treasurer's Office |
| Motorcycle Training Fund | 20600 | 14 | | State Treasurer's Office |
| Traffic Safety Fund | 20800 | 105 | | State Treasurer's Office |
| 2002C HIF Bond Project Fund | 36100 | 113 | | State Treasurer's Office |
| 2002C HIF Bond Debt Service Fund | 36300 | 5 | | State Treasurer's Office |
| 1993 Bond Project Fund | 39400 | 138 | | State Treasurer's Office |
| 1999A CHAT Bond Project Fund | 43000 | 183 | | State Treasurer's Office |
| WIPP Bond Project Fund | 43100 | 133 | | State Treasurer's Office |
| 2000 CHAT Bond Debt Service Fund | 43200 | 18 | | State Treasurer's Office |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Notes to Financial Statements

8. DUE FROM OTHER AGENCIES - continued

| Fund Description | Fund Number | Sub-total | Total | Due From |
|---|--------------------|------------------|---------------------|---------------------------------|
| 1999 CHAT Bond Debt Service Fund | 43400 | 23 | | State Treasurer's Office |
| 2002A CHAT Bond Debt Service Fund | 54700 | 7 | | State Treasurer's Office |
| 1998A CHAT Bond Debt Service Fund | 54800 | 12 | | State Treasurer's Office |
| 2002B WIPP Bond Debt Service Fund | 75000 | 10 | | State Treasurer's Office |
| 1998A WIPP Bond Debt Service Fund | 97200 | 1 | | State Treasurer's Office |
| Total accrued interest due | | | 37,275 | |
| STB Appropriations Fund | 10060 | 1,060,059 | | DFA Board of Finance |
| STB Capital Outlay Fund | 89200 | 849,529 | | DFA Board of Finance |
| Total reimbursement due | | | 1,909,588 | |
| State Road Fund | 20100 | 27 | | Human Services Department |
| State Road Fund | 20100 | 488 | | Department of Health |
| State Road Fund | 20100 | 27 | | Higher Education Department |
| State Road Fund | 20100 | 99 | | Taxation and Revenue Department |
| Total reimbursement due | | | 641 | |
| Total due from other agencies--government funds only | | | 1,951,080 | |
| SIB Interest accrued from Local Gov't Investment Pool | | | 2,128 | |
| Total due from other agencies--government wide only | | | <u>\$ 1,953,208</u> | |

9. INVENTORY

Inventory as of June 30, 2013 consists of the following:

| | |
|--|----------------------|
| Highway maintenance materials stockpiled | \$ 7,866,783 |
| Repair Parts and expendable supplies | 5,506,811 |
| Fuel, oil and lubricants | 1,047,091 |
| | <u>\$ 14,420,684</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Notes to Financial Statements

10. CAPITAL ASSETS

A summary of changes in capital assets for fiscal year ended June 30, 2013 follows:

| | Beginning Balance | | Adjustments & | |
|---|-------------------------|-------------------------|---------------------|----------------------|
| | June 30, 2012 | Additions | Transfers | Retirements |
| Non-depreciable assets: | | | | |
| Construction in Progress | \$ 193,830,627 | \$ 394,428,260 | \$ - | \$ - |
| Rail System Infrastructure - Right of Way | 77,252,100 | - | - | - |
| Land | 5,177,044 | - | - | - |
| Right of Way | 408,048,385 | - | - | - |
| Total non-depreciable assets | 684,308,156 | 394,428,260 | - | - |
| Depreciable assets: | | | | |
| Infrastructure | 14,703,925,551 | - | - | (484,652,834) |
| Automotive and Major Road Fund Equipment | 205,816,651 | 10,562,401 | 347,440 | (14,127,231) |
| Rail System Infrastructure | 367,768,679 | - | - | - |
| Buildings | 45,823,291 | 1,201,018 | 1,620,782 | (278,032) |
| Equipment and furniture | 30,453,316 | 1,967,132 | (270,265) | (2,798,684) |
| Library | 102,614 | - | - | - |
| Total depreciable assets | 15,353,890,102 | 13,730,551 | 1,697,957 | (501,856,781) |
| Total Assets | 16,038,198,258 | 408,158,811 | 1,697,957 | (501,856,781) |
| Less Accumulated Depreciation: | | | | |
| Infrastructure | (8,954,955,656) | (597,933,204) | - | 484,652,834 |
| Automotive and Major Road Fund Equipment | (151,033,710) | (9,747,415) | (244,487) | 14,106,583 |
| Rail System Infrastructure | (61,479,926) | (14,710,748) | - | - |
| Buildings | (27,135,111) | (819,373) | (15,180) | 87,838 |
| Equipment and furniture | (24,508,261) | (1,624,403) | (34,403) | 2,754,722 |
| Library | (102,614) | - | - | - |
| Total Accumulated Depreciation | (9,219,215,278) | (624,835,143) | (294,070) | 501,601,977 |
| Net Total | \$ 6,818,982,981 | \$ (216,676,332) | \$ 1,403,887 | \$ (254,804) |

There were no software costs to capitalize as of year-end. Depreciation and amortization was allocated to the following functions:

| | |
|--|------------------------------|
| Depreciation: | |
| Programs and infrastructure | \$ 601,122,316 |
| Transportation and highway operations | 14,710,748 |
| Program support | 12,191,190 |
| | <u>628,024,254</u> |
| Amortization | 3,189,030 |
| Total depreciation and amortization | <u><u>\$ 631,213,284</u></u> |

10. CAPITAL ASSETS (continued)

| CIP | | Ending Balance | |
|-------------------|---------------|----------------|-----------------|
| Reclassifications | | June 30, 2013 | |
| \$ | (394,495,542) | \$ | 193,763,345 |
| | - | | 77,252,100 |
| | - | | 5,177,044 |
| | 2,833,546 | | 410,881,931 |
| | (391,661,996) | | 687,074,420 |
| | 391,661,996 | | 14,610,934,713 |
| | - | | 202,599,261 |
| | - | | 367,768,679 |
| | - | | 48,367,059 |
| | - | | 29,351,499 |
| | - | | 102,614 |
| | 391,661,996 | | 15,259,123,825 |
| | (0) | | 15,946,198,245 |
| | - | | (9,068,236,026) |
| | - | | (146,919,029) |
| | - | | (76,190,674) |
| | - | | (27,881,826) |
| | - | | (23,412,345) |
| | - | | (102,614) |
| | - | | (9,342,742,514) |
| \$ | (0) | \$ | 6,603,455,731 |

11. OPERATING TRANSFERS

Transfers within the Agency:

| | State Road Fund(s) (Multi) | Motorcycle Training Fund (SHARE 20600) | Capital Projects Fund (SHARE 10050) | General Fund Appropriations (SHARE 10070) | GF Capital Outlay (SHARE 93100) | HIF Bond Fund (SHARE 20200) |
|-----|----------------------------------|--|--|---|---------------------------------------|-----------------------------------|
| (1) | \$ (889,803) | \$ - | \$ - | \$ - | \$ - | \$ (2,897,181) |
| (2) | - | - | - | - | - | - |
| (3) | - | - | - | - | - | - |
| (4) | 20,057 | - | - | - | - | 138 |
| (5) | 6,656,152 | - | (6,656,152) | - | - | - |
| (6) | - | - | - | (131,887) | 131,887 | - |
| (7) | - | - | - | - | - | - |
| (8) | 78,607 | (78,607) | - | - | - | - |
| | <u>\$ 5,865,013</u> | <u>\$ (78,607)</u> | <u>\$ (6,656,152)</u> | <u>\$ (131,887)</u> | <u>\$ 131,887</u> | <u>\$ (2,897,043)</u> |

- (1) Transfer from the State Road Fund and HIF Bond Fund to the Non-GRIP Debt Service Funds for debt repayments
- (2) Transfer from 2004B interest earnings to offset interest costs in 2008A and 2008C
- (3) Transfer of 2006D BNSF interest earnings to 2008D
- (4) Reversion of funds on closure of Non-GRIP bond fund bank accounts
- (5) Return of unexpended funds to Road Fund
- (6) Transfer appropriated cash from 10070 to 93100
- (7) Transfer funds from 2006D BNSF to pay off 2008D Principal
- (8) Transfer excess money from the Motorcycle Training Fund to State Road Fund per Section 6-10-10 NMSA 1978

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Notes to Financial Statements

11. OPERATING TRANSFERS - continued

| | 2006D GRIP Bond Project Fund (SHARE 10270) | 2001A CHAT Bond Debt Service Fund (SHARE 00700) | 2004B GRIP Bond Debt Service Fund (SHARE 10090) | 2008A GRIP Bond Debt Service Fund (SHARE 10410) | 2008C GRIP Bond Debt Service Fund (SHARE 10430) | 2008D GRIP Bond Debt Service Fund (SHARE 10440) |
|-----|---|--|--|--|--|--|
| (1) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| (2) | - | - | (1,114,383) | 641,884 | 472,498 | - |
| (3) | (45,972) | - | - | - | - | 45,972 |
| (4) | - | (40) | - | - | - | - |
| (5) | - | - | - | - | - | - |
| (6) | - | - | - | - | - | - |
| (7) | (49,998,716) | - | - | - | - | 49,998,716 |
| (8) | - | - | - | - | - | - |
| | <u>\$ (50,044,688)</u> | <u>\$ (40)</u> | <u>\$ (1,114,383)</u> | <u>\$ 641,884</u> | <u>\$ 472,498</u> | <u>\$ 50,044,688</u> |

11. OPERATING TRANSFERS - continued

| | 2002D CHAT | 2002C HIF | 2000 CHAT | 1999 CHAT | 2002A CHAT | 1998A CHAT |
|-----|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Bond Debt | Bond Debt | Bond Debt | Bond Debt | Bond Debt | Bond |
| | Service Fund | Service Fund | Service Fund | Service Fund | Service Fund | Debt Service |
| | (SHARE 18700) | (SHARE 36300) | (SHARE 43200) | (SHARE 43400) | (SHARE 54700) | (SHARE 54800) |
| (1) | \$ 889,803 | \$ 2,897,181 | \$ - | \$ - | \$ - | \$ - |
| (2) | - | - | - | - | - | - |
| (3) | - | - | - | - | - | - |
| (4) | (19,929) | (138) | (29) | (18) | (17) | (2) |
| (5) | - | - | - | - | - | - |
| (6) | - | - | - | - | - | - |
| (7) | - | - | - | - | - | - |
| (8) | - | - | - | - | - | - |
| | \$ 869,874 | \$ 2,897,043 | \$ (29) | \$ (18) | \$ (17) | \$ (2) |

- (1) Transfer from the State Road Fund and HIF Bond Fund to the Non-GRIP Debt Service Funds for debt repayments
- (2) Transfer from 2004B interest earnings to offset interest costs in 2008A and 2008C
- (3) Transfer of 2006D BNSF interest earnings to 2008D
- (4) Reversion of funds on closure of Non-GRIP bond fund bank accounts
- (5) Return of unexpended funds to Road Fund
- (6) Transfer appropriated cash from 10070 to 93100
- (7) Transfer funds from 2006D BNSF to pay off 2008D Principal
- (8) Transfer excess money from the Motorcycle Training Fund to State Road Fund per Section 6-10-10 NMSA 1978

11. OPERATING TRANSFERS - continued

| | 2002B WIPP Bond Debt Service Fund (SHARE 75000) | 1998A WIPP Bond Debt Service Fund (SHARE 97200) | Total All Pages Netting Funds Only |
|-----|--|--|---|
| (1) | \$ - | \$ - | \$ - |
| (2) | - | - | - |
| (3) | - | - | - |
| (4) | (17) | (5) | - |
| (5) | - | - | - |
| (6) | - | - | - |
| (7) | - | - | - |
| (8) | - | - | - |
| | <u>\$ (17)</u> | <u>\$ (5)</u> | <u>\$ -</u> |

11. OPERATING TRANSFERS - continued

Transfers outside of Agency:

| | State Road Fund(s) (Multi) | Capital Projects Fund (SHARE 10050) | STB Appropriations Fund (SHARE 10060) | 2012A Refunding Revenue Bond Fund (SHARE 30850) | Ignition Interlock (SHARE 82600) |
|------|----------------------------------|--|--|--|--|
| (9) | \$ - | \$ - | \$ - | \$ 220,400,000 | \$ - |
| (10) | - | - | - | 42,693,105 | - |
| (11) | - | - | - | (653,181) | - |
| (12) | - | - | - | (261,769,370) | - |
| (13) | - | - | - | - | 300,000 |
| (14) | (5,710,524) | - | - | - | - |
| (15) | - | (9,500) | - | - | - |
| (16) | - | - | - | - | - |
| (17) | - | - | (107,311) | - | - |
| | <u>\$ (5,710,524)</u> | <u>\$ (9,500)</u> | <u>\$ (107,311)</u> | <u>\$ 670,554</u> | <u>\$ 300,000</u> |

- (9) Receipt principal amount of 2012A Refunding Bonds
- (10) Receipt of premium on 2012A Refunding Bonds
- (11) Transfer of cash for Costs of Issuance for 2012A Refunding Bonds
- (12) Transfer proceeds from 2012A Refunding to 2012A Escrow account
- (13) Annual transfer in from Department of Finance
- (14) Transfers made to Department of Public Safety (less reversions)
- (15) Transfer of 1% to DCA from Appropriation 09-3156
- (16) Due to DFA - State General Fund for Unexpended Appropriations
- (17) Reversions scheduled to be sent to DFA in FY14

11. OPERATING TRANSFERS - continued

| | GF Capital Outlay | Total all Inter-agency Transfers |
|------|----------------------|--|
| | (SHARE 93100) | |
| (9) | \$ - | \$ 220,400,000 |
| (10) | - | 42,693,105 |
| (11) | - | (653,181) |
| (12) | - | (261,769,370) |
| (13) | - | 300,000 |
| (14) | - | (5,710,524) |
| (15) | - | (9,500) |
| (16) | (102,619) | (102,619) |
| (17) | - | (107,311) |
| | <u>\$ (102,619)</u> | <u>\$ (4,959,400)</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Notes to Financial Statements

12. DUE TO OTHER AGENCIES

| Fund Description | Fund Number | Due To | Total |
|------------------------------------|--------------------|-------------------------------------|-----------------------------|
| Federal Planning and Development | 10030 | Due to State Treasurer's Office | \$ 2,028,076 |
| STB Appropriations Fund | 10060 | Due to State Treasurer's Office | 2,139,961 |
| STB Appropriations Fund | 10060 | Board of Finance | 113,154 |
| 2010A Bond Project Fund | 10450 | Due to State Treasurer's Office | 10,624,219 |
| State Road Fund(s) | 10040 and 20100 | Department of Finance | 2,536 |
| | | Administrative Office of the Courts | 348 |
| | | Due to State Treasurer's Office | 20,199,938 |
| | | Due to State Treasurer's Office | 640,060 |
| ARRA Project Fund | 89000 | Due to State Treasurer's Office | 67,745 |
| STB Capital Outlay Fund | 89200 | Due to State Treasurer's Office | <u>67,745</u> |
| Total due to other agencies | | | <u><u>\$ 35,816,037</u></u> |
| | | Due to State Treasurer's Office | \$ 35,699,999 |
| | | Board of Finance | 113,154 |
| | | Department of Finance | 2,536 |
| | | Administrative Office of the Courts | 348 |
| | | | <u><u>\$ 35,816,037</u></u> |

13. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

| Governmental Activities | Balance at June 30, 2012 | Increase | Decrease | Ending Balance June 30, 2013 | Amounts due within one year |
|------------------------------------|-------------------------------------|-----------------|------------------|---|--|
| 2002C HIF Bonds | \$ 5,930,000 | - | (5,930,000) | - | \$ - |
| 2002D CHAT Bonds | 1,575,000 | - | (1,575,000) | - | - |
| 2004A GRIP Bonds | 248,310,000 | - | (167,695,000) | 80,615,000 | 19,360,000 |
| 2004B GRIP Bonds | 63,860,000 | - | (34,120,000) | 29,740,000 | 29,740,000 |
| 2006A GRIP Bonds | 149,760,000 | - | (66,235,000) | 83,525,000 | 255,000 |
| 2006B GRIP Bonds | 26,675,000 | - | (1,270,000) | 25,405,000 | 1,320,000 |
| 2008A GRIP Bonds | 115,200,000 | - | - | 115,200,000 | - |
| 2008B GRIP Bonds | 220,000,000 | - | - | 220,000,000 | - |
| 2008C GRIP Bonds | 84,800,000 | - | - | 84,800,000 | - |
| 2008D GRIP Bonds | 50,400,000 | - | (50,400,000) | - | - |
| 2009A Refunding Bonds | 49,345,000 | - | (23,190,000) | 26,155,000 | 11,075,000 |
| 2010A Debt Service | 168,580,000 | - | (23,120,000) | 145,460,000 | 38,225,000 |
| 2010B GRIP Bonds | 451,435,000 | - | - | 451,435,000 | 6,635,000 |
| 2012 Refunding Bonds | - | 220,400,000 | (2,945,000) | 217,455,000 | - |
| Debentures | 1,635,870,000 | 220,400,000 | (376,480,000) | 1,479,790,000 | 106,610,000 |
| Compensated absences payable | 5,961,995 | 5,150,948 | (5,228,702) | 5,884,241 | 5,884,241 |
| Total obligations | 1,641,831,995 | \$ 225,550,948 | \$ (381,708,702) | 1,485,674,241 | \$ 112,494,241 |
| Less current portion | (88,274,464) | | | (112,494,241) | |
| Net long-term obligations | <u>\$ 1,553,557,531</u> | | | <u>\$ 1,373,180,000</u> | |

As discussed in Note 1, Deferred amount on refunding is presented as a deferred outflow of resources on the financial statements and is not presented net of related debentures.

| Governmental Activities | Balance at June 30, 2012 | Increase | Decrease | Ending Balance June 30, 2013 | Amounts due within one year |
|------------------------------------|-------------------------------------|-----------------|-----------------|---|--|
| Deferred outflow of resources | \$ 76,507,362 | 15,931,656 | (6,787,594) | 85,651,424 | 7,377,654 |

The State Road Fund (#20100) 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, which 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.

13. LONG-TERM OBLIGATIONS - continued

Series 2002C HIF

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 fund projects identified by the Department and the Legislature.

In October 2010, \$7,270,000 was refunded by the 2010B Senior Lien Refunding Revenue Bonds.

In December 2012, the remaining \$5,930,000 outstanding was refunded, in part, by the 2012 Refunding Revenue Bonds.

13. LONG-TERM OBLIGATIONS - continued

Series 2002D CHAT

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.

In October 2010, \$1,635,000 was refunded by the 2010B Senior Lien Refunding Revenue Bonds.

In December 2012, the remaining \$1,575,000 outstanding was refunded, in part, by the 2012 Refunding Revenue Bonds.

13. LONG-TERM OBLIGATIONS - continued

Series 2004A GRIP

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 3.80% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2024.

In October 2010, \$451,690,000 was refunded by the 2010B Senior Lien Refunding Revenue Bonds.

In December 2012, \$167,695,000 was refunded by the 2012 Refunding Revenue Bonds.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$7,378,656, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|---------------------|----------------------|
| Series 2004A GRIP: | | | |
| 2014 | \$ 19,360,000 | \$ 4,162,768 | \$ 23,522,768 |
| 2015 | 61,255,000 | 3,215,888 | 64,470,888 |
| Total | <u>\$ 80,615,000</u> | <u>\$ 7,378,656</u> | <u>\$ 87,993,656</u> |

13. LONG-TERM OBLIGATIONS - continued

Series 2004B GRIP

The Department issued \$237,950,000 of bonds through the New Mexico Finance Authority's (NMFA) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B, in May 2004. The gross proceeds to the Department were \$254,129,187, including \$16,347,187 of an original issue premium. The cost of issuance including underwriter fees was \$2,196,442.

The 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 requirements to amortize the Bonds, including interest payments of \$1,483,400, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|---------------------|----------------------|
| Series 2004B GRIP: | | | |
| 2014 | 29,740,000 | 1,483,400 | 31,223,400 |
| Total | <u>\$ 29,740,000</u> | <u>\$ 1,483,400</u> | <u>\$ 31,223,400</u> |

13. LONG-TERM OBLIGATIONS - continued

Refundings

NMFA, on behalf of the Department, has issued multiple series of refunding bonds in prior years to advance refund certain older debt issues of the Department. The net proceeds of those issuances less any new amounts borrowed plus, at times, additional funds provided by the Department, 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 refundings of the older debt are considered to be defeased and the liability for those bonds has been removed from long-term obligations. The bonds outstanding of \$685,425,000 were considered defeased in substance as of June 30, 2013.

The cumulative deferred amount on the refundings of \$85,651,424, recorded, as a deferred outflow, 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. The deferred amount on the refunding is recorded to the government-wide financial statements and is required to be amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Derivative Instruments

At the time of the 2004 GRIP bond issuance, NMFA, on behalf of the Department, entered into interest rate exchange agreements ("swaps") with respect both to the adjustable rate bonds then issued and the adjustable rate bonds anticipated to be issued in 2006. All of the 2004 adjustable rate bonds were hedged at issuance with immediately-starting swaps and approximately one-half of the anticipated total 2006 issuance was hedged with forward-starting swaps that became effective in 2006.

In all of the swaps, NMFA, on behalf of the Department, receives a variable-interest rate payment based on an index, and makes a fixed-rate interest payment. This arrangement has the effect of converting the variable rate bonds to "synthetic fixed-rate" issues.

As in the case of the GRIP bonds, NMFA has entered into the swaps as an agent for the Department. These swap agreements remained in effect following the 2008 refunding and reissuance of the 2004 and 2006 adjustable rate bonds as Variable Rate Demand Notes (the 2008A through D series).

Objectives of the Swaps

The objective in entering into the swap agreements was to obtain a lower interest cost for the 2004 bonds than could have been obtained at the time had they been issued as fixed-rate bonds. With respect to the planned 2006, issuance, NMFA believed in 2004 that it would be desirable to "lock in" a synthetic fixed rate of 5% or less for a portion of the bonds anticipated to be issued in 2006.

13. LONG-TERM OBLIGATIONS - continued

Significant Terms

2004 Swaps:

| <u>Counterparty</u> | <u>Royal Bank of Canada</u> | <u>Goldman Sachs</u> | <u>Deutsche Bank</u> |
|-------------------------------------|-----------------------------|-----------------------|-----------------------|
| Notional Amount | \$100,000,000 | \$50,000,000 | \$50,000,000 |
| Receipt Rate | 68 % of 1 month LIBOR | 68 % of 1 month LIBOR | 68 % of 1 month LIBOR |
| Payment Rate (Synthetic Fixed Rate) | 3.934% | 3.934% | 3.934% |
| Embedded Option(s) | None | None | None |
| Effective Date | May 20, 2004 | May 20, 2004 | May 20, 2004 |
| Termination Date: | June 15, 2024 | June 15, 2024 | June 15, 2024 |

2006 Forward Starting Swaps:

| <u>Counterparty</u> | <u>JP Morgan Chase Bank</u> | <u>UBS AG</u> |
|--|--|--|
| Notional Amount | \$110,000,000 | \$110,000,000 |
| Receipt Rate | SIFMA Municipal Swap Index | SIFMA Municipal Swap Index |
| Payment Rate | 5.072% | 5.072% |
| Embedded Option(s) | "Knockout" option – Counterparty may cancel if the index remains above 7% for more than 180 days | "Knockout" option – Counterparty may cancel if the index remains above 7% for more than 180 days |
| Option premium to NMFA | 0.34% | 0.34% |
| Net payment rate ("Synthetic Fixed Rate"), equals the payment rate less option premium | 4.732% | 4.732% |
| Effective Date | December 15, 2006 | December 15, 2006 |
| Termination Date: | December 15, 2026 | December 15, 2026 |

No cash was paid or received at the initiation of any of the above swaps.

13. LONG-TERM OBLIGATIONS - continued

Fair Value

The estimated fair value of the swaps at June 30, 2013 was as follows:

| <u>Counterparty</u> | <u>Notional Value</u> | <u>Fair Value *</u> |
|----------------------|-----------------------|------------------------|
| Goldman Sachs | \$ 50,000,000 | \$ (9,982,790) |
| Deutsche | 50,000,000 | (9,982,790) |
| Royal Bank of Canada | 100,000,000 | (19,965,581) |
| JPMorgan Chase Bank | 110,000,000 | (29,222,732) |
| UBS AG | 110,000,000 | (29,222,732) |
| | <u>\$ 420,000,000</u> | <u>\$ (98,376,625)</u> |

* The Fair Value is the estimated amount that would have been received by or paid by the Department if the agreements had been terminated at June 30, 2013 under the terms of the agreement. This value is the net present value of the receipts and payments anticipated to be made pursuant to the agreements. The net present values are calculated based on discount rates indicated by actual swap transactions that occurred on or around June 30, 2013. Negative amounts indicate payments that would have been made by the Department to the counterparties.

These swaps have been deemed a hedge, and as such, the total amount entered as a liability for the year ended June 30, 2013 was \$98,376,625.

During fiscal year 2013, management evaluated the effectiveness of the SWAP agreements and found a portion to be ineffective. As a result the ineffective portion was expensed in the amount of \$39,931,161 and the asset was reduced to \$58,445,464, which consists of the JP Morgan Chase Bank and UBS AG SWAP agreements.

Associated Debt

| Variable Rate Debt* | Par Value | <u>2013 Debt Service</u> | | Net Variable Made (Received) | Total Net Interest Paid | Effective Interest Rate |
|------------------------|----------------|--------------------------|-------------------|---------------------------------|----------------------------|----------------------------|
| | | Principal | Fixed Interest | | | |
| Series 2008A and C | \$ 200,000,000 | \$ - | \$ 7,911,711 | \$ 1,072,048 | \$ 8,983,759 | 4.492% |
| Series 2008B | 220,000,000 | - | 11,220,391 | 16,719 | 11,237,110 | 5.108% |

* The interest and swap payments for these bonds include the payments for the 2004 and 2006 Series bonds that that the 2008 series bonds replaced during the prior fiscal year.

The interest includes amounts paid within the fiscal year without regard to the costs associated with the swap collateral (Taxable) Line of Credit.

13. LONG-TERM OBLIGATIONS - continued

Risks

Credit Risk. Credit risk is the possibility that a counterparty will not fulfill its obligations.

The credit ratings of the counterparties, at June 30, 2013, were:

| | <u>Moody's</u> | <u>S&P</u> | <u>Fitch</u> |
|----------------------|----------------|----------------|--------------|
| Royal Bank of Canada | Aa3 | AA- | AA |
| Goldman Sachs | Aa2 | AAA | N/A |
| Deutsche Bank | A2 | A+ | A+ |
| JP Morgan Chase | Aa3 | A+ | A+ |
| UBS AG | A2 | A | A |

Presently, the Department has no exposure to loss with respect to the counterparties, as the termination values of the swaps are negative. That is, no amounts would be owed to the Department if any swaps were terminated at present. Each swap agreement contains provisions requiring the posting of collateral in the event that termination values exceed certain amounts. Termination values currently exceeded these limits, and, accordingly, collateral was posted for \$11,820,000 as of 6/30/2013 at UBS. The swap agreements permit the netting of amounts owed between the Department and a counterparty, mitigating, to some extent, the level of credit risk. The Department believes it has an adequate degree of diversification with regard to counterparties.

Swap Collateral Requirements – Taxable Line of Credit

Negative balances at the end of the fiscal year were such that collateral needed to be posted. For that purpose a short-term Taxable Line of Credit was established. There was \$23,000,000 outstanding on the line of credit at the end of the fiscal year, with \$35,000,000 borrowed and \$5,000,000 borrowed and \$17,000,000 repaid during the year.

| | |
|---|----------------------|
| SHARE fund 10410 - 2008A GRIP Bond Debt Service Fund | \$ 3,587,466 |
| SHARE fund 10420 - 2008B GRIP Bond Debt Service Fund | 16,771,760 |
| SHARE fund 10430 - 2008C GRIP Bond Debt Service Fund | 2,640,774 |
| Total Short-term Notes Payable (Taxable Line of Credit) | <u>\$ 23,000,000</u> |

During the year, the Department paid off a \$50,000,000 balance on the 2008D GRIP bonds that the BNSF had previously required as collateral. The new agreement, as discussed above, requires the department to have an available Line of Credit for \$50,000,000 as an insurance in case certain conditions occur.

Interest Rate Risk.

The knock-out option in the 2006 swaps leaves the Department open to interest rate risk. If the SIFMA municipal swap index averages above 7% for 180 consecutive days, then, as provided by the terms of the knockout option, swap agreements could be cancelled by the counterparties and the Department would have outstanding unhedged variable rate debt in a 7% interest rate environment.

13. LONG-TERM OBLIGATIONS - continued

Basis Risk.

Basis risk is the possibility that the variable rate paid on the bonds may not be adequately offset by the variable index payment received under the swap agreement. The Department has little or no such risk with respect to the 2006 bonds as the 2006 swaps pay a variable rate equal to the SIFMA Municipal Swap index which has very closely approximated, historically, the rates paid on variable rate municipal debt. The Department has basis risk, however, with respect to the 2004 swaps. The variable rate the Department receives with respect to the 2004 swaps is 68% of one-month LIBOR. While this rate has closely tracked the SIFMA Municipal Swap Index for a long period of time, there has recently been some divergence between the two indices. There is no guarantee that the two indices will remain as closely correlated in the future as they were in the past. There is a possibility, therefore, of a mismatch between actual variable rate bond debt service payments and the variable rate receipts under the 2004 swap agreements, resulting in a failure to achieve the synthetic fixed rate expected when the swaps initiated.

One event that would cause a divergence between the indices would be a significant change in U.S. income tax rates. This might result in 68% of LIBOR no longer approximating the tax-exempt rate set by the market for the Department's variable rate debt.

Termination Risk

The unplanned termination of one or more of the swaps exposes the Department to the possibility that the synthetic fixed rate expected to be obtained on the variable rate debt will not, in fact, be achieved. The swap agreements contain the standard ISDA provisions for termination, including events such as bankruptcy, ratings downgrades, and failure to post collateral when required. In addition, the Department, but not the counterparties, can terminate the swaps at any time with 30-day notice.

13. LONG-TERM OBLIGATIONS - continued

Bonds Issued by NMFA

The following bonds were issued by the New Mexico Finance Authority (Authority) in an agency capacity on behalf of the Department of Transportation during the fiscal year:

Series 2006A GRIP

On September 19, 2006, the Authority issued \$150,000,000 of State Transportation, Series 2006A Revenue Bonds. The Series 2006A Bonds were issued to provide funds for certain transportation projects authorized by the Legislature that the New Mexico Department of Transportation has determined to be necessary or desirable as part of GRIP transportation projects. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is reflected by the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

Principal of the Bonds is payable as follows on December 15. Interest, with rates ranging from 3.6% to 5.0% per annum, is payable semi-annually on June 15 and December 15 through the year 2027.

In December 2012, \$66,040,000 was refunded by the 2012 Refunding Revenue Bonds.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$48,403,808, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Series 2006A GRIP: | | | |
| 2014 | 255,000 | 4,152,413 | \$ 4,407,413 |
| 2015 | 3,715,000 | 4,053,163 | 7,768,163 |
| 2016 | 3,535,000 | 3,871,913 | 7,406,913 |
| 2017 | 3,550,000 | 3,699,888 | 7,249,888 |
| 2018 | 3,570,000 | 3,527,275 | 7,097,275 |
| 2019-2023 | 650,000 | 17,155,406 | 17,805,406 |
| 2024-2027 | 68,250,000 | 11,943,750 | 80,193,750 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 83,525,000</u> | <u>\$ 48,403,808</u> | <u>\$ 131,928,808</u> |

13. LONG-TERM OBLIGATIONS - continued

Bonds Issued by NMFA - continued

Series 2006B GRIP

On September 19, 2006, the Authority issued \$39,005,000 of State Transportation, Series 2006B Refunding Revenue Bonds. The Series 2006B Bonds were issued to provide funds to refund and restructure certain outstanding bonds of the State Transportation Commission. Due to certain facts and circumstances specific to this bond issue, the liability associated with this debt is reflected by the New Mexico Department of Transportation and not the books of the Authority. The Authority serves in an agency capacity with respect to this bond issue.

Principal of the Bonds is payable as follows on December 15. Interest, with rates ranging from 3.5% to 5.0% per annum, is payable semi-annually on June 15 and December 15 through the year 2027.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$9,724,087, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|---------------------|----------------------|
| Series 2006B GRIP: | | | |
| 2014 | \$ 1,320,000 | \$ 1,188,261 | \$ 2,508,261 |
| 2015 | 1,375,000 | 1,135,288 | 2,510,288 |
| 2016 | 1,435,000 | 1,073,744 | 2,508,744 |
| 2017 | 1,500,000 | 1,010,044 | 2,510,044 |
| 2018 | 1,565,000 | 942,875 | 2,507,875 |
| 2019-2023 | 9,110,000 | 3,435,125 | 12,545,125 |
| 2024-2027 | 9,100,000 | 938,750 | 10,038,750 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 25,405,000</u> | <u>\$ 9,724,087</u> | <u>\$ 35,129,087</u> |

13. LONG-TERM OBLIGATIONS - continued

Bonds Issued by NMFA - continued

Series 2008A GRIP

The Department issued \$115,200,000 NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008A in April of 2008. There was no original issue premium. The cost of issuance was \$457,260.

The \$115,200,000 Series 2008A Bonds, together with additional bonds hereafter issued, are payable 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 certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation. Those projects are part of the GRIP plan to upgrade and improve highways throughout the State and to develop a broad based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

Principal of the Bonds is payable as follows on June 15. Interest 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 \$49,970,254, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-----------------------|----------------------|-----------------------|
| Series 2008A GRIP: | | | |
| 2014 | \$ - | \$ 5,051,968 | \$ 5,051,968 |
| 2015 | - | 5,051,968 | 5,051,968 |
| 2016 | - | 5,051,968 | 5,051,968 |
| 2017 | - | 4,549,301 | 4,549,301 |
| 2018 | - | 4,531,968 | 4,531,968 |
| 2019-2023 | 37,080,000 | 22,659,840 | 59,739,840 |
| 2024-2027 | 78,120,000 | 3,073,241 | 81,193,241 |
| | | | |
| Total | <u>\$ 115,200,000</u> | <u>\$ 49,970,254</u> | <u>\$ 165,170,254</u> |

13. LONG-TERM OBLIGATIONS - continued

Bonds Issued by NMFA - continued

Series 2008B GRIP

The Department issued \$220,000,000 NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008B in April of 2008. There was no original issue premium. The cost of issuance was \$873,240.

The \$220,000,000 Series 2008B Bonds, together with additional bonds hereafter issued, are payable 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 certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation. Those projects are part of the GRIP plan to upgrade and improve highways throughout the State and to develop a broad based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

Principal of the Bonds is payable as follows on June 15. Interest is payable semi-annually on June 15 and December 15 through the year 2027.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$131,876,108, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-----------------------|-----------------------|-----------------------|
| Series 2008B GRIP: | | | |
| 2014 | \$ - | \$ 11,190,400 | \$ 11,190,400 |
| 2015 | - | 11,190,400 | 11,190,400 |
| 2016 | - | 11,190,400 | 11,190,400 |
| 2017 | - | 10,436,400 | 10,436,400 |
| 2018 | - | 10,410,400 | 10,410,400 |
| 2019-2023 | 11,200,000 | 52,052,000 | 63,252,000 |
| 2024-2027 | 208,800,000 | 25,406,108 | 234,206,108 |
| Total | <u>\$ 220,000,000</u> | <u>\$ 131,876,108</u> | <u>\$ 351,876,108</u> |

13. LONG-TERM OBLIGATIONS - continued

Bonds Issued by NMFA - continued

Series 2008C GRIP

The Department issued \$84,800,000 NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008C in May of 2008. There was no original issue premium. The cost of issuance was \$448,194.

The \$84,800,000 Series 2008C Bonds, together with additional bonds hereafter issued, are payable 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 certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation. Those projects are part of the GRIP plan to upgrade and improve highways throughout the State and to develop a broad based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

Principal of the Bonds is payable as follows on June 15. Interest 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 \$37,294,540, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Series 2008C GRIP: | | | |
| 2014 | \$ - | \$ 3,887,232 | \$ 3,887,232 |
| 2015 | - | 3,887,232 | 3,887,232 |
| 2016 | - | 3,887,232 | 3,887,232 |
| 2017 | - | 3,354,405 | 3,354,405 |
| 2018 | - | 3,336,032 | 3,336,032 |
| 2019-2023 | 27,295,000 | 16,680,160 | 43,975,160 |
| 2024-2027 | 57,505,000 | 2,262,247 | 59,767,247 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 84,800,000</u> | <u>\$ 37,294,540</u> | <u>\$ 122,094,540</u> |

13. LONG-TERM OBLIGATIONS - continued

Bonds Issued by NMFA - continued

Series 2008D GRIP

The Department issued \$50,400,000 NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008D in May of 2008. There was no original issue premium. The cost of issuance was \$264,930.

The \$50,400,000 Series 2008D Bonds, are payable wholly and solely from moneys derived from sources other than general taxation revenues. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds for an escrow as required by BNSF Railway Company in the Joint Use Agreement with the New Mexico Department of Transportation to cover costs of additional uninsured liabilities on the part of BNSF which would not exist but for the commuter rail service and related activities.

On June 17, 2013 the Series 2008D Bonds were retired with the \$50,400,000 principal payment.

13. LONG-TERM OBLIGATIONS - continued

Series 2009A Refunding

The Department issued \$112,345,000 NMFA State Transportation Refunding Revenue Bonds (Senior Lien) Series 2009A in November 2009. The gross proceeds to the Department were \$120,756,035, including \$8,411,035 of an original issue premium. The cost of issuance, including the underwriter's discount, was \$899,329.

The Series 2009A Bonds, together with additional bonds hereafter issued, are payable 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 certain outstanding bonds of the NMFA which were issued for the purpose of financing projects administered by the New Mexico Department of Transportation. Those projects are part of the GRIP plan to upgrade and improve highways throughout the State and to develop a broad based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

Principal of the Bonds is payable as follows on June 15. Interest is payable semi-annually on June 15 and December 15 through the year 2017.

The Department's future estimated scheduled annual requirement to amortize the Bonds, including interest payments of \$2,358,800, based on interest rates from 2.0% to 5.0%, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|---------------------|----------------------|
| Series 2009A Refunding: | | | |
| 2014 | \$ 11,075,000 | \$ 1,094,400 | \$ 12,169,400 |
| 2015 | 4,820,000 | 651,400 | 5,471,400 |
| 2016 | 5,195,000 | 410,400 | 5,605,400 |
| 2017 | 5,065,000 | 202,600 | 5,267,600 |
| Total | <u>\$ 26,155,000</u> | <u>\$ 2,358,800</u> | <u>\$ 28,513,800</u> |

13. LONG-TERM OBLIGATIONS - continued

2010A Revenue and Refundings

The Department issued \$174,625,000 NMFA State Transportation Revenue and Refunding Revenue Bonds (Subordinate and Senior Lien) Series 2010A in September 2010. The gross proceeds to the Department were \$200,494,152 including an original issuance premium of \$26,745,858. The cost of issuance, including the underwriters' discount, was \$1,320,666.

The Bonds are payable 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 engaged in through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds for the purpose of financing projects administered by the New Mexico Department of Transportation. Those projects are part of the GRIP plan to upgrade and improve highways throughout the State and to develop a broad based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

Principal of the Bonds is payable as follows on December 15. Interest, with rates ranging from 1.5% to 5.0% 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 \$30,928,000, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Series 2010A Refunding | | | |
| 2014 | \$ 38,225,000 | \$ 5,915,475 | \$ 44,140,475 |
| 2015 | 12,015,000 | 4,764,650 | 16,779,650 |
| 2016 | 12,595,000 | 4,202,600 | 16,797,600 |
| 2017 | 13,265,000 | 3,585,375 | 16,850,375 |
| 2018 | 8,770,000 | 3,060,625 | 11,830,625 |
| 2019-2023 | 53,705,000 | 8,901,200 | 62,606,200 |
| 2024-2027 | 6,885,000 | 498,075 | 7,383,075 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>\$ 145,460,000</u> | <u>\$ 30,928,000</u> | <u>\$ 176,388,000</u> |

13. LONG-TERM OBLIGATIONS - continued

2010B Revenue and Refundings

The Department issued \$461,075,000 NMFA State Transportation Refunding Revenue Bonds (Senior Lien) Series 2010B in October 2010. The gross proceeds to the Department were \$543,315,911 including an original issuance premium of \$84,632,805. The cost of issuance, including the underwriters' discount, was \$3,096,740.

The Bonds are payable 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 engaged in through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds for the purpose of financing projects administered by the New Mexico Department of Transportation. Those projects are part of the GRIP plan to upgrade and improve highways throughout the State and to develop a broad based, intermodal transportation plan that includes light rail, commuter rail, park and ride, airport improvements, bike paths and hiking trails.

Principal of the Bonds is payable as follows on June 15. Interest, with rates ranging from 3.0% to 5.0% 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 \$141,766,200, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-----------------------|-----------------------|-----------------------|
| Series 2010B Refunding | | | |
| 2014 | \$ 6,635,000 | \$ 22,067,500 | \$ 28,702,500 |
| 2015 | - | 21,832,100 | 21,832,100 |
| 2016 | 395,000 | 21,832,100 | 22,227,100 |
| 2017 | 69,180,000 | 21,820,250 | 91,000,250 |
| 2018 | 78,075,000 | 18,361,250 | 96,436,250 |
| 2019-2023 | 286,210,000 | 35,306,000 | 321,516,000 |
| 2024-2027 | 10,940,000 | 547,000 | 11,487,000 |
| | | | |
| Total | <u>\$ 451,435,000</u> | <u>\$ 141,766,200</u> | <u>\$ 593,201,200</u> |

13. LONG-TERM OBLIGATIONS - continued

2012 Revenue and Refundings

The Department issued \$220,400,000 NMFA State Transportation Refunding Revenue Bonds (Senior Lien) Series 2012 in December 2012. The gross proceeds to the Department were \$261,769,370 including an original issuance premium of \$42,693,105. The cost of issuance, including the underwriters' discount, was \$1,259,026.

Proceeds from the sale of the Series 2012 Bonds, together with other legally available funds from current year principal set asides, were used to refund (i) all of the New Mexico State Highway Commission Highway Infrastructure Fund Revenue Bonds, in the current outstanding amount of \$5,930,000 (The "Series 2002C Bonds"), (ii) all of the New Mexico State Transportation Commission Senior Subordinate Lien Tax Revenue Highway Bonds, in the current outstanding amount of \$1,575,000 (The "Series 2002D Bonds"), (iii) a portion of the Finance Authority State Transportation Revenue Bonds totaling \$167,695,000 currently outstanding in the aggregate amount of \$248,310,000 (The "Series 2004A Bonds"), and (iv) a portion of the Finance Authority State Transportation Revenue Bonds totaling \$66,040,000 currently outstanding in the aggregate amount of \$149,760,000 (The "Series 2006A Bonds"). Proceeds from the Series 2012 Bonds were also be used to pay costs of issuing the Series 2012 Bonds.

Principal of the Bonds is payable as follows on June 15. Interest, with rates ranging from 1.25% to 5.00% per annum, is payable semi-annually on June 15 and December 15 through the year 2026.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$76,294,615, are as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-----------------------|----------------------|-----------------------|
| Series 2010B Refunding | | | |
| 2014 | \$ - | \$ 8,791,663 | \$ 8,791,663 |
| 2015 | 900,000 | 8,791,663 | 9,691,663 |
| 2016 | 45,485,000 | 8,764,663 | 54,249,663 |
| 2017 | 1,095,000 | 7,454,963 | 8,549,963 |
| 2018 | 1,305,000 | 7,411,163 | 8,716,163 |
| 2019-2023 | 121,860,000 | 30,531,650 | 152,391,650 |
| 2024-2027 | 46,810,000 | 4,548,850 | 51,358,850 |
| Total | <u>\$ 217,455,000</u> | <u>\$ 76,294,615</u> | <u>\$ 293,749,615</u> |

13. LONG-TERM OBLIGATIONS - continued

Total future principal and interest obligation repayments for all long-term payables are as follows:

| <u>Year Ended June 30,</u> | <u>Total</u> |
|----------------------------|-------------------------|
| 2014 | \$ 175,595,480 |
| 2015 | \$ 148,653,752 |
| 2016 | \$ 128,925,020 |
| 2017 | \$ 149,768,226 |
| 2018 | \$ 144,866,588 |
| 2019-2023 | \$ 733,831,381 |
| 2024-2027 | \$ 535,628,021 |
| Total | \$ 2,017,268,467 |

Long-Term Debt Interest Expense

The total amount of interest expense included in direct expenses in the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds is \$76,561,388 for the year-ended June 30, 2013.

Capital Leases

There are no future minimum lease obligations to report as of June 30, 2013.

Compensated Absences

An obligation amounting to \$5,884,241 at June 30, 2013 has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences.

14. NEGATIVE FUND BALANCES

The Department had negative fund balances at the end of the fiscal year as follows:

Fund 43100: WIPP Bond Project Fund \$2,669,367

This amount represents revenue deferred to the following fiscal year due to DOE grant monies received in advance and not recognized as revenue until actually expended.

Fund 10030: Federal Planning and Development Fund \$1,290,446

This amount represents unreimbursed expenditures awaiting administrative processing requirements.

Fund 10060: Severance Tax Bond Appropriations Fund \$3,217,883

This amount represents unreimbursed expenditures awaiting administrative processing requirements.

15. REVERSIONS

Reversions are calculated based on an original appropriation amount less total expenditures until the appropriation is expired or closed by the capital projects division.

Current year reversions due to the State General Fund as of June 30, 2013 were as follows:

| | |
|------------|-------------------|
| Fund 93100 | <u>\$ 102,619</u> |
|------------|-------------------|

Current year reversions due to the State Board of Finance of June 30, 2013 were as follows:

| | |
|------------|-------------------|
| Fund 10060 | <u>\$ 107,311</u> |
|------------|-------------------|

| | |
|-------------------------|-------------------|
| Total of all reversions | <u>\$ 209,930</u> |
|-------------------------|-------------------|

16. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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 benefits, 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 for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute 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, 2013, 2012 and 2011 were \$12,635,831, \$11,046,477, and \$13,459,033, respectively, equal to the amount of the required contribution for each year.

17. OTHER POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN

Plan Description

The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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 RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

17. OTHER POST-EMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN - continued

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service-based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2013, 2012, 2011 were \$1,676,656, \$1,505,141, and \$1,472,272, respectively, which equal the required contributions for each year.

18. RISK MANAGEMENT

The Department, as a state agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the state of New Mexico. The Department pays annual premiums to the Risk Management Division for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the state of New Mexico.
2. Coverage to protect the state of New Mexico's property and assets.
3. Fringe benefit coverage's for state of New Mexico employees.

During the 2010-2011 fiscal year, the Department paid Risk Management \$4,013,600 in insurance premiums. During the 2011-2012 fiscal year, the Department paid Risk Management \$4,283,653 in insurance premiums. During the 2012-2013 fiscal year, the Department paid Risk Management \$3,122,902 in insurance premiums. The Department's exposure is limited to \$1,000 per any first-party incurred property loss, with the exception of theft, which has a \$5,000 deductible.

After conferring with legal counsel concerning pending litigation and claims, the Department believes that the outcome of pending litigation should not have a materially adverse effect on the financial position or operations of the Department. In addition, for the years ended June 30, 2011, 2012 and 2013, the Department had no claims for which the Risk Management Division has returned as "not covered" that would become the responsibility of the Department.

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 and can be reasonably estimated, the Department accrues the loss in the accompanying financial statements. In the opinion of the Department's management and 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 appropriations and as such are cancelable by the Department at the end of a fiscal year. Rental expense for the year ended June 30, 2013 was \$1,099,647.

The future minimum lease payments under operating leases as of June 30, 2013 are as follows:

| Years ending June 30: | Lease Amounts |
|-----------------------|-------------------|
| 2013 | \$ 148,195 |
| 2014 | 115,315 |
| 2015 | 115,315 |
| 2016 | 115,315 |
| 2017-2021 | 201,385 |
| 2022 | 12,000 |
| | <u>\$ 707,525</u> |

21. COMMITMENTS AND CONTINGENCIES

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, 2013 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.

22. BUDGETED VS. ACTUAL EXPENDITURES

Transfers, which are shown in the expenditure portion of the Budget and Actual presentation, are the intra-agency transfers only and these net to zero across the entire agency. Any one fund presentation will show a variance over or under budget since in general transfers are not budgeted. See Note 11 for the Transfers Schedule Footnote.

22. BUDGETED VS. ACTUAL EXPENDITURES - continued

Debt expenditures, which are reported in the Other category for budget purposes, and which include principal, interest and fees related to debt, were budgeted to be \$159,060,000. The actual expenditures, measured in the same way, were \$218,014,768.

Expenditures related to debt which was incurred during or after 2004 are budgeted and expensed primarily in the fund which generates the revenue for the payments, specifically State Road Fund (#20100), HIF Bond Fund (#20200) and WIPP Bond Project Fund (#43100). This is for several reasons, not the least of which, it is needed in order to capture the costs for billing entities when the debt costs are reimbursable. If actual debt costs, paid out of the debt trustee accounts, exceed the cash transferred from the primary fund, the debt service fund which records the trustee cash that was used in addition to the cash transferred, then records the debt expenditures.

Expenditures related to debt which was incurred before 2004 are also budgeted in the fund which generates the revenue for payments, but presented as an expenditure for GAAP purposes in the debt service fund. The recording of the cash transferred to the debt service funds is a transfer out in the sending fund and as a transfer in for the debt service funds. These transfer amounts are not formally budgeted.

23. SUBSEQUENT EVENTS

Updated Fair Value of Swaps

The estimated fair value of the swaps at November 26, 2013 was as follows:

| Counterparty | Notional Value | Fair Value | Collateral Posted |
|----------------------|-----------------------|-------------------------|--------------------------|
| Goldman Sachs | \$ 50,000,000 | \$ (10,400,651) | \$ - |
| Deutsche | 50,000,000 | (10,400,651) | - |
| Royal Bank of Canada | 100,000,000 | (20,801,302) | 1,410,000 |
| JPMorgan Chase Bank | 110,000,000 | (29,623,881) | 1,640,000 |
| UBS AG | 110,000,000 | (29,623,881) | 1,650,000 |
| Total | <u>\$ 420,000,000</u> | <u>\$ (100,850,366)</u> | <u>\$ 4,700,000</u> |

The date of the Collateral Posting Report is November 26, 2013.

23. SUBSEQUENT EVENTS - continued

Projects - Paseo Del Norte

In September of 2013, the State Transportation Commission approved a capital budget adjustment request authorizing the additional funding of \$50,442,894 for a major reconstruction of the I25/Paseo Del Norte Interchange in the City of Albuquerque. Funding for this request was provided by the City of Albuquerque in the amount of \$45,442,894 and the County of Bernalillo for \$5,000,000. Other funding for this project had been authorized by the Federal Highway Administration in the amount of \$18,317,394 and the New Mexico Legislature through Severance tax bond funds in the amount of \$29,768,000. The total funding for the project was \$98,528,288 and the project will predominately focus on improving traffic flow for northbound I-25 to westbound Paseo Del Norte (NM423) and eastbound Paseo Del Norte to southbound I-25 movements.

24. INSURANCE COVERAGE

The Department obtains coverage through Risk Management Division of the State of New Mexico General Services Department. This coverage includes liability and civil rights, property, vehicle, employer bond, workers' compensation, group insurance and state unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. All employees of the Department are covered by blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2012, through June 30, 2013.

25. ACCOUNTING CHANGES AND ACCOUNTING STANDARDS

In fiscal year 2013, the Department implemented Governmental Accounting Standards Board (GASB) Statement 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and Statement 65 "Items Previously Reported as Assets and Liabilities". Statement 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. The objective of Statement 65 is to either properly classify certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of Statement 65 resulted in the reclassification of the beginning net position of the governmental activities in the government-wide financial statements. The deferred charges for issuance costs were reclassified as expense of prior periods and resulted in the adjustment below:

| | |
|--|--------------------------------|
| Net Position at June 30, 2012 | \$ 5,638,365,755 |
| Change in reporting for deferred charges for debt issuance costs | <u>(8,005,176)</u> |
| Net Position at June 30, 2013, restated | <u><u>\$ 5,630,360,579</u></u> |

**EXTRACTS OF THE UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Net Position
As of June 30, 2014
(Unaudited.)

| | <u>Governmental Activities</u> | <u>Business-type Activities (State Infrastructure Bank)</u> | <u>Total</u> |
|--|------------------------------------|---|------------------------|
| Current Assets: | | | |
| Cash: | | | |
| Unrestricted | \$2,100 | \$— | \$2,100 |
| Cash equivalents: | | | |
| (Investment in state general fund investment pool) | | | |
| Restricted | 218,214,965 | 20,740,869 | 238,955,834 |
| Managed by NMFA | 118,002,049 | — | 118,002,049 |
| Receivables: | | | |
| Accounts receivable, net | 6,602,604 | — | 6,602,604 |
| Interest receivable | 1,618 | — | 1,618 |
| Notes and loans receivable | — | 180,000 | 180,000 |
| Other receivables | 18,646 | — | 18,646 |
| Due from: | | | |
| U.S. Department of Transportation | 48,107,440 | — | 48,107,440 |
| Other funds | — | — | — |
| Other state agencies | 69,938,461 | 1,579 | 69,940,040 |
| Inventories | 14,726,136 | — | 14,726,136 |
| Prepaid expense – other | 4,925 | — | 4,925 |
| Prepaid expense – NM44 warranty | 3,189,030 | — | 3,189,030 |
| Property held for resale, net | <u>9,007,214</u> | <u>—</u> | <u>9,007,214</u> |
| Total Current Assets | <u>487,815,188</u> | <u>20,922,448</u> | <u>508,737,636</u> |
| Non-Current Assets: | | | |
| Prepaid expense – NM44 warranty, net | 16,937,015 | — | 16,937,015 |
| Capital assets, net | <u>6,294,312,005</u> | <u>—</u> | <u>6,294,312,005</u> |
| Total Non-Current Assets | <u>6,311,249,020</u> | <u>—</u> | <u>6,311,249,020</u> |
| Total Assets | <u>6,799,064,208</u> | <u>20,922,448</u> | <u>6,819,986,656</u> |
| Deferred Outflows of Resources: | | | |
| Deferred loss on refunding | 78,273,770 | — | 78,273,770 |
| Deferred outflow of resources | <u>56,677,698</u> | <u>—</u> | <u>56,677,698</u> |
| Total Deferred Outflows of Resources | <u>134,951,468</u> | <u>—</u> | <u>134,951,468</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$6,934,015,676</u> | <u>\$20,922,448</u> | <u>\$6,954,938,124</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Net Position (cont'd)

As of June 30, 2014
(Unaudited.)

| | Governmental Activities | Business-type Activities (State Infrastructure Bank) | Total |
|---|----------------------------|--|------------------------|
| Current Liabilities: | | | |
| Accounts payable and contracts payable, including Retainage of \$6,698,088 | \$103,805,002 | \$— | \$103,805,002 |
| Due to: | | | |
| Other state agencies | 15,501,738 | — | 15,501,738 |
| State general fund | 203,534 | — | 203,534 |
| Local governments | 68,084 | 180,000 | 248,084 |
| Unearned revenue | 4,182,865 | — | 4,182,865 |
| Other accrued expenses | 3,000,354 | — | 3,000,354 |
| Other liabilities | 1,095,280 | — | 1,095,280 |
| Current portion of long-term obligations: | | | |
| Compensated absences | 5,884,241 | — | 5,884,241 |
| Debentures payable | 84,080,000 | — | 84,080,000 |
| Capitalized bond premium | <u>13,086,464</u> | <u>—</u> | <u>13,086,464</u> |
| Total Current Liabilities | <u>230,907,562</u> | <u>180,000</u> | <u>231,087,562</u> |
| Long-Term Liabilities: | | | |
| Long-term obligations: | | | |
| Derivative instruments interest rate swap | 96,042,322 | — | 96,042,322 |
| Debentures payable | 1,359,210,000 | — | 1,359,210,000 |
| Capitalized bond premium, net | <u>123,885,235</u> | <u>—</u> | <u>123,885,235</u> |
| Total Long-Term Liabilities | <u>1,579,137,557</u> | <u>—</u> | <u>1,579,137,557</u> |
| Total Liabilities | <u>1,810,045,119</u> | <u>180,000</u> | <u>1,810,225,119</u> |
| Net Position: | | | |
| Net investment in capital assets | 4,618,007,984 | — | 4,618,007,984 |
| Restricted for: | | | |
| Unspent bond proceeds | 105,155,260 | — | 105,155,260 |
| Loans | — | 20,742,448 | 20,742,448 |
| Specific purposes | <u>400,807,313</u> | <u>—</u> | <u>400,807,313</u> |
| Total Net Position | <u>5,123,970,557</u> | <u>20,742,448</u> | <u>5,144,713,005</u> |
| Total Liabilities and Net Position | <u>\$6,934,015,676</u> | <u>\$20,922,448</u> | <u>\$6,954,938,124</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Statement of Activities
As of June 30, 2014
(Unaudited.)

| | Governmental Activities | Business-type Activities (State Infrastructure Bank) | Total |
|--|----------------------------|--|------------------------|
| Program Expenses: | | | |
| Programs and infrastructure | \$793,966,118 | \$— | \$793,966,118 |
| Transportation and highway operations | 293,555,999 | — | 293,555,999 |
| Program support | <u>50,866,127</u> | <u>—</u> | <u>50,866,127</u> |
| Total Program Expenses | <u>1,138,388,244</u> | <u>—</u> | <u>1,138,388,244</u> |
| Program Revenues: | | | |
| Charges for services | 78,408,237 | — | 78,408,237 |
| Operating grants | 26,251,817 | — | 26,251,817 |
| Capital grants | <u>369,511,413</u> | <u>—</u> | <u>369,511,413</u> |
| Total Program Revenues | <u>474,171,467</u> | <u>—</u> | <u>474,171,467</u> |
| Net Program Revenue (Expense) | <u>(664,216,777)</u> | <u>—</u> | <u>(664,216,777)</u> |
| General Revenues (Losses): | | | |
| User and fuel taxes | 391,554,788 | — | 391,554,788 |
| Interest income | 2,143,880 | 14,915 | 2,158,795 |
| Gain (loss) on disposal of assets and adjustments | <u>(199,839)</u> | <u>—</u> | <u>(199,839)</u> |
| Total General Revenues (Losses) | <u>393,498,829</u> | <u>14,915</u> | <u>393,513,744</u> |
| Transfers: | | | |
| Reversions to state general fund | (98,813) | | (98,813) |
| Transfers from: severance tax bond appropriation | 17,602,500 | — | 17,602,500 |
| Transfers from (to) other state agencies and local governments, net | <u>(5,789,831)</u> | <u>—</u> | <u>(5,789,831)</u> |
| Total Transfers | <u>11,713,856</u> | <u>—</u> | <u>11,713,856</u> |
| Net General Revenues and Transfers | <u>405,212,685</u> | <u>14,915</u> | <u>405,227,600</u> |
| Change in Net Position Operating Income | (259,004,092) | 14,915 | (258,989,177) |
| Net Position, Beginning of Fiscal Year | <u>5,382,974,649</u> | <u>20,727,533</u> | <u>5,403,702,182</u> |
| Net Position, End of Fiscal Year | <u>\$5,123,970,557</u> | <u>\$20,742,448</u> | <u>\$5,144,713,005</u> |

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, the Chief Operating Officer 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 under the Indenture.

“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.

“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 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 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 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 any 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 or any portion thereof.

"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 (other than Exchange Termination 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, except to the extent otherwise provided in the Series Indenture providing details with respect to any Series or portion thereof, the 15th day (whether or not a Business Day) preceding any Interest Payment Date on the Bonds.

"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 under the Indenture.

"Reserve Alternative Instrument" means an insurance policy or surety bond or irrevocable letter of creditor 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 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.

“SIFMA Index” means The Securities Industry and Financial Markets Association Municipal Swap Index as released to the subscribers 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 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 under the Indenture.

"Trustee" means BOKF, NA. dba Bank of Albuquerque, Albuquerque, New Mexico, as successor trustee 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 Section 207 of the Master Indenture):

(1) The Authority shall then be current in all accumulations required to be made pursuant to Section 503 of 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: (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: (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: (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: (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 the 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 described 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 by the Indenture, 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 respective 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 Payments 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 and 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 of the Indenture pertaining to the application of moneys in any Fund or Account, upon payment of all Repayment Obligations and defeasance of all Obligations and discharge of the Indenture, amounts remaining on deposit in all Funds and Accounts (except the Rebate Fund) shall be paid over to the Authority.

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 thereto 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 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 the 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: To the payment of State Transportation Program Financing Expenses.

Sixth: 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

Seventh: To any Qualified Counterparty, any Exchange Termination Payment then due; and

Eighth: 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, and 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 under the Indenture 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 under the Indenture 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 under the Indenture 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 under the Indenture, 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 of the Indenture) 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 under the Indenture;

(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 authorized by the Indenture 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

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic descriptions are furnished for information only. The Series 2014A Bonds do not constitute a general obligation of the State and are special limited obligations of Finance Authority payable solely from the Trust Estate. THE FINANCE AUTHORITY HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2014A Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the Finance Authority. No breach of any pledge, obligation or agreement of the Finance Authority will impose a pecuniary liability or a charge upon the general credit of the State, the Finance Authority or any political subdivision of the State, or upon the taxing power of the State or any political subdivision of the State.

The information presented in this Appendix C relates to certain economic and demographic information relating to the State. Such information is for informational purposes and is presented to provide readers a sense of the economic and demographic composition of the State. Such information is available from the sources listed in the tables and is believed to be reliable. However, the Finance Authority has not verified and does not guarantee the accuracy of any such information.

Generally

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,298 square miles. The estimated 2013 population of the State was 2,085,287. The State has a semiarid subtropical climate with light precipitation. Its climate is characterized by sunshine and bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 60 percent (mornings) to 30 percent (afternoons). Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, and Commissioner of Public Lands. These officials are elected to four-year terms beginning January 1 after their election. An elected Executive Branch officer may succeed himself or herself in office once. The primary functions of the Executive Branch are currently carried out by the offices of each elected Executive Branch officeholder, in addition to approximately 22 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature, and approximately 9 cabinet-level agencies. Elections for all executive branch statewide offices were held on November 6, 2012.

The State Board of Finance ("State Board") has seven voting members consisting of the Governor, the Lieutenant Governor, the State Treasurer, and four members appointed by the Governor with the advice and consent of the Senate. No more than two appointed members may be from the same political party. The Department of Finance and Administration (the "DFA") Secretary serves as the Executive Officer of the State Board and is a non-voting member. The State Board, in addition to other powers and duties provided by law, has general supervisory authority over the fiscal affairs of the State and over the safekeeping and depositing of all money and securities belonging to, or in the custody of, the State. The Governor serves as the President of the State Board.

The DFA is the principal financial organization of State government and performs through its divisions the duties and functions relating to State and local government financing and general administration. The executive and administrative head of the DFA is the Secretary, who is appointed by the Governor with the advice and consent of the Senate. The State Board is a division of the DFA. The Director of the State Board is appointed by the Secretary with the approval of the members of the State Board.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms and members of the House are elected for two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to 60 calendar days in odd-numbered years and 30 calendar days in even-numbered years. Special sessions of the Legislature may be convened by the Governor. Extraordinary sessions may be convened by the Legislature under certain limited circumstances. Legislators do not receive any salary, but do receive per diem and mileage allowances while in session or performing official State business.

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

Economic 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 July 1, 2013 was 2,085,287. From 2000 to 2010, the State's population grew 13.2 percent, while the national population grew 9.7 percent over the same period.

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 comprised of Doña Ana County; the Santa Fe MSA is comprised of Santa Fe County; and the Farmington MSA is comprised of San Juan County. The fastest growing counties in the State are Bernalillo, Doña Ana, McKinley, Sandoval, and Otero. The following table sets forth information on population growth in New Mexico and nationally.

POPULATION NEW MEXICO AND THE UNITED STATES 2002-2013

| <u>Year</u> | <u>Population</u> | | <u>Annual Percentage Change</u> | |
|---------------|-------------------|----------------------|---------------------------------|----------------------|
| | <u>New Mexico</u> | <u>United States</u> | <u>New Mexico</u> | <u>United States</u> |
| 2002 | 1,849,187 | 287,745,630 | 1.1% | 0.9% |
| 2003 | 1,868,121 | 290,242,027 | 1.0 | 0.9 |
| 2004 | 1,890,215 | 292,936,109 | 1.2 | 0.9 |
| 2005 | 1,914,699 | 295,618,454 | 1.3 | 0.9 |
| 2006 | 1,940,631 | 298,431,771 | 1.4 | 1.0 |
| 2007 | 1,966,357 | 301,393,632 | 1.3 | 1.0 |
| 2008 | 1,984,179 | 304,177,401 | 0.9 | 0.9 |
| 2009 | 2,007,315 | 306,656,290 | 1.2 | 0.8 |
| 2010 (Census) | 2,064,982 | 309,326,295 | 2.6 | 0.7 |
| 2011 (est.) | 2,077,919 | 311,582,564 | 0.9 | 0.9 |
| 2012 (est.) | 2,083,540 | 313,873,685 | 0.3 | 0.7 |
| 2013 (est.) | 2,085,287 | 316,128,839 | 0.1 | 0.7 |

(Source: U.S. Census Bureau, Population Division. Last Revised: December 2013.)

Major industries in the State include oil and natural gas production, manufacturing, service, tourism, services, arts and crafts, agribusiness, government and mining. 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 sets forth information on employment by industry over the period of 2003 through 2012.

TOTAL FULL-TIME AND PART-TIME EMPLOYMENT BY INDUSTRY

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Growth 2011-2012 | Growth 2003-2012 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------------------|---------------------|
| Total employment | 1,001,654 | 1,025,906 | 1,049,656 | 1,079,057 | 1,104,513 | 1,107,052 | 1,074,041 | 1,059,328 | 1,063,280 | 1,074,538 | 1.06% | 7.28% |
| Wage and salary employment | 813,139 | 830,103 | 845,493 | 868,514 | 878,579 | 881,906 | 849,037 | 837,460 | 837,760 | 842,939 | 0.62 | 3.66 |
| Proprietors employment | 188,515 | 195,803 | 204,163 | 210,543 | 225,934 | 225,146 | 225,004 | 221,868 | 225,520 | 231,599 | 2.70 | 22.85 |
| Farm proprietors employment | 16,045 | 15,632 | 15,588 | 15,255 | 18,193 | 17,745 | 17,752 | 18,664 | 19,723 | 20,407 | 3.47 | 27.19 |
| Nonfarm proprietors employment | 172,470 | 180,171 | 188,575 | 195,288 | 207,741 | 207,401 | 207,252 | 203,204 | 205,797 | 211,192 | 2.62 | 22.45 |
| Farm employment | 22,838 | 22,618 | 23,262 | 22,829 | 25,804 | 24,406 | 24,710 | 25,307 | 26,227 | 27,288 | 4.05 | 19.49 |
| Nonfarm employment | 978,816 | 1,003,288 | 1,026,394 | 1,056,228 | 1,078,709 | 1,082,646 | 1,049,331 | 1,034,021 | 1,037,053 | 1,047,250 | 0.98 | 6.99 |
| Private employment | 765,164 | 785,682 | 807,695 | 841,896 | 868,770 | 869,351 | 833,113 | 816,586 | 823,329 | 834,980 | 1.42 | 9.12 |
| Forestry, fishing, related activities, and other ⁽¹⁾ | 4,979 | 5,171 | 5,229 | 5,135 | 5,172 | 5,344 | 5,208 | 5,225 | 5,305 | 5,431 | 2.38 | 9.08 |
| Mining ⁽²⁾ | 18,893 | 19,059 | 21,116 | 23,528 | 24,891 | 28,295 | 24,432 | 27,022 | 28,326 | 31,305 | 10.52 | 65.70 |
| Utilities | 4,113 | 4,042 | 4,074 | 4,122 | 4,451 | 4,564 | 4,801 | 4,565 | 4,508 | 4,524 | 0.35 | 9.99 |
| Construction ⁽³⁾ | 64,060 | 68,299 | 73,896 | 79,676 | 80,479 | 77,888 | 67,178 | 61,240 | 59,444 | 57,941 | (2.53) | (9.55) |
| Manufacturing | 41,557 | 40,611 | 41,175 | 42,745 | 42,810 | 40,595 | 36,422 | 34,537 | 35,617 | 35,862 | 0.69 | (13.70) |
| Durable goods manufacturing ⁽⁴⁾ | 28,701 | 27,903 | 28,502 | 29,863 | 29,772 | 28,038 | 24,371 | 23,033 | 23,612 | 23,344 | (1.14) | (18.66) |
| Nondurable goods manufacturing ⁽⁵⁾ | 12,856 | 12,708 | 12,673 | 12,882 | 13,038 | 12,557 | 12,051 | 11,504 | 12,005 | 12,518 | 4.27 | (2.63) |
| Wholesale trade | 26,157 | 26,800 | 27,878 | 28,863 | 28,746 | 28,606 | 26,582 | 26,799 | 26,378 | 27,071 | 2.63 | 3.49 |
| Retail trade ⁽⁶⁾ | 112,205 | 113,899 | 115,813 | 116,478 | 118,676 | 117,897 | 113,809 | 110,226 | 111,408 | 112,347 | 0.84 | 0.13 |
| Transportation and warehousing ⁽⁷⁾ | 24,078 | 24,888 | 25,271 | 25,875 | 27,377 | 26,629 | 24,279 | 23,351 | 24,311 | 25,295 | 4.05 | 5.05 |
| Information ⁽⁸⁾ | 17,939 | 17,152 | 17,290 | 18,425 | 18,805 | 18,942 | 17,457 | 17,114 | 16,480 | 16,705 | 1.37 | (6.88) |
| Finance and insurance ⁽⁹⁾ | 31,262 | 31,609 | 31,967 | 32,245 | 33,731 | 34,676 | 35,913 | 34,595 | 35,505 | 35,948 | 1.25 | 14.99 |
| Real estate and rental and leasing ⁽¹⁰⁾ | 32,003 | 34,828 | 38,262 | 40,428 | 42,994 | 42,552 | 40,370 | 39,914 | 39,855 | 41,229 | 3.45 | 28.83 |
| Professional and technical services | 62,847 | 65,973 | 66,744 | 74,238 | 81,915 | 82,023 | 80,345 | 78,336 | 77,497 | 76,602 | (1.15) | 21.89 |
| Management of companies and enterprises | 5,428 | 5,348 | 6,347 | 6,429 | 6,075 | 5,908 | 5,587 | 5,406 | 5,504 | 5,416 | (1.60) | (0.22) |
| Administrative and waste services ⁽¹¹⁾ | 53,227 | 54,526 | 55,159 | 58,405 | 60,353 | 60,255 | 55,811 | 54,261 | 54,794 | 53,761 | (1.89) | 1.00 |
| Educational services | 13,864 | 14,825 | 15,313 | 15,833 | 15,679 | 15,908 | 16,263 | 16,734 | 16,209 | 16,566 | 2.20 | 19.49 |
| Health care and social assistance ⁽¹²⁾ | 99,730 | 103,520 | 104,986 | 107,818 | 111,681 | 114,669 | 118,029 | 119,371 | 121,541 | 124,072 | 2.08 | 24.41 |
| Arts, entertainment and recreation ⁽¹³⁾ | 20,357 | 20,933 | 21,404 | 21,792 | 22,840 | 23,229 | 23,212 | 22,981 | 23,020 | 23,937 | 3.98 | 17.59 |
| Accommodation and food services ⁽¹⁴⁾ | 79,661 | 80,463 | 81,310 | 84,401 | 85,075 | 83,953 | 81,653 | 81,122 | 82,364 | 84,113 | 2.12 | 5.59 |
| Other services, except public administration ⁽¹⁵⁾ | 52,804 | 53,736 | 54,461 | 55,460 | 57,020 | 57,418 | 55,762 | 53,787 | 55,263 | 56,855 | 2.88 | 7.67 |
| Government and government enterprises ⁽¹⁶⁾ | 213,652 | 217,606 | 218,699 | 214,332 | 209,939 | 213,295 | 216,218 | 217,435 | 213,724 | 212,270 | (0.68) | (0.65) |

(1) The “Forestry, fishing, related activities and other” category includes: forestry and logging; fishing, hunting and trapping; agriculture and forestry support activities.

(2) The “Mining” category includes: oil and gas extraction; mining (except oil and gas); and support activities for mining.

(3) The “Construction” category includes: construction of buildings; heavy and civil engineering construction; and specialty trade contractors.

(4) The “Durable goods manufacturing” category includes: wood product manufacturing; nonmetallic mineral product manufacturing; primary metal manufacturing; fabricated metal product manufacturing; machinery manufacturing; computer and electronic product manufacturing; electrical equipment and appliance manufacturing; motor vehicles, bodies and trailers, and parts manufacturing; other transportation equipment manufacturing; furniture and related product manufacturing; and miscellaneous manufacturing.

(5) The “Nondurable goods manufacturing” category includes: food manufacturing; beverage and tobacco product manufacturing; textile mills; textile product mills; apparel manufacturing; leather and allied product manufacturing; paper manufacturing; printing and related support activities; petroleum and coal products manufacturing; chemical manufacturing; and plastics and rubber products manufacturing.

(6) The “Retail trade” category includes: motor vehicle and parts dealers; furniture and home furnishings stores; electronics and appliance stores; building material and garden supply stores; food and beverage stores; health and personal care stores; gasoline stations; clothing and clothing accessories stores; sporting goods, hobby, book and music stores; general merchandise stores; miscellaneous store retailers; and nonstore retailers.

(7) The “Transportation and warehousing” category includes: air transportation; rail transportation; water transportation; truck transportation; transit and ground passenger transportation; pipeline transportation; scenic and sightseeing transportation; support activities for transportation; couriers and messengers; and warehousing and storage.

(8) The “Information” category includes: publishing industries, except Internet; motion picture and sound recording industries; broadcasting, except Internet; Internet publishing and broadcasting; telecommunications; ISPs, search portals and data processing; and other information services.

(9) The “Finance and insurance” category includes: monetary authorities-central bank; credit intermediation and related activities; securities, commodity contracts, investments; insurance carriers and related activities; and funds, trusts and other financial vehicles.

(10) The “Real estate and rental and leasing” category includes: real estate; rental and leasing services; and lessors of nonfinancial intangible assets.

(11) The “Administrative and waste services” category includes: administrative and support services; and waste management and remediation services.

(12) The “Health care and social assistance” category includes: ambulatory health care services; hospitals; nursing and residential care facilities; and social assistance.

(13) The “Arts, entertainment and recreation” category includes: performing arts and spectator sports; museums, historical sites, zoos and parks; and amusement, gambling and recreation.

(14) The “Accommodation and food services” category includes: accommodation; and food services and drinking places.

(15) The “Other services, except public administration” category includes: repair and maintenance; personal and laundry services; membership associations and organizations; private households; and

(16) The “Government and government enterprises” category includes: federal, civilian; military; state and local; and state government and local government.

(Source: Regional Economic Information System, Bureau of Economic Analysis, Last updated September 2013, including revised estimates for 2003-2011.)

The following tables set forth selected additional economic and demographic data with respect to the State.

EMPLOYMENT AND LABOR FORCE
NEW MEXICO AND THE UNITED STATES
2004-2013

| <u>Year</u> | <u>Civilian Labor Force</u> <u>(Thousands)</u> | | <u>Number of Employed</u> <u>(Thousands)</u> | | <u>Unemployment Rate</u> | | N.M. as % of U.S. <u>Rate</u> |
|-------------|---|----------------------|---|----------------------|--------------------------|----------------------|-------------------------------------|
| | <u>New Mexico</u> | <u>United States</u> | <u>New Mexico</u> | <u>United States</u> | <u>New Mexico</u> | <u>United States</u> | |
| 2004 | 901,833 | 147,401 | 849,970 | 139,252 | 5.8% | 5.5% | 105% |
| 2005 | 913,453 | 149,320 | 866,349 | 141,730 | 5.2 | 5.1 | 102 |
| 2006 | 924,516 | 151,428 | 886,708 | 144,427 | 4.1 | 4.6 | 89 |
| 2007 | 936,464 | 153,124 | 903,919 | 146,047 | 3.5 | 4.6 | 76 |
| 2008 | 947,435 | 154,287 | 904,735 | 145,362 | 4.5 | 5.8 | 78 |
| 2009 | 934,396 | 154,142 | 870,349 | 139,877 | 6.9 | 9.3 | 74 |
| 2010 | 930,293 | 153,889 | 856,033 | 139,064 | 8.0 | 9.6 | 83 |
| 2011 | 923,936 | 153,617 | 953,987 | 139,869 | 7.6 | 8.9 | 85 |
| 2012 | 925,360 | 154,975 | 859,965 | 142,469 | 7.1 | 8.1 | 88 |
| 2013 | 926,242 | 155,389 | 862,563 | 143,929 | 6.9 | 7.4 | 93 |

(Source: New Mexico Department of Workforce Solutions, Economic Research and Analysis.)

PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
2004-2013

| <u>Year</u> | <u>Personal Income (000)</u> | | <u>Annual</u> <u>Percentage Change</u> | |
|-------------|------------------------------|----------------------|---|----------------------|
| | <u>New Mexico</u> | <u>United States</u> | <u>New Mexico</u> | <u>United States</u> |
| 2004 | 52,314,496 | 10,043,231,000 | n/a | n/a |
| 2005 | 56,233,308 | 10,605,595,000 | 7.5% | 5.6% |
| 2006 | 60,090,836 | 11,376,405,000 | 6.9 | 7.3 |
| 2007 | 63,643,408 | 11,990,104,000 | 5.9 | 5.4 |
| 2008 | 67,188,091 | 12,429,234,000 | 5.6 | 3.7 |
| 2009 | 66,241,297 | 12,080,223,000 | -1.4 | -2.8 |
| 2010 | 68,505,892 | 12,417,659,000 | 3.4 | 2.8 |
| 2011 | 72,234,158 | 13,189,935,000 | 5.4 | 6.2 |
| 2012 | 74,601,613 | 13,873,161,000 | 3.3 | 5.2 |
| 2013 | 74,996,363 | 14,151,427,000 | 0.5 | 2.0 |

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

PER CAPITA PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
2004-2013

| <u>Year</u> | <u>Per Capita Income</u> | | N.M. as a % <u>of U.S.</u> | <u>Annual Percentage Change</u> | |
|-------------|--------------------------|----------------------|-------------------------------|-------------------------------------|----------------------|
| | <u>New Mexico</u> | <u>United States</u> | | <u>New Mexico.</u> | <u>United States</u> |
| 2004 | 27,479 | 34,300 | 80 | n/a | n/a |
| 2005 | 29,102 | 35,888 | 81 | 5.9% | 4.6% |
| 2006 | 30,625 | 38,127 | 80 | 5.2 | 6.2 |
| 2007 | 31,980 | 39,804 | 80 | 4.4 | 4.4 |
| 2008 | 33,416 | 40,873 | 82 | 4.5 | 2.7 |
| 2009 | 32,522 | 39,379 | 83 | -2.7 | -3.7 |
| 2010 | 33,175 | 40,144 | 83 | 2.0 | 1.9 |
| 2011 | 34,763 | 42,332 | 82 | 4.8 | 5.5 |
| 2012 | 35,805 | 44,200 | 81 | 3.0 | 4.4 |
| 2013 | 35,965 | 44,765 | 80 | 0.4 | 1.3 |

(Sources: U.S. Department of Commerce, Bureau of Economic Analysis.)

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WAGES AND SALARIES BY INDUSTRY SECTOR 2002-2012

| NAICS Earnings by Place of Work ⁽¹⁾ Applicable to 2002-2012 | New Mexico (Dollars in Thousands) ⁽²⁾ | | United States (Dollars in Millions) ⁽²⁾ | | Percent Change 2002-2012 | | Distribution of 2012 Wages & Salaries | |
|--|---|-------------------|---|------------------|-----------------------------|---------|--|---------|
| | 2012 | 2002 | 2012 | 2002 | N.M. | U.S. | N.M. | U.S. |
| Farm Wage and Salary | \$203,903 | \$199,942 | \$19,903 | \$17,911 | 1.98% | 11.12 % | 0.58% | 0.29% |
| Nonfarm Wage and Salary | <u>34,865,280</u> | <u>24,128,541</u> | <u>6,897,283</u> | <u>4,975,028</u> | 44.50 | 38.64 | 99.42 | 99.71 |
| Total Wages and Salaries | \$35,069,183 | \$24,328,483 | \$6,917,186 | \$4,992,939 | | | 100.00% | 100.00% |
| Private Nonfarm Wage and Salary | \$25,420,163 | \$16,823,304 | \$5,717,937 | \$4,112,705 | 51.10 | 39.03 | 72.49% | 82.66% |
| Forestry, Fishing, related activities | 69,877 | 50,025 | 14,902 | 10,198 | 39.68 | 46.13 | 0.20 | 0.22 |
| Mining | 1,769,807 | 674,052 | 76,944 | 30,664 | 162.56 | 150.93 | 5.05 | 1.11 |
| Utilities | 334,125 | 219,348 | 52,694 | 39,882 | 52.33 | 32.12 | 0.95 | 0.76 |
| Construction | 1,817,255 | 1,440,836 | 306,788 | 274,011 | 26.13 | 11.96 | 5.18 | 4.44 |
| Manufacturing | 1,698,615 | 1,490,240 | 735,422 | 680,068 | 13.98 | 8.14 | 4.84 | 10.63 |
| Wholesale Trade | 1,109,476 | 872,515 | 393,753 | 282,485 | 27.16 | 39.39 | 3.16 | 5.69 |
| Retail Trade | 2,489,637 | 1,974,693 | 427,935 | 359,201 | 26.08 | 19.14 | 7.10 | 6.19 |
| Transportation and Warehousing | 960,324 | 663,354 | 219,353 | 165,204 | 44.77 | 32.78 | 2.74 | 3.17 |
| Information | 646,380 | 544,653 | 224,806 | 190,239 | 18.68 | 18.17 | 1.84 | 3.25 |
| Finance and Insurance | 1,273,142 | 886,039 | 538,403 | 371,169 | 43.69 | 45.06 | 3.63 | 7.78 |
| Real Estate and Rental and Leasing | 361,315 | 308,089 | 98,161 | 72,316 | 17.28 | 35.74 | 1.03 | 1.42 |
| Professional, Scientific, and Technical Services | 3,855,410 | 2,059,084 | 673,895 | 401,538 | 87.24 | 67.83 | 10.99 | 9.74 |
| Management of Companies and Enterprises | 339,340 | 249,444 | 221,010 | 120,576 | 36.04 | 83.30 | 0.97 | 3.20 |
| Administrative and Waste Services | 1,441,093 | 1,051,499 | 289,634 | 196,003 | 37.05 | 47.77 | 4.11 | 4.19 |
| Educational Services | 336,759 | 197,053 | 127,948 | 75,036 | 70.90 | 70.52 | 0.96 | 1.85 |
| Health Care and Social Assistance | 4,274,627 | 2,329,095 | 785,889 | 469,766 | 83.53 | 67.29 | 12.19 | 11.36 |
| Arts, Entertainment, and Recreation | 199,282 | 136,946 | 73,885 | 52,583 | 45.52 | 40.51 | 0.57 | 1.07 |
| Accommodations and Food Services | 1,390,185 | 955,239 | 240,823 | 161,901 | 45.53 | 48.75 | 3.96 | 3.48 |
| Other Services, Except Public Administration | 1,053,514 | 721,100 | 215,692 | 159,865 | 46.10 | 34.92 | 3.00 | 3.12 |
| Government and Government Enterprises | \$9,445,117 | \$7,305,237 | \$1,179,346 | \$862,323 | 29.29 | 36.76 | 26.93% | 17.05% |

(1) The estimates of wage and salary disbursements for 2002 are based on the 2002 North American Industry Classification System (NAICS). The estimates for 2013 forward are based on the 2012 NAICS.

(2) Dollar estimates are in current dollars (not adjusted for inflation).

(Source: Bureau of Economic Analysis, last updated September 2013.)

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APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

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FORM OF OPINION OF BOND COUNSEL

Upon the issuance of the Series 2014B Bonds, Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the Finance Authority, proposes to issue its opinion in substantially the following form:

December 23, 2014

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 “Finance Authority”) of its \$61,380,000 State Transportation Refunding Revenue Bonds (Senior Lien), Series 2014B-1 (the “Senior Series 2014B-1 Bonds”) and \$18,025,000 State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2014B-2 (the “Subordinate Series 2014B-2 Bonds and together with the Senior Series 2014B-1 Bonds, the “Series 2014B Bonds”). The Series 2014B Bonds are being issued at the direction of the New Mexico State Transportation Commission (the “Commission”) for the purpose of providing funds (i) to refund outstanding bonds of the Finance Authority and (ii) to pay costs of issuing the Series 2014B Bonds.

The Finance Authority 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 “Finance Authority Act”). The Series 2014B Bonds are being issued pursuant to a resolution of the Commission adopted on November 10, 2014; Chapter 3, Laws of New Mexico 2003 (1st Special Session) (compiled in part as Sections 67-3-59.2, 67-3-59.3 and 67-3-65.1) (the “Transportation Financing Legislation”); the Finance Authority Act, resolutions adopted by the Finance Authority on November 20, 2014 and on December 11, 2014 (collectively, the “Resolutions”), the Master Indenture of Trust dated as of May 1, 2004, as heretofore amended and supplemented (the “Master Indenture”), between the Finance Authority and BOKF, NA, dba Bank of Albuquerque, as successor trustee (the “Trustee”), and the Nineteenth Series Indenture of Trust and the Twentieth Series Indenture of Trust, each dated as of December 1, 2014 (collectively with the Master Indenture, the “Indenture”), between the Finance Authority 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 Finance Authority Act, the Transportation Financing Legislation, the Resolutions, the Indenture, and an executed Bond of the first maturity of each series of the Series 2014B 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 Finance Authority 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 Finance Authority 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 (the “State”) and has lawful authority to issue the Series 2014B Bonds.
2. The Resolutions have been duly adopted by the Finance Authority, are valid and binding obligations of the Finance Authority and create a valid lien on and pledge of the Pledged Revenues for the payment of principal of and interest on the Series 2014B Bonds.
3. The Indenture has been duly authorized, executed and delivered by the Finance Authority, is valid and binding upon the Finance Authority 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 Senior Series 2014B-1 Bonds on a parity basis with other the Senior Lien Bonds issued or to be issued under the Indenture and to secure payment of the principal of and interest on the Subordinate Series 2014B-2 Bonds on a subordinate basis to the Senior Series 2014B-1 Bonds and other Senior Lien Bonds but on a parity with other Subordinate Lien Obligations, 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 Series 2014B 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 Finance Authority, 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 Series 2014B 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 Finance Authority;

(b) we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2014B Bonds and express herein no opinion relating thereto;

(c) 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;

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

(e) 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;

(f) we have not addressed, nor do we express any opinion on, the tax consequences regarding the investment in, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2014B Bonds; and

(g) 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,

FORM OF OPINION OF SPECIAL TAX COUNSEL

Upon the issuance of the Series 2014B Bonds, Ballard Spahr LLP, Special Tax Counsel to the Finance Authority, proposes to issue its opinion in substantially the following form:

December 23, 2014

New Mexico Finance Authority
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority State Transportation Refunding Revenue Bonds (Senior Lien), Series 2014B-1 and State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2014B-2

We have acted as Special Tax Counsel to the New Mexico Finance Authority (the "Finance Authority") in connection with the issuance by the Finance Authority of its State Transportation Refunding Revenue Bonds (Senior Lien), Series 2014B-1 in the aggregate principal amount of \$61,380,000 (the "Senior Series 2014B-1 Bonds") and State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2014B-2 in the aggregate principal amount of \$18,025,000 (the "Subordinate Series 2014B-2 Bonds" and, together with the Senior Series 2014B-1 Bonds, the "Series 2014B Bonds"). The Series 2014B Bonds are being issued at the direction of the New Mexico State Transportation Commission (the "Commission") for the purpose of providing funds to refund certain outstanding bonds of the Finance Authority.

We have reviewed opinions of counsel to the Finance Authority, certificates of the Finance Authority, the Commission, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Furthermore, with respect to the validity of the Series 2014B Bonds, we are relying upon the opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the Finance Authority. 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.

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 2014B Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Series 2014B Bonds, assuming the accuracy of the certifications of the Finance Authority and the Department and continuing compliance by the Finance Authority and the Department with the requirements of the Internal Revenue Code of 1986. Interest on the Series 2014B Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax; however, interest on the Series 2014B Bonds held by a corporation (other than an S corporation, regulated investment company, or real estate investment trust) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder.

2. Interest on the Series 2014B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the Series 2014B Bonds; and

(b) except as set forth above, we express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2014B 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 Finance Authority believes to be reliable, but the Finance Authority takes no responsibility for the accuracy thereof.

DTC, New York, NY, will act as securities depository for the Series 2014B Bonds. The Series 2014B 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 Series 2014B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities 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 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 rating: AA+. 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.

Purchases of Series 2014B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014B 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 Series 2014B 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 Series 2014B Bonds, except in the event that use of the book-entry system for the Series 2014B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014B 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 Series 2014B 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 Series 2014B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014B 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 Series 2014B 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 Series 2014B 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 Series 2014B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2014B 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 Finance Authority 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 Finance Authority, 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 Finance Authority 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 Finance Authority does not have responsibility for distributing such notices to the Beneficial Owners.

The Finance Authority 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 Series 2014B Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2014B 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 Series 2014B Bonds.

DTC may discontinue providing its services as securities depository with respect to the Series 2014B Bonds at any time by giving reasonable notice to the Finance Authority 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 Finance Authority 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

FORM OF CONTINUING DISCLOSURE UNDERTAKING

\$61,380,000
New Mexico Finance Authority
State Transportation Refunding Revenue Bonds
(Senior Lien)
Series 2014B-1

\$18,025,000
New Mexico Finance Authority
State Transportation Refunding Revenue Bonds
(Subordinate Lien)
Series 2014B-2

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this “Undertaking”) is executed and delivered by the NEW MEXICO FINANCE AUTHORITY (the “Authority”), and the NEW MEXICO DEPARTMENT OF TRANSPORTATION (the “Department”) (each a “Party,” together the “Parties”) in connection with the issuance of the Authority’s \$61,380,000 State Transportation Refunding Revenue Bonds (Senior Lien), Series 2014B-1 and \$18,025,000 State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2014B-2 (collectively, the “Bonds”). The Bonds are being issued pursuant to a Master Indenture of Trust dated as of May 1, 2004, as heretofore amended and supplemented (the “Master Indenture”), between the Authority and BOKF, NA, dba Bank of Albuquerque, as successor trustee (the “Trustee”), as supplemented by a Nineteenth Series Indenture of Trust and a Twentieth Series Indenture of Trust, each dated as of December 1, 2014 (collectively with the Master Indenture, the “Indenture”) between the Authority and the Trustee.

The Authority and the Department each covenant and agree as follows:

Section 1. Purpose of the Undertaking. This Undertaking is being executed and delivered by the Authority and the Department for the benefit of the Bondowners.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Financial Information” means the financial information (based on financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) as in effect from time to time, for governmental units as prescribed by the Governmental Accounting Standards Board) or operating data with respect to the Department and the Pledged Revenues, delivered at least annually pursuant to Section 3 hereof, of the type set forth in the Official Statement, including but not limited to, such financial information and operating data set forth on the tables under the caption “PLEDGED REVENUES.”

“Audited Financial Statements” means the annual financial statements for the Department prepared in accordance with GAAP as in effect from time to time, audited by such auditor as may then be required or permitted by the laws of the State of New Mexico.

“Bondowner” or “owner of the Bonds” means the registered owner of the Bonds, and so long as the Bonds are subject to the book entry system, any Beneficial Owner as such term is defined in the Indenture.

“Events” means any of the events listed in Section 4(a) or Section 4(b) of this Disclosure Undertaking.

“MSRB” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the United States Security and Exchange Commission (the “SEC”) to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (“EMMA”) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the final Official Statement delivered in connection with the original issue and sale of the Bonds.

“Participating Underwriters” means RBC Capital Markets, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

“Report Date” means March 31 of each year, beginning in 2015, or if March 31 is not a business day, the first business day after March 31.

“Rule 15c2-12” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Information.

(a) On or before the first Report Date and on each Report Date annually thereafter while the Bonds remain outstanding, the Department shall provide to the Authority, and the Authority shall in turn provide to the MSRB in an electronic format, the Annual Financial Information.

(b) If not provided as a part of the Annual Financial Information, the Department shall provide to the Authority, and the Authority shall in turn provide to the MSRB in an electronic format, the Audited Financial Statements. If the Audited Financial Statements are not available by the time specified in Section 3(a) above, unaudited financial statements of the Department will be provided as part of the Annual Financial Information and Audited Financial Statements will be provided when and if available.

(c) The Department may provide to the Authority and the Authority in turn may provide to the MSRB in an electronic format, the Annual Financial Information and Audited Financial Statements by specific cross-reference to other documents which have been made available to the public at the MSRB’s internet website or filed with the Securities and Exchange Commission; provided however, that if the document so referenced is a final official statement within the meaning of Rule 15c2-12, such final official statement must be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by cross-reference.

Section 4. Reporting of Events.

(a) Pursuant to the provisions of this Section 4, the Finance Authority shall give or cause to be given to the MSRB in an electronic format in the manner prescribed by the MSRB, notice of the occurrence of any of the following Events with respect to the Bonds in a timely manner but in no event more than ten (10) Business Days after the occurrence of the Event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (iv) Substitution of credit or liquidity providers, or their failure to perform.
- (v) Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds.
- (vi) Defeasances.
- (vii) Tender offers.
- (viii) Bankruptcy, insolvency, receivership or similar proceedings.

(ix) Rating changes.

(b) Pursuant to the provisions of this Section 4, the Finance Authority shall give or cause to be given to the MSRB in an electronic format in the manner prescribed by the MSRB, notice of the occurrence of any of the following Events with respect to the Bonds, if material:

(i) Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination.

(ii) Appointment of a successor or additional trustee or the change of the name of a trustee.

(iii) Non-payment related defaults.

(iv) Modifications to the rights of the owners of the Bonds.

(v) Bond calls.

(vi) Release, substitution or sale of property securing repayment of the Bonds.

(c) At any time the Bonds are outstanding, the Authority shall provide, in a timely manner, to the MSRB in an electronic format, notice of: (i) any failure of the Department or the Authority to timely provide the Annual Financial Information as specified in Section 3 hereof; and (ii) amendment of this Undertaking. The Department shall provide to the Authority and the Authority will, in turn, provide in a timely manner to the MSRB in an electronic format notice of any change in the Department's fiscal year end.

Section 5. Term. This Undertaking shall be in effect from and after the issuance and delivery of the Bonds and shall extend to the date all principal and interest on the Bonds shall have been deemed paid pursuant to the terms of the Indenture.

Section 6. Amendment Waiver. Notwithstanding any other provision of this Undertaking, the Authority and the Department may amend this Undertaking, and any provision of this Undertaking may be waived, if (a) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Authority or the Department and (b) the amendment does not materially impair the interests of the owners of the Bonds. Written notice of any such amendment or waiver shall be provided by the Authority to the MSRB, and the Annual Financial Information shall explain the reasons for the amendment and the impact of any change in the type of information being provided. If any amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made will present a comparison between the financial statement or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Authority or the Department from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other annual information or notice of occurrence of an event which is not an Event, in addition to that which is required by this Undertaking; provided that the Authority and the Department shall not be required to do so. If the Authority and the Department choose to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Undertaking, the Authority and the Department shall have no obligation under this Undertaking to update such information or include it in any future annual filing or notice of occurrence of an Event.

Section 8. Default and Enforcement. If either the Authority or the Department fails to comply with any provision of this Undertaking, any Bondowner may take action to seek specific performance by court order to compel the non-complying Party to comply with its undertaking in this Undertaking; provided that any Bondowner seeking to require the Party to so comply shall first provide at least 30 days' prior written notice to the Party of the Party's failure (giving reasonable details of such failure), following which notice the Party shall have 30 days to

comply and, provided further, that only the owners of no less than a majority in aggregate principal amount of the Bonds may take action to seek specific performance in connection with a challenge to the adequacy of the information provided by the Party in accordance with this Undertaking, alter notice and opportunity to comply as provided herein, and such action shall be taken only in a court of jurisdiction in the State of New Mexico. A DEFAULT UNDER THIS UNDERTAKING SHALL NOT BE DEEMED AN EVENT OF DEFAULT UNDER THE INDENTURE OR THE BONDS, AND THE SOLE REMEDY UNDER THIS UNDERTAKING IN THE EVENT OF ANY FAILURE OF A PARTY TO COMPLY WITH THIS UNDERTAKING SHALL BE AN ACTION TO COMPEL PERFORMANCE.

Section 9. Beneficiaries. The Undertaking shall inure solely to the benefit of the Authority, the Department, the Participating Underwriters and owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: December 23, 2014.

NEW MEXICO FINANCE AUTHORITY

By: _____
John E. McDermott, Chair

By: _____
David Martin, Secretary

Approved for Execution by
Officers of the New Mexico Finance Authority

BALLARD SPAHR LLP

By: _____
Bradley D. Patterson, as Disclosure Counsel

NEW MEXICO DEPARTMENT OF
TRANSPORTATION

By: _____
Tom Church, Cabinet Secretary



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