

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2008 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2008 Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of or the accrual or receipt of interest on, the Series 2008 Bonds. See "TAX MATTERS" herein.

NEW MEXICO FINANCE AUTHORITY

\$115,200,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008A
CONSISTING OF
\$35,200,000 SUBSERIES 2008A-1
\$80,000,000 SUBSERIES 2008A-2

\$220,000,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008B
CONSISTING OF
\$100,000,000 SUBSERIES 2008B-1
\$120,000,000 SUBSERIES 2008B-2

Dated: Delivery Date

Price: 100%

Due: As shown on inside front cover

The New Mexico Finance Authority's Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008A (the "Series 2008A Bonds") and Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008B (the "Series 2008B Bonds") and together with the Series 2008A Bonds, the "Series 2008 Bonds") are being issued as fully registered bonds. Purchases of beneficial ownership interests in the Series 2008 Bonds will be made in book-entry form only, in denominations of \$100,000 and integral multiples of \$5,000 in excess of \$100,000 when interest on the Series 2008 Bonds is payable at a Weekly Rate. The Depository Trust Company ("DTC") will act as securities depository for all of the Series 2008 Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2008 Bonds will be registered in the name of Cede & Co. Individual purchases of the Series 2008 Bonds will be made in book-entry form only, and Beneficial Owners of the Series 2008 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 2008 Bonds.

The Series 2008 Bonds are being issued by the New Mexico Finance Authority (the "NMFA") at the direction of the State Transportation Commission (the "Commission") of the State of New Mexico (the "State"). The proceeds of the Series 2008 Bonds will be used 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 (the "Department").

The Series 2008 Bonds initially will bear interest at a Weekly Rate. During the time the Series 2008 Bonds bear interest at Weekly Rates, interest on the Series 2008 Bonds will be payable on the first Business Day of each month commencing May 1, 2008 until maturity or earlier redemption, if applicable. The Series 2008 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "THE SERIES 2008 BONDS—Redemption Provisions" herein. The Series 2008 Bonds are also subject to optional and mandatory tender for purchase under certain circumstances. See "THE SERIES 2008 BONDS—Tender Provisions" herein.

The Series 2008 Bonds are special, limited obligations of the NMFA payable, together with additional bonds currently outstanding in the amount of \$333,040,000 and hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien of the Series 2008 Bonds and such additional bonds on such revenues is subordinate to the lien thereon securing other bonds currently outstanding in the amount of \$850,000,000. The lien of the Series 2008 Bonds on certain revenues deposited into the State Road Fund is also subordinate to the lien on such revenues to the lien thereon securing Closed Lien Obligations (as defined herein) currently outstanding in the amount of \$312,180,000. The Series 2008 Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. The NMFA has no taxing powers. The principal of and interest and premium, if any, on the Series 2008 Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the state or any political subdivision of the State.

The payment of the principal of, interest on and purchase price of the Subseries 2008A-1 Bonds and Subseries 2008B-1 Bonds are payable from funds drawn under separate but substantially identical irrevocable, direct pay letters of credit (the "State Street Letters of Credit") issued by State Street Bank and Trust Company ("State Street") and the payment of the principal of, interest on and purchase price of the Subseries 2008A-2 Bonds and the Subseries 2008B-2 Bonds are payable from funds drawn under separate but substantially identical irrevocable, direct pay letters of credit (the "UBS Letters of Credit") and together with the State Street Letters of Credit, the "Letters of Credit") issued by UBS AG, acting through its Stamford Branch ("UBS" and together with State Street, the "Banks").



STATE STREET

Each of the Letters of Credit provides that the Trustee will be entitled to draw up to an amount sufficient to pay the principal of and up to 54 days of accrued interest on the respective Subseries of Series 2008 Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum), to be used (a) to pay the principal of and interest on the respective Subseries of Series 2008 Bonds when due, whether pursuant to redemption or at maturity, and (b) to pay the purchase price of the respective Subseries of Series 2008 Bonds tendered by the holders thereof. Each Letter of Credit expires on April 7, 2010 or on the earlier occurrence of certain events. Each Letter of Credit may be extended upon such terms and conditions as may be agreed by the respective Bank and the NMFA. See "LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" and "THE BANKS" herein. The failure of the NMFA to maintain the respective Letters of Credit throughout the term of the related Subseries of Series 2008 Bonds is not an event of default, and there is no assurance that any of the Letters of Credit will remain in effect throughout the term of the respective Subseries of Series 2008 Bonds.

Certain legal matters will be passed on by Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2008 Bonds and certain matters relating to disclosure will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel and Disclosure Counsel to the NMFA. Certain legal matters will be passed on for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. The Department is being represented by its general counsel and the Underwriters are being represented by their counsel Hogan & Hartson LLP, Denver, Colorado. Certain legal matters will be passed upon for the Banks by Nixon Peabody LLP, San Francisco, California, as domestic counsel to the Banks. First Southwest Company, Dallas, Texas, has acted as financial advisor to the NMFA in connection with, the Series 2008 Bonds. It is expected that a single certificate for each Subseries and maturity of the Series 2008 Bonds will be delivered to DTC or its agent on or about April 8, 2008.

GOLDMAN, SACHS & CO.

Underwriter and Remarketing Agent
for Subseries 2008A-1 and B-1

Dated: April 7, 2008

UBS SECURITIES LLC

Underwriter and Remarketing Agent
for Subseries 2008A-2 and B-2

\$115,200,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008A
SUBSERIES A-1 AND A-2

<u>Subseries</u>	<u>Principal Amount</u>	<u>Interest Rate Determination</u>	<u>Due</u>	<u>Letter of Credit Provider</u>	<u>Underwriter and Remarketing Agent</u>	<u>CUSIP*</u>
A-1	\$35,200,000	Initially weekly	June 15, 2024	State Street Bank	Goldman, Sachs & Co.	64711R FL 5
A-2	\$80,000,000	Initially weekly	June 15, 2024	UBS	UBS Securities LLC	64711R FN 1

\$220,000,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008B
SUBSERIES B-1 AND B-2

<u>Subseries</u>	<u>Principal Amount</u>	<u>Interest Rate Determination</u>	<u>Due</u>	<u>Letter of Credit Provider</u>	<u>Underwriter and Remarketing Agent</u>	<u>CUSIP*</u>
B-1	\$100,000,000	Initially weekly	December 15, 2026	State Street Bank	Goldman, Sachs & Co.	64711R FM 3
B-2	\$120,000,000	Initially weekly	December 15, 2026	UBS	UBS Securities LLC	64711R FP 6

*

The above referenced CUSIP number(s) 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 2008 Bonds. None of the NMFA, 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 its correctness on the particular Subseries of Series 2008 Bonds or as indicated above. The CUSIP number for a specific maturity or Subseries is subject to being changed after the issuance of the Series 2008 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 2008 Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

The Series 2008 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 2008 Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2008 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 2008 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

THE PRICES AT WHICH THE SERIES 2008 BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE INSIDE COVER PAGES. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE SERIES 2008 BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2008 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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Albuquerque, New Mexico

* New members appointed in January 2008 by the Governor of the State of New Mexico. Such members are still awaiting confirmation by the Senate of the State of New Mexico. See “THE NEW MEXICO FINANCE AUTHORITY—Governing Body and Key Staff Members” herein.

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OFFICIAL STATEMENT

\$115,200,000
NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008A
consisting of
\$35,200,000 Subseries 2008A-1 \$80,000,000 Subseries 2008A-2

\$220,000,000
NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008B
consisting of
\$100,000,000 Subseries 2008B-1 \$120,000,000 Subseries 2008B-2

INTRODUCTION

This Official Statement, which includes the cover page, the inside front cover and the appendices hereto, sets forth certain information in connection with the offering of \$115,200,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008A (the “Series 2008A Bonds”) consisting of \$35,200,000 Subseries 2008A-1 (the “Subseries 2008A-1 Bonds”) and \$80,000,000 Subseries 2008A-2 (the “Subseries 2008A-2 Bonds”), and \$220,000,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008B (the “Series 2008B Bonds”) and collectively with the Series 2008A Bonds, the “Series 2008 Bonds”) consisting of \$100,000,000 Subseries 2008B-1 (the “Subseries 2008B-1 Bonds”) and \$120,000,000 Subseries 2008B-2 (the “Subseries 2008B-2 Bonds”) to be issued by the New Mexico Finance Authority (the “NMFA”), at the direction of the State Transportation Commission (the “Commission”) of the State of New Mexico (the “State”). Capitalized terms used in this Official Statement and not defined have the meanings specified in the Master Indenture of Trust dated as of May 1, 2004 (the “Master Indenture”) between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as trustee (the “Trustee”), as supplemented and amended by the Fifth Series Indenture of Trust dated as of April 1, 2008 (the “Fifth Series Indenture”) between the NMFA and the Trustee and are set forth under “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions” in Appendix B. The Master Indenture, as previously amended and supplemented, and the Fifth Series Indenture are collectively referred to herein as the “Indenture.” See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix B.

The Series 2008 Bonds are payable from and secured by a pledge of federal aid revenues received by or on behalf of, or available to the New Mexico Department of Transportation (the “Department”) pursuant to Title 23 of the United States Code or other federal law, that are paid into the State Road Fund, proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes in each case that are required by law to be paid into the State Road Fund, interest on the State Road Fund, proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund (the “Pledged Revenues”). The Series 2008 Bonds are limited obligations of the NMFA payable from and secured solely by the Pledged Revenues, subject to the liens thereon of certain obligations of the Commission and to the uses of the Pledged Revenues pledged by, and the priorities set forth in, the Indenture, as described more fully under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS.”

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, inside front covers and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2008 Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

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

Purposes of the Series 2008 Bonds

Proceeds from the sale of the Series 2008A Bonds will be used to refund a portion of the NMFA’s Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004C (the “Series 2004C Bonds”). The Series 2004C Bonds are currently outstanding in the principal amount of \$200,000,000 consisting of Subseries 2004C-1 Bonds in the aggregate principal amount of \$80,000,000, Subseries 2004C-2 Bonds in the aggregate principal amount of \$80,000,000 and Subseries 2004C-3 Bonds in the aggregate principal amount of \$40,000,000. Upon the issuance of the Series 2008A Bonds, the NMFA will apply the proceeds of the Subseries 2008A-1 Bonds to refund \$35,200,000 of Subseries 2004C-1 Bonds and will apply the proceeds of the Subseries 2008A-2 Bonds in the amount of \$80,000,000 to refund all of the Subseries 2004C-2 Bonds (collectively, the “Series 2004C Refunded Bonds”). Upon the refunding of the Series 2004C Refunded Bonds, \$44,800,000 of Subseries 2004C-1 Bonds and \$40,000,000 of Subseries 2004C-3 Bonds will remain outstanding under the Indenture (the “Unrefunded Series 2004C Bonds”).

Proceeds from the sale of the Series 2008B Bonds will be used to refund all of the NMFA’s Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006C currently outstanding in the principal amount of \$220,000,000 (the “Series 2006C Refunded Bonds” and together with the Series 2004C Refunded Bonds, the “Refunded Bonds”).

The Refunded Bonds currently bear interest at Auction Rates. The NMFA is undertaking the refunding of the Refunded Bonds to mitigate the potential interest rate exposure associated with the recent uncertainty in the auction rate market. Other Series of Bonds of the NMFA, issued under the Indenture continue to bear interest at Auction Rates, including the Unrefunded Series 2004C Bonds and Series 2004C Bonds, and continue to be subject to potential interest rate exposure. See “SPECIAL FACTORS RELATING TO THE SERIES 2008 BONDS—Auction Rate Securities” herein.

Authority for Issuance

The Series 2008 Bonds are being issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.* NMSA 1978, as amended, and Section 67-3-59.3 NMSA 1978, as amended (collectively, the “Act”), and the Indenture.

Terms of the Series 2008 Bonds

Interest. The Series 2008 Bonds will be dated the date of their initial delivery (the “Delivery Date”). Interest on the Series 2008 Bonds is initially payable on the first Business Day of each month commencing May 1, 2008. The Series 2008 Bonds will be issued initially as bonds that bear interest at Weekly Rates, but may be converted at the option of the NMFA, subject to certain restrictions, to bonds that bear interest at different rates including Daily Rates, Auction Rates, Commercial Paper Rates, Semiannual Rates, Term Rates or Fixed Rates.

Each Subseries of the Series 2008 Bonds will bear interest from their date of delivery for the applicable Weekly Rate Period and thereafter at the applicable Weekly Rate determined by the Remarketing Agent. Upon conversion from a Weekly Rate Period to a Daily Rate Period, an ARS Rate Period, a Commercial Paper Period, a Semiannual Rate Period, a Term Rate Period or a Fixed Rate Period, the Series 2008 Bonds will be subject to mandatory tender, payable solely from the proceeds of the remarketing of the Series 2008 Bonds to be converted, on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. *This Official Statement, in general, describes the terms of the Series 2008 Bonds only during the Weekly Rate Period and not the terms which will apply in the event that the Series 2008 Bonds are converted to a new Interest Rate as described herein.*

Denominations. While in the Weekly Rate Period, the Series 2008 Bonds are issuable in denominations of \$100,000 and integral multiples of \$5,000 in excess of \$100,000.

Book-Entry System. Individual purchases will be made in book-entry only form, and purchasers of the Series 2008 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 2008 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 2008 Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the Series 2008 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 2008 Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in Appendix E, and (2) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption of the Series 2008 Bonds. The Series 2008 Bonds are subject to redemption prior to maturity. See “THE SERIES 2008 BONDS—Redemption Provisions.”

Tender of the Series 2008 Bonds. The Series 2008 Bonds are subject to tender for purchase as described in “THE SERIES 2008 BONDS—Tender Provisions.”

Security for the Series 2008 Bonds

The Series 2008 Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and certain funds and accounts created and maintained pursuant to the Indenture. The Series 2008 Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission or the Department within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2008 Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Special, Limited Obligations.”

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

NMFA. For a description of the components of the Pledged Revenues, see “THE PLEDGED REVENUES.” For a description of the funds and accounts created by the Indenture and the flow of certain of the Pledged Revenues through these funds and accounts, see “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts” in Appendix C. See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Pledged Revenues.”

Outstanding and Additional Bonds. Bonds with a lien on a portion of the Pledged Revenues senior to that of the Outstanding Senior Lien Bonds have been previously issued by the Commission and are currently outstanding in an aggregate principal amount of \$312,180,000. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Outstanding Closed Lien Obligations.” The NMFA has agreed pursuant to the Master Indenture, and the Commission has resolved in Commission Resolution 2004-5(APR) and has reaffirmed in Commission Resolution 2008-03(MAR), that no additional bonds having a lien on any of the Pledged Revenues senior to the lien thereon of the Outstanding Senior Lien Bonds may be issued by the NMFA or the Commission.

The Act authorizes the NMFA to issue up to \$1,585,000,000 aggregate principal amount of “new money” bonds, payable from the Pledged Revenues, in cumulative annual increments of up to \$350,000,000 beginning in 2003 and an unlimited amount of refunding bonds as part of Governor Richardson’s Investment Partnership. In 2004, the NMFA issued \$700,000,000 of its State Transportation Revenue Bonds (Senior Lien), Series 2004A (the “Series 2004A Bonds”) representing its 2003 and 2004 annual increments, and currently outstanding in the aggregate principal amount of \$700,000,000. Contemporaneously with the issuance of the Series 2004A Bonds, the NMFA issued its \$237,950,000 State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (the “Series 2004B Bonds”), currently outstanding in the aggregate principal amount of \$162,330,000, and the Series 2004C Bonds. In 2006, the NMFA issued its \$150,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2006A (the “Series 2006A Bonds”), currently outstanding in the aggregate principal amount of \$150,000,000, its \$40,085,000 State Transportation Revenue and Refunding Revenue Bonds (Subordinate Lien), Series 2006B (the “Series 2006B Bonds”), currently outstanding in the aggregate principal amount of \$35,510,000, the Series 2006C Refunded Bonds, and its \$50,400,000 Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006D (Taxable) (the “Series 2006D Bonds”), currently outstanding in the aggregate principal amount of \$50,400,000. The outstanding Series 2004A Bonds and the outstanding Series 2006A Bonds are senior lien bonds (collectively, the “Outstanding Senior Lien Bonds”) and are payable from the Pledged Revenues with a lien on the Pledged Revenues subordinate to the Outstanding Closed Lien Obligations. The Outstanding Senior Lien Bonds are senior to the lien of the NMFA’s outstanding Series 2004B Bonds, the Unrefunded Series 2004C Bonds, Series 2006B Bonds, Series 2006D Bonds and Series 2008 Bonds. The timing, amount and other details of additional Senior Lien Bonds, other than the Outstanding Senior Lien Bonds, and Subordinate Lien Obligations, other than the Series 2004B Bonds, Unrefunded Series 2004C Bonds, the Series 2006B Bonds, the Series 2006D Bonds and the Series 2008 Bonds, are not known as of the date of this Official Statement.

The NMFA, pursuant to the Indenture, may only issue obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Outstanding Senior Lien Bonds in compliance with the requirements of the Indenture applicable to the NMFA’s issuance of additional Senior Lien Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Additional Senior Lien Bonds.” The NMFA and the Commission, in the case of issuing Additional Highway Bonds secured by a lien on the Pledged Revenues (other than moneys paid into the Highway Infrastructure Fund) on a parity with Series 2008 Bonds, must meet certain requirements prior to the issuance of Subordinate Lien Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Additional Subordinate Lien Obligations.” The NMFA also must meet certain requirements prior to the issuance of Junior Subordinate Lien Obligations.

As previously stated, the Unrefunded Series 2004C Bonds and the Series 2006D Bonds bear interest at Auction Rates. The NMFA within the next 60 days plans to change the method of interest rate determination on such bonds either through the conversion of the interest rate determination method or the issuance of refunding bonds. The NMFA also plans to possibly incur additional indebtedness in an amount up to \$200,000,000 during 2008 to finance the costs of certain transportation projects. The terms of such additional obligations, including the nature of the lien on the Pledged Revenues, have not yet been determined. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Additional Obligations” herein.

Letters of Credit

Payment of the principal of and interest on and purchase price of the Subseries 2008A-1 Bonds and the Subseries 2008B-1 Bonds will be payable from funds drawn under separate but substantially identical irrevocable direct pay letters of credit (the “State Street Letters of Credit”) issued by State Street Bank and Trust Company (“State Street”). Payment of the principal of and interest on and purchase price of the Subseries 2008A-2 Bonds and the Subseries 2008B-2 Bonds will be payable from funds drawn under separate but substantially identical irrevocable direct pay letters of credit (the “UBS Letters of Credit” and together with the State Street Letters of Credit, the “Letters of Credit” and each a “Series 2008 Liquidity Facility” and each a “Series 2008 Credit Facility”) issued by UBS AG, acting through its Stamford Branch (“UBS” and together with State Street, the “Banks” and each a “Series 2008 Liquidity Facility Provider” and each a “Series 2008 Credit Facility Provider”). The Letters of Credit will be issued in favor of the Trustee pursuant to a Letter of Credit and Reimbursement Agreement dated as of April 1, 2008 (the “Reimbursement Agreement”) by and among NMFA and the Banks. Pursuant to each Letter of Credit, the Trustee is entitled to draw up to an amount sufficient to pay the principal of and up to 54 days of accrued interest on the respective Subseries of Series 2008 Bonds earning interest at a Weekly Rate (at a maximum rate of 12% per annum), to be used to (a) pay the principal of, and interest on the respective Subseries of Series 2008 Bonds when due, whether pursuant to redemption or at maturity and (b) pay the purchase of the respective Subseries of Series 2008 Bonds tendered by the holders thereof. The Letters of Credit are scheduled to expire on April 7, 2010, or on the earlier occurrence of certain events. Each Letter of Credit may be extended upon such terms and conditions as may be agreed by the respective Bank and the NMFA. See “LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT” and “THE BANKS” herein. The failure of the NMFA to maintain the respective Letter of Credit throughout the term of the related Subseries of Series 2008 Bonds is not an event of default under the Indenture, and there is no assurance that any of the Letters of Credit will remain in effect throughout the term of the respective Subseries of Series 2008 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS” herein.

Interest Rate Swaps

The NMFA has entered into various interest rate exchange agreements (the “Swap Agreements”). Payment obligations, other than termination payment obligations, of the NMFA with respect to the Swap Agreements are Subordinate Lien Obligations. The Swap Agreements were entered into under a debt policy memorandum of understanding entered into by the NMFA and the Commission. Under that debt policy memorandum of understanding, an advisor to the NMFA, the Commission and the Department monitor monthly the Swap Agreements and a joint committee of the NMFA, the Commission and the Department monitor regularly the Swap Agreements. Termination payment obligations of the NMFA on the Swap Agreements are Junior Subordinate Lien Obligations. See “INTEREST RATE SWAPS.”

In the future, the NMFA may choose to enter into additional swap agreements payable from the Pledged Revenues, provided that all payment obligations pursuant to any such additional swap agreements shall be Subordinate Lien Obligations.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2008 Bonds, Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion included in Appendix D and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under “TAX MATTERS” and also included in Appendix D. Ballard Spahr Andrews & Ingersoll, LLP will also pass upon certain matters relating to disclosure as disclosure counsel to the NMFA. The Department is being represented by its general counsel and the Underwriters are being represented by their counsel, Hogan & Hartson LLP, Denver, Colorado. Certain legal matters will be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer’s Counsel to the NMFA. Certain legal matters will be passed upon for the Banks by Nixon Peabody LLP, San Francisco, California. See “LEGAL MATTERS.” First Southwest Company, Dallas, Texas, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2008 Bonds. See “FINANCIAL ADVISOR.”

The Department's financial statements for the year ended June 30, 2006, an extract from which is included in Appendix A, have been audited by Meyners & Company, LLC. See also "FINANCIAL STATEMENTS." The Department expects that its financial statements for the year ended June 30, 2007 will be available in June 2008.

Offering and Delivery of the Series 2008 Bonds

The Series 2008 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 Subseries of the Series 2008A Bonds, and for each Subseries of the Series 2008B Bonds will be delivered to DTC or its agent on or about April 8, 2008.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to such laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the Department, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2008 Bonds.

THE SERIES 2008 BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2008 Bonds. Other information describing the Series 2008 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 2008 Bonds. For a description of certain provisions of the Indenture, see "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE" in Appendix B. Copies of the Indenture are available as provided in "ADDITIONAL INFORMATION."

The Series 2008 Bonds are being issued pursuant to the Act and the Indenture. Proceeds from the sale of the Series 2008A Bonds will be used to refund the Series 2004C Refunded Bonds in the principal amount of \$115,200,000. Proceeds from the sale of the Series 2008B Bonds will be used to refund the Series 2006C Refunded Bonds currently outstanding in the principal amount of \$220,000,000. See "ESTIMATED SOURCES AND USES OF FUNDS."

The Series 2008 Bonds may bear interest at Weekly Rates, Daily Rates, Semiannual Rates or Term Rates (collectively, the "Variable Rates") or Auction Rates, Commercial Paper Rates or Fixed Rates. The Series 2008 Bonds will initially bear interest at Weekly Rates until converted to another method of interest rate determination. All Series 2008 Bonds bearing interest at Daily Rates or Weekly Rates shall be issued in denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof. All Series 2008 Bonds bearing interest at Commercial Paper Rates shall be issued in denominations of \$100,000 and any integral multiples of \$1,000 in excess thereof. All Series 2008 Bonds bearing interest at a Semiannual Rate, a Term Rate or a Fixed Rate shall be in denominations of \$5,000 or integral multiples thereof. All Series 2008 Bonds bearing interest at an Auction Rate shall be in denominations of \$25,000 and integral multiples thereof. Notwithstanding the foregoing, if as a result of a change in the Interest Rate Period from a Term Rate Period to an ARS Rate Period, Daily Rate Period or Weekly Rate Period, it is not possible to deliver all the Series 2008 Bonds of a Subseries required or permitted to be Outstanding in a denomination permitted above, Series 2008 Bonds of a Subseries may be delivered, to the extent necessary, in different denominations.

The amount of interest so payable on the Series 2008 Bonds on any Interest Payment Date shall be computed (A) on the basis of a 365- or 366-day year for the number of days actually elapsed during Daily, Weekly, Commercial Paper and Semiannual Rate Periods, (B) on the basis of a 360-day year of twelve 30-day months during Term Rate Periods and the Fixed Rate Period, and (C) either (i) on the basis of actual days elapsed over 360 days for the actual days elapsed during ARS Rate Periods if the Series 2008 Bonds are in an ARS Rate Period of 180 days or less, or (ii) on the basis of a 360 day year of twelve 30-day months for the actual days elapsed during ARS Rate Periods if the Series 2008 Bonds are in an ARS Rate Period greater than 180 days.

“Interest Payment Date” means (i) when used with respect to any Subseries of the Series 2008 Bonds bearing interest at the Daily Rate or Weekly Rate, the first Business Day of each calendar month following a month in which interest at such rate has accrued; (ii) when used with respect to any Subseries of the Series 2008 Bonds bearing interest at a Semiannual Rate or a Term Rate, each Semiannual Interest Payment Date; (iii) when used with respect to any Subseries of the Series 2008 Bonds bearing interest at Commercial Paper Rates, the Business Day next following the last day of each Commercial Paper Rate Period applicable thereto; (iv) when used with respect to any Subseries of the Series 2008 Bonds bearing interest at a Fixed Rate, each June 15 and December 15; (v) any Conversion Date; (vi) when used with respect to Series 2008 Bonds bearing interest at an Auction Rate, the Business Day next following the last day of each Auction Period applicable thereto; and (vii) in all events, when used with respect to any Series 2008 Bonds, the final maturity date or redemption date of each such Series 2008 Bonds.

Interest Rate for the Series 2008 Bonds

The Series 2008 Bonds shall initially bear interest at a Weekly Rate and the length of the initial Weekly Rate Period shall be the period of time from the Issue Date up to but not including April 17, 2008, followed by seven-day Weekly Rate Periods. The initial Interest Payment Date for the Series 2008 Bonds is May 1, 2008. Following the initial Weekly Rate Period, the Weekly Rate to be applicable to each Subseries of the Series 2008 Bonds during each Weekly Rate Period shall be determined by the Remarketing Agent for the related Series of Series 2008 Bonds, interest shall accrue from one Interest Payment Date up to, but not including, the next Interest Payment Date, and notice of the Weekly Rate shall be given, until converted to an Auction Rate, Commercial Paper Rate, Semiannual Rate, Term Rate or Fixed Rate. Any such conversion may occur only as to all the Outstanding Series 2008 Bonds of a particular Subseries and any provision relating to the conversion of or subsequent determination of interest on Series 2008 Bonds shall be construed to apply individually to each Subseries of the Series 2008 Bonds.

Variable Rates; Conversion to Variable Rate Periods. The Variable Rate for each Variable Rate Period shall be determined by any Remarketing Agent as the lesser of (i) the Maximum Interest Rate or (ii) the minimum rate of interest which, in the judgment of any Remarketing Agent, would cause the Series 2008 Bonds of such Subseries to have a market value equal to the principal amount thereof, plus accrued interest, taking into account prevailing market conditions as of the date of determination.

If the Remarketing Agent fails for any reason to determine or notify the Paying Agent of the Variable Rate for any Variable Rate Period when required under the Indenture, the Rate Period for the Series 2008 Bonds of such Subseries shall automatically, without notice or mandatory tender, convert to a Weekly Rate Period and, until the Weekly Rate is determined by the Remarketing Agent and notification thereof is delivered to the Paying Agent, the Weekly Rate shall be equal to the SIFMA Index plus 25 basis points (or such comparable index in the event that the SIFMA Index is no longer in use and available).

Weekly Rates. A Weekly Rate shall be determined for each Weekly Rate Period as follows:

(i) Weekly Rate Periods shall commence on a Thursday and end on Wednesday of the following week, and each Weekly Rate Period shall be followed by another Weekly Rate Period until the Rate Period for the Series 2008 Bonds of such Subseries is converted to another Rate Period; provided that (a) in the case of a conversion to a Weekly Rate Period from a different Variable Rate Period or a Commercial Paper Rate Period, the Weekly Rate Conversion Date shall be the last Interest Payment Date in respect of the immediately preceding Rate Period and the Weekly Rate Period starting on such date shall end on Wednesday of the following week; and (b) in the case of a conversion from a Weekly Rate Period to

a different Rate Period, the last Weekly Rate Period prior to conversion shall end on the last day immediately preceding the Conversion Date to the new Rate Period.

(ii) The Weekly Rate for each Weekly Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Weekly Rate shall be determined by a Remarketing Agent no later than the Business Day immediately preceding the commencement date of the Weekly Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on such Business Day. The Paying Agent shall promptly notify the NMFA, the Series 2008 Liquidity Facility Provider, as applicable, and the Series 2008 Credit Enhancement Facility Provider, as applicable, for such Subseries electronically or by telephone (promptly confirmed in writing) of the Weekly Rate so determined.

(iii) The Weekly Rate determined by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008A Bonds or Series 2008B Bonds of such Subseries in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008A Bonds or Series 2008B Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008A Bonds or Series 2008B Bonds, be the lowest interest rate which would enable the Remarketing Agent to place such Series 2008A Bonds or Series 2008B Bonds at a price of par (plus accrued interest, if any) on the first day of such Weekly Rate Period.

Daily Rates. A Daily Rate shall be determined for each Daily Rate Period as follows:

(i) Daily Rate Periods shall commence on a Business Day, and each Daily Rate Period shall be followed by another Daily Rate Period until the Rate Period of the Series 2008 Bonds of any Subseries is converted to another Rate Period. The Daily Rate for any non-Business Day will be the rate for the last Business Day on which a Daily Rate was set.

(ii) Each Daily Rate shall be determined by a Remarketing Agent no later than 9:30 a.m., New York City time, on each Business Day for which the Daily Rate will be the rate of interest, and shall be provided to the Paying Agent by such Remarketing Agent by telephonic or electronic notice by 9:30 a.m., New York City time, on such Business Day. The Paying Agent shall promptly notify the NMFA and the Series 2008 Liquidity Facility Provider, as applicable, for such Subseries electronically or by telephone (promptly confirmed in writing) of the Daily Rate so determined.

(iii) The Daily Rate determined by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008A Bonds and Series 2008B Bonds of such Subseries in the Daily Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008A Bonds or Series 2008B Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008A Bonds or Series 2008B Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008A Bonds or Series 2008B Bonds at a price of par (plus accrued interest, if any) on such Business Day.

Semiannual Rates. A Semiannual Rate shall be determined for each Semiannual Rate Period as follows:

(i) Semiannual Rate Periods shall (a) commence on a Semiannual Rate Conversion Date and on each Interest Payment Date thereafter and (b) end on the day preceding either the commencement date of the following Semiannual Rate Period or the Conversion Date on which a different type of Rate Period shall become effective. Each Semiannual Rate Period shall be followed by another Semiannual Rate Period until the Rate Period of the Series 2008 Bonds of such Subseries is converted to another Rate Period. The first Semiannual Rate Period which succeeds a Commercial Paper, Daily, Weekly, Auction, or Term Rate Period may be from one to five months shorter than the succeeding Semiannual Rate Periods.

(ii) The Semiannual Rate for each Semiannual Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Semiannual Rate shall be determined by a Remarketing Agent no later than the Business Day immediately preceding the commencement date of the Semiannual Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on that same day. The Paying Agent shall promptly notify the NMFA and the Series 2008 Liquidity Facility Provider, as applicable, and the Series 2008 Credit Enhancement Facility Provider, as applicable, for such Subseries electronically or by telephone (promptly confirmed in writing) of the Semiannual Rate so determined.

(iii) Each Semiannual Rate shall be the rate of interest which if borne by such Series 2008A Bonds or Series 2008B Bonds in such Semiannual Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008A Bonds or Series 2008B Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008A Bonds or Series 2008B Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008A Bonds or Series 2008B Bonds at a price of par on the first day of such Semiannual Rate Period.

Term Rates. A Term Rate shall be determined for each Term Rate Period as follows:

(i) Term Rate Periods shall (a) initially commence on a Term Rate Conversion Date and on any Interest Payment Date which is, except as otherwise provided in this paragraph, at least 12 months thereafter, as specified in a notice delivered by the NMFA, and (b) end on the day preceding either the commencement date of the following Term Rate Period or the Conversion Date on which a different Rate Period shall become effective. Each Term Rate Period shall be followed by another Term Rate Period of the same duration as the preceding Term Rate Period until the Rate Period of the Series 2008 Bonds of such Subseries is converted to another Rate Period or to a Term Rate Period of a different duration; provided that the first Term Rate Period which succeeds a Commercial Paper, Daily, Weekly, Auction, or Semiannual Rate Period or a Term Rate Period of a different duration may be from one to eleven months shorter or longer than the succeeding Term Rate Periods.

(ii) The Term Rate for each Term Rate Period shall be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each Term Rate shall be determined no earlier than 15 Business days and not later than the Business Day immediately preceding the commencement date of the Term Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on that same day. The Paying Agent shall promptly notify the NMFA, the Series 2008 Liquidity Facility Provider, as applicable, and the Series 2008 Credit Enhancement Facility Provider, as applicable, for each Subseries electronically or by telephone (promptly confirmed in writing) of the Term Rate so determined.

(iii) Each Term Rate shall be the rate of interest which if borne by such Series 2008A Bonds or Series 2008B Bonds in such Term Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008A Bonds or Series 2008B Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008A Bonds or Series 2008B Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008A Bonds or Series 2008B Bonds at a price of par on the first day of such Term Rate Period.

Conversions Between Variable Rate Periods. By notifying the Remarketing Agent, the Paying Agent, and the Series 2008 Liquidity Facility Provider, if any, for the applicable Subseries, the NMFA may elect to convert the Series 2008 Bonds of any Subseries from one Variable Rate Period to another as follows:

(i) The Conversion Date to a different Variable Rate Period shall be an Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made; provided, however, that, if the conversion is from a Term Rate Period, the conversion may be made only on the last Interest Payment Date for that Term Rate Period.

(ii) The NMFA shall give written notice of any such conversion to the Remarketing Agent, the Paying Agent, the Series 2008 Liquidity Facility Provider and the Series 2008 Credit Enhancement Facility Provider for the applicable Subseries, if any, not fewer than 25 days (45 days in the case of a proposed Term Rate Conversion Date) prior to the proposed Conversion Date. Such notice shall specify (a) the proposed Conversion Date, (b) the type of Variable Rate Period to which the conversion will be made, (c) in the case of conversion to a Term Rate Period or from a Term Rate Period of one duration to a Term Rate Period of another duration, the duration of the new Term Rate Period and (d) in the case of a conversion to a Semiannual or Term Rate Period, the first Interest Payment Date following such conversion (which shall be the first Semiannual Interest Payment Date after the proposed Conversion Date) and any difference between the duration of the first Semiannual or Term Rate Period commencing on such Conversion Date and subsequent Semiannual or Term Rate Periods occurring prior to the next Conversion Date.

(iii) Not fewer than 15 days (30 days in the case of a proposed Term Rate Conversion Date) prior to the Conversion Date, the Paying Agent shall mail (by first class mail) a written notice of the conversion to the owners of the Series 2008 Bonds for the applicable Subseries.

(iv) The Variable Rate for the Variable Rate Period commencing on the Conversion Date shall be established and notice thereof shall be given to the Paying Agent, the NMFA, the Series 2008 Liquidity Facility Provider, if any, and the Series 2008 Credit Enhancement Facility Provider, if any, for the applicable Subseries.

(v) With respect to a conversion from one Variable Rate Period to another Variable Rate Period, or from a Term Rate Period of one duration to a Term Rate Period of another duration, on the proposed Conversion Date, the Paying Agent and the Remarketing Agent shall have been provided with a Favorable Opinion of Bond Counsel with respect to such conversion.

(vi) If a Favorable Opinion of Bond Counsel is not provided, the new Rate Period shall not take effect and the Series 2008 Bonds of such Subseries shall remain in the Rate Period then in effect.

Conversion to Other Determination Methods

The NMFA may convert a particular Subseries of Series 2008 Bonds to a different method of interest rate determination. In certain instances, the conversion may bring about a mandatory tender of the particular Subseries of Series 2008 Bonds. See “TENDER PROVISIONS” below.

Tender Provisions

Optional Tenders During Variable Rate Periods.

Purchase Dates. The Owners of Series 2008 Bonds bearing interest at Variable Rates may elect to have their Series 2008 Bonds (or portions thereof in amounts equal to the smallest denomination then authorized or whole multiples of such smallest denomination) purchased at a purchase price equal to 100% of the principal component of such Series 2008 Bonds (or portions), plus, in the case of Series 2008 Bonds bearing interest at Daily Rates or Weekly Rates, the interest component computed to the purchase date (the “Purchase Price”), on the following purchase dates and upon the giving of telephonic, personal or electronic notice as specified below:

(i) Prior to conversion from a Daily Rate Period to a different Rate Period, Series 2008 Bonds bearing interest at Daily Rates may be tendered for purchase, at the applicable Purchase Price payable in immediately available funds, on any Business Day upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the

Paying Agent, directly or, as applicable, through a beneficial owner's Participant, not later than 9:00 a.m., New York City time, on the purchase date.

(ii) Prior to conversion from a Weekly Rate Period to a different Rate Period, Series 2008 Bonds bearing interest at Weekly Rates may be tendered for purchase, at the applicable Purchase Price payable in immediately available funds, on any Business Day upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner's Participant, not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven (7) days prior to the purchase date.

(iii) Series 2008 Bonds bearing interest at a Semiannual or a Term Rate may be tendered for purchase on the commencement date of a succeeding Semiannual or Term Rate Period for such Series 2008 Bonds, at the Purchase Price (payable in immediately available funds if the Series 2008 Bonds are bearing interest at a Semiannual Rate or clearing house funds if the Series 2008 Bonds are bearing interest at a Term Rate), upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner's Participant, not later than 5:00 p.m., New York City time, on a Business Day which is not fewer than ten (10) days prior to the purchase date.

Notice of Tender. Each notice of tender:

(i) shall be delivered to each of the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent at its principal office, in the case of a written notice, and shall be in form satisfactory to such Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent;

(ii) shall state, whether delivered personally, in writing, electronically or by telephone, (a) the principal amount of the Series 2008 Bond to which the notice relates, (b) that the owner irrevocably demands purchase of such Series 2008 Bond or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (c) the date on which such Series 2008 Bond or portion thereof is to be purchased, and (d) payment instructions with respect to the Purchase Price; and

(iii) shall automatically constitute, whether delivered in writing or by telephone, (a) an irrevocable offer to sell the Series 2008 Bond (or portion thereof) to which the notice relates on the purchase date at the Purchase Price, (b) an irrevocable authorization and instruction to the Paying Agent to effect transfer of such Series 2008 Bond (or portion thereof) upon payment of the Purchase Price to the Paying Agent on the purchase date, (c) an irrevocable authorization and instruction to the Paying Agent to effect the exchange of the Series 2008 Bond to be purchased in whole or in part for other Series 2008 Bonds in an equal aggregate principal amount so as to facilitate the sale of such Series 2008 Bond (or portion thereof to be purchased), and (d) an acknowledgment that such owner will have no further rights with respect to such Series 2008 Bond (or portion thereof) upon payment of the Purchase Price thereof to the Paying Agent on the purchase date, except for the right of such owner to receive such Purchase Price upon surrender of such Series 2008 Bond to the Paying Agent and that after the purchase date such owner will hold any undelivered certificate as agent for the Paying Agent. The determination of the Paying Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the owner of the Series 2008 Bond to which the notice relates.

Series 2008 Bonds to Be Remarketed. Not later than 11:00 a.m., New York City time, on the Business Day immediately following the date of receipt of any notice of tender (or, with respect to Series 2008 Bonds bearing interest at Daily Rates, not later than 11:00 a.m. New York City time on the date of receipt of notice), the Paying Agent shall notify the NMFA by telephone, promptly confirmed in writing, of the principal amount of Series 2008 Bonds (or portions thereof) to be purchased and the date of purchase.

Remarketing of Tendered Series 2008 Bonds. Unless otherwise instructed by the NMFA, the Remarketing Agent shall offer for sale at par and use its best efforts to find purchasers for all Series 2008 Bonds or portions thereof for which notice of tender has been received. While the Series 2008 Bonds are held in book-entry form, the

Remarketing Agent will make payment of the Purchase Price for tendered Series 2008 Bonds in accordance with the procedures established by the Securities Depository. If the book-entry only system is not in effect, the terms of any sale by the Remarketing Agent shall provide for the payment of the Purchase Price for tendered Series 2008 Bonds by the Remarketing Agent to the Paying Agent (i) in immediately available funds at or before 11:30 a.m., New York City time, on the purchase date, in the case of Series 2008 Bonds bearing interest at Daily, Weekly or Semiannual Rates, and (ii) in clearing house funds at or before 11:30 a.m., New York City time, on the purchase date, in the case of Series 2008 Bonds bearing interest at a Term Rate. Notwithstanding the foregoing, the Remarketing Agent shall not sell any Series 2008 Bond as to which a notice of conversion from one type of Variable Rate Period to another, from a Term Rate Period of one duration to a Term Rate Period of a different duration, to Commercial Paper Rate Periods or to a Fixed Rate Period has been given unless the Remarketing Agent has advised the person to whom the sale is made of the conversion. The purchase price of each Series 2008 Bond remarketed by the Remarketing Agent must be equal to the principal amount of each Series 2008 Bond plus accrued interest, if any, to the purchase date.

Payments by the Paying Agent. At or before the close of business in New York City on the date set for purchase of tendered Series 2008 Bonds and upon receipt by the Paying Agent of 100% of the aggregate Purchase Price of the tendered Series 2008 Bonds, the Paying Agent shall pay the Purchase Price of such Series 2008 Bonds to the owners thereof. Such payments shall be made in immediately available funds (or by wire transfer), unless the Series 2008 Bonds to be purchased bear interest at a Term Rate for a Term Rate Period of more than one year, in which event such payments shall be made in clearing house funds. The Paying Agent shall apply in order (i) moneys paid to it by the Remarketing Agent as proceeds of the remarketing of such Series 2008 Bonds by such Remarketing Agent, (ii) moneys transferred to it for such purpose by a Series 2008 Liquidity Facility Provider under the terms of an applicable Series 2008 Liquidity Facility for the tendered Series 2008 Bonds, and (iii) other moneys made available by the NMFA. If sufficient funds are not available for the purchase of all tendered Series 2008 Bonds, no purchases shall be consummated, as further set forth below.

Delivery of Series 2008 Bonds: Effect of Failure to Surrender Series 2008 Bonds. All Series 2008 Bonds to be purchased on any date shall be required to be delivered to the principal office of the Paying Agent at or before (i) 12:00 noon, New York City time, on the purchase date in the case of Series 2008 Bonds bearing interest at Daily Rates, Weekly Rates or Auction Rates; or (ii) 5:00 p.m., New York City time, on the second Business Day prior to the purchase date in the case of Series 2008 Bonds bearing interest at Semiannual or Term Rates. If the owner of any Series 2008 Bond (or portion thereof) that is subject to optional or mandatory purchase fails to deliver such Series 2008 Bond to the Paying Agent for purchase on the purchase date, such Series 2008 Bond (or portion thereof) shall nevertheless be deemed purchased on the day fixed for purchase thereof and ownership of such Series 2008 Bond (or portion thereof) shall be transferred to the purchaser thereof. Any owner of a Series 2008 Bond who fails to deliver such Series 2008 Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of such Series 2008 Bond to the Paying Agent.

Mandatory Tender.

Conversions to Variable Rate Periods and new Term Rate Periods. Series 2008 Bonds to be converted to a Variable Rate Period or a Term Rate Period of a different duration are subject to mandatory tender for purchase on the Conversion Date at a purchase price equal to 100% of the principal amount thereof plus, in the case of Series 2008 Bonds bearing interest at a Daily Rate or Weekly Rate, accrued interest to the purchase date.

Conversion to Commercial Paper Periods. Series 2008 Bonds to be converted to a Commercial Paper Rate Period are subject to mandatory tender for purchase on the applicable Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

Conversion to ARS Rate Periods. Series 2008 Bonds to be converted to an ARS Rate Period are subject to mandatory tender for purchase on the applicable Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

Mandatory Tender on Fixed Rate Conversion Date. Any Series 2008 Bonds to be converted to a Fixed Rate Period shall be subject to mandatory tender for purchase on the Fixed Rate Conversion Date at a purchase price equal to 100% of the principal amount thereof.

Mandatory Tender upon Termination, Expiration or Replacement of Series 2008 Liquidity Facility for a Particular Subseries of Series 2008 Bonds. (A) The Series 2008 Bonds of any Subseries bearing interest at a Variable or Commercial Paper Rate shall be subject to mandatory tender: (i) for purchase at a purchase price equal to 100% of the principal amount thereof plus accrued interest to the purchase date on the fifth day immediately preceding the day on which any Series 2008 Liquidity Facility, if any, or any Series 2008 Credit Facility, if any, for such Subseries expires or terminates for any reason or if such Series 2008 Liquidity Facility or Series 2008 Credit Facility is replaced with an alternate Series 2008 Liquidity Facility or an alternate Series 2008 Credit Facility (other than replacement by the same provider); or (B) for purchase at the Purchase Price on the Second Business Day following delivery of written notice by a Series 2008 Liquidity Facility Provider or a Series 2008 Credit Enhancement Facility Provider to the Trustee stating that an Event of Default has occurred under the applicable Series 2008 Liquidity Facility or the applicable Series 2008 Credit Enhancement Facility and directing the Trustee to cause a mandatory tender of the applicable Subseries of the Series 2008 Bonds.

Inadequate Funds for Tenders. If the funds available for purchases of Series 2008 Bonds, including funds available to be drawn to pay the Purchase Price of any Series 2008 Bonds pursuant to any applicable Series 2008 Liquidity Facility, are inadequate for the purchase of all Series 2008 Bonds tendered on any purchase date, the Paying Agent shall, after any applicable grace period: (i) return all tendered Series 2008 Bonds to the owners thereof; (ii) return all moneys received for the purchase of such Series 2008 Bonds to the persons providing such moneys; and (iii) notify the NMFA and the Remarketing Agent of the return of such Series 2008 Bonds and moneys and the failure to make payment for tendered Series 2008 Bonds.

Owners Limited to Purchase Price on Deposit with Paying Agent. If sufficient moneys to pay the Purchase Price of Series 2008 Bonds tendered shall be held by the Paying Agent, each owner of such Series 2008 Bonds shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on such owner's part under the Indenture on, or with respect to, such tendered Series 2008 Bonds.

Redemption Provisions

Optional Redemption. The Series 2008 Bonds of any Subseries shall be subject to redemption prior to maturity at the option of the NMFA, in whole or in part, as follows:

If the Series 2008 Bonds bear interest at the Daily Rate or Weekly Rate, the Series 2008 Bonds shall be subject to optional redemption on any date, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

If the Series 2008 Bonds bear interest at Commercial Paper Rates, the Series 2008 Bonds shall be subject to optional redemption on the respective Purchase Dates at a Redemption Price equal to the Purchase Price thereof.

If the Series 2008 Bonds of any Subseries bear interest at the Semiannual Rate or Term Rate, such Subseries of Series 2008 Bonds shall be subject to optional redemption on the Interest Payment Date immediately following the last day of each Semiannual Rate Period or Term Rate Period at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

After conversion to the Fixed Rate, or if the Series 2008 Bonds bear interest at the Semiannual Rate or Term Rate, the Series 2008 Bonds shall be subject to optional redemption on the Interest Payment Date immediately following the last day of each Semiannual Rate Period or Term Rate Period at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date. If the Series 2008 Bonds bear interest at a Term Rate or a Semiannual Rate, the Series 2008 Bonds shall be subject to optional redemption at any time on and after the dates and at the Redemption Prices specified in the schedule set forth below (stated as a percentage of principal amount), plus accrued interest, if any, to the redemption date; provided, however, that the NMFA may substitute another schedule for such schedule effective on the Fixed Rate Conversion Date or any Term Rate Conversion Date if a Favorable Opinion of Bond Counsel is provided to the Paying Agent and, notwithstanding any other provision of the Fifth Series Indenture or of the Master Indenture, such substitution shall not constitute an amendment to the Fifth Series Indenture or the Master Indenture.

<u>Length of Term Rate Period or Years Remaining Until Final Maturity Upon Conversion to Fixed Rate</u>	<u>Commencement of Redemption Period</u>	<u>Redemption Price</u>
More than 15 years	Tenth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 12, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 9, but not more than 12 years	Sixth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 6, but not more than 9 years	Fifth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 3, but not more than 6 years	Second anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
3 years or less	Series 2008 Bonds not subject to optional redemption until commencement of next Rate Period	

Mandatory Sinking Fund Redemption.

Series 2008A Bonds. The Series 2008A Bonds of such Subseries shall be subject to mandatory sinking fund redemption prior to maturity at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, on the applicable June 15th in each of the years and in the principal amounts set forth in the following table:

<u>Redemption Dates</u>	<u>Subseries A-1 Principal Amount</u>	<u>Subseries A-2 Principal Amount</u>
June 15, 2023	\$11,330,000	\$25,750,000
June 15, 2024*	23,870,000	54,250,000

* Final maturity

Series 2008B Bonds. The Series 2008B Bonds of such Subseries shall be subject to mandatory sinking fund redemption prior to maturity at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, on the applicable June 15th or December 15th in each of the years and in the principal amounts set forth in the following table:

Redemption <u>Dates</u>	Subseries B-1 Principal <u>Amount</u>	Subseries B-2 Principal <u>Amount</u>
June 15, 2023	\$5,100,000	\$6,100,000
June 15, 2025	43,500,000	52,200,000
June 15, 2026	45,800,000	54,900,000
December 15, 2026*	5,600,000	6,800,000

* Final maturity

The NMFA shall have the option to reduce the principal amount of Series 2008 Bonds of any Subseries to be redeemed on any mandatory sinking fund redemption date by any amount (equal to the smallest denomination then authorized or whole multiples of such smallest denomination) up to the principal amount of Series 2008 Bonds of the same Subseries which have been redeemed prior to or will be redeemed on such redemption date under any other provision hereof or which otherwise have been delivered to the Trustee for cancellation (and which have not previously been applied to reduce the principal amount of Series 2008 Bonds redeemable). The NMFA shall exercise the option described in the preceding sentence by delivering to the Paying Agent, on or before the forty-fifth (45th) day preceding such redemption date, a written notice stating the amount of such reduction.

Redemption Procedure. Except as otherwise provided herein, the Series 2008 Bonds shall be called for prior redemption and shall be paid by the Paying Agent upon notice as provided below. The Trustee shall not be required to transfer or exchange any Series 2008 Bond after notice of the redemption of such Bond has been given (except the unredeemed portion of such Bond, if redeemed in part) or to transfer or exchange any Series 2008 Bond during the period of 15 days (30 days if such Series 2008 Bond bears interest at a Semiannual or Term Rate or the Fixed Rate) next preceding the day such notice is given.

Notice of Redemption. The Trustee shall cause notice of the redemption of the Series 2008 Bonds (unless such Series 2008 Bonds bear interest at a Semiannual, Term or Fixed Rate) not less than fifteen (15) days nor more than 30 days prior to the redemption date. The Trustee shall cause notice of the redemption of the Series 2008 Bonds bearing interest at a Semiannual, Term or Fixed Rate to be given not less than thirty (30) days nor more than sixty (60) days prior to the redemption date.

Payment of Bond Requirements

Principal and Final Interest. The principal or Redemption Price of and the final interest payment on any Series 2008 Bonds shall be payable to the owner thereof as shown on the registration books maintained by the Trustee upon maturity or prior redemption thereof and upon presentation and surrender at the principal office of the Paying Agent. During Commercial Paper, Daily, Weekly, Semiannual, or ARS Rate Periods, the principal or Redemption Price of and the final interest payment on the Series 2008 Bonds shall be payable in immediately available funds. The principal or Redemption Price of and the final interest payment on the Series 2008 Bonds during Term Rate Periods or Fixed Rate Periods, shall be payable in clearing house funds. If any Series 2008 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 2008 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. During Commercial Paper, Daily, Weekly, Semiannual, or ARS Rate Periods, interest on the Series 2008 Bonds shall be payable in immediately available funds. The interest on the Series 2008 Bonds during Term Rate Periods or Fixed Rate Periods, 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 2008 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 2008 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 Semiannual, Term and Fixed Rate Interest. All payments of interest (other than the final interest payment) on any Series 2008 Bond bearing interest at a Semiannual, Term or Fixed Rate, 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 2008 Bonds bearing interest at a Semiannual, Term or Fixed Rate, by wire transfer on such date to a bank within the continental United States as directed by such owner.

Payment of Other Interest. All payments of interest on other Series 2008 Bonds (other than the final interest payment and other than interest paid as part of the Purchase Price on any Series 2008 Bond bearing interest at a Commercial Paper Rate) shall be paid to the person entitled thereto pursuant to the Indenture by wire transfer to a bank within the continental United States as directed by such person or, if not directed by such person, as directed by a Remarketing Agent or Auction Agent, in either case, on the Regular Record Date for such Interest Payment Date (or, in the case of Defaulted Interest, the Special Record Date for the payment of such Defaulted Interest).

Payment of Purchase Price Payments for Series 2008 Bonds

The Purchase Price Payments for the Series 2008 Bonds of any Subseries (other than Series 2008 Bonds bearing interest at an Auction Rate) are payable solely out of (i) first, moneys paid to the Paying Agent by any Remarketing Agent from the proceeds of the remarketing of the Series 2008 Bonds of such Subseries; and (ii) second, to the extent moneys described in clause (i) are not sufficient therefor, moneys paid for such purpose under any related Series 2008 Liquidity Facility, as applicable. Such moneys so held in trust by the Paying Agent from the proceeds of the remarketing of the particular Subseries of Series 2008 Bonds, and the moneys so paid under any such related Series 2008 Liquidity Facility, are pledged to the payment of the Purchase Price Payments for the Series 2008 Bonds of such Subseries.

Book-Entry Only System

The Depository Trust Company (“DTC”) will act as securities depository for all of the Series 2008 Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity and Subseries of the Series 2008 Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2008 Bonds will be made in book-entry form only, and Beneficial Owners of the Series 2008 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 2008 Bonds. For a more complete description of the book-entry only system, see “BOOK-ENTRY ONLY SYSTEM” in Appendix E.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS

Special, Limited Obligations

The Series 2008 Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and other moneys held in certain funds and accounts created under the Indenture. The Series 2008 Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2008 Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State.

Pledged Revenues

The principal of and interest on the Series 2008 Bonds will be payable from a portion of the Pledged Revenues, which revenues are pledged and are payable as provided in the Indenture. Such pledge is subject to the pledge in favor of the Outstanding Closed Lien Obligations, the Senior Lien Bonds and to the uses of the Pledged Revenues and other amounts pledged by, and the priorities set forth in, the Indenture. See “EXTRACTS OF

CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts” in Appendix B. The Series 2008 Bonds constitute an irrevocable lien, but not an exclusive lien, on the Pledged Revenues as set forth in the Indenture.

The Pledged Revenues pledged to the payment of the 2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds and the Series 2008 Bonds and any other Subordinate Lien Obligations are to be applied to the 2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds, the Series 2008 Bonds and the other Subordinate Lien Obligations (including payment obligations under the SWAP Agreements) without priority or distinction of one over the other, after the payment of the Outstanding Closed Lien Obligations and the Senior Lien Bonds.

The NMFA and the Department have entered into a procedural memorandum under which the NMFA will, during each month in which the 2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds and the Series 2008 Bonds are Outstanding, present requisitions to the Department for payment from the State Road Fund and the Highway Infrastructure Fund of the amounts of Pledged Revenues required for debt service to be deposited with the Trustee under the Indenture. The Department is to issue warrants for payment of those amounts from the State Road Fund and/or the Highway Infrastructure Fund to the NMFA and the NMFA is to cause the amounts to be deposited with the Trustee in the Revenue Fund. Only the Pledged Revenues so transferred by the Department (not all Pledged Revenues) will be deposited to the Revenue Fund held by the Trustee under the Indenture.

Outstanding Closed Lien Obligations

The Commission has previously issued and there are currently outstanding Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (the “1998A Bonds”); Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (the “1998B Bonds”); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (the “1999 Bonds”); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (the “2000 Bonds”); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (the “2001 Bonds”); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (the “2002A Bonds”); Subordinate Lien Tax Revenue Highway Bond, Series 2002B (the “2002B Bonds”); Highway Infrastructure Fund Revenue Bonds, Series 2002C (the “2002C Bonds”); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002D (the “2002D Bonds”). The 1998A Bonds, the 1998B Bonds, the 1999 Bonds, the 2000 Bonds, the 2001 Bonds, the 2002A Bonds, the 2002B Bonds, the 2002C Bonds and the 2002D Bonds (collectively, the “Outstanding Closed Lien Obligations”) are payable from and secured by a lien on a portion of the State Revenues consisting of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and, to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund (collectively, the “Closed Lien State Revenues”). The Outstanding Closed Lien Obligations were outstanding as of March 1, 2008 in the following aggregate principal amounts:

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Outstanding Closed Lien Obligations

<u>Issue</u>	<u>Outstanding Principal Amount (as of 3/1/08)</u>
Senior Subordinate Lien Bonds	
Series 1998A	\$17,760,000
Series 1999	18,780,000
Series 2000	41,475,000
Series 2001	107,085,000
Series 2002A	37,160,000
Series 2002C	32,945,000
Series 2002D	4,570,000
Junior Subordinate Lien Bonds	
Series 1998B	34,435,000
Series 2002B	<u>17,970,000</u>
TOTAL	<u>\$312,180,000</u>

(Source: New Mexico Department of Transportation.)

The lien of the 2004 Subordinate Lien Bonds, 2006 Subordinate Lien Bonds and Series 2008 Bonds on the Closed Lien State Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Obligations on the Closed Lien State Revenues. In addition, the Series 2002C Bonds are payable from and secured by a lien on a portion of the Pledged Revenues consisting of leased vehicle gross receipts tax revenues and tire recycling fees, in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on such amounts in the Highway Infrastructure Fund (the “Senior Lien HIF Revenues”). The lien of the 2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds and the Series 2008 Bonds on the Closed Lien HIF Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Obligations on the Closed Lien HIF Revenues. Pursuant to a resolution adopted by the Commission on April 15, 2004, the Commission has agreed not to issue any bonds or other obligations secured by a lien on any of the Pledged Revenues superior to the Senior Lien Bonds, which include the Series 2004A Bonds and the Series 2006A Bonds.

Outstanding and Additional Senior Lien Bonds

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

The NMFA has previously issued and there are currently outstanding \$700,000,000 in aggregate principal amount of its Series 2004A Bonds and \$150,000,000 in aggregate principal amount of its Series 2006A Bonds. The Series 2004A Bonds and the Series 2006A Bonds will have a lien on the Pledged Revenues senior to the lien thereon of the Series 2008 Bonds.

Additional Subordinate Lien Obligations

The Indenture provides that no additional Subordinate Lien Obligations may be issued (other than for purposes of refunding) by the NMFA, and that no Additional Highway Bonds may be issued by the Commission, unless the Pledged Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Obligations or Additional Highway Bonds were at least 300% of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on (a) then Outstanding Closed Lien Obligations, (b) then Outstanding Senior Lien Bonds, (c) then Outstanding Series 2004B Bonds, (d) then Outstanding Unrefunded Series 2004C Bonds, (e) then Outstanding Series 2006B Bonds, (f) then Outstanding Series 2006D Bonds, (g) then Outstanding Series 2008 Bonds, (h) then Outstanding Additional Highway Bonds, and (i) the Subordinate Lien Obligations or Additional Highway Bonds proposed to be issued. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from Pledged Revenues—Limitations Upon Issuance of Subordinate Lien Bonds” in Appendix B.

The NMFA has issued, after giving effect to the refunding of the Refunded Bonds, and there are currently outstanding \$162,330,000 in aggregate principal amount of its Series 2004B Bonds, \$84,800,000 in aggregate principal amount of Unrefunded Series 2004C Bonds, \$35,510,000 in aggregate principal amount of its Series 2006B Bonds and \$50,400,000 in aggregate principal amount of its Series 2006D Bonds. All such Bonds 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 on a parity with the lien on the Pledged Revenues of the Series 2008 Bonds. Payment obligations, other than termination payment obligations, of the NMFA on the Swap Agreements are also Subordinate Lien Obligations.

Additional Contemplated Obligations

As previously stated, the Unrefunded Series 2004C Bonds and the Series 2006D Bonds bear interest at Auction Rates. The NMFA within the next 60 days plans to change the method of interest rate determination on such bonds either through the conversion of the interest rate determination method or the issuance of refunding bonds. The NMFA also plans to possibly incur additional indebtedness in an amount up to \$200,000,000 during 2008 to finance the costs of certain transportation projects. The terms of such additional obligations, including the nature of the lien on the Pledged Revenues, have not yet been determined.

Subordinate Debt

The NMFA and the Commission may issue additional bonds or other obligations payable from the Pledged Revenues constituting a lien on Pledged Revenues subordinate and junior to the lien on the Pledged Revenues of the Series 2008 Bonds, including Junior Subordinate Lien Obligations. Termination payment obligations of the NMFA on the Forward-Starting Swap Agreements and the 2004 Swap Agreements are Junior Subordinate Lien Obligations.

Additional Superior Obligations Prohibited

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

Liquidity Facilities Requirements

At all times during which any Subseries of the Series 2008 Bonds bears interest at a Variable Rate or a Commercial Paper Rate the NMFA shall maintain a Series 2008 Liquidity Facility, as applicable (the provider of which may but need not be the same as the provider of a Series 2008 Liquidity Facility for any other Subseries or the provider of a Series 2008 Credit Enhancement Facility for such Subseries or for any other Subseries) to secure payment of the Purchase Price of tendered Series 2008 Bonds of such Subseries. In addition, the NMFA covenants and agrees that at all times while any Series 2008 Bonds are outstanding which bear interest at other than a Fixed Rate or an Auction Rate, if the rating of the Series 2008 Liquidity Facility Provider for such Subseries shall (if then rated by the same) be lowered by either of Moody's Investor Services, Inc. or Standard & Poor's Ratings Services, below the top two short-term rating categories assigned by such rating agency (without giving effect to numeric or

other qualifiers), then the NMFA shall obtain an Alternate Series 2008 Liquidity Facility for such Subseries (the “Alternate Series 2008 Liquidity Facility”) meeting such rating requirement.

Upon the receipt by the Paying Agent of a written request of the NMFA stating that the amount available under a Series 2008 Liquidity Facility may be reduced, the Paying Agent shall direct or send appropriate notice to such Series 2008 Liquidity Facility Provider requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Series 2008 Liquidity Facility, subject to any requirements of such Series 2008 Liquidity Facility. In no event shall any Series 2008 Liquidity Facility be reduced to an amount less than the principal amount of the Series 2008 Bonds of the Subseries secured by such Series 2008 Liquidity Facility outstanding, plus an amount equal to interest thereon at the Interest Rate then required by any rating agency then rating the Series 2008 Bonds of such Subseries for the number of days then required by any rating agency then rating the Series 2008 Bonds, unless the NMFA has deposited an Alternate Series 2008 Liquidity Facility with the Paying Agent. In no event shall any Alternate Series 2008 Liquidity Facility replace only in part any then current Series 2008 Liquidity Facility. Notwithstanding the foregoing, immediately after payment in full has been made on any Series of Series 2008 Bonds, either at its maturity date, by optional redemption, or otherwise, the Paying Agent shall direct or send appropriate notice to any applicable Series 2008 Liquidity Facility Provider requesting or directing that the amount available under such Series 2008 Liquidity Facility be reduced by an amount equal to such principal so paid plus the amount of interest theretofore provided for under such Series 2008 Liquidity Facility on such principal amount.

The Series 2008 Bonds or any Subseries thereof are not under any circumstances required to have the benefit of a Series 2008 Liquidity Facility with respect to the outstanding principal amount of such Series 2008 Bonds if, prior to the expiration or termination of any applicable Series 2008 Liquidity Facility then in effect, there is delivered to the NMFA, the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent (i) a Favorable Opinion of Bond Counsel to the effect that the expiration or termination of any such Series 2008 Liquidity Facility then in effect will not adversely affect the validity of such Series 2008 Bonds or, with respect to Series 2008A Bonds and the Series 2008B Bonds, any exclusion from gross income for federal income tax purposes to which interest on such Series 2008A Bonds or Series 2008B Bonds would otherwise be entitled, and (ii) written evidence from each rating agency then maintaining a rating on such Series 2008 Bonds of such Subseries that the ratings on such Series 2008 Bonds of such Subseries following the expiration or termination of such Series 2008 Liquidity Facility will not be reduced or withdrawn from the ratings on such Series 2008 Bonds immediately prior to such expiration or termination.

Upon satisfaction of the requirements described in the immediately preceding paragraph, (i) the Paying Agent, upon receipt of a written request of the NMFA, shall direct or send appropriate notice to any Series 2008 Liquidity Facility Provider requesting or directing the cancellation of a Series 2008 Liquidity Facility then in effect on the date (the “Series 2008 Liquidity Facility Cancellation Date”) requested by the NMFA in such written request, which date may not be less than 30 days, or such longer or shorter period as is required by such Series 2008 Liquidity Facility for its termination at the request of the NMFA, from the date the Paying Agent receives such written request, and (ii) following the date of such cancellation, all tendered Series 2008 Bonds of such Subseries may be remarketed by any Remarketing Agent pursuant to a Remarketing Agreement without the benefit of a Series 2008 Liquidity Facility until such time, if any, as such Series 2008 Bonds are thereafter entitled to the benefits of a Series 2008 Liquidity Facility, but only if there is delivered to the NMFA, the Paying Agent and such Remarketing Agent a Favorable Opinion of Bond Counsel to the effect that the execution and delivery of a Series 2008 Liquidity Facility will not adversely affect the validity of such Series 2008 Bonds or any exclusion from gross income for federal income tax purposes to which interest on such Series 2008 Bonds would otherwise be entitled. If at any time no Series 2008 Liquidity Facility is required on the Series 2008 Bonds, the Paying Agent shall affix a legend on the face, of each such Series 2008 Bond authenticated on or after the date on which a Series 2008 Liquidity Facility is no longer required in substantially the following form: “A Series 2008 Liquidity Facility is not required with respect to this Series 2008 Bond. If a Series 2008 Liquidity Facility is currently provided, it may be discontinued at any time without prior notice to, or a right to tender by, the Bondholder.”

LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Reimbursement Agreement pursuant to which the Letters of Credit are issued. Each Letter of Credit provides credit and liquidity support only for the subseries of the

Series 2008 Bonds to which it relates. The Reimbursement Agreement contains various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined elsewhere in this Official Statement, the Letters of Credit or the Reimbursement Agreement, and reference is made thereto for a full understanding of their import.

General

Upon the terms and subject to the conditions set forth in the Reimbursement Agreement, the Banks agree to issue the Letters of Credit.

The Trustee is authorized to make drawings for the payment of principal of and interest on the Series 2008 Bonds (each, a “Principal Drawing” or an “Interest Drawing” respectively and together “Credit Drawings”) and drawings for the payment of the purchase price of the Series 2008 Bonds that have been tendered and not remarketed (each, a “Liquidity Drawing”), subject to certain conditions set forth in the Letters of Credit and in the Reimbursement Agreement. The Series 2008 Bonds purchased by the Banks (“Bank Bonds”) shall bear interest at the rates set forth in the Reimbursement Agreement and shall be repaid as provided therein. All Principal Drawings, Interest Drawings and Liquidity Drawings shall be made under the Letters of Credit in accordance with their terms. The NMFA has directed the Banks to make payments under the Letters of Credit in the manner provided in the Letters of Credit.

With respect to each Credit Drawing, the NMFA has agreed to pay to the Banks on the date of each Credit Drawing, an amount equal to the amount disbursed by the Banks pursuant to such Credit Drawing against their Letters of Credit, together with interest on the amounts so disbursed by the Banks for each day from and including the date of such disbursement to but not including the date the Banks are reimbursed therefor at a rate per annum specified in the Reimbursement Agreement, payable on the date of reimbursement of such amount. All payments not received on the date due shall bear interest until paid in full at a rate specified in the Reimbursement Agreement, such interest to be payable upon demand.

With respect to each Liquidity Drawing, so long as no Event of Default (as defined below) has occurred and is then continuing and the NMFA reaffirms its representations and warranties under the Reimbursement Agreement, the NMFA shall pay to the Banks on any date which is the first to occur of (A) the date of the remarketing of any Bank Bonds, the purchase price or portion of the purchase price of which was paid with the proceeds of such Liquidity Drawing, an amount equal to the amount disbursed by the Banks pursuant to such Liquidity Drawing against their Letters of Credit to pay the principal portion of such purchase price or portion thereof or with respect to the interest portion of the purchase price, the immediately succeeding Interest Payment Date, and (B) the date on which the principal of any Bank Bonds, together with accrued interest thereon, shall become due and payable, whether at maturity or redemption, an amount equal to the amount disbursed by the Banks pursuant to such Liquidity Drawing against their Letters of Credit to pay the purchase price or portion thereof, in either case, together with interest on the amounts so disbursed by the Banks for each day from and including the date of such disbursement to but not including the date the Banks are reimbursed therefor at a rate per annum specified in the Reimbursement Agreement, payable on the date of reimbursement of such amount and on each Interest Payment Date for the Series 2008 Bonds.

All payments not received on the date due shall bear interest until paid in full at a rate specified in the Reimbursement Agreement, such interest to be payable upon demand. To the extent that the Liquidity Drawing is not paid to the Banks on the due date, the Banks will become subrogated to the rights of the holders of such Series 2008 Bonds and the NMFA will cause the Trustee to transfer such Series 2008 Bonds to the Banks. Upon transfer of the Series 2008 Bonds to the Banks, such Series 2008 Bonds will be deemed Bank Bonds and the Banks will be entitled to and, where necessary, will be deemed to be assigned all rights, privileges and security accorded registered owners of the Series 2008 Bonds under the Indenture or otherwise, except as otherwise provided in the Reimbursement Agreement. The Bank Bonds shall bear interest and be subject to redemption in accordance with the Indenture and the Reimbursement Agreement.

Events of Default

The occurrence and continuance of any one or more of the following events shall be an “Event of Default” under the Reimbursement Agreement:

(i) any representation or warranty made by the NMFA, the Commission or the Department under or in connection with (or incorporated by reference in) the Reimbursement Agreement or any of the Financing Documents (as defined in the Reimbursement Agreement) or in any certificate or statement delivered thereunder shall prove to be untrue in any material respect on the date as of which it was made or deemed to have been made; or

(ii) nonpayment by the NMFA, jointly or severally, of (a) certain amounts payable under the Reimbursement Agreement when due, or (b) certain amounts payable under the Reimbursement Agreement when due and such default in payment shall continue for five (5) Business Days;

(iii) the breach by the NMFA of any of the other terms or provisions of (or incorporated by reference in) the Reimbursement Agreement (other than as set forth in paragraphs (i) or (ii) above) which are not remedied within fifteen (15) days after written notice thereof shall have been received by the NMFA from the Banks; provided, however, that if the breach is other than non-payment of monies and cannot be corrected within such 15-day cure period, the Banks shall not unreasonably withhold their consent to a one-time extension of such cure period for an additional fifteen (15) day period (commencing as of the last day of the initial fifteen (15)-day cure period) so long as the NMFA shall have instituted corrective action and such corrective action is being diligently pursued; provided, further, however, that there shall be no cure period for a failure to observe or perform any covenant or agreement set forth in or contemplated by certain sections of the Reimbursement Agreement as described more fully in the Reimbursement Agreement; or

(iv) any material provision of the Reimbursement Agreement or any Financing Document shall at any time for any reason cease to be valid and binding on the NMFA or any other Person party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the NMFA or by any Governmental Authority (as defined in the Indenture) having jurisdiction, or any Governmental Authority having jurisdiction shall find or rule that any material provision of the Reimbursement Agreement or any Financing Document is not valid or binding on the NMFA, or the NMFA shall deny that it has any or further liability or obligation under any such document; or

(v) (a) the NMFA shall commence any case, proceeding or other action (1) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it the bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the NMFA shall make a general assignment for the benefit of its creditors; or (b) there shall be commenced against the NMFA any case, proceeding or other action of a nature referred to in clause (1) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (c) there shall be commenced against the NMFA, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (d) the NMFA shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the NMFA shall generally not, or shall be unable to, or so admit in writing its inability to, pay its Debts; or

(vi) (a) the NMFA shall default in any payment of principal of or interest or any premium on any Material Debt (as defined in the Indenture) and such default shall continue beyond the expiration of the applicable grace period, if any, or (b) the NMFA shall fail to perform any other agreement, term or condition contained in any agreement, mortgage or other instrument under which any such obligation is created or secured, which results in the declaring due and payable of Material Debt or causes Material Debt to become due and payable or which enables (or, with the giving of notice or lapse of time, or both would enable) the holder of Material Debt or any Person

acting on such holder's behalf to accelerate the maturity thereof; provided that none of the foregoing shall constitute an Event of Default under the Reimbursement Agreement so long as (1) the NMFA is diligently contesting in good faith by appropriate legal proceedings its obligation to make such payment or the amount of the payment required or to perform or observe such agreement, term or condition, (2) the opposing party or parties in any such legal proceedings shall be stayed from executing on any Property (as defined in the Indenture) of the NMFA with respect to such default or failure to perform and (3) as a result of such default or failure to perform on behalf of the NMFA, no other party to any other Debt of the NMFA, as applicable, shall have declared such Debt due and payable prior to the maturity date thereof or otherwise commenced its exercise of remedies pursuant to the agreement or instrument relating to such Debt and the execution by any such party on Property of the NMFA shall not have been stayed; or

(vii) a final judgment or order for the payment of money in an amount in excess of \$2,000,000 shall have been rendered against the NMFA and such judgment or order shall not have been satisfied, stayed or bonded pending appeal within a period of thirty (30) days from the date on which it was first so rendered; or

(viii) there shall have been rendered a determination that interest on any of the Series 2008 Bonds is includable in the gross income of the owners thereof for federal income tax purposes, as a result of the entry of any decree or judgment by a court of competent jurisdiction, or the taking of any official action by the Internal Revenue Service, whether or not such decree, judgment or action is appealable or deemed to be final under applicable procedural law, or delivery to the Banks, the NMFA and the Trustee of an opinion of nationally recognized bond counsel selected by the Banks and reasonably acceptable to the NMFA, to the effect that the interest borne by the Series 2008 Bonds is includable in the gross income of the recipients thereof generally for federal income tax purposes; or

(ix) any Rating Agency shall have (a) withdrawn its respective ratings of the NMFA's long-term unsecured indebtedness or of any underlying rating of Parity Debt (as defined in the Indenture), (b) suspended its respective ratings of the NMFA's long-term unsecured indebtedness or of any underlying rating of Parity Debt, or (c) lowered its respective ratings of the NMFA's long-term unsecured indebtedness or of any underlying rating of Parity Debt to below "Baa3" for Moody's and "BBB-" for S&P (or to the equivalent rating then in effect with respect to Moody's or S&P), respectively; or

(x) any pledge or security interest created by the Indenture or the Reimbursement Agreement to secure any amount due under the Series 2008 Bonds, any Parity Debt or the Reimbursement Agreement shall fail to be fully enforceable with the priority required under the Reimbursement Agreement or the Indenture, as the case may be, by reason of a final, non-appealable judgment of a court of competent jurisdiction;

Remedies If Event of Default Occurs

If any Event of Default occurs and is continuing, then, and in any such event, the Banks may, at the same or different times, so long as such Event of Default shall not have been remedied, proceed to enforce all remedies available to them under the Letters of Credit and under the Financing Documents and applicable law and in equity, including, without limitation:

(i) the Banks may notify the Paying Agent and the Trustee of such occurrence, direct the Trustee to cause a mandatory tender of the Series 2008 Bonds, as provided in the Fifth Series Indenture, and state that the Letters of Credit will terminate on the tenth (10th) calendar day following the date the Trustee shall have received written notice from the Banks;

(ii) the Banks may declare all amounts payable under the Reimbursement Agreement to be, whereupon the same shall become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the NMFA; provided that in the case of any of the Events of Default specified in paragraph (v) under the subheading "Events of Default" above, all amounts payable under the Reimbursement Agreement shall be immediately due and payable without the giving of any notice to the NMFA or the taking of any other action by any Person; and

(iii) the Banks may exercise any rights and remedies available to them by law or under the Reimbursement Agreement or under any Financing Document or otherwise.

All the foregoing remedies shall be cumulative. Promptly following the delivery of notice of termination of a Letter of Credit, the Banks shall give notice thereof to the NMFA, the Remarketing Agent, the Trustee and the Paying Agent, but failure to give such notice to the NMFA, the Remarketing Agent, the Trustee or the Paying Agent shall not impair the effect of such notice.

THE BANKS

The information herein relates to and has been provided by the Banks for inclusion in this Official Statement. No other party has independently verified or assumes any responsibility for such information, and none of the NMFA, the Department or the Underwriters make any representation as to the accuracy or completeness of such information. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Banks since the date hereof, or that the information contained or incorporated by reference in this section is correct as of any time subsequent to its date.

State Street

State Street Bank and Trust Company ("State Street") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) is a leading specialist in providing institutional investors with investment servicing, investment management and investment research and trading. With \$15.30 trillion in assets under custody and \$1.98 trillion in assets under management, the Corporation operates in 26 countries and more than 100 markets worldwide. The assets of State Street at December 31, 2007 accounted for approximately 94% of the consolidated assets of the Corporation. At December 31, 2007, the Corporation had total assets of \$142.54 billion, total deposits (including deposits in foreign offices) of \$95.79 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately \$15.8 billion and total equity capital of \$11.30 billion.

State Street's Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 2007, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this Section and shall be deemed to be a part hereof.

In addition, all reports filed by State Street pursuant to 12 U.S.C. §324 after the date of this Official Statement shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and State Street is set forth in the Corporation's Annual Report or Form 10-K for the year ended December 31, 2007. The annual report can be found on the Corporation's web site, www.statestreet.com. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Official Statement are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Reimbursement Agreement is an obligation of State Street and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

State Street hereby undertakes to provide, without charge to each person to whom a copy of this Official Statement as been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither State Street nor its affiliates make any representation as to the contents of this Official Statement (except as to this Section to the extent it relates to State Street), the suitability of the Series 2008 Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

UBS AG

UBS AG (“UBS”) is a financial services firm incorporated and domiciled in Switzerland and operating under Swiss Company law and Swiss Federal Banking Law. Its two registered offices are located in Zurich and Basel, Switzerland. UBS will provide its credit and/or liquidity facilities through its Stamford branch, which is licensed as a branch by the Connecticut Banking Department and is subject to examination and regulation by Federal and Connecticut state banking authorities.

Moody’s currently rates UBS’s long-term senior unsecured debt as “Aa1” and short-term commercial paper as “P-1.” S&P rates UBS’s long-term local issuer credit as “AA-” and its short-term local issuer credits as “A-1+.” Fitch rates UBS’s long-term senior unsecured debt as “AA-” and short-term debt as “F-1+.” Further information with respect to such ratings may be obtained from Moody’s, S&P and Fitch, respectively. No assurances can be given that the current ratings of the bank’s instruments will be maintained.

UBS had total assets of 2,272,579 million Swiss francs and shareholder equity of 35,585 million Swiss francs as of December 31, 2007.

UBS files periodic reports with the Securities Exchange Commission (SEC). Additional information, including the most recent Annual Report on Form 20-F for the year ended December 31, 2007 and reports filed on Form 6-K, can be easily obtained from the SEC website (www.sec.gov).

PLEDGED REVENUES

The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain state corporation commission fees, trip taxes, weight/distance taxes, 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 NMFA.

State Road Fund

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

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

charged for oversize and overweight trucks. The vehicle registration fee increase became effective March 1, 2004, and the other increases became effective July 1, 2004. There have been no subsequent legislative changes to the tax and fee structure.

Gasoline Excise Taxes. Gasoline excise taxes are imposed pursuant to the Gasoline Tax Act, Sections 7-13-1 through 7-13-18 NMSA 1978, as amended. The Gasoline Tax Act imposes a tax of 17 cents per gallon on gasoline received in the State. Not all of the tax imposed by the Gasoline Tax Act is paid into the State Road Fund (see discussion below). As of January 2007, the State's gasoline excise tax rate is lower than that of any western state with the exception of Oklahoma (17 cents per gallon).

Wholesale Exemption; Tax Sharing Agreements. Under the current statutory provisions for the collection of gasoline excise taxes, gasoline wholesaled by "registered" Native American distributors on Indian reservations, pueblo grants or trust lands is not subject to the tax. Pursuant to Chapter 190, Laws of 1999, the amount of gasoline that may be sold within an Indian reservation, pueblo grant or trust lands by any single registered Native American wholesale distributor for resale outside the Indian reservation, pueblo grant or trust lands free of state gasoline tax is limited to 30,000,000 gallons per year. Chapter 190 limits the use of this exemption to registered Native American wholesale distributors who have sold more than one million gallons of gasoline within the Indian reservation, pueblo grants or trust lands for resale outside the Indian reservation during the four months ended August 1998. There have been no subsequent legislative changes to the wholesale exemption.

TRD has certified two registered Native American wholesale distributors as eligible for this exemption, meaning that up to 60,000,000 gallons per year of gasoline currently may be sold at wholesale free of State gasoline tax under this exemption. Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a "gasoline tax sharing agreement" with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed on June 23, 2004. Under that agreement the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provided for a similar "gasoline tax sharing agreement" with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be in effect for at least the next ten years as a result of the gasoline tax sharing agreements.

Retail Exemption. Chapter 190, Laws of 1999 also permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. In its 2000 regular session, the Legislature enacted a deduction from gasoline taxes for retail sales of gasoline by persons other than registered Indian tribal distributors on Indian reservations, pueblo grants and trust lands. The deduction, which became effective on April 1, 2000, is effectively equal to the lesser of the tribal tax on the gasoline sold or the State gasoline tax. According to the TRD, there are approximately 271 registered gasoline dealers in the State. Of those 271, 17 are tribally-owned, otherwise affiliated with tribes or located on Indian reservations, pueblo grants and trust lands.

Exemption Results. As a result of the foregoing exemptions and other factors (such as more fuel efficient vehicles and higher gasoline prices), the Department expects a slow rate of growth in gasoline excise taxes paid into the State Road Fund over the next several years. Fiscal year 2003 taxable gasoline distributions in the State totaled 851,912,805 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 92,837,114 gallons. Fiscal year 2004 taxable gasoline distributions in the State totaled 871,450,733 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 88,226,119 gallons. Fiscal year 2005 taxable gasoline distributions in the State totaled 875,551,884 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 53,425,815 gallons. Fiscal year 2006 taxable gasoline distributions in the State totaled 880,614,191 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 55,432,237 gallons. Fiscal year 2007 taxable gasoline distributions in the State totaled 918,292,994 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 58,864,581 gallons. The Department estimates that future Native American retail sales of gasoline within reservation, pueblo grant and trust land boundaries will remain constant at the fiscal year 2007 level.

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

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

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

Historical Gasoline Excise Taxes

Fiscal Year Ended <u>June 30</u>	Taxable <u>Gallons (000s)</u>	Percent <u>Change (%)</u>	State Road Fund <u>Distribution (000s)</u>	Percent <u>Change (%)</u>
1998	911,407	2.53	\$117,880	2.19
1999	892,490	(2.08)	115,660	(1.88)
2000	868,022	(2.74)	111,961	(3.20)
2001	838,445	(3.41)	108,534	(3.06)
2002	839,001	0.07	108,941	0.37
2003	851,913	1.54	110,465	1.40
2004	871,451	2.29	112,107	1.49
2005	875,552	0.47	109,163	(2.63)
2006	880,614	0.58	109,723	0.51
2007	918,293 ⁽¹⁾	4.28	114,577	4.42

⁽¹⁾ Estimated.

(Source: New Mexico Department of Transportation.)

Special Fuel Excise Tax. The special fuel excise tax is imposed under the Special Fuels Supplier Tax Act, Sections 7-16A-1 through 7-16A-21 NMSA 1978, as amended. The tax applies to diesel fuel and kerosene used as a fuel in motor vehicles and is imposed generally upon receipt of the special fuel in the State. The tax is payable by refineries, terminal operators and transporters, on or before the 25th day of the month after the month of receipt. Deductions are provided for special fuels exported from the State on a wholesale basis, for sales to the federal government and its agencies, the State, its agencies and political subdivisions and Indian tribes and their agencies and subdivisions, and for dyed fuels not for highway use. A refund of tax is available for clear fuel used for purposes other than propelling a vehicle on public roads. The tax on special fuels had been at a rate of 18 cents per gallon (effective from July 1, 1993 through June 30, 2004). The tax rate increased to 21 cents per gallon effective July 1, 2004. The net receipts of the taxes imposed by the Special Fuels Supplier Tax Act are payable into the State Road Fund pursuant to Section 7-1-6.10(A) NMSA 1978, as amended, subject to certain deductions for payments into other funds specified in that Section (but without duplication of the deductions applicable to gasoline excise taxes).

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

Historical Special Fuel Excise Taxes

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Taxable</u> <u>Gallons (000s)</u>	<u>Percent</u> <u>Change (%)</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
1998	373,747	9.38	\$59,732	10.77
1999	398,425	6.60	63,763	6.75
2000	411,197	3.21	66,648	4.52
2001	411,855	0.16	66,940	0.44
2002	407,536	(1.05)	65,689	(1.87)
2003	430,852	5.72	69,478	5.77
2004	463,073	7.48	74,546	7.29
2005	459,405	(0.79)	86,588	16.15 ⁽¹⁾
2006	509,030	10.80	97,127	12.17
2007	509,377 ⁽²⁾	0.07	97,008	(0.12)

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

⁽²⁾ Estimated.

(Source: New Mexico Department of Transportation.)

Weight Distance Tax. A weight distance tax is imposed by the Weight Distance Tax Act, Section 7-15A-1 through 7-15A-14 NMSA 1978. The tax is imposed on the registered owners and operators of motor vehicles having a declared gross weight or gross vehicle weight of 26,001 or more pounds operated on the State's highways that are registered with TRD. Effective July 1, 2004, the weight distance tax rate on motor vehicles increased by approximately 38%. The tax levied on motor vehicles other than buses is based on a detailed schedule, by gross vehicle weight, ranging from 11.01 mills per mile on motor vehicles having a declared gross vehicle weight between 26,001 and 28,000 pounds and 43.78 mills per mile on motor vehicles having a declared vehicle weight of 78,001 pounds or more for round- trip hauls. The tax on one-way hauls ranges from 7.34 mills per mile on motor vehicles having a declared gross vehicle weight between 26,001 and 28,000 pounds to 29.19 mills per mile on motor vehicles having a declared gross vehicle weight of 78,001 pounds or more.

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

Motor carriers pay the weight distance tax quarterly on January 31, April 30, July 31 and October 31 for the preceding calendar quarter. In addition, each person required to pay the weight distance tax is subject to an annual registration 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

Fiscal Year Ended June 30	State Road Fund Distribution (000s)	Percent Change (%)
1998	\$47,603	7.43
1999	52,670	10.64
2000	54,098	2.71
2001	50,851	(6.00)
2002	50,903	0.10
2003	51,394	0.96
2004	51,574	0.35
2005	68,396	32.62 ⁽¹⁾
2006	76,453	11.78
2007	88,365 ⁽²⁾	15.58

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

⁽²⁾ Estimated.

(Source: New Mexico Department of Transportation.)

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

Registration fees for passenger cars are based on gross factory shipping weight and years of registration, calculated from the date when the vehicle was first registered in any state. Passenger car registration fees range from \$21.00 for a passenger car with a gross factory shipping weight of not more than 2,000 pounds that has been registered for more than five years to \$56.00 for a passenger car with a gross factory shipping weight of more than 3,000 pounds that has been registered for five years or less. These rates were increased from \$16.00 and \$42.00, respectively, as of March 1, 2004. Registration fees for passenger cars are collected by the Motor Vehicle Division of TRD. Since January 1999, the Motor Vehicle Division has allowed a two-year registration option. Registrants who choose the two-year option pay twice the normal fee and are exempt the following year.

Registration fees for trucks and buses are based on vehicle weight and years of registration, and, for vehicles weighing more than 26,000 pounds, the proportion of their total miles traveled in New Mexico. Registration fees for trucks and buses weighing more than 26,000 pounds are centrally assessed through the International Registration Plan ("IRP"), a federally mandated program which allocates registration fees among the states through which trucks and buses travel. Registration fees for trucks and buses are based on vehicle weight and years of registration, and the proportion of their total miles traveled in New Mexico. Truck and bus registration fees range from \$32.00 for a truck or bus with a declared gross vehicle weight of 4,000 pounds or less that has been registered for more than five years to \$172.00 for a truck or bus with a declared gross vehicle weight of 48,001 pounds or more that has been registered for five years or less. These rates were increased from \$24.00 and \$129.50, respectively, as of March 1, 2004. School buses and buses operated by religious or nonprofit organizations pay annual registration fees of \$7.00 and buses having a normal seating capacity of 40 passengers or less used for transporting agricultural workers pay annual registration fees of \$33.00. These rates were increased from \$5.00 and \$25.00, respectively, as of March 1, 2004.

Registration fees for farm vehicles are based on gross vehicle weight only. Farm vehicles weighing more than 6,000 pounds are charged registration fees equal to two-thirds of the respective rates for trucks and buses.

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

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

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

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>	State Road Fund <u>Distribution (000s)⁽¹⁾</u>	Percent <u>Change (%)</u>
1998	\$40,162	4.09
1999	42,537	5.91
2000	44,302	4.15
2001	41,600	(6.10)
2002	44,137	6.10
2003	43,993	(0.33)
2004	52,996	20.46 ⁽²⁾
2005	67,768	27.87
2006	71,470	5.46
2007	73,512	2.86

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

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

(Source: New Mexico Department of Transportation.)

Highway Infrastructure Fund

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

Leased Vehicle Gross Receipts Taxes. Leased vehicle gross receipts taxes are imposed pursuant to Section 7-14A-3 NMSA 1978. The tax is an excise tax of five percent of the gross receipts from vehicle leasing of persons engaged in the business of leasing passenger vehicles for periods of less than six months and having a fleet of five or more such vehicles. Certain taxes paid to Indian nations, tribes or pueblos are excluded from gross receipts. Deductions from gross receipts for purposes of computing the tax are available for transactions in interstate commerce and vehicle trade-in allowances. Receipts with respect to the leasing of vehicles, acquired before July 1, 1991 are exempt from the tax. The leased vehicle gross receipts tax is administered and collected by TRD. Payments of the tax by vehicle lessors are due on or before the 25th day of the month following the month in which the transaction took place. Pursuant to Section 7-14A-10 NMSA 1978, as amended, 75% of the net receipts attributable to the leased vehicle gross receipts tax and any associated penalties and interest are distributed by TRD to the Highway Infrastructure Fund and 25% to the Local Government Road Fund. Leased vehicle gross receipts taxes paid into the Highway Infrastructure Fund are subject to audit by the State Auditor and an independent certified public accountant along with other funds administered by the Department.

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

Historical Net Leased Vehicle Gross Receipts Taxes

Fiscal Year Ended <u>June 30</u>	Leased Vehicle Gross <u>Receipts Taxes (000s)</u> ⁽¹⁾	Percent <u>Change (%)</u>
1999	\$4,146	—
2000	4,596	10.85
2001	4,810	4.66
2002	4,507	(6.30)
2003	4,465	0.93
2004	4,536	1.59
2005	4,524	(0.26)
2006	5,144	13.69
2007	4,844 ⁽¹⁾	(5.81)

⁽¹⁾ Estimated. Amount equals 75% of amounts payable to the Highway Infrastructure Fund.
(Source: New Mexico Department of Transportation.)

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

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

Historical Net Tire Recycling Fees

Fiscal Year Ended <u>June 30</u>	Tire Recycling <u>Fees (000s)</u>	Percent <u>Change (%)</u>
1998	\$1,573	—
1999	1,552	(1.34)
2000	1,455	(6.25)
2001	1,411	(3.02)
2002	1,655	17.29
2003	1,679	1.45
2004	1,421	(15.37)
2005	1,950	37.23
2006	1,734	(11.08)
2007	1,758 ⁽¹⁾	1.40

⁽¹⁾ Estimated.
(Source: New Mexico Department of Transportation.)

The Federal-Aid Highway Program

The Federal-Aid Highway Program (FAHP) is an “umbrella” term that encompasses most of the federal programs providing highway funds to the states, such as the Interstate Maintenance Program, the Bridge Program, the National Highway System Program, and the Surface Transportation Program. The 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.

It should be noted that the terms and conditions of participation in the FAHP as described herein are subject to change at the discretion of Congress, and there can be no assurance that the laws and regulations now governing the FAHP will not be changed in the future in a manner that may adversely affect the ability of the Department to receive adequate FHWA Funds to pay the debt service on the Series 2008 Bonds.

Certain FAHP features or requirements are explained or further defined where they appear below but are introduced here for reference:

1. *The Federal Highway Trust Fund (the “HTF”)*: The HTF is a dedicated federal fund with dedicated revenues held in trust for reimbursement of expenditures by the states for costs of eligible transportation projects, including highway projects.

2. *Authorization*: “Authorization” is the process by which Congress authorizes the expenditure of federal revenues on federal programs. For the FAHP, authorization historically has been provided on a multi-year basis. This, together with the availability of HTF revenues and future HTF collections permits states more certainty in planning long-term highway projects. The current multi-year authorization, SAFETEA-LU, became law on August 11, 2005 and expires on September 30, 2009. See “SAFETEA-LU” below.

3. *Apportionment*: For each Federal Fiscal Year (“FFY”), the FHWA apportions the authorized funding among the states according to formulas that are established in authorizing statutes. The distribution of federal funds that do not have a statutory formula is called “allocation” rather than “apportionment.”

4. *Obligation Authority*: “Obligation” is the commitment of the federal government to pay, through reimbursements to a state, its share of the eligible expenditures on an approved project. The amount of such federal revenues that a state can obligate in a given FFY is called its “Obligation Authority.”

5. *Advance Construction*: The Advance Construction procedure allows states to commence eligible projects without first having to obligate the federal government’s share of expenditures. Thus, states may begin a project before amassing all of the Obligation Authority needed to cover the federal government’s share. The Project is an Advance Construction Project.

6. *Partial conversion of Advance Construction*: Under partial conversion of Advance Construction, in a given year a state may convert Advance Construction to Obligation Authority and thus be eligible for reimbursement for a portion of the federal share of an Advance Construction project in that or in a subsequent FFY. This removes any requirement for the state to wait for reimbursements until the full amount of Obligation Authority needed for the entire project is available.

These features of the FAHP work in a complementary fashion to provide a regular flow of federal reimbursements over the years to state highway projects.

The participation of the State in such reimbursements, and the role of such participation in providing payment and security for the Bonds, is discussed in “FEDERAL AID REVENUES” herein.

Although FHWA provides funding for eligible highway projects, federal-aid highways are under the administrative control of the state or local government responsible for their operation and maintenance.

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.

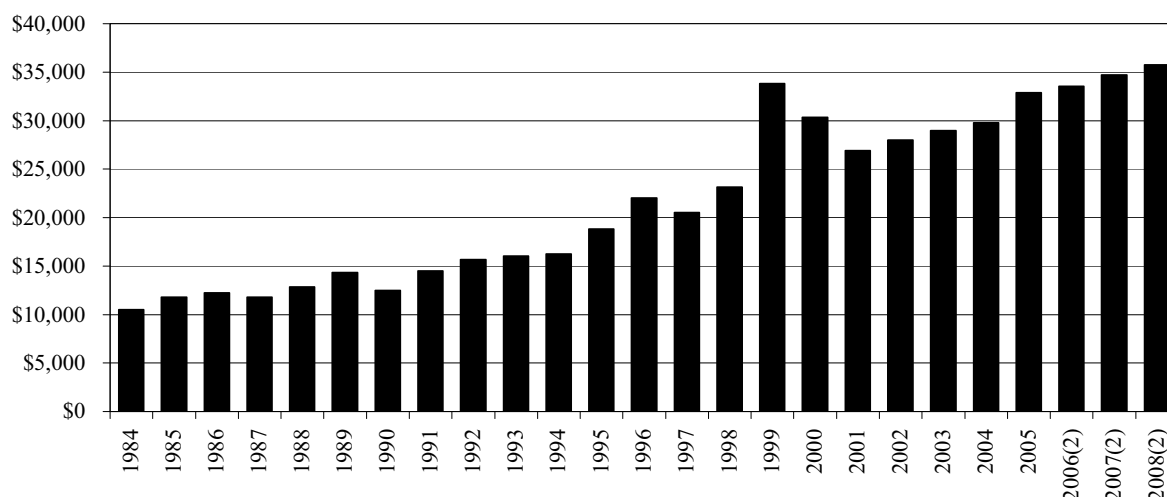
Federal Highway Trust Fund

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

hold dedicated highway-user revenues that are used for reimbursement of the 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 HTF 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 HTF. The majority of these tax revenues, including 15.44 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account. The following table shows annual and projected HTF collections in the Highway Account for the Federal Fiscal Years 1984 through 2008.

Payments into the Highway Account of the Highway Trust Fund ⁽¹⁾
Federal Fiscal Years 1984-2008 (in millions)



(1) Excludes interest on balances.

(2) FFY 2006 actual, and FFY 2007 and 2008 estimates from the President's FFY 2008 Budget.

Source: FFY 1984 through FFY 2005, Highway Statistics 2005, Office of Highway Policy Information, FHWA, Table FE-210.

The imposition of the taxes that are dedicated to the HTF, as well as the authority to place the taxes in the HTF and to expend moneys from the HTF, all have expiration dates which must be extended periodically. The life of the HTF has been extended several times since its inception, most recently by SAFETEA-LU (as described below). SAFETEA-LU extended the imposition of taxes through September 30, 2011, and the transfer of the taxes to the HTF through September 30, 2009. The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

History. The modern FAHP originated in the Federal-Aid Highway Act of 1956. The FAHP initially was established as a pay-as-you-go system, meaning that costs of constructing and maintaining the system were to be borne primarily by its users, who would pay a federally-imposed tax on motor fuels. Federal user fees were to provide 90% of the cost of construction, with the remainder paid for by the states.

The Federal-Aid Highway Act of 1956 was the first of a long series of authorizing statutes for the FAHP. Extensions of the act were passed in 1958, 1959, 1960, 1961, 1962, 1964, 1966, 1968, 1970, 1973, 1974 and 1976;

in each case the statute was known simply as the Federal-Aid Highway Act. The 1965 Highway Beautification Act made minor additions and changes to the program, as did the Highway Safety Act of 1973. The 1978 Surface Transportation Act and the Federal-Aid Highway Act of 1981 were also primarily extensions of existing authority. Prior to SAFETEA-LU, enacted August 11, 2005, TEA 21, which expired on September 30, 2003, and its immediate predecessor, the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”), were the most recent multi-year authorizing statutes.

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

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

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

1. Standard federal highway financing practices require states to have sufficient Obligation Authority before they begin a highway project. If a state has many projects or a particularly large project, they may be unable to provide enough Obligation Authority to get federal approval to begin specific projects. To avoid delays in projects that are eligible for federal funding, the FHWA may approve Advance Construction for a project if the state can provide 100% of the costs up-front.

2. Under Advance Construction procedures prior to the NHS Act, only when a state had amassed sufficient Obligation Authority to cover the federal share of a project’s total costs could it convert the project from Advance Construction to Obligation Authority and be reimbursed for the federal share. The NHS Act removed the requirement that states must amass Obligation Authority equal to the full federal share before reimbursement could occur. Partial conversion now allows a state to be reimbursed for a portion of the federal share of the project’s total costs as Obligation Authority becomes available each year and costs are expended.

In addition, the FHWA has issued guidelines for debt-financed federal-aid highway projects. Key provisions of these guidelines are:

1. Debt-financed projects are subject to requirements of Federal Clean Air Act and federal air quality conformity requirements.

2. A state may make arrangements with the FHWA Division Office 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.

3. A state may designate a trustee or other depository to receive federal-aid debt service payments directly from FHWA.

TEA 21. Until the enactment of SAFETEA-LU on August 11, 2005, the Transportation Equity Act for the 21st Century (“TEA 21”) was the most recent multi-year authorization act for the FAHP. TEA 21, which became law on June 9, 1998 and was amended on July 22, 1998, extended the authorization of the FAHP through FFY 2003.

TEA 21 expired on September 30, 2003 and was the subject of multiple interim reauthorization extensions until the enactment of SAFETEA-LU. See “SAFETEA-LU” below. According to the FHWA, under TEA 21 average annual authorizations for highway aid to the states for FFY 1998 through FFY 2003 were approximately \$28.5 billion, as indicated in the table below (which shows figures by FFY and in billions of dollars):

1998	1999	2000	2001	2002	2003	Average
\$23.8	\$28.2	\$28.7	\$29.5	\$30.0	\$30.6	\$28.5

(Source: Authorization Table, TEA 21 Fact Sheet (available on FHWA website)).

TEA 21 increased equity protections by assuring each state at least 90.5% of its proportional share of apportioned programs, based on its percentage contribution to HTF receipts, which were reauthorized through FFY 2005. TEA 21 also included a provision known as Revenue Aligned Budget Authority (“RABA”) which required that HTF revenues be spent on transportation-related improvements, rather than allowed to accumulate into large surpluses. To this end, TEA 21 set yearly minimum guaranteed funding levels for the authorization period, which are based on annual HTF revenues.

TEA 21 also provided that interest will no longer accrue on funds in the Highway Account and that as of October 1, 1998 (the start of FFY 1999), the opening balance of the Highway Account of HTF would be set at \$8.0 billion. According to the FHWA Office of Fiscal Services, this amendment reduced the HTF balance by approximately \$7 billion, but will not affect the solvency of the HTF because actual annual funding levels will be based on the previous year’s HTF revenues.

SAFETEA-LU. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), passed the Congress and was signed into law by the President on August 11, 2005 and authorizes a total of \$286.4 billion for the federal surface transportation programs in Federal Fiscal years 2004 through 2009. This represents a 38% increase in authorization over TEA 21. The core federal-aid highway program will be funded at these levels: \$34.4 billion (FFY05), \$36 billion (FFY06), \$38.2 billion (FFY07), \$39.6 billion (FFY08) and \$41.2 billion (FFY09). SAFETEA-LU retains the budgetary firewall and minimum guarantee provisions of TEA 21, increasing each state’s minimum rate of return of HTF contributions from 90.5% in TEA 21 to 92% by 2008. All states are also guaranteed a total six-year average highway funding increase of at least 19%, when compared to the state’s six-year TEA 21 funding total. For the amounts projected to be legally available for Bond Payments after reducing earmarked funds for other projects, see “FEDERAL AID REVENUES” herein.

Since the passage of SAFETEA-LU, Congress has taken two separate actions to reduce SAFETEA-LU's authorized spending levels for Federal Fiscal Year 2007 and three actions for Federal Fiscal Year 2006 by issuing rescissions. The first rescission, which was included in the Department of Transportation Appropriations Act, 2006, Public Law (Pub. L. No.) 109-115 and detailed in FHWA Notice N 4510.578 on December 28, 2005, rescinded unobligated balances of apportionments totaling \$1,999,999,000 among the 50 states on a proportional basis, based on the States combined Federal Fiscal Year 2006 apportionments in five programs: Interstate Maintenance (IM), National Highway System (NHS), Bridge, Surface Transportation Program (STP) and Congestion Mitigation and Air Quality Improvement (CMAQ) programs.

The second rescission, which was required by Division B, Chapter 7 of the Department of Defense Appropriations Act, 2006, Pub. L. No. 109-148 and detailed in FHWA Notice N 4510.588 on March 21, 2006, rescinded additional unobligated balances of apportionments totaling \$1,143,000,000 among the 50 states on a proportional basis based on all Federal Fiscal Year 2006 apportionments exclusive of State Planning and Research funds and certain penalties under Title 23, Section 153 (Open Container Requirements) and under Title 23, Section 164 (Penalties for repeat DUI and DWI offenders). This rescission is the result of a 1% across the board cut in all federal discretionary spending enacted as part of the Defense Appropriations Act in late 2005.

The third rescission, which was required by Chapter 9 of the Emergency Supplemental Appropriations Act, 2006, Pub. L. No. 109-234 and detailed in FHWA Notice N 4510.606 on July 7, 2006, rescinded additional unobligated balances of apportionments totaling \$702,362,500 among the 50 states on a proportional basis based on all Federal Fiscal Year 2006 apportionments exclusive of State Planning and Research funds and certain penalties

under Title 23, Section 153 (Open Container Requirements) and under Title 23, Section 164 (Penalties for repeat DUI and DWI offenders).

The fourth rescission, which was required by Division B, Title 1, Chapter 10 of the Continuing Appropriations Resolution, 2007, Pub. L. No. 110-5 and detailed in FHWA Notice N 4510.643 on March 19, 2007, rescinded unobligated balances of apportionments totaling \$3,471,582,000 among the 50 states on a proportional basis based on all Federal Fiscal Year 2007 apportionments exclusive of State Planning and Research funds and certain penalties under Title 23, Section 153 (Open Container Requirements) and under Title 23, Section 164 (Penalties for repeat DUI and DWI offenders).

The fifth and most recent rescission, which was required by Title IV, Chapter 8 of the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Public Law (Pub. L. No.) 110-28 and detailed in FHWA Notice N 4510.647 on June 20, 2007, rescinded unobligated balances of apportionments totaling \$871,022,500 among the 50 states on a proportional basis based on all Federal Fiscal Year 2007 apportionments exclusive of State Planning and Research funds and certain penalties under Title 23, Section 153 (Open Container Requirements) and under Title 23, Section 164 (Penalties for repeat DUI and DWI offenders).

Operations. The present FAHP continues to reimburse a large percentage of state expenditures for approved highway projects. The financial assurance provided by the FAHP is unusual among federal programs in that:

1. The FAHP is based on dedicated revenues, from a user-tax source, deposited in a dedicated trust fund (the HTF);
2. The budget and contract authority of the FHWA is typically established by a multi-year authorization act rather than annually through appropriation acts (see “-History” above); and
3. 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 process for reimbursing state expenditures may be summarized in three steps: authorization, obligation and program implementation. The authorization step is the most critical step in establishing overall spending authority for federal highway funding. Authorizing legislation extends the life of the FAHP and the collections that fund the HTF, sets FAHP objectives and provides formulas for determining the distribution or apportionment of available resources among the states. The existence of the dedicated revenues in the Highway Account of the HTF and the existence of multi-year (or under interim authorizations, multi-month) contract authorizations are designed to help to make available 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 cover gaps in coverage between multi-year (or multi-month) reauthorization acts.

The second step, obligation, is the process through which states make use of, or “obligate,” the contract authority that has been apportioned or allocated to them in the authorization process (Step 1). Congress typically limits the amount of Obligation Authority that states may use annually. To whatever extent that a state's Obligation Authority is set below its authorization, the unobligated balance for that state is increased. These unobligated balances provide available funds, from which the FHWA allows states to draw, when there is a lapse period between authorization acts. But under current law the unobligated balances do not otherwise entitle the states to additional funds.

The third step, program implementation, leads to actual receipt of federal funds by states. FAHP implementation methods vary state-by-state. States are permitted to make use of Advance Construction and partial conversion of Advance Construction in order to obligate varying amounts of federal funds to an eligible project from FFY to FFY, depending on how much of the state's Obligation Authority is available from the FAHP and is desired for such use by the state.

Step 1: Authorization. The first step, and the most crucial in financing the FAHP, is the multi-year (or under interim authorizations, multi-month), authorizing legislation. Such highway authorization acts:

1. Establish the taxes that fund the HTF and extend their life (reauthorization);
2. Establish the specific programs and procedures through which states receive federal financial assistance for their highway programs; and
3. Set upper limits on funding for specific programs and for overall FAHP.

Lapsing of Authorization. All federal programs must be authorized through enacted legislation that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary in order to create budget authority. Indeed, for most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the FAHP, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide Obligation Authority by administrative action.

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

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

2. Short-Term Authorization: ISTEA expired on September 30, 1997 and until approval of TEA 21 on June 9, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorizing legislation, states were provided an upper limit on Obligation Authority through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997 Congress passed the Surface Transportation Extension Act of 1997 (“STEA”), which provided a six-month authorization for highway funding and established a limit on the amount of new Obligation Authority states can use at funding levels equal to about a quarter of FFY 1997 authorization levels. Since most states have unobligated balances of at least half their normal annual Obligation Authority levels and an authorization act need not be in place for the FHWA to give states new Obligation Authority, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated Obligation Authority. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the HTF. (See Step 2, below, for further explanation of Obligation Authority and unobligated balances.) Similarly, TEA 21 expired on September 30, 2003 and Congress enacted nine interim authorization measures for varying periods over twenty-two months until the enactment of SAFETEA-LU on August 11, 2005.

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

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

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

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

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 HTF expenditures relatively close to their payments into the HTF.

Since FFY 1991, each annual aggregate apportionment has exceeded \$15 billion, and beginning in FFY 1998, increased from \$21.5 billion to \$33.3 billion in FFY 2004. (Source: The FHWA, Highway Statistics, (1997 through 2003) Table FA-4.) The FHWA estimated that Highway Account income over the six-year period FFY 1998-2003 was \$169.8 billion; combined with the opening balance under TEA 21 of \$8.0 billion, this yielded resources of \$177.8 billion for the FAHP. TEA 21 authorized an annual average of approximately \$28.5 billion for FFY 1998 through FFY 2003 while SAFETEA-LU authorized an annual average of approximately \$37.1 billion for FFY 2004 through FFY 2009.

Availability of Federal Highway Revenues. Federal-aid highway revenues 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 many other federal programs. Consequently, when new apportionments or allocations are made, the amounts are added to a state’s unused apportionments and allocations from the previous FFY. Should a state fail to obligate (commit to spend) a year’s apportionments and allocations within the period of availability specified for a given program, however, the authority to obligate any remaining amount lapses—that is, it is no longer available except for a few programs which receive indefinite, or “no-year” Obligation Authority.

Matching Requirements. With a few exceptions, the federal government does not pay for the entire cost of construction or improvement of federal-aid highways. Federal reimbursements are typically matched with state and/or local government revenues to account for the necessary dollars to complete the project. The maximum federal share is specified in the legislation authorizing the program. Most projects have an 80% federal share while interstate construction and maintenance projects typically have been funded with a 90% federal share. However, the federal share in New Mexico is frequently higher because of the amount of land owned by the federal government in New Mexico.

Step 2: Obligation. The second step of the federal-aid funding process occurs when revenues that have been authorized by legislation, and either apportioned or allocated to individual states, are obligated for a specific purpose. As noted in the previous section, Congress uses annual appropriations acts to control actual annual obligation of funds in the HTF. Appropriations acts limit the amount of federal money that actually will be obligated and thus ultimately spent, and these annual amounts may be less than the authorized amount. This ceiling on the amount of contract authority that states may use is called the “annual obligation limit.”

Obligation is the commitment of the federal government to pay, through reimbursement to a state, the federal government’s share of an approved project’s eligible costs, which may include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. From the federal perspective, obligations made are the outlays the federal government has committed to make from the HTF in the future. Because of the close relationship between obligations and outlays, Congress and the FHWA play a strong role in determining how much federal funding can be obligated by individual states through two primary processes:

1. Appropriations acts; and
2. Distribution of Obligation Authority

Appropriations Acts. Congressional appropriations committees use the amount of federal-aid highway revenues that states can obligate in a given year, called “Obligation Authority,” as a means of balancing the annual level of highway spending with other federal budgetary priorities. This is accomplished through the establishment of an annual obligation limitation in the annual Department of Transportation and Related Agency Appropriations Act. The annual obligation limitation can be less than the level of funding authorized for the same year, although the creation of budgetary firewalls and RABA in TEA 21 substantially limited the amount of HTF revenues that can be used for non-highway purposes. *Distribution of Obligation Authority.* The obligation limitation is the amount of authorized funding that Congress allows states collectively to obligate in an individual year. Under TEA 21, the annual obligation limitation included two elements – a large portion protected by firewalls and tied to projected HTF receipts through RABA (roughly 90% of total annual contract authority), and a smaller portion that competes with other discretionary budget priorities for funding (less than 10% of total annual contract authority). Beginning in FFY 2000, the level of Obligation Authority protected by firewalls is established each year as the guaranteed obligation limitation in TEA 21, adjusted by the difference between HTF revenue estimates made for TEA 21 and new Department of Treasury projections. Additional, discretionary Obligation Authority is determined when annual appropriations bills are developed and is counted under Congress’ annual spending cap, which is the amount of federal dollars that can be spent on all domestic, non-entitlement programs in a given year. The combined total may still be below the authorized annual level, and serves as a limit on the total obligations in that particular year.

Once Congress establishes an overall obligation limitation, the FHWA distributes Obligation Authority to states proportionately to each state’s share of apportioned and allocated revenues to include minimum guarantee allocations that bring donor states up to the minimum 92% funding level (by FFY 2008). The actual ratio of Obligation Authority to apportionments and allocations may vary from state to state because some federal-aid programs are exempt from the obligation limitation. Once each state’s Obligation Authority is set, states then submit requests to the FHWA to obligate revenues representing the federal share of specific projects throughout the years. (A further description of this process is included in Step 3.) As a state obligates revenues, its balance of Obligation Authority is commensurately reduced, although additional Obligation Authority may be received (e.g., via re-allocation from other states).

A state’s Obligation Authority (unlike its apportionments and allocations of authorized funding) must be used before the end of the FFY for which it is made available; if not, it will be distributed to other states. The FHWA closely monitors each state’s plans for use of Obligation Authority. In mid-summer, the FHWA collects any Obligation Authority from states that do not plan to obligate all of their available Obligation Authority before the end of the FFY, and redistributes it to other states that can obligate the revenues. This reallocation of Obligation Authority is known as the August redistribution.

Unobligated Balances. Because congressional authorization of federal-aid highway revenues represents a commitment to make all authorized revenues available to states for highway purposes, any shortfall between the limit on Obligation Authority created through the annual appropriations process and the amount of contract authority apportioned and allocated to states does not disappear. Instead, the difference between obligation limitations and authorization levels creates what are known as “unobligated balances.” Although most federal-aid apportionments lapse after four years, this rarely happens with apportioned highway revenues because old apportionments are always spent before new apportionments. That is, when a state receives new apportionments and Obligation Authority at the beginning of a FFY, obligations are first made against remaining prior year apportionments plus allocation until these are depleted. The net effect of this process, in conjunction with the year-to-year establishment of obligation limitations, has been that states have amassed considerable unobligated balances.

As explained in Step 1, above, unobligated balances permit the FAHP to continue to fund state highway projects during periods in which Congress fails to enact a reauthorization law before the expiration of the previous authorization period. In such periods, the unobligated balances allow states to continue to fund their programs for several months, or even longer, after an authorization act has expired.

Step 3: Program Implementation. The third and final step in the overall federal-aid highway funding process—program implementation—occurs after authorized revenues have been distributed to states, and after states have had the opportunity to obligate those revenues. Once federal-aid highway revenues have been authorized and obligated, states must have developed highway programs that describe, at a project-by-project level, exactly how federal reimbursements will be earned. The process of developing and implementing state highway programs has three broad stages:

1. Budgeting;
2. Planning and programming; and
3. Fiscal management and reimbursement.

Each stage helps to ensure that states develop programs which match funding availability, and that the FHWA is able to distribute federal reimbursements to states in a timely manner.

Budgeting. Budgetary information about availability of funding is crucial to the development of state highway programs. Projected state and federal funding levels are used to budget transportation needs. Consequently, state transportation budget officials track the availability of funding and develop forecasts of future state and federal revenues. States must estimate the availability of short and long-term state and federal funding in order to plan their highway programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming. The Department's annual budget is based on projections made in light of long-range program requirements and revenue estimates for both state and federal funds. The estimates of state revenues and federal funds are made by the Department.

Planning and Programming. The State's road planning process is structured to ensure the development of a continuous and credible highway improvement program that complements the State's overall transportation system. The process and its products have evolved considerably in recent years as the Department has lengthened its planning horizon.

Highway Capital Investment Program. New Mexico's Highway Capital Investment Program (HCIP) is the major component of the State's multi-modal Statewide Transportation Improvement Program (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 (MTIP's) 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 three years. In New Mexico, the STIP is currently developed annually and covers a six-year period. The most recent six-year STIP covering FFY 2006 through FFY 2011 was approved by the Commission on August 18, 2005. The STIP is subject to change from month to month. The first half (three years) of the STIP represents \$802,782,000 of projects to be undertaken during FFY 2006 through FFY 2008. Among other federal requirements, the STIP must be federally reviewed and approved at least every two years. The STIP must include the estimated project cost for each project and the amount of federal funds to be obligated for each project. The Department requests FHWA authorization to use federal funding on a project and submit plans, specifications and estimates to the FHWA. Each project submitted must be included on the STIP. Provided that all requirements are satisfied, the FHWA authorizes the federal financial participation in the project. After expending bond proceeds or other available funds to construct the projects or to pay debt service on relevant bonds, the Department can request and be reimbursed by the FHWA for the federal share of construction costs or the federal share of such debt service, as the case may be, States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states. The Department uses a new integrated financial management, procurement, and human resource

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

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

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

Traditionally, federal and state funds are used for the planning, environmental assessment, design and right-of-way acquisition phases leading to the final design and advertisement of the project for contract letting, as well as for construction. Federal obligations of funding may be made at various times prior to award of the project to assure reimbursement of the various developmental phases leading to the project's award for construction by contract. Any project costs incurred prior to the date of a federally approved obligation of a phase are not reimbursable with federal funds.

Certain of the developmental phases must be obligated and done sequentially. Federal obligation for any one developmental phase is conditional on the successful completion of previous phases in accordance with applicable Federal laws and regulations with some projects involving FHWA reviews before a new phase can begin. For example right-of-way acquisition may not be obligated before the environmental assessment phase is completed. A highway project and the balance of planned funding needed to complete it will remain in the HCIP (and the STIP) in a current or a future year until the State, the Federal Highway Administration or other funding partners have fully obligated their contributions to the anticipated costs for constructing the project.

Fiscal Management and Federal Highway Reimbursements. Once budgeting, planning and programming are complete, projects move into a fiscal management phase. This fiscal management process is the third element of the implementation step in the overall federal highway funding process. A state-led fiscal management system—conducted in accordance with FHWA requirements—is used to determine exactly how much federal funding will be received for each project, to obtain final FHWA authorization before projects are implemented, and to ensure timely federal reimbursement of state expenditures on contractor costs. In New Mexico, these activities are performed by the Department.

States must follow federal fiscal management procedures as they implement projects that have passed through the approval and programming processes. These fiscal management procedures ensure that the FHWA and states are able to manage the process efficiently, from project authorization to actual payment of Federal Highway Reimbursements to the state.

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

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

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

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

Construction begins, and contractors submit bills to the state as work is completed. A state pays its contractor's bills with cash from the state treasury; the state bills the FHWA electronically for the federal share of completed work for which payment has been made; and the FHWA makes payment to the state via electronic transfer. This FHWA reimbursement to the state liquidates its obligation for the federal share of the costs incurred to that point. As project work continues and state expenditures are reported to the FHWA, federal reimbursements are made.

Innovative variations on this fiscal management approach include Advance Construction and partial conversion of Advance Construction. These variations complement one another to provide a state with additional flexibility in managing its Obligation Authority and cash.

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

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

Under partial conversion of Advance Construction, moreover, a state follows the steps to apply for Advance Construction but converts, obligates, and receives reimbursement for only a portion of its funding of an Advance Construction project in a given year. This removes any requirement to wait until the full amount of Obligation Authority is available. The state can thus obligate varying amounts for the project's eligible cost in each year, depending on how much of the state's Obligation Authority is available and desired by the state.

States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states. The Department uses an integrated financial management, procurement, and human resource system to track all detail budget, expenditures, and expenses for all projects, including bond financed projects. This system also includes all necessary reporting capabilities and the FHWA federal billing functionality.

STIP and Long Range Plan Conformity with Federal Clean Air Requirements. The EPA's air quality conformity regulations require that the STIP and long range plans be evaluated for emissions impacts in both non-attainment and maintenance areas. The New Mexico STIP and long range plan are analyzed to evaluate change in

ozone precursors (volatile organic compounds – VOC and oxides of nitrogen – Nox) and carbon monoxide – CO emissions due to implementation.

Federal Aid Revenues. New Mexico is a “donee” state, currently receiving \$1.28 in Federal Aid Revenues for every \$1.00 it contributes in motor-fuel tax revenue. Below are tables identifying prior authorizations, obligation limitations and reimbursements received by the State and the Department from FFY in 1998 through the Federal Aid Authorization ending September 30, 2009. The ability to pay debt service on the Series 2008 Bonds will depend upon the amount of funding provided to the State under the FAHP and the State’s ability to use such funding.

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

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS-TEA-21

	Federal Fiscal <u>Year 2001</u>	Federal Fiscal <u>Year 2002</u>	Federal Fiscal <u>Year 2003</u>	Federal Fiscal <u>Year 2004</u>	<u>Totals</u>
Aggregate Authorization	\$294,049,448	\$298,809,162	\$291,032,534	\$307,511,183	\$1,191,402,327
Obligation Limitation					
National Highway System	69,623,960	75,731,875	75,387,486	80,688,917	301,432,238
Bridge	12,899,034	15,345,467	13,312,643	14,619,751	56,176,895
Surface Transportation Program ⁽¹⁾	46,293,425	48,625,970	49,073,310	49,258,893	193,251,598
Minimum Guarantee	30,036,771	30,238,728	29,907,334	29,921,754	120,104,587
Surface Transportation Program (Urban Areas)	9,569,909	10,268,213	10,476,349	10,327,305	40,641,776
Interstate Maintenance	63,417,400	69,159,815	62,761,855	73,421,464	268,760,534
Congestion Mitigation/Air Quality Improvement	8,047,929	8,607,408	8,550,135	9,389,632	34,595,104
Recreational Trails	663,358	836,354	925,057	977,896	3,402,665
Metro Planning	846,711	912,523	1,037,559	1,164,707	3,961,500
Research Program	1,206,418	1,306,496	1,295,229	1,429,600	5,237,743
Planning Programs	3,619,253	3,919,486	3,885,685	3,538,700	14,963,124
High Priority Projects	13,951,387	13,697,860	15,520,683	10,866,985	54,036,915
Redistribution of Authority	<u>2,070,116</u>	<u>1,738,494</u>	<u>1,232,308</u>	<u>8,118,746</u>	<u>13,159,664</u>
Aggregate Obligation Limitation	<u>\$262,245,671</u>	<u>\$280,388,689</u>	<u>\$273,365,633</u>	<u>\$293,724,350</u>	<u>\$1,109,724,343</u>

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

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

(Source: New Mexico Department of Transportation.)

REIMBURSEMENT FROM FEDERAL FUNDS – TEA 21 and SAFETEA-LU

Federal Fiscal	Aggregate
<u>Year</u>	<u>Reimbursements</u>
1998	\$161,304,000
1999	213,328,000
2000	277,983,000
2001	260,146,000
2002	278,897,000
2003	263,226,000
2004	243,531,000
2005	287,475,000
2006	<u>292,847,438</u>
Total	<u>\$2,277,737,438</u>

(Source: New Mexico Department of Transportation.)

The State received \$249,994,420 (unaudited) in reimbursements from the FHWA during federal fiscal year 2007.

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

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS - SAFETEA-LU

	Federal Fiscal <u>Year 2005</u>	Federal Fiscal <u>Year 2006⁽¹⁾</u>	Federal Fiscal <u>Year 2007⁽¹⁾</u>	Federal Fiscal <u>Year 2008⁽¹⁾</u>	Federal Fiscal <u>Year 2009⁽¹⁾</u>	Federal Fiscal <u>Year 2010⁽³⁾</u>
Interstate Maintenance	\$64,251,895	\$65,286,769	\$66,338,307	\$67,406,777	\$68,492,451	\$69,595,179
National Highway System	76,482,689	77,714,418	78,964,299	80,236,014	81,528,206	82,840,810
Surface Transportation Program ⁽¹⁾	58,812,919	53,584,797	54,244,235	55,051,306	55,937,790	56,838,388
Surface Transportation Program: Approximate (Large Urban Area) Suballocation from STP Apportionment	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)
Bridge	13,821,540	14,044,167	14,270,379	14,500,233	14,733,788	14,971,002
Congestion Mitigation/ Air Quality	8,232,073	8,364,628	8,499,317	8,636,175	8,775,237	8,916,518
Recreational Trails	1,026,452	1,199,957	1,286,709	1,373,461	1,460,213	1,546,965
Metro Planning	1,469,376	1,448,969	1,472,634	1,496,045	1,519,833	1,543,998
Planning Programs – Suballocation from Core Program funds	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)
Research Program – Suballocation from Planning Program funds	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)
Highway Safety Improvement Program	–	9,724,197	9,914,691	10,108,251	10,304,929	10,505,875
Rail-Highway Crossing	–	1,493,538	1,490,053	1,488,934	1,488,934	1,488,934
Safe-Routes to School	1,000,000	1,000,000	1,000,000	1,000,000	1,157,178	1,000,000
Border Infrastructure Program	925,343	1,090,851	1,241,313	1,429,391	1,579,853	1,730,315
High Priority Projects	30,920,000	30,920,000	30,920,000	30,920,000	30,920,000	30,920,000
Equity Bonus	<u>76,085,543</u>	<u>71,408,088</u>	<u>86,008,248</u>	<u>94,605,501</u>	<u>94,015,134</u>	<u>94,015,134</u>
Aggregate Authorization	<u>\$333,027,830</u>	<u>\$333,280,379</u>	<u>\$337,130,100</u>	<u>\$368,252,088</u>	<u>\$371,913,547</u>	<u>\$375,913,118</u>
Aggregate Obligation Limitation	<u>\$246,000,000</u>	<u>\$250,952,000</u>	<u>\$271,112,000</u>	<u>\$280,718,000</u>	<u>\$283,509,000</u>	<u>\$281,935,000</u>

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

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

(3) Estimated based on projection from FY 2009, will be covered in subsequent Federal legislation which replaces SAFETEA-LU.

(Source: New Mexico Department of Transportation.)

Note that the Department may allocate its obligation authority among SAFETEA-LU program categories (as well as TEA-21 categories) as it desires, subject to the aggregate authorization and allocation amount in each category and the aggregate obligation limit. Aggregate authorization does not represent federal revenues. Federal

revenues are limited by obligation limitation, and are received through reimbursements for expenditures made on construction activities. Reimbursement amounts vary significantly year-to-year depending on construction schedules. Over time, reimbursement revenues are approximately equal to the obligation limitation. STP/URBAN areas over 200,000 population and planning/research programs are suballocations from the core funding category apportionments shown for information purposes.

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

Pledged Revenues History and Estimates

Set forth below is a history of Pledged Revenues for the fiscal years ended June 30, 2000 through June 30, 2007 and an estimate of Pledged Revenues for the fiscal years ended June 30, 2008 through June 30, 2012. The estimates for State revenues are based on Department estimates as of January 2008. The estimates for Federal Funds for fiscal years 2008 and 2009 are based upon the limited obligation amounts given to the Department pursuant to SAFETEA-LU for the authorization period from 2005 through 2009. Federal funds for fiscal years subsequent to fiscal year 2009 are based upon the figure for fiscal year 2009. Such estimates are based on certain assumptions that may not be realized. See "SPECIAL FACTORS RELATING TO THE SERIES 2008 BONDS" and "FORWARD-LOOKING STATEMENTS."

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

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u> ⁽⁴⁾	<u>Estimate</u> ⁽⁵⁾	<u>Estimate</u> ⁽⁵⁾	<u>Estimate</u> ⁽⁵⁾	<u>Estimate</u> ⁽⁵⁾	<u>Estimate</u> ⁽⁵⁾
State Road Fund:													
Gasoline Tax	\$111,961	\$108,534	\$108,941	\$110,465	\$112,107	\$109,456	\$109,723	\$114,577	\$113,294	\$112,900	\$113,900	\$115,100	\$116,300
Special Fuel Tax	66,648	66,940	65,689	69,478	74,546	87,902	97,127	97,008	103,400	106,000	111,000	116,000	122,000
Weight/Distance	54,098	50,851	50,903	51,394	51,574	72,800	76,453	88,365	81,400	83,000	85,000	87,000	88,000
Trip Tax	9,727	7,731	6,194	4,348	4,050	5,724	8,576	7,557	6,000	4,000	4,000	4,000	4,000
Vehicle Registration	44,302	41,600	44,137	43,993	52,996	67,768	71,470	73,512	75,100	76,000	77,500	77,800	79,500
Vehicle Transaction	1,178	1,111	1,144	1,115	1,132	1,130	1,610	1,191	1,500	1,100	1,111	1,122	1,133
Driver's License	4,484	4,361	4,799	4,542	4,238	4,072	3,944	4,329	4,300	4,400	4,450	4,500	4,550
Oversize/License	1,250	1,316	1,303	1,140	1,157	3,232	4,387	4,590	4,635	4,750	4,800	4,800	4,850
Public Regulatory Commission Fees	3,964	3,655	3,549	3,391	3,298	3,525	3,676	377	3,600	2,400	3,200	3,200	3,200
Penalty Assessments (Reinstatement Fees)	1,098	1,122	1,024	1,138	1,085	1,273	258	0	0	0	0	0	0
MVD Miscellaneous Fees	1,226	881	898	997	923	1,200	2,373	2,452	2,518	2,520	2,545	2,571	2,596
Leased, Vehicle Gross Receipts Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Road Fund Interest	<u>2,071</u>	<u>1,714</u>	<u>1,002</u>	<u>509</u>	<u>395</u>	<u>1,239</u>	<u>2,055</u>	<u>708</u>	<u>1,400</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>
Total State Road Fund⁽¹⁾	<u>302,007</u>	<u>289,816</u>	<u>289,583</u>	<u>292,510</u>	<u>307,501</u>	<u>359,321</u>	<u>381,652</u>	<u>394,666</u>	<u>397,147</u>	<u>398,670</u>	<u>409,106</u>	<u>417,693</u>	<u>427,729</u>
Percent Change	0.2%	-4.0%	-0.1%	1.0%	5.1%	16.9%	6.2%	3.4%	0.6%	0.4%	2.6%	2.1%	2.4%
Highway Infrastructure Fund:													
Lease Vehicle Gross Receipts	4,596	4,810	4,507	4,465	4,536	4,524	5,143	4,844	4,875	4,875	4,875	4,875	4,875
Tire Recycling Fees	1,455	1,411	1,655	1,679	1,421	1,950	1,734	1,758	1,800	1,740	1,825	1,760	1,860
Interest	<u>168</u>	<u>328</u>	<u>152</u>	<u>115</u>	<u>64</u>	<u>124</u>	<u>352</u>	<u>164</u>	<u>440</u>	<u>440</u>	<u>440</u>	<u>440</u>	<u>440</u>
Total Highway Infrastructure Fund⁽¹⁾	<u>6,219</u>	<u>6,549</u>	<u>6,314</u>	<u>6,259</u>	<u>6,021</u>	<u>6,598</u>	<u>7,229</u>	<u>6,766</u>	<u>7,115</u>	<u>7,055</u>	<u>7,140</u>	<u>7,075</u>	<u>7,175</u>
Percent Change		5.3%	-3.6%	-0.9%	-3.8%	9.6%	9.6%	-6.4%	5.2%	-0.8%	1.2%	-0.9%	1.4%
Federal Funds	277,983 ⁽²⁾	260,146 ⁽²⁾	278,897 ⁽²⁾	263,226 ⁽²⁾	243,531 ⁽²⁾	287,475 ⁽²⁾	292,847	249,994	302,142 ⁽³⁾	305,419 ⁽³⁾	305,419 ⁽³⁾	305,419 ⁽³⁾	305,419 ⁽³⁾
Percent Change	30.3%	-6.4%	7.2%	-5.6%	-7.5%	18.0%	1.9%	-14.6%	20.9%	1.1%	0.0%	0.0%	0.0%
Total Pledged Revenues⁽¹⁾	<u>586,209</u>	<u>556,511</u>	<u>574,794</u>	<u>561,995</u>	<u>557,053</u>	<u>653,394</u>	<u>681,728</u>	<u>651,426</u>	<u>706,404</u>	<u>711,144</u>	<u>721,665</u>	<u>730,187</u>	<u>740,323</u>
Percent Change	13.9%	-5.1%	3.3%	-2.2%	-0.9%	17.3%	4.3%	-4.4%	8.4%	0.7%	1.5%	1.2%	1.4%

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

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

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

⁽⁴⁾ Reflects unaudited actuals as of June 30, 2007.

⁽⁵⁾ State revenues are based upon forecasts as of January 2008. Federal funds for fiscal years 2008 and 2009 are based upon the limited obligation amounts given to the Department pursuant to SAFETEA-LU for the authorization period from 2005 through 2009. Federal funds for fiscal years subsequent to fiscal year 2009 are based upon the figure for fiscal year 2009.

(Source: New Mexico Department of Transportation.)

SPECIAL FACTORS RELATING TO THE SERIES 2008 BONDS

Each investor or prospective investor in the Series 2008 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 2008 Bonds and could affect the market price of the Series 2008 Bonds to an extent that cannot be determined at this time.

Legislative Changes to Pledged Revenues

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

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

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

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

Uncertainties in Federal Funding

The Federal Revenues have historically been authorized under multiple-year authorizing legislation. Until the enactment of SAFETEA-LU on August 11, 2005, immediately prior legislative authorization was provided by the TEA-21, which went into effect on October 1, 1997 and expired on September 30, 2003. SAFETEA-LU extends the authorization of the Federal Aid Highway Program for a period ending September 30, 2009. There can be no assurance that new multi-year authorization or continuing resolution reauthorization will be adopted effective for any period subsequent to September 30, 2009, or if adopted, that any such legislation will be signed into law by the President. SAFETEA-LU includes certain provisions designed to provide continuity in the flow of federal transportation funds to the states, including the State. There can be no assurance that such measures will be continued under any future federal reauthorization or that, if continued, such measures will be sufficient to ensure that Federal Revenues will be available as needed if in the future Congress amends existing laws or fails to reauthorize expired transportation legislation, or if future legislation or federal administrative action reduces the amount of Federal Revenues available to the Commission and the Department.

In addition to issues of reauthorization, there can be no assurance that Federal Revenues will be paid into the State Road Fund that, together with other Pledged Revenues, will be sufficient to pay the debt service on the Closed Lien Obligations, Senior Lien Bonds and the Subordinate Lien Obligations, including the Series 2008 Bonds. The amount of federal funds available for projects is subject to authorization and periodic reauthorization by Congress, approval on an annual basis by the U.S. Secretary of Transportation and compliance with federal regulations. As such, the Department competes for such funds with other national transportation funding priorities. Federal law specifically provides that a state’s eligibility for funds does not create a commitment or obligation on

the part of the United States to provide for the payment of principal or interest on bonds. See “THE PLEDGED REVENUES—The Federal Aid Highway Program.”

Limited Obligations

The Series 2008 Bonds are limited obligations of the NMFA and are payable as to principal and interest exclusively from the Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS.” The ability of the NMFA, the Commission and the Department to realize Pledged Revenues in amounts sufficient to pay debt service on the Series 2008 Bonds and other obligations payable from the Pledged Revenues senior to or on a parity with the Series 2008 Bonds depends on numerous factors, many of which are not subject to the control of the NMFA, the Commission or the Department.

Subordinated Obligations

The Series 2008 Bonds will be payable from the Pledged Revenues, and the lien on a portion of the Pledged Revenues securing the Series 2008 Bonds will be subordinate to the lien on the portion of Pledged Revenues that secures the Outstanding Closed Lien Obligations. The lien on the Pledged Revenues securing the Series 2008 Bonds will also be subject and subordinate to the lien on the Pledged Revenues that secure the Outstanding Senior Lien Bonds. To this extent, the Series 2008 Bonds will be subject to prior payment of the Outstanding Closed Lien Obligations and the Outstanding Senior Lien Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Outstanding Closed Lien Obligations” and “—Additional Senior Lien Bonds.”

Additional Parity and Subordinate Obligations

Additional Senior Lien Bonds and other obligations may be issued with a lien on the Pledged Revenues superior to the lien of the Outstanding Subordinate Lien Obligations on the Pledged Revenues upon satisfaction of certain conditions. In addition to the Series 2004B Bonds, the Unrefunded Series 2004C Bonds, the Series 2006B Bonds and the Series 2006D Bonds, additional Subordinate Lien Obligations may and are expected to be issued on a parity with the Series 2008 Bonds, and other subordinate obligations may be issued subordinate to the Series 2008 Bonds with respect to the Pledged Revenues upon satisfaction of certain conditions. See, “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Additional Senior Lien Bonds,” “—Additional Subordinate Lien Obligations” and “—Subordinate Debt.”

Auction Rate Securities

The Unrefunded Series 2004C Bonds and the Series 2006D Bonds currently bear interest at Auction Rates. Recent nationwide economic events have caused uncertainty in the auction rate market, including the failure of auctions and the reduction in the amount of investors in the auction market. Such events have caused an increase in the interest rates borne by auction rate securities, sometimes to the maximum rates permitted by the documents authorizing such securities. Although conditions in the auction market may improve, no assurance can be given that any improvement will occur or that conditions will not deteriorate further. In the event that the auction market does not stabilize, it is possible that interest rates on the Unrefunded Series 2004C Bonds and Series 2006D Bonds will increase to the maximum rates thereby increasing the amount of debt service payable on such Bonds. Any increase in debt service may affect the ability to make timely payments of debt service on all Bonds outstanding under the Indenture.

Tax Status of the Series 2008 Bonds

The opinion expressed by Special Tax Counsel is based on existing law as of the delivery date of the Series 2008 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 2008 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 2008 Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series

2008 Bonds, or bonds which present similar tax issues, will not affect the market price for Series 2008 Bonds. Prospective purchasers of the Series 2008 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 law to be paid into, the State Road Fund. Prior to 1999 the State gasoline tax was imposed in such a manner that allowed Native American gasoline wholesalers to exploit the federal preemption that disallows a state from imposing tax on a Native American conducting business within the boundaries of his tribal reservation, pueblo grant or trust lands. Pursuant to Chapter 190, New Mexico Laws of 1999, the technical imposition of the gasoline tax was revised to address the federal preemption issue, and the amount of gasoline that may be sold within an Indian reservation by any single registered Native American wholesale distributor for resale outside the Indian reservation, pueblo grant or trust lands free of state gasoline tax is limited to 30,000,000 gallons per year pursuant to a state tax exemption. Chapter 190 limits the use of this exemption to registered Native American distributors who have sold more than one million gallons of gasoline within the Indian reservation, pueblo grant or trust lands for resale outside the Indian reservation during the four months ended August 1998. TRD has certified two registered Native American wholesale distributors as eligible for this exemption, meaning that up to 60,000,000 gallons per year of gasoline currently may be sold at wholesale free of State gasoline tax under this exemption.

Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a “gasoline tax sharing agreement” with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed on June 23, 2004. Under that agreement the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be eliminated for at least the next ten years as a result of the gasoline tax sharing agreements.

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

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

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ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the Series 2008 Bonds are set forth in the following table.

Sources of Funds

Series 2008A Bonds Par Amount.....	\$115,200,000
Series 2008B Bonds Par Amount.....	220,000,000
Legally available moneys.....	<u>1,535,200</u>
Total.....	<u>\$336,735,200</u>

Use of Funds

Refund the Series 2004C Refunded Bonds	\$115,200,000
Refund the Series 2006C Refunded Bonds	220,000,000
Costs of Issuance ⁽¹⁾	<u>1,535,200</u>
Total Uses	<u>\$336,735,200</u>

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

The NMFA may, from time to time and upon satisfaction of certain requirements, issue additional bonds or other obligations with a lien on the Pledged Revenues superior or on a parity with the lien on the Pledged Revenues of the Series 2008 Bonds. The timing, amount and other details of additional Senior Lien Bonds and Subordinate Lien Obligations, other than the Series 2008 Bonds, are not known as of the date of this Official Statement.

The Refunding

The Series 2008 Bonds are being issued, along with other legally available moneys, to provide funds to redeem in full the Refunded Bonds at the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date. The proceeds of the Series 2008 Bonds will be deposited in the Escrow Fund for the Refunded Bonds (the "Escrow Fund") and used to redeem or pay the Refunded Bonds on the first optional redemption dates.

INTEREST RATE SWAPS

The NMFA has previously entered into 1992 ISDA (International Swap Dealers Association) Master Agreements (Multicurrency-Cross Border) and related Schedules, Credit Support Annexes and Confirmations (collectively, the "Swap Documents") in connection with interest rate exchange agreements (collectively, the "2004 Swap Agreements"): (i) with Royal Bank of Canada having an initial notional amount of \$100,000,000; (ii) with Goldman Sachs Mitsui Marine Derivatives L.P. having an initial notional amount of \$50,000,000; and (iii) with Lehman Brothers Derivative Products Inc. (together with Royal Bank of Canada and Goldman Sachs Mitsui Marine Derivatives, L.P., the "2004 Counterparties" and each a "2004 Counterparty") having an initial notional amount of \$50,000,000. The 2004 Swap Agreements were entered into for the purpose of hedging the exposure of the NMFA against interest rate fluctuations arising from the variable rates borne by the Series 2004C Bonds. Under the 2004 Swap Agreements, the NMFA is the fixed rate payor, paying the relevant 2004 Counterparty a fixed rate of 3.934% per annum on the relevant notional amount, and the 2004 Counterparties will be floating rate payors, paying the NMFA a floating rate equal to 68% of the 30-day London Interbank Offered Rate on the relevant notional amount. The rates to be paid under the 2004 Swap Agreements by the 2004 Counterparties are reasonably expected to be substantially the same as the rates borne by the Unrefunded Series 2004C Bonds and the Series 2008A Bonds, but may from time to time vary from the actual rate payable by the NMFA on the Unrefunded Series 2004C Bonds and the Series 2008A Bonds. The stated termination date under each 2004 Swap Agreement is June 15, 2024. The aggregate notional amounts of the 2004 Swap Agreements will be reduced on June 15, 2023 in an aggregate amount

equal to the aggregate principal portion of the mandatory sinking fund redemption payment on the Unrefunded Series 2004C Bonds and the Series 2008A Bonds on that date.

The NMFA has also entered into Swap Documents in connection with forward-starting interest rate exchange agreements (collectively, the “Forward- Starting Swap Agreements” and, together with the 2004 Swap Agreements, the “Swap Agreements”): (i) with JPMorgan Chase Bank having an initial notional amount of \$110,000,000; and (ii) with UBS AG (together with JPMorgan Chase Bank, the “Forward-Starting Counterparties” and each a “Forward-Starting Counterparty”) having an initial notional amount of \$110,000,000. The Forward-Starting Swap Agreements were entered into for the purpose of hedging the exposure of the NMFA against interest rate fluctuations arising from the variable rates borne by the Series 2006C Refunded Bonds. Under the Forward Starting Swap Agreements, the NMFA is the fixed rate payor, paying the relevant Forward-Starting Counterparty a fixed rate of 4.732% per annum on the relevant notional amount, and the Forward-Starting Counterparties are floating rate payors, paying the NMFA a floating rate equal to the BMA Index on the relevant notional amount. The rates to be paid under the Forward-Starting Swap Agreements by the Forward-Starting Counterparties are reasonably expected to be substantially the same as the rates borne by the Series 2008B Bonds. However, there can be no assurance that the actual rate payable by the NMFA on the Series 2008B Bonds will be the same as that payable by the relevant Forward-Starting Counterparty on the Forward-Starting Swap Agreements. The stated termination date under each Forward-Starting Swap Agreement is December 15, 2026. The initial notional amounts of the Forward-Starting Swap Agreements will decline over the terms of the Forward-Starting Swap Agreements. The Forward-Starting Swap Agreements include options whereby the Forward-Starting Counterparties may, but are not required to, terminate the Forward-Starting Swap Agreements if the daily weighted average of the BMA Index for the preceding 180 day period is greater than 7%.

Payments (other than termination payments as described below) by the NMFA on the Swap Agreements are Subordinate Lien Obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Subordinate Lien Obligations, including the Series 2008 Bonds.

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

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

The arrangements made with respect to the Swap Agreements do not alter the NMFA’s obligations to pay principal of or interest on the Unrefunded Series 2004C Bonds or the Series 2008 Bonds from the Pledged Revenues. Because each of the Swap Agreements is subject to termination upon the occurrence of certain events, no assurance can be given that it will continue to be in effect. None of the Swap Agreements provide a source of credit or security for the Unrefunded Series 2004C Bonds or the Series 2008 Bonds. The Owners of the such Bonds will not have any rights under any Swap Agreement or against any Counterparty.

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

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

ANNUAL DEBT SERVICE REQUIREMENTS

Debt Service for the Series 2008 Bonds

The following schedule shows the total debt service payable for the Series 2008 Bonds for each fiscal year through their final maturity date.

Fiscal Year	<u>Series 2008A Bonds</u>		<u>Series 2008B Bonds</u>		Total Fiscal Year Debt Service Requirements
	<u>Principal</u> ⁽¹⁾	<u>Interest</u> ⁽²⁾	<u>Principal</u> ⁽³⁾	<u>Interest</u> ⁽⁴⁾	
2008	—	\$843,450	—	\$1,937,491	\$2,780,941
2009	—	4,531,968	—	10,410,400	14,942,368
2010	—	4,531,968	—	10,410,400	14,942,368
2011	—	4,531,968	—	10,410,400	14,942,368
2012	—	4,531,968	—	10,410,400	14,942,368
2013	—	4,531,968	—	10,410,400	14,942,368
2014	—	4,531,968	—	10,410,400	14,942,368
2015	—	4,531,968	—	10,410,400	14,942,368
2016	—	4,531,968	—	10,410,400	14,942,368
2017	—	4,531,968	—	10,410,400	14,942,368
2018	—	4,531,968	—	10,410,400	14,942,368
2019	—	4,531,968	—	10,410,400	14,942,368
2020	—	4,531,968	—	10,410,400	14,942,368
2021	—	4,531,968	—	10,410,400	14,942,368
2022	—	4,531,968	—	10,410,400	14,942,368
2023	\$37,080,000 ⁽⁵⁾	4,531,968	\$11,200,000 ⁽⁵⁾	10,410,400	63,222,368
2024	78,120,000	3,073,241	—	9,880,416	91,073,657
2025	—	—	95,700,000 ⁽⁵⁾	9,880,416	105,580,416
2026	—	—	100,700,000 ⁽⁵⁾	5,351,892	106,051,892
2027	—	—	<u>12,400,000</u>	<u>293,384</u>	<u>12,693,384</u>
TOTAL	<u>\$115,200,000</u>	<u>\$71,896,210</u>	<u>\$220,000,000</u>	<u>\$183,499,599</u>	<u>\$590,595,810</u>

(1) Payable on June 15 of each year.

(2) Calculated based on the fixed rate of 3.934% per annum payable by the NMFA under the 2004 Swap Agreements. See “INTEREST RATE SWAPS.” Subject to change.

(3) Mandatory sinking fund payments for Fiscal Years 2023, 2025 and 2026 are payable on June 15 of each respective year. The principal payment on maturity for Fiscal Year 2027 is payable on December 15, 2026.

(4) Calculated based on the fixed rate of 4.732% per annum payable by the NMFA under the Forward-Starting Swap Agreements. See “INTEREST RATE SWAPS.” Subject to change.

(5) Represents mandatory sinking fund payments. See “THE SERIES 2008 BONDS—Redemption Provisions—Mandatory Sinking Fund Redemption” herein.

(Source: First Southwest Company.)

Debt Service and Projected Coverage

The following table sets forth for each fiscal year from 2008 through 2028, the amounts in each such fiscal year of estimated Pledged Revenues, the estimated amounts required in each such year for debt service on the Outstanding Closed Lien Obligations, the Series 2004A Bonds, the Series 2006A Bonds, the Series 2004B Bonds, the Unrefunded Series 2004C Bonds, the Series 2006B Bonds, the Series 2006D Bonds, the Series 2008 Bonds and the projected debt service coverage ratios. Estimated Pledged Revenues are based on Department projections as of January, 2008. Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE SERIES 2008 BONDS” and “FORWARD-LOOKING STATEMENTS.” Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE SERIES 2008 BONDS” and “FORWARD-LOOKING STATEMENTS.”

Fiscal Year	Closed Lien and Senior Lien Debt Service Payments					Subordinate Lien Debt Service Payments ⁽¹⁾				Total Closed Lien, Senior Lien and Subordinate Lien Bonds		Projected Debt Service Coverage
	Estimated Pledged Revenues ⁽²⁾	Total Outstanding Closed Lien Obligations	Series 2004A and Series 2006A Bonds	Total Closed Lien and Senior Lien Obligations	Projected Debt Service Coverage	Series 2004B, Series 2006B and Series 2006D ⁽³⁾	Unrefunded Series 2004C ⁽⁴⁾	Series 2008A ⁽⁴⁾	Series 2008B ⁽⁵⁾			
2008	\$651,426,000	\$72,009,634	\$43,694,166	\$115,703,800	5.63x	\$40,288,417	\$3,336,032	\$843,450	\$1,937,491	162,109,190		4.02x
2009	651,426,000	74,116,984	43,694,166	117,811,150	5.53x	25,936,003	3,336,032	4,531,968	10,410,400	162,025,553		4.02x
2010	651,426,000	77,014,853	43,694,166	120,709,019	5.40x	23,036,735	3,336,032	4,531,968	10,410,400	162,024,154		4.02x
2011	651,426,000	39,839,659	43,694,166	83,533,825	7.80x	49,293,031	3,336,032	4,531,968	10,410,400	151,105,256		4.31x
2012	651,426,000	36,461,311	43,929,366	80,390,678	8.10x	39,357,635	3,336,032	4,531,968	10,410,400	138,026,713		4.72x
2013	651,426,000	32,853,061	43,876,056	76,729,118	8.49x	42,964,088	3,336,032	4,531,968	10,410,400	137,971,605		4.72x
2014	651,426,000	19,577,859	63,286,171	82,864,030	7.86x	36,881,661	3,336,032	4,531,968	10,410,400	138,024,091		4.72x
2015	651,426,000	6,496,896	107,645,041	114,141,938	5.71x	5,660,288	3,336,032	4,531,968	10,410,400	138,080,625		4.72x
2016	651,426,000	6,499,406	107,805,904	114,305,310	5.70x	5,658,744	3,336,032	4,531,968	10,410,400	138,242,454		4.71x
2017	651,426,000	6,499,563	107,974,016	114,473,579	5.69x	5,660,044	3,336,032	4,531,968	10,410,400	138,412,023		4.71x
2018	651,426,000	—	114,654,673	114,654,673	5.68x	5,657,875	3,336,032	4,531,968	10,410,400	138,590,948		4.x
2019	651,426,000	—	114,865,516	114,865,516	5.67x	5,659,125	3,336,032	4,531,968	10,410,400	138,803,041		4.x
2020	651,426,000	—	115,079,525	115,079,525	5.66x	5,659,750	3,336,032	4,531,968	10,410,400	139,017,675		4.x
2021	651,426,000	—	115,311,350	115,311,350	5.65x	5,661,000	3,336,032	4,531,968	10,410,400	139,250,750		4.x
2022	651,426,000	—	115,552,850	115,552,850	5.64x	5,657,750	3,336,032	4,531,968	10,410,400	139,489,000		4.x
2023	651,426,000	—	40,233,100	40,233,100	16.19x	5,657,500	30,631,032	41,611,968	21,610,400	139,744,000		4.x
2024	651,426,000	—	24,704,638	24,704,638	26.37x	5,657,375	59,767,247	81,193,241	9,880,416	181,202,916		3.x
2025	651,426,000	—	26,941,375	26,941,375	24.18x	5,659,375	—	—	105,580,416	138,181,166		4.x
2026	651,426,000	—	26,526,250	26,526,250	24.56x	5,660,750	—	—	106,051,892	138,238,892		4.7x
2027	651,426,000	—	69,956,250	69,956,250	9.31x	54,486,250	—	—	12,693,384	137,135,884		4.90x
Total		<u>\$371,369,225</u>	<u>\$1,413,118,746</u>	<u>\$1,784,487,971</u>		<u>\$380,153,395</u>	<u>\$140,438,759</u>	<u>\$187,096,210</u>	<u>\$403,499,599</u>	<u>\$2,895,675,934</u>		

(1) Assumes the Refunded Bonds have been refunded.

(2) Based on actual (unaudited) FY 2007 Pledged Revenues. See “THE PLEDGED REVENUES—Pledged Revenues History and Estimates.”

(3) Series 2006D debt service calculated using an interest rate of 6.25% per annum.

(4) Debt service calculated using an annual interest rate of 3.934% per annum, the fixed rate payable by the NMFA under the 2004 Swap Agreements. Assumes that the amounts payable under the SWAP Agreements by the Counterparties will be equal to or greater than the amounts payable with respect to these Series of variable rate Bonds. In the event that debt service on these Series of Bonds exceeds the amounts payable by the Counterparties, the NMFA will need to pay the difference between the two amounts to pay debt service on these Series of Bonds. Fluctuations have occurred between the rates payable under the SWAP Agreements and the rates payable with respect to these Series of Bonds and no assurance can be given that such fluctuations will not occur in the future. Subject to change.

(5) Debt service calculated using an annual interest rate of 4.732% per annum, the fixed rate payable by the NMFA under the Forward-Starting Swap Agreements. Assumes that the amounts payable under the SWAP Agreements by the Counterparties will be equal to or greater than the amounts payable with respect to these Series of variable rate Bonds. In the event that debt service on these Series of Bonds exceeds the amounts payable by the Counterparties, the NMFA will need to pay the difference between the two amounts to pay debt service on these Series of Bonds. Fluctuations have occurred between the rates payable under the SWAP Agreements and the rates payable with respect to these Series of Bonds and no assurance can be given that such fluctuations will not occur in the future. Subject to change.

(Source: First Southwest Company.)

NEW MEXICO FINANCE AUTHORITY

General Information

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 35 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- (a) to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance;
- (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 NMFA;
- (c) to accept, administer, hold and use all funds made available to the NMFA 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.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members who serve as the governing body of the NMFA. Seven of the members are ex officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the State. The seven ex officio members include four cabinet-level secretaries (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of

state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the Governor and the appointed members serve four-year terms. Vacancies for the appointed members are filled by appointment of the Governor for the remainder of any unexpired term. Any appointed member is eligible for reappointment.

The governing body of the NMFA exercises and oversees the exercise of the powers of the NMFA. The governing body of the NMFA satisfies those responsibilities through monthly meetings and through the standing committees that the governing body has established. Those committees are advisory and have no authority to act on behalf of the governing body. Each committee reviews and makes recommendations to the governing body concerning matters assigned to it by the governing body.

The Executive Committee, which is chaired by the Chairman of the NMFA, Stephen R. Flance, provides oversight and direction relating to the operations of the NMFA. Other committees include the Audit Committee, chaired by Katherine B. Miller; the Finance/Loan Committee, chaired by Stephen R. Flance; the Economic Development Committee, chaired by Joanna Prukop; the Investment Committee, chaired by Craig Reeves; and the Contracts Committee, the chairmanship of which is pending appointment due to the expiration of the term of the previous chair. The committees typically meet monthly.

The governing body has also established written policies concerning the exercise of the powers of the NMFA. The written policies serve as ongoing directions to staff and consultants with respect to standards to be applied in the conduct of the business of the NMFA.

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Governing Body and Key Staff Members

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

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Gary Bland ⁽¹⁾	State Investment Officer, State Investment Council	not applicable
Ron Curry ⁽¹⁾	Secretary, Environment Department, State of New Mexico	not applicable
Charlie Dorame ⁽³⁾	Governor, Pueblo of Tesuque	03/01/09
Stephen R. Flance ⁽²⁾ (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	12/31/09
William Fulginiti ⁽¹⁾ (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia ⁽²⁾	President, Garcia Honda Albuquerque, New Mexico	01/01/09
Paul Gutierrez ⁽¹⁾	Executive Director, New Mexico Association of Counties	not applicable
Katherine B. Miller ⁽¹⁾	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Lonnie Marquez ⁽³⁾	Vice President for Administration and Finance, New Mexico Institute of Mining and Technology	03/01/09
Fred Mondragon ⁽¹⁾	Secretary, Economic Development Department, State of New Mexico	not applicable
Joanna Prukop ⁽¹⁾ (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves ⁽²⁾ (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	01/01/12

⁽¹⁾ *Ex officio* member. An *ex officio* member may designate an alternative member. Alternate members may attend meetings and vote on all matters considered by the NMFA.

⁽²⁾ Appointed by the Governor of the State and serves at the pleasure of the Governor.

⁽³⁾ Appointed by the Governor of the State in January 2008. Such individuals are awaiting confirmation from the Senate of the State of New Mexico and will continue to serve until the date listed if no confirmation is received. If the Senate of the State of New Mexico confirms those individuals during its next session (scheduled to commence in January 2009), the terms of such individuals will expire on January 1, 2012.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2008 Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Chief Executive Officer. Mr. Sisneros serves as the Chief Executive Officer of the NMFA. Mr. Sisneros was appointed as the principal administrative officer in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development and land development process consulting. He graduated from the University of Colorado at Boulder with a Master's Degree in Public

Administration. In addition, Mr. Sisneros served as City Manager of Santa Fe, New Mexico; Town Manager of Taos, New Mexico; Assistant City Manager of Boulder, Colorado; and Administrative Assistant in Englewood, Colorado. In Santa Fe, Mr. Sisneros served on the Executive Board of St. Vincent Hospital, as President of the Santa Fe Chamber of Commerce, as Chairman of the Industrial Park for Santa Fe Economic Development Inc., on the Board of Directors of Open Hands, New Mexico CARES, and New Mexico First each of which are New Mexico nonprofit corporations.

John T. Duff, Chief Financial Officer. Mr. Duff joined the NMFA as Chief Investment Officer in February, 2006 and became Chief Operating Officer in 2007 where he served in that capacity until January, 2008 when he was appointed Chief Financial Officer. Mr. Duff has more than 22 years experience in investment management, financial management, and public accounting. He has held positions as COO and CFO of publicly held corporations and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. Mr. Duff has a Bachelor of Arts degree in economics from Oberlin College and a Master of Business Administration in accounting and finance from Miami University.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 20 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than \$1 billion of transactions, ranging from \$5,000 microloans to \$175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Jeremy Turner, Chief Financial Advisor. Mr. Turner joined the NMFA in July 2000 as a financial analyst and was appointed Chief Financial Advisor in September 2005. Mr. Turner has been responsible for over \$300 million in financings for the NMFA. Mr. Turner earned a Bachelor of Science in Agricultural Economics/Agricultural Business and a Master of Business Administration from New Mexico State University.

Reynold E. Romero, General Counsel. Mr. Romero joined the NMFA in April 2007 as General Counsel. Prior to joining the NMFA, Mr. Romero served as General Counsel for the New Mexico Department of Transportation (NMDOT) for over three years and previously served as Deputy General Counsel and Assistant General Counsel for NMDOT. Mr. Romero has over 28 years of legal practice in transportation law, including eminent domain, property law, and procurement. Mr. Romero handled complex litigation and negotiated complex transactions for the NMDOT such as the purchase of the rail line from BNSF for the commuter rail project in New Mexico. Mr. Romero received his Juris Doctorate from the University of Denver College of Law.

Scott W. Stovall, Chief Investment Officer. Mr. Stovall joined the NMFA in June, 2007. Mr. Stovall has 18 years of experience in public finance and investment management. Mr. Stovall has held positions as New Mexico Deputy State Treasurer, State Cash Manager, and New Mexico State Board of Finance Director. While at the State Treasurer's office, Mr. Stovall was responsible for the investment management of over \$5 billion in general funds, local government funds and bond proceeds and was instrumental in starting the state's bond proceeds investment pool. Mr. Stovall also served a three year term as a member on the Government Finance Officers Association Governmental Debt Management Committee.

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

Legislative Oversight

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it, among other things: (i) meets on a regular basis to receive and review reports from the NMFA; (ii) monitors and provides assistance and advice on the public project financing

program of the NMFA; (iii) oversees and monitors State and local government capital planning and financing; (iv) provides advice and assistance to the NMFA on planning, setting priorities for and financing of State and local capital projects; (v) undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and (vi) reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the "Legislature"), and makes available the report and proposed legislation.

The Public Project Revolving Fund Program

General. The Act created the Public Project Revolving Fund (the "PPRF") Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of \$1 million per project require specific authorization by the Legislature. As of December 31, 2007, the NMFA had made 670 PPRF loans totaling approximately \$1.3 billion. To implement the PPRF Program, the NMFA has been granted the following specific powers:

- (a) to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA;
- (b) to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (1) a loan to a qualified entity, (2) a purchase or sale of securities individually or on a pooled basis, or (3) the performance of its duties and execution of any of its powers under the Act;
- (c) to purchase, hold or sell securities at prices and in a manner the NMFA considers advisable, giving due consideration to the financial capability of the qualified entity, and sell securities acquired or held by it at prices without relation to cost and in a manner the NMFA considers advisable;
- (d) to prescribe the form of application or procedure required of a qualified entity for a loan or purchase of its securities, fix the terms and conditions of the loan or purchase and enter into agreements with qualified entities with respect to loans or purchases;
- (e) to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities, whether or not the loan is made or the securities purchased;
- (f) to fix and establish terms and provisions with respect to: (1) a purchase of securities by the NMFA, including date and maturities of the securities; (2) redemption or payment before maturity; and (3) any other matters that in connection with the purchase are necessary, desirable or advisable in the judgment of the NMFA;
- (g) to the extent permitted under its contracts with the holders of bonds of the NMFA, consent to modification of the rate of interest, time and payment of installment of principal or interest, security or any other term of a bond, contract or agreement of any kind to which the NMFA is a party;
- (h) in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and

- (i) to acquire fee simple, leasehold, mortgagor's or mortgagee's interests in real and personal property and to sell, mortgage, convey or lease that property for NMFA purposes; and
- (j) in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under State law.

Contingent Liquidity Account. In an effort to pursue its policy of maintaining a sufficient cash balance to meet the borrowing needs of eligible entities and improving the fund and cash balances of the Public Project Revolving Fund program, the NMFA established a contingency account (the "Contingent Liquidity Account"). Although it will not be pledged to any NMFA bonds, the Contingent Liquidity Account is intended to enhance the NMFA's ability to meet the cash-flow needs of the PPRF program. Funds from the Contingent Liquidity Account may be used to pay debt service on NMFA bonds; however, such use is within the sole discretion of the NMFA and such funds may also be used for other purposes, including but not limited to SWAP termination payments (to date the NMFA has not entered into any counterparty agreements related to the PPRF), loan originations, or to address other purposes as determined by the NMFA. The Contingent Liquidity Account is funded to an amount of \$25,000,000. Upon approval of the NMFA, the Contingent Liquidity Account may receive annual increases thereafter of an amount approximately equal to 25% of the Governmental Gross Receipts Tax funds received by the NMFA at the end of the fiscal year. In future years, the NMFA plans to annually evaluate the level of the Contingent Liquidity Account to determine the amount, if any, of subsequent deposits.

Temporary Borrowing. The NMFA entered into an arrangement with Bank of America, N.A. (the "Short-term Lender") for the Short-term Lender to provide to the NMFA an amount up to \$100,000,000 to reimburse the NMFA for loans made to eligible entities that are incurred prior to the issuance of a PPRF bonds. Once the amounts are advanced, the NMFA has up to 180 days to repay the advancement. The short-term borrowings are secured by proceeds of PPRF bonds that are anticipated to be issued subsequent to the advances. The NMFA is entering into such an arrangement to assist it with its cash flows. Such short-term borrowings are not secured by the Trust Estate.

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Other Programs and Projects

The NMFA also participates in or administers other programs designed to provide financing to local governmental entities and state agencies for public projects. Such programs are not secured by the Trust Estate but are secured by other sources of revenues. The following table sets forth the different types of programs and the amount of bonds outstanding under such programs.

<u>Program</u>	<u>Project</u>	<u>Original Principal Amount</u>	<u>Amount Currently Outstanding</u>	<u>Scheduled Final Maturity</u>
Worker's Compensation	Administrative Building	\$4,310,000	\$2,540,000	9/1/2016
	University of New Mexico			
Cigarette Tax	Health Sciences Building	39,035,000	25,225,000	4/1/2019
	University of New Mexico			
Cigarette Tax	Health Sciences Building	10,000,000	8,915,000	4/1/2019
Cigarette Tax	Behavioral Health Facilities	2,500,000	2,375,000	5/15/2026

(Source: NMFA.)

THE COMMISSION AND THE DEPARTMENT

The Commission

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

<u>Name</u>	<u>Title</u>	<u>Residence</u>	<u>Term Expires</u>
Johnny Cope	Chairperson	Hobbs	12/31/2012
Jim Franken	Vice-Chair	Las Vegas	12/31/2010
Norman Assed	Secretary	Albuquerque	12/31/2010
Jackson Gibson	Member	Thoreau	12/31/2014
John Hummer	Member	Las Cruces	12/31/2012
Roman Maes III	Member	Santa Fe	12/31/2014

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

The Department

The Department is a Cabinet level department within the executive branch of the State's government. The Department is a multimodal transportation agency with emphasis on all modes of transportation and is implementing a bold and innovative approach to address the transportation needs of every New Mexican. The Department has successfully implemented park-and-ride services in Central and Northern New Mexico with future plans to provide similar services in Southern New Mexico. In conjunction with local governmental agencies and tribal sovereign governments, the Department began providing commuter rail service between Belen and Bernalillo in July 2006 and expects to begin providing commuter rail service between Bernalillo and Santa Fe in December 2008. The Department is also undertaking an innovative pilot project in conjunction with other State agencies to improve rural

transportation in the State. The Department is pursuing federal funding to expand and improve air service within New Mexico, along with expanding interstate and international air service from New Mexico.

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

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

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

The Department's finances are comprised of revenues from State and federal sources. In fiscal year 2007, 51.6% of the Department's revenues consisted of State-generated income to the State Road Fund and bond proceeds and 43.7% consisted of federal grants and other federal reimbursements. The balance, 4.7%, consisted of revenues to the funds administered by the Department in addition to the State Road Fund: the Highway Infrastructure Fund, the Local Government Road Fund, the Aviation Fund and miscellaneous transportation funds. (The above percentages exclude interest earnings.) Cash balances in the funds administered by the Department are deposited with the State Treasurer to be pooled and invested.

An independent auditor audits the financial statements of the Department annually. Excerpts from the most recently available of such audited financial statements, for the fiscal year ended June 30, 2006, are attached as Appendix A.

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

The STIP lists all projects funded with federal funds for a period of at least three years. In New Mexico, the STIP is currently developed annually and covers a six-year period. The most recent six-year STIP covering federal fiscal years 2006 through 2011 was approved by the Commission on August 18, 2005. The STIP is subject to change from month to month. The first half (three years) of the STIP represents \$802,782,000 of projects to be undertaken during federal fiscal years 2006 through 2008.

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

The Department, the Commission and the NMFA have entered into a memorandum of understanding with respect to the Senior Lien Bonds, the 2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds, the Series 2008 Bonds and other Senior Lien Bonds, Subordinate Lien Bonds and Junior Lien Obligations under which the Department, the Commission and the NMFA will cooperate in various administrative, managerial and reporting matters.

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

LITIGATION

There is no litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2008 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 2008 Bonds or in any way contesting or affecting the validity or enforceability of the Series 2008 Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA, the Commission, the Department and their respective general counsel of the NMFA and the Department will deliver no-litigation certificates as to the foregoing prior to the issuance of the Series 2008 Bonds.

UNDERWRITING

Goldman, Sachs & Co. ("Goldman") has agreed to purchase the Subseries 2008A-1 Bonds and the Subseries 2008B-1 Bonds from the NMFA pursuant to a Bond Purchase Agreement to be dated April 7, 2008 (the "A-1/B-1 Bond Purchase Agreement"), at a purchase price equal to \$135,200,000 (being the aggregate principal amount of the Subseries 2008A-1 and Subseries 2008B-1 Bonds). In consideration for its underwriting services, the NMFA will pay Goldman a fee of \$149,168.78. UBS Securities LLC ("UBS" and together with Goldman, the "Underwriters") has agreed to purchase the Subseries 2008A-2 and Subseries 2008B-2 Bonds from the NMFA pursuant to a Bond Purchase Agreement to be dated April 7, 2008 (the "A-2/B-2 Bond Purchase Agreement and together with the A-1/B-1 Bond Purchase Agreement, the "Bond Purchase Agreements") at a purchase price equal to \$200,000,000 (being the aggregate principal amount of the Subseries 2008A-2 and Subseries 2008B-2 Bonds). In consideration for its underwriting services, the NMFA will pay UBS a fee of \$338,600.56. The Bond Purchase Agreements provide that the Underwriters will purchase all of the respective Subseries of Series 2008 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreements, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the Series 2008 Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the front cover of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

REMARKETING AGENTS

General

Goldman, Sachs & Co. has been appointed the initial Remarketing Agent for the Subseries 2008A-1 Bonds and the Subseries 2008B-1 Bonds, and UBS Securities LLC has been appointed the initial Remarketing Agent for the Subseries 2008A-2 Bonds and Subseries 2008B-2 Bonds to perform the duties of a Remarketing Agent as required under the provisions of the Fifth Series Indenture pursuant to separate but substantially equal Remarketing Agreements (the "Remarketing Agreements") between each Remarketing Agent and the NMFA.

Subject to the terms and conditions set forth in the Remarketing Agreements, the Remarketing Agents have agreed to perform the duties of a Remarketing Agent under the Fifth Series Indenture and to use their best efforts in

remarketing their respective Subseries of Series 2008 Bonds. Any Remarketing Agent may at any time resign and be discharged of the duties and obligations contemplated by the Fifth Series Indenture by giving at least thirty days' notice to the NMFA, the Tender Agent and the Trustee. Any Remarketing Agent may be removed by the NMFA at any time by a written notice of the NMFA filed with the respective Remarketing Agent, and the Trustee. Upon the resignation or removal of a Remarketing Agent, the NMFA may appoint a new Remarketing Agent by entering into a new Remarketing Agreement with such Remarketing Agent.

The Remarketing Agents are Paid by the NMFA

The Remarketing Agents' responsibilities include determining the interest rate from time to time and remarketing the respective Subseries 2008 Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the applicable Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agents are appointed by the NMFA and are paid by the NMFA for their services. As a result, the interest of the Remarketing Agents may differ from those of existing holders and potential purchasers of Series 2008 Bonds.

The Remarketing Agents Routinely Purchase Bonds for Their Own Account

The Remarketing Agents act as remarketing agent for a variety of variable rate demand obligations and, in their sole discretion, routinely purchase such obligations for their own account. The Remarketing Agents are permitted, but not obligated, to purchase tendered respective Subseries of Series 2008 Bonds for their own account and, in their sole discretion, routinely acquire such tendered respective Subseries of Series 2008 Bonds in order to achieve a successful remarketing of the respective Subseries of Series 2008 Bonds (i.e., because there otherwise are not enough buyers to purchase respective Subseries of the Series 2008 Bonds) or for other reasons. However, the Remarketing Agents are not obligated to purchase the respective Subseries of Series 2008 Bonds, and may cease doing so at any time without notice. The Remarketing Agents may also make a market in the respective Subseries of Series 2008 Bonds by routinely purchasing and selling Subseries of Series 2008 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agents may also sell any Subseries of Series 2008 Bonds they have purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce their exposure to the respective Subseries of Series 2008 Bonds. The purchase of respective Subseries of Series 2008 Bonds by the Remarketing Agents may create the appearance that there is greater third party demand for the Series 2008 Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008 Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date

Pursuant to the Remarketing Agreements, the Remarketing Agents are required to determine the applicable rate of interest that, in their judgment, is the lowest rate that would permit the sale of the respective Subseries of Series 2008 Bonds bearing interest at the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the respective Subseries of Series 2008 Bonds (including whether the Remarketing Agents are willing to purchase the respective Subseries of Series 2008 Bonds for their own account). There may or may not be Subseries 2008 Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agents may or may not be able to remarket the respective Subseries of Series 2008 Bonds tendered for purchase on such date at par and the Remarketing Agents may sell Series 2008 Bonds at varying prices to different investors on such date or any other date. The Remarketing Agents are not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2008 Bonds at the remarketing price. The Remarketing Agents, in their sole discretion, may offer the respective Subseries of Series 2008 Bonds on any date, including an interest rate determination date, as a discount to par to some investors.

The Ability to Sell the Series 2008 Bonds other than through Tender Process May Be Limited

The Remarketing Agents may buy and sell the respective Subseries of Series 2008 Bonds other than through the tender process. However, they are not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their respective Subseries of Series 2008 Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase a respective Subseries of Series 2008

Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their respective Subseries of Series 2008 Bonds other than by tendering the respective Subseries of Series 2008 Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Series 2008 Bonds, Without a Successor Being Named

Under certain circumstances the Remarketing Agents may be removed or have the ability to resign or cease their remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreements. In the event there is no Remarketing Agent, the Trustee may assume such duties as described in the Indenture.

TAX MATTERS

Federal Income Tax

The Code contains a number of requirements and restrictions which apply to the Series 2008 Bonds. The NMFA and the Department have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2008 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008 Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and the Department with such requirements and restrictions in rendering its opinion regarding the tax-exempt status of interest on the Series 2008 Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2008 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although Special Tax Counsel will render an opinion that interest on the Series 2008 Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds.

Recent Supreme Court Review. On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision on the issue of whether the U.S. Constitution precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of obligation such as the Series 2008 Bonds, including whether interest on the Series 2008 Bonds is exempt from State of New Mexico income Tax.

Information Reporting and Backup Withholding. Payments of interest on tax-exempt obligations, including the Series 2008 Bonds, are generally subject to IRS information reporting by the payor and "backup withholding" if the recipient has not furnished the payor with a completed Form W-9, certifying the recipient's tax identification number or basis for exemption. "Backup withholding" means that the payor will withhold tax from the interest payments at the backup withholding rate, currently 28%.

If an owner purchasing a Series 2008 Bond through a brokerage account has executed a Form W-9 in connection with the account, as generally can be expected, there should be no backup withholding of interest on such Series 2008 Bond. In any event, backup withholding does not affect the excludability of the interest on the Series 2008 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup

withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

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 2008 Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2008 Bonds, Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, will deliver the respective opinions included in Appendix D. Certain matters relating to disclosure will be passed upon by Ballard Spahr Andrews & Ingersoll, LLP, disclosure counsel to the NMFA. Certain legal matters will be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. The Department is being represented by its general counsel and the Underwriters are being represented by their counsel Hogan & Hartson LLP, Denver, Colorado. Certain legal matters will be passed upon for the Banks by Nixon Peabody LLP, San Francisco, California, as domestic counsel. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA, the Commission or the Department contained in this Official Statement.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the NMFA in connection with the issuance of the Series 2008 Bonds. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

FINANCIAL STATEMENTS

The financial statements for the Department for the year ended June 30, 2006, an extract from which is included as Appendix A to this Official Statement, have been audited by Meyners & Company, LLC, certified public accountants, Albuquerque, New Mexico, as set forth in its report therein dated December 11, 2006. Such financial statements represent the most current audited financial information available for the Department. The Department expects that its financial statements for the year ended June 30, 2007 will be available in June 2008. Meyners & Company, LLC has not been asked to consent to the use of its name and the audited financial reports for the Department in this Official Statement.

FORWARD-LOOKING STATEMENTS

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

NO CONTINUING DISCLOSURE UNDERTAKING

Because the Series 2008 Bonds are initially issued in denominations of at least \$100,000 and are subject to tender for purchase at the option of the registered owners at least every nine months, the Series 2008 Bonds are currently exempt from the continuing disclosure requirements of Rule 15c2-12(b)(5) promulgated by the Securities

and Exchange Commission under the Securities Exchange Act of 1934 (“Rule 15c2-12”). The NMFA has covenanted that it will enter into an undertaking that complies with Rule 15c2-12 in the event that any of the Subseries of Series 2008 Bonds becomes subject to Rule 15c2-12.

RATINGS

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services (“S&P”) have assigned ratings of “Aa1/VMIG 1” and “AA/A-1+,” respectively, to the Subseries 2008A-1 Bonds and Subseries 2008B-1 Bonds with the understanding that the State Street Letters of Credit will be delivered simultaneously with the delivery of the Subseries 2008A-1 Bond and the Subseries 2008B-1 Bonds. Moody’s and S&P have assigned ratings of “Aa1–rating under review for downgrade/VMIG 1” and “AA-/A-1+” to the Subseries 2008A-2 Bonds and Subseries 2008B-2 Bonds with the understanding that the UBS Letters of Credit will be delivered simultaneously with the delivery of the Subseries 2008A-2 Bonds and Subseries 2008B-2 Bonds. An explanation of the significance of such ratings may be obtained from Moody’s at 99 Church Street, New York, New York 10007 and S&P at 55 Water Street, New York, New York 10041.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2008 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 2008 Bonds may have an adverse effect on the market price of the Series 2008 Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the Series 2008 Bonds any proposed revision or withdrawal of the ratings on the Series 2008 Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2008 Bonds.

APPROVAL BY THE NMFA

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

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance
Chairman

By /s/ John R. Duff
John T. Duff
Chief Financial Officer

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APPENDIX A

DEPARTMENT FINANCIAL INFORMATION

NEW MEXICO
DEPARTMENT OF
TRANSPORTATION
Financial Statements
for the Year Ended
June 30, 2006,
and Independent
Auditors' Report

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Official Roster



Year Ended June 30, 2006

Commission

Johnny Cope
David Schutz
Gregory T. Ortiz
John Hummer
Jim Franken
Norman Assed

Chairperson
Vice-Chairperson
Secretary
Member
Member
Member

Hobbs
Santa Fe
Pueblo of Acoma
Las Cruces
Las Vegas
Albuquerque

Administrative Officer

Rhonda G. Faught, P.E.

Cabinet Secretary



MEYNER'S +
COMPANY, LLC
<i>Certified Public Accountants/</i>
<i>Consultants to Business</i>
500 Marquette NW, Suite 800
Albuquerque, NM 87102
P 505/842-8290
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E cpa@meyners.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental funds and the budget comparison for the enterprise fund presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2006, as listed in the table of contents. We also have audited the combined budget comparisons for the special revenue and debt service funds presented as required supplemental information. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the basic financial statements of the Department are intended to present the financial position, and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the

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

aggregate remaining fund information of the Department as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Department as of June 30, 2006, and the respective changes in financial position thereof, and the budget comparisons for the enterprise fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the combined budget comparison referred to above presents fairly, in all material respects, the budget comparison of all the major and non-major special revenue funds and debt service funds of the Department for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1 to the financial statements, the Department changed to the modified accrual basis for the encumbrances and the budgetary comparisons.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2006, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements and the combining and individual financial statements and the budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Department. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Myers + Company, LLC
December 11, 2006

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in footnotes to the basic financial statements, which can be found on pages 28 through 78 of this audit report.

Financial Highlights

The Department's net assets declined by \$285,021,429, mainly due to depreciation expense of \$514,838,292. The net assets of the Department's governmental activities decreased by \$285,589,213 due to increases in contractual services, capital outlay and debt service expenditures related to GRIP Bond Projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components:

1) government-wide financial statements, 2) major governmental fund financial statements, and 3) notes to the financial statements. This report also contains other 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 Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

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



Government-Wide Financial Statements - continued

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

The government-wide financial statements can be found on pages 20 through 22 of this report.

Fund Financial Statements

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

➤ **Governmental Funds**

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

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

The Department has 34 governmental funds. Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria:

- ***Ten percent criterion.*** An individual governmental fund reports as least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund expenditures.



Fund Financial Statements - continued

- ***Five percent criterion.*** An individual governmental fund reports at least 5 percent of the total for both governmental *and enterprise* funds of any of the items for which it met the 10 percent criterion.

The Department's major governmental funds are the following:

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

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

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

Debt Service Fund - 2001 CHAT – This fund was created when the \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001 A were issued in March 2001.

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

Fund Financial Statements - continued

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

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the two major funds. Data from the other 28 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report. See pages 84 through 91.

➤ **Enterprise Funds**

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

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

The basic proprietary fund financial statements can be found on pages 27 through 29 and the cash flow statement is on page 30 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 82 of this report.



Other Information

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. At June 30, 2006, the Department's assets exceeded liabilities by \$6,379,176,856.

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

The Department's Net Assets

As of June 30, 2006 and 2005, the Department has positive balances in two categories of net assets, both for the government fund financial statement as a whole, as well as for its separate categories - governmental and business-type activities. Table A-1 summarizes the Department's net assets for the fiscal years ended June 30, 2006 and 2005.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

Table A-1
The Department's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 758,039,314	992,747,097	18,883,637	25,717,013	776,922,951	1,018,464,110
Capital assets and other	<u>7,232,952,905</u>	<u>7,319,984,025</u>	-	-	<u>7,232,952,905</u>	<u>7,319,984,025</u>
Total assets	7,990,992,219	8,312,731,122	18,883,637	25,717,013	8,009,875,856	8,338,448,135
Current liabilities	225,605,680	214,137,729	-	7,401,160	225,605,680	221,538,889
Long-term liabilities	<u>1,405,093,320</u>	<u>1,483,499,676</u>	-	-	<u>1,405,093,320</u>	<u>1,483,499,676</u>
Total liabilities	1,630,699,000	1,697,637,405	-	7,401,160	1,630,699,010	1,705,038,565
Net Assets:						
Invested in capital assets, net of related debt and unspent bond proceeds	5,756,153,765	5,998,598,694	-	-	5,756,153,765	5,998,598,694
Restricted	<u>601,139,454</u>	<u>616,495,023</u>	<u>18,883,637</u>	<u>18,315,853</u>	<u>18,883,637</u>	<u>634,810,876</u>
Total net assets	\$ <u>6,360,293,219</u>	<u>6,615,093,717</u>	<u>18,883,637</u>	<u>18,315,853</u>	<u>6,379,176,852</u>	<u>6,633,409,570</u>

Analysis of the Department's Operations: Table A-2 provides a summary of the Department's operations for the years ended June 30, 2006 and 2005. Governmental activities decreased the Department's net assets by \$285,589,213 in 2006 and by \$255,923,450 in 2005. Business-type activities increased the Department's net assets by \$567,784 in 2006 and \$312,969 in 2005 due to interest income earned during the year.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Capital grants	\$ 346,858,920	292,939,098	-	-	346,858,920	292,939,098
Operating grants	19,247,338	14,624,653	-	-	19,247,338	14,624,653
Charges for services	13,679,470	4,109,036	-	-	13,679,470	4,109,036
General revenues:						
Taxes	412,271,395	383,418,826	-	-	412,271,395	383,418,826
Interest income	27,191,910	13,052,347	567,784	312,969	27,759,694	13,365,316
Gain on disposal of assets	428,050	646,533	-	-	428,050	646,533
Total revenues	819,677,083	708,790,493	567,784	312,969	820,244,867	709,103,462
Expenses:						
Public works	507,163,867	375,622,936	-	-	507,163,867	375,622,936
Depreciation	514,838,292	502,651,435	-	-	514,838,292	502,651,435
Interest on long-term debt	75,087,737	77,615,938	-	-	75,087,737	77,615,938
Other	-	896,939	-	-	-	896,939
Total other expenses	1,097,089,896	956,787,248	-	-	1,097,089,896	956,787,248
Net revenues (loss) before transfers and reversions	(277,412,813)	(247,996,755)	567,784	312,969	(276,845,029)	(247,683,786)
Transfers and reversions	(8,176,400)	(7,926,695)	-	-	(8,176,400)	(7,926,695)
(Decrease) increase in net assets	(285,589,213)	(255,923,450)	567,784	312,969	285,021,429	(255,610,481)
Net assets, beginning of year	6,615,093,717	6,911,160,952	18,315,853	18,002,884	6,633,409,570	6,929,163,836
Adjustments	30,788,715	(40,143,785)	-	-	30,788,715	(40,143,785)
Net assets, end of year	\$ 6,360,293,219	6,615,093,717	18,883,637	18,315,853	6,379,176,856	6,633,409,570

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

The changes in net assets for the Department's major funds for 2006 are as follows:

State Road Fund	\$ (18,452,884)
2004 CRIP Bond Project Fund	(223,764,967)
Local Government Road Fund	2,169,853
2004B/C CRIP Debt Service	-
2001 CHAT Debt Service	410,079
2004A CRIP Debt service	<u>1,639,383</u>
Major funds, net change in assets	\$ <u>237,998,536</u>

Financial Analysis of the Government's Funds

Governmental Funds

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

At the end of the 2006 fiscal year, the Department's governmental funds reported combined ending fund balances of \$661,109,285, a decrease of \$229,589,491 from the prior year. Fund balance is reserved to indicate that it is not available for new spending because it has already been committed to provide for inventories, long term assets and prepaid items and other reserved items of \$601,139,454.

Budgetary Highlights

The Department budgets on a non-GAAP basis and not all funds are budgeted. See Exhibit 8 and Exhibit 11 for the Department's budget. The Department made revisions to the original approved budget by \$(54,138,044). Overall, these changes were caused by the following significant budget adjustments.

Increase in budget to replenish D-6's budget used for warranty work on U.S. 550	\$ 6,344,168
Increase in budget to increase cash balance and loan repayments	12,224,326
Increase in budget for Federal Highway Administrative allocation	116,738,710

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Budgetary Highlights - continued

Increase in budget to fund projected shortfall in personnel services and employee benefits, grants and services for Alcohol Countermeasure Project	\$ 6,863,973
Increase in budget to fund projected shortfall in personnel services and employee benefits	3,520,000
Increase in budget to fund projected shortfall in GRIP Road Project	<u>1,238,000</u>
	\$ <u>143,412,697</u>

Capital Assets Overview

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$7,180,782,368 (net of accumulated depreciation). This investment in capital assets includes land, right of way, buildings, equipment, improvement and the infrastructure.

Major Infrastructure Projects

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

Fiscal Year 2005-2006 Active Projects with a contract amount of \$10 million or more:

Sunland Park Drive Extension (phase II) for 1.320 km
I-10, MP 34.200 to MP 44.800 for 10.600 miles
US 54, MP 189.0 to 200.6, Vaughn to Duran for 11.610 Miles
I-25, 2.48 km North of Alameda Interchange to Tramway
I-40/Coors Interchange
I-40, Pennsylvania to Tramway MP 163.64 to MP 167.88
I-40, MP 169 to MP 174 for 4.602 miles
I-40, MP 180.08 to 182.74, Sedillo Hill for 4.360 km
NM 209, South of I-40 Interchange to NM 104/Maple Ave.
I-40, Newkirk Interchange-East MP 300 to Mp 308 for 8.570

Capital Assets Overview - continued

US 64, Widening Project Raton to Clayton for 10.601 Miles
 US 64, Raton to Clayton for 11.332 miles
 US 64, MP 411 to MP 422 for 10.930 miles
 1-40, MP 291 to MP 299 for 8.170 Miles
 1-40, Business Loop, Santa Rosa for 3.400 km
 US 84/285 North of Santa Fe from Opera House
 NM 14, 0.5 Miles North of Cerrillos to Lone Butte
 US 550, MP 18.231 to MP 23.301 for 8.190 km
 US 84/285, Santa Fe Relief Route to Santa Fe Opera
 1-40, MP 12 to 17, Gallup for 5.000 Miles
 US 491 and NM 602 for 3.100 miles
 US 70 D/B, MP 264.2 to MP 302.1, Ruidoso Downs to Riverside
 US 84/285 North of Santa Fe from Santa Fe Opera
 US 84/285, Santa Fe Relief Route to Santa Fe Opera

Equipment

For fiscal year 2006, the Equipment non-GAAP budget total was \$10.5 million. Of this budget, \$10.5 million was fully expended at June 30, 2006. Equipment purchased includes pickups, dump trucks, rollers, excavators, mowers, tractors, loaders, snowplows, brooms, dozers, motor graders, spreaders, millers, trailers, motor vehicles, etc. All items are approved during the legislative session prior to July of each fiscal year. The Department holds several sales and public auctions during the year to liquidate old and obsolete equipment to public and private entities.

Table A-3
Department's Capital Assets

	<u>2006</u>	<u>2005</u>
Land	\$ 5,063,076	5,064,678
Right of way	371,809,740	360,549,775
Infrastructure	15,110,054,777	15,069,367,358
Equipment and furniture	50,982,903	50,050,041
Buildings	37,589,491	36,706,531
Vehicles	165,716,344	159,575,253
Accumulated depreciation	<u>(98,560,433,963)</u>	<u>(8,361,329,611)</u>
Total	\$ <u>7,180,782,368</u>	<u>7,319,984,025</u>

Additional information on the Department's capital assets can be found in Note 9 of this report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - 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, 2006, the Department had a total outstanding debt (bonds) of \$1,455,505,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

Table A-4
Department's Outstanding Debt

	<u>2006</u>	<u>2005</u>
Bonds, net	\$ <u>1,455,505,000</u>	<u>1,536,635,000</u>

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 highway construction projects while maintaining strong debt service coverage ratios and minimizing the costs of borrowing.

At the end of June 30, 2006, the Department had a total outstanding debt including capitalized leases and bonds, of \$1,455,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

The Department's total bond debt decreased by 5.28%, or \$81,130,000. Total outstanding bond debt at the end of the fiscal year was \$1,455,505.000, compared to \$1,536,635,000 at end of the 2005 fiscal year. Key factors affecting the department's twelve outstanding bond issues during the current fiscal year included bond principal repayments totaling \$81,130,000. The Department also made \$74,895,585 in interest payments during the fiscal year. The Department did not issue any new bonds during the current fiscal year. See Note 12 for a detail of all debt outstanding.

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

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. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the twelfth fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent. Most of this population growth is occurring in or near the larger cities. There are three Metropolitan Statistical Areas (MSA) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is Dona Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Dona Ana.

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

Revenue Forecasts and Budgets

Federal Revenue

FHWA Revenue: The amount of FHWA revenue (obligation authority) available to all states was limited in recent years as a result of Congress' failure to pass a transportation reauthorization bill, and to rely on continuing resolutions to provide FHWA funds. The amounts available to New Mexico were \$276 million in FY2005 and \$275 million in FY2006. In FY2006, the continuing resolution continued to limit the expenditure of FHWA funds through the year. However, a reauthorization bill was finally passed that increased funding for FY2006 and the subsequent four years. The reauthorization bill provides apportionment or annual distribution amounts, but the real spending amount (the "obligation limitation") is determined by the appropriation levels in each year's federal budget bill.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

Federal Revenue - continued

FHWA Revenue - continued:

The Department projects FHWA aggregate authorization should increase over the four year period as follows: \$325 million in FY2005, \$333 million in FY 2006, \$350 million in FY 2007, \$365 million in FY 2008, and \$371 million in FY 2009.

Federal Transit and Traffic Safety Revenue: The six-year reauthorization of federal transportation funding to the states that was recently passed by Congress is entitled the "Safe, Accountable, Flexible, and Efficient Transportation Equity Act for the 21st Century – A Legacy for Users" (SAFETEA-LU). The reauthorization bill stresses the importance of safety innovations, including a new "Safe Routes to School Program" that promotes walking and riding bicycles to school. With this emphasis on safety, it is expected there will be increased federal revenue available to states for traffic safety and transit programs. The Department anticipates the total amount of funding from the Federal Transit Administration (FTA) and federal traffic safety (NHTSA) will increase from the \$13 million level in past years to \$20.1 million in FY 2007.

DOE Revenue: The Department of Energy will continue to provide New Mexico with approximately \$20 million per year through FY 2011 pursuant to an agreement in connection with the Waste Isolation Pilot Project in Carlsbad, New Mexico. The amount of this revenue budgeted for debt service was \$20.7 million in FY 2004, \$21.1 million in FY 2005, \$19.8 million in FY2006, \$15.7 million in FY 2007, and \$14.7 million in FY 08.

State Revenue

The budget estimate for state tax and fee revenue to the Department is prepared in July/August and December/January each year for the budget year ending 24 months (or 18 months) later.

In the past several years, gasoline tax revenue has come in very close to the budget forecast, with gains associated with tribal tax sharing agreements being offset by losses associated with higher gasoline retail prices and slight decreases in consumption. Diesel fuel tax revenue came in stronger than forecast, and reflected an invigorated trucking industry relative to the prior few years. Other truck taxes came in close to forecast, but reflected some degree of tax compliance problems, since one would expect those taxes to show the same strength shown in diesel fuel tax. Vehicle registration revenue has come in close to the forecast. Motor Carrier related taxes represent a significant contribution to the State Road Fund.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue - continued

Special Fuels Tax

New Mexico's Special Fuels Tax is unit tax imposed on gallons used – an increase in price does not result in an increase in tax revenue. FY 06 was very strong for Special Fuels Tax revenue yielding 11% more than the amount collected in FY 05. The forecast for FY 08 is for \$103.4 million which amounts to an increase of 7.7% over the FY 07 budget. The relative strength of fuel tax revenues has significant impact on the Department of Transportation's overall revenue forecast.

The revenue forecast for the FY2007 proposed budget has assumed a continued healthy national economy, but with motor fuel retail prices settling at a new higher level. Compliance improvements in Trip Tax revenue associated with the new vehicle-specific weight-distance tax identification permit appear to have increased.

Background -- Trip Tax and the Weight-Distance Tax Identification Permit: The elimination of the \$6 fee associated with Weight-Distance Tax Identification Permits (tax qualification cards), pursuant to the settlement of *C.R. England v. New Mexico* resulted in a reported large increase in the number of tax qualification cards requested by the industry in 2003 and 2004, and probably explains the decrease in revenue associated with the higher Trip Tax rates administered at state ports-of-entry. Legislation passed during the 2003 Special Session of the Legislature required a return to issuing Weight Distance Tax Identification Permits to individual vehicles rather than issuing a single permit to each motor carrier company. The vehicle-specific tax identification permit (effective July 1, 2004, but not widespread until January 1, 2005) was expected to enhance tax compliance efforts and gradually augment Trip Tax revenue to some degree beginning in calendar year 2005. Beginning in March 2005, Trip Tax revenue began to increase dramatically.

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



Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue - continued

The state permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. The growth in tribal market share has out-paced the overall growth rate of gasoline in recent years as a result of competitive pricing, casino traffic, and development of new tribal travel centers. It is anticipated that the tribal market share will continue to grow, but at a decreasing rate over the next few years.

Contacting the Agency's Financial Management

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

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

FINANCIAL STATEMENTS

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets

AS OF JUNE 30, 2006

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 2):			
Unrestricted	\$ 91,680,839	-	91,680,839
Restricted	511,288,266	10,765,589	522,053,855
Receivables:			
Tax receivable	48,508,742	-	48,508,742
Accounts receivable, net (Note 3)	2,265,342	-	2,265,342
Severance tax bond proceeds receivable (Note 4)	55,475,345	-	55,475,345
Interest receivable	2,506,733	75,801	2,582,534
Notes and loans receivable (Note 5)	27,672	8,042,247	8,069,919
U.S. Department of Transportation, net (Note 6)	25,100,543	-	25,100,543
Capitalized issuance costs	833,960	-	833,960
Inventories (Note 8)	12,514,297	-	12,514,297
Prepaid expense - warranty	3,189,034	-	3,189,034
Property held for resale, net	<u>4,648,541</u>	<u>-</u>	<u>4,648,541</u>
TOTAL CURRENT ASSETS	758,039,314	18,883,637	776,922,951
NON-CURRENT ASSETS:			
Capitalized issuance costs	9,721,205	-	9,721,205
Prepaid expense - warranty	42,449,332	-	42,449,332
Capital assets, net (Note 9)	<u>7,180,782,368</u>	<u>-</u>	<u>7,180,782,368</u>
TOTAL NON-CURRENT ASSETS	<u>7,232,952,905</u>	<u>-</u>	<u>7,232,952,905</u>
TOTAL ASSETS	\$ <u>7,990,992,219</u>	<u>18,883,637</u>	<u>8,009,875,856</u>

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets - continued

AS OF JUNE 30, 2006

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable and contracts payable, including retainage of \$5,890,401	\$ 53,209,418	-	53,209,418
Due to other state agencies	-	-	-
Accrued payroll, taxes and withholdings	8,066,115	-	8,066,115
Accrued interest	3,120,649	-	3,120,649
Deferred revenue	21,689,504	-	21,689,504
Arbitrage rebate obligation (Note 21)	-	-	-
Other liabilities	105,019	-	105,019
Due to others - Severance Taxes	55,475,345	-	55,475,345
Current portion of long-term obligations (Note 12):			
Compensated absences	5,100,000	-	5,100,000
Debentures payable	75,295,000	-	75,295,000
Capitalized bond premium	<u>4,276,465</u>	<u>-</u>	<u>4,276,465</u>
TOTAL CURRENT LIABILITIES	226,337,515	-	226,337,515
LONG-TERM LIABILITIES:			
Arbitrage rebate obligation (Note 21)	-	-	-
Long-term obligations (Note 12):			
Compensated absences	731,835	-	731,835
Debentures payable	1,349,333,603	-	1,349,333,603
Capitalized bond premium	<u>54,296,047</u>	<u>-</u>	<u>54,296,047</u>
TOTAL LONG-TERM LIABILITIES	1,404,361,485	-	1,404,361,485
TOTAL LIABILITIES	\$ 1,630,699,000	-	1,630,699,000
NET ASSETS:			
Invested in capital assets, net of any related debt and unspent debt proceeds	\$ 5,756,153,765	-	5,756,153,765
Restricted for:			
Loans	-	18,883,637	18,883,637
Specific purposes	<u>604,139,454</u>	<u>-</u>	<u>604,139,454</u>
TOTAL NET ASSETS	\$ 6,360,293,219	18,883,637	6,379,176,856

See Notes to Financial Statements.

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities

YEAR ENDED JUNE 30, 2006

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
PROGRAM EXPENSES:			
Public works - roads	\$ 505,448,532	-	505,448,532
Depreciation and amortization	514,838,292	-	514,838,292
Interest	<u>78,094,091</u>	<u>-</u>	<u>78,094,091</u>
TOTAL PROGRAM EXPENSES	1,098,380,915	-	1,098,380,915
PROGRAM REVENUES:			
Charges for services	14,552,417	-	14,552,417
Operating grants	19,247,338	-	19,247,338
Capital grants	<u>346,858,920</u>	<u>-</u>	<u>346,858,920</u>
TOTAL PROGRAM REVENUES	<u>380,658,675</u>	<u>-</u>	<u>380,658,675</u>
NET PROGRAM (EXPENSE) REVENUE	(717,722,240)	-	(717,722,240)
GENERAL REVENUES:			
User and fuel taxes	412,271,395	-	412,271,395
Interest income	27,191,910	567,784	27,759,694
Gain on disposal of assets	<u>428,050</u>	<u>-</u>	<u>428,050</u>
TOTAL GENERAL REVENUES (EXPENSES)	439,891,355	567,784	440,459,139
TRANSFERS:			
Transfers to other state agencies and local governments, net (Note 14)	<u>(8,176,400)</u>	<u>-</u>	<u>(8,176,400)</u>
TOTAL TRANSFERS	<u>(8,176,400)</u>	<u>-</u>	<u>(8,176,400)</u>
NET GENERAL REVENUES AND TRANSFERS	<u>431,714,955</u>	<u>567,784</u>	<u>432,282,739</u>
CHANGE IN NET ASSETS/OPERATING INCOME	(286,007,285)	567,784	(285,439,501)
NET ASSETS, BEGINNING OF FISCAL YEAR	6,615,093,717	18,315,853	6,633,409,570
Restatement (Note 22)	<u>31,206,787</u>	<u>-</u>	<u>31,206,787</u>
NET ASSETS, BEGINNING OF FISCAL YEAR	6,646,300,504	18,315,853	6,664,616,357
NET ASSETS, END OF FISCAL YEAR	\$ <u>6,360,293,219</u>	<u>18,883,637</u>	<u>6,379,176,856</u>

See Notes to Financial Statements.

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2006

	Major Funds							
	State Road Fund	Bond Project Fund (2004A GRIP)	Local Government Road Fund	Debt Service (2001 CHAT)	Debt Service (2004A GRIP)	Debt Service (2004B/C GRIP)	Other Governmental Funds	Total Governmental Funds
ASSETS:								
Cash and cash equivalents (Note 2):								
Unrestricted	\$ 66,393,067	90	20,723,524	796,206	-	-	63,360,819	151,273,706
Restricted	36,299,373	415,396,026	-	-	-	-	-	451,695,399
Receivables:	-	-	-	-	-	-	-	-
Taxes receivable	44,365,127	-	3,453,438	1,537	-	-	688,640	48,508,742
Accounts Receivable, net (Note 3)	2,066,226	198,377	-	-	-	-	739	2,265,342
Severance Tax Bond Proceeds Receivable (Note 4)	55,475,345	-	-	-	-	-	-	55,475,345
Interest Receivable	730,716	1,210,240	187,241	35,955	-	-	342,581	2,506,733
Notes and Loans Receivable (Note 5)	27,672	-	-	-	-	-	-	27,672
Due From:								
Due from Other Funds (Note 7)	107,491,437	-	-	-	-	-	23,780,346	131,271,783
U.S. Department of Transportation, net (Note 6)	23,183,713	-	-	-	-	-	1,916,830	25,100,543
Inventories (Note 8)	12,514,297	-	-	-	-	-	-	12,514,297
Prepaid Expense - NM44 Warranty	45,638,366	-	-	-	-	-	-	45,638,366
Property Held for Resale	4,648,541	-	-	-	-	-	-	4,648,541
TOTAL ASSETS	\$ 398,833,880	416,804,733	21,364,203	833,698	-	-	90,089,955	930,926,469
LIABILITIES AND FUND BALANCES:								
LIABILITIES:								
Accounts payable	\$ 38,380,909	11,398,650	967,681	-	-	-	2,462,178	53,209,418
Due to other funds (Note 7)	100,501,750	16,062,233	1,826,039	-	-	-	12,881,761	131,271,783
Deferred revenue	20,892,250	-	-	-	-	-	797,254	21,689,504
Due to others	55,475,345	-	-	-	-	-	-	55,475,345
Other accrued expenses	7,972,900	-	-	-	-	-	93,215	8,066,115
Other payables	-	105,012	-	-	-	-	-	105,012
TOTAL LIABILITIES	223,223,154	27,565,902	2,793,720	-	-	-	16,234,408	269,817,184
FUND BALANCES:								
Reserved for:								
Inventories	12,514,297	-	-	-	-	-	-	12,514,297
Prepaid expenses	45,638,366	-	-	-	-	-	-	45,638,366
Property Held for Resale	4,648,366	-	-	-	-	-	-	4,648,366
Unreserved-undesignated (Note 21)	-	-	-	-	-	-	-	-
Unreserved, reported in non-major:								
Special revenue funds	112,809,697	389,238,831	21,570,483	-	-	-	57,911,787	581,530,798
Capital projects funds	-	-	-	-	-	-	13,824,705	13,824,705
Debt service funds	-	-	-	833,698	-	-	2,119,055	2,952,753
TOTAL FUND BALANCES	175,610,726	389,238,831	21,570,483	833,698	-	-	73,855,547	661,109,285
TOTAL LIABILITIES AND FUND BALANCES	\$ 398,833,880	416,804,733	21,364,203	833,698	-	-	90,089,955	930,926,469

See Notes to Financial Statements.

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

YEAR ENDED JUNE 30, 2006

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

\$ 661,109,285

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

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

The cost of capital assets is:	\$	15,741,216,331
Accumulated depreciation is:		<u>(8,560,433,963)</u>

Total capital assets		7,180,782,368
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Long-term debt not recorded as liabilities in the governmental
funds, but recorded as long-term liabilities in the Statement of
Net Assets:

Debentures payable		(1,426,343,958)
Compensated absences		(5,831,835)
Amortization of deferred costs on refunding not recorded by the government funds		1,715,355

Accrued of interest on long-term obligations not recorded by the governmental funds until paid.		(3,120,649)
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Capitalized issuance costs not recorded in the governmental funds as an asset, net of amortization.		10,555,165
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Capitalized bond premiums not recorded in the governmental funds as a liability, net of amortization.		<u>(58,572,512)</u>
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Net assets of governmental activities (Statement of Net Assets)	\$	<u>6,360,293,219</u>
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NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2006

	State Road Fund	Bond Project Fund (2004A CRIP)	Local Government Road Fund	Debt Service (2001 CHAT)	Debt Service (2004A CRIP)	Debt Service (20041)/C CRIP)	Other Governmental Funds	Total Governmental Funds
REVENUES:								
User and fuel taxes	\$ 346,475,663	-	22,064,495	-	-	-	3,711,237	412,271,395
U.S. Department of Transportation	282,673,825	-	-	-	-	-	12,495,295	295,169,120
U.S. Department of Energy	27,843,754	-	-	-	-	-	-	27,843,754
N.M. Department of Human Services	-	-	-	-	-	-	1,753,264	1,753,264
Miscellaneous	12,782,578	-	-	-	-	-	4,740	12,787,318
DWT Interlock Device	-	-	-	-	-	-	1,185,849	1,185,849
Interest Revenue	3,479,664	19,738,185	817,790	410,079	-	-	2,746,192	27,191,910
TOTAL REVENUES	713,255,484	19,738,185	22,902,285	410,079	-	-	21,896,577	778,202,610
EXPENDITURES:								
Current:								
Operating costs	9,376,750	-	-	-	-	-	90,580	9,467,330
Personal services	90,872,933	-	-	-	-	-	746,306	91,619,236
Out-of-state travel	293,819	-	-	-	-	-	40,042	333,861
Grants and services	4,374,796	-	20,732,431	-	-	-	15,979,062	41,086,289
Travel	18,818,676	-	-	-	-	-	41,423	18,860,099
Maintenance and repairs	8,528,812	-	-	-	-	-	51,047	8,579,859
Supplies	30,978,829	-	-	-	-	-	46,980	31,025,809
Contractual services	253,971,643	4,576,967	-	-	-	-	3,255,984	261,804,594
Other costs	10,031,914	-	-	-	-	-	16,277	10,048,191
Employee benefits	42,180,064	-	-	-	-	-	257,149	42,437,213
Capital outlay	134,235,754	236,149,773	-	-	-	-	5,694,170	376,069,597
Debt service:								
Interest and other charges	3,202,984	-	-	7,098,398	36,216,759	16,309,336	15,281,093	78,098,570
Principal	-	-	-	14,875,000	-	27,940,000	38,315,000	81,130,000
TOTAL EXPENDITURES	606,866,974	240,726,740	20,732,431	21,963,398	36,216,759	44,249,336	79,805,110	1,050,560,748
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	106,388,510	(220,988,555)	2,169,854	(21,553,319)	(36,216,759)	(44,249,336)	(57,908,533)	(272,358,138)
OTHER FINANCING SOURCES (USES):								
Proceeds from long-term debt, net	-	-	-	-	-	-	-	-
Proceeds from capital leases	-	-	-	-	-	-	-	-
Severance Tax Bond revenue	22,660,197	-	-	-	-	-	-	22,660,197
State General Fund revenue	19,247,338	-	-	-	-	-	-	19,247,338
Other use	-	-	-	-	-	-	-	-
Transfers in	2,648,475	-	-	21,963,398	37,856,142	44,249,336	53,545,772	160,268,123
Transfers out	(170,258,516)	(2,776,412)	-	-	-	-	(2,771,806)	(160,268,123)
TOTAL OTHER FINANCING SOURCES (USES)	(125,702,506)	(2,776,412)	-	21,963,398	37,856,142	44,249,336	66,317,577	41,907,535
SPECIAL ITEM:								
Proceeds from Sale of Capital Assets	861,112	-	-	-	-	-	-	861,112
NET CHANGES IN FUND BALANCES	(18,452,884)	(223,764,967)	2,169,854	410,079	1,639,383	-	8,409,044	(229,589,491)
FUND BALANCES, June 30, 2005	158,666,205	619,332,742	17,680,376	423,619	(1,639,383)	-	65,028,409	859,491,968
RESTATEMENT (Note 29)	35,397,406	(6,328,241)	1,720,253	-	-	-	418,024	31,206,808
FUND BALANCES, June 30, 2005, Restated	194,063,610	613,003,798	19,400,629	423,619	(1,639,383)	-	65,446,503	890,698,776
FUND BALANCES, June 30, 2006	\$ 175,610,726	\$89,238,831	21,570,483	833,698	-	-	73,855,547	661,102,285

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2006

Net Changes in Fund Balances - Total Governmental Funds

(Statement of Revenues, Expenditures, and Changes in Fund Balances)

\$ (229,589,491)

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

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

(77,786)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:

Capital outlay	\$ 376,069,697
Depreciation expense	(514,838,292)
Sale of fixed asset, net book value	<u>(433,062)</u>

Excess of depreciation expense over capital outlay (139,201,657)

Repayment of debentures recorded as expenditures in the governmental funds, recorded as a reduction in long-term liabilities in the Statement of Net Assets.

81,130,000

Deferred amount of debt recorded as a reduction of long-term liabilities in the Statement of Activities

(833,960)

Bond premiums recorded in the governmental funds as an other financing source, recorded as a liability in the Statement of Net Assets, net of amortization of \$58,572,512, recorded as a reduction of interest expense in the Statement of Activities.

4,276,465

Bond issuance costs recorded in the governmental funds as other costs, recorded as an asset in the Statement of Net Assets, net of amortization of \$10,555,165, recorded as an expense in the Statement of Activities.

(1,715,335)

Net change in accrual of long-term debt interest expense not recorded in the governmental funds until paid.

4,479

Change in net assets of governmental activities

(Statement of Activities)

\$ (286,007,285)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets
Business-type Activities - Enterprise Fund



YEAR ENDED JUNE 30, 2006

State Infrastructure Bank

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 2):	\$	-
Unrestricted		10,765,589
Restricted		-
Receivables:		-
Tax receivable		-
Accounts receivable, net (Note 3)		-
Severance tax bond proceeds receivable (Note 4)		75,801
Interest receivable		8,042,247
Notes and loans receivable (Note 5)		-
U.S. Department of Transportation, net (Note 6)		-
Capitalized issuance costs		-
Inventories (Note 8)		-
Prepaid expense - warranty		-
Property held for resale, net		-
		18,883,637

TOTAL CURRENT ASSETS

NON-CURRENT ASSETS:

Capitalized issuance costs		-
Prepaid expense - warranty		-
Capital assets, net (Note 9)		-
		-

TOTAL NON-CURRENT ASSETS

\$ 18,883,637

TOTAL ASSETS

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets
Business-type Activities - Enterprise Fund - continued

YEAR ENDED JUNE 30, 2006

LIABILITIES**State Infrastructure Bank****CURRENT LIABILITIES:**

Accounts payable and contracts payable	\$	-
Due to other state agencies		-
Accrued payroll, taxes and withholdings		-
Accrued interest		-
Deferred revenue		-
Arbitrage rebate obligation (Note 21)		-
Other liabilities		-
Due to others - Severance Taxes		-
Current portion of long-term obligations (Note 12):		
Compensated absences		-
Debentures payable		-
Capitalized bond premium		-

TOTAL CURRENT LIABILITIES**LONG-TERM LIABILITIES:**

Arbitrage rebate obligation (Note 21)		-
Long-term obligations (Note 12):		
Compensated absences		-
Debentures payable		-
Capitalized bond premium		-

TOTAL LONG-TERM LIABILITIES**TOTAL LIABILITIES****NET ASSETS:**

Invested in capital assets, net of any related debt and unspent debt proceeds	\$	-
Restricted for:		
Loans		18,883,637
Specific purposes		-

TOTAL NET ASSETS

\$ 18,883,637

See Notes to Financial Statements.

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities
Business-type Activities - Enterprise Fund

YEAR ENDED JUNE 30, 2006

	State Infrastructure Bank
PROGRAM EXPENSES:	
Public works - roads	\$ -
Depreciation and amortization	-
Interest	-
TOTAL PROGRAM EXPENSES	-
PROGRAM REVENUES:	
Charges for services	-
Operating grants	-
Capital grants	-
TOTAL PROGRAM REVENUES	-
NET PROGRAM (EXPENSE) REVENUE	-
GENERAL REVENUES:	
User and fuel taxes	-
Interest income	567,784
Gain on disposal of assets	-
TOTAL GENERAL REVENUES (EXPENSES)	567,784
TRANSFERS:	
Transfers to other state agencies and local governments, net (Note 14)	-
TOTAL TRANSFERS	-
NET GENERAL REVENUES AND TRANSFERS	567,784
CHANGE IN NET ASSETS/OPERATING INCOME	567,784
NET ASSETS, BEGINNING OF FISCAL YEAR	18,315,853
Restatement (Note 22)	-
NET ASSETS, BEGINNING OF FISCAL YEAR	18,315,853
NET ASSETS, END OF FISCAL YEAR	\$ 18,883,637

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Cash Flows
Business-type Activities - Enterprise Fund

YEAR ENDED JUNE 30, 2006

	<u>State Infrastructure Bank</u>
Cash flows provided from operating activities:	
Interest income received	\$ 524,368
Cash flows used from financing activities:	
Loans issued	(7,401,160)
Loans repaid	<u>2,331,100</u>
Net decrease in cash and cash equivalents	(4,545,692)
Cash and cash equivalents at June 30, 2005	<u>15,311,281</u>
Cash and cash equivalents at June 20, 2006	\$ <u><u>10,765,589</u></u>
Reconciliation of operating income to net cash provided from operating activities:	
Operating income	\$ 567,784
Adjustment to reconcile operating income to net cash by operating activities:	
Increase in interest receivables	<u>(43,416)</u>
Cash flows provided by operating activities	\$ <u><u>524,368</u></u>

NATURE OF ORGANIZATION

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

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

Financial Reporting Entity

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Even though the Governor appoints the Commission, the Commission has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. Effective July 1, 2003, GASB 39, *Determining Whether Certain Organizations are Component Units*, expands the criteria of component units. GASB 39 has no impact on the Department and the Department has no blended or discretely presented component units during the year ended June 30, 2006.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB has issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These Statements established the financial reporting requirements for state and local governments throughout the United States. The Department is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. The Department has prepared required supplementary information entitled, *Management's Discussion and Analysis*, which precedes the basic financial statements.

◆ Government-Wide and Fund Financial Statements

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

◆ Basis of Presentation

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Basis of Presentation - continued**

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

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

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

The Department's major governmental funds are the following:

State Road Fund-CAS Fund No. 201 - The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Section 67-3-59 NMSA establishes that this is a non-reverting fund. This is a special revenue fund.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

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

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

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

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

A proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The SIB has elected to not apply FASB pronouncements issued after the applicable date.

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

- Employees' vested compensated absences are recorded as an expenditure when utilized. The amount of accumulated compensated absences unpaid at June 30, 2006, has been reported only in the government-wide financial statements.
- Interest and principal payments on general long-term obligations is recognized as expenditures when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

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

The financial activities of the Department are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Department uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The measurement focus is on the flow of expendable financial resources, rather than on net income determination. The following are the governmental fund types used:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State Road Fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Resources are generated primarily from user and fuel taxes and federal grants. Expenditures are incurred to build and improve the transportation system within the State of New Mexico. These funds do not receive state general fund appropriations that are subject to reversion.

Federal Planning and Development Fund - This fund is authorized by the Commission to account for the planning and administration of federal grant monies and state matching funds for mass transportation and railroad improvements. The fund does not receive state general fund appropriations that are subject to reversion.

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

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

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

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

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

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

Bond Project Fund (1993 Bonds) (CAS Fund #394). The bond project fund was created due to the issuance of the December 1993 \$50,000,000 State of New Mexico Highway Debentures. The funds from the sale of all of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (WIPP Bonds) (CAS Fund #789 and 004). The bond project fund was created due to the issuance of the December 1996 \$100,000,000 State of New Mexico Highway Debentures and the \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B issued in October 1998. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one

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

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

year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

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

Bond Project Fund (2000 CHAT) (CAS Fund #345). The bond project fund was created due to the issuance of the May 2000 \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (2001 CHAT) (CAS Fund #006). The bond project fund was created due to the issuance of the March 2001 \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The

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

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

funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2002A CHAT) (CAS Fund #368). The bond project fund was created due to the issuance of the January 2002 \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (2002C HIF) (CAS Fund #361). The bond project fund was created due to the issuance of the May 2002 \$67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Highway Bonds Series 2002C. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (2002D CHAT) (CAS Fund #115). The bond project fund was created due to the issuance of the December 2002 \$16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

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

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service requirements are met through the 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.

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

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

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

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

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

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

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

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

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

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

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

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

Capital Projects Fund - The Capital Projects Fund is used to account for the purchase or construction of facilities used in the operation of the Department. As it is a non-major fund, it is shown in the accompanying financial statements. Appropriations are received on a reimbursement basis as expenditures occur; therefore, only budgetary reversions are made when applicable.

All governmental funds are accounted for using the modified accrual basis of accounting. 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 collectibility is assured subsequent to year-

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

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. Interest income is recorded when earned. Bond proceeds are recognized at the time the bonds are sold. Principal and interest payments are recorded in the debt service fund when these disbursements are made or when resources have been provided for debt service payments due early in a subsequent fiscal year. All other revenues are not susceptible to accrual.

◆ Budgets and Budgetary Accounting

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

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

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

◆ Interfund and Interagency Transactions

Transfers which, because of budgetary or legal restrictions, must be expended by funds other than the fund initially receiving the revenue, are recorded as operating transfers in (out) under the other financing sources (uses) category (Notes 10 and 14) in the governmental fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Restricted Cash and Cash Equivalents**

The funds deposited in the debt service funds are restricted to pay future principal and interest payments due under the \$105,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (CHAT Bonds); the \$100,000,000 Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (WIPP Bonds); the \$100,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (CHAT Bonds); the \$201,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (CHAT Bonds); the \$198,800,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (CHAT Bonds); the \$95,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (CHAT Bonds); the \$79,920,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002B (WIPP Bonds); the \$67,750,000 Highway Infrastructure Fund Revenue Highway Bonds, Series 2002C (HIF Bonds); and the \$16,000,000 Senior Subordinate Tax Revenue Highway Bonds, Series 2002D (CHAT Bonds). The remaining balance of the proceeds from the sale of the debentures, bonds and the NMFA loan are also classified as restricted cash because 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).

◆ Taxes Receivable

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

◆ Accounts Receivable

Accounts receivable consists of amounts due from various entities: individuals and other state and local agencies located within the State of New Mexico for the sale of maps, brochures and other materials; federal excise taxes; and for other services performed by the Department. The Department provides an allowance for uncollectible accounts. The allowance is based on estimated collectible balances using an analysis of an aging of outstanding accounts and historical collection experience. The Department does not require collateral on these accounts receivable (Note 3).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Severance Tax Bonds Proceeds Receivable**

The State of New Mexico Legislature has authorized the State Board of Finance to issue and sell revenue bonds that are to be retired using future taxes levied against the extractive industries in the state. The proceeds from bonds sold are appropriated to the Department to be used for specific programs and are recorded as revenues by the Department. Expenditures incurred by the Department for such programs are reimbursable from the State Board of Finance. The severance tax bonds proceeds receivable represents the amounts due and available from the State Board of Finance as of year-end (Note 4).

◆ Notes and Loans Receivable

Notes receivable represent:

- Funds advanced to various state and local agencies to promote van-pooling activities within the state. The Federal Highway Administration (FHWA) provides matching funds (90%) for the purchase of vehicles by various nonprofit van pooling organizations.
- The funds advanced to such organizations are payable to the Department and are designated for future vehicle purchases.
- Notes issued to individuals displaced by purchases of right of way properties. The funds loaned to such individuals are provided in part by FHWA funds per FHWA guidelines.

Loans receivable represent:

- Loans to other governmental entities made by the State Infrastructure Bank. Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All loans are to governmental entities 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, 2006. 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).

◆ 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.

◆ 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 by the fund balance reserve, which indicates that it does not constitute “available spendable resources” (Note 8) even though they are a component of current assets.

◆ Prepaid Expense - Warranty

The warranty represents the no-fault portion of \$32,490,080 being amortized over 20 years that will meet performance criteria. The remaining \$13,148,286 of the warranty that represents the no-fault warranty that the structures will meet performance criteria is being amortized over 11 ½ years.

◆ Property Held for Resale

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

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

Capital assets, which include property, plant, equipment, software in the equipment category, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, streets, tunnels and similar infrastructure items), are reported in the governmental activities columns in the government-wide financial statements. The Department has no internally developed software that requires capitalization. As a result of House Bill 1074, effective date June 17, 2005, 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 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 9 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

♦ Capital Assets – continued

- the condition to maintain the infrastructure at a predetermined condition level due to an anticipated lack of future funding for maintenance.
- The Department records its other capital assets (buildings 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

♦ Deferred Revenue

Deferred revenue occurs when the Department receives funds before the corresponding expense or expenditure has been incurred, or all of the eligibility requirements have been met. The Department has received funds in advance of work done from the Department of Energy (DOE) for road projects and other costs relating to the Waste Isolation Pilot Plant (WIPP). The Department has received pass-through federal funds in advance of work done from the New Mexico Department of Human Services for the temporary assistance of needy families. Revenue is recognized when eligible expenditures are incurred for these projects and programs and all eligibility requirements are met.

♦ Compensated Absences

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Compensated Absences - continued**

compensated absences is calculated at pay rates in effect at June 30, 2006, and include 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 columns for governmental and business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized straight line over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and also amortized straight line over the term of the related debt.

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

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

◆ Net Assets

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

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

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

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

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

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end with the exception of the Capital Projects Fund. Encumbrances outstanding in this fund at year-end are reported as reservations of fund balance on the balance sheets (in the fund financial statement) and do not constitute expenditures or liabilities because the commitment will be honored during the subsequent year.

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

◆ Reservations

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

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

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

◆ Designated Fund Balance

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

◆ Use of Estimates

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

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

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

2. CASH AND CASH EQUIVALENTS

Cash funds, other than petty cash, are deposited by the Department into its accounts with the State Treasurer, which are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Money of the Department may be deposited with the State Treasurer for a short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico, or any political subdivision of the State and other investments allowed by state law. Petty cash funds are deposited with various financial institutions and are fully insured. Some of the cash held by the trustee for the NMFA loan proceeds is also invested in a money market mutual fund that invests in short-term U.S. Treasury securities. The reconciled balances at June 30, 2006, are as follows:

	CAS Account Number		Amount
Unrestricted:			
Road Fund - General	201	\$	66,393,157
Local Government Fund	203		20,723,524
Aviation Fund	205		625,844
Motorcycle Training Fund	206		78,661
DWI Prevention Fund	207		573,762
Traffic Safety	208		3,284,326
Driver Improvement Program Fund	N/A		1,475
Bond Project Fund			90
		\$	<u>91,680,839</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

2. CASH AND CASH EQUIVALENTS - continued

	CAS Account Number	Amount
Restricted:		
Road Fund (relates to WIPP bond projects and various other road projects)	431	36,299,193
Bond Project Fund (1993 Bonds)	394	1,460,095
Bond Project Fund (1999 CHAT Bonds)	430	219,157
Bond Project Fund (2000 CHAT Bonds)	345	4,527
Bond Project Fund (2001 CHAT Bonds)	006	9,343,403
Bond Project Fund (2002A CHAT Bonds)	368	139,960
Bond Project Fund (2002C HIF Bonds)	361	1,164,997
Bond Project Fund (2002D CHAT Bonds)	115	670,506
Bond Project Fund (2004A GRIP Bonds)	N/A	415,396,116
Bond Project Fund (2004 B/C GRIP Bonds)	N/A	43,782,628
Debt Service Fund (1998 CHAT Bonds)	548	143,308
Debt Service Fund (1999 CHAT Bonds)	434	401,572
Debt Service Fund (2000 CHAT Bonds)	432	594,534
Debt Service Fund (2001A CHAT Bonds)	007	796,206
Debt Service Fund (2002A CHAT Bonds)	547	333,987
Debt Service Fund (2002B WIPP Bonds)	750	359,201
Debt Service Fund (2002C HIF Bonds)	363	81,027
Debt Service Fund (2002D CHAT Bonds)	187	15,237
Debt Service Fund (WIPP Bonds)	N/A	82,612
State Infrastructure Bank	893	10,765,589
		\$ 522,053,855

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, 2006.

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

3. ACCOUNTS RECEIVABLE

The aging of accounts receivable as of June 30, 2006, is as follows:

Number of Days Outstanding

0 - 30	\$ 1,845,170
31 - 60	4,926
61 - 120	496
Beyond 120	<u>2,237,000</u>
	4,087,592
Allowance for uncollectible accounts	<u>(1,822,250)</u>
	\$ <u>2,265,342</u>

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

4. SEVERANCE TAX BOND PROCEEDS RECEIVABLE

Severance tax bonds proceeds receivable as of June 30, 2006, 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	\$ 44,379,303
Sale and reauthorization of severance tax bonds	19,530,882
Funding from the State Board of Finance	(7,615,903)
Reversion to the State Board of Finance	<u>(818,437)</u>
Balance, end of year	\$ <u>55,475,345</u>

The funding for the year ended June 30, 2006 was received under the Laws of 1998, Chapter 118; Laws of 1998, Chapter 7; Laws of 1999, Chapter 2; Laws of 2000, Chapter 23 and Laws of 2002, Chapter 110, for projects completed.

5. NOTES AND LOANS RECEIVABLE

Notes receivable as of June 30, 2006 consist of the following:

A note receivable from a private entity, non-interest bearing, in accordance with federal statutes, collateralized by various property.	\$ <u>27,672</u>
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Loans receivable funded by the SIB consist of the following:

City of Albuquerque, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	\$ 641,087
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County of Bernalillo, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	<u>7,401,160</u>
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	\$ <u>8,042,247</u>
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6. DUE FROM U.S. DEPARTMENT OF TRANSPORTATION

Due from U.S. Department of Transportation (USDOT) consists of the following at June 30, 2006:

Agency

Federal Highway Administration	\$ 23,183,713
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Other USDOT Agencies	<u>1,916,830</u>
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Total USDOT	\$ <u>25,100,543</u>
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Subsequent to June 30, 2006, the Federal Highway Administration unbilled portion was billed and the amounts were collected by the Department. Management felt that the entire balance outstanding at year end was collectable and, therefore, no allowance was established at June 30, 2006.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

7. DUE FROM AND DUE TO OTHER FUNDS

The following are short-term amounts (due within one year) owed between funds and are classified as Due From/To Other Funds:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Special Revenue Funds:		
State Road Fund	\$ 107,491,437	(100,501,750)
Local Government Road Fund	-	(1,826,039)
Federal Planning and Development Fund	-	(726,308)
State Aviation Fund	1,340,226	(174,177)
Federal Traffic Safety Fund	3,423,860	(4,149,734)
Driver Improvement Program Fund	289,504	-
DWI Prevention and Education Fund	-	(31,533)
Capital Improvements Projects	13,835,328	-
Bond Project Fund (1993 Bonds)	-	(37,804)
WIPP Debt Service Funds	13,829	-
Bond Project Fund (1998 & 1999 CHAT)	3,088,612	(1,224,580)
Bond Project Fund (2000 CHAT)	1,788,987	(3,650,144)
Bond Project Fund (2001 CHAT)	-	(899,327)
Bond Project Fund (2002A CHAT)	-	(1,988,154)
Bond Project Fund (2004A GRIP)	-	(16,062,233)
Total Special Revenue Funds	\$ <u>131,271,783</u>	<u>(131,271,783)</u>

Due from/to other fund amounts occur for the following reasons:

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

8. INVENTORY

Inventory as of June 30, 2006 consists of the following:

Highway maintenance materials stockpiled	\$ 7,610,494
Repair parts and expendable supplies	4,176,347
Fuel, oil and lubricants	<u>727,456</u>
	\$ <u>12,514,297</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

9. CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2006</u>
Non-depreciable assets:				
Land	\$ 5,064,678	158,415	(160,017)	5,063,076
Right of way	360,549,775	11,259,965	-	371,809,740
Depreciable assets:				
Infrastructure	15,069,367,358	349,159,210	(308,471,791)	15,110,054,777
Equipment and furniture	50,050,041	2,654,786	(1,721,924)	50,982,903
Vehicles	159,575,253	11,828,196	(5,687,105)	165,716,344
Buildings	<u>36,706,531</u>	<u>1,009,125</u>	<u>(126,165)</u>	<u>37,589,491</u>
Total	15,681,313,636	376,069,697	(316,167,002)	15,741,216,331
Less accumulated depreciation:				
Infrastructure	(8,200,214,936)	(499,028,410)	308,471,791	(8,390,771,555)
Equipment and furniture	(33,879,955)	(3,075,763)	1,615,515	(35,340,203)
Vehicles	(105,612,347)	(11,587,356)	5,629,706	(111,569,997)
Buildings	<u>(21,622,373)</u>	<u>(1,146,763)</u>	<u>16,928</u>	<u>(22,752,208)</u>
Total accumulated depreciation	<u>(8,361,329,611)</u>	<u>(514,838,292)</u>	<u>315,733,940</u>	<u>(8,560,433,963)</u>
Net total	\$ <u>7,319,984,025</u>	<u>(138,768,595)</u>	<u>(433,062)</u>	<u>7,180,782,368</u>

Current year depreciation expense was \$514,838,292. There were no software costs to capitalize as of year-end.

10. OPERATING TRANSFERS

The following is a summary of interfund transfers (in)/out in the governmental fund financial statements for the year ended June 30, 2006:

		<u>Major</u>		<u>Non-Major</u>
	<u>State Road Fund</u>	<u>Debt Service Funds</u>	<u>Special Revenue Funds</u>	
(1)	\$ (170,258,516)	104,068,876	-	66,189,640
(2)	<u>2,648,475</u>	<u>-</u>	<u>(2,776,412)</u>	<u>127,937</u>
	\$ <u>(167,610,041)</u>	<u>104,068,876</u>	<u>(2,776,412)</u>	<u>66,317,577</u>

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2006:

Governmental Activities	Balance at June 30, 2005	Increase	Decrease	Balance at June 30, 2006	Amounts Due Within One Year
1998 WIPP Bonds	\$ 37,220,000	-	(2,785,000)	34,435,000	-
1998 CHAT Bonds	21,960,000	-	-	21,960,000	-
1999 CHAT Bonds	38,585,000	-	(8,920,000)	29,665,000	9,385,000
2000 CHAT Bonds	65,515,000	-	(11,700,000)	53,815,000	12,340,000
2001 CHAT Bonds	138,690,000	-	(14,875,000)	123,815,000	16,730,000
2002A CHAT Bonds	51,880,000	-	(7,180,000)	44,700,000	7,540,000
2002B WIPP Bonds	33,815,000	-	(7,730,000)	26,085,000	8,115,000
2002C HIF Bonds	32,945,000	-	-	32,945,000	-
2002D CHAT Bonds	5,770,000	-	-	5,770,000	1,200,000
2004A CRIP Bonds	700,000,000	-	-	700,000,000	-
2004B CRIP Bonds	210,255,000	-	(27,940,000)	182,315,000	19,985,000
2004C CRIP Bonds	200,000,000	-	-	200,000,000	-
Deferred amount on refunding	(32,591,752)	-	1,715,355	(30,876,397)	-
Compensated absences payable	<u>5,754,049</u>	<u>5,079,296</u>	<u>(5,001,510)</u>	<u>5,831,835</u>	<u>5,100,000</u>
Total obligations	1,509,797,297	<u>5,079,296</u>	<u>(84,416,155)</u>	1,430,460,438	<u>80,395,000</u>
Less current portion	<u>84,870,132</u>			<u>80,395,000</u>	
Net long-term obligations	\$ <u>1,424,927,165</u>			<u>1,350,065,438</u>	

The State Road Fund is used to liquidate other long-term liabilities, such as compensated absences and capital leases. The Department is authorized to issue bonds from time to time, payable from the proceeds of the collection of gasoline excise taxes, motor vehicle registration fees, and other fees that are required by law to be paid into the State Road Fund and not otherwise pledged solely to the payment of outstanding bonds and debentures. The total aggregate outstanding bonds issued are in accordance with the authorizing legislation for the bonds and other debt with the approval of the State Board of Finance, 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.

11. LONG-TERM OBLIGATIONS - continued

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

Principal of the Series 1998A Bonds (CHAT) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Series 1998A Bonds (CHAT), including interest payments of \$3,953,169 based on interest rates that range from 4.5% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998A CHAT:			
2007	\$ -	1,125,450	1,125,450
2008	-	1,125,450	1,125,450
2009	10,705,000	1,125,450	11,830,450
2010	<u>11,255,000</u>	<u>576,819</u>	<u>11,831,819</u>
Total	\$ <u>21,960,000</u>	<u>3,953,169</u>	<u>25,913,169</u>

11. LONG-TERM OBLIGATIONS - continued

Principal of the Series 1998 Bonds (WIPP) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2011.

The Department's future scheduled annual requirements to amortize the Series 1998B Bonds (1998 WIPP Bonds), including interest payments of \$7,116,238 based on interest rates that range from 3.8% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998 WIPP:			
2007	\$ -	1,751,613	1,715,613
2008	-	1,751,612	1,715,612
2009	10,545,000	1,751,613	12,296,613
2010	11,460,000	1,224,362	12,684,362
2011	<u>12,430,000</u>	<u>637,038</u>	<u>13,067,038</u>
Total	\$ <u>34,435,000</u>	<u>7,116,238</u>	<u>41,551,238</u>

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

Eligible federal funds that can be used for debt repayment are not available for approximately two years after the date of the loan. Accordingly, \$8,468,451 of the loan proceeds were recorded to the debt service fund to pay future debt service.

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

11. LONG-TERM OBLIGATIONS - continued

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

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

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

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$3,362,406, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1999 CHAT:			
2007	\$ 9,385,000	1,622,406	11,007,406
2008	9,870,000	1,141,425	11,011,425
2009	<u>10,410,000</u>	<u>598,575</u>	<u>11,008,575</u>
Total	\$ <u>29,665,000</u>	<u>3,362,406</u>	<u>33,027,406</u>

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

11. LONG-TERM OBLIGATIONS - continued

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

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$11,011,500, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2000A CHAT:			
2007	\$ 12,340,000	3,781,875	16,121,875
2008	13,060,000	3,138,375	16,198,375
2009	13,810,000	2,420,650	16,230,650
2010	<u>14,605,000</u>	<u>1,670,600</u>	<u>16,275,600</u>
Total	\$ <u>53,815,000</u>	<u>11,011,500</u>	<u>64,826,500</u>

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

Principal of the Bonds is payable annually each June 15. Interest, with rates ranging from 4.3% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2013.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$27,321,613 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2001A CHAT:			
2007	\$ 16,730,000	6,344,648	23,074,648
2008	17,685,000	5,508,147	23,193,147
2009	14,630,000	4,623,898	19,253,898
2010	9,545,000	3,892,397	13,437,397
2011	20,645,000	3,415,148	24,060,148
2012 - 2013	<u>44,580,000</u>	<u>3,537,375</u>	<u>48,117,375</u>
Total	\$ <u>123,815,000</u>	<u>27,321,613</u>	<u>151,136,613</u>

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

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

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

11. LONG-TERM OBLIGATIONS - continued

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

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 5.0% to 5.5% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$10,969,950, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002A CHAT:			
2007	\$ 7,540,000	2,378,100	9,918,100
2008	7,935,000	1,982,250	9,917,250
2009	-	1,585,500	1,585,500
2010	8,750,000	1,585,500	10,335,500
2011	-	1,126,125	1,126,125
2012 - 2014	<u>20,475,000</u>	<u>2,312,475</u>	<u>22,787,475</u>
Total	\$ <u>44,700,000</u>	<u>10,969,950</u>	<u>55,669,950</u>

11. LONG-TERM OBLIGATIONS - continued

The Department issued \$79,920,000 of the New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds, Series 2002B, in January 2002. The gross proceeds including accrued interest to the Department were \$82,007,147 including \$2,670,686 of an original issue premium. The cost of issuance including underwriter fees was \$614,561. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002B Bonds (WIPP Bonds) were issued to provide funds to refund the 1996 WIPP Bonds on the date of delivery of the Bonds, and to pay all costs incident thereto and to the issuance of the Bonds, including, without limitation, costs of issuance.

Principal of the bonds is payable on June 15. Interest at a rate of 5% per annum is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$3,147,250, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002B WIPP:			
2007	\$ 8,115,000	1,304,250	9,419,250
2008	8,525,000	898,500	9,423,500
2009	-	472,250	472,250
2010	<u>9,445,000</u>	<u>472,250</u>	<u>9,917,250</u>
Total	\$ <u>26,085,000</u>	<u>3,147,250</u>	<u>29,232,250</u>

11. LONG-TERM OBLIGATIONS - continued

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

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

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$14,156,816, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002C HIF:			
2007	\$ -	1,709,524	1,709,524
2008	-	1,709,524	1,709,524
2009	3,000,000	1,709,524	4,709,524
2010	2,000,000	1,559,524	3,559,524
2011	-	1,459,524	1,459,524
2012 - 2016	21,770,000	5,684,634	27,454,634
2017	<u>6,175,000</u>	<u>324,562</u>	<u>6,499,562</u>
Total	\$ <u>32,945,000</u>	<u>14,156,816</u>	<u>47,101,816</u>

11. LONG-TERM OBLIGATIONS - continued

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

Principal of the bonds is payable as follows on June 15. Interest, with rates ranging from 3.9% to 5.00% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds including interest payments of \$1,285,175 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002D CHAT:			
2007	\$ 1,200,000	254,825	1,454,825
2008	-	194,825	194,825
2009	-	194,825	194,825
2010	1,360,000	194,825	1,554,825
2011	-	126,825	126,825
2012 - 2014	<u>3,210,000</u>	<u>319,050</u>	<u>3,529,050</u>
	\$ <u>5,770,000</u>	<u>1,285,175</u>	<u>7,055,175</u>

11. LONG-TERM OBLIGATIONS - continued

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

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

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$470,711,167, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004A GRIP:			
2007	\$ -	36,216,759	36,216,759
2008	-	36,216,759	36,216,759
2009	-	36,216,759	36,216,759
2010	-	36,216,759	36,216,759
2011	-	36,216,759	36,216,759
2012 - 2016	145,710,000	175,972,147	321,682,147
2017 - 2021	413,155,000	103,548,387	516,703,387
2022 - 2024	<u>141,135,000</u>	<u>10,106,838</u>	<u>151,241,838</u>
	\$ <u>700,000,000</u>	<u>470,711,167</u>	<u>1,170,711,167</u>

11. LONG-TERM OBLIGATIONS - continued

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

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

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

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$46,700,365, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004B GRIP:			
2007	\$ 19,985,000	8,804,615	28,789,615
2008	13,170,000	7,938,265	21,108,265
2009	10,735,000	7,347,765	18,082,765
2010	9,230,000	6,879,385	16,109,385
2011	36,275,000	6,421,085	42,696,085
2012 - 2014	<u>92,920,000</u>	<u>9,309,250</u>	<u>102,229,250</u>
Total	\$ <u>182,315,000</u>	<u>46,700,365</u>	<u>229,015,365</u>

11. LONG-TERM OBLIGATIONS - continued

The Series 2004C Bonds are special limited obligations of the Department payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C bonds or which may hereafter be used through the NMFA. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

Refunding

NMFA, on behalf of the Department, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the Department, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of \$408,855,872 plus an additional \$7,285,997 were used to purchase U.S. Governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. The bonds outstanding of \$363,490,000 were considered defeased as of June 30, 2006.

The deferred amount on the refunding of \$30,876,397 recorded as a reduction of the Department's long-term obligation is the difference between the reacquisition price (funds required to refund the old debt including call provisions) and the net carrying amount of the old debt including unamortized old bond issuance costs. The deferred amount on the refunding is recorded to the government-wide financial statements and is required to be amortized as additional interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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

11. LONG-TERM OBLIGATIONS - continued**Interest Rate Swaps****State Transportation Revenue Bonds, Series 2006**

Objective of the Swaps. In April of 2004, the New Mexico Finance Authority (the "Authority") entered into two (2) forward starting swaps with two (2) counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Authority to fund part of the Governor Richardson's Investment Partnership (GRIP), which is a \$1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between \$175 million and \$200 million in cash which will act as a natural hedge if the swap is knocked-out.

Terms. The swaps were entered into with J.P Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+ S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072% based on an amortizing national schedule with a combined \$220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. The option premium is equal to 0.34% per annum, resulting in a net fixed rate of 4.732%. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2006, the swaps had a negative fair value of \$6,818,902 without the option. The options had a negative value of \$12,823,336 in isolation of the swaps, thus the swaps including the options had a total negative value of \$19,642,238. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

11. LONG-TERM OBLIGATIONS - continued**State Transportation Revenue Bonds, Series 2006 - continued**

Credit Risk. As of June 30, 2006 the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

Termination Risk. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. The swap also includes an additional termination event related to non-issuance of the associated bonds. That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial cash reserves which will mitigate this risk by generating variable rate income. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

\$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3

Objective of the Swap. In April of 2004, the Authority entered into three (3) swaps with three (3) counterparties to synthetically refund outstanding bonds, which provided the Authority with present value savings of \$11,524,206.49 or 3.02% of the refunded bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate bonds at the time of issuance. In addition, through this structure, the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swap was to effectively change the Authority's interest rate on the bonds to a fixed rate.

11. LONG-TERM OBLIGATIONS - continued**\$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued**

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

Fair Value. As of June 30, 2006, the Lehman swap and Goldman swap each had a fair value of \$62,922, while the RBC swap had a fair value of \$125,844. The total fair value on all the swaps was \$251,688. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value on the swaps was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk. As of June 30, 2006 the Authority is exposed to credit risk in an amount equal to the positive fair value for each of the swaps. To mitigate credit risk, the counterparties are required to post collateral based upon the agreed upon collateral threshold levels per the Credit Support Annex (CSA) which are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

11. LONG-TERM OBLIGATIONS - continued**\$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued**

Basis Risk. As of June 15, 2006, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 68% of one month LIBOR rate received on the swap. The Authority is also exposed to tax risk, a form of basis risk, where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The effect of the difference in basis is indicated by the difference between the intended synthetic rate (3.934%) and the synthetic rate as of June 30, 2006 (4.197%). The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2006, the rate on the bonds was 3.89%, whereas 68% of one month LIBOR was 3.627%.

Termination Risk. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt: As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2007	\$ -	7,780,000	614,000	8,394,000
2008	-	7,780,000	614,000	8,394,000
2009	-	7,780,000	614,000	8,394,000
2010	-	7,780,000	614,000	8,394,000
2011	-	7,780,000	614,000	8,394,000
2012 - 2016	-	38,900,000	3,070,000	41,970,000
2017 - 2021	-	38,900,000	3,070,000	41,970,000
2022 - 2024	200,000,000	20,511,645	1,618,785	222,130,430
	<u>\$ 200,000,000</u>	<u>137,211,645</u>	<u>10,828,785</u>	<u>348,040,430</u>

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

The Department has in the past entered into several lease agreements as lessee for financing the acquisition of computer equipment. During 2005, the Department took advantage of the lease buy-out clauses in the lease agreements. As a result, the Department has eliminated all capital leases as of June 30, 2005. These lease agreements qualified as capital leases for accounting purposes and, therefore, had been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases had interest rates that range from 10% to 19%. A total of \$1,023,499 was paid during the 2006 fiscal year for capital lease obligations, and was recorded as debt service expense in the State Road Fund. No computer equipment was acquired through capital leases during the 2006 fiscal year.

There are no future minimum lease obligations to report as of June 30, 2006.

Total future principal and interest obligation repayments are as follows:

<u>Year Ended June 30,</u>		<u>Bonds and Loans</u>
2007	\$	148,457,065
2008		139,718,132
2009		139,749,809
2010		139,790,421
2011		126,620,504
2012 - 2016		565,139,931
2017 - 2021		562,542,949
2022 - 2024		<u>372,313,327</u>
Total	\$	<u>2,194,332,138</u>

An obligation amounting to \$5,831,835 at June 30, 2006, has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences.

12. RETIREMENT AND HEALTH PLANS (STATE PERA)**◆ PERA Plan Description**

Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees' Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan.

The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

◆ Funding Policy

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature.

The Department's contributions to PERA for the years ending June 30, 2006, 2005 and 2004 were \$15,199,631, \$18,165,681, and \$12,192,028, respectively, equal to the amount of the required contribution for each year.

13. RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS

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

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

13. RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS - continued

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

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional \$5 if eligible participant retired prior to the employer's NMRHCA effective date, or is a former legislator, and made no contributions to the plan. Participants may also enroll in optional plans of coverage.

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

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post-employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, New Mexico 87107.

For the fiscal year ended June 30, 2006, the Department remitted \$1,146,926 in employer contributions and \$573,463 in employee contributions to the Retiree Health Care Authority.

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

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

14. TRANSFERS TO/FROM OTHER STATE AGENCIES AND LOCAL GOVERNMENTS - continued

	<u>Agency Number</u>	<u>Operating Transfers Out</u>
Transfers to Other Agencies:		
Department of Public Safety	01-790	\$ <u>8,176,400</u>

15. COOPERATIVE AND JOINT POWERS AGREEMENTS

The State Legislature and the State Highway Commission have approved certain agreements between the Department and various counties, municipalities and other agencies to construct or improve public highways, school grounds, parking areas, and for the purpose of litter control. The Department's funding responsibility varies from zero to 100%. None of these cooperative and joint power agreements have created legally separate organizations that need to be included as component units or joint ventures in the Department's financial statements.

JOINT POWER AGREEMENTS			
<u>Contract Number</u>	<u>Contractor</u>	<u>Description</u>	<u>Expended 2006</u>
J00706	Department of Tourism	Implement a statewide public awareness litter campaign to educate and inform New Mexicans about litter.	-
J00707	Zuni Pueblo	A pedestrian travel demand study for Black Rock Community.	83,000
J00708	Navajo Nation	Road improvements and a maintenance yard at the Bread Springs Chapter of Navajo Nation in McKinley County.	100,000
J00709	Department of Cultural Affairs	Provide FY 2006 – 2010 Consultant Design Program to maintain an inventory of cultural properties in the State of New Mexico.	25,000
J00710	Santa Ana Pueblo	Provide roadside drainage for the Pueblo/cn L3016.	200,000
J00711	Department of Cultural Affairs, Historic Preservation Division	Provide FY 2006 – 2010 Consultant Design Program for the review of cultural resource documents pertinent to the completion of proposed highway construction project in New Mexico.	50,000
J00713	Pueblo of Zuni	Install two traffic school flashing units on State Road 53 Priority (2) BIA Route 301 North Zuni High School.	21,306
J00714	Pueblo of Laguna	Provide for the design and improvement of the Exit 108 Interchange on Interstate Highway 40 and BIA Road L22 on the Pueblo of Laguna Indian Reservation. Escrow agreement between Pueblo of Laguna, NMDOT and Wells Fargo Bank is the escrow agent.	-

16. RISK MANAGEMENT

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

17. FEDERAL HIGHWAY ADMINISTRATION (FHWA) AUTHORIZATIONS

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

In order to obtain funding commitments from FHWA for such allotments, projects must be submitted to and be approved by the FHWA. As of June 30, 2006, the amount of authorizations granted to the State of New Mexico that had not been converted to commitments because FHWA did not award sufficient obligation authority to the Department was \$73,000,000.

18. LITIGATION

The Department is subject to various legal proceedings, claims and liabilities, including right-of-way condemnation proceedings, contractor claims and employee claims, which arise in the ordinary course of the Department's operations. There are various contractor lawsuits and claims against the Department for various reasons. The Department contests these claims and if a likelihood of a loss is probable, the Department accrues the loss in the accompanying financial statements. In the opinion of the Department's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse impact on the financial position or results of operations of the Department.

19. OPERATING LEASE COMMITMENT

The Department leases certain equipment and premises under numerous operating leases. Leases are subject to future appropriation and as such are cancelable by the Department at the end of a fiscal year. Rental expense for the year ended June 30, 2006, was \$1,506,252.

19. OPERATING LEASE COMMITMENT - continued

The future minimum lease payments under operating leases as of June 30, 2006 are approximately as follows:

Years ending June 30:	<u>Lease Amounts</u>
2007	\$ 554,980
2008	441,660
2009	321,000
2010	-
2011	-
2012 and thereafter	-
	<u>\$ 1,317,640</u>

20. COMMITMENTS AND CONTINGENCIES**♦ Arbitrage Rebate Obligation**

As of June 30, 2006, the Department has paid all arbitrage rebates due to the Internal Revenue Service (IRS) on the excess interest income earned on the 1999 CHAT and 2000 CHAT bond proceeds.

♦ 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, 2006 may be impaired. In the opinion of the Department, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

♦ Warranty Claim

The Department has filed a notice of deficiency regarding New Mexico 44 (now U.S. 550) under the design and construction warranty provided by the contractor. The Department has not specified a dollar amount of the cost of the repairs or replacement attributable to its claim made under the warranty. Accordingly, no amount for the claim receivable is accrued for in the June 30, 2006 financial statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

21. UNRESERVED, UNDESIGNATED FUND BALANCE (DEFICIT)

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

22. PRIOR PERIOD ADJUSTMENT

The following errors in the State Road Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$29,068,461 greater for this fund.

	<u>State Road Fund</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 158,666,205
ADJUSTMENTS:	
To correct invalid Due to Other Funds balance that should have been Due from Other Funds	12,657,888
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	24,803,601
To record tax revenue reimbursement to Taxation and Revenue for overpayment	<u>(2,064,084)</u>
TOTAL ADJUSTMENTS	35,397,405
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>194,063,610</u>

The following errors in the Local Government Road Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$1,720,524 greater for this fund.

	<u>Local Government Road Fund</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 17,680,376
ADJUSTMENT:	
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	<u>1,720,253</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>19,400,629</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

22. PRIOR PERIOD ADJUSTMENT - continued

The following errors in the 2004A GRIP Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$6,328,944 lower for this fund.

	<u>2004A GRIP</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 619,332,742
ADJUSTMENTS:	
To post liability as of June 30, 2005	<u>(6,328,944)</u>
TOTAL ADJUSTMENTS	(6,328,944)
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>613,003,798</u>

The following errors in the non-major special revenue funds were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$418,094 greater for these funds.

	<u>Non-major Special Revenue Funds</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 65,028,409
ADJUSTMENT:	
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	<u>418,094</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>65,446,503</u>

23. SUBSEQUENT EVENTS

The Department issued \$450 million in new bonds for highway reconstruction and infrastructure improvement projects under Governor Richardson's Investment Partnership (GRIP). The 20-year bonds carry annual interest rates between 4.15 percent and 4.987 percent. The bonds sold at a premium of \$12.5 million.

24. BUDGET TO GAAP RECONCILIATION – STATE INFRASTRUCTURE BANK

Budgetary basis revenues	\$	460,073
Adjustments and accruals:		
Interest receivable		75,801
Notes and loans receivable		<u>31,910</u>
GAAP basis revenues	\$	<u>567,784</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, or other person designated in writing by any of the above-listed officers to the Trustee, which writing may limit the functions which such other person may undertake as an Authorized Officer hereunder.

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

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

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

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

“Business Day” means a day of the year on which banks located in the city (i) in which the office of the Trustee located at the address specified in Section 1106 of the Master Indenture is located or (ii) in which the office of a Credit Facility Provider is located, are not required or authorized to remain closed, and on which The New York Stock Exchange is not closed.

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

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

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

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

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

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

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

Master Indenture (which payment, other than Exchange Termination Payments, may be made net of Authority Exchange Payments).

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

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

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

“Debt Service Fund” means the Fund so designated which is created pursuant to Section 501 of the Master Indenture.

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

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

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

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

(c) Unless, at the time of computation of Debt Service Requirements, Repayment Obligations are owed to, or Obligations are owned or held by, a Credit Facility Provider, a Credit 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, Credit Facility or Reserve Alternative Instrument.

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

(e) In the computation of Debt Service Requirements relating to the issuance of additional Obligations as set forth in Section 206 of the Master Indenture, there shall be deducted from that computation amounts and investments which are irrevocably committed to make designated payments on Obligations and Additional Highway Bonds included as part of the computation during the applicable period, including, without limitation: (i) money on deposit in any debt service account, (ii) amounts on deposit in an escrow account, (iii) amounts deposited to the credit of an account for the payment of capitalized interest on Obligations and Additional Highway Bonds included as part of the computation, and (iv) money on deposit in an Account of Debt Service Reserve which may be used for payment of the final principal maturity of the Obligations secured by such Account in the Debt Service Reserve Fund.

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

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

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

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

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

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

"Debt Service Reserve Fund" means the Fund so designated which is created pursuant to Section 501 of the Master Indenture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (iv) Government National Mortgage Association (GNMA or “Ginnie Mae”) GNMA-guaranteed mortgage-backed bonds GNMA-guaranteed pass-through obligations (participation certificates);
 - (v) U.S. Maritime Administration Guaranteed Title XI financing;
 - (vi) U.S. Department of Housing and Urban Development (HUD) Project Notes Local Authority Bonds;
 - (vii) Tennessee Valley Authority (TVA) Debentures;
- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
- (i) Federal Home Loan Bank System Senior debt obligations (Consolidated debt obligations);
 - (ii) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s Participation Certificates (Mortgage-backed securities) Senior debt obligations;
 - (iii) Federal National Mortgage Association (FNMA or “Fannie Mae”) rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);
 - (iv) Student Loan Market Association (SLMA or Sallie Mae) Senior debt obligations;
 - (v) Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;
 - (vi) Farm Credit System Consolidated system-wide bonds and notes;
- (d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAAm” or “Aam” or by Moody’s of “Aaa,” including funds from which the Trustee or its affiliates receive fees for investment advisory or other services to such funds;
- (e) Certificates of deposit (“CD”) secured at all times by collateral described in (a) and/or (b) above. CD’s must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” or better by S&P, and “Prime-1” or better by Moody’s. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;
- (g) Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by S&P and which matures not more than 270 days after the date of purchase;
- (h) Bonds or notes issued by any municipality which are rated by Moody’s and S&P in the highest long-term rating category assigned by such agencies;
- (i) Federal funds or bankers’ acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime- 1” by Moody’s and “A-I+” 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.

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

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

"Mandatory Sinking Fund Installment" means the principal amount of Bonds of any Series which pursuant to the applicable Series Indentures the Authority is unconditionally required (except as provided in Section 505 of the Master Indenture) to redeem on any particular date (such that failure to redeem such principal amount is, regardless of the availability of moneys therefor, an Event of Default).

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

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

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

“Outstanding,” when used with respect to a Qualified Exchange Agreement, means a Qualified Exchange Agreement which has not expired, been terminated or been deemed paid in accordance with the provisions of Section 1101 of the Master Indenture, and when used with reference to any Bonds, means, as of any date, all Bonds theretofore or then being authenticated and delivered under the Master Indenture except:

(a) any Bonds cancelled by, or delivered for cancellation to, the Trustee because of payment at maturity or redemption or purchase prior to maturity;

(b) Bonds (or portions thereof) deemed paid in accordance with the provisions of the Master Indenture; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III of the Master Indenture.

“Owner” means (i) with respect to a Bond, the registered owner of such Bond, and (ii) with respect to a Qualified Exchange Agreement, any Qualified Counterparty, unless the context otherwise requires.

“Participant” means a broker-dealer, bank or other financial institution from time to time for which the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository.

“Paying Agent” means any bank with trust powers or trust company so designated pursuant to Section 902 of the Master Indenture, and its successor or successors hereafter appointed, as paying agent for any Series.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Pledged Revenues” means, collectively, Federal Revenues and State Revenues.

“Principal Account” means the respective accounts so established as the Senior Lien Principal Account, Subordinate Lien Principal Account, and the Junior Subordinate Lien Principal Account with the Debt Service Fund established by Section 501 of the Master Indenture.

“Principal Installment” means, as of the date of calculation and with respect to any Series Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date (whether at a stated maturity date or a date fixed for redemption prior to a stated maturity date) for which no Mandatory Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in Section 505 of the Master Indenture) of any Mandatory Sinking Fund Installments in a principal amount equal to said unsatisfied balance of such Mandatory Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Mandatory Sinking Fund Installments due on such future date, plus such applicable redemption premiums, if any.

“Principal Installment Date” means any date upon which any Principal Installment on Bonds of any Series shall be due and payable pursuant to the applicable Series Indenture.

“Qualified Counterparty” means any party whose senior long term debt obligations, or whose obligations under a Qualified Exchange Agreement are guaranteed by a party whose senior long term debt obligations, are rated

(at the time of execution of the Qualified Exchange Agreement) in one of the top two Rating Categories by a Rating Agency, and which is obligated to make Counterparty Payments under a Qualified Exchange Agreement.

“Qualified Exchange Agreement” means an ISDA Master Agreement (and schedule and credit support annex, if any, thereto) between the Authority and a Qualified Counterparty under which the Authority is obligated to pay (whether on a net payment basis or otherwise) on one or more scheduled and specified Qualified Exchange Agreement Payment Dates, Authority Exchange Payments in exchange for the Qualified Counterparty’s obligations to pay (whether on a net payment basis or otherwise), or to cause to be paid, to the Authority, Counterparty Payments on one or more scheduled and specified Qualified Exchange Agreement Payment Dates in the amounts set forth in the Qualified Exchange Agreement, and

(i) for which the Authority’s obligations to make Authority Exchange Payments may be secured by a pledge of and lien on the Trust Estate on an equal and ratable basis with the Outstanding Subordinate Lien Bonds or the Junior Subordinate Lien Bonds and for which the Authority’s obligations to make Exchange Termination Payments may be secured by a pledge of and lien on the Trust Estate on an equal and ratable basis with the Junior Subordinate Lien Bonds; and

(ii) under which the Counterparty Payments are to be made directly to the Trustee for deposit into the Revenue Fund.

“Qualified Exchange Agreement Payment Date” means, with respect to a Qualified Exchange Agreement, any date specified in the Qualified Exchange Agreement on which both or either of an Authority Exchange Payment and/or a Counterparty Payment is due and payable under the Qualified Exchange Agreement.

“Qualified Exchange Agreement Value” means the market quotation of a Qualified Exchange Agreement, if any, that would be payable to a Qualified Counterparty, provided that such market quotation is defined and calculated in substantially the same manner as amounts are defined and calculated pursuant to the applicable provisions of an ISDA Master Agreement.

“Rating Agency” or “Rating Agencies” means Moody’s or S&P or any other generally recognized rating agency to the extent any such agency (i) provides a rating for a Qualified Counterparty or a Qualified Exchange Agreement at the time in question; or (ii) has been requested in writing by the Authority to issue a rating on any of the Bonds and such agency has issued and continues to apply a rating on such Bonds at the time in question.

“Rating Category” means a generic securities rating category assigned by a Rating Agency, without regard, in the case of a long-term rating category, to any refinement or gradation of such long-term rating category by a numerical modifier or otherwise.

“Rebate Fund” means the Rebate Fund authorized pursuant to Section 501 of the Master Indenture.

“Redemption Date” means, when used with respect to any Bonds to be redeemed, the date fixed for such redemption by or pursuant to the Master Indenture and the applicable Series Indenture.

“Redemption Price” means the total of principal, premium (if any) and interest due on any Bond redeemed pursuant to any applicable redemption provision of the Master Indenture and the applicable Series Indenture.

“Refunding Bonds” means all Bonds, whether issued in one or more Series, authenticated and delivered pursuant to Section 207 of the Master Indenture.

“Regular Record Date” means (i) the 15th day (whether or not a Business Day) preceding any Interest Payment Date on the Bonds, or (ii) the second day immediately preceding an Interest Payment Date in the case of any Series 2008 Bonds bearing interest at an Auction Rate.

“Repayment Obligations” means the obligations of the Authority to repay a Credit Facility Provider, a Credit Facility Provider or the provider of a Reserve Alternative Instrument for amounts advanced by any such provider with respect to the principal of or interest on or the purchase price of Bonds issued hereunder.

“Reserve Alternative Instrument” means an insurance policy or surety bond or irrevocable letter of credit or guaranty rated in one of the top two Rating Categories by a Rating Agency deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for the deposit of cash and Investment Securities in satisfaction of the Debt Service Reserve Requirement for any Bonds. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account and the Principal Account in order to provide for the timely payment of interest and principal (whether at maturity or to pay a Mandatory Sinking Fund Installment therefor).

“Revenue Fund” means the fund so designated which is created by Section 501 of the Master Indenture.

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

“Securities Depository” means The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other securities depository designated in a Series Indenture, or (i) if the then Securities Depository resigns from its functions as depository of the Bonds, or (ii) if the Authority discontinues use of the Securities Depository pursuant to Section 308 of the Master Indenture, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Authority with the consent of the Trustee.

“Senior Lien Bonds” means Bonds issued by the Authority with a first lien (but not an exclusive first lien) on the Trust Estate, subject to the lien thereon of the Closed Lien Obligations and so designated in the applicable Series Indenture authorizing such Senior Lien Bonds.

“Series” means all Bonds of a designated series or Subseries authenticated and delivered on original issuance authorized by a given Series Indenture, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the Master Indenture, regardless of variations in maturity, interest rate, Mandatory Sinking Fund Installments, or other provisions.

“Series Indenture” means any indenture of the Authority authorizing the issuance of a Series in accordance with the terms and provisions of the Master Indenture, executed and delivered in accordance with Section 203 thereof.

“Special Record Date” for the payment of any Defaulted Interest on Bonds means a date fixed by the Trustee pursuant to Section 301 of the Master Indenture.

“State” means the State of New Mexico.

“State Revenues” means (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain public regulation commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes (to the extent authorized to be paid into the State Road Fund in the future) in each case that are required by law to be paid into the State Road Fund, and interest on amounts in the State Road Fund; (ii) proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund; and (iii) such additional moneys as may in the future be authorized by law to be pledged as security, and are so pledged by the Authority pursuant to a Supplemental Indenture, as security for Obligations.

“State Road Fund” means the fund created pursuant to Section 67-3-65 NMSA 1978, as amended and supplemented.

“State Transportation Program” means the program of the Authority, the Commission and the State Transportation Department to finance, construct and improve State Transportation Projects as provided by the Act.

“State Transportation Program Financing Expenses” means (i) the fees and expenses of Fiduciaries, (ii) the fees and expenses of any auction agent, market agent and any broker-dealer then acting under a Series Indenture with respect to auction rate Bonds, (iii) the fees and expenses of any calculation agent then acting under a Series Indenture with respect to index-based Bonds, (iv) the costs of any remarketing of any Bonds, including the fees and expenses of any remarketing agent then acting under a Series Indenture with respect to variable rate Bonds, (v) the fees and expenses (but not Repayment Obligations) due to any Credit Facility Provider or any Credit Facility Provider with respect to any Bonds for which any Credit Enhancement Facility or a Credit Facility is in place, (vi) the fee of the Authority (other than Costs of Issuance) charged to the Commission and/or the Department in carrying out and administering its powers, duties and functions under the Act, the State Transportation Program, the Authority’s agreements with the Commission relating to the Bonds, the Closed Lien Obligations and the Master Indenture and the resolution of the Commission acknowledging and agreeing that the fee of the Authority shall be payable from the State Road Fund, (vii) fees and expenses associated with the delivery of a substitute Credit Enhancement Facility or Credit 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 Credit Facility; (ii) the proceeds of the sale of Bonds, and all other moneys in all Funds and Accounts established under the Master Indenture or Series Indenture (other than amounts in the Rebate Fund owing to the United States), including the investments, if any, thereof, and earnings, if any, thereon (other than as stated in Section 507 of the Master Indenture or Series Indenture) until applied in accordance with the terms of the Master Indenture; (iii) all rights, title, interest and privileges of the Authority in and to any Qualified Exchange Agreement and any Counterparty Payments (provided; however, that this clause (iii) shall not be for the benefit of a Qualified Counterparty with respect to its Qualified Exchange Agreement); and (iv) the money, Investment Securities and funds and all other right of every name and nature from time to time hereafter by delivery or by writing of any kind pledged, assigned transferred as and for additional security hereunder.

“Trustee” means Bank of Albuquerque, N.A. and the successor or successors of such bank or trust company and any other corporation which may at any time be substituted in its place pursuant to Article IX of the Master Indenture.

“Value” means, as of any date of computation, the value of the Trust Estate or Investment Securities calculated by or on behalf of the Authority as to (a) below and otherwise by the Trustee, as follows:

(a) with respect to any funds of the Authority held under the Master Indenture and on deposit in any commercial bank or as to any certificates of deposit or banker’s acceptances, the amount thereof plus accrued but unpaid interest;

(b) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, in The New York Times), the average of the bid and asked prices for such investments so published on such date of calculation or most recently prior to such date of calculation;

(c) as to investments (other than investment contracts and repurchase agreements) the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times, (i) the lower of the bid prices at such date of calculation for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments, or (ii) the bid price published by a nationally recognized pricing service;

(d) as to an investment contract, an amount equal to the principal amount plus any accrued interest required to be remitted to the Trustee (without regard to notice requirements of seven days or less) pursuant to the terms of such investment contract;

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

(f) with respect to any investment not specified above, the value thereof established by prior written agreement by the Authority, the Trustee and the Rating Agencies.

Additional Obligations Payable from Trust Estate

Limitations Upon Issuance of Senior Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Senior Lien Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Senior Lien Bonds. However, before any Senior Lien Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to the Master Indenture):

(1) The Authority shall then be current in all accumulations required to be made pursuant to the Master Indenture with respect to Outstanding Obligations; and

(2) The State Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (x) then outstanding Closed Lien Obligations, (y) then Outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued; and

(3) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred and fifty percent (350%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (x) then outstanding Closed Lien Obligations, (y) then outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued;

Limitations Upon Issuance of Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Subordinate Lien Bonds or to prevent the issuance by the Commission of Additional Highway Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Subordinate Lien Bonds or any Additional Highway Bonds. However, before any Subordinate Lien

Bonds, or Additional Highway Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of the Master Indenture (or similar sections of the Commission resolutions or instruments governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Bonds, or Additional Highway Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (v) then Outstanding Closed Lien Obligations, (w) then Outstanding Senior Lien Bonds, (x) then outstanding Subordinate Lien Obligations, (y) then outstanding Additional Highway Bonds, and (z) the Subordinate Lien Bonds proposed to be issued.

Limitations Upon Issuance of Junior Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Junior Subordinate Lien Bonds or to prevent the issuance of bonds or other obligations refunding all or a part of Junior Subordinate Lien Bonds. However, before any Junior Subordinate Lien Bonds are issued (excluding Refunding Bonds issued pursuant to Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of the Master Indenture (or similar sections of the Commission resolutions or instrument governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Junior Subordinate Lien Bonds shall have been sufficient to pay an amount representing two hundred percent (200%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (u) then Outstanding Closed Lien Obligations, (v) then Outstanding Senior Lien Bonds, (w) then Outstanding Subordinate Lien Bonds, (x) then Outstanding Additional Highway Bonds, (y) then Outstanding Junior Subordinate Lien Obligations, and (z) the Junior Subordinate Lien Bonds proposed to be issued.

Certification of State Revenues and Pledged Revenues. A written certificate or opinion by the Secretary of the Department, the chief financial officer of the Authority, or an Accountant's Certificate that such State Revenues and Pledged Revenues, as applicable, are sufficient to cover the amounts required by Sections 206(a), 206(b) or 206(c) of the Master Indenture shall be required and shall be conclusively presumed to be accurate in determining the right of the Authority to authorize, issue, sell and deliver additional Senior Lien Bonds, Subordinate Lien Bonds or Junior Subordinate Lien Bonds or the right of the Commission to authorize, issue, sell and deliver Additional Highway Bonds.

No provision of the Master Indenture shall be construed to prevent the issuance by the Authority or the Commission of additional bonds or other obligations payable from the Pledged Revenues constituting a lien on the Trust Estate (or any portion thereof) subordinate and junior to the lien on the Trust Estate of Bonds described above. Such additional subordinate and junior bonds or other obligations may be issued pursuant to a Series Indenture and/or Supplemental Indenture prepared for that specific purpose or pursuant to an indenture or resolution separate and distinct from 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 hereby, for the purpose of paying in the manner authorized in the Master Indenture any Costs of Issuance, for which provision is not otherwise made, upon receipt by said Trustee of a written requisition substantially in the form set forth in Exhibit A to the Master Indenture signed by an Authorized Officer stating that the amount to be paid from such Fund pursuant to such requisition is a proper charge thereon, and stating with respect to each payment to be made: (1) the item for which payment is to be made, (2) the name of the Person to whom the payment is to be made, and (3) the amount to be paid. Upon receipt of each such requisition properly drawn, the Trustee shall deliver a check or draft, drawn upon the Acquisition Fund for the payment of each item.

(b) From the proceeds of each Series, there shall be deposited into the Acquisition Fund the amounts, if any, required by Section 401 of the Master Indenture or as specified in the related Series Indenture. In addition, there shall be credited to the Acquisition Fund any amounts transferred thereto from the Revenue Fund.

Except as otherwise specifically directed in the Master Indenture or in any Series Indenture, amounts in the Acquisition Fund shall be expended and applied, upon Authority Order on behalf of the Department, only for State Transportation Projects and Costs of Issuance. Authority Orders may include requisitions of moneys in amounts certified by the Department as necessary to meet anticipated expenditures for State Transportation Projects. In the event an Authority Order is not or cannot be made available in a timely fashion to meet payment deadlines for expenditures for State Transportation Projects, the Trustee is authorized to accept substantially similar orders from the Commission or the Department for disbursements from the Acquisition Fund.

The Authority may, at any time upon Authority Order, direct the Trustee to transfer any moneys in the Acquisition Fund to the Revenue Fund or to any other Fund or Account established by the Master Indenture or any Series Indenture.

Revenue Fund

(a) (i) All moneys received by or on behalf of the Authority from Pledged Revenues in accordance with Section 67-3-59.3, NMSA 1978, and in accordance with procedures established from time to time by the Authority with the Commission and the Department for payment of Obligations, Repayment Obligations, and State Transportation Program Expenses, (ii) any moneys received as Counterparty Payments, and (iii) any monies transferred from any other Fund or Account under the Master Indenture for deposit to the Revenue Fund, shall be deposited promptly to the credit of the Revenue Fund. There may also be paid into the Revenue Fund, at the option of the Authority, any moneys received by the Authority from any other source.

(b) As of the first Business Day of each calendar month, except as specifically provided below and unless specifically provided to the contrary in a Series Indenture, the Trustee shall withdraw from the Revenue Fund and, to the extent that there are amounts in the Revenue Fund available therefor, deposit to the credit of the following Funds and Accounts the following amounts in the following order of priority, the requirements of each such deposit (including the making up of any deficiencies resulting from lack of amounts in the Revenue Fund sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any deposit is made subsequent in priority (any money not so deposited to remain in the Revenue Fund until subsequently applied pursuant to Section 502(b) of the Master Indenture):

(A) First, on each December 1, or the first Business Day thereafter, to the Rebate Fund, an amount to be calculated by the Authority which, when added to the amount already within the Rebate Fund, will equal the amount determined by the Authority to be required to be on deposit therein.

(B) Second, to the Senior Lien Interest Account, an amount such that, if the same amounts are so paid and credited to the Senior Lien Interest Account on the same day of each succeeding calendar month thereafter prior to the next Interest Payment Date, the aggregate of the amounts so paid and credited to the Senior Lien Interest Account, when added to any amount on deposit in the Interest Account for such purpose on the day of the calculation, would on such Interest Payment Date be equal to the interest on all Outstanding Senior Lien Bonds and any related Repayment Obligations for a Credit Enhancement Facility or a Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit Facility), deposits in the Junior Subordinate Lien Principal Account shall be made in accordance with the foregoing calculation applied separately to each such different Series, in descending order of lien priority. There shall also be deposited to the Junior Subordinate Lien Principal Account, (i) amounts necessary to make any Exchange Termination Payment when due, (ii) amounts necessary to collateralize the Authority's obligations under any Qualified Exchange Agreement, (iii) any loss amounts or termination payments owed by the Authority to a provider of an Investment Security described in paragraphs (j), (k) or (l) in the definition of Investment Securities in the Master Indenture, and (iv) or, if an escrow account has been specifically created for a Series of Junior Subordinate Lien Bonds, to that escrow account, whenever such Junior Subordinate Bonds have been duly called for redemption and such redemption is to occur within thirty days, an amount equal to the principal amount of such Junior Subordinate Lien Bonds to be redeemed on such Redemption Date.

(K) Eleventh, (i) to the Accounts of the Debt Service Reserve Fund established in any Series Indenture for a related Series of Junior Subordinate Lien Bonds, so much as may be required so that the amounts in each Account shall equal the Debt Service Reserve Requirement for the related Junior Subordinate Lien Bonds then Outstanding and for which an Account in the Debt Service Reserve Fund has been established, and (ii) on a parity with the transfer under (i) of this Subsection (K), to the payment of related Repayment Obligations for Reserve Alternative Instruments for Junior Subordinate Lien Bonds.

(c) For purposes of paragraphs (B), (C), (E), (F), (I) and (J) above, if at any time there are insufficient moneys for all of the payments required to be made pursuant to any such paragraph for all Series of Bonds, Repayment Obligations and, except with respect to paragraphs (B) and (C), Qualified Exchange Agreements, the moneys available shall be allocated among the payments on such Series of Bonds, Repayment Obligations and Qualified Exchange Agreements ratably based upon the respective amounts of the payments then due, in accordance with their respective lien priorities.

(d) For purposes of paragraphs (B), (E) and (I) above, moneys in any Interest Account in excess of the amount necessary to pay the interest actually accrued in the prior calendar month for the related Series of Bonds, Repayment Obligations and, except with respect to paragraph (B), Authority Exchange Payment shall be credited toward the Interest Payment coming due on the next Interest Payment Date.

Application of Moneys in Other Funds and Accounts

(a) *Rebate Fund.* To the extent required by Section 606 of the Master Indenture, all of the amounts on deposit in the Funds and Accounts created and established pursuant to the Master Indenture and all amounts pledged to the payment of Debt Service for the Bonds pursuant to Section 501 of the Master Indenture, (i) shall be invested in compliance with the procedures established by the relevant Tax Certificate, and (ii) to the extent required by such Tax Certificate, the investment earnings thereon shall be deposited from time to time into the appropriate Rebate Account for timely payment of all amounts due and owing to the United States Department of the Treasury. Amounts on deposit in the Rebate Fund shall not be subject to the lien and pledge of the Master Indenture to the extent such amounts are required to be paid to the United States Department of the Treasury. The Authority shall verify or cause to be verified from the date of delivery of each Series the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that (x) all of requirements of this subsection (a) have been met on a continuing basis, (y) the proper amounts are deposited into each Rebate Account, and (z) the timely payment of all amounts due and owing to the United States Department of the Treasury from each Rebate Account has been made. Upon receipt of a verification report from an accounting or investment consultant retained for such purpose or an opinion of Bond Counsel that the balance in any Rebate Account is in excess of the amount required by the relevant Tax Certificate to be included therein, such excess shall be transferred to the Revenue Fund. Records of the determinations made with respect to the above covenant and the Rebate Fund shall be retained by the Authority until six years after the retirement of all of the Bonds.

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

(c) *Principal Accounts.* Moneys in each respective Principal Account shall be applied to pay Principal Installments on the related Bonds and any Repayment Obligations relating thereto and, in the Junior Subordinate Lien Principal Account, any Exchange Termination Payments or amounts necessary to collateralize the Authority's obligations under any Qualified Exchange Agreement.

(d) *Debt Service Reserve Fund; Series Reserve Accounts.* If, on any date that principal of or interest on Senior Lien Bonds of any Series is due and payable, there are insufficient moneys in the Principal Account or Interest Account, as the case may be, to make the required payment, then moneys, if any, in the Account of the Debt Service Reserve Fund created by the Series Indenture for the related Senior Lien Bonds of such Series shall be applied to pay the principal of and interest on the related Senior Lien Bonds then due and payable. If, on any date that principal of or interest on Subordinate Lien Bonds of any Series is due and payable there are insufficient moneys in the Principal Account or Interest Account, as the case may be to make the required payment, then moneys, if any, in the Account of the Debt Service Reserve Fund created by the Series Indenture for the related

Subordinate Lien Bonds of such Series shall be applied to pay the principal of and interest on the related Subordinate Lien Bonds of such Series then due and payable. If, on the date that principal of or interest on Junior Subordinate Lien Bonds is due and payable there are insufficient moneys in the Principal Account or Interest Account, as the case may be, to make the required payment, then moneys, if any, in the Account of the Debt Service Reserve Fund created by the Series Indenture for the related Series of Junior Subordinate Lien Bonds shall be applied to pay the principal of and interest on the related Junior Subordinate Lien Bonds of such Series then due and payable. Moneys shall in no event be transferred to or maintained in any Account of the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement for the related one or more Series of Bonds. Any moneys in excess of the Debt Service Reserve Requirement, if any, for any related Series shall be forthwith transferred to the Revenue Fund. If at any time (i) the balance in any Account of the Debt Service Reserve Fund, together with other available moneys and Investment Securities in the Trust Estate, shall be sufficient to pay all related Series of Bonds Outstanding, and (ii) all such related Series of Bonds Outstanding are then subject to redemption or other payment, then such balance in the related Account of the Debt Service Reserve Fund may be applied upon Authority Order to the redemption or payment of all the related Series of Bonds Outstanding.

(e) *General.* Notwithstanding any provision hereof pertaining to the application of moneys in any Fund or Account, amounts deposited in all Funds and Accounts (except the Rebate Fund) may be used, upon an Authority Order, for the payment of principal of and interest on the Bonds, any Authority Exchange Payment or any Repayment Obligation if there would otherwise be a default in payment of Debt Service, any Authority Exchange Payment or any Repayment Obligation.

Effect of Redemptions on Mandatory Sinking Fund Installments. Upon any redemption or purchase of Bonds of any Series and maturity for which Mandatory Sinking Fund Installments have been established, there shall be credited toward each such Mandatory Sinking Fund Installment thereafter to become due an amount bearing the same ratio to such Mandatory Sinking Fund Installment as the total principal amount of such Bonds so purchased or redeemed bears to the total amount of all such Mandatory Sinking Fund Installments to be credited. If, however, there shall be filed with the Trustee by an Authorized Officer written instructions specifying a different method for crediting Mandatory Sinking Fund Installments upon any such purchase or redemption of Bonds, then such Mandatory Sinking Fund Installments shall be so credited as shall be provided in such instructions. The portion of any such Mandatory Sinking Fund Installment remaining after the deduction of any such amounts credited towards the same (or the original amount of any such Mandatory Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Mandatory Sinking Fund Installment for the purpose of calculation of Mandatory Sinking Fund Installments due on a future date.

Investment of Funds and Accounts

(a) Moneys in each Fund and Account shall be invested at the written direction of the Authority, consistent with the required uses of such moneys, in Investment Securities. Investment Securities are deemed to be part of the Fund or Account for which purchased or to such Funds or Accounts to which such Investment Securities are subsequently transferred, and earnings, gains and losses on Investment Securities are to be credited or charged to the Fund or Account for which the Investment Securities were purchased or to such Funds or Accounts to which such Investment Securities are subsequently transferred. Earnings on, and profit or loss with respect to, the investments in the Rebate Fund shall be credited to or charged against the Rebate Fund.

(b) In computing the amount in any Fund or Account held by the Trustee under the provisions of the Master Indenture, obligations purchased as an investment of moneys therein shall be valued at their Value.

(c) Except as otherwise provided in the Master Indenture, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund or Account held by it.

(d) It shall not be necessary for any Paying Agent to give security for the deposit of any moneys with it held in trust for the payment of principal of or Redemption Price, if any, or interest on any Bonds.

(e) The Trustee shall advise the Authority in writing, on or before the fifth Business Day of each calendar month, or as soon thereafter as practicable, of all investments held for the credit of each Fund and Account in its custody under the provisions of the Master Indenture as of the end of the preceding month.

(f) Except for amounts invested in investment contracts or in other Investment Securities which shall be subject to redemption at any time at face value by the holder thereof, at the option of such holder, amounts in the Funds and Accounts shall be invested in Investment Securities which shall mature at or before the time such amounts are required to be used pursuant to the Master Indenture.

Moneys Held in Trust. All moneys which the Trustee shall have withdrawn or set aside for the purpose of paying any of the Obligations secured by the Master Indenture, either at the maturity thereof or upon call for redemption, shall be held in trust for the respective Owners of such Obligations and such moneys shall not be subject to lien or attachment by any creditor of the Authority or the Trustee. Any moneys which shall be so set aside by the Trustee and which shall remain unclaimed by the Owners of such Obligations for the period of three years after the final maturity date on such Obligations, or, if less, the maximum time provided by the laws of the State prior to escheat to the State, shall be paid to the Authority or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the Owners of such Obligations shall look only to the Authority or to such officer, board or body, as the case may be, for payment and then only to the extent of the amounts so received without any interest thereon, and the Trustee shall have no responsibility with respect to such moneys. All interest earned on the investment of such amounts shall be paid to the Authority as and when received by the Trustee, free and clear of the lien of the Master Indenture. Any such moneys held by a Paying Agent for the payment of Obligations which have not been used for such purpose shall be remitted by the Paying Agent to the Trustee within 30 days of the Paying Agent's receipt thereof.

Use of Available Funds. Nothing in the Master Indenture shall be construed to prevent the Authority from depositing in any Fund or Account created under the provisions of the Master Indenture any moneys legally available to the Authority for such deposit.

Certain Covenants

Payment of Obligations. The Authority shall duly and punctually pay or cause to be paid (but only from the Trust Estate), the principal (or, if Bonds have been duly called for redemption, the Redemption Price) of each and every Obligation and the interest thereon, at the dates and places and in the manner mentioned in such Obligation according to the true intent and meaning thereof. On each Interest Payment Date, Principal Installment Date or Qualified Exchange Agreement Payment Date, as applicable, the Trustee shall transfer to the Paying Agent from the Interest Account and the Principal Account, respectively, sums sufficient to pay the interest on and/or principal of and premium, if any, on the Bonds and any Authority Exchange Payments due on such date. In the event that such transfer has not been effected prior to noon on the Interest Payment Date, Principal Installment Date or Qualified Exchange Agreement Payment Date, as applicable, the Paying Agent shall immediately notify the Trustee.

Offices for Servicing Bonds. The Authority shall at all times cause to be maintained an office or agency where Bonds may be presented for registration, transfer, exchange or payment and where notices, presentations and demands in respect of the Bonds or of the Master Indenture may be served. The Authority has appointed the Trustee pursuant to the Master Indenture as agent to maintain such office or agency for the registration, transfer or exchange of Bonds, and for the service of such notices, presentations and demands. The Authority has appointed the Paying Agent pursuant to the Master Indenture as agent to maintain such offices or agencies for the payment of Bonds.

Further Assurances. At any time and at all times the Authority shall pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, indentures, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues pledged or assigned under the Master Indenture, or intended so to be, or which the Authority may hereafter become bound to pledge or assign.

Protection of Security; Power to Issue Bonds and Pledge Revenues and Other Funds; Indenture to Constitute Contract. The Authority is duly authorized pursuant to the Act to issue the Bonds, to enter into Qualified

Exchange Agreements (with such prior approvals required by the laws of the State) and the Master Indenture, to pledge the Pledged Revenues and the Trust Estate, and to obtain moneys from the State Road Fund to make all payments contemplated by the Master Indenture and each Series Indenture in the manner and to the extent provided in the Master Indenture. The Obligations and the provisions of the Master Indenture and each Series Indenture are and will be valid and legally enforceable obligations of the Authority in accordance with their respective terms. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Revenues and the Trust Estate and all the rights of the Owners hereto against a claims and demands of all Persons whomsoever.

In consideration of the purchase and acceptance of the Obligations by those who shall own the same from time to time, the provisions of the Master Indenture shall be a part of the contract of the Authority with the Owners and shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners.

Tax Covenants. The Authority covenants for the benefit of the Owners of each Series the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that it will not take any action or omit to take any action with respect to such Bonds, the proceeds thereof or any other funds of the Authority if such action or omission would cause the interest on such Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, would subject the Authority to any penalties under Section 148 of the Code, or would cause such Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code. The foregoing covenants shall remain in full force and effect notwithstanding the payment in full or defeasance of such Bonds until the date on which all obligations of the Authority in fulfilling the above covenant under the Code have been met. The Authority shall execute and deliver from time to time such certificates, instruments and documents as shall be deemed necessary or advisable to evidence compliance by the Authority with said Code sections and the regulations thereunder with respect to the use of the proceeds of such Bonds and any other funds of the Authority. Such certificates, instruments and documents may contain such stipulations as shall be necessary or advisable in connection with the stated purpose of the Master Indenture and the foregoing provisions thereof, and the Authority and the Trustee covenant and agree to comply with the provisions of any such stipulation throughout the term of such Bonds.

Books of Account; Annual Audit. The Authority shall cause to be kept and maintained proper books of account relating to the funds and accounts established under the Master Indenture, in which full, true and correct entries will be made, in accordance with generally accepted accounting principles, of all transactions of or in relation to the business of the Authority with respect to the funds and accounts established under the Master Indenture, and after the end of each Fiscal Year shall cause such books of account to be audited by a certified public accountant or firm of such accountants duly licensed to practice and practicing as such under the laws of the State, selected by the Authority, who is independent and not under the domination of the Authority, who does not have any substantial interest, direct or indirect, in the Authority, which audit shall be completed as soon as possible after the end of each Fiscal Year but in any event within 270 days thereafter. A copy of each annual balance sheet statement of net assets, statement of revenues and expenses, and statement of cash flows, showing in reasonable detail the financial condition of the Funds and Accounts established under the Master Indenture, as of the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for the Fiscal Year, shall be filed promptly with the Trustee and shall be available for inspection by any Owner at the office of the Trustee designated for such purposes during normal business hours.

Compliance with Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by the Master Indenture or a Series Indenture to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, shall have happened and shall have been performed, and such Bonds, together with all indebtedness of the Authority, shall be within every debt and other limit prescribed by law.

Waiver of Laws. To the extent permitted by law and public policy, the Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Master Indenture, any Series or Supplemental Indenture, or the Obligations, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or claims for interest by the purchase or funding of such Bonds, or claims for interest by any other arrangement.

Security Interest in 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: With respect to interest on any Junior Subordinate Lien Bonds and all Authority Exchange Payments (other than any Exchange Termination Payment) secured on a parity with such Bonds, to the payment to the Persons entitled thereto of all installments then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference; and

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

Seventh: With respect to Junior Subordinate Lien Bonds, to the payment to the Persons entitled thereto of the unpaid principal of any such Bonds, and to any qualified Counterparty any Exchange Termination Payment secured on a parity with such Bonds then due, if the amounts available shall not be sufficient to pay in full all such Bonds and any Exchange Termination Payment, then to the payment thereof ratably, without any discrimination or preference.

Termination of Proceedings. In case any proceedings taken on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Authority, the Trustee and the Owners shall be restored to their former positions and rights under the Master Indenture, respectively, and all rights, remedies, powers and duties therein conferred shall continue as though no such proceeding had been taken.

Remedies Not Exclusive. No remedy conferred in the Master Indenture upon or reserved to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No Waiver of Default. No delay or omission of any Owner of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Master Indenture to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Notice of Event of Default. The Trustee shall give to the Owners notice of each Event of Default under the Master Indenture known to the Trustee within 90 days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of an Event of Default shall be given by the Trustee by mailing written notice thereof (1) to all registered Owners of Bonds, as the names and addresses of such Owners appear upon the registration records kept by the Trustee; (2) to such Beneficial Owners as have filed their names and addresses with the Trustee for that purpose; and (3) to Qualified Counterparties.

Defeasance

(a) If the Authority shall pay or cause to be paid, or there shall otherwise be paid, (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Master Indenture, and (ii) to each Qualified Counterparty, all Authority Exchange Payments then due, and in any case provided that all expenses then due and owing shall have been paid, then the pledge of any Pledged Revenues and other moneys and property pledged hereunder and all covenants, agreements, and other obligations of the Authority to the Owners, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Authority to be prepared and filed with the Authority, and upon Authority Request, shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys or Investment Securities held by them pursuant to the Master Indenture which are not required for the payment of principal or Redemption Price, if applicable, on Bonds. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, the principal or Redemption Price, if applicable, and interest due or to become due thereon, and to each Qualified Counterparty all Authority Exchange Payments then due, at the times and in the manner stipulated therein and in the Master Indenture and in the Qualified Exchange Agreement, such Bonds and each Qualified Counterparty shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of the Authority to the Owners of such Bonds and to each Qualified Counterparty shall thereupon cease, terminate and become void and be discharged and satisfied.

(b) Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by Fiduciaries (through deposit by the Authority of funds for such payment or redemption or otherwise) shall, at the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above. All Outstanding Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article X notice of redemption on said date of such Bonds, (ii) there shall have been deposited with, or credited to the account (at a Federal Reserve Bank) of, the Trustee, or another Fiduciary acting as escrow agent either moneys in an amount which shall be sufficient, or non callable Investment Securities not subject to prepayment (which for the purpose of this Article, shall include only those obligations described in paragraphs (a) and (b) of the definition thereof in Section 1101 of the Master Indenture, but shall not include shares of unit investment trusts or mutual

funds regardless of the rating thereto), the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee or another Fiduciary acting as escrow agent, at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be; provided that, except in the event of a full cash defeasance or a current refunding of less than ninety days to maturity or Redemption Date, the sufficiency of such moneys or investments must be confirmed to the Authority in an Accountant's Certificate, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with Section 1101 of the Master Indenture and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds. Neither Investment Securities nor moneys deposited with the Trustee pursuant to Section 1101 of the Master Indenture nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee or other Fiduciary acting as escrow agent, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge.

(c) Any Authority Exchange Payments are deemed to have been paid and the applicable Qualified Exchange Agreement terminated when payment of all Authority Exchange Payments due and payable to each Qualified Counterparty under its respective Qualified Exchange Agreement have been made or duly provided for to the satisfaction of each Qualified Counterparty and the respective Qualified Exchange Agreement has been terminated.

(d) If, through the deposit of moneys by the Authority or otherwise, the Fiduciaries shall hold, pursuant to the Master Indenture, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which the Authority shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then upon Authority Request all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or redemption of Outstanding Bonds.

Supplemental Indentures

Modification and Amendment Without Consent. Notwithstanding any other provisions of Article VII of the Master Indenture, the Authority may, from time to time and at any time, without the consent of or notice to any Owner, enter into such indentures supplemental to the Master Indenture which, in the opinion of the Trustee, who may rely upon an opinion of Counsel, shall not materially and adversely affect the interest of the Owners (which Supplemental Indentures shall thereafter form a part hereof) in order:

(a) to add to the covenants and agreements of the Authority in the Master Indenture other covenants and agreements thereafter to be observed by the Authority;

(b) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Master Indenture;

(c) to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Master Indenture;

(d) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee;

(e) to include as Pledged Revenues or money under, and subject to the provisions of, the Master Indenture any additional revenues or money legally available therefor;

(f) to cure any ambiguity, defect, omission or inconsistent provision in the Master Indenture or to insert such provisions clarifying matters or questions arising under the Master Indenture as are necessary or desirable, provided such action shall not adversely affect the interest of the Owners hereunder;

(g) to modify any of the provisions of the Master Indenture in any respect whatever; provided, however, that (1) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the execution by the Authority of such Supplemental Indenture shall cease to be Outstanding, and (2) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the execution by the Authority of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(h) to modify, eliminate and/or add to the provisions of the Master Indenture to such extent as shall be necessary to effect the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted, and to add to the Master Indenture such other provisions as may be expressly permitted by the Trust Indenture Act of 1939;

(i) to make the terms and provisions of the Master Indenture, including the lien and security interest granted therein, applicable to a Qualified Exchange Agreement, and to modify Section 208 of the Master Indenture with respect to any particular Qualified Exchange Agreement;

(j) provided the Authority has first obtained a Confirmation, to amend the Master Indenture to allow for any Bonds to be supported by a Credit Enhancement Facility or Credit 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 Credit Facility, such change must be approved in writing by the related Credit Facility Provider or Credit Facility Provider;

(n) if the Bonds affected by any change are secured by a Credit Enhancement Facility, to make any change approved in writing by the related Credit Facility Provider; provided that, if any of the Bonds so affected are rated by a Rating Agency, such change shall not result in a reduction of the rating applicable to any of the Bonds so affected; or

(o) to make any other change in the Master Indenture which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners. In making any such judgment, the Trustee may rely upon an opinion of Counsel.

Supplemental Indentures Effective with Consent of Owners. The provisions of the Master Indenture may also be modified or amended at any time or from time to time by a Supplemental Indenture, subject to the consent of Owners in accordance with and subject to the provisions of Sections 704, 705 and 706 of the Master Indenture, upon the Trustee's receipt of an opinion of Bond Counsel that such modification or amendment will not adversely affect the exclusion from gross income of interest, on Bonds the interest on which is intended to be excluded from the gross income of the owners thereof for federal income tax purposes.

General Provisions Relating to Supplemental Indentures. The Master Indenture shall not be modified or amended in any respect except in accordance with and subject to the provisions of Article VII of the Master Indenture. Nothing contained in the Master Indenture shall affect or limit the rights or obligations of the Authority to execute or deliver any resolution, act or other instrument pursuant to the provisions of Section 706 of the Master Indenture or the right or obligation of the Authority to execute and deliver to the Trustee or any Paying Agent any instrument elsewhere in the Master Indenture provided or permitted to be delivered to the Trustee or any Paying Agent.

Before the execution and delivery of any Supplemental Indenture, the Authority and the Trustee shall have received an opinion of Bond Counsel stating that such Supplemental Indenture has been duly and lawfully executed in accordance with the provisions of the Master Indenture, is authorized or permitted by the Master Indenture, is valid and binding upon the Authority and enforceable in accordance with its terms and will not adversely affect the exclusion from gross income of interest on Bonds the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes. Each such Supplemental Indenture shall also be filed with each Rating Agency.

The Trustee is hereby authorized to make all further agreements and stipulations which may be contained in any Supplemental Indenture, and, in taking such action, the Trustee shall be fully protected in relying on an opinion of Counsel that such Supplemental Indenture is authorized or permitted by the provisions of the Master Indenture.

Powers of Amendment with Consent of Owners. Any modification or amendment of the Master Indenture and of the rights and obligations of the Authority and of the Owners, in any particular, may be made by a Supplemental Indenture, with the written consent given as provided in Section 704 of the Master Indenture, as set out below, of the Owners of a majority in unpaid principal amount of the Bonds Outstanding at the time such consent is given, with a Confirmation. Unless with the unanimous written consent of all Owners, however, no such amendment shall:

(a) permit a change in the terms of redemption or maturity of the principal of any outstanding Obligation or of any installment of interest thereon or a reduction in the principal amount thereof or the rate of interest or redemption premium thereon;

(b) reduce the percentage of Obligations the consent of the Owners of which is required to effect such amendment; or

(c) change the existing preferences or priorities of Obligations over any other Obligations or create any new preferences or priorities.

A copy of such proposed Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Trustee, at the expense of the Authority, to the Owners (but failure to mail such copy and request shall not affect the validity of the Supplemental Indenture when consented to as provided in Section 704 of the Master Indenture). Such Supplemental Indenture shall not be effective unless and until there shall have been filed with the Trustee the written consents of Owners of the percentage of Outstanding Bonds specified in this Section.

Each such consent shall be effective only if accompanied by proof of the ownership at the date of such consent of the Obligations with respect to which such consent is given, which proof, in the case of Bonds, shall be such as is permitted by Section 1102 of the Master Indenture. A certificate or certificates filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with Section 1102 of the Master Indenture shall be conclusive that the consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Owner of the Obligations giving such consent and, anything in the Master Indenture to the contrary notwithstanding, upon any subsequent Owner of such Obligations and of any Obligations issued in exchange therefor (whether or not such subsequent Owner thereof has notice thereof), unless such consent is revoked in writing by the Owner of such Obligations giving such consent or a subsequent owner thereof by filing such revocation with the Trustee, prior to the time when the written statement of

the Trustee provided for below is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Owner filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Owners of the required percentage of Obligations shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Authority a written statement that the Owners of such required percentage of Obligations have filed such consents. Such written statement shall be conclusive that such consents have been so filed. If the Owners of required percentage of the Obligations shall have consented to and approved the execution thereof as provided in the Master Indenture, no Owner shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any Supplemental Indenture pursuant to the provisions of the Master Indenture, the Master Indenture shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Master Indenture of the Authority, the Trustee and all Owners shall thereafter be determined, exercised and enforced in all respects under the provisions of the Master Indenture as so modified and amended.

Mailing of Notices. Any provision in the Master Indenture for the mailing of a notice or other document to Owners of Obligations shall be fully complied with if it is mailed postage prepaid only to each registered owner of Obligations then Outstanding at his address, if any, appearing upon the registration records kept by the Trustee, and to the Trustee.

Modifications by Unanimous Action. Notwithstanding anything contained in the foregoing provisions of the Master Indenture the rights and obligations of the Authority and of the Owners of the Obligations and the terms and provisions of the Obligations or of the Master Indenture may be modified or amended in any respect upon the execution and delivery of a Supplemental Indenture and the consent of the Owners of all of the Obligations then Outstanding, such consent to be given as provided in Section 704 of the Master Indenture, upon the Trustee's receipt of an opinion of Bond Counsel that such modification or amendment will not adversely affect the exclusion from gross income of interest on Bonds the interest on which is intended to be excluded from the gross income of the owners thereof for federal income tax purposes; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto in addition to the consent of the Authority and of the Owners.

Exclusion of Bonds. Bonds, if any, owned or held by or for the account of the Authority, the Commission or the Department shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the Master Indenture, and neither the Authority, the Commission nor the Department shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the Master Indenture. At the time of any consent or other action taken under the Master Indenture, the Authority shall furnish the Trustee an Authority Certificate, upon which the Trustee may rely, describing all Bonds so to be excluded.

Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as in Article VII of the Master Indenture provided may, and if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of such Bond for such purpose at the office of the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the Authority or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Authority conform to such action shall be prepared and delivered, and upon demand of the Owner of any such Bond then Outstanding shall be exchanged, without cost to such Owner, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds.

Qualified Counterparty Consent. Notwithstanding anything to the contrary in the Master Indenture, no amendment, supplement or modification to the Master Indenture that adversely affects any Qualified Counterparty shall be effective without the prior written consent of such Qualified Counterparty.

APPENDIX C

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic information is furnished for information only. The Bonds do not constitute a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any governmental unit within the meaning of any constitutional or statutory debt limitation and are special limited obligations of NMFA payable solely from the Pledged Revenues. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2008 Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State, the NMFA, the Commission, the Department, or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS."

Generally

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

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

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

Governmental Organization

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

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

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

Economic and Demographic Information

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

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

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State’s economy. The following table presents data on employment for the State by industry compiled by U.S. Department of Commerce.

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Total Full-time and Part-time Employment by Industry

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2001⁽¹⁾</u>	<u>2006⁽¹⁾</u>	<u>1980-1990</u>	<u>Growth 1990-2000</u>	<u>2001-2006⁽¹⁾</u>
Total employment	598,199	767,139	972,954	977,815	1,009,758	28.2%	26.8%	3.3%
Wage and salary employment	513,306	635,725	789,690	801,610	878,449	23.8%	24.2%	9.6%
Proprietors employment	84,893	131,414	183,264	176,205	221,309	54.5%	39.7%	25.6%
Farm proprietors employment	13,400	13,600	14,985	17,470	17,159	1.5%	10.2%	-1.8%
Nonfarm proprietors employment	71,493	117,814	168,279	158,735	204,150	64.8%	42.8%	28.6%
By Industry								
Farm employment	22,191	19,766	21,760	24,091	24,384	-10.9%	10.1%	1.2%
Nonfarm employment	576,008	747,373	951,194	953,724	1,075,374	29.8%	27.3%	12.8%
Private employment	428,156	568,085	748,804	748,250	860,855	32.7%	31.8%	15.1%
Agricultural services, forestry, fishing and other	4,358	8,414	13,548	7,019	7,057	93.1%	61.0%	0.5%
Mining	31,152	20,489	19,323	19,469	22,910	-34.2%	-5.7%	17.7%
Oil and gas extraction	15,116	14,068	14,425	6,447	7,211	-6.9%	2.5%	11.9%
Mining and support activities for mining ⁽²⁾	16,036	6,421	4,898	13,022	15,699	149.7%	23.7%	20.6%
Construction	38,873	40,606	59,895	63,144	80,357	4.5%	47.5%	27.3%
General building contractors	11,933	11,858	16,710	18,050	21,266	-0.6%	40.9%	17.8%
Heavy construction contractors	8,287	6,729	8,720	10,365	11,643	-18.8%	29.4%	12.3%
Special trade contractors	18,653	22,019	34,465	34,729	47,448	18.0%	56.5%	36.6%
Manufacturing ⁽³⁾	35,963	47,732	48,788	49,913	47,613	32.7%	2.2%	-4.6%
Durable goods	21,583	32,500	33,275	32,671	30,271	50.6%	2.4%	-7.4%
Nondurable goods ⁽⁴⁾	14,380	15,232	15,513	17,242	17,342	5.9%	1.8%	0.6%
Transportation and public utilities ⁽⁵⁾	30,732	34,130	43,350	39,423	39,446	11.1%	27.0%	0.1%
Wholesale trade	22,733	27,896	33,751	27,970	30,102	22.6%	21.1%	7.6%
Retail trade ⁽⁶⁾	98,075	134,482	172,516	175,525	187,617	37.1%	28.3%	6.9%
Finance, insurance, and real estate ⁽⁷⁾	37,945	46,955	62,905	60,113	74,509	23.7%	34.0%	24.0%
Services ⁽⁸⁾	128,325	207,381	294,728	308,674	371,244	61.6%	42.1%	20.3%
Government and government enterprises	147,852	179,288	202,390	205,474	214,519	21.3%	63.1%	4.4%
Federal, civilian	29,963	31,621	30,205	28,785	30,549	5.5%	-4.5%	6.1%
Military	21,794	22,552	17,167	17,106	15,764	3.5%	-23.9%	-7.9%
State and local	96,095	125,115	155,018	159,583	168,206	30.2%	23.9%	5.4%
State governmental	42,560	55,722	64,654	65,503	63,868	30.9%	16.0%	-2.5%
Local government	53,535	69,393	90,364	94,080	104,338	29.6%	30.2%	10.9%

⁽¹⁾ Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry-specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2006 employment-by-industry data is not comparable with employment-by-industry data for the years 2000, 1990 and 1980. NAICS industry groups and subgroups in the 2001 and 2006 data have been combined or extracted to approximate the SIC industry groups listed for the years before 2001.

⁽²⁾ The SIC subgroups, "Metal Mining," "Coal Mining" and "Nonmetallic Minerals, Except Fuels" were combined to approximate the NAICS category "Mining and Support Activities for Mining."

⁽³⁾ The NAICS subcategories of "Information – Publishing Industries, Except Internet" and "Information – Internet Publishing and Broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

⁽⁴⁾ The NAICS subcategories of "Information – Publishing Industries, Except Internet" and "Information – Internet Publishing and Broadcasting" and the NAICS "Manufacturing – Nondurable Goods" category have been combined to approximate the SIC "Manufacturing – Nondurable Goods" subcategory.

⁽⁵⁾ The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS subcategories of "Information – Broadcasting, Except Internet" and "Information – Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

⁽⁶⁾ The NAICS subcategory of "Accommodation and Food Services – Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

⁽⁷⁾ The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

⁽⁸⁾ The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, Except Public Administration," and the subcategories of "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," "Information – Other Information Services" have been combined to approximate the SIC "Services" category.

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2007.)

Wages and Salaries by Industry Sector
1990, 2000, 2001 and 2006

	New Mexico (Dollars in thousands)				United States (Dollars in millions)				Percent Change 2001 – 2006⁽¹⁾		Distribution of 2006 Wages & Salaries⁽¹⁾	
	2006⁽¹⁾	2001⁽¹⁾	2000	1990	2006⁽¹⁾	2001⁽¹⁾	2000	1990	N.M.	U.S.	N.M.	U.S.
Farm Total	237,259	176,072	179,521	95,849	19,554	17,920	16,781	11,767	34.8%	9.1%	0.8%	0.3%
Non-Farm												
Private												
Agricultural Services,												
Forestry, Fishing	90,353	72,008	143,971	62,663	18,343	15,968	30,886	15,164	25.5%	14.9%	0.3%	0.3%
Mining	1,134,771	726,676	671,919	507,585	48,337	32,132	31,219	26,655	56.2%	50.4%	3.7%	0.8%
Construction	2,143,823	1,481,698	1,306,228	577,016	351,491	271,681	256,807	140,468	44.7%	29.4%	7.1%	5.8%
Manufacturing ⁽²⁾	1,788,714	1,670,758	1,656,465	980,349	794,415	773,184	830,026	561,384	7.1%	2.7%	5.9%	13.2%
Transportation												
& Public Utilities ⁽³⁾	1,409,488	1,239,195	1,351,378	884,830	318,575	295,851	313,333	179,390	13.7%	7.7%	4.7%	5.3%
Wholesale Trade	1,048,119	834,834	950,471	552,522	346,621	283,974	332,549	189,402	25.5%	22.1%	3.5%	5.8%
Retail Trade ⁽⁴⁾	3,182,711	2,564,031	2,434,023	1,316,067	548,102	463,539	449,642	264,791	24.1%	18.2%	10.5%	9.1%
Finance, Insurance												
& Real Estate ⁽⁵⁾	1,408,191	1,060,638	1,027,385	543,814	583,365	444,684	431,911	207,758	32.8%	31.2%	4.6%	9.7%
Services ⁽⁶⁾	9,648,779	6,633,316	5,916,169	2,945,866	1,976,859	1,535,895	1,382,404	644,429	45.5%	28.7%	31.8%	32.9%
Total Private	21,854,949	16,283,154	15,458,009	8,370,712	4,986,108	4,116,908	4,058,777	2,229,441	34.2%	21.1%	72.1%	82.9%
Government												
Federal, Civilian	1,819,857	1,366,112	1,280,241	917,118	174,632	134,679	135,011	99,598	33.2%	29.7%	6.0%	2.9%
Military	676,002	495,168	477,480	440,596	83,721	54,970	50,520	46,332	36.5%	52.3%	2.2%	1.4%
State & Local	5,712,818	4,700,434	4,374,109	2,472,762	750,052	615,467	572,880	356,505	21.5%	21.9%	18.9%	12.5%
Total Government	8,208,677	6,561,714	6,131,830	3,830,476	1,008,405	805,116	758,411	502,435	25.1%	25.2%	27.1%	16.8%
Non-Farm Total:	30,063,626	22,844,868	21,589,839	12,201,188	5,994,513	4,922,024	4,817,188	2,731,876	31.6%	21.8%	99.2%	99.7%
Total	30,300,885	23,020,940	21,769,360	12,297,037	6,014,067	4,939,944	4,833,969	2,743,643	31.6%	21.7%	100.0%	100.0%

⁽¹⁾ Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry-specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2006 employment-by-industry data is not comparable with employment-by-industry data for the years 2000, 1990 and 1980. NAICS industry groups and subgroups in the 2001 and 2006 data have been combined or extracted to approximate the SIC industry groups listed for the years before 2001.

⁽²⁾ The NAICS subcategories of "Information – Publishing industries, Except Internet" and "Information – Internet Publishing and Broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

⁽³⁾ The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS subcategories of "Information – Broadcasting, Except Internet" and "Information – Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

⁽⁴⁾ The NAICS subcategory of "Accommodation and Food Services – Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

⁽⁵⁾ The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

⁽⁶⁾ The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, Except Public Administration," and the subcategories of "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," and "Information – Other Information Services" have been combined to approximate the SIC "Services" category.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2007.

State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1997-2006

Year	Civilian Labor Force (000)		Number Employed (000)		Unemployment Rate (000)		
	N.M. ⁽¹⁾	U.S. ⁽¹⁾	N.M. ⁽¹⁾	U.S. ⁽¹⁾	N.M.	U.S.	NM as % of U.S. Rate ⁽²⁾
1997	823	136,297	769	129,558	6.6%	4.9%	135%
1998	836	137,673	784	131,463	6.2	4.5	138
1999	840	139,368	793	133,488	5.6	4.2	133
2000	852	142,583	810	136,891	5.0	4.0	125
2001	864	143,734	821	136,933	4.9	4.7	104
2002	872	144,863	823	136,485	5.5	5.8	95
2003	885	146,510	833	137,736	5.9	6.0	98
2004	902	147,401	850	139,252	5.8	5.5	105
2005	915	149,830	867	141,730	5.3	5.1	104
2006	935	151,428	896	144,427	4.2	4.6	91

⁽¹⁾ Figures rounded to the nearest thousand.

⁽²⁾ Figures rounded to nearest whole percent.

(Source: U.S. Department of Labor, Bureau of Labor Statistics, October 2007.)

State of New Mexico and United States
Per Capita Personal Income
1997-2006⁽¹⁾

Year	Per Capita Income			Annual % Change	
	New Mexico	U.S.	NM as % of U.S. ⁽²⁾	New Mexico ⁽³⁾	U.S. ⁽³⁾
1997	19,698	25,334	78%	3.5%	4.8%
1998	20,656	26,883	77	4.9	6.1
1999	21,042	27,939	75	1.9	3.9
2000	22,133	29,843	74	5.2	6.8
2001	24,083	30,562	79	8.8	2.4
2002	24,247	30,795	79	0.7	0.8
2003	24,846	31,466	79	2.5	2.2
2004	26,201	33,072	79	5.5	5.1
2005	28,042	34,685	81	7.0	4.9
2006 ⁽¹⁾	29,725	36,629	81	6.0	5.6

⁽¹⁾ Preliminary estimate.

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2007.)

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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 2008 Bonds, Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the New Mexico Finance Authority, proposes to issue its opinion in substantially the following form:

SUTIN THAYER & BROWNE

A PROFESSIONAL CORPORATION

LAWYERS

IRWIN S. MOISE (1906-1984)
LEWIS R. SUTIN (1908-1992)
FRANKLIN JONES (1919-1994)
RAYMOND W. SCHOWERS (1948-1995)
GRAHAM BROWNE (1935-2003)
MICHAEL G. SUTIN (OF COUNSEL)
BENJAMIN ALLISON
C. SHANNON BACON
PAUL BARDACKE
JAMES E. BRISTOL III
ANNE P. BROWNE
SUZANNE WOOD BRUCKNER
CRISTY J. CARBON-GAUL
MARK CHAIKEN
SUSAN G. CHAPPELL
MARIA MONTOYA CHAVEZ
SAUL COHEN
J. KATHERINE GIRARD

MICHAEL J. GOLDEN
GAIL GOTTLIEB
ANDREA R. GUENDELMAN
SUSAN M. HAPKA
HELEN HECHT
JAY D. HERTZ
ROBERT G. HEYMAN
CHRISTOPHER A. HOLLAND
HENRY A. KELLY
KERRY KIERNAN
PETER S. KIERST
RACHEL S. KING
ANDREW P. KNIGHT
TWILA B. LARKIN
DEREK V. LARSON
C. JOSEPH LENNIHAN
STEVEN DOUGLAS LOONEY
ELIZABETH J. MEDINA

VICTOR P. MONTOYA
JEAN C. MOORE
SARITA NAIR
MICHELLE K. OSTRYE
CHARLES J. PIECHOTA
JAY D. ROSENBLUM
SANDRA E. ROTRUCK
FRANK C. SALAZAR
RONALD SEGEL
RAY SHOLLENBARGER
ANDREW J. SIMONS
JEANNE Y. SOHN
TRAVIS R. STEELE
NORMAN S. THAYER
BENJAMIN E. THOMAS
CHRISTINA S. WEST

TWO PARK SQUARE
6565 AMERICAS PARKWAY, N.E.
ALBUQUERQUE, NEW MEXICO 87110
POST OFFICE BOX 1945
ALBUQUERQUE, NEW MEXICO 87103
505-883-2500
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317 PASEO DE PERALTA
SANTA FE, NEW MEXICO 87501
POST OFFICE BOX 2187
SANTA FE, NEW MEXICO 87504
505-988-5521
FAX 505-982-5297

WWW.SUTINFIRM.COM

Draft: March 26, 2008

April 8, 2008

New Mexico Finance Authority
Santa Fe, New Mexico

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the New Mexico Finance Authority (the "NMFA") of (i) its \$115,200,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008A (the "2008A Bonds"), and (ii) its \$220,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008B (the "2008B Bonds and together with the 2008A Bonds the "2008A/B Refunding Bonds"). The 2008A/B Refunding Bonds are being issued for the purpose of providing funds to refund outstanding bonds of the NMFA issued on behalf of the Commission.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 et seq., NMSA 1978, as amended and supplemented (the "NMFA Act"). The 2008A/B Refunding Bonds are being issued pursuant to the March 20, 2008 direction of the Commission, Chapter 3, Laws of New Mexico 2003 (1st Special Session) (compiled in part as Sections 67-3-59.2, 67-3-59.3 and 67-3-65.1) (the "GRIP Financing Legislation"), the NMFA Act, resolutions adopted by the NMFA on February 28, 2008 and on March 27, 2008 (collectively, the "Resolutions"), the Master Indenture of Trust dated as of May 1, 2004 (the "Master Indenture") between the NMFA and Bank of Albuquerque, N.A., as trustee (the "Trustee") and the Fifth Series Indenture of Trust dated as of April 1, 2008 (the "Fifth Series Indenture" and collectively with the Master Indenture, the "Indenture") between the NMFA and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have examined the provisions of the NMFA Act, the GRIP Financing Legislation, the Resolutions, the Indenture, and an executed bond of the first maturity of each series of the 2008A/B Refunding Bonds. We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion. Regarding questions of fact material to our opinion, we have relied on the representations of the NMFA contained in the Resolutions, and in the certified proceedings and other

certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion that, under the law existing on the date of this opinion:

B. The NMFA is a public body politic and corporate, separate and apart from the State of New Mexico, constituting a governmental instrumentality, duly organized and validly existing under the laws of the State of New Mexico and has lawful authority to issue the 2008A/B Refunding Bonds.

C. The Resolutions have been duly adopted by the NMFA, are valid and binding obligations of the NMFA and create a valid lien on and pledge of the Pledged Revenues for the payment of principal of and interest on the 2008A/B Refunding Bonds.

D. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Pledged Revenues and the funds and accounts held by the Trustee and pledged under the Indenture to secure the payment of the principal of and interest on the 2008A/B Refunding Bonds on a parity with other Subordinate Lien Bonds issued or to be issued under the Indenture, and with a lien subordinate to the lien of thereon of the Senior Lien Bonds issued or to be issued under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

E. The 2008A/B Refunding Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Pledged Revenues, the funds and accounts held by the Trustee and pledged under the Indenture, and do not constitute a debt or liability of the State or any subdivision thereof within the meaning of any constitutional or statutory debt limitation.

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

1. the rights and obligations under the 2008A/B Refunding Bonds, the Resolutions and the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the NMFA;

2. we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2008A/B Refunding Bonds and express herein no opinion relating thereto;

3. we express no opinion as to the validity or enforceability of, or the security provided by, the liquidity facilities and credit enhancement facilities issued by UBS AG or State Street Bank and Trust Company with respect to the 2008A/B Refunding Bonds;

4. 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;

5. our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters;

6. 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;

7. we have not addressed, nor do we express any opinion on, the tax consequences to any person regarding the investment in, the ownership or disposition of, or the accrual or receipt of interest on, the 2008A/B Refunding Bonds; and

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

Very truly yours,

SUTIN, THAYER & BROWNE
A Professional Corporation

FORM OF OPINION OF SPECIAL TAX COUNSEL

Upon the issuance of the Series 2008 Bonds, Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the New Mexico Finance Authority, proposes to issue its opinion in substantially the following form:

_____, 2008

New Mexico Finance Authority
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2008A
New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2008B

We have acted as Special Tax Counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its (a) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008A in the aggregate principal amount of \$115,200,000 (the "Series 2008A Bonds"), and (b) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008B in the aggregate principal amount of \$220,000,000 (the "Series 2008B Bonds" and, collectively with the Series 2008A Bonds, the "Series 2008 Bonds"). The Series 2008 Bonds are being issued for the purpose of providing funds to refund certain outstanding bonds of the NMFA.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA, the New Mexico Department of Transportation ("NMDOT") and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Furthermore, with respect to the validity of the Series 2008 Bonds, we are relying upon the opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the NMFA. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2008 Bonds. The NMFA and NMDOT have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2008 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008 Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and NMDOT with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2008 Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as presently enacted and construed, as follows:

1. Interest on the Series 2008 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Interest on the Series 2008 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 2008 Bonds; and

(b) although we have rendered an opinion that interest on the Series 2008 Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of or the accrual or receipt of interest on, the Series 2008 Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds.

Respectfully submitted,

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

DTC, New York, NY, will act as securities depository for the Series 2008 Bonds. The Series 2008 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 2008 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008 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 2008 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 2008 Bonds, except in the event that use of the book-entry system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 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 2008 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 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008 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 2008 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 2008 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 2008 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 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the NMFA or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the NMFA does not have responsibility for distributing such notices to the Beneficial Owners.

The NMFA does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Series 2008 Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2008 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 2008 Bonds.

DTC may discontinue providing its services as securities depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.



NEW ISSUE — BOOK-ENTRY ONLY**Series C Ratings: Moody's "Aa3/VMIG 1"****S&P "AA/A-1+"****Series D Ratings: Moody's "Aa3/VMIG 1"****S&P "AA/A-1+"****(See "RATINGS" herein)**

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2008C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. Interest on the Series 2008D Bonds is taxable as ordinary income for purposes of federal income tax. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2008C/D Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of or the accrual or receipt of interest on, the Series 2008C/D Bonds. See "TAX MATTERS" herein.

NEW MEXICO FINANCE AUTHORITY**\$84,800,000**

**ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)**

SERIES 2008C**CUSIP⁽¹⁾ 64711R FS 0****Due: June 15, 2024****\$50,400,000**

**ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)**

SERIES 2008D (TAXABLE)**CUSIP⁽¹⁾ 64711R FT 8****Due: December 15, 2026**

Dated: Delivery Date

Price: 100%

The New Mexico Finance Authority's Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C (the "Series 2008C Bonds") and Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) (the "Series 2008D Bonds" and together with the Series 2008C Bonds, the "Series 2008C/D Bonds") are being issued as fully registered bonds. Purchases of beneficial ownership interests in the Series 2008C/D Bonds will be made in book-entry form only, in denominations of \$100,000 and integral multiples of \$5,000 in excess of \$100,000 when interest on the Series 2008C/D Bonds is payable at a Weekly Rate. The Depository Trust Company ("DTC") will act as securities depository for all of the Series 2008C/D Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2008C/D Bonds will be registered in the name of Cede & Co. Individual purchases of the Series 2008C/D Bonds will be made in book-entry form only, and Beneficial Owners of the Series 2008C/D 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 2008C/D Bonds.

The Series 2008C/D Bonds are being issued by the New Mexico Finance Authority (the "NMFA") at the direction of the State Transportation Commission (the "Commission") of the State of New Mexico (the "State"). The proceeds of the Series 2008C/D Bonds will be used 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 (the "Department").

The Series 2008C/D Bonds initially will bear interest at a Weekly Rate. During the time the Series 2008C/D Bonds bear interest at Weekly Rates, interest on the Series 2008C/D Bonds will be payable on the first Business Day of each month commencing June 2, 2008 until maturity or earlier redemption, if applicable. The Series 2008C/D Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "THE SERIES 2008C/D BONDS—Redemption Provisions" herein. The Series 2008C/D Bonds are also subject to optional and mandatory tender for purchase under certain circumstances. See "THE SERIES 2008C/D BONDS—Tender Provisions" herein.

The Series 2008C/D Bonds are special, limited obligations of the NMFA payable, together with additional bonds currently outstanding in the amount of \$533,040,000 solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien of the Series 2008C/D Bonds and such additional bonds on such revenues is subordinate to the lien thereon securing other bonds currently outstanding in the amount of \$850,000,000. The lien of the Series 2008C/D Bonds on certain revenues deposited into the State Road Fund is also subordinate to the lien on such revenues to the lien thereon securing Closed Lien Obligations (as defined herein) currently outstanding in the amount of \$312,180,000. The Series 2008C/D Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. The NMFA, the Commission and the Department have no taxing powers. The principal of and interest and premium, if any, on the Series 2008C/D Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the state or any political subdivision of the State.

Under certain circumstances, if other funds are insufficient therefor, the purchase price of properly tendered Series 2008C/D Bonds is to be paid from funds provided under separate but substantially identical Standby Bond Purchase Agreements relating to each Series of Series 2008C/D Bonds between the NMFA and JPMorgan Chase Bank, National Association (the "Bank"). Upon the occurrence of certain events, the Standby Bond Purchase Agreements may be terminated without the owners of related Series 2008C/D Bonds having a right to tender.



Certain legal matters will be passed on by Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2008C/D Bonds and certain matters relating to disclosure will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel and Disclosure Counsel to the NMFA. Certain legal matters will be passed on for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. The Department is being represented by its general counsel and the Underwriter is being represented by its counsel Hogan & Hartson LLP, Denver, Colorado. Certain legal matters will be passed upon for the Bank by Andrews Kurth, LLP, Houston, Texas, as counsel to the Bank. First Southwest Company, Dallas, Texas, has acted as financial advisor to the NMFA in connection with the issuance of the Series 2008C/D Bonds. It is expected that a single certificate for each Series and maturity of the Series 2008C/D Bonds will be delivered to DTC or its agent on or about May 22, 2008.

JPMorgan**Underwriter and Remarketing Agent**

Dated May 21, 2008

⁽¹⁾ The above-referenced CUSIP number(s) 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 2008C/D Bonds. None of the NMFA, the Department, the Trustee or the Underwriter is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to its correctness on the particular Series 2008C/D Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2008C/D Bond 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 2008C/D Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriter. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

The Series 2008C/D 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 2008C/D Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2008C/D 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 2008C/D Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

THE PRICES AT WHICH THE SERIES 2008C/D BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITER (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE COVER PAGE. IN ADDITION, THE UNDERWRITER MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE SERIES 2008C/D BONDS, THE UNDERWRITER MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2008C/D BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEW MEXICO FINANCE AUTHORITY

207 Shelby Street
Santa Fe, New Mexico 87501
Telephone: (505) 984-1454
Telecopy: (505) 992-9635

Members

Stephen R. Flance, Chairman
William F. Fulginiti, Vice Chairman
Craig Reeves, Treasurer
Joanna Prukop, Secretary
Gary Bland
Ron Curry
Charlie Dorame*
Edward Garcia
Paul Gutierrez
Lonnie Marquez*
Katherine B. Miller
Fred Mondragon

Chief Executive Officer

William C. Sisneros

NMFA General Counsel

Reynold E. Romero

Issuer Counsel

Virtue Najjar & Brown PC
Santa Fe, New Mexico

Financial Advisor

First Southwest Company
Dallas, Texas

Bond Counsel

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* New members appointed in January 2008 by the Governor of the State of New Mexico. Such members are still awaiting confirmation by the Senate of the State of New Mexico. See “THE NEW MEXICO FINANCE AUTHORITY—Governing Body and Key Staff Members” herein.

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OFFICIAL STATEMENT

\$84,800,000

**NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008C**

\$50,400,000

**NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008D (TAXABLE)**

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering of \$84,800,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C (the “Series 2008C Bonds”) and \$50,400,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) (the “Series 2008D Bonds” and collectively with the Series 2008C Bonds, the “Series 2008C/D Bonds”) to be issued by the New Mexico Finance Authority (the “NMFA”), at the direction of the State Transportation Commission (the “Commission”) of the State of New Mexico (the “State”). Capitalized terms used in this Official Statement and not defined have the meanings specified in the Master Indenture of Trust dated as of May 1, 2004 (the “Master Indenture”) between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as trustee (the “Trustee”), as supplemented and amended by the Sixth Series Indenture of Trust dated as of May 1, 2008 (the “Sixth Series Indenture”) between the NMFA and the Trustee and are set forth under “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions” in Appendix B. The Master Indenture, as previously amended and supplemented, and the Sixth Series Indenture are collectively referred to herein as the “Indenture.” See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix B.

The Series 2008C/D Bonds are payable from and secured by a pledge of federal aid revenues received by or on behalf of, or available to the New Mexico Department of Transportation (the “Department”) pursuant to Title 23 of the United States Code or other federal law, that are paid into the State Road Fund, proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes in each case that are required by law to be paid into the State Road Fund, interest on the State Road Fund, proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund (the “Pledged Revenues”). The Series 2008C/D Bonds are limited obligations of the NMFA payable from and secured solely by the Pledged Revenues, subject to the liens thereon of certain obligations of the Commission and to the uses of the Pledged Revenues pledged by, and the priorities set forth in, the Indenture, as described more fully under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D 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 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 2008C/D Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

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

Purposes of the Series 2008C/D Bonds

Proceeds from the sale of the Series 2008C Bonds, together with other legally available funds, will be used to refund the outstanding balance of the NMFA’s Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004C (the “Series 2004C Bonds”), currently outstanding in the principal amount of \$84,800,000 consisting of Subseries 2004C-1 Bonds currently outstanding in the principal amount of \$44,800,000 and Subseries 2004C-3 Bonds currently outstanding in the principal amount of \$40,000,000 (collectively, the “Series 2004C Refunded Bonds”).

Proceeds from the sale of the Series 2008D Bonds, together with other legally available funds, will be used to refund all of the NMFA’s Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006D (Taxable) currently outstanding in the principal amount of \$50,400,000 (the “Series 2006D Refunded Bonds” and together with the Series 2004C Refunded Bonds, the “Refunded Bonds”).

The Refunded Bonds currently bear interest at Auction Rates. The NMFA is undertaking the refunding of the Refunded Bonds to mitigate the current and potential future interest rate exposure associated with the recent uncertainty in the auction rate market.

Authority for Issuance

The Series 2008C/D Bonds are being issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.* NMSA 1978, as amended, and Section 67-3-59.3 NMSA 1978, as amended (collectively, the “Act”), and the Indenture.

Terms of the Series 2008C/D Bonds

Interest. The Series 2008C/D Bonds will be dated the date of their initial delivery (the “Delivery Date”). Interest on the Series 2008C/D Bonds is initially payable on the first Business Day of each month commencing June 2, 2008. The Series 2008C/D Bonds will be issued initially as bonds that bear interest at Weekly Rates, but may be converted at the option of the NMFA, subject to certain restrictions, to bonds that bear interest at different rates including Daily Rates, Auction Rates, Commercial Paper Rates, Semiannual Rates, Term Rates or Fixed Rates. Each of the Series 2008C/D Bonds will bear interest from their date of delivery for the applicable Weekly Rate Period and thereafter at the applicable Weekly Rate determined by the hereinafter referenced Remarketing Agent. Upon conversion from a Weekly Rate Period to a Daily Rate Period, an ARS Rate Period, a Commercial Paper Period, a Semiannual Rate Period, a Term Rate Period or a Fixed Rate Period, the Series 2008C/D Bonds will be subject to mandatory tender, payable solely from the proceeds of the remarketing of the Series 2008C/D Bonds to be converted, on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. *This Official Statement, in general, describes the terms of the Series 2008C/D Bonds only during the Weekly Rate Period and not the terms which will apply in the event that the Series 2008C/D Bonds are converted to a new Interest Rate as described herein.*

Interest rates with respect to the Series 2008C/D Bonds will be determined by JPMorgan Securities Inc., as remarketing agent (the “Remarketing Agent”). See “REMARKETING AGENT” below.

Denominations. While in the Weekly Rate Period, the Series 2008C/D Bonds are issuable in denominations of \$100,000 and integral multiples of \$5,000 in excess of \$100,000.

Book-Entry System. Individual purchases will be made in book-entry only form, and purchasers of the Series 2008C/D 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 2008C/D 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 2008C/D Bonds, all as more fully described in Appendix E. In reading this Official Statement, it should be understood that while the Series 2008C/D 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 2008C/D Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in Appendix E, and (2) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption of the Series 2008C/D Bonds. The Series 2008C/D Bonds are subject to redemption prior to maturity. See “THE SERIES 2008C/D BONDS—Redemption Provisions.”

Tender of the Series 2008C/D Bonds. The Series 2008C/D Bonds are subject to tender for purchase as described in “THE SERIES 2008C/D BONDS—Tender Provisions.”

Security for the Series 2008C/D Bonds

The Series 2008C/D Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and certain funds and accounts created and maintained pursuant to the Indenture. The Series 2008C/D Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission or the Department within the meaning of any constitutional or statutory debt limitation. THE NMFA, THE COMMISSION AND THE DEPARTMENT HAVE NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2008C/D Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Special, Limited Obligations.”

Pledged Revenues. The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain public regulation commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes in each case that are required by law to be paid into the State Road Fund, and interest on amounts in the State Road Fund; (ii) proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on amounts in the Highway Infrastructure Fund; and (iii) such additional moneys as may be authorized by law to be pledged as security and are so pledged by the NMFA. For a description of the components of the Pledged Revenues, see “THE PLEDGED REVENUES.” For a description of the funds and accounts created by the Indenture and the flow of certain of the Pledged Revenues through these funds and accounts, see “APPENDIX B—EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts.” See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Pledged Revenues.”

Outstanding and Additional Bonds. Bonds with a lien on a portion of the Pledged Revenues senior to that of the Outstanding Senior Lien Bonds have been previously issued by the Commission and are currently outstanding

in an aggregate principal amount of \$312,180,000. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Outstanding Closed Lien Obligations.” The NMFA has agreed pursuant to the Master Indenture, and the Commission has resolved in Commission Resolution 2004-5(APR) and has reaffirmed in Commission Resolution 2008-03(MAR), that no additional bonds having a lien on any of the Pledged Revenues senior to the lien thereon of the Outstanding Senior Lien Bonds may be issued by the NMFA or the Commission.

The Act authorizes the NMFA to issue up to \$1,585,000,000 aggregate principal amount of “new money” bonds, payable from the Pledged Revenues, in cumulative annual increments of up to \$350,000,000 beginning in 2003 and an unlimited amount of refunding bonds as part of Governor Richardson’s Investment Partnership. In 2004, the NMFA issued \$700,000,000 of its State Transportation Revenue Bonds (Senior Lien), Series 2004A (the “Series 2004A Bonds”) representing its 2003 and 2004 annual increments, and currently outstanding in the aggregate principal amount of \$700,000,000. Contemporaneously with the issuance of the Series 2004A Bonds, the NMFA issued its \$237,950,000 State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (the “Series 2004B Bonds”), currently outstanding in the aggregate principal amount of \$162,330,000, and the Series 2004C Bonds. In 2006, the NMFA issued its \$150,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2006A (the “Series 2006A Bonds”), currently outstanding in the aggregate principal amount of \$150,000,000, and its \$40,085,000 State Transportation Revenue and Refunding Revenue Bonds (Subordinate Lien), Series 2006B (the “Series 2006B Bonds”), currently outstanding in the aggregate principal amount of \$35,510,000. In April 2008, the NMFA issued its \$115,200,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008A (the “Series 2008A Bonds”) to refund a portion of its Series 2004C Bonds, and its \$220,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008B (the “Series 2008B Bonds”), to refund all of the Adjustable Rate State Transportation Revenue Bonds (Subordinate Lien), Series 2006C (the “Series 2006C Bonds”). The outstanding Series 2004A Bonds and the outstanding Series 2006A Bonds are senior lien bonds (collectively, the “Outstanding Senior Lien Bonds”) and are payable from the Pledged Revenues with a lien on the Pledged Revenues subordinate to the Outstanding Closed Lien Obligations. The Outstanding Senior Lien Bonds are senior to the lien of the NMFA’s outstanding Series 2004B Bonds, Series 2006B Bonds, Series 2008A Bonds, Series 2008B Bonds and Series 2008C/D Bonds. The timing, amount and other details of additional Senior Lien Bonds, other than the Outstanding Senior Lien Bonds, and Subordinate Lien Obligations, other than the Series 2004B Bonds, the Series 2006B Bonds, the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C/D Bonds, are not known as of the date of this Official Statement.

The NMFA, pursuant to the Indenture, may only issue obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Outstanding Senior Lien Bonds in compliance with the requirements of the Indenture applicable to the NMFA’s issuance of additional Senior Lien Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Additional Senior Lien Bonds.” The NMFA and the Commission, in the case of issuing Additional Highway Bonds secured by a lien on the Pledged Revenues (other than moneys paid into the Highway Infrastructure Fund) on a parity with Series 2008C/D Bonds, must meet certain requirements prior to the issuance of Subordinate Lien Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Additional Subordinate Lien Obligations.” The NMFA also must meet certain requirements prior to the issuance of Junior Subordinate Lien Obligations.

The NMFA, the Department and the Commission are currently considering entering into a line of credit in an amount up to \$200,000,000 which would be drawn by the NMFA in increments during the years 2008-2010 at the direction of the Department to finance the costs of certain transportation projects. This additional obligation will most likely be on parity with the Series 2008C/D Bonds, although the exact terms have not yet been determined. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Additional Obligations” herein.

Liquidity Facility for the Series 2008C/D Bonds

In order to provide a source of funds for the timely purchase of the Series 2008C/D Bonds so long as such Bonds represent interest at a Weekly Rate, the NMFA and JPMorgan Chase Bank, National Association, as liquidity facility provider (the “Bank,” which, together with an issuer of any substitute or alternate liquidity facility provided in compliance with the Indenture herein referred to as the “Series 2008C/D Liquidity Facility Provider”), will enter into separate but substantially identical Standby Bond Purchase Agreements for each Series of Series 2008C/D

Bonds dated as of May 1, 2008 (collectively, the “Standby Bond Purchase Agreements,” which, together with any such substitute or alternate liquidity facilities, are herein referred to as the “Series 2008C/D Liquidity Facility” or “Series 2008C/D Liquidity Facilities”).

The Standby Bond Purchase Agreements will provide an amount up to the aggregate principal amount of the respective Series 2008C/D Bonds then outstanding plus 35 days’ accrued interest thereon at a rate not to exceed 12% per annum (as adjusted from time to time, the “Available Commitment”). The Trustee is required to draw under the related Series 2008C/D Liquidity Facility up to an amount sufficient to pay the purchase price equal to the principal amount of and the interest on the respective Series 2008C/D Bonds delivered to the Trustee for purchase and not remarketed by the Remarketing Agent. The Standby Bond Purchase Agreements are scheduled to expire on the earliest of (i) May 21, 2009, (ii) upon the conversion of the related Series 2008C/D Bonds to a rate other than a Weekly Rate or Daily Rate, (iii) on the date that there are no related Series 2008C/D Bonds outstanding and (iv) the effective date of a substitute liquidity facility. The Series 2008C/D Bonds are subject to mandatory tender for purchase prior to such expiration date. The Indenture permits the issuance of an alternate or substitute Series 2008C/D Liquidity Facility as described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Liquidity Facilities Requirements” herein. See “THE BANK” herein for a description of the Bank, which has been furnished by the Bank. No representation is made by the NMFA or the Underwriter as to the accuracy or completeness of such description.

THE SERIES 2008C/D LIQUIDITY FACILITY IS NOT DESIGNED TO PROVIDE CREDIT PROTECTION. UPON THE OCCURRENCE OF CERTAIN EVENTS, THE SERIES 2008C/D LIQUIDITY FACILITY MAY BE TERMINATED WITHOUT THE OWNERS OF RELATED SERIES 2008C/D BONDS HAVING A RIGHT TO TENDER THEIR BONDS. SEE “STANDBY BOND PURCHASE AGREEMENTS” HEREIN.

Interest Rate Swaps

The NMFA has entered into various interest rate exchange agreements (the “Swap Agreements”). Payment obligations, other than termination payment obligations, of the NMFA with respect to the Swap Agreements are Subordinate Lien Obligations, secured by a lien on the Pledged Revenues on a parity with the lien securing the Series 2008C/D Bonds. The Swap Agreements were entered into under a debt policy memorandum of understanding entered into by the NMFA and the Commission. Under that debt policy memorandum of understanding, an advisor to the NMFA, the Commission and the Department monitor monthly the Swap Agreements and a joint committee of the NMFA, the Commission and the Department monitor regularly the Swap Agreements. Termination payment obligations of the NMFA on the Swap Agreements are Junior Subordinate Lien Obligations. See “INTEREST RATE SWAPS.”

In the future, the NMFA may choose to enter into additional swap agreements payable from the Pledged Revenues, provided that all payment obligations pursuant to any such additional swap agreements shall be Subordinate Lien Obligations.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2008C/D Bonds, Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion included in Appendix D and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under “TAX MATTERS” and also included in APPENDIX D. Ballard Spahr Andrews & Ingersoll, LLP will also pass upon certain matters relating to disclosure as Disclosure Counsel to the NMFA. The Department is being represented by its general counsel and the Underwriter is being represented by its counsel, Hogan & Hartson LLP, Denver, Colorado. Certain legal matters will be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer’s Counsel to the NMFA. Certain legal matters will be passed upon for the Bank by Andrews Kurth, LLP, Houston, Texas. See “LEGAL MATTERS.” First Southwest Company, Dallas, Texas, has acted as financial advisor to the NMFA in connection with its issuance of the Series 2008C/D Bonds. See “FINANCIAL ADVISOR.”

The Department's financial statements for the year ended June 30, 2006, an extract from which is included in Appendix A, have been audited by Meyners & Company, LLC. See also "FINANCIAL STATEMENTS." The Department expects that its financial statements for the year ended June 30, 2007 will be available in June 2008.

Offering and Delivery of the Series 2008C/D Bonds

The Series 2008C/D 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 2008C/D Bonds will be delivered to DTC or its agent on or about May 22, 2008.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to such laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the Department, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2008C/D Bonds.

THE SERIES 2008C/D BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2008C/D Bonds. Other information describing the Series 2008C/D 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 2008C/D 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 2008C/D Bonds are being issued pursuant to the Act and the Indenture. Proceeds from the sale of the Series 2008C Bonds will be used to refund the Series 2004C Refunded Bonds in the principal amount of \$84,800,000. Proceeds from the sale of the Series 2008D Bonds will be used to refund the Series 2006D Refunded Bonds currently outstanding in the principal amount of \$50,400,000. See "ESTIMATED SOURCES AND USES OF FUNDS."

The Series 2008C/D Bonds may bear interest at Weekly Rates, Daily Rates, Semiannual Rates or Term Rates (collectively, the "Variable Rates") or Auction Rates, Commercial Paper Rates or Fixed Rates. The Series 2008C/D Bonds will initially bear interest at Weekly Rates until converted to another method of interest rate determination. All Series 2008C/D Bonds bearing interest at Daily Rates or Weekly Rates shall be issued in denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof. All Series 2008C/D Bonds bearing interest at Commercial Paper Rates shall be issued in denominations of \$100,000 and any integral multiples of \$1,000 in excess thereof. All Series 2008C/D Bonds bearing interest at a Semiannual Rate, a Term Rate or a Fixed Rate shall be in denominations of \$5,000 and integral multiples thereof. All Series 2008C/D Bonds bearing interest at an Auction Rate shall be in denominations of \$25,000 and integral multiples thereof. Notwithstanding the foregoing, if as a result of a change in the Interest Rate Period from a Term Rate Period to an ARS Rate Period, Daily Rate Period or Weekly Rate Period, it is not possible to deliver all the Series 2008C/D Bonds of a Series required or permitted to be Outstanding in a denomination permitted above, Series 2008C/D Bonds of a Series may be delivered, to the extent necessary, in different denominations.

The amount of interest so payable on the Series 2008C/D Bonds on any Interest Payment Date shall be computed (A) on the basis of a 365- or 366-day year for the number of days actually elapsed during Daily, Weekly, Commercial Paper and Semiannual Rate Periods for the Series 2008C Bonds and on the basis of a 360-day year for the number of days actually elapsed during daily, weekly, commercial paper and semiannual rate periods for the Series 2008D Bonds, (B) on the basis of a 360-day year of twelve 30-day months during Term Rate Periods and the Fixed Rate Period, and (C) either (i) on the basis of actual days elapsed over 360 days for the actual days elapsed during ARS Rate Periods if the Series 2008C/D Bonds are in an ARS Rate Period of 180 days or less, or (ii) on the basis of a 360 day year of twelve 30-day months for the actual days elapsed during ARS Rate Periods if the Series 2008C/D Bonds are in an ARS Rate Period greater than 180 days.

“Interest Payment Date” means (i) when used with respect to any Series 2008C/D Bonds bearing interest at the Daily Rate or Weekly Rate, the first Business Day of each calendar month following a month in which interest at such rate has accrued; (ii) when used with respect to any Series 2008C/D Bonds bearing interest at a Semiannual Rate or a Term Rate, each Semiannual Interest Payment Date; (iii) when used with respect to any Series 2008C/D Bonds bearing interest at Commercial Paper Rates, the Business Day next following the last day of each Commercial Paper Rate Period applicable thereto; (iv) when used with respect to any Series 2008C/D Bonds bearing interest at a Fixed Rate, each June 15 and December 15; (v) any Conversion Date; (vi) when used with respect to any Series 2008C/D Bonds bearing interest at an Auction Rate, the Business Day next following the last day of each Auction Period applicable thereto; and (vii) in all events, when used with respect to any Series 2008C/D Bonds, the final maturity date or redemption date of each such Series 2008C/D Bonds.

Interest Rate for the Series 2008C/D Bonds

The Series 2008C/D Bonds shall initially bear interest at a Weekly Rate, and the length of the initial Weekly Rate Period shall be the period of time from the Issue Date up to and including May 28, 2008, followed by seven-day Weekly Rate Periods. The initial Interest Payment Date for the Series 2008C/D Bonds is June 2, 2008. Following the initial Weekly Rate Period, the Weekly Rate to be applicable to any of the Series 2008C/D Bonds during each Weekly Rate Period shall be determined by the Remarketing Agent for the related Series 2008C/D Bonds. Interest shall accrue from one Interest Payment Date up to, but not including, the next Interest Payment Date, and notice of the Weekly Rate shall be given as set forth in the Indenture, until converted to an Auction Rate, Commercial Paper Rate, Semiannual Rate, Term Rate or Fixed Rate. Any such conversion may occur only as to all the Outstanding Series 2008C/D Bonds of a particular Series and any provision relating to the conversion of or subsequent determination of interest on Series 2008C/D Bonds shall be construed to apply individually to each Series of the Series 2008C/D Bonds.

Variable Rates; Conversion to Variable Rate Periods. The Variable Rate for each Variable Rate Period shall be determined by the Remarketing Agent as the lesser of (i) the Maximum Interest Rate or (ii) the minimum rate of interest which, in the judgment of the Remarketing Agent, would cause the Series 2008C/D Bonds to have a market value equal to the principal amount thereof, plus accrued interest, taking into account prevailing market conditions as of the date of determination.

If the Remarketing Agent fails for any reason to determine or notify the Paying Agent of the Variable Rate for any Variable Rate Period when required under the Indenture, the Rate Period for the Series 2008C/D Bonds shall automatically, without notice or mandatory tender, convert to a Weekly Rate Period and, until the Weekly Rate is determined by the Remarketing Agent and notification thereof is delivered to the Paying Agent, the Weekly Rate with respect to the Series 2008C Bonds shall be equal to the SIFMA Index plus 25 basis points and the Weekly Rate with respect to the Series 2008D Bonds shall be equal to the One-Month LIBOR plus 25 basis points.

Weekly Rates. A Weekly Rate shall be determined for each Weekly Rate Period as follows:

(i) Weekly Rate Periods shall commence on a Thursday and end on Wednesday of the following week, and each Weekly Rate Period shall be followed by another Weekly Rate Period until the Rate Period for the Series 2008C/D Bonds is converted to another Rate Period; provided that (a) in the case of a conversion to a Weekly Rate Period from a different Variable Rate Period or a Commercial Paper Rate Period, the Weekly Rate Conversion Date shall be the last Interest Payment Date in respect of the immediately preceding Rate Period and the Weekly Rate Period starting on such date shall end on Tuesday

of the following week; and (b) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion shall end on the last day immediately preceding the Conversion Date to the new Rate Period.

(ii) The Weekly Rate for each Weekly Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Weekly Rate shall be determined by a Remarketing Agent no later than the Business Day immediately preceding the commencement date of the Weekly Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on such Business Day. The Paying Agent shall promptly notify the NMFA, the Series 2008C/D Liquidity Facility Provider, as applicable, electronically or by telephone (promptly confirmed in writing) of the Weekly Rate so determined.

(iii) (a) The Weekly Rate determined for the Series 2008C Bonds by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008C Bonds in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008C Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008C Bonds, be the lowest interest rate which would enable the Remarketing Agent to place such Series 2008C Bonds at a price of par (plus accrued interest, if any) on the first day of such Weekly Rate Period.

(b) The Weekly Rate determined for the Series 2008D Bonds by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008D Bonds in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Taxable Securities which are of the same general nature as such Series 2008D Bonds or Taxable Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008D Bonds, be the lowest interest rate which would enable the Remarketing Agent to place such Series 2008D Bonds at a price of par (plus accrued interest, if any) on the first day of such Weekly Rate Period.

Daily Rates. A Daily Rate shall be determined for each Daily Rate Period as follows:

(i) Daily Rate Periods shall commence on a Business Day, and each Daily Rate Period shall be followed by another Daily Rate Period until the Rate Period of the Series 2008C/D Bonds is converted to another Rate Period. The Daily Rate for any non-Business Day will be the rate for the last Business Day on which a Daily Rate was set.

(ii) Each Daily Rate shall be determined by a Remarketing Agent no later than 9:30 a.m., New York City time, on each Business Day for which the Daily Rate will be the rate of interest, and shall be provided to the Paying Agent by such Remarketing Agent by telephonic or electronic notice by 9:30 a.m., New York City time, on such Business Day. The Paying Agent shall promptly notify the NMFA and the Series 2008C/D Liquidity Facility Provider, as applicable, electronically or by telephone (promptly confirmed in writing) of the Daily Rate so determined.

(iii) (a) The Daily Rate determined for the Series 2008C Bonds by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008C Bonds in the Daily Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008C Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008C Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008C Bonds at a price of par (plus accrued interest, if any) on such Business Day.

(b) The Daily Rate determined for the Series 2008D Bonds by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008D Bonds in the Daily Rate Period,

would, in the judgment of the Remarketing Agent, having due regard for the prevailing market conditions for Taxable Securities which are of the same general nature as such Series 2008D Bonds or Taxable Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008D Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008D Bonds at a price of par (plus accrued interest, if any) on such Business Day.

Semiannual Rates. A Semiannual Rate shall be determined for each Semiannual Rate Period as follows:

(i) Semiannual Rate Periods shall (a) commence on a Semiannual Rate Conversion Date and on each Interest Payment Date thereafter and (b) end on the day preceding either the commencement date of the following Semiannual Rate Period or the Conversion Date on which a different type of Rate Period shall become effective. Each Semiannual Rate Period shall be followed by another Semiannual Rate Period until the Rate Period of the Series 2008C/D Bonds is converted to another Rate Period. The first Semiannual Rate Period which succeeds a Commercial Paper, Daily, Weekly, Auction, or Term Rate Period may be from one to five months shorter than the succeeding Semiannual Rate Periods.

(ii) The Semiannual Rate for each Semiannual Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Semiannual Rate shall be determined by a Remarketing Agent no later than the Business Day immediately preceding the commencement date of the Semiannual Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on that same day. The Paying Agent shall promptly notify the NMFA and the Series 2008C/D Liquidity Facility Provider, as applicable, electronically or by telephone (promptly confirmed in writing) of the Semiannual Rate so determined.

(iii) (a) Each Semiannual Rate for the Series 2008C Bonds shall be the rate of interest which if borne by such Series 2008C Bonds in such Semiannual Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008C Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008C Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008C Bonds at a price of par on the first day of such Semiannual Rate Period.

(b) Each Semiannual Rate for the Series 2008D Bonds shall be the rate of interest which if borne by such Series 2008D Bonds in such Semiannual Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Taxable Securities which are of the same general nature as such Series 2008D Bonds or Taxable Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008D Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008D Bonds at a price of par on the first day of such Semiannual Rate Period.

Term Rates. A Term Rate shall be determined for each Term Rate Period as follows:

(i) Term Rate Periods shall (a) initially commence on a Term Rate Conversion Date and on any Interest Payment Date which is, except as otherwise provided in this paragraph, at least 12 months thereafter, as specified in a notice delivered by the NMFA, and (b) end on the day preceding either the commencement date of the following Term Rate Period or the Conversion Date on which a different Rate Period shall become effective. Each Term Rate Period shall be followed by another Term Rate Period of the same duration as the preceding Term Rate Period until the Rate Period of the Series 2008C/D Bonds is converted to another Rate Period or to a Term Rate Period of a different duration; provided that the first Term Rate Period which succeeds a Commercial Paper, Daily, Weekly, Auction, or Semiannual Rate Period or a Term Rate Period of a different duration may be from one to eleven months shorter or longer than the succeeding Term Rate Periods.

(ii) The Term Rate for each Term Rate Period shall be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each Term Rate shall be determined no earlier than 15 Business days and not later than the Business Day immediately preceding the commencement date of the Term Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on that same day. The Paying Agent shall promptly notify the NMFA, the Series 2008C/D Liquidity Facility Provider, as applicable, electronically or by telephone (promptly confirmed in writing) of the Term Rate so determined.

(iii) (a) Each Term Rate for the Series 2008C Bonds shall be the rate of interest which if borne by such Series 2008C Bonds in such Term Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008C Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008C Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008C Bonds at a price of par on the first day of such Term Rate Period.

(b) Each Term Rate for the Series 2008D Bonds shall be the rate of interest which if borne by such Series 2008D Bonds in such Term Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Taxable Securities which are of the same general nature as such Series 2008D Bonds or Taxable Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008D Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008D Bonds at a price of par on the first day of such Term Rate Period.

Conversions Between Variable Rate Periods. By notifying the Remarketing Agent, the Paying Agent, and the Series 2008C/D Liquidity Facility Provider, if any, for the applicable Series 2008C/D Bonds, the NMFA may elect to convert such Series 2008C/D Bonds from one Variable Rate Period to another as follows:

(i) The Conversion Date to a different Variable Rate Period shall be an Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made; provided, however, that, if the conversion is from a Term Rate Period, the conversion may be made only on the last Interest Payment Date for that Term Rate Period.

(ii) The NMFA shall give written notice of any such conversion to the Remarketing Agent, the Paying Agent and the Series 2008C/D Liquidity Facility Provider for the applicable Series 2008C/D Bonds, if any, not fewer than 25 days (45 days in the case of a proposed Term Rate Conversion Date) prior to the proposed Conversion Date. Such notice shall specify (i) the proposed Conversion Date, (ii) the type of Variable Rate Period to which the conversion will be made, (iii) in the case of conversion to a Term Rate Period or from a Term Rate Period of one duration to a Term Rate Period of another duration, the duration of the new Term Rate Period and (iv) in the case of a conversion to a Semiannual or Term Rate Period, the first Interest Payment Date following such conversion (which shall be the first Semiannual Interest Payment Date after the proposed Conversion Date) and any difference between the duration of the first Semiannual or Term Rate Period commencing on such Conversion Date and subsequent Semiannual or Term Rate Periods occurring prior to the next Conversion Date.

(iii) Not fewer than 15 days (30 days in the case of a proposed Term Rate Conversion Date) prior to the Conversion Date, the Paying Agent shall mail (by first class mail) a written notice of the conversion to the owners of the Series 2008C/D Bonds.

(iv) The Variable Rate for the Variable Rate Period commencing on the Conversion Date shall be established and notice thereof shall be given to the Paying Agent, the NMFA, and the Series 2008C/D Liquidity Facility Provider, if any.

(v) On the proposed conversion date the provisions of the Indenture governing the number of days interest covered by a liquidity facility (the “Interest Requirement”) for the Series 2008C/D Liquidity Facility, or any Alternate Series 2008C/D Liquidity Facility, then in effect must be satisfied. In the case of a conversion to a Semiannual Rate Period or a Term Rate Period the NMFA and the Series 2008C/D Liquidity Facility Provider, or Alternate Series 2008C/D Liquidity Facility Provider shall agree on the number of days of interest that shall be sufficient for the Interest Requirement, or shall set the Interest Requirement at the number of days as may be required by the Rating Agency, as defined in the Standby Bond Purchase Agreements. If the Interest Requirement is not satisfied, the new Variable Rate Period shall not take effect and the Series 2008C/D Bonds shall remain in the Variable Rate Period then in effect.

(vi) With respect to a conversion of the Series 2008C Bonds only, with respect to a conversion from one Variable Rate Period to another Variable Rate Period, or from a Term Rate Period of one duration to a Term Rate Period of another duration, on the proposed Conversion Date, the Paying Agent and the Remarketing Agent shall have been provided with a Favorable Opinion of Bond Counsel covering the continued exclusion of interest on the Series 2008C Bonds from gross income for federal income tax purposes with respect to such conversion.

(vii) With respect to a conversion of the Series 2008C Bonds only, if a Favorable Opinion of Bond Counsel covering the continued exclusion of interest on the Series 2008C Bonds from gross income for federal income tax purposes is not provided, the new Rate Period shall not take effect and the Series 2008C Bonds shall remain in the Rate Period then in effect.

Conversion to Other Determination Methods

The NMFA may convert Series 2008C/D Bonds to a different method of interest rate determination. In certain instances, the conversion may bring about a mandatory tender of the Series 2008C/D Bonds. See “TENDER PROVISIONS” below.

Tender Provisions

Optional Tenders During Variable Rate Periods.

Purchase Dates. The Owners of Series 2008C/D Bonds bearing interest at Variable Rates may elect to have their Series 2008C/D Bonds (or portions thereof in amounts equal to the smallest denomination then authorized or whole multiples of such smallest denomination) purchased at a purchase price equal to 100% of the principal component of such Series 2008C/D Bonds (or portions), plus, in the case of Series 2008C/D Bonds bearing interest at Daily Rates or Weekly Rates, the interest component computed to the purchase date (the “Purchase Price”), on the following purchase dates and upon the giving of telephonic, personal or electronic notice as specified below:

(i) Prior to conversion from a Daily Rate Period to a different Rate Period, Series 2008C/D Bonds bearing interest at Daily Rates may be tendered for purchase at the applicable Purchase Price payable in immediately available funds, on any Business Day upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner’s Participant, not later than 9:00 a.m., New York City time, on the purchase date.

(ii) Prior to conversion from a Weekly Rate Period to a different Rate Period, Series 2008C/D Bonds bearing interest at Weekly Rates may be tendered for purchase at the applicable Purchase Price payable in immediately available funds, on any Business Day upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner’s Participant, not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven (7) days prior to the purchase date.

(iii) Series 2008C/D Bonds bearing interest at a Semiannual or a Term Rate may be tendered for purchase on the commencement date of a succeeding Semiannual or Term Rate Period for such Series 2008C/D Bonds, at the Purchase Price (payable in immediately available funds if the Series 2008C/D

Bonds are bearing interest at a Semiannual Rate or clearing house funds if the Series 2008C/D Bonds are bearing interest at a Term Rate), upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner's Participant, not later than 5:00 p.m., New York City time, on a Business Day which is not fewer than ten (10) days prior to the purchase date.

Notice of Tender. Each notice of tender:

(i) shall be delivered to each of the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent at its principal office, in the case of a written notice, and shall be in form satisfactory to such Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent;

(ii) shall state, whether delivered personally, in writing, electronically or by telephone, (a) the principal amount of the Series 2008C/D Bond to which the notice relates, (b) that the owner irrevocably demands purchase of such Series 2008C/D Bond or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (c) the date on which such Series 2008C/D Bond or portion thereof is to be purchased, and (d) payment instructions with respect to the Purchase Price; and

(iii) shall automatically constitute, whether delivered in writing or by telephone, (a) an irrevocable offer to sell the Series 2008C/D Bond (or portion thereof) to which the notice relates on the purchase date at the Purchase Price, (b) an irrevocable authorization and instruction to the Paying Agent to effect transfer of such Series 2008C/D Bond (or portion thereof) upon payment of the Purchase Price to the Paying Agent on the purchase date, (c) an irrevocable authorization and instruction to the Paying Agent to effect the exchange of the Series 2008C/D Bond to be purchased in whole or in part for other Series 2008C/D Bonds in an equal aggregate principal amount so as to facilitate the sale of such Series 2008C/D Bond (or portion thereof to be purchased), and (d) an acknowledgment that such owner will have no further rights with respect to such Series 2008C/D Bond (or portion thereof) upon payment of the Purchase Price thereof to the Paying Agent on the purchase date, except for the right of such owner to receive such Purchase Price upon surrender of such Series 2008C/D Bond to the Paying Agent and that after the purchase date such owner will hold any undelivered certificate as agent for the Paying Agent. The determination of the Paying Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the owner of the Series 2008C/D Bond to which the notice relates.

Series 2008C/D Bonds to Be Remarketed. Not later than 11:00 a.m., New York City time, on the Business Day immediately following the date of receipt of any notice of tender (or, with respect to Series 2008C/D Bonds bearing interest at Daily Rates, not later than 11:00 a.m. New York City time on the date of receipt of notice), the Paying Agent shall notify the NMFA by telephone, promptly confirmed in writing, of the principal amount of Series 2008C/D Bonds (or portions thereof) to be purchased and the date of purchase.

Remarketing of Tendered Series 2008C/D Bonds. Unless otherwise instructed by the NMFA, the Remarketing Agent shall offer for sale at par and use its best efforts to find purchasers for all Series 2008C/D Bonds or portions thereof for which notice of tender has been received. While the Series 2008C/D Bonds are held in book-entry form, the Remarketing Agent will make payment of the Purchase Price for tendered Series 2008C/D Bonds in accordance with the procedures established by the Securities Depository. If the book-entry only system is not in effect, the terms of any sale by the Remarketing Agent shall provide for the payment of the Purchase Price for tendered Series 2008C/D Bonds by the Remarketing Agent to the Paying Agent (i) in immediately available funds at or before 11:30 a.m., New York City time, on the purchase date, in the case of Series 2008C/D Bonds bearing interest at Daily, Weekly or Semiannual Rates, and (ii) in clearing house funds at or before 11:30 a.m., New York City time, on the purchase date, in the case of Series 2008C/D Bonds bearing interest at a Term Rate. Notwithstanding the foregoing, the Remarketing Agent shall not sell any Series 2008C/D Bond as to which a notice of conversion from one type of Variable Rate Period to another, from a Term Rate Period of one duration to a Term Rate Period of a different duration, to Commercial Paper Rate Periods or to a Fixed Rate Period has been given unless the Remarketing Agent has advised the person to whom the sale is made of the conversion. The purchase

price of each Series 2008C/D Bond remarketed by the Remarketing Agent must be equal to the principal amount of each Series 2008C/D Bond plus accrued interest, if any, to the purchase date.

Payments by the Paying Agent. At or before the close of business in New York City on the date set for purchase of tendered Series 2008C/D Bonds and upon receipt by the Paying Agent of 100% of the aggregate Purchase Price of the tendered Series 2008C/D Bonds, the Paying Agent shall pay the Purchase Price of such Series 2008C/D Bonds to the owners thereof. Such payments shall be made in immediately available funds (or by wire transfer), unless the Series 2008C/D Bonds to be purchased bear interest at a Term Rate for a Term Rate Period of more than one year, in which event such payments shall be made in clearing house funds. The Paying Agent shall apply in order (i) moneys paid to it by the Remarketing Agent as proceeds of the remarketing of such Series 2008C/D Bonds by such Remarketing Agent, (ii) moneys transferred to it for such purpose by a Series 2008C/D Liquidity Facility Provider under the terms of an applicable Series 2008C/D Liquidity Facility for the tendered Series 2008C/D Bonds, and (iii) other moneys made available by the NMFA. If sufficient funds are not available for the purchase of all tendered Series 2008C/D Bonds, no purchases shall be consummated, as further set forth below.

Delivery of Series 2008C/D Bonds: Effect of Failure to Surrender Series 2008C/D Bonds. All Series 2008C/D Bonds to be purchased on any date shall be required to be delivered to the principal office of the Paying Agent at or before (i) 12:00 noon, New York City time, on the purchase date in the case of Series 2008C/D Bonds bearing interest at Daily Rates, Weekly Rates or Auction Rates; or (ii) 5:00 p.m., New York City time, on the second Business Day prior to the purchase date in the case of Series 2008C/D Bonds bearing interest at Semiannual or Term Rates. If the owner of any Series 2008C/D Bond (or portion thereof) that is subject to optional or mandatory purchase fails to deliver such Series 2008C/D Bond to the Paying Agent for purchase on the purchase date, such Series 2008C/D Bond (or portion thereof) shall nevertheless be deemed purchased on the day fixed for purchase thereof and ownership of such Series 2008C/D Bond (or portion thereof) shall be transferred to the purchaser thereof. Any owner of a Series 2008C/D Bond who fails to deliver such Series 2008C/D Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of such Series 2008C/D Bond to the Paying Agent.

Mandatory Tender.

Conversions to Variable Rate Periods and new Term Rate Periods. Series 2008C/D Bonds to be converted to a Variable Rate Period or a Term Rate Period of a different duration are subject to mandatory tender for purchase on the Conversion Date at a purchase price equal to 100% of the principal amount thereof plus, in the case of Series 2008C/D Bonds bearing interest at a Daily Rate or Weekly Rate, accrued interest to the purchase date.

Conversion to Commercial Paper Periods. Series 2008C/D Bonds to be converted to a Commercial Paper Rate Period are subject to mandatory tender for purchase on the applicable Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

Conversion to ARS Rate Periods. Series 2008C/D Bonds to be converted to an ARS Rate Period are subject to mandatory tender for purchase on the applicable Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

Mandatory Tender on Fixed Rate Conversion Date. Any Series 2008C/D Bonds to be converted to a Fixed Rate Period shall be subject to mandatory tender for purchase on the Fixed Rate Conversion Date at a purchase price equal to 100% of the principal amount thereof.

Mandatory Tender upon Termination With Notice, Expiration or Replacement of Series 2008C/D Liquidity Facility for a Particular Series of Series 2008C/D Bonds. The Series 2008C/D Bonds bearing interest at a Variable or Commercial Paper Rate shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof plus accrued interest to the purchase date on the fifth day immediately preceding the day on which any Series 2008C/D Liquidity Facility expires or is permitted to terminate upon prior notice for any reason, including but not limited to termination upon notice by the Series 2008C/D Liquidity Facility Provider of its election to terminate the Series 2008C/D Liquidity Facility upon the occurrence of an Event of Default that is not an Immediate Termination Event pursuant to the applicable Series 2008C/D Liquidity Facility, or if such Series

2008C/D Liquidity Facility is replaced with an Alternate Series 2008C/D Liquidity Facility (other than replacement by the same provider). See “Termination Without Right to Tender” below.

Termination Without Right to Tender. In certain instances the Standby Bond Purchase Agreements may be subject to immediate termination by the Bank without the Bondholders’ being able to tender such Series 2008C/D Bonds for purchase. See “STANDBY BOND PURCHASE AGREEMENTS” for a more complete description of the applicable Standby Bond Purchase Agreements.

If a Default occurs under a Series 2008C/D Liquidity Facility resulting in the immediate suspension or termination of the obligation of the related Series 2008C/D Liquidity Facility Provider to purchase the related Series 2008C/D Bonds under the terms of such Series 2008C/D Liquidity Facility, then the Paying Agent shall as soon as practicable thereafter notify Owners of all such Series 2008C/D Bonds then Outstanding that: (a) such Series 2008C/D Liquidity Facility has been terminated or suspended, as applicable; (b) the Paying Agent will no longer be able to purchase such Series 2008C/D Bonds with moneys available under such Liquidity Facility or the Paying Agent’s ability to purchase such Series 2008C/D Bonds with moneys available under such Liquidity Facility has been suspended pursuant to such Series 2008C/D Liquidity Facility, as applicable; (c) such Series 2008C/D Liquidity Facility Provider is under no obligation to purchase such Series 2008C/D Bonds or to otherwise advance moneys to fund the purchase of such Series 2008C/D Bonds at any point thereafter, with respect to a termination of such Series 2008C/D Liquidity Facility, or during the pendency of the suspension, with respect to a suspension thereof; and (d) the Series 2008C/D Bonds will be subject to the applicable provisions regarding insufficient available moneys for the purchase of all the Series 2008C/D Bonds.

Upon termination of any Series 2008C/D Liquidity Facility pursuant to an Immediate Termination Event and no right to tender exists, the NMFA shall give notice of its intent to convert the applicable Series 2008C/D Bonds for which such Series 2008C/D Liquidity Facility provided liquidity support to bear interest at the Fixed Interest Rate and shall attempt to conclude such process within 180 days thereafter, unless an Alternate Series 2008C/D Liquidity Facility Provider has been obtained.

Inadequate Funds for Tenders. If the funds available for purchases of Series 2008C/D Bonds, including funds available to be drawn to pay the Purchase Price of any Series 2008C/D Bonds pursuant to any applicable Series 2008C/D Liquidity Facility, are inadequate for the purchase of all Series 2008C/D Bonds tendered on any purchase date, the Paying Agent shall, after any applicable grace period: (i) return all tendered Series 2008C/D Bonds to the owners thereof; (ii) return all moneys received for the purchase of such Series 2008C/D Bonds to the persons providing such moneys; and (iii) notify the NMFA and the Remarketing Agent of the return of such Series 2008C/D Bonds and moneys and the failure to make payment for tendered Series 2008C/D Bonds.

Owners Limited to Purchase Price on Deposit with Paying Agent. If sufficient moneys to pay the Purchase Price of Series 2008C/D Bonds tendered shall be held by the Paying Agent, each owner of such Series 2008C/D Bonds shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on such owner’s part under the Indenture on, or with respect to, such tendered Series 2008C/D Bonds.

Redemption Provisions

Optional Redemption. The Series 2008C/D Bonds shall be subject to redemption prior to maturity at the option of the NMFA, in whole or in part, as follows:

(i) If the Series 2008C/D Bonds bear interest at the Daily Rate or Weekly Rate, the Series 2008C/D Bonds shall be subject to optional redemption on any date, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date. If the Series 2008C/D Bonds bear interest at Commercial Paper Rates, the Series 2008C/D Bonds shall be subject to optional redemption on the respective Purchase Dates at a Redemption Price equal to the Purchase Price thereof.

(ii) If the Series 2008C/D Bonds bear interest at the Semiannual Rate or Term Rate, such Series 2008C/D Bonds shall be subject to optional redemption on the Interest Payment Date immediately following the last day of each Semiannual Rate Period or Term Rate Period at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

(iii) After conversion to the Fixed Rate, or if the Series 2008C/D Bonds bear interest at a Term Rate or a Semiannual Rate, the Series 2008C/D Bonds shall be subject to optional redemption at any time on and after the dates and at the Redemption Prices specified in the schedule set forth below (stated as a percentage of principal amount), plus accrued interest, if any, to the redemption date; provided, however, that the NMFA may substitute another schedule for such schedule effective on the Fixed Rate Conversion Date or any Term Rate Conversion Date, except that, with respect to the Series 2008C Bonds only, if a Favorable Opinion of Bond Counsel is provided to the Paying Agent, and, notwithstanding any other provision of the Sixth Series Indenture or of the Master Indenture, such substitution shall not constitute an amendment to the Sixth Series Indenture or the Master Indenture.

Length of Term Rate Period or Years Remaining Until Final Maturity Upon <u>Conversion to Fixed Rate</u>	<u>Commencement of Redemption Period</u>	<u>Redemption Price</u>
More than 15 years	Tenth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 12, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 9, but not more than 12 years	Sixth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 6, but not more than 9 years	Fifth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 3, but not more than 6 years	Second anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
3 years or less	Series 2008C/D Bonds not subject to optional redemption until commencement of next Rate Period	

Mandatory Sinking Fund Redemption.

Series 2008C Bonds. The Series 2008C Bonds shall be subject to mandatory sinking fund redemption prior to maturity at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, on the applicable June 15th in each of the years and in the principal amounts set forth in the following table:

<u>Redemption Dates</u>	<u>Principal Amount</u>
June 15, 2023	\$27,295,000
June 15, 2024*	57,505,000

* Final maturity

The NMFA shall have the option to reduce the principal amount of Series 2008C Bonds to be redeemed on any mandatory sinking fund redemption date by any amount (equal to the smallest denomination then authorized or whole multiples of such smallest denomination) up to the principal amount of Series 2008C Bonds which have been redeemed prior to or will be redeemed on such redemption date under any other provision hereof or which otherwise have been delivered to the Trustee for cancellation (and which have not previously been applied to reduce the principal amount of Series 2008C Bonds redeemable). The NMFA shall exercise the option described in the preceding sentence by delivering to the Paying Agent, on or before the forty-fifth (45th) day preceding such redemption date, a written notice stating the amount of such reduction.

Series 2008D Bonds. The Series 2008D Bonds are not subject to mandatory sinking fund redemption prior to maturity.

Mandatory Redemption of Bank Bonds. So long as the Standby Bond Purchase Agreements are in effect, and if no Event of Default, as defined in and pursuant to the Standby Bond Purchase Agreements has occurred and is continuing, any Bank Bonds that remain Bank Bonds for more than ninety (90) consecutive days, and which are not remarketed or retained by the Bank pursuant to the Standby Bond Purchase Agreements and the Indenture, shall be subject to mandatory redemption in twelve (12) equal, quarterly annual principal installments as set forth in the Standby Bond Purchase Agreements.

Redemption Procedure. Except as otherwise provided herein, the Series 2008C/D Bonds shall be called for prior redemption and shall be paid by the Paying Agent upon notice as provided below. The Trustee shall not be required to transfer or exchange any Series 2008C/D Bond after notice of the redemption of such Series 2008C/D Bond has been given (except the unredeemed portion of such Bond, if redeemed in part) or to transfer or exchange any Series 2008C/D Bond during the period of 15 days (30 days if such Series 2008C/D Bond bears interest at a Semiannual or Term Rate or the Fixed Rate) next preceding the day such notice is given.

Notice of Redemption. The Trustee shall cause notice of the redemption of the Series 2008C/D Bonds (unless such Series 2008C/D Bonds bear interest at a Semiannual, Term or Fixed Rate) not less than fifteen (15) days nor more than thirty (30) days prior to the redemption date. The Trustee shall cause notice of the redemption of the Series 2008C/D Bonds bearing interest at a Semiannual, Term or Fixed Rate to be given not less than thirty (30) days nor more than sixty (60) days prior to the redemption date.

Payment of Bond Requirements

Principal and Final Interest. The principal or Redemption Price of and the final interest payment on any Series 2008C/D Bonds shall be payable to the owner thereof as shown on the registration books maintained by the Trustee upon maturity or prior redemption thereof and upon presentation and surrender at the principal office of the Paying Agent. During Commercial Paper, Daily, Weekly, Semiannual, or ARS Rate Periods, the principal or Redemption Price of and the final interest payment on the Series 2008C/D Bonds shall be payable in immediately available funds. The principal or Redemption Price of and the final interest payment on the Series 2008C/D Bonds during Term Rate Periods or Fixed Rate Periods, shall be payable in clearing house funds. If any Series 2008C/D 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 2008C/D 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. During Commercial Paper, Daily, Weekly, Semiannual, or ARS Rate Periods, interest on the Series 2008C/D Bonds shall be payable in immediately available funds. The interest on the Series 2008C/D Bonds during Term Rate Periods or Fixed Rate Periods, 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 2008C/D 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 2008C/D 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 Semiannual, Term and Fixed Rate Interest. All payments of interest (other than the final interest payment) on any Series 2008C/D Bond bearing interest at a Semiannual, Term or Fixed Rate, 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 2008C/D Bonds bearing interest at a Semiannual, Term or Fixed Rate, by wire transfer on such date to a bank within the continental United States as directed by such owner.

Payment of Other Interest. All payments of interest on other Series 2008C/D Bonds (other than the final interest payment and other than interest paid as part of the Purchase Price on any Series 2008C/D Bond bearing

interest at a Commercial Paper Rate) shall be paid to the person entitled thereto pursuant to the Indenture by wire transfer to a bank within the continental United States as directed by such person or, if not directed by such person, as directed by a Remarketing Agent or Auction Agent, in either case, on the Regular Record Date for such Interest Payment Date (or, in the case of Defaulted Interest, the Special Record Date for the payment of such Defaulted Interest).

Payment of Purchase Price Payments for Series 2008C/D Bonds

The Purchase Price Payments for the Series 2008C/D Bonds (other than Series 2008C/D Bonds bearing interest at an Auction Rate) are payable solely out of (i) first, moneys paid to the Paying Agent by any Remarketing Agent from the proceeds of the remarketing of the Series 2008C/D Bonds; and (ii) second, to the extent moneys described in clause (i) are not sufficient therefor, moneys paid for such purpose under any related Series 2008C/D Liquidity Facility, as applicable. Such moneys so held in trust by the Paying Agent from the proceeds of the remarketing of the Series 2008C/D Bonds, and the moneys so paid under any such related Series 2008C/D Liquidity Facility, are pledged to the payment of the Purchase Price Payments for the Series 2008C/D Bonds.

Book-Entry Only System

The Depository Trust Company (“DTC”) will act as securities depository for all of the Series 2008C/D Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2008C/D Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2008C/D Bonds will be made in book-entry form only, and Beneficial Owners of the Series 2008C/D 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 2008C/D 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 2008C/D BONDS

Special, Limited Obligations

The Series 2008C/D Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and other moneys held in certain funds and accounts created under the Indenture. The Series 2008C/D Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. THE NMFA, THE COMMISSION AND THE DEPARTMENT HAVE NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2008C/D Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State.

Pledged Revenues

The principal of and interest on the Series 2008C/D Bonds will be payable from a portion of the Pledged Revenues, which revenues are pledged and are payable as provided in the Indenture. Such pledge is subject to the pledge in favor of the Outstanding Closed Lien Obligations, the Senior Lien Bonds and to the uses of the Pledged Revenues and other amounts pledged by, and the priorities set forth in, the Indenture. See “APPENDIX B—EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts.” The Series 2008C/D Bonds constitute an irrevocable lien, but not an exclusive lien, on the Pledged Revenues as set forth in the Indenture.

The Pledged Revenues pledged to the payment of the Series 2004B Bonds, the Series 2006B Bonds, the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C/D Bonds and any other Subordinate Lien Obligations are to be applied to the Series 2004B Bonds, the Series 2006B Bonds, the Series 2008A Bonds, the Series 2008B Bonds, the Series 2008C/D Bonds and the other Subordinate Lien Obligations (including payment obligations under the SWAP Agreements) without priority or distinction of one over the other, after the payment of the Outstanding Closed Lien Obligations and the Senior Lien Bonds.

The NMFA and the Department have entered into a procedural memorandum under which the NMFA will, during each month in which the Series 2004B Bonds, the Series 2006B Bonds, the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C/D Bonds are Outstanding, present requisitions to the Department for payment from the State Road Fund and the Highway Infrastructure Fund of the amounts of Pledged Revenues required for debt service to be deposited with the Trustee under the Indenture. The Department is to issue warrants for payment of those amounts from the State Road Fund and/or the Highway Infrastructure Fund to the NMFA and the NMFA is to cause the amounts to be deposited with the Trustee in the Revenue Fund. Only the Pledged Revenues so transferred by the Department (not all Pledged Revenues) will be deposited to the Revenue Fund held by the Trustee under the Indenture.

Outstanding Closed Lien Obligations

The Commission has previously issued and there are currently outstanding Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (the "1998A Bonds"); Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (the "1998B Bonds"); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (the "1999 Bonds"); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (the "2000 Bonds"); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (the "2001 Bonds"); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (the "2002A Bonds"); Subordinate Lien Tax Revenue Highway Bond, Series 2002B (the "2002B Bonds"); Highway Infrastructure Fund Revenue Bonds, Series 2002C (the "2002C Bonds"); Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002D (the "2002D Bonds"). The 1998A Bonds, the 1998B Bonds, the 1999 Bonds, the 2000 Bonds, the 2001 Bonds, the 2002A Bonds, the 2002B Bonds, the 2002C Bonds and the 2002D Bonds (collectively, the "Outstanding Closed Lien Obligations") are payable from and secured by a lien on a portion of the State Revenues consisting of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and, to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund (collectively, the "Closed Lien State Revenues"). The Outstanding Closed Lien Obligations were outstanding as of May 1, 2008 in the following aggregate principal amounts:

Outstanding Closed Lien Obligations

<u>Issue</u>	<u>Outstanding Principal Amount (as of 5/1/08)</u>
Senior Subordinate Lien Bonds	
Series 1998A	\$17,760,000
Series 1999	18,780,000
Series 2000	41,475,000
Series 2001	107,085,000
Series 2002A	37,160,000
Series 2002C	32,945,000
Series 2002D	4,570,000
Junior Subordinate Lien Bonds	
Series 1998B	34,435,000
Series 2002B	<u>17,970,000</u>
TOTAL	<u>\$312,180,000</u>

(Source: The Department.)

The lien of the Series 2004B Bonds, Series 2006B Bonds, Series 2008A Bonds, Series 2008B Bonds and Series 2008C/D Bonds on the Closed Lien State Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Obligations on the Closed Lien State Revenues. In addition, the Series 2002C Bonds are payable from and secured by a lien on a portion of the Pledged Revenues consisting of leased vehicle gross receipts tax revenues and tire recycling fees, in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on such amounts in the Highway Infrastructure Fund (the "Senior Lien HIF Revenues"). The lien of the

2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds, Series 2008A Bonds, Series 2008B Bonds and the Series 2008C/D Bonds on the Closed Lien HIF Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Obligations on the Closed Lien HIF Revenues. Pursuant to a resolution adopted by the Commission on April 15, 2004, the Commission has agreed not to issue any bonds or other obligations secured by a lien on any of the Pledged Revenues superior to the Senior Lien Bonds, which include the Series 2004A Bonds and the Series 2006A Bonds.

Outstanding and Additional Senior Lien Bonds

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

The NMFA has previously issued and there are currently outstanding \$700,000,000 in aggregate principal amount of its Series 2004A Bonds and \$150,000,000 in aggregate principal amount of its Series 2006A Bonds. The Series 2004A Bonds and the Series 2006A Bonds will have a lien on the Pledged Revenues senior to the lien thereon of the Series 2008C/D Bonds.

Additional Subordinate Lien Obligations

The Indenture provides that no additional Subordinate Lien Obligations may be issued (other than for purposes of refunding) by the NMFA, and that no Additional Highway Bonds may be issued by the Commission, unless the Pledged Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Obligations or Additional Highway Bonds were at least 300% of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on (a) then Outstanding Closed Lien Obligations, (b) then Outstanding Senior Lien Bonds, (c) then Outstanding Series 2004B Bonds, (d) then Outstanding Series 2006B Bonds, (e) then Outstanding Series 2008A Bonds, (f) then Outstanding Series 2008B Bonds, (g) then Outstanding Series 2008C/D Bonds, (h) then Outstanding Additional Highway Bonds, and (i) the Subordinate Lien Obligations or Additional Highway Bonds proposed to be issued. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from Pledged Revenues—Limitations Upon Issuance of Subordinate Lien Bonds” in Appendix B.

The NMFA has issued, after giving effect to the refunding of the Refunded Bonds, and there are currently outstanding \$162,330,000 in aggregate principal amount of its Series 2004B Bonds, \$35,510,000 in aggregate principal amount of its Series 2006B Bonds, \$115,200,000 aggregate principal amount of its Series 2008A Bonds and \$220,000,000 aggregate principal amount of its Series 2008B Bonds. All such Bonds 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 on a parity with the lien on the Pledged Revenues of the Series 2008C/D Bonds. In addition, the Series 2008A Bonds and Series 2008B Bonds are also secured by Letters of Credit issued by State Street Bank and Trust Company and UBS AG. Payment obligations, other than termination payment obligations, of the NMFA on the Swap Agreements are also Subordinate Lien Obligations.

Additional Contemplated Obligations

The NMFA, the Department and the Commission are currently considering entering into a line of credit in an amount up to \$200,000,000 which would be drawn by the NMFA in increments during the years 2008-2010 at the direction of the Department to finance the costs of certain transportation projects. This additional obligation will most likely be on parity with the Series 2008C/D Bonds, although the exact terms have not yet been determined.

Subordinate Debt

The NMFA and the Commission may issue additional bonds or other obligations payable from the Pledged Revenues constituting a lien on Pledged Revenues subordinate and junior to the lien on the Pledged Revenues of the Series 2008C/D Bonds, including Junior Subordinate Lien Obligations. Termination payment obligations of the NMFA on the Forward-Starting Swap Agreements and the 2004 Swap Agreements are Junior Subordinate Lien Obligations.

Additional Superior Obligations Prohibited

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

Liquidity Facilities Requirements

At all times during which the Series 2008C/D Bonds bear interest at a Variable Rate or a Commercial Paper Rate the NMFA shall maintain a Series 2008C/D Liquidity Facility, as applicable (the provider of which may but need not be the same as the provider of a Series 2008C/D Liquidity Facility) to secure payment of the Purchase Price of tendered Series 2008C/D Bonds. In addition, the NMFA covenants and agrees that at all times while any Series 2008C/D Bonds are outstanding which bear interest at other than a Fixed Rate or an Auction Rate, if the rating of the Series 2008C/D Liquidity Facility Provider for such Series shall (if then rated by the same) be lowered by either of Moody’s Investor Services, Inc. or Standard & Poor’s Ratings Services, below the top two short-term rating categories assigned by such rating agency (without giving effect to numeric or other qualifiers), then the NMFA shall obtain an Alternate Series 2008C/D Liquidity Facility (the “Alternate Series 2008C/D Liquidity Facility”) meeting such rating requirement.

Upon the receipt by the Paying Agent of a written request of the NMFA stating that the amount available under a Series 2008C/D Liquidity Facility may be reduced, the Paying Agent shall direct or send appropriate notice to such Series 2008C/D Liquidity Facility Provider requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Series 2008C/D Liquidity Facility, subject to any requirements of such Series 2008C/D Liquidity Facility. In no event shall any Series 2008C/D Liquidity Facility be reduced to an amount less than the principal amount of the Series 2008C/D Bonds secured by such Series 2008C/D Liquidity Facility outstanding, plus an amount equal to interest thereon at the Interest Rate then required by any rating agency then rating the Series 2008C/D Bonds for the number of days then required by any rating agency then rating the Series 2008C/D Bonds, unless the NMFA has deposited an Alternate Series 2008C/D Liquidity Facility with the Paying Agent. In no event shall any Alternate Series 2008C/D Liquidity Facility replace only in part any then current Series 2008C/D Liquidity Facility. Notwithstanding the foregoing, immediately after payment in full has been made on any Series 2008C/D Bond, either at its maturity date, by optional redemption, or otherwise, the Paying Agent shall direct or send appropriate notice to any applicable Series 2008C/D Liquidity Facility Provider requesting or directing that the amount available under such Series 2008C/D Liquidity Facility be reduced by an amount equal to such principal so paid plus the amount of interest theretofore provided for under such Series 2008C/D Liquidity Facility on such principal amount.

The Series 2008C/D Bonds are not under any circumstances required to have the benefit of a Series 2008C/D Liquidity Facility with respect to the outstanding principal amount of such Series 2008C/D Bonds if, prior to the expiration or termination of any applicable Series 2008C/D Liquidity Facility then in effect, there is delivered to the NMFA, the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent (i) a Favorable Opinion of Bond Counsel to the effect that the expiration or termination of any such Series 2008C/D

Liquidity Facility then in effect will not adversely affect the validity of such Series 2008C/D Bonds or, with respect to Series 2008C Bonds, any exclusion from gross income for federal income tax purposes to which interest on such Series 2008C Bonds would otherwise be entitled, and (ii) written evidence from each rating agency then maintaining a rating on such Series 2008C/D Bonds that the ratings on such Series 2008C/D Bonds following the expiration or termination of such Series 2008C/D Liquidity Facility will not be reduced or withdrawn from the ratings on such Series 2008C/D Bonds immediately prior to such expiration or termination.

Upon satisfaction of the requirements described in the immediately preceding paragraph, (i) the Paying Agent, upon receipt of a written request of the NMFA, shall direct or send appropriate notice to any Series 2008C/D Liquidity Facility Provider requesting or directing the cancellation of a Series 2008C/D Liquidity Facility then in effect on the date (the “Series 2008C/D Liquidity Facility Cancellation Date”) requested by the NMFA in such written request, which date may not be less than 30 days, or such longer or shorter period as is required by such Series 2008C/D Liquidity Facility for its termination at the request of the NMFA, from the date the Paying Agent receives such written request, and (ii) following the date of such cancellation, all tendered Series 2008C/D Bonds may be remarketed by any Remarketing Agent pursuant to a Remarketing Agreement without the benefit of a Series 2008C/D Liquidity Facility until such time, if any, as such Series 2008C/D Bonds are thereafter entitled to the benefits of a Series 2008C/D Liquidity Facility, but only if there is delivered to the NMFA, the Paying Agent and such Remarketing Agent a Favorable Opinion of Bond Counsel to the effect that the execution and delivery of a Series 2008C/D Liquidity Facility will not adversely affect the validity of such Series 2008C/D Bonds or with respect to the Series 2008C Bonds, any exclusion from gross income for federal income tax purposes to which interest on such Series 2008C Bonds would otherwise be entitled. If at any time no Series 2008C/D Liquidity Facility is required on the Series 2008C/D Bonds, the Paying Agent shall affix a legend on the face, of each such Series 2008C/D Bond authenticated on or after the date on which a Series 2008C/D Liquidity Facility is no longer required in substantially the following form: “A Series 2008C/D Liquidity Facility is not required with respect to this Series 2008C/D Bond. If a Series 2008C/D Liquidity Facility is currently provided, it may be discontinued at any time without prior notice to, or a right to tender by, the Bondholder.”

PLEDGED REVENUES

The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain state corporation commission fees, trip taxes, weight/distance taxes, 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 NMFA.

State Road Fund

General. The State Road Fund is established pursuant to Section 67-3-65 NMSA 1978, as amended. No income earned on the fund may be transferred to another fund. Pursuant to Section 67-3-65.1 NMSA 1978, as amended, distributions from the State Road Fund may be used only for maintenance, construction and improvement of the 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). As of January 2007, the State’s gasoline excise tax rate is lower than that of any western state with the exception of Oklahoma (17 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. Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a “gasoline tax sharing agreement” with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed on June 23, 2004. Under that agreement the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be in effect for at least the next ten years as a result of the gasoline tax sharing agreements.

Retail Exemption. Chapter 190, Laws of 1999 also permits gasoline to be sold at retail by registered Native American distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. In its 2000 regular session, the Legislature enacted a deduction from gasoline taxes for retail sales of gasoline by persons other than registered Indian tribal distributors on Indian reservations, pueblo grants and trust lands. The deduction, which became effective on April 1, 2000, is effectively equal to the lesser of the tribal tax on the gasoline sold or the State gasoline tax. According to the TRD, there are approximately 271 registered gasoline dealers in the State. Of those 271, 17 are tribally-owned, otherwise affiliated with tribes or located on Indian reservations, pueblo grants and trust lands.

Exemption Results. As a result of the foregoing exemptions and other factors (such as more fuel efficient vehicles and higher gasoline prices), the Department expects a slow rate of growth in gasoline excise taxes paid into the State Road Fund over the next several years. Fiscal year 2003 taxable gasoline distributions in the State totaled 851,912,805 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 92,837,114 gallons. Fiscal year 2004 taxable gasoline distributions in the State totaled 871,450,733 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 88,226,119 gallons. Fiscal year 2005 taxable gasoline distributions in the State totaled 875,551,884 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 53,425,815 gallons. Fiscal year 2006 taxable gasoline distributions in the State totaled

880,614,191 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 55,432,237 gallons. Fiscal year 2007 taxable gasoline distributions in the State totaled 918,292,994 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 58,864,581 gallons. The Department estimates that future Native American retail sales of gasoline within reservation, pueblo grant and trust land boundaries will remain constant at the fiscal year 2007 level.

Collection Procedures. The gasoline excise tax is payable by gasoline distributors on or before the 25th day of the month after the month in which the gasoline is “received” in 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 76.27% of the receipts attributable to the gasoline excise tax are paid into the State Road Fund.

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

Historical Gasoline Excise Taxes

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Taxable</u> <u>Gallons (000s)</u>	<u>Percent</u> <u>Change (%)</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
1998	911,407	2.53	\$117,880	2.19
1999	892,490	(2.08)	115,660	(1.88)
2000	868,022	(2.74)	111,961	(3.20)
2001	838,445	(3.41)	108,534	(3.06)
2002	839,001	0.07	108,941	0.37
2003	851,913	1.54	110,465	1.40
2004	871,451	2.29	112,107	1.49
2005	875,552	0.47	109,163	(2.63)
2006	880,614	0.58	109,723	0.51
2007	918,293 ⁽¹⁾	4.28	114,577	4.42

⁽¹⁾ Estimated.

(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 had been at a rate of 18 cents per gallon (effective from July 1, 1993 through June 30, 2004). The tax rate increased to 21 cents per gallon effective

July 1, 2004. The net receipts of the taxes, 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.

Historical Special Fuel Excise Taxes

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Taxable</u> <u>Gallons (000s)</u>	<u>Percent</u> <u>Change (%)</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
1998	373,747	9.38	\$59,732	10.77
1999	398,425	6.60	63,763	6.75
2000	411,197	3.21	66,648	4.52
2001	411,855	0.16	66,940	0.44
2002	407,536	(1.05)	65,689	(1.87)
2003	430,852	5.72	69,478	5.77
2004	463,073	7.48	74,546	7.29
2005	459,405	(0.79)	86,588	16.15 ⁽¹⁾
2006	509,030	10.80	97,127	12.17
2007	509,377 ⁽²⁾	0.07	97,008	(0.12)

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

⁽²⁾ Estimated.

(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-14 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

Fiscal Year Ended June 30	State Road Fund Distribution (000s)	Percent Change (%)
1998	\$47,603	7.43
1999	52,670	10.64
2000	54,098	2.71
2001	50,851	(6.00)
2002	50,903	0.10
2003	51,394	0.96
2004	51,574	0.35
2005	68,396	32.62 ⁽¹⁾
2006	76,453	11.78
2007	88,365 ⁽²⁾	15.58

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

⁽²⁾ Estimated.

(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 collected increased from 66.541% to 74.65% beginning March 1, 2004.

Registration fees for passenger cars are based on gross factory shipping weight and years of registration, calculated from the date when the vehicle was first registered in any state. Passenger car registration fees range from \$21.00 for a passenger car with a gross factory shipping weight of not more than 2,000 pounds that has been registered for more than five years to \$56.00 for a passenger car with a gross factory shipping weight of more than 3,000 pounds that has been registered for five years or less. These rates were increased from \$16.00 and \$42.00, respectively, as of March 1, 2004. Registration fees for passenger cars are collected by the Motor Vehicle Division of TRD. Since January 1999, the Motor Vehicle Division has allowed a two-year registration option. Registrants who choose the two-year option pay twice the normal fee and are exempt the following year.

Registration fees for trucks and buses are based on 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 registration fees assessed on passenger cars, trucks, buses and farm vehicles, the State assesses registration fees of \$15.00 on motorcycles, \$13.00 on freight trailers, \$7.00 plus \$1.00 for each hundred pounds of empty weight over 500 pounds on utility trailers, \$7.00 on fertilizer trailers under 3,000 pounds empty

weight and \$7.00 on manufactured homes. These rates were increased from \$11.00, \$10.00, \$5.00, \$5.00 and \$5.00, respectively, as of March 1, 2004.

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

Reduced fees are available for veterans and for vehicles used only part of the year. Additional fees are applicable to vehicles with solid tires. Vehicles 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>	State Road Fund <u>Distribution (000s)⁽¹⁾</u>	Percent <u>Change (%)</u>
1998	\$40,162	4.09
1999	42,537	5.91
2000	44,302	4.15
2001	41,600	(6.10)
2002	44,137	6.10
2003	43,993	(0.33)
2004	52,996	20.46 ⁽²⁾
2005	67,768	27.87
2006	71,470	5.46
2007	73,512	2.86

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

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

(Source: 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 fund may be transferred to another fund. Distributions from the Highway Infrastructure Fund may be used only for acquisition of rights of way or planning, design, engineering, construction or improvement of state highway projects authorized by the Legislature. All of the taxes and fees attributable to the Highway Infrastructure Fund are collected and administered by TRD and transferred by the State Treasurer from various suspense funds to the Highway Infrastructure Fund monthly.

Leased Vehicle Gross Receipts Taxes. Leased vehicle gross receipts taxes are imposed pursuant to Section 7-14A-3 NMSA 1978, 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. 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 nine-year history of the portion of the leased vehicle gross receipts taxes payable into the Highway Infrastructure Fund:

Historical Net Leased Vehicle Gross Receipts Taxes

Fiscal Year Ended <u>June 30</u>	Leased Vehicle Gross Receipts Taxes (000s) ⁽¹⁾	Percent Change (%)
1999	\$4,146	—
2000	4,596	10.85
2001	4,810	4.66
2002	4,507	(6.30)
2003	4,465	0.93
2004	4,536	1.59
2005	4,524	(0.26)
2006	5,144	13.69
2007	4,844 ⁽¹⁾	(5.81)

⁽¹⁾ Estimated. Amount equals 75% of leased vehicle Gross Receipts taxes as paid into the Highway Infrastructure Fund.
(Source: The Department.)

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

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

Historical Net Tire Recycling Fees

Fiscal Year Ended <u>June 30</u>	Tire Recycling Fees (000s)	Percent Change (%)
1998	\$1,573	—
1999	1,552	(1.34)
2000	1,455	(6.25)
2001	1,411	(3.02)
2002	1,655	17.29
2003	1,679	1.45
2004	1,421	(15.37)
2005	1,950	37.23
2006	1,734	(11.08)
2007	1,758 ⁽¹⁾	1.40

⁽¹⁾ Estimated.
(Source: The Department.)

The Federal-Aid Highway Program

The Federal-Aid Highway Program (FAHP) is an “umbrella” term that encompasses most of the federal programs providing highway funds to the states, such as the Interstate Maintenance Program, the Bridge Program, the National Highway System Program, and the Surface Transportation Program. The 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.

It should be noted that the terms and conditions of participation in the FAHP as described herein are subject to change at the discretion of Congress, and there can be no assurance that the laws and regulations now governing the FAHP will not be changed in the future in a manner that may adversely affect the ability of the Department to receive adequate FHWA Funds to pay the debt service on the Series 2008C/D Bonds.

Certain FAHP features or requirements are explained or further defined where they appear below but are introduced here for reference:

1. *The Federal Highway Trust Fund (the "HTF")*: The HTF is a dedicated federal fund with dedicated revenues held in trust for reimbursement of expenditures by the states for costs of eligible transportation projects, including highway projects.

2. *Authorization*: "Authorization" is the process by which Congress authorizes the expenditure of federal revenues on federal programs. For the FAHP, authorization historically has been provided on a multi-year basis. This, together with the availability of HTF revenues and future HTF collections permits states more certainty in planning long-term highway projects. The current multi-year authorization, SAFETEA-LU, became law on August 11, 2005 and expires on September 30, 2009. See "SAFETEA-LU" below.

3. *Apportionment*: For each Federal Fiscal Year ("FFY"), the FHWA apportions the authorized funding among the states according to formulas that are established in authorizing statutes. The distribution of federal funds that do not have a statutory formula is called "allocation" rather than "apportionment."

4. *Obligation Authority*: "Obligation" is the commitment of the federal government to pay, through reimbursements to a state, its share of the eligible expenditures on an approved project. The amount of such federal revenues that a state can obligate in a given FFY is called its "Obligation Authority."

5. *Advance Construction*: The Advance Construction procedure allows states to commence eligible projects without first having to obligate the federal government's share of expenditures. Thus, states may begin a project before amassing all of the Obligation Authority needed to cover the federal government's share. The Project is an Advance Construction Project.

6. *Partial conversion of Advance Construction*: Under partial conversion of Advance Construction, in a given year a state may convert Advance Construction to Obligation Authority and thus be eligible for reimbursement for a portion of the federal share of an Advance Construction project in that or in a subsequent FFY. This removes any requirement for the state to wait for reimbursements until the full amount of Obligation Authority needed for the entire project is available.

These features of the FAHP work in a complementary fashion to provide a regular flow of federal reimbursements over the years to state highway projects.

The participation of the State in such reimbursements, and the role of such participation in providing payment and security for the Series 2008C/D Bonds, is discussed herein.

Although FHWA provides funding for eligible highway projects, federal-aid highways are under the administrative control of the state or local government responsible for their operation and maintenance.

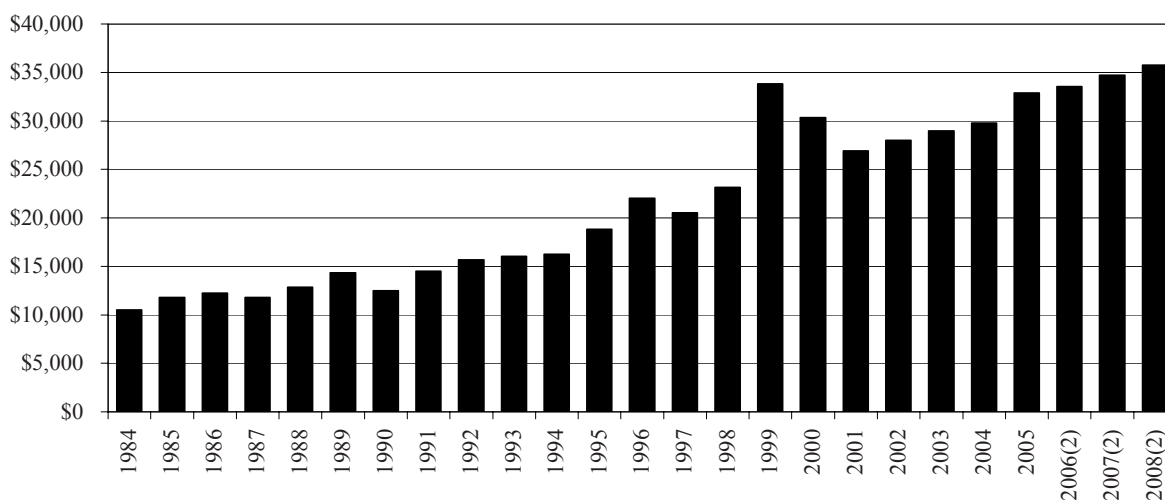
Title 23, United States Code, entitled "Highways," includes most of the laws that govern the FAHP arranged systematically or codified. Generally, Title 23 embodies those substantive provisions of highway law that Congress considers to be continuing and which need not be reenacted each time the FAHP is reauthorized. Periodically, sections of Title 23 may be amended or repealed through surface transportation acts.

Federal Highway Trust Fund

The Federal Highway Trust Fund provides the primary funding for the FAHP. Funded by a collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF 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 HTF 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 HTF. The majority of these tax revenues, including 15.44 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account. The following table shows annual and projected HTF collections in the Highway Account for the Federal Fiscal Years (FFY) 1984 through 2008.

Payments into the Highway Account of the Highway Trust Fund ⁽¹⁾
Federal Fiscal Years 1984-2008 (in millions)



(1) Excludes interest on balances.

(2) FFY 2006 actual, and FFY 2007 and 2008 estimates from the President's FFY 2008 Budget.

Source: FFY 1984 through FFY 2005, Highway Statistics 2005, Office of Highway Policy Information, FHWA, Table FE-210.

The imposition of the taxes that are dedicated to the HTF, as well as the authority to place the taxes in the HTF and to expend moneys from the HTF, all have expiration dates which must be extended periodically. The life of the HTF has been extended several times since its inception, most recently by SAFETEA-LU (as described below). SAFETEA-LU extended the imposition of taxes through September 30, 2011, and the transfer of the taxes to the HTF through September 30, 2009. The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

History. The modern FAHP originated in the Federal-Aid Highway Act of 1956. The FAHP initially was established as a pay-as-you-go system, meaning that costs of constructing and maintaining the system were to be borne primarily by its users, who would pay a federally-imposed tax on motor fuels. Federal user fees were to provide 90% of the cost of construction, with the remainder paid for by the states.

The Federal-Aid Highway Act of 1956 was the first of a long series of authorizing statutes for the FAHP. Prior to SAFETEA-LU, enacted August 11, 2005, TEA 21, which expired on September 30, 2003 (“TEA 21”), and its immediate predecessor, the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”), were the most recent multi-year authorizing statutes.

SAFETEA-LU. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), passed the Congress and was signed into law by the President on August 11, 2005 and authorizes a total of \$286.4 billion for the federal surface transportation programs in Federal Fiscal years 2004 through 2009. This represents a 38% increase in authorization over TEA 21. The core federal-aid highway program will be funded at these levels: \$34.4 billion (FFY05), \$36 billion (FFY06), \$38.2 billion (FFY07), \$39.6 billion (FFY08) and \$41.2 billion (FFY09). SAFETEA-LU retains the budgetary firewall and minimum guarantee provisions of TEA 21, increasing each state’s minimum rate of return of HTF contributions from 90.5% in TEA 21 to 92% by 2008. All states are also guaranteed a total six-year average highway funding increase of at least 19%, when compared to the state’s six-year TEA 21 funding total.

Since the passage of SAFETEA-LU, Congress has taken two separate actions to reduce SAFETEA-LU's authorized spending levels for Federal Fiscal Year 2007 and three actions for Federal Fiscal Year 2006 by issuing rescissions. These five rescissions have resulted in a \$8,187,966,000 rescission of unobligated balances of apportionments. The impact on the State of these rescissions has been a decrease in approximately \$120,773,926 of apportionments; however, because these were unobligated balances, there was no impact on operating revenues.

Operations. The present FAHP continues to reimburse a large percentage of state expenditures for approved highway projects. The financial assurance provided by the FAHP is unusual among federal programs in that:

1. The FAHP is based on dedicated revenues, from a user-tax source, deposited in a dedicated trust fund (the HTF);
2. The budget and contract authority of the FHWA is typically established by a multi-year authorization act rather than annually through appropriation acts; and
3. 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 process for reimbursing state expenditures may be summarized in three steps: authorization, obligation and program implementation, which are described below in further detail.

Step 1: Authorization. The first step, and the most crucial in financing the FAHP, is the multi-year (or under interim authorizations, multi-month), authorizing legislation. Such highway authorization acts:

1. Establish the taxes that fund the HTF and extend their life (reauthorization);
2. Establish the specific programs and procedures through which states receive federal financial assistance for their highway programs; and
3. Set upper limits on funding for specific programs and for overall FAHP.

Lapsing of Authorization. All federal programs must be authorized through enacted legislation that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary in order to create budget authority. Indeed, for most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the FAHP, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide Obligation Authority by administrative action.

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

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

2. Short-Term Authorization: ISTEA expired on September 30, 1997 and until approval of TEA 21 on June 9, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorizing legislation, states were provided an upper limit on Obligation Authority through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997 Congress passed the Surface Transportation Extension Act of 1997 (“STEA”), which provided a six-month authorization for highway funding and established a limit on the amount of new Obligation Authority states can use at funding levels equal to about a quarter of FFY 1997 authorization levels. Since most states have unobligated balances of at least half their normal annual Obligation Authority levels and an authorization act need not be in place for the FHWA to give states new Obligation Authority, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated Obligation Authority. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the HTF. (See Step 2, below, for further explanation of Obligation Authority and unobligated balances.) Similarly, TEA 21 expired on September 30, 2003 and Congress enacted nine interim authorization measures for varying periods over twenty-two months until the enactment of SAFETEA-LU on August 11, 2005.

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

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

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

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

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 HTF expenditures relatively close to their payments into the HTF.

TEA 21 authorized an annual average of approximately \$28.5 billion for FFY 1998 through FFY 2003 while SAFETEA-LU authorized an annual average of approximately \$37.1 billion for FFY 2004 through FFY 2009.

Availability of Federal Highway Revenues. Federal-aid highway revenues 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 many other federal programs. Consequently, when new apportionments or allocations are made, the amounts are added to a state's unused apportionments and allocations from the previous FFY. Should a state fail to obligate (commit to spend) a year's apportionments and allocations within the period of availability specified for a given program, however, the authority to obligate any remaining amount lapses—that is, it is no longer available except for a few programs which receive indefinite, or “no-year” Obligation Authority.

Matching Requirements. With a few exceptions, the federal government does not pay for the entire cost of construction or improvement of federal-aid highways. Federal reimbursements are typically matched with state and/or local government revenues to account for the necessary dollars to complete the project. The maximum federal share is specified in the legislation authorizing the program. Most projects have an 80% federal share while interstate construction and maintenance projects typically have been funded with a 90% federal share. However, the federal share in the State is frequently higher because of the amount of land owned by the federal government in the State.

Step 2: Obligation. The second step of the federal-aid funding process occurs when revenues that have been authorized by legislation, and either apportioned or allocated to individual states, are obligated for a specific purpose. As noted in the previous section, Congress uses annual appropriations acts to control actual annual obligation of funds in the HTF. Appropriations acts limit the amount of federal money that actually will be obligated and thus ultimately spent, and these annual amounts may be less than the authorized amount. This ceiling on the amount of contract authority that states may use is called the “annual obligation limit.”

Obligation is the commitment of the federal government to pay, through reimbursement to a state, the federal government's share of an approved project's eligible costs, which may include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. From the federal perspective, obligations made are the outlays the federal government has committed to make from the HTF in the future. Because of the close relationship between obligations and outlays, Congress and the FHWA play a strong role in determining how much federal funding can be obligated by individual states through two primary processes:

1. Appropriations acts; and
2. Distribution of Obligation Authority.

Appropriations Acts. Congressional appropriations committees use the amount of federal-aid highway revenues that states can obligate in a given year, called “Obligation Authority,” as a means of balancing the annual level of highway spending with other federal budgetary priorities. This is accomplished through the establishment of an annual obligation limitation in the annual Department of Transportation and Related Agency Appropriations Act. The annual obligation limitation can be less than the level of funding authorized for the same year, although the creation of budgetary firewalls and RABA in TEA 21 substantially limited the amount of HTF revenues that can be used for non-highway purposes.

Distribution of Obligation Authority. The obligation limitation is the amount of authorized funding that Congress allows states collectively to obligate in an individual year. Under TEA 21, the annual obligation limitation included two elements – a large portion protected by firewalls and tied to projected HTF receipts through RABA (roughly 90% of total annual contract authority), and a smaller portion that competes with other discretionary budget priorities for funding (less than 10% of total annual contract authority). Beginning in FFY 2000, the level of Obligation Authority protected by firewalls is established each year as the guaranteed obligation limitation in TEA 21, adjusted by the difference between HTF revenue estimates made for TEA 21 and new Department of Treasury projections. Additional, discretionary Obligation Authority is determined when annual appropriations bills are developed and is counted under Congress' annual spending cap, which is the amount of federal dollars that can be spent on all domestic, non-entitlement programs in a given year. The combined total may still be below the authorized annual level, and serves as a limit on the total obligations in that particular year.

Once Congress establishes an overall obligation limitation, the FHWA distributes Obligation Authority to states proportionately to each state's share of apportioned and allocated revenues to include minimum guarantee allocations that bring donor states up to the minimum 92% funding level (by FFY 2008). The actual ratio of Obligation Authority to apportionments and allocations may vary from state to state because some federal-aid programs are exempt from the obligation limitation. Once each state's Obligation Authority is set, states then submit requests to the FHWA to obligate revenues representing the federal share of specific projects throughout the years. (A further description of this process is included in Step 3.) As a state obligates revenues, its balance of Obligation Authority is commensurately reduced, although additional Obligation Authority may be received (e.g., via re-allocation from other states).

A state's Obligation Authority (unlike its apportionments and allocations of authorized funding) must be used before the end of the FFY for which it is made available; if not, it will be distributed to other states. The FHWA closely monitors each state's plans for use of Obligation Authority. In mid-summer, the FHWA collects any Obligation Authority from states that do not plan to obligate all of their available Obligation Authority before the end of the FFY, and redistributes it to other states that can obligate the revenues. This reallocation of Obligation Authority is known as the August redistribution.

Unobligated Balances. Because congressional authorization of federal-aid highway revenues represents a commitment to make all authorized revenues available to states for highway purposes, any shortfall between the limit on Obligation Authority created through the annual appropriations process and the amount of contract authority apportioned and allocated to states does not disappear. Instead, the difference between obligation limitations and authorization levels creates what are known as "unobligated balances." Although most federal-aid apportionments lapse after four years, this rarely happens with apportioned highway revenues because old apportionments are always spent before new apportionments. That is, when a state receives new apportionments and Obligation Authority at the beginning of a FFY, obligations are first made against remaining prior year apportionments plus allocation until these are depleted. The net effect of this process, in conjunction with the year-to-year establishment of obligation limitations, has been that states have amassed considerable unobligated balances.

As explained in Step 1, above, unobligated balances permit the FAHP to continue to fund state highway projects during periods in which Congress fails to enact a reauthorization law before the expiration of the previous authorization period. In such periods, the unobligated balances allow states to continue to fund their programs for several months, or even longer, after an authorization act has expired.

Step 3: Program Implementation. The third and final step in the overall federal-aid highway funding process—program implementation—occurs after authorized revenues have been distributed to states, and after states have had the opportunity to obligate those revenues. Once federal-aid highway revenues have been authorized and obligated, states must have developed highway programs that describe, at a project-by-project level, exactly how federal reimbursements will be earned. The process of developing and implementing state highway programs has three broad stages:

1. Budgeting;
2. Planning and programming; and
3. Fiscal management and reimbursement.

Each stage helps to ensure that states develop programs which match funding availability, and that the FHWA is able to distribute federal reimbursements to states in a timely manner.

Budgeting. Budgetary information about availability of funding is crucial to the development of state highway programs. Projected state and federal funding levels are used to budget transportation needs. Consequently, state transportation budget officials track the availability of funding and develop forecasts of future state and federal revenues. States must estimate the availability of short and long-term state and federal funding in order to plan their highway programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming. The Department's annual budget is based on projections made in light

of long-range program requirements and revenue estimates for both state and federal funds. The estimates of state revenues and federal funds are made by the Department.

Planning and Programming. The State's road planning process is structured to ensure the development of a continuous and credible highway improvement program that complements the State's overall transportation system. The process and its products have evolved considerably in recent years as the Department has lengthened its planning horizon.

Highway Capital Investment Program. New Mexico's Highway Capital Investment Program (HCIP) is the major component of the State's multi-modal Statewide Transportation Improvement Program (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 three years. In the State, the STIP is currently developed annually and covers a six-year period. The most recent six-year STIP covering FFY 2006 through FFY 2011 was approved by the Commission on August 18, 2005. The STIP is subject to change from month to month. The first half (three years) of the STIP represents \$802,782,000 of projects to be undertaken during FFY 2006 through FFY 2008. Among other federal requirements, the STIP must be federally reviewed and approved at least every two years. The STIP must include the estimated project cost for each project and the amount of federal funds to be obligated for each project. The Department requests FHWA authorization to use federal funding on a project and submit plans, specifications and estimates to the FHWA. Each project submitted must be included on the STIP. Provided that all requirements are satisfied, the FHWA authorizes the federal financial participation in the project. After expending bond proceeds or other available funds to construct the projects or to pay debt service on relevant bonds, the Department can request and be reimbursed by the FHWA for the federal share of construction costs or the federal share of such debt service, as the case may be. States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states. The Department uses a new integrated financial management, procurement, and human resource system to track all detail budget, expenditures, and expenses for all projects, including bond financed projects. This system also includes all necessary reporting capabilities and the FHWA federal billing functionality.

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

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

Traditionally, federal and state funds are used for the planning, environmental assessment, design and right-of-way acquisition phases leading to the final design and advertisement of the project for contract letting, as well as for construction. Federal obligations of funding may be made at various times prior to award of the project to assure reimbursement of the various developmental phases leading to the project's award for construction by contract. Any project costs incurred prior to the date of a federally approved obligation of a phase are not reimbursable with federal funds.

Certain of the developmental phases must be obligated and done sequentially. Federal obligation for any one developmental phase is conditional on the successful completion of previous phases in accordance with applicable Federal laws and regulations with some projects involving FHWA reviews before a new phase can begin.

For example right-of-way acquisition may not be obligated before the environmental assessment phase is completed. A highway project and the balance of planned funding needed to complete it will remain in the HCIP (and the STIP) in a current or a future year until the State, the Federal Highway Administration or other funding partners have fully obligated their contributions to the anticipated costs for constructing the project.

Fiscal Management and Federal Highway Reimbursements. Once budgeting, planning and programming are complete, projects move into a fiscal management phase. This fiscal management process is the third element of the implementation step in the overall federal highway funding process. A state-led fiscal management system—conducted in accordance with FHWA requirements—is used to determine exactly how much federal funding will be received for each project, to obtain final FHWA authorization before projects are implemented, and to ensure timely federal reimbursement of state expenditures on contractor costs. In the State, these activities are performed by the Department.

States must follow federal fiscal management procedures as they implement projects that have passed through the approval and programming processes. These fiscal management procedures ensure that the FHWA and states are able to manage the process efficiently, from project authorization to actual payment of Federal Highway Reimbursements to the State.

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

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

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

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

Construction begins, and contractors submit bills to the state as work is completed. A state pays its contractor's bills with cash from the state treasury; the state bills the FHWA electronically for the federal share of completed work for which payment has been made; and the FHWA makes payment to the state via electronic transfer. This FHWA reimbursement to the state liquidates its obligation for the federal share of the costs incurred to that point. As project work continues and state expenditures are reported to the FHWA, federal reimbursements are made.

Innovative variations on this fiscal management approach include Advance Construction and partial conversion of Advance Construction. These variations complement one another to provide a state with additional flexibility in managing its Obligation Authority and cash.

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

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

Under partial conversion of Advance Construction, moreover, a state follows the steps to apply for Advance Construction but converts, obligates, and receives reimbursement for only a portion of its funding of an Advance Construction project in a given year. This removes any requirement to wait until the full amount of Obligation Authority is available. The state can thus obligate varying amounts for the project's eligible cost in each year, depending on how much of the state's Obligation Authority is available and desired by the state.

States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states. The Department uses an integrated financial management, procurement, and human resource system to track all detail budget, expenditures, and expenses for all projects, including bond financed projects. This system also includes all necessary reporting capabilities and the FHWA federal billing functionality.

Federal Aid Revenues. The State is a "donee" state, currently receiving \$1.28 in Federal Aid Revenues for every \$1.00 it contributes in motor-fuel tax revenue. Below are tables identifying prior authorizations, obligation limitations and reimbursements received by the State and the Department from FFY in 1998 through the Federal Aid Authorization ending September 30, 2009. The ability to pay debt service on the Series 2008C/D Bonds will depend upon the amount of funding provided to the State under the FAHP and the State's ability to use such funding.

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

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS–TEA 21

	Federal Fiscal Year 2001	Federal Fiscal Year 2002	Federal Fiscal Year 2003	Federal Fiscal Year 2004	Totals
Aggregate Authorization	\$294,049,448	\$298,809,162	\$291,032,534	\$307,511,183	\$1,191,402,327
Obligation Limitation					
National Highway System	69,623,960	75,731,875	75,387,486	80,688,917	301,432,238
Bridge	12,899,034	15,345,467	13,312,643	14,619,751	56,176,895
Surface Transportation Program ⁽¹⁾	46,293,425	48,625,970	49,073,310	49,258,893	193,251,598
Minimum Guarantee	30,036,771	30,238,728	29,907,334	29,921,754	120,104,587
Surface Transportation Program (Urban Areas)	9,569,909	10,268,213	10,476,349	10,327,305	40,641,776
Interstate Maintenance	63,417,400	69,159,815	62,761,855	73,421,464	268,760,534
Congestion Mitigation/Air Quality Improvement	8,047,929	8,607,408	8,550,135	9,389,632	34,595,104
Recreational Trails	663,358	836,354	925,057	977,896	3,402,665
Metro Planning	846,711	912,523	1,037,559	1,164,707	3,961,500
Research Program	1,206,418	1,306,496	1,295,229	1,429,600	5,237,743
Planning Programs	3,619,253	3,919,486	3,885,685	3,538,700	14,963,124
High Priority Projects	13,951,387	13,697,860	15,520,683	10,866,985	54,036,915
Redistribution of Authority	<u>2,070,116</u>	<u>1,738,494</u>	<u>1,232,308</u>	<u>8,118,746</u>	<u>13,159,664</u>
Aggregate Obligation Limitation	<u>\$262,245,671</u>	<u>\$280,388,689</u>	<u>\$273,365,633</u>	<u>\$293,724,350</u>	<u>\$1,109,724,343</u>

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

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

(Source: The Department.)

REIMBURSEMENT FROM FEDERAL FUNDS – TEA 21 and SAFETEA-LU

Federal Fiscal <u>Year</u>	Aggregate <u>Reimbursements</u>
1998	\$161,304,000
1999	213,328,000
2000	277,983,000
2001	260,146,000
2002	278,897,000
2003	263,226,000
2004	243,531,000
2005	287,475,000
2006	<u>292,847,438</u>
Total	<u>\$2,277,737,438</u>

(Source: The Department.)

The State received \$249,994,420 (unaudited) in reimbursements from the FHWA during federal fiscal year 2007.

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

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS – SAFETEA-LU

	Federal Fiscal <u>Year 2005</u>	Federal Fiscal <u>Year 2006</u> ⁽¹⁾	Federal Fiscal <u>Year 2007</u> ⁽¹⁾	Federal Fiscal <u>Year 2008</u> ⁽¹⁾	Federal Fiscal <u>Year 2009</u> ⁽¹⁾	Federal Fiscal <u>Year 2010</u> ⁽³⁾
Interstate Maintenance	\$64,251,895	\$65,286,769	\$66,338,307	\$67,406,777	\$68,492,451	\$69,595,179
National Highway System	76,482,689	77,714,418	78,964,299	80,236,014	81,528,206	82,840,810
Surface Transportation Program ⁽¹⁾	58,812,919	53,584,797	54,244,235	55,051,306	55,937,790	56,838,388
Surface Transportation Program: Approximate (Large Urban Area) Suballocation from STP Apportionment	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)
Bridge	13,821,540	14,044,167	14,270,379	14,500,233	14,733,788	14,971,002
Congestion Mitigation/Air Quality	8,232,073	8,364,628	8,499,317	8,636,175	8,775,237	8,916,518
Recreational Trails	1,026,452	1,199,957	1,286,709	1,373,461	1,460,213	1,546,965
Metro Planning	1,469,376	1,448,969	1,472,634	1,496,045	1,519,833	1,543,998
Planning Programs – Suballocation from Core Program funds	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)
Research Program – Suballocation from Planning Program funds	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)
Highway Safety Improvement Program	–	9,724,197	9,914,691	10,108,251	10,304,929	10,505,875
Rail-Highway Crossing	–	1,493,538	1,490,053	1,488,934	1,488,934	1,488,934
Safe-Routes to School	1,000,000	1,000,000	1,000,000	1,000,000	1,157,178	1,000,000
Border Infrastructure Program	925,343	1,090,851	1,241,313	1,429,391	1,579,853	1,730,315
High Priority Projects	30,920,000	30,920,000	30,920,000	30,920,000	30,920,000	30,920,000
Equity Bonus	<u>76,085,543</u>	<u>71,408,088</u>	<u>86,008,248</u>	<u>94,605,501</u>	<u>94,015,134</u>	<u>94,015,134</u>
Aggregate Authorization	<u>\$333,027,830</u>	<u>\$333,280,379</u>	<u>\$337,130,100</u>	<u>\$368,252,088</u>	<u>\$371,913,547</u>	<u>\$375,913,118</u>
Aggregate Obligation Limitation	<u>\$246,000,000</u>	<u>\$250,952,000</u>	<u>\$271,112,000</u>	<u>\$280,718,000</u>	<u>\$283,509,000</u>	<u>\$281,935,000</u>

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

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

(3) Estimated based on projection from Fiscal Year 2009, will be covered in subsequent Federal legislation which replaces SAFETEA-LU.

(Source: The Department.)

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

areas over 200,000 population and planning/research programs are suballocations from the core funding category apportionments shown for information purposes.

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

Pledged Revenues History and Estimates

Set forth below is a history of Pledged Revenues for the fiscal years ended June 30, 2000 through June 30, 2007 and an estimate of Pledged Revenues for the fiscal years ended June 30, 2008 through June 30, 2012. The estimates for State revenues are based on Department estimates as of January 2008. The estimates for Federal Funds for fiscal years 2008 and 2009 are based upon the limited obligation amounts given to the Department pursuant to SAFETEA-LU for the authorization period from 2005 through 2009. Federal funds for fiscal years subsequent to fiscal year 2009 are based upon the figure for fiscal year 2009. Such estimates are based on certain assumptions that may not be realized. Recent changes in the economy have led to a general increase in energy prices 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 2008C/D BONDS" and "FORWARD-LOOKING STATEMENTS."

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

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u> ⁽⁴⁾	<u>Estimate</u> ⁽⁵⁾	<u>Estimate</u> ⁽⁵⁾	<u>Estimate</u> ⁽⁵⁾	<u>Estimate</u> ⁽⁵⁾	<u>Estimate</u> ⁽⁵⁾
State Road Fund:													
Gasoline Tax	\$111,961	\$108,534	\$108,941	\$110,465	\$112,107	\$109,456	\$109,723	\$114,577	\$113,294	\$112,900	\$113,900	\$115,100	\$116,300
Special Fuel Tax	66,648	66,940	65,689	69,478	74,546	87,902	97,127	97,008	103,400	106,000	111,000	116,000	122,000
Weight/Distance	54,098	50,851	50,903	51,394	51,574	72,800	76,453	88,365	81,400	83,000	85,000	87,000	88,000
Trip Tax	9,727	7,731	6,194	4,348	4,050	5,724	8,576	7,557	6,000	4,000	4,000	4,000	4,000
Vehicle Registration	44,302	41,600	44,137	43,993	52,996	67,768	71,470	73,512	75,100	76,000	77,500	77,800	79,500
Vehicle Transaction	1,178	1,111	1,144	1,115	1,132	1,130	1,610	1,191	1,500	1,100	1,111	1,122	1,133
Driver's License	4,484	4,361	4,799	4,542	4,238	4,072	3,944	4,329	4,300	4,400	4,450	4,500	4,550
Oversize/License	1,250	1,316	1,303	1,140	1,157	3,232	4,387	4,590	4,635	4,750	4,800	4,800	4,850
Public Regulatory Commission Fees	3,964	3,655	3,549	3,391	3,298	3,525	3,676	377	3,600	2,400	3,200	3,200	3,200
Penalty Assessments (Reinstatement Fees)	1,098	1,122	1,024	1,138	1,085	1,273	258	—	—	—	—	—	—
MVD Miscellaneous Fees	1,226	881	898	997	923	1,200	2,373	2,452	2,518	2,520	2,545	2,571	2,596
Leased, Vehicle Gross Receipts Tax	—	—	—	—	—	—	—	—	—	—	—	—	—
Road Fund Interest	<u>2,071</u>	<u>1,714</u>	<u>1,002</u>	<u>509</u>	<u>395</u>	<u>1,239</u>	<u>2,055</u>	<u>708</u>	<u>1,400</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>
Total State Road Fund⁽¹⁾	<u>302,007</u>	<u>289,816</u>	<u>289,583</u>	<u>292,510</u>	<u>307,501</u>	<u>359,321</u>	<u>381,652</u>	<u>394,666</u>	<u>397,147</u>	<u>398,670</u>	<u>409,106</u>	<u>417,693</u>	<u>427,729</u>
Percent Change	—	(4.0%)	(0.1%)	1.0%	5.1%	16.9%	6.2%	3.4%	0.6%	0.4%	2.6%	2.1%	2.4%
Highway Infrastructure Fund:													
Lease Vehicle Gross Receipts	4,596	4,810	4,507	4,465	4,536	4,524	5,143	4,844	4,875	4,875	4,875	4,875	4,875
Tire Recycling Fees	1,455	1,411	1,655	1,679	1,421	1,950	1,734	1,758	1,800	1,740	1,825	1,760	1,860
Interest	<u>168</u>	<u>328</u>	<u>152</u>	<u>115</u>	<u>64</u>	<u>124</u>	<u>352</u>	<u>164</u>	<u>440</u>	<u>440</u>	<u>440</u>	<u>440</u>	<u>440</u>
Total Highway Infrastructure Fund⁽¹⁾	<u>6,219</u>	<u>6,549</u>	<u>6,314</u>	<u>6,259</u>	<u>6,021</u>	<u>6,598</u>	<u>7,229</u>	<u>6,766</u>	<u>7,115</u>	<u>7,055</u>	<u>7,140</u>	<u>7,075</u>	<u>7,175</u>
Percent Change	—	5.0%	(3.7%)	(0.9%)	(4.0%)	8.7%	8.7%	(6.8%)	4.9%	(0.9%)	1.2%	(0.9%)	1.4%
Federal Funds	277,983 ⁽²⁾	260,146 ⁽²⁾	278,897 ⁽²⁾	263,226 ⁽²⁾	243,531 ⁽²⁾	287,475 ⁽²⁾	292,847	249,994	302,142 ⁽³⁾	305,419 ⁽³⁾	305,419 ⁽³⁾	305,419 ⁽³⁾	305,419 ⁽³⁾
Percent Change	—	(6.4%)	7.2%	(5.6%)	(7.5%)	18.0%	1.9%	(14.6%)	20.9%	1.1%	0.0%	0.0%	0.0%
Total Pledged Revenues⁽¹⁾	<u>586,209</u>	<u>556,511</u>	<u>574,794</u>	<u>561,995</u>	<u>557,053</u>	<u>653,394</u>	<u>681,728</u>	<u>651,426</u>	<u>706,404</u>	<u>711,144</u>	<u>721,665</u>	<u>730,187</u>	<u>740,323</u>
Percent Change	—	(5.1%)	3.3%	(2.2%)	(0.9%)	17.3%	4.3%	(4.4%)	8.4%	0.7%	1.5%	1.2%	1.4%

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

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

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

⁽⁴⁾ Reflects unaudited actuals as of June 30, 2007.

⁽⁵⁾ State revenues are based upon forecasts as of January 2008. Federal funds for fiscal years 2008 and 2009 are based upon the limited obligation amounts given to the Department pursuant to SAFETEA-LU for the authorization period from 2005 through 2009. Federal funds for fiscal years subsequent to fiscal year 2009 are based upon the figure for fiscal year 2009.

(Source: The Department.)

STANDBY BOND PURCHASE AGREEMENTS

The following summary of the Standby Bond Purchase Agreements does not purport to be comprehensive or definitive and is subject to all the terms and provisions of the Standby Bond Purchase Agreements to which reference is made hereby. Investors are urged to obtain and review a copy of the Standby Bond Purchase Agreements in order to understand all of the terms of such documents.

Concurrently with the issuance of the Series 2008C/D Bonds, the Bank will enter into the Standby Bond Purchase Agreements with the NMFA to provide, under certain circumstances, for the payment of the purchase price of the respective Series 2008C/D Bonds bearing interest at a Daily Rate or Weekly Rate which are tendered for purchase and not remarketed. The Bank will not be obligated to purchase tendered bonds on any purchase date to the extent the aggregate purchase price of such tendered bonds exceeds the Available Commitment on such purchase date. The Standby Bond Purchase Agreements will terminate on May 21, 2009 unless terminated earlier pursuant to such agreements.

The Standby Bond Purchase Agreements provide for only the payment of the purchase price of the Series 2008C/D Bonds tendered for purchase and do not otherwise secure or provide for payment of the principal of, premium, if any, or interest on the Series 2008C/D Bonds.

Under certain circumstances described below, the obligation of the Bank to purchase Series 2008C/D Bonds tendered by the holders thereof or subject to mandatory purchase may be terminated or suspended without notice. In such event, sufficient funds may not be available to purchase Series 2008C/D Bonds tendered by the holders thereof or subject to mandatory purchase.

Events of Default

Each of the following events constitutes an “Event of Default” under the Standby Bond Purchase Agreements:

(i) the NMFA fails to pay when due any fees or any other amount payable under the Standby Bond Purchase Agreements;

(ii) the NMFA fails to observe or perform any covenants contained (or incorporated by reference) in certain sections in the Standby Bond Purchase Agreements;

(iii) the NMFA, the Commission or the Department fails to observe or perform any covenant or agreement contained in the Standby Bond Purchase Agreements (other than those covered by clause (i) or (ii) above) or in any Financing Document (as defined in the Standby Bond Purchase Agreements) (other than those covered by clause (ii) above) or made in connection with the Standby Bond Purchase Agreements for 10 days after written notice thereof has been given to the NMFA by the Bank;

(iv) any representation, warranty, certification or statement made by the NMFA, the Transportation Commission or the Department under or in connection with (or incorporated by reference) the Standby Bond Purchase Agreements or any Financing Document or in any certificate, financial statement or other document, certificate or statement delivered pursuant to the Standby Bond Purchase Agreements or any Financing Document proves to have been incorrect in any material respect when made (or deemed made);

(v) the NMFA fails to make any payment in respect of regularly scheduled principal or interest on any of its bonds secured by the Pledged Revenues or any payment in respect of accelerated principal or interest on any bonds secured by the Pledged Revenues (including any Bank Bonds, other than any Bank Bonds the principal of which has become payable pursuant to paragraph (iv) of the Remedies section below) when due or within any applicable grace period;

(vi) any event or condition occurs which (a) results in the acceleration of the maturity of any bonds of the NMFA secured by the Pledged Revenues or any of the NMFA’s other Debt (as defined in the Standby Bond

Purchase Agreements) or (b) enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such bond or Debt or any Person acting on such holder's behalf to accelerate the maturity thereof, in either such case, other than any event or condition that entitles the Bank to tender Bank Bonds to the NMFA for payment pursuant to paragraph (iv) of the Remedies section below;

(vii) the NMFA commences a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or consents to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or makes a general assignment for the benefit of creditors, or fails generally to pay its debts as they become due, or takes any action to authorize any of the foregoing; or there occurs a winding up, liquidation or dissolution of the NMFA under any existing or future law of any jurisdiction;

(viii) an involuntary case or other proceeding is commenced against the NMFA seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 days; or an order for relief is entered against the NMFA under the federal bankruptcy laws or applicable state law as now or hereafter in effect;

(ix) a final, non-appealable judgment or order for the payment of money in excess of \$5,000,000 is rendered against the NMFA and such judgment or order continues unsatisfied and unstayed for a period of 60 days;

(x) any material provision of the Standby Bond Purchase Agreements or any Financing Document related to the payment of principal of or interest on the Series 2008C/D Bonds or the security for the Series 2008C/D Bonds, in either case, at any time cease to be valid and binding on the NMFA, or be declared to be null and void, in either such case, as a result of a final, non-appealable judgment of a court of competent jurisdiction or by any Governmental Authority having jurisdiction, or any Governmental Authority having jurisdiction finds or rule in a final non-appealable judgment or order that any material provision of the Standby Bond Purchase Agreements or any Financing Document related to the payment of principal of or interest on the Series 2008C/D Bonds or the security for the Series 2008C/D Bonds is not valid or binding on the NMFA, or the validity or enforceability thereof is contested by the NMFA;

(xi) there is a consolidation or merger of the NMFA with or into any Person;

(xii) a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction is declared or imposed on repayment when due and payable of the principal or interest with respect to any of the bonds of the NMFA secured by the Pledged Revenues as a result of a finding or ruling of a governmental authority with jurisdiction over the NMFA;

(xiii) reserved;

(xiv) any event of default or termination event occurs under any agreement pursuant to which the Standby Bond Purchase Agreements have been issued or obtained with respect to any of the Series 2008C/D Bonds and such default continues unremedied after any period of grace provided in such agreement;

(xv) the long-term portion of the ratings of the Series 2008C/D Bonds (without taking into account third-party credit enhancement) are withdrawn or suspended or reduced below "Baa3" by Moody's, "BBB-" by S&P and "BBB-" by Fitch for credit-related reasons; or

(xvi) the NMFA fails to make any payment in respect of any Material Debt (as defined in the Standby Bond Purchase Agreements) when due or within any applicable grace period, any event or condition occurs which results in the acceleration of the maturity of any Material Debt or enables (or, with the giving of notice or lapse of

time or both, would enable) the holder of such Material Debt or any Person acting on such holder's behalf to accelerate the maturity thereof other than by reason of a refunding of such Material Debt.

Remedies.

(i) Upon the occurrence and continuance of an Event of Default described in clause (v), clause (vii), clause (viii), clause (ix), clause (x), clause (xii) or clause (xv) of the Event of Default section above (each, an "Immediate Termination Event"), without any notice to the NMFA, the Remarketing Agent or the Paying Agent or any other act by the Bank, the Available Commitment will thereupon terminate. Promptly upon the Bank obtaining knowledge of the occurrence of such Event of Default, the Bank will give written notice of the same to the NMFA, the Paying Agent and the Remarketing Agent; provided, however, that the Bank will not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the termination of the Available Commitment and of the Bank's obligation to purchase Tendered Bonds pursuant to Standby Bond Purchase Agreements.

(ii) Upon the occurrence and during the continuance of a Default described in clause (viii) of the Event of Default section above (a "Suspension Event"), the obligation of the Bank to purchase Tendered Bonds under the Standby Bond Purchase Agreements will be immediately and automatically suspended, without notice, and the Bank will be under no further obligation thereunder to purchase Tendered Bonds thereunder until the bankruptcy, insolvency or similar proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligation of the Bank to purchase Tendered Bonds thereunder will be automatically reinstated and the terms of the Standby Bond Purchase Agreements will continue in full force and effect (unless the obligation of the Bank to purchase Tendered Bonds otherwise has terminated as provided in the Standby Bond Purchase Agreements) as if there had been no such suspension. If at any time prior to the earlier of (a) the Stated Termination Date and (b) the date that is four (4) years following the suspension of the obligation of the Bank to purchase Tendered Bonds hereunder, (1) the Default which gave rise to such suspension is cured or has ceased to be continuing and (2) the obligation of the Bank to purchase Tendered Bonds under the Standby Bond Purchase Agreements has not otherwise terminated, then, upon written notice from the Paying Agent to the Bank to such effect, the obligation of the Bank to purchase Tendered Bonds under the Standby Bond Purchase Agreements will be automatically reinstated. If the Default which gave rise to the suspension of the obligation of the Bank to purchase Tendered Bonds under the Standby Bond Purchase Agreements has not been cured or has not ceased to be continuing prior to the four (4) year anniversary of such occurrence and the obligation of the Bank to purchase Tendered Bonds under the Standby Bond Purchase Agreements has not otherwise terminated, then the obligation of the Bank to purchase Tendered Bonds will be automatically terminated. Promptly upon the occurrence of such termination, the Bank will give written notice of the same to the NMFA, the Paying Agent and the Remarketing Agent; provided, however, that the Bank will not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the termination of the Available Commitment and of the obligation of the Bank to purchase Tendered Bonds under Standby Bond Purchase Agreements.

(iii) Upon the occurrence and continuance of any Event of Default (other than as specified in paragraph (i) of this Remedies section) the Bank may, at its option, elect to terminate the Available Commitment, by giving written notice of its election to do so to the NMFA, the Remarketing Agent and the Paying Agent; provided, however, that such termination will not become effective unless, prior to the date of such termination, the Bank will have purchased all Tendered Bonds, in accordance with the Sixth Series Indenture, on the Purchase Date that occurs on the fifteenth (15th) day (or, if such day is not a Business Day, the next preceding Business Day) following receipt of such notice from the Bank by the NMFA, the Remarketing Agent and the Paying Agent, in which case, such termination will become effective on the twentieth (20th) day (or, if such day is not a Business Day, the next preceding Business Day) following receipt of such notice from the Bank by the NMFA, the Remarketing Agent and the Paying Agent.

(iv) Upon the occurrence and continuance of any Event of Default, the Bank may, at its option, by notice to the NMFA tender any or all Bank Bonds for payment to the NMFA and the NMFA thereupon be obligated to pay immediately the outstanding principal amount of each Bank Bond (together with accrued interest thereon) so tendered, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the NMFA; provided, however, that in the case of any of the Immediate Termination Events, without any notice to the

NMFA or any other act by the Bank, all Bank Bonds will immediately be deemed to be tendered for payment to the NMFA and the NMFA will be obligated to pay immediately the outstanding principal amount of such Bank Bonds (together with accrued interest thereon) without presentment, demand, protest or notice of any kind, all of which are hereby waived by the NMFA.

(v) In addition, upon the occurrence and continuance of any Event of Default, the Bank will be entitled to exercise any other remedies available to it at law or in equity, including, without limitation, the remedy of specific performance.

(vi) In addition, the Bank, while it holds any Bank Bonds or Series 2008C/D Bonds will be entitled to all rights and remedies of a Holder of Series 2008C/D Bonds as to such Bank Bonds or Series 2008C/D Bonds under the Indenture.

THE BANK

The information herein relates to and has been provided by the Bank for inclusion in this Official Statement. No other party has independently verified or assumes any responsibility for such information, and none of the NMFA, the Department or the Underwriter make any representation as to the accuracy or completeness of such information. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or incorporated by reference in this section is correct as of any time subsequent to its date.

The Bank is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of December 31, 2007, the Bank, had total assets of \$1,318.9 billion, total net loans of \$488.4 billion, total deposits of \$772.1 billion, and total stockholder's equity of \$106.3 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as at December 31, 2007, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2007, of JPMorgan Chase & Co., the 2007 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

SPECIAL FACTORS RELATING TO THE SERIES 2008C/D BONDS

Each investor or prospective investor in the Series 2008C/D 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 2008C/D Bonds and could affect the market price of the Series 2008C/D Bonds to an extent that cannot be determined at this time. See also "REMARKETING AGENT" herein for special factors relating to the role of the Remarketing Agent.

Risk of Termination of Standby Bond Purchase Agreements

In certain instances a Standby Bond Purchase Agreement applicable to a Series of the Series 2008C/D Bonds may be subject to immediate termination by the Bank without the Bondholders' being able to tender such Bonds for purchase. A prospective Bondholder is referred to "STANDBY BOND PURCHASE AGREEMENTS" for a more complete description of the terms of any applicable Standby Bond Purchase Agreements, including when

such Standby Bond Purchase Agreements are subject to immediate termination. See “THE SERIES 2008C/D BONDS—Tender Provisions—Mandatory Tender—Termination Without Right to Tender.”

Risks Related to the Series 2008C/D Liquidity Facility Provider and the Series 2008C/D Liquidity Facility

Creditworthiness of the Series 2008C/D Liquidity Facility Provider. The short-term credit ratings of the Series 2008C/D Bonds under the Indenture are based on the delivery of the respective Series 2008C/D Liquidity Facility relating to such Series 2008C/D Bonds. Such ratings are based solely on the general credit of the respective Series 2008C/D Liquidity Facility Provider. Any downgrade in the ratings of the Series 2008C/D Liquidity Facility Provider may impact the interest rate of the related Series 2008C/D Bonds.

Each Series 2008C/D Liquidity Facility provides the Trustee with the liquidity support necessary to purchase the applicable Series 2008C/D Bonds deemed tendered for purchase as described in the related Series Indenture. If remarketing proceeds are not sufficient to provide funds sufficient to pay the purchase price of tendered Series 2008C/D Bonds, the Trustee is required to draw funds under the applicable Series 2008C/D Liquidity Facility. The ability of the respective Series 2008C/D Liquidity Facility Provider to honor such drawings may be adversely affected by its financial condition at the time of such draws. No assurance is given as to the current or future financial condition of any Series 2008C/D Liquidity Facility Provider or the financial condition of any entity with which the Series 2008C/D Liquidity Facility Provider may merge or by which it may be acquired. For more information about the Bank, the initial Series 2008C/D Liquidity Facility Provider, see “THE BANK” herein. If a Series 2008C/D Liquidity Facility Provider becomes insolvent or otherwise becomes a debtor in bankruptcy, timely payment of the purchase price of related Series 2008C/D Bonds subject to tender for purchase would likely be impacted.

Inability to Obtain Substitute Series 2008C/D Liquidity Facility. Each Series 2008C/D Liquidity Facility expires on a particular date which is much earlier than the maturity dates of the related Series 2008C/D Bonds. See “INTRODUCTION—Liquidity Facility for the Series 2008C/D Bonds.” No assurances can be given that the NMFA will be able to extend any Series 2008C/D Liquidity Facility or obtain a Substitute Series 2008C/D Liquidity Facility with respect to any series of Series 2008C/D Bonds upon the terms required by the respective Series Indenture until and including the final maturity dates of such Series 2008C/D Bonds or until the interest rate on such Series 2008C/D Bonds is converted to a rate which does not require liquidity support. Failure to extend a Series 2008C/D Liquidity Facility or obtain a Substitute Series 2008C/D Liquidity Facility will result in a mandatory purchase of the related Series 2008C/D Bonds prior to maturity at a price of par.

Increased Costs Associated with Bank Bonds. Pursuant to each Series 2008C/D Liquidity Facility, Bank Bonds will bear interest at a rate as set forth in the related Series 2008C/D Liquidity Facility. Those interest rates could be substantially higher than the variable rate that otherwise would apply to the calculation of interest on the Series 2008C/D Bonds and the requirement to retire such Bonds earlier than their scheduled maturity or redemption dates could adversely impact the NMFA’s ability to pay debt service on such Bonds and any increases in those interest rates will increase the amount of interest payable from Pledged Revenues under the Indenture and may affect the sufficiency to pay the Bonds. Payment of such interest on Bank Bonds will be on parity with the lien of the related Series 2008C/D Bonds which have been purchased.

Variable Rate Risk of Parity Bonds

The Series 2008A and 2008B Bonds also bear a variable rate of interest and are secured by certain bank letters of credit. In the event that the banks providing such letters of credit are required to purchase any of the Series 2008A and 2008B Bonds, the interest rates such bonds bear as bank bonds and the requirement to retire such bonds earlier than their scheduled maturity or redemption dates could adversely impact the NMFA’s ability to pay debt service on the Series 2008C/D Bonds.

Legislative Changes to Pledged Revenues

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

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

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

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

Uncertainties in Federal Funding

The Federal Revenues have historically been authorized under multiple-year authorizing legislation. Until the enactment of SAFETEA-LU on August 11, 2005, immediately prior legislative authorization was provided by the TEA-21, which went into effect on October 1, 1997 and expired on September 30, 2003. SAFETEA-LU extends the authorization of the Federal Aid Highway Program for a period ending September 30, 2009. There can be no assurance that new multi-year authorization or continuing resolution reauthorization will be adopted effective for any period subsequent to September 30, 2009, or if adopted, that any such legislation will be signed into law by the President. SAFETEA-LU includes certain provisions designed to provide continuity in the flow of federal transportation funds to the states, including the State. There can be no assurance that such measures will be continued under any future federal reauthorization or that, if continued, such measures will be sufficient to ensure that Federal Revenues will be available as needed if in the future Congress amends existing laws or fails to reauthorize expired transportation legislation, or if future legislation or federal administrative action reduces the amount of Federal Revenues available to the Commission and the Department.

In addition to issues of reauthorization, there can be no assurance that Federal Revenues will be paid into the State Road Fund that, together with other Pledged Revenues, will be sufficient to pay the debt service on the Closed Lien Obligations, Senior Lien Bonds and the Subordinate Lien Obligations, including the Series 2008C/D Bonds. The amount of federal funds available for projects is subject to authorization and periodic reauthorization by Congress, approval on an annual basis by the U.S. Secretary of Transportation and compliance with federal regulations. As such, the Department competes for such funds with other national transportation funding priorities. Federal law specifically provides that a state’s eligibility for funds does not create a commitment or obligation on the part of the United States to provide for the payment of principal or interest on bonds. See “THE PLEDGED REVENUES—The Federal Aid Highway Program.” Please note that these are forward-looking statements, see “FORWARD-LOOKING STATEMENTS” herein. Recent changes in the national economy have led to increases in fuel prices, which may have a negative impact on the Federal Revenues received by the Department.

Limited Obligations

The Series 2008C/D Bonds are limited obligations of the NMFA and are payable as to principal and interest exclusively from the Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS.” The ability of the NMFA, the Commission and the Department to realize Pledged Revenues in amounts sufficient to pay debt service on the Series 2008C/D Bonds and other obligations payable from

the Pledged Revenues senior to or on a parity with the Series 2008C/D Bonds depends on numerous factors, many of which are not subject to the control of the NMFA, the Commission or the Department.

Subordinated Obligations

The Series 2008C/D Bonds will be payable from the Pledged Revenues, and the lien on a portion of the Pledged Revenues securing the Series 2008C/D Bonds will be subordinate to the lien on the portion of Pledged Revenues that secures the Outstanding Closed Lien Obligations. The lien on the Pledged Revenues securing the Series 2008C/D Bonds will also be subject and subordinate to the lien on the Pledged Revenues that secure the Outstanding Senior Lien Bonds. To this extent, the Series 2008C/D Bonds will be subject to prior payment of the Outstanding Closed Lien Obligations and the Outstanding Senior Lien Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Outstanding Closed Lien Obligations” and “—Additional Senior Lien Bonds.”

Additional Parity and Subordinate Obligations

Additional Senior Lien Bonds and other obligations may and are expected to be issued with a lien on the Pledged Revenues superior to the lien of the Outstanding Subordinate Lien Obligations on the Pledged Revenues upon satisfaction of certain conditions. In addition to the Series 2004B Bonds, the Series 2006B Bonds, the Series 2008A Bonds and the Series 2008B Bonds, additional Subordinate Lien Obligations may and are expected to be issued on a parity with the Series 2008C/D Bonds, and other subordinate obligations may be issued subordinate to the Series 2008C/D Bonds with respect to the Pledged Revenues upon satisfaction of certain conditions. See, “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Additional Senior Lien Bonds,” “—Additional Subordinate Lien Obligations” and “—Subordinate Debt.”

Tax Status of the Series 2008C/D Bonds

The opinion expressed by Special Tax Counsel is based on existing law as of the delivery date of the Series 2008C/D 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 2008C/D 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 2008C/D Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series 2008C/D Bonds, or bonds which present similar tax issues, will not affect the market price for Series 2008C/D Bonds. Prospective purchasers of the Series 2008C/D 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 law to be paid into the State Road Fund. Prior to 1999 the State gasoline tax was imposed in such a manner that allowed Native American gasoline wholesalers to exploit the federal preemption that disallows a state from imposing tax on a Native American conducting business within the boundaries of his tribal reservation, pueblo grant or trust lands. Pursuant to Chapter 190, New Mexico Laws of 1999, the technical imposition of the gasoline tax was revised to address the federal preemption issue, and the amount of gasoline that may be sold within an Indian reservation by any single registered Native American wholesale distributor for resale outside the Indian reservation, pueblo grant or trust lands free of state gasoline tax is limited to 30,000,000 gallons per year pursuant to a state tax exemption. Chapter 190 limits the use of this exemption to registered Native American distributors who have sold more than one million gallons of gasoline within the Indian reservation, pueblo grant or trust lands for resale outside the Indian reservation during the four months ended August 1998. TRD has certified two registered Native American wholesale distributors as eligible for this exemption, meaning that up to 60,000,000 gallons per year of gasoline currently may be sold at wholesale free of State gasoline tax under this exemption.

Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a “gasoline tax sharing agreement” with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed on June 23, 2004. Under that agreement the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be eliminated for at least the next ten years as a result of the gasoline tax sharing agreements.

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

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

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the Series 2008C/D Bonds are set forth in the following table.

Sources of Funds

Series 2008C Bonds Par Amount.....	\$84,800,000
Series 2008D Bonds Par Amount.....	50,400,000
Transfer of prior debt service funds	99,297
Legally available moneys	<u>1,007,375</u>
 Total Sources	 <u>\$136,306,672</u>

Use of Funds

Refund the Series 2004C Refunded Bonds	\$84,862,253
Refund the Series 2006D Refunded Bonds	50,437,044
Costs of Issuance ⁽¹⁾	<u>1,007,375</u>
 Total Uses	 <u>\$136,306,672</u>

⁽¹⁾ Includes legal and accounting fees, financial advisory fees, printing, rating fees, Underwriter’s fees and other miscellaneous costs. See “UNDERWRITING.”

The Refunding

The Series 2008C/D Bonds are being issued, along with other legally available moneys, to provide funds to redeem in full the Refunded Bonds at the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date. The proceeds of the Series 2008C/D Bonds will be deposited in the Escrow Fund for the Refunded Bonds (the “Escrow Fund”) and used to redeem or pay the Refunded Bonds on the first optional redemption dates.

INTEREST RATE SWAPS

The NMFA has previously entered into 1992 ISDA (International Swap Dealers Association) Master Agreements (Multicurrency-Cross Border) and related Schedules, Credit Support Annexes and Confirmations (collectively, the “Swap Documents”) in connection with interest rate exchange agreements (collectively, the “2004 Swap Agreements”): (i) with Royal Bank of Canada having an initial notional amount of \$100,000,000; (ii) with Goldman Sachs Mitsui Marine Derivatives L.P. having an initial notional amount of \$50,000,000; and (iii) with Lehman Brothers Derivative Products Inc. (together with Royal Bank of Canada and Goldman Sachs Mitsui Marine Derivatives, L.P., the “2004 Counterparties” and each a “2004 Counterparty”) having an initial notional amount of \$50,000,000. The 2004 Swap Agreements were entered into for the purpose of hedging the exposure of the NMFA against interest rate fluctuations arising from the variable rates borne by the Series 2004C Bonds. Under the 2004 Swap Agreements, the NMFA is the fixed rate payor, paying the relevant 2004 Counterparty a fixed rate of 3.934% per annum on the relevant notional amount, and the 2004 Counterparties will be floating rate payors, paying the NMFA a floating rate equal to 68% of the 30-day London Interbank Offered Rate on the relevant notional amount. The rates to be paid under the 2004 Swap Agreements by the 2004 Counterparties are reasonably expected to be substantially the same as the rates borne by the Series 2008A Bonds and the Series 2008C Bonds, but may from time to time vary from the actual rate payable by the NMFA on the Series 2008A Bonds and Series 2008C Bonds. The stated termination date under each 2004 Swap Agreement is June 15, 2024. The aggregate notional amounts of the 2004 Swap Agreements will be reduced on June 15, 2023 in an aggregate amount equal to the aggregate principal portion of the mandatory sinking fund redemption payment on the Series 2008A Bonds and the Series 2008C Bonds on that date.

The NMFA has also entered into Swap Documents in connection with forward-starting interest rate exchange agreements (collectively, the “Forward-Starting Swap Agreements” and, together with the 2004 Swap Agreements, the “Swap Agreements”): (i) with JPMorgan Chase Bank having an initial notional amount of \$110,000,000; and (ii) with UBS AG (together with JPMorgan Chase Bank, the “Forward-Starting Counterparties” and each a “Forward-Starting Counterparty”) having an initial notional amount of \$110,000,000. The Forward-Starting Swap Agreements were entered into for the purpose of hedging the exposure of the NMFA against interest rate fluctuations arising from the variable rates borne by the Series 2006C Bonds (refunded with proceeds of the Series 2008B Bonds). Under the Forward Starting Swap Agreements, the NMFA is the fixed rate payor, paying the relevant Forward-Starting Counterparty a fixed rate of 4.732% per annum on the relevant notional amount, and the Forward-Starting Counterparties are floating rate payors, paying the NMFA a floating rate equal to the BMA Index on the relevant notional amount. The rates to be paid under the Forward-Starting Swap Agreements by the Forward Starting Counterparties are reasonably expected to be substantially the same as the rates borne by the Series 2008B Bonds. However, there can be no assurance that the actual rate payable by the NMFA on the Series 2008B Bonds will be the same as that payable by the relevant Forward-Starting Counterparty on the Forward-Starting Swap Agreements. The stated termination date under each Forward-Starting Swap Agreement is December 15, 2026. The initial notional amounts of the Forward-Starting Swap Agreements will decline over the terms of the Forward-Starting Swap Agreements. The Forward-Starting Swap Agreements include options whereby the Forward-Starting Counterparties may, but are not required to, terminate the Forward-Starting Swap Agreements if the daily weighted average of the BMA Index for the preceding 180 day period is greater than 7%.

Payments (other than termination payments as described below) by the NMFA on the Swap Agreements are Subordinate Lien Obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Subordinate Lien Obligations, including the Series 2008C/D Bonds.

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

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

The arrangements made with respect to the Swap Agreements do not alter the NMFA’s obligations to pay principal of or interest on the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds from the Pledged Revenues. Because each of the Swap Agreements is subject to termination upon the occurrence of certain events, no assurance can be given that it will continue to be in effect. None of the Swap Agreements provide a source of credit or security for the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C 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 NMFA may be exposed to increased interest rate risk. Each Counterparty currently has long-term debt ratings of not less than Aa3 from Moody’s and not less than AA- from S&P.

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

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ANNUAL DEBT SERVICE REQUIREMENTS

Debt Service for the Series 2008C/D Bonds

The following schedule shows the total debt service payable for the Series 2008C/D Bonds for each fiscal year through their final maturity date.

Fiscal Year	<u>Series 2008C Bonds</u>		<u>Series 2008D Bonds</u>		Total Fiscal Year Debt Service Requirements*
	<u>Principal</u> ^{(1)*}	<u>Interest</u> ⁽²⁾	<u>Principal</u> ^{(3)*}	<u>Interest</u> ⁽⁴⁾	
2008	—	\$231,669	—	\$218,750	\$450,419
2009	—	3,336,032	—	3,150,000	6,486,032
2010	—	3,336,032	—	3,150,000	6,486,032
2011	—	3,336,032	—	3,150,000	6,486,032
2012	—	3,336,032	—	3,150,000	6,486,032
2013	—	3,336,032	—	3,150,000	6,486,032
2014	—	3,336,032	—	3,150,000	6,486,032
2015	—	3,336,032	—	3,150,000	6,486,032
2016	—	3,336,032	—	3,150,000	6,486,032
2017	—	3,336,032	—	3,150,000	6,486,032
2018	—	3,336,032	—	3,150,000	6,486,032
2019	—	3,336,032	—	3,150,000	6,486,032
2020	—	3,336,032	—	3,150,000	6,486,032
2021	—	3,336,032	—	3,150,000	6,486,032
2022	—	3,336,032	—	3,150,000	6,486,032
2023	\$27,295,000	3,336,032	—	3,150,000	33,781,032
2024	57,505,000	2,262,247	—	3,150,000	62,917,247
2025	—	—	—	3,150,000	3,150,000
2026	—	—	—	3,150,000	3,150,000
2027	—	—	<u>\$50,400,000</u>	<u>1,575,000</u>	<u>51,975,000</u>
TOTAL	<u>\$84,800,000</u>	<u>\$52,534,396</u>	<u>\$50,400,000</u>	<u>\$58,493,750</u>	<u>\$246,228,146</u>

* Preliminary; subject to change.

(1) Payable on June 15 of each year.

(2) Calculated based on the fixed rate of 3.934% per annum payable by the NMFA under the 2004 Swap Agreements. See “INTEREST RATE SWAPS.” Subject to change.

(3) Payable on December 15, 2026.

(4) Calculated based on an assumed fixed interest rate of 6.25% per annum. Subject to change.

(Source: First Southwest Company.)

Debt Service and Projected Coverage

The following table sets forth for each fiscal year from 2008 through 2028, the amounts in each such fiscal year of estimated Pledged Revenues, the estimated amounts required in each such year for debt service on the Outstanding Closed Lien Obligations, the Series 2004A Bonds, the Series 2006A Bonds, the Series 2004B Bonds, the Series 2006B Bonds, the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C/D Bonds and the projected debt service coverage ratios. Estimated Pledged Revenues are based on Department projections as of January, 2008. Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE SERIES 2008C/D BONDS” and “FORWARD-LOOKING STATEMENTS.” Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE SERIES 2008C/D BONDS” and “FORWARD-LOOKING STATEMENTS.”

Fiscal Year	Closed Lien and Senior Lien Debt Service Payments					Subordinate Lien Debt Service Payments ^{(1)*}						Projected Debt Service Coverage*
	Estimated Pledged Revenues ⁽²⁾	Total Outstanding Closed Lien Obligations	Series 2004A and Series 2006A Bonds	Total Closed Lien and Senior Lien Obligations	Projected Debt Service Coverage	Series 2004B and Series 2006B ⁽³⁾	Series 2008A ⁽⁴⁾	Series 2008B ⁽⁵⁾	Series 2008C ⁽⁴⁾	Series 2008D ⁽⁶⁾	Total Closed Lien, Senior Lien and Subordinate Lien Bonds*	
2008	\$651,426,000	\$72,009,634	\$43,694,166	\$115,703,800	5.63x	\$43,174,030	\$843,450	\$1,937,491	\$231,669	\$218,750	\$162,109,190	4.02x
2009	651,426,000	74,116,984	43,694,166	117,811,150	5.53x	22,786,003	4,531,968	10,410,400	3,336,032	3,150,000	162,025,553	4.02x
2010	651,426,000	77,014,853	43,694,166	120,709,019	5.40x	19,886,735	4,531,968	10,410,400	3,336,032	3,150,000	162,024,154	4.02x
2011	651,426,000	39,839,659	43,694,166	83,533,825	7.80x	46,143,031	4,531,968	10,410,400	3,336,032	3,150,000	151,105,256	4.31x
2012	651,426,000	36,461,311	43,929,366	80,390,678	8.10x	36,207,635	4,531,968	10,410,400	3,336,032	3,150,000	138,026,713	4.72x
2013	651,426,000	32,853,061	43,876,056	76,729,118	8.49x	39,814,088	4,531,968	10,410,400	3,336,032	3,150,000	137,971,605	4.72x
2014	651,426,000	19,577,859	63,286,171	82,864,030	7.86x	33,731,661	4,531,968	10,410,400	3,336,032	3,150,000	138,024,091	4.72x
2015	651,426,000	6,496,896	107,645,041	114,141,938	5.71x	2,510,288	4,531,968	10,410,400	3,336,032	3,150,000	138,080,625	4.72x
2016	651,426,000	6,499,406	107,805,904	114,305,310	5.70x	2,508,744	4,531,968	10,410,400	3,336,032	3,150,000	138,242,454	4.71x
2017	651,426,000	6,499,563	107,974,016	114,473,579	5.69x	2,510,044	4,531,968	10,410,400	3,336,032	3,150,000	138,412,023	4.71x
2018	651,426,000	—	114,654,673	114,654,673	5.68x	2,507,875	4,531,968	10,410,400	3,336,032	3,150,000	138,590,948	4.70x
2019	651,426,000	—	114,865,516	114,865,516	5.67x	2,509,125	4,531,968	10,410,400	3,336,032	3,150,000	138,803,041	4.69x
2020	651,426,000	—	115,079,525	115,079,525	5.66x	2,509,750	4,531,968	10,410,400	3,336,032	3,150,000	139,017,675	4.69x
2021	651,426,000	—	115,311,350	115,311,350	5.65x	2,511,000	4,531,968	10,410,400	3,336,032	3,150,000	139,250,750	4.68x
2022	651,426,000	—	115,552,850	115,552,850	5.64x	2,507,750	4,531,968	10,410,400	3,336,032	3,150,000	139,489,000	4.67x
2023	651,426,000	—	40,233,100	40,233,100	16.19x	2,507,500	41,611,968	21,610,400	30,631,032	3,150,000	139,744,000	4.66x
2024	651,426,000	—	24,704,638	24,704,638	26.37x	2,507,375	81,193,241	9,880,416	59,767,247	3,150,000	139,990,536 ⁽⁷⁾	4.65x
2025	651,426,000	—	26,941,375	26,941,375	24.18x	2,509,375	—	105,580,416	—	3,150,000	138,181,166	4.71x
2026	651,426,000	—	26,526,250	26,526,250	24.56x	2,510,750	—	106,051,892	—	3,150,000	138,238,892	4.71x
2027	651,426,000	—	<u>69,956,250</u>	<u>69,956,250</u>	9.31x	<u>2,511,250</u>	—	<u>12,693,384</u>	—	<u>51,975,000</u>	<u>137,135,884</u>	4.75x
Total		<u>\$371,369,225</u>	<u>\$1,413,118,746</u>	<u>\$1,784,487,971</u>		<u>\$274,364,008</u>	<u>\$187,096,210</u>	<u>\$403,499,599</u>	<u>\$137,334,396</u>	<u>\$108,893,750</u>	<u>\$2,854,463,554</u>	

* Preliminary; subject to change.

(1) Assumes the Refunded Bonds have been refunded.

(2) Based on actual (unaudited) FY 2007 Pledged Revenues. See "THE PLEDGED REVENUES—Pledged Revenues History and Estimates."

(3) Debt service includes payments already made in December, 2007 on the swaps tied to the Series 2004C Bonds and Series 2006C Bonds, as well as a pro-rata allocation of the June, 2008 swap payments.

(4) Debt service calculated using an annual interest rate of 3.934% per annum, the fixed rate payable by the NMFA under the 2004 Swap Agreements. Assumes that the amounts payable under the SWAP Agreements by the Counterparties will be equal to or greater than the amounts payable with respect to these Series of variable rate Bonds. In the event that debt service on these Series of Bonds exceeds the amounts payable by the Counterparties, the NMFA will need to pay the difference between the two amounts to pay debt service on these Series of Bonds. Fluctuations have occurred between the rates payable under the SWAP Agreements and the rates payable with respect to these Series of Bonds and no assurance can be given that such fluctuations will not occur in the future. Subject to change.

(5) Debt service calculated using an annual interest rate of 4.732% per annum, the fixed rate payable by the NMFA under the Forward Starting Swap Agreements. Assumes that the amounts payable under the SWAP Agreements by the Counterparties will be equal to or greater than the amounts payable with respect to these Series of variable rate Bonds. In the event that debt service on these Series of Bonds exceeds the amounts payable by the Counterparties, the NMFA will need to pay the difference between the two amounts to pay debt service on these Series of Bonds. Fluctuations have occurred between the rates payable under the SWAP Agreements and the rates payable with respect to these Series of Bonds and no assurance can be given that such fluctuations will not occur in the future. Subject to change.

(6) Calculated based on an assumed fixed interest rate of 6.25% per annum. Subject to change.

(7) Net of the debt service reserve fund.

(Source: First Southwest Company.)

NEW MEXICO FINANCE AUTHORITY

General Information

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 35 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- (a) to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance;
- (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 NMFA;
- (c) to accept, administer, hold and use all funds made available to the NMFA 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.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members who serve as the governing body of the NMFA. Seven of the members are ex officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a state higher educational institution. The remaining four appointed members must be residents of the State. The seven ex officio members include four cabinet-level secretaries (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of

state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the Governor and the appointed members serve four-year terms. Vacancies for the appointed members are filled by appointment of the Governor for the remainder of any unexpired term. Any appointed member is eligible for reappointment.

The governing body of the NMFA exercises and oversees the exercise of the powers of the NMFA. The governing body of the NMFA satisfies those responsibilities through monthly meetings and through the standing committees that the governing body has established. Those committees are advisory and have no authority to act on behalf of the governing body. Each committee reviews and makes recommendations to the governing body concerning matters assigned to it by the governing body.

The Executive Committee, which is chaired by the Chairman of the NMFA, Stephen R. Flance, provides oversight and direction relating to the operations of the NMFA. Other committees include the Audit Committee, chaired by Katherine B. Miller; the Finance/Loan Committee, chaired by Stephen R. Flance; the Economic Development Committee, chaired by Joanna Prukop; the Investment Committee, chaired by Craig Reeves; and the Contracts Committee, the chairmanship of which is pending appointment due to the expiration of the term of the previous chair. The committees typically meet monthly.

The governing body has also established written policies concerning the exercise of the powers of the NMFA. The written policies serve as ongoing directions to staff and consultants with respect to standards to be applied in the conduct of the business of the NMFA.

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Governing Body and Key Staff Members

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

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Gary Bland ⁽¹⁾	State Investment Officer, State Investment Council	not applicable
Ron Curry ⁽¹⁾	Secretary, Environment Department, State of New Mexico	not applicable
Charlie Dorame ⁽³⁾	Governor, Pueblo of Tesuque	03/01/09
Stephen R. Flance ⁽²⁾ (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	12/31/09
William Fulginiti ⁽¹⁾ (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Edward Garcia ⁽²⁾	President, Garcia Honda Albuquerque, New Mexico	01/01/09
Paul Gutierrez ⁽¹⁾	Executive Director, New Mexico Association of Counties	not applicable
Katherine B. Miller ⁽¹⁾	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Lonnie Marquez ⁽³⁾	Vice President for Administration and Finance, New Mexico Institute of Mining and Technology	03/01/09
Fred Mondragon ⁽¹⁾	Secretary, Economic Development Department, State of New Mexico	not applicable
Joanna Prukop ⁽¹⁾ (Secretary)	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves ⁽²⁾ (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	01/01/12

⁽¹⁾ *Ex officio* member. An *ex officio* member may designate an alternative member. Alternate members may attend meetings and vote on all matters considered by the NMFA.

⁽²⁾ Appointed by the Governor of the State and serves at the pleasure of the Governor.

⁽³⁾ Appointed by the Governor of the State in January 2008. Such individuals are awaiting confirmation from the Senate of the State of New Mexico and will continue to serve until the date listed if no confirmation is received. If the Senate of the State of New Mexico confirms those individuals during its next session (scheduled to commence in January 2009), the terms of such individuals will expire on January 1, 2012.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2008C/D Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Chief Executive Officer. Mr. Sisneros serves as the Chief Executive Officer of the NMFA. Mr. Sisneros was appointed as the principal administrative officer in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development and land development process consulting. He graduated from the University of Colorado at Boulder with a Master's Degree in Public

Administration. In addition, Mr. Sisneros served as City Manager of Santa Fe, New Mexico; Town Manager of Taos, New Mexico; Assistant City Manager of Boulder, Colorado; and Administrative Assistant in Englewood, Colorado. In Santa Fe, Mr. Sisneros served on the Executive Board of St. Vincent Hospital, as President of the Santa Fe Chamber of Commerce, as Chairman of the Industrial Park for Santa Fe Economic Development Inc., on the Board of Directors of Open Hands, New Mexico CARES, and New Mexico First each of which are New Mexico nonprofit corporations.

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

John T. Duff, Chief Financial Officer. Mr. Duff joined the NMFA as Chief Investment Officer in February, 2006 and became Chief Operating Officer in 2007 where he served in that capacity until January, 2008 when he was appointed Chief Financial Officer. Mr. Duff has more than 22 years experience in investment management, financial management, and public accounting. He has held positions as COO and CFO of publicly held corporations and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. Mr. Duff has a Bachelor of Arts degree in economics from Oberlin College and a Master of Business Administration in accounting and finance from Miami University.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 19 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than \$1 billion of transactions, ranging from \$5,000 microloans to \$175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Jeremy Turner, Chief Financial Advisor. Mr. Turner joined the NMFA in July 2000 as a financial analyst and was appointed Chief Financial Advisor in September 2005. Mr. Turner has been responsible for over \$300 million in financings for the NMFA. Mr. Turner earned a Bachelor of Science in Agricultural Economics/Agricultural Business and a Master of Business Administration from New Mexico State University.

Reynold E. Romero, General Counsel. Mr. Romero joined the NMFA in April 2007 as General Counsel. Prior to joining the NMFA, Mr. Romero served as General Counsel for the Department for over three years and previously served as Deputy General Counsel and Assistant General Counsel for the Department. Mr. Romero has over 28 years of legal practice in transportation law, including eminent domain, property law, and procurement. Mr. Romero handled complex litigation and negotiated complex transactions for the Department such as the purchase of the rail line from BNSF for the commuter rail project in New Mexico. Mr. Romero received his Juris Doctorate from the University of Denver College of Law.

Scott W. Stovall, Chief Investment Officer. Mr. Stovall joined the NMFA in June, 2007. Mr. Stovall has 18 years of experience in public finance and investment management. Mr. Stovall has held positions as New Mexico Deputy State Treasurer, State Cash Manager, and New Mexico State Board of Finance Director. While at the State Treasurer's office, Mr. Stovall was responsible for the investment management of over \$5 billion in general funds, local government funds and bond proceeds and was instrumental in starting the state's bond proceeds

investment pool. Mr. Stovall also served a three year term as a member on the Government Finance Officers Association Governmental Debt Management Committee.

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

Legislative Oversight

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it, among other things: (i) meets on a regular basis to receive and review reports from the NMFA; (ii) monitors and provides assistance and advice on the public project financing program of the NMFA; (iii) oversees and monitors State and local government capital planning and financing; (iv) provides advice and assistance to the NMFA on planning, setting priorities for and financing of State and local capital projects; (v) undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and (vi) reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the "Legislature"), and makes available the report and proposed legislation.

Other NMFA Programs

In addition to the transportation financings authorized by the Act, the NMFA participates in several other programs designed to provide financing for equipment and projects to both local governmental entities and state agencies. These projects are funded by various sources and do not have a lien or claim of any type on the Pledged Revenues.

The Public Project Revolving Fund Program

General. The Act created the Public Project Revolving Fund (the "PPRF") Program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of \$1 million per project require specific authorization by the Legislature. The PPRF Program is the most active program of the NMFA. As of March 31, 2008, the NMFA had made 680 PPRF loans totaling approximately \$1.32 billion and had approximately \$1,041,831,000 of PPRF bonds outstanding.

In addition, the NMFA entered into an arrangement with Bank of America, N.A. (the "Short-term Lender") for the Short-term Lender to provide to the NMFA an amount up to \$100,000,000 to reimburse the NMFA for loans made to eligible entities that are incurred prior to the issuance of PPRF bonds.

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Other Special Programs and Projects

The NMFA also participates in or administers other programs designed to provide financing to local governmental entities and state agencies for public projects. Such programs are not secured by the Trust Estate pledged to pay bonds issued under the PPRF Program or by the Pledged Revenues but are secured by other sources of revenues. The following table sets forth the different types of programs and the amount of bonds outstanding under such programs.

<u>Program</u>	<u>Project</u>	<u>Original Principal Amount</u>	<u>Amount Currently Outstanding</u>	<u>Scheduled Final Maturity</u>
Worker's Compensation	Administrative Building	\$4,310,000	\$2,540,000	9/1/2016
Cigarette Tax	University of New Mexico Health Sciences Building	39,035,000	25,225,000	4/1/2019
Cigarette Tax	University of New Mexico Health Sciences Building	10,000,000	8,915,000	4/1/2019
Cigarette Tax	Behavioral Health Facilities	2,500,000	2,375,000	5/15/2026

(Source: NMFA.)

THE COMMISSION AND THE DEPARTMENT

The Commission

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

<u>Name</u>	<u>Title</u>	<u>Residence</u>	<u>Term Expires</u>
Johnny Cope	Chairperson	Hobbs	12/31/2012
Jim Franken	Vice-Chair	Las Vegas	12/31/2010
Norman Assed	Secretary	Albuquerque	12/31/2010
Jackson Gibson	Member	Thoreau	12/31/2014
John Hummer	Member	Las Cruces	12/31/2012
Roman Maes III	Member	Santa Fe	12/31/2014

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

The Department

The Department is a Cabinet level department within the executive branch of the State's government. The Department is a multimodal transportation agency with emphasis on all modes of transportation and is implementing a bold and innovative approach to address the transportation needs of every New Mexican. The Department has successfully implemented park-and-ride services in Central and Northern New Mexico with future plans to provide similar services in Southern New Mexico. In conjunction with local governmental agencies and tribal sovereign governments, the Department began providing commuter rail service between Belen and Bernalillo in July 2006 and expects to begin providing commuter rail service between Bernalillo and Santa Fe in December 2008. The Department is also undertaking an innovative pilot project in conjunction with other State agencies to improve rural

transportation in the State. The Department is pursuing federal funding to expand and improve air service within New Mexico, along with expanding interstate and international air service from New Mexico.

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

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

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

The Department's finances are comprised of revenues from State and federal sources. In fiscal year 2007, 51.6% of the Department's revenues consisted of State-generated income to the State Road Fund and bond proceeds and 43.7% consisted of federal grants and other federal reimbursements. The balance, 4.7%, consisted of revenues to the funds administered by the Department in addition to the State Road Fund: the Highway Infrastructure Fund, the Local Government Road Fund, the Aviation Fund and miscellaneous transportation funds. (The above percentages exclude interest earnings.) Cash balances in the funds administered by the Department are deposited with the State Treasurer to be pooled and invested.

An independent auditor audits the financial statements of the Department annually. Excerpts from the most recently available of such audited financial statements, for the fiscal year ended June 30, 2006, are attached as Appendix A.

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

The STIP lists all projects funded with federal funds for a period of at least three years. In New Mexico, the STIP is currently developed annually and covers a six-year period. The most recent six-year STIP covering federal fiscal years 2006 through 2011 was approved by the Commission on August 18, 2005. The STIP is subject to change from month to month. The first half (three years) of the STIP represents \$802,782,000 of projects to be undertaken during federal fiscal years 2006 through 2008.

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

The Department, the Commission and the NMFA have entered into a memorandum of understanding with respect to the Senior Lien Bonds, the Series 2004A Bonds, the Series 2006B Bonds, the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C/D Bonds and other Senior Lien Bonds, Subordinate Lien Bonds and Junior Lien Obligations under which the Department, the Commission and the NMFA will cooperate in various administrative, managerial and reporting matters.

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

LITIGATION

There is no litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2008C/D 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 2008C/D Bonds or in any way contesting or affecting the validity or enforceability of the Series 2008C/D Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA, the Commission, the Department and their respective general counsel of the NMFA and the Department will deliver no-litigation certificates as to the foregoing prior to the issuance of the Series 2008C/D Bonds.

UNDERWRITING

JPMorgan Securities Inc. (the “Underwriter”) has agreed to purchase the Series 2008C/D Bonds from the NMFA pursuant to a Bond Purchase Agreement dated May 21, 2008 (the “Bond Purchase Agreement”), at a purchase price equal to \$135,200,000 (being the aggregate principal amount of the Series 2008C/D Bonds). In consideration for its underwriting services, the NMFA will pay the Underwriter a fee of \$135,200. The Bond Purchase Agreement provides that the Underwriter will purchase all of the Series 2008C/D 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 2008C/D Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the front cover of this Official Statement. In addition, the Underwriter may allow commissions or discounts from such initial offering prices to dealers and others.

The Underwriter serves as the auction broker-dealer for the Series 2004C Bonds and currently owns \$3,500,000 of the Series 2004C Bonds that will be refunded with the proceeds of the Series 2008C Bonds.

REMARKETING AGENT

General

JPMorgan Securities Inc. has been appointed the initial Remarketing Agent for the Series 2008C/D Bonds, to perform the duties of a Remarketing Agent as required under the provisions of the Sixth Series Indenture pursuant to a Remarketing Agreement (the “Remarketing Agreement”) between the Remarketing Agent and the NMFA.

Subject to the terms and conditions set forth in the Remarketing Agreement, the Remarketing Agent has agreed to perform the duties of Remarketing Agent under the Sixth Series Indenture and to use its best efforts in remarketing the Series 2008C/D Bonds. The Remarketing Agent may at any time resign and be discharged of the duties and obligations contemplated by the Sixth Series Indenture by giving at least thirty days’ notice to the NMFA, the Tender Agent and the Trustee. The Remarketing Agent may be removed by the NMFA at any time by a written notice of the NMFA filed with the Remarketing Agent and the Trustee. Upon the resignation or removal of the

Remarketing Agent, the NMFA may appoint a new Remarketing Agent by entering into a new Remarketing Agreement with such Remarketing Agent.

The Remarketing Agent is Paid by the NMFA

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the Series 2008C/D Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the NMFA and is paid by the NMFA for its services. As a result, the interest of the Remarketing Agent may differ from those of existing holders and potential purchasers of Series 2008C/D Bonds.

The Remarketing Agent Routinely Purchase Bonds for Its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2008C/D Bonds for its own account and, in its sole discretion, routinely acquires such tendered Series 2008C/D Bonds in order to achieve a successful remarketing of the Series 2008C/D Bonds (i.e., because there otherwise are not enough buyers to purchase Series 2008C/D Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase the Series 2008C/D Bonds, and may cease doing so at any time without notice. If the Remarketing Agent ceases to purchase Series 2008C/D Bonds, it may be necessary for the Trustee to draw on the Series 2008C/D Liquidity Facility. The Remarketing Agent may also make a market in the Series 2008C/D Bonds by routinely purchasing and selling Series 2008C/D Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2008C/D Bonds. The Remarketing Agent may also sell any Series 2008C/D Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2008C/D Bonds. The purchase of Series 2008C/D Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2008C/D Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008C/D Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date

Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2008C/D Bonds bearing interest at the applicable interest rate determination date. At the time the new rate becomes effective, the Remarketing Agent is required to use its best efforts to remarket the Series 2008C/D Bonds at par. The interest rate will reflect, among other factors, the level of market demand for the Series 2008C/D Bonds (including whether the Remarketing Agent is willing to purchase the Series 2008C/D Bonds for its own account). There may or may not be Series 2008C/D Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket the Series 2008C/D Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2008C/D Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Series 2008C/D Bonds at the remarketing price. In the event the Remarketing Agent owns any Series 2008C/D Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Series 2008C/D Bonds on any date, including an interest rate determination date, at a discount to par to some investors.

The Ability to Sell the Series 2008C/D Bonds other than through Tender Process May Be Limited

The Remarketing Agent may buy and sell the Series 2008C/D Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender its Series 2008C/D Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase Series 2008C/D Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2008C/D Bonds other than by tendering the Series 2008C/D Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Series 2008C/D Bonds, Without a Successor Being Named

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, the Trustee may assume such duties as described in the Indenture.

TAX MATTERS

Federal Income Tax

The Code contains a number of requirements and restrictions which apply to the Series 2008C Bonds. The NMFA and the Department have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2008C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008C Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and the Department with such requirements and restrictions in rendering its opinion regarding the tax-exempt status of interest on the Series 2008C Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2008C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

In the opinion of such Special Tax Counsel to the NMFA, interest on the Series 2008D Bonds is taxable as ordinary income for federal income tax purposes at the time the interest accrues or is received in accordance with the holder's method of account for federal income tax purposes.

Although Special Tax Counsel will render an opinion that interest on the Series 2008C Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008C Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. Holders of Series 2008C/D Bonds who are not United States persons as defined for federal tax purposes may be subject to special rules and should consult their tax advisors.

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 2008C/D Bonds.

Information Reporting and Backup Withholding. Payments of interest on tax-exempt obligations, including the Series 2008C Bonds, are generally subject to IRS information reporting by the payor and "backup withholding" if the recipient has not furnished the payor with a completed Form W-9, certifying the recipient's tax identification number or basis for exemption. "Backup withholding" means that the payor will withhold tax from the interest payments at the backup withholding rate, currently 28%.

If an owner purchasing a Series 2008C Bond through a brokerage account has executed a Form W-9 in connection with the account, as generally can be expected, there should be no backup withholding of interest on such Series 2008C Bond. In any event, backup withholding does not affect the excludability of the interest on the Series 2008C Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

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 2008C/D Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2008C/D Bonds, Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, will deliver the respective opinions included in Appendix D. Certain matters relating to disclosure will be passed upon by Ballard Spahr Andrews & Ingersoll, LLP, disclosure counsel to the NMFA. Certain legal matters will be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. The Department is being represented by its general counsel and the Underwriter is being represented by their counsel Hogan & Hartson LLP, Denver, Colorado. Certain legal matters will be passed upon for the Bank by Andrews Kurth, LLP, Houston, Texas, as its counsel. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA, the Commission or the Department contained in this Official Statement.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the NMFA in connection with the issuance of the Series 2008C/D Bonds. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

FINANCIAL STATEMENTS

The financial statements for the Department for the year ended June 30, 2006, an extract from which is included as Appendix A to this Official Statement, have been audited by Meyners & Company, LLC, certified public accountants, Albuquerque, New Mexico, as set forth in its report therein dated December 11, 2006. Such financial statements represent the most current audited financial information available for the Department. The Department expects that its financial statements for the year ended June 30, 2007 will be available in June 2008. Meyners & Company, LLC has not been asked to consent to the use of its name and the audited financial reports for the Department in this Official Statement.

FORWARD-LOOKING STATEMENTS

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

CONTINUING DISCLOSURE UNDERTAKING

In connection with the issuance of the Series 2008C/D Bonds, the NMFA 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 NMFA and the Department will execute and deliver a Continuing Disclosure Undertaking pursuant to which the Department will agree to provide to the NMFA certain annual financial information and operating data with respect to the Department and the NMFA will agree to provide such information to each nationally recognized municipal

securities information repository (“NRMSIR”) or to any filing system approved by the SEC for transmission of filings under the Rule for submission to the NRMSIRS. 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 NMFA and the Department.

A failure by the NMFA and Department to comply with the undertaking will not constitute a default under the Indenture and beneficial owners of the Series 2008C/D Bonds are limited to the remedies described in the Continuing Disclosure Undertaking. A failure by the NMFA 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 2008C/D Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2008C/D 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. The Department reports that it is in compliance with each undertaking entered into pursuant to the Rule.

In September 2004, the NMFA discovered that for fiscal years 2000-2001, 2001-2002 and 2002-2003, certain information required to be filed under the terms of its continuing disclosure undertakings in effect at that time was not filed. The NMFA has since filed the information and believes that, since October 4, 2004, it has been in compliance with its continuing disclosure undertakings. The NMFA engaged Digital Assurance Certification, L.L.C., as dissemination agent, to assist with continuing disclosure compliance matters.

RATINGS

Moody’s Investors Service, Inc. (“Moody’s”) has assigned a rating of “Aa3/VMIG 1” and Standard & Poor’s Ratings Services (“S&P”) has assigned a rating of “AA/A-1+,” to the Series 2008C/D Bonds with the understanding that the Standby Bond Purchase Agreements will be executed and delivered at the time of issuance of the Series 2008C/D Bonds. An explanation of the significance of such ratings may be obtained from Moody’s at 99 Church Street, New York, New York 10007 and S&P at 55 Water Street, New York, New York 10041.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2008C/D 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 2008C/D Bonds may have an adverse effect on the market price of the Series 2008C/D Bonds. The Underwriter has not undertaken any responsibility to bring to the attention of the owners of the Series 2008C/D Bonds any proposed revision or withdrawal of the ratings on the Series 2008C/D Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2008C/D Bonds.

APPROVAL BY THE NMFA

This Official Statement has been deemed “final” under the meaning of the Rule and its distribution and use by the Underwriter have been duly authorized and approved by the NMFA, and this Official Statement has been executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Chief Operating Officer.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance
Chairman

By /s/ Jerome L. Trojan
Jerome L. Trojan
Chief Operating Officer

APPENDIX A

DEPARTMENT FINANCIAL INFORMATION

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NEW MEXICO
DEPARTMENT OF
TRANSPORTATION
Financial Statements
for the Year Ended
June 30, 2006,
and Independent
Auditors' Report

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Official Roster



Year Ended June 30, 2006

Commission

Johnny Cope
David Schutz
Gregory T. Ortiz
John Hummer
Jim Franken
Norman Assed

Chairperson
Vice-Chairperson
Secretary
Member
Member
Member

Hobbs
Santa Fe
Pueblo of Acoma
Las Cruces
Las Vegas
Albuquerque

Administrative Officer

Rhonda G. Faught, P.E.

Cabinet Secretary



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental funds and the budget comparison for the enterprise fund presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2006, as listed in the table of contents. We also have audited the combined budget comparisons for the special revenue and debt service funds presented as required supplemental information. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the basic financial statements of the Department are intended to present the financial position, and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the

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

aggregate remaining fund information of the Department as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Department as of June 30, 2006, and the respective changes in financial position thereof, and the budget comparisons for the enterprise fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the combined budget comparison referred to above presents fairly, in all material respects, the budget comparison of all the major and non-major special revenue funds and debt service funds of the Department for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1 to the financial statements, the Department changed to the modified accrual basis for the encumbrances and the budgetary comparisons.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2006, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements and the combining and individual financial statements and the budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Department. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Myers + Company, LLC
December 11, 2006

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in footnotes to the basic financial statements, which can be found on pages 28 through 78 of this audit report.

Financial Highlights

The Department's net assets declined by \$285,021,429, mainly due to depreciation expense of \$514,838,292. The net assets of the Department's governmental activities decreased by \$285,589,213 due to increases in contractual services, capital outlay and debt service expenditures related to GRIP Bond Projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) major governmental fund financial statements, and 3) notes to the financial statements. This report also contains other 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 Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

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



Government-Wide Financial Statements - continued

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

The government-wide financial statements can be found on pages 20 through 22 of this report.

Fund Financial Statements

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

➤ **Governmental Funds**

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

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

The Department has 34 governmental funds. Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria:

- **Ten percent criterion.** An individual governmental fund reports as least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund expenditures.

Fund Financial Statements - continued

- ***Five percent criterion.*** An individual governmental fund reports at least 5 percent of the total for both governmental *and enterprise* funds of any of the items for which it met the 10 percent criterion.

The Department's major governmental funds are the following:

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

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

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

Debt Service Fund - 2001 CHAT – This fund was created when the \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001 A were issued in March 2001.

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

Fund Financial Statements - continued

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

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the two major funds. Data from the other 28 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report. See pages 84 through 91.

➤ **Enterprise Funds**

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

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

The basic proprietary fund financial statements can be found on pages 27 through 29 and the cash flow statement is on page 30 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 82 of this report.



Other Information

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. At June 30, 2006, the Department's assets exceeded liabilities by \$6,379,176,856.

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

The Department's Net Assets

As of June 30, 2006 and 2005, the Department has positive balances in two categories of net assets, both for the government fund financial statement as a whole, as well as for its separate categories - governmental and business-type activities. Table A-1 summarizes the Department's net assets for the fiscal years ended June 30, 2006 and 2005.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 758,039,314	992,747,097	18,883,637	25,717,013	776,922,951	1,018,464,110
Capital assets and other	<u>7,232,952,905</u>	<u>7,319,984,025</u>	-	-	<u>7,232,952,905</u>	<u>7,319,984,025</u>
Total assets	7,990,992,219	8,312,731,122	18,883,637	25,717,013	8,009,875,856	8,338,448,135
Current liabilities	225,605,680	214,137,729	-	7,401,160	225,605,680	221,538,889
Long-term liabilities	<u>1,405,093,320</u>	<u>1,483,499,676</u>	-	-	<u>1,405,093,320</u>	<u>1,483,499,676</u>
Total liabilities	1,630,699,000	1,697,637,405	-	7,401,160	1,630,699,010	1,705,038,565
Net Assets:						
Invested in capital assets, net of related debt and unspent bond proceeds	5,756,153,765	5,998,598,694	-	-	5,756,153,765	5,998,598,694
Restricted	<u>601,139,454</u>	<u>616,495,023</u>	<u>18,883,637</u>	<u>18,315,853</u>	<u>18,883,637</u>	<u>634,810,876</u>
Total net assets	\$ <u>6,360,293,219</u>	<u>6,615,093,717</u>	<u>18,883,637</u>	<u>18,315,853</u>	<u>6,379,176,852</u>	<u>6,633,409,570</u>

Analysis of the Department's Operations: Table A-2 provides a summary of the Department's operations for the years ended June 30, 2006 and 2005. Governmental activities decreased the Department's net assets by \$285,589,213 in 2006 and by \$255,923,450 in 2005. Business-type activities increased the Department's net assets by \$567,784 in 2006 and \$312,969 in 2005 due to interest income earned during the year.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Capital grants	\$ 346,858,920	292,939,098	-	-	346,858,920	292,939,098
Operating grants	19,247,338	14,624,653	-	-	19,247,338	14,624,653
Charges for services	13,679,470	4,109,036	-	-	13,679,470	4,109,036
General revenues:						
Taxes	412,271,395	383,418,826	-	-	412,271,395	383,418,826
Interest income	27,191,910	13,052,347	567,784	312,969	27,759,694	13,365,316
Gain on disposal of assets	428,050	646,533	-	-	428,050	646,533
Total revenues	819,677,083	708,790,493	567,784	312,969	820,244,867	709,103,462
Expenses:						
Public works	507,163,867	375,622,936	-	-	507,163,867	375,622,936
Depreciation	514,838,292	502,651,435	-	-	514,838,292	502,651,435
Interest on long-term debt	75,087,737	77,615,938	-	-	75,087,737	77,615,938
Other	-	896,939	-	-	-	896,939
Total other expenses	1,097,089,896	956,787,248	-	-	1,097,089,896	956,787,248
Net revenues (loss) before transfers and reversions	(277,412,813)	(247,996,755)	567,784	312,969	(276,845,029)	(247,683,786)
Transfers and reversions	(8,176,400)	(7,926,695)	-	-	(8,176,400)	(7,926,695)
(Decrease) increase in net assets	(285,589,213)	(255,923,450)	567,784	312,969	285,021,429	(255,610,481)
Net assets, beginning of year	6,615,093,717	6,911,160,952	18,315,853	18,002,884	6,633,409,570	6,929,163,836
Adjustments	30,788,715	(40,143,785)	-	-	30,788,715	(40,143,785)
Net assets, end of year	\$ 6,360,293,219	6,615,093,717	18,883,637	18,315,853	6,379,176,856	6,633,409,570

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Government-Wide Financial Analysis - continued

The changes in net assets for the Department's major funds for 2006 are as follows:

State Road Fund	\$ (18,452,884)
2004 CRIP Bond Project Fund	(223,764,967)
Local Government Road Fund	2,169,853
2004B/C CRIP Debt Service	-
2001 CHAT Debt Service	410,079
2004A CRIP Debt service	<u>1,639,383</u>
Major funds, net change in assets	\$ <u>237,998,536</u>

Financial Analysis of the Government's Funds

Governmental Funds

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

At the end of the 2006 fiscal year, the Department's governmental funds reported combined ending fund balances of \$661,109,285, a decrease of \$229,589,491 from the prior year. Fund balance is reserved to indicate that it is not available for new spending because it has already been committed to provide for inventories, long term assets and prepaid items and other reserved items of \$601,139,454.

Budgetary Highlights

The Department budgets on a non-GAAP basis and not all funds are budgeted. See Exhibit 8 and Exhibit 11 for the Department's budget. The Department made revisions to the original approved budget by \$(54,138,044). Overall, these changes were caused by the following significant budget adjustments.

Increase in budget to replenish D-6's budget used for warranty work on U.S. 550	\$ 6,344,168
Increase in budget to increase cash balance and loan repayments	12,224,326
Increase in budget for Federal Highway Administrative allocation	116,738,710

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued



Budgetary Highlights - continued

Increase in budget to fund projected shortfall in personnel services and employee benefits, grants and services for Alcohol Countermeasure Project	\$ 6,863,973
Increase in budget to fund projected shortfall in personnel services and employee benefits	3,520,000
Increase in budget to fund projected shortfall in GRIP Road Project	<u>1,238,000</u>
	\$ <u>143,412,697</u>

Capital Assets Overview

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$7,180,782,368 (net of accumulated depreciation). This investment in capital assets includes land, right of way, buildings, equipment, improvement and the infrastructure.

Major Infrastructure Projects

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

Fiscal Year 2005-2006 Active Projects with a contract amount of \$10 million or more:

Sunland Park Drive Extension (phase II) for 1.320 km
I-10, MP 34.200 to MP 44.800 for 10.600 miles
US 54, MP 189.0 to 200.6, Vaughn to Duran for 11.610 Miles
I-25, 2.48 km North of Alameda Interchange to Tramway
I-40/Coors Interchange
I-40, Pennsylvania to Tramway MP 163.64 to MP 167.88
I-40, MP 169 to MP 174 for 4.602 miles
I-40, MP 180.08 to 182.74, Sedillo Hill for 4.360 km
NM 209, South of I-40 Interchange to NM 104/Maple Ave.
I-40, Newkirk Interchange-East MP 300 to Mp 308 for 8.570

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - continued

Capital Assets Overview - continued

US 64, Widening Project Raton to Clayton for 10.601 Miles
 US 64, Raton to Clayton for 11.332 miles
 US 64, MP 411 to MP 422 for 10.930 miles
 1-40, MP 291 to MP 299 for 8.170 Miles
 1-40, Business Loop, Santa Rosa for 3.400 km
 US 84/285 North of Santa Fe from Opera House
 NM 14, 0.5 Miles North of Cerrillos to Lone Butte
 US 550, MP 18.231 to MP 23.301 for 8.190 km
 US 84/285, Santa Fe Relief Route to Santa Fe Opera
 1-40, MP 12 to 17, Gallup for 5.000 Miles
 US 491 and NM 602 for 3.100 miles
 US 70 D/B, MP 264.2 to MP 302.1, Ruidoso Downs to Riverside
 US 84/285 North of Santa Fe from Santa Fe Opera
 US 84/285, Santa Fe Relief Route to Santa Fe Opera

Equipment

For fiscal year 2006, the Equipment non-GAAP budget total was \$10.5 million. Of this budget, \$10.5 million was fully expended at June 30, 2006. Equipment purchased includes pickups, dump trucks, rollers, excavators, mowers, tractors, loaders, snowplows, brooms, dozers, motor graders, spreaders, millers, trailers, motor vehicles, etc. All items are approved during the legislative session prior to July of each fiscal year. The Department holds several sales and public auctions during the year to liquidate old and obsolete equipment to public and private entities.

Table A-3
Department's Capital Assets

	<u>2006</u>	<u>2005</u>
Land	\$ 5,063,076	5,064,678
Right of way	371,809,740	360,549,775
Infrastructure	15,110,054,777	15,069,367,358
Equipment and furniture	50,982,903	50,050,041
Buildings	37,589,491	36,706,531
Vehicles	165,716,344	159,575,253
Accumulated depreciation	(98,560,433,963)	(8,361,329,611)
Total	\$ <u>7,180,782,368</u>	<u>7,319,984,025</u>

Additional information on the Department's capital assets can be found in Note 9 of this report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - 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, 2006, the Department had a total outstanding debt (bonds) of \$1,455,505,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

Table A-4
Department's Outstanding Debt

	<u>2006</u>	<u>2005</u>
Bonds, net	\$ <u>1,455,505,000</u>	<u>1,536,635,000</u>

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 highway construction projects while maintaining strong debt service coverage ratios and minimizing the costs of borrowing.

At the end of June 30, 2006, the Department had a total outstanding debt including capitalized leases and bonds, of \$1,455,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

The Department's total bond debt decreased by 5.28%, or \$81,130,000. Total outstanding bond debt at the end of the fiscal year was \$1,455,505,000, compared to \$1,536,635,000 at end of the 2005 fiscal year. Key factors affecting the department's twelve outstanding bond issues during the current fiscal year included bond principal repayments totaling \$81,130,000. The Department also made \$74,895,585 in interest payments during the fiscal year. The Department did not issue any new bonds during the current fiscal year. See Note 12 for a detail of all debt outstanding.

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

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. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the twelfth fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent. Most of this population growth is occurring in or near the larger cities. There are three Metropolitan Statistical Areas (MSA) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is Dona Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Dona Ana.

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

Revenue Forecasts and Budgets

Federal Revenue

FHWA Revenue: The amount of FHWA revenue (obligation authority) available to all states was limited in recent years as a result of Congress' failure to pass a transportation reauthorization bill, and to rely on continuing resolutions to provide FHWA funds. The amounts available to New Mexico were \$276 million in FY2005 and \$275 million in FY2006. In FY2006, the continuing resolution continued to limit the expenditure of FHWA funds through the year. However, a reauthorization bill was finally passed that increased funding for FY2006 and the subsequent four years. The reauthorization bill provides apportionment or annual distribution amounts, but the real spending amount (the "obligation limitation") is determined by the appropriation levels in each year's federal budget bill.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

Federal Revenue - continued

FHWA Revenue - continued:

The Department projects FHWA aggregate authorization should increase over the four year period as follows: \$325 million in FY2005, \$333 million in FY 2006, \$350 million in FY 2007, \$365 million in FY 2008, and \$371 million in FY 2009.

Federal Transit and Traffic Safety Revenue: The six-year reauthorization of federal transportation funding to the states that was recently passed by Congress is entitled the "Safe, Accountable, Flexible, and Efficient Transportation Equity Act for the 21st Century – A Legacy for Users" (SAFETEA-LU). The reauthorization bill stresses the importance of safety innovations, including a new "Safe Routes to School Program" that promotes walking and riding bicycles to school. With this emphasis on safety, it is expected there will be increased federal revenue available to states for traffic safety and transit programs. The Department anticipates the total amount of funding from the Federal Transit Administration (FTA) and federal traffic safety (NHTSA) will increase from the \$13 million level in past years to \$20.1 million in FY 2007.

DOE Revenue: The Department of Energy will continue to provide New Mexico with approximately \$20 million per year through FY 2011 pursuant to an agreement in connection with the Waste Isolation Pilot Project in Carlsbad, New Mexico. The amount of this revenue budgeted for debt service was \$20.7 million in FY 2004, \$21.1 million in FY 2005, \$19.8 million in FY2006, \$15.7 million in FY 2007, and \$14.7 million in FY 08.

State Revenue

The budget estimate for state tax and fee revenue to the Department is prepared in July/August and December/January each year for the budget year ending 24 months (or 18 months) later.

In the past several years, gasoline tax revenue has come in very close to the budget forecast, with gains associated with tribal tax sharing agreements being offset by losses associated with higher gasoline retail prices and slight decreases in consumption. Diesel fuel tax revenue came in stronger than forecast, and reflected an invigorated trucking industry relative to the prior few years. Other truck taxes came in close to forecast, but reflected some degree of tax compliance problems, since one would expect those taxes to show the same strength shown in diesel fuel tax. Vehicle registration revenue has come in close to the forecast. Motor Carrier related taxes represent a significant contribution to the State Road Fund.



Economic Factors and Revenue Forecasts - continued**Revenue Forecasts and Budgets - continued****State Revenue - continued****Special Fuels Tax**

New Mexico's Special Fuels Tax is unit tax imposed on gallons used – an increase in price does not result in an increase in tax revenue. FY 06 was very strong for Special Fuels Tax revenue yielding 11% more than the amount collected in FY 05. The forecast for FY 08 is for \$103.4 million which amounts to an increase of 7.7% over the FY 07 budget. The relative strength of fuel tax revenues has significant impact on the Department of Transportation's overall revenue forecast.

The revenue forecast for the FY2007 proposed budget has assumed a continued healthy national economy, but with motor fuel retail prices settling at a new higher level. Compliance improvements in Trip Tax revenue associated with the new vehicle-specific weight-distance tax identification permit appear to have increased.

Background -- Trip Tax and the Weight-Distance Tax Identification Permit: The elimination of the \$6 fee associated with Weight-Distance Tax Identification Permits (tax qualification cards), pursuant to the settlement of *C.R. England v. New Mexico* resulted in a reported large increase in the number of tax qualification cards requested by the industry in 2003 and 2004, and probably explains the decrease in revenue associated with the higher Trip Tax rates administered at state ports-of-entry. Legislation passed during the 2003 Special Session of the Legislature required a return to issuing Weight Distance Tax Identification Permits to individual vehicles rather than issuing a single permit to each motor carrier company. The vehicle-specific tax identification permit (effective July 1, 2004, but not widespread until January 1, 2005) was expected to enhance tax compliance efforts and gradually augment Trip Tax revenue to some degree beginning in calendar year 2005. Beginning in March 2005, Trip Tax revenue began to increase dramatically.

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



Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue - continued

The state permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. The growth in tribal market share has out-paced the overall growth rate of gasoline in recent years as a result of competitive pricing, casino traffic, and development of new tribal travel centers. It is anticipated that the tribal market share will continue to grow, but at a decreasing rate over the next few years.

Contacting the Agency's Financial Management

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

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

FINANCIAL STATEMENTS

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets

AS OF JUNE 30, 2006

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 2):			
Unrestricted	\$ 91,680,839	-	91,680,839
Restricted	511,288,266	10,765,589	522,053,855
Receivables:			
Tax receivable	48,508,742	-	48,508,742
Accounts receivable, net (Note 3)	2,265,342	-	2,265,342
Severance tax bond proceeds receivable (Note 4)	55,475,345	-	55,475,345
Interest receivable	2,506,733	75,801	2,582,534
Notes and loans receivable (Note 5)	27,672	8,042,247	8,069,919
U.S. Department of Transportation, net (Note 6)	25,100,543	-	25,100,543
Capitalized issuance costs	833,960	-	833,960
Inventories (Note 8)	12,514,297	-	12,514,297
Prepaid expense - warranty	3,189,034	-	3,189,034
Property held for resale, net	<u>4,648,541</u>	<u>-</u>	<u>4,648,541</u>
TOTAL CURRENT ASSETS	758,039,314	18,883,637	776,922,951
NON-CURRENT ASSETS:			
Capitalized issuance costs	9,721,205	-	9,721,205
Prepaid expense - warranty	42,449,332	-	42,449,332
Capital assets, net (Note 9)	<u>7,180,782,368</u>	<u>-</u>	<u>7,180,782,368</u>
TOTAL NON-CURRENT ASSETS	<u>7,232,952,905</u>	<u>-</u>	<u>7,232,952,905</u>
TOTAL ASSETS	\$ <u>7,990,992,219</u>	<u>18,883,637</u>	<u>8,009,875,856</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets - continued

AS OF JUNE 30, 2006

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable and contracts payable, including retainage of \$5,890,401	\$ 53,209,418	-	53,209,418
Due to other state agencies	-	-	-
Accrued payroll, taxes and withholdings	8,066,115	-	8,066,115
Accrued interest	3,120,649	-	3,120,649
Deferred revenue	21,689,504	-	21,689,504
Arbitrage rebate obligation (Note 21)	-	-	-
Other liabilities	105,019	-	105,019
Due to others - Severance Taxes	55,475,345	-	55,475,345
Current portion of long-term obligations (Note 12):			
Compensated absences	5,100,000	-	5,100,000
Debentures payable	75,295,000	-	75,295,000
Capitalized bond premium	<u>4,276,465</u>	<u>-</u>	<u>4,276,465</u>
TOTAL CURRENT LIABILITIES	226,337,515	-	226,337,515
LONG-TERM LIABILITIES:			
Arbitrage rebate obligation (Note 21)	-	-	-
Long-term obligations (Note 12):			
Compensated absences	731,835	-	731,835
Debentures payable	1,349,333,603	-	1,349,333,603
Capitalized bond premium	<u>54,296,047</u>	<u>-</u>	<u>54,296,047</u>
TOTAL LONG-TERM LIABILITIES	<u>1,404,361,485</u>	<u>-</u>	<u>1,404,361,485</u>
TOTAL LIABILITIES	\$ <u>1,630,699,000</u>	<u>-</u>	<u>1,630,699,000</u>
NET ASSETS:			
Invested in capital assets, net of any related debt and unspent debt proceeds	\$ 5,756,153,765	-	5,756,153,765
Restricted for:			
Loans	-	18,883,637	18,883,637
Specific purposes	<u>604,139,454</u>	<u>-</u>	<u>604,139,454</u>
TOTAL NET ASSETS	\$ <u>6,360,293,219</u>	<u>18,883,637</u>	<u>6,379,176,856</u>

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities

YEAR ENDED JUNE 30, 2006

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
PROGRAM EXPENSES:			
Public works - roads	\$ 505,448,532	-	505,448,532
Depreciation and amortization	514,838,292	-	514,838,292
Interest	<u>78,094,091</u>	<u>-</u>	<u>78,094,091</u>
TOTAL PROGRAM EXPENSES	1,098,380,915	-	1,098,380,915
PROGRAM REVENUES:			
Charges for services	14,552,417	-	14,552,417
Operating grants	19,247,338	-	19,247,338
Capital grants	<u>346,858,920</u>	<u>-</u>	<u>346,858,920</u>
TOTAL PROGRAM REVENUES	<u>380,658,675</u>	<u>-</u>	<u>380,658,675</u>
NET PROGRAM (EXPENSE) REVENUE	(717,722,240)	-	(717,722,240)
GENERAL REVENUES:			
User and fuel taxes	412,271,395	-	412,271,395
Interest income	27,191,910	567,784	27,759,694
Gain on disposal of assets	<u>428,050</u>	<u>-</u>	<u>428,050</u>
TOTAL GENERAL REVENUES (EXPENSES)	439,891,355	567,784	440,459,139
TRANSFERS:			
Transfers to other state agencies and local governments, net (Note 14)	<u>(8,176,400)</u>	<u>-</u>	<u>(8,176,400)</u>
TOTAL TRANSFERS	<u>(8,176,400)</u>	<u>-</u>	<u>(8,176,400)</u>
NET GENERAL REVENUES AND TRANSFERS	<u>431,714,955</u>	<u>567,784</u>	<u>432,282,739</u>
CHANGE IN NET ASSETS/OPERATING INCOME	(286,007,285)	567,784	(285,439,501)
NET ASSETS, BEGINNING OF FISCAL YEAR	6,615,093,717	18,315,853	6,633,409,570
Restatement (Note 22)	<u>31,206,787</u>	<u>-</u>	<u>31,206,787</u>
NET ASSETS, BEGINNING OF FISCAL YEAR	6,646,300,504	18,315,853	6,664,616,357
NET ASSETS, END OF FISCAL YEAR	\$ <u>6,360,293,219</u>	<u>18,883,637</u>	<u>6,379,176,856</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2006

	Major Funds							Total Governmental Funds
	State Road Fund	Bond Project Fund (2004A GRIP)	Local Government Road Fund	Debt Service (2001 GHAT)	Debt Service (2004A GRIP)	Debt Service (2004B/C GRIP)	Other Governmental Funds	Total Governmental Funds
ASSETS:								
Cash and cash equivalents (Note 2)								
Unrestricted	\$ 66,393,067	90	20,723,524	796,206	-	-	63,360,819	151,273,706
Restricted	36,299,373	415,396,026	-	-	-	-	-	451,695,399
Receivables:	-	-	-	-	-	-	-	-
Taxes receivable	44,365,127	-	3,453,438	1,537	-	-	688,640	48,508,742
Accounts Receivable, net (Note 3)	2,066,226	198,377	-	-	-	-	739	2,265,342
Sovereign Tax Bond Proceeds Receivable (Note 4)	55,475,345	-	-	-	-	-	-	55,475,345
Interest Receivable	730,716	1,210,240	187,241	35,955	-	-	342,581	2,506,733
Notes and Loans Receivable (Note 5)	27,672	-	-	-	-	-	-	27,672
Due From:								
Due from Other Funds (Note 7)	107,491,437	-	-	-	-	-	23,780,346	131,271,783
U.S. Department of Transportation, net (Note 6)	23,183,713	-	-	-	-	-	1,916,830	25,100,543
Inventories (Note 8)	12,514,297	-	-	-	-	-	-	12,514,297
Prepaid Expense - NM44 Warranty	45,638,366	-	-	-	-	-	-	45,638,366
Property Held for Resale	4,648,541	-	-	-	-	-	-	4,648,541
TOTAL ASSETS	\$ 398,833,880	416,804,733	24,364,203	833,698	-	-	90,089,955	930,226,469
LIABILITIES AND FUND BALANCES:								
LIABILITIES:								
Accounts payable	\$ 38,380,909	11,398,650	967,681	-	-	-	2,462,178	53,209,418
Due to other funds (Note 7)	100,501,750	16,062,233	1,826,039	-	-	-	12,881,761	131,271,783
Deferred revenue	20,892,250	-	-	-	-	-	797,254	21,689,504
Due to others	55,475,345	-	-	-	-	-	-	55,475,345
Other accrued expenses	7,972,900	-	-	-	-	-	93,215	8,066,115
Other payables	-	105,012	-	-	-	-	-	105,012
TOTAL LIABILITIES	223,223,154	27,565,902	2,793,720	-	-	-	16,234,408	269,817,184
FUND BALANCES:								
Reserved for:								
Inventories	12,514,297	-	-	-	-	-	-	12,514,297
Prepaid expenses	45,638,366	-	-	-	-	-	-	45,638,366
Property Held for Resale	4,648,366	-	-	-	-	-	-	4,648,366
Unreserved-undesignated (Note 21)	-	-	-	-	-	-	-	-
Unreserved, reported in non-major:								
Special revenue funds	112,809,697	389,238,831	21,570,483	-	-	-	57,911,787	581,530,798
Capital projects funds	-	-	-	-	-	-	13,824,705	13,824,705
Debt service funds	-	-	-	833,698	-	-	2,119,955	2,952,753
TOTAL FUND BALANCES	175,610,726	389,238,831	21,570,483	833,698	-	-	73,855,547	661,109,285
TOTAL LIABILITIES AND FUND BALANCES	\$ 398,833,880	416,804,733	24,364,203	833,698	-	-	90,089,955	930,226,469

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2006

**Total Fund Balance - Governmental Funds
(Governmental Fund Balance Sheet)**

\$ 661,109,285

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

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

The cost of capital assets is: \$ 15,741,216,331
Accumulated depreciation is: (8,560,433,963)

Total capital assets 7,180,782,368

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

Debentures payable (1,426,343,958)
Compensated absences (5,831,835)
Amortization of deferred costs on refunding
not recorded by the government funds 1,715,355

Accrued of interest on long-term obligations not recorded by the
governmental funds until paid. (3,120,649)

Capitalized issuance costs not recorded in the governmental funds as
an asset, net of amortization. 10,555,165

Capitalized bond premiums not recorded in the governmental
funds as a liability, net of amortization. (58,572,512)

Net assets of governmental activities (Statement of Net Assets) \$ 6,360,293,219

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2006

	State Road Fund	Bond Project Fund (2004A CRIP)	Local Government Road Fund	Debt Service (2001 CHAT)	Debt Service (2004A GRIP)	Debt Service (2004B)/C GRIP)	Other Governmental Funds	Total Governmental Funds
REVENUES:								
User and fuel taxes	\$ 346,475,663	-	22,064,495	-	-	-	3,711,287	412,271,395
U.S. Department of Transportation	282,673,825	-	-	-	-	-	12,495,295	295,169,120
U.S. Department of Energy	27,843,754	-	-	-	-	-	-	27,843,754
N.M. Department of Human Services	-	-	-	-	-	-	1,753,264	1,753,264
Miscellaneous	12,782,578	-	-	-	-	-	4,740	12,787,318
DWT Interlock Device	-	-	-	-	-	-	1,185,849	1,185,849
Interest Revenue	3,479,664	19,738,185	817,790	410,079	-	-	2,746,192	27,191,910
TOTAL REVENUES	713,255,484	19,738,185	22,902,285	410,079	-	-	21,896,577	778,202,610
EXPENDITURES:								
Current:								
Operating costs	9,376,750	-	-	-	-	-	90,580	9,467,330
Personal services	90,872,933	-	-	-	-	-	746,303	91,619,236
Out-of-state travel	295,819	-	-	-	-	-	40,042	335,861
Grants and services	4,374,796	-	20,732,431	-	-	-	15,979,062	41,066,289
Travel	18,818,676	-	-	-	-	-	41,423	18,860,099
Maintenance and repairs	8,528,812	-	-	-	-	-	51,047	8,579,859
Supplies	30,978,829	-	-	-	-	-	46,980	31,025,809
Contractual services	253,971,643	4,576,967	-	-	-	-	3,255,984	261,804,594
Other costs	10,031,914	-	-	-	-	-	16,277	10,048,191
Employee benefits	42,180,064	-	-	-	-	-	257,149	42,437,213
Capital outlay	154,235,754	236,149,773	-	-	-	-	5,684,170	376,069,697
Debt service:								
Interest and other charges	3,202,984	-	-	7,098,998	36,216,759	16,509,336	15,281,093	78,098,570
Principal	-	-	-	14,875,000	-	27,940,000	38,315,000	81,130,000
TOTAL EXPENDITURES	606,866,974	240,726,740	20,732,431	21,963,998	36,216,759	44,249,336	79,805,110	1,050,560,748
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	106,388,510	(220,988,555)	2,169,854	(21,553,319)	(36,216,759)	(44,249,336)	(57,908,533)	(272,358,138)
OTHER FINANCING SOURCES (USES):								
Proceeds from long-term debt, net	-	-	-	-	-	-	-	-
Proceeds from capital leases	-	-	-	-	-	-	-	-
Severance Tax Bond revenue	22,660,197	-	-	-	-	-	-	22,660,197
State General Fund revenue	19,247,338	-	-	-	-	-	-	19,247,338
Other use	-	-	-	-	-	-	-	-
Transfers in	2,648,475	-	-	21,963,998	37,856,142	44,249,336	53,545,772	160,263,123
Transfers out	(170,258,516)	(2,776,412)	-	-	-	-	(2,771,806)	(160,263,123)
TOTAL OTHER FINANCING SOURCES (USES)	(125,702,506)	(2,776,412)	-	21,963,998	37,856,142	44,249,336	66,317,577	41,907,535
SPECIAL ITEM:								
Proceeds from Sale of Capital Assets	861,112	-	-	-	-	-	-	861,112
NET CHANGES IN FUND BALANCES	(18,452,884)	(223,764,967)	2,169,854	410,079	1,639,383	-	8,409,044	(229,589,491)
FUND BALANCES, June 30, 2005	158,666,205	619,332,742	17,680,376	423,619	(1,639,383)	-	65,028,409	859,491,968
RESTATEMENT (Note 2)	35,397,405	(6,398,941)	1,720,253	-	-	-	418,024	31,206,808
FUND BALANCES, June 30, 2005, Restated	194,063,610	613,003,798	19,400,629	423,619	(1,639,383)	-	65,446,503	890,698,776
FUND BALANCES, June 30, 2006	\$ 175,610,726	\$89,238,831	21,570,483	833,698	-	-	73,855,547	661,102,285

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2006

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ (229,589,491)

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

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid). The increase in the liabilities for the fiscal year was: (77,786)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:

Capital outlay	\$ 376,069,697
Depreciation expense	(514,838,292)
Sale of fixed asset, net book value	<u>(433,062)</u>

Excess of depreciation expense over capital outlay (139,201,657)

Repayment of debentures recorded as expenditures in the governmental funds, recorded as a reduction in long-term liabilities in the Statement of Net Assets. 81,130,000

Deferred amount of debt recorded as a reduction of long-term liabilities in the Statement of Activities (833,960)

Bond premiums recorded in the governmental funds as an other financing source, recorded as a liability in the Statement of Net Assets, net of amortization of \$58,572,512, recorded as a reduction of interest expense in the Statement of Activities. 4,276,465

Bond issuance costs recorded in the governmental funds as other costs, recorded as an asset in the Statement of Net Assets, net of amortization of \$10,555,165, recorded as an expense in the Statement of Activities. (1,715,335)

Net change in accrual of long-term debt interest expense: not recorded in the governmental funds until paid. 4,479

Change in net assets of governmental activities
(Statement of Activities) \$ (286,007,285)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets
Business-type Activities - Enterprise Fund

YEAR ENDED JUNE 30, 2006

State Infrastructure Bank

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 2):	\$	-
Unrestricted		10,765,589
Restricted		-
Receivables:		-
Tax receivable		-
Accounts receivable, net (Note 3)		-
Severance tax bond proceeds receivable (Note 4)		75,801
Interest receivable		8,042,247
Notes and loans receivable (Note 5)		-
U.S. Department of Transportation, net (Note 6)		-
Capitalized issuance costs		-
Inventories (Note 8)		-
Prepaid expense - warranty		-
Property held for resale, net		-
		<u>18,883,637</u>

TOTAL CURRENT ASSETS

NON-CURRENT ASSETS:

Capitalized issuance costs		-
Prepaid expense - warranty		-
Capital assets, net (Note 9)		-
		<u>-</u>

TOTAL NON-CURRENT ASSETS

TOTAL ASSETS

\$ 18,883,637

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets
Business-type Activities - Enterprise Fund - continued



YEAR ENDED JUNE 30, 2006

LIABILITIES

State Infrastructure Bank

CURRENT LIABILITIES:

Accounts payable and contracts payable	\$	-
Due to other state agencies		-
Accrued payroll, taxes and withholdings		-
Accrued interest		-
Deferred revenue		-
Arbitrage rebate obligation (Note 21)		-
Other liabilities		-
Due to others - Severance Taxes		-
Current portion of long-term obligations (Note 12):		
Compensated absences		-
Debentures payable		-
Capitalized bond premium		-

TOTAL CURRENT LIABILITIES

-

LONG-TERM LIABILITIES:

Arbitrage rebate obligation (Note 21)		-
Long-term obligations (Note 12):		
Compensated absences		-
Debentures payable		-
Capitalized bond premium		-

TOTAL LONG-TERM LIABILITIES

-

TOTAL LIABILITIES

\$ -

NET ASSETS:

Invested in capital assets, net of any related debt and unspent debt proceeds	\$	-
Restricted for:		
Loans		18,883,637
Specific purposes		-

TOTAL NET ASSETS

\$ 18,883,637

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities
Business-type Activities - Enterprise Fund

YEAR ENDED JUNE 30, 2006

	State Infrastructure Bank
PROGRAM EXPENSES:	
Public works - roads	\$ -
Depreciation and amortization	-
Interest	-
TOTAL PROGRAM EXPENSES	-
PROGRAM REVENUES:	
Charges for services	-
Operating grants	-
Capital grants	-
TOTAL PROGRAM REVENUES	-
NET PROGRAM (EXPENSE) REVENUE	-
GENERAL REVENUES:	
User and fuel taxes	-
Interest income	567,784
Gain on disposal of assets	-
TOTAL GENERAL REVENUES (EXPENSES)	567,784
TRANSFERS:	
Transfers to other state agencies and local governments, net (Note 14)	-
TOTAL TRANSFERS	-
NET GENERAL REVENUES AND TRANSFERS	567,784
CHANGE IN NET ASSETS/OPERATING INCOME	567,784
NET ASSETS, BEGINNING OF FISCAL YEAR	18,315,853
Restatement (Note 22)	-
NET ASSETS, BEGINNING OF FISCAL YEAR	18,315,853
NET ASSETS, END OF FISCAL YEAR	\$ 18,883,637

See Notes to Financial Statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Cash Flows
Business-type Activities - Enterprise Fund

YEAR ENDED JUNE 30, 2006

	<u>State Infrastructure Bank</u>
Cash flows provided from operating activities:	
Interest income received	\$ 524,368
Cash flows used from financing activities:	
Loans issued	(7,401,160)
Loans repaid	<u>2,331,100</u>
Net decrease in cash and cash equivalents	(4,545,692)
Cash and cash equivalents at June 30, 2005	<u>15,311,281</u>
Cash and cash equivalents at June 20, 2006	\$ <u>10,765,589</u>
Reconciliation of operating income to net cash provided from operating activities:	
Operating income	\$ 567,784
Adjustment to reconcile operating income to net cash by operating activities:	
Increase in interest receivables	<u>(43,416)</u>
Cash flows provided by operating activities	\$ <u>524,368</u>

NATURE OF ORGANIZATION

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

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

Financial Reporting Entity

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Even though the Governor appoints the Commission, the Commission has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. Effective July 1, 2003, GASB 39, *Determining Whether Certain Organizations are Component Units*, expands the criteria of component units. GASB 39 has no impact on the Department and the Department has no blended or discretely presented component units during the year ended June 30, 2006.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB has issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These Statements established the financial reporting requirements for state and local governments throughout the United States. The Department is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. The Department has prepared required supplementary information entitled, *Management's Discussion and Analysis*, which precedes the basic financial statements.

◆ Government-Wide and Fund Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all of the non-fiduciary activities of the Department. The effect of material interfund activity has been removed from these government-wide statements.

Governmental activities, primarily the construction and maintenance of the State's road system, which normally is supported by taxes and intergovernmental revenues, are reported separately from the business-type activities of the SIB, which to a significant extent acts as a business, loaning funds to other entities and charging interest on the loans. Operating income for the SIB is interest income. All other income, if any, would be non-operating income to the SIB.

◆ Basis of Presentation

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**♦ Basis of Presentation - continued**

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

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

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

The Department's major governmental funds are the following:

State Road Fund-CAS Fund No. 201 - The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Section 67-3-59 NMSA establishes that this is a non-reverting fund. This is a special revenue fund.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

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

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

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

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

A proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The SIB has elected to not apply FASB pronouncements issued after the applicable date.

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

- Employees' vested compensated absences are recorded as an expenditure when utilized. The amount of accumulated compensated absences unpaid at June 30, 2006, has been reported only in the government-wide financial statements.
- Interest and principal payments on general long-term obligations is recognized as expenditures when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

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

The financial activities of the Department are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Department uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The measurement focus is on the flow of expendable financial resources, rather than on net income determination. The following are the governmental fund types used:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State Road Fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Resources are generated primarily from user and fuel taxes and federal grants. Expenditures are incurred to build and improve the transportation system within the State of New Mexico. These funds do not receive state general fund appropriations that are subject to reversion.

Federal Planning and Development Fund - This fund is authorized by the Commission to account for the planning and administration of federal grant monies and state matching funds for mass transportation and railroad improvements. The fund does not receive state general fund appropriations that are subject to reversion.

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

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

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

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

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

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

Bond Project Fund (1993 Bonds) (CAS Fund #394). The bond project fund was created due to the issuance of the December 1993 \$50,000,000 State of New Mexico Highway Debentures. The funds from the sale of all of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (WIPP Bonds) (CAS Fund #789 and 004). The bond project fund was created due to the issuance of the December 1996 \$100,000,000 State of New Mexico Highway Debentures and the \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B issued in October 1998. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one

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

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

year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

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

Bond Project Fund (2000 CHAT) (CAS Fund #345). The bond project fund was created due to the issuance of the May 2000 \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (2001 CHAT) (CAS Fund #006). The bond project fund was created due to the issuance of the March 2001 \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Proceeds can also be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The

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

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

funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds.

Bond Project Fund (2002A CHAT) (CAS Fund #368). The bond project fund was created due to the issuance of the January 2002 \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (2002C HIF) (CAS Fund #361). The bond project fund was created due to the issuance of the May 2002 \$67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Highway Bonds Series 2002C. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (2002D CHAT) (CAS Fund #115). The bond project fund was created due to the issuance of the December 2002 \$16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

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

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service requirements are met through the 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.

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

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

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

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

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

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

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

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

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

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

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

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

Capital Projects Fund - The Capital Projects Fund is used to account for the purchase or construction of facilities used in the operation of the Department. As it is a non-major fund, it is shown in the accompanying financial statements. Appropriations are received on a reimbursement basis as expenditures occur; therefore, only budgetary reversions are made when applicable.

All governmental funds are accounted for using the modified accrual basis of accounting. 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 collectibility is assured subsequent to year-

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

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. Interest income is recorded when earned. Bond proceeds are recognized at the time the bonds are sold. Principal and interest payments are recorded in the debt service fund when these disbursements are made or when resources have been provided for debt service payments due early in a subsequent fiscal year. All other revenues are not susceptible to accrual.

◆ Budgets and Budgetary Accounting

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

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

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

◆ Interfund and Interagency Transactions

Transfers which, because of budgetary or legal restrictions, must be expended by funds other than the fund initially receiving the revenue, are recorded as operating transfers in (out) under the other financing sources (uses) category (Notes 10 and 14) in the governmental fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Restricted Cash and Cash Equivalents**

The funds deposited in the debt service funds are restricted to pay future principal and interest payments due under the \$105,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (CHAT Bonds); the \$100,000,000 Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (WIPP Bonds); the \$100,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (CHAT Bonds); the \$201,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (CHAT Bonds); the \$198,800,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (CHAT Bonds); the \$95,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (CHAT Bonds); the \$79,920,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002B (WIPP Bonds); the \$67,750,000 Highway Infrastructure Fund Revenue Highway Bonds, Series 2002C (HIF Bonds); and the \$16,000,000 Senior Subordinate Tax Revenue Highway Bonds, Series 2002D (CHAT Bonds). The remaining balance of the proceeds from the sale of the debentures, bonds and the NMFA loan are also classified as restricted cash because 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).

◆ Taxes Receivable

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

◆ Accounts Receivable

Accounts receivable consists of amounts due from various entities: individuals and other state and local agencies located within the State of New Mexico for the sale of maps, brochures and other materials; federal excise taxes; and for other services performed by the Department. The Department provides an allowance for uncollectible accounts. The allowance is based on estimated collectible balances using an analysis of an aging of outstanding accounts and historical collection experience. The Department does not require collateral on these accounts receivable (Note 3).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**♦ Severance Tax Bonds Proceeds Receivable**

The State of New Mexico Legislature has authorized the State Board of Finance to issue and sell revenue bonds that are to be retired using future taxes levied against the extractive industries in the state. The proceeds from bonds sold are appropriated to the Department to be used for specific programs and are recorded as revenues by the Department. Expenditures incurred by the Department for such programs are reimbursable from the State Board of Finance. The severance tax bonds proceeds receivable represents the amounts due and available from the State Board of Finance as of year-end (Note 4).

♦ Notes and Loans Receivable

Notes receivable represent:

- Funds advanced to various state and local agencies to promote van-pooling activities within the state. The Federal Highway Administration (FHWA) provides matching funds (90%) for the purchase of vehicles by various nonprofit van pooling organizations.
- The funds advanced to such organizations are payable to the Department and are designated for future vehicle purchases.
- Notes issued to individuals displaced by purchases of right of way properties. The funds loaned to such individuals are provided in part by FHWA funds per FHWA guidelines.

Loans receivable represent:

- Loans to other governmental entities made by the State Infrastructure Bank. Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All loans are to governmental entities 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, 2006. 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).

◆ 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.

◆ 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 by the fund balance reserve, which indicates that it does not constitute “available spendable resources” (Note 8) even though they are a component of current assets.

◆ Prepaid Expense - Warranty

The warranty represents the no-fault portion of \$32,490,080 being amortized over 20 years that will meet performance criteria. The remaining \$13,148,286 of the warranty that represents the no-fault warranty that the structures will meet performance criteria is being amortized over 11 ½ years.

◆ Property Held for Resale

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

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

Capital assets, which include property, plant, equipment, software in the equipment category, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, streets, tunnels and similar infrastructure items), are reported in the governmental activities columns in the government-wide financial statements. The Department has no internally developed software that requires capitalization. As a result of House Bill 1074, effective date June 17, 2005, 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 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 9 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

◆ Capital Assets – continued

- the condition to maintain the infrastructure at a predetermined condition level due to an anticipated lack of future funding for maintenance.
- The Department records its other capital assets (buildings 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

◆ Deferred Revenue

Deferred revenue occurs when the Department receives funds before the corresponding expense or expenditure has been incurred, or all of the eligibility requirements have been met. The Department has received funds in advance of work done from the Department of Energy (DOE) for road projects and other costs relating to the Waste Isolation Pilot Plant (WIPP). The Department has received pass-through federal funds in advance of work done from the New Mexico Department of Human Services for the temporary assistance of needy families. Revenue is recognized when eligible expenditures are incurred for these projects and programs and all eligibility requirements are met.

◆ Compensated Absences

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**◆ Compensated Absences - continued**

compensated absences is calculated at pay rates in effect at June 30, 2006, and include 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 columns for governmental and business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized straight line over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and also amortized straight line over the term of the related debt.

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

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

◆ Net Assets

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

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

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

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

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

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end with the exception of the Capital Projects Fund. Encumbrances outstanding in this fund at year-end are reported as reservations of fund balance on the balance sheets (in the fund financial statement) and do not constitute expenditures or liabilities because the commitment will be honored during the subsequent year.

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

◆ Reservations

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

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

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

◆ Designated Fund Balance

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

◆ Use of Estimates

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

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

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

2. CASH AND CASH EQUIVALENTS

Cash funds, other than petty cash, are deposited by the Department into its accounts with the State Treasurer, which are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Money of the Department may be deposited with the State Treasurer for a short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico, or any political subdivision of the State and other investments allowed by state law. Petty cash funds are deposited with various financial institutions and are fully insured. Some of the cash held by the trustee for the NMFA loan proceeds is also invested in a money market mutual fund that invests in short-term U.S. Treasury securities. The reconciled balances at June 30, 2006, are as follows:

	CAS Account Number	Amount
Unrestricted:		
Road Fund - General	201	\$ 66,393,157
Local Government Fund	203	20,723,524
Aviation Fund	205	625,844
Motorcycle Training Fund	206	78,661
DWI Prevention Fund	207	573,762
Traffic Safety	208	3,284,326
Driver Improvement Program Fund	N/A	1,475
Bond Project Fund		<u>90</u>
		\$ <u>91,680,839</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

2. CASH AND CASH EQUIVALENTS - continued

	CAS Account Number	Amount
Restricted:		
Road Fund (relates to WIPP bond projects and various other road projects)	431	36,299,193
Bond Project Fund (1993 Bonds)	394	1,460,095
Bond Project Fund (1999 CHAT Bonds)	430	219,157
Bond Project Fund (2000 CHAT Bonds)	345	4,527
Bond Project Fund (2001 CHAT Bonds)	006	9,343,403
Bond Project Fund (2002A CHAT Bonds)	368	139,960
Bond Project Fund (2002C HIF Bonds)	361	1,164,997
Bond Project Fund (2002D CHAT Bonds)	115	670,506
Bond Project Fund (2004A GRIP Bonds)	N/A	415,396,116
Bond Project Fund (2004 B/C GRIP Bonds)	N/A	43,782,628
Debt Service Fund (1998 CHAT Bonds)	548	143,308
Debt Service Fund (1999 CHAT Bonds)	434	401,572
Debt Service Fund (2000 CHAT Bonds)	432	594,534
Debt Service Fund (2001A CHAT Bonds)	007	796,206
Debt Service Fund (2002A CHAT Bonds)	547	333,987
Debt Service Fund (2002B WIPP Bonds)	750	359,201
Debt Service Fund (2002C HIF Bonds)	363	81,027
Debt Service Fund (2002D CHAT Bonds)	187	15,237
Debt Service Fund (WIPP Bonds)	N/A	82,612
State Infrastructure Bank	893	10,765,589
		\$ 522,053,855

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, 2006.

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

3. ACCOUNTS RECEIVABLE

The aging of accounts receivable as of June 30, 2006, is as follows:

Number of Days Outstanding

0 - 30	\$ 1,845,170
31 - 60	4,926
61 - 120	496
Beyond 120	<u>2,237,000</u>
	4,087,592
Allowance for uncollectible accounts	<u>(1,822,250)</u>
	\$ <u>2,265,342</u>

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

4. SEVERANCE TAX BOND PROCEEDS RECEIVABLE

Severance tax bonds proceeds receivable as of June 30, 2006, 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	\$ 44,379,303
Sale and reauthorization of severance tax bonds	19,530,882
Funding from the State Board of Finance	(7,615,903)
Reversion to the State Board of Finance	<u>(818,437)</u>
Balance, end of year	\$ <u>55,475,345</u>

The funding for the year ended June 30, 2006 was received under the Laws of 1998, Chapter 118; Laws of 1998, Chapter 7; Laws of 1999, Chapter 2; Laws of 2000, Chapter 23 and Laws of 2002, Chapter 110, for projects completed.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

5. **NOTES AND LOANS RECEIVABLE**

Notes receivable as of June 30, 2006 consist of the following:

A note receivable from a private entity, non-interest bearing, in accordance with federal statutes, collateralized by various property.	\$ <u>27,672</u>
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Loans receivable funded by the SIB consist of the following:

City of Albuquerque, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	\$ 641,087
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County of Bernalillo, including interest at 1.5%, due during the 2008 federal fiscal year, secured by federal highway revenue.	<u>7,401,160</u>
	\$ <u>8,042,247</u>

6. **DUE FROM U.S. DEPARTMENT OF TRANSPORTATION**

Due from U.S. Department of Transportation (USDOT) consists of the following at June 30, 2006:

Agency

Federal Highway Administration	\$ 23,183,713
Other USDOT Agencies	<u>1,916,830</u>
Total USDOT	\$ <u>25,100,543</u>

Subsequent to June 30, 2006, the Federal Highway Administration unbilled portion was billed and the amounts were collected by the Department. Management felt that the entire balance outstanding at year end was collectable and, therefore, no allowance was established at June 30, 2006.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

7. DUE FROM AND DUE TO OTHER FUNDS

The following are short-term amounts (due within one year) owed between funds and are classified as Due From/To Other Funds:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Special Revenue Funds:		
State Road Fund	\$ 107,491,437	(100,501,750)
Local Government Road Fund	-	(1,826,039)
Federal Planning and Development Fund	-	(726,308)
State Aviation Fund	1,340,226	(174,177)
Federal Traffic Safety Fund	3,423,860	(4,149,734)
Driver Improvement Program Fund	289,504	-
DWI Prevention and Education Fund	-	(31,533)
Capital Improvements Projects	13,835,328	-
Bond Project Fund (1993 Bonds)	-	(37,804)
WIPP Debt Service Funds	13,829	-
Bond Project Fund (1998 & 1999 CHAT)	3,088,612	(1,224,580)
Bond Project Fund (2000 CHAT)	1,788,987	(3,650,144)
Bond Project Fund (2001 CHAT)	-	(899,327)
Bond Project Fund (2002A CHAT)	-	(1,988,154)
Bond Project Fund (2004A GRIP)	-	(16,062,233)
Total Special Revenue Funds	\$ <u>131,271,783</u>	<u>(131,271,783)</u>

Due from/to other fund amounts occur for the following reasons:

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

8. INVENTORY

Inventory as of June 30, 2006 consists of the following:

Highway maintenance materials stockpiled	\$ 7,610,494
Repair parts and expendable supplies	4,176,347
Fuel, oil and lubricants	<u>727,456</u>
	\$ <u>12,514,297</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

9. CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2006</u>
Non-depreciable assets:				
Land	\$ 5,064,678	158,415	(160,017)	5,063,076
Right of way	360,549,775	11,259,965	-	371,809,740
Depreciable assets:				
Infrastructure	15,069,367,358	349,159,210	(308,471,791)	15,110,054,777
Equipment and furniture	50,050,041	2,654,786	(1,721,924)	50,982,903
Vehicles	159,575,253	11,828,196	(5,687,105)	165,716,344
Buildings	<u>36,706,531</u>	<u>1,009,125</u>	<u>(126,165)</u>	<u>37,589,491</u>
Total	15,681,313,636	376,069,697	(316,167,002)	15,741,216,331
Less accumulated depreciation:				
Infrastructure	(8,200,214,936)	(499,028,410)	308,471,791	(8,390,771,555)
Equipment and furniture	(33,879,955)	(3,075,763)	1,615,515	(35,340,203)
Vehicles	(105,612,347)	(11,587,356)	5,629,706	(111,569,997)
Buildings	<u>(21,622,373)</u>	<u>(1,146,763)</u>	<u>16,928</u>	<u>(22,752,208)</u>
Total accumulated depreciation	<u>(8,361,329,611)</u>	<u>(514,838,292)</u>	<u>315,733,940</u>	<u>(8,560,433,963)</u>
Net total	\$ <u>7,319,984,025</u>	<u>(138,768,595)</u>	<u>(433,062)</u>	<u>7,180,782,368</u>

Current year depreciation expense was \$514,838,292. There were no software costs to capitalize as of year-end.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

10. OPERATING TRANSFERS

The following is a summary of interfund transfers (in)/out in the governmental fund financial statements for the year ended June 30, 2006:

		<u>Major</u>		<u>Non-Major</u>
	<u>State Road Fund</u>	<u>Debt Service Funds</u>	<u>Special Revenue Funds</u>	
(1)	\$ (170,258,516)	104,068,876	-	66,189,640
(2)	<u>2,648,475</u>	<u>-</u>	<u>(2,776,412)</u>	<u>127,937</u>
	\$ <u>(167,610,041)</u>	<u>104,068,876</u>	<u>(2,776,412)</u>	<u>66,317,577</u>

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2006:

Governmental Activities	Balance at June 30, 2005	Increase	Decrease	Balance at June 30, 2006	Amounts Due Within One Year
1998 WIPP Bonds	\$ 37,220,000	-	(2,785,000)	34,435,000	-
1998 CHAT Bonds	21,960,000	-	-	21,960,000	-
1999 CHAT Bonds	38,585,000	-	(8,920,000)	29,665,000	9,385,000
2000 CHAT Bonds	65,515,000	-	(11,700,000)	53,815,000	12,340,000
2001 CHAT Bonds	138,690,000	-	(14,875,000)	123,815,000	16,730,000
2002A CHAT Bonds	51,880,000	-	(7,180,000)	44,700,000	7,540,000
2002B WIPP Bonds	33,815,000	-	(7,730,000)	26,085,000	8,115,000
2002C HIF Bonds	32,945,000	-	-	32,945,000	-
2002D CHAT Bonds	5,770,000	-	-	5,770,000	1,200,000
2004A GRIP Bonds	700,000,000	-	-	700,000,000	-
2004B GRIP Bonds	210,255,000	-	(27,940,000)	182,315,000	19,985,000
2004C GRIP Bonds	200,000,000	-	-	200,000,000	-
Deferred amount on refunding	(32,591,752)	-	1,715,355	(30,876,397)	-
Compensated absences payable	<u>5,754,049</u>	<u>5,079,296</u>	<u>(5,001,510)</u>	<u>5,831,835</u>	<u>5,100,000</u>
Total obligations	1,509,797,297	<u>5,079,296</u>	<u>(84,416,155)</u>	1,430,460,438	<u>80,395,000</u>
Less current portion	<u>84,870,132</u>			<u>80,395,000</u>	
Net long-term obligations	\$ <u>1,424,927,165</u>			<u>1,350,065,438</u>	

The State Road Fund is used to liquidate other long-term liabilities, such as compensated absences and capital leases. The Department is authorized to issue bonds from time to time, payable from the proceeds of the collection of gasoline excise taxes, motor vehicle registration fees, and other fees that are required by law to be paid into the State Road Fund and not otherwise pledged solely to the payment of outstanding bonds and debentures. The total aggregate outstanding bonds issued are in accordance with the authorizing legislation for the bonds and other debt with the approval of the State Board of Finance, 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.

11. LONG-TERM OBLIGATIONS - continued

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

Principal of the Series 1998A Bonds (CHAT) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Series 1998A Bonds (CHAT), including interest payments of \$3,953,169 based on interest rates that range from 4.5% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998A CHAT:			
2007	\$ -	1,125,450	1,125,450
2008	-	1,125,450	1,125,450
2009	10,705,000	1,125,450	11,830,450
2010	<u>11,255,000</u>	<u>576,819</u>	<u>11,831,819</u>
Total	\$ <u>21,960,000</u>	<u>3,953,169</u>	<u>25,913,169</u>

11. LONG-TERM OBLIGATIONS - continued

Principal of the Series 1998 Bonds (WIPP) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2011.

The Department's future scheduled annual requirements to amortize the Series 1998B Bonds (1998 WIPP Bonds), including interest payments of \$7,116,238 based on interest rates that range from 3.8% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998 WIPP:			
2007	\$ -	1,751,613	1,715,613
2008	-	1,751,612	1,715,612
2009	10,545,000	1,751,613	12,296,613
2010	11,460,000	1,224,362	12,684,362
2011	<u>12,430,000</u>	<u>637,038</u>	<u>13,067,038</u>
Total	\$ <u>34,435,000</u>	<u>7,116,238</u>	<u>41,551,238</u>

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

Eligible federal funds that can be used for debt repayment are not available for approximately two years after the date of the loan. Accordingly, \$8,468,451 of the loan proceeds were recorded to the debt service fund to pay future debt service.

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

11. LONG-TERM OBLIGATIONS - continued

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

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

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

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$3,362,406, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1999 CHAT:			
2007	\$ 9,385,000	1,622,406	11,007,406
2008	9,870,000	1,141,425	11,011,425
2009	<u>10,410,000</u>	<u>598,575</u>	<u>11,008,575</u>
Total	\$ <u>29,665,000</u>	<u>3,362,406</u>	<u>33,027,406</u>

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

11. LONG-TERM OBLIGATIONS - continued

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

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$11,011,500, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2000A CHAT:			
2007	\$ 12,340,000	3,781,875	16,121,875
2008	13,060,000	3,138,375	16,198,375
2009	13,810,000	2,420,650	16,230,650
2010	<u>14,605,000</u>	<u>1,670,600</u>	<u>16,275,600</u>
Total	\$ <u>53,815,000</u>	<u>11,011,500</u>	<u>64,826,500</u>

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

Principal of the Bonds is payable annually each June 15. Interest, with rates ranging from 4.3% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2013.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$27,321,613 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2001A CHAT:			
2007	\$ 16,730,000	6,344,648	23,074,648
2008	17,685,000	5,508,147	23,193,147
2009	14,630,000	4,623,898	19,253,898
2010	9,545,000	3,892,397	13,437,397
2011	20,645,000	3,415,148	24,060,148
2012 - 2013	<u>44,580,000</u>	<u>3,537,375</u>	<u>48,117,375</u>
Total	\$ <u>123,815,000</u>	<u>27,321,613</u>	<u>151,136,613</u>

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

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

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

11. LONG-TERM OBLIGATIONS - continued

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

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 5.0% to 5.5% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$10,969,950, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002A CHAT:			
2007	\$ 7,540,000	2,378,100	9,918,100
2008	7,935,000	1,982,250	9,917,250
2009	-	1,585,500	1,585,500
2010	8,750,000	1,585,500	10,335,500
2011	-	1,126,125	1,126,125
2012 - 2014	<u>20,475,000</u>	<u>2,312,475</u>	<u>22,787,475</u>
Total	\$ <u>44,700,000</u>	<u>10,969,950</u>	<u>55,669,950</u>

11. LONG-TERM OBLIGATIONS - continued

The Department issued \$79,920,000 of the New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds, Series 2002B, in January 2002. The gross proceeds including accrued interest to the Department were \$82,007,147 including \$2,670,686 of an original issue premium. The cost of issuance including underwriter fees was \$614,561. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002B Bonds (WIPP Bonds) were issued to provide funds to refund the 1996 WIPP Bonds on the date of delivery of the Bonds, and to pay all costs incident thereto and to the issuance of the Bonds, including, without limitation, costs of issuance.

Principal of the bonds is payable on June 15. Interest at a rate of 5% per annum is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$3,147,250, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002B WIPP:			
2007	\$ 8,115,000	1,304,250	9,419,250
2008	8,525,000	898,500	9,423,500
2009	-	472,250	472,250
2010	<u>9,445,000</u>	<u>472,250</u>	<u>9,917,250</u>
Total	\$ <u>26,085,000</u>	<u>3,147,250</u>	<u>29,232,250</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS - continued

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

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

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$14,156,816, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002C HIF:			
2007	\$ -	1,709,524	1,709,524
2008	-	1,709,524	1,709,524
2009	3,000,000	1,709,524	4,709,524
2010	2,000,000	1,559,524	3,559,524
2011	-	1,459,524	1,459,524
2012 - 2016	21,770,000	5,684,634	27,454,634
2017	<u>6,175,000</u>	<u>324,562</u>	<u>6,499,562</u>
Total	\$ <u>32,945,000</u>	<u>14,156,816</u>	<u>47,101,816</u>

11. LONG-TERM OBLIGATIONS - continued

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

Principal of the bonds is payable as follows on June 15. Interest, with rates ranging from 3.9% to 5.00% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds including interest payments of \$1,285,175 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002D CHAT:			
2007	\$ 1,200,000	254,825	1,454,825
2008	-	194,825	194,825
2009	-	194,825	194,825
2010	1,360,000	194,825	1,554,825
2011	-	126,825	126,825
2012 - 2014	<u>3,210,000</u>	<u>319,050</u>	<u>3,529,050</u>
	\$ <u>5,770,000</u>	<u>1,285,175</u>	<u>7,055,175</u>

11. LONG-TERM OBLIGATIONS - continued

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

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

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$470,711,167, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004A GRIP:			
2007	\$ -	36,216,759	36,216,759
2008	-	36,216,759	36,216,759
2009	-	36,216,759	36,216,759
2010	-	36,216,759	36,216,759
2011	-	36,216,759	36,216,759
2012 - 2016	145,710,000	175,972,147	321,682,147
2017 - 2021	413,155,000	103,548,387	516,703,387
2022 - 2024	<u>141,135,000</u>	<u>10,106,838</u>	<u>151,241,838</u>
	\$ <u>700,000,000</u>	<u>470,711,167</u>	<u>1,170,711,167</u>

11. LONG-TERM OBLIGATIONS - continued

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

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

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

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$46,700,365, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004B GRIP:			
2007	\$ 19,985,000	8,804,615	28,789,615
2008	13,170,000	7,938,265	21,108,265
2009	10,735,000	7,347,765	18,082,765
2010	9,230,000	6,879,385	16,109,385
2011	36,275,000	6,421,085	42,696,085
2012 - 2014	<u>92,920,000</u>	<u>9,309,250</u>	<u>102,229,250</u>
Total	\$ <u>182,315,000</u>	<u>46,700,365</u>	<u>229,015,365</u>

11. LONG-TERM OBLIGATIONS - continued

The Series 2004C Bonds are special limited obligations of the Department payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C bonds or which may hereafter be used through the NMFA. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

Refunding

NMFA, on behalf of the Department, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the Department, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1999. The net proceeds of \$408,855,872 plus an additional \$7,285,997 were used to purchase U.S. Governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. The bonds outstanding of \$363,490,000 were considered defeased as of June 30, 2006.

The deferred amount on the refunding of \$30,876,397 recorded as a reduction of the Department's long-term obligation is the difference between the reacquisition price (funds required to refund the old debt including call provisions) and the net carrying amount of the old debt including unamortized old bond issuance costs. The deferred amount on the refunding is recorded to the government-wide financial statements and is required to be amortized as additional interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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

11. LONG-TERM OBLIGATIONS - continued**Interest Rate Swaps****State Transportation Revenue Bonds, Series 2006**

Objective of the Swaps. In April of 2004, the New Mexico Finance Authority (the "Authority") entered into two (2) forward starting swaps with two (2) counterparties to hedge against future interest rates. The intention of the swaps was to take advantage of the current historically low interest rate environment for Bonds to be issued in 2006. The Bonds are to be issued by the Authority to fund part of the Governor Richardson's Investment Partnership (GRIP), which is a \$1.6 billion statewide transportation expansion and infrastructure improvement project. In addition to the forward start, the swaps have a knock-out option from settlement to maturity. The intention of the option was to reduce the synthetic fixed rate. The Authority typically has between \$175 million and \$200 million in cash which will act as a natural hedge if the swap is knocked-out.

Terms. The swaps were entered into with J.P Morgan Chase Bank (JP) and UBS AG (UBS). The swaps will be effective on December 15, 2006, maturing on December 15, 2026. On the trade date, JP was rated AA- by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies (S&P), and Aa2 by Moody's Investor's Service, Inc. (Moody's), and UBS was rated AA+ S&P and Aa2 Moody's. Both swaps were priced at a fixed rate of 5.072% based on an amortizing national schedule with a combined \$220,000,000 initial amount. Under the swaps, the Authority pays 5.072% and receives BMA. The incorporated knock-out option was priced with a 7% barrier, effective from settlement to maturity and based on an "American" option exercise schedule. The option premium is equal to 0.34% per annum, resulting in a net fixed rate of 4.732%. Thus, the counterparty paid to have the option (but not the obligation) to terminate the swap should the 180 day average of the BMA index move above the barrier. The bonds' variable-rate coupons are not based on an index but on market conditions.

Fair Value. As of June 30, 2006, the swaps had a negative fair value of \$6,818,902 without the option. The options had a negative value of \$12,823,336 in isolation of the swaps, thus the swaps including the options had a total negative value of \$19,642,238. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

11. LONG-TERM OBLIGATIONS - continued**State Transportation Revenue Bonds, Series 2006 - continued**

Credit Risk. As of June 30, 2006 the Authority is not exposed to credit risk because the swaps had a negative fair value. If the fair value goes positive at some point in the future, the counterparties will be required to post collateral. The agreed upon collateral threshold levels per the Credit Support Annex (CSA) are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

Termination Risk. The swaps use the International Swap Dealers Association Master Agreement, which includes standard termination events. The swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. The swap also includes an additional termination event related to non-issuance of the associated bonds. That is, the swap may be terminated if the related bonds are not issued on the effective date. Should the counterparties exercise the option to terminate the swap per the knock-out option, the Authority would become subject to variable rate risk on the outstanding bonds. However, historically the BMA index has yet to reset above the barrier set forth in the swap agreement. In addition, the Authority has substantial cash reserves which will mitigate this risk by generating variable rate income. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

\$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3

Objective of the Swap. In April of 2004, the Authority entered into three (3) swaps with three (3) counterparties to synthetically refund outstanding bonds, which provided the Authority with present value savings of \$11,524,206.49 or 3.02% of the refunded bonds. The swap structure was used as a means to increase the Authority's savings, when compared against fixed-rate bonds at the time of issuance. In addition, through this structure, the Authority was able to release several restrictive covenants as set forth by the old indenture, thus providing future flexibility. The intention of the swap was to effectively change the Authority's interest rate on the bonds to a fixed rate.

11. LONG-TERM OBLIGATIONS - continued**\$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued**

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

Fair Value. As of June 30, 2006, the Lehman swap and Goldman swap each had a fair value of \$62,922, while the RBC swap had a fair value of \$125,844. The total fair value on all the swaps was \$251,688. Since the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value on the swaps was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk. As of June 30, 2006 the Authority is exposed to credit risk in an amount equal to the positive fair value for each of the swaps. To mitigate credit risk, the counterparties are required to post collateral based upon the agreed upon collateral threshold levels per the Credit Support Annex (CSA) which are adjusted based on counterparty ratings as set forth in the CSA. Goldman, Lehman, and RBC was rated AAA/Aaa, AAA/Aaa and AA-/Aa2 by S&P/Moody's respectively as of June 30, 2006.

11. LONG-TERM OBLIGATIONS - continued**\$200,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004 C-1, C-2 and C-3 - continued**

Basis Risk. As of June 15, 2006, the Authority is exposed to basis risk as reflected by the relationship between the rate paid on the outstanding bonds and the 68% of one month LIBOR rate received on the swap. The Authority is also exposed to tax risk, a form of basis risk, where the Authority is exposed to a potential additional interest cost in the event that changes in the structure of the federal tax system or in the marginal tax rates causes the rate paid on the outstanding bonds to be greater than the 68% of LIBOR received on the swap. The effect of the difference in basis is indicated by the difference between the intended synthetic rate (3.934%) and the synthetic rate as of June 30, 2006 (4.197%). The expected cost savings would not be realized should the rate paid on the bonds exceed the variable index received on the swap over the remaining life of the swaps. As of June 30, 2006, the rate on the bonds was 3.89%, whereas 68% of one month LIBOR was 3.627%.

Termination Risk. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. Furthermore, the swaps may be terminated if the credit quality of the counterparties or Authority falls below BBB-/Baa3 by S&P/Moody's respectively. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt: As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments for their term, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	\$ -	7,780,000	614,000	8,394,000
2008	-	7,780,000	614,000	8,394,000
2009	-	7,780,000	614,000	8,394,000
2010	-	7,780,000	614,000	8,394,000
2011	-	7,780,000	614,000	8,394,000
2012 - 2016	-	38,900,000	3,070,000	41,970,000
2017 - 2021	-	38,900,000	3,070,000	41,970,000
2022 - 2024	200,000,000	20,511,645	1,618,785	222,130,430
	<u>\$ 200,000,000</u>	<u>137,211,645</u>	<u>10,828,785</u>	<u>348,040,430</u>

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

The Department has in the past entered into several lease agreements as lessee for financing the acquisition of computer equipment. During 2005, the Department took advantage of the lease buy-out clauses in the lease agreements. As a result, the Department has eliminated all capital leases as of June 30, 2005. These lease agreements qualified as capital leases for accounting purposes and, therefore, had been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases had interest rates that range from 10% to 19%. A total of \$1,023,499 was paid during the 2006 fiscal year for capital lease obligations, and was recorded as debt service expense in the State Road Fund. No computer equipment was acquired through capital leases during the 2006 fiscal year.

There are no future minimum lease obligations to report as of June 30, 2006.

Total future principal and interest obligation repayments are as follows:

<u>Year Ended June 30,</u>		<u>Bonds and Loans</u>
2007	\$	148,457,065
2008		139,718,132
2009		139,749,809
2010		139,790,421
2011		126,620,504
2012 - 2016		565,139,931
2017 - 2021		562,542,949
2022 - 2024		<u>372,313,327</u>
Total	\$	<u>2,194,332,138</u>

An obligation amounting to \$5,831,835 at June 30, 2006, has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences.

12. RETIREMENT AND HEALTH PLANS (STATE PERA)**◆ PERA Plan Description**

Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees' Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan.

The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

◆ Funding Policy

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature.

The Department's contributions to PERA for the years ending June 30, 2006, 2005 and 2004 were \$15,199,631, \$18,165,681, and \$12,192,028, respectively, equal to the amount of the required contribution for each year.

13. RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS

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

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

13. RETIREE HEALTH CARE/POST EMPLOYMENT BENEFITS - continued

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

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional \$5 if eligible participant retired prior to the employer's NMRHCA effective date, or is a former legislator, and made no contributions to the plan. Participants may also enroll in optional plans of coverage.

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

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post-employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, New Mexico 87107.

For the fiscal year ended June 30, 2006, the Department remitted \$1,146,926 in employer contributions and \$573,463 in employee contributions to the Retiree Health Care Authority.

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

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

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

14. TRANSFERS TO/FROM OTHER STATE AGENCIES AND LOCAL GOVERNMENTS - continued

	<u>Agency Number</u>	<u>Operating Transfers Out</u>
Transfers to Other Agencies:		
Department of Public Safety	01-790	\$ <u>8,176,400</u>

15. COOPERATIVE AND JOINT POWERS AGREEMENTS

The State Legislature and the State Highway Commission have approved certain agreements between the Department and various counties, municipalities and other agencies to construct or improve public highways, school grounds, parking areas, and for the purpose of litter control. The Department's funding responsibility varies from zero to 100%. None of these cooperative and joint power agreements have created legally separate organizations that need to be included as component units or joint ventures in the Department's financial statements.

JOINT POWER AGREEMENTS			
Contract Number	Contractor	Description	Expended 2006
J00706	Department of Tourism	Implement a statewide public awareness litter campaign to educate and inform New Mexicans about litter.	-
J00707	Zuni Pueblo	A pedestrian travel demand study for Black Rock Community.	83,000
J00708	Navajo Nation	Road improvements and a maintenance yard at the Bread Springs Chapter of Navajo Nation in McKinley County.	100,000
J00709	Department of Cultural Affairs	Provide FY 2006 – 2010 Consultant Design Program to maintain an inventory of cultural properties in the State of New Mexico.	25,000
J00710	Santa Ana Pueblo	Provide roadside drainage for the Pueblo/cn L3016.	200,000
J00711	Department of Cultural Affairs, Historic Preservation Division	Provide FY 2006 – 2010 Consultant Design Program for the review of cultural resource documents pertinent to the completion of proposed highway construction project in New Mexico.	50,000
J00713	Pueblo of Zuni	Install two traffic school flashing units on State Road 53 Priority (2) BIA Route 301 North Zuni High School.	21,306
J00714	Pueblo of Laguna	Provide for the design and improvement of the Exit 108 Interchange on Interstate Highway 40 and BIA Road L22 on the Pueblo of Laguna Indian Reservation. Escrow agreement between Pueblo of Laguna, NMDOT and Wells Fargo Bank is the escrow agent.	-

16. RISK MANAGEMENT

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

17. FEDERAL HIGHWAY ADMINISTRATION (FHWA) AUTHORIZATIONS

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

In order to obtain funding commitments from FHWA for such allotments, projects must be submitted to and be approved by the FHWA. As of June 30, 2006, the amount of authorizations granted to the State of New Mexico that had not been converted to commitments because FHWA did not award sufficient obligation authority to the Department was \$73,000,000.

18. LITIGATION

The Department is subject to various legal proceedings, claims and liabilities, including right-of-way condemnation proceedings, contractor claims and employee claims, which arise in the ordinary course of the Department's operations. There are various contractor lawsuits and claims against the Department for various reasons. The Department contests these claims and if a likelihood of a loss is probable, the Department accrues the loss in the accompanying financial statements. In the opinion of the Department's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse impact on the financial position or results of operations of the Department.

19. OPERATING LEASE COMMITMENT

The Department leases certain equipment and premises under numerous operating leases. Leases are subject to future appropriation and as such are cancelable by the Department at the end of a fiscal year. Rental expense for the year ended June 30, 2006, was \$1,506,252.

19. OPERATING LEASE COMMITMENT - continued

The future minimum lease payments under operating leases as of June 30, 2006 are approximately as follows:

Years ending June 30:	<u>Lease Amounts</u>
2007	\$ 554,980
2008	441,660
2009	321,000
2010	-
2011	-
2012 and thereafter	-
	<u>\$ 1,317,640</u>

20. COMMITMENTS AND CONTINGENCIES**♦ Arbitrage Rebate Obligation**

As of June 30, 2006, the Department has paid all arbitrage rebates due to the Internal Revenue Service (IRS) on the excess interest income earned on the 1999 CHAT and 2000 CHAT bond proceeds.

♦ 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, 2006 may be impaired. In the opinion of the Department, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

♦ Warranty Claim

The Department has filed a notice of deficiency regarding New Mexico 44 (now U.S. 550) under the design and construction warranty provided by the contractor. The Department has not specified a dollar amount of the cost of the repairs or replacement attributable to its claim made under the warranty. Accordingly, no amount for the claim receivable is accrued for in the June 30, 2006 financial statements.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

21. UNRESERVED, UNDESIGNATED FUND BALANCE (DEFICIT)

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

22. PRIOR PERIOD ADJUSTMENT

The following errors in the State Road Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$29,068,461 greater for this fund.

	<u>State Road Fund</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 158,666,205
ADJUSTMENTS:	
To correct invalid Due to Other Funds balance that should have been Due from Other Funds	12,657,888
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	24,803,601
To record tax revenue reimbursement to Taxation and Revenue for overpayment	<u>(2,064,084)</u>
TOTAL ADJUSTMENTS	35,397,405
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>194,063,610</u>

The following errors in the Local Government Road Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$1,720,524 greater for this fund.

	<u>Local Government Road Fund</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 17,680,376
ADJUSTMENT:	
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	<u>1,720,253</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>19,400,629</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

22. PRIOR PERIOD ADJUSTMENT - continued

The following errors in the 2004A GRIP Fund were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$6,328,944 lower for this fund.

	<u>2004A GRIP</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 619,332,742
ADJUSTMENTS:	
To post liability as of June 30, 2005	<u>(6,328,944)</u>
TOTAL ADJUSTMENTS	(6,328,944)
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>613,003,798</u>

The following errors in the non-major special revenue funds were corrected as of June 30, 2005. Had these error(s) not been made, the change in fund balance for the year ended June 30, 2005 would have been \$418,094 greater for these funds.

	<u>Non-major Special Revenue Funds</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 65,028,409
ADJUSTMENT:	
To correct tax revenue and receivable to reflect proper month of revenue and additional month of receivable (June 2006)	<u>418,094</u>
FUND BALANCE, BEGINNING OF YEAR, ADJUSTED	\$ <u>65,446,503</u>

23. SUBSEQUENT EVENTS

The Department issued \$450 million in new bonds for highway reconstruction and infrastructure improvement projects under Governor Richardson's Investment Partnership (GRIP). The 20-year bonds carry annual interest rates between 4.15 percent and 4.987 percent. The bonds sold at a premium of \$12.5 million.

24. BUDGET TO GAAP RECONCILIATION – STATE INFRASTRUCTURE BANK

Budgetary basis revenues	\$	460,073
Adjustments and accruals:		
Interest receivable		75,801
Notes and loans receivable		<u>31,910</u>
GAAP basis revenues	\$	<u>567,784</u>

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APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

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

Certain Definitions

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

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

“Acquisition Fund” means the Fund so designated which is created by Section 501 of the Master Indenture.

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

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

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

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

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

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

“Authorized Officer” means the Chair of the Board, the Vice Chair of the Board, the Secretary of the Board, the Chief Executive Officer of the Authority, the Chief Financial Officer of the Authority, 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 Credit Facility Provider is located, are not required or authorized to remain closed, and on which The New York Stock Exchange is not closed.

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

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

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

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

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

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

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

Master Indenture (which payment, other than Exchange Termination Payments, may be made net of Authority Exchange Payments).

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

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

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

“Debt Service Fund” means the Fund so designated which is created pursuant to Section 501 of the Master Indenture.

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

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

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

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

(c) Unless, at the time of computation of Debt Service Requirements, Repayment Obligations are owed to, or Obligations are owned or held by, a Credit Facility Provider, a Credit 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, Credit 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 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-I+" 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 (i) the 15th day (whether or not a Business Day) preceding any Interest Payment Date on the Bonds, or (ii) the second day immediately preceding an Interest Payment Date in the case of any Series 2008C/D Bonds bearing interest at an Auction Rate.

“Repayment Obligations” means the obligations of the Authority to repay a Credit Facility Provider, a Liquidity Facility Provider or the provider of a Reserve Alternative Instrument for amounts advanced by any such provider with respect to the principal of or interest on or the purchase price of Bonds issued 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, subject to the lien thereon of the Closed Lien Obligations and so designated in the applicable Series Indenture authorizing such Senior Lien Bonds.

“Series” means all Bonds of a designated series 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 Credit Facility Provider with respect to any Bonds for which any Credit Enhancement Facility or a Credit Facility is in place, (vi) the fee of the Authority (other than Costs of Issuance) charged to the Commission and/or the Department in carrying out and administering its powers, duties and functions under the Act, the State Transportation Program, the Authority’s agreements with the Commission relating to the Bonds, the Closed Lien Obligations and the Master Indenture and the resolution of the Commission acknowledging and agreeing that the fee of the Authority shall be payable from the State Road Fund, (vii) fees and expenses associated with the delivery of a substitute Credit Enhancement Facility or Credit 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 Credit 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 Bank of Albuquerque, N.A. and the successor or successors of such bank or trust company and any other corporation which may at any time be substituted in its place pursuant to Article IX of the Master Indenture.

“Value” means, as of any date of computation, the value of the Trust Estate or Investment Securities calculated by or on behalf of the Authority as to (a) below and otherwise by the Trustee, as follows:

(a) with respect to any funds of the Authority held under the Master Indenture and on deposit in any commercial bank or as to any certificates of deposit or banker’s acceptances, the amount thereof plus accrued but unpaid interest;

(b) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, in The New York Times), the average of the bid and asked prices for such investments so published on such date of calculation or most recently prior to such date of calculation;

(c) as to investments (other than investment contracts and repurchase agreements) the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times, (i) the lower of the bid prices at such date of calculation for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments, or (ii) the bid price published by a nationally recognized pricing service;

(d) as to an investment contract, an amount equal to the principal amount plus any accrued interest required to be remitted to the Trustee (without regard to notice requirements of seven days or less) pursuant to the terms of such investment contract;

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

(f) with respect to any investment not specified above, the value thereof established by prior written agreement by the Authority, the Trustee and the Rating Agencies.

Additional Obligations Payable from Trust Estate

Limitations Upon Issuance of Senior Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Senior Lien Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Senior Lien Bonds. However, before any Senior Lien Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to 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: (x) then outstanding Closed Lien Obligations, (y) then Outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued; and

(3) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred and fifty percent (350%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (x) then outstanding Closed Lien Obligations, (y) then outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued;

Limitations Upon Issuance of Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Subordinate Lien Bonds or to prevent the issuance by the Commission of Additional Highway Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Subordinate Lien Bonds or any Additional Highway Bonds. However, before any Subordinate Lien Bonds, or Additional Highway Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of the Master Indenture (or similar sections of the Commission resolutions or instruments governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Bonds, or Additional Highway Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (v) then Outstanding Closed Lien Obligations, (w) then Outstanding Senior Lien Bonds, (x) then outstanding Subordinate Lien Obligations, (y) then outstanding Additional Highway Bonds, and (z) the Subordinate Lien Bonds proposed to be issued.

Limitations Upon Issuance of Junior Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Junior Subordinate Lien Bonds or to prevent the issuance of bonds or other obligations refunding all or a part of Junior Subordinate Lien Bonds. However, before any Junior Subordinate Lien Bonds are issued (excluding Refunding Bonds issued pursuant to Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of the Master Indenture (or similar sections of the Commission resolutions or instrument governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Junior Subordinate Lien Bonds shall have been sufficient to pay an amount representing two hundred percent (200%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (u) then Outstanding Closed Lien Obligations, (v) then Outstanding Senior Lien Bonds, (w) then Outstanding Subordinate Lien Bonds, (x) then Outstanding Additional Highway Bonds, (y) then Outstanding Junior Subordinate Lien Obligations, and (z) the Junior Subordinate Lien Bonds proposed to be issued.

Certification of State Revenues and Pledged Revenues. A written certificate or opinion by the Secretary of the Department, the chief financial officer of the Authority, or an Accountant's Certificate that such State Revenues and Pledged Revenues, as applicable, are sufficient to cover the amounts required by Sections 206(a), 206(b) or 206(c) of the Master Indenture shall be required and shall be conclusively presumed to be accurate in determining the right of the Authority to authorize, issue, sell and deliver additional Senior Lien Bonds, Subordinate Lien Bonds or Junior Subordinate Lien Bonds or the right of the Commission to authorize, issue, sell and deliver Additional Highway Bonds.

No provision of the Master Indenture shall be construed to prevent the issuance by the Authority or the Commission of additional bonds or other obligations payable from the Pledged Revenues constituting a lien on the

Trust Estate (or any portion thereof) subordinate and junior to the lien on the Trust Estate of Bonds described above. Such additional subordinate and junior bonds or other obligations may be issued pursuant to a Series Indenture and/or Supplemental Indenture prepared for that specific purpose or pursuant to an indenture or resolution separate and distinct from 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 Credit 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 hereto against a claims and demands of all Persons whomsoever.

In consideration of the purchase and acceptance of the Obligations by those who shall own the same from time to time, the provisions of the Master Indenture shall be a part of the contract of the Authority with the Owners and shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners.

Tax Covenants. The Authority covenants for the benefit of the Owners of each Series the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that it will not take any action or omit to take any action with respect to such Bonds, the proceeds thereof or any other funds of the Authority if such action or omission would cause the interest on such Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, would subject the Authority to any penalties under Section 148 of the Code, or would cause such Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code. The foregoing covenants shall remain in full force and effect notwithstanding the payment in full or defeasance of such Bonds until the date on which all obligations of the Authority in fulfilling the above covenant under the Code have been met. The Authority shall execute and deliver from time to time such certificates, instruments and documents as shall be deemed necessary or advisable to evidence compliance by the Authority with said Code sections and the regulations thereunder with respect to the use of the proceeds of such Bonds and any other funds of the Authority. Such certificates, instruments and documents may contain such stipulations as shall be necessary or advisable in connection with the stated purpose of the Master Indenture and the foregoing provisions thereof, and the Authority and the Trustee covenant and agree to comply with the provisions of any such stipulation throughout the term of such Bonds.

Books of Account; Annual Audit. The Authority shall cause to be kept and maintained proper books of account relating to the funds and accounts established under the Master Indenture, in which full, true and correct entries will be made, in accordance with generally accepted accounting principles, of all transactions of or in relation to the business of the Authority with respect to the funds and accounts established under the Master Indenture, and after the end of each Fiscal Year shall cause such books of account to be audited by a certified public accountant or

firm of such accountants duly licensed to practice and practicing as such under the laws of the State, selected by the Authority, who is independent and not under the domination of the Authority, who does not have any substantial interest, direct or indirect, in the Authority, which audit shall be completed as soon as possible after the end of each Fiscal Year but in any event within 270 days thereafter. A copy of each annual balance sheet statement of net assets, statement of revenues and expenses, and statement of cash flows, showing in reasonable detail the financial condition of the Funds and Accounts established under the Master Indenture, as of the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for the Fiscal Year, shall be filed promptly with the Trustee and shall be available for inspection by any Owner at the office of the Trustee designated for such purposes during normal business hours.

Compliance with Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by the Master Indenture or a Series Indenture to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, shall have happened and shall have been performed, and such Bonds, together with all indebtedness of the Authority, shall be within every debt and other limit prescribed by law.

Waiver of Laws. To the extent permitted by law and public policy, the Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Master Indenture, any Series or Supplemental Indenture, or the Obligations, and all benefit or advantage of any such law or laws is 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 hereof) in order:

(a) to add to the covenants and agreements of the Authority in the Master Indenture other covenants and agreements thereafter to be observed by the Authority;

(b) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Master Indenture;

(c) to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Master Indenture;

(d) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee;

(e) to include as Pledged Revenues or money under, and subject to the provisions of, the Master Indenture any additional revenues or money legally available therefor;

(f) to cure any ambiguity, defect, omission or inconsistent provision in the Master Indenture or to insert such provisions clarifying matters or questions arising under the Master Indenture as are necessary or desirable, provided such action shall not adversely affect the interest of the Owners 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 Credit Facility, such change must be approved in writing by the related Credit Facility Provider or Credit 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

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic information is furnished for information only. The Bonds do not constitute a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any governmental unit within the meaning of any constitutional or statutory debt limitation and are special limited obligations of NMFA payable solely from the Pledged Revenues. THE NMFA, THE DEPARTMENT AND THE COMMISSION HAVE NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2008C/D Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State, the NMFA, the Commission, the Department, or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS."

Generally

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

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

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

Governmental Organization

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

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

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

Economic and Demographic Information

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

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

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, 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 presents data on employment for the State by industry compiled by U.S. Department of Commerce.

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Total Full-time and Part-time Employment by Industry

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2001⁽¹⁾</u>	<u>2006⁽¹⁾</u>	<u>1980-1990</u>	<u>Growth 1990-2000</u>	<u>2001-2006⁽¹⁾</u>
Total employment	598,199	767,139	972,954	977,815	1,009,758	28.2%	26.8%	3.3%
Wage and salary employment	513,306	635,725	789,690	801,610	878,449	23.8%	24.2%	9.6%
Proprietors employment	84,893	131,414	183,264	176,205	221,309	54.5%	39.7%	25.6%
Farm proprietors employment	13,400	13,600	14,985	17,470	17,159	1.5%	10.2%	(1.8%)
Nonfarm proprietors employment	71,493	117,814	168,279	158,735	204,150	64.8%	42.8%	28.6%
<u>By Industry</u>								
Farm employment	22,191	19,766	21,760	24,091	24,384	(10.9%)	10.1%	1.2%
Nonfarm employment	576,008	747,373	951,194	953,724	1,075,374	29.8%	27.3%	12.8%
Private employment	428,156	568,085	748,804	748,250	860,855	32.7%	31.8%	15.1%
Agricultural services, forestry, fishing and other	4,358	8,414	13,548	7,019	7,057	93.1%	61.0%	0.5%
Mining	31,152	20,489	19,323	19,469	22,910	(34.2%)	(5.7%)	17.7%
Oil and gas extraction	15,116	14,068	14,425	6,447	7,211	(6.9%)	2.5%	11.9%
Mining and support activities for mining ⁽²⁾	16,036	6,421	4,898	13,022	15,699	149.7%	23.7%	20.6%
Construction	38,873	40,606	59,895	63,144	80,357	4.5%	47.5%	27.3%
General building contractors	11,933	11,858	16,710	18,050	21,266	(0.6%)	40.9%	17.8%
Heavy construction contractors	8,287	6,729	8,720	10,365	11,643	(18.8%)	29.4%	12.3%
Special trade contractors	18,653	22,019	34,465	34,729	47,448	18.0%	56.5%	36.6%
Manufacturing ⁽³⁾	35,963	47,732	48,788	49,913	47,613	32.7%	2.2%	(4.6%)
Durable goods	21,583	32,500	33,275	32,671	30,271	50.6%	2.4%	(7.4%)
Nondurable goods ⁽⁴⁾	14,380	15,232	15,513	17,242	17,342	5.9%	1.8%	0.6%
Transportation and public utilities ⁽⁵⁾	30,732	34,130	43,350	39,423	39,446	11.1%	27.0%	0.1%
Wholesale trade	22,733	27,896	33,751	27,970	30,102	22.6%	21.1%	7.6%
Retail trade ⁽⁶⁾	98,075	134,482	172,516	175,525	187,617	37.1%	28.3%	6.9%
Finance, insurance, and real estate ⁽⁷⁾	37,945	46,955	62,905	60,113	74,509	23.7%	34.0%	24.0%
Services ⁽⁸⁾	128,325	207,381	294,728	308,674	371,244	61.6%	42.1%	20.3%
Government and government enterprises	147,852	179,288	202,390	205,474	214,519	21.3%	63.1%	4.4%
Federal, civilian	29,963	31,621	30,205	28,785	30,549	5.5%	(4.5%)	6.1%
Military	21,794	22,552	17,167	17,106	15,764	3.5%	(23.9%)	(7.9%)
State and local	96,095	125,115	155,018	159,583	168,206	30.2%	23.9%	5.4%
State governmental	42,560	55,722	64,654	65,503	63,868	30.9%	16.0%	(2.5%)
Local government	53,535	69,393	90,364	94,080	104,338	29.6%	30.2%	10.9%

⁽¹⁾ Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry-specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2006 employment-by-industry data is not comparable with employment-by-industry data for the years 2000, 1990 and 1980. NAICS industry groups and subgroups in the 2001 and 2006 data have been combined or extracted to approximate the SIC industry groups listed for the years before 2001.

⁽²⁾ The SIC subgroups, "Metal Mining," "Coal Mining" and "Nonmetallic Minerals, Except Fuels" were combined to approximate the NAICS category "Mining and Support Activities for Mining."

⁽³⁾ The NAICS subcategories of "Information – Publishing Industries, Except Internet" and "Information – Internet Publishing and Broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

⁽⁴⁾ The NAICS subcategories of "Information – Publishing Industries, Except Internet" and "Information – Internet Publishing and Broadcasting" and the NAICS "Manufacturing – Nondurable Goods" category have been combined to approximate the SIC "Manufacturing – Nondurable Goods" subcategory.

⁽⁵⁾ The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS subcategories of "Information – Broadcasting, Except Internet" and "Information – Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

⁽⁶⁾ The NAICS subcategory of "Accommodation and Food Services – Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

⁽⁷⁾ The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

⁽⁸⁾ The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, Except Public Administration," and the subcategories of "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," "Information – Other Information Services" have been combined to approximate the SIC "Services" category.

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2007.)

Wages and Salaries by Industry Sector
1990, 2000, 2001 and 2006

	New Mexico (Dollars in thousands)				United States (Dollars in millions)				Percent Change 2001 – 2006 ⁽¹⁾		Distribution of 2006 Wages & Salaries ⁽¹⁾	
	2006 ⁽¹⁾	2001 ⁽¹⁾	2000	1990	2006 ⁽¹⁾	2001 ⁽¹⁾	2000	1990	N.M.	U.S.	N.M.	U.S.
Farm Total	<u>\$237,259</u>	<u>\$176,072</u>	<u>\$179,521</u>	<u>\$95,849</u>	<u>\$19,554</u>	<u>\$17,920</u>	<u>\$16,781</u>	<u>\$11,767</u>	<u>34.8%</u>	<u>9.1%</u>	<u>0.8%</u>	<u>0.3%</u>
Non-Farm												
Private												
Agricultural Services, Forestry, Fishing	90,353	72,008	143,971	62,663	18,343	15,968	30,886	15,164	25.5	14.9	0.3	0.3
Mining	1,134,771	726,676	671,919	507,585	48,337	32,132	31,219	26,655	56.2	50.4	3.7	0.8
Construction	2,143,823	1,481,698	1,306,228	577,016	351,491	271,681	256,807	140,468	44.7	29.4	7.1	5.8
Manufacturing ⁽²⁾	1,788,714	1,670,758	1,656,465	980,349	794,415	773,184	830,026	561,384	7.1	2.7	5.9	13.2
Transportation & Public Utilities ⁽³⁾	1,409,488	1,239,195	1,351,378	884,830	318,575	295,851	313,333	179,390	13.7	7.7	4.7	5.3
Wholesale Trade	1,048,119	834,834	950,471	552,522	346,621	283,974	332,549	189,402	25.5	22.1	3.5	5.8
Retail Trade ⁽⁴⁾	3,182,711	2,564,031	2,434,023	1,316,067	548,102	463,539	449,642	264,791	24.1	18.2	10.5	9.1
Finance, Insurance & Real Estate ⁽⁵⁾	1,408,191	1,060,638	1,027,385	543,814	583,365	444,684	431,911	207,758	32.8	31.2	4.6	9.7
Services ⁽⁶⁾	<u>9,648,779</u>	<u>6,633,316</u>	<u>5,916,169</u>	<u>2,945,866</u>	<u>1,976,859</u>	<u>1,535,895</u>	<u>1,382,404</u>	<u>644,429</u>	<u>45.5</u>	<u>28.7</u>	<u>31.8</u>	<u>32.9</u>
Total Private	<u>21,854,949</u>	<u>16,283,154</u>	<u>15,458,009</u>	<u>8,370,712</u>	<u>4,986,108</u>	<u>4,116,908</u>	<u>4,058,777</u>	<u>2,229,441</u>	<u>34.2</u>	<u>21.1</u>	<u>72.1</u>	<u>82.9</u>
Government												
Federal, Civilian	1,819,857	1,366,112	1,280,241	917,118	174,632	134,679	135,011	99,598	33.2	29.7	6.0	2.9
Military	676,002	495,168	477,480	440,596	83,721	54,970	50,520	46,332	36.5	52.3	2.2	1.4
State & Local	<u>5,712,818</u>	<u>4,700,434</u>	<u>4,374,109</u>	<u>2,472,762</u>	<u>750,052</u>	<u>615,467</u>	<u>572,880</u>	<u>356,505</u>	<u>21.5</u>	<u>21.9</u>	<u>18.9</u>	<u>12.5</u>
Total Government	<u>8,208,677</u>	<u>6,561,714</u>	<u>6,131,830</u>	<u>3,830,476</u>	<u>1,008,405</u>	<u>805,116</u>	<u>758,411</u>	<u>502,435</u>	<u>25.1</u>	<u>25.2</u>	<u>27.1</u>	<u>16.8</u>
Non-Farm Total:	<u>30,063,626</u>	<u>22,844,868</u>	<u>21,589,839</u>	<u>12,201,188</u>	<u>5,994,513</u>	<u>4,922,024</u>	<u>4,817,188</u>	<u>2,731,876</u>	<u>31.6</u>	<u>21.8</u>	<u>99.2</u>	<u>99.7</u>
Total	<u>\$30,300,885</u>	<u>\$23,020,940</u>	<u>\$21,769,360</u>	<u>\$12,297,037</u>	<u>\$6,014,067</u>	<u>\$4,939,944</u>	<u>\$4,833,969</u>	<u>\$2,743,643</u>	<u>31.6%</u>	<u>21.7%</u>	<u>100.0%</u>	<u>100.0%</u>

⁽¹⁾ Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry-specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2006 employment-by-industry data is not comparable with employment-by-industry data for the years 2000, 1990 and 1980. NAICS industry groups and subgroups in the 2001 and 2006 data have been combined or extracted to approximate the SIC industry groups listed for the years before 2001.

⁽²⁾ The NAICS subcategories of "Information – Publishing industries, Except Internet" and "Information – Internet Publishing and Broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

⁽³⁾ The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS subcategories of "Information – Broadcasting, Except Internet" and "Information – Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

⁽⁴⁾ The NAICS subcategory of "Accommodation and Food Services – Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

⁽⁵⁾ The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

⁽⁶⁾ The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, Except Public Administration," and the subcategories of "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," and "Information – Other Information Services" have been combined to approximate the SIC "Services" category.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2007.

**State of New Mexico and United States
Civilian Labor Force, Employment and Unemployment
1997-2006**

Year	Civilian Labor Force (000)		Number Employed (000)		Unemployment Rate (000)		NM as % of U.S. Rate ⁽²⁾
	N.M. ⁽¹⁾	U.S. ⁽¹⁾	N.M. ⁽¹⁾	U.S. ⁽¹⁾	N.M.	U.S.	
1997	823	136,297	769	129,558	6.6%	4.9%	135%
1998	836	137,673	784	131,463	6.2	4.5	138
1999	840	139,368	793	133,488	5.6	4.2	133
2000	852	142,583	810	136,891	5.0	4.0	125
2001	864	143,734	821	136,933	4.9	4.7	104
2002	872	144,863	823	136,485	5.5	5.8	95
2003	885	146,510	833	137,736	5.9	6.0	98
2004	902	147,401	850	139,252	5.8	5.5	105
2005	915	149,830	867	141,730	5.3	5.1	104
2006	935	151,428	896	144,427	4.2	4.6	91

⁽¹⁾ Figures rounded to the nearest thousand.

⁽²⁾ Figures rounded to nearest whole percent.

(Source: U.S. Department of Labor, Bureau of Labor Statistics, October 2007.)

**State of New Mexico and United States
Per Capita Personal Income
1997-2006⁽¹⁾**

Year	Per Capita Income			Annual % Change	
	New Mexico	U.S.	NM as % of U.S. ⁽²⁾	New Mexico ⁽³⁾	U.S. ⁽³⁾
1997	19,698	25,334	78%	3.5%	4.8%
1998	20,656	26,883	77	4.9	6.1
1999	21,042	27,939	75	1.9	3.9
2000	22,133	29,843	74	5.2	6.8
2001	24,083	30,562	79	8.8	2.4
2002	24,247	30,795	79	0.7	0.8
2003	24,846	31,466	79	2.5	2.2
2004	26,201	33,072	79	5.5	5.1
2005	28,042	34,685	81	7.0	4.9
2006 ⁽¹⁾	29,725	36,629	81	6.0	5.6

⁽¹⁾ Preliminary estimate.

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2007.)

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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 2008C/D Bonds, Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the New Mexico Finance Authority, proposes to issue its opinion in substantially the following form:

_____, 2008

New Mexico Finance Authority
Santa Fe, New Mexico

Ladies and Gentlemen:

We have examined the transcript of proceedings (the “Transcript”) relating to the issuance by the New Mexico Finance Authority (the “NMFA”) of (i) its \$84,800,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C (the “2008C Bonds”), and (ii) its \$50,400,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) (the “2008D Bonds and together with the 2008C Bonds the “2008C/D Refunding Bonds”). The 2008C/D Refunding Bonds are being issued for the purpose of providing funds to refund outstanding bonds of the NMFA issued on behalf of the Commission.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 et seq., NMSA 1978, as amended and supplemented (the “NMFA Act”). The 2008C/D Refunding Bonds are being issued pursuant to the March 20, 2008 direction of the Commission, Chapter 3, Laws of New Mexico 2003 (1st Special Session) (compiled in part as Sections 67-3-59.2, 67-3-59.3 and 67-3-65.1) (the “GRIP Financing Legislation”), the NMFA Act, resolutions adopted by the NMFA on February 28, 2008 and on April 24, 2008 (collectively, the “Resolutions”), the Master Indenture of Trust dated as of May 1, 2004 (the “Master Indenture”) between the NMFA and Bank of Albuquerque, N.A., as trustee (the “Trustee”) and the Sixth Series Indenture of Trust dated as of May 1, 2008 (the “Sixth Series Indenture” and collectively with the Master Indenture, the “Indenture”) between the NMFA and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have examined the provisions of the NMFA Act, the GRIP Financing Legislation, the Resolutions, the Indenture, and an executed Bond of the first maturity of each series of the 2008C/D Refunding Bonds. We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion. Regarding questions of fact material to our opinion, we have relied on the representations of the NMFA contained in the Resolutions, and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The NMFA is a public body politic and corporate, separate and apart from the State of New Mexico, constituting a governmental instrumentality, duly organized and validly existing under the laws of the State of New Mexico (the “State”) and has lawful authority to issue the 2008C/D Refunding Bonds.
2. The Resolutions have been duly adopted by the NMFA, are valid and binding obligations of the NMFA and create a valid lien on and pledge of the Pledged Revenues for the payment of principal of and interest on the 2008C/D Refunding Bonds.
3. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Pledged Revenues and the funds and accounts held by the Trustee and pledged under the Indenture to secure the payment of the principal of and interest on the 2008C/D Refunding Bonds on a parity with other Subordinate Lien Bonds issued or to be issued under the Indenture, and with

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

4. The 2008C/D Refunding Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Pledged Revenues, the funds and accounts held by the Trustee and pledged under the Indenture, and do not constitute a debt or liability of the State or any subdivision thereof within the meaning of any constitutional or statutory debt limitation.

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

(a) the rights and obligations under the 2008C/D Refunding Bonds, the Resolutions and the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the NMFA;

(b) we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2008C/D Refunding Bonds and express herein no opinion relating thereto;

(c) we express no opinion as to the validity or enforceability of, or the security provided by, the liquidity facilities issued by JPMorgan Chase Bank, National Association with respect to the 2008C/D Refunding Bonds;

(d) our opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result;

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

(f) our opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur;

(g) we have not addressed, nor do we express any opinion on, the tax consequences to any person regarding the investment in, the ownership or disposition of, or the accrual or receipt of interest on, the 2008C/D Refunding Bonds; and

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

Very truly yours,

SUTIN, THAYER & BROWNE
A Professional Corporation

FORM OF OPINION OF SPECIAL TAX COUNSEL

Upon the issuance of the Series 2008C/D Bonds, Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the New Mexico Finance Authority, proposes to issue its opinion in substantially the following form:

_____, 2008

New Mexico Finance Authority
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2008C
New Mexico Finance Taxable Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2008D (Taxable)

We have acted as Special Tax Counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its (a) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C in the aggregate principal amount of \$84,800,000 (the "Series 2008C Bonds"), and (b) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) in the aggregate principal amount of \$50,400,000 (the "Series 2008D Bonds" and, collectively with the Series 2008C Bonds, the "Series 2008C/D Bonds"). The Series 2008C/D Bonds are being issued for the purpose of providing funds to refund certain outstanding bonds of the NMFA.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA, the New Mexico Department of Transportation ("NMDOT") and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Furthermore, with respect to the validity of the Series 2008C/D Bonds, we are relying upon the opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the NMFA. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2008C Bonds. The NMFA and NMDOT have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2008C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008C Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and NMDOT with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2008C Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as presently enacted and construed, as follows:

1. Interest on the Series 2008C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. Interest on the Series 2008D Bonds is taxable as ordinary income for purposes of federal income tax.

2. Interest on the Series 2008C/D 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 2008C/D Bonds; and

(b) although we have rendered an opinion that interest on the Series 2008C Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of or the accrual or receipt of interest on, the Series 2008C Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008C Bonds.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

DTC, New York, NY, will act as securities depository for the Series 2008C/D Bonds. The Series 2008C/D 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 2008C/D 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 highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2008C/D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008C/D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008C/D 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 2008C/D Bonds, except in the event that use of the book-entry system for the Series 2008C/D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008C/D 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 2008C/D 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 2008C/D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series 2008C/D 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 2008C/D 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 2008C/D 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 2008C/D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the NMFA or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the NMFA does not have responsibility for distributing such notices to the Beneficial Owners.

The NMFA does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Series 2008C/D Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2008C/D 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 2008C/D Bonds.

DTC may discontinue providing its services as securities depository with respect to the Series 2008C/D Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

APPENDIX F

FORM OF CONTINUING DISCLOSURE UNDERTAKING

\$84,800,000

New Mexico Finance Authority
Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien)
Series 2008C

\$50,400,000

New Mexico Finance Authority
Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien)
Series 2008D
(Taxable)

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 \$84,800,000 of the Authority’s Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C and \$50,400,000 of the Authority’s Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) (collectively, the “Bonds”). The Bonds are being issued pursuant to a Master Indenture of Trust dated as of May 1, 2004 (the “Master Indenture”) between the Authority and Bank of Albuquerque, N.A. (the “Trustee”), as supplemented by a Sixth Series Indenture of Trust dated as of May 1, 2008 (together 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 Disclosure Certificate. 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) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board. The address of the MSRB as of the date hereof is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314; Telephone (703) 797-6600; Fax (703) 797-6700.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository recognized by the Securities and Exchange Commission from time to time, for purposes of Rule 15c2-12. As of the date hereof, the following are National Repositories:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
Email: munis@bloomberg.com
Webpage: <http://www.bloomberg.com/markets/rates/municontacts.html>

Standard & Poor’s Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
Email: nrmsir_repository@sandp.com
Webpage: <http://www.disclosuredirectory.standardandpoors.com/>

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
Email: nrmsir@dpccdata.com
Webpage: <http://www.MuniFILINGS.com>

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Telephone: (212) 771-6999; (800) 689-8466
Facsimile: (212) 771-7390
Email: nrmsir@interactivedata.com
Webpage: <http://www.interactivedata-prd.com>

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

“Report Date” means March 31 of each year, beginning in 2009, or if March 31 is not a business day, the first business day after March 31.

“Repository” means each National Repository and the State Repository.

“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.

“State Repository” means any public or private repository or entity designated by the State of New Mexico as a state repository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository for the State of New Mexico.

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 each Repository, 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 each Repository, the Audited Financial Statements when and if available.

(c) The Department may provide to the Authority and the Authority in turn may provide to each Repository, the Annual Financial Information and Audited Financial Statements by specific cross-reference to other documents which have been submitted to each Repository 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 also 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) The Authority shall provide, in a timely manner, to each Repository or the MSRB, notice of the occurrence of any of the following Events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on any credit enhancement relating to the Bonds reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) Modifications to the rights of the security holders;
- (viii) Bond calls (other than mandatory sinking fund redemption);
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the Bonds; or
- (xi) Rating changes.

(b) At any time the Bonds are outstanding, the Authority shall provide, in a timely manner, to the MSRB and any State Repository, 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 each Repository and the MSRB 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 each Repository and 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 Disclosure Certificate 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 Disclosure Certificate; 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 Disclosure Certificate, the Authority and the Department shall have no obligation under this Disclosure Certificate to update such information or include it in any future annual filing or notice of occurrence of an Event.

Section 8. Method of Transmission. Unless otherwise required by law and subject to technical and economic feasibility, the Authority will employ such methods of electronic or physical information transmission as is requested or recommended from time to time by the Repositories or the MSRB.

Section 9. Default and Enforcement. If either the Authority or the Department fails to comply with any provision of this Disclosure Certificate, 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 Disclosure Certificate; 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 Disclosure Certificate, after 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 DISCLOSURE CERTIFICATE SHALL NOT BE DEEMED AN EVENT OF DEFAULT UNDER THE INDENTURE OR THE BONDS, AND THE SOLE REMEDY UNDER THIS DISCLOSURE CERTIFICATE IN THE EVENT OF ANY FAILURE OF A PARTY TO COMPLY WITH THIS DISCLOSURE CERTIFICATE SHALL BE AN ACTION TO COMPEL PERFORMANCE.

Section 10. Beneficiaries. The Disclosure Certificate 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.

(The remainder of this page intentionally left blank.)

Date: _____, 2008

NEW MEXICO FINANCE AUTHORITY

By: _____
Stephen R. Flance, Chairman

By: _____
Joanna Prukop, Secretary

Approved for Execution by
Officers of the New Mexico Finance Authority

BALLARD SPAHR ANDREWS & INGERSOLL, LLP

By: _____
Bradley D. Patterson, as Disclosure Counsel

NEW MEXICO DEPARTMENT OF
TRANSPORTATION

By: _____
Rhonda G. Faight, Secretary

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Issuer: New Mexico Finance Authority

Name of Bond Issue: New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C and Series 2008D (Taxable)

Date of Issuance: _____, 2008

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Dissemination Agent Agreement, dated _____, 2008, between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____.

Dated: _____

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Disclosure Dissemination Agent, on behalf of the Issuer

cc: New Mexico Financial Authority
Attn: Chief Executive Officer

EXHIBIT B

FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT

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REMARKETING ISSUE— BOOK-ENTRY ONLY

**Subseries A-2 & B-2 Ratings: Moody's "Aa3/VMIG 1"
S&P "A+/A-1"**
(See "RATINGS" herein.)

At the time of the initial issuance of the Subseries 2008A-2/B-2 Bonds, Ballard Spahr LLP, Special Tax Counsel to the NMFA, rendered its opinion that based on an analysis of then existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Subseries 2008A-2/B-2 Bonds was excludable from gross income for federal income tax purposes and was not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest was included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. Special Tax Counsel was also of the opinion that under then existing laws, interest on the Subseries 2008A-2/B-2 Bonds was excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expressed no opinion regarding any other tax consequences relating to the ownership or disposition of or the accrual or receipt of interest on, the Subseries 2008A-2/B-2 Bonds. See "TAX MATTERS" herein. Furthermore, Special Tax Counsel has not been requested to update or confirm its opinion and Special Tax Counsel has not undertaken to update or confirm its opinion since the date of initial issuance of the Subseries 2008A-2/B-2 Bonds and such opinion speaks only as of its date.

NEW MEXICO FINANCE AUTHORITY

\$80,000,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SUBSERIES 2008A-2

\$120,000,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SUBSERIES 2008B-2

Initial Delivery Date: April 8, 2008

Price: 100%

Due: As shown on inside front cover

The New Mexico Finance Authority's Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008A-2 (the "Subseries 2008A-2 Bonds") and Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008B-2 (the "Subseries 2008B-2 Bonds" and together with the Subseries 2008A-2 Bonds, the "Subseries 2008A-2/B-2 Bonds") were issued as fully registered bonds on April 8, 2008. The Subseries 2008A-2/B-2 Bonds were purchased pursuant to a mandatory tender as the result of the replacement of a credit facility related to the Subseries 2008A-2/B-2 Bonds. The Subseries 2008A-2/B-2 Bonds are being remarketed with the same terms and conditions with which they were initially sold except that the credit facility for the Subseries 2008A-2/B-2 is being provided by another credit facility provider. Purchases of beneficial ownership interests in the Subseries 2008A-2/B-2 Bonds will be made in book-entry form only, in denominations of \$100,000 and integral multiples of \$5,000 in excess of \$100,000 when interest on the Subseries 2008A-2/B-2 Bonds is payable at a Weekly Rate. The Depository Trust Company ("DTC") acts as securities depository for all of the Subseries 2008A-2/B-2 Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Subseries 2008A-2/B-2 Bonds is registered in the name of Cede & Co. Individual purchases of the Subseries 2008A-2/B-2 Bonds will be made in book-entry form only, and Beneficial Owners of the Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds.

The Subseries 2008A-2/B-2 Bonds were issued by the New Mexico Finance Authority (the "NMFA") at the direction of the State Transportation Commission (the "Commission") of the State of New Mexico (the "State"). The proceeds of the Subseries 2008A-2/B-2 Bonds were used 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 (the "Department").

The Subseries 2008A-2/B-2 Bonds currently bear interest at a Weekly Rate. During the time the Subseries 2008A-2/B-2 Bonds bear interest at Weekly Rates, interest on the Subseries 2008A-2/B-2 Bonds will be payable on the first Business Day of each month until maturity or earlier redemption, if applicable. The Subseries 2008A-2/B-2 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "THE SUBSERIES 2008A-2/B-2 BONDS—Redemption Provisions" herein. The Subseries 2008A-2/B-2 Bonds are also subject to optional and mandatory tender for purchase under certain circumstances. See "THE SUBSERIES 2008A-2/B-2 BONDS—Tender Provisions" herein.

The Subseries 2008A-2/B-2 Bonds are special, limited obligations of the NMFA payable, together with additional bonds currently outstanding in the amount of \$438,825,000 and hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien of the Subseries 2008A-2/B-2 Bonds and such additional bonds on such revenues is subordinate to the lien thereon securing other bonds currently outstanding in the amount of \$962,345,000. The lien of the Subseries 2008A-2/B-2 Bonds on certain revenues deposited into the State Road Fund is also subordinate to the lien on such revenues to the lien thereon securing Closed Lien Obligations (as defined herein) currently outstanding in the amount of \$71,805,000. The Subseries 2008A-2/B-2 Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. Neither the NMFA, nor the Commission, nor the Department has any taxing powers. The principal of and interest and premium, if any, on the Subseries 2008A-2/B-2 Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the state or any political subdivision of the State.

The payment of the principal of, interest on and purchase price of the Subseries 2008A-2/B-2 Bonds are payable from funds drawn under separate but substantially identical irrevocable, direct pay letters of credit (the "Letters of Credit") issued by Bank of America, N.A. (the "Bank").



Each of the Letters of Credit provides that the Trustee will be entitled to draw up to an amount sufficient to pay the principal of and up to 54 days of accrued interest on the respective Subseries of Subseries 2008A-2/B-2 Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum), to be used (a) to pay the principal of and interest on the respective Subseries of Subseries 2008A-2/B-2 Bonds when due, whether pursuant to redemption or at maturity, and (b) to pay the purchase price of the respective Subseries of Subseries 2008A-2/B-2 Bonds tendered by the holders thereof. Each Letter of Credit expires on July 2, 2011 or on the earlier occurrence of certain events. Each Letter of Credit may be extended upon such terms and conditions as may be agreed by the Bank and the NMFA. See "LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENT" and "THE BANK" herein. The failure of the NMFA to maintain the respective Letters of Credit throughout the term of the related Subseries of Subseries 2008A-2/B-2 Bonds is not an event of default, and there is no assurance that any of the Letters of Credit will remain in effect throughout the term of the respective Subseries of Subseries 2008A-2/B-2 Bonds.

Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, has acted as Bond Counsel to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. Ballard Spahr LLP, Salt Lake City, Utah, has acted as Disclosure Counsel to the NMFA and Virtue Najjar & Brown PC, Santa Fe, New Mexico, has acted as Issuer's Counsel to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. The Department is being represented by its general counsel in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. Certain legal matters will be passed upon for the Bank by Andrews Kurth LLP, Houston, Texas. Public Financial Management, Inc., San Francisco, California has acted as financial advisor to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds.

GOLDMAN, SACHS & CO.
Remarketing Agent for the Subseries 2008A-2 Bonds

JEFFERIES & COMPANY, INC.
Remarketing Agent for the Subseries 2008B-2 Bonds

Dated: June 28, 2010

\$80,000,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SUBSERIES 2008A-2

<u>Subseries</u>	<u>Principal Amount</u>	<u>Interest Rate Determination</u>	<u>Due</u>	<u>Letter of Credit Provider</u>	<u>Remarketing Agent</u>	<u>CUSIP*</u>
A-2	\$80,000,000	Currently weekly	June 15, 2024	Bank of America, N.A.	Goldman, Sachs & Co.	64711R FN 1

\$120,000,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SUBSERIES 2008B-2

<u>Subseries</u>	<u>Principal Amount</u>	<u>Interest Rate Determination</u>	<u>Due</u>	<u>Letter of Credit Provider</u>	<u>Remarketing Agent</u>	<u>CUSIP*</u>
B-2	\$120,000,000	Currently weekly	December 15, 2026	Bank of America, N.A.	Jefferies & Company, Inc.	64711R FP 6

* The above referenced CUSIP number(s) 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 Subseries 2008A-2/B-2 Bonds. None of the NMFA, the Department, the Trustee or the Remarketing Agent is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to its correctness on the particular Subseries of Subseries 2008A-2/B-2 Bonds or as indicated above. The CUSIP number for a specific maturity or Subseries is subject to being changed after the issuance of the Subseries 2008A-2/B-2 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 Remarketing Memorandum, in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Remarketing Agents. This Remarketing Memorandum 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 Remarketing Memorandum has been furnished by the NMFA, the Commission and the Department or obtained from other sources which are believed by the NMFA, the Commission, and the Department to be reliable. The information in this Remarketing Memorandum is subject to change without notice and neither the delivery of this Remarketing Memorandum nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, the Commission, the Department or others since the date of this Remarketing Memorandum.

The Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds in accordance with applicable provisions of the securities laws of the states in which the Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds or the accuracy or completeness of this Remarketing Memorandum. Any representation to the contrary may be a criminal offense.

This Remarketing Memorandum contains statements relating to the NMFA's, the Commission's, and the Department's future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Remarketing Memorandum, 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.

IN CONNECTION WITH THE OFFERING OF THE SUBSERIES 2008A-2/B-2 BONDS, THE REMARKETING AGENTS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SUBSERIES 2008A-2/B-2 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEW MEXICO FINANCE AUTHORITY

207 Shelby Street
Santa Fe, New Mexico 87501
Telephone: (505) 984-1454
Telecopy: (505) 992-9635

Members

Stephen R. Flance, Chairman*
William F. Fulginiti, Vice Chairman
Craig Reeves, Treasurer
Ron Curry, Secretary
Rhonda G. Faught*
Paul Gutierrez
Steven K. Moise
Lonnie Marquez
Katherine B. Miller
Fred Mondragon
Jim Noel
Daniel P. Silva*

Chief Executive Officer

William C. Sisneros

NMFA General Counsel

Reynold E. Romero

Issuer Counsel

Virtue Najjar & Brown PC
Santa Fe, New Mexico

Financial Advisor

Public Financial Management, Inc.
San Francisco, California

Bond Counsel

Sutin, Thayer & Browne A Professional Corporation
Albuquerque, New Mexico

Disclosure Counsel

Ballard Spahr LLP
Salt Lake City, Utah

Trustee, Registrar and Paying Agent

The Bank of New York Mellon Trust Company, N.A.
Denver, Colorado

* Messrs. Flance and Silva and Ms. Faught have been appointed by the Governor of the State and are awaiting confirmation by the New Mexico State Senate during its next regular legislative session that is scheduled to commence in January, 2011. See “NEW MEXICO FINANCE AUTHORITY—Governing Body and Key Staff Members” for a discussion of the effect of senate confirmation on their respective terms.

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REMARKETING MEMORANDUM

\$80,000,000

**NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SUBSERIES 2008A-2**

\$120,000,000

**NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SUBSERIES 2008B-2**

INTRODUCTION

This Remarketing Memorandum, which includes the cover page, the inside front cover and the appendices hereto, sets forth certain information in connection with the remarketing of \$80,000,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008A-2 (the “Subseries 2008A-2 Bonds”), and \$120,000,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008B-2 (the “Subseries 2008B-2 Bonds” and collectively with the Subseries 2008A-2 Bonds, the “Subseries 2008A-2/B-2 Bonds”). The Subseries 2008A-2/B-2 Bonds were initially issued by the New Mexico Finance Authority (the “NMFA”), at the direction of the State Transportation Commission (the “Commission”) of the State of New Mexico (the “State”) on April 8, 2008. Capitalized terms used in this Remarketing Memorandum and not defined have the meanings specified in the Master Indenture of Trust dated as of May 1, 2004, as previously supplemented and amended from time to time (the “Master Indenture”), between the NMFA and The Bank of New York Mellon Trust Company, N.A., Denver, Colorado, as successor trustee (the “Trustee”), as supplemented and amended by the Fifth Series Indenture of Trust dated as of April 1, 2008 (the “Fifth Series Indenture”) between the NMFA and the Trustee and are set forth under “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions” in Appendix B. The Master Indenture, as previously amended and supplemented, and the Fifth Series Indenture are collectively referred to herein as the “Indenture.” See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix B.

The Subseries 2008A-2/B-2 Bonds are payable from and secured by a pledge of federal aid revenues received by or on behalf of, or available to the New Mexico Department of Transportation (the “Department”) pursuant to Title 23 of the United States Code or other federal law, that are paid into the State Road Fund, proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes in each case that are required by law to be paid into the State Road Fund, interest on the State Road Fund, proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund (the “Pledged Revenues”). The Subseries 2008A-2/B-2 Bonds are limited obligations of the NMFA payable from and secured solely by the Pledged Revenues, subject to the liens thereon of certain obligations of the Commission and to the uses of the Pledged Revenues pledged by, and the priorities set forth in, the Indenture, as described more fully under “SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2008A-2/B-2 BONDS.”

This introduction is not a summary of this Remarketing Memorandum. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Remarketing Memorandum, including the cover page, inside front covers and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Remarketing Memorandum. The offering of the Subseries 2008A-2/B-2 Bonds to potential investors is made only by means of the entire Remarketing Memorandum.

New Mexico Finance Authority

The NMFA, established by the legislature of the State (the “Legislature”) in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of State and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations and to provide assistance and advice with respect to the NMFA’s Public Project Revolving Fund Program. For additional information concerning the NMFA, see “NEW MEXICO FINANCE AUTHORITY.”

Purposes of the Subseries 2008A-2/B-2 Bonds

Proceeds from the sale of the Subseries 2008A-2/B-2 Bonds were used to refund certain of the NMFA’s state transportation revenue bonds and to pay costs of issuing the Subseries 2008A-2/B-2 Bonds.

Authority for Issuance

The Subseries 2008A-2/B-2 Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.* NMSA 1978, as amended, and Section 67-3-59.3 NMSA 1978, as amended (collectively, the “Act”), and the Indenture.

Terms of the Subseries 2008A-2/B-2 Bonds

General. The Subseries 2008A-2/B-2 Bonds were issued as fully registered bonds on April 8, 2008. The Subseries 2008A-2/B-2 Bonds were purchased pursuant to a mandatory tender as the result of the replacement of a credit facility related to the Subseries 2008A-2/B-2 Bonds. The Subseries 2008A-2/B-2 Bonds are being remarketed with the same terms and conditions with which they were initially offered except that the credit facility for the Subseries 2008A-2/B-2 is being provided by another credit facility provider.

Interest. Interest on the Subseries 2008A-2/B-2 Bonds is initially payable on the first Business Day of each month. The Subseries 2008A-2/B-2 Bonds currently bear interest at Weekly Rates, but may be converted at the option of the NMFA, subject to certain restrictions, to bonds that bear interest at different rates including Daily Rates, Auction Rates, Commercial Paper Rates, Semiannual Rates, Term Rates or Fixed Rates. Each Subseries of the Subseries 2008A-2/B-2 Bonds will bear interest for the applicable Weekly Rate Period and at the applicable Weekly Rate determined by the Remarketing Agent for respective Subseries of Subseries 2008A-2/B-2 Bonds. Upon conversion from a Weekly Rate Period to a Daily Rate Period, an ARS Rate Period, a Commercial Paper Period, a Semiannual Rate Period, a Term Rate Period or a Fixed Rate Period, the Subseries 2008A-2/B-2 Bonds will be subject to mandatory tender, payable solely from the proceeds of the remarketing of the Subseries 2008A-2/B-2 Bonds to be converted, on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. *This Remarketing Memorandum, in general, describes the terms of the Subseries 2008A-2/B-2 Bonds only during the Weekly Rate Period and not the terms which will apply in the event that the Subseries 2008A-2/B-2 Bonds are converted to a new Interest Rate as described herein.*

Denominations. While in the Weekly Rate Period, the Subseries 2008A-2/B-2 Bonds are issuable in denominations of \$100,000 and integral multiples of \$5,000 in excess of \$100,000.

Book-Entry System. Individual purchases will be made in book-entry only form, and purchasers of the Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds, all as more fully described in Appendix E. In reading this Remarketing Memorandum, it should be understood that while the Subseries 2008A-2/B-2 Bonds are in book-entry only form, references in other sections of this Remarketing Memorandum to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the Subseries 2008A-2/B-2 Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in

Appendix E, and (2) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption of the Subseries 2008A-2/B-2 Bonds. The Subseries 2008A-2/B-2 Bonds are subject to redemption prior to maturity. See “THE SUBSERIES 2008A-2/B-2 BONDS—Redemption Provisions.”

Tender of the Subseries 2008A-2/B-2 Bonds. The Subseries 2008A-2/B-2 Bonds are subject to tender for purchase as described in “THE SUBSERIES 2008A-2/B-2 BONDS—Tender Provisions.”

Security for the Subseries 2008A-2/B-2 Bonds

The Subseries 2008A-2/B-2 Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and certain funds and accounts created and maintained pursuant to the Indenture. The Subseries 2008A-2/B-2 Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission or the Department within the meaning of any constitutional or statutory debt limitation. NEITHER THE NMFA, NOR THE COMMISSION, NOR THE DEPARTMENT HAS ANY TAXING POWERS. The principal of and interest and premium, if any, on the Subseries 2008A-2/B-2 Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See “SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2008A-2/B-2 BONDS—Special, Limited Obligations.”

Pledged Revenues. The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain State 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 NMFA. For a description of the components of the Pledged Revenues, see “THE PLEDGED REVENUES.” For a description of the funds and accounts created by the Indenture and the flow of certain of the Pledged Revenues through these funds and accounts, see “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts” in Appendix C. See also “SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2008A-2/B-2 BONDS—Pledged Revenues.”

Discussion Regarding Federal Revenues. The Department and the Federal Highway Administration (“FHWA”) have recently 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, including GRIP Transportation 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, during any year in which the FHWA Memorandum is in place, the Department has not exceeded \$122 million in debt service. 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, 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 make any representation regarding the amount or timeliness of payments from the FHWA.

Outstanding Closed Lien Obligations. The Commission has previously issued obligations that enjoy a lien on a portion of the Pledged Revenues senior to that of the hereinafter defined Outstanding Senior Lien Parity Bonds

(the “Outstanding Closed Lien Obligations”). The Outstanding Closed Lien Obligations are currently outstanding in an aggregate principal amount of \$71,805,000. Please see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS—Outstanding Closed Lien Obligations” for a list of the series and amounts of the Outstanding Closed Lien Obligations. The NMFA has agreed pursuant to the Master Indenture, and the Commission has resolved in Commission Resolution 2004-5(APR) and has reaffirmed in Commission Resolution 2009-02(FEB), that no additional bonds having a lien on any of the Pledged Revenues senior to the lien thereon of the Outstanding Senior Lien Bonds may be issued by the NMFA or the Commission.

Outstanding Senior Lien Parity Bonds. The Act authorizes the NMFA to issue up to \$1,585,000,000 aggregate principal amount of “new money” bonds, payable from the Pledged Revenues, in cumulative annual increments of up to \$350,000,000 beginning in 2003 and an unlimited amount of refunding bonds as part of Governor Richardson’s Investment Partnership. In 2004 and pursuant to the Master Indenture, the NMFA issued its \$700,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2004A Bonds (the “Series 2004A Bonds”). In 2006, the NMFA issued its \$150,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2006A (the “Series 2006A Bonds”). In November 2009, the NMFA issued its \$112,345,000 State Transportation Refunding Revenue Bonds (Senior Lien), Series 2009A (the “Series 2009A Bonds”). The Series 2004A Bonds, Series 2006A Bonds and Series 2009A Bonds are sometimes collectively referred to herein as the “Outstanding Senior Lien Parity Bonds.” Please see “SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2008A-2/B-2 BONDS—Outstanding and Additional Senior Lien Bonds” for a list of the series and amounts of Outstanding Senior Lien Parity Bonds. The Outstanding Senior Lien Parity Bonds are Senior Lien Bonds under the Master Indenture and are payable from the Pledged Revenues with a lien on the Pledged Revenues subordinate to the Outstanding Closed Lien Obligations. The lien of the Outstanding Senior Lien Parity Bonds on Pledged Revenues is senior to the lien of the hereinafter defined Outstanding Subordinate Lien Obligations, which include the Subseries 2008A-2/B-2 Bonds.

Outstanding Subordinate Lien Obligations. Pursuant to the Act and the Master Indenture, the NMFA has also issued various Series of Subordinate Lien Bonds in addition to the Subseries 2008A-2/B-2 Bonds consisting of its (i) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (the “Series 2004B Bonds”) currently outstanding in the aggregate principal amount of \$138,425,000; (ii) State Transportation Revenue and Refunding Bonds (Subordinate Lien), Series 2006B (the “Series 2006B Bonds”), currently outstanding in the aggregate principal amount of \$32,345,000; (iii) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008A-1 (the “Subseries 2008A-1 Bonds”), currently outstanding in the aggregate principal amount of \$35,200,000; (iv) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008B-1 (the “Subseries 2008B-1 Bonds”), currently outstanding in the aggregate principal amount of \$100,000,000; (v) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C (the “Series 2008C Bonds”), currently outstanding in the aggregate principal amount of \$84,800,000; and (vi) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) (the “Series 2008D Bonds”), currently outstanding in the aggregate principal amount of \$50,400,000. The Series 2004B Bonds, the Series 2006B Bonds, the Subseries 2008A-1 Bonds, the Subseries 2008A-2 Bonds, the Subseries 2008B-1 Bonds, the Subseries 2008B-2 Bonds, the Series 2008C Bonds, and the Series 2008D Bonds are sometimes collectively referred to herein as the “Outstanding Subordinate Lien Bonds.” The NMFA has also entered into a tax-exempt line of credit in the principal amount of \$200,000,000 (the “Tax-Exempt Line of Credit”) and a taxable line of credit in the principal amount of \$20,000,000 (the “Taxable Line of Credit” and together with the Tax-Exempt Line of Credit, the “Lines of Credit” and together with the Outstanding Subordinate Lien Bonds, the “Outstanding Subordinate Lien Obligations”) with Bank of America, N.A. As of May 15, 2010, the NMFA had drawn and not repaid approximately \$120 million under the Tax-Exempt Line of Credit and did not have any outstanding unpaid amounts under the Taxable Line of Credit. Advances under the Tax-Exempt Line of Credit are scheduled to cease in August 2010 and the Taxable Line of Credit is scheduled to expire in December 2010. Pursuant to its terms, the NMFA is required to retire the Tax-Exempt Line of Credit in \$50,000,000 annual increments, the first payment of which is scheduled to occur in August 2010 and the last of which in July 2013. The NMFA plans to issue an additional series of Senior Lien Bonds (the “Contemplated Series 2010C-1 Bonds”) and an additional series of Subordinate Lien Bonds (the “Contemplated Series 2010C-2 Bonds” and together with the Contemplated Series 2010C-1 Bonds, the “Contemplated Series 2010C Bonds”) during calendar year 2010 to retire the amounts drawn under the Tax-Exempt Line of Credit. The NMFA also intends to apply a portion of the Contemplated Series 2010C Bonds to fund additional State Transportation Projects for the Department. The NMFA does not currently plan to draw any amounts under the Taxable Line of Credit. Please see “SECURITY AND SOURCES OF PAYMENT

FOR THE SUBSERIES 2008A-2/B-2 BONDS—Outstanding and Additional Subordinate Lien Obligations” for a list of the series and amounts of Outstanding Subordinate Lien Obligations. The Outstanding Subordinate Lien Obligations are Subordinate Lien Obligations under the Indenture and are payable from the Pledged Revenues with a lien on the Pledged Revenues subordinate to the lien of the Outstanding Closed Lien Obligations and the Outstanding Senior Lien Parity Bonds.

Additional Obligations. Pursuant to the Indenture, the NMFA may issue additional Senior Lien Bonds and additional Subordinate Lien Obligations upon the satisfaction of certain conditions set forth in the Indenture. In addition to the Contemplated Series 2010C Bonds discussed in the previous paragraph, the NMFA is contemplating the issuance of a series of additional fixed rate Senior Lien Obligations (the “Contemplated Series 2010A Bonds”) during calendar year 2010 to refund certain outstanding Closed Lien Obligations and certain Outstanding Senior Lien Obligations. The NMFA plans to issue the Contemplated Series 2010A Bonds to achieve a debt service savings. The precise amount of the Contemplated Series 2010A Bonds is dependent on market conditions and will not be known until the Contemplated Series 2010A Bonds are priced.

The NMFA has also discussed the possibility of issuing various series of Additional Subordinate Lien Obligations (the “Contemplated Series 2010B Bonds”) during calendar year 2010 to refund the Subseries 2008A-1, Subseries 2008A-2, Subseries 2008B-1, Subseries 2008B-2 and Series 2008C Bonds. The NMFA is considering the issuance of the Contemplated Series 2010B Bonds in an effort to reduce its exposure to the risks associated with variable rate debt. If the NMFA issues the Contemplated Series 2010B Bonds, it plans to terminate the hereinafter described Swap Agreements. The NMFA has considered including the amount required for the termination payments for the Swap Agreements in the principal amount of the Contemplated 2010B Bonds. The exact amount and timing of the issuance of the Contemplated Series 2010B Bonds, if at all, is not known at this time. The NMFA may also issue other additional Senior Lien Obligations and Subordinate Lien Obligations pursuant to the Indenture. The timing, amount and other details of such additional Senior Lien Bonds and such additional Subordinate Lien Obligations are not known as of the date of this Official Statement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2010A-2/B-2 BONDS—Outstanding and Additional Senior Lien Bonds—Outstanding and Additional Subordinate Lien Obligations.”

The NMFA also must meet certain requirements prior to the issuance of Junior Subordinate Lien Obligations.

Letters of Credit

Payment of the principal of and interest on and purchase price of the Subseries 2008A-2 Bonds and the Subseries 2008B-2 Bonds will be payable from funds drawn under separate but substantially identical irrevocable direct pay letters of credit (the “Letters of Credit” and each a “Series 2008 Liquidity Facility” and each a “Series 2008 Credit Facility”) issued by Bank of America, N.A. (the “Bank” and sometimes a “Series 2008 Liquidity Facility Provider” and sometimes a “Series 2008 Credit Facility Provider”). The Letters of Credit will be issued in favor of the Trustee pursuant to a Letter of Credit and Reimbursement Agreement dated as of July 1, 2010 (the “Reimbursement Agreement”) by and among NMFA and the Bank. Pursuant to each Letter of Credit, the Trustee is entitled to draw up to an amount sufficient to pay the principal of and up to 54 days of accrued interest on the respective Subseries of Subseries 2008A-2/B-2 Bonds earning interest at a Weekly Rate (at a maximum rate of 12% per annum), to be used to (a) pay the principal of, and interest on the respective Subseries of Subseries 2008A-2/B-2 Bonds when due, whether pursuant to redemption or at maturity and (b) pay the purchase price of the respective Subseries of Subseries 2008A-2/B-2 Bonds tendered by the holders thereof. The Letters of Credit are scheduled to expire on July 2, 2011, or on the earlier occurrence of certain events. Each Letter of Credit may be extended upon such terms and conditions as may be agreed by the Bank and the NMFA. See “LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENT” and “THE BANK” herein. The failure of the NMFA to maintain the respective Letter of Credit throughout the term of the related Subseries of Subseries 2008A-2/B-2 Bonds is not an event of default under the Indenture, and there is no assurance that any of the Letters of Credit will remain in effect throughout the term of the respective Subseries of Subseries 2008A-2/B-2 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2008A-2/B-2 BONDS” herein.

Interest Rate Swaps

The NMFA has entered into various interest rate exchange agreements (the “Swap Agreements”). Payment obligations, other than termination payment obligations, of the NMFA with respect to the Swap Agreements are Subordinate Lien Obligations. The Swap Agreements were entered into under a debt policy memorandum of understanding entered into by the NMFA and the Commission. Under that debt policy memorandum of understanding, an advisor to the NMFA, the Commission and the Department monitor monthly the Swap Agreements and a joint committee of the NMFA, the Commission and the Department monitor regularly the Swap Agreements. Termination payment obligations of the NMFA on the Swap Agreements are Junior Subordinate Lien Obligations. See “INTEREST RATE SWAPS.” As previously stated, during calendar year 2010, the NMFA may terminate the Swap Agreements and refund the Subordinate Lien Obligations associated therewith.

Professionals Involved in the Remarketing

Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, has acted as Bond Counsel to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. Ballard Spahr LLP, Salt Lake City, Utah has acted as disclosure counsel to the NMFA and Virtue Najjar & Brown PC, Santa Fe, New Mexico, has acted as Issuer’s Counsel to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. The Department is being represented by its general counsel in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. Certain legal matters will be passed upon for the Bank by Andrews Kurth LLP, Houston, Texas. See “LEGAL MATTERS.” Public Financial Management, Inc., San Francisco, California, has acted as financial advisor to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. See “FINANCIAL ADVISOR.”

Sutin, Thayer & Browne, A Professional Corporation, Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, each delivered their respective opinions included as Appendix D hereto at the time of initial issuance of the Subseries 2008A-2/B-2 Bonds. Neither Bond Counsel nor Special Tax Counsel has been requested to update or confirm their opinions and neither Bond Counsel nor Special Tax Counsel has undertaken to update or confirm their opinions since the date of initial issuance of the Subseries 2008A-2/B-2 Bonds and such opinions speak only as of their date.

Goldman, Sachs & Co. has been appointed as remarketing agent for the Subseries 2008A-2 Bonds and Jefferies & Company, Inc. has been appointed as remarketing agent for the Subseries 2008B-2 Bonds (each a “Remarketing Agent” and collectively, the “Remarketing Agents”). References herein to the “Remarketing Agent” shall mean each Remarketing Agent acting in its capacity for its respective Subseries of the Subseries 2008A-2/B-2 Bonds.

The Department’s financial statements for the year ended June 30, 2009, an extract from which is included in Appendix A, have been audited by Meyners & Company, LLC. See also “FINANCIAL STATEMENTS.”

Other Information

This Remarketing Memorandum speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to such laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the Department, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Remarketing Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Remarketing Memorandum is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Subseries 2008A-2/B-2 Bonds.

THE SUBSERIES 2008A-2/B-2 BONDS

Generally

Set forth below is a summary of certain provisions of the Subseries 2008A-2/B-2 Bonds. Other information describing the Subseries 2008A-2/B-2 Bonds appears elsewhere in this Remarketing Memorandum. This summary and such other information should be read together and are qualified in their entirety by reference to the Indenture and the Subseries 2008A-2/B-2 Bonds. For a description of certain provisions of the Indenture, see “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix B. Copies of the Indenture are available as provided in “ADDITIONAL INFORMATION.”

The Subseries 2008A-2/B-2 Bonds were issued pursuant to the Act and the Indenture. Proceeds from the sale of the Series 2008A Bonds were used to refund certain of the NMFA’s state transportation subordinate lien revenue bonds and to pay costs of issuing the Series 2008A-2/B-2 Bonds.

The Subseries 2008A-2/B-2 Bonds may bear interest at Weekly Rates, Daily Rates, Semiannual Rates or Term Rates (collectively, the “Variable Rates”) or Auction Rates, Commercial Paper Rates or Fixed Rates. The Subseries 2008A-2/B-2 Bonds currently bear interest at Weekly Rates until converted to another method of interest rate determination. All Subseries 2008A-2/B-2 Bonds bearing interest at Daily Rates or Weekly Rates shall be issued in denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof. All Subseries 2008A-2/B-2 Bonds bearing interest at Commercial Paper Rates shall be issued in denominations of \$100,000 and any integral multiples of \$1,000 in excess thereof. All Subseries 2008A-2/B-2 Bonds bearing interest at a Semiannual Rate, a Term Rate or a Fixed Rate shall be in denominations of \$5,000 or integral multiples thereof. All Subseries 2008A-2/B-2 Bonds bearing interest at an Auction Rate shall be in denominations of \$25,000 and integral multiples thereof. Notwithstanding the foregoing, if as a result of a change in the Interest Rate Period from a Term Rate Period to an ARS Rate Period, Daily Rate Period or Weekly Rate Period, it is not possible to deliver all the Subseries 2008A-2/B-2 Bonds of a Subseries required or permitted to be Outstanding in a denomination permitted above, Subseries 2008A-2/B-2 Bonds of a Subseries may be delivered, to the extent necessary, in different denominations.

The amount of interest so payable on the Subseries 2008A-2/B-2 Bonds on any Interest Payment Date shall be computed (A) on the basis of a 365- or 366-day year for the number of days actually elapsed during Daily, Weekly, Commercial Paper and Semiannual Rate Periods, (B) on the basis of a 360-day year of twelve 30-day months during Term Rate Periods and the Fixed Rate Period, and (C) either (i) on the basis of actual days elapsed over 360 days for the actual days elapsed during ARS Rate Periods if the Subseries 2008A-2/B-2 Bonds are in an ARS Rate Period of 180 days or less, or (ii) on the basis of a 360 day year of twelve 30-day months for the actual days elapsed during ARS Rate Periods if the Subseries 2008A-2/B-2 Bonds are in an ARS Rate Period greater than 180 days.

“Interest Payment Date” means (i) when used with respect to any Subseries of the Subseries 2008A-2/B-2 Bonds bearing interest at the Daily Rate or Weekly Rate, the first Business Day of each calendar month following a month in which interest at such rate has accrued; (ii) when used with respect to any Subseries of the Subseries 2008A-2/B-2 Bonds bearing interest at a Semiannual Rate or a Term Rate, each Semiannual Interest Payment Date; (iii) when used with respect to any Subseries of the Subseries 2008A-2/B-2 Bonds bearing interest at Commercial Paper Rates, the Business Day next following the last day of each Commercial Paper Rate Period applicable thereto; (iv) when used with respect to any Subseries of the Subseries 2008A-2/B-2 Bonds bearing interest at a Fixed Rate, each June 15 and December 15; (v) any Conversion Date; (vi) when used with respect to Subseries 2008A-2/B-2 Bonds bearing interest at an Auction Rate, the Business Day next following the last day of each Auction Period applicable thereto; and (vii) in all events, when used with respect to any Subseries 2008A-2/B-2 Bonds, the final maturity date or redemption date of each such Subseries 2008A-2/B-2 Bonds.

Interest Rate for the Subseries 2008A-2/B-2 Bonds

The Subseries 2008A-2/B-2 Bonds currently bear interest at a Weekly Rate and the length of the Weekly Rate Period is seven days. The Weekly Rate to be applicable to each Subseries of the Subseries 2008A-2/B-2 Bonds during each Weekly Rate Period shall be determined by the Remarketing Agent for the respective Subseries of the

Subseries 2008A-2/B-2 Bonds, interest shall accrue from one Interest Payment Date up to, but not including, the next Interest Payment Date, and notice of the Weekly Rate shall be given, until converted to an Auction Rate, Commercial Paper Rate, Semiannual Rate, Term Rate or Fixed Rate. Any such conversion may occur only as to all the Outstanding Subseries 2008A-2/B-2 Bonds of a particular Subseries and any provision relating to the conversion of or subsequent determination of interest on Subseries 2008A-2/B-2 Bonds shall be construed to apply individually to each Subseries of the Subseries 2008A-2/B-2 Bonds.

Variable Rates; Conversion to Variable Rate Periods. The Variable Rate for each Variable Rate Period shall be determined by any Remarketing Agent as the lesser of (i) the Maximum Interest Rate or (ii) the minimum rate of interest which, in the judgment of any Remarketing Agent, would cause the Subseries 2008A-2/B-2 Bonds of such Subseries to have a market value equal to the principal amount thereof, plus accrued interest, taking into account prevailing market conditions as of the date of determination.

If the Remarketing Agent fails for any reason to determine or notify the Paying Agent of the Variable Rate for any Variable Rate Period when required under the Indenture, the Rate Period for the Subseries 2008A-2/B-2 Bonds of such Subseries shall automatically, without notice or mandatory tender, convert to a Weekly Rate Period and, until the Weekly Rate is determined by the Remarketing Agent and notification thereof is delivered to the Paying Agent, the Weekly Rate shall be equal to the SIFMA Index (formerly the BMA Index, as defined in the Indenture) plus 25 basis points (or such comparable index in the event that the SIFMA Index is no longer in use and available).

Weekly Rates. A Weekly Rate shall be determined for each Weekly Rate Period as follows:

(i) Weekly Rate Periods shall commence on a Thursday and end on Wednesday of the following week, and each Weekly Rate Period shall be followed by another Weekly Rate Period until the Rate Period for the Subseries 2008A-2/B-2 Bonds of such Subseries is converted to another Rate Period; provided that (a) in the case of a conversion to a Weekly Rate Period from a different Variable Rate Period or a Commercial Paper Rate Period, the Weekly Rate Conversion Date shall be the last Interest Payment Date in respect of the immediately preceding Rate Period and the Weekly Rate Period starting on such date shall end on Wednesday of the following week; and (b) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion shall end on the last day immediately preceding the Conversion Date to the new Rate Period.

(ii) The Weekly Rate for each Weekly Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Weekly Rate shall be determined by a Remarketing Agent no later than the Business Day immediately preceding the commencement date of the Weekly Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on such Business Day. The Paying Agent shall promptly notify the NMFA, the Series 2008 Liquidity Facility Provider, as applicable, and the Series 2008 Credit Facility Provider, as applicable, for such Subseries electronically or by telephone (promptly confirmed in writing) of the Weekly Rate so determined.

(iii) The Weekly Rate determined by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008A Bonds or Series 2008B Bonds of such Subseries in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008A Bonds or Series 2008B Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008A Bonds or Series 2008B Bonds, be the lowest interest rate which would enable the Remarketing Agent to place such Series 2008A Bonds or Series 2008B Bonds at a price of par (plus accrued interest, if any) on the first day of such Weekly Rate Period.

Daily Rates. A Daily Rate shall be determined for each Daily Rate Period as follows:

(i) Daily Rate Periods shall commence on a Business Day, and each Daily Rate Period shall be followed by another Daily Rate Period until the Rate Period of the Subseries 2008A-2/B-2 Bonds of any Subseries is converted to another Rate Period. The Daily Rate for any non-Business Day will be the rate for the last Business Day on which a Daily Rate was set.

(ii) Each Daily Rate shall be determined by a Remarketing Agent no later than 9:30 a.m., New York City time, on each Business Day for which the Daily Rate will be the rate of interest, and shall be provided to the Paying Agent by such Remarketing Agent by telephonic or electronic notice by 9:30 a.m., New York City time, on such Business Day. The Paying Agent shall promptly notify the NMFA and the Series 2008 Liquidity Facility Provider, as applicable, for such Subseries electronically or by telephone (promptly confirmed in writing) of the Daily Rate so determined.

(iii) The Daily Rate determined by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008A Bonds and Series 2008B Bonds of such Subseries in the Daily Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008A Bonds or Series 2008B Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008A Bonds or Series 2008B Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008A Bonds or Series 2008B Bonds at a price of par (plus accrued interest, if any) on such Business Day.

Semiannual Rates. A Semiannual Rate shall be determined for each Semiannual Rate Period as follows:

(i) Semiannual Rate Periods shall (a) commence on a Semiannual Rate Conversion Date and on each Interest Payment Date thereafter and (b) end on the day preceding either the commencement date of the following Semiannual Rate Period or the Conversion Date on which a different type of Rate Period shall become effective. Each Semiannual Rate Period shall be followed by another Semiannual Rate Period until the Rate Period of the Subseries 2008A-2/B-2 Bonds of such Subseries is converted to another Rate Period. The first Semiannual Rate Period which succeeds a Commercial Paper, Daily, Weekly, Auction, or Term Rate Period may be from one to five months shorter than the succeeding Semiannual Rate Periods.

(ii) The Semiannual Rate for each Semiannual Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Semiannual Rate shall be determined by a Remarketing Agent no later than the Business Day immediately preceding the commencement date of the Semiannual Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on that same day. The Paying Agent shall promptly notify the NMFA and the Series 2008 Liquidity Facility Provider, as applicable, and the Series 2008 Credit Facility Provider, as applicable, for such Subseries electronically or by telephone (promptly confirmed in writing) of the Semiannual Rate so determined.

(iii) Each Semiannual Rate shall be the rate of interest which if borne by such Subseries 2008A-2 Bonds or Subseries 2008B-2 Bonds in such Semiannual Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Subseries 2008A-2 Bonds or Subseries 2008B-2 Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Subseries 2008A-2 Bonds or Subseries 2008B-2 Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Subseries 2008A-2 Bonds or Subseries 2008B-2 Bonds at a price of par on the first day of such Semiannual Rate Period.

Term Rates. A Term Rate shall be determined for each Term Rate Period as follows:

(i) Term Rate Periods shall (a) initially commence on a Term Rate Conversion Date and on any Interest Payment Date which is, except as otherwise provided in this paragraph, at least 12 months thereafter, as specified in a notice delivered by the NMFA, and (b) end on the day preceding either the

commencement date of the following Term Rate Period or the Conversion Date on which a different Rate Period shall become effective. Each Term Rate Period shall be followed by another Term Rate Period of the same duration as the preceding Term Rate Period until the Rate Period of the Subseries 2008A-2/B-2 Bonds of such Subseries is converted to another Rate Period or to a Term Rate Period of a different duration; provided that the first Term Rate Period which succeeds a Commercial Paper, Daily, Weekly, Auction, or Semiannual Rate Period or a Term Rate Period of a different duration may be from one to eleven months shorter or longer than the succeeding Term Rate Periods.

(ii) The Term Rate for each Term Rate Period shall be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each Term Rate shall be determined no earlier than 15 Business days and not later than the Business Day immediately preceding the commencement date of the Term Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on that same day. The Paying Agent shall promptly notify the NMFA, the Series 2008 Liquidity Facility Provider, as applicable, and the Series 2008 Credit Facility Provider, as applicable, for each Subseries electronically or by telephone (promptly confirmed in writing) of the Term Rate so determined.

(iii) Each Term Rate shall be the rate of interest which if borne by such Subseries 2008A-2 Bonds or Subseries 2008B-2 Bonds in such Term Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Subseries 2008A-2 Bonds or Subseries 2008B-2 Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Subseries 2008A-2 Bonds or Subseries 2008B-2 Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Subseries 2008A-2 Bonds or Subseries 2008B-2 Bonds at a price of par on the first day of such Term Rate Period.

Conversions Between Variable Rate Periods. By notifying the Remarketing Agent, the Paying Agent, and the Series 2008 Liquidity Facility Provider, if any, for the applicable Subseries, the NMFA may elect to convert the Subseries 2008A-2/B-2 Bonds of any Subseries from one Variable Rate Period to another as follows:

(i) The Conversion Date to a different Variable Rate Period shall be an Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made; provided, however, that, if the conversion is from a Term Rate Period, the conversion may be made only on the last Interest Payment Date for that Term Rate Period.

(ii) The NMFA shall give written notice of any such conversion to the Remarketing Agent, the Paying Agent, the Series 2008 Liquidity Facility Provider and the Series 2008 Credit Facility Provider for the applicable Subseries, if any, not fewer than 25 days (45 days in the case of a proposed Term Rate Conversion Date) prior to the proposed Conversion Date. Such notice shall specify (a) the proposed Conversion Date, (b) the type of Variable Rate Period to which the conversion will be made, (c) in the case of conversion to a Term Rate Period or from a Term Rate Period of one duration to a Term Rate Period of another duration, the duration of the new Term Rate Period and (d) in the case of a conversion to a Semiannual or Term Rate Period, the first Interest Payment Date following such conversion (which shall be the first Semiannual Interest Payment Date after the proposed Conversion Date) and any difference between the duration of the first Semiannual or Term Rate Period commencing on such Conversion Date and subsequent Semiannual or Term Rate Periods occurring prior to the next Conversion Date.

(iii) Not fewer than 15 days (30 days in the case of a proposed Term Rate Conversion Date) prior to the Conversion Date, the Paying Agent shall mail (by first class mail) a written notice of the conversion to the owners of the Subseries 2008A-2/B-2 Bonds for the applicable Subseries.

(iv) The Variable Rate for the Variable Rate Period commencing on the Conversion Date shall be established and notice thereof shall be given to the Paying Agent, the NMFA, the Series 2008 Liquidity Facility Provider, if any, and the Series 2008 Credit Facility Provider, if any, for the applicable Subseries.

(v) With respect to a conversion from one Variable Rate Period to another Variable Rate Period, or from a Term Rate Period of one duration to a Term Rate Period of another duration, on the proposed Conversion Date, the Paying Agent and the Remarketing Agent shall have been provided with a Favorable Opinion of Bond Counsel with respect to such conversion.

(vi) If a Favorable Opinion of Bond Counsel is not provided, the new Rate Period shall not take effect and the Subseries 2008A-2/B-2 Bonds of such Subseries shall remain in the Rate Period then in effect.

Conversion to Other Determination Methods

The NMFA may convert a particular Subseries of Subseries 2008A-2/B-2 Bonds to a different method of interest rate determination. In certain instances, the conversion may bring about a mandatory tender of the particular Subseries of Subseries 2008A-2/B-2 Bonds. See “TENDER PROVISIONS” below.

Tender Provisions

Optional Tenders During Variable Rate Periods.

Purchase Dates. The Owners of Subseries 2008A-2/B-2 Bonds bearing interest at Variable Rates may elect to have their Subseries 2008A-2/B-2 Bonds (or portions thereof in amounts equal to the smallest denomination then authorized or whole multiples of such smallest denomination) purchased at a purchase price equal to 100% of the principal component of such Subseries 2008A-2/B-2 Bonds (or portions), plus, in the case of Subseries 2008A-2/B-2 Bonds bearing interest at Daily Rates or Weekly Rates, the interest component computed to the purchase date (the “Purchase Price”), on the following purchase dates and upon the giving of telephonic, personal or electronic notice as specified below:

(i) Prior to conversion from a Daily Rate Period to a different Rate Period, Subseries 2008A-2/B-2 Bonds bearing interest at Daily Rates may be tendered for purchase, at the applicable Purchase Price payable in immediately available funds, on any Business Day upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner’s Participant, not later than 9:00 a.m., New York City time, on the purchase date.

(ii) Prior to conversion from a Weekly Rate Period to a different Rate Period, Subseries 2008A-2/B-2 Bonds bearing interest at Weekly Rates may be tendered for purchase, at the applicable Purchase Price payable in immediately available funds, on any Business Day upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner’s Participant, not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven (7) days prior to the purchase date.

(iii) Subseries 2008A-2/B-2 Bonds bearing interest at a Semiannual or a Term Rate may be tendered for purchase on the commencement date of a succeeding Semiannual or Term Rate Period for such Subseries 2008A-2/B-2 Bonds, at the Purchase Price (payable in immediately available funds if the Subseries 2008A-2/B-2 Bonds are bearing interest at a Semiannual Rate or clearing house funds if the Subseries 2008A-2/B-2 Bonds are bearing interest at a Term Rate), upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner’s Participant, not later than 5:00 p.m., New York City time, on a Business Day which is not fewer than ten (10) days prior to the purchase date.

Notice of Tender. Each notice of tender:

(i) shall be delivered to each of the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent at its principal office, in the case of a written notice, and shall be in form satisfactory to such Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent;

(ii) shall state, whether delivered personally, in writing, electronically or by telephone, (a) the principal amount of the Subseries 2008A-2/B-2 Bond to which the notice relates, (b) that the owner irrevocably demands purchase of such Subseries 2008A-2/B-2 Bond or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (c) the date on which such Subseries 2008A-2/B-2 Bond or portion thereof is to be purchased, and (d) payment instructions with respect to the Purchase Price; and

(iii) shall automatically constitute, whether delivered in writing or by telephone, (a) an irrevocable offer to sell the Subseries 2008A-2/B-2 Bond (or portion thereof) to which the notice relates on the purchase date at the Purchase Price, (b) an irrevocable authorization and instruction to the Paying Agent to effect transfer of such Subseries 2008A-2/B-2 Bond (or portion thereof) upon payment of the Purchase Price to the Paying Agent on the purchase date, (c) an irrevocable authorization and instruction to the Paying Agent to effect the exchange of the Subseries 2008A-2/B-2 Bond to be purchased in whole or in part for other Subseries 2008A-2/B-2 Bonds in an equal aggregate principal amount so as to facilitate the sale of such Subseries 2008A-2/B-2 Bond (or portion thereof to be purchased), and (d) an acknowledgment that such owner will have no further rights with respect to such Subseries 2008A-2/B-2 Bond (or portion thereof) upon payment of the Purchase Price thereof to the Paying Agent on the purchase date, except for the right of such owner to receive such Purchase Price upon surrender of such Subseries 2008A-2/B-2 Bond to the Paying Agent and that after the purchase date such owner will hold any undelivered certificate as agent for the Paying Agent. The determination of the Paying Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the owner of the Subseries 2008A-2/B-2 Bond to which the notice relates.

Subseries 2008A-2/B-2 Bonds to Be Remarketed. Not later than 11:00 a.m., New York City time, on the Business Day immediately following the date of receipt of any notice of tender (or, with respect to Subseries 2008A-2/B-2 Bonds bearing interest at Daily Rates, not later than 11:00 a.m. New York City time on the date of receipt of notice), the Paying Agent shall notify the NMFA by telephone, promptly confirmed in writing, of the principal amount of Subseries 2008A-2/B-2 Bonds (or portions thereof) to be purchased and the date of purchase.

Remarketing of Tendered Subseries 2008A-2/B-2 Bonds. Unless otherwise instructed by the NMFA, the Remarketing Agent shall offer for sale at par and use its best efforts to find purchasers for all Subseries 2008A-2/B-2 Bonds or portions thereof for which notice of tender has been received. While the Subseries 2008A-2/B-2 Bonds are held in book-entry form, the Remarketing Agent will make payment of the Purchase Price for tendered Subseries 2008A-2/B-2 Bonds in accordance with the procedures established by the Securities Depository. If the book-entry only system is not in effect, the terms of any sale by the Remarketing Agent shall provide for the payment of the Purchase Price for tendered Subseries 2008A-2/B-2 Bonds by the Remarketing Agent to the Paying Agent (i) in immediately available funds at or before 11:30 a.m., New York City time, on the purchase date, in the case of Subseries 2008A-2/B-2 Bonds bearing interest at Daily, Weekly or Semiannual Rates, and (ii) in clearing house funds at or before 11:30 a.m., New York City time, on the purchase date, in the case of Subseries 2008A-2/B-2 Bonds bearing interest at a Term Rate. Notwithstanding the foregoing, the Remarketing Agent shall not sell any Subseries 2008A-2/B-2 Bond as to which a notice of conversion from one type of Variable Rate Period to another, from a Term Rate Period of one duration to a Term Rate Period of a different duration, to Commercial Paper Rate Periods or to a Fixed Rate Period has been given unless the Remarketing Agent has advised the person to whom the sale is made of the conversion. The purchase price of each Subseries 2008A-2/B-2 Bond remarketed by the Remarketing Agent must be equal to the principal amount of each Subseries 2008A-2/B-2 Bond plus accrued interest, if any, to the purchase date.

Payments by the Paying Agent. At or before the close of business in New York City on the date set for purchase of tendered Subseries 2008A-2/B-2 Bonds and upon receipt by the Paying Agent of 100% of the aggregate Purchase Price of the tendered Subseries 2008A-2/B-2 Bonds, the Paying Agent shall pay the Purchase Price of such Subseries 2008A-2/B-2 Bonds to the owners thereof. Such payments shall be made in immediately available funds (or by wire transfer), unless the Subseries 2008A-2/B-2 Bonds to be purchased bear interest at a Term Rate for a Term Rate Period of more than one year, in which event such payments shall be made in clearing house funds. The Paying Agent shall apply in order (i) moneys paid to it by the Remarketing Agent as proceeds of the remarketing of such Subseries 2008A-2/B-2 Bonds by such Remarketing Agent, (ii) moneys transferred to it for such purpose by a Series 2008 Liquidity Facility Provider under the terms of an applicable Series 2008 Liquidity Facility for the

tendered Subseries 2008A-2/B-2 Bonds, and (iii) other moneys made available by the NMFA. If sufficient funds are not available for the purchase of all tendered Subseries 2008A-2/B-2 Bonds, no purchases shall be consummated, as further set forth below.

Delivery of Subseries 2008A-2/B-2 Bonds: Effect of Failure to Surrender Subseries 2008A-2/B-2 Bonds. All Subseries 2008A-2/B-2 Bonds to be purchased on any date shall be required to be delivered to the principal office of the Paying Agent at or before (i) 12:00 noon, New York City time, on the purchase date in the case of Subseries 2008A-2/B-2 Bonds bearing interest at Daily Rates, Weekly Rates or Auction Rates; or (ii) 5:00 p.m., New York City time, on the second Business Day prior to the purchase date in the case of Subseries 2008A-2/B-2 Bonds bearing interest at Semiannual or Term Rates. If the owner of any Subseries 2008A-2/B-2 Bond (or portion thereof) that is subject to optional or mandatory purchase fails to deliver such Subseries 2008A-2/B-2 Bond to the Paying Agent for purchase on the purchase date, such Subseries 2008A-2/B-2 Bond (or portion thereof) shall nevertheless be deemed purchased on the day fixed for purchase thereof and ownership of such Subseries 2008A-2/B-2 Bond (or portion thereof) shall be transferred to the purchaser thereof. Any owner of a Subseries 2008A-2/B-2 Bond who fails to deliver such Subseries 2008A-2/B-2 Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of such Subseries 2008A-2/B-2 Bond to the Paying Agent.

Mandatory Tender.

Conversions to Variable Rate Periods and new Term Rate Periods. Subseries 2008A-2/B-2 Bonds to be converted to a Variable Rate Period or a Term Rate Period of a different duration are subject to mandatory tender for purchase on the Conversion Date at a purchase price equal to 100% of the principal amount thereof plus, in the case of Subseries 2008A-2/B-2 Bonds bearing interest at a Daily Rate or Weekly Rate, accrued interest to the purchase date.

Conversion to Commercial Paper Periods. Subseries 2008A-2/B-2 Bonds to be converted to a Commercial Paper Rate Period are subject to mandatory tender for purchase on the applicable Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

Conversion to ARS Rate Periods. Subseries 2008A-2/B-2 Bonds to be converted to an ARS Rate Period are subject to mandatory tender for purchase on the applicable Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

Mandatory Tender on Fixed Rate Conversion Date. Any Subseries 2008A-2/B-2 Bonds to be converted to a Fixed Rate Period shall be subject to mandatory tender for purchase on the Fixed Rate Conversion Date at a purchase price equal to 100% of the principal amount thereof.

Mandatory Tender upon Termination, Expiration or Replacement of Series 2008 Liquidity Facility for a Particular Subseries of Subseries 2008A-2/B-2 Bonds. (A) The Subseries 2008A-2/B-2 Bonds of any Subseries bearing interest at a Variable or Commercial Paper Rate shall be subject to mandatory tender: (i) for purchase at a purchase price equal to 100% of the principal amount thereof plus accrued interest to the purchase date on the fifth day immediately preceding the day on which any Series 2008 Liquidity Facility, if any, or any Series 2008 Credit Facility, if any, for such Subseries expires or terminates for any reason or if such Series 2008 Liquidity Facility or Series 2008 Credit Facility is replaced with an alternate Series 2008 Liquidity Facility or an alternate Series 2008 Credit Facility (other than replacement by the same provider); or (B) for purchase at the Purchase Price on the Second Business Day following delivery of written notice by a Series 2008 Liquidity Facility Provider or a Series 2008 Credit Facility Provider to the Trustee stating that an Event of Default has occurred under the applicable Series 2008 Liquidity Facility or the applicable Series 2008 Credit Facility and directing the Trustee to cause a mandatory tender of the applicable Subseries of the Subseries 2008A-2/B-2 Bonds.

Inadequate Funds for Tenders. If the funds available for purchases of Subseries 2008A-2/B-2 Bonds, including funds available to be drawn to pay the Purchase Price of any Subseries 2008A-2/B-2 Bonds pursuant to any applicable Series 2008 Liquidity Facility, are inadequate for the purchase of all Subseries 2008A-2/B-2 Bonds tendered on any purchase date, the Paying Agent shall, after any applicable grace period: (i) return all tendered Subseries 2008A-2/B-2 Bonds to the owners thereof; (ii) return all moneys received for the purchase of such

Subseries 2008A-2/B-2 Bonds to the persons providing such moneys; and (iii) notify the NMFA and the Remarketing Agent of the return of such Subseries 2008A-2/B-2 Bonds and moneys and the failure to make payment for tendered Subseries 2008A-2/B-2 Bonds.

Owners Limited to Purchase Price on Deposit with Paying Agent. If sufficient moneys to pay the Purchase Price of Subseries 2008A-2/B-2 Bonds tendered shall be held by the Paying Agent, each owner of such Subseries 2008A-2/B-2 Bonds shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on such owner's part under the Indenture on, or with respect to, such tendered Subseries 2008A-2/B-2 Bonds.

Redemption Provisions

Optional Redemption. The Subseries 2008A-2/B-2 Bonds of any Subseries shall be subject to redemption prior to maturity at the option of the NMFA, in whole or in part, as follows:

If the Subseries 2008A-2/B-2 Bonds bear interest at the Daily Rate or Weekly Rate, the Subseries 2008A-2/B-2 Bonds shall be subject to optional redemption on any date, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

If the Subseries 2008A-2/B-2 Bonds bear interest at Commercial Paper Rates, the Subseries 2008A-2/B-2 Bonds shall be subject to optional redemption on the respective Purchase Dates at a Redemption Price equal to the Purchase Price thereof.

If the Subseries 2008A-2/B-2 Bonds of any Subseries bear interest at the Semiannual Rate or Term Rate, such Subseries of Subseries 2008A-2/B-2 Bonds shall be subject to optional redemption on the Interest Payment Date immediately following the last day of each Semiannual Rate Period or Term Rate Period at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

After conversion to the Fixed Rate, or if the Subseries 2008A-2/B-2 Bonds bear interest at the Semiannual Rate or Term Rate, the Subseries 2008A-2/B-2 Bonds shall be subject to optional redemption on the Interest Payment Date immediately following the last day of each Semiannual Rate Period or Term Rate Period at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date. If the Subseries 2008A-2/B-2 Bonds bear interest at a Term Rate or a Semiannual Rate, the Subseries 2008A-2/B-2 Bonds shall be subject to optional redemption at any time on and after the dates and at the Redemption Prices specified in the schedule set forth below (stated as a percentage of principal amount), plus accrued interest, if any, to the redemption date; provided, however, that the NMFA may substitute another schedule for such schedule effective on the Fixed Rate Conversion Date or any Term Rate Conversion Date if a Favorable Opinion of Bond Counsel is provided to the Paying Agent and, notwithstanding any other provision of the Fifth Series Indenture or of the Master Indenture, such substitution shall not constitute an amendment to the Fifth Series Indenture or the Master Indenture.

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<u>Length of Term Rate Period or Years Remaining Until Final Maturity Upon Conversion to Fixed Rate</u>	<u>Commencement of Redemption Period</u>	<u>Redemption Price</u>
More than 15 years	Tenth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 12, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 9, but not more than 12 years	Sixth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 6, but not more than 9 years	Fifth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 3, but not more than 6 years	Second anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
3 years or less	Subseries 2008A-2/B-2 Bonds not subject to optional redemption until commencement of next Rate Period	

Mandatory Sinking Fund Redemption.

Subseries 2008A-2 Bonds. The Subseries 2008A-2 Bonds shall be subject to mandatory sinking fund redemption prior to maturity at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, on the applicable June 15th in each of the years and in the principal amounts set forth in the following table:

<u>Redemption Dates</u>	<u>Principal Amount</u>
June 15, 2023	\$25,750,000
June 15, 2024*	54,250,000

* Final maturity

Subseries 2008B-2 Bonds. The Subseries 2008B-2 Bonds shall be subject to mandatory sinking fund redemption prior to maturity at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, on the applicable June 15th or December 15th in each of the years and in the principal amounts set forth in the following table:

<u>Redemption Dates</u>	<u>Principal Amount</u>
June 15, 2023	\$6,100,000
June 15, 2025	52,200,000
June 15, 2026	54,900,000
December 15, 2026*	6,800,000

* Final maturity

The NMFA shall have the option to reduce the principal amount of Subseries 2008A-2/B-2 Bonds of any Subseries to be redeemed on any mandatory sinking fund redemption date by any amount (equal to the smallest denomination then authorized or whole multiples of such smallest denomination) up to the principal amount of Subseries 2008A-2/B-2 Bonds of the same Subseries which have been redeemed prior to or will be redeemed on such redemption date under any other provision hereof or which otherwise have been delivered to the Trustee for cancellation (and which have not previously been applied to reduce the principal amount of Subseries 2008A-2/B-2 Bonds redeemable). The NMFA shall exercise the option described in the preceding sentence by delivering to the Paying Agent, on or before the forty-fifth (45th) day preceding such redemption date, a written notice stating the amount of such reduction.

Redemption Procedure. Except as otherwise provided herein, the Subseries 2008A-2/B-2 Bonds shall be called for prior redemption and shall be paid by the Paying Agent upon notice as provided below. The Trustee shall not be required to transfer or exchange any Subseries 2008A-2/B-2 Bond after notice of the redemption of such Bond has been given (except the unredeemed portion of such Bond, if redeemed in part) or to transfer or exchange any Subseries 2008A-2/B-2 Bond during the period of 15 days (30 days if such Subseries 2008A-2/B-2 Bond bears interest at a Semiannual or Term Rate or the Fixed Rate) next preceding the day such notice is given.

Notice of Redemption. The Trustee shall cause notice of the redemption of the Subseries 2008A-2/B-2 Bonds (unless such Subseries 2008A-2/B-2 Bonds bear interest at a Semiannual, Term or Fixed Rate) not less than fifteen (15) days nor more than 30 days prior to the redemption date. The Trustee shall cause notice of the redemption of the Subseries 2008A-2/B-2 Bonds bearing interest at a Semiannual, Term or Fixed Rate to be given not less than thirty (30) days nor more than sixty (60) days prior to the redemption date.

Payment of Bond Requirements

Principal and Final Interest. The principal or Redemption Price of and the final interest payment on any Subseries 2008A-2/B-2 Bonds shall be payable to the owner thereof as shown on the registration books maintained by the Trustee upon maturity or prior redemption thereof and upon presentation and surrender at the principal office of the Paying Agent. During Commercial Paper, Daily, Weekly, Semiannual, or ARS Rate Periods, the principal or Redemption Price of and the final interest payment on the Subseries 2008A-2/B-2 Bonds shall be payable in immediately available funds. The principal or Redemption Price of and the final interest payment on the Subseries 2008A-2/B-2 Bonds during Term Rate Periods or Fixed Rate Periods, shall be payable in clearing house funds. If any Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 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. During Commercial Paper, Daily, Weekly, Semiannual, or ARS Rate Periods, interest on the Subseries 2008A-2/B-2 Bonds shall be payable in immediately available funds. The interest on the Subseries 2008A-2/B-2 Bonds during Term Rate Periods or Fixed Rate Periods, 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 Subseries 2008A-2/B-2 Bond at the close of business on the Regular Record Date and shall be payable to the person who is the owner of such Subseries 2008A-2/B-2 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 Semiannual, Term and Fixed Rate Interest. All payments of interest (other than the final interest payment) on any Subseries 2008A-2/B-2 Bond bearing interest at a Semiannual, Term or Fixed Rate, 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 Subseries 2008A-2/B-2 Bonds bearing interest at a Semiannual, Term or Fixed Rate, by wire transfer on such date to a bank within the continental United States as directed by such owner.

Payment of Other Interest. All payments of interest on other Subseries 2008A-2/B-2 Bonds (other than the final interest payment and other than interest paid as part of the Purchase Price on any Subseries 2008A-2/B-2 Bond bearing interest at a Commercial Paper Rate) shall be paid to the person entitled thereto pursuant to the Indenture by wire transfer to a bank within the continental United States as directed by such person or, if not directed by such person, as directed by a Remarketing Agent or Auction Agent, in either case, on the Regular Record Date for such Interest Payment Date (or, in the case of Defaulted Interest, the Special Record Date for the payment of such Defaulted Interest).

Payment of Purchase Price Payments for Subseries 2008A-2/B-2 Bonds

The Purchase Price Payments for the Subseries 2008A-2/B-2 Bonds of any Subseries (other than Subseries 2008A-2/B-2 Bonds bearing interest at an Auction Rate) are payable solely out of (i) first, moneys paid to the Paying Agent by any Remarketing Agent from the proceeds of the remarketing of the Subseries 2008A-2/B-2 Bonds of such Subseries; and (ii) second, to the extent moneys described in clause (i) are not sufficient therefor, moneys paid for such purpose under any related Series 2008 Liquidity Facility, as applicable. Such moneys so held in trust by the Paying Agent from the proceeds of the remarketing of the particular Subseries of Subseries 2008A-2/B-2 Bonds, and the moneys so paid under any such related Series 2008 Liquidity Facility, are pledged to the payment of the Purchase Price Payments for the Subseries 2008A-2/B-2 Bonds of such Subseries.

Book-Entry Only System

The Depository Trust Company ("DTC") will act as securities depository for all of the Subseries 2008A-2/B-2 Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity and Subseries of the Subseries 2008A-2/B-2 Bonds is registered in the name of Cede & Co. Individual purchases of Subseries 2008A-2/B-2 Bonds will be made in book-entry form only, and Beneficial Owners of the Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds. For a more complete description of the book-entry only system, see "BOOK-ENTRY ONLY SYSTEM" in Appendix E.

SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2008A-2/B-2 BONDS

Special, Limited Obligations

The Subseries 2008A-2/B-2 Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and other moneys held in certain funds and accounts created under the Indenture. The Subseries 2008A-2/B-2 Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. NEITHER THE NMFA, NOR THE COMMISSION, NOR THE DEPARTMENT HAS ANY TAXING POWERS. The principal of and interest and premium, if any, on the Subseries 2008A-2/B-2 Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State.

Pledged Revenues

The principal of and interest on the Subseries 2008A-2/B-2 Bonds will be payable from a portion of the Pledged Revenues, which revenues are pledged and are payable as provided in the Indenture. Such pledge is subject to the pledge in favor of the Outstanding Closed Lien Obligations, the Senior Lien Bonds and to the uses of the Pledged Revenues and other amounts pledged by, and the priorities set forth in, the Indenture. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts” in Appendix B. The Subseries 2008A-2/B-2 Bonds constitute an irrevocable lien, but not an exclusive lien, on the Pledged Revenues as set forth in the Indenture.

The Pledged Revenues pledged to the payment of the 2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds, the Subseries 2008A-1 Bonds, the Subseries 2008A-2 Bonds, the Subseries 2008B-1 Bonds, and the Subseries 2008B-2 Bonds and any other Subordinate Lien Obligations are to be applied to the 2004 Subordinate Lien Bonds, the 2006 Subordinate Lien Bonds, the Subseries 2008A-1 Bonds, the Subseries 2008A-2 Bonds, the Subseries 2008B-1 Bonds, the Subseries 2008B-2 Bonds and the other Subordinate Lien Obligations (including payment obligations under the SWAP Agreements) without priority or distinction of one over the other, after the payment of the Outstanding Closed Lien Obligations and the Senior Lien Bonds.

Discussion Regarding Federal Revenues. The Department and the FHWA have recently 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, including GRIP Transportation 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, during any year in which the FHWA Memorandum is in place, the Department has not exceeded \$122 million in debt service. 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, 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 make any representation regarding the amount or timeliness of payments from the FHWA.

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Outstanding Closed Lien Obligations

The Commission has previously issued various series of Outstanding Closed Lien Obligations which consist of the following:

OUTSTANDING CLOSED LIEN OBLIGATIONS⁽¹⁾

<u>Issue</u>	<u>Outstanding Principal Amount (as of 3/1/10)</u>
Senior Subordinate Lien Bonds	
Series 2000A	\$14,605,000
Series 2001A	9,545,000
Series 2002A	18,440,000
Series 2002C	15,200,000
Series 2002D	4,570,000
Junior Subordinate Lien Bonds	
Series 2002B	<u>9,445,000</u>
TOTAL	<u>\$71,805,000</u>

(1) As previously stated, the NMFA plans to issue the Contemplated Series 2010A Bonds to refund certain series of the Outstanding Closed Lien Obligations. Because the Contemplated Series 2010A Bonds are being issued to achieve a debt service savings, the particular series of Outstanding Closed Lien Obligations that will be refunded is dependent upon market conditions and will not be known until the Contemplated Series 2010A Bonds are priced.

(Source: The Department.)

The Outstanding Closed Lien Obligations are payable from and secured by a lien on a portion of the State Revenues consisting of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and, to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund (collectively, the "Closed Lien State Revenues").

The lien of the Outstanding Senior Lien Bonds and the Outstanding Subordinate Lien Obligations (including the Subseries 2008A-2/B-2 Bonds) on the Closed Lien State Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Obligations on the Closed Lien State Revenues. Pursuant to a resolution adopted by the Commission in April 2004 and confirmed by a subsequent resolution adopted by the Commission in March 2009, the Commission has agreed not to issue any bonds or other obligations secured by a lien on any of the Pledged Revenues superior to the Outstanding Senior Lien Parity Bonds.

Outstanding and Additional Senior Lien Bonds

The NMFA has previously issued the Outstanding Senior Lien Bonds which consist of the following:

OUTSTANDING SENIOR LIEN BONDS⁽¹⁾

<u>Issue</u>	<u>Outstanding Principal Amount (as of 3/1/10)</u>
Series 2004A	\$700,000,000
Series 2006A	150,000,000
Series 2009A	<u>112,345,000</u>
TOTAL	<u>\$962,345,000</u>

(1) As previously stated, the NMFA plans to issue the Contemplated Series 2010A Bonds to refund certain series of the Outstanding Senior Lien Bonds. Because the Contemplated Series 2010A Bonds are being issued to achieve a debt service savings, the particular series of the Outstanding Senior Lien Bonds that will be refunded is dependent upon market conditions and will not be known until the Contemplated Series 2010A Bonds are priced.

(Source: The Department.)

The Outstanding Senior Lien Bonds have a lien on the Pledged Revenues that is superior to the lien thereon to the Outstanding Subordinate Lien Obligations (including the Subseries 2008A-2/B-2 Bonds).

The Indenture provides that no additional Senior Lien Bonds may be issued (other than for purposes of refunding) by the NMFA unless (i) the State Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds were at least 300% of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on (a) then Outstanding Closed Lien Obligations, (b) then Outstanding Senior Lien Bonds and (c) the Senior Lien Bonds proposed to be issued, and (ii) the Pledged Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds were at least 350% of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on (x) then Outstanding Closed Lien Obligations, (y) then Outstanding Senior Lien Bonds and (z) the Senior Lien Bonds proposed to be issued. See "EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from 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 NMFA.

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Outstanding and Additional Subordinate Lien Obligations

The NMFA has previously issued the Outstanding Subordinate Lien Obligations which consist of the following:

OUTSTANDING SUBORDINATE LIEN OBLIGATIONS

<u>Issue</u>	<u>Outstanding Principal Amount (as of 3/1/10)</u>
Series 2004B	\$138,425,000
Series 2006B	30,000,000
Series 2008A ^{(1) (2)}	115,000,000
Series 2008B ^{(1) (3)}	220,000,000
Series 2008C ⁽¹⁾	84,800,000
Series 2008D ⁽¹⁾	50,400,000
Tax-Exempt Line of Credit	<u>119,808,919⁽⁴⁾</u>
TOTAL	<u>\$758,433,919</u>

(1) The NMFA has discussed plans to refund these various series of bonds with proceeds from one or more series of Subordinate Lien Obligations during calendar year 2010. Please see “INTRODUCTION—Security for the Subseries 2008A-2/B-2 Bonds—Outstanding Subordinate Lien Obligations” herein.

(2) Includes the Subseries 2008A-2 Bonds

(3) Includes the Subseries 2008B-2 Bonds.

(4) Reflects amount drawn and unpaid as of May 15, 2010. The Tax-Exempt Line of Credit may be drawn upon in the aggregate principal amount of up to \$200,000,000 and the Taxable Line of Credit may be drawn upon in the aggregate principal amount of up to \$20,000,000. Advances under the Tax-Exempt Line of Credit are scheduled to cease in August 2010 and the Taxable Line of Credit is scheduled to expire in December 2010. As of May 15, 2010, the NMFA had drawn and not repaid \$119,808,919 under the Tax-Exempt Line of Credit and did not have any unpaid amounts under the Taxable Line of Credit. [The NMFA does not currently plan to draw any amounts under the Taxable Line of Credit.] Pursuant to the terms of the Tax-Exempt Line of Credit, the NMFA is required to retire the Tax-Exempt Line of Credit in \$50,000,000 annual increments, the first of which is scheduled to occur in August 2010 and the last of which in July 2013. The NMFA expects to issue the Contemplated Series 2010C Bonds during calendar year 2010 to retire the Tax-Exempt Line of Credit. The NMFA anticipates that it will issue the Contemplated Series 2010C-1 Bonds in the aggregate principal amount of \$100,000,000 and the Contemplated Series 2010C-2 Bonds in the aggregate principal amount of \$105,000,000. Upon their issuance, the Contemplated Series 2010C-1 Bonds will be Senior Lien Obligations under the Indenture and the Contemplated Series 2010C-2 Bonds will be Subordinate Lien Obligations under the Indenture. Please see “INTRODUCTION—Security for the Subseries 2008A-2/B-2 Bonds—Outstanding Subordinate Lien Obligations.”

(Source: The Department.)

All such 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. Payment obligations, other than termination payment obligations, which are Junior Subordinate Obligations, of the NMFA on the Swap Agreements are also Subordinate Lien Obligations.

The Indenture provides that no additional Subordinate Lien Obligations may be issued (other than for purposes of refunding) by the NMFA, and that no Additional Highway Bonds may be issued by the Commission, unless the Pledged Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Obligations or Additional Highway Bonds were at least 300% of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on (a) then Outstanding Closed Lien Obligations, (b) then Outstanding Senior Lien Bonds, (c) then Outstanding Subordinate Lien Obligations, (d) then Outstanding Additional Highway Bonds, and (e) the Subordinate Lien

Obligations or Additional Highway Bonds proposed to be issued. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from Trust Estate—Limitations Upon Issuance of Subordinate Lien Bonds” in Appendix B.

As previously discussed, the NMFA has discussed plans to issue the Contemplated Series 2010B Bonds to refund the Subseries 2008A-1, Subseries 2008A-2, Subseries 2008B-1, Subseries 2008B-2 and Series 2008C Bonds. The NMFA may issue such obligations during calendar year 2010. If the NMFA issues the Contemplated Series 2010B Bonds, it plans to terminate the Swap Agreements. The NMFA intends to apply a portion of the proceeds from the issuance of the Contemplated Series 2010B Bonds to pay the termination payments required under the Swap Agreements. Additionally, the NMFA plans to issue a series of additional Senior Lien Obligations and a series of additional Subordinate Lien Obligations in the total combined approximate amount of \$205,000,000 in the form of the Contemplated Series 2010C Bonds during calendar year 2010 to retire the Lines of Credit and to fund additional transportation projects for the Department.

Subordinate Debt

The NMFA and the Commission may issue additional bonds or other obligations payable from the Pledged Revenues constituting a lien on Pledged Revenues subordinate and junior to the lien on the Pledged Revenues of the Subseries 2008A-2/B-2 Bonds, including Junior Subordinate Lien Obligations. Termination payment obligations of the NMFA on the Forward-Starting Swap Agreements and the 2004 Swap Agreements are Junior Subordinate Lien Obligations.

Additional Superior Obligations Prohibited

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

Liquidity Facilities Requirements

At all times during which any Subseries of the Subseries 2008A-2/B-2 Bonds bears interest at a Variable Rate or a Commercial Paper Rate the NMFA shall maintain a Series 2008 Liquidity Facility, as applicable (the provider of which may but need not be the same as the provider of a Series 2008 Liquidity Facility for any other Subseries or the provider of a Series 2008 Credit Enhancement Facility for such Subseries or for any other Subseries) to secure payment of the Purchase Price of tendered Subseries 2008A-2/B-2 Bonds of such Subseries. In addition, the NMFA covenants and agrees that at all times while any Subseries 2008A-2/B-2 Bonds are outstanding which bear interest at other than a Fixed Rate or an Auction Rate, if the rating of the Series 2008 Liquidity Facility Provider for such Subseries shall (if then rated by the same) be lowered by either of Moody’s Investor Services, Inc. or Standard & Poor’s Ratings Services, below the top two short-term rating categories assigned by such rating agency (without giving effect to numeric or other qualifiers), then the NMFA shall obtain an Alternate Series 2008 Liquidity Facility for such Subseries (the “Alternate Series 2008 Liquidity Facility”) meeting such rating requirement.

Upon the receipt by the Paying Agent of a written request of the NMFA stating that the amount available under a Series 2008 Liquidity Facility may be reduced, the Paying Agent shall direct or send appropriate notice to such Series 2008 Liquidity Facility Provider requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Series 2008 Liquidity Facility, subject to any requirements of such Series 2008 Liquidity Facility. In no event shall any Series 2008 Liquidity Facility be reduced to an amount less than the principal amount of the Subseries 2008A-2/B-2 Bonds of the Subseries secured by such Series 2008 Liquidity Facility outstanding, plus an amount equal to interest thereon at the Interest Rate then required by any rating agency then rating the Subseries 2008A-2/B-2 Bonds of such Subseries for the number of days then required by any rating agency then rating the Subseries 2008A-2/B-2 Bonds, unless the NMFA has deposited an Alternate Series 2008 Liquidity Facility with the Paying Agent. In no event shall any Alternate Series 2008 Liquidity Facility replace only in part any then current Series 2008 Liquidity Facility. Notwithstanding the foregoing, immediately after payment in full has been made on any Series of Subseries 2008A-2/B-2 Bonds, either at its maturity date, by optional redemption, or otherwise, the Paying Agent shall direct or send appropriate notice to any applicable Series

2008 Liquidity Facility Provider requesting or directing that the amount available under such Series 2008 Liquidity Facility be reduced by an amount equal to such principal so paid plus the amount of interest theretofore provided for under such Series 2008 Liquidity Facility on such principal amount.

The Subseries 2008A-2/B-2 Bonds are not under any circumstances required to have the benefit of a Series 2008 Liquidity Facility with respect to the outstanding principal amount of such Subseries 2008A-2/B-2 Bonds if, prior to the expiration or termination of any applicable Series 2008 Liquidity Facility then in effect, there is delivered to the NMFA, the Remarketing Agent, the Series 2008 Liquidity Facility Provider and the Paying Agent (i) a Favorable Opinion of Bond Counsel to the effect that the expiration or termination of any such Series 2008 Liquidity Facility then in effect will not adversely affect the validity of such Subseries 2008A-2/B-2 Bonds and, with respect to such Series 2008A-2/B-2 Bonds, any exclusion from gross income for federal income tax purposes to which interest on such Series 2008A-2/B-2 Bonds would otherwise be entitled, and (ii) written evidence from each rating agency then maintaining a rating on such Subseries 2008A-2/B-2 Bonds that the ratings on such Subseries 2008A-2/B-2 Bonds following the expiration or termination of such Series 2008 Liquidity Facility will not be reduced or withdrawn from the ratings on such Subseries 2008A-2/B-2 Bonds immediately prior to such expiration or termination.

Upon satisfaction of the requirements described in the immediately preceding paragraph, (i) the Paying Agent, upon receipt of a written request of the NMFA, shall direct or send appropriate notice to any Series 2008 Liquidity Facility Provider requesting or directing the cancellation of a Series 2008 Liquidity Facility then in effect on the date (the “Series 2008 Liquidity Facility Cancellation Date”) requested by the NMFA in such written request, which date may not be less than 30 days, or such longer or shorter period as is required by such Series 2008 Liquidity Facility for its termination at the request of the NMFA, from the date the Paying Agent receives such written request, and (ii) following the date of such cancellation, all tendered Subseries 2008A-2/B-2 Bonds of such Subseries may be remarketed by any Remarketing Agent pursuant to a Remarketing Agreement without the benefit of a Series 2008 Liquidity Facility until such time, if any, as such Subseries 2008A-2/B-2 Bonds are thereafter entitled to the benefits of a Series 2008 Liquidity Facility, but only if there is delivered to the NMFA, the Paying Agent and such Remarketing Agent a Favorable Opinion of Bond Counsel to the effect that the execution and delivery of a Series 2008 Liquidity Facility will not adversely affect the validity of such Subseries 2008A-2/B-2 Bonds or any exclusion from gross income for federal income tax purposes to which interest on such Subseries 2008A-2/B-2 Bonds would otherwise be entitled. If at any time no Series 2008 Liquidity Facility is required on the Subseries 2008A-2/B-2 Bonds, the Paying Agent shall affix a legend on the face, of each such Subseries 2008A-2/B-2 Bond authenticated on or after the date on which a Series 2008 Liquidity Facility is no longer required in substantially the following form: “A Series 2008 Liquidity Facility is not required with respect to this Subseries 2008A-2/B-2 Bond. If a Series 2008 Liquidity Facility is currently provided, it may be discontinued at any time without prior notice to, or a right to tender by, the Bondholder.”

LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Reimbursement Agreement pursuant to which the Letters of Credit are issued. Each Letter of Credit provides credit and liquidity support only for the subseries of the Subseries 2008A-2/B-2 Bonds to which it relates. The Reimbursement Agreement contains various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined elsewhere in this Remarketing Memorandum, the Letters of Credit or the Reimbursement Agreement, and reference is made thereto for a full understanding of their import.

General

Upon the terms and subject to the conditions set forth in the Reimbursement Agreement, the Bank agrees to issue the Letters of Credit.

The Trustee is authorized to make drawings for the payment of principal of and interest on the Subseries 2008A-2/B-2 Bonds (each, a “Principal Drawing” or an “Interest Drawing” respectively and together “Credit Drawings”) and drawings for the payment of the purchase price of the Subseries 2008A-2/B-2 Bonds that have been tendered and not remarketed (each, a “Liquidity Drawing”), subject to certain conditions set forth in the Letters of Credit and in the Reimbursement Agreement. The Subseries 2008A-2/B-2 Bonds purchased by the Bank (“Bank

Bonds”) shall bear interest at the rates set forth in the Reimbursement Agreement and shall be repaid as provided therein. All Principal Drawings, Interest Drawings and Liquidity Drawings shall be made under the Letters of Credit in accordance with their terms. The NMFA has directed the Bank to make payments under the Letters of Credit in the manner provided in the Letters of Credit.

With respect to each Credit Drawing, the NMFA has agreed to pay to the Bank on the date of each Credit Drawing, an amount equal to the amount disbursed by the Bank pursuant to such Credit Drawing against its Letters of Credit, together with interest on the amounts so disbursed by the Bank for each day from and including the date of such disbursement to but not including the date the Bank is reimbursed therefor at a rate per annum specified in the Reimbursement Agreement, payable on the date of reimbursement of such amount. All payments not received on the date due shall bear interest until paid in full at a rate specified in the Reimbursement Agreement, such interest to be payable upon demand.

With respect to each Liquidity Drawing, so long as no Event of Default (as defined below) has occurred and is then continuing and the NMFA reaffirms its representations and warranties under the Reimbursement Agreement, the NMFA shall pay to the Bank on any date which is the first to occur of (A) the date of the remarketing of any Bank Bonds, the purchase price or portion of the purchase price of which was paid with the proceeds of such Liquidity Drawing, an amount equal to the amount disbursed by the Bank pursuant to such Liquidity Drawing against their Letters of Credit to pay the principal portion of such purchase price or portion thereof or with respect to the interest portion of the purchase price, the immediately succeeding Interest Payment Date, and (B) the date on which the principal of any Bank Bonds, together with accrued interest thereon, shall become due and payable, whether at maturity or redemption, an amount equal to the amount disbursed by the Bank pursuant to such Liquidity Drawing against their Letters of Credit to pay the purchase price or portion thereof, in either case, together with interest on the amounts so disbursed by the Bank for each day from and including the date of such disbursement to but not including the date the Bank is reimbursed therefor at a rate per annum specified in the Reimbursement Agreement, payable on the date of reimbursement of such amount and on each Interest Payment Date for the Subseries 2008A-2/B-2 Bonds.

All payments not received on the date due shall bear interest until paid in full at a rate specified in the Reimbursement Agreement, such interest to be payable upon demand. To the extent that the Liquidity Drawing is not paid to the Bank on the due date, the Bank will become subrogated to the rights of the holders of such Subseries 2008A-2/B-2 Bonds and the NMFA will cause the Trustee to transfer such Subseries 2008A-2/B-2 Bonds to the Bank. Upon transfer of the Subseries 2008A-2/B-2 Bonds to the Bank, such Subseries 2008A-2/B-2 Bonds will be deemed Bank Bonds and the Bank will be entitled to and, where necessary, will be deemed to be assigned all rights, privileges and security accorded registered owners of the Subseries 2008A-2/B-2 Bonds under the Indenture or otherwise, except as otherwise provided in the Reimbursement Agreement. The Bank Bonds shall bear interest and be subject to redemption in accordance with the Indenture and the Reimbursement Agreement.

Events of Default

The occurrence and continuance of any one or more of the following events shall be an “Event of Default” under the Reimbursement Agreement:

(i) any representation or warranty made by the NMFA, the Commission or the Department under or in connection with (or incorporated by reference in) the Reimbursement Agreement or any of the Financing Documents (as defined in the Reimbursement Agreement) or in any certificate or statement delivered thereunder shall prove to be untrue in any material respect on the date as of which it was made or deemed to have been made; or

(ii) nonpayment by the NMFA, jointly or severally, of (a) certain amounts payable under the Reimbursement Agreement when due, or (b) certain amounts payable under the Reimbursement Agreement when due and such default in payment shall continue for five (5) Business Days;

(iii) the breach by the NMFA of any of the other terms or provisions of (or incorporated by reference in) the Reimbursement Agreement (other than as set forth in paragraphs (i) or (ii) above) which are not remedied within fifteen (15) days after written notice thereof shall have been received by the NMFA from the Banks;

provided, however, that if the breach is other than non-payment of monies and cannot be corrected within such 15-day cure period, the Banks shall not unreasonably withhold their consent to a one-time extension of such cure period for an additional fifteen (15) day period (commencing as of the last day of the initial fifteen (15)-day cure period) so long as the NMFA shall have instituted corrective action and such corrective action is being diligently pursued; provided, further, however, that there shall be no cure period for a failure to observe or perform any covenant or agreement set forth in or contemplated by certain sections of the Reimbursement Agreement as described more fully in the Reimbursement Agreement; or

(iv) any material provision of the Reimbursement Agreement or any Financing Document shall at any time for any reason cease to be valid and binding on the NMFA or any other Person party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the NMFA or by any Governmental Authority (as defined in the Indenture) having jurisdiction, or any Governmental Authority having jurisdiction shall find or rule that any material provision of the Reimbursement Agreement or any Financing Document is not valid or binding on the NMFA, or the NMFA shall deny that it has any or further liability or obligation under any such document; or

(v) (a) the NMFA shall commence any case, proceeding or other action (1) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it the bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the NMFA shall make a general assignment for the benefit of its creditors; or (b) there shall be commenced against the NMFA any case, proceeding or other action of a nature referred to in clause (1) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (c) there shall be commenced against the NMFA, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (d) the NMFA shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the NMFA shall generally not, or shall be unable to, or so admit in writing its inability to, pay its Debts; or

(vi) (a) the NMFA shall default in any payment of principal of or interest or any premium on any Material Debt (as defined in the Indenture) and such default shall continue beyond the expiration of the applicable grace period, if any, or (b) the NMFA shall fail to perform any other agreement, term or condition contained in any agreement, mortgage or other instrument under which any such obligation is created or secured, which results in the declaring due and payable of Material Debt or causes Material Debt to become due and payable or which enables (or, with the giving of notice or lapse of time, or both would enable) the holder of Material Debt or any Person acting on such holder's behalf to accelerate the maturity thereof; provided that none of the foregoing shall constitute an Event of Default under the Reimbursement Agreement so long as (1) the NMFA is diligently contesting in good faith by appropriate legal proceedings its obligation to make such payment or the amount of the payment required or to perform or observe such agreement, term or condition, (2) the opposing party or parties in any such legal proceedings shall be stayed from executing on any Property (as defined in the Indenture) of the NMFA with respect to such default or failure to perform and (3) as a result of such default or failure to perform on behalf of the NMFA, no other party to any other Debt of the NMFA, as applicable, shall have declared such Debt due and payable prior to the maturity date thereof or otherwise commenced its exercise of remedies pursuant to the agreement or instrument relating to such Debt and the execution by any such party on Property of the NMFA shall not have been stayed; or

(vii) a final judgment or order for the payment of money in an amount in excess of \$2,000,000 shall have been rendered against the NMFA and such judgment or order shall not have been satisfied, stayed or bonded pending appeal within a period of thirty (30) days from the date on which it was first so rendered; or

(viii) there shall have been rendered a determination that interest on any of the Subseries 2008A-2/B-2 Bonds is includable in the gross income of the owners thereof for federal income tax purposes, as a result of the entry of any decree or judgment by a court of competent jurisdiction, or the taking of any official action by the Internal Revenue Service, whether or not such decree, judgment or action is appealable or deemed to be final under

applicable procedural law, or delivery to the Banks, the NMFA and the Trustee of an opinion of nationally recognized bond counsel selected by the Banks and reasonably acceptable to the NMFA, to the effect that the interest borne by the Subseries 2008A-2/B-2 Bonds is includable in the gross income of the recipients thereof generally for federal income tax purposes; or

(ix) any Rating Agency shall have (a) withdrawn its respective ratings of the NMFA's long-term unsecured indebtedness or of any underlying rating of Parity Debt (as defined in the Indenture), (b) suspended its respective ratings of the NMFA's long-term unsecured indebtedness or of any underlying rating of Parity Debt, or (c) lowered its respective ratings of the NMFA's long-term unsecured indebtedness or of any underlying rating of Parity Debt to below "Baa3" for Moody's and "BBB-" for S&P (or to the equivalent rating then in effect with respect to Moody's or S&P), respectively; or

(x) any pledge or security interest created by the Indenture or the Reimbursement Agreement to secure any amount due under the Subseries 2008A-2/B-2 Bonds, any Parity Debt or the Reimbursement Agreement shall fail to be fully enforceable with the priority required under the Reimbursement Agreement or the Indenture, as the case may be, by reason of a final, non-appealable judgment of a court of competent jurisdiction;

Remedies If Event of Default Occurs

If any Event of Default occurs and is continuing, then, and in any such event, the Banks may, at the same or different times, so long as such Event of Default shall not have been remedied, proceed to enforce all remedies available to them under the Letters of Credit and under the Financing Documents and applicable law and in equity, including, without limitation:

(i) the Banks may notify the Paying Agent and the Trustee of such occurrence, direct the Trustee to cause a mandatory tender of the Subseries 2008A-2/B-2 Bonds, as provided in the Fifth Series Indenture, and state that the Letters of Credit will terminate on the tenth (10th) calendar day following the date the Trustee shall have received written notice from the Banks;

(ii) the Banks may declare all amounts payable under the Reimbursement Agreement to be, whereupon the same shall become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the NMFA; provided that in the case of any of the Events of Default specified in paragraph (v) under the subheading "Events of Default" above, all amounts payable under the Reimbursement Agreement shall be immediately due and payable without the giving of any notice to the NMFA or the taking of any other action by any Person; and

(iii) the Banks may exercise any rights and remedies available to them by law or under the Reimbursement Agreement or under any Financing Document or otherwise.

All the foregoing remedies shall be cumulative. Promptly following the delivery of notice of termination of a Letter of Credit, the Bank shall give notice thereof to the NMFA, the Remarketing Agent, the Trustee and the Paying Agent, but failure to give such notice to the NMFA, the Remarketing Agent, the Trustee or the Paying Agent shall not impair the effect of such notice.

THE BANK

The information herein relates to and has been provided by the Bank for inclusion in this Remarketing Memorandum. No other party has independently verified or assumes any responsibility for such information, and none of the NMFA, the Department or the Remarketing Agents make any representation as to the accuracy or completeness of such information. The delivery of the Remarketing Memorandum shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or incorporated by reference in this section is correct as of any time subsequent to its date.

Bank of America, N.A. (the "Bank") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Corporation") and is engaged in a general consumer

banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of March 31, 2010, the Bank had consolidated assets of \$1.496 trillion, consolidated deposits of \$1.001 trillion and stockholder's equity of \$168 billion based on regulatory accounting principles

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2009, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Letter of Credit has been issued by the Bank. Moody's Investors Service, Inc. ("Moody's") currently rates the Bank's long-term debt as "Aa3" and short-term debt as "P-1." The outlook is stable. Standard & Poor's currently rates the Bank's long-term debt as "A+" and its short-term debt as "A-1." The outlook is negative. Fitch Ratings, Inc. ("Fitch") currently rates long-term debt of the Bank as "A+" and short-term debt as "F1+." The outlook is stable. Further information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of the Bank's instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE SUBSERIES 2008A-2/B-2 BONDS WILL BE MADE FROM DRAWINGS UNDER THE RELATED LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE SUBSERIES 2008A-2/B-2 BONDS WILL BE MADE FROM DRAWINGS UNDER THE RELATED LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE SUBSERIES 2008A-2/B-2 BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE SUBSERIES 2008A-2/B-2 BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

PLEGDED REVENUES

The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, 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 NMFA.

State Road Fund

General. The State Road Fund is established pursuant to Section 67-3-65 NMSA 1978, as amended. No income earned on the fund may be transferred to another fund. Pursuant to Section 67-3-65.1 NMSA 1978, as amended, distributions from the State Road Fund may be used only for maintenance, construction and improvement of the 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). As of January 2009, the State’s gasoline excise tax rate is lower than that of any western state with the exception of Oklahoma (also 17 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. Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a “gasoline tax sharing agreement” with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed on June 23, 2004. Under that agreement, the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. Chapter 15, New Mexico Law of 2010 permits gasoline tax sharing agreements between the State and the Pueblo of Nambe and the Pueblo of Santo Domingo to be extended from 10 years to 20 years. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be in effect for at least the next ten years as a result of the gasoline tax sharing agreements.

Retail Exemption. Chapter 190, Laws of 1999 also permits gasoline to be sold at retail by registered Native American distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. In its 2000 regular session, the legislature enacted a deduction from gasoline taxes for retail sales of gasoline by persons other than registered Indian tribal distributors on Indian reservations, pueblo grants and trust lands. The deduction, which became effective on April 1, 2000, is effectively equal to the lesser of the tribal tax on the gasoline sold or the State gasoline tax. According to the TRD, there are approximately 271 registered gasoline dealers in the State. Of those 271, 17 are tribally-owned, otherwise affiliated with tribes or located on Indian reservations, pueblo grants and trust lands.

Exemption Results. As a result of the foregoing exemptions and other factors (such as more fuel efficient vehicles and higher gasoline prices), the Department expects a slow rate of growth in gasoline excise taxes paid into the State Road Fund over the next several years.

Fiscal year 2003 taxable gasoline distributions in the State totaled 851,912,805 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 92,837,114 gallons. Fiscal year 2004 taxable gasoline distributions in the State totaled 871,450,733 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 88,226,119 gallons. Fiscal year 2005 taxable gasoline distributions in the State totaled 875,551,884 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 53,425,815 gallons. Fiscal year 2006 taxable gasoline distributions in the State totaled 880,614,191 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 55,432,237 gallons. Fiscal year 2007 taxable gasoline distributions in the State totaled 918,292,994 gallons while tax-exempt reservation, pueblo grant and trust fund distributions totaled 58,864,581 gallons. Fiscal year 2008 taxable gasoline distributions in the State totaled 877,428,632 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 57,372,000 gallons. Fiscal year 2009 taxable gasoline distributions in the State totaled 875,295,280 gallons while tax-exempt reservation, pueblo grant and trust fund distributions totaled approximately 61,000,000 gallons. The Department estimates that future Native American retail sales of gasoline within reservation, pueblo grant and trust land boundaries will remain constant at or about the fiscal year 2009 level.

Collection Procedures. The gasoline excise tax is payable by gasoline distributors on or before the 25th day of the month after the month in which the gasoline is “received” in 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 76.27% of the receipts attributable to the gasoline excise tax are paid into the State Road Fund.

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

HISTORICAL GASOLINE EXCISE TAXES

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Taxable</u> <u>Gallons (000s)</u>	<u>Percent</u> <u>Change (%)</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
2000	\$868,022	(2.74)	\$111,961	n/a
2001	838,445	(3.41)	108,534	(3.06)
2002	839,001	0.07	108,941	0.37
2003	851,912	1.54	110,465	1.40
2004	871,451	2.29	112,107	1.49
2005	875,552	0.47	109,456	(2.36)
2006	880,614	0.58	109,723	0.24
2007	918,293	4.28	110,340	0.56
2008	877,429	(4.45)	107,732	(2.36)
2009 ⁽¹⁾	875,295	(2.44)	108,200	0.43

(1) Unaudited.
(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. 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</u> <u>June 30</u>	<u>Taxable</u> <u>Gallons (000s)</u>	<u>Percent</u> <u>Change (%)</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
2000	\$411,197	3.21	\$66,648	n/a
2001	411,855	0.16	66,940	0.44
2002	407,536	(1.05)	65,689	(1.87)
2003	430,852	5.72	69,478	5.77
2004	463,073	7.48	74,546	7.29
2005	459,405	(0.79)	87,902	17.92 ⁽¹⁾
2006	509,030	10.80	97,127	10.49
2007	509,377	0.07	101,373	4.37
2008	532,594	4.56	101,651	0.27
2009	444,061	(19.94)	85,645	(18.7)

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

Fiscal Year Ended June 30	State Road Fund Distribution (000s)	Percent Change (%)
2000	\$54,098	n/a
2001	50,851	(6.00)
2002	50,903	0.10
2003	51,394	0.96
2004	51,574	0.35
2005	72,800	41.16 ⁽¹⁾
2006	76,453	5.02
2007	88,365	15.58
2008	77,424	(12.38)
2009	75,485	(2.57)

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

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>State Road Fund</u> <u>Distribution (000s)⁽¹⁾</u>	<u>Percent</u> <u>Change (%)</u>
2000	\$44,302	n/a
2001	41,600	(6.10)
2002	44,137	6.10
2003	43,993	(0.33)
2004	52,996	20.46 ⁽²⁾
2005	67,768	27.87
2006	71,470	5.46
2007	73,512	2.86
2008	73,679	0.23
2009	72,283	(1.89)

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

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

(Source: 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 by the Legislature. All of the taxes and fees attributable to the Highway Infrastructure Fund are collected and administered by TRD and transferred by the State Treasurer from various suspense funds to the Highway Infrastructure Fund monthly.

Leased Vehicle Gross Receipts Taxes. Leased vehicle gross receipts taxes are imposed pursuant to Section 7-14A-3 NMSA 1978, 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. 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

Fiscal Year Ended <u>June 30</u>	Leased Vehicle Gross <u>Receipts Taxes (000s)⁽¹⁾</u>	Percent <u>Change (%)</u>
2000	\$4,596	n/a
2001	4,810	4.66
2002	4,507	(6.30)
2003	4,465	0.93
2004	4,536	1.59
2005	4,524	(0.26)
2006	5,144	13.69
2007	4,844	(5.81)
2008	6,963	43.74
2009	5,520	(20.72)

(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. As of 1999, the Motor Vehicle Division has allowed a two-year registration option. Registrants who choose the two-year option pay twice the normal fee and are exempt the following year. Tire recycling fees are paid by the Motor Vehicle Division to the State Treasurer for deposit to the Motor Vehicle Suspense Fund and then into the Highway Infrastructure Fund and the Tire Recycling Fund.

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

HISTORICAL NET TIRE RECYCLING FEES

<u>Fiscal Year Ended June 30</u>	<u>Tire Recycling Fees (000s)</u>	<u>Percent Change (%)</u>
2000	\$1,455	n/a
2001	1,411	(3.02)
2002	1,655	17.29
2003	1,679	1.45
2004	1,421	(15.37)
2005	1,950	37.23
2006	1,734	(11.08)
2007	1,758	1.38
2008	1,782	1.37
2009	1,766	(0.91)

(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. The major funding for the FAHP is made available in six core programs: the Interstate Maintenance Program, the Highway Bridge Replacement and Rehabilitation Program, the National Highway System Program, the Surface Transportation Program, the Congestion Mitigation and Air Quality Program and the Equity Bonus Program (formerly the Minimum Guarantee 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 STATE 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. The current multi-year authorization, SAFETEA-LU, became law on August 10, 2005, and originally expired on September 30, 2009. See “SAFETEA-LU” herein. Efforts have been undertaken in Congress to draft a new multi-year authorization. As of the date of this Official Statement, Congress has not adopted a new multi-year authorization. However, Congress has adopted legislation which provided an extension until December 31, 2010.

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

Access to Unobligated Balances. The 1987 Surface Transportation and Uniform Relocation Assistance Act expired on September 30, 1991 and ISTEA was not enacted until December 18, 1991. The FHWA was able to act administratively to keep federal-aid funding flowing because states could use their unobligated balances to provide contract authority to use new “Obligation Authority” or “OA” as more fully described under “Federal Aid Funding Procedures—Obligation” below.

Short-Term Authorization. ISTEA expired on September 30, 1997 and until approval of TEA-21 on June 9, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorizing legislation, states were provided an upper limit on OA through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997 Congress passed the Surface Transportation Extension Act of 1997 (“STEA”), which provided a six-month authorization for highway funding and established a limit on the amount of new OA states could use at funding levels equal to about a quarter of federal fiscal year (“FFY”) 1997 authorization levels. Since most states have unobligated balances of at least half their normal annual OA levels and an authorization act need not be in place for the FHWA to give states new OA, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated OA. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the FHTF. Similarly, TEA-21 expired on September 30, 2003, and Congress enacted twelve interim authorization measures for varying periods over twenty-two months until the enactment of SAFETEA-LU on August 10, 2005.

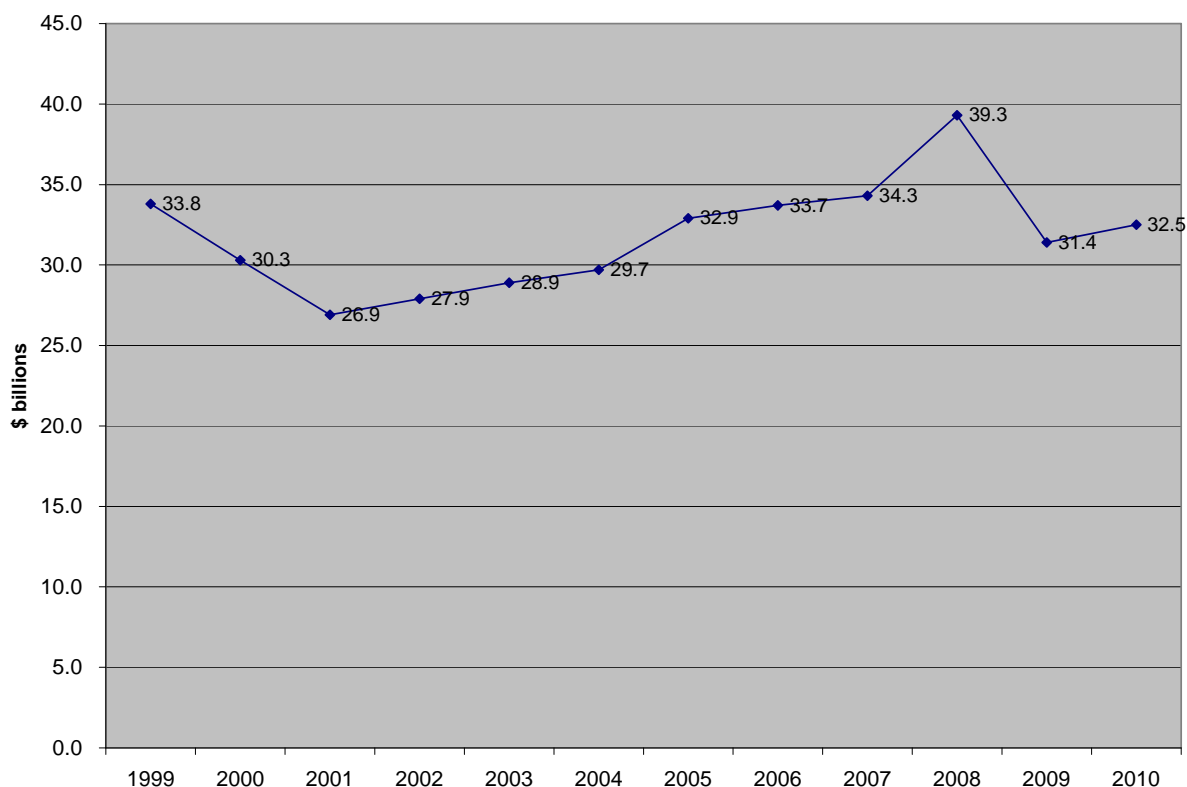
ALTHOUGH THESE MEASURES HAVE BEEN ENACTED BY CONGRESS AND/OR FHWA IN THE PAST, NO ASSURANCE CAN BE GIVEN THAT SUCH MEASURES WOULD OR COULD BE ENACTED IN THE FUTURE TO MAINTAIN THE FLOW OF FEDERAL-AID FUNDING UPON TERMINATION OF AN AUTHORIZATION PERIOD.

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 2010.

Receipts Into The Highway Account of the Federal Highway Trust Fund 1999–2010⁽¹⁾



(1) Excludes interest on balances.

(2) Amount listed as “2008 Actual Receipts” from the President’s Fiscal Year 2010 Budget. The amount includes \$8 billion transferred from the General Fund. See “Current FHTF Concerns” hereafter.

(3) Projected average annual receipts from the President’s Fiscal Year 2010 Budget.

(Source: Highway Statistics 2007, Office of Highway Policy Information, FHWA, Table FE-210 and the President’s Fiscal Year 2010 Budget.)

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 SAFETEA-LU. SAFETEA-LU extends the imposition of taxes through September 30, 2011. The transfer of the taxes to the FHTF has been extended by Congress through December 31, 2010. 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 exceed 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 and that 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.

Effects of Stimulus Acts. Several of the stimulus acts adopted by Congress since September, 2009, even though the funding for highway-related projects under such acts will be coming from the General Fund, may have an impact on federal-aid highways including the aggregate level of expenditures therefor, the revenues in part funding such highways and the timing of payment of such revenues. The precise effect of such acts on the FHTF cannot be assessed at this time.

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.

TEA-21

Although SAFETEA-LU is the current authorization for the FAHP, significant components of it were created under prior authorizations. Until the enactment of SAFETEA-LU on August 10, 2005, the Transportation Equity Act for the 21st Century (“TEA-21”) was the most recent multi-year authorization act for the FAHP, having been enacted into law on June 9, 1998. TEA-21 authorized nearly \$218 billion for highway, highway safety, transit, and other surface transportation programs over the six-year period from FFYs 1998 through 2003. This total reflected a 40 percent increase over the levels in the prior major authorizing legislation, the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”). TEA-21 was scheduled to expire on September 30, 2003 but was the subject of multiple interim reauthorization extensions until the enactment of SAFETEA-LU.

A limitation on obligations and the process for distribution was included for each of the years in TEA-21. Through the limitation on obligations, Congress controlled the program and made it more responsive to prevailing budget and economic policy. The obligation ceilings set in TEA-21 for FFYs 1998 through 2003 were based on a protected level of spending for transportation.

Protected Funding. New budget categories were established under TEA-21 for highway and transit discretionary spending, effectively establishing a budgetary “firewall” between those programs and other domestic discretionary programs. Prior to TEA-21, the highway and transit discretionary programs competed for annual budgetary resources with other domestic programs. The new categories are still subject to budget constraints, but reductions in highway or transit spending will not allow increased spending in other non-transportation programs. This removes the principal incentive for Congress to limit highway or transit spending.

The highway firewall “protects” the obligation limitation for federal-aid highways, the motor carrier and other highway safety programs that have contract authority. (See discussion of contract authority under “Federal-Aid Funding Procedures—Authorization” below.) The firewall amount for highways is tied to the projected receipts of the Highway Account of the Federal Highway Trust Fund and beginning with FFY 2000 was adjusted each year during development of the President’s budget as new receipt projections and actual receipts became available. The adjustment of authorizations is called Revenue Aligned Budget Authority (“RABA”).

Under TEA-21, a total of \$198.5 billion in funding for surface transportation was protected from deficit reduction legislation. The total protected amount available for federal-aid highways under TEA-21 was \$161.9 billion. The protected amount available for highways had two components: the amount behind the budgetary firewall of \$157.5 billion and the amount of \$4.4 billion for programs exempt from the obligation limitation. The protected funding for transit programs had a single component—the firewall amount of \$36.5 billion that was not tied to FHTF receipts.

Authorizations in TEA-21 for FFYs 1998 through 2003 exceeded the protected funding levels by \$15 billion for the highway program categories and \$5 billion for transit programs. The authorizations in excess of protected levels remain part of the general discretionary budget category and may be made available by Congress through the annual appropriations process, but must compete each year with other budget priorities.

Highway Funding Equity—Minimum Funding. TEA-21 continued the minimum protected funding provisions which are designed to ensure that each state has a minimum return on the tax contributions from that state into the Highway Account of the Federal Highway Trust Fund. Under this provision, “donor states” receive a minimum guaranteed level of funding. A donor state is one whose percentage share of national apportionments is less than its percentage share of national contributions to the Federal Highway Trust Fund based on the latest data available at the time of apportionment. These states are guaranteed to receive an amount of funding at least equal to multiplying a specific percentage (90.5% under TEA-21 and 92% under SAFETEA-LU) times the state’s percentage share of estimated contributions to the Federal Highway Trust Fund, multiplied against the national level of apportioned funds. 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 national contributions to the Federal Highway Trust Fund and has not received funds under the minimum funding provision. There can be no assurance that the current minimum funding provision or any comparable minimum funding provision will be in any new authorization. See “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS—Reauthorization.”

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 Federal Highway Trust Fund);
- 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. Although Congress has not yet adopted a multi-year reauthorization, it has adopted legislation which provided an extension through December 31, 2010. 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 Federal Highway Trust Fund. 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 “SAFETEA-LU—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 factors include items such as lane miles, vehicle miles traveled, taxes paid into the FHTF and diesel fuel usage. Each state highway program has a unique set of factors that determine its apportionment. 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.

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 the State, the STIP is currently developed annually and covers a four-year period. The most recent four-year STIP covering FFY 2010 through FFY 2013 was approved by the Commission on August 20, 2009. The STIP is subject to change on a quarterly basis. The four-year STIP represents \$1,183,631,163 of projects to be undertaken during FFY 2010 through FFY 2013, 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.

SAFETEA-LU

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), passed the Congress, was signed into law by President Bush on August 10, 2005, and authorized a total of \$286.4 billion for the federal surface transportation programs in FFYs 2004 through 2009. This represented a 38% increase in authorization over TEA-21. The core federal-aid highway program was funded at these levels: \$34.4 billion (FFY05), \$36 billion (FFY06), \$38.2 billion (FFY07), \$39.6 billion (FFY08), and \$41.2 billion (FFY09). SAFETEA-LU retained the firewall and minimum guarantee provisions of TEA-21, increasing each state’s minimum rate of return of FHTF contributions from 90.5% in TEA-21 to 92% by 2008. All states were also guaranteed a total six-year average highway funding increase of at least 19 percent, when compared to the state’s six-year TEA-21 funding total. As previously stated, SAFETEA-LU originally expired on September 30, 2009 without Congress adopting a multi-year reauthorization. However, Congress has adopted legislation which provided an extension until December 31, 2010.

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.

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
9/8/2009	8,708,000,000 ⁽¹⁾	N 4510.712

⁽¹⁾ These funds were restored in the last 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, and the seventh on certain FFY 2009 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.

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.

STATE RECEIPTS OF FEDERAL TRANSPORTATION FUNDS

The following tables identify prior authorizations, obligation limitations and reimbursements received by the State and the Department under TEA 21 and SAFETEA-LU. The ability to pay debt service on the Series 2010A 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 NMFA 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 the aggregate authorization and obligation limitation amounts received by the Department under TEA 21:

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS-TEA 21⁽¹⁾

	Federal Fiscal <u>Year 2001</u>	Federal Fiscal <u>Year 2002</u>	Federal Fiscal <u>Year 2003</u>	Federal Fiscal <u>Year 2004</u>	<u>Totals</u>
Aggregate Authorization	\$294,049,448	\$298,809,162	\$291,032,534	\$307,511,183	\$1,191,402,327
Obligation Limitation					
National Highway System	69,623,960	75,731,875	75,387,486	80,688,917	301,432,238
Bridge	12,899,034	15,345,467	13,312,643	14,619,751	56,176,895
Surface Transportation Program ⁽²⁾	46,293,425	48,625,970	49,073,310	49,258,893	193,251,598
Minimum Guarantee	30,036,771	30,238,728	29,907,334	29,921,754	120,104,587
Surface Transportation Program (Urban Areas)	9,569,909	10,268,213	10,476,349	10,327,305	40,641,776
Interstate Maintenance	63,417,400	69,159,815	62,761,855	73,421,464	268,760,534
Congestion Mitigation/Air Quality Improvement	8,047,929	8,607,408	8,550,135	9,389,632	34,595,104
Recreational Trails	663,358	836,354	925,057	977,896	3,402,665
Metro Planning	846,711	912,523	1,037,559	1,164,707	3,961,500
Research Program	1,206,418	1,306,496	1,295,229	1,429,600	5,237,743
Planning Programs	3,619,253	3,919,486	3,885,685	3,538,700	14,963,124
High Priority Projects	13,951,387	13,697,860	15,520,683	10,866,985	54,036,915
Redistribution of Authority	<u>2,070,116</u>	<u>1,738,494</u>	<u>1,232,308</u>	<u>8,118,746</u>	<u>13,159,664</u>
Aggregate Apportionment	<u>\$262,245,671</u>	<u>\$280,388,689</u>	<u>\$273,365,633</u>	<u>\$293,724,350</u>	<u>\$1,109,724,343</u>
Aggregate Obligation Limitation	<u>\$260,146,000</u>	<u>\$278,897,000</u>	<u>\$263,226,000</u>	<u>\$243,530,732</u>	<u>\$1,045,799,732</u>

⁽¹⁾ This summary is unaudited.

⁽²⁾ Excluding large urban areas (Albuquerque and Sunland Park).

(Source: The Department.)

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

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS – SAFETEA-LU⁽¹⁾

	Federal Fiscal Year 2005	Federal Fiscal Year 2006 ⁽²⁾	Federal Fiscal Year 2007 ⁽²⁾	Federal Fiscal Year 2008 ⁽²⁾	Federal Fiscal Year 2009 ⁽²⁾
Interstate Maintenance	\$64,251,895	\$65,286,769	\$66,338,307	\$67,406,777	\$68,492,451
National Highway System	76,482,689	77,714,418	78,964,299	80,236,014	81,528,206
Surface Transportation Program ⁽³⁾	58,812,919	53,584,797	54,244,235	55,051,306	55,937,790
Surface Transportation	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)
Program: Approximate (Large Urban Area) Suballocation from STIP Apportionment					
Bridge	13,821,540	14,044,167	14,270,379	14,500,233	14,733,788
Congestion Mitigation/Air Quality	8,232,073	8,364,628	8,499,317	8,636,175	8,775,237
Recreational Trails	1,026,452	1,199,957	1,286,709	1,373,461	1,460,213
Metro Planning	1,469,376	1,448,969	1,472,634	1,496,045	1,519,833
Planning Programs – Suballocation from Core Program funds	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)
Research Program – Suballocation from Planning Program funds	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)
Highway Safety Improvement Program	–	9,724,197	9,914,691	10,108,251	10,304,929
Rail-Highway Crossing	–	1,493,538	1,490,053	1,488,934	1,488,934
Safe-Routes to School	1,000,000	1,000,000	1,000,000	1,000,000	1,157,178
Border Infrastructure Program	925,343	1,090,851	1,241,313	1,429,391	1,579,853
High Priority Projects	30,920,000	30,920,000	30,920,000	30,920,000	30,920,000
Equity Bonus	<u>76,085,543</u>	<u>71,408,088</u>	<u>86,008,248</u>	<u>94,605,501</u>	<u>94,015,134</u>
Aggregate Authorization	<u>\$333,027,830</u>	<u>\$337,280,379</u>	<u>\$355,650,185</u>	<u>\$368,252,088</u>	<u>\$371,913,547</u>
Aggregate Obligation Limitation	<u>\$324,300,000</u>	<u>\$350,400,000</u>	<u>\$271,112,000</u>	<u>\$280,718,000</u>	<u>\$283,509,000</u>

(1) This summary is unaudited.

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

(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 summary of the history of Pledged Revenues for the fiscal years ended June 30, 2000 through June 30, 2008 (audited) and for the fiscal year ended June 30, 2009 (unaudited) and an estimate of Pledged Revenues for the fiscal years ended June 30, 2010 through June 30, 2014. The summary itself is unaudited. The estimates are based on Department estimates as of January 2010. 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 SUBSERIES 2008A-2/B-2 BONDS" and "FORWARD-LOOKING STATEMENTS."

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

	FY00	FY01	FY02	FY03	FY04	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>Actual</u>	<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	\$111,961	\$108,534	\$108,941	\$110,465	\$112,107	\$109,456	\$109,723	\$110,340	\$107,732	\$108,024	\$108,200	\$108,600	\$109,000	\$110,600	\$112,000
Special Fuel Tax	66,648	66,940	65,689	69,478	74,546	87,902	97,127	101,373	101,651	85,645	81,800	84,900	92,800	99,100	103,700
Weight/Distance	54,098	50,851	50,903	51,394	51,574	72,800	76,453	88,365	77,424	75,485	64,000	67,200	70,600	74,100	77,800
Trip Tax	9,727	7,731	6,194	4,348	4,050	5,724	8,576	7,557	4,804	5,776	5,200	5,400	5,600	5,700	5,800
Vehicle Registration	44,302	41,600	44,137	43,993	52,996	67,768	71,470	73,615	73,679	72,283	72,500	71,800	72,500	73,200	73,900
Vehicle Transaction	1,178	1,111	1,144	1,115	1,132	1,130	1,610	1,256	1,236	1,479	1,200	1,200	1,300	1,300	1,400
Driver's License	4,484	4,361	4,799	4,542	4,238	4,072	3,944	4,329	4,563	3,826	4,350	4,450	4,450	4,480	4,530
Oversize/License	1,250	1,316	1,303	1,140	1,157	3,232	4,387	4,590	4,961	4,539	4,000	4,300	4,500	4,600	4,650
Public Regulatory Commission Fees	3,964	3,655	3,549	3,391	3,298	3,525	3,676	377	1,254	2,286	2,400	2,600	2,800	3,000	3,200
Penalty Assessments (Reinstatement Fees)	1,098	1,122	1,024	1,138	1,085	1,273	258	0	0	0	0	0	0	0	0
MVD Miscellaneous Fees	1,226	881	898	997	923	1,200	2,373	2,173	2,675	2,870	2,500	2,500	2,500	2,500	2,500
Leased, Vehicle Gross Receipts Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Road Fund Interest	2,071	1,714	1,002	509	395	1,239	2,055	1,238	0	19	100	200	300	300	300
TOTAL STATE ROAD FUND⁽¹⁾	302,007	289,816	289,583	292,510	307,501	359,321	381,652	395,213	379,979	362,232	346,250	353,150	366,350	378,880	389,780
Percent Change	0.2%	-4.0%	-0.1%	1.0%	5.1%	16.9%	6.2%	3.6%	-3.9%	-4.7%	-4.4%	2.0%	3.7%	3.4%	2.8%
HIGHWAY INFRASTRUCTURE FUND															
Lease Vehicle Gross Receipts	4,596	4,810	4,507	4,465	4,536	4,524	5,143	4,844	6,963	5,520	5,340	5,450	5,620	5,690	5,770
Tire Recycling Fees	1,455	1,411	1,655	1,679	1,421	1,950	1,734	1,758	1,782	1,766	1,690	1,610	1,730	1,670	1,740
Interest	168	328	152	115	64	124	352	178	408	99	30	35	40	45	50
TOTAL HIGHWAY INFRASTRUCTURE FUND	6,219	6,549	6,314	6,259	6,021	6,598	7,229	6,780	9,153	7,385	7,060	7,095	7,390	7,405	7,560
Percent Change		5.3%	-3.6%	-0.9%	-3.8%	9.6%	9.6%	-6.2%	25.9%	-23.9%	-4.4%	0.5%	4.2%	0.2%	2.1%
FEDERAL FUNDS	277,983	260,146	278,897	263,226	243,531	287,475	292,847	228,392⁽³⁾	253,571⁽⁴⁾	302,428⁽⁵⁾	260,000⁽⁶⁾	260,000⁽⁶⁾	260,000⁽⁶⁾	260,000⁽⁶⁾	260,000⁽⁶⁾
Percent Change	30.3%	-6.4%	7.2%	-5.6%	-7.5%	18.0%	1.9%	-22.0%	11.0%	19.3%	-14.0%	0.0%	0.0%	0.0%	0.0%
TOTAL PLEDGED REVENUES⁽¹⁾	586,209	556,511	574,794	561,995	557,053	653,394	681,728	630,385	642,703	672,045	613,310	620,245	633,740	646,285	657,340
Percent Change	13.9%	-5.1%	3.3%	-2.2%	-0.9%	17.3%	4.3%	-7.5%	2.0%	4.6%	-8.7%	1.1%	2.2%	2.0%	1.7%

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

(2) Forecast of State Tax revenues as of January 2010.

(3) Audited revenue of \$228.392 million with deferred revenue of \$24.689 million and \$15.298 million collected subsequently in FY2008 and FY2009, respectively

(4) Audited revenue of \$253.571 million includes recognition of \$24.689 million collected from FY2007. Deferred revenue of \$22.592 million from FY2008 collected subsequently in FY2009.

(5) Audited revenue of \$302.428 million includes recognition of \$22.592 million collected from FY2008. Deferred revenue of \$27.875 million from FY2009 collected subsequently in FY2010.

(6) Estimated federal funds in out years approximate multi-year average under current SAFETEA-LU legislation. Reauthorization is pending for federal FY 2010.

Source: The Department.

SPECIAL FACTORS RELATING TO THE SUBSERIES 2008A-2/B-2 BONDS

Each investor or prospective investor in the Subseries 2008A-2/B-2 Bonds is encouraged to read this Remarketing Memorandum and to give particular attention to the factors described below which, among other conditions, could affect the payment of debt service on the Subseries 2008A-2/B-2 Bonds and could affect the market price of the Subseries 2008A-2/B-2 Bonds to an extent that cannot be determined at this time.

Legislative Changes to Pledged Revenues

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

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

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

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

Uncertainties in Federal Funding

The Federal Revenues have historically been authorized under multiple-year authorizing legislation. Until the enactment of SAFETEA-LU on August 11, 2005, immediately prior legislative authorization was provided by the TEA-21, which went into effect on October 1, 1997 and expired on September 30, 2003. SAFETEA-LU originally extended the authorization of the Federal Aid Highway Program until September 30, 2009. As of the date of this Official Statement, no multi-year reauthorization has occurred, although Congress has adopted legislation providing for an extension until December 31, 2010. Furthermore, 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. SAFETEA-LU included certain provisions designed to provide continuity in the flow of federal transportation funds to the states, including the State. There can be no assurance that such measures will be continued under any future federal reauthorization or that, if continued, such measures will be sufficient to ensure that Federal Revenues will be available as needed if in the future Congress amends existing laws or fails to reauthorize expired transportation legislation, or if future legislation or federal administrative action reduces the amount of Federal Revenues available to the Commission and the Department.

Discussion Regarding Federal Revenues. The Department and the FHWA have recently 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, including GRIP Transportation 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, during any year in which the FHWA Memorandum is in place, the Department has not exceeded

\$122 million in debt service. 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, 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 make any representation regarding the amount or timeliness of payments from the FHWA.

In addition to issues of reauthorization and the timing of reimbursements, there can be no assurance that Federal Revenues paid into the State Road Fund that, together with other Pledged Revenues, will be sufficient to pay the debt service on the Closed Lien Obligations, Senior Lien Bonds, the Subseries 2008A-2/B-2 Bonds and the Subordinate Lien Obligations. The amount of federal funds available for projects is subject to authorization and periodic reauthorization by Congress, approval on an annual basis by the U.S. Secretary of Transportation and compliance with federal regulations. As such, the Department competes for such funds with other national transportation funding priorities. Federal law specifically provides that a state's eligibility for funds does not create a commitment or obligation on the part of the United States to provide for the payment of principal or interest on bonds. See "THE PLEDGED REVENUES—The Federal Aid Highway Program." 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 2010A Bonds are limited obligations of the NMFA and are payable as to principal and interest exclusively from the Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2008A-2/B-2 BONDS." The ability of the NMFA, the Commission and the Department to realize Pledged Revenues in amounts sufficient to pay debt service on the Subseries 2008A-2/B-2 Bonds and other obligations payable from the Pledged Revenues senior to, on a parity with or subordinate to the Subseries 2008A-2/B-2 Bonds depends on numerous factors, many of which are not subject to the control of the NMFA, the Commission or the Department.

Additional Parity 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 superior lien to the Outstanding Subordinate Lien Parity Obligations 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 SUBSERIES 2008A-2/B-2 BONDS—Outstanding and Additional Senior Lien Bonds," "—Outstanding and Additional Subordinate Lien Obligations" and "—Subordinate Debt."

Tax Status of the Subseries 2008A-2/B-2 Bonds

The opinion expressed by Special Tax Counsel at the time of initial issuance of the Subseries 2008A-2/B-2 Bonds was based on then existing law. 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 Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Subseries 2008A-2/B-2 Bonds, or bonds which present similar tax issues, will not affect the market price for Subseries 2008A-2/B-2 Bonds. Prospective purchasers of the Subseries 2008A-2/B-2 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Special Tax Counsel expresses no opinion. Furthermore, the opinion of Special Tax Counsel spoke only as of the date of initial issuance of the Subseries 2008A-2/B-2 Bonds and Special Counsel has not been asked to confirm or update its opinion and Special Tax Counsel has not undertaken to confirm or update its 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.

Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a “gasoline tax sharing agreement” with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed on June 23, 2004. Under that agreement the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be eliminated for at least the next ten years as a result of the gasoline tax sharing agreements.

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

INTEREST RATE SWAPS

The NMFA 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 NMFA 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 NMFA 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 NMFA</u>	<u>Floating Rate Payment by Counterparty</u>	<u>Termination Date</u>	<u>Mark-to-Market (as of 6/23/10)</u>
Royal Bank of Canada	\$100,000	Series 2008C	3.934%	68% of the 30-day LIBOR	6/15/24	\$(17,908,623)
Goldman Sachs Mitsui Marine Derivatives L.P.	50,000	Series 2008A-1	3.934	68% of the 30-day LIBOR	6/15/24	(8,954,312)
Deutsche Bank, AG	50,000	Series 2008A-2	3.934	68% of the 30-day LIBOR	6/15/24	(8,954,312)
JPMorgan Chase Bank	110,000	Series 2008B-1	4.732	SIFMA Index	12/15/26	(24,729,159)
UBS AG	110,000	Series 2008B-2	4.732	SIFMA Index	12/15/26	(24,729,159)

The Swap Agreements were entered into for the purpose of hedging the exposure of the NMFA against interest rate fluctuations arising from the variable rates borne by the 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 NMFA 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 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 NMFA on the Swap Agreements are Subordinate Lien Obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Subordinate Lien Obligations.

Each of the Swap Agreements provides that the NMFA 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 NMFA to the relevant counterparty or by the relevant counterparty to the NMFA, depending on prevailing economic circumstances at the time of termination. The amount of any such termination payment, while not currently ascertainable, could be substantial. Any such termination payments payable by the NMFA are payable from and secured by a lien on the Pledged Revenues subject and subordinate to the lien thereon of the Subordinate Lien Obligations and on a parity with any Junior Subordinate Lien Obligations.

Each of the Swap Agreements is subject to periodic “mark-to-market” valuations. If the mark-to-market valuation exceeds the limitations set in the Swap Agreement, federal securities may be required to be delivered by the NMFA or the relevant counterparty as collateral securing their respective obligations under the Swap Agreement. In December 2008, the NMFA borrowed \$30 million under a previous line of credit to satisfy a posting requirement pursuant to certain of the Swap Agreements and has since repaid such borrowing. On October 5, 2009, the NMFA posted \$300,000 from legally available moneys to satisfy a collateral call under its Swap Agreements. The NMFA has also executed the Taxable Line of Credit discussed herein to enable it to post collateral under the Swap Agreements in the event the need arises. The Swap Agreements were entered into under a debt policy memorandum of understanding entered into by the NMFA and the Commission. Under that policy memorandum of understanding, an advisor to the NMFA, the Commission and the Department marks the Swap Agreements to market monthly and a joint committee of the NMFA, the Commission and the Department regularly monitors the Swap Agreements.

The arrangements made with respect to the Swap Agreements do not alter the NMFA’s obligations to pay principal of or interest on the 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 it 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 NMFA may be exposed to increased interest rate risk.

As previously stated, if the NMFA issues the Contemplated Series 2010B Bonds, it plans to terminate the Swap Agreements. The NMFA plans to use a portion of the proceeds of the Contemplated Series 2010B Bonds to make the termination payments required under the Swap Agreements. As of the date of this Remarketing Memorandum, such termination payments would in the aggregate be equal to \$85,275,565. Although the NMFA may enter into additional swap agreements, it does not presently plan to do so.

DEBT SERVICE AND PROJECTED COVERAGE

The following table sets forth for each fiscal year from 2010 through 2027, the amounts in each such fiscal year of estimated Pledged Revenues, the estimated amounts required in each such year for debt service on the Outstanding Closed Lien Obligations, the Outstanding Senior Lien Parity Bonds, and the Outstanding Subordinate Lien Bonds and the projected debt service coverage ratios. Estimated Pledged Revenues are based on Department projections as of January 2010. Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE SUBSERIES 2010A-2/B-2 BONDS” and “FORWARD-LOOKING STATEMENTS.”

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DEBT SERVICE COVERAGE

FISCAL YEAR	2009 REVENUES		DEBT SERVICE		COVERAGE		DEBT SERVICE		COVERAGE
	<u>State</u>	<u>Federal</u>	<u>Closed Lien</u>	<u>Senior Lien</u>	<u>State</u>	<u>Total</u>	<u>Subordinate Lien</u> ⁽¹⁾	<u>Total</u>	<u>Total</u>
2010	\$369,617,000	\$302,428,000	\$60,955,731	\$56,556,258	3.15x	5.72x	\$37,501,864	\$155,013,853	4.34x
2011	369,617,000	302,428,000	1,326,755	79,006,816	4.60x	8.37x	63,758,160	144,091,732	4.66x
2012	369,617,000	302,428,000	11,016,755	69,371,766	4.60x	8.36x	53,822,764	134,211,285	5.01x
2013	369,617,000	302,428,000	7,408,805	69,319,956	4.82x	8.76x	45,840,216	122,568,977	5.48x
2014	369,617,000	302,428,000	7,407,140	75,455,571	4.46x	8.11x	22,349,996	105,212,707	6.39x
2015	369,617,000	302,428,000	1,024,353	113,116,441	3.24x	5.89x	22,353,658	136,494,452	4.92x
2016	369,617,000	302,428,000	893,413	113,411,304	3.23x	5.88x	22,352,114	136,656,830	4.92x
2017	369,617,000	302,428,000	1,230,813	113,241,616	3.23x	5.87x	22,353,414	136,825,843	4.91x
2018	369,617,000	302,428,000	—	114,654,673	3.22x	5.86x	22,351,245	137,005,918	4.91x
2019	369,617,000	302,428,000	—	114,865,516	3.22x	5.85x	22,352,495	137,218,012	4.90x
2020	369,617,000	302,428,000	—	115,079,525	3.21x	5.84x	22,353,120	137,432,645	4.89x
2021	369,617,000	302,428,000	—	115,311,350	3.21x	5.83x	22,354,370	137,665,720	4.88x
2022	369,617,000	302,428,000	—	115,552,850	3.20x	5.82x	22,351,120	137,903,970	4.87x
2023	369,617,000	302,428,000	—	40,233,100	9.19x	16.70x	97,925,870	138,158,970	4.86x
2024	369,617,000	302,428,000	—	24,704,638	14.96x	27.20x	154,913,249	179,617,886	3.74x
2025	369,617,000	302,428,000	—	26,941,375	13.72x	24.94x	109,654,761	136,596,136	4.92x
2026	369,617,000	302,428,000	—	26,526,250	13.93x	25.34x	110,127,612	136,653,862	4.92x
2027	369,617,000	302,428,000	—	69,956,250	5.28x	9.61x	66,387,119	136,343,369	4.93x
TOTAL									

⁽¹⁾ Interest on the Series 2008A, Series 2008B and 2008C Bonds assumed at the associated swap rate. Interest on Series 2008D Bonds assumed at 2.00% per annum. Debt Service includes interest earnings on the Reserve Fund and release of Reserve Fund at maturity.

(Source: Financial Advisor.)

NEW MEXICO FINANCE AUTHORITY

General Information

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 39 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

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

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- (a) to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance;
- (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 NMFA;
- (c) to accept, administer, hold and use all funds made available to the NMFA 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.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members who serve as the governing body of the NMFA. Seven of the members are ex officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a State higher educational institution. The remaining four appointed members must be residents of the State. The seven ex officio members with voting privileges include four cabinet-level secretaries, each of whom are appointed by the Governor and serve at the pleasure of the Governor (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of State-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the Governor and the appointed members serve four-year terms. Vacancies for the appointed members are filled by appointment of the Governor for the remainder of any unexpired term. Any appointed member is eligible for reappointment.

The governing body of the NMFA exercises and oversees the exercise of the powers of the NMFA. The governing body of the NMFA satisfies those responsibilities through monthly meetings and through the standing committees that the governing body has established. Those committees are advisory and have no authority to act on behalf of the governing body. Each committee reviews and makes recommendations to the governing body concerning matters assigned to it by the governing body.

The Executive Committee, which is chaired by the Chairman of the NMFA, Stephen R. Flance, provides oversight and direction relating to the operations of the NMFA. Other committees include the Audit Committee, chaired by Katherine B. Miller; the Finance/Loan Committee, chaired by Stephen R. Flance; the Economic Development Committee, chaired by Paul Gutierrez; the Investment Committee, chaired by Craig Reeves; and the Contracts Committee, chaired by Paul Gutierrez. The committees typically meet monthly.

The governing body has also established written policies concerning the exercise of the powers of the NMFA, including the administration of the Public Project Revolving Fund. The written policies serve as ongoing directions to staff and consultants with respect to standards to be applied in the conduct of the business of the NMFA.

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Governing Body and Key Staff Members

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

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Ron Curry ⁽¹⁾ (Secretary)	Secretary, Environment Department, State of New Mexico	not applicable
Rhonda G. Faught ^{(2) (3)}	R. Faught & Associates, LLC, Former Secretary of the New Mexico Department of Transportation	01/01/12
Stephen R. Flance ^{(2) (3)} (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	01/01/13
William F. Fulginiti ⁽¹⁾ (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Paul Gutierrez ⁽¹⁾	Executive Director, New Mexico Association of Counties	not applicable
Steven K. Moise ⁽¹⁾	State Investment Officer, State Investment Council	not applicable
Lonnie Marquez ⁽²⁾	Vice President for Administration and Finance, New Mexico Institute of Mining and Technology	01/01/12
Katherine B. Miller ⁽¹⁾	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Fred Mondragon ⁽¹⁾	Secretary, Economic Development Department, State of New Mexico	not applicable
Jim Noel ⁽¹⁾	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves ⁽²⁾ (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	01/01/12
Daniel P. Silva ^{(2) (3)}	Former State Representative Albuquerque, New Mexico	01/01/13

⁽¹⁾ Ex officio member with voting privileges. An ex officio member may designate an alternate member. Alternate members may attend meetings and vote on all matters considered by the NMFA. Ex officio members that are cabinet secretaries are appointed to their cabinet positions by the Governor of the State and serve in those capacities at the pleasure of the Governor.

⁽²⁾ Appointed by the Governor of the State and serves at the pleasure of the Governor.

⁽³⁾ Appointed by the Governor of the State, awaiting confirmation by the New Mexico State Senate during its next regular legislative session that is scheduled to commence in January, 2011, and will continue to serve until the expiration of such session if no confirmation is received. If the New Mexico State Senate confirms Messrs. Flance and Silva during its next session, the terms of such individuals will expire on January 1, 2013. If the Senate confirms Ms. Faught during its next session, her term will expire on January 1, 2012.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2010A Bonds and the administration of the NMFA's financing programs.

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

John T. Duff, Chief Financial Officer. Mr. Duff joined the NMFA as Chief Investment Officer in February, 2006 and became Chief Operating Officer in 2007 where he served in that capacity until January, 2008 when he was appointed Chief Financial Officer. Mr. Duff has more than 22 years experience in investment management, financial management, and public accounting. He has held positions as COO and CFO of publicly held corporations and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. Mr. Duff has a Bachelor of Arts degree in Economics from Oberlin College and a Master of Business Administration in accounting and finance from Miami University.

Michael J. Zavelle, Chief of Investor Relations. Mr. Zavelle joined the NMFA in June 2009. Mr. Zavelle has an extensive and varied background in finance with public and private universities, a major cultural organization, and as a capital markets banker in Asia responsible for client relations and for loan and bond underwriting, syndication and private placement. He served as a VP/CFO for Fisk University, Brooklyn College/CUNY, and Baruch College/CUNY, as Vice Chancellor for Administration & Planning for City University of New York, as SVP and Chief Administrative Officer for The New York Public Library, and as a Managing Director with Chase Manhattan Asia Limited in Hong Kong and Tokyo. Mr. Zavelle has a Bachelor of Arts degree in Economics from Dartmouth College and a Master of Business Administration degree from Harvard University.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September, 2000. Ms. Russel has approximately 20 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than \$1 billion of transactions, ranging from \$5,000 microloans to \$175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Reynold E. Romero, General Counsel. Mr. Romero joined the NMFA in April, 2007 as General Counsel. Prior to joining the NMFA, Mr. Romero served as General Counsel for the New Mexico Department of Transportation (NMDOT) for over three years and previously served as Deputy General Counsel and Assistant General Counsel for NMDOT. Mr. Romero has over 28 years of legal practice in transportation law, including eminent domain, property law, and procurement. Mr. Romero handled complex litigation and was part of a team that negotiated complex transactions for the NMDOT such as the purchase of the rail line from BNSF for the commuter rail project in New Mexico. Mr. Romero received his Juris Doctorate from the University of Denver College of Law.

Legislative Oversight

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it, among other things: (i) meets on a regular basis to receive and review reports from the NMFA; (ii) monitors and provides assistance and advice on the public project financing program of the NMFA; (iii) oversees and monitors State and local government capital planning and financing; (iv) provides advice and assistance to the NMFA on planning, setting priorities for and financing of State and local capital projects; (v) undertakes an ongoing examination of the statutes, constitutional provisions, regulations and

court decisions governing State and local government capital financing in the State; and (vi) reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the “Legislature”), and makes available the report and proposed legislation.

The Public Project Revolving Fund Program

General. The Act created the Public Project Revolving Fund (the “PPRF”) program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; public recreation facilities; public transportation systems; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of \$1 million per project require specific authorization by the Legislature. As of May 1, 2010, the NMFA had made 869 PPRF loans totaling in the aggregate approximately \$1.76 billion.

In addition, the NMFA has authorized an arrangement with Bank of America, N.A. (the “Short-term Lender”) for the Short-term Lender to provide to the NMFA an amount up to \$75,000,000 to reimburse the NMFA for loans made to eligible entities that are incurred prior to the issuance of PPRF bonds.

Other Programs and Projects

The NMFA also participates in or administers other programs designed to provide financing to local governmental entities and state agencies for public projects. Such programs are not secured by the Trust Estate but are secured by other sources of revenues. The following table sets forth the different types of programs and the amount of bonds outstanding under such programs.

<u>Program</u>	<u>Project</u>	<u>Original Principal Amount</u>	<u>Amount Outstanding as of March 31, 2010</u>	<u>Scheduled Final Maturity</u>
Worker’s Compensation	Administrative Building	\$4,310,000	\$2,080,000	9/1/2016
	University of New Mexico			
Cigarette Tax	Health Sciences Building	39,035,000	19,855,000	4/1/2019
Cigarette Tax	Behavioral Health Facilities	2,500,000	2,125,000	5/15/2026

(Source: NMFA.)

THE COMMISSION AND THE DEPARTMENT

The Commission

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

<u>Name</u>	<u>Title</u>	<u>Residence</u>	<u>Term Expires</u>
Johnny Cope	Chairperson	Hobbs	12/31/2012
Jim Franken	Vice-Chair	Las Vegas	12/31/2010
Doug Peterson	Secretary	Albuquerque	12/31/2010
Jackson Gibson	Member	Thoreau	12/31/2014
John Hummer	Member	Las Cruces	12/31/2012
Roman Maes III	Member	Santa Fe	12/31/2014

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

The Department

The Department is a Cabinet level department within the executive branch of the State's government. The Department is a multimodal transportation agency with emphasis on all modes of transportation and is implementing a bold and innovative approach to address the transportation needs of every New Mexican. The Department has successfully implemented park-and-ride services in central and northern New Mexico with future plans to provide similar services in southern New Mexico. In conjunction with local governmental agencies and tribal sovereign governments, the Department began providing 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. Gary Giron is currently serving as the Secretary.

The Department's finances are comprised of revenues from State and federal sources. In fiscal year 2008, 58% 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 42% 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, 2009, 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”). SAFETEA-LU, TEA-21 and ISTEA require states to develop these programs. STIPs are consistent with Long-Range Transportation Plans and provide a detailed outline of projects that are proposed for implementation in a time-frame of one to six years. The Department, with input from the State’s Metropolitan Planning Organizations and Regional Planning Organizations, prepares the STIP for the approval of the Commission. At the federal level, the STIP is reviewed by the FHWA, the Federal Transit Administration and the Environmental Protection Agency. See “THE PLEDGED REVENUES.”

The STIP lists all projects funded with federal funds for a period of at least four years. In New Mexico, the STIP is currently developed annually and covers a four-year period. The most recent four-year STIP covering federal fiscal years [2010 through 2013 was approved by the Commission on August 20, 2009/December 9, 2009]. The STIP is subject to change on a quarterly basis. The four-year STIP represents \$1,183,631,167 of projects to be undertaken during federal fiscal years 2010 through 2013, 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, for the bonds issued to finance the GRIP Transportation Projects.

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

Discussion Regarding Federal Revenues. The Department and the FHWA have recently 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, including GRIP Transportation 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, during any year in which the FHWA Memorandum is in place, the Department has not exceeded \$122 million in debt service. 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, 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 make any representation regarding the amount or timeliness of payments from the FHWA.

LITIGATION

There is no litigation known to be pending or threatened to restrain or enjoin the remarketing of the Subseries 2008A-2/B-2 Bonds, the 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 Subseries 2008A-2/B-2 Bonds or in any way contesting or affecting the validity or enforceability of the Subseries 2008A-2/B-2 Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing.

REMARKETING AGENTS

General

Goldman, Sachs & Co. has been appointed as the Remarketing Agent for the Subseries 2008A-2 Bonds and Jefferies & Company, Inc. has been appointed the Remarketing Agent for the Subseries 2008B-2 Bonds to perform

the duties of a Remarketing Agent as required under the provisions of the Fifth Series Indenture pursuant to separate but substantially similar Remarketing Agreements (the “Remarketing Agreements”) between each Remarketing Agent and the NMFA.

Subject to the terms and conditions set forth in the Remarketing Agreements, each Remarketing Agent has agreed to perform the duties of a Remarketing Agent under the Fifth Series Indenture and to use its best efforts in remarketing the respective Subseries of the Subseries 2008A-2/B-2 Bonds. The Remarketing Agents may at any time resign and be discharged of the duties and obligations contemplated by the Fifth Series Indenture by giving at least thirty days’ notice to the NMFA, the Tender Agent and the Trustee. The Remarketing Agents may be removed by the NMFA at any time by a written notice of the NMFA filed with the respective Remarketing Agent, and the Trustee. Upon the resignation or removal of a Remarketing Agent, the NMFA may appoint a new Remarketing Agent by entering into a new Remarketing Agreement with a successor Remarketing Agent.

The Remarketing Agents are Paid by the NMFA

The Remarketing Agents’ responsibilities include determining the interest rate from time to time and remarketing their respective Subseries of the Subseries 2008A-2/B-2 Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the respective Remarketing Agreement), all as further described in this Remarketing Memorandum. The Remarketing Agents are appointed by the NMFA and are paid by the NMFA for their services. As a result, the interest of the Remarketing Agents may differ from those of existing holders and potential purchasers of Subseries 2008A-2/B-2 Bonds.

The Remarketing Agents Routinely Purchase Bonds for Their Own Account

The Remarketing Agents act as remarketing agent for a variety of variable rate demand obligations and, in their sole discretion, routinely purchase such obligations for their own account. The Remarketing Agents are permitted, but not obligated, to purchase tendered Subseries 2008A-2/B-2 Bonds of their respective Subseries for their own account and, in their sole discretion, routinely acquire such tendered Subseries 2008A-2/B-2 Bonds of their respective Subseries in order to achieve a successful remarketing of such Subseries (i.e., because there otherwise are not enough buyers to purchase such Subseries) or for other reasons. However, the Remarketing Agents are not obligated to purchase the Subseries 2008A-2/B-2 Bonds of their respective Subseries, and may cease doing so at any time without notice. The Remarketing Agents may also make a market in their respective Subseries of the Subseries 2008A-2/B-2 Bonds by routinely purchasing and selling such Subseries other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agents may also sell any Subseries 2008A-2/B-2 Bonds they have purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce their exposure to their respective Subseries of Subseries 2008A-2/B-2 Bonds. The purchase of the respective Subseries of the Subseries 2008A-2/B-2 Bonds by the related Remarketing Agent may create the appearance that there is greater third party demand for the respective Subseries of the Subseries 2008A-2/B-2 Bonds in the market than is actually the case. The practices described above also may result in fewer Subseries 2008A-2/B-2 Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date

Pursuant to the Remarketing Agreements, the Remarketing Agents are required to determine the applicable rate of interest that, in their judgment, is the lowest rate that would permit the sale of their respective Subseries of Subseries 2008A-2/B-2 Bonds bearing interest at the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the particular Subseries of the Subseries 2008A-2/B-2 Bonds (including whether the related Remarketing Agent is willing to purchase the particular Subseries of the Subseries 2008A-2/B-2 Bonds for its own account). There may or may not be Subseries 2008A-2/B-2 Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agents may or may not be able to remarket the particular Subseries of the Subseries 2008A-2/B-2 Bonds tendered for purchase on such date at par and the Remarketing Agents may sell their respective Subseries of the Subseries 2008A-2/B-2 Bonds at varying prices to different investors on such date or any other date. The Remarketing Agents are not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the respective Subseries of the Subseries 2008A-2/B-2 Bonds at the remarketing price. The Remarketing Agents, in their sole discretion, may offer their respective

Subseries of the Subseries 2008A-2/B-2 Bonds on any date, including an interest rate determination date, as a discount to par to some investors.

The Ability to Sell the Subseries 2008A-2/B-2 Bonds other than through Tender Process May Be Limited

The Remarketing Agents may buy and sell their respective Subseries of the Subseries 2008A-2/B-2 Bonds other than through the tender process. However, they are not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Subseries 2008A-2/B-2 Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase Subseries 2008A-2/B-2 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Subseries 2008A-2/B-2 Bonds other than by tendering the Subseries 2008A-2/B-2 Bonds in accordance with the tender process.

Under Certain Circumstances, a Remarketing Agent May Be Removed, Resign or Cease Remarketing its Subseries of the Subseries 2008A-2/B-2 Bonds, Without a Successor Being Named

Under certain circumstances the Remarketing Agents may be removed or have the ability to resign or cease their remarketing efforts, without a successor having been named, subject to the terms of the respective Remarketing Agreement. In the event there is no Remarketing Agent for a Subseries of the Subseries 2008A-2/B-2 Bonds, the Trustee may assume such duties as described in the Indenture.

TAX MATTERS

Federal Income Tax

At the time of initial issuance of the Subseries 2008A-2/B-2 Bonds, Ballard Spahr LLP, Special Tax Counsel to the NMFA, rendered its opinion that based on an analysis of then existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Subseries 2008A-2/B-2 Bonds was excludable from gross income for federal income tax purposes and was not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest was included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although Special Tax Counsel rendered its opinion that interest on the Subseries 2008A-2/B-2 Bonds was excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Subseries 2008A-2/B-2 Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Subseries 2008A-2/B-2 Bonds.

State of New Mexico Income Tax

At the time of initial issuance of the Subseries 2008A-2/B-2 Bonds, Special Tax Counsel rendered its opinion that under laws of the State of New Mexico as then enacted and construed, interest on the Subseries 2008A-2/B-2 Bonds was excludable from net income of the owners thereof for State of New Mexico income tax purposes.

No Update or Confirmation

Special Tax Counsel has not been requested to confirm or update the opinion it rendered at the time of initial issuance of the Subseries 2008A-2/B-2 Bonds and Special Tax Counsel has not undertaken to update or confirm its opinion since the date of initial issuance of the Subseries 2008A-2/B-2 Bonds and such opinion speaks only as of its date.

LEGAL MATTERS

Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, has acted as Bond Counsel to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. Ballard Spahr LLP, Salt Lake City, Utah, has acted as Disclosure Counsel to the NMFA and Virtue Najjar & Brown PC, Santa Fe, New Mexico, has acted as Issuer's Counsel to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. The Department is being represented by its general counsel in connection with the remarketing of the Subseries 2008A-2/B-2 Bonds. Certain legal matters will be passed upon for the Bank by Andrews Kurth LLP, Houston, Texas. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA, the Commission or the Department contained in this Remarketing Memorandum.

FINANCIAL ADVISOR

Public Financial Management, Inc. is employed as Financial Advisor to the NMFA in connection with the remarketing of the Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 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, 2009, an extract from which is included as Appendix A to this Remarketing Memorandum, have been audited by Meyners & Company, LLC, certified public accountants, Albuquerque, New Mexico, as set forth in its report therein dated June 8, 2010. Such financial statements represent the most current audited financial information available for the Department. Meyners & Company, LLC has not been asked to consent to the use of its name and the audited financial reports for the Department in this Remarketing Memorandum.

FORWARD-LOOKING STATEMENTS

This Remarketing Memorandum contains statements relating to the NMFA's, the Commission's and the Department's future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Remarketing Memorandum, 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.

NO CONTINUING DISCLOSURE UNDERTAKING

Because the Subseries 2008A-2/B-2 Bonds are currently issued in denominations of at least \$100,000 and are subject to tender for purchase at the option of the registered owners at least every nine months, the Subseries 2008A-2/B-2 Bonds are currently exempt from the continuing disclosure requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 ("Rule 15c2-12"). The NMFA has covenanted that it will enter into an undertaking that complies with Rule 15c2-12 in the event that any of the Subseries of Subseries 2008A-2/B-2 Bonds becomes subject to Rule 15c2-12.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P") have assigned ratings of "Aa3/VMIG 1" and "A+/A-1," respectively, to the Subseries 2008A-2 Bonds and Subseries 2008B-2 Bonds with the understanding that the Letters of Credit will be delivered simultaneously with the remarketing of the Subseries 2008A-2 Bond and the Subseries 2008B-2 Bonds. An explanation of the significance

of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007 and S&P at 55 Water Street, New York, New York 10041.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds may have an adverse effect on the market price of the Subseries 2008A-2/B-2 Bonds. The Remarketing Agent has not undertaken any responsibility to bring to the attention of the owners of the Subseries 2008A-2/B-2 Bonds any proposed revision or withdrawal of the ratings on the Subseries 2008A-2/B-2 Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Remarketing Memorandum 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.

Any statements in this Remarketing Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Remarketing Memorandum is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Subseries 2008A-2/B-2 Bonds.

APPROVAL BY THE NMFA

This Remarketing Memorandum has been deemed "final" under the meaning of the Rule and its distribution and use by the Remarketing Agents has been duly authorized and approved by the NMFA, and this Remarketing Memorandum has been executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Chief Financial Officer.

NEW MEXICO FINANCE AUTHORITY

By _____ /s/ Stephen R. Flance
Stephen R. Flance
Chairman

By _____ /s/ John T. Duff
John T. Duff
Chief Financial Officer

APPENDIX A
DEPARTMENT FINANCIAL INFORMATION

**NEW MEXICO
DEPARTMENT OF
TRANSPORTATION
Financial Statements
for the Year Ended
June 30, 2009,
and Independent
Auditors' Report**

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Official Roster

Year Ended June 30, 2009

Commission

Johnny Cope	Chairperson	Hobbs
Jim Franken	Vice-Chairperson	Las Vegas
Norman Assed	Secretary	Albuquerque
John Hummer	Member	Las Cruces
Roman Maes III	Member	Santa Fe
Jackson Gibson	Member	Thoreau

Administrative Officer

Gary Giron	Cabinet Secretary
Domingo Sanchez III	Deputy Secretary

INDEPENDENT AUDITORS' REPORT

Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparison for the Department as a whole and the aggregate remaining fund information of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2009, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental funds and the budget comparisons for each fund presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of the Department are intended to present the financial position, and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of



Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

New Mexico (State) that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the Department as a whole for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Department as of June 30, 2009, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison for the Department as a whole referred to above presents fairly, in all material respects, the budget comparison of all the governmental funds and enterprise funds of the Department for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2010, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual financial statements and the budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Department. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Meyners + Company, LLC

June 8, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis Year Ended June 30, 2009

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, 2009. 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 33 of this audit report.

Financial Highlights

The Department's net assets declined by \$195,713,481, mainly due to depreciation and amortization expense of \$570,870,614. The net assets of the Department's governmental activities decreased by \$195,917,925 due to increases in contractual services, capital outlay and debt service expenditures related to GRIP Bond Projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) major governmental fund financial statements, and 3) notes to the financial statements. This report also contains other 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 Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

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

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 20 of this report.

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 balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Department has 44 governmental funds. Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria:

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

The Department's major governmental funds are the following:

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

General Fund Appropriations Fund - The General Fund Appropriations fund was created to separately account for the construction of infrastructure on behalf of other governments in annual legislative appropriations. This is funded through the transfer of funds from the State General Fund. This fund

Overview of the Financial Statements - continued

Fund Financial Statements – continued

reverts to the State General Fund upon completion of the appropriation project or upon expiration of the appropriation period.

ARRA Project Fund - The ARRA 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.

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 41 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 114 through 131.

Enterprise Funds

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

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

The basic proprietary fund financial statements can be found on pages 28 through 30 and the cash flows statement is on page 31 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 33.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. At June 30, 2009, the Department's assets exceeded liabilities by \$5,803,140,260.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Government-wide Financial Analysis - continued

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

Net Assets

As of June 30, 2009 and 2008, the Department has positive balances in two categories of net assets, both for the government fund financial statement as a whole, as well as for its separate categories - governmental and business-type activities. Table A-1 summarizes the Department's net assets for the fiscal years ended June 30, 2009 and 2008.

Table A-1
The Department's Net Assets

		Governmental Activities		Business-type Activities		Total	
		2009	2008	2009	2008	2009	2008
Assets:							
Current and other assets	\$	588,138,929	800,698,578	21,277,419	21,807,779	609,416,348	822,506,357
Capital assets and other		7,208,713,391	7,120,291,143	-	-	7,208,713,391	7,120,291,143
Total assets		7,796,852,320	7,920,989,721	21,277,419	21,807,779	7,818,129,739	7,942,797,500
Liabilities:							
Current liabilities		335,889,963	230,110,898	811,114	1,545,918	336,701,077	231,656,816
Long-term liabilities		1,678,288,402	1,709,765,776	-	-	1,678,288,402	1,709,765,776
Total liabilities		2,014,178,365	1,939,876,674	811,114	1,545,918	2,014,989,479	1,941,422,592
Net assets:							
Invested in capital assets, net of related debt and unspent bond proceeds		5,234,861,006	5,284,234,236	-	-	5,234,861,006	5,284,234,236
Restricted		547,812,949	696,878,811	20,466,305	20,261,861	568,279,254	717,140,672
Total net assets	\$	5,782,673,955	5,981,113,047	20,466,305	20,261,861	5,803,140,260	6,001,374,908

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Government-wide Financial Analysis – continued

Changes in Net Assets

Table A-2 provides a summary of the Department's operations for the years ended June 30, 2009 and 2008. Governmental activities decreased the Department's net assets by \$195,917,925 in 2009 and by \$115,604,224 in 2008. Business-type activities increased the Department's net assets by \$204,444 in 2009 and by \$760,530 in 2008 due to interest income earned during the year.

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

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Capital grants	\$ 402,823,566	305,469,842	-	-	402,823,566	305,469,842
Operating grants	-	75,933,653	-	-	-	75,933,653
Charges for services	38,434,473	13,549,696	-	-	38,434,473	13,549,696
General revenues:						
Taxes	388,743,110	419,976,392	-	-	388,743,110	419,976,392
Interest income	18,733,946	46,706,497	204,444	760,530	18,938,390	47,467,027
Gain (loss) on disposal of assets	(3,855,743)	(6,028)	-	-	(3,855,743)	(6,028)
Total revenues	844,879,352	861,630,052	204,444	760,530	845,083,796	862,390,582
Expenses:						
Depreciation & amortization	570,870,614	549,177,995	-	-	570,870,614	549,177,995
Programs and infrastructure	77,477,730	11,028,125	-	-	77,477,730	11,028,125
Transportation and Highway Operations	289,556,180	246,894,734	-	-	289,556,180	246,894,734
Program support	147,515,433	163,329,100	-	-	147,515,433	163,329,100
ARRA	634,638	-	-	-	634,638	-
Total expenses	1,086,024,595	970,429,954	-	-	1,086,024,595	970,429,954
Net revenues (loss) before transfers and reversions	(241,145,243)	(108,799,902)	204,444	760,530	(240,940,799)	(108,039,372)
Transfers and reversions	45,227,318	(6,804,322)	-	-	45,227,318	(6,804,322)
(Decrease) increase in net assets	(195,917,925)	(115,604,224)	204,444	760,530	(195,713,481)	(114,843,694)
Net assets, beginning of year	5,981,113,047	6,099,426,853	20,261,861	19,501,331	6,001,374,908	6,118,928,184
Restatements	(2,521,167)	(2,709,582)	-	-	(2,521,167)	(2,709,582)
Net assets, end of year	\$ 5,782,673,955	5,981,113,047	20,466,305	20,261,861	5,803,140,260	6,001,374,908

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Government-wide Financial Analysis - continued

The changes in net assets for the Department's major funds for 2009 are as follows:

State Road Fund	\$ (51,098,100)
ARRA Fund	(14,762,939)
General Fund Appropriations	<u>(71,713,487)</u>
Major funds, net change in assets	\$ <u>(137,574,526)</u>

Financial Analysis of the Government's Funds

Governmental Funds

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

At the end of the 2009 fiscal year, the Department's governmental funds reported combined ending fund balances of \$318,911,624, a decrease of \$339,641,014 from the prior year. Fund balance is reserved to indicate that it is not available for new spending because it has already been committed to provide for inventories, long-term assets and prepaid items and other reserved items of \$62,025,156.

Budgetary Highlights

The Department budgets are on a modified accrual basis and not all funds are budgeted. The Department made revisions to the original approved budget by \$375,392,363. Overall, these changes were caused by the following significant budget adjustments:

Transfer budget categories for bridge testing equipment	\$ 172,000
Budget available cash for WIPP/DOE for GRIP project Clines Corners to Lamy	16,000,000
Allocate federal grant funding for Rail Runner Express Operations & Maintenance	3,800,000
Allocate maintenance funds paid by BNSF and Amtrak for railroad repairs	2,500,000
Budget NHTSA Alcohol Countermeasure project funds	6,000,000
Budget DWI Indigent Device Fund to allow for payment to vendors	520,000
Budget Federal Transit Funds for operations in Grants and Services	1,600,000
Utilize WIP/DOE revenue from Acoma and Rubberized Asphalt for Acomita Interchange	12,521,000
Increased debt service costs for refunding done in April 2008	2,500,000
Transfer of costs to cover interest payments for the Line of Credit and unused amounts fees	2,000,000
Increase in GRIP project funds for Rail Runner Belen to Santa Fe	23,500,000

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Financial Analysis of the Government's Funds - continued

Budgetary Highlights - continued

Voluntary reduction in department level budget	\$40,164,615
Increase Interlock Device Fund	407,000
Increase Federal Traffic Safety Fund	280,000
Increase DWI Prevention Fund	80,900
Increase Traffic Safety Education & Enforcement	500,000
Increase Federal Economic Stimulus Package-ARRA	107,900,000
Increase Traffic Safety Education & Enforcement	500,000
Increase Federal Economic Stimulus Package-ARRA Transit	12,255,602
Transfer of funds from Indian Affairs Department for street lighting	328,000
Homeland Security reimbursement for flooding disaster areas statewide	34,743
Increase Mesa PDC-US 550 Warranty reimbursement	1,297,944
Increase Federal Economic Stimulus Package-ARRA-LED Lighting Project	2,500,000
Increase Federal Economic Stimulus Package-ARRA	<u>138,030,559</u>
	\$ <u>375,392,363</u>

Capital Assets Overview

The Department's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$7,168,146,950 (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.

Fiscal Year 2008-2009 Active Projects with a contract amount of \$10 million or more:

- I-40/San Mateo Interchange - Bernalillo County
- I-40/West Interchange - Bernalillo County
- I-40, MP 173.730 to MP 177.177 - Bernalillo County
- I-40, MP 54.000 to MP 58.000 - McKinley County
- US 491, MP 59.000 to MP 67.700 - San Juan County

Capital Assets Overview - continued

Major Infrastructure Projects - continued

Fiscal Year 2008-2009 Active Projects with a contract amount of \$10 million or more - continued:

I-40/San Mateo Interchange - Bernalillo County
I-40/West Interchange - Bernalillo County
I-40, MP 173.730 to MP 177.177 - Bernalillo County
I-40, MP 54.000 to MP 58.000 - McKinley County
US 491, MP 59.000 to MP 67.700 - San Juan County
I-40, MP 126.244 to MP 130.760 - Cibola County
I-40, Interchange at MP 102.000 - Cibola County
US 62/180, MP 0.240 to MP 16.250 - Eddy County
US 62/180, MP 16.250 to MP 25.980 - Eddy County
US 64/87, MP 390.332 to MP 400.000 - Union County
NM 26, MP 25.900 to MP 45.300 - Luna County
NM 128, MP 38.810 to MP 48.990 - Lea County
NM 128, MP 24.700 to MP 38.810 - Lea County
I-40, MP 124.000 to MP 133.700 - Dona Ana County
NM 83, MP 0.200 to MP 12.900 - Lea County
US 84/285, MP 184.910 to MP 186.180 - Santa Fe County
US 285, MP 250.000 to MP 280.000 - Torrance, San Miguel, Santa Fe Counties
I-25, MP 220.500 to MP 222.860 - Bernalillo County
US 550, MP 64.780 to MP 115.300 - Sandoval, Rio Arriba, San Juan Counties

Equipment

For fiscal year 2009, the Equipment modified accrual basis budget total was approximately \$11.9 million. Of this budget, approximately \$6.4 million was fully expended at June 30, 2009. 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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Capital Assets Overview - continued

Table A-3
Department's Capital Assets

		<u>2009</u>	<u>2008</u>
Land	\$	5,076,633	5,076,633
Construction in Process		19,637,755	-
Right of way		463,768,765	377,725,494
Infrastructure		15,268,403,662	15,172,765,450
Equipment and furniture		30,039,203	31,472,967
Library		102,614	102,614
Buildings		42,006,106	40,005,443
Vehicles		187,263,628	192,015,322
Accumulated depreciation		<u>(8,848,151,416)</u>	<u>(8,743,765,971)</u>
Total	\$	<u>7,168,146,950</u>	<u>7,075,397,952</u>

Additional information on the Department's capital assets can be found in Note 9 of this report.

Debt Administration

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

At June 30, 2009, the Department had a total outstanding debt (bonds) of \$1,687,175,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

Table A-4
Department's Outstanding Debt

		<u>2009</u>	<u>2008</u>
Bonds (excludes deferred amount on refunding)	\$	<u>1,687,175,000</u>	<u>1,761,675,000</u>

The Department's total bond debt decreased by 4.2%, or \$74,500,000. Total outstanding bond debt at the end of the fiscal year was \$1,687,175,000 compared to \$1,761,675,000 at the end of the 2008 fiscal year. Key factors affecting the Department's outstanding bonds during the current fiscal year included bond principal repayments totaling \$74,500,000. See Note 11 for a detail of all outstanding bonds.

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

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. The population of the State as of July 1, 2009 was 2,009,671. In the 1990s, the State was the twelfth fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent. Most of this population growth is occurring in or near the larger cities. There are four Metropolitan Statistical Areas (MSA) 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 and Santa Fe.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing and mining. In 2006, the value of energy resources production (crude petroleum, natural gas and coal) was approximately \$15.6 billion. Total value of energy and other mineral production was \$17.0 billion. The mining industry employed about 21,000 New Mexicans in 2008 and represented 15.6% of the states's GDP. 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. The amount of FHWA revenue (obligation authority) available to all states has slightly increased as a result of the passage of the new 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 and \$372.5 million in FY2009. This compares to previous amounts of \$278.9 million in FY2002, \$263.2 million in FY2003, and \$243.5 million in FY2004. The reauthorization bill provides "apportionment" amounts, but the real spending amount (the "obligation limitation") is determined by the appropriation levels in each year's federal budget bill.

Federal Transit Administration Funds: NMDOT reported revenue of \$25,155,197 in FY 2009 Federal Transit Administration grant funds.

National Highway Traffic Safety Administration Funds: NMDOT reported revenue of \$18,895,855 in FY 2009 of National Highway Traffic Safety Administration grant funds.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

Federal Revenue - continued:

DOE Revenue: The Department of Energy will continue to provide New Mexico with more than \$20 million per year through FY2011 pursuant to an agreement in connection with the Waste Isolation Pilot Project in Carlsbad, New Mexico. The amount of this revenue budgeted for debt service was \$20.7 million in FY2004, \$21.1 million in FY2005, \$19.8 million in FY2006, \$15.7 million in FY2007, \$14.7 million in FY 2008 and \$15.9 million in FY2009.

ARRA Revenue: NMDOT reported \$699,965 revenue of \$699,965 of FY2009 ARRA funds passed through from the New Mexico Energy, Mineral and Natural Resources Department. NMDOT also reported \$16,901,789 revenue of FY2009 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 have not been exempted from the current recession. However, there is sufficient diversity of type that not all are being impacted to the same extent. State Road Fund revenues are about half and half passenger car to trucking activity. Those associated with passenger cars (gasoline and registrations) have been virtually flat while trucking (special fuel and weight/distance) revenues, influenced by economic recession activity, has been impacted negatively by almost 20%. The resultant total state road fund revenue curve characterizing this recession is 7 years (FY 2007 to FY 2014) from peak to trough to return to peak levels. The low point is about 12% down in FY 2010 with the expected climb-out to last 4 years.

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 strong economy, added almost \$100 million annually (36%) from FY 2003 to FY 2007 to the State Road Fund.

State Revenue Forecasts – Major Revenue Sources

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 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.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue Forecasts – Major Revenue Sources - continued

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 and 2009, these revenues declined \$13.2 and \$18.9 million. These four revenue sources constitute 94% of the state road fund. These revenues were consistent with the forecasts for the periods and did add the expected \$60 million for GRIP and maintenance. 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 and FY 2009.

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 \$108.0 million in revenue in FY 2009. 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, plateaued from 1995 to 1999, and decreased to 2001, when they plateaued again. 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 not very large changes.

Of much interest and frequent query is how the gasoline usage (gallons) has fared during the large price fluctuations in 2008 and in light of the economic slowdown. While being watched carefully, for New Mexico, there has been, surprisingly, little, to no change in gasoline usage.

Special fuels are the second largest of the state's revenue sources, providing \$85.6 million in FY 2009, down from \$101.5 in FY 2008. The tax per gallon was raised from 18 to 21 cents per gallon effective FY 2005. Of the 21 cents, the Department receives 19 cents, with the remainder going to local governments. With the increase, special fuels have grown by \$27.0 million, or 36%, from FY 2004 to FY 2008. Special fuels, over time, have been strongly growing revenue with an average annual compound growth rate of 5.2% from 1988 to 2008.

The current recession, because of the lack of consumer goods purchases and, hence, movement, has led to a fairly steep decline in freight for all sources including air, ship, rail and truck. For all these types that decline from peak has been in range of 20%. Trucking, and its associated fuel usage, experienced its strong contraction beginning in December 2009 with a new low plateau for the remainder of FY 2009. This step-down for the last half of the fiscal year manifested itself in the reduced full year revenue.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue Forecasts – Major Revenue Sources - continued

Weight/Distance tax is charged on trucks over 26,000 pounds and varies by load carried and distance traveled in New Mexico. It is the third largest revenue producer, with \$80.0 million in revenue in FY 2009, down slightly from \$77.4 million in FY 2008. Its rates, too, were raised in the fall 2003 special session. Prior to the increases, revenues averaged \$50 million. From FY 2004, an additional \$25.9 million, or 50% in revenue is received annually. (It should be noted that a “bump” increase occurred in 2007 because of an accounting time period changes.)

Motor vehicle registration fees are the fourth largest revenue at \$72.2 million in FY 2009. These fees were raised also and have represented an increase of \$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 above.

State Revenue Forecasts - Procedure Changes Impact

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 was charged on trucks in lieu of the weight/distance 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. New federal regulations now prevent states from requiring the showing of the cards. Trip tax rose to a peak of \$8.6 million in FY 2006 and provided revenues of \$5.8 million in FY 2009. Recent New Mexico investments in enforcement and optical scanning computer truck identification interface with the weight/distance tax data base are expected to increase truck related revenues.

The New Mexico Public Regulation Commission used to collect 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 centralized 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 once the system is in place and up and running. Because of delays in getting the system up and running, revenue for FY 2007 came in at \$377,000, \$866,000 for FY 2008, and \$2.3 million in FY 2009. As the system improves over time, it is hoped that the cap maximum will be reached.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

Background - Gasoline Tax and Tribal Tax Sharing Agreements

The state permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. The growth in tribal market share has out-paced the overall growth rate of gasoline in recent years as a result of competitive pricing, casino traffic, and development of new tribal travel centers. Currently the tribal sales have been stabilized to slowly growing.

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 sales activities outside reservation boundaries. The result of these agreements (entered into on January 1, 2004 and July 1, 2004) should be a small revenue gain for the state and significantly more predictable gasoline revenues.

Contacting the Agency's Financial Management

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

Attn: Deputy Comptroller
New Mexico Department of Transportation
1120 Cerrillos Road
P.O. Box 1149
Santa Fe, New Mexico 87504-1149
(505) 827-5340

FINANCIAL STATEMENTS

DEPARTMENT OF TRANSPORTATION
Statement of Net Assets

AS OF JUNE 30, 2009

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
CURRENT ASSETS:			
Cash (Note 2):			
Unrestricted	2,600	-	2,600
Restricted	228,570,025	-	228,570,025
Cash equivalents (Note 2):			
(Investment in state general fund investment pool)			
Unrestricted	35,205,112	-	35,205,112
Restricted	131,677,225	8,458,560	140,135,785
Receivables:			
Taxes receivable, net	61,939,382	-	61,939,382
Accounts receivable, net (Note 3)	11,899,692	-	11,899,692
Interest receivable	734,562	447,114	1,181,676
Notes and loans receivable (Note 5)	18,143	12,177,853	12,195,996
Other receivables	183,397	-	183,397
U.S. Department of Transportation (Note 6)	65,132,121	-	65,132,121
Due from other state agencies (Note 27)	21,300,598	1,452	21,302,050
Due from other funds (Note 7)	(192,440)	192,440	-
Capitalized issuance costs	798,948	-	798,948
Inventories (Note 8)	16,361,029	-	16,361,029
Prepaid expense - NM44 warranty	3,189,030	-	3,189,030
Prepaid expense - risk management	1,374,036	-	1,374,036
Prepaid expense - other	352,618	-	352,618
Property held for resale, net	9,592,851	-	9,592,851
TOTAL CURRENT ASSETS	588,138,929	21,277,419	609,416,348
NON-CURRENT ASSETS:			
Capitalized issuance costs, net	7,684,195	-	7,684,195
Prepaid expense - NM44 warranty, net	32,882,246	-	32,882,246
Capital assets, net (Note 9)	7,168,146,950	-	7,168,146,950
TOTAL NON-CURRENT ASSETS	7,208,713,391	-	7,208,713,391
TOTAL ASSETS	7,796,852,320	21,277,419	7,818,129,739

DEPARTMENT OF TRANSPORTATION
Statement of Net Assets-continued

AS OF JUNE 30, 2009

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable and contracts payable, including retainage of \$6,937,970	93,277,796	573,038	93,850,834
Due to other agencies (Note 26)	82,849,908	-	82,849,908
Due to state general fund	1,867,782	-	1,867,782
Payable to other governments	2,903,424	238,076	3,141,500
Accrued payroll, taxes and withholdings	5,611,635	-	5,611,635
Accrued interest	3,401,336	-	3,401,336
Deferred revenue	32,202,634	-	32,202,634
Short term note payable (taxable line of credit) (Note 11)	10,000,000	-	10,000,000
Other liabilities	17,610,644	-	17,610,644
Current portion of long-term obligations:			
Compensated absences (Note 11)	2,850,370	-	2,850,370
Debentures payable (Note 11)	78,295,000	-	78,295,000
Capitalized bond premium	5,019,434	-	5,019,434
TOTAL CURRENT LIABILITIES	335,889,963	811,114	336,701,077
LONG-TERM LIABILITIES:			
Long-term obligations:			
Tax-exempt line of credit (Note 11)	40,028,625	-	40,028,625
Compensated absences (Note 11)	4,707,348	-	4,707,348
Debentures payable (Note 11)	1,586,175,336	-	1,586,175,336
Capitalized bond premium, net	47,377,093	-	47,377,093
TOTAL LONG-TERM LIABILITIES:	1,678,288,402	-	1,678,288,402
TOTAL LIABILITIES	2,014,178,365	811,114	2,014,989,479
NET ASSETS:			
Invested in capital assets, net of any related debt and unspent debt proceeds	5,234,861,006	-	5,234,861,006
Restricted for:			
Loans	-	20,466,305	20,466,305
Specific purposes	547,812,949	-	547,812,949
TOTAL NET ASSETS	5,782,673,955	20,466,305	5,803,140,260
TOTAL LIABILITIES AND NET ASSETS	7,796,852,320	21,277,419	7,818,129,739

DEPARTMENT OF TRANSPORTATION

Statement of Activities

YEAR ENDED JUNE 30, 2009

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
PROGRAM EXPENSES:			
Programs and infrastructure	77,447,730	-	77,447,730
Transportation and highway operations	289,556,180	-	289,556,180
Program support	147,515,433	-	147,515,433
ARRA	634,638	-	634,638
Depreciation and amortization	570,870,614	-	570,870,614
TOTAL PROGRAM EXPENSES	1,086,024,595	-	1,086,024,595
PROGRAM REVENUES:			
Charges for services	38,434,473	-	38,434,473
Operating grants	-	-	-
Capital grants	402,823,566	-	402,823,566
TOTAL PROGRAM REVENUES	441,258,039	-	441,258,039
NET PROGRAM (EXPENSE) REVENUE	(644,766,556)	-	(644,766,556)
GENERAL REVENUES (EXPENSE):			
User and fuel taxes	388,743,110	-	388,743,110
Interest income	18,733,946	204,444	18,938,390
Loss on disposal of assets	(3,855,743)	-	(3,855,743)
TOTAL GENERAL (EXPENSE) REVENUE	403,621,313	204,444	403,825,757
TRANSFERS:			
Reversions to state general fund (Note 12)	(3,098,918)	-	(3,098,918)
Transfers from – severance tax bond appropriation (Note 10)	53,383,093	-	53,383,093
Transfers from (to) other state agencies and local governments, net (Note 10)	(5,056,857)	-	(5,056,857)
TOTAL TRANSFERS	45,227,318	-	45,227,318
NET GENERAL REVENUES AND TRANSFERS	448,848,631	204,444	449,053,075
CHANGE IN NET ASSETS/OPERATING INCOME	(195,917,925)	204,444	(195,713,481)
NET ASSETS, BEGINNING OF FISCAL YEAR	5,981,113,047	20,261,861	6,001,374,908
RESTATEMENT (Note 25)	(2,521,167)	-	(2,521,167)
RESTATED NET ASSETS, BEGINNING OF FISCAL YEAR	5,978,591,880	20,261,861	5,998,853,741
NET ASSETS, END OF FISCAL YEAR	5,782,673,955	20,466,305	5,803,140,260

DEPARTMENT OF TRANSPORTATION
Balance Sheet – Governmental Funds

AS OF JUNE 30, 2009

	Major Funds			Other	Total
	State Road Fund	General Fund Appropriations	ARRA Project Fund	Governmental	Governmental
ASSETS:					
Cash:					
Unrestricted	2,600	-	-	-	2,600
Restricted	76,096	-	-	228,493,929	228,570,025
Cash Equivalents:					
(Investment in state general fund investment pool)					
Unrestricted	3,258,633	-	-	31,946,479	35,205,112
Restricted	39,222,633	75,029,774	13,540	17,411,278	131,677,225
Receivables:					
Taxes receivable, net	57,565,490	-	-	4,373,892	61,939,382
Accounts receivable, net	11,899,127	-	-	565	11,899,692
Interest receivable	195,582	-	-	538,980	734,562
Notes and loans receivable	18,143	-	-	-	18,143
Other receivables	177,086	-	-	6,311	183,397
Due from:					
Other State agencies	46,011	1,280,750	199,965	19,773,872	21,300,598
Other funds	68,237,760	114,495	419,000	9,469,889	78,241,144
U.S. Department of Transportation	38,961,599	-	16,482,790	9,687,732	65,132,121
Inventories	16,361,029	-	-	-	16,361,029
Prepaid expenses - other	352,618	-	-	-	352,618
Prepaid expenses – risk management	-	-	-	1,374,036	1,374,036
Prepaid expense - NM44 warranty	36,071,276	-	-	-	36,071,276
Property held for resale	9,592,851	-	-	-	9,592,851
TOTAL ASSETS	282,038,534	76,425,019	17,115,295	323,076,963	698,655,811
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	33,281,378	7,172,460	16,480,657	36,343,301	93,277,796
Due to other funds	72,764,088	384,268	634,638	4,650,590	78,433,584
Due to other agencies	30,765,671	-	-	52,084,237	82,849,908
Due to state general fund	13,240	1,854,542	-	-	1,867,782
Payable to other governments	-	1,401,547	-	1,501,877	2,903,424
Deferred revenue	70,313,865	-	14,762,939	2,112,610	87,189,414
Other accrued expenses	5,580,199	-	-	31,436	5,611,635
Short-term notes payable (taxable line of credit)	-	-	-	10,000,000	10,000,000
Other payables	14,933,333	179,799	-	2,497,512	17,610,644
TOTAL LIABILITIES	227,651,774	10,992,616	31,878,234	109,221,563	379,744,187
FUND BALANCES:					
Reserved for:					
Inventories	16,361,029	-	-	-	16,361,029
Prepaid expenses	36,071,276	-	-	-	36,071,276
Property held for resale	9,592,851	-	-	-	9,592,851
Unreserved, designated					
Special revenue funds	-	65,432,403	(14,762,939)	148,831,383	199,500,847
Capital projects funds	-	-	-	9,576,014	9,576,014
Debt service funds	-	-	-	55,448,003	55,448,003
Unreserved	(7,638,396)	-	-	-	(7,638,396)
TOTAL FUND BALANCES	54,386,760	65,432,403	(14,762,939)	213,855,400	318,911,624
TOTAL LIABILITIES AND FUND BALANCES	282,038,534	76,425,019	17,115,295	323,076,963	698,655,811

DEPARTMENT OF TRANSPORTATION

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

AS OF JUNE 30, 2009

Total Fund Balances - Governmental Funds	318,911,624
(Governmental Fund Balance Sheet)	

Amounts reported for governmental activities in the Statement of
Net Assets 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	87,189,414	
Statement of net assets	<u>(32,202,634)</u>	
Change in deferred revenue		54,986,780

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

The cost of capital assets is	16,016,298,366	
Accumulated depreciation is	<u>(8,848,151,416)</u>	
Total capital assets		7,168,146,950

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

Long-term notes payable (tax-exempt line of credit)	(40,028,625)	
Debentures payable (bonds only)	(1,687,175,000)	
Deferred loss on refunding (net of current period amortization)	22,704,664	
Compensated absences	(7,557,718)	

Accrued interest on long-term obligations not recorded by the governmental funds until paid:	(3,401,336)
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Capitalized issuance costs not recorded in the governmental funds as an asset, net of amortization:	8,483,143
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Capitalized bond premiums not recorded in the governmental funds as a liability, net of amortization:	<u>(52,396,527)</u>
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Net assets of governmental activities (Statement of Net Assets)	<u><u>5,782,673,955</u></u>
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DEPARTMENT OF TRANSPORTATION

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

FOR THE YEAR ENDED JUNE 30, 2009

	State Road Fund	General Fund Appropriations	ARRA Project Fund	Other Governmental	Total Governmental
REVENUES:					
User and fuel taxes	362,863,142	-	-	25,879,968	388,743,110
U.S. Department of Transportation	302,428,024	-	1,719,850	46,746,619	350,894,493
U.S. Department of Energy	32,747,299	-	-	-	32,747,299
Fees and fines	-	-	-	72,519	72,519
Licenses and permits	6,635,795	-	-	2,155,941	8,791,736
Charges for services	2,685,603	-	-	-	2,685,603
DWI interlock device	-	-	-	553,787	553,787
Other revenue	26,330,814	-	-	14	26,330,828
Interest earnings	547,074	-	-	18,186,872	18,733,946
TOTAL REVENUES	734,237,751	-	1,719,850	93,595,720	829,553,321
EXPENDITURES:					
Current:					
Operating costs	12,689,645	-	-	425	12,690,070
Personal services	100,514,822	-	-	1,255,085	101,769,907
Out-of-state travel	131,658	-	-	31,912	163,570
Grants and services	5,795,406	-	-	68,579,731	74,375,137
Travel	16,839,052	-	-	5,045	16,844,097
Maintenance and repairs	8,494,777	-	-	34,509	8,529,286
Supplies	35,649,019	-	-	4,653,192	40,302,211
Contractual services	7,702,152	44,397,774	-	28,957,686	81,057,612
Other costs	18,484,962	10,633,086	634,638	379,932	30,132,618
Employee benefits	57,988,644	-	-	445,171	58,433,815
Capital outlay	346,625,985	13,981,595	16,967,116	281,864,226	659,438,922
Debt Service:					
Principal	-	-	-	74,500,000	74,500,000
Interest and other charges	-	-	-	72,960,649	72,960,649
Swap interest	-	-	-	17,940,843	17,940,843
Trustee and broker fees	2,000	-	-	5,309,541	5,311,541
Debt refunding costs	-	-	-	-	-
Debt issuance costs	-	-	-	-	-
TOTAL EXPENDITURES	610,918,122	69,012,455	17,601,754	556,917,947	1,254,450,278
EXCESS (DEFICIENCY) OF REVENUES					
OVER (UNDER) EXPENDITURES	123,319,629	(69,012,455)	(15,881,904)	(463,322,227)	(424,896,957)
OTHER FINANCING SOURCES (USES):					
Appropriations, net of reversions	-	(3,098,918)	-	-	(3,098,918)
Proceeds from LT notes payable	-	-	-	40,028,625	40,028,625
Transfers from – Severance Tax Bond					
Appropriation	-	-	-	53,383,093	53,383,093
Transfers from (to) other agencies	(6,454,708)	397,886	699,965	300,000	(5,056,857)
Transfers	(167,963,021)	-	419,000	167,544,021	-
TOTAL OTHER FINANCING SOURCES (USES)	(174,417,729)	(2,701,032)	1,118,965	261,255,739	85,255,943
NET CHANGES IN FUND BALANCES	(51,098,100)	(71,713,487)	(14,762,939)	(202,066,488)	(339,641,014)
FUND BALANCES, June 30, 2008	105,484,860	137,145,890	-	418,443,055	661,073,805
RESTATEMENT (Note 25)	-	-	-	(2,521,167)	(2,521,167)
RESTATED FUND BALANCES, June 30, 2008	105,484,860	137,145,890	-	415,921,888	658,552,638
FUND BALANCES, June 30, 2009	54,386,760	65,432,403	(14,762,939)	213,855,400	318,911,624

DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2009

Net Changes in Fund Balances - Total Governmental Funds	(339,641,014)
(Statement of Revenues, Expenditures, and Changes in Fund Balances)	

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

Amounts recorded as deferred revenue in the Balance Sheet-Governmental funds that were not received within the period of availability - 60 days after year end; recorded as revenue in the Statement of Activities:	19,181,774
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In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) - are measured by the amounts earned during the year, however, expenditures for these items in the Statement of Revenues, Expenditures and Fund Balances 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:	(172,252)
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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 capitalized and that cost is depreciated over their estimated useful lives. In the current period these amounts were:

Capital assets activity reported in the Statement of Revenue, Expenditures and Changes in Fund Balances:	
Capital outlay	659,438,922
Capital assets activity reported in the Statement of Activities:	
Depreciation expense	(562,834,181)
Sale of capital asset, net book value	<u>(3,855,743)</u>
Excess of depreciation expense over capital outlay	92,748,998

Repayment of debentures recorded as a principal expenditure in the Statement of Revenues, Expenditures and Changes in Fund Balances recorded as a reduction in long-term debentures payable in the Statement of Net Assets:	74,500,000
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Amortization of deferred loss on refunding, recorded as a reduction of long-term liabilities in the Statement of Net Assets:	(8,164,564)
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Amortization of bond premiums recorded as a reduction of interest expense in the Statement of Activities. The liability balance of \$52,396,527 is recorded in the Statement of Net Assets.	1,314,749
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Long-term note payable (tax-exempt line of credit) proceeds of \$40,028,625 reported as other financing sources in the Statement of Revenues, Expenditures and Changes in Fund Balances, and recorded as a liability in the Statement of Net Assets.	(40,028,625)
--	--------------

Amortization of bond issuance costs recorded as other costs in the Statement of Revenues, Expenditures and Changes in Fund Balances, and recorded as a reduction in an asset of \$8,483,143, in the Statement of Net Assets.	(1,186,618)
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Net change in accrued interest on long-term debt recorded in the Statement of Net Assets	<u>5,529,627</u>
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Change in net assets of governmental activities (Statement of Activities)	<u><u>(195,917,925)</u></u>
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DEPARTMENT OF TRANSPORTATION
Statement of Net Assets-Business-type Activities-Enterprise Fund

AS OF JUNE 30, 2009

ASSETS:	State Infrastructure Bank
	<hr/>
CURRENT ASSETS:	
Cash equivalents (Note 2):	
Unrestricted	\$ -
Restricted	-
Cash equivalents (Note 2):	
(Investment in state general fund investment pool)	
Unrestricted	-
Restricted	8,458,560
Receivables:	
Due from other funds	627,503
Due from other state agencies	1,452
Interest receivable	447,114
Notes and loans receivable (Note 5)	<hr/> 12,177,853
TOTAL CURRENT ASSETS	<hr/> 21,712,482
TOTAL ASSETS	\$ <hr/> <hr/> 21,712,482

DEPARTMENT OF TRANSPORTATION
Statement of Net Assets-Business-type Activities-Enterprise Fund-continued

AS OF JUNE 30, 2009

LIABILITIES:	State Infrastructure Bank
	<hr/>
CURRENT LIABILITIES:	
Accounts payable and contracts payable	573,038
Due to other funds	435,063
Due to other state agencies	-
Due to other governments	<hr/> 238,076
TOTAL CURRENT LIABILITIES	<hr/> 1,246,177
TOTAL LIABILITIES	\$ <u><u>1,246,177</u></u>
NET ASSETS:	
Restricted for:	
Loans	\$ <u>20,466,305</u>
TOTAL NET ASSETS	\$ <u><u>20,466,305</u></u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>21,712,482</u></u>

DEPARTMENT OF TRANSPORTATION
Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Funds

YEAR ENDED JUNE 30, 2009

	State Infrastructure Bank
	<hr/>
GENERAL REVENUES:	
Interest income	<hr/> 204,444
TOTAL GENERAL REVENUES (EXPENSES)	<hr/> 204,444
CHANGE IN NET ASSETS/OPERATING INCOME	204,444
NET ASSETS, BEGINNING OF FISCAL YEAR	<hr/> 20,261,861
NET ASSETS, END OF FISCAL YEAR	\$ <hr/> <hr/> 20,466,305

DEPARTMENT OF TRANSPORTATION
Statement of Cash Flows-Business-type Activities-Enterprise Fund

YEAR ENDED JUNE 30, 2009

	State Infrastructure Bank
	<hr/>
Cash flows provided from operating activities:	\$ (793,603)
Cash flows from financing activities:	
Loans issued	(5,101,280)
Loans repaid	325,676
Net increase in cash and cash equivalents	<hr/> (5,569,207)
Cash and cash equivalents at June 30, 2008	14,027,767
Cash and cash equivalents at June 30, 2009	\$ <hr/> <hr/> 8,458,560
Reconciliation of operating income to net cash provided from operating activities:	
Operating income	204,444
Adjustment to reconcile operating income to net cash by operating activities:	
Increase in interest receivable	(157,292)
Increase from due from other funds	(627,503)
Decrease from due from other agency	86,488
Decrease in accounts payable	(354,433)
Increase in due to local governments	<hr/> 54,693
Cash flows provided by operating activities:	\$ <hr/> <hr/> (793,603)

DEPARTMENT OF TRANSPORTATION
Statement of Revenues and Expenditures-Budget and Actual
(Modified Accrual Basis)

YEAR ENDED JUNE 30, 2009

DEPARTMENT OF TRANSPORTATION				
agency wide including enterprise fund excluding multi-year funds				
	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Modified Accrual)	Over (Under)
REVENUES:				
Federal funds	\$ 358,681,800	634,898,504	383,641,792	(251,256,712)
Other state funds, inc. Line of Credit	646,687,000	640,225,144	467,206,208	(173,018,936)
State General Fund	2,928,000	2,928,000	-	(2,928,000)
Inter-Agency Transfers	300,000	7,628,000	4,481,385	(3,146,615)
Interest Revenue	2,916,000	2,717,700	18,938,390	16,220,690
TOTAL REVENUES	1,011,512,800	1,288,397,348	874,267,775	414,129,573
PRIOR YEAR FUNDS REBUDGETED				
	347,544,678	592,732,487		
	\$ 1,359,057,478	1,881,129,835		
EXPENDITURES - current and capital outlay:				
Programs and Infrastructure				
Personal Services/Employee Benefits	28,821,900	29,337,800	29,843,919	(506,119)
Contractual Services	363,637,150	817,846,830	403,164,834	414,681,996
Other	488,422,886	521,219,087	257,120,284	264,098,803
Transfers (In) Out	-	(1,721,000)	7,360,118	(9,081,118)
	880,881,936	1,366,682,717	697,489,155	669,193,562
Transportation and Highway Ops:				
Personal Services/Employee Benefits	103,892,400	115,523,559	102,732,038	12,791,521
Contractual Services	51,895,000	59,387,547	3,352,156	56,035,391
Other	101,783,900	116,431,770	96,942,505	19,489,265
Transfers (In) Out	-	-	-	-
	257,571,300	291,342,876	203,026,699	88,316,177
Business/Program Support				
Personal Services/Employee Benefits	27,664,880	27,664,800	27,627,765	37,035
Contractual Services	6,557,100	6,557,100	4,886,892	1,670,208
Other	208,352,156	208,352,156	194,858,152	13,494,004
Transfers In (Out)	(21,969,814)	(19,469,814)	9,243,177	(28,712,991)
	220,604,242	223,104,242	236,615,986	(13,511,744)
TOTAL ANNUAL BUDGETED EXPENDITURES	1,359,057,478	1,881,129,835	1,137,131,840	743,997,995

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

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. Effective July 1, 2003, GASB 39, *Determining Whether Certain Organizations are Component Units*, expands the criteria of component units. GASB 39 has no impact on the Department and the Department has no blended or discretely presented component units during the year ended June 30, 2009.

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 Assets 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. All other income, if any, would be non-operating income to the SIB.

- **Basis of Presentation**

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific department function of building and maintaining the State's road system (public works). Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a department. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements for public works. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Department does not allocate general government expenses to other functions except for depreciation (in direct) (Note 9).

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - continued**

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 (Fund #20100). The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Section 67-3-59 NMSA establishes that this is a non-reverting fund. This is a special revenue 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 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 special revenue fund.

ARRA Project Fund (Fund #89000). The ARRA 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.

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

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

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

A proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The SIB has elected to not apply FASB pronouncements issued after the applicable date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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, 2009, has been reported only in the government-wide financial statements.
- Interest and principal payments on general long-term obligations is recognized as expenditures when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

- **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 collectibility 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The following are the governmental fund types used:

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The State Road Fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Resources are generated primarily from user and fuel taxes and federal grants. Expenditures are incurred to build and improve the transportation system within the State of New Mexico. These funds do not receive state general fund appropriations that are subject to reversion.

Local Government Road Fund (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.

Traffic Safety Fund (Fund #20800). This fund is authorized by the Commission to account for federal grant monies and state matching monies received for various traffic safety programs. 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

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.

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.

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.

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.

Bond Project Fund (1993 Bonds) (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.

Bond Project Fund (1998 & 1999 CHAT) (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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Bond Project Fund (1998 & 1999 CHAT) (Fund #43000) - continued.

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.

Bond Project Fund (2000 CHAT) (Fund #34500). The bond project fund was created due to the issuance of the May 2000 \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (2001 CHAT) (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.

Bond Project Fund (2002A CHAT) (Fund #36800). The bond project fund was created due to the issuance of the January 2002 \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Bond Project Fund (2002C HIF) (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.

Bond Project Fund (2002D CHAT) (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.

Bond Project Fund 2004A GRIP (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.

Bond Project Fund 2006A (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.

Bond Project Fund 2006B (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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Bond Project Fund 2006C (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.

Bond Project Fund 2006D (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.

Severance Tax Bond Appropriations Fund (Fund #10060). The Severance Tax Bond fund was created to separately account for the construction of infrastructure on behalf of other governments 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.

LOC Project Fund (Fund #10450). The 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.

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

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service requirements are met through the 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.

Debt Service - WIPP Bonds (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.

Debt Service - 1998 CHAT Bonds (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.

Debt Service – 1999A CHAT Bonds (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.

Debt Service - 2000 CHAT Bonds (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.

Debt Service - 2001 CHAT Bonds (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.

Debt Service - 2002A CHAT Bonds (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.

Debt Service - 2002B WIPP Bonds (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.

Debt Service - 2002C HIF Bonds (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.

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

Debt Service - 2002D CHAT Bonds (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.

Debt Service Fund - 2004A GRIP (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.

Debt Service Fund - 2004B/C GRIP (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.

Debt Service Fund - 2006A (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.

Debt Service Fund - 2006B (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.

Debt Service Fund - 2006C (Fund #10260). The fund was created when the \$220,000,000 New Mexico State Highway Commission Revenue Bonds Series 2006C were issued in September 2006. This series was refunded by the 2008C Refunding Revenue Bonds.

Debt Service Fund - 2006D (Fund #10280). The fund was created when the \$50,400,000 New Mexico State Highway Commission Revenue Bonds Series 2006D were issued in September 2006. This series was refunded by the 2008D Refunding Revenue Bonds.

Debt Service Fund - 2008A (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.

Debt Service Fund - 2008B (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**

Debt Service Fund – 2008C (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.

Debt Service Fund – 2008D (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.

Capital Project Improvements Fund (Fund #10050) The Capital Project Improvements 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. All governmental funds are accounted for using the modified accrual basis of accounting.

• Budgets and Budgetary Accounting

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, “For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, 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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Budgets and Budgetary Accounting - continued**

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 10) in the governmental fund financial statements.

- **Restricted Cash and Cash Equivalents**

The funds deposited in the debt service funds are restricted to pay future principal and interest payments due under the \$50,000,000 Series 1993 Highway Bonds, the \$105,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (CHAT Bonds), the \$100,000,000 Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (WIPP Bonds), the \$100,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (CHAT Bonds), the \$201,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (CHAT Bonds), the \$198,800,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (CHAT Bonds), the \$95,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (CHAT Bonds), the \$79,920,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002B (WIPP Bonds), the \$67,750,000 Highway Infrastructure Fund Revenue Highway Bonds, Series 2002C (HIF Bonds), and the \$16,000,000 Senior Subordinate Tax Revenue Highway Bonds, Series 2002D (CHAT Bonds), the \$700,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2004A (GRIP Bonds), the \$237,950,000 Subordinate Lien Tax Revenue Highway Bonds, Series 2004B (GRIP Bonds), the \$150,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2006A (GRIP Bonds), the \$40,085,000 Subordinate Lien Tax Revenue Highway Bonds, Series 2006B (GRIP Bonds), the \$115,200,000 Subordinate Lien Tax Refunding Bonds, Series 2008A (GRIP Bonds), the \$220,000,000 Subordinate Lien Tax Refunding Bonds, Series 2008B (GRIP Bonds), the \$84,800,000 Subordinate Lien Tax Refunding Bonds, Series 2008C (GRIP Bonds), the \$50,400,000 Subordinate Lien Tax Refunding Bonds, Series 2008D (GRIP Bonds). The remaining balance of the proceeds from the sale of the debentures, bonds and the NMFA loan are also classified as restricted cash because 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **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.

- **Accounts Receivable**

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

Notes receivable represent:

- Funds advanced to various state and local agencies to promote van-pooling activities within the state. The Federal Highway Administration (FHWA) provides matching funds (90%) for the purchase of vehicles by various not-for-profit van pooling organizations.
- The funds advanced to such organizations are payable to the Department and are designated for future vehicle purchases.
- Notes issued to individuals displaced by purchases of right of way properties. The funds loaned to such individuals are provided in part by FHWA funds per FHWA guidelines.

Loans receivable represent:

Loans to other governmental entities made by the State Infrastructure Bank. Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All loans are to governmental entities 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, 2009. 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).

Notes to Financial Statements - continued

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).

- **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 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 by the fund balance reserve, which indicates that it does not constitute “available spendable resources” (Note 8) even though they are a component of current assets.

- **Prepaid Expense - 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 2009 the unamortized value was \$27,075,080. The structures, which originally cost \$15,916,345 is being amortized over 11 1/2 years. At the end of fiscal year 2009 the unamortized value was \$8,996,196. The remaining amount, which originally cost \$13,564,126, is fully amortized and has no value at the end of fiscal year 2009.

- **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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• Capital Assets

Capital assets, which include property, plant, equipment, software in the equipment category, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, streets, tunnels and similar infrastructure items), are reported in the governmental activities columns in the government-wide financial statements. The Department has no internally developed software that requires capitalization. As a result of House Bill 1074, effective date June 17, 2005, 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 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 9 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

- **Deferred Revenue**

Deferred revenue occurs when the Department receives funds before the corresponding expense or expenditure has been incurred, or all of the eligibility requirements have been met. The Department has received funds in advance 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, 2009, and includes direct and incremental salary related payments, such as the employees' share of social security taxes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Long-Term Obligations**

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

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

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

- **Net Assets**

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

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

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

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

- **Encumbrances**

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end with the exception of the Capital Projects Fund. Encumbrances outstanding in this fund at year-end are reported as reservations of fund balance on the balance sheets (in the fund financial statement) and do not constitute expenditures or liabilities because the commitment will be honored during the subsequent year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Encumbrances - continued**

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

- **Reservations**

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

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

Property Held for Resale - This reserve was created to represent the portion of fund balance that is not available for expenditures because the Department holds them in other assets.

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

- **Designated Fund Balance**

The Department established a designation for assets held in fund balances representing items that have not yet been utilized for their established purposes. Specific designations of fund balance accounts are summarized below:

Special Revenue Funds - This designation was created to represent fund balances for projects or special appropriations that have not been started in the governmental fund financial statements.

Capital Project Funds - This designation was created to represent fund balances for projects or special appropriations that have not been started in the governmental fund financial statements.

Debt Service Funds - This designation was created to represent fund balances for the use in satisfying future debt payments.

- **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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Eliminations**

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

2. CASH AND CASH EQUIVALENTS

Cash funds, other than petty cash, are deposited by the Department into its accounts with the State Treasurer, which are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Money of the Department may be deposited with the State Treasurer for a short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico, or any political subdivision of the State and other investments allowed by state law. Petty cash funds are deposited with various financial institutions and are fully insured. Some of the cash held by the trustee for the NMFA loan proceeds is also invested in a money market mutual fund that invests in short-term U.S. Treasury securities. The reconciled balances at June 30, 2009, are as follows:

	SHARE Account Number	Amount	Cash Reported in Due to Other Agencies
Unrestricted:			
Driver Improvement Fund	10020	483,736	
State Road Fund	20100/10040/78800/ 78900/82000	(27,507,038)	
Local Government Road Fund	20300	18,031,983	
State Aviation Fund	20500	4,534,933	
Motorcycle Training Fund	20600	309,007	
DWI Prevention and Education	20700	1,168,464	
Traffic Safety Fund	20800/10020/82600	7,418,356	
Federal Planning and Development	10030	(4,079,569)	
Total Unrestricted Cash		359,872	
add back: negative cash reported in Due to Other Agencies			<u>34,845,240</u>
Total Unrestricted Cash Equivalents reported in Statement of Net Assets		35,205,112	
Unrestricted Petty Cash		<u>2,600</u>	
Total Unrestricted Cash and Cash Equivalents reported in Statement of Net Assets		<u><u>35,207,712</u></u>	

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

2. CASH AND CASH EQUIVALENTS - continued

	SHARE Account Number	Amount
Restricted:		
2001A CHAT Bond Project Fund	00600	8,535,823
2001A CHAT Debt Service	00700	232,893
Capital Projects Fund	10050	2,097,161
Severance Tax Appropriations Fund	10060	(15,915,241)
Gen Fund Multi-Year Projects	10070	75,029,774
2006A GRIP Bond Project Fund	10210	(6,487,953)
2006C GRIP Bond Project Fund	10250	(9,587,697)
LOC Project Fund	10450	(8,455,198)
2002D CHAT Bond Project Fund	11500	777,176
2002D CHAT Debt Service	18700	12,763
Road Fund	20200/43100	39,222,633
2004A GRIP Bond Project Fund	20400	(3,807,715)
2000A CHAT Bond Project Fund	34500	(1,886,711)
2002C HIF Bond Project Fund	36100	1,299,309
2002C HIF Debt Service Fund	36300	62,004
2002A CHAT Bond Project Fund	36800	(1,864,153)
1993 Bond Project Fund	39400	1,588,854
1999A CHAT Bond Project Fund	43000	2,110,088
2000 CHAT Debt Service	43200	203,343
1999 CHAT Debt Service	43400	142,550
2002A CHAT Debt Service	54700	83,269
1998A CHAT Debt Service	54800	141,073
2002B WIPP Debt Service	75000	110,515
ARRA Fund	89000	13,540
State Infrastructure Bank	89300	8,458,560
1998A WIPP Debt Service	97200	14,457
Total Restricted Cash Equivalents		92,131,117
add back: negative cash reported in Due to Other Agencies		48,004,668
Total Restricted Cash Equivalents reported in Statement of Net Assets		140,135,785
Other authorized bank accounts - Wells Fargo		11,064
Bond proceeds invested in Money Market Mutual Funds at Bank of Albuquerque and Wells Fargo		228,558,961
Total Restricted Cash reported in Statement of Net Assets		228,570,025
Total Restricted Cash and Cash Equivalents reported in Statement of Net Assets		368,705,810
Total Due to Other Agencies reported in Statement of Net Assets (Note 26)		82,849,908

2. CASH AND CASH EQUIVALENTS - continued

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, 2009.

Bond proceeds are invested in money market mutual funds at the Bank of Albuquerque	\$ <u>228,558,961</u>
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Money market funds are managed by New Mexico Finance Authority (fiscal agent) and held by State Treasurer authorized bank accounts at Bank of Albuquerque as trustee and paying agent 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.

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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

3. ACCOUNTS RECEIVABLE

The aging of accounts receivable as of June 30, 2009, is as follows:

Number of Days Outstanding

0 - 30	\$ 7,220,792
31 - 60	4,669
61 - 120	7,133,531
Beyond 120	<u>20,328</u>
	14,379,320
Allowance for uncollectible accounts	<u>(2,479,628)</u>
	\$ <u>11,899,692</u>

4. SEVERANCE TAX BOND PROCEEDS RECEIVABLE

Severance tax bonds proceeds available as of June 30, 2009, appropriated to the Department, were held by the State Board of Finance to reimburse future expenditures incurred by the Department. The activity of this account is as follows:

Balance, beginning of year	\$ 94,177,346
Sale and reauthorization of severance tax bonds	103,579,030
Funding from the State Board of Finance	(49,215,698)
Reversion to the State Board of Finance	<u>(516,298)</u>
Balance, end of year	\$ <u>148,024,380</u>

The funding for the year ended June 30, 2009 was received under the Laws of 2000, Chapter 23 and Laws of 2002, Chapter 110; Laws of 2003, Chapter 429; Laws of 2004, Chapter 126; Laws of 2005, Chapter 347; Laws of 2006, Chapter 111; Laws of 2007, Chapter 42; Laws of 2008 Chapter 9 and 92 ; Laws of 2009, Chapter 5, for projects completed.

Receivable at year end (Note 27)	\$ <u>17,096,690</u>
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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

5. NOTES AND LOANS RECEIVABLE

Notes receivable as of June 30, 2009 consist of the following:

A note receivable from a private entity, non-interest bearing, in accordance with federal statutes, collateralized by various property.	\$	<u>18,143</u>
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Loans receivable funded by the SIB consist of the following:

City of Albuquerque, including interest at 1.5%, due during the 2009 federal fiscal year, secured by federal highway revenue.	\$	641,087
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City of Rio Rancho, including interest at 1.5%, due during the 2009 federal fiscal year, secured by federal highway revenue.		-
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County of Bernalillo, including interest at 1.5%, due during the 2009 federal fiscal year, secured by federal highway revenue.		3,897,062
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Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA), including interest at 1.5%, due during the 2009 federal fiscal year, secured by federal highway revenue.		<u>7,639,704</u>
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	\$	<u>12,177,853</u>
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6. DUE FROM U.S. DEPARTMENT OF TRANSPORTATION

Due from U.S. Department of Transportation (USDOT) consists of the following at June 30, 2009:

Agency

Federal Highway Administration	\$	49,973,568
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Less allowance for uncollectible amounts		<u>(11,011,969)</u>
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Total Federal Highway Administration		38,961,599
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Other USDOT Agencies		<u>26,170,522</u>
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Total USDOT	\$	<u>65,132,121</u>
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Subsequent to June 30, 2008, portions of the Federal Highway Administration unbilled portion of \$46,788,820 was billed and the amounts were collected by the Department. Management determined that the balance relating to payroll expenditures outstanding at year end and during 2009 was not collectible and, therefore, an allowance was established in June 30, 2008 and June 30, 2009. During the 2010 fiscal year, the Department obtained permission to bill prior years payroll on a case by case basis. Consequently, management has determined that an additional allowance will not be necessary, since it is currently determined to be reasonably collectible.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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, 2009 consist of the following:

	Fund Number	Due From Other Funds	Due to Other Funds	Net (Sub-totals only)
Special Revenue Funds:				
Bond Project Fund - CHAT 2001A	00600	-	87,120	
	10010,			
Traffic Safety Fund	208, 826	7,140	2,209,422	
Driver Improvement Program Fund	10020	67,920	-	
Federal Mass Transit Fund	10030	58,266	-	
Sev. Tax Multiyear Capital Project	10060	-	-	
Gen. Fund Multiyear Capital Project	10070	114,495	384,268	
Bond Project Fund - GRIP 2006A	10210	230,271	870,000	
Bond Project Fund - GRIP 2006C	10250	-	-	
Bond Project Fund - CHAT 2002D	11500	-	142,904	
	10040,			
	20100,			
	20200,			
State Road Fund	43100	68,237,760	72,764,088	
Local Government Road Fund	20300	32,803	-	
Bond Project Fund - GRIP 2004A	20400	670,000	316,177	
State Aviation Fund	20500	781,005	1,017,901	
DWI Prevention & Education Fund	20700	-	7,066	
Bond Project Fund - CHAT 2000A	34500	-	-	
Bond Project Fund - CHAT 2002A	36800	-	-	
Bond Project Fund - 1993 Bonds:	39400	-	-	
Bond Project Fund - CHAT 1999A	43000	-	-	
Rubberized Asphalt Fund	82000	-	-	
ARRA Project Fund	89000	419,000	634,638	
Total Special Revenue Funds		70,618,660	78,433,584	(7,814,924)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

7. DUE FROM AND DUE TO OTHER FUNDS-continued

	Due From Other Funds	Due to Other Funds	Net (Sub-totals only)
Debt Service Funds:			
Debt Service Funds – 2004A GRIP	-	-	
Debt Service Funds – 2004B GRIP	-	-	
Debt Service Funds – 2006A GRIP	-	-	
Debt Service Funds – 2006B GRIP	-	-	
Debt Service Funds – 2006C GRIP	-	-	
Debt Service Funds – 2006D GRIP	-	-	
Debt Service Funds – 2008A GRIP	-	-	
Debt Service Funds – 2008B GRIP	-	-	
Debt Service Funds – 2008C GRIP	-	-	
Debt Service Funds – 2008D GRIP	-	-	
Debt Service Funds – WIPP 1998	-	-	
Total Debt Service Funds	-	-	-
Capital Projects Funds:			
Capital Projects (CIP) Fund	7,622,484	-	
Total Capital Projects Funds	7,622,484	-	7,622,484
Enterprise Funds:			
State Infrastructure Fund	627,503	435,063	
Total Enterprise Funds	627,503	435,063	192,440
Total interfund receivables and payables	78,868,647	78,868,647	-
Summary			
Total Special Revenue Funds - net due to			(7,814,924)
Total Debt Service Funds			-
Total Capital Projects Funds – net due from			7,622,484
Total Governmental – net due to			(192,440)
Total Enterprise Funds – net due from			192,440
Total all funds			-

8. INVENTORY

Inventory as of June 30, 2009 consists of the following:

Highway maintenance materials stockpiled	\$	9,533,985
Repair Parts and expendable supplies		6,064,644
Fuel, oil and lubricants		762,400
	\$	<u>16,361,029</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

9. CAPITAL ASSETS

A summary of changes in capital assets for fiscal year ended June 30, 2009 follows:

	Beginning Balance July 1, 2008	Additions	Reclassifications/ Deletions	Ending Balance June 30, 2009
Non-depreciable assets:				
Construction in Progress		509,635,564	(489,997,809)	19,637,755
Rail System Infrastructure -				
Right of Way	\$ 71,957,100	5,295,000	-	77,252,100
Land	5,076,633	-	-	5,076,633
Right of Way	377,725,494	-	8,791,171	386,516,665
Total non-depreciable assets	454,759,227	514,930,564	(481,206,638)	488,483,153
Depreciable assets:				
Infrastructure	14,992,717,515	86,305,709	(121,740,650)	14,957,282,574
Vehicles	192,015,322	5,108,737	(9,860,431)	187,263,628
Rail System Infrastructure	108,090,835	48,961,823	154,068,430	311,121,088
Buildings	40,005,443	2,802,124	(801,461)	42,006,106
Equipment and furniture	31,472,967	1,329,965	(2,763,729)	30,039,203
Library	102,614	-	-	102,614
Total depreciable assets	15,364,404,696	144,508,358	18,902,159	15,527,815,213
Total assets	15,819,163,923	659,438,922	(462,304,479)	16,016,298,366
Less Accumulated Depreciation:				
Infrastructure	(8,562,316,519)	(540,665,716)	448,880,936	(8,654,101,299)
Vehicles	(124,229,694)	(10,366,844)	6,824,911	(127,771,627)
Rail System Infrastructure	(8,647,267)	(9,240,298)	-	(17,887,565)
Buildings	(23,904,533)	(733,111)	13,270	(24,624,374)
Equipment and furniture	(24,565,344)	(1,828,212)	2,729,619	(23,663,937)
Library	(102,614)	-	-	(102,614)
Total Accumulated Depreciation	(8,743,765,971)	(562,834,181)	458,448,736	(8,848,151,416)
Net Total	7,075,397,952	96,604,741	(3,855,743)	7,168,146,950
There were no software costs to capitalize as of year-end. Depreciation and amortization was allocated to the following functions:				
Programs and infrastructure				540,665,716
Transportation and highway operations				9,240,298
Program support				12,928,167
				562,834,181
Program support (amortization of defeased debt and issuance costs)				8,036,433
Total				570,870,614

10. OPERATING TRANSFERS

	Funds 201/202/431/10140/10150	Fund 89000	Fund 10070	Fund 82600	Fund 10060	Fund 10030
	State	ARRA	General Fund	DWI Ignition	STB	Federal Planning
	Road	Project Fund	Appropriations	Interlock	Appropriations	And Development
	Fund					Fund
(1)	\$ (162,402,789)	-	-	-	-	-
(2)	-	-	-	-	-	-
(3)	-	-	-	-	-	-
(4)	-	-	-	-	-	-
(5)	-	-	-	-	-	-
(6)	-	-	-	-	-	-
(7)	1,525,935	-	-	-	-	(1,525,935)
(8)	(419,000)	419,000	-	-	-	-
(9)	(6,667,167)	-	-	-	-	-
	(167,963,021)	419,000				(1,525,935)

Transfers to other state agencies

(10)	(6,873,708)	-	-	-	-	-
(11)	419,000	-	-	-	-	-
(12)	-	699,965	-	-	-	-
(13)	-	-	397,886	-	-	-
(14)	-	-	-	300,000	-	-
(15)	-	-	-	-	53,383,093	-
(16)			(3,098,918)			
	(6,454,708)	699,965	(2,701,032)	300,000	53,383,093	
Total	(174,417,729)	1,118,965	(2,701,032)	300,000	53,383,093	

- (1) The transfer from the State Road Fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) Transfers to correct allocation of costs
- (3) Transfers of interest earnings
- (4) Transfers to maximize use of available cash in trustee accounts
- (5) Transfer to move funds from closed fund
- (6) Transfers to allocated balances in shared trustee accounts
- (7) Railrunner fare box funds belonging in Road fund (non Federally reimbursable)
- (8) EMNR funds received by Road Fund
- (9) Capital assets purchased by capital assets fund and not reimbursed by Road fund
- (10) Transfers made to Department of Public Safety (less reversions)
- (11) Transfers in from Energy, Minerals, and Natural Resources Department
- (12) Federal funds for Salt Domes
- (13) Appropriations received
- (14) Transfer in from per MOU; Laws 2007, Chapter 65, Section 20
- (15) Annual Transfer in from Department of Finance and Administration, Board of Finance Division
- (16) Reversions to the State General Fund

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

Fund 10050	Fund 20400	Fund 10210	Fund 10230	Fund 10250	Fund 10270	Fund 10450
Capital Projects	2004A	2006A	2006B	2006C	2006D	GRIP
Fund	GRIP Bond	GRIP Bond	GRIP Bond	GRIP Bond	GRIP Bond	LOC
	Project Fund	Project Fund	Project Fund	Project Fund	Project Fund	Project Fund
-	-	-	-	-	-	289,084
-	-	-	-	-	-	68,801
-	-	-	-	-	(224,866)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6,667,167	-	-	-	-	-	-
6,667,167	-	-	-	-	(224,866)	357,885

10. OPERATING TRANSFERS-continued

	Fund 97200	Fund 54800	Fund 43400	Fund 43200	Fund 00700	Fund 54700
	WIPP 1998	CHAT 1998 A	CHAT 1999	CHAT 2000A	CHAT 2001A	CHAT 2002A
	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service
	Fund	Fund	Fund	Fund	Fund	Fund
(1)	\$ 12,296,613	9,115,200	11,008,575	15,480,600	19,253,897	1,585,500
(2)	-	-	-	-	-	-
(3)	-	-	-	-	-	-
(4)	-	-	-	-	-	-
(5)	-	-	-	-	-	-
(6)	-	-	-	-	-	-
(7)	-	-	-	-	-	-
(8)	-	-	-	-	-	-
(9)	-	-	-	-	-	-
Total	12,296,613	9,115,200	11,008,575	15,480,600	19,253,897	1,585,500

- (1) The transfer from the State Road Fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) Transfers to correct allocation of costs
- (3) Transfers of interest earnings
- (4) Transfers to maximize use of available cash in trustee accounts
- (5) Transfer to move funds from closed fund
- (6) Transfers to allocated balances in shared trustee accounts
- (7) Railrunner farebox funds belonging in Road fund (non Federally reimbursable)
- (8) EMNR funds received by Road Fund
- (9) Capital assets purchased by capital assets fund and not reimbursed by Road fund

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

Fund 75000	Fund 36300	Fund 18700	Fund 10080	Fund 10090	Fund 10220	Fund 10240
WIPP 2002B	CHAT 2002C	CHAT 2002D	GRIP 2004A	GRIP 2004B	GRIP 2006A	GRIP 2006B
Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service
Fund	Fund	Fund	Fund	Fund	Fund	Fund
472,250	4,709,524	194,825	37,966,759	18,082,766	7,852,407	4,368,238
-	-	-	-	-	-	-
-	-	-	-	(1,927,952)	-	-
-	-	-	-	(209,825)	-	209,825
-	-	-	-	-	(673,110)	(698,447)
-	-	-	(101,469)	101,469	(2,455)	2,455
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
472,250	4,709,524	194,825	37,865,290	16,046,458	7,176,842	3,882,071

10. OPERATING TRANSFERS-continued

	Fund 10260	Fund 10280	Fund 10410	Fund 10420	Fund 10430	Fund 10440	Total
	GRIP 2006C	GRIP 2006D	GRIP 2008A	GRIP 2008B	GRIP 2008C	GRIP 2008D	All Pages
	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Netting Funds
	Fund	Fund	Fund	Fund	Fund	Fund	Only
(1)	\$ -	-	4,385,566	12,017,201	2,006,256	1,317,528	-
(2)	-	-	(638,972)	(120,502)	690,673	-	-
(3)	-	-	(173,269)	2,228,766	(127,545)	224,866	-
(4)	-	-	-	(1,529,657)	1,529,657	-	-
(5)	1,772,835	(401,278)	-	-	-	-	-
(6)	-	-	808,621	(808,621)	(8,409)	8,409	-
(7)	-	-	-	-	-	-	-
(8)	-	-	-	-	-	-	-
(9)	-	-	-	-	-	-	-
Total	1,772,835	(401,278)	4,381,946	11,787,187	4,090,632	1,550,803	-

- (1) The transfer from the State Road Fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) Transfers to correct allocation of costs
- (3) Transfers of interest earnings
- (4) Transfers to maximize use of available cash in trustee accounts
- (5) Transfer to move funds from closed fund
- (6) Transfers to allocated balances in shared trustee accounts
- (7) Railrunner farebox funds belonging in Road fund (non Federally reimbursable)
- (8) EMNR funds received by Road Fund
- (9) Capital assets purchased by capital assets fund and not reimbursed by Road fund

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2009:

Governmental Activities	Balance at June 30, 2008	Increase	Decrease	Ending Balance June 30, 2009	Amounts due within one year
1998 CHAT Bonds	17,760,000	-	(8,205,000)	9,555,000	9,555,000
1998 WIPP Bonds	34,435,000	-	(10,545,000)	23,890,000	11,460,000
1999 CHAT Bonds	10,410,000	-	(10,410,000)	-	-
2000 CHAT Bonds	28,415,000	-	(13,810,000)	14,605,000	14,605,000
2001A CHAT Bonds	89,400,000	-	(14,630,000)	74,770,000	9,545,000
2002A CHAT Bonds	29,225,000	-	-	29,225,000	8,750,000
2002B WIPP Bonds	9,445,000	-	-	9,445,000	9,445,000
2002C HIF Bonds	32,945,000	-	(3,000,000)	29,945,000	2,000,000
2002D CHAT Bonds	4,570,000	-	-	4,570,000	1,360,000
2004A GRIP Bonds	700,000,000	-	-	700,000,000	-
2004B GRIP Bonds	149,160,000	-	(10,735,000)	138,425,000	9,230,000
2006A GRIP Bonds	150,000,000	-	-	150,000,000	-
2006B GRIP Bonds	35,510,000	-	(3,165,000)	32,345,000	2,345,000
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	-
Tax-exempt Line of Credit	-	40,028,625	-	40,028,625	-
Deferred amount on refunding	(30,869,228)	-	8,164,564	(22,704,664)	-
Compensated absences payable	7,385,466	3,712,510	(3,540,258)	7,557,718	2,850,370
Total obligations	1,738,191,238	43,741,135	(69,875,694)	1,712,056,679	81,145,370
Less current portion	(77,730,912)			(81,145,370)	
Net long-term obligations	1,660,460,326			1,630,911,309	

The State Road Fund is used to liquidate other long-term liabilities, such as compensated absences and capital leases. The Department is authorized to issue bonds from time to time, payable from the proceeds of the collection of gasoline excise taxes, motor vehicle registration fees, and other fees that are required by law to be paid into the State Road Fund and not otherwise pledged solely to the payment of outstanding bonds and debentures. The total aggregate outstanding bonds issued are in accordance with the authorizing legislation for the bonds and other debt with the approval of the State Board of Finance, 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.

11. LONG-TERM OBLIGATIONS - continued**Series 1998A CHAT:**

The Department issued \$105,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1998A and \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B in October 1998. The net proceeds to the Department were \$108,979,050 for the Series 1998A Bonds and \$103,753,450 for the Series 1998B Bonds, including \$3,979,050 and \$3,753,450, respectively, of original bond issue premium. The cost of issuance for the Series 1998A and Series 1998B Bonds was \$773,588 and \$767,380, respectively. The Bonds are special limited obligations of the Department, payable solely by a pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes and vehicle transaction taxes and fees that are required to be paid into the State Road Fund. The Series 1998A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature. The Series 1998B Bonds (1998 WIPP Bonds) were issued by the Department for roads relating to the Waste Isolation Pilot Project (WIPP) in the State of New Mexico.

Principal of the Series 1998A Bonds (CHAT) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Series 1998A Bonds (CHAT), including interest payments of \$489,694 based on interest rates that range from 4.5% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998A CHAT:			
2010	\$ 9,555,000	489,694	10,044,694
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
Total	<u>\$ 9,555,000</u>	<u>489,694</u>	<u>10,044,694</u>

11. LONG-TERM OBLIGATIONS - continued**Series 1998 WIPP:**

Principal of the Series 1998 Bonds (WIPP) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2011.

The Department's future scheduled annual requirements to amortize the Series 1998B Bonds (1998 WIPP Bonds), including interest payments of \$1,861,400 based on interest rates that range from 3.8% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998 WIPP:			
2010	\$ 11,460,000	1,224,363	12,684,363
2011	12,430,000	637,037	13,067,037
2012	-	-	-
2013	-	-	-
2014	-	-	-
Total	\$ 23,890,000	1,861,400	25,751,400

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

Eligible federal funds that can be used for debt repayment are not available for approximately two years after the date of the loan. Accordingly, \$8,468,451 of the loan proceeds were recorded to the debt service fund to pay future debt service.

The Department was also responsible for the NMFA issuance costs and must annually pay the NMFA two basis points on the outstanding principal balance every September 1. Total issue costs were \$2,244,426, net of \$1,656,807 of the premium received from the sale of the NMFA bonds. Principal of the loan was paid in May 2004 with funds provided from the issuance of the Series 2004B and 2004C NMFA State Transportation Refunding Revenue Bonds.

11. LONG-TERM OBLIGATIONS - continued

Series 1999 CHAT:

The Department issued \$100,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1999 in November 1999. The gross proceeds to the Department were \$101,161,999, including \$1,161,999 of an original issue premium. The cost of issuance including underwriting fees was approximately \$791,000. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 1999 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 4.75% to 5.75% per annum, is payable semi-annually on June 15 and December 15 through the year 2009. Therefore, there are no remaining obligations on the instrument after June 30, 2009.

11. LONG-TERM OBLIGATIONS - continued**Series 2000A CHAT**

The Department issued \$201,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A in May 2000. The gross proceeds to the Department were \$206,023,307, including \$5,023,307 of an original issue premium. The cost of issuance including underwriting fees was approximately \$1,392,000. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 2000 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

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

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$876,300, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2000A CHAT:			
2010	\$ 14,605,000	876,300	15,481,300
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
Total	<u>\$ 14,605,000</u>	<u>876,300</u>	<u>15,481,300</u>

11. LONG-TERM OBLIGATIONS - continued**Series 2001A CHAT**

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

Principal of the Bonds is payable annually each June 15. Interest, with rates ranging from 4.3% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2013.

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$10,844,930 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2001A CHAT			
2010	\$ 9,545,000	3,892,398	13,437,398
2011	20,645,000	3,415,147	24,060,147
2012	21,720,000	2,338,838	24,058,838
2013	22,860,000	1,198,537	24,058,537
2014	-	-	-
Total	\$ <u>74,770,000</u>	<u>10,844,920</u>	<u>85,614,920</u>

11. LONG-TERM OBLIGATIONS - continued

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

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

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

11. LONG-TERM OBLIGATIONS - continued**Series 2002A CHAT**

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

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 5.0% to 5.5% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$5,024,100, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002A CHAT			
2010	\$ 8,750,000	1,585,500	10,335,500
2011	-	1,126,125	1,126,125
2012	9,690,000	1,126,125	10,816,125
2013	-	593,175	593,175
2014	10,785,000	593,175	11,378,175
Total	\$ 29,225,000	5,024,100	34,249,100

11. LONG-TERM OBLIGATIONS - continued**Series 2002B WIPP**

The Department issued \$79,920,000 of the New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds, Series 2002B, in January 2002. The gross proceeds including accrued interest to the Department were \$82,007,147 including \$2,670,686 of an original issue premium. The cost of issuance including underwriter fees was \$614,561. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002B Bonds (WIPP Bonds) were issued to provide funds to refund the 1996 WIPP Bonds on the date of delivery of the Bonds, and to pay all costs incident thereto and to the issuance of the Bonds, including, without limitation, costs of issuance.

Principal of the bonds is payable on June 15. Interest at a rate of 5% per annum is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$472,250, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002B WIPP:			
2010	\$ 9,445,000	472,250	9,917,250
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
Total	\$ 9,445,000	472,250	9,917,250

11. 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 funds projects identified by the Department and the Legislature.

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

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$9,028,244, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002C HIF			
2010	\$ 2,000,000	1,559,524	3,559,524
2011	-	1,459,524	1,459,524
2012	-	1,459,524	1,459,524
2013	5,040,000	1,459,524	6,499,524
2014	5,295,000	1,204,284	6,499,284
2015-2019	17,610,000	1,885,865	19,495,865
Total	\$ 29,945,000	9,028,244	38,973,244

11. 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.

Principal of the bonds is payable as follows on June 15. Interest, with rates ranging from 3.9% to 5.00% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds including interest payments of \$640,700 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002D CHAT			
2010	\$ 1,360,000	194,825	1,554,825
2011	-	126,825	126,825
2012	-	126,825	126,825
2013	1,575,000	126,825	1,701,825
2014	1,635,000	65,400	1,700,400
Total	\$ <u>4,570,000</u>	<u>640,700</u>	<u>5,210,700</u>

11. 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 3.8% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2024.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$362,060,888, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004A GRIP			
2010	\$ -	36,216,759	36,216,759
2011	-	36,216,759	36,216,759
2012	-	36,216,759	36,216,759
2013	-	36,216,759	36,216,759
2014	19,360,000	36,216,759	55,576,759
2015 - 2019	357,835,000	142,138,505	499,973,505
2020 - 2024	<u>322,805,000</u>	<u>38,838,588</u>	<u>361,643,588</u>
Total	\$ <u>700,000,000</u>	<u>362,060,888</u>	<u>1,062,060,888</u>

11. LONG-TERM OBLIGATIONS - continued**Series 2004B GRIP**

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

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

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

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$22,609,720, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004B GRIP:			
2010	\$ 9,230,000	6,879,385	16,109,385
2011	36,275,000	6,421,085	42,696,085
2012	29,060,000	4,639,050	33,699,050
2013	34,120,000	3,186,800	37,306,800
2014	29,740,000	1,483,400	31,223,400
Total	\$ 138,425,000	22,609,720	161,034,720

The Series 2004C Bonds are special limited obligations of the Department payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C bonds or which may hereafter be used through the NMFA. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

11. LONG-TERM OBLIGATIONS - continued

- **Refunding**

NMFA, on behalf of the Department, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the Department, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1998. The net proceeds of \$408,855,872 plus an additional \$7,285,997 were used to purchase U.S. Governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. The bonds outstanding of \$363,490,000 were considered defeased as of June 30, 2007.

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

- **Refunding of Variable Rate Bonds**

The 2004C, 2006C, and 2006D Series bonds were issued as Auction Rate Securities (“ARS”). ARS are one of the two principal types of securities for which interest rates are reset in a periodic auction process. For each of these Series, the rates were reset in weekly auctions. All of the bonds were insured by certain municipal bond insurance companies. In late 2007 and early 2008, the market for ARS was negatively impacted by a number of factors, the principal event being downgrades of the ratings of certain insurers of ARS. These downgrades and other events caused the weekly auctions of the bonds to “fail”, meaning that insufficient bids were received to permit resale of all of the bonds. In the event of a failed auction, no bonds are resold, even though some bids were received. In a failed ARS auction, the existing holders of the bonds must continue to hold their bonds until the next successful auction. The procedures applicable to a failed auction included a provision that the interest rate on the bonds resets to a default rate. In the case of the 2004C bonds, the default rate was one-month LIBOR plus 175 basis points. The default rate for the 2006C and D bonds was 12%.

The deferred amount on the refunding of \$22,704,664, recorded as a reduction of the Department’s long-term obligation, is the difference between the reacquisition price (funds required to refund the old debt including call provisions) and the net carrying amount of the old debt including unamortized old bond issuance costs. The deferred amount on the refunding is recorded to the government-wide financial statements and is required to be amortized as additional interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

11. LONG-TERM OBLIGATIONS - continued

- **Refunding of Variable Rate Bonds - continued**

In April and May, 2008, NMFA, on behalf of the Department, refunded all of the ARS Series 2004C, 2006C, and 2006D, reissuing the bonds as Variable Rate Demand Notes (VRDN). As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The transaction resulted in a net loss of \$3.5 million. The interest rates for these bonds reset in weekly auctions, as was the case for the ARS. The principal difference between the ARS and the VRDN is that the ARS were credit-enhanced with insurance, while the VRDN are supported by bank letters of credit. The following bonds were issued:

	<u>Par Value</u>
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008A	\$ 115,200,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008B	220,000,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008C	84,800,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008D (Taxable)	<u>50,400,000</u>
Total	\$ <u><u>470,400,000</u></u>

All of the above refunding bonds were issued at par. The Department provided additional funds totaling \$2,043,624 to pay for the cost of issuance of the bonds.

- **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.

11. LONG-TERM OBLIGATIONS - continued

- **Derivative Instruments - continued**

- 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.

- **Significant Terms**

2004 Swaps:

Counterparty	Royal Bank of Canada	Goldman Sachs	Deutsche Bank
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

11. LONG-TERM OBLIGATIONS - continued

- Significant Terms - continued**

2006 Forward Starting Swaps:

Counterparty	JPMorgan Chase Bank	UBS AG
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.

- Fair Value**

The estimated fair value of the swaps at June 30, 2009 was as follows:

<u>Counterparty</u>	<u>Notional Value</u>	<u>Fair Value*</u>
Goldman Sachs	\$ 50,000,000	(6,905,745)
Deutsche	50,000,000	(6,905,746)
Royal Bank of Canada	100,000,000	(13,811,493)
JPMorgan Chase Bank	110,000,000	(20,655,646)
UBS AG	<u>110,000,000</u>	<u>(20,655,646)</u>
Total \$	<u>420,000,000</u>	<u>(68,934,276)</u>

11. LONG-TERM OBLIGATIONS - continued

- **Fair Value - continued**

*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, 2009 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, 2009. Negative amounts indicate payments that would have been made by the Department to the counterparties.

- **Associated Debt**

		<u>2008 Debt Service</u>		<u>Net Swap</u>			
		<u>Principal</u>	<u>Interest</u>	<u>Payments</u>			
<u>Variable Rate Debt*</u>				<u>Made (Received)</u>	<u>Total</u>		
Series 2008A and C	\$	200,000,000	-	2,703,032	4,709,005	7,412,037	3.706%
Series 2008B		220,000,000	-	3,046,796	7,115,626	10,162,422	4.619%

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

- **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, 2009, were:

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Royal Bank of Canada	Aaa	AA-	AA
Goldman Sachs	Aaa	AAA	NR
Deutsche Bank	Aa1	A+	AA-
JP Morgan Chase	Aa1	AA-	AA-
UBS AG	Aa3	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. No termination value currently exceeded these limits, and, accordingly, no collateral was posted at June 30, 2009. 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

11. LONG-TERM OBLIGATIONS - continued**Swap Collateral Requirements – Taxable Line of Credit**

Even though the negative balances at the end of the fiscal year were such that no collateral needed to be posted, earlier in the year the negatives were greater and collateral did need to be posted. For that purpose a short-term Taxable Line of Credit was established. During the current fiscal year \$30,000,000 was borrowed, \$20,000,000 was re-paid and \$10,000,000 was outstanding at June 30, 2009 and subsequently repaid in September of 2009. The outstanding amount is reflected in the funds to which it relates, namely:

SHARE fund 10410 - 2008A GRIP Debt Service Fund	\$ 2,742,857
SHARE fund 10420 – 2008B GRIP Debt Service Fund	5,238,095
SHARE fund 10430 – 2008C GRIP Debt Service Fund	<u>2,019,048</u>

Total Short term Notes Payable (Taxable Line of Credit)	\$10,000,000
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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.

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.

11. 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 2026.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$113,669,526, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2006A GRIP:			
2010	\$ -	7,477,407	7,477,407
2011	-	7,477,407	7,477,407
2012	240,000	7,472,607	7,712,607
2013	195,000	7,464,298	7,659,298
2014	255,000	7,454,413	7,709,413
2015 - 2019	17,960,000	35,011,644	52,971,644
2020 - 2024	18,695,000	30,542,875	49,237,875
2025 - 2027	112,655,000	10,768,875	123,423,875
Total	\$ 150,000,000	113,669,526	263,669,526

11. 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 2026.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$15,024,255, is as follows:

<u>Year Ended June 30,</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2006B GRIP:				
2010	\$	2,345,000	1,432,350	3,777,350
2011		2,100,000	1,346,946	3,446,946
2012		1,225,000	1,283,585	2,508,585
2013		1,270,000	1,237,288	2,507,288
2014		1,320,000	1,188,261	2,508,261
2015 - 2019		7,520,000	5,026,075	12,546,075
2020 - 2024		9,570,000	2,973,375	12,543,375
2025 - 2027		6,995,000	536,375	7,531,375
Total	\$	<u>32,345,000</u>	<u>15,024,255</u>	<u>47,369,255</u>

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

The NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008A in the amount of \$115,200,000 were issued in May of 2008 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2008A bonds are being issued by the New Mexico Finance Authority (NMFA) at the direction of the New Mexico State Transportation Commission 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.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$66,520,793, is as follows:

<u>Year Ended June 30,</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008A GRIP:				
2010	\$	-	4,531,968	4,531,968
2011		-	4,531,968	4,531,968
2012		-	4,531,968	4,531,968
2013		-	4,531,968	4,531,968
2014		-	4,531,968	4,531,968
2015 - 2019		-	22,659,840	22,659,840
2020 - 2024		115,200,000	21,201,113	136,401,113
Total	\$	115,200,000	66,520,793	181,720,793

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

The NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008B in the amount of \$220,000,000 were issued in May of 2008 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2008B bonds are being issued by the New Mexico Finance Authority (NMFA) at the direction of the New Mexico State Transportation Commission 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.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$171,151,708, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008B GRIP:			
2010	\$ -	10,410,400	10,410,400
2011	-	10,410,400	10,410,400
2012	-	10,410,400	10,410,400
2013	-	10,410,400	10,410,400
2014	-	10,410,400	10,410,400
2015 - 2019	-	52,052,000	52,052,000
2020 - 2024	11,200,000	51,522,016	62,722,016
2025 - 2027	208,800,000	15,525,692	224,325,692
Total	\$ 220,000,000	171,151,708	391,151,708

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

The NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008C in the amount of \$84,800,000 were issued in May of 2008 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2008C bonds are being issued by the New Mexico Finance Authority (NMFA) at the direction of the New Mexico State Transportation Commission 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.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$48,966,695, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008C GRIP:			
2010	\$ -	3,336,032	3,336,032
2011	-	3,336,032	3,336,032
2012	-	3,336,032	3,336,032
2013	-	3,336,032	3,336,032
2014	-	3,336,032	3,336,032
2015 - 2019	-	16,680,160	16,680,160
2020 - 2024	84,800,000	15,606,375	100,406,375
Total	\$ 84,800,000	48,966,695	133,766,695

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

The NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008D in the amount of \$50,400,000 were issued in May of 2008 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2008D bonds are being issued by the New Mexico Finance Authority (NMFA) at the direction of the New Mexico State Transportation Commission 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.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$17,640,000, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008D GRIP:			
2010	\$ -	1,008,000	1,008,000
2011	-	1,008,000	1,008,000
2012	-	1,008,000	1,008,000
2013	-	1,008,000	1,008,000
2014	-	1,008,000	1,008,000
2015 - 2019	-	5,040,000	5,040,000
2020 - 2024	-	5,040,000	5,040,000
2025 - 2027	50,400,000	2,520,000	52,920,000
Total	\$ 50,400,000	17,640,000	68,040,000

11. LONG-TERM OBLIGATIONS - continued**Tax-exempt Line of Credit**

The Department contracted with the Bank of America for \$200,000,000 for a tax-exempt line of credit on June 1, 2008. As of June 30, 2009, the amount of funds drawn was \$40,028,625. The full amount of the Line of Credit is not expected to be drawn until December 2010.

The principal, interest and fees for the unused portions 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 Line of Credit was 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 is payable on August 31st for 2010 and on July 1st for the subsequent years.

Interest is payable quarterly on the drawn portions and a fee is charged on the unused portions. The interest rate is 65% of the LIBOR One Monthly Floating Rate plus .65 percentage points and is estimated to average 3.25%.

The Department's future estimated scheduled annual requirement to amortize the Bonds, including interest payments of \$10,889,386, are as follows:

<u>Year Ended June 30, 2009</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008 Tax-exempt Line of Credit			
2010	\$ -	4,308,421	4,308,421
2011	50,000,000	3,255,393	53,255,393
2012	50,000,000	1,700,572	51,700,572
2013	50,000,000	1,625,000	51,625,000
2014	50,000,000	-	50,000,000
2015 - 2019	-	-	-
2020 - 2024	-	-	-
Total	\$ <u>200,000,000</u>	<u>10,889,386</u>	<u>210,889,386</u>

- Capital Leases**

There are no future minimum lease obligations to report as of June 30, 2009.

11. LONG-TERM OBLIGATIONS - continued

Total future principal and interest obligation repayments are as follows:

<u>Year Ended June 30,</u>		<u>Bonds</u>
2010	\$	165,550,533
2011		205,463,256
2012		192,384,713
2013		185,829,605
2014		185,882,091
2015 – 2019		681,419,090
2020 – 2024		727,994,341
2025 – 2027		<u>408,200,942</u>
Total	\$	<u>2,752,724,571</u>

An obligation amounting to \$7,227,718 at June 30, 2009 has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences.

12. REVERSIONS

Current year reversions due to the State General Fund as of June 30, 2009 were as follows:

		SHARE System Fund 10070
2009 reversions	\$	3,098,918

13. 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.

13. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION - continued

- **Funding Policy**

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. From the 2009 legislative session House Bill 854 temporarily shifts the burden of 1.5% of employer PERA contributions to state employees whose annual salaries exceed \$20,000. For the two-year period from July 1, 2009 to June 30, 2011, the employer contribution rates will be reduced by 1.5% and the employee contribution rates will be increased by 1.5%. After this temporary shift the burden will return to the employer. 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, 2009, 2008 and 2007 were \$16,400,581, \$15,997,412 and \$14,933,952, respectively, equal to the amount of the required contribution for each year.

14. 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 the 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.

14. 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 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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Department's contributions to the RHCA for the years ended June 30, 2009, 2008 and 2007 were \$1,245,299, \$1,218,924 and \$1,201,755, respectively, which equal the required contributions for each year.

15. COOPERATIVE AND JOINT POWERS AGREEMENTS

The State Legislature and the State Highway Commission have approved certain agreements between the Department and various counties, municipalities and other agencies to construct or improve public highways, school grounds, parking areas, and for the purpose of litter control. The Department's funding responsibility varies from zero to 100%. None of these cooperative and joint powers agreements have created legally separate organizations that need to be included as component units or joint ventures in the Department's financial statements.

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS – continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00074	Pueblo of Laguna	Miscellaneous construction, to include geotechnical and engineering fees for pedestrian, bikeway and roadway improvements at entrance to new Laguna-Acoma High School on Casa Blanca Road.	-
J00131	City of Albuquerque	Bicycle/pedestrian safety program.	31,880
J00640	City of Albuquerque	Highway maintenance and beautification.	-
J00671	City of Albuquerque	Bicycle Travel Demand Management Program/ CN 7366.	-
J00698	NM Institute of Mining & Technology	Severance Tax Agreement for Water Canyon Road/CN 1339.	17,156
J00699	Pueblo of Acoma	Construction of “SP 26”, an all weather access road/CN 86581.	98,498
J00700	City of El Paso, Texas	Replacement of the bridge and culverts on Sunland Park Drive/CN 4035/TC 6301(4).	-
J00701	NM Energy, Minerals and Natural Resources Dept.	Establish a framework to acquire, enhance and maintain approximately 130 acres of wetland habitat in Santa Rosa.	-
J00703	NM Energy, Minerals and Natural Resources Dept.	Provide inmate work crews for improving natural resources and safety on public lands and roads.	-
J00704	Pueblo of Laguna	Miscellaneous construction to include geotechnical and engineering fees for pedestrian, bikeway and roadway improvements at entrances to new Laguna-Acoma High.	-
J00707	Pueblo of Zuni	A pedestrian travel demand study for Black Rock Community.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00708	Navajo Nation	Road improvements and a maintenance yard at the Bread Springs Chapter of Navajo Nation in McKinley County.	-
J00709	NM Department of Cultural Affairs	Provide FY 2006 – 2010 Consultant Design Program to maintain an inventory of cultural properties in the State of New Mexico.	25,000
J00711	NM Office of Cultural Affairs	Provide FY 2006 – 2010 Consultant Design Program for the review of cultural resource documents pertinent to the completion of proposed highway construction project in New Mexico.	50,000
J00714	Pueblo of Laguna	Provide for the design and improvement of the Exit 108 Interchange on Interstate Highway 40 and BIA Road L22 on the Pueblo of Laguna Indian Reservation.	-
J00718	Pueblo of Acoma	Construction, re-construction of various streets on Pueblo of Acoma Indian Reservation.	150,000
J00721	Navajo Nation	Plan, design and construct various road improvements in McKinley, San Juan and Sandoval counties.	-
J00722	Navajo Nation	Acquire Right of Way.	-
J00724	Pueblo of Acoma	Road improvements on Skyline Road, Acoma Route 32 for 0.8 miles, to include 3 inch mill/inlay for pavement, sidewalks, new curb and gutter, street lighting, 2 crosswalks at school crossing, drainage culverts, signing, marking.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00725	Pueblo of Acoma	Construction, reconstruction for various streets for the Pueblo of Acoma in Acoma Indian Reservation.	100,000
J00726	Pueblo of Acoma	Construction of Acomita Road, Pueblo of Acoma Indian Reservation, Acomita Road SP30(12)2 & 4 (clearing and grubbing, roadway excavation, Portland cement standard curb and gutter.	79,318
J00727	Pueblo of Santa Clara	Maintain traffic signal at NM 30 and Puye Road.	-
J00729	Navajo Nation	Plan, design and construct road and culvert improvements.	-
J00730	NM Corrections Department	Utilize supervised inmates to perform minor highway maintenance and beautification.	307,498
J00731	Acoma Pueblo	Road improvements on Skyline Road, Acoma Route 32 for 0.8 miles, to include 3 inch mill/inlay for pavement, sidewalks for .8 miles, new curb and gutter for .3 miles, street lighting, 2 crosswalks at school crossing, drainage culverts, signing and markings.	-
J00734	Pueblo of Zia	Acquisition of rights of way, planning, design and construction drainage and paving improvements in Zia Pueblo.	-
J00735	Tesuque Pueblo	Safety enhancements, including acquisition of rights of way, planning, design and construction for pedestrian and school areas and for the purchase of an emergency vehicle in the Pueblo of Tesuque in Santa Fe County.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00736	Mescalero Apache Tribe	Study of alternate routes and the acquisition of rights of way, planning, design and construction of roadway drainage and paving improvements to Ski Apache access road in Otero County.	-
J00737	Pueblo of Sandia	Acquisition of right of way, planning, design and construction of railroad crossing safety improvement in the Pueblo of Sandia in Sandoval County.	-
J00738	Pueblo of Pojoaque	Acquisition of rights of way, planning, design and construction, drainage, safety and paving improvements, including sidewalks and new road construction for housing subdivisions and pedestrian and bike trails in the Pueblo of Pojoaque in Santa Fe County.	-
J00739	Jicarilla Apache Nation	Acquisition of rights of way, planning, design and construction, drainage, safety and paving improvements, sidewalks and street lighting to Sandhill Drive in the Jicarilla Apache Nation in Rio Arriba County.	-
J00740	NM Environment Department	Joint sponsorship of a position of employment at the NMED Surface Water Quality Bureau.	-
J00741	Pueblo of Picuris	Renovate roadways, including acquisition of right of way, planning, design and construction, drainage and paving improvements in the Pueblo of Picuris in Taos County.	-
J00743	Pueblo of Sandia	Plan, design and construct improvements to streets at the Pueblo of Sandia in Sandoval County.	13,015
J00744	Sierra County	Acquire land, plan, design, construct, furnish and equip the Southwest Regional Spaceport in Sierra County; acquire rights of way, plan, design and construct drainage and paving improvements in Sierra County and Dona Ana County that are related to the Spaceport.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00747	Taos Pueblo	Construction of Hail Road through Pueblo Land on a new alignment and signalization of the intersection with US 64 within the Town of Taos city limits.	-
J00748	Pueblo of Zuni	Acquisition of right of way, planning, study, design and construction of roadway drainage and paving improvements to BIA Route 301 in the Pueblo of Zuni in McKinley County.	-
J00749	Pueblo of Acoma	Acquisition of right of way, planning, study, design and construction of new bridge and roadway drainage and paving improvement for a railroad grade separation bridge connecting Bureau of Indian Affairs Road 30 and 36 in the Pueblo of Acoma in Cibola County.	-
J00750	Pueblo of Nambe	Acquisition of right of way, planning, study, design and construction of roadway drainage and paving improvements to Alabama Street in the Pueblo of Nambe in Santa Fe County.	-
J00751	Pueblo of San Felipe	Acquisition of right of way, planning, design and construction of roadway drainage and bridge replacement for bridge number 8 on State Road 313 in the Pueblo of San Felipe in Sandoval County.	-
J00752	US Department of Interior	To allow the Department to transfer the apportionments, contract authority and obligation authority to BIA to complete the Chaco Wash Bridge and road improvements on Navajo Route 46, in rural area of McKinley County, NM.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00009		Guidelines for Purchase of Surplus Equipment via Local Government Road Funds	379,536
M00338	Texas Dept. of Transportation	Materials Inspection and Sampling Services	782
M00369	Mid-Region Council of Governments	Transportation Planning Activities in the Albuquerque Metropolitan Area	1,237,002
M00371A	North Central New Mexico Economic District	Northern Pueblos Regional Planning Organization Annual Work Program	53,115
M00379	Mid-Region Council of Governments	Commuter Rail Implementation Project for the Belen to Bernalillo Corridor and for the Albuquerque to Santa Fe Corridor	5,749,164
M00420	National Oceanic and Atmospheric Administration	Geodetic Advisor Program in the State of New Mexico	59,350
M00455A	New Mexico State University	Develop and Deploy State-of-the-Art Single-Load Cell Weigh-In-Motion (WIM) Systems and a Commercial Vehicle Pre-Screening Management System at the Santa Teresa International Port-of-Entry	241,561
M00460	City of Farmington	Develop Annual Unified Planning Work Program (UPWP)	108,822
M00461	City of Santa Fe	Develop Annual Unified Planning Work Program (UPWP)	88,557
M00463	Mid-Region Council of Governments	Commuter Rail Operations and Maintenance for the Belen to Santa Fe Corridor	12,736,280
M00467	City of Santa Fe	Promotion of RideShare Programs	33,938
M00468A	Mid-Region Council of Governments	Establish an Operational Site for a Transportation Management Center (TMC)	140,370
M00473	North Central New Mexico Economic District	Implement Annual Work Program	62,827
M00475	Southwest New Mexico Council of Governments	Implement Annual Work Program	53,456
M00476	Eastern Plains New Mexico Council of Governments	Implement Annual Work Program	127,058
M00477	Northwest New Mexico Council of Governments	Implement Annual Work Program	49,176
M00501	South Central New Mexico Council of Governments	Implement Annual Work Program	55,534
M00513	South Eastern New Mexico Economic District	Implement Annual Work Program	55,775

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00519	Mid-Region Council of Governments	Implement Annual Work Program	57,710
M00527	City of El Paso	Implement Annual Work Program	56,378
M00532	City of Las Cruces	Implement Annual Work Program	63,372
M00569	Citizens Committee for Historic Preservation	Conduct Conservation Workshops, Develop a Plan for Acquiring Easements, Develop and Publish Electronic Database, and Develop a Santa Fe Trail Traveling Exhibit, Economic Impact Study and Promotions Training Program	236
M00591	City of Albuquerque	Transportation Services	20,997
M00616	Mid-Region Council of Governments	Commuter Rail Implementation Project for the Albuquerque to Santa Fe Corridor	57,308,955
M00632	National Academies Press Transportation Research Board	Research Correlation Service	96,475
M00651	Mid-Region Council of Governments	Develop a Service and Financial Plan	22,597
M00652	NM Corrections Industries	Provide Optical Image Scanning	107,979
M00657	New Mexico State University	Conduct a Bi-national Transportation Infrastructure Needs Assessment and Geographic Information Study	7,423
M00662	Mid-Region Council of Governments	Public Transit Services	108,058
M00669	New Mexico State University	Creation and Development of Bridge Research Projects	68,187
M00675	New Mexico Passenger Transportation Association	Planning and Implementation of a Statewide Transit Conference	8,151
M00678	Village of Los Lunas	Public Transit Services	4,232
M00681	Ben Archer Health Center	Public Transit Services	6,493
M00683	Zia Therapy Center	Public Transit Services	1,474
M00685	Zuni Entrepreneurial Ent. Inc.	Public Transit Services	21,186
M00686	Town of Red River	Public Transit Services	25,231
M00687	Zia Therapy Center	Public Transit Services	117,162
M00688A	Golden Spread Rural Frontier	Public Transit Services	16,466
M00690	North Central Regional Transit District	Public Transit Services	58,382
M00691	North Central Regional Transit District	Public Transit Services	49,492

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00693	City of Roswell	Public Transit Services	258,008
M00694	City of Clovis	Public Transit Services	167,002
M00695	Village of Los Lunas	Public Transit Services	70,597
M00696	Coyote Canyon Rehab Center, Inc.	Public Transit Services	54,400
M00697	City of Las Vegas	Public Transit Services	60,160
M00701	County of Los Alamos	Public Transit Services	154,942
M00707	Southwest Regional Transit District	Implement the Scope of Work and Budget Necessary to Provide a Regional Network of Safe and Efficient Public Transit Services	59,875
M00708	Village of Angel Fire	Public Transit Services	46,853
M00709	City of Carlsbad	Acquisition of right of way, planning, study, design and construction of roadway drainage and paving improvements to Alabama Street in the Pueblo of Nambe in Santa Fe County.	3,957
M00710	County of Grant	Public Transit Services	13,884
M00711	County of Grant	Public Transit Services	205,374
M00712	City of Carlsbad	Public Transit Services	126,179
M00715	Village of Milan	Public Transit Services	69,450
M00716	Department of Cultural Affairs	Traveling Van Museum Exhibits of the History of Transportation in New Mexico	97,624
M00718	Dexter Consolidated Schools	Safe Routes to School Phase 1	5,552
M00719	City of Bayard	Safe Routes to School Phase 1	60
M00720	Village of Corrales	Safe Routes to School Phase 1	6,018
M00721	Torrance County	Public Transit Services	15,457
M00722	City of Socorro	Public Transit Services	7,692
M00724	San Miguel County	Feasibility Study of Possible Public Transportation System	16,000
M00725	City of Portales	Public Transit Services	24,639
M00726	City of Hobbs	Public Transit Services	90,409
M00727A	Wagon Mound Public Schools	Safe Routes to School Phase 1	3,271
M00728	County of Sandoval	Public Transit Services	90,108
M00729	County of Sandoval	Public Transit Services	45,543
M00730	City of Las Cruces	Promotion of Ride-Share Program	8,576
M00734	New Mexico Institute of Mining and Technology		492,776
M00736	Good Shepherd Lutheran Church	Use of Parking Lot for Park and Ride	5,650

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00737	County of Santa Fe	Traffic Forecast Model Update for NMDOT Corridor Studies	1,500
M00745	City of Albuquerque	Expansion and Revision of Existing Fixed Route Transit Service	27,747
M00746	North Central Regional Transit District	Study of Potential Expansion of Transit Services	9,299
M00748	City of Albuquerque	Promotion of RideSharing and Transportation Demand Management Activities	762,327
M00750	South Central Regional Transit District	Provide a Regional Network of Safe and Efficient Public Transit Services	130,709
M00751	Albuquerque Metropolitan Flood Control	Embudo Arroyo Maintenance	10,000
M00752	New Mexico Passenger Transportation Association	Planning and Management of a Statewide Transportation Conference; Coordinate Management and Driver Training	50,187
M00754	Town of Mesilla	Safe Routes to School Phase 1	2,052
M00756	U.S. Department of Interior	Water Resources Investigations	112,725
M00759	Village of Milan	Public Transit Services	9,138
M00760	Zia Therapy Center	Public Transit Services	12,213
M00761	County of Los Alamos	Public Transit Services	226,290
M00762	Village of Los Lunas	Public Transit Services	51,104
M00763	City of Carlsbad	Safe Routes to School Phase 1	1,049
M00766	South Central Council of Government	Public Transit Services	41,277
M00767	Ben Archer Health Center	Public Transit Services	54,148
M00770	Adelante Development Center	Public Transit Services	14,369
M00771	Torrance County	Public Transit Services	20,917
M00773	City of Roswell	Public Transit Services	13,200
M00774	City of Alamogordo	Safe Routes to School Phase 1	3,559
M00778	State Employee Commuter Association	Public Transit Services	43,369
M00783	County of Sandoval	Public Transit Services	72,328
M00784	Las Cruces Public Schools	Safe Routes to School Phase 1	11,205
M00785	City of Hobbs	Safe Routes to School Phase 1	4,019
M00787	Gallup Express	Public Transit Services	22,611
M00788	Village of Milan	Public Transit Services	32,285
M00789	Town of Red River	Public Transit Services	37,698
M00790	Village of Los Lunas	Public Transit Services	150,277

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00791	Zuni Entrepreneurial Ent. Inc.	Public Transit Services	74,801
M00792	City of Carlsbad	Public Transit Services	30,690
M00793	Zia Therapy Center	Public Transit Services	202,021
M00794	Golden Spread Rural Frontier	Public Transit Services	46,392
M00795	City of Belen	Public Transit Services	7,228
M00796	City of Clovis	Public Transit Services	251,664
M00799	Town of Taos	Public Transit Services	55,042
M00801	City of Las Vegas	Public Transit Services	94,954
M00802	City of Roswell	Public Transit Services	353,026
M00803	Town of Taos	Public Transit Services	169,860
M00804	Pueblo of Laguna	Public Transit Services	22,230
M00805	City of Hobbs	Public Transit Services	164,639
M00806	City of Socorro	Public Transit Services	53,661
M00807	City of Ruidoso Downs	Public Transit Services	22,285
M00808	Southwest Regional Transit District	Public Transit Services	191,812
M00809	City of Portales	Public Transit Services	38,292
M00810	Village of Angel Fire	Public Transit Services	80,313
M00812	Torrance County	Public Transit Services	94,973
M00813	North Central Regional Transit District	Public Transit Services	623,221
M00814	North Central Regional Transit District	Public Transit Services	193,667
M00815	Southwest Regional Transit District	Public Transit Services	25,720
M00816	City of Carlsbad	Public Transit Services	176,337
M00817	County of Sandoval	Public Transit Services	230,904
M00821	County of Los Alamos	Public Transit Services	526,371
M00822	City of Las Cruces	RideShare Program	19,745
M00823	City of Albuquerque	RideShare Program	365,946
M00824	Navajo Nation Records Management	Public Transit Services	183,800
M00832	City of Santa Fe	RideShare Program	32,865

16. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the agency carries insurance (Workers' Compensation, Unemployment Compensation, Employee Liability and Transportation Property), with the State of New Mexico Risk Management Division (RMD) of the General Services Department.

There are no pending or known threatened legal proceedings involving material matters to which the Department is party.

17. FEDERAL HIGHWAY ADMINISTRATION (FHWA) AUTHORIZATIONS

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

In order to obtain funding commitments from FHWA for such allotments, projects must be submitted to and be approved by the FHWA. As of June 30, 2009, the amount of authorizations granted to the State of New Mexico that had not been converted to commitments because FHWA did not award sufficient obligation authority to the Department was \$80,962,917.

18. 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.

19. 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, 2009 was \$1,759,151.

The future minimum lease payments under operating leases as of June 30, 2009 are as follows:

Years ending June 30:	<u>Lease Amounts</u>
2010	\$ 1,283,791
2011	1,116,680
2012	613,168
2013	876,198
2014 and thereafter	<u>943,774</u>
	\$ <u>4,833,611</u>

20. 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, 2009 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.

21. UNRESERVED, UNDESIGNATED FUND BALANCE (DEFICIT)

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

22. BUDGET TO GAAP RECONCILIATION

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds		1,254,450,278
Add: Net change in accruals due to accounts payable past the DFA cut-off		(14,126,518)
Add: transfer activities reported in expenses in budgeting reporting		16,603,295
Less: multi-year fund budgetary expenses not reported in agency budget and actual		
Fund 10050	(2,838,118)	
Fund 10060	(53,383,092)	
Fund 10070	(69,012,455)	
Total multi-year expenditures		(125,233,665)
Add: State Infrastructure Bank included in agency budget and actual		5,438,450
Statement of Revenues and Expenditures Budget and Actual (Modified Accrual Basis)		<u><u>1,137,131,840</u></u>

23. BUDGETED VS. ACTUAL EXPENDITURES

The Department had expenditures that exceeded the final budget expenditures as follows:

- Programs and Infrastructure, Personal Services, in the amount of \$506,119
- Programs and Infrastructure, Transfers, in the amount of \$9,081,118
- Business/Program Support, Transfers, in the amount of \$28,712,991

23. BUDGET VS. ACTUAL EXPENDITURES continued**Programs and Infrastructure, Personal Services**

The personal services extended past budget due to issues regarding how SHARE is handled in reporting payroll and benefits. Due to the unique nature of how the Department is required to capture payroll costs for federal reimbursement, payroll is first captured and posted by Department of Finance and Administration in a summarized format which is then reversed and restated in a format that allows more granularity in the payroll reporting. However, when payroll liabilities are subsequently paid by the state, the categories are paid out of the original Department of Finance and Administration categories, not the subsequent categories from the Department's restated postings. At year end during the reconciliation process of the payroll liabilities, any differences cannot be attributed to the cause due to the highly summarized format. The Department expects this issue to be corrected when we go live with a direct payroll posting system that will capture original payroll with full granularity and post at that level of detail. This will enable the Department to reconcile each payroll and analyze all differences with full attribution of discrepancies and allow for correcting entries in a timely manner.

Programs and Infrastructure, Operating Transfers

The operating transfers in the Programs and Infrastructure occurred due to the ARRA projects being implemented and expended before all of the ARRA accounting structure was in place. The Department began to capture the ARRA expenditures in the road fund and then engaged in an operating transfer of the expenditures to the ARRA fund when the ARRA fund was up and running. The Department does not expect this to occur again.

Business/Program Support, Operating Transfers

The operating transfers in the Business/Program Support is due to technical difficulties in funding debt service payments from the road fund. House Bill 2 sets the appropriation for the debt service funding payments out of the Programs and Infrastructure in the expenditure category, not the operating transfer category. However, for GAAP purposes, the Department must record the funding payments from the road fund to the debt service funds as operating transfers and the expenditures from House Bill 2 in the debt service funds. Thus, the operating transfers are not budgeted formally. The Department is working with the Budget Division of the Department of Finance and Administration for advice in rectifying this technical difficulty in acquiring budget to allow for both the cash transfers and the debt service payments together.

24. SUBSEQUENT EVENTSSeries 2009A Refunding Bonds

The Department issued \$112,345,000 through the NMFA's State Transportation Senior Lien Refunding Revenue Bonds, Series 2009A in October 2009. The gross proceeds to the Department were \$120,756,035 including the premium of \$8,411,035. The cost of issuance, including the underwriter's discount, was \$918,173. The 2009A Bonds were structured to provide upfront debt service savings in fy10 and fy11. The refunded bonds were from series 1998A, 1998B, 2001A, 2002A and 2002C. The present value of the savings was \$6,189,928 or 4.984%. Principal is payable annually on June 15 thru 2017. Interest is payable on December 15 and June 15 thru 2017 for a total of \$15,229,841.

Long-Term Note Payable (Tax-Exempt Line of Credit)

Additional draws on the tax-exempt line of credit were \$79,780,294 as of May 17, 2010 bringing the total principal outstanding to \$119,808,919 and leaving the remaining available balance of \$80,191,181.

Updated Fair Value of Swaps

The estimated fair value of the swaps at May 5, 2010 was as follows:

<u>Counterparty</u>	<u>Notional Value</u>	<u>Fair Value</u>
Goldman Sachs	\$ 50,000,000	(8,158,960)
Deutsche	50,000,000	(8,158,960)
Royal Bank of Canada	100,000,000	(16,317,920)
JPMorgan Chase Bank	110,000,000	(24,996,828)
UBS AG	110,000,000	(24,996,828)
Total	<u>\$ 420,000,000</u>	<u>(82,629,496)</u>

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

25. FUND BALANCE RESTATEMENT

	STB Appropriations SHARE 10060	State Aviation Fund SHARE 205
Beginning Fund Balance June 30, 2008	\$ (3,257,016)	6,316,973
Reason for restatement: In implementing the Government Accounting Standards Board Statements (GASB 33), <i>Accounting and Financial Reporting for Nonexchange Transactions</i> , errors in calculating certain Severance Tax Bond Appropriations balances occurred and were subsequently corrected in the 2009 fiscal year. This resulted in a restatement to fund balance, increasing it by...	251,049	
In reporting an accrual of over-allocated tax revenues at the end of 2008, the liability of the amounts owed instead increased the tax revenue reported. Subsequently in 2009, this reporting error was corrected by reducing the fund balance by...		(2,772,216)
Restated Beginning Fund Balance June 30, 2008	(3,005,967)	3,544,757

26. DUE TO OTHER AGENCIES

Federal Mass Transit Fund	10030	4,079,569
Departmental Services (Inventories)	10040	30,765,671
STB Capital Improvement Projects	10060	15,915,241
2006A GRIP Bond Project Fund	10210	6,487,953
2006C Bond Project Fund	10250	9,587,697
LOC Project Fund	10450	8,455,198
2004A GRIP Bond Project Fund	20400	3,807,715
2000A CHAT Bond Project Fund	34500	1,886,711
2002A CHAT Bond Project Fund	36800	1,864,153
Total due State Treasurer's Office		82,849,908

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

27. DUE FROM OTHER AGENCIES

Fund	Description	Sub-total	Total	Due From
20100	Reversion from grantee agency		46,011	Dept of Public Safety
89000	ARRA reimbursement due		199,965	ENMR
10070	General Fund Reauthorizations	773,000		State General Fund
	General Fund Reauthorizations	372,750		DFA-LGD
	General Fund Reauthorizations	135,000		State Engineer
	Total reauthorizations due		1,280,750	
20300	Interest accrued from Local Gov't Investment Pool	3,091		State Treasurer's Office
20800	Interest accrued from Local Gov't Investment Pool	434		State Treasurer's Office
20500	Interest accrued from Local Gov't Investment Pool	777		State Treasurer's Office
20600	Interest accrued from Local Gov't Investment Pool	50		State Treasurer's Office
39400	Interest accrued from Local Gov't Investment Pool	273		State Treasurer's Office
43000	Interest accrued from Local Gov't Investment Pool	362		State Treasurer's Office
00600	Interest accrued from Local Gov't Investment Pool	1,465		State Treasurer's Office
36100	Interest accrued from Local Gov't Investment Pool	223		State Treasurer's Office
11500	Interest accrued from Local Gov't Investment Pool	134		State Treasurer's Office
97200	Interest accrued from Local Gov't Investment Pool	2		State Treasurer's Office
54800	Interest accrued from Local Gov't Investment Pool	24		State Treasurer's Office
43400	Interest accrued from Local Gov't Investment Pool	24		State Treasurer's Office
43200	Interest accrued from Local Gov't Investment Pool	35		State Treasurer's Office
54700	Interest accrued from Local Gov't Investment Pool	14		State Treasurer's Office
75000	Interest accrued from Local Gov't Investment Pool	172		State Treasurer's Office
36300	Interest accrued from Local Gov't Investment Pool	11		State Treasurer's Office
18700	Interest accrued from Local Gov't Investment Pool	2		State Treasurer's Office
	Total accrued interest due		7,093	
10210	Outstanding transfer from trustee account		2,670,089	State Treasurer's Office
10060	Reimbursement due from Board of Finance		17,096,690	DFA Board of Finance
Total Due from other agencies--government funds only			21,300,598	
SIB	Interest accrued from Local Gov't Investment Pool		1,452	
Total Due from other agencies--government wide only			21,302,050	

28. NEGATIVE FUND BALANCES

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

Fund 10240: 2006B GRIP Debt Service fund \$73,579

This amount represents funds due to NMFA in excess of cash balance held at trustee and will reverse in 2010 upon transfers in.

Fund 10260: 2006D GRIP Debt Service Fund \$94,155

This amount represents funds due to NMFA in excess of cash balance held at trustee and will reverse in 2010 upon transfers in.

Fund 10410: 2008A GRIP Debt Service Fund \$52,142

This amount represents accounts and notes payable in excess of cash held at trustee--will reverse in 2010 upon transfers in.

Fund 10450: GRIP Line of Credit fund \$19,401,098

This amount represents cash overdrawn and due to the State Treasurer's Office, plus accounts payable in excess of cash available and will reverse in 2010 upon draw down from the line of credit.

Fund 34500: 2000 CHAT Project Fund \$1,886,711

This amount represents cash overdrawn and due to the State Treasurer's Office and will reverse in 2010 upon transfers in.

Fund 36800: 2002 CHAT Project Fund \$1,864,153

This amount represents cash overdrawn and due to the State Treasurer's Office and will reverse in 2010 upon transfers in.

Fund 89000: ARRA Projects Fund \$14,762,939

This amount represents revenue deferred due to receipt greater than 60 days past the year end and will reverse upon collection.

Fund 10030: Federal Planning and Development Fund \$3,669,693

This amount represents cash overdrawn and due to the State Treasurer's Office, plus revenue deferred due to receipt greater than 60 days past the year end, reduced by prepaid assets—part will reverse in 2010 upon collection of deferred revenue and recognition of prepaid amounts as expenditures. Part will require analysis in 2010 and corrective action as determined.

Fund 10060: Severance Tax Bond Fund \$3,055,966

This amount represents cash overdrawn and due to the State Treasurer's Office, reduced by receivables due from the State Board of Finance and will reverse in 2010 upon transfers in.

APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

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

Certain Definitions

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

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

“Acquisition Fund” means the Fund so designated which is created by Section 501 of the Master Indenture.

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

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

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

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

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

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

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

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

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

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

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

“Business Day” means a day of the year on which banks located in the city (i) in which the office of the Trustee located at the address specified in Section 1106 of the Master Indenture is located or (ii) in which the office of a Liquidity Facility Provider is located, are not required or authorized to remain closed, and on which The New York Stock Exchange is not closed.

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

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

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

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

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

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

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

Master Indenture (which payment, other than Exchange Termination Payments, may be made net of Authority Exchange Payments).

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

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

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

“Debt Service Fund” means the Fund so designated which is created pursuant to Section 501 of the Master Indenture.

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

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

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

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

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

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

(e) In the computation of Debt Service Requirements relating to the issuance of additional Obligations as set forth in Section 206 of the Master Indenture, there shall be deducted from that computation amounts and investments which are irrevocably committed to make designated payments on Obligations and Additional Highway Bonds included as part of the computation during the applicable period, including, without limitation: (i) money on deposit in any debt service account, (ii) amounts on deposit in an escrow account, (iii) amounts deposited to the credit of an account for the payment of capitalized interest on Obligations and Additional Highway Bonds included as part of the computation, and (iv) money on deposit in an Account of Debt Service Reserve which may be used for payment of the final principal maturity of the Obligations secured by such Account in the Debt Service Reserve Fund.

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

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

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

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

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

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

"Debt Service Reserve Fund" means the Fund so designated which is created pursuant to Section 501 of the Master Indenture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Government National Mortgage Association (GNMA or “Ginnie Mae”) GNMA-guaranteed mortgage-backed bonds GNMA-guaranteed pass-through obligations (participation certificates);

(v) U.S. Maritime Administration Guaranteed Title XI financing;

(vi) U.S. Department of Housing and Urban Development (HUD) Project Notes Local Authority Bonds;

(vii) Tennessee Valley Authority (TVA) Debentures;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System Senior debt obligations (Consolidated debt obligations);

(ii) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(iii) Federal National Mortgage Association (FNMA or “Fannie Mae”) rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(iv) Student Loan Market Association (SLMA or Sallie Mae) Senior debt obligations;

(v) Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(vi) Farm Credit System Consolidated system-wide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAAm” or “Aam” or by Moody’s of “Aaa,” including funds from which the Trustee or its affiliates receive fees for investment advisory or other services to such funds;

(e) Certificates of deposit (“CD”) secured at all times by collateral described in (a) and/or (b) above. CD’s must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” or better by S&P, and “Prime-1” or better by Moody’s. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

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

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

(i) Federal funds or bankers’ acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime- 1” by Moody’s and “A-I+” 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 credit or guaranty rated in one of the top two Rating Categories by a Rating Agency deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for the deposit of cash and Investment Securities in satisfaction of the Debt Service Reserve Requirement for any Bonds. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account and the Principal Account in order to provide for the timely payment of interest and principal (whether at maturity or to pay a Mandatory Sinking Fund Installment therefor).

“Revenue Fund” means the fund so designated which is created by Section 501 of the Master Indenture.

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

“Securities Depository” means The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other securities depository designated in a Series Indenture, or (i) if the then Securities Depository resigns from its functions as depository of the Bonds, or (ii) if the Authority discontinues use of the Securities Depository pursuant to Section 308 of the Master Indenture, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Authority with the consent of the Trustee.

“Senior Lien Bonds” means Bonds issued by the Authority with a first lien (but not an exclusive first lien) on the Trust Estate, subject to the lien thereon of the Closed Lien Obligations and so designated in the applicable Series Indenture authorizing such Senior Lien Bonds.

“Series” means all Bonds of a designated series or subseries authenticated and delivered on original issuance authorized by a given Series Indenture, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the Master Indenture, regardless of variations in maturity, interest rate, Mandatory Sinking Fund Installments, or other provisions.

“Series Indenture” means any indenture of the Authority authorizing the issuance of a Series in accordance with the terms and provisions of the Master Indenture, executed and delivered in accordance with Section 203 thereof.

“Special Record Date” for the payment of any Defaulted Interest on Bonds means a date fixed by the Trustee pursuant to Section 301 of the Master Indenture.

“State” means the State of New Mexico.

“State Revenues” means (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain public regulation commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes (to the extent authorized to be paid into the State Road Fund in the future) in each case that are required by law to be paid into the State Road Fund, and interest on amounts in the State Road Fund; (ii) proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund; and (iii) such additional moneys as may in the future be authorized by law to be pledged as security, and are so pledged by the Authority pursuant to a Supplemental Indenture, as security for Obligations.

“State Road Fund” means the fund created pursuant to Section 67-3-65 NMSA 1978, as amended and supplemented.

“State Transportation Program” means the program of the Authority, the Commission and the State Transportation Department to finance, construct and improve State Transportation Projects as provided by the Act.

“State Transportation Program Financing Expenses” means (i) the fees and expenses of Fiduciaries, (ii) the fees and expenses of any auction agent, market agent and any broker-dealer then acting under a Series Indenture with respect to auction rate Bonds, (iii) the fees and expenses of any calculation agent then acting under a Series Indenture with respect to index-based Bonds, (iv) the costs of any remarketing of any Bonds, including the fees and expenses of any remarketing agent then acting under a Series Indenture with respect to variable rate Bonds, (v) the fees and expenses (but not Repayment Obligations) due to any Credit Facility Provider or any Liquidity Facility Provider with respect to any Bonds for which any Credit Enhancement Facility or a Liquidity Facility is in place, (vi) the fee of the Authority (other than Costs of Issuance) charged to the Commission and/or the Department in carrying out and administering its powers, duties and functions under the Act, the State Transportation Program, the Authority’s agreements with the Commission relating to the Bonds, the Closed Lien Obligations and the Master Indenture and the resolution of the Commission acknowledging and agreeing that the fee of the Authority shall be payable from the State Road Fund, (vii) fees and expenses associated with the delivery of a substitute Credit Enhancement Facility or Liquidity Facility under a Series Indenture, (viii) fees and expenses associated with the monitoring of the Bonds and the State Transportation Program by the Rating Agencies, and (ix) fees and expenses associated with (but not payments under) Qualified Exchange Agreements.

“State Transportation Projects” means the transportation projects authorized by Laws of New Mexico 2003 (First Special Session), Chapter 3, Sections 27 and 28, the cost of which projects are eligible for reimbursement from Federal Revenues pursuant to Title 23 of the United States Code and regulations promulgated thereunder, or such other federal statutes and regulations pursuant to which Federal Revenues are received by the Department and paid into the State Road Fund.

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

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

“Supplemental Indenture” means any indenture of the Authority, other than a Series Indenture, supplemental to or amendatory of the Master Indenture executed and delivered in accordance with Article VII of the Master Indenture.

“Tax Certificate” means, with respect to a Series the interest on which is intended to be excluded from the gross income of the owners thereof for federal income tax purposes, the certificate concerning certain federal tax matters furnished by the Authority and/or the Commission in connection with the initial issuance and delivery of such Series.

“Trust Estate” means (i) all rights, title, interest and privileges of the Authority to (a) the Pledged Revenues; (b) any Credit Enhancement Facility and any Liquidity Facility; (ii) the proceeds of the sale of Bonds, and all other moneys in all Funds and Accounts established under the Master Indenture or Series Indenture (other than amounts in the Rebate Fund owing to the United States), including the investments, if any, thereof, and earnings, if any, thereon (other than as stated in Section 507 of the Master Indenture or Series Indenture) until applied in accordance with the terms of the Master Indenture; (iii) all rights, title, interest and privileges of the Authority in and to any Qualified Exchange Agreement and any Counterparty Payments (provided; however, that this clause (iii) shall not be for the benefit of a Qualified Counterparty with respect to its Qualified Exchange Agreement); and (iv) the money, Investment Securities and funds and all other right of every name and nature from time to time hereafter by delivery or by writing of any kind pledged, assigned transferred as and for additional security under the Indenture.

“Trustee” means Bank of Albuquerque, N.A. and the successor or successors of such bank or trust company and any other corporation which may at any time be substituted in its place pursuant to Article IX of the Master Indenture.

“Value” means, as of any date of computation, the value of the Trust Estate or Investment Securities calculated by or on behalf of the Authority as to (a) below and otherwise by the Trustee, as follows:

(a) with respect to any funds of the Authority held under the Master Indenture and on deposit in any commercial bank or as to any certificates of deposit or banker’s acceptances, the amount thereof plus accrued but unpaid interest;

(b) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, in *The New York Times*), the average of the bid and asked prices for such investments so published on such date of calculation or most recently prior to such date of calculation;

(c) as to investments (other than investment contracts and repurchase agreements) the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*, (i) the lower of the bid prices at such date of calculation for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments, or (ii) the bid price published by a nationally recognized pricing service;

(d) as to an investment contract, an amount equal to the principal amount plus any accrued interest required to be remitted to the Trustee (without regard to notice requirements of seven days or less) pursuant to the terms of such investment contract;

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

(f) with respect to any investment not specified above, the value thereof established by prior written agreement by the Authority, the Trustee and the Rating Agencies.

Additional Obligations Payable from Trust Estate

Limitations Upon Issuance of Senior Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Senior Lien Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Senior Lien Bonds. However, before any Senior Lien Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to the Master Indenture):

(1) The Authority shall then be current in all accumulations required to be made pursuant to the Master Indenture with respect to Outstanding Obligations; and

(2) The State Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (x) then outstanding Closed Lien Obligations, (y) then Outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued; and

(3) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred and fifty percent (350%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (x) then outstanding Closed Lien Obligations, (y) then outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued;

Limitations Upon Issuance of Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Subordinate Lien Bonds or to prevent the issuance by the Commission of Additional Highway Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Subordinate Lien Bonds or any Additional Highway Bonds. However, before any Subordinate Lien

Bonds, or Additional Highway Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of the Master Indenture (or similar sections of the Commission resolutions or instruments governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Bonds, or Additional Highway Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (v) then Outstanding Closed Lien Obligations, (w) then Outstanding Senior Lien Bonds, (x) then outstanding Subordinate Lien Obligations, (y) then outstanding Additional Highway Bonds, and (z) the Subordinate Lien Bonds proposed to be issued.

Limitations Upon Issuance of Junior Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Junior Subordinate Lien Bonds or to prevent the issuance of bonds or other obligations refunding all or a part of Junior Subordinate Lien Bonds. However, before any Junior Subordinate Lien Bonds are issued (excluding Refunding Bonds issued pursuant to Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of the Master Indenture (or similar sections of the Commission resolutions or instrument governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Junior Subordinate Lien Bonds shall have been sufficient to pay an amount representing two hundred percent (200%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (u) then Outstanding Closed Lien Obligations, (v) then Outstanding Senior Lien Bonds, (w) then Outstanding Subordinate Lien Bonds, (x) then Outstanding Additional Highway Bonds, (y) then Outstanding Junior Subordinate Lien Obligations, and (z) the Junior Subordinate Lien Bonds proposed to be issued.

Certification of State Revenues and Pledged Revenues. A written certificate or opinion by the Secretary of the Department, the chief financial officer of the Authority, or an Accountant's Certificate that such State Revenues and Pledged Revenues, as applicable, are sufficient to cover the amounts required by Sections 206(a), 206(b) or 206(c) of the Master Indenture shall be required and shall be conclusively presumed to be accurate in determining the right of the Authority to authorize, issue, sell and deliver additional Senior Lien Bonds, Subordinate Lien Bonds or Junior Subordinate Lien Bonds or the right of the Commission to authorize, issue, sell and deliver Additional Highway Bonds.

No provision of the Master Indenture shall be construed to prevent the issuance by the Authority or the Commission of additional bonds or other obligations payable from the Pledged Revenues constituting a lien on the Trust Estate (or any portion thereof) subordinate and junior to the lien on the Trust Estate of Bonds described above. Such additional subordinate and junior bonds or other obligations may be issued pursuant to a Series Indenture and/or Supplemental Indenture prepared for that specific purpose or pursuant to an indenture or resolution separate and distinct from 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 Payment shall be credited toward the Interest Payment coming due on the next Interest Payment Date.

Application of Moneys in Other Funds and Accounts

(a) *Rebate Fund.* To the extent required by Section 606 of the Master Indenture, all of the amounts on deposit in the Funds and Accounts created and established pursuant to the Master Indenture and all amounts pledged to the payment of Debt Service for the Bonds pursuant to Section 501 of the Master Indenture, (i) shall be invested in compliance with the procedures established by the relevant Tax Certificate, and (ii) to the extent required by such Tax Certificate, the investment earnings thereon shall be deposited from time to time into the appropriate Rebate Account for timely payment of all amounts due and owing to the United States Department of the Treasury. Amounts on deposit in the Rebate Fund shall not be subject to the lien and pledge of the Master Indenture to the extent such amounts are required to be paid to the United States Department of the Treasury. The Authority shall verify or cause to be verified from the date of delivery of each Series the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that (x) all of requirements of this subsection (a) have been met on a continuing basis, (y) the proper amounts are deposited into each Rebate Account, and (z) the timely payment of all amounts due and owing to the United States Department of the Treasury from each Rebate Account has been made. Upon receipt of a verification report from an accounting or investment consultant retained for such purpose or an opinion of Bond Counsel that the balance in any Rebate Account is in excess of the amount required by the relevant Tax Certificate to be included therein, such excess shall be transferred to the Revenue Fund. Records of the determinations made with respect to the above covenant and the Rebate Fund shall be retained by the Authority until six years after the retirement of all of the Bonds.

(b) *Interest Accounts.* Moneys in each respective Interest Account shall be applied to pay interest on the related Bonds and any Repayment Obligations 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 hereto against a claims and demands of all Persons whomsoever.

In consideration of the purchase and acceptance of the Obligations by those who shall own the same from time to time, the provisions of the Master Indenture shall be a part of the contract of the Authority with the Owners and shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners.

Tax Covenants. The Authority covenants for the benefit of the Owners of each Series the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that it will not take any action or omit to take any action with respect to such Bonds, the proceeds thereof or any other funds of the Authority if such action or omission would cause the interest on such Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, would subject the Authority to any penalties under Section 148 of the Code, or would cause such Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code. The foregoing covenants shall remain in full force and effect notwithstanding the payment in full or defeasance of such Bonds until the date on which all obligations of the Authority in fulfilling the above covenant under the Code have been met. The Authority shall execute and deliver from time to time such certificates, instruments and documents as shall be deemed necessary or advisable to evidence compliance by the Authority with said Code sections and the regulations thereunder with respect to the use of the proceeds of such Bonds and any other funds of the Authority. Such certificates, instruments and documents may contain such stipulations as shall be necessary or advisable in connection with the stated purpose of the Master Indenture and the foregoing provisions thereof, and the Authority and the Trustee covenant and agree to comply with the provisions of any such stipulation throughout the term of such Bonds.

Books of Account; Annual Audit. The Authority shall cause to be kept and maintained proper books of account relating to the funds and accounts established under the Master Indenture, in which full, true and correct entries will be made, in accordance with generally accepted accounting principles, of all transactions of or in relation to the business of the Authority with respect to the funds and accounts established under the Master Indenture, and after the end of each Fiscal Year shall cause such books of account to be audited by a certified public accountant or firm of such accountants duly licensed to practice and practicing as such under the laws of the State, selected by the Authority, who is independent and not under the domination of the Authority, who does not have any substantial interest, direct or indirect, in the Authority, which audit shall be completed as soon as possible after the end of each Fiscal Year but in any event within 270 days thereafter. A copy of each annual balance sheet statement of net assets, statement of revenues and expenses, and statement of cash flows, showing in reasonable detail the financial condition of the Funds and Accounts established under the Master Indenture, as of the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for the Fiscal Year, shall be filed promptly with the Trustee and shall be available for inspection by any Owner at the office of the Trustee designated for such purposes during normal business hours.

Compliance with Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by the Master Indenture or a Series Indenture to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, shall have happened and shall have been performed, and such Bonds, together with all indebtedness of the Authority, shall be within every debt and other limit prescribed by law.

Waiver of Laws. To the extent permitted by law and public policy, the Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Master Indenture, any Series or Supplemental Indenture, or the Obligations, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or claims for interest by the purchase or funding of such Bonds, or claims for interest by any other arrangement.

Security Interest in 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 hereof) in order:

(a) to add to the covenants and agreements of the Authority in the Master Indenture other covenants and agreements thereafter to be observed by the Authority;

(b) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Master Indenture;

(c) to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Master Indenture;

(d) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee;

(e) to include as Pledged Revenues or money under, and subject to the provisions of, the Master Indenture any additional revenues or money legally available therefor;

(f) to cure any ambiguity, defect, omission or inconsistent provision in the Master Indenture or to insert such provisions clarifying matters or questions arising under the Master Indenture as are necessary or desirable, provided such action shall not adversely affect the interest of the Owners 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.

APPENDIX C

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic information is furnished for information only. The Subseries 2008A-2/B-2 Bonds do not constitute a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any governmental unit within the meaning of any constitutional or statutory debt limitation and are special limited obligations of NMFA payable solely from the Pledged Revenues. NEITHER THE NMFA, NOR THE COMMISSION, NOR THE DEPARTMENT HAS ANY TAXING POWERS. The principal of and interest and premium, if any, on the Subseries 2008A-2/B-2 Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State, the NMFA, the Commission, the Department, or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE SUBSERIES 2008A-2/B-2 BONDS."

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 NMFA 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 by land area, containing approximately 121,593 square miles. The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 60 percent (mornings) to 30 percent (afternoons). Evenings are crisp and cool in all seasons because of low humidity.

The State has a semiarid subtropical climate with light precipitation. 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). The State is an experience in comfortable living with its clean air, blue skies and fair weather.

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 who are elected to four-year terms beginning the 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 20 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms, members of the House 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 sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature may be convened by the Governor, and under certain limited circumstances, extraordinary sessions may be convened by the Legislature. Legislators receive no 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 court is the trial court 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 the time of the official 2000 United States Census was 1,819,046. The State's population has grown at an annual rate of 1.08% from 2000 through 2008 and is forecasted to grow annually at 1.63% through 2035.

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 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 Sandoval, Doña Ana, Bernalillo, San Juan, Luna and Lincoln. The following table sets forth information on population growth in New Mexico and nationally over the past decade.

POPULATION NEW MEXICO AND THE UNITED STATES 1999-2008

<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>
1999	1,808,082	279,040,168	0.8%	1.2%
2000	1,820,704	282,171,936	0.7	1.1
2001	1,828,330	285,039,803	0.4	1.0
2002	1,848,986	287,726,647	1.1	0.9
2003	1,867,909	290,210,914	1.0	0.9
2004	1,889,266	292,892,127	1.1	0.9
2005	1,912,884	295,560,549	1.3	0.9
2006	1,937,916	298,362,973	1.3	0.9
2007	1,964,402	301,290,332	1.4	1.0
2008	1,984,356	304,059,724	1.0	0.9

(Source: Population Division, U.S. Census Bureau, December 2009.)

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-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 1999-2008.

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TOTAL FULL-TIME AND PART-TIME EMPLOYMENT BY INDUSTRY

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Growth 2007-2008	Growth 1999-2008
Total employment	942,689	964,673	968,929	979,946	999,286	1,023,303	1,046,746	1,076,098	1,100,456	1,117,433	1.54%	18.54%
Wage and salary employment	765,161	781,167	791,927	800,588	812,914	829,861	845,127	868,119	878,315	881,422	0.35	15.19
Proprietors employment	177,528	183,506	177,002	179,358	186,372	193,442	201,619	207,979	222,141	236,011	6.24	32.94
Farm proprietors employment	15,428	15,227	17,825	14,530	16,045	15,632	15,588	15,255	18,183	17,855	(1.80)	15.73
Nonfarm proprietors employment	162,100	168,279	159,277	164,828	170,327	177,810	186,031	192,724	203,958	218,156	6.96	34.58
Farm employment	22,120	21,910	24,355	20,845	22,838	22,619	23,262	22,829	25,794	24,532	(4.89)	10.90
Nonfarm employment	920,569	942,763	944,574	959,101	976,448	1,000,684	1,023,484	1,053,269	1,074,662	1,092,901	1.70	18.72
Private employment	721,909	740,439	739,416	750,194	762,831	783,120	804,332	838,993	864,806	880,216	1.78	21.93
Forestry, fishing, related activities ⁽¹⁾	5,900	5,489	5,163	5,096	4,979	5,181	5,239	5,136	5,167	5,410	4.70	(8.31)
Mining ⁽²⁾	17,252	19,016	19,612	17,957	18,576	19,245	21,171	23,726	24,865	27,555	10.82	59.72
Utilities	4,224	4,303	4,249	4,078	4,114	4,040	4,075	4,121	4,450	4,532	1.84	7.29
Construction ⁽³⁾	59,814	60,690	63,293	61,864	64,135	68,382	73,978	79,826	80,573	79,641	(1.16)	33.15
Manufacturing	46,176	46,979	45,621	43,908	41,544	40,542	41,106	42,710	42,732	41,611	2.62	(9.89)
Durable goods manufacturing ⁽⁴⁾	33,799	33,699	32,327	30,838	28,715	27,857	28,451	29,821	29,714	28,521	(4.01)	(15.16)
Nondurable goods manufacturing ⁽⁵⁾	12,917	13,280	13,294	13,070	12,829	12,685	12,655	12,889	13,018	13,090	0.55	1.34
Wholesale trade	27,390	28,526	27,801	27,232	26,633	27,285	28,377	29,288	29,116	29,399	0.97	7.33
Retail trade ⁽⁶⁾	112,089	113,080	110,010	111,167	112,445	114,169	116,097	116,750	118,932	119,843	0.77	6.92
Transportation and warehousing ⁽⁷⁾	24,282	24,905	23,977	24,229	24,158	24,961	25,321	25,953	27,443	27,691	0.90	14.04
Information ⁽⁸⁾	17,276	18,033	19,438	18,578	17,927	17,163	17,299	18,445	18,863	18,936	0.39	9.61
Finance and insurance ⁽⁹⁾	32,034	31,613	30,848	31,251	31,544	31,769	32,039	32,172	33,567	34,575	3.00	7.93
Real estate and rental and leasing ⁽¹⁰⁾	27,951	29,635	29,363	30,229	31,922	34,715	38,209	40,313	42,303	45,629	7.86	63.25
Professional, scientific and technical services	57,079	59,258	59,391	59,834	62,534	65,461	66,337	73,827	81,492	83,672	2.68	46.59
Management of companies and enterprises	5,906	5,810	6,049	6,129	5,440	5,354	6,354	6,425	6,084	5,663	(6.92)	(4.11)
Administrative and waste services ⁽¹¹⁾	47,958	51,414	53,226	54,229	53,292	54,598	55,224	58,489	60,352	60,954	1.00	27.10
Educational services	11,083	11,703	11,853	12,765	13,932	14,888	15,384	15,919	16,072	16,762	4.29	51.24
Health care and social assistance ⁽¹²⁾	84,849	88,903	87,694	94,469	99,899	103,691	105,151	108,016	111,576	115,883	3.86	36.58
Arts, entertainment and recreation ⁽¹³⁾	19,125	19,382	18,646	19,994	20,376	20,987	21,463	21,795	22,867	23,887	4.46	24.90
Accommodation and food services ⁽¹⁴⁾	72,511	73,897	76,263	77,972	79,682	80,465	81,343	84,403	85,211	84,138	(1.26)	16.03
Other services, except public administration ⁽¹⁵⁾	48,370	47,803	46,919	49,213	49,699	50,224	50,665	51,679	53,141	54,435	2.44	12.54
Government and government enterprises ⁽¹⁶⁾	198,660	202,324	205,158	208,907	213,617	217,564	218,652	214,276	209,856	212,685	1.35	7.06

⁽¹⁾ The "Forestry, fishing, related activities, and other" category includes: forestry and logging; fishing, hunting and trapping; agriculture and other 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 good 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; and private households.

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

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, December 2009.)

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
1999-2008

<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> ⁽¹⁾⁽²⁾	<u>United States</u> ⁽¹⁾⁽²⁾	<u>New Mexico</u> ⁽¹⁾⁽²⁾	<u>United States</u> ⁽¹⁾⁽²⁾	<u>New Mexico</u> ⁽¹⁾⁽²⁾	<u>United States</u> ⁽¹⁾⁽²⁾	
1999	824	139,368	778	133,488	5.6%	4.2%	338%
2000	852	142,583	810	136,891	5.0	4.0	125
2001	864	143,734	821	136,933	4.9	4.7	104
2002	872	144,863	823	136,485	5.5	5.8	95
2003	888	146,510	836	137,736	5.9	6.0	98
2004	902	147,401	850	139,252	5.8	5.5	105
2005	918	149,320	870	141,730	5.2	5.1	102
2006	935	151,428	896	144,427	4.2	4.6	91
2007	946	153,124	912	146,047	3.5	4.6	76
2008	959	154,287	919	145,362	4.2	5.8	72

(1) Annual Averages. Estimates made in accordance with the U.S. Department of Labor.

(2) Details may not add to total because of rounding.

(Source: New Mexico Department of Workforce Solutions, Economic Research and Analysis Bureau, December 2009.)

PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
1999-2008

<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>
1999	\$38,045,599	\$7,796,137,000	2.7%	5.1%
2000	40,318,443	8,422,074,000	6.0	8.0
2001	44,138,165	8,716,992,000	9.5	3.5
2002	44,986,517	8,872,871,000	1.9	1.8
2003	46,650,275	9,150,320,000	3.7	3.1
2004	49,813,042	9,711,363,000	6.8	6.1
2005	53,382,823	10,252,973,000	7.2	5.6
2006	56,870,351	10,978,053,000	6.5	7.1
2007	60,318,370	11,634,322,000	6.1	6.0
2008	63,679,909	12,086,533,576	5.6	3.9

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, December 2009.)

PER CAPITA PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
1999-2008

<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>N.M.</u>	<u>U.S.</u>
1999	21,461	28,333	76%	1.9%	3.9%
2000	22,752	30,318	75	6.0	7.0
2001	24,796	31,149	80	9.0	2.7
2002	25,063	31,470	80	1.1	1.0
2003	25,773	32,284	80	2.8	2.6
2004	27,300	33,899	81	5.9	5.0
2005	28,931	35,447	81	6.0	4.6
2006	30,587	37,728	81	5.7	6.4
2007	32,163	39,430	82	5.2	4.5
2008	33,430	40,208	83	3.9	2.0

(Sources: U.S. Department of Commerce, Bureau of Economic Analysis, December 2009; Bureau of Business and Economic Research, University of New Mexico, December 2009.)

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WAGES AND SALARIES BY INDUSTRY SECTOR

2001-2008

NAICS Earnings by Place of Work ⁽¹⁾ Applicable to 2001-2008	New Mexico (Dollars in Thousands)				United States (Dollars in Millions)				Average Annual Percent Change 2001 - 2008		Distribution of 2008 Wages & Salaries	
	2008	2006	2004	2001	2008	2006	2004	2001	N.M.	U.S.	N.M.	U.S.
Farm Wage and Salary	208,698	219,765	189,172	176,815	20,721	20,005	19,109	17,926	18.00%	15.60%	0.20%	0.10%
Non-farm Wage and Salary	33,715,775	30,600,701	26,823,358	23,103,525	6,517,283	6,040,256	5,400,450	4,930,431	45.90	82.20	36.50	35.30
Private Wage and Salary	24,772,013	22,112,414	18,663,773	16,369,207	5,390,379	5,019,888	4,461,334	4,118,734	51.30	30.90	26.80	29.20
Forestry, Fishing, related activities, and other	59,740	58,724	53,726	48,420	12,923	11,993	10,812	9,711	23.40	33.10	0.10	0.10
Mining	1,434,355	1,147,049	787,524	737,368	62,230	47,867	34,856	32,011	94.50	94.40	1.60	0.30
Utilities	312,639	252,398	230,790	231,264	47,830	43,604	40,997	39,738	35.10	20.40	0.30	0.30
Construction	2,445,910	2,177,434	1,675,345	1,491,651	367,928	356,600	297,819	272,368	64.00	35.10	2.60	2.00
Manufacturing	1,708,923	1,688,940	1,476,915	1,576,829	741,831	738,484	693,091	712,816	8.40	4.10	1.80	4.00
Wholesale Trade	1,168,804	1,065,049	912,422	844,202	376,738	349,619	307,255	284,855	38.50	32.30	1.30	2.00
Retail Trade	2,501,968	2,359,401	2,176,025	1,928,437	417,338	408,360	380,491	354,110	29.70	17.90	2.70	2.30
Transportation and Warehousing	920,813	848,719	765,595	651,117	206,312	194,358	176,600	167,414	41.40	23.20	1.00	1.10
Information	681,221	619,675	534,061	573,774	215,134	204,231	192,338	209,312	18.70	2.80	0.70	1.20
Finance and Insurance	1,136,957	1,092,655	973,134	838,215	518,740	491,249	423,149	375,169	35.60	38.30	1.20	2.80
Real Estate and Rental and Leasing	367,554	354,529	294,687	245,480	95,738	95,016	81,648	70,280	49.70	36.20	0.40	0.50
Professional, Scientific, and Technical Services	3,805,813	3,135,727	2,386,588	1,987,406	595,728	519,853	437,091	412,697	91.50	43.40	4.10	3.20
Management of Companies and Enterprises	301,575	306,808	247,768	247,738	182,857	163,809	140,555	119,725	21.70	52.70	0.30	1.00
Administrative and Waste Services	1,460,751	1,326,078	1,147,985	1,002,275	266,043	248,521	217,562	192,949	45.70	37.90	1.60	1.40
Educational Services	322,727	272,132	247,916	185,864	109,293	94,694	84,982	69,003	73.60	58.40	0.30	0.60
Health Care and Social Assistance	3,629,952	3,165,313	2,757,001	2,073,310	677,182	598,933	531,725	438,217	75.10	54.50	3.90	3.70
Arts, Entertainment, and Recreation	196,907	172,465	152,909	132,041	71,203	65,582	57,472	50,672	49.10	40.50	0.20	0.40
Accommodations and Food Services	1,305,144	1,181,837	1,050,152	907,708	218,869	199,725	178,357	157,160	43.80	39.30	1.40	1.20
Other Services, Except Public Administration	1,010,260	887,481	802,190	666,108	206,462	187,390	174,534	150,572	51.70	37.10	1.10	1.10
Government and Government Enterprises	<u>8,943,762</u>	<u>8,488,287</u>	<u>8,168,625</u>	<u>6,734,318</u>	<u>1,126,904</u>	<u>1,020,368</u>	<u>939,116</u>	<u>811,697</u>	<u>32.80</u>	<u>38.80</u>	<u>9.70</u>	<u>6.10</u>
Total	<u>92,412,261</u>	<u>83,533,581</u>	<u>72,517,661</u>	<u>62,753,072</u>	<u>18,445,666</u>	<u>17,120,405</u>	<u>15,281,343</u>	<u>13,997,567</u>			<u>10.000%</u>	<u>100.00%</u>

(1) The estimates of wage and salary disbursements for 2001-2006 are based on the 2002 North American Industry Classification System (NAICS). The estimates for 2007 forward are based on the 2007 NAICS.

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, December 2009.)

APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

FORM OF OPINION OF BOND COUNSEL

Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the New Mexico Finance Authority, issued its opinion in substantially the following form at the time of initial delivery of the Subseries 2008A-2/B-2 Bonds, i.e., April 8, 2008. Bond Counsel has not been asked to confirm or update its opinion and Bond Counsel has not undertaken to update or confirm its opinion since the date it was originally delivered. Such opinion speaks only as of its date:

SUTIN THAYER & BROWNE

A PROFESSIONAL CORPORATION
LAWYERS

IRWIN S. MOISE (1906-1984)
LEWIS R. SUTIN (1908-1992)
FRANKLIN JONES (1919-1994)
RAYMOND W. SCHOWERS (1948-1995)
GRAHAM BROWNE (1935-2003)
MICHAEL G. SUTIN (OF COUNSEL)
BENJAMIN ALLISON
C. SHANNON BACON
PAUL BARDACKE
JAMES E. BRISTOL III
ANNE P. BROWNE
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MARK CHAIKEN
SUSAN G. CHAPPELL
MARIA MONTOYA CHAVEZ
SAUL COHEN
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MICHAEL J. GOLDEN
GAIL GOTTLIEB
ANDREA R. GUENDELMAN
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HELEN HECHT
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Draft: March 26, 2008

April 8, 2008

New Mexico Finance Authority
Santa Fe, New Mexico

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the New Mexico Finance Authority (the "NMFA") of (i) its \$80,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008A (the "2008A Bonds"), and (ii) its \$120,000,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008B (the "2008B Bonds and together with the 2008A Bonds the "2008A/B Refunding Bonds"). The 2008A/B Refunding Bonds are being issued for the purpose of providing funds to refund outstanding bonds of the NMFA issued on behalf of the Commission.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 et seq., NMSA 1978, as amended and supplemented (the "NMFA Act"). The 2008A/B Refunding Bonds are being issued pursuant to the March 20, 2008 direction of the Commission, Chapter 3, Laws of New Mexico 2003 (1st Special Session) (compiled in part as Sections 67-3-59.2, 67-3-59.3 and 67-3-65.1) (the "GRIP Financing Legislation"), the NMFA Act, resolutions adopted by the NMFA on February 28, 2008 and on March 27, 2008 (collectively, the "Resolutions"), the Master Indenture of Trust dated as of May 1, 2004 (the "Master Indenture") between the NMFA and Bank of Albuquerque, N.A., as trustee (the "Trustee") and the Fifth Series Indenture of Trust dated as of April 1, 2008 (the "Fifth Series Indenture" and collectively with the Master Indenture, the "Indenture") between the NMFA and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have examined the provisions of the NMFA Act, the GRIP Financing Legislation, the Resolutions, the Indenture, and an executed bond of the first maturity of each series of the 2008A/B Refunding Bonds. We have also made such further inquiries and investigations and have examined such further documents and matters as we have

considered necessary in rendering this opinion. Regarding questions of fact material to our opinion, we have relied on the representations of the NMFA contained in the Resolutions, and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion that, under the law existing on the date of this opinion:

B. The NMFA is a public body politic and corporate, separate and apart from the State of New Mexico, constituting a governmental instrumentality, duly organized and validly existing under the laws of the State of New Mexico and has lawful authority to issue the 2008A/B Refunding Bonds.

C. The Resolutions have been duly adopted by the NMFA, are valid and binding obligations of the NMFA and create a valid lien on and pledge of the Pledged Revenues for the payment of principal of and interest on the 2008A/B Refunding Bonds.

D. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Pledged Revenues and the funds and accounts held by the Trustee and pledged under the Indenture to secure the payment of the principal of and interest on the 2008A/B Refunding Bonds on a parity with other Subordinate Lien Bonds issued or to be issued under the Indenture, and with a lien subordinate to the lien of thereon of the Senior Lien Bonds issued or to be issued under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

E. The 2008A/B Refunding Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Pledged Revenues, the funds and accounts held by the Trustee and pledged under the Indenture, and do not constitute a debt or liability of the State or any subdivision thereof within the meaning of any constitutional or statutory debt limitation.

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

1. the rights and obligations under the 2008A/B Refunding Bonds, the Resolutions and the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the NMFA;

2. we undertake no responsibility for the accuracy, completeness or fairness of the Remarketing Memorandum or other offering material relating to the 2008A/B Refunding Bonds and express herein no opinion relating thereto;

3. we express no opinion as to the validity or enforceability of, or the security provided by, the liquidity facilities and credit enhancement facilities issued by UBS AG or State Street Bank and Trust Company with respect to the 2008A/B Refunding Bonds;

4. 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;

5. our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters;

6. 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;

7. we have not addressed, nor do we express any opinion on, the tax consequences to any person regarding the investment in, the ownership or disposition of, or the accrual or receipt of interest on, the 2008A/B Refunding Bonds; and

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

Very truly yours,

SUTIN, THAYER & BROWNE
A Professional Corporation

FORM OF OPINION OF SPECIAL TAX COUNSEL

Ballard Spahr LLP, Special Tax Counsel to the New Mexico Finance Authority, issued its opinion in substantially the following form at the time of initial delivery of the Subseries 2008A-2/B-2 Bonds, i.e., April 8, 2008. Special Tax Counsel has not been asked to confirm or update its opinion and Special Tax Counsel has not undertaken to update or confirm its opinion since the date it was originally delivered. Such opinion speaks only as of its date:

_____, 2008

New Mexico Finance Authority
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2008A
New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2008B

We have acted as Special Tax Counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its (a) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008A in the aggregate principal amount of \$80,000,000 (the "Series 2008A Bonds"), and (b) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008B in the aggregate principal amount of \$120,000,000 (the "Series 2008B Bonds" and, collectively with the Series 2008A Bonds, the "Subseries 2008A-2/B-2 Bonds"). The Subseries 2008A-2/B-2 Bonds are being issued for the purpose of providing funds to refund certain outstanding bonds of the NMFA.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA, the New Mexico Department of Transportation ("NMDOT") and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Furthermore, with respect to the validity of the Subseries 2008A-2/B-2 Bonds, we are relying upon the opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the NMFA. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Subseries 2008A-2/B-2 Bonds. The NMFA and NMDOT have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Subseries 2008A-2/B-2 Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Subseries 2008A-2/B-2 Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and NMDOT with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Subseries 2008A-2/B-2 Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as presently enacted and construed, as follows:

1. Interest on the Subseries 2008A-2/B-2 Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Interest on the Subseries 2008A-2/B-2 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 Remarketing Memorandum or any other offering material relating to the Subseries 2008A-2/B-2 Bonds; and

(b) although we have rendered an opinion that interest on the Subseries 2008A-2/B-2 Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of or the accrual or receipt of interest on, the Subseries 2008A-2/B-2 Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Subseries 2008A-2/B-2 Bonds.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

DTC, New York, NY, will act as securities depository for the Subseries 2008A-2/B-2 Bonds. The Subseries 2008A-2/B-2 Bonds are 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 was issued for each maturity of the Subseries 2008A-2/B-2 Bonds, each in the aggregate principal amount of such maturity, and were 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, 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 highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Subseries 2008A-2/B-2 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Subseries 2008A-2/B-2 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds, except in the event that use of the book-entry system for the Subseries 2008A-2/B-2 Bonds is discontinued.

To facilitate subsequent transfers, all Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 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 Subseries 2008A-2/B-2 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Subseries 2008A-2/B-2 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 any other DTC nominee) will consent or vote with respect to the Subseries 2008A-2/B-2 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 Subseries 2008A-2/B-2 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Subseries 2008A-2/B-2 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the NMFA or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Subseries 2008A-2/B-2 Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMA takes no responsibility for the accuracy thereof.

REMARKETING ISSUE— BOOK-ENTRY ONLY**Series C Ratings: Moody's "Aaa/VMIG 1"****S&P "AA-/A-1+"****Series D Ratings" Moody's "Aaa/VMIG 1"****S&P "AA-/A-1+"****(See "RATINGS" herein.)**

At the time of the initial issuance of the Series 2008C/D Bonds, Ballard Spahr LLP, Special Tax Counsel to the NMFA, rendered its opinion that based on an analysis of then existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2008C Bonds was excludable from gross income for federal income tax purposes and was not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations but such interest was included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. Special Tax Counsel was also of the opinion that interest on the Series 2008D Bonds was taxable as ordinary income for the purposes of federal income tax. Special Tax Counsel was also of the opinion that under then existing laws, interest on the Series 2008C/D Bonds was excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expressed no opinion regarding any other tax consequences relating to the ownership or disposition of or the accrual or receipt of interest on, the Series 2008C/D Bonds. See "TAX MATTERS" herein. Furthermore, Special Tax Counsel has not been requested to update or confirm its opinion and Special Tax Counsel has not undertaken to update or confirm its opinion since the date of initial issuance of the Series 2008C/D Bonds and such opinion speaks only as of its date.

NEW MEXICO FINANCE AUTHORITY

\$84,800,000

**ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS****(SUBORDINATE LIEN)****SERIES 2008C**

\$50,400,000

**ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS****(SUBORDINATE LIEN)****SERIES 2008D (TAXABLE)**

Initial Delivery Date: May 22, 2008

Price: 100%

Due: As shown on inside front cover

The New Mexico Finance Authority's Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C (the "Series 2008C Bonds") and Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) (the "Series 2008D Bonds" and together with the Series 2008C Bonds, the "Series 2008C/D Bonds") were issued as fully registered bonds on May 22, 2008. The Series 2008C/D Bonds were purchased pursuant to a mandatory tender as the result of the replacement of the liquidity facilities related to the Series 2008C/D Bonds. The Series 2008C/D Bonds are being remarketed with the same terms and conditions with which they were initially sold except that liquidity and credit enhancement for the Series 2008C/D are now being provided by the hereinafter defined Banks. Purchases of beneficial ownership interests in the Series 2008C/D Bonds will be made in book-entry form only, in denominations of \$100,000 and integral multiples of \$5,000 in excess of \$100,000 when interest on the Series 2008C/D Bonds is payable at a Weekly Rate. The Depository Trust Company ("DTC") acts as securities depository for all of the Series 2008C/D Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2008C/D Bonds is registered in the name of Cede & Co. Individual purchases of the Series 2008C/D Bonds will be made in book-entry form only, and Beneficial Owners of the Series 2008C/D 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 2008C/D Bonds.

The Series 2008C/D Bonds were issued by the New Mexico Finance Authority (the "NMFA") at the direction of the State Transportation Commission (the "Commission") of the State of New Mexico (the "State"). The proceeds of the Series 2008C/D Bonds were used 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 (the "Department").

The Series 2008C/D Bonds currently bear interest at a Weekly Rate. During the time the Series 2008C/D Bonds bear interest at Weekly Rates, interest on the Series 2008C/D Bonds will be payable on the first Business Day of each month until maturity or earlier redemption, if applicable. The Series 2008C/D Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "THE SERIES 2008C/D BONDS—Redemption Provisions" herein. The Series 2008C/D Bonds are also subject to optional and mandatory tender for purchase under certain circumstances. See "THE SERIES 2008C/D BONDS—Tender Provisions" herein. *This Remarketing Memorandum, in general, relates to the remarketing of the Series 2008C/D Bonds during the Weekly Rate Period. In the event the Series 2008C/D Bonds are converted to another interest rate determination method and are subsequently tendered and remarketed, a new remarketing memorandum relating to the subsequent remarketing will be prepared and circulated.*

The Series 2008C/D Bonds are special, limited obligations of the NMFA payable, together with additional bonds currently outstanding in the amount of \$438,825,000 and hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the State Road Fund, and taxes and fees required by law to be paid into the Highway Infrastructure Fund. The lien of the Series 2008C/D Bonds and such additional bonds on such revenues is subordinate to the lien thereon securing other bonds currently outstanding in the amount of \$962,345,000. The lien of the Series 2008C/D Bonds on certain revenues deposited into the State Road Fund is also subordinate to the lien on such revenues to the lien thereon securing Closed Lien Obligations (as defined herein) currently outstanding in the amount of \$71,805,000. The Series 2008C/D Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. Neither the NMFA, nor the Commission, nor the Department has any taxing powers. The principal of and interest and premium, if any, on the Series 2008C/D Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the state or any political subdivision of the State.

The payment of the principal of, interest on and purchase price of the Series 2008C Bonds are payable from funds drawn under an irrevocable, direct pay letter of credit (the "Wells Fargo Letter of Credit") issued by Wells Fargo Bank, National Association ("Wells Fargo") and the payment of the principal of, interest on and purchase price of the Series 2008D Bonds are payable from funds drawn under an irrevocable, direct pay letter of credit (the "RBC Letter of Credit") and together with the Wells Fargo Letter of Credit, the "Letters of Credit") issued by Royal Bank of Canada ("Royal Bank" and together with Wells Fargo, the "Banks").



Each of the Letters of Credit provides that the Trustee will be entitled to draw up to an amount sufficient to pay the principal of and up to 54 days of accrued interest on the respective Series 2008C/D Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum for the Series 2008C Bonds and 15% per annum for the Series 2008D Bonds), to be used (a) to pay the principal of and interest on the respective series of Series 2008C/D Bonds when due, whether pursuant to redemption or at maturity, and (b) to pay the purchase price of the respective series of Series 2008C/D Bonds tendered by the holders thereof. The Wells Fargo Letter of Credit expires on July 23, 2011 and the Royal Bank Letter of Credit expires on July 23, 2012 or on the earlier occurrence of certain events. Each Letter of Credit may be extended upon such terms and conditions as may be agreed by the respective Bank and the NMFA. See "LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENTS" and "THE BANKS" herein. The failure of the NMFA to maintain the respective Letters of Credit throughout the term of the related series of Series 2008C/D Bonds is not an event of default, and there is no assurance that any of the Letters of Credit will remain in effect throughout the term of the respective series of Series 2008C/D Bonds.

Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, has acted as Bond Counsel to the NMFA in connection with the remarketing of the Series 2008C/D Bonds. Ballard Spahr LLP, Salt Lake City, Utah, has acted as Disclosure Counsel to the NMFA and Virtue Najjar & Brown PC, Santa Fe, New Mexico, has acted as Issuer's Counsel to the NMFA in connection with the remarketing of the Series 2008C/D Bonds. The Department is being represented by its general counsel in connection with the remarketing of the Series 2008C/D Bonds. Certain legal matters will be passed upon for the Banks by Nixon Peabody LLP, New York, New York and for the Remarketing Agents by Hogan Lovells US LLP, Denver, Colorado. Public Financial Management, Inc., San Francisco, California has acted as financial advisor to the NMFA in connection with the remarketing of the Series 2008C/D Bonds.

WELLS FARGO SECURITIES**Remarketing Agent for the Series 2008C Bonds****RBC CAPITAL MARKETS****Remarketing Agent for the Series 2008D Bonds**

Dated: July 22, 2010

\$84,800,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008C

<u>Series</u>	<u>Principal Amount</u>	<u>Interest Rate Determination</u>	<u>Due</u>	<u>Letter of Credit Provider</u>	<u>Remarketing Agent</u>	<u>CUSIP*</u>
2008C	\$84,800,000	Currently weekly	June 15, 2024	Wells Fargo Bank, National Association	Wells Fargo Securities	64711R FS 0

\$50,400,000
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008D (TAXABLE)

<u>Series</u>	<u>Principal Amount</u>	<u>Interest Rate Determination</u>	<u>Due</u>	<u>Letter of Credit Provider</u>	<u>Remarketing Agent</u>	<u>CUSIP*</u>
2008D	\$50,400,000	Currently weekly	December 15, 2026	Royal Bank of Canada	RBC Capital Markets Corporation	64711R FT 8

*

The above referenced CUSIP number(s) 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 2008C/D Bonds. None of the NMFA, the Department, the Trustee or the Remarketing Agents is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to its correctness on the particular Subseries of Series 2008C/D Bonds or as indicated above. The CUSIP number for a specific maturity or Subseries is subject to being changed after the issuance of the Series 2008C/D 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 Remarketing Memorandum, in connection with the remarketing of the Series 2008C/D Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Remarketing Agents. This Remarketing Memorandum 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 Remarketing Memorandum has been furnished by the NMFA, the Commission and the Department or obtained from other sources which are believed by the NMFA, the Commission, and the Department to be reliable. The information in this Remarketing Memorandum is subject to change without notice and neither the delivery of this Remarketing Memorandum nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, the Commission, the Department or others since the date of this Remarketing Memorandum.

The Series 2008C/D 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 2008C/D Bonds in accordance with applicable provisions of the securities laws of the states in which the Series 2008C/D 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 2008C/D Bonds or the accuracy or completeness of this Remarketing Memorandum. Any representation to the contrary may be a criminal offense.

This Remarketing Memorandum contains statements relating to the NMFA's, the Commission's, and the Department's future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Remarketing Memorandum, 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.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2008C/D BONDS, THE REMARKETING AGENTS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2008C/D BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEW MEXICO FINANCE AUTHORITY

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Ron Curry, Secretary
Rhonda G. Faught*
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Lonnie Marquez
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Disclosure Counsel

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Salt Lake City, Utah

Trustee, Registrar and Paying Agent

The Bank of New York Mellon Trust Company, N.A.
Denver, Colorado

* Messrs. Flance and Silva and Ms. Faught have been appointed by the Governor of the State and are awaiting confirmation by the New Mexico State Senate during its next regular legislative session that is scheduled to commence in January, 2011. See “NEW MEXICO FINANCE AUTHORITY—Governing Body and Key Staff Members” for a discussion of the effect of senate confirmation on their respective terms.

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REMARKETING MEMORANDUM

\$84,800,000

**NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008C**

\$50,400,000

**NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION
REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2008D (TAXABLE)**

INTRODUCTION

This Remarketing Memorandum, which includes the cover page, the inside front cover and the appendices hereto, sets forth certain information in connection with the remarketing of \$84,800,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C (the “Series 2008C Bonds”), and \$50,400,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) (the “Series 2008D Bonds” and collectively with the Series 2008C Bonds, the “Series 2008C/D Bonds”). The Series 2008C/D Bonds were initially issued by the New Mexico Finance Authority (the “NMFA”), at the direction of the State Transportation Commission (the “Commission”) of the State of New Mexico (the “State”) on May 22, 2008. Capitalized terms used in this Remarketing Memorandum and not defined have the meanings specified in the Master Indenture of Trust dated as of May 1, 2004, as previously supplemented and amended from time to time (the “Master Indenture”), between the NMFA and The Bank of New York Mellon Trust Company, N.A., Denver, Colorado, as successor trustee (the “Trustee”), as supplemented and amended by the Sixth Series Indenture of Trust dated as of May 1, 2008 and the First Amendatory Supplemental Indenture of Trust dated as of July 23, 2010 (collectively, the “Sixth Series Indenture”) between the NMFA and the Trustee and are set forth under “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions” in Appendix B. The Master Indenture, as previously amended and supplemented, and the Sixth Series Indenture are collectively referred to herein as the “Indenture.” See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix B.

The Series 2008C/D Bonds are payable from and secured by a pledge of federal aid revenues received by or on behalf of, or available to the New Mexico Department of Transportation (the “Department”) pursuant to Title 23 of the United States Code or other federal law, that are paid into the State Road Fund, proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes in each case that are required by law to be paid into the State Road Fund, interest on the State Road Fund, proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund (the “Pledged Revenues”). The Series 2008C/D Bonds are limited obligations of the NMFA payable from and secured solely by the Pledged Revenues, subject to the liens thereon of certain obligations of the Commission and to the uses of the Pledged Revenues pledged by, and the priorities set forth in, the Indenture, as described more fully under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS.”

This introduction is not a summary of this Remarketing Memorandum. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Remarketing Memorandum, including the cover page, inside front covers and appendices hereto, and the documents summarized

or described herein. A full review should be made of the entire Remarketing Memorandum. The offering of the Series 2008C/D Bonds to potential investors is made only by means of the entire Remarketing Memorandum.

New Mexico Finance Authority

The NMFA, established by the legislature of the State (the “Legislature”) in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of State and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations and to provide assistance and advice with respect to the NMFA’s Public Project Revolving Fund Program. For additional information concerning the NMFA, see “NEW MEXICO FINANCE AUTHORITY.”

Purposes of the Series 2008C/D Bonds

Proceeds from the sale of the Series 2008C/D Bonds were used to refund certain of the NMFA’s state transportation revenue bonds and to pay costs of issuing the Series 2008C/D Bonds.

Authority for Issuance

The Series 2008C/D Bonds were issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.* NMSA 1978, as amended, and Section 67-3-59.3 NMSA 1978, as amended (collectively, the “Act”), and the Indenture.

Terms of the Series 2008C/D Bonds

General. The Series 2008C/D Bonds were issued as fully registered bonds on May 22, 2008. The Series 2008C/D Bonds were purchased pursuant to a mandatory tender as the result of the replacement of a liquidity facility related to the Series 2008C/D Bonds. The Series 2008C/D Bonds are being remarketed with the same terms and conditions with which they were initially offered except that liquidity and credit enhancement for the Series 2008C/D are now being provided by the hereinafter defined Banks.

Interest. Interest on the Series 2008C/D Bonds is payable on the first Business Day of each month. The Series 2008C/D Bonds currently bear interest at Weekly Rates, but may be converted at the option of the NMFA, subject to certain restrictions, to bonds that bear interest at different rates including Daily Rates, Auction Rates, Commercial Paper Rates, Semiannual Rates, Term Rates or Fixed Rates. Each of the Series 2008C/D Bonds will bear interest for the applicable Weekly Rate Period and at the applicable Weekly Rate determined by the Remarketing Agent for the respective Series of Series 2008C/D Bonds. Upon conversion from a Weekly Rate Period to a Daily Rate Period, an ARS Rate Period, a Commercial Paper Period, a Semiannual Rate Period, a Term Rate Period or a Fixed Rate Period, the Series 2008C/D Bonds will be subject to mandatory tender, payable from the proceeds of the remarketing of the Series 2008C/D Bonds to be converted or from a drawing under the respective Letter of Credit (as hereinafter defined), on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. *This Remarketing Memorandum, in general, relates to the remarketing of the Series 2008C/D Bonds during the Weekly Rate Period. In the event the Series 2008C/D Bonds are converted to another interest rate determination method and are subsequently tendered and remarketed, a new remarketing memorandum relating to the subsequent remarketing will be prepared and circulated.*

Denominations. While in the Weekly Rate Period, the Series 2008C/D Bonds are issuable in denominations of \$100,000 and integral multiples of \$5,000 in excess of \$100,000.

Book-Entry System. Individual purchases will be made in book-entry only form, and purchasers of the Series 2008C/D 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 2008C/D 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 2008C/D Bonds, all as more fully described in Appendix E. In reading this Remarketing Memorandum, it

should be understood that while the Series 2008C/D Bonds are in book-entry only form, references in other sections of this Remarketing Memorandum to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the Series 2008C/D Bonds, but (1) all rights of ownership must be exercised through DTC and the book-entry only system as described in Appendix E, and (2) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee, the Registrar or the Paying Agent will be given only to DTC.

Redemption of the Series 2008C/D Bonds. The Series 2008C/D Bonds are subject to redemption prior to maturity. See “THE SERIES 2008C/D BONDS—Redemption Provisions.”

Tender of the Series 2008C/D Bonds. The Series 2008C/D Bonds are subject to tender for purchase as described in “THE SERIES 2008C/D BONDS—Tender Provisions.”

Security for the Series 2008C/D Bonds

The Series 2008C/D Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and certain funds and accounts created and maintained pursuant to the Indenture. The Series 2008C/D Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission or the Department within the meaning of any constitutional or statutory debt limitation. NEITHER THE NMFA, NOR THE COMMISSION, NOR THE DEPARTMENT HAS ANY TAXING POWERS. The principal of and interest and premium, if any, on the Series 2008C/D Bonds do not constitute or give rise to a personal liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Special, Limited Obligations.”

Pledged Revenues. The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain State 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 NMFA. For a description of the components of the Pledged Revenues, see “THE PLEDGED REVENUES.” For a description of the funds and accounts created by the Indenture and the flow of certain of the Pledged Revenues through these funds and accounts, see “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts” in Appendix C. See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Pledged Revenues.”

Discussion Regarding Federal Revenues. The Department and the Federal Highway Administration (“FHWA”) have recently 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, including GRIP Transportation 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, during any year in which the FHWA Memorandum is in place, the Department has not exceeded \$122 million in debt service. 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, which provided for monthly payments. 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 Authority nor the Department make any representation regarding the amount or timeliness of payments from the FHWA.

Outstanding Closed Lien Obligations. The Commission has previously issued obligations that enjoy a lien on a portion of the Pledged Revenues senior to that of the hereinafter defined Outstanding Senior Lien Parity Bonds (the “Outstanding Closed Lien Obligations”). The Outstanding Closed Lien Obligations are currently outstanding in an aggregate principal amount of \$71,805,000. Please see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Outstanding Closed Lien Obligations” for a list of the series and amounts of the Outstanding Closed Lien Obligations. The NMFA has agreed pursuant to the Master Indenture, and the Commission has resolved in Commission Resolution 2004-5(APR) and has reaffirmed in Commission Resolution 2009-02(FEB), that no additional bonds having a lien on any of the Pledged Revenues senior to the lien thereon of the Outstanding Senior Lien Bonds may be issued by the NMFA or the Commission.

Outstanding Senior Lien Parity Bonds. The Act authorizes the NMFA to issue up to \$1,585,000,000 aggregate principal amount of “new money” bonds, payable from the Pledged Revenues, in cumulative annual increments of up to \$350,000,000 beginning in 2003 and an unlimited amount of refunding bonds as part of Governor Richardson’s Investment Partnership. In 2004 and pursuant to the Master Indenture, the NMFA issued its \$700,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2004A Bonds (the “Series 2004A Bonds”). In 2006, the NMFA issued its \$150,000,000 State Transportation Revenue Bonds (Senior Lien), Series 2006A (the “Series 2006A Bonds”). In November 2009, the NMFA issued its \$112,345,000 State Transportation Refunding Revenue Bonds (Senior Lien), Series 2009A (the “Series 2009A Bonds”). The Series 2004A Bonds, Series 2006A Bonds and Series 2009A Bonds are sometimes collectively referred to herein as the “Outstanding Senior Lien Parity Bonds.” Please see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Outstanding and Additional Senior Lien Bonds” for a list of the series and amounts of Outstanding Senior Lien Parity Bonds. The Outstanding Senior Lien Parity Bonds are Senior Lien Bonds under the Master Indenture and are payable from the Pledged Revenues with a lien on the Pledged Revenues subordinate to the Outstanding Closed Lien Obligations. The lien of the Outstanding Senior Lien Parity Bonds on Pledged Revenues is senior to the lien of the hereinafter defined Outstanding Subordinate Lien Obligations, which include the Series 2008C/D Bonds.

Outstanding Subordinate Lien Obligations. Pursuant to the Act and the Master Indenture, the NMFA has also issued various Series of Subordinate Lien Bonds in addition to the Series 2008C/D Bonds consisting of its (i) State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (the “Series 2004B Bonds”) currently outstanding in the aggregate principal amount of \$138,425,000; (ii) State Transportation Revenue and Refunding Bonds (Subordinate Lien), Series 2006B (the “Series 2006B Bonds”), currently outstanding in the aggregate principal amount of \$32,345,000; (iii) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008A-1 (the “Subseries 2008A-1 Bonds”), currently outstanding in the aggregate principal amount of \$35,200,000; (iv) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008A-2 (the “Subseries 2008A-2 Bonds”) currently outstanding in the aggregate principal amount of \$80,000,000; (v) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008B-1 (the “Subseries 2008B-1 Bonds”), currently outstanding in the aggregate principal amount of \$100,000,000; and (vi) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Subseries 2008B-2 (the “Subseries 2008B-2 Bonds”) currently outstanding in the aggregate principal amount of \$120,000,000. The Series 2004B Bonds, the Series 2006B Bonds, the Subseries 2008A-1 Bonds, the Subseries 2008A-2 Bonds, the Subseries 2008B-1 Bonds, the Subseries 2008B-2 Bonds, the Series 2008C Bonds, and the Series 2008D Bonds are sometimes collectively referred to herein as the “Outstanding Subordinate Lien Bonds.” The NMFA has also entered into a tax-exempt line of credit in the principal amount of \$200,000,000 (the “Tax-Exempt Line of Credit”) and a taxable line of credit in the principal amount of \$20,000,000 (the “Taxable Line of Credit” and together with the Tax-Exempt Line of Credit, the “Lines of Credit” and together with the Outstanding Subordinate Lien Bonds, the “Outstanding Subordinate Lien Obligations”) with Bank of America, N.A. As of May 15, 2010, the NMFA had drawn and not repaid approximately \$120 million under the Tax-Exempt Line of Credit and did not have any outstanding unpaid amounts under the Taxable Line of Credit. Advances under the Tax-Exempt Line of Credit are scheduled to cease in August 2010 and the Taxable Line of Credit is scheduled to expire in December 2010. Pursuant to its terms, the NMFA is required to retire the Tax-Exempt Line of Credit in \$50,000,000 annual increments, the first payment of which is scheduled to occur in August 2010 and the last of which in July 2013. The NMFA plans to issue an additional series of Senior Lien Bonds (the “Contemplated Series 2010C-1 Bonds”) and an additional series of Subordinate Lien Bonds (the “Contemplated Series 2010C-2 Bonds”).

and together with the Contemplated Series 2010C-1 Bonds, the “Contemplated Series 2010C Bonds”) during calendar year 2010 to retire the amounts drawn under the Tax-Exempt Line of Credit. The NMFA also intends to apply a portion of the Contemplated Series 2010C Bonds to fund additional State Transportation Projects for the Department. The NMFA does not currently plan to draw any amounts under the Taxable Line of Credit. Please see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Outstanding and Additional Subordinate Lien Obligations” for a list of the series and amounts of Outstanding Subordinate Lien Obligations. The Outstanding Subordinate Lien Obligations are Subordinate Lien Obligations under the Indenture and are payable from the Pledged Revenues with a lien on the Pledged Revenues subordinate to the lien thereon of the Outstanding Closed Lien Obligations and the Outstanding Senior Lien Parity Bonds.

Additional Obligations. Pursuant to the Indenture, the NMFA may issue additional Senior Lien Bonds and additional Subordinate Lien Obligations upon the satisfaction of certain conditions set forth in the Indenture. In addition to the Contemplated Series 2010C Bonds discussed in the previous paragraph, the NMFA is contemplating the issuance of a series of additional fixed rate Senior Lien Obligations (the “Contemplated Series 2010A Bonds”) during calendar year 2010 to refund certain outstanding Closed Lien Obligations and certain Outstanding Senior Lien Obligations. The NMFA plans to issue the Contemplated Series 2010A Bonds to achieve a debt service savings. The precise amount of the Contemplated Series 2010A Bonds is dependent on market conditions and will not be known until the Contemplated Series 2010A Bonds are priced.

The NMFA has also discussed the possibility of issuing various series of Additional Subordinate Lien Obligations (the “Contemplated Series 2010B Bonds”) to refund all or a portion of the Subseries 2008A-1, Subseries 2008A-2, Subseries 2008B-1, Subseries 2008B-2 and Series 2008C Bonds. The NMFA is considering the issuance of the Contemplated Series 2010B Bonds in an effort to reduce its exposure to the risks associated with variable rate debt. If the NMFA issues the Contemplated Series 2010B Bonds, it plans to terminate the hereinafter described Swap Agreements. The NMFA has considered including the amount required for the termination payments for the Swap Agreements in the principal amount of the Contemplated 2010B Bonds. The exact amount and timing of the issuance of the Contemplated Series 2010B Bonds, if at all, is not known at this time. The NMFA may also issue other additional Senior Lien Obligations and Subordinate Lien Obligations pursuant to the Indenture. The timing, amount and other details of such additional Senior Lien Bonds and such additional Subordinate Lien Obligations are not known as of the date of this Remarketing Memorandum. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010C-D BONDS—Outstanding and Additional Senior Lien Bonds—Outstanding and Additional Subordinate Lien Obligations.”

The NMFA also must meet certain requirements prior to the issuance of Junior Subordinate Lien Obligations.

Letters of Credit

Payment of the principal of and interest on and purchase price of the Series 2008C Bonds will be payable from funds drawn under an irrevocable direct pay letter of credit (the “Wells Fargo Letter of Credit”) issued by Wells Fargo Bank, National Association (“Wells Fargo”). Payment of the principal of and interest on and purchase price of the Series 2008D Bonds will be payable from funds drawn under an irrevocable direct pay letter of credit (the “Royal Bank Letter of Credit”) and together with the Wells Fargo Letter of Credit, the “Letters of Credit” and each a “Series 2008 Liquidity Facility” and each a “Series 2008 Credit Facility”) issued by Royal Bank of Canada (“Royal Bank”) and together with Wells Fargo, the “Banks” and each a “Series 2008 Liquidity Facility Provider” and each a “Series 2008 Credit Facility Provider”), acting through a New York Branch. The Letters of Credit will be issued in favor of the Trustee pursuant to separate but substantially identical Letter of Credit and Reimbursement Agreements dated as of July 23, 2010 (collectively, the “Reimbursement Agreements”) by and between the NMFA and the respective Bank. **Pursuant to each Letter of Credit, the Trustee is entitled to draw up to an amount sufficient to pay the principal of and up to 54 days of accrued interest on the respective series of Series 2008C/D Bonds bearing interest at a Weekly Rate (at a maximum rate of 12% per annum for the Series 2008C Bonds and 15% per annum for the Series 2008D Bonds), to be used to (a) pay the principal of, and interest on the respective series of Series 2008C/D Bonds when due, whether pursuant to redemption or at maturity and (b) pay the purchase of the respective series of Series 2008C/D Bonds tendered by the holders thereof. The Wells Fargo Letter of Credit is scheduled to expire on July 23, 2011 and the Royal Bank Letter of Credit is scheduled to expire on July 23, 2012, or on the earlier occurrence of certain events. Each Letter of**

Credit may be extended upon such terms and conditions as may be agreed by the respective Bank and the NMFA. See “LETTER OF CREDIT AND REIMBURSEMENT AGREEMENTS” and “THE BANKS” herein. The failure of the NMFA to maintain the respective Letter of Credit throughout the term of the related series of Series 2008C/D Bonds is not an event of default under the Indenture, and there is no assurance that any of the Letters of Credit will remain in effect throughout the term of the respective series of Series 2008C/D Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS” herein.

Interest Rate Swaps

The NMFA has entered into various interest rate exchange agreements (the “Swap Agreements”). Payment obligations, other than termination payment obligations, of the NMFA with respect to the Swap Agreements are Subordinate Lien Obligations. The Swap Agreements were entered into under a debt policy memorandum of understanding entered into by the NMFA and the Commission. Under that debt policy memorandum of understanding, an advisor to the NMFA, the Commission and the Department monitor monthly the Swap Agreements and a joint committee of the NMFA, the Commission and the Department monitor regularly the Swap Agreements. Termination payment obligations of the NMFA on the Swap Agreements are Junior Subordinate Lien Obligations. See “INTEREST RATE SWAPS.” As previously stated, during calendar year 2010, the NMFA may terminate the Swap Agreements and refund the Subordinate Lien Obligations associated therewith.

Professionals Involved in the Remarketing

Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, has acted as Bond Counsel to the NMFA in connection with the remarketing of the Series 2008C/D Bonds. Ballard Spahr LLP, Salt Lake City, Utah has acted as disclosure counsel to the NMFA and Virtue Najjar & Brown PC, Santa Fe, New Mexico, has acted as Issuer’s Counsel to the NMFA in connection with the remarketing of the Series 2008C/D Bonds. The Department is being represented by its general counsel in connection with the remarketing of the Series 2008C/D Bonds. Certain legal matters will be passed upon for the Banks by Nixon Peabody LLP, New York, New York and for the Remarketing Agents by Hogan Lovells US LLP, Denver, Colorado. See “LEGAL MATTERS.” Public Financial Management, Inc., San Francisco, California, has acted as financial advisor to the NMFA in connection with the remarketing of the Series 2008C/D Bonds. See “FINANCIAL ADVISOR.”

Sutin, Thayer & Browne, A Professional Corporation, Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, each delivered their respective opinions included as Appendix D hereto at the time of initial issuance of the Series 2008C/D Bonds. Neither Bond Counsel nor Special Tax Counsel has been requested to update or confirm their opinions and neither Bond Counsel nor Special Tax Counsel has undertaken to update or confirm their opinions since the date of initial issuance of the Series 2008C/D Bonds and such opinions speak only as of their date.

Wells Fargo Securities has been appointed as remarketing agent for the Series 2008C Bonds and RBC Capital Markets Corporation has been appointed as remarketing agent for the Series 2008D Bonds (each a “Remarketing Agent” and collectively, the “Remarketing Agents”). References herein to the “Remarketing Agent” shall mean each Remarketing Agent acting in its capacity for its respective Series of the Series 2008C/D Bonds.

The Department’s financial statements for the year ended June 30, 2009, an extract from which is included in Appendix A, have been audited by Meyners & Company, LLC. See also “FINANCIAL STATEMENTS.”

Other Information

This Remarketing Memorandum speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to such laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the Department, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 207 Shelby Street, Santa Fe, New Mexico 87501, Attention: Chief Executive Officer.

Any statements in this Remarketing Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Remarketing Memorandum is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2008C/D Bonds.

THE SERIES 2008C/D BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2008C/D Bonds. Other information describing the Series 2008C/D Bonds appears elsewhere in this Remarketing Memorandum. This summary and such other information should be read together and are qualified in their entirety by reference to the Indenture and the Series 2008C/D Bonds. For a description of certain provisions of the Indenture, see “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix B. Copies of the Indenture are available as provided in “ADDITIONAL INFORMATION.”

The Series 2008C/D Bonds were issued pursuant to the Act and the Indenture. Proceeds from the sale of the Series 2008C/D Bonds were used to refund certain of the NMFA’s state transportation subordinate lien revenue bonds and to pay costs of issuing the Series 2008C/D Bonds.

The Series 2008C/D Bonds may bear interest at Weekly Rates, Daily Rates, Semiannual Rates or Term Rates (collectively, the “Variable Rates”) or Auction Rates, Commercial Paper Rates or Fixed Rates. The Series 2008C/D Bonds currently bear interest at Weekly Rates until converted to another method of interest rate determination. All Series 2008C/D Bonds bearing interest at Daily Rates or Weekly Rates shall be issued in denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof. All Series 2008C/D Bonds bearing interest at Commercial Paper Rates shall be issued in denominations of \$100,000 and any integral multiples of \$1,000 in excess thereof. All Series 2008C/D Bonds bearing interest at a Semiannual Rate, a Term Rate or a Fixed Rate shall be in denominations of \$5,000 or integral multiples thereof. All Series 2008C/D Bonds bearing interest at an Auction Rate shall be in denominations of \$25,000 and integral multiples thereof. Notwithstanding the foregoing, if as a result of a change in the Interest Rate Period from a Term Rate Period to an ARS Rate Period, Daily Rate Period or Weekly Rate Period, it is not possible to deliver all the Series 2008C/D Bonds of a Series required or permitted to be Outstanding in a denomination permitted above, Series 2008C/D Bonds of a Series may be delivered, to the extent necessary, in different denominations.

The amount of interest so payable on the Series 2008C/D Bonds on any Interest Payment Date shall be computed (A) on the basis of a 365- or 366-day year for the number of days actually elapsed during Daily, Weekly, Commercial Paper and Semiannual Rate Periods for the Series 2008C Bonds and on the basis of a 360-day year for the number of days actually elapsed during daily, weekly, commercial paper and semiannual rate periods for the Series 2008D Bonds, (B) on the basis of a 360-day year of twelve 30-day months during Term Rate Periods and the Fixed Rate Period, and (C) either (i) on the basis of actual days elapsed over 360 days for the actual days elapsed during ARS Rate Periods if the Series 2008C/D Bonds are in an ARS Rate Period of 180 days or less, or (ii) on the basis of a 360 day year of twelve 30-day months for the actual days elapsed during ARS Rate Periods if the Series 2008C/D Bonds are in an ARS Rate Period greater than 180 days.

“Interest Payment Date” means (i) when used with respect to any of the Series 2008C/D Bonds bearing interest at the Daily Rate or Weekly Rate, the first Business Day of each calendar month following a month in which interest at such rate has accrued; (ii) when used with respect to any of the Series 2008C/D Bonds bearing interest at a Semiannual Rate or a Term Rate, each Semiannual Interest Payment Date; (iii) when used with respect to any of the Series 2008C/D Bonds bearing interest at Commercial Paper Rates, the Business Day next following the last day of each Commercial Paper Rate Period applicable thereto; (iv) when used with respect to any of the Series 2008C/D Bonds bearing interest at a Fixed Rate, each June 15 and December 15; (v) any Conversion Date; (vi) when used with respect to Series 2008C/D Bonds bearing interest at an Auction Rate, the Business Day next following the last day of each Auction Period applicable thereto; and (vii) in all events, when used with respect to any Series 2008C/D Bonds, the final maturity date or redemption date of each such Series 2008C/D Bonds.

Interest Rate for the Series 2008C/D Bonds

The Series 2008C/D Bonds currently bear interest at a Weekly Rate and the length of the Weekly Rate Period is seven days. The Weekly Rate to be applicable to any of the Series 2008C/D Bonds during each Weekly Rate Period shall be determined by the Remarketing Agent for the related Series 2008C/D Bonds. Interest shall accrue from one Interest Payment Date up to, but not including, the next Interest Payment Date, and notice of the Weekly Rate shall be given, until converted to an Auction Rate, Commercial Paper Rate, Semiannual Rate, Term Rate or Fixed Rate. Any such conversion may occur only as to all the Outstanding Series 2008C/D Bonds of a particular Series and any provision relating to the conversion of or subsequent determination of interest on Series 2008C/D Bonds shall be construed to apply individually to each Series of the Series 2008C/D Bonds.

Variable Rates; Conversion to Variable Rate Periods. The Variable Rate for each Variable Rate Period shall be determined by any Remarketing Agent as the lesser of (i) the Maximum Interest Rate or (ii) the minimum rate of interest which, in the judgment of any Remarketing Agent, would cause the Series 2008C/D Bonds to have a market value equal to the principal amount thereof, plus accrued interest, taking into account prevailing market conditions as of the date of determination. As described in the Sixth Series Indenture, "Maximum Interest Rate" means, in the case of any Series 2008C/D Bonds bearing interest at Variable Rates, Commercial Paper Rates, or Fixed Rates the lower of (i) the maximum rate at which the interest on such Series 2008C/D Bonds secured by any Series 2008C/D Liquidity Facility, or any Series 2008C/D Credit Enhancement Facility, applicable to such Series 2008C/D Bonds is computed under the applicable provisions of any Series 2008C/D Liquidity Facility or any Series 2008C/D Credit Enhancement Facility; (ii) twelve percent (12%) per annum for the Series 2008C Bonds or fifteen percent (15%) per annum for the Series 2008D Bonds; or (iii) with respect to any Bank Bonds, the Bank Rate or the Default Rate, as those terms are defined in the Series 2008C Reimbursement Agreement with respect to the Series 2008C Bonds and in the Series 2008D Reimbursement Agreement with respect to the Series 2008D Bonds.

If the Remarketing Agent fails for any reason to determine or notify the Paying Agent of the Variable Rate for any Variable Rate Period when required under the Indenture, the Rate Period for the Series 2008C/D Bonds shall automatically, without notice or mandatory tender, convert to a Weekly Rate Period and, until the Weekly Rate is determined by the Remarketing Agent and notification thereof is delivered to the Paying Agent, the Weekly Rate with respect to the Series 2008C Bonds shall be equal to the SIFMA Index plus 25 basis points (or such comparable index in the event that the SIFMA Index is no longer in use and available) and the Weekly Rate with respect to the Series 2008D Bonds shall be equal to the One-Month LIBOR plus 25 basis points.

Weekly Rates. A Weekly Rate shall be determined for each Weekly Rate Period as follows:

(i) Weekly Rate Periods shall commence on a Thursday and end on Wednesday of the following week, and each Weekly Rate Period shall be followed by another Weekly Rate Period until the Rate Period for the Series 2008C/D Bonds is converted to another Rate Period; provided that (a) in the case of a conversion to a Weekly Rate Period from a different Variable Rate Period or a Commercial Paper Rate Period, the Weekly Rate Conversion Date shall be the last Interest Payment Date in respect of the immediately preceding Rate Period and the Weekly Rate Period starting on such date shall end on Tuesday of the following week; and (b) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion shall end on the last day immediately preceding the Conversion Date to the new Rate Period.

(ii) The Weekly Rate for each Weekly Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Weekly Rate shall be determined by a Remarketing Agent no later than the Business Day immediately preceding the commencement date of the Weekly Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on such Business Day. The Paying Agent shall promptly notify the NMFA, the Series 2008C/D Liquidity Facility Provider, as applicable, and the Series 2008C/D Credit Enhancement Facility Provider, as applicable, electronically or by telephone (promptly confirmed in writing) of the Weekly Rate so determined.

(iii) (a) The Weekly Rate determined for the Series 2008C Bonds by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008C Bonds in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008C Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008C Bonds, be the lowest interest rate which would enable the Remarketing Agent to place such Series 2008C Bonds at a price of par (plus accrued interest, if any) on the first day of such Weekly Rate Period.

(b) The Weekly Rate determined for the Series 2008D Bonds by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008D Bonds in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Taxable Securities which are of the same general nature as such Series 2008D Bonds or Taxable Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008D Bonds, be the lowest interest rate which would enable the Remarketing Agent to place such Series 2008D Bonds at a price of par (plus accrued interest, if any) on the first day of such Weekly Rate Period.

Daily Rates. A Daily Rate shall be determined for each Daily Rate Period as follows:

(i) Daily Rate Periods shall commence on a Business Day, and each Daily Rate Period shall be followed by another Daily Rate Period until the Rate Period of the Series 2008C/D Bonds is converted to another Rate Period. The Daily Rate for any non-Business Day will be the rate for the last Business Day on which a Daily Rate was set.

(ii) Each Daily Rate shall be determined by a Remarketing Agent no later than 9:30 a.m., New York City time, on each Business Day for which the Daily Rate will be the rate of interest, and shall be provided to the Paying Agent by such Remarketing Agent by telephonic or electronic notice by 9:30 a.m., New York City time, on such Business Day. The Paying Agent shall promptly notify the NMFA and the Series 2008C/D Liquidity Facility Provider, as applicable, electronically or by telephone (promptly confirmed in writing) of the Daily Rate so determined.

(iii) (a) The Daily Rate determined for the Series 2008C Bonds by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008C Bonds in the Daily Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008C Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008C Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008C Bonds at a price of par (plus accrued interest, if any) on such Business Day.

(b) The Daily Rate determined for the Series 2008D Bonds by such Remarketing Agent shall be the rate of interest which if borne by the Series 2008D Bonds in the Daily Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing market conditions for Taxable Securities which are of the same general nature as such Series 2008D Bonds or Taxable Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008D Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008D Bonds at a price of par (plus accrued interest, if any) on such Business Day.

Semiannual Rates. A Semiannual Rate shall be determined for each Semiannual Rate Period as follows:

(i) Semiannual Rate Periods shall (a) commence on a Semiannual Rate Conversion Date and on each Interest Payment Date thereafter and (b) end on the day preceding either the commencement date of the following Semiannual Rate Period or the Conversion Date on which a different type of Rate Period shall become effective. Each Semiannual Rate Period shall be followed by another Semiannual Rate

Period until the Rate Period of the Series 2008C/D Bonds is converted to another Rate Period. The first Semiannual Rate Period which succeeds a Commercial Paper, Daily, Weekly, Auction, or Term Rate Period may be from one to five months shorter than the succeeding Semiannual Rate Periods.

(ii) The Semiannual Rate for each Semiannual Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Semiannual Rate shall be determined by a Remarketing Agent no later than the Business Day immediately preceding the commencement date of the Semiannual Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on that same day. The Paying Agent shall promptly notify the NMFA and the Series 2008C/D Liquidity Facility Provider, as applicable, electronically or by telephone (promptly confirmed in writing) of the Semiannual Rate so determined.

(iii) (a) Each Semiannual Rate shall be the rate of interest which if borne by such Series 2008C Bonds in such Semiannual Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008C Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008C Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008C Bonds at a price of par on the first day of such Semiannual Rate Period.

(b) Each Semiannual Rate for the Series 2008D Bonds shall be the rate of interest which if borne by such Series 2008D Bonds in such Semiannual Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Taxable Securities which are of the same general nature as such Series 2008D Bonds or Taxable Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008D Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008D Bonds at a price of par on the first day of such Semiannual Rate Period.

Term Rates. A Term Rate shall be determined for each Term Rate Period as follows:

(i) Term Rate Periods shall (a) initially commence on a Term Rate Conversion Date and on any Interest Payment Date which is, except as otherwise provided in this paragraph, at least 12 months thereafter, as specified in a notice delivered by the NMFA, and (b) end on the day preceding either the commencement date of the following Term Rate Period or the Conversion Date on which a different Rate Period shall become effective. Each Term Rate Period shall be followed by another Term Rate Period of the same duration as the preceding Term Rate Period until the Rate Period of the Series 2008C/D Bonds is converted to another Rate Period or to a Term Rate Period of a different duration; provided that the first Term Rate Period which succeeds a Commercial Paper, Daily, Weekly, Auction, or Semiannual Rate Period or a Term Rate Period of a different duration may be from one to eleven months shorter or longer than the succeeding Term Rate Periods.

(ii) The Term Rate for each Term Rate Period shall be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each Term Rate shall be determined no earlier than 15 Business days and not later than the Business Day immediately preceding the commencement date of the Term Rate Period to which it relates and shall be provided to the Paying Agent by the Remarketing Agent by telephonic or electronic notice by the close of business on that same day. The Paying Agent shall promptly notify the NMFA, the Series 2008C/D Liquidity Facility Provider, as applicable, electronically or by telephone (promptly confirmed in writing) of the Term Rate so determined.

(iii) (a) Each Term Rate for the Series 2008C Bonds shall be the rate of interest which if borne by such Series 2008C Bonds in such Term Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Series 2008C Bonds or Tax-Exempt Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for

tender) of such Series 2008C Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008C Bonds at a price of par on the first day of such Term Rate Period.

(b) Each Term Rate for the Series 2008D Bonds shall be the rate of interest which if borne by such Series 2008D Bonds in such Term Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for Taxable Securities which are of the same general nature as such Series 2008D Bonds or Taxable Securities which are comparable as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Series 2008D Bonds, be the lowest interest rate which would enable such Remarketing Agent to place such Series 2008D Bonds at a price of par on the first day of such Term Rate Period.

Conversions Between Variable Rate Periods. By notifying the Remarketing Agent, the Paying Agent, and the Series 2008C/D Liquidity Facility Provider, if any, for the applicable Series 2008C/D Bonds, the NMFA may elect to convert such Series 2008C/D Bonds from one Variable Rate Period to another as follows:

(i) The Conversion Date to a different Variable Rate Period shall be an Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made; provided, however, that, if the conversion is from a Term Rate Period, the conversion may be made only on the last Interest Payment Date for that Term Rate Period.

(ii) The NMFA shall give written notice of any such conversion to the Remarketing Agent, the Paying Agent, and the Series 2008C/D Liquidity Facility Provider for the applicable Series 2008C/D Bonds, if any, and the Series 2008C/D Credit Enhancement Facility Provider for the applicable Series 2008C/D Bonds, if any, not fewer than 25 days (45 days in the case of a proposed Term Rate Conversion Date) prior to the proposed Conversion Date. Such notice shall specify (a) the proposed Conversion Date, (b) the type of Variable Rate Period to which the conversion will be made, (c) in the case of conversion to a Term Rate Period or from a Term Rate Period of one duration to a Term Rate Period of another duration, the duration of the new Term Rate Period and (d) in the case of a conversion to a Semiannual or Term Rate Period, the first Interest Payment Date following such conversion (which shall be the first Semiannual Interest Payment Date after the proposed Conversion Date) and any difference between the duration of the first Semiannual or Term Rate Period commencing on such Conversion Date and subsequent Semiannual or Term Rate Periods occurring prior to the next Conversion Date.

(iii) Not fewer than 15 days (30 days in the case of a proposed Term Rate Conversion Date) prior to the Conversion Date, the Paying Agent shall mail (by first class mail) a written notice of the conversion to the owners of the Series 2008C/D Bonds.

(iv) The Variable Rate for the Variable Rate Period commencing on the Conversion Date shall be established and notice thereof shall be given to the Paying Agent, the NMFA, the Series 2008C/D Liquidity Facility Provider for the applicable Series 2008C/D Bonds, if any, and the Series 2008C/D Credit Enhancement Facility Provider for the applicable Service 2008C/D Bonds, if any.

(v) On the proposed conversion date the provisions of the Indenture governing the number of days interest covered by a liquidity facility (the "Interest Requirement") for the Series 2008C/D Liquidity Facility, or any Alternate Series 2008C/D Liquidity Facility, then in effect must be satisfied. In the case of a conversion to a Semiannual Rate Period or a Term Rate Period the NMFA and the Series 2008C/D Liquidity Facility Provider, or Alternate Series 2008C/D Liquidity Facility Provider shall agree on the number of days of interest that shall be sufficient for the Interest Requirement, or shall set the Interest Requirement at the number of days as may be required by the Rating Agency then providing a rating with respect to the Series 2008C/D Bonds. If the Interest Requirement is not satisfied, the new Variable Rate Period shall not take effect and the Series 2008C/D Bonds shall remain in the Variable Rate Period then in effect.

(vi) With respect to a conversion of the Series 2008C Bonds only, with respect to a conversion from one Variable Rate Period to another Variable Rate Period, or from a Term Rate Period of

one duration to a Term Rate Period of another duration, on the proposed Conversion Date, the Paying Agent and the Remarketing Agent shall have been provided with a Favorable Opinion of Bond Counsel covering the continued exclusion of interest on the Series 2008C Bonds from gross income for federal income tax purposes with respect to such conversion.

(vii) With respect to a conversion of the Series 2008C Bonds only, if a Favorable Opinion of Bond Counsel covering the continued exclusion of interest on the Series 2008C Bonds from gross income for federal income tax purposes is not provided, the new Rate Period shall not take effect and the Series 2008C Bonds shall remain in the Rate Period then in effect.

Conversion to Other Determination Methods

The NMFA may convert Series 2008C/D Bonds to a different method of interest rate determination. In certain instances, the conversion may bring about a mandatory tender of the Series 2008C/D Bonds. See “Tender Provisions” below.

Tender Provisions

Optional Tenders During Variable Rate Periods.

Purchase Dates. The Owners of Series 2008C/D Bonds bearing interest at Variable Rates may elect to have their Series 2008C/D Bonds (or portions thereof in amounts equal to the smallest denomination then authorized or whole multiples of such smallest denomination) purchased at a purchase price equal to 100% of the principal component of such Series 2008C/D Bonds (or portions thereof), plus, in the case of Series 2008C/D Bonds bearing interest at Daily Rates or Weekly Rates, the interest component computed to the purchase date (the “Purchase Price”), on the following purchase dates and upon the giving of telephonic, personal or electronic notice as specified below:

(i) Prior to conversion from a Daily Rate Period to a different Rate Period, Series 2008C/D Bonds bearing interest at Daily Rates may be tendered for purchase, at the applicable Purchase Price payable in immediately available funds, on any Business Day upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner’s Participant, not later than 9:00 a.m., New York City time, on the purchase date.

(ii) Prior to conversion from a Weekly Rate Period to a different Rate Period, Series 2008C/D Bonds bearing interest at Weekly Rates may be tendered for purchase, at the applicable Purchase Price payable in immediately available funds, on any Business Day upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner’s Participant, not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven (7) days prior to the purchase date.

(iii) Series 2008C/D Bonds bearing interest at a Semiannual or a Term Rate may be tendered for purchase on the commencement date of a succeeding Semiannual or Term Rate Period for such Series 2008C/D Bonds, at the Purchase Price (payable in immediately available funds if the Series 2008C/D Bonds are bearing interest at a Semiannual Rate or clearing house funds if the Series 2008C/D Bonds are bearing interest at a Term Rate), upon delivery of a telephonic, personal or electronic notice of tender to the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent, directly or, as applicable, through a beneficial owner’s Participant, not later than 5:00 p.m., New York City time, on a Business Day which is not fewer than ten (10) days prior to the purchase date.

Notice of Tender. Each notice of tender:

(i) shall be delivered to each of the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent at its principal office, in the case of a written notice, and shall be in

form satisfactory to such Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent;

(ii) shall state, whether delivered personally, in writing, electronically or by telephone, (a) the principal amount of the Series 2008C/D Bond to which the notice relates, (b) that the owner irrevocably demands purchase of such Series 2008C/D Bond or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (c) the date on which such Series 2008C/D Bond or portion thereof is to be purchased, and (d) payment instructions with respect to the Purchase Price; and

(iii) shall automatically constitute, whether delivered in writing or by telephone, (a) an irrevocable offer to sell the Series 2008C/D Bond (or portion thereof) to which the notice relates on the purchase date at the Purchase Price, (b) an irrevocable authorization and instruction to the Paying Agent to effect transfer of such Series 2008C/D Bond (or portion thereof) upon payment of the Purchase Price to the Paying Agent on the purchase date, (c) an irrevocable authorization and instruction to the Paying Agent to effect the exchange of the Series 2008C/D Bond to be purchased in whole or in part for other Series 2008C/D Bonds in an equal aggregate principal amount so as to facilitate the sale of such Series 2008C/D Bond (or portion thereof to be purchased), and (d) an acknowledgment that such owner will have no further rights with respect to such Series 2008C/D Bond (or portion thereof) upon payment of the Purchase Price thereof to the Paying Agent on the purchase date, except for the right of such owner to receive such Purchase Price upon surrender of such Series 2008C/D Bond to the Paying Agent and that after the purchase date such owner will hold any undelivered certificate as agent for the Paying Agent. The determination of the Paying Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the owner of the Series 2008C/D Bond to which the notice relates.

Series 2008C/D Bonds to Be Remarketed. Not later than 11:00 a.m., New York City time, on the Business Day immediately following the date of receipt of any notice of tender (or, with respect to Series 2008C/D Bonds bearing interest at Daily Rates, not later than 11:00 a.m. New York City time on the date of receipt of notice), the Paying Agent shall notify the NMFA by telephone, promptly confirmed in writing, of the principal amount of Series 2008C/D Bonds (or portions thereof) to be purchased and the date of purchase.

Remarketing of Tendered Series 2008C/D Bonds. Unless otherwise instructed by the NMFA, the Remarketing Agent shall offer for sale at par and use its best efforts to find purchasers for all Series 2008C/D Bonds or portions thereof for which notice of tender has been received. While the Series 2008C/D Bonds are held in book-entry form, the Remarketing Agent will deliver funds received as the Purchase Price for tendered Series 2008C/D Bonds in accordance with the procedures established by the Securities Depository. If the book-entry only system is not in effect, the terms of any sale by the Remarketing Agent shall provide for the delivery of the Purchase Price for tendered Series 2008C/D Bonds by the Remarketing Agent to the Paying Agent (i) in immediately available funds at or before 11:30 a.m., New York City time, on the purchase date, in the case of Series 2008C/D Bonds bearing interest at Daily, Weekly or Semiannual Rates, and (ii) in clearing house funds at or before 11:30 a.m., New York City time, on the purchase date, in the case of Series 2008C/D Bonds bearing interest at a Term Rate. Notwithstanding the foregoing, the Remarketing Agent shall not sell any Series 2008C/D Bond as to which a notice of conversion from one type of Variable Rate Period to another, from a Term Rate Period of one duration to a Term Rate Period of a different duration, to Commercial Paper Rate Periods or to a Fixed Rate Period has been given unless the Remarketing Agent has advised the person to whom the sale is made of the conversion. The purchase price of each Series 2008C/D Bond remarketed by the Remarketing Agent must be equal to the principal amount of each Series 2008C/D Bond plus accrued interest, if any, to the purchase date.

Payments by the Paying Agent. At or before the close of business in New York City on the date set for purchase of tendered Series 2008C/D Bonds and upon receipt by the Paying Agent of 100% of the aggregate Purchase Price of the tendered Series 2008C/D Bonds, the Paying Agent shall pay the Purchase Price of such Series 2008C/D Bonds to the owners thereof. Such payments shall be made in immediately available funds (or by wire transfer), unless the Series 2008C/D Bonds to be purchased bear interest at a Term Rate for a Term Rate Period of more than one year, in which event such payments shall be made in clearing house funds. The Paying Agent shall apply in order (i) moneys paid to it by the Remarketing Agent as proceeds of the remarketing of such Series

2008C/D Bonds by such Remarketing Agent, (ii) moneys transferred to it for such purpose by a Series 2008C/D Liquidity Facility Provider under the terms of an applicable Series 2008C/D Liquidity Facility for the tendered Series 2008C/D Bonds, and (iii) other moneys made available by the NMFA. If sufficient funds are not available for the purchase of all tendered Series 2008C/D Bonds, no purchases shall be consummated, as further set forth below.

Delivery of Series 2008C/D Bonds: Effect of Failure to Surrender Series 2008C/D Bonds. All Series 2008C/D Bonds to be purchased on any date shall be required to be delivered to the principal office of the Paying Agent at or before (i) 12:00 noon, New York City time, on the purchase date in the case of Series 2008C/D Bonds bearing interest at Daily Rates, Weekly Rates or Auction Rates; or (ii) 5:00 p.m., New York City time, on the second Business Day prior to the purchase date in the case of Series 2008C/D Bonds bearing interest at Semiannual or Term Rates. If the owner of any Series 2008C/D Bond (or portion thereof) that is subject to optional or mandatory purchase fails to deliver such Series 2008C/D Bond to the Paying Agent for purchase on the purchase date, such Series 2008C/D Bond (or portion thereof) shall nevertheless be deemed purchased on the day fixed for purchase thereof and ownership of such Series 2008C/D Bond (or portion thereof) shall be transferred to the purchaser thereof. Any owner of a Series 2008C/D Bond who fails to deliver such Series 2008C/D Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of such Series 2008C/D Bond to the Paying Agent.

Mandatory Tender.

Conversions to Variable Rate Periods and new Term Rate Periods. Series 2008C/D Bonds to be converted to a Variable Rate Period or a Term Rate Period of a different duration are subject to mandatory tender for purchase on the Conversion Date at a purchase price equal to 100% of the principal amount thereof plus, in the case of Series 2008C/D Bonds bearing interest at a Daily Rate or Weekly Rate, accrued interest to the purchase date.

Conversion to Commercial Paper Periods. Series 2008C/D Bonds to be converted to a Commercial Paper Rate Period are subject to mandatory tender for purchase on the applicable Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

Conversion to ARS Rate Periods. Series 2008C/D Bonds to be converted to an ARS Rate Period are subject to mandatory tender for purchase on the applicable Conversion Date at a Purchase Price equal to 100% of the principal amount thereof.

Mandatory Tender on Fixed Rate Conversion Date. Any Series 2008C/D Bonds to be converted to a Fixed Rate Period shall be subject to mandatory tender for purchase on the Fixed Rate Conversion Date at a purchase price equal to 100% of the principal amount thereof.

Mandatory Tender upon Termination, Expiration, Non-Reinstatement or Replacement of Series 2008C/D Liquidity Facility or Series 2008C/D Credit Enhancement Facility for a Particular Series of Series 2008C/D Bonds. Any Series of the Series 2008C/D Bonds bearing interest at a Variable or Commercial Paper Rate shall be subject to mandatory tender: (i) for purchase at a purchase price equal to 100% of the principal amount thereof plus accrued interest to the purchase date (in this Section, the "Purchase Price") on the fifth day immediately preceding the day on which any Series 2008C/D Liquidity Facility, if any, or any Series 2008C/D Credit Enhancement Facility, if any, for such Series expires or terminates for any reason or if such Series 2008C/D Liquidity Facility or Series 2008C/D Credit Enhancement Facility is replaced with an Alternate Series 2008C/D Liquidity Facility or an Alternate Series 2008C/D Credit Enhancement Facility (other than replacement by the same provider); (ii) for purchase at the Purchase Price on the second Business Day following delivery of written notice by a Series 2008C/D Liquidity Facility Provider or a Series 2008C/D Credit Enhancement Facility Provider to the Trustee stating that an Event of Default has occurred under the applicable Series 2008C/D Liquidity Facility or the applicable Series 2008C/D Credit Enhancement Facility and directing the Trustee to cause a mandatory tender of the applicable Subseries of the Series 2008C/D Bonds; or (iii) for purchase at a purchase price equal to 100% of the principal amount thereof plus accrued interest to the purchase date on the second day immediately following the day on which the Trustee receives notice from a Series 2008C/D Liquidity Facility Provider pursuant to the applicable Series 2008C/D Letter of Credit, if any, that the Series 2008C/D Liquidity Facility Provider will not automatically reinstate the amount of a Series 2008C/D Letter of Credit for the amount of a Drawing made pursuant to such Series 2008C/D Letter of Credit to pay interest on the applicable Series of the Series 2008C/D Bonds.

Inadequate Funds for Tenders. If the funds available for purchases of Series 2008C/D Bonds, including funds available to be drawn to pay the Purchase Price of any Series 2008C/D Bonds pursuant to any applicable Series 2008C/D Liquidity Facility, are inadequate for the purchase of all Series 2008C/D Bonds tendered on any purchase date, the Paying Agent shall, after any applicable grace period: (i) return all tendered Series 2008C/D Bonds to the owners thereof; (ii) return all moneys received for the purchase of such Series 2008C/D Bonds to the persons providing such moneys; and (iii) notify the NMFA and the Remarketing Agent of the return of such Series 2008C/D Bonds and moneys and the failure to make payment for tendered Series 2008C/D Bonds.

Owners Limited to Purchase Price on Deposit with Paying Agent. If sufficient moneys to pay the Purchase Price of Series 2008C/D Bonds tendered shall be held by the Paying Agent, each owner of such Series 2008C/D Bonds shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on such owner's part under the Indenture on, or with respect to, such tendered Series 2008C/D Bonds.

Redemption Provisions

Optional Redemption. The Series 2008C/D Bonds shall be subject to redemption prior to maturity at the option of the NMFA, in whole or in part, as follows:

(i) If the Series 2008C/D Bonds bear interest at the Daily Rate or Weekly Rate, the Series 2008C/D Bonds shall be subject to optional redemption on any date, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date. If the Series 2008C/D Bonds bear interest at Commercial Paper Rates, the Series 2008C/D Bonds shall be subject to optional redemption on the respective Purchase Dates at a Redemption Price equal to the Purchase Price thereof.

(ii) If the Series 2008C/D Bonds bear interest at the Semiannual Rate or Term Rate, such Series 2008C/D Bonds shall be subject to optional redemption on the Interest Payment Date immediately following the last day of each Semiannual Rate Period or Term Rate Period at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

(iii) After conversion to the Fixed Rate, or if the Series 2008C/D Bonds bear interest at a Term Rate or a Semiannual Rate, the Series 2008C/D Bonds shall be subject to optional redemption at any time on and after the dates and at the Redemption Prices specified in the schedule set forth below (stated as a percentage of principal amount), plus accrued interest, if any, to the redemption date; provided, however, that the NMFA may substitute another schedule for such schedule effective on the Fixed Rate Conversion Date or any Term Rate Conversion Date, except that, with respect to the Series 2008C Bonds only, if a Favorable Opinion of Bond Counsel is provided to the Paying Agent, and, notwithstanding any other provision of the Sixth Series Indenture or of the Master Indenture, such substitution shall not constitute an amendment to the Sixth Series Indenture or the Master Indenture.

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<u>Length of Term Rate Period or Years Remaining Until Final Maturity Upon Conversion to Fixed Rate</u>	<u>Commencement of Redemption Period</u>	<u>Redemption Price</u>
More than 15 years	Tenth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 12, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 9, but not more than 12 years	Sixth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 6, but not more than 9 years	Fifth anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
More than 3, but not more than 6 years	Second anniversary of commencement of Term Rate Period or Fixed Rate Period	100%
3 years or less	Series 2008C/D Bonds not subject to optional redemption until commencement of next Rate Period	

Mandatory Sinking Fund Redemption.

Series 2008C Bonds. The Series 2008C Bonds are subject to mandatory sinking fund redemption prior to maturity at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, on the applicable June 15th in each of the years and in the principal amounts set forth in the following table:

<u>Redemption Dates</u>	<u>Principal Amount</u>
June 15, 2023	\$27,295,000
June 15, 2024*	57,505,000

* Final maturity

The NMFA shall have the option to reduce the principal amount of Series 2008C Bonds to be redeemed on any mandatory sinking fund redemption date by any amount (equal to the smallest denomination then authorized or whole multiples of such smallest denomination) up to the principal amount of Series 2008C Bonds of the same Series which have been redeemed prior to or will be redeemed on such redemption date under any other provision hereof or which otherwise have been delivered to the Trustee for cancellation (and which have not previously been applied to reduce the principal amount of Series 2008C Bonds redeemable). The NMFA shall exercise the option described in the preceding sentence by delivering to the Paying Agent, on or before the forty-fifth (45th) day preceding such redemption date, a written notice stating the amount of such reduction.

A Series of the Series 2008C/D Bonds shall be redeemed in whole or in part in an amount specified by and at the direction of the Series 2008C/D Credit Enhancement Facility Provider for such Series of the Series 2008C/D Bonds requiring that such Bonds be redeemed following any Event of Default under the Series 2008C Reimbursement Agreement or Series 2008D Reimbursement Agreement applicable to such Series of the Series 2008C/D Bonds (including non-reinstatement of a drawing for interest). The Redemption Date shall be the earliest practicable date, but in no event shall such redemption occur later than two Business Days prior to the date, if any, that the applicable Series 2008C Credit Enhancement Facility or Series 2008D Credit Enhancement Facility terminates on account of the related Series 2008C/D Credit Enhancement Facility Provider's giving of direction to the Trustee pursuant to this subsection to redeem all of the applicable Series of the Series 2008C/D Bonds.

Series 2008D Bonds. Except as described in the immediately preceding paragraph, the Series 2008D Bonds are not subject to mandatory sinking fund redemption prior to maturity.

Redemption Procedure. Except as otherwise provided herein, the Series 2008C/D Bonds shall be called for prior redemption and shall be paid by the Paying Agent upon notice as provided below. The Trustee shall not be required to transfer or exchange any Series 2008C/D Bond after notice of the redemption of such Bond has been given (except the unredeemed portion of such Bond, if redeemed in part) or to transfer or exchange any Series 2008C/D Bond during the period of 15 days (30 days if such Series 2008C/D Bond bears interest at a Semiannual or Term Rate or the Fixed Rate) next preceding the day such notice is given.

Notice of Redemption. The Trustee shall cause notice of the redemption of the Series 2008C/D Bonds (unless such Series 2008C/D Bonds bear interest at a Semiannual, Term or Fixed Rate) not less than fifteen (15) days nor more than 30 days prior to the redemption date. The Trustee shall cause notice of the redemption of the Series 2008C/D Bonds bearing interest at a Semiannual, Term or Fixed Rate to be given not less than thirty (30) days nor more than sixty (60) days prior to the redemption date.

Payment of Bond Requirements

Principal and Final Interest. The principal or Redemption Price of and the final interest payment on any Series 2008C/D Bonds shall be payable to the owner thereof as shown on the registration books maintained by the Trustee upon maturity or prior redemption thereof and upon presentation and surrender at the principal office of the Paying Agent. During Commercial Paper, Daily, Weekly, Semiannual, or ARS Rate Periods, the principal or Redemption Price of and the final interest payment on the Series 2008C/D Bonds shall be payable in immediately available funds. The principal or Redemption Price of and the final interest payment on the Series 2008C/D Bonds during Term Rate Periods or Fixed Rate Periods, shall be payable in clearing house funds. If any Series 2008C/D 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 2008C/D 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. During Commercial Paper, Daily, Weekly, Semiannual, or ARS Rate Periods, interest on the Series 2008C/D Bonds shall be payable in immediately available funds. The interest on the Series 2008C/D Bonds during Term Rate Periods or Fixed Rate Periods, 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 2008C/D 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 2008C/D 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 Semiannual, Term and Fixed Rate Interest. All payments of interest (other than the final interest payment) on any Series 2008C/D Bond bearing interest at a Semiannual, Term or Fixed Rate, 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 2008C/D Bonds bearing interest at a Semiannual, Term or Fixed Rate, by wire transfer on such date to a bank within the continental United States as directed by such owner.

Payment of Other Interest. All payments of interest on other Series 2008C/D Bonds (other than the final interest payment and other than interest paid as part of the Purchase Price on any Series 2008C/D Bond bearing interest at a Commercial Paper Rate) shall be paid to the person entitled thereto pursuant to the Indenture by wire transfer to a bank within the continental United States as directed by such person or, if not directed by such person, as directed by a Remarketing Agent or Auction Agent, in either case, on the Regular Record Date for such Interest Payment Date (or, in the case of Defaulted Interest, the Special Record Date for the payment of such Defaulted Interest).

Payment of Variable Bonds

(a) The Trustee shall direct the Paying Agent to make payments of principal of and interest on Variable Rate Bonds (except for Variable Rate Bonds purchased pursuant to an optional tender or a mandatory purchase) when due, as follows:

(i) first, with respect to such Variable Rate Bonds, from moneys drawn by the Trustee under the applicable Series 2008C/D Letters of Credit and deposited in the applicable Subaccount of the Series 2008 Letter of Credit Account of the Debt Service Fund for payment of principal of and interest on the related Series of Series 2008C/D Bonds; and

(ii) second, from any other moneys held in the Subordinate Lien Interest Subaccount and Subordinate Lien Principal Subaccount of the Debt Service Fund relating to the Series 2008C/D Bonds, as applicable; and

(iii) third, from any other monies available under the Indenture for such purpose.

(b) The Paying Agent shall make payments of the Purchase Price of Variable Rate Bonds purchased pursuant to an optional tender or a mandatory purchase:

(i) first, from the Remarketing Proceeds of such Variable Rate Bonds deposited in the applicable Remarketing Account of the Series 2008 Bond Purchase Fund for payment of the Purchase Price of the related Series of Series 2008C/D Bonds; and

(ii) second, from moneys drawn by the Trustee under the applicable Series 2008C/D Letters of Credit and deposited in the applicable Bank Purchase Account of the Series 2008 Bond Purchase Fund for payment of the Purchase Price of the related Series of Series 2008C/D Bonds.

Book-Entry Only System

The Depository Trust Company (“DTC”) will act as securities depository for all of the Series 2008C/D Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2008C/D Bonds is registered in the name of Cede & Co. Individual purchases of Series 2008C/D Bonds will be made in book-entry form only, and Beneficial Owners of the Series 2008C/D 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 2008C/D Bonds. For a more complete description of the book-entry only system, see “BOOK-ENTRY ONLY SYSTEM” in Appendix E.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS

Special, Limited Obligations

The Series 2008C/D Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and other moneys held in certain funds and accounts created under the Indenture. The Series 2008C/D Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. NEITHER THE NMFA, NOR THE COMMISSION, NOR THE DEPARTMENT HAS

ANY TAXING POWERS. The principal of and interest and premium, if any, on the Series 2008C/D Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State.

Pledged Revenues

The principal of and interest on the Series 2008C/D Bonds will be payable from the Pledged Revenues, which revenues are pledged and are payable as provided in the Indenture. Such pledge is subject to the pledge in favor of the Outstanding Closed Lien Obligations, the Senior Lien Bonds and to the uses of the Pledged Revenues and other amounts pledged by, and the priorities set forth in, the Indenture. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts” in Appendix B. The Series 2008C/D Bonds constitute an irrevocable lien, but not an exclusive lien, on the Pledged Revenues as set forth in the Indenture.

The Pledged Revenues pledged to the payment of the Series 2004 Bonds, the Series 2006 Bonds, the Subseries 2008A-1 Bonds, the Subseries 2008A-2 Bonds, the Subseries 2008B-1 Bonds, the Subseries 2008B-2 Bonds, the Series 2008C/D Bonds, and any other Subordinate Lien Obligations are to be applied to the Series 2004 Bonds, the Series 2006 Bonds, the Subseries 2008A-1 Bonds, the Subseries 2008A-2 Bonds, the Subseries 2008B-1 Bonds, the Subseries 2008B-2 Bonds, the Series 2008C/D Bonds and the other Subordinate Lien Obligations (including payment obligations under the SWAP Agreements) without priority or distinction of one over the other, after the payment of the Outstanding Closed Lien Obligations and the Senior Lien Bonds.

Discussion Regarding Federal Revenues. The Department and the FHWA have recently 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, including GRIP Transportation 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, during any year in which the FHWA Memorandum is in place, the Department has not exceeded \$122 million in debt service. 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, 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 make any representation regarding the amount or timeliness of payments from the FHWA.

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Outstanding Closed Lien Obligations

The Commission has previously issued various series of Outstanding Closed Lien Obligations which consist of the following:

OUTSTANDING CLOSED LIEN OBLIGATIONS⁽¹⁾

<u>Issue</u>	<u>Outstanding Principal Amount (as of 3/1/10)</u>
Senior Subordinate Lien Bonds	
Series 2000A	\$14,605,000
Series 2001A	9,545,000
Series 2002A	18,440,000
Series 2002C	15,200,000
Series 2002D	4,570,000
Junior Subordinate Lien Bonds	
Series 2002B	<u>9,445,000</u>
TOTAL	<u>\$71,805,000</u>

(1) As previously stated, the NMFA plans to issue the Contemplated Series 2010A Bonds to refund certain series of the Outstanding Closed Lien Obligations. Because the Contemplated Series 2010A Bonds are being issued to achieve a debt service savings, the particular series of Outstanding Closed Lien Obligations that will be refunded is dependent upon market conditions and will not be known until the Contemplated Series 2010A Bonds are priced.

(Source: The Department.)

The Outstanding Closed Lien Obligations are payable from and secured by a lien on a portion of the State Revenues consisting of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and, to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund (collectively, the "Closed Lien State Revenues").

The lien of the Outstanding Senior Lien Bonds and the Outstanding Subordinate Lien Obligations (including the Series 2008C/D Bonds) on the Closed Lien State Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Obligations on the Closed Lien State Revenues. Pursuant to a resolution adopted by the Commission in April 2004 and confirmed by a subsequent resolution adopted by the Commission in March 2009, the Commission has agreed not to issue any bonds or other obligations secured by a lien on any of the Pledged Revenues superior to the Outstanding Senior Lien Parity Bonds.

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Outstanding and Additional Senior Lien Bonds

The NMFA has previously issued the Outstanding Senior Lien Bonds which consist of the following:

OUTSTANDING SENIOR LIEN BONDS⁽¹⁾

<u>Issue</u>	<u>Outstanding Principal Amount</u> <u>(as of 3/1/10)</u>
Series 2004A	\$700,000,000
Series 2006A	150,000,000
Series 2009A	<u>112,345,000</u>
TOTAL	<u>\$962,345,000</u>

(1) As previously stated, the NMFA plans to issue the Contemplated Series 2010A Bonds to refund certain series of the Outstanding Senior Lien Bonds. Because the Contemplated Series 2010A Bonds are being issued to achieve a debt service savings, the particular series of the Outstanding Senior Lien Bonds that will be refunded is dependent upon market conditions and will not be known until the Contemplated Series 2010A Bonds are priced.

(Source: The Department.)

The Outstanding Senior Lien Bonds have a lien on the Pledged Revenues that is superior to the lien thereon to the Outstanding Subordinate Lien Obligations (including the Series 2008C/D Bonds).

The Indenture provides that no additional Senior Lien Bonds may be issued (other than for purposes of refunding) by the NMFA unless (i) the State Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds were at least 300% of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on (a) then Outstanding Closed Lien Obligations, (b) then Outstanding Senior Lien Bonds and (c) the Senior Lien Bonds proposed to be issued, and (ii) the Pledged Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds were at least 350% of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on (x) then Outstanding Closed Lien Obligations, (y) then Outstanding Senior Lien Bonds and (z) the Senior Lien Bonds proposed to be issued. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from 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 NMFA.

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Outstanding and Additional Subordinate Lien Obligations

The NMFA has previously issued the Outstanding Subordinate Lien Obligations which consist of the following:

OUTSTANDING SUBORDINATE LIEN OBLIGATIONS

<u>Issue</u>	<u>Outstanding Principal Amount (as of 3/1/10)</u>
Series 2004B	\$138,425,000
Series 2006B	30,000,000
Series 2008A ⁽¹⁾	115,000,000
Series 2008B ⁽¹⁾	220,000,000
Series 2008C ⁽¹⁾	84,800,000
Series 2008D	50,400,000
Tax-Exempt Line of Credit	<u>119,808,919⁽²⁾</u>
TOTAL	<u>\$758,433,919</u>

(1) The NMFA has discussed plans to refund these various series of bonds with proceeds from one or more series of Subordinate Lien Obligations. Please see “INTRODUCTION—Security for the Series 2008C/D Bonds—Outstanding Subordinate Lien Obligations” herein.

(2) Reflects amount drawn and unpaid as of May 15, 2010. The Tax-Exempt Line of Credit may be drawn upon in the aggregate principal amount of up to \$200,000,000 and the Taxable Line of Credit may be drawn upon in the aggregate principal amount of up to \$20,000,000. Advances under the Tax-Exempt Line of Credit are scheduled to cease in August 2010 and the Taxable Line of Credit is scheduled to expire in December 2010. As of May 15, 2010, the NMFA had drawn and not repaid \$119,808,919 under the Tax-Exempt Line of Credit and did not have any unpaid amounts under the Taxable Line of Credit. The NMFA does not currently plan to draw any amounts under the Taxable Line of Credit. Pursuant to the terms of the Tax-Exempt Line of Credit, the NMFA is required to retire the Tax-Exempt Line of Credit in \$50,000,000 annual increments, the first of which is scheduled to occur in August 2010 and the last of which is scheduled to occur in July 2013. The NMFA expects to issue the Contemplated Series 2010C Bonds during calendar year 2010 to retire the Tax-Exempt Line of Credit. The NMFA anticipates that it will issue the Contemplated Series 2010C-1 Bonds in the aggregate principal amount of \$100,000,000 and the Contemplated Series 2010C-2 Bonds in the aggregate principal amount of \$105,000,000. Upon their issuance, the Contemplated Series 2010C-1 Bonds will be Senior Lien Obligations under the Indenture and the Contemplated Series 2010C-2 Bonds will be Subordinate Lien Obligations under the Indenture. Please see “INTRODUCTION—Security for the Series 2008C/D Bonds—Outstanding Subordinate Lien Obligations.”

(Source: The Department.)

All such 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. Payment obligations, other than termination payment obligations, which are Junior Subordinate Obligations, of the NMFA on the Swap Agreements are also Subordinate Lien Obligations.

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

OF THE INDENTURE—Additional Obligations Payable from Trust Estate—Limitations Upon Issuance of Subordinate Lien Bonds” in Appendix B.

As previously discussed, the NMFA has discussed plans to issue the Contemplated Series 2010B Bonds to refund the Subseries 2008A-1, Subseries 2008A-2, Subseries 2008B-1, Subseries 2008B-2 and Series 2008C Bonds. If the NMFA issues the Contemplated Series 2010B Bonds, it plans to terminate the Swap Agreements. The NMFA intends to apply a portion of the proceeds from the issuance of the Contemplated Series 2010B Bonds to pay the termination payments required under the Swap Agreements. Additionally, the NMFA plans to issue a series of additional Senior Lien Obligations and a series of additional Subordinate Lien Obligations in the total combined approximate amount of \$205,000,000 in the form of the Contemplated Series 2010C Bonds during calendar year 2010 to retire the Lines of Credit and to fund additional transportation projects for the Department.

Subordinate Debt

The NMFA and the Commission may issue additional bonds or other obligations payable from the Pledged Revenues constituting a lien on Pledged Revenues subordinate and junior to the lien on the Pledged Revenues of the Series 2008C/D Bonds, including Junior Subordinate Lien Obligations. Termination payment obligations of the NMFA on the Forward-Starting Swap Agreements and the 2004 Swap Agreements are Junior Subordinate Lien Obligations.

Additional Superior Obligations Prohibited

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

Liquidity Facilities Requirements

At all times during which the Series 2008C/D Bonds bear interest at a Variable Rate or a Commercial Paper Rate the NMFA shall maintain a Series 2008C/D Liquidity Facility, as applicable (the provider of which may but need not be the same as the provider of a Series 2008C/D Liquidity Facility or the provider of a Series 2008C/D Credit Enhancement Facility, if any) to secure payment of the Purchase Price of tendered Series 2008C/D Bonds. In addition, the NMFA covenants and agrees that at all times while any Series 2008C/D Bonds are outstanding which bear interest at other than a Fixed Rate or an Auction Rate, if the rating of the Series 2008C/D Liquidity Facility Provider for such Series shall (if then rated by the same) be lowered by either of Moody’s Investor Services, Inc. or Standard & Poor’s Ratings Services, below the top two short-term rating categories assigned by such rating agency (without giving effect to numeric or other qualifiers), then the NMFA shall obtain an Alternate Series 2008C/D Liquidity Facility (the “Alternate Series 2008C/D Liquidity Facility”) meeting such rating requirement.

Upon the receipt by the Paying Agent of a written request of the NMFA stating that the amount available under a Series 2008C/D Liquidity Facility may be reduced, the Paying Agent shall direct or send appropriate notice to such Series 2008C/D Liquidity Facility Provider requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Series 2008C/D Liquidity Facility, subject to any requirements of such Series 2008C/D Liquidity Facility. In no event shall any Series 2008C/D Liquidity Facility be reduced to an amount less than the principal amount of the Series 2008C/D Bonds secured by such Series 2008C/D Liquidity Facility outstanding, plus an amount equal to interest thereon at the Interest Rate then required by any rating agency then rating the Series 2008C/D Bonds for the number of days then required by any rating agency then rating the Series 2008C/D Bonds, unless the NMFA has deposited an Alternate Series 2008C/D Liquidity Facility with the Paying Agent. In no event shall any Alternate Series 2008C/D Liquidity Facility replace only in part any then current Series 2008C/D Liquidity Facility. Notwithstanding the foregoing, immediately after payment in full has been made on any Series 2008C/D Bonds, either at its maturity date, by optional redemption, or otherwise, the Paying Agent shall direct or send appropriate notice to any applicable Series 2008C/D Liquidity Facility Provider requesting or directing that the amount available under such Series 2008C/D Liquidity Facility be reduced by an amount equal to such principal so paid plus the amount of interest theretofore provided for under such Series 2008C/D Liquidity Facility on such principal amount.

The Series 2008C/D Bonds are not under any circumstances required to have the benefit of a Series 2008C/D Liquidity Facility with respect to the outstanding principal amount of such Series 2008C/D Bonds if, prior to the expiration or termination of any applicable Series 2008C/D Liquidity Facility then in effect, there is delivered to the NMFA, the Remarketing Agent, the Series 2008C/D Liquidity Facility Provider and the Paying Agent (i) a Favorable Opinion of Bond Counsel to the effect that the expiration or termination of any such Series 2008C/D Liquidity Facility then in effect will not adversely affect the validity of such Series 2008C/D Bonds and, with respect to the Series 2008C Bonds, any exclusion from gross income for federal income tax purposes to which interest on such Series 2008C Bonds would otherwise be entitled, and (ii) written evidence from each rating agency then maintaining a rating on such Series 2008C/D Bonds that the ratings on such Series 2008C/D Bonds following the expiration or termination of such Series 2008C/D Liquidity Facility will not be reduced or withdrawn from the ratings on such Series 2008C/D Bonds immediately prior to such expiration or termination.

Upon satisfaction of the requirements described in the immediately preceding paragraph, (i) the Paying Agent, upon receipt of a written request of the NMFA, shall direct or send appropriate notice to any Series 2008C/D Liquidity Facility Provider requesting or directing the cancellation of a Series 2008C/D Liquidity Facility then in effect on the date (the “Series 2008C/D Liquidity Facility Cancellation Date”) requested by the NMFA in such written request, which date may not be less than 30 days, or such longer or shorter period as is required by such Series 2008C/D Liquidity Facility for its termination at the request of the NMFA, from the date the Paying Agent receives such written request, and (ii) following the date of such cancellation, all tendered Series 2008C/D Bonds of such Series may be remarketed by any Remarketing Agent pursuant to a Remarketing Agreement without the benefit of a Series 2008C/D Liquidity Facility until such time, if any, as such Series 2008C/D Bonds are thereafter entitled to the benefits of a Series 2008C/D Liquidity Facility, but only if there is delivered to the NMFA, the Paying Agent and such Remarketing Agent a Favorable Opinion of Bond Counsel to the effect that the execution and delivery of a Series 2008C/D Liquidity Facility will not adversely affect the validity of such Series 2008C/D Bonds, and with respect to the Series 2008C Bonds, any exclusion from gross income for federal income tax purposes to which interest on such Series 2008C Bonds would otherwise be entitled. If at any time no Series 2008C/D Liquidity Facility is required on the Series 2008C/D Bonds, the Paying Agent shall affix a legend on the face, of each such Series 2008C/D Bond authenticated on or after the date on which a Series 2008C/D Liquidity Facility is no longer required in substantially the following form: “A Series 2008C/D Liquidity Facility is not required with respect to this Series 2008C/D Bond. If a Series 2008C/D Liquidity Facility is currently provided, it may be discontinued at any time without prior notice to, or a right to tender by, the Bondholder.”

PLEDGED REVENUES

The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, 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 NMFA.

State Road Fund

General. The State Road Fund is established pursuant to Section 67-3-65 NMSA 1978, as amended. No income earned on the fund may be transferred to another fund. Pursuant to Section 67-3-65.1 NMSA 1978, as amended, distributions from the State Road Fund may be used only for maintenance, construction and improvement of the 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). As of January 2009, the State’s gasoline excise tax rate is lower than that of any western state with the exception of Oklahoma (also 17 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. Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a “gasoline tax sharing agreement” with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed on June 23, 2004. Under that agreement, the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. Chapter 15, New Mexico Law of 2010 permits gasoline tax sharing agreements between the State and the Pueblo of Nambe and the Pueblo of Santo Domingo to be extended from 10 years to 20 years. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be in effect for at least the next ten years as a result of the gasoline tax sharing agreements.

Retail Exemption. Chapter 190, Laws of 1999 also permits gasoline to be sold at retail by registered Native American distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. In its 2000 regular session, the legislature enacted a deduction from gasoline taxes for retail sales of gasoline by persons other than registered Indian tribal distributors on Indian reservations, pueblo grants and trust lands. The deduction, which became effective on April 1, 2000, is effectively equal to the lesser of the tribal tax on the gasoline sold or the State gasoline tax. According to the TRD, there are approximately 271 registered gasoline dealers in the State. Of those 271, 17 are tribally-owned, otherwise affiliated with tribes or located on Indian reservations, pueblo grants and trust lands.

Exemption Results. As a result of the foregoing exemptions and other factors (such as more fuel efficient vehicles and higher gasoline prices), the Department expects a slow rate of growth in gasoline excise taxes paid into the State Road Fund over the next several years.

Fiscal year 2003 taxable gasoline distributions in the State totaled 851,912,805 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 92,837,114 gallons. Fiscal year 2004 taxable gasoline distributions in the State totaled 871,450,733 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 88,226,119 gallons. Fiscal year 2005 taxable gasoline distributions in the State totaled 875,551,884 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 53,425,815 gallons. Fiscal year 2006 taxable gasoline distributions in the State totaled 880,614,191 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 55,432,237 gallons. Fiscal year 2007 taxable gasoline distributions in the State totaled 918,292,994 gallons while tax-exempt reservation, pueblo grant and trust fund distributions totaled 58,864,581 gallons. Fiscal year 2008 taxable gasoline distributions in the State totaled 877,428,632 gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 57,372,000 gallons. Fiscal year 2009 taxable gasoline distributions in the State totaled 875,295,280 gallons while tax-exempt reservation, pueblo grant and trust fund distributions totaled approximately 61,000,000 gallons. The Department estimates that future Native American retail sales of gasoline within reservation, pueblo grant and trust land boundaries will remain constant at or about the fiscal year 2009 level.

Collection Procedures. The gasoline excise tax is payable by gasoline distributors on or before the 25th day of the month after the month in which the gasoline is "received" in 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 76.27% of the receipts attributable to the gasoline excise tax are paid into the State Road Fund.

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

HISTORICAL GASOLINE EXCISE TAXES

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Taxable</u> <u>Gallons (000s)</u>	<u>Percent</u> <u>Change (%)</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
2000	868,022	(2.74)	\$111,961	n/a
2001	838,445	(3.41)	108,534	(3.06)
2002	839,001	0.07	108,941	0.37
2003	851,912	1.54	110,465	1.40
2004	871,451	2.29	112,107	1.49
2005	875,552	0.47	109,456	(2.36)
2006	880,614	0.58	109,723	0.24
2007	918,293	4.28	110,340	0.56
2008	877,429	(4.45)	107,732	(2.36)
2009	875,295	(2.44)	108,200	0.43

(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. 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.

HISTORICAL SPECIAL FUEL EXCISE TAXES

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Taxable</u> <u>Gallons (000s)</u>	<u>Percent</u> <u>Change (%)</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
2000	411,197	3.21	\$66,648	n/a
2001	411,855	0.16	66,940	0.44
2002	407,536	(1.05)	65,689	(1.87)
2003	430,852	5.72	69,478	5.77
2004	463,073	7.48	74,546	7.29
2005	459,405	(0.79)	87,902	17.92 ⁽¹⁾
2006	509,030	10.80	97,127	10.49
2007	509,377	0.07	101,373	4.37
2008	532,594	4.56	101,651	0.27
2009	444,061	(19.94)	85,645	(18.7)

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

(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

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>State Road Fund</u> <u>Distribution (000s)</u>	<u>Percent</u> <u>Change (%)</u>
2000	\$54,098	n/a
2001	50,851	(6.00)
2002	50,903	0.10
2003	51,394	0.96
2004	51,574	0.35
2005	72,800	41.16 ⁽¹⁾
2006	76,453	5.02
2007	88,365	15.58
2008	77,424	(12.38)
2009	75,485	(2.57)

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

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>State Road Fund</u> <u>Distribution (000s)⁽¹⁾</u>	<u>Percent</u> <u>Change (%)</u>
2000	\$44,302	n/a
2001	41,600	(6.10)
2002	44,137	6.10
2003	43,993	(0.33)
2004	52,996	20.46 ⁽²⁾
2005	67,768	27.87
2006	71,470	5.46
2007	73,512	2.86
2008	73,679	0.23
2009	72,283	(1.89)

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

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

(Source: 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 by the Legislature. All of the taxes and fees attributable to the Highway Infrastructure Fund are collected and administered by TRD and transferred by the State Treasurer from various suspense funds to the Highway Infrastructure Fund monthly.

Leased Vehicle Gross Receipts Taxes. Leased vehicle gross receipts taxes are imposed pursuant to Section 7-14A-3 NMSA 1978, 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. 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)⁽¹⁾</u>	<u>Percent Change (%)</u>
2000	\$4,596	n/a
2001	4,810	4.66
2002	4,507	(6.30)
2003	4,465	0.93
2004	4,536	1.59
2005	4,524	(0.26)
2006	5,144	13.69
2007	4,844	(5.81)
2008	6,963	43.74
2009	5,520	(20.72)

(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. As of 1999, the Motor Vehicle Division has allowed a two-year registration option. Registrants who choose the two-year option pay twice the normal fee and are exempt the following year. Tire recycling fees are paid by the Motor Vehicle Division to the State Treasurer for

deposit to the Motor Vehicle Suspense Fund and then into the Highway Infrastructure Fund and the Tire Recycling Fund.

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

HISTORICAL NET TIRE RECYCLING FEES

<u>Fiscal Year Ended June 30</u>	<u>Tire Recycling Fees (000s)</u>	<u>Percent Change (%)</u>
2000	\$1,455	n/a
2001	1,411	(3.02)
2002	1,655	17.29
2003	1,679	1.45
2004	1,421	(15.37)
2005	1,950	37.23
2006	1,734	(11.08)
2007	1,758	1.38
2008	1,782	1.37
2009	1,766	(0.91)

(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. The major funding for the FAHP is made available in six core programs: the Interstate Maintenance Program, the Highway Bridge Replacement and Rehabilitation Program, the National Highway System Program, the Surface Transportation Program, the Congestion Mitigation and Air Quality Program and the Equity Bonus Program (formerly the Minimum Guarantee 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 STATE 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. The current multi-year authorization, SAFETEA-LU, became law on August 10, 2005, and originally expired on September 30, 2009. See “SAFETEA-LU” herein. Efforts have been undertaken in Congress to draft a new multi-year authorization. As of the date of this Remarketing Memorandum, Congress has not adopted a new multi-year authorization. However, Congress has adopted legislation which provided an extension until December 31, 2010.

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

Access to Unobligated Balances. The 1987 Surface Transportation and Uniform Relocation Assistance Act expired on September 30, 1991 and ISTEA was not enacted until December 18, 1991. The FHWA was able to act administratively to keep federal-aid funding flowing because states could use their unobligated balances to provide contract authority to use new “Obligation Authority” or “OA” as more fully described under “Federal Aid Funding Procedures—Obligation” below.

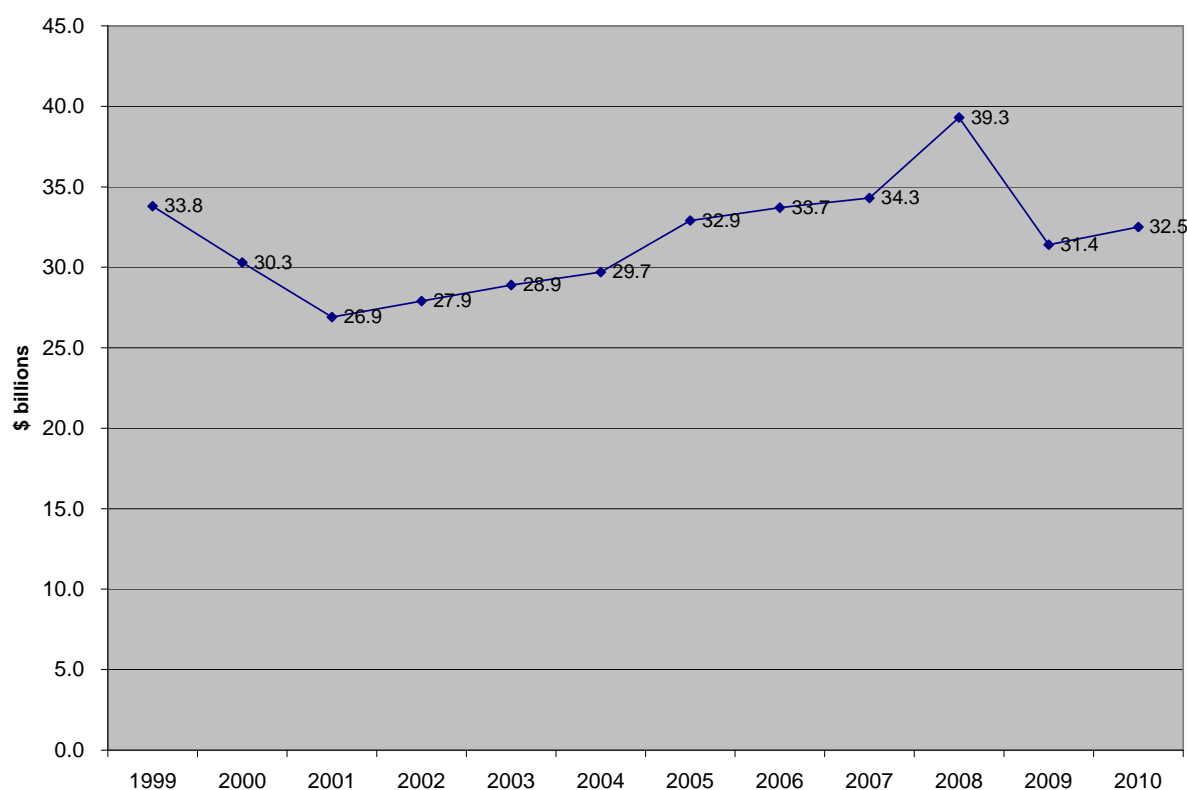
Short-Term Authorization. ISTEA expired on September 30, 1997 and until approval of TEA-21 on June 9, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorizing legislation, states were provided an upper limit on OA through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997 Congress passed the Surface Transportation Extension Act of 1997 (“STEA”), which provided a six-month authorization for highway funding and established a limit on the amount of new OA states could use at funding levels equal to about a quarter of federal fiscal year (“FFY”) 1997 authorization levels. Since most states have unobligated balances of at least half their normal annual OA levels and an authorization act need not be in place for the FHWA to give states new OA, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated OA. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the FHTF. Similarly, TEA-21 expired on September 30, 2003, and Congress enacted twelve interim authorization measures for varying periods over twenty-two months until the enactment of SAFETEA-LU on August 10, 2005.

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

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 2010.

Receipts Into The Highway Account of the Federal Highway Trust Fund 1999–2010⁽¹⁾



⁽¹⁾ Excludes interest on balances.

(Source: Highway Statistics 2007, Office of Highway Policy Information, FHWA, Table FE-210 and the President’s Fiscal Year 2010 Budget.)

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 SAFETEA-LU. SAFETEA-LU extends the imposition of taxes through September 30, 2011. The transfer of the taxes to the FHTF has been extended by Congress through December 31, 2010. 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 exceed 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 and that 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.

Effects of Stimulus Acts. Several of the stimulus acts adopted by Congress since September, 2009, even though the funding for highway-related projects under such acts will be coming from the General Fund, may have an impact on federal-aid highways including the aggregate level of expenditures therefor, the revenues in part funding such highways and the timing of payment of such revenues. The precise effect of such acts on the FHTF cannot be assessed at this time.

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.

TEA-21

Although SAFETEA-LU is the current authorization for the FAHP, significant components of it were created under prior authorizations. Until the enactment of SAFETEA-LU on August 10, 2005, the Transportation Equity Act for the 21st Century (“TEA-21”) was the most recent multi-year authorization act for the FAHP, having been enacted into law on June 9, 1998. TEA-21 authorized nearly \$218 billion for highway, highway safety, transit, and other surface transportation programs over the six-year period from FFYs 1998 through 2003. This total reflected a 40 percent increase over the levels in the prior major authorizing legislation, the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”). TEA-21 was scheduled to expire on September 30, 2003 but was the subject of multiple interim reauthorization extensions until the enactment of SAFETEA-LU.

A limitation on obligations and the process for distribution was included for each of the years in TEA-21. Through the limitation on obligations, Congress controlled the program and made it more responsive to prevailing budget and economic policy. The obligation ceilings set in TEA-21 for FFYs 1998 through 2003 were based on a protected level of spending for transportation.

Protected Funding. New budget categories were established under TEA-21 for highway and transit discretionary spending, effectively establishing a budgetary “firewall” between those programs and other domestic discretionary programs. Prior to TEA-21, the highway and transit discretionary programs competed for annual budgetary resources with other domestic programs. The new categories are still subject to budget constraints, but reductions in highway or transit spending will not allow increased spending in other non-transportation programs. This removes the principal incentive for Congress to limit highway or transit spending.

The highway firewall “protects” the obligation limitation for federal-aid highways, the motor carrier and other highway safety programs that have contract authority. (See discussion of contract authority under “Federal-Aid Funding Procedures—Authorization” below.) The firewall amount for highways is tied to the projected receipts of the Highway Account of the Federal Highway Trust Fund and beginning with FFY 2000 was adjusted each year during development of the President’s budget as new receipt projections and actual receipts became available. The adjustment of authorizations is called Revenue Aligned Budget Authority (“RABA”).

Under TEA-21, a total of \$198.5 billion in funding for surface transportation was protected from deficit reduction legislation. The total protected amount available for federal-aid highways under TEA-21 was \$161.9 billion. The protected amount available for highways had two components: the amount behind the budgetary firewall of \$157.5 billion and the amount of \$4.4 billion for programs exempt from the obligation limitation. The protected funding for transit programs had a single component—the firewall amount of \$36.5 billion that was not tied to FHTF receipts.

Authorizations in TEA-21 for FFYs 1998 through 2003 exceeded the protected funding levels by \$15 billion for the highway program categories and \$5 billion for transit programs. The authorizations in excess of protected levels remain part of the general discretionary budget category and may be made available by Congress through the annual appropriations process, but must compete each year with other budget priorities.

Highway Funding Equity—Minimum Funding. TEA-21 continued the minimum protected funding provisions which are designed to ensure that each state has a minimum return on the tax contributions from that state into the Highway Account of the Federal Highway Trust Fund. Under this provision, “donor states” receive a minimum guaranteed level of funding. A donor state is one whose percentage share of national apportionments is less than its percentage share of national contributions to the Federal Highway Trust Fund based on the latest data available at the time of apportionment. These states are guaranteed to receive an amount of funding at least equal to multiplying a specific percentage (90.5% under TEA-21 and 92% under SAFETEA-LU) times the state’s percentage share of estimated contributions to the Federal Highway Trust Fund, multiplied against the national level of apportioned funds. 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 national contributions to the Federal Highway Trust Fund and has not received funds under the minimum funding provision. There can be no assurance that the current minimum funding provision or any comparable minimum funding provision will be in any new authorization. See “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS—Reauthorization.”

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 Federal Highway Trust Fund);
- 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. Although Congress has not yet adopted a multi-year reauthorization, it has adopted legislation which provided an extension through December 31, 2010. 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 Federal Highway Trust Fund. 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 “SAFETEA-LU—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 factors include items such as lane miles, vehicle miles traveled, taxes paid into the FHTF and diesel fuel usage. Each state highway program has a unique set of factors that determine its apportionment. 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.

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 the State, the STIP is currently developed annually and covers a four-year period. The most recent four-year STIP covering FFY 2010 through FFY 2013 was approved by the Commission on August 20, 2009. The STIP is subject to change on a quarterly basis. The four-year STIP represents \$1,183,631,163 of projects to be undertaken during FFY 2010 through FFY 2013, 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.

SAFETEA-LU

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), passed the Congress, was signed into law by President Bush on August 10, 2005, and authorized a total of \$286.4 billion for the federal surface transportation programs in FFYs 2004 through 2009. This represented a 38% increase in authorization over TEA-21. The core federal-aid highway program was funded at these levels: \$34.4 billion (FFY05), \$36 billion (FFY06), \$38.2 billion (FFY07), \$39.6 billion (FFY08), and \$41.2 billion (FFY09). SAFETEA-LU retained the firewall and minimum guarantee provisions of TEA-21, increasing each state’s minimum rate of return of FHTF contributions from 90.5% in TEA-21 to 92% by 2008. All states were also guaranteed a total six-year average highway funding increase of at least 19 percent, when compared to the state’s six-year TEA-21 funding total. As previously stated, SAFETEA-LU originally expired on September 30, 2009 without Congress adopting a multi-year reauthorization. However, Congress has adopted legislation which provided an extension until December 31, 2010.

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.

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
9/8/2009	8,708,000,000 ⁽¹⁾	N 4510.712

⁽¹⁾ These funds were restored in the last 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, and the seventh on certain FFY 2009 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.

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.

STATE RECEIPTS OF FEDERAL TRANSPORTATION FUNDS

The following tables identify prior authorizations, obligation limitations and reimbursements received by the State and the Department under TEA 21 and SAFETEA-LU. The ability to pay debt service on the Series 2010A 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 NMFA 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 the aggregate authorization and obligation limitation amounts received by the Department under TEA 21:

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS-TEA 21⁽¹⁾

	Federal Fiscal <u>Year 2001</u>	Federal Fiscal <u>Year 2002</u>	Federal Fiscal <u>Year 2003</u>	Federal Fiscal <u>Year 2004</u>	<u>Totals</u>
Aggregate Authorization	\$294,049,448	\$298,809,162	\$291,032,534	\$307,511,183	\$1,191,402,327
Obligation Limitation					
National Highway System	69,623,960	75,731,875	75,387,486	80,688,917	301,432,238
Bridge	12,899,034	15,345,467	13,312,643	14,619,751	56,176,895
Surface Transportation Program ⁽²⁾	46,293,425	48,625,970	49,073,310	49,258,893	193,251,598
Minimum Guarantee	30,036,771	30,238,728	29,907,334	29,921,754	120,104,587
Surface Transportation Program (Urban Areas)	9,569,909	10,268,213	10,476,349	10,327,305	40,641,776
Interstate Maintenance	63,417,400	69,159,815	62,761,855	73,421,464	268,760,534
Congestion Mitigation/Air Quality Improvement	8,047,929	8,607,408	8,550,135	9,389,632	34,595,104
Recreational Trails	663,358	836,354	925,057	977,896	3,402,665
Metro Planning	846,711	912,523	1,037,559	1,164,707	3,961,500
Research Program	1,206,418	1,306,496	1,295,229	1,429,600	5,237,743
Planning Programs	3,619,253	3,919,486	3,885,685	3,538,700	14,963,124
High Priority Projects	13,951,387	13,697,860	15,520,683	10,866,985	54,036,915
Redistribution of Authority	<u>2,070,116</u>	<u>1,738,494</u>	<u>1,232,308</u>	<u>8,118,746</u>	<u>13,159,664</u>
Aggregate Apportionment	<u>\$262,245,671</u>	<u>\$280,388,689</u>	<u>\$273,365,633</u>	<u>\$293,724,350</u>	<u>\$1,109,724,343</u>
Aggregate Obligation Limitation	<u>\$260,146,000</u>	<u>\$278,897,000</u>	<u>\$263,226,000</u>	<u>\$243,530,732</u>	<u>\$1,045,799,732</u>

⁽¹⁾ This summary is unaudited.

⁽²⁾ Excluding large urban areas (Albuquerque and Sunland Park).

(Source: The Department.)

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

NEW MEXICO FEDERAL AID HIGHWAY PROGRAM FUNDS – SAFETEA-LU⁽¹⁾

	Federal Fiscal Year 2005	Federal Fiscal Year 2006 ⁽²⁾	Federal Fiscal Year 2007 ⁽²⁾	Federal Fiscal Year 2008 ⁽²⁾	Federal Fiscal Year 2009 ⁽²⁾
Interstate Maintenance	\$64,251,895	\$65,286,769	\$66,338,307	\$67,406,777	\$68,492,451
National Highway System	76,482,689	77,714,418	78,964,299	80,236,014	81,528,206
Surface Transportation Program ⁽³⁾	58,812,919	53,584,797	54,244,235	55,051,306	55,937,790
Surface Transportation	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)	(12,725,353)
Program: Approximate (Large Urban Area) Suballocation from STIP Apportionment					
Bridge	13,821,540	14,044,167	14,270,379	14,500,233	14,733,788
Congestion Mitigation/Air Quality	8,232,073	8,364,628	8,499,317	8,636,175	8,775,237
Recreational Trails	1,026,452	1,199,957	1,286,709	1,373,461	1,460,213
Metro Planning	1,469,376	1,448,969	1,472,634	1,496,045	1,519,833
Planning Programs – Suballocation from Core Program funds	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)	(4,346,049)
Research Program – Suballocation from Planning Program funds	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)	(1,448,683)
Highway Safety Improvement Program	–	9,724,197	9,914,691	10,108,251	10,304,929
Rail-Highway Crossing	–	1,493,538	1,490,053	1,488,934	1,488,934
Safe-Routes to School	1,000,000	1,000,000	1,000,000	1,000,000	1,157,178
Border Infrastructure Program	925,343	1,090,851	1,241,313	1,429,391	1,579,853
High Priority Projects	30,920,000	30,920,000	30,920,000	30,920,000	30,920,000
Equity Bonus	<u>76,085,543</u>	<u>71,408,088</u>	<u>86,008,248</u>	<u>94,605,501</u>	<u>94,015,134</u>
Aggregate Authorization	<u>\$333,027,830</u>	<u>\$337,280,379</u>	<u>\$355,650,185</u>	<u>\$368,252,088</u>	<u>\$371,913,547</u>
Aggregate Obligation Limitation	<u>\$324,300,000</u>	<u>\$350,400,000</u>	<u>\$271,112,000</u>	<u>\$280,718,000</u>	<u>\$283,509,000</u>

(1) This summary is unaudited.

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

(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 summary of the history of Pledged Revenues for the fiscal years ended June 30, 2000 through June 30, 2009 (audited) and an estimate of Pledged Revenues for the fiscal years ended June 30, 2010 through June 30, 2014. The summary itself is unaudited. The estimates are based on Department estimates as of January 2010. 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 2008C/D BONDS" and "FORWARD-LOOKING STATEMENTS."

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

	FY00	FY01	FY02	FY03	FY04	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>Actual</u>	<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	\$111,961	\$108,534	\$108,941	\$110,465	\$112,107	\$109,456	\$109,723	\$110,340	\$107,732	\$108,024	\$108,200	\$108,600	\$109,000	\$110,600	\$112,000
Special Fuel Tax	66,648	66,940	65,689	69,478	74,546	87,902	97,127	101,373	101,651	85,645	81,800	84,900	92,800	99,100	103,700
Weight/Distance	54,098	50,851	50,903	51,394	51,574	72,800	76,453	88,365	77,424	75,485	64,000	67,200	70,600	74,100	77,800
Trip Tax	9,727	7,731	6,194	4,348	4,050	5,724	8,576	7,557	4,804	5,776	5,200	5,400	5,600	5,700	5,800
Vehicle Registration	44,302	41,600	44,137	43,993	52,996	67,768	71,470	73,615	73,679	72,283	72,500	71,800	72,500	73,200	73,900
Vehicle Transaction	1,178	1,111	1,144	1,115	1,132	1,130	1,610	1,256	1,236	1,479	1,200	1,200	1,300	1,300	1,400
Driver's License	4,484	4,361	4,799	4,542	4,238	4,072	3,944	4,329	4,563	3,826	4,350	4,450	4,450	4,480	4,530
Oversize/License	1,250	1,316	1,303	1,140	1,157	3,232	4,387	4,590	4,961	4,539	4,000	4,300	4,500	4,600	4,650
Public Regulatory Commission Fees	3,964	3,655	3,549	3,391	3,298	3,525	3,676	377	1,254	2,286	2,400	2,600	2,800	3,000	3,200
Penalty Assessments (Reinstatement Fees)	1,098	1,122	1,024	1,138	1,085	1,273	258	0	0	0	0	0	0	0	0
MVD Miscellaneous Fees	1,226	881	898	997	923	1,200	2,373	2,173	2,675	2,870	2,500	2,500	2,500	2,500	2,500
Leased, Vehicle Gross Receipts Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Road Fund Interest	2,071	1,714	1,002	509	395	1,239	2,055	1,238	0	19	100	200	300	300	300
TOTAL STATE ROAD FUND⁽¹⁾	302,007	289,816	289,583	292,510	307,501	359,321	381,652	395,213	379,979	362,232	346,250	353,150	366,350	378,880	389,780
Percent Change	0.2%	-4.0%	-0.1%	1.0%	5.1%	16.9%	6.2%	3.6%	-3.9%	-4.7%	-4.4%	2.0%	3.7%	3.4%	2.8%
HIGHWAY INFRASTRUCTURE FUND															
Lease Vehicle Gross Receipts	4,596	4,810	4,507	4,465	4,536	4,524	5,143	4,844	6,963	5,520	5,340	5,450	5,620	5,690	5,770
Tire Recycling Fees	1,455	1,411	1,655	1,679	1,421	1,950	1,734	1,758	1,782	1,766	1,690	1,610	1,730	1,670	1,740
Interest	168	328	152	115	64	124	352	178	408	99	30	35	40	45	50
TOTAL HIGHWAY INFRASTRUCTURE FUND	6,219	6,549	6,314	6,259	6,021	6,598	7,229	6,780	9,153	7,385	7,060	7,095	7,390	7,405	7,560
Percent Change		5.3%	-3.6%	-0.9%	-3.8%	9.6%	9.6%	-6.2%	25.9%	-23.9%	-4.4%	0.5%	4.2%	0.2%	2.1%
FEDERAL FUNDS	277,983	260,146	278,897	263,226	243,531	287,475	292,847	228,392⁽³⁾	253,571⁽⁴⁾	302,428⁽⁵⁾	260,000⁽⁶⁾	260,000⁽⁶⁾	260,000⁽⁶⁾	260,000⁽⁶⁾	260,000⁽⁶⁾
Percent Change	30.3%	-6.4%	7.2%	-5.6%	-7.5%	18.0%	1.9%	-22.0%	11.0%	19.3%	-14.0%	0.0%	0.0%	0.0%	0.0%
TOTAL PLEDGED REVENUES⁽¹⁾	586,209	556,511	574,794	561,995	557,053	653,394	681,728	630,385	642,703	672,045	613,310	620,245	633,740	646,285	657,340
Percent Change	13.9%	-5.1%	3.3%	-2.2%	-0.9%	17.3%	4.3%	-7.5%	2.0%	4.6%	-8.7%	1.1%	2.2%	2.0%	1.7%

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

(2) Forecast of State Tax revenues as of January 2010.

(3) Audited revenue of \$228.392 million with deferred revenue of \$24.689 million and \$15.298 million collected subsequently in FY2008 and FY2009, respectively

(4) Audited revenue of \$253.571 million includes recognition of \$24.689 million collected from FY2007. Deferred revenue of \$22.592 million from FY2008 collected subsequently in FY2009.

(5) Audited revenue of \$302,428 million includes recognition of \$22,592 million collected from FY2008. Deferred revenue of \$27.875 million from FY2009 collected subsequently in FY2010.

(6) Estimated federal funds in out years approximate multi-year average under current SAFETEA-LU legislation. Reauthorization is pending for federal FY 2010.

Source: The Department.

LETTERS OF CREDIT AND REIMBURSEMENT AGREEMENTS

The following is a summary of certain provisions of the Reimbursement Agreements pursuant to which the Letters of Credit are issued. Each Letter of Credit provides credit and liquidity support only for the series of the Series 2008C/D Bonds to which it relates. The Reimbursement Agreements contain various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined elsewhere in this Remarketing Memorandum, the Letters of Credit or the Reimbursement Agreements, and reference is made thereto for a full understanding of their import.

General

Upon the terms and subject to the conditions set forth in the Reimbursement Agreements, the Banks agree to issue the Letters of Credit.

The Trustee is authorized to make drawings for the payment of principal of and interest on the related series of Series 2008C/D Bonds (each, a "Principal Drawing" or an "Interest Drawing" respectively and together "Credit Drawings") and drawings for the payment of the purchase price of the related series of Series 2008C/D Bonds that have been tendered and not remarketed (each, a "Liquidity Drawing"), subject to certain conditions set forth in the Letters of Credit and in the respective Reimbursement Agreement. The Series 2008C/D Bonds purchased by the Banks ("Bank Bonds") shall bear interest at the rates set forth in the Reimbursement Agreements and shall be repaid as provided therein. All Principal Drawings, Interest Drawings and Liquidity Drawings shall be made under the Letters of Credit in accordance with their terms. The NMFA has directed the Banks to make payments under the Letters of Credit in the manner provided in the Letters of Credit.

With respect to each Credit Drawing, the NMFA has agreed to pay to the Banks on the date of each Credit Drawing, an amount equal to the amount disbursed by the Banks pursuant to such Credit Drawing against their Letters of Credit, together with interest on the amounts so disbursed by the Banks for each day from and including the date of such disbursement to but not including the date the Banks are reimbursed therefor at a rate per annum specified in the respective Reimbursement Agreement, payable on the date of reimbursement of such amount. All payments not received on the date due shall bear interest until paid in full at a rate specified in the respective Reimbursement Agreement, such interest to be payable upon demand.

With respect to each Liquidity Drawing, so long as no Event of Default (as defined below) has occurred and is then continuing and the NMFA reaffirms its representations and warranties under the Reimbursement Agreements, the NMFA shall pay to the Banks on any date which is the first to occur of (A) the date of the remarketing of any Bank Bonds, the purchase price or portion of the purchase price of which was paid with the proceeds of such Liquidity Drawing, an amount equal to the amount disbursed by the Banks pursuant to such Liquidity Drawing against their Letters of Credit to pay the principal portion of such purchase price or portion thereof or with respect to the interest portion of the purchase price, the immediately succeeding Interest Payment Date, and (B) the date on which the principal of any Bank Bonds, together with accrued interest thereon, shall become due and payable, whether at maturity or redemption, an amount equal to the amount disbursed by the Banks pursuant to such Liquidity Drawing against their Letters of Credit to pay the purchase price or portion thereof, in either case, together with interest on the amounts so disbursed by the Banks for each day from and including the date of such disbursement to but not including the date the Banks are reimbursed therefor at a rate per annum specified in the Reimbursement Agreement, payable on the date of reimbursement of such amount and on each Interest Payment Date for the Series 2008C/D Bonds.

All payments not received on the date due shall bear interest until paid in full at a rate specified in the respective Reimbursement Agreement, such interest to be payable upon demand. To the extent that the Liquidity Drawing is not paid to the Banks on the due date, the Banks will become subrogated to the rights of the holders of the respective Series of such Series 2008C/D Bonds and the NMFA will cause the Trustee to transfer such Series 2008C/D Bonds to the Banks. Upon transfer of the Series 2008C/D Bonds to the Banks, such Series 2008C/D Bonds will be deemed Bank Bonds and the Banks will be entitled to and, where necessary, will be deemed to be assigned all rights, privileges and security accorded registered owners of the Series 2008C/D Bonds under the Indenture or otherwise, except as otherwise provided in the Reimbursement Agreement. The Bank Bonds shall bear

interest and be subject to redemption in accordance with the Indenture and the respective Reimbursement Agreement.

Events of Default

The occurrence and continuance of any one or more of the following events shall be an “Event of Default” under each of the Reimbursement Agreements:

(i) any representation or warranty made by the NMFA, the Commission or the Department under or in connection with (or incorporated by reference in) the Reimbursement Agreement or any of the Financing Documents (as defined in the Reimbursement Agreement) or in any certificate or statement delivered thereunder shall prove to be untrue in any material respect on the date as of which it was made or deemed to have been made; or

(ii) nonpayment by the NMFA of (a) certain amounts payable under the Reimbursement Agreement when due, or (b) certain amounts payable under the Reimbursement Agreement when due and such default in payment shall continue for five (5) Business Days;

(iii) the breach by the NMFA of any of the other terms or provisions of (or incorporated by reference in) the Reimbursement Agreement (other than as set forth in paragraphs (i) or (ii) above) which are not remedied within fifteen (15) days after written notice thereof shall have been received by the NMFA from the Banks; provided, however, that if the breach is other than non-payment of monies and cannot be corrected within such 15-day cure period, the Banks shall not unreasonably withhold their consent to a one-time extension of such cure period for an additional fifteen (15) day period (commencing as of the last day of the initial fifteen (15)-day cure period) so long as the NMFA shall have instituted corrective action and such corrective action is being diligently pursued; provided, further, however, that there shall be no cure period for a failure to observe or perform any covenant or agreement set forth in or contemplated by certain sections of the Reimbursement Agreement as described more fully in the Reimbursement Agreement; or

(iv) any material provision of the Reimbursement Agreement or any Financing Document shall at any time for any reason cease to be valid and binding on the NMFA or any other Person party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the NMFA or by any Governmental Authority (as defined in the Indenture) having jurisdiction, or any Governmental Authority having jurisdiction shall find or rule that any material provision of the Reimbursement Agreement or any Financing Document is not valid or binding on the NMFA, or the NMFA shall deny that it has any or further liability or obligation under any such document; or

(v) (a) the NMFA shall commence any case, proceeding or other action (1) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it the bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the NMFA shall make a general assignment for the benefit of its creditors; or (b) there shall be commenced against the NMFA any case, proceeding or other action of a nature referred to in clause (1) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (c) there shall be commenced against the NMFA, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (d) the NMFA shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the NMFA shall generally not, or shall be unable to, or so admit in writing its inability to, pay its Debts; or

(vi) (a) the NMFA shall default in any payment of principal of or interest or any premium on any Material Debt (as defined in the Indenture) and such default shall continue beyond the expiration of the applicable grace period, if any, or (b) the NMFA shall fail to perform any other agreement, term or condition contained in any

agreement, mortgage or other instrument under which any such obligation is created or secured, which results in the declaring due and payable of Material Debt or causes Material Debt to become due and payable or which enables (or, with the giving of notice or lapse of time, or both would enable) the holder of Material Debt or any Person acting on such holder's behalf to accelerate the maturity thereof; provided that none of the foregoing shall constitute an Event of Default under the respective Reimbursement Agreement so long as (1) the NMFA is diligently contesting in good faith by appropriate legal proceedings its obligation to make such payment or the amount of the payment required or to perform or observe such agreement, term or condition, (2) the opposing party or parties in any such legal proceedings shall be stayed from executing on any Property (as defined in the Indenture) of the NMFA with respect to such default or failure to perform and (3) as a result of such default or failure to perform on behalf of the NMFA, no other party to any other Debt of the NMFA, as applicable, shall have declared such Debt due and payable prior to the maturity date thereof or otherwise commenced its exercise of remedies pursuant to the agreement or instrument relating to such Debt and the execution by any such party on Property of the NMFA shall not have been stayed; or

(vii) a final judgment or order for the payment of money in an amount in excess of \$2,000,000 shall have been rendered against the NMFA and such judgment or order shall not have been satisfied, stayed or bonded pending appeal within a period of thirty (30) days from the date on which it was first so rendered; or

(viii) there shall have been rendered a determination that interest on any of the Series 2008C Bonds is includable in the gross income of the owners thereof for federal income tax purposes, as a result of the entry of any decree or judgment by a court of competent jurisdiction, or the taking of any official action by the Internal Revenue Service, whether or not such decree, judgment or action is appealable or deemed to be final under applicable procedural law, or delivery to Wells Fargo, the NMFA and the Trustee of an opinion of nationally recognized bond counsel selected by Wells Fargo and reasonably acceptable to the NMFA, to the effect that the interest borne by the Series 2008C Bonds is includable in the gross income of the recipients thereof generally for federal income tax purposes; or

(ix) any Rating Agency shall have (a) withdrawn its respective rating of the unenhanced long-term Parity Debt (as defined in the Indenture), (b) suspended its respective rating of the unenhanced long-term Parity Debt, or (c) lowered its respective rating of the unenhanced long-term Parity Debt to below "Baa2" for Moody's and "BBB" for S&P (or to the equivalent rating then in effect with respect to Moody's or S&P), respectively; or

(x) any pledge or security interest created by the Indenture or the Reimbursement Agreement to secure any amount due under the Series 2008 Bonds, any Parity Debt or the Reimbursement Agreement shall fail to be fully enforceable with the priority required under the Reimbursement Agreement or the Indenture, as the case may be, by reason of a final, non-appealable judgment of a court of competent jurisdiction; or

(xi) any "event of default" shall have occurred and be continuing under any of the Financing Documents (other than the Reimbursement Agreement and the Fee Letter) including, without limitation, failure of the NMFA to pay, when due, any obligation in connection with any Parity Debt or an event or condition shall occur which results in the acceleration of the maturity of any Parity Debt or which enables (or, with the giving of notice or lapse of time, or both, would enable) the holder of such Parity Debt or any Person acting on such holder's behalf to accelerate the maturity thereof.

Remedies If Event of Default Occurs

If any Event of Default occurs and is continuing, then, and in any such event, the Banks may, at the same or different times, so long as such Event of Default shall not have been remedied, proceed to enforce all remedies available to them under the Letters of Credit and under the Financing Documents and applicable law and in equity, including, without limitation:

(i) the Banks may notify the Paying Agent and the Trustee of such occurrence, direct the Trustee to cause a mandatory tender of the Series 2008 Bonds, as provided in the Sixth Series Indenture, and state that the Letters of Credit will terminate on the tenth (10th) calendar day following the date the Trustee shall have received written notice from the Banks;

(ii) the Banks may declare all amounts payable under the Reimbursement Agreement to be, whereupon the same shall become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the NMFA; provided that in the case of any of the Events of Default specified in paragraph (v) under the subheading “Events of Default” above, all amounts payable under the Reimbursement Agreement shall be immediately due and payable without the giving of any notice to the NMFA or the taking of any other action by any Person;

(iii) Upon the occurrence of an Event of Default, the Banks may, at any time and from time to time, without notice to the NMFA or any other Person (any such notice being expressly waived), set off and appropriate and apply, against and on account of, any obligations and liabilities of the NMFA to the Banks arising under or connected with the Reimbursement Agreements, the Fee Letter and the other Financing Documents, without regard to whether or not the Banks shall have made any demand therefor, and although such obligations and liabilities may be contingent or unmatured, any and all deposits (general or special, including but not limited to Indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other Debt at any time held or owing by the Bank to or for the credit or the account of the NMFA;

(iv) the Banks may exercise any rights and remedies available to them by law or under the respective Reimbursement Agreement or under any Financing Document or otherwise; and

(v) in addition to the foregoing, upon the occurrence of any Event of Default under the Reimbursement Agreements, all obligations due and payable under the Reimbursement Agreements shall bear interest at the Default Rate.

All the foregoing remedies shall be cumulative. Promptly following the delivery of notice of termination of a Letter of Credit, the Banks shall give notice thereof to the NMFA, the Remarketing Agents, the Trustee and the Paying Agent, but failure to give such notice to the NMFA, the Remarketing Agents, the Trustee or the Paying Agent shall not impair the effect of such notice.

THE BANKS

The information herein relates to and has been provided by the Banks for inclusion in this Remarketing Memorandum. No other party has independently verified or assumes any responsibility for such information, and none of the NMFA, the Department or the Remarketing Agents make any representation as to the accuracy, adequacy, or completeness of such information. The delivery of this Remarketing Memorandum shall not create any implication that there has been no change in the affairs of the Banks since the date hereof, or that the information contained or incorporated by reference in this section is correct as of any time subsequent to its date.

Wells Fargo

Wells Fargo is a national banking association organized under the laws of the United States of America with its main office at 101 North Phillips Avenue, Sioux Falls, South Dakota 57104, and engages in retail, commercial and corporate banking, real estate lending and trust and investment services. Wells Fargo is an indirect, wholly owned subsidiary of Wells Fargo & Company, a diversified financial services company, a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in San Francisco, California (“Wells Fargo & Company”).

Effective at 11:59 p.m. on December 31, 2008, Wells Fargo & Company acquired Wachovia Corporation and its subsidiaries in a stock-for-stock merger transaction. Information about this merger has been included in filings made by Wells Fargo & Company with the Securities and Exchange Commission (“SEC”). Copies of these filings are available free of charge on the SEC’s website at www.sec.gov. or by writing to Wells Fargo & Company’s Corporate Secretary at the address given below.

Each quarter, Wells Fargo files with the FDIC financial reports entitled “Consolidated Reports of Condition and Income for Insured Commercial Banks with Domestic and Foreign Offices,” commonly referred to as the “Call Reports.” Wells Fargo’s Call Reports are prepared in accordance with regulatory accounting principles, which may

differ from generally accepted accounting principles. The publicly available portions of the Call Reports contain the most recently filed quarterly reports of Wells Fargo, which include Wells Fargo's total consolidated assets, total domestic and foreign deposits, and total equity capital. These Call Reports, as well as the Call Reports filed by Wells Fargo with the FDIC after the date of this Remarketing Memorandum, may be obtained from the FDIC, Disclosure Group, Room F518, 550 17th Street, N.W., Washington, D.C. 20429 at prescribed rates, or from the FDIC on its Internet site at <http://www.fdic.gov>, or by writing to the Wells Fargo Corporate Secretary's Office, Wells Fargo Center, Sixth and Marquette, MAC N9305-173, Minneapolis, MN 55479.

The Wells Fargo Letter of Credit will be solely an obligation of Wells Fargo and will not be an obligation of, or otherwise guaranteed by, Wells Fargo & Company, and no assets of Wells Fargo & Company or any affiliate of Wells Fargo or Wells Fargo & Company will be pledged to the payment thereof. Payment of the Wells Fargo Letter of Credit will not be insured by the FDIC.

The information contained in this section, including financial information, relates to and has been obtained from Wells Fargo, and is furnished solely to provide limited introductory information regarding Wells Fargo and does not purport to be comprehensive. Any financial information provided in this section is qualified in its entirety by the detailed information appearing in the Call Reports referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of Wells Fargo since the date hereof.

Royal Bank

Royal Bank is a Schedule 1 bank under the *Bank Act* (Canada), which constitutes its charter and governs its operations. Royal Bank's corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada M5J2J5, and its head office is located at 1 Place Ville Marie, Montreal, Quebec, Canada H3C 3A9. Royal Bank is the parent company of RBC Capital Markets Corporation, the 2008D Remarketing Agent.

Royal Bank and its subsidiaries operate under the master brand name RBC. Royal Bank is Canada's largest bank as measured by assets and market capitalization and among the largest banks in the world based on market capitalization. Royal Bank is one of North America's leading diversified financial services companies and provides personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. Royal Bank and its subsidiaries employ approximately 77,000 full- and part-time employees who serve more than 18 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 52 other countries.

Royal Bank had, on a consolidated basis, as at April 30, 2010, total assets of C\$655 billion (approximately US \$645 billion*), shareholders' equity of C\$38 billion (Approximately US\$37 billion*), and total deposits of C\$398 billion (approximately US\$391 billion*). The foregoing figures were prepared in accordance with Canadian generally accepted accounting principles and have been extracted and derived from, and are qualified by reference to, Royal Bank's unaudited Interim Consolidated Financial Statements included in Royal Bank's Report to Shareholders for the fiscal period ended April 30, 2010.

The long-term senior unsecured debt of Royal Bank has been assigned ratings of AA-(positive outlook) by Standard & Poor's Ratings Services, Aaa (negative outlook) by Moody's Investors Service and AA (stable outlook) by Fitch Ratings. Royal Bank's common shares are listed on the Toronto Stock Exchange, the New York Stock Exchange and the Swiss Exchange under the trading symbol "RY." Its preferred shares are listed on the Toronto Stock Exchange.

Upon written request, and without charge, Royal Bank will provide a copy of its most recent publicly filed Annual Report on Form 40-F, which includes audited Consolidated Financial Statements, to any person to whom this Remarketing Memorandum is delivered. Requests for such copies should be directed to Investor Relations,

* As at April 30, 2010: C\$1.00 = US\$0.984

Royal Bank of Canada, by writing to 200 Bay Street, 4th Floor, North Tower, Toronto, Ontario M5J 2J5, Canada, or by calling (416) 955-7802, or by visiting www.rbc.com/investorrelations/.

The delivery of this Remarketing Memorandum shall not create any implication that there has been no change in the affairs of Royal Bank since the date hereof or that the information contained or referred to herein is correct as at any time subsequent to its date.

SPECIAL FACTORS RELATING TO THE SERIES 2008C/D BONDS

Each investor or prospective investor in the Series 2008C/D Bonds is encouraged to read this Remarketing Memorandum and to give particular attention to the factors described below which, among other conditions, could affect the payment of debt service on the Series 2008C/D Bonds and could affect the market price of the Series 2008C/D Bonds to an extent that cannot be determined at this time.

Risks Related to the Series 2008C/D Liquidity Facility Provider and the Series 2008C/D Liquidity Facility

Creditworthiness of the Series 2008C/D Liquidity Facility Provider. The short-term credit ratings of the Series 2008C/D Bonds under the Indenture are based on the delivery of the respective Series 2008C/D Liquidity Facility relating to such Series 2008C/D Bonds. Such ratings are based solely on the general credit of the respective Series 2008C/D Liquidity Facility Provider. Any downgrade in the ratings of the Series 2008C/D Liquidity Facility Provider may impact the interest rate of the related Series 2008C/D Bonds.

Each Series 2008C/D Liquidity Facility provides the Trustee with the liquidity support necessary to purchase the applicable Series 2008C/D Bonds deemed tendered for purchase as described in the related Series Indenture. If remarketing proceeds are not sufficient to provide funds sufficient to pay the purchase price of tendered Series 2008C/D Bonds, the Trustee is required to draw funds under the applicable Series 2008C/D Liquidity Facility. The ability of the respective Series 2008C/D Liquidity Facility Provider to honor such drawings may be adversely affected by its financial condition at the time of such draws. No assurance is given as to the current or future financial condition of any Series 2008C/D Liquidity Facility Provider or the financial condition of any entity with which the Series 2008C/D Liquidity Facility Provider may merge or by which it may be acquired. For more information about the Banks, the initial Series 2008C/D Liquidity Facility Provider, see “THE BANKS” herein. If a Series 2008C/D Liquidity Facility Provider becomes insolvent or otherwise becomes a debtor in bankruptcy, timely payment of the purchase price of related Series 2008C/D Bonds subject to tender for purchase would likely be impacted.

Inability to Obtain Substitute Series 2008C/D Liquidity Facility. Each Series 2008C/D Liquidity Facility expires on a particular date which is much earlier than the maturity dates of the related Series 2008C/D Bonds. See “INTRODUCTION—Letters of Credit.” No assurances can be given that the NMFA will be able to extend any Series 2008C/D Liquidity Facility or obtain a Substitute Series 2008C/D Liquidity Facility with respect to any series of Series 2008C/D Bonds upon the terms required by the respective Series Indenture until and including the final maturity dates of such Series 2008C/D Bonds or until the interest rate on such Series 2008C/D Bonds is converted to a rate which does not require liquidity support. Failure to extend a Series 2008C/D Liquidity Facility or obtain a Substitute Series 2008C/D Liquidity Facility will result in a mandatory purchase of the related Series 2008C/D Bonds prior to maturity at a price of par.

Increased Costs Associated with Bank Bonds. Pursuant to each Series 2008C/D Liquidity Facility, Bank Bonds will bear interest at a rate as set forth in the related Series 2008C/D Liquidity Facility. Those interest rates could be substantially higher than the variable rate that otherwise would apply to the calculation of interest on the Series 2008C/D Bonds and the requirement to retire such Bonds earlier than their scheduled maturity or redemption dates could adversely impact the NMFA’s ability to pay debt service on such Bonds and any increases in those interest rates will increase the amount of interest payable from Pledged Revenues under the Indenture and may affect the sufficiency to pay the Bonds. Payment of such interest on Bank Bonds will be on parity with the lien of the related Series 2008C/D Bonds which have been purchased.

Variable Rate Risk of Parity Bonds

Certain Bonds of the NMFA also bear a variable rate of interest and are secured by certain bank letters of credit. In the event that the banks providing such letters of credit are required to purchase any of the such Bonds, the interest rates such bonds bear as bank bonds and the requirement to retire such bonds earlier than their scheduled maturity or redemption dates could adversely impact the NMFA's ability to pay debt service on the Series 2008C/D Bonds.

Legislative Changes to Pledged Revenues

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

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

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

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

Uncertainties in Federal Funding

The Federal Revenues have historically been authorized under multiple-year authorizing legislation. Until the enactment of SAFETEA-LU on August 11, 2005, immediately prior legislative authorization was provided by the TEA-21, which went into effect on October 1, 1997 and expired on September 30, 2003. SAFETEA-LU originally extended the authorization of the Federal Aid Highway Program until September 30, 2009. As of the date of this Remarketing Memorandum, no multi-year reauthorization has occurred, although Congress has adopted legislation providing for an extension until December 31, 2010. Furthermore, 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. SAFETEA-LU included certain provisions designed to provide continuity in the flow of federal transportation funds to the states, including the State. There can be no assurance that such measures will be continued under any future federal reauthorization or that, if continued, such measures will be sufficient to ensure that Federal Revenues will be available as needed if in the future Congress amends existing laws or fails to reauthorize expired transportation legislation, or if future legislation or federal administrative action reduces the amount of Federal Revenues available to the Commission and the Department.

Discussion Regarding Federal Revenues. The Department and the FHWA have recently 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, including GRIP Transportation 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, during any year in which the FHWA Memorandum is in place, the Department has not exceeded \$122 million in debt service. 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, 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 make any representation regarding the amount or timeliness of payments from the FHWA.

In addition to issues of reauthorization and the timing of reimbursements, 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 Closed Lien Obligations, Senior Lien Bonds, and the Subordinate Lien Obligations, including the Series 2008C/D Bonds. The amount of federal funds available for projects is subject to authorization and periodic reauthorization by Congress, approval on an annual basis by the U.S. Secretary of Transportation and compliance with federal regulations. As such, the Department competes for such funds with other national transportation funding priorities. Federal law specifically provides that a state's eligibility for funds does not create a commitment or obligation on the part of the United States to provide for the payment of principal or interest on bonds. See "THE PLEDGED REVENUES—The Federal Aid Highway Program." 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 2008C/D Bonds are limited obligations of the NMFA and are payable as to principal and interest exclusively from the Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS." The ability of the NMFA, the Commission and the Department to realize Pledged Revenues in amounts sufficient to pay debt service on the Series 2008C/D Bonds and other obligations payable from the Pledged Revenues senior to, on a parity with or subordinate to the Series 2008C/D Bonds depends on numerous factors, many of which are not subject to the control of the NMFA, the Commission or the Department.

Subordinated Obligations

The Series 2008C/D Bonds will be payable from the Pledged Revenues, and the lien on a portion of the Pledged Revenues securing the Series 2008C/D Bonds will be subordinate to the lien on the portion of Pledged Revenues that secures the Outstanding Closed Lien Obligations. The lien on the Pledged Revenues securing the Series 2008C/D Bonds will also be subject and subordinate to the lien on the Pledged Revenues that secure the Outstanding Senior Lien Bonds. To this extent, the Series 2008C/D Bonds will be subject to prior payment of the Outstanding Closed Lien Obligations and the Outstanding Senior Lien Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008C/D BONDS—Outstanding Closed Lien Obligations" and "—Additional Senior Lien Bonds."

Additional Parity and Subordinate Obligations

Additional Senior Lien Bonds and other obligations may and are expected to be issued with a lien on the Pledged Revenues superior to the lien of the Outstanding Subordinate Lien Parity Obligations 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 2008C/D BONDS—Outstanding and Additional Senior Lien Bonds," "—Outstanding and Additional Subordinate Lien Obligations" and "—Subordinate Debt."

Tax Status of the Series 2008C/D Bonds

The opinion expressed by Special Tax Counsel at the time of initial issuance of the Series 2008C/D Bonds was based on then existing law. 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 change the tax status of the Series 2008C/D Bonds, or otherwise prevent owners from realizing the full benefit of the tax status of such Series 2008C/D Bonds.

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 2008C/D Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series 2008C/D Bonds, or bonds which present similar tax issues, will not affect the market price for Series 2008C/D Bonds. Prospective purchasers of the Series 2008C/D Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Special Tax Counsel expresses no opinion. Furthermore, the opinion of Special Tax Counsel spoke only as of the date of initial issuance of the Series 2008C/D Bonds and Special Counsel has not been asked to confirm or update its opinion and Special Tax Counsel has not undertaken to confirm or update its 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.

Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a “gasoline tax sharing agreement” with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed on June 23, 2004. Under that agreement the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provided for a similar “gasoline tax sharing agreement” with the other registered Native American wholesale distributor. An agreement with the second Native American wholesaler was executed on January 20, 2006. The gasoline tax sharing agreements provide stability and predictability to gasoline tax revenue. Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be eliminated at least until 2016 as a result of the gasoline tax sharing agreements.

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

INTEREST RATE SWAPS

The NMFA 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 NMFA 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 NMFA 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 NMFA</u>	<u>Floating Rate Payment by Counterparty</u>	<u>Termination Date</u>	<u>Mark-to-Market (as of 6/23/10)</u>
Royal Bank of Canada	\$100,000	Series 2008C	3.934%	68% of the 30-day LIBOR	6/15/24	\$(17,908,623)
Goldman Sachs Mitsui Marine Derivatives L.P.	50,000	Series 2008A-1	3.934	68% of the 30-day LIBOR	6/15/24	(8,954,312)
Deutsche Bank, AG	50,000	Series 2008A-2	3.934	68% of the 30-day LIBOR	6/15/24	(8,954,312)
JPMorgan Chase Bank	110,000	Series 2008B-1	4.732	SIFMA Index	12/15/26	(24,729,159)
UBS AG	110,000	Series 2008B-2	4.732	SIFMA Index	12/15/26	(24,729,159)

The Swap Agreements were entered into for the purpose of hedging the exposure of the NMFA against interest rate fluctuations arising from the variable rates borne by the 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 NMFA 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 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 NMFA on the Swap Agreements are Subordinate Lien Obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Subordinate Lien Obligations.

Each of the Swap Agreements provides that the NMFA 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 NMFA to the relevant counterparty or by the relevant counterparty to the NMFA, depending on prevailing economic circumstances at the time of termination. The amount of any such termination payment, while not currently ascertainable, could be substantial. Any such termination payments payable by the NMFA are payable from and secured by a lien on the Pledged Revenues subject and subordinate to the lien thereon of the Subordinate Lien Obligations and on a parity with any Junior Subordinate Lien Obligations.

Each of the Swap Agreements is subject to periodic “mark-to-market” valuations. If the mark-to-market valuation exceeds the limitations set in the Swap Agreement, federal securities may be required to be delivered by the NMFA or the relevant counterparty as collateral securing their respective obligations under the Swap Agreement. In December 2008, the NMFA borrowed \$30 million under a previous line of credit to satisfy a posting requirement pursuant to certain of the Swap Agreements and has since repaid such borrowing. On October 5, 2009, the NMFA posted \$300,000 from legally available moneys to satisfy a collateral call under its Swap Agreements. The NMFA has also executed the Taxable Line of Credit discussed herein to enable it to post collateral under the Swap Agreements in the event the need arises. The Swap Agreements were entered into under a debt policy memorandum of understanding entered into by the NMFA and the Commission. Under that policy memorandum of understanding, an advisor to the NMFA, the Commission and the Department marks the Swap Agreements to market monthly and a joint committee of the NMFA, the Commission and the Department regularly monitors the Swap Agreements.

The arrangements made with respect to the Swap Agreements do not alter the NMFA’s obligations to pay principal of or interest on the 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 it 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 NMFA may be exposed to increased interest rate risk.

As previously stated, if the NMFA issues the Contemplated Series 2010B Bonds, it plans to terminate the Swap Agreements. The NMFA plans to use a portion of the proceeds of the Contemplated Series 2010B Bonds to make the termination payments required under the Swap Agreements. As of the date of this Remarketing Memorandum, such termination payments would in the aggregate be equal to \$85,275,565. Although the NMFA may enter into additional swap agreements, it does not presently plan to do so.

DEBT SERVICE AND PROJECTED COVERAGE

The following table sets forth for each fiscal year from 2010 through 2027, the amounts in each such fiscal year of estimated Pledged Revenues, the estimated amounts required in each such year for debt service on the Outstanding Closed Lien Obligations, the Outstanding Senior Lien Parity Bonds, and the Outstanding Subordinate Lien Bonds and the projected debt service coverage ratios. Estimated Pledged Revenues are based on Department projections as of January 2010. Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE SERIES 2008C/D BONDS” and “FORWARD-LOOKING STATEMENTS.”

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DEBT SERVICE COVERAGE

FISCAL YEAR	PLEDGED REVENUES		DEBT SERVICE		COVERAGE		DEBT SERVICE		COVERAGE
	<u>State</u>	<u>Federal</u>	<u>Closed Lien</u>	<u>Senior Lien</u>	<u>State</u>	<u>Total</u>	<u>Subordinate Lien</u> ⁽¹⁾	<u>Total</u>	<u>Total</u>
2010	\$369,617,000	\$302,428,000	\$60,955,731	\$56,556,258	3.15x	5.72x	\$37,501,864	\$155,013,853	4.34x
2011	369,617,000	302,428,000	1,326,755	79,006,816	4.60x	8.37x	63,758,160	144,091,732	4.66x
2012	369,617,000	302,428,000	11,016,755	69,371,766	4.60x	8.36x	53,822,764	134,211,285	5.01x
2013	369,617,000	302,428,000	7,408,805	69,319,956	4.82x	8.76x	45,840,216	122,568,977	5.48x
2014	369,617,000	302,428,000	7,407,140	75,455,571	4.46x	8.11x	22,349,996	105,212,707	6.39x
2015	369,617,000	302,428,000	1,024,353	113,116,441	3.24x	5.89x	22,353,658	136,494,452	4.92x
2016	369,617,000	302,428,000	893,413	113,411,304	3.23x	5.88x	22,352,114	136,656,830	4.92x
2017	369,617,000	302,428,000	1,230,813	113,241,616	3.23x	5.87x	22,353,414	136,825,843	4.91x
2018	369,617,000	302,428,000	—	114,654,673	3.22x	5.86x	22,351,245	137,005,918	4.91x
2019	369,617,000	302,428,000	—	114,865,516	3.22x	5.85x	22,352,495	137,218,012	4.90x
2020	369,617,000	302,428,000	—	115,079,525	3.21x	5.84x	22,353,120	137,432,645	4.89x
2021	369,617,000	302,428,000	—	115,311,350	3.21x	5.83x	22,354,370	137,665,720	4.88x
2022	369,617,000	302,428,000	—	115,552,850	3.20x	5.82x	22,351,120	137,903,970	4.87x
2023	369,617,000	302,428,000	—	40,233,100	9.19x	16.70x	97,925,870	138,158,970	4.86x
2024	369,617,000	302,428,000	—	24,704,638	14.96x	27.20x	154,913,249	179,617,886	3.74x
2025	369,617,000	302,428,000	—	26,941,375	13.72x	24.94x	109,654,761	136,596,136	4.92x
2026	369,617,000	302,428,000	—	26,526,250	13.93x	25.34x	110,127,612	136,653,862	4.92x
2027	369,617,000	302,428,000	—	69,956,250	5.28x	9.61x	66,387,119	136,343,369	4.93x
TOTAL									

⁽¹⁾ Interest on the Series 2008A, Series 2008B and 2008C Bonds assumed at the associated swap rate. Interest on Series 2008D Bonds assumed at 2.00% per annum. Debt Service includes interest earnings on the Reserve Fund and release of Reserve Fund at maturity.
(Source: Financial Advisor.)

NEW MEXICO FINANCE AUTHORITY

General Information

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The NMFA was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is comprised of 12 members who also constitute the NMFA's board of directors and currently employs 39 persons, including a Chief Executive Officer. The Chief Executive Officer directs the business and affairs of the NMFA, subject to the policies, control and direction of the NMFA.

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

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- (a) to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance;
- (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 NMFA;
- (c) to accept, administer, hold and use all funds made available to the NMFA 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.

The NMFA has no authority to impose or collect taxes.

Organization and Governance

The NMFA is composed of 12 members who serve as the governing body of the NMFA. Seven of the members are ex officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a State higher educational institution. The remaining four appointed members must be residents of the State. The seven ex officio members with voting privileges include four cabinet-level secretaries, each of whom are appointed by the Governor and serve at the pleasure of the Governor (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), one is a State agency official (the State Investment Officer), and two are chief executive directors of State-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). The appointed members serve at the pleasure of the Governor and the appointed members serve four-year terms. Vacancies for the appointed members are filled by appointment of the Governor for the remainder of any unexpired term. Any appointed member is eligible for reappointment.

The governing body of the NMFA exercises and oversees the exercise of the powers of the NMFA. The governing body of the NMFA satisfies those responsibilities through monthly meetings and through the standing committees that the governing body has established. Those committees are advisory and have no authority to act on behalf of the governing body. Each committee reviews and makes recommendations to the governing body concerning matters assigned to it by the governing body.

The Executive Committee, which is chaired by the Chairman of the NMFA, Stephen R. Flance, provides oversight and direction relating to the operations of the NMFA. Other committees include the Audit Committee, chaired by Katherine B. Miller; the Finance/Loan Committee, chaired by Stephen R. Flance; the Economic Development Committee, chaired by Paul Gutierrez; the Investment Committee, chaired by Rhonda G. Faught; and the Contracts Committee, chaired by Lonnie Marquez. The committees typically meet monthly.

The governing body has also established written policies concerning the exercise of the powers of the NMFA, including the administration of the Public Project Revolving Fund. The written policies serve as ongoing directions to staff and consultants with respect to standards to be applied in the conduct of the business of the NMFA.

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Governing Body and Key Staff Members

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

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Ron Curry ⁽¹⁾ (Secretary)	Secretary, Environment Department, State of New Mexico	not applicable
Rhonda G. Faught ^{(2) (3)}	R. Faught & Associates, LLC, Former Secretary of the New Mexico Department of Transportation	01/01/12
Stephen R. Flance ^{(2) (3)} (Chairman)	Owner/CEO, The Flance Company Santa Fe, New Mexico	01/01/13
William F. Fulginiti ⁽¹⁾ (Vice-Chairman)	Executive Director, New Mexico Municipal League	not applicable
Paul Gutierrez ⁽¹⁾	Executive Director, New Mexico Association of Counties	not applicable
Steven K. Moise ⁽¹⁾	State Investment Officer, State Investment Council	not applicable
Lonnie Marquez ⁽²⁾	Vice President for Administration and Finance, New Mexico Institute of Mining and Technology	01/01/12
Katherine B. Miller ⁽¹⁾	Secretary, Department of Finance and Administration, State of New Mexico	not applicable
Fred Mondragon ⁽¹⁾	Secretary, Economic Development Department, State of New Mexico	not applicable
Jim Noel ⁽¹⁾	Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico	not applicable
Craig Reeves ⁽²⁾ (Treasurer)	President, First National Bank of New Mexico Clayton, New Mexico	01/01/12
Daniel P. Silva ^{(2) (3)}	Former State Representative Albuquerque, New Mexico	01/01/13

⁽¹⁾ Ex officio member with voting privileges. An ex officio member may designate an alternate member. Alternate members may attend meetings and vote on all matters considered by the NMFA. Ex officio members that are cabinet secretaries are appointed to their cabinet positions by the Governor of the State and serve in those capacities at the pleasure of the Governor.

⁽²⁾ Appointed by the Governor of the State and serves at the pleasure of the Governor.

⁽³⁾ Appointed by the Governor of the State, awaiting confirmation by the New Mexico State Senate during its next regular legislative session that is scheduled to commence in January, 2011, and will continue to serve until the expiration of such session if no confirmation is received. If the New Mexico State Senate confirms Messrs. Flance and Silva during its next session, the terms of such individuals will expire on January 1, 2013. If the Senate confirms Ms. Faught during its next session, her term will expire on January 1, 2012.

Presented below is certain information concerning key staff members of the NMFA involved in the issuance of the Series 2010A Bonds and the administration of the NMFA's financing programs.

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

John T. Duff, Chief Financial Officer. Mr. Duff joined the NMFA as Chief Investment Officer in February, 2006 and became Chief Operating Officer in 2007 where he served in that capacity until January, 2008 when he was appointed Chief Financial Officer. Mr. Duff has more than 22 years experience in investment management, financial management, and public accounting. He has held positions as COO and CFO of publicly held corporations and served as the Partner-In-Charge of an office of a major international CPA firm. Mr. Duff served as an investment consultant with two major investment firms. Mr. Duff has a Bachelor of Arts degree in Economics from Oberlin College and a Master of Business Administration in accounting and finance from Miami University.

Michael J. Zavelle, Chief of Investor Relations. Mr. Zavelle joined the NMFA in June 2009. Mr. Zavelle has an extensive and varied background in finance with public and private universities, a major cultural organization, and as a capital markets banker in Asia responsible for client relations and for loan and bond underwriting, syndication and private placement. He served as a VP/CFO for Fisk University, Brooklyn College/CUNY, and Baruch College/CUNY, as Vice Chancellor for Administration & Planning for City University of New York, as SVP and Chief Administrative Officer for The New York Public Library, and as a Managing Director with Chase Manhattan Asia Limited in Hong Kong and Tokyo. Mr. Zavelle has a Bachelor of Arts degree in Economics from Dartmouth College and a Master of Business Administration degree from Harvard University.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September, 2000. Ms. Russel has approximately 20 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than \$1 billion of transactions, ranging from \$5,000 microloans to \$175 million tax-exempt hospital bonds. Ms. Russel earned her Bachelor of Science degree from Marquette University, Milwaukee, Wisconsin.

Reynold E. Romero, General Counsel. Mr. Romero joined the NMFA in April, 2007 as General Counsel. Prior to joining the NMFA, Mr. Romero served as General Counsel for the New Mexico Department of Transportation (NMDOT) for over three years and previously served as Deputy General Counsel and Assistant General Counsel for NMDOT. Mr. Romero has over 28 years of legal practice in transportation law, including eminent domain, property law, and procurement. Mr. Romero handled complex litigation and was part of a team that negotiated complex transactions for the NMDOT such as the purchase of the rail line from BNSF for the commuter rail project in New Mexico. Mr. Romero received his Juris Doctorate from the University of Denver College of Law.

Legislative Oversight

The Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it, among other things: (i) meets on a regular basis to receive and review reports from the NMFA; (ii) monitors and provides assistance and advice on the public project financing program of the NMFA; (iii) oversees and monitors State and local government capital planning and financing; (iv) provides advice and assistance to the NMFA on planning, setting priorities for and financing of State and local capital projects; (v) undertakes an ongoing examination of the statutes, constitutional provisions, regulations and

court decisions governing State and local government capital financing in the State; and (vi) reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the “Legislature”), and makes available the report and proposed legislation.

The Public Project Revolving Fund Program

General. The Act created the Public Project Revolving Fund (the “PPRF”) program of the NMFA in 1992 to pay the reasonably necessary costs of originating and servicing loans, grants or securities funded by the PPRF and to make loans or grants and to purchase or sell securities to assist qualified entities in financing the acquisition, construction, improvement, alteration or reconstruction of assets of a long-term capital nature, including land; buildings; water rights; water, sewerage and waste disposal systems; streets; airports; municipal utilities; public recreation facilities; public transportation systems; parking facilities; and machinery, furniture and equipment. Public projects financed through the PPRF in amounts in excess of \$1 million per project require specific authorization by the Legislature. As of June 30, 2010, the NMFA had made 881 PPRF loans totaling in the aggregate approximately \$1.77 billion.

In addition, the NMFA has authorized an arrangement with Bank of America, N.A. (the “Short-term Lender”) for the Short-term Lender to provide to the NMFA an amount up to \$75,000,000 to reimburse the NMFA for loans made to eligible entities that are incurred prior to the issuance of PPRF bonds.

Other Programs and Projects

The NMFA also participates in or administers other programs designed to provide financing to local governmental entities and state agencies for public projects. Such programs are not secured by the Trust Estate but are secured by other sources of revenues. The following table sets forth the different types of programs and the amount of bonds outstanding under such programs.

<u>Program</u>	<u>Project</u>	<u>Original Principal Amount</u>	<u>Amount Outstanding as of July 1, 2010</u>	<u>Scheduled Final Maturity</u>
Worker’s Compensation	Administrative Building	\$4,310,000	\$2,080,000	9/1/2016
	University of New Mexico			
Cigarette Tax	Health Sciences Building	39,035,000	17,405,000	4/1/2019
Cigarette Tax	Behavioral Health Facilities	2,500,000	2,000,000	5/15/2026

(Source: NMFA.)

THE COMMISSION AND THE DEPARTMENT

The Commission

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

<u>Name</u>	<u>Title</u>	<u>Residence</u>	<u>Term Expires</u>
Johnny Cope	Chairperson	Hobbs	12/31/2012
Jim Franken	Vice-Chair	Las Vegas	12/31/2010
Doug Peterson	Secretary	Albuquerque	12/31/2010
Jackson Gibson	Member	Thoreau	12/31/2014
John Hummer	Member	Las Cruces	12/31/2012
Roman Maes III	Member	Santa Fe	12/31/2014

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

The Department

The Department is a Cabinet level department within the executive branch of the State's government. The Department is a multimodal transportation agency with emphasis on all modes of transportation and is implementing a bold and innovative approach to address the transportation needs of every New Mexican. The Department has successfully implemented park-and-ride services in central and northern New Mexico with future plans to provide similar services in southern New Mexico. In conjunction with local governmental agencies and tribal sovereign governments, the Department began providing 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. Gary Giron is currently serving as the Secretary.

The Department's finances are comprised of revenues from State and federal sources. In fiscal year 2008, 58% 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 42% 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, 2009, 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”). SAFETEA-LU, TEA-21 and ISTEA require states to develop these programs. STIPs are consistent with Long-Range Transportation Plans and provide a detailed outline of projects that are proposed for implementation in a time-frame of one to six years. The Department, with input from the State’s Metropolitan Planning Organizations and Regional Planning Organizations, prepares the STIP for the approval of the Commission. At the federal level, the STIP is reviewed by the FHWA, the Federal Transit Administration and the Environmental Protection Agency. See “THE PLEDGED REVENUES.”

The STIP lists all projects funded with federal funds for a period of at least four years. In New Mexico, the STIP is currently developed annually and covers a four-year period. The most recent four-year STIP covering federal fiscal years 2010 through 2013 was approved by the Commission. The STIP is subject to change on a quarterly basis. The four-year STIP represents \$1,183,631,167 of projects to be undertaken during federal fiscal years 2010 through 2013, 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, for the bonds issued to finance the GRIP Transportation Projects.

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

Discussion Regarding Federal Revenues. The Department and the FHWA have recently 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, including GRIP Transportation 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, during any year in which the FHWA Memorandum is in place, the Department has not exceeded \$122 million in debt service. 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, 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 make any representation regarding the amount or timeliness of payments from the FHWA.

LITIGATION

There is no litigation known to be pending or threatened to restrain or enjoin the remarketing of the Series 2008C/D Bonds, the 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 2008C/D Bonds or in any way contesting or affecting the validity or enforceability of the Series 2008C/D Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing.

REMARKETING AGENTS

General

Wells Fargo Securities has been appointed the Remarketing Agent for the Series 2008C Bonds and RBC Capital Markets Corporation has been appointed as the Remarketing Agent for the Series 2008D Bonds to perform the duties of a Remarketing Agent as required under the provisions of the Sixth Series Indenture pursuant to separate

but substantially similar Remarketing Agreements (the “Remarketing Agreements”) between each Remarketing Agent and the NMFA.

Subject to the terms and conditions set forth in the Remarketing Agreements, each Remarketing Agent has agreed to perform the duties of a Remarketing Agent under the Sixth Series Indenture and to use its best efforts in remarketing the respective Series of the Series 2008C/D Bonds. The Remarketing Agents may at any time resign and be discharged of the duties and obligations contemplated by the Sixth Series Indenture by giving at least thirty days’ notice to the NMFA, the Paying Agent and the Trustee. The Remarketing Agents may be removed by the NMFA at any time by a written notice of the NMFA filed with the respective Remarketing Agent, and the Trustee. Upon the resignation or removal of a Remarketing Agent, the NMFA may appoint a new Remarketing Agent by entering into a new Remarketing Agreement with a successor Remarketing Agent with the consent of the applicable Series 2008 Liquidity Facility Provider.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

The Remarketing Agents are Paid by the NMFA

The Remarketing Agents’ responsibilities include determining the interest rate from time to time and remarketing their respective Subseries of the Series 2008C/D Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the respective Remarketing Agreement), all as further described in this Remarketing Memorandum. The Remarketing Agents are appointed by the NMFA and are paid by the NMFA for their services. As a result, the interest of the Remarketing Agents may differ from those of existing holders and potential purchasers of Series 2008C/D Bonds.

The Remarketing Agents May Purchase Bonds for Their Own Account

The Remarketing Agents act as remarketing agent for a variety of variable rate demand obligations and, in their sole discretion, may purchase such obligations for their own account. The Remarketing Agents are permitted, but not obligated, to purchase tendered Series 2008C/D Bonds of their respective Series for their own account and, in their sole discretion, may acquire such tendered Series 2008C/D Bonds of their respective Series in order to achieve a successful remarketing of such Subseries (i.e., because there otherwise are not enough buyers to purchase such Subseries) or for other reasons. Each Remarketing Agent may in its discretion, but is not obligated to, tender any Series 2008C/D Bonds it has purchased for its own account to the Paying Agent. However, the Remarketing Agents are not obligated to purchase the Series 2008C/D Bonds of their respective Series, and may cease doing so at any time without notice. The Remarketing Agents may also make a market in their respective Series 2008C/D Bonds by purchasing and selling such Series other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agents may also sell any Series 2008C/D Bonds they have purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce their exposure to their respective Series 2008C/D Bonds. The purchase of the respective Series 2008C/D Bonds by the related Remarketing Agent may create the appearance that there is greater third-party demand for the respective Series 2008C/D Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008C/D Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date

Pursuant to the Remarketing Agreements, the Remarketing Agents are required to determine the applicable rate of interest that, in their judgment, is the lowest rate that would permit the sale of their respective Series 2008C/D Bonds bearing interest at the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the particular Series 2008C/D Bonds (including whether the related Remarketing Agent is willing to purchase the particular Series 2008C/D Bonds for its own account). There may or may not be Series 2008C/D Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agents may or may not be able to remarket the particular Series 2008C/D Bonds tendered for purchase on such date at par and the Remarketing Agents may sell their respective Series 2008C/D Bonds at varying prices to different investors on such date or any other date. A Remarketing Agent is not obligated to advise purchasers in a

remarketing if it does not have third-party buyers for all of the respective Series 2008C/D Bonds at the remarketing price. The Remarketing Agents, in their sole discretion, may offer their respective Series 2008C/D Bonds on any date, including an interest rate determination date, as a discount to par to some investors.

The Ability to Sell the Series 2008C/D Bonds other than through Tender Process May Be Limited

The Remarketing Agents may buy and sell their respective Series 2008C/D Bonds other than through the tender process. However, they are not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Series 2008C/D Bonds to do so through the Paying Agent with appropriate notice. Thus, investors who purchase Series 2008C/D Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2008C/D Bonds other than by tendering the Series 2008C/D Bonds in accordance with the tender process.

Under Certain Circumstances, a Remarketing Agent May Be Removed, Resign or Cease Remarketing its Respective Series 2008C/D Bonds, Without a Successor Being Named

Under certain circumstances the Remarketing Agents may be removed or have the ability to resign or cease their remarketing efforts, without a successor having been named, subject to the terms of the respective Remarketing Agreement. In the event there is no Remarketing Agent for the Series 2008C/D Bonds, the Trustee may assume such duties as described in the Indenture.

Affiliated Parties

Wells Fargo Bank, National Association is serving as both Remarketing Agent and Letter of Credit Provider for the Series 2008C Bonds. Royal Bank of Canada is providing the Letter of Credit for the Series 2008D Bonds and RBC Capital Markets Corporation is serving as Remarketing Agent for the Series 2008D Bonds.

TAX MATTERS

Federal Income Tax

At the time of initial issuance of the Series 2008C Bonds, Ballard Spahr LLP, Special Tax Counsel to the NMFA, rendered its opinion that based on an analysis of then existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2008C Bonds was excludable from gross income for federal income tax purposes and was not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest was included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

At the time of initial issuance of the Series 2008D Bonds, Ballard Spahr LLP, Special Tax Counsel to the NMFA, also rendered its opinion that interest on the Series 2008D Bonds was taxable as ordinary income for purposes of federal income tax.

Although Special Tax Counsel rendered its opinion that interest on the Series 2008C Bonds was excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008C Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008C Bonds.

State of New Mexico Income Tax

At the time of initial issuance of the Series 2008C/D Bonds, Special Tax Counsel rendered its opinion that under laws of the State of New Mexico as then enacted and construed, interest on the Series 2008C/D Bonds was excludable from net income of the owners thereof for State of New Mexico income tax purposes.

No Update or Confirmation

Special Tax Counsel has not been requested to confirm or update the opinion it rendered at the time of initial issuance of the Series 2008C/D Bonds and Special Tax Counsel has not undertaken to update or confirm its opinion since the date of initial issuance of the Series 2008C/D Bonds and such opinion speaks only as of its date.

Circular 230 Disclosure

The above discussion relating to the Series 2008D Bonds was written to support the promotion and marketing of the Series 2008D Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for purposes of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

LEGAL MATTERS

Sutin, Thayer & Browne A Professional Corporation, Albuquerque, New Mexico, has acted as Bond Counsel to the NMFA in connection with the remarketing of the Series 2008C/D Bonds. Ballard Spahr LLP, Salt Lake City, Utah, has acted as Disclosure Counsel to the NMFA and Virtue Najjar & Brown PC, Santa Fe, New Mexico, has acted as Issuer's Counsel to the NMFA in connection with the remarketing of the Series 2008C/D Bonds. The Department is being represented by its general counsel in connection with the remarketing of the Series 2008C/D Bonds. Certain legal matters will be passed upon for the Banks by Nixon Peabody LLP, New York, New York and for the Remarketing Agents by Hogan Lovells US LLP, Denver, Colorado. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA, the Commission or the Department contained in this Remarketing Memorandum.

FINANCIAL ADVISOR

Public Financial Management, Inc. is employed as Financial Advisor to the NMFA in connection with the remarketing of the Series 2008C/D 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 2008C/D 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, 2009, an extract from which is included as Appendix A to this Remarketing Memorandum, have been audited by Meyners & Company, LLC, certified public accountants, Albuquerque, New Mexico, as set forth in its report therein dated June 8, 2010. Such financial statements represent the most current audited financial information available for the Department. Meyners & Company, LLC has not been asked to consent to the use of its name and the audited financial reports for the Department in this Remarketing Memorandum.

FORWARD-LOOKING STATEMENTS

This Remarketing Memorandum contains statements relating to the NMFA's, the Commission's and the Department's future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Remarketing Memorandum, 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.

NO CONTINUING DISCLOSURE UNDERTAKING

Because the Series 2008C/D Bonds are currently issued in denominations of at least \$100,000 and are subject to tender for purchase at the option of the registered owners at least every nine months, the Series 2008C/D Bonds are currently exempt from the continuing disclosure requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (“Rule 15c2-12”). The NMFA has covenanted that it will enter into an undertaking that complies with Rule 15c2-12 in the event that any of the Series 2008C/D Bonds becomes subject to Rule 15c2-12.

RATINGS

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services (“S&P”) have assigned ratings of “Aaa/VMIG 1” and “AA-/A-1+,” respectively, to the Series 2008C Bonds with the understanding that the Wells Fargo Letter of Credit will be delivered simultaneously with the remarketing of the Series 2008C Bonds. An explanation of the significance of such ratings may be obtained from Moody’s at 99 Church Street, New York, New York 10007 and S&P at 55 Water Street, New York, New York 10041.

Moody’s and S&P have assigned ratings of “Aaa/VMIG 1” and “AA-/A-1+,” respectively, to the Series 2008D Bonds with the understanding that the Royal Bank Letter of Credit will be delivered simultaneously with the remarketing of the Series 2008D Bonds. An explanation of the significance of such ratings may be obtained from Moody’s at 99 Church Street, New York, New York 10007 and S&P at 55 Water Street, New York, New York 10041.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the Series 2008C/D 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 2008C/D Bonds may have an adverse effect on the market price of the Series 2008C/D Bonds. The Remarketing Agent has not undertaken any responsibility to bring to the attention of the owners of the Series 2008C/D Bonds any proposed revision or withdrawal of the ratings on the Series 2008C/D Bonds, or to oppose any such proposed revision or withdrawal.

ADDITIONAL INFORMATION

This Remarketing Memorandum 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.

Any statements in this Remarketing Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Remarketing Memorandum is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the Series 2008C/D Bonds.

APPROVAL BY THE NMFA

This Remarketing Memorandum has been deemed “final” under the meaning of the Rule and its distribution and use by the Remarketing Agents has been duly authorized and approved by the NMFA, and this Remarketing Memorandum has been executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Chief Financial Officer.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance
Stephen R. Flance
Chairman

By /s/ John T. Duff
John T. Duff
Chief Financial Officer

APPENDIX A
DEPARTMENT FINANCIAL INFORMATION

**NEW MEXICO
DEPARTMENT OF
TRANSPORTATION
Financial Statements
for the Year Ended
June 30, 2009,
and Independent
Auditors' Report**

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Official Roster

Year Ended June 30, 2009

Commission

Johnny Cope	Chairperson	Hobbs
Jim Franken	Vice-Chairperson	Las Vegas
Norman Assed	Secretary	Albuquerque
John Hummer	Member	Las Cruces
Roman Maes III	Member	Santa Fe
Jackson Gibson	Member	Thoreau

Administrative Officer

Gary Giron	Cabinet Secretary
Domingo Sanchez III	Deputy Secretary

INDEPENDENT AUDITORS' REPORT

Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparison for the Department as a whole and the aggregate remaining fund information of New Mexico Department of Transportation (Department) as of and for the year ended June 30, 2009, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental funds and the budget comparisons for each fund presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of the Department are intended to present the financial position, and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of



Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

New Mexico (State) that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the Department as a whole for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each non-major governmental fund of the Department as of June 30, 2009, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison for the Department as a whole referred to above presents fairly, in all material respects, the budget comparison of all the governmental funds and enterprise funds of the Department for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2010, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Commission
New Mexico Department of Transportation and
Mr. Hector H. Balderas
New Mexico State Auditor

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual financial statements and the budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the schedules listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Department. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Meyners + Company, LLC

June 8, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis Year Ended June 30, 2009

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, 2009. 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 33 of this audit report.

Financial Highlights

The Department's net assets declined by \$195,713,481, mainly due to depreciation and amortization expense of \$570,870,614. The net assets of the Department's governmental activities decreased by \$195,917,925 due to increases in contractual services, capital outlay and debt service expenditures related to GRIP Bond Projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) major governmental fund financial statements, and 3) notes to the financial statements. This report also contains other 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 Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

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

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 20 of this report.

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 balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Department has 44 governmental funds. Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria:

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

The Department's major governmental funds are the following:

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

General Fund Appropriations Fund - The General Fund Appropriations fund was created to separately account for the construction of infrastructure on behalf of other governments in annual legislative appropriations. This is funded through the transfer of funds from the State General Fund. This fund

Overview of the Financial Statements - continued

Fund Financial Statements – continued

reverts to the State General Fund upon completion of the appropriation project or upon expiration of the appropriation period.

ARRA Project Fund - The ARRA 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.

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 41 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 114 through 131.

Enterprise Funds

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

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

The basic proprietary fund financial statements can be found on pages 28 through 30 and the cash flows statement is on page 31 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 33.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial position. At June 30, 2009, the Department's assets exceeded liabilities by \$5,803,140,260.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Government-wide Financial Analysis - continued

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

Net Assets

As of June 30, 2009 and 2008, the Department has positive balances in two categories of net assets, both for the government fund financial statement as a whole, as well as for its separate categories - governmental and business-type activities. Table A-1 summarizes the Department's net assets for the fiscal years ended June 30, 2009 and 2008.

Table A-1
The Department's Net Assets

		Governmental Activities		Business-type Activities		Total	
		2009	2008	2009	2008	2009	2008
Assets:							
Current and other assets	\$	588,138,929	800,698,578	21,277,419	21,807,779	609,416,348	822,506,357
Capital assets and other		7,208,713,391	7,120,291,143	-	-	7,208,713,391	7,120,291,143
Total assets		7,796,852,320	7,920,989,721	21,277,419	21,807,779	7,818,129,739	7,942,797,500
Liabilities:							
Current liabilities		335,889,963	230,110,898	811,114	1,545,918	336,701,077	231,656,816
Long-term liabilities		1,678,288,402	1,709,765,776	-	-	1,678,288,402	1,709,765,776
Total liabilities		2,014,178,365	1,939,876,674	811,114	1,545,918	2,014,989,479	1,941,422,592
Net assets:							
Invested in capital assets, net of related debt and unspent bond proceeds		5,234,861,006	5,284,234,236	-	-	5,234,861,006	5,284,234,236
Restricted		547,812,949	696,878,811	20,466,305	20,261,861	568,279,254	717,140,672
Total net assets	\$	5,782,673,955	5,981,113,047	20,466,305	20,261,861	5,803,140,260	6,001,374,908

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Government-wide Financial Analysis – continued

Changes in Net Assets

Table A-2 provides a summary of the Department's operations for the years ended June 30, 2009 and 2008. Governmental activities decreased the Department's net assets by \$195,917,925 in 2009 and by \$115,604,224 in 2008. Business-type activities increased the Department's net assets by \$204,444 in 2009 and by \$760,530 in 2008 due to interest income earned during the year.

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

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Capital grants	\$ 402,823,566	305,469,842	-	-	402,823,566	305,469,842
Operating grants	-	75,933,653	-	-	-	75,933,653
Charges for services	38,434,473	13,549,696	-	-	38,434,473	13,549,696
General revenues:						
Taxes	388,743,110	419,976,392	-	-	388,743,110	419,976,392
Interest income	18,733,946	46,706,497	204,444	760,530	18,938,390	47,467,027
Gain (loss) on disposal of assets	(3,855,743)	(6,028)	-	-	(3,855,743)	(6,028)
Total revenues	844,879,352	861,630,052	204,444	760,530	845,083,796	862,390,582
Expenses:						
Depreciation & amortization	570,870,614	549,177,995	-	-	570,870,614	549,177,995
Programs and infrastructure	77,477,730	11,028,125	-	-	77,477,730	11,028,125
Transportation and Highway Operations	289,556,180	246,894,734	-	-	289,556,180	246,894,734
Program support	147,515,433	163,329,100	-	-	147,515,433	163,329,100
ARRA	634,638	-	-	-	634,638	-
Total expenses	1,086,024,595	970,429,954	-	-	1,086,024,595	970,429,954
Net revenues (loss) before transfers and reversions	(241,145,243)	(108,799,902)	204,444	760,530	(240,940,799)	(108,039,372)
Transfers and reversions	45,227,318	(6,804,322)	-	-	45,227,318	(6,804,322)
(Decrease) increase in net assets	(195,917,925)	(115,604,224)	204,444	760,530	(195,713,481)	(114,843,694)
Net assets, beginning of year	5,981,113,047	6,099,426,853	20,261,861	19,501,331	6,001,374,908	6,118,928,184
Restatements	(2,521,167)	(2,709,582)	-	-	(2,521,167)	(2,709,582)
Net assets, end of year	\$ 5,782,673,955	5,981,113,047	20,466,305	20,261,861	5,803,140,260	6,001,374,908

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Government-wide Financial Analysis - continued

The changes in net assets for the Department's major funds for 2009 are as follows:

State Road Fund	\$ (51,098,100)
ARRA Fund	(14,762,939)
General Fund Appropriations	<u>(71,713,487)</u>
Major funds, net change in assets	\$ <u>(137,574,526)</u>

Financial Analysis of the Government's Funds

Governmental Funds

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

At the end of the 2009 fiscal year, the Department's governmental funds reported combined ending fund balances of \$318,911,624, a decrease of \$339,641,014 from the prior year. Fund balance is reserved to indicate that it is not available for new spending because it has already been committed to provide for inventories, long-term assets and prepaid items and other reserved items of \$62,025,156.

Budgetary Highlights

The Department budgets are on a modified accrual basis and not all funds are budgeted. The Department made revisions to the original approved budget by \$375,392,363. Overall, these changes were caused by the following significant budget adjustments:

Transfer budget categories for bridge testing equipment	\$ 172,000
Budget available cash for WIPP/DOE for GRIP project Clines Corners to Lamy	16,000,000
Allocate federal grant funding for Rail Runner Express Operations & Maintenance	3,800,000
Allocate maintenance funds paid by BNSF and Amtrak for railroad repairs	2,500,000
Budget NHTSA Alcohol Countermeasure project funds	6,000,000
Budget DWI Indigent Device Fund to allow for payment to vendors	520,000
Budget Federal Transit Funds for operations in Grants and Services	1,600,000
Utilize WIP/DOE revenue from Acoma and Rubberized Asphalt for Acomita Interchange	12,521,000
Increased debt service costs for refunding done in April 2008	2,500,000
Transfer of costs to cover interest payments for the Line of Credit and unused amounts fees	2,000,000
Increase in GRIP project funds for Rail Runner Belen to Santa Fe	23,500,000

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Financial Analysis of the Government's Funds - continued

Budgetary Highlights - continued

Voluntary reduction in department level budget	\$40,164,615
Increase Interlock Device Fund	407,000
Increase Federal Traffic Safety Fund	280,000
Increase DWI Prevention Fund	80,900
Increase Traffic Safety Education & Enforcement	500,000
Increase Federal Economic Stimulus Package-ARRA	107,900,000
Increase Traffic Safety Education & Enforcement	500,000
Increase Federal Economic Stimulus Package-ARRA Transit	12,255,602
Transfer of funds from Indian Affairs Department for street lighting	328,000
Homeland Security reimbursement for flooding disaster areas statewide	34,743
Increase Mesa PDC-US 550 Warranty reimbursement	1,297,944
Increase Federal Economic Stimulus Package-ARRA-LED Lighting Project	2,500,000
Increase Federal Economic Stimulus Package-ARRA	<u>138,030,559</u>
	\$ <u>375,392,363</u>

Capital Assets Overview

The Department's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$7,168,146,950 (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.

Fiscal Year 2008-2009 Active Projects with a contract amount of \$10 million or more:

- I-40/San Mateo Interchange - Bernalillo County
- I-40/West Interchange - Bernalillo County
- I-40, MP 173.730 to MP 177.177 - Bernalillo County
- I-40, MP 54.000 to MP 58.000 - McKinley County
- US 491, MP 59.000 to MP 67.700 - San Juan County

Capital Assets Overview - continued

Major Infrastructure Projects - continued

Fiscal Year 2008-2009 Active Projects with a contract amount of \$10 million or more - continued:

I-40/San Mateo Interchange - Bernalillo County
I-40/West Interchange - Bernalillo County
I-40, MP 173.730 to MP 177.177 - Bernalillo County
I-40, MP 54.000 to MP 58.000 - McKinley County
US 491, MP 59.000 to MP 67.700 - San Juan County
I-40, MP 126.244 to MP 130.760 - Cibola County
I-40, Interchange at MP 102.000 - Cibola County
US 62/180, MP 0.240 to MP 16.250 - Eddy County
US 62/180, MP 16.250 to MP 25.980 - Eddy County
US 64/87, MP 390.332 to MP 400.000 - Union County
NM 26, MP 25.900 to MP 45.300 - Luna County
NM 128, MP 38.810 to MP 48.990 - Lea County
NM 128, MP 24.700 to MP 38.810 - Lea County
I-40, MP 124.000 to MP 133.700 - Dona Ana County
NM 83, MP 0.200 to MP 12.900 - Lea County
US 84/285, MP 184.910 to MP 186.180 - Santa Fe County
US 285, MP 250.000 to MP 280.000 - Torrance, San Miguel, Santa Fe Counties
I-25, MP 220.500 to MP 222.860 - Bernalillo County
US 550, MP 64.780 to MP 115.300 - Sandoval, Rio Arriba, San Juan Counties

Equipment

For fiscal year 2009, the Equipment modified accrual basis budget total was approximately \$11.9 million. Of this budget, approximately \$6.4 million was fully expended at June 30, 2009. 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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Capital Assets Overview - continued

Table A-3
Department's Capital Assets

	<u>2009</u>	<u>2008</u>
Land	\$ 5,076,633	5,076,633
Construction in Process	19,637,755	-
Right of way	463,768,765	377,725,494
Infrastructure	15,268,403,662	15,172,765,450
Equipment and furniture	30,039,203	31,472,967
Library	102,614	102,614
Buildings	42,006,106	40,005,443
Vehicles	187,263,628	192,015,322
Accumulated depreciation	<u>(8,848,151,416)</u>	<u>(8,743,765,971)</u>
Total	\$ <u>7,168,146,950</u>	<u>7,075,397,952</u>

Additional information on the Department's capital assets can be found in Note 9 of this report.

Debt Administration

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

At June 30, 2009, the Department had a total outstanding debt (bonds) of \$1,687,175,000. Outstanding bond debt is backed by the Department's state tax revenues and FHWA revenues.

Table A-4
Department's Outstanding Debt

	<u>2009</u>	<u>2008</u>
Bonds (excludes deferred amount on refunding)	\$ <u>1,687,175,000</u>	<u>1,761,675,000</u>

The Department's total bond debt decreased by 4.2%, or \$74,500,000. Total outstanding bond debt at the end of the fiscal year was \$1,687,175,000 compared to \$1,761,675,000 at the end of the 2008 fiscal year. Key factors affecting the Department's outstanding bonds during the current fiscal year included bond principal repayments totaling \$74,500,000. See Note 11 for a detail of all outstanding bonds.

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

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. The population of the State as of July 1, 2009 was 2,009,671. In the 1990s, the State was the twelfth fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent. Most of this population growth is occurring in or near the larger cities. There are four Metropolitan Statistical Areas (MSA) 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 and Santa Fe.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing and mining. In 2006, the value of energy resources production (crude petroleum, natural gas and coal) was approximately \$15.6 billion. Total value of energy and other mineral production was \$17.0 billion. The mining industry employed about 21,000 New Mexicans in 2008 and represented 15.6% of the states's GDP. 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. The amount of FHWA revenue (obligation authority) available to all states has slightly increased as a result of the passage of the new 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 and \$372.5 million in FY2009. This compares to previous amounts of \$278.9 million in FY2002, \$263.2 million in FY2003, and \$243.5 million in FY2004. The reauthorization bill provides "apportionment" amounts, but the real spending amount (the "obligation limitation") is determined by the appropriation levels in each year's federal budget bill.

Federal Transit Administration Funds: NMDOT reported revenue of \$25,155,197 in FY 2009 Federal Transit Administration grant funds.

National Highway Traffic Safety Administration Funds: NMDOT reported revenue of \$18,895,855 in FY 2009 of National Highway Traffic Safety Administration grant funds.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis - Year Ended June 30, 2009 - continued

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

Federal Revenue - continued:

DOE Revenue: The Department of Energy will continue to provide New Mexico with more than \$20 million per year through FY2011 pursuant to an agreement in connection with the Waste Isolation Pilot Project in Carlsbad, New Mexico. The amount of this revenue budgeted for debt service was \$20.7 million in FY2004, \$21.1 million in FY2005, \$19.8 million in FY2006, \$15.7 million in FY2007, \$14.7 million in FY2008 and \$15.9 million in FY2009.

ARRA Revenue: NMDOT reported \$699,965 revenue of \$699,965 of FY2009 ARRA funds passed through from the New Mexico Energy, Mineral and Natural Resources Department. NMDOT also reported \$16,901,789 revenue of FY2009 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 have not been exempted from the current recession. However, there is sufficient diversity of type that not all are being impacted to the same extent. State Road Fund revenues are about half and half passenger car to trucking activity. Those associated with passenger cars (gasoline and registrations) have been virtually flat while trucking (special fuel and weight/distance) revenues, influenced by economic recession activity, has been impacted negatively by almost 20%. The resultant total state road fund revenue curve characterizing this recession is 7 years (FY 2007 to FY 2014) from peak to trough to return to peak levels. The low point is about 12% down in FY 2010 with the expected climb-out to last 4 years.

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 strong economy, added almost \$100 million annually (36%) from FY 2003 to FY 2007 to the State Road Fund.

State Revenue Forecasts – Major Revenue Sources

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 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.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue Forecasts – Major Revenue Sources - continued

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 and 2009, these revenues declined \$13.2 and \$18.9 million. These four revenue sources constitute 94% of the state road fund. These revenues were consistent with the forecasts for the periods and did add the expected \$60 million for GRIP and maintenance. 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 and FY 2009.

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 \$108.0 million in revenue in FY 2009. 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, plateaued from 1995 to 1999, and decreased to 2001, when they plateaued again. 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 not very large changes.

Of much interest and frequent query is how the gasoline usage (gallons) has fared during the large price fluctuations in 2008 and in light of the economic slowdown. While being watched carefully, for New Mexico, there has been, surprisingly, little, to no change in gasoline usage.

Special fuels are the second largest of the state's revenue sources, providing \$85.6 million in FY 2009, down from \$101.5 in FY 2008. The tax per gallon was raised from 18 to 21 cents per gallon effective FY 2005. Of the 21 cents, the Department receives 19 cents, with the remainder going to local governments. With the increase, special fuels have grown by \$27.0 million, or 36%, from FY 2004 to FY 2008. Special fuels, over time, have been strongly growing revenue with an average annual compound growth rate of 5.2% from 1988 to 2008.

The current recession, because of the lack of consumer goods purchases and, hence, movement, has led to a fairly steep decline in freight for all sources including air, ship, rail and truck. For all these types that decline from peak has been in range of 20%. Trucking, and its associated fuel usage, experienced its strong contraction beginning in December 2009 with a new low plateau for the remainder of FY 2009. This step-down for the last half of the fiscal year manifested itself in the reduced full year revenue.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

State Revenue Forecasts – Major Revenue Sources - continued

Weight/Distance tax is charged on trucks over 26,000 pounds and varies by load carried and distance traveled in New Mexico. It is the third largest revenue producer, with \$80.0 million in revenue in FY 2009, down slightly from \$77.4 million in FY 2008. Its rates, too, were raised in the fall 2003 special session. Prior to the increases, revenues averaged \$50 million. From FY 2004, an additional \$25.9 million, or 50% in revenue is received annually. (It should be noted that a “bump” increase occurred in 2007 because of an accounting time period changes.)

Motor vehicle registration fees are the fourth largest revenue at \$72.2 million in FY 2009. These fees were raised also and have represented an increase of \$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 above.

State Revenue Forecasts - Procedure Changes Impact

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 was charged on trucks in lieu of the weight/distance 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. New federal regulations now prevent states from requiring the showing of the cards. Trip tax rose to a peak of \$8.6 million in FY 2006 and provided revenues of \$5.8 million in FY 2009. Recent New Mexico investments in enforcement and optical scanning computer truck identification interface with the weight/distance tax data base are expected to increase truck related revenues.

The New Mexico Public Regulation Commission used to collect 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 centralized 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 once the system is in place and up and running. Because of delays in getting the system up and running, revenue for FY 2007 came in at \$377,000, \$866,000 for FY 2008, and \$2.3 million in FY 2009. As the system improves over time, it is hoped that the cap maximum will be reached.

Economic Factors and Revenue Forecasts - continued

Revenue Forecasts and Budgets - continued

Background - Gasoline Tax and Tribal Tax Sharing Agreements

The state permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. The growth in tribal market share has out-paced the overall growth rate of gasoline in recent years as a result of competitive pricing, casino traffic, and development of new tribal travel centers. Currently the tribal sales have been stabilized to slowly growing.

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 sales activities outside reservation boundaries. The result of these agreements (entered into on January 1, 2004 and July 1, 2004) should be a small revenue gain for the state and significantly more predictable gasoline revenues.

Contacting the Agency's Financial Management

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

Attn: Deputy Comptroller
New Mexico Department of Transportation
1120 Cerrillos Road
P.O. Box 1149
Santa Fe, New Mexico 87504-1149
(505) 827-5340

FINANCIAL STATEMENTS

DEPARTMENT OF TRANSPORTATION
Statement of Net Assets

AS OF JUNE 30, 2009

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
CURRENT ASSETS:			
Cash (Note 2):			
Unrestricted	2,600	-	2,600
Restricted	228,570,025	-	228,570,025
Cash equivalents (Note 2):			
(Investment in state general fund investment pool)			
Unrestricted	35,205,112	-	35,205,112
Restricted	131,677,225	8,458,560	140,135,785
Receivables:			
Taxes receivable, net	61,939,382	-	61,939,382
Accounts receivable, net (Note 3)	11,899,692	-	11,899,692
Interest receivable	734,562	447,114	1,181,676
Notes and loans receivable (Note 5)	18,143	12,177,853	12,195,996
Other receivables	183,397	-	183,397
U.S. Department of Transportation (Note 6)	65,132,121	-	65,132,121
Due from other state agencies (Note 27)	21,300,598	1,452	21,302,050
Due from other funds (Note 7)	(192,440)	192,440	-
Capitalized issuance costs	798,948	-	798,948
Inventories (Note 8)	16,361,029	-	16,361,029
Prepaid expense - NM44 warranty	3,189,030	-	3,189,030
Prepaid expense - risk management	1,374,036	-	1,374,036
Prepaid expense - other	352,618	-	352,618
Property held for resale, net	9,592,851	-	9,592,851
TOTAL CURRENT ASSETS	588,138,929	21,277,419	609,416,348
NON-CURRENT ASSETS:			
Capitalized issuance costs, net	7,684,195	-	7,684,195
Prepaid expense - NM44 warranty, net	32,882,246	-	32,882,246
Capital assets, net (Note 9)	7,168,146,950	-	7,168,146,950
TOTAL NON-CURRENT ASSETS	7,208,713,391	-	7,208,713,391
TOTAL ASSETS	7,796,852,320	21,277,419	7,818,129,739

DEPARTMENT OF TRANSPORTATION
Statement of Net Assets-continued

AS OF JUNE 30, 2009

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable and contracts payable, including retainage of \$6,937,970	93,277,796	573,038	93,850,834
Due to other agencies (Note 26)	82,849,908	-	82,849,908
Due to state general fund	1,867,782	-	1,867,782
Payable to other governments	2,903,424	238,076	3,141,500
Accrued payroll, taxes and withholdings	5,611,635	-	5,611,635
Accrued interest	3,401,336	-	3,401,336
Deferred revenue	32,202,634	-	32,202,634
Short term note payable (taxable line of credit) (Note 11)	10,000,000	-	10,000,000
Other liabilities	17,610,644	-	17,610,644
Current portion of long-term obligations:			
Compensated absences (Note 11)	2,850,370	-	2,850,370
Debentures payable (Note 11)	78,295,000	-	78,295,000
Capitalized bond premium	5,019,434	-	5,019,434
TOTAL CURRENT LIABILITIES	335,889,963	811,114	336,701,077
LONG-TERM LIABILITIES:			
Long-term obligations:			
Tax-exempt line of credit (Note 11)	40,028,625	-	40,028,625
Compensated absences (Note 11)	4,707,348	-	4,707,348
Debentures payable (Note 11)	1,586,175,336	-	1,586,175,336
Capitalized bond premium, net	47,377,093	-	47,377,093
TOTAL LONG-TERM LIABILITIES:	1,678,288,402	-	1,678,288,402
TOTAL LIABILITIES	2,014,178,365	811,114	2,014,989,479
NET ASSETS:			
Invested in capital assets, net of any related debt and unspent debt proceeds	5,234,861,006	-	5,234,861,006
Restricted for:			
Loans	-	20,466,305	20,466,305
Specific purposes	547,812,949	-	547,812,949
TOTAL NET ASSETS	5,782,673,955	20,466,305	5,803,140,260
TOTAL LIABILITIES AND NET ASSETS	7,796,852,320	21,277,419	7,818,129,739

DEPARTMENT OF TRANSPORTATION

Statement of Activities

YEAR ENDED JUNE 30, 2009

	Governmental Activities	Business-type Activities (State Infrastructure Bank)	Total
PROGRAM EXPENSES:			
Programs and infrastructure	77,447,730	-	77,447,730
Transportation and highway operations	289,556,180	-	289,556,180
Program support	147,515,433	-	147,515,433
ARRA	634,638	-	634,638
Depreciation and amortization	570,870,614	-	570,870,614
TOTAL PROGRAM EXPENSES	1,086,024,595	-	1,086,024,595
PROGRAM REVENUES:			
Charges for services	38,434,473	-	38,434,473
Operating grants	-	-	-
Capital grants	402,823,566	-	402,823,566
TOTAL PROGRAM REVENUES	441,258,039	-	441,258,039
NET PROGRAM (EXPENSE) REVENUE	(644,766,556)	-	(644,766,556)
GENERAL REVENUES (EXPENSE):			
User and fuel taxes	388,743,110	-	388,743,110
Interest income	18,733,946	204,444	18,938,390
Loss on disposal of assets	(3,855,743)	-	(3,855,743)
TOTAL GENERAL (EXPENSE) REVENUE	403,621,313	204,444	403,825,757
TRANSFERS:			
Reversions to state general fund (Note 12)	(3,098,918)	-	(3,098,918)
Transfers from – severance tax bond appropriation (Note 10)	53,383,093	-	53,383,093
Transfers from (to) other state agencies and local governments, net (Note 10)	(5,056,857)	-	(5,056,857)
TOTAL TRANSFERS	45,227,318	-	45,227,318
NET GENERAL REVENUES AND TRANSFERS	448,848,631	204,444	449,053,075
CHANGE IN NET ASSETS/OPERATING INCOME	(195,917,925)	204,444	(195,713,481)
NET ASSETS, BEGINNING OF FISCAL YEAR	5,981,113,047	20,261,861	6,001,374,908
RESTATEMENT (Note 25)	(2,521,167)	-	(2,521,167)
RESTATED NET ASSETS, BEGINNING OF FISCAL YEAR	5,978,591,880	20,261,861	5,998,853,741
NET ASSETS, END OF FISCAL YEAR	5,782,673,955	20,466,305	5,803,140,260

DEPARTMENT OF TRANSPORTATION
Balance Sheet – Governmental Funds

AS OF JUNE 30, 2009

	Major Funds			Other	Total
	State Road Fund	General Fund Appropriations	ARRA Project Fund	Governmental	Governmental
ASSETS:					
Cash:					
Unrestricted	2,600	-	-	-	2,600
Restricted	76,096	-	-	228,493,929	228,570,025
Cash Equivalents:					
(Investment in state general fund investment pool)					
Unrestricted	3,258,633	-	-	31,946,479	35,205,112
Restricted	39,222,633	75,029,774	13,540	17,411,278	131,677,225
Receivables:					
Taxes receivable, net	57,565,490	-	-	4,373,892	61,939,382
Accounts receivable, net	11,899,127	-	-	565	11,899,692
Interest receivable	195,582	-	-	538,980	734,562
Notes and loans receivable	18,143	-	-	-	18,143
Other receivables	177,086	-	-	6,311	183,397
Due from:					
Other State agencies	46,011	1,280,750	199,965	19,773,872	21,300,598
Other funds	68,237,760	114,495	419,000	9,469,889	78,241,144
U.S. Department of Transportation	38,961,599	-	16,482,790	9,687,732	65,132,121
Inventories	16,361,029	-	-	-	16,361,029
Prepaid expenses - other	352,618	-	-	-	352,618
Prepaid expenses – risk management	-	-	-	1,374,036	1,374,036
Prepaid expense - NM44 warranty	36,071,276	-	-	-	36,071,276
Property held for resale	9,592,851	-	-	-	9,592,851
TOTAL ASSETS	282,038,534	76,425,019	17,115,295	323,076,963	698,655,811
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	33,281,378	7,172,460	16,480,657	36,343,301	93,277,796
Due to other funds	72,764,088	384,268	634,638	4,650,590	78,433,584
Due to other agencies	30,765,671	-	-	52,084,237	82,849,908
Due to state general fund	13,240	1,854,542	-	-	1,867,782
Payable to other governments	-	1,401,547	-	1,501,877	2,903,424
Deferred revenue	70,313,865	-	14,762,939	2,112,610	87,189,414
Other accrued expenses	5,580,199	-	-	31,436	5,611,635
Short-term notes payable (taxable line of credit)	-	-	-	10,000,000	10,000,000
Other payables	14,933,333	179,799	-	2,497,512	17,610,644
TOTAL LIABILITIES	227,651,774	10,992,616	31,878,234	109,221,563	379,744,187
FUND BALANCES:					
Reserved for:					
Inventories	16,361,029	-	-	-	16,361,029
Prepaid expenses	36,071,276	-	-	-	36,071,276
Property held for resale	9,592,851	-	-	-	9,592,851
Unreserved, designated					
Special revenue funds	-	65,432,403	(14,762,939)	148,831,383	199,500,847
Capital projects funds	-	-	-	9,576,014	9,576,014
Debt service funds	-	-	-	55,448,003	55,448,003
Unreserved	(7,638,396)	-	-	-	(7,638,396)
TOTAL FUND BALANCES	54,386,760	65,432,403	(14,762,939)	213,855,400	318,911,624
TOTAL LIABILITIES AND FUND BALANCES	282,038,534	76,425,019	17,115,295	323,076,963	698,655,811

DEPARTMENT OF TRANSPORTATION

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

AS OF JUNE 30, 2009

Total Fund Balances - Governmental Funds	318,911,624
(Governmental Fund Balance Sheet)	

Amounts reported for governmental activities in the Statement of
Net Assets 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	87,189,414	
Statement of net assets	<u>(32,202,634)</u>	
Change in deferred revenue		54,986,780

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

The cost of capital assets is	16,016,298,366	
Accumulated depreciation is	<u>(8,848,151,416)</u>	
Total capital assets		7,168,146,950

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

Long-term notes payable (tax-exempt line of credit)	(40,028,625)	
Debentures payable (bonds only)	(1,687,175,000)	
Deferred loss on refunding (net of current period amortization)	22,704,664	
Compensated absences	(7,557,718)	

Accrued interest on long-term obligations not recorded by the governmental funds until paid:	(3,401,336)
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Capitalized issuance costs not recorded in the governmental funds as an asset, net of amortization:	8,483,143
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Capitalized bond premiums not recorded in the governmental funds as a liability, net of amortization:	<u>(52,396,527)</u>
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Net assets of governmental activities (Statement of Net Assets)	<u><u>5,782,673,955</u></u>
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DEPARTMENT OF TRANSPORTATION

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

FOR THE YEAR ENDED JUNE 30, 2009

	State Road Fund	General Fund Appropriations	ARRA Project Fund	Other Governmental	Total Governmental
REVENUES:					
User and fuel taxes	362,863,142	-	-	25,879,968	388,743,110
U.S. Department of Transportation	302,428,024	-	1,719,850	46,746,619	350,894,493
U.S. Department of Energy	32,747,299	-	-	-	32,747,299
Fees and fines	-	-	-	72,519	72,519
Licenses and permits	6,635,795	-	-	2,155,941	8,791,736
Charges for services	2,685,603	-	-	-	2,685,603
DWI interlock device	-	-	-	553,787	553,787
Other revenue	26,330,814	-	-	14	26,330,828
Interest earnings	547,074	-	-	18,186,872	18,733,946
TOTAL REVENUES	734,237,751	-	1,719,850	93,595,720	829,553,321
EXPENDITURES:					
Current:					
Operating costs	12,689,645	-	-	425	12,690,070
Personal services	100,514,822	-	-	1,255,085	101,769,907
Out-of-state travel	131,658	-	-	31,912	163,570
Grants and services	5,795,406	-	-	68,579,731	74,375,137
Travel	16,839,052	-	-	5,045	16,844,097
Maintenance and repairs	8,494,777	-	-	34,509	8,529,286
Supplies	35,649,019	-	-	4,653,192	40,302,211
Contractual services	7,702,152	44,397,774	-	28,957,686	81,057,612
Other costs	18,484,962	10,633,086	634,638	379,932	30,132,618
Employee benefits	57,988,644	-	-	445,171	58,433,815
Capital outlay	346,625,985	13,981,595	16,967,116	281,864,226	659,438,922
Debt Service:					
Principal	-	-	-	74,500,000	74,500,000
Interest and other charges	-	-	-	72,960,649	72,960,649
Swap interest	-	-	-	17,940,843	17,940,843
Trustee and broker fees	2,000	-	-	5,309,541	5,311,541
Debt refunding costs	-	-	-	-	-
Debt issuance costs	-	-	-	-	-
TOTAL EXPENDITURES	610,918,122	69,012,455	17,601,754	556,917,947	1,254,450,278
EXCESS (DEFICIENCY) OF REVENUES					
OVER (UNDER) EXPENDITURES	123,319,629	(69,012,455)	(15,881,904)	(463,322,227)	(424,896,957)
OTHER FINANCING SOURCES (USES):					
Appropriations, net of reversions	-	(3,098,918)	-	-	(3,098,918)
Proceeds from LT notes payable	-	-	-	40,028,625	40,028,625
Transfers from – Severance Tax Bond	-	-	-	-	-
Appropriation	-	-	-	53,383,093	53,383,093
Transfers from (to) other agencies	(6,454,708)	397,886	699,965	300,000	(5,056,857)
Transfers	(167,963,021)	-	419,000	167,544,021	-
TOTAL OTHER FINANCING SOURCES (USES)	(174,417,729)	(2,701,032)	1,118,965	261,255,739	85,255,943
NET CHANGES IN FUND BALANCES	(51,098,100)	(71,713,487)	(14,762,939)	(202,066,488)	(339,641,014)
FUND BALANCES, June 30, 2008	105,484,860	137,145,890	-	418,443,055	661,073,805
RESTATEMENT (Note 25)	-	-	-	(2,521,167)	(2,521,167)
RESTATED FUND BALANCES, June 30, 2008	105,484,860	137,145,890	-	415,921,888	658,552,638
FUND BALANCES, June 30, 2009	54,386,760	65,432,403	(14,762,939)	213,855,400	318,911,624

DEPARTMENT OF TRANSPORTATION

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

YEAR ENDED JUNE 30, 2009

Net Changes in Fund Balances - Total Governmental Funds	(339,641,014)
(Statement of Revenues, Expenditures, and Changes in Fund Balances)	

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

Amounts recorded as deferred revenue in the Balance Sheet-Governmental funds that were not received within the period of availability - 60 days after year end; recorded as revenue in the Statement of Activities:	19,181,774
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In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) - are measured by the amounts earned during the year, however, expenditures for these items in the Statement of Revenues, Expenditures and Fund Balances 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:	(172,252)
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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 capitalized and that cost is depreciated over their estimated useful lives. In the current period these amounts were:

Capital assets activity reported in the Statement of Revenue, Expenditures and Changes in Fund Balances:	
Capital outlay	659,438,922
Capital assets activity reported in the Statement of Activities:	
Depreciation expense	(562,834,181)
Sale of capital asset, net book value	<u>(3,855,743)</u>
Excess of depreciation expense over capital outlay	92,748,998

Repayment of debentures recorded as a principal expenditure in the Statement of Revenues, Expenditures and Changes in Fund Balances recorded as a reduction in long-term debentures payable in the Statement of Net Assets:	74,500,000
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Amortization of deferred loss on refunding, recorded as a reduction of long-term liabilities in the Statement of Net Assets:	(8,164,564)
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Amortization of bond premiums recorded as a reduction of interest expense in the Statement of Activities. The liability balance of \$52,396,527 is recorded in the Statement of Net Assets.	1,314,749
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Long-term note payable (tax-exempt line of credit) proceeds of \$40,028,625 reported as other financing sources in the Statement of Revenues, Expenditures and Changes in Fund Balances, and recorded as a liability in the Statement of Net Assets.	(40,028,625)
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Amortization of bond issuance costs recorded as other costs in the Statement of Revenues, Expenditures and Changes in Fund Balances, and recorded as a reduction in an asset of \$8,483,143, in the Statement of Net Assets.	(1,186,618)
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Net change in accrued interest on long-term debt recorded in the Statement of Net Assets	<u>5,529,627</u>
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Change in net assets of governmental activities (Statement of Activities)	<u><u>(195,917,925)</u></u>
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DEPARTMENT OF TRANSPORTATION
Statement of Net Assets-Business-type Activities-Enterprise Fund

AS OF JUNE 30, 2009

ASSETS:	State Infrastructure Bank
	<hr/>
CURRENT ASSETS:	
Cash equivalents (Note 2):	
Unrestricted	\$ -
Restricted	-
Cash equivalents (Note 2):	
(Investment in state general fund investment pool)	
Unrestricted	-
Restricted	8,458,560
Receivables:	
Due from other funds	627,503
Due from other state agencies	1,452
Interest receivable	447,114
Notes and loans receivable (Note 5)	<hr/> 12,177,853
TOTAL CURRENT ASSETS	<hr/> 21,712,482
TOTAL ASSETS	\$ <hr/> <hr/> 21,712,482

DEPARTMENT OF TRANSPORTATION
Statement of Net Assets-Business-type Activities-Enterprise Fund-continued

AS OF JUNE 30, 2009

LIABILITIES:	State Infrastructure Bank
	<hr/>
CURRENT LIABILITIES:	
Accounts payable and contracts payable	573,038
Due to other funds	435,063
Due to other state agencies	-
Due to other governments	<hr/> 238,076
TOTAL CURRENT LIABILITIES	<hr/> 1,246,177
TOTAL LIABILITIES	\$ <hr/> <hr/> 1,246,177
NET ASSETS:	
Restricted for:	
Loans	\$ <hr/> 20,466,305
TOTAL NET ASSETS	\$ <hr/> <hr/> 20,466,305
TOTAL LIABILITIES AND NET ASSETS	\$ <hr/> <hr/> 21,712,482

DEPARTMENT OF TRANSPORTATION
Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Funds

YEAR ENDED JUNE 30, 2009

	State Infrastructure Bank
	<hr/>
GENERAL REVENUES:	
Interest income	<hr/> 204,444
TOTAL GENERAL REVENUES (EXPENSES)	<hr/> 204,444
CHANGE IN NET ASSETS/OPERATING INCOME	204,444
NET ASSETS, BEGINNING OF FISCAL YEAR	<hr/> 20,261,861
NET ASSETS, END OF FISCAL YEAR	\$ <hr/> <hr/> 20,466,305

DEPARTMENT OF TRANSPORTATION
Statement of Cash Flows-Business-type Activities-Enterprise Fund

YEAR ENDED JUNE 30, 2009

	State Infrastructure Bank
	<hr/>
Cash flows provided from operating activities:	\$ (793,603)
Cash flows from financing activities:	
Loans issued	(5,101,280)
Loans repaid	325,676
Net increase in cash and cash equivalents	<hr/> (5,569,207)
Cash and cash equivalents at June 30, 2008	14,027,767
Cash and cash equivalents at June 30, 2009	\$ <hr/> <hr/> 8,458,560
Reconciliation of operating income to net cash provided from operating activities:	
Operating income	204,444
Adjustment to reconcile operating income to net cash by operating activities:	
Increase in interest receivable	(157,292)
Increase from due from other funds	(627,503)
Decrease from due from other agency	86,488
Decrease in accounts payable	(354,433)
Increase in due to local governments	<hr/> 54,693
Cash flows provided by operating activities:	\$ <hr/> <hr/> (793,603)

DEPARTMENT OF TRANSPORTATION
Statement of Revenues and Expenditures-Budget and Actual
(Modified Accrual Basis)

YEAR ENDED JUNE 30, 2009

DEPARTMENT OF TRANSPORTATION				
agency wide including enterprise fund excluding multi-year funds				
	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Modified Accrual)	Over (Under)
REVENUES:				
Federal funds	\$ 358,681,800	634,898,504	383,641,792	(251,256,712)
Other state funds, inc. Line of Credit	646,687,000	640,225,144	467,206,208	(173,018,936)
State General Fund	2,928,000	2,928,000	-	(2,928,000)
Inter-Agency Transfers	300,000	7,628,000	4,481,385	(3,146,615)
Interest Revenue	2,916,000	2,717,700	18,938,390	16,220,690
TOTAL REVENUES	1,011,512,800	1,288,397,348	874,267,775	414,129,573
PRIOR YEAR FUNDS REBUDGETED				
	347,544,678	592,732,487		
	\$ 1,359,057,478	1,881,129,835		
EXPENDITURES - current and capital outlay:				
Programs and Infrastructure				
Personal Services/Employee Benefits	28,821,900	29,337,800	29,843,919	(506,119)
Contractual Services	363,637,150	817,846,830	403,164,834	414,681,996
Other	488,422,886	521,219,087	257,120,284	264,098,803
Transfers (In) Out	-	(1,721,000)	7,360,118	(9,081,118)
	880,881,936	1,366,682,717	697,489,155	669,193,562
Transportation and Highway Ops:				
Personal Services/Employee Benefits	103,892,400	115,523,559	102,732,038	12,791,521
Contractual Services	51,895,000	59,387,547	3,352,156	56,035,391
Other	101,783,900	116,431,770	96,942,505	19,489,265
Transfers (In) Out	-	-	-	-
	257,571,300	291,342,876	203,026,699	88,316,177
Business/Program Support				
Personal Services/Employee Benefits	27,664,880	27,664,800	27,627,765	37,035
Contractual Services	6,557,100	6,557,100	4,886,892	1,670,208
Other	208,352,156	208,352,156	194,858,152	13,494,004
Transfers In (Out)	(21,969,814)	(19,469,814)	9,243,177	(28,712,991)
	220,604,242	223,104,242	236,615,986	(13,511,744)
TOTAL ANNUAL BUDGETED EXPENDITURES	1,359,057,478	1,881,129,835	1,137,131,840	743,997,995

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

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. Effective July 1, 2003, GASB 39, *Determining Whether Certain Organizations are Component Units*, expands the criteria of component units. GASB 39 has no impact on the Department and the Department has no blended or discretely presented component units during the year ended June 30, 2009.

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 Assets 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. All other income, if any, would be non-operating income to the SIB.

- **Basis of Presentation**

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific department function of building and maintaining the State's road system (public works). Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a department. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements for public works. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Department does not allocate general government expenses to other functions except for depreciation (in direct) (Note 9).

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Basis of Presentation - continued**

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 (Fund #20100). The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Section 67-3-59 NMSA establishes that this is a non-reverting fund. This is a special revenue 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 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 special revenue fund.

ARRA Project Fund (Fund #89000). The ARRA 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.

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

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

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

A proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The SIB has elected to not apply FASB pronouncements issued after the applicable date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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, 2009, has been reported only in the government-wide financial statements.
- Interest and principal payments on general long-term obligations is recognized as expenditures when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

- **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 collectibility 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The following are the governmental fund types used:

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The State Road Fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Resources are generated primarily from user and fuel taxes and federal grants. Expenditures are incurred to build and improve the transportation system within the State of New Mexico. These funds do not receive state general fund appropriations that are subject to reversion.

Local Government Road Fund (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.

Traffic Safety Fund (Fund #20800). This fund is authorized by the Commission to account for federal grant monies and state matching monies received for various traffic safety programs. 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

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.

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.

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.

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.

Bond Project Fund (1993 Bonds) (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.

Bond Project Fund (1998 & 1999 CHAT) (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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Bond Project Fund (1998 & 1999 CHAT) (Fund #43000) - continued.

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.

Bond Project Fund (2000 CHAT) (Fund #34500). The bond project fund was created due to the issuance of the May 2000 \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

Bond Project Fund (2001 CHAT) (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.

Bond Project Fund (2002A CHAT) (Fund #36800). The bond project fund was created due to the issuance of the January 2002 \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Bond Project Fund (2002C HIF) (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.

Bond Project Fund (2002D CHAT) (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.

Bond Project Fund 2004A GRIP (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.

Bond Project Fund 2006A (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.

Bond Project Fund 2006B (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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Special Revenue Funds – continued

Bond Project Fund 2006C (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.

Bond Project Fund 2006D (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.

Severance Tax Bond Appropriations Fund (Fund #10060). The Severance Tax Bond fund was created to separately account for the construction of infrastructure on behalf of other governments 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.

LOC Project Fund (Fund #10450). The 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.

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

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service requirements are met through the 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.

Debt Service - WIPP Bonds (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.

Debt Service - 1998 CHAT Bonds (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.

Debt Service – 1999A CHAT Bonds (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.

Debt Service - 2000 CHAT Bonds (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.

Debt Service - 2001 CHAT Bonds (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.

Debt Service - 2002A CHAT Bonds (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.

Debt Service - 2002B WIPP Bonds (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.

Debt Service - 2002C HIF Bonds (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.

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

Debt Service - 2002D CHAT Bonds (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.

Debt Service Fund - 2004A GRIP (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.

Debt Service Fund - 2004B/C GRIP (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.

Debt Service Fund - 2006A (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.

Debt Service Fund - 2006B (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.

Debt Service Fund - 2006C (Fund #10260). The fund was created when the \$220,000,000 New Mexico State Highway Commission Revenue Bonds Series 2006C were issued in September 2006. This series was refunded by the 2008C Refunding Revenue Bonds.

Debt Service Fund - 2006D (Fund #10280). The fund was created when the \$50,400,000 New Mexico State Highway Commission Revenue Bonds Series 2006D were issued in September 2006. This series was refunded by the 2008D Refunding Revenue Bonds.

Debt Service Fund - 2008A (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.

Debt Service Fund - 2008B (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**

Debt Service Fund – 2008C (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.

Debt Service Fund – 2008D (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.

Capital Project Improvements Fund (Fund #10050) The Capital Project Improvements 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. All governmental funds are accounted for using the modified accrual basis of accounting.

• Budgets and Budgetary Accounting

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, “For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, 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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Budgets and Budgetary Accounting - continued**

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 10) in the governmental fund financial statements.

- **Restricted Cash and Cash Equivalents**

The funds deposited in the debt service funds are restricted to pay future principal and interest payments due under the \$50,000,000 Series 1993 Highway Bonds, the \$105,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (CHAT Bonds), the \$100,000,000 Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (WIPP Bonds), the \$100,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 (CHAT Bonds), the \$201,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A (CHAT Bonds), the \$198,800,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A (CHAT Bonds), the \$95,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A (CHAT Bonds), the \$79,920,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002B (WIPP Bonds), the \$67,750,000 Highway Infrastructure Fund Revenue Highway Bonds, Series 2002C (HIF Bonds), and the \$16,000,000 Senior Subordinate Tax Revenue Highway Bonds, Series 2002D (CHAT Bonds), the \$700,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2004A (GRIP Bonds), the \$237,950,000 Subordinate Lien Tax Revenue Highway Bonds, Series 2004B (GRIP Bonds), the \$150,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2006A (GRIP Bonds), the \$40,085,000 Subordinate Lien Tax Revenue Highway Bonds, Series 2006B (GRIP Bonds), the \$115,200,000 Subordinate Lien Tax Refunding Bonds, Series 2008A (GRIP Bonds), the \$220,000,000 Subordinate Lien Tax Refunding Bonds, Series 2008B (GRIP Bonds), the \$84,800,000 Subordinate Lien Tax Refunding Bonds, Series 2008C (GRIP Bonds), the \$50,400,000 Subordinate Lien Tax Refunding Bonds, Series 2008D (GRIP Bonds). The remaining balance of the proceeds from the sale of the debentures, bonds and the NMFA loan are also classified as restricted cash because 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **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.

- **Accounts Receivable**

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

Notes receivable represent:

- Funds advanced to various state and local agencies to promote van-pooling activities within the state. The Federal Highway Administration (FHWA) provides matching funds (90%) for the purchase of vehicles by various not-for-profit van pooling organizations.
- The funds advanced to such organizations are payable to the Department and are designated for future vehicle purchases.
- Notes issued to individuals displaced by purchases of right of way properties. The funds loaned to such individuals are provided in part by FHWA funds per FHWA guidelines.

Loans receivable represent:

Loans to other governmental entities made by the State Infrastructure Bank. Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding, except when a loan has been past due for 90 days. All loans are to governmental entities 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, 2009. 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).

Notes to Financial Statements - continued

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).

- **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 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 by the fund balance reserve, which indicates that it does not constitute “available spendable resources” (Note 8) even though they are a component of current assets.

- **Prepaid Expense - 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 2009 the unamortized value was \$27,075,080. The structures, which originally cost \$15,916,345 is being amortized over 11 1/2 years. At the end of fiscal year 2009 the unamortized value was \$8,996,196. The remaining amount, which originally cost \$13,564,126, is fully amortized and has no value at the end of fiscal year 2009.

- **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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• Capital Assets

Capital assets, which include property, plant, equipment, software in the equipment category, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, streets, tunnels and similar infrastructure items), are reported in the governmental activities columns in the government-wide financial statements. The Department has no internally developed software that requires capitalization. As a result of House Bill 1074, effective date June 17, 2005, 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 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 9 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

- **Deferred Revenue**

Deferred revenue occurs when the Department receives funds before the corresponding expense or expenditure has been incurred, or all of the eligibility requirements have been met. The Department has received funds in advance 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, 2009, and includes direct and incremental salary related payments, such as the employees' share of social security taxes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Long-Term Obligations**

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

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

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

- **Net Assets**

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

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

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

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

- **Encumbrances**

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end with the exception of the Capital Projects Fund. Encumbrances outstanding in this fund at year-end are reported as reservations of fund balance on the balance sheets (in the fund financial statement) and do not constitute expenditures or liabilities because the commitment will be honored during the subsequent year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Encumbrances - continued**

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

- **Reservations**

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

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

Property Held for Resale - This reserve was created to represent the portion of fund balance that is not available for expenditures because the Department holds them in other assets.

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

- **Designated Fund Balance**

The Department established a designation for assets held in fund balances representing items that have not yet been utilized for their established purposes. Specific designations of fund balance accounts are summarized below:

Special Revenue Funds - This designation was created to represent fund balances for projects or special appropriations that have not been started in the governmental fund financial statements.

Capital Project Funds - This designation was created to represent fund balances for projects or special appropriations that have not been started in the governmental fund financial statements.

Debt Service Funds - This designation was created to represent fund balances for the use in satisfying future debt payments.

- **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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Eliminations**

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

2. CASH AND CASH EQUIVALENTS

Cash funds, other than petty cash, are deposited by the Department into its accounts with the State Treasurer, which are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Money of the Department may be deposited with the State Treasurer for a short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico, or any political subdivision of the State and other investments allowed by state law. Petty cash funds are deposited with various financial institutions and are fully insured. Some of the cash held by the trustee for the NMFA loan proceeds is also invested in a money market mutual fund that invests in short-term U.S. Treasury securities. The reconciled balances at June 30, 2009, are as follows:

	SHARE Account Number	Amount	Cash Reported in Due to Other Agencies
Unrestricted:			
Driver Improvement Fund	10020	483,736	
State Road Fund	20100/10040/78800/ 78900/82000	(27,507,038)	
Local Government Road Fund	20300	18,031,983	
State Aviation Fund	20500	4,534,933	
Motorcycle Training Fund	20600	309,007	
DWI Prevention and Education	20700	1,168,464	
Traffic Safety Fund	20800/10020/82600	7,418,356	
Federal Planning and Development	10030	(4,079,569)	
Total Unrestricted Cash		359,872	
add back: negative cash reported in Due to Other Agencies			<u>34,845,240</u>
Total Unrestricted Cash Equivalents reported in Statement of Net Assets		35,205,112	
Unrestricted Petty Cash		<u>2,600</u>	
Total Unrestricted Cash and Cash Equivalents reported in Statement of Net Assets		<u><u>35,207,712</u></u>	

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

2. CASH AND CASH EQUIVALENTS - continued

	SHARE Account Number	Amount
Restricted:		
2001A CHAT Bond Project Fund	00600	8,535,823
2001A CHAT Debt Service	00700	232,893
Capital Projects Fund	10050	2,097,161
Severance Tax Appropriations Fund	10060	(15,915,241)
Gen Fund Multi-Year Projects	10070	75,029,774
2006A GRIP Bond Project Fund	10210	(6,487,953)
2006C GRIP Bond Project Fund	10250	(9,587,697)
LOC Project Fund	10450	(8,455,198)
2002D CHAT Bond Project Fund	11500	777,176
2002D CHAT Debt Service	18700	12,763
Road Fund	20200/43100	39,222,633
2004A GRIP Bond Project Fund	20400	(3,807,715)
2000A CHAT Bond Project Fund	34500	(1,886,711)
2002C HIF Bond Project Fund	36100	1,299,309
2002C HIF Debt Service Fund	36300	62,004
2002A CHAT Bond Project Fund	36800	(1,864,153)
1993 Bond Project Fund	39400	1,588,854
1999A CHAT Bond Project Fund	43000	2,110,088
2000 CHAT Debt Service	43200	203,343
1999 CHAT Debt Service	43400	142,550
2002A CHAT Debt Service	54700	83,269
1998A CHAT Debt Service	54800	141,073
2002B WIPP Debt Service	75000	110,515
ARRA Fund	89000	13,540
State Infrastructure Bank	89300	8,458,560
1998A WIPP Debt Service	97200	14,457
Total Restricted Cash Equivalents		92,131,117
add back: negative cash reported in Due to Other Agencies		48,004,668
Total Restricted Cash Equivalents reported in Statement of Net Assets		140,135,785
Other authorized bank accounts - Wells Fargo		11,064
Bond proceeds invested in Money Market Mutual Funds at Bank of Albuquerque and Wells Fargo		228,558,961
Total Restricted Cash reported in Statement of Net Assets		228,570,025
Total Restricted Cash and Cash Equivalents reported in Statement of Net Assets		368,705,810
Total Due to Other Agencies reported in Statement of Net Assets (Note 26)		82,849,908

2. CASH AND CASH EQUIVALENTS - continued

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, 2009.

Bond proceeds are invested in money market mutual funds at the Bank of Albuquerque	\$ <u>228,558,961</u>
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Money market funds are managed by New Mexico Finance Authority (fiscal agent) and held by State Treasurer authorized bank accounts at Bank of Albuquerque as trustee and paying agent 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.

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.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

3. ACCOUNTS RECEIVABLE

The aging of accounts receivable as of June 30, 2009, is as follows:

Number of Days Outstanding

0 - 30	\$ 7,220,792
31 - 60	4,669
61 - 120	7,133,531
Beyond 120	<u>20,328</u>
	14,379,320
Allowance for uncollectible accounts	<u>(2,479,628)</u>
	\$ <u>11,899,692</u>

4. SEVERANCE TAX BOND PROCEEDS RECEIVABLE

Severance tax bonds proceeds available as of June 30, 2009, appropriated to the Department, were held by the State Board of Finance to reimburse future expenditures incurred by the Department. The activity of this account is as follows:

Balance, beginning of year	\$ 94,177,346
Sale and reauthorization of severance tax bonds	103,579,030
Funding from the State Board of Finance	(49,215,698)
Reversion to the State Board of Finance	<u>(516,298)</u>
Balance, end of year	\$ <u>148,024,380</u>

The funding for the year ended June 30, 2009 was received under the Laws of 2000, Chapter 23 and Laws of 2002, Chapter 110; Laws of 2003, Chapter 429; Laws of 2004, Chapter 126; Laws of 2005, Chapter 347; Laws of 2006, Chapter 111; Laws of 2007, Chapter 42; Laws of 2008 Chapter 9 and 92 ; Laws of 2009, Chapter 5, for projects completed.

Receivable at year end (Note 27)	\$ <u>17,096,690</u>
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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

5. NOTES AND LOANS RECEIVABLE

Notes receivable as of June 30, 2009 consist of the following:

A note receivable from a private entity, non-interest bearing, in accordance with federal statutes, collateralized by various property.	\$ <u>18,143</u>
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Loans receivable funded by the SIB consist of the following:

City of Albuquerque, including interest at 1.5%, due during the 2009 federal fiscal year, secured by federal highway revenue.	\$ 641,087
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City of Rio Rancho, including interest at 1.5%, due during the 2009 federal fiscal year, secured by federal highway revenue.	-
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County of Bernalillo, including interest at 1.5%, due during the 2009 federal fiscal year, secured by federal highway revenue.	3,897,062
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Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA), including interest at 1.5%, due during the 2009 federal fiscal year, secured by federal highway revenue.	<u>7,639,704</u>
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	\$ <u>12,177,853</u>
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6. DUE FROM U.S. DEPARTMENT OF TRANSPORTATION

Due from U.S. Department of Transportation (USDOT) consists of the following at June 30, 2009:

Agency

Federal Highway Administration	\$ 49,973,568
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Less allowance for uncollectible amounts	<u>(11,011,969)</u>
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Total Federal Highway Administration	38,961,599
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Other USDOT Agencies	<u>26,170,522</u>
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Total USDOT	\$ <u>65,132,121</u>
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Subsequent to June 30, 2008, portions of the Federal Highway Administration unbilled portion of \$46,788,820 was billed and the amounts were collected by the Department. Management determined that the balance relating to payroll expenditures outstanding at year end and during 2009 was not collectible and, therefore, an allowance was established in June 30, 2008 and June 30, 2009. During the 2010 fiscal year, the Department obtained permission to bill prior years payroll on a case by case basis. Consequently, management has determined that an additional allowance will not be necessary, since it is currently determined to be reasonably collectible.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

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, 2009 consist of the following:

	Fund Number	Due From Other Funds	Due to Other Funds	Net (Sub-totals only)
Special Revenue Funds:				
Bond Project Fund - CHAT 2001A	00600	-	87,120	
	10010,			
Traffic Safety Fund	208, 826	7,140	2,209,422	
Driver Improvement Program Fund	10020	67,920	-	
Federal Mass Transit Fund	10030	58,266	-	
Sev. Tax Multiyear Capital Project	10060	-	-	
Gen. Fund Multiyear Capital Project	10070	114,495	384,268	
Bond Project Fund - GRIP 2006A	10210	230,271	870,000	
Bond Project Fund - GRIP 2006C	10250	-	-	
Bond Project Fund - CHAT 2002D	11500	-	142,904	
	10040,			
	20100,			
	20200,			
State Road Fund	43100	68,237,760	72,764,088	
Local Government Road Fund	20300	32,803	-	
Bond Project Fund - GRIP 2004A	20400	670,000	316,177	
State Aviation Fund	20500	781,005	1,017,901	
DWI Prevention & Education Fund	20700	-	7,066	
Bond Project Fund - CHAT 2000A	34500	-	-	
Bond Project Fund - CHAT 2002A	36800	-	-	
Bond Project Fund - 1993 Bonds:	39400	-	-	
Bond Project Fund - CHAT 1999A	43000	-	-	
Rubberized Asphalt Fund	82000	-	-	
ARRA Project Fund	89000	419,000	634,638	
Total Special Revenue Funds		70,618,660	78,433,584	(7,814,924)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

7. DUE FROM AND DUE TO OTHER FUNDS-continued

	Due From Other Funds	Due to Other Funds	Net (Sub-totals only)
Debt Service Funds:			
Debt Service Funds – 2004A GRIP	-	-	
Debt Service Funds – 2004B GRIP	-	-	
Debt Service Funds – 2006A GRIP	-	-	
Debt Service Funds – 2006B GRIP	-	-	
Debt Service Funds – 2006C GRIP	-	-	
Debt Service Funds – 2006D GRIP	-	-	
Debt Service Funds – 2008A GRIP	-	-	
Debt Service Funds – 2008B GRIP	-	-	
Debt Service Funds – 2008C GRIP	-	-	
Debt Service Funds – 2008D GRIP	-	-	
Debt Service Funds – WIPP 1998	-	-	
Total Debt Service Funds	-	-	-
Capital Projects Funds:			
Capital Projects (CIP) Fund	7,622,484	-	
Total Capital Projects Funds	7,622,484	-	7,622,484
Enterprise Funds:			
State Infrastructure Fund	627,503	435,063	
Total Enterprise Funds	627,503	435,063	192,440
Total interfund receivables and payables	78,868,647	78,868,647	-
Summary			
Total Special Revenue Funds - net due to			(7,814,924)
Total Debt Service Funds			-
Total Capital Projects Funds – net due from			7,622,484
Total Governmental – net due to			(192,440)
Total Enterprise Funds – net due from			192,440
Total all funds			-

8. INVENTORY

Inventory as of June 30, 2009 consists of the following:

Highway maintenance materials stockpiled	\$	9,533,985
Repair Parts and expendable supplies		6,064,644
Fuel, oil and lubricants		762,400
	\$	<u>16,361,029</u>

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

9. CAPITAL ASSETS

A summary of changes in capital assets for fiscal year ended June 30, 2009 follows:

	Beginning Balance July 1, 2008	Additions	Reclassifications/ Deletions	Ending Balance June 30, 2009
Non-depreciable assets:				
Construction in Progress		509,635,564	(489,997,809)	19,637,755
Rail System Infrastructure -				
Right of Way	\$ 71,957,100	5,295,000	-	77,252,100
Land	5,076,633	-	-	5,076,633
Right of Way	377,725,494	-	8,791,171	386,516,665
Total non-depreciable assets	454,759,227	514,930,564	(481,206,638)	488,483,153
Depreciable assets:				
Infrastructure	14,992,717,515	86,305,709	(121,740,650)	14,957,282,574
Vehicles	192,015,322	5,108,737	(9,860,431)	187,263,628
Rail System Infrastructure	108,090,835	48,961,823	154,068,430	311,121,088
Buildings	40,005,443	2,802,124	(801,461)	42,006,106
Equipment and furniture	31,472,967	1,329,965	(2,763,729)	30,039,203
Library	102,614	-	-	102,614
Total depreciable assets	15,364,404,696	144,508,358	18,902,159	15,527,815,213
Total assets	15,819,163,923	659,438,922	(462,304,479)	16,016,298,366
Less Accumulated Depreciation:				
Infrastructure	(8,562,316,519)	(540,665,716)	448,880,936	(8,654,101,299)
Vehicles	(124,229,694)	(10,366,844)	6,824,911	(127,771,627)
Rail System Infrastructure	(8,647,267)	(9,240,298)	-	(17,887,565)
Buildings	(23,904,533)	(733,111)	13,270	(24,624,374)
Equipment and furniture	(24,565,344)	(1,828,212)	2,729,619	(23,663,937)
Library	(102,614)	-	-	(102,614)
Total Accumulated Depreciation	(8,743,765,971)	(562,834,181)	458,448,736	(8,848,151,416)
Net Total	7,075,397,952	96,604,741	(3,855,743)	7,168,146,950
There were no software costs to capitalize as of year-end. Depreciation and amortization was allocated to the following functions:				
Programs and infrastructure				540,665,716
Transportation and highway operations				9,240,298
Program support				12,928,167
				562,834,181
Program support (amortization of defeased debt and issuance costs)				8,036,433
Total				570,870,614

10. OPERATING TRANSFERS

	Funds 201/202/431/10140/10150	Fund 89000	Fund 10070	Fund 82600	Fund 10060	Fund 10030
	State	ARRA	General Fund	DWI Ignition	STB	Federal Planning
	Road	Project Fund	Appropriations	Interlock	Appropriations	And Development
	Fund					Fund
(1)	\$ (162,402,789)	-	-	-	-	-
(2)	-	-	-	-	-	-
(3)	-	-	-	-	-	-
(4)	-	-	-	-	-	-
(5)	-	-	-	-	-	-
(6)	-	-	-	-	-	-
(7)	1,525,935	-	-	-	-	(1,525,935)
(8)	(419,000)	419,000	-	-	-	-
(9)	(6,667,167)	-	-	-	-	-
	(167,963,021)	419,000				(1,525,935)

Transfers to other state agencies

(10)	(6,873,708)	-	-	-	-	-
(11)	419,000	-	-	-	-	-
(12)	-	699,965	-	-	-	-
(13)	-	-	397,886	-	-	-
(14)	-	-	-	300,000	-	-
(15)	-	-	-	-	53,383,093	-
(16)			(3,098,918)			
	(6,454,708)	699,965	(2,701,032)	300,000	53,383,093	
Total	(174,417,729)	1,118,965	(2,701,032)	300,000	53,383,093	

- (1) The transfer from the State Road Fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) Transfers to correct allocation of costs
- (3) Transfers of interest earnings
- (4) Transfers to maximize use of available cash in trustee accounts
- (5) Transfer to move funds from closed fund
- (6) Transfers to allocated balances in shared trustee accounts
- (7) Railrunner fare box funds belonging in Road fund (non Federally reimbursable)
- (8) EMNR funds received by Road Fund
- (9) Capital assets purchased by capital assets fund and not reimbursed by Road fund
- (10) Transfers made to Department of Public Safety (less reversions)
- (11) Transfers in from Energy, Minerals, and Natural Resources Department
- (12) Federal funds for Salt Domes
- (13) Appropriations received
- (14) Transfer in from per MOU; Laws 2007, Chapter 65, Section 20
- (15) Annual Transfer in from Department of Finance and Administration, Board of Finance Division
- (16) Reversions to the State General Fund

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

Fund 10050	Fund 20400	Fund 10210	Fund 10230	Fund 10250	Fund 10270	Fund 10450
Capital Projects	2004A	2006A	2006B	2006C	2006D	GRIP
Fund	GRIP Bond	GRIP Bond	GRIP Bond	GRIP Bond	GRIP Bond	LOC
	Project Fund	Project Fund	Project Fund	Project Fund	Project Fund	Project Fund
-	-	-	-	-	-	289,084
-	-	-	-	-	-	68,801
-	-	-	-	-	(224,866)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6,667,167	-	-	-	-	-	-
6,667,167	-	-	-	-	(224,866)	357,885

10. OPERATING TRANSFERS-continued

	Fund 97200	Fund 54800	Fund 43400	Fund 43200	Fund 00700	Fund 54700
	WIPP 1998	CHAT 1998 A	CHAT 1999	CHAT 2000A	CHAT 2001A	CHAT 2002A
	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service
	Fund	Fund	Fund	Fund	Fund	Fund
(1)	\$ 12,296,613	9,115,200	11,008,575	15,480,600	19,253,897	1,585,500
(2)	-	-	-	-	-	-
(3)	-	-	-	-	-	-
(4)	-	-	-	-	-	-
(5)	-	-	-	-	-	-
(6)	-	-	-	-	-	-
(7)	-	-	-	-	-	-
(8)	-	-	-	-	-	-
(9)	-	-	-	-	-	-
Total	12,296,613	9,115,200	11,008,575	15,480,600	19,253,897	1,585,500

- (1) The transfer from the State Road Fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) Transfers to correct allocation of costs
- (3) Transfers of interest earnings
- (4) Transfers to maximize use of available cash in trustee accounts
- (5) Transfer to move funds from closed fund
- (6) Transfers to allocated balances in shared trustee accounts
- (7) Railrunner farebox funds belonging in Road fund (non Federally reimbursable)
- (8) EMNR funds received by Road Fund
- (9) Capital assets purchased by capital assets fund and not reimbursed by Road fund

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

Fund 75000	Fund 36300	Fund 18700	Fund 10080	Fund 10090	Fund 10220	Fund 10240
WIPP 2002B	CHAT 2002C	CHAT 2002D	GRIP 2004A	GRIP 2004B	GRIP 2006A	GRIP 2006B
Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service
Fund	Fund	Fund	Fund	Fund	Fund	Fund
472,250	4,709,524	194,825	37,966,759	18,082,766	7,852,407	4,368,238
-	-	-	-	-	-	-
-	-	-	-	(1,927,952)	-	-
-	-	-	-	(209,825)	-	209,825
-	-	-	-	-	(673,110)	(698,447)
-	-	-	(101,469)	101,469	(2,455)	2,455
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
472,250	4,709,524	194,825	37,865,290	16,046,458	7,176,842	3,882,071

10. OPERATING TRANSFERS-continued

	Fund 10260	Fund 10280	Fund 10410	Fund 10420	Fund 10430	Fund 10440	Total
	GRIP 2006C	GRIP 2006D	GRIP 2008A	GRIP 2008B	GRIP 2008C	GRIP 2008D	All Pages
	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Debt Service	Netting Funds
	Fund	Fund	Fund	Fund	Fund	Fund	Only
(1)	\$ -	-	4,385,566	12,017,201	2,006,256	1,317,528	-
(2)	-	-	(638,972)	(120,502)	690,673	-	-
(3)	-	-	(173,269)	2,228,766	(127,545)	224,866	-
(4)	-	-	-	(1,529,657)	1,529,657	-	-
(5)	1,772,835	(401,278)	-	-	-	-	-
(6)	-	-	808,621	(808,621)	(8,409)	8,409	-
(7)	-	-	-	-	-	-	-
(8)	-	-	-	-	-	-	-
(9)	-	-	-	-	-	-	-
Total	1,772,835	(401,278)	4,381,946	11,787,187	4,090,632	1,550,803	-

- (1) The transfer from the State Road Fund to the above debt service funds are for the debt repayments required by the State of New Mexico Highway Debentures.
- (2) Transfers to correct allocation of costs
- (3) Transfers of interest earnings
- (4) Transfers to maximize use of available cash in trustee accounts
- (5) Transfer to move funds from closed fund
- (6) Transfers to allocated balances in shared trustee accounts
- (7) Railrunner farebox funds belonging in Road fund (non Federally reimbursable)
- (8) EMNR funds received by Road Fund
- (9) Capital assets purchased by capital assets fund and not reimbursed by Road fund

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

11. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2009:

Governmental Activities	Balance at June 30, 2008	Increase	Decrease	Ending Balance June 30, 2009	Amounts due within one year
1998 CHAT Bonds	17,760,000	-	(8,205,000)	9,555,000	9,555,000
1998 WIPP Bonds	34,435,000	-	(10,545,000)	23,890,000	11,460,000
1999 CHAT Bonds	10,410,000	-	(10,410,000)	-	-
2000 CHAT Bonds	28,415,000	-	(13,810,000)	14,605,000	14,605,000
2001A CHAT Bonds	89,400,000	-	(14,630,000)	74,770,000	9,545,000
2002A CHAT Bonds	29,225,000	-	-	29,225,000	8,750,000
2002B WIPP Bonds	9,445,000	-	-	9,445,000	9,445,000
2002C HIF Bonds	32,945,000	-	(3,000,000)	29,945,000	2,000,000
2002D CHAT Bonds	4,570,000	-	-	4,570,000	1,360,000
2004A GRIP Bonds	700,000,000	-	-	700,000,000	-
2004B GRIP Bonds	149,160,000	-	(10,735,000)	138,425,000	9,230,000
2006A GRIP Bonds	150,000,000	-	-	150,000,000	-
2006B GRIP Bonds	35,510,000	-	(3,165,000)	32,345,000	2,345,000
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	-
Tax-exempt Line of Credit	-	40,028,625	-	40,028,625	-
Deferred amount on refunding	(30,869,228)	-	8,164,564	(22,704,664)	-
Compensated absences payable	7,385,466	3,712,510	(3,540,258)	7,557,718	2,850,370
Total obligations	1,738,191,238	43,741,135	(69,875,694)	1,712,056,679	81,145,370
Less current portion	(77,730,912)			(81,145,370)	
Net long-term obligations	1,660,460,326			1,630,911,309	

The State Road Fund is used to liquidate other long-term liabilities, such as compensated absences and capital leases. The Department is authorized to issue bonds from time to time, payable from the proceeds of the collection of gasoline excise taxes, motor vehicle registration fees, and other fees that are required by law to be paid into the State Road Fund and not otherwise pledged solely to the payment of outstanding bonds and debentures. The total aggregate outstanding bonds issued are in accordance with the authorizing legislation for the bonds and other debt with the approval of the State Board of Finance, 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.

11. LONG-TERM OBLIGATIONS - continued**Series 1998A CHAT:**

The Department issued \$105,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1998A and \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B in October 1998. The net proceeds to the Department were \$108,979,050 for the Series 1998A Bonds and \$103,753,450 for the Series 1998B Bonds, including \$3,979,050 and \$3,753,450, respectively, of original bond issue premium. The cost of issuance for the Series 1998A and Series 1998B Bonds was \$773,588 and \$767,380, respectively. The Bonds are special limited obligations of the Department, payable solely by a pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes and vehicle transaction taxes and fees that are required to be paid into the State Road Fund. The Series 1998A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature. The Series 1998B Bonds (1998 WIPP Bonds) were issued by the Department for roads relating to the Waste Isolation Pilot Project (WIPP) in the State of New Mexico.

Principal of the Series 1998A Bonds (CHAT) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Series 1998A Bonds (CHAT), including interest payments of \$489,694 based on interest rates that range from 4.5% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998A CHAT:			
2010	\$ 9,555,000	489,694	10,044,694
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,555,000</u>	<u>489,694</u>	<u>10,044,694</u>

11. LONG-TERM OBLIGATIONS - continued**Series 1998 WIPP:**

Principal of the Series 1998 Bonds (WIPP) is payable on June 15. The interest is payable semi-annually on June 15 and December 15 through the year 2011.

The Department's future scheduled annual requirements to amortize the Series 1998B Bonds (1998 WIPP Bonds), including interest payments of \$1,861,400 based on interest rates that range from 3.8% to 5.125%, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1998 WIPP:			
2010	\$ 11,460,000	1,224,363	12,684,363
2011	12,430,000	637,037	13,067,037
2012	-	-	-
2013	-	-	-
2014	-	-	-
Total	\$ 23,890,000	1,861,400	25,751,400

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

Eligible federal funds that can be used for debt repayment are not available for approximately two years after the date of the loan. Accordingly, \$8,468,451 of the loan proceeds were recorded to the debt service fund to pay future debt service.

The Department was also responsible for the NMFA issuance costs and must annually pay the NMFA two basis points on the outstanding principal balance every September 1. Total issue costs were \$2,244,426, net of \$1,656,807 of the premium received from the sale of the NMFA bonds. Principal of the loan was paid in May 2004 with funds provided from the issuance of the Series 2004B and 2004C NMFA State Transportation Refunding Revenue Bonds.

11. LONG-TERM OBLIGATIONS - continued

Series 1999 CHAT:

The Department issued \$100,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1999 in November 1999. The gross proceeds to the Department were \$101,161,999, including \$1,161,999 of an original issue premium. The cost of issuance including underwriting fees was approximately \$791,000. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 1999 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 4.75% to 5.75% per annum, is payable semi-annually on June 15 and December 15 through the year 2009. Therefore, there are no remaining obligations on the instrument after June 30, 2009.

11. LONG-TERM OBLIGATIONS - continued**Series 2000A CHAT**

The Department issued \$201,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A in May 2000. The gross proceeds to the Department were \$206,023,307, including \$5,023,307 of an original issue premium. The cost of issuance including underwriting fees was approximately \$1,392,000. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 2000 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

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

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$876,300, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2000A CHAT:			
2010	\$ 14,605,000	876,300	15,481,300
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
Total	\$ 14,605,000	876,300	15,481,300

11. LONG-TERM OBLIGATIONS - continued**Series 2001A CHAT**

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

Principal of the Bonds is payable annually each June 15. Interest, with rates ranging from 4.3% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2013.

The Department's future scheduled annual requirements to amortize the bonds, including interest payments of \$10,844,930 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2001A CHAT			
2010	\$ 9,545,000	3,892,398	13,437,398
2011	20,645,000	3,415,147	24,060,147
2012	21,720,000	2,338,838	24,058,838
2013	22,860,000	1,198,537	24,058,537
2014	-	-	-
Total	\$ <u>74,770,000</u>	<u>10,844,920</u>	<u>85,614,920</u>

11. LONG-TERM OBLIGATIONS - continued

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

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

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

11. LONG-TERM OBLIGATIONS - continued**Series 2002A CHAT**

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

Principal of the bonds is payable annually each June 15. Interest, with rates ranging from 5.0% to 5.5% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$5,024,100, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002A CHAT			
2010	\$ 8,750,000	1,585,500	10,335,500
2011	-	1,126,125	1,126,125
2012	9,690,000	1,126,125	10,816,125
2013	-	593,175	593,175
2014	10,785,000	593,175	11,378,175
Total	\$ 29,225,000	5,024,100	34,249,100

11. LONG-TERM OBLIGATIONS - continued**Series 2002B WIPP**

The Department issued \$79,920,000 of the New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds, Series 2002B, in January 2002. The gross proceeds including accrued interest to the Department were \$82,007,147 including \$2,670,686 of an original issue premium. The cost of issuance including underwriter fees was \$614,561. The Bonds are special limited obligations of the State Highway Commission, payable solely from and secured by a subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002B Bonds (WIPP Bonds) were issued to provide funds to refund the 1996 WIPP Bonds on the date of delivery of the Bonds, and to pay all costs incident thereto and to the issuance of the Bonds, including, without limitation, costs of issuance.

Principal of the bonds is payable on June 15. Interest at a rate of 5% per annum is payable semi-annually on June 15 and December 15 through the year 2010.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$472,250, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002B WIPP:			
2010	\$ 9,445,000	472,250	9,917,250
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
Total	\$ 9,445,000	472,250	9,917,250

11. 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 funds projects identified by the Department and the Legislature.

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

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$9,028,244, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002C HIF			
2010	\$ 2,000,000	1,559,524	3,559,524
2011	-	1,459,524	1,459,524
2012	-	1,459,524	1,459,524
2013	5,040,000	1,459,524	6,499,524
2014	5,295,000	1,204,284	6,499,284
2015-2019	17,610,000	1,885,865	19,495,865
Total	\$ 29,945,000	9,028,244	38,973,244

11. 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.

Principal of the bonds is payable as follows on June 15. Interest, with rates ranging from 3.9% to 5.00% per annum, is payable semi-annually on June 15 and December 15 through the year 2014.

The Department's future scheduled annual requirements to amortize the Bonds including interest payments of \$640,700 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2002D CHAT			
2010	\$ 1,360,000	194,825	1,554,825
2011	-	126,825	126,825
2012	-	126,825	126,825
2013	1,575,000	126,825	1,701,825
2014	1,635,000	65,400	1,700,400
Total	\$ <u>4,570,000</u>	<u>640,700</u>	<u>5,210,700</u>

11. 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 3.8% to 5.25% per annum, is payable semi-annually on June 15 and December 15 through the year 2024.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$362,060,888, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004A GRIP			
2010	\$ -	36,216,759	36,216,759
2011	-	36,216,759	36,216,759
2012	-	36,216,759	36,216,759
2013	-	36,216,759	36,216,759
2014	19,360,000	36,216,759	55,576,759
2015 - 2019	357,835,000	142,138,505	499,973,505
2020 - 2024	<u>322,805,000</u>	<u>38,838,588</u>	<u>361,643,588</u>
Total	\$ <u>700,000,000</u>	<u>362,060,888</u>	<u>1,062,060,888</u>

11. LONG-TERM OBLIGATIONS - continued**Series 2004B GRIP**

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

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

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

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$22,609,720, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2004B GRIP:			
2010	\$ 9,230,000	6,879,385	16,109,385
2011	36,275,000	6,421,085	42,696,085
2012	29,060,000	4,639,050	33,699,050
2013	34,120,000	3,186,800	37,306,800
2014	29,740,000	1,483,400	31,223,400
Total	\$ 138,425,000	22,609,720	161,034,720

The Series 2004C Bonds are special limited obligations of the Department payable, together with additional bonds hereafter issued, solely from and secured solely by federal funds not otherwise obligated that are paid into the State Road Fund, proceeds of the collection of taxes and fees that are required to be paid into the Highway Infrastructure Fund. The lien on the bonds on such revenues is subordinate to the lien thereon securing other bonds issued concurrently with the 2004C bonds or which may hereafter be used through the NMFA. The bonds were issued through the NMFA at the direction of the State Transportation Commission of the State of New Mexico to provide funds to refund and restructure certain outstanding debt.

11. LONG-TERM OBLIGATIONS - continued

- **Refunding**

NMFA, on behalf of the Department, used the 2004B and 2004C Bonds to advance refund certain older debt issues of the Department, and the New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 2001 and New Mexico Finance Authority Federal Highway Grant Anticipation Revenue Bonds Series 1998. The net proceeds of \$408,855,872 plus an additional \$7,285,997 were used to purchase U.S. Governmental securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the older debt issues. As a result, the advance refund of the older debt is considered to be defeased and the liability for those bonds has been removed from long-term obligations. The bonds outstanding of \$363,490,000 were considered defeased as of June 30, 2007.

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

- **Refunding of Variable Rate Bonds**

The 2004C, 2006C, and 2006D Series bonds were issued as Auction Rate Securities (“ARS”). ARS are one of the two principal types of securities for which interest rates are reset in a periodic auction process. For each of these Series, the rates were reset in weekly auctions. All of the bonds were insured by certain municipal bond insurance companies. In late 2007 and early 2008, the market for ARS was negatively impacted by a number of factors, the principal event being downgrades of the ratings of certain insurers of ARS. These downgrades and other events caused the weekly auctions of the bonds to “fail”, meaning that insufficient bids were received to permit resale of all of the bonds. In the event of a failed auction, no bonds are resold, even though some bids were received. In a failed ARS auction, the existing holders of the bonds must continue to hold their bonds until the next successful auction. The procedures applicable to a failed auction included a provision that the interest rate on the bonds resets to a default rate. In the case of the 2004C bonds, the default rate was one-month LIBOR plus 175 basis points. The default rate for the 2006C and D bonds was 12%.

The deferred amount on the refunding of \$22,704,664, recorded as a reduction of the Department’s long-term obligation, is the difference between the reacquisition price (funds required to refund the old debt including call provisions) and the net carrying amount of the old debt including unamortized old bond issuance costs. The deferred amount on the refunding is recorded to the government-wide financial statements and is required to be amortized as additional interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

11. LONG-TERM OBLIGATIONS - continued

- **Refunding of Variable Rate Bonds - continued**

In April and May, 2008, NMFA, on behalf of the Department, refunded all of the ARS Series 2004C, 2006C, and 2006D, reissuing the bonds as Variable Rate Demand Notes (VRDN). As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The transaction resulted in a net loss of \$3.5 million. The interest rates for these bonds reset in weekly auctions, as was the case for the ARS. The principal difference between the ARS and the VRDN is that the ARS were credit-enhanced with insurance, while the VRDN are supported by bank letters of credit. The following bonds were issued:

	<u>Par Value</u>
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008A	\$ 115,200,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008B	220,000,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008C	84,800,000
Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008D (Taxable)	<u>50,400,000</u>
Total	\$ <u><u>470,400,000</u></u>

All of the above refunding bonds were issued at par. The Department provided additional funds totaling \$2,043,624 to pay for the cost of issuance of the bonds.

- **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.

11. LONG-TERM OBLIGATIONS - continued

- **Derivative Instruments - continued**

- 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.

- **Significant Terms**

2004 Swaps:

Counterparty	Royal Bank of Canada	Goldman Sachs	Deutsche Bank
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

11. LONG-TERM OBLIGATIONS - continued

- Significant Terms - continued**

2006 Forward Starting Swaps:

Counterparty	JPMorgan Chase Bank	UBS AG
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.

- Fair Value**

The estimated fair value of the swaps at June 30, 2009 was as follows:

<u>Counterparty</u>	<u>Notional Value</u>	<u>Fair Value*</u>
Goldman Sachs	\$ 50,000,000	(6,905,745)
Deutsche	50,000,000	(6,905,746)
Royal Bank of Canada	100,000,000	(13,811,493)
JPMorgan Chase Bank	110,000,000	(20,655,646)
UBS AG	<u>110,000,000</u>	<u>(20,655,646)</u>
Total \$	<u>420,000,000</u>	<u>(68,934,276)</u>

11. LONG-TERM OBLIGATIONS - continued

- **Fair Value - continued**

*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, 2009 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, 2009. Negative amounts indicate payments that would have been made by the Department to the counterparties.

- **Associated Debt**

<u>Variable Rate Debt*</u>		<u>2008 Debt Service</u>		<u>Net Swap</u>	<u>Total</u>	
		<u>Principal</u>	<u>Interest</u>	<u>Made (Received)</u>		
Series 2008A and C	\$	200,000,000	-	2,703,032	4,709,005	7,412,037 3.706%
Series 2008B		220,000,000	-	3,046,796	7,115,626	10,162,422 4.619%

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

- **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, 2009, were:

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Royal Bank of Canada	Aaa	AA-	AA
Goldman Sachs	Aaa	AAA	NR
Deutsche Bank	Aa1	A+	AA-
JP Morgan Chase	Aa1	AA-	AA-
UBS AG	Aa3	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. No termination value currently exceeded these limits, and, accordingly, no collateral was posted at June 30, 2009. 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

11. LONG-TERM OBLIGATIONS - continued**Swap Collateral Requirements – Taxable Line of Credit**

Even though the negative balances at the end of the fiscal year were such that no collateral needed to be posted, earlier in the year the negatives were greater and collateral did need to be posted. For that purpose a short-term Taxable Line of Credit was established. During the current fiscal year \$30,000,000 was borrowed, \$20,000,000 was re-paid and \$10,000,000 was outstanding at June 30, 2009 and subsequently repaid in September of 2009. The outstanding amount is reflected in the funds to which it relates, namely:

SHARE fund 10410 - 2008A GRIP Debt Service Fund	\$ 2,742,857
SHARE fund 10420 – 2008B GRIP Debt Service Fund	5,238,095
SHARE fund 10430 – 2008C GRIP Debt Service Fund	<u>2,019,048</u>

Total Short term Notes Payable (Taxable Line of Credit)	\$10,000,000
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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.

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.

11. 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 2026.

The Department's future scheduled annual requirements to amortize the Bonds, including interest payments of \$113,669,526, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2006A GRIP:			
2010	\$ -	7,477,407	7,477,407
2011	-	7,477,407	7,477,407
2012	240,000	7,472,607	7,712,607
2013	195,000	7,464,298	7,659,298
2014	255,000	7,454,413	7,709,413
2015 - 2019	17,960,000	35,011,644	52,971,644
2020 - 2024	18,695,000	30,542,875	49,237,875
2025 - 2027	112,655,000	10,768,875	123,423,875
Total	\$ 150,000,000	113,669,526	263,669,526

11. 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 2026.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$15,024,255, is as follows:

<u>Year Ended June 30,</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2006B GRIP:				
2010	\$	2,345,000	1,432,350	3,777,350
2011		2,100,000	1,346,946	3,446,946
2012		1,225,000	1,283,585	2,508,585
2013		1,270,000	1,237,288	2,507,288
2014		1,320,000	1,188,261	2,508,261
2015 - 2019		7,520,000	5,026,075	12,546,075
2020 - 2024		9,570,000	2,973,375	12,543,375
2025 - 2027		6,995,000	536,375	7,531,375
Total	\$	<u>32,345,000</u>	<u>15,024,255</u>	<u>47,369,255</u>

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

The NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008A in the amount of \$115,200,000 were issued in May of 2008 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2008A bonds are being issued by the New Mexico Finance Authority (NMFA) at the direction of the New Mexico State Transportation Commission 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.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$66,520,793, is as follows:

<u>Year Ended June 30,</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008A GRIP:				
2010	\$	-	4,531,968	4,531,968
2011		-	4,531,968	4,531,968
2012		-	4,531,968	4,531,968
2013		-	4,531,968	4,531,968
2014		-	4,531,968	4,531,968
2015 - 2019		-	22,659,840	22,659,840
2020 - 2024		115,200,000	21,201,113	136,401,113
Total	\$	115,200,000	66,520,793	181,720,793

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

The NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008B in the amount of \$220,000,000 were issued in May of 2008 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2008B bonds are being issued by the New Mexico Finance Authority (NMFA) at the direction of the New Mexico State Transportation Commission 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.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$171,151,708, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008B GRIP:			
2010	\$ -	10,410,400	10,410,400
2011	-	10,410,400	10,410,400
2012	-	10,410,400	10,410,400
2013	-	10,410,400	10,410,400
2014	-	10,410,400	10,410,400
2015 - 2019	-	52,052,000	52,052,000
2020 - 2024	11,200,000	51,522,016	62,722,016
2025 - 2027	208,800,000	15,525,692	224,325,692
Total	\$ 220,000,000	171,151,708	391,151,708

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

The NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008C in the amount of \$84,800,000 were issued in May of 2008 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2008C bonds are being issued by the New Mexico Finance Authority (NMFA) at the direction of the New Mexico State Transportation Commission 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.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$48,966,695, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008C GRIP:			
2010	\$ -	3,336,032	3,336,032
2011	-	3,336,032	3,336,032
2012	-	3,336,032	3,336,032
2013	-	3,336,032	3,336,032
2014	-	3,336,032	3,336,032
2015 - 2019	-	16,680,160	16,680,160
2020 - 2024	84,800,000	15,606,375	100,406,375
Total	\$ 84,800,000	48,966,695	133,766,695

11. LONG-TERM OBLIGATIONS - continued

- Bonds Issued by NMFA - continued

The NMFA Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2008D in the amount of \$50,400,000 were issued in May of 2008 and are payable, 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 taxes and fees required by law to be paid into the Highway Infrastructure Fund. The Series 2008D bonds are being issued by the New Mexico Finance Authority (NMFA) at the direction of the New Mexico State Transportation Commission 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.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$17,640,000, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008D GRIP:			
2010	\$ -	1,008,000	1,008,000
2011	-	1,008,000	1,008,000
2012	-	1,008,000	1,008,000
2013	-	1,008,000	1,008,000
2014	-	1,008,000	1,008,000
2015 - 2019	-	5,040,000	5,040,000
2020 - 2024	-	5,040,000	5,040,000
2025 - 2027	50,400,000	2,520,000	52,920,000
Total	\$ 50,400,000	17,640,000	68,040,000

11. LONG-TERM OBLIGATIONS - continued**Tax-exempt Line of Credit**

The Department contracted with the Bank of America for \$200,000,000 for a tax-exempt line of credit on June 1, 2008. As of June 30, 2009, the amount of funds drawn was \$40,028,625. The full amount of the Line of Credit is not expected to be drawn until December 2010.

The principal, interest and fees for the unused portions 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 Line of Credit was 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 is payable on August 31st for 2010 and on July 1st for the subsequent years.

Interest is payable quarterly on the drawn portions and a fee is charged on the unused portions. The interest rate is 65% of the LIBOR One Monthly Floating Rate plus .65 percentage points and is estimated to average 3.25%.

The Department's future estimated scheduled annual requirement to amortize the Bonds, including interest payments of \$10,889,386, are as follows:

<u>Year Ended June 30, 2009</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2008 Tax-exempt Line of Credit			
2010	\$ -	4,308,421	4,308,421
2011	50,000,000	3,255,393	53,255,393
2012	50,000,000	1,700,572	51,700,572
2013	50,000,000	1,625,000	51,625,000
2014	50,000,000	-	50,000,000
2015 - 2019	-	-	-
2020 - 2024	-	-	-
Total	\$ <u>200,000,000</u>	<u>10,889,386</u>	<u>210,889,386</u>

- Capital Leases**

There are no future minimum lease obligations to report as of June 30, 2009.

11. LONG-TERM OBLIGATIONS - continued

Total future principal and interest obligation repayments are as follows:

<u>Year Ended June 30,</u>		<u>Bonds</u>
2010	\$	165,550,533
2011		205,463,256
2012		192,384,713
2013		185,829,605
2014		185,882,091
2015 – 2019		681,419,090
2020 – 2024		727,994,341
2025 – 2027		<u>408,200,942</u>
Total	\$	<u>2,752,724,571</u>

An obligation amounting to \$7,227,718 at June 30, 2009 has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences.

12. REVERSIONS

Current year reversions due to the State General Fund as of June 30, 2009 were as follows:

		SHARE System Fund 10070
2009 reversions	\$	3,098,918

13. 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.

13. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION - continued

- **Funding Policy**

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. From the 2009 legislative session House Bill 854 temporarily shifts the burden of 1.5% of employer PERA contributions to state employees whose annual salaries exceed \$20,000. For the two-year period from July 1, 2009 to June 30, 2011, the employer contribution rates will be reduced by 1.5% and the employee contribution rates will be increased by 1.5%. After this temporary shift the burden will return to the employer. 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, 2009, 2008 and 2007 were \$16,400,581, \$15,997,412 and \$14,933,952, respectively, equal to the amount of the required contribution for each year.

14. 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 the 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.

14. 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 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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Department's contributions to the RHCA for the years ended June 30, 2009, 2008 and 2007 were \$1,245,299, \$1,218,924 and \$1,201,755, respectively, which equal the required contributions for each year.

15. COOPERATIVE AND JOINT POWERS AGREEMENTS

The State Legislature and the State Highway Commission have approved certain agreements between the Department and various counties, municipalities and other agencies to construct or improve public highways, school grounds, parking areas, and for the purpose of litter control. The Department's funding responsibility varies from zero to 100%. None of these cooperative and joint powers agreements have created legally separate organizations that need to be included as component units or joint ventures in the Department's financial statements.

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS – continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00074	Pueblo of Laguna	Miscellaneous construction, to include geotechnical and engineering fees for pedestrian, bikeway and roadway improvements at entrance to new Laguna-Acoma High School on Casa Blanca Road.	-
J00131	City of Albuquerque	Bicycle/pedestrian safety program.	31,880
J00640	City of Albuquerque	Highway maintenance and beautification.	-
J00671	City of Albuquerque	Bicycle Travel Demand Management Program/ CN 7366.	-
J00698	NM Institute of Mining & Technology	Severance Tax Agreement for Water Canyon Road/CN 1339.	17,156
J00699	Pueblo of Acoma	Construction of “SP 26”, an all weather access road/CN 86581.	98,498
J00700	City of El Paso, Texas	Replacement of the bridge and culverts on Sunland Park Drive/CN 4035/TC 6301(4).	-
J00701	NM Energy, Minerals and Natural Resources Dept.	Establish a framework to acquire, enhance and maintain approximately 130 acres of wetland habitat in Santa Rosa.	-
J00703	NM Energy, Minerals and Natural Resources Dept.	Provide inmate work crews for improving natural resources and safety on public lands and roads.	-
J00704	Pueblo of Laguna	Miscellaneous construction to include geotechnical and engineering fees for pedestrian, bikeway and roadway improvements at entrances to new Laguna-Acoma High.	-
J00707	Pueblo of Zuni	A pedestrian travel demand study for Black Rock Community.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00708	Navajo Nation	Road improvements and a maintenance yard at the Bread Springs Chapter of Navajo Nation in McKinley County.	-
J00709	NM Department of Cultural Affairs	Provide FY 2006 – 2010 Consultant Design Program to maintain an inventory of cultural properties in the State of New Mexico.	25,000
J00711	NM Office of Cultural Affairs	Provide FY 2006 – 2010 Consultant Design Program for the review of cultural resource documents pertinent to the completion of proposed highway construction project in New Mexico.	50,000
J00714	Pueblo of Laguna	Provide for the design and improvement of the Exit 108 Interchange on Interstate Highway 40 and BIA Road L22 on the Pueblo of Laguna Indian Reservation.	-
J00718	Pueblo of Acoma	Construction, re-construction of various streets on Pueblo of Acoma Indian Reservation.	150,000
J00721	Navajo Nation	Plan, design and construct various road improvements in McKinley, San Juan and Sandoval counties.	-
J00722	Navajo Nation	Acquire Right of Way.	-
J00724	Pueblo of Acoma	Road improvements on Skyline Road, Acoma Route 32 for 0.8 miles, to include 3 inch mill/inlay for pavement, sidewalks, new curb and gutter, street lighting, 2 crosswalks at school crossing, drainage culverts, signing, marking.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00725	Pueblo of Acoma	Construction, reconstruction for various streets for the Pueblo of Acoma in Acoma Indian Reservation.	100,000
J00726	Pueblo of Acoma	Construction of Acomita Road, Pueblo of Acoma Indian Reservation, Acomita Road SP30(12)2 & 4 (clearing and grubbing, roadway excavation, Portland cement standard curb and gutter.	79,318
J00727	Pueblo of Santa Clara	Maintain traffic signal at NM 30 and Puye Road.	-
J00729	Navajo Nation	Plan, design and construct road and culvert improvements.	-
J00730	NM Corrections Department	Utilize supervised inmates to perform minor highway maintenance and beautification.	307,498
J00731	Acoma Pueblo	Road improvements on Skyline Road, Acoma Route 32 for 0.8 miles, to include 3 inch mill/inlay for pavement, sidewalks for .8 miles, new curb and gutter for .3 miles, street lighting, 2 crosswalks at school crossing, drainage culverts, signing and markings.	-
J00734	Pueblo of Zia	Acquisition of rights of way, planning, design and construction drainage and paving improvements in Zia Pueblo.	-
J00735	Tesuque Pueblo	Safety enhancements, including acquisition of rights of way, planning, design and construction for pedestrian and school areas and for the purchase of an emergency vehicle in the Pueblo of Tesuque in Santa Fe County.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00736	Mescalero Apache Tribe	Study of alternate routes and the acquisition of rights of way, planning, design and construction of roadway drainage and paving improvements to Ski Apache access road in Otero County.	-
J00737	Pueblo of Sandia	Acquisition of right of way, planning, design and construction of railroad crossing safety improvement in the Pueblo of Sandia in Sandoval County.	-
J00738	Pueblo of Pojoaque	Acquisition of rights of way, planning, design and construction, drainage, safety and paving improvements, including sidewalks and new road construction for housing subdivisions and pedestrian and bike trails in the Pueblo of Pojoaque in Santa Fe County.	-
J00739	Jicarilla Apache Nation	Acquisition of rights of way, planning, design and construction, drainage, safety and paving improvements, sidewalks and street lighting to Sandhill Drive in the Jicarilla Apache Nation in Rio Arriba County.	-
J00740	NM Environment Department	Joint sponsorship of a position of employment at the NMED Surface Water Quality Bureau.	-
J00741	Pueblo of Picuris	Renovate roadways, including acquisition of right of way, planning, design and construction, drainage and paving improvements in the Pueblo of Picuris in Taos County.	-
J00743	Pueblo of Sandia	Plan, design and construct improvements to streets at the Pueblo of Sandia in Sandoval County.	13,015
J00744	Sierra County	Acquire land, plan, design, construct, furnish and equip the Southwest Regional Spaceport in Sierra County; acquire rights of way, plan, design and construct drainage and paving improvements in Sierra County and Dona Ana County that are related to the Spaceport.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract Number	Contractor	Description	Expended in 2009
J00747	Taos Pueblo	Construction of Hail Road through Pueblo Land on a new alignment and signalization of the intersection with US 64 within the Town of Taos city limits.	-
J00748	Pueblo of Zuni	Acquisition of right of way, planning, study, design and construction of roadway drainage and paving improvements to BIA Route 301 in the Pueblo of Zuni in McKinley County.	-
J00749	Pueblo of Acoma	Acquisition of right of way, planning, study, design and construction of new bridge and roadway drainage and paving improvement for a railroad grade separation bridge connecting Bureau of Indian Affairs Road 30 and 36 in the Pueblo of Acoma in Cibola County.	-
J00750	Pueblo of Nambe	Acquisition of right of way, planning, study, design and construction of roadway drainage and paving improvements to Alabama Street in the Pueblo of Nambe in Santa Fe County.	-
J00751	Pueblo of San Felipe	Acquisition of right of way, planning, design and construction of roadway drainage and bridge replacement for bridge number 8 on State Road 313 in the Pueblo of San Felipe in Sandoval County.	-
J00752	US Department of Interior	To allow the Department to transfer the apportionments, contract authority and obligation authority to BIA to complete the Chaco Wash Bridge and road improvements on Navajo Route 46, in rural area of McKinley County, NM.	-

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00009		Guidelines for Purchase of Surplus Equipment via Local Government Road Funds	379,536
M00338	Texas Dept. of Transportation	Materials Inspection and Sampling Services	782
M00369	Mid-Region Council of Governments	Transportation Planning Activities in the Albuquerque Metropolitan Area	1,237,002
M00371A	North Central New Mexico Economic District	Northern Pueblos Regional Planning Organization Annual Work Program	53,115
M00379	Mid-Region Council of Governments	Commuter Rail Implementation Project for the Belen to Bernalillo Corridor and for the Albuquerque to Santa Fe Corridor	5,749,164
M00420	National Oceanic and Atmospheric Administration	Geodetic Advisor Program in the State of New Mexico	59,350
M00455A	New Mexico State University	Develop and Deploy State-of-the-Art Single-Load Cell Weigh-In-Motion (WIM) Systems and a Commercial Vehicle Pre-Screening Management System at the Santa Teresa International Port-of-Entry	241,561
M00460	City of Farmington	Develop Annual Unified Planning Work Program (UPWP)	108,822
M00461	City of Santa Fe	Develop Annual Unified Planning Work Program (UPWP)	88,557
M00463	Mid-Region Council of Governments	Commuter Rail Operations and Maintenance for the Belen to Santa Fe Corridor	12,736,280
M00467	City of Santa Fe	Promotion of RideShare Programs	33,938
M00468A	Mid-Region Council of Governments	Establish an Operational Site for a Transportation Management Center (TMC)	140,370
M00473	North Central New Mexico Economic District	Implement Annual Work Program	62,827
M00475	Southwest New Mexico Council of Governments	Implement Annual Work Program	53,456
M00476	Eastern Plains New Mexico Council of Governments	Implement Annual Work Program	127,058
M00477	Northwest New Mexico Council of Governments	Implement Annual Work Program	49,176
M00501	South Central New Mexico Council of Governments	Implement Annual Work Program	55,534
M00513	South Eastern New Mexico Economic District	Implement Annual Work Program	55,775

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00519	Mid-Region Council of Governments	Implement Annual Work Program	57,710
M00527	City of El Paso	Implement Annual Work Program	56,378
M00532	City of Las Cruces	Implement Annual Work Program	63,372
M00569	Citizens Committee for Historic Preservation	Conduct Conservation Workshops, Develop a Plan for Acquiring Easements, Develop and Publish Electronic Database, and Develop a Santa Fe Trail Traveling Exhibit, Economic Impact Study and Promotions Training Program	236
M00591	City of Albuquerque	Transportation Services	20,997
M00616	Mid-Region Council of Governments	Commuter Rail Implementation Project for the Albuquerque to Santa Fe Corridor	57,308,955
M00632	National Academies Press Transportation Research Board	Research Correlation Service	96,475
M00651	Mid-Region Council of Governments	Develop a Service and Financial Plan	22,597
M00652	NM Corrections Industries	Provide Optical Image Scanning	107,979
M00657	New Mexico State University	Conduct a Bi-national Transportation Infrastructure Needs Assessment and Geographic Information Study	7,423
M00662	Mid-Region Council of Governments	Public Transit Services	108,058
M00669	New Mexico State University	Creation and Development of Bridge Research Projects	68,187
M00675	New Mexico Passenger Transportation Association	Planning and Implementation of a Statewide Transit Conference	8,151
M00678	Village of Los Lunas	Public Transit Services	4,232
M00681	Ben Archer Health Center	Public Transit Services	6,493
M00683	Zia Therapy Center	Public Transit Services	1,474
M00685	Zuni Entrepreneurial Ent. Inc.	Public Transit Services	21,186
M00686	Town of Red River	Public Transit Services	25,231
M00687	Zia Therapy Center	Public Transit Services	117,162
M00688A	Golden Spread Rural Frontier	Public Transit Services	16,466
M00690	North Central Regional Transit District	Public Transit Services	58,382
M00691	North Central Regional Transit District	Public Transit Services	49,492

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00693	City of Roswell	Public Transit Services	258,008
M00694	City of Clovis	Public Transit Services	167,002
M00695	Village of Los Lunas	Public Transit Services	70,597
M00696	Coyote Canyon Rehab Center, Inc.	Public Transit Services	54,400
M00697	City of Las Vegas	Public Transit Services	60,160
M00701	County of Los Alamos	Public Transit Services	154,942
M00707	Southwest Regional Transit District	Implement the Scope of Work and Budget Necessary to Provide a Regional Network of Safe and Efficient Public Transit Services	59,875
M00708	Village of Angel Fire	Public Transit Services	46,853
M00709	City of Carlsbad	Acquisition of right of way, planning, study, design and construction of roadway drainage and paving improvements to Alabama Street in the Pueblo of Nambe in Santa Fe County.	3,957
M00710	County of Grant	Public Transit Services	13,884
M00711	County of Grant	Public Transit Services	205,374
M00712	City of Carlsbad	Public Transit Services	126,179
M00715	Village of Milan	Public Transit Services	69,450
M00716	Department of Cultural Affairs	Traveling Van Museum Exhibits of the History of Transportation in New Mexico	97,624
M00718	Dexter Consolidated Schools	Safe Routes to School Phase 1	5,552
M00719	City of Bayard	Safe Routes to School Phase 1	60
M00720	Village of Corrales	Safe Routes to School Phase 1	6,018
M00721	Torrance County	Public Transit Services	15,457
M00722	City of Socorro	Public Transit Services	7,692
M00724	San Miguel County	Feasibility Study of Possible Public Transportation System	16,000
M00725	City of Portales	Public Transit Services	24,639
M00726	City of Hobbs	Public Transit Services	90,409
M00727A	Wagon Mound Public Schools	Safe Routes to School Phase 1	3,271
M00728	County of Sandoval	Public Transit Services	90,108
M00729	County of Sandoval	Public Transit Services	45,543
M00730	City of Las Cruces	Promotion of Ride-Share Program	8,576
M00734	New Mexico Institute of Mining and Technology		492,776
M00736	Good Shepherd Lutheran Church	Use of Parking Lot for Park and Ride	5,650

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00737	County of Santa Fe	Traffic Forecast Model Update for NMDOT Corridor Studies	1,500
M00745	City of Albuquerque	Expansion and Revision of Existing Fixed Route Transit Service	27,747
M00746	North Central Regional Transit District	Study of Potential Expansion of Transit Services	9,299
M00748	City of Albuquerque	Promotion of RideSharing and Transportation Demand Management Activities	762,327
M00750	South Central Regional Transit District	Provide a Regional Network of Safe and Efficient Public Transit Services	130,709
M00751	Albuquerque Metropolitan Flood Control	Embudo Arroyo Maintenance	10,000
M00752	New Mexico Passenger Transportation Association	Planning and Management of a Statewide Transportation Conference; Coordinate Management and Driver Training	50,187
M00754	Town of Mesilla	Safe Routes to School Phase 1	2,052
M00756	U.S. Department of Interior	Water Resources Investigations	112,725
M00759	Village of Milan	Public Transit Services	9,138
M00760	Zia Therapy Center	Public Transit Services	12,213
M00761	County of Los Alamos	Public Transit Services	226,290
M00762	Village of Los Lunas	Public Transit Services	51,104
M00763	City of Carlsbad	Safe Routes to School Phase 1	1,049
M00766	South Central Council of Government	Public Transit Services	41,277
M00767	Ben Archer Health Center	Public Transit Services	54,148
M00770	Adelante Development Center	Public Transit Services	14,369
M00771	Torrance County	Public Transit Services	20,917
M00773	City of Roswell	Public Transit Services	13,200
M00774	City of Alamogordo	Safe Routes to School Phase 1	3,559
M00778	State Employee Commuter Association	Public Transit Services	43,369
M00783	County of Sandoval	Public Transit Services	72,328
M00784	Las Cruces Public Schools	Safe Routes to School Phase 1	11,205
M00785	City of Hobbs	Safe Routes to School Phase 1	4,019
M00787	Gallup Express	Public Transit Services	22,611
M00788	Village of Milan	Public Transit Services	32,285
M00789	Town of Red River	Public Transit Services	37,698
M00790	Village of Los Lunas	Public Transit Services	150,277

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

15. COOPERATIVE AND JOINT POWERS AGREEMENTS - continued

JOINT POWERS AGREEMENTS			
Contract No.	Contractor	Description	Expended in 2009
M00791	Zuni Entrepreneurial Ent. Inc.	Public Transit Services	74,801
M00792	City of Carlsbad	Public Transit Services	30,690
M00793	Zia Therapy Center	Public Transit Services	202,021
M00794	Golden Spread Rural Frontier	Public Transit Services	46,392
M00795	City of Belen	Public Transit Services	7,228
M00796	City of Clovis	Public Transit Services	251,664
M00799	Town of Taos	Public Transit Services	55,042
M00801	City of Las Vegas	Public Transit Services	94,954
M00802	City of Roswell	Public Transit Services	353,026
M00803	Town of Taos	Public Transit Services	169,860
M00804	Pueblo of Laguna	Public Transit Services	22,230
M00805	City of Hobbs	Public Transit Services	164,639
M00806	City of Socorro	Public Transit Services	53,661
M00807	City of Ruidoso Downs	Public Transit Services	22,285
M00808	Southwest Regional Transit District	Public Transit Services	191,812
M00809	City of Portales	Public Transit Services	38,292
M00810	Village of Angel Fire	Public Transit Services	80,313
M00812	Torrance County	Public Transit Services	94,973
M00813	North Central Regional Transit District	Public Transit Services	623,221
M00814	North Central Regional Transit District	Public Transit Services	193,667
M00815	Southwest Regional Transit District	Public Transit Services	25,720
M00816	City of Carlsbad	Public Transit Services	176,337
M00817	County of Sandoval	Public Transit Services	230,904
M00821	County of Los Alamos	Public Transit Services	526,371
M00822	City of Las Cruces	RideShare Program	19,745
M00823	City of Albuquerque	RideShare Program	365,946
M00824	Navajo Nation Records Management	Public Transit Services	183,800
M00832	City of Santa Fe	RideShare Program	32,865

16. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the agency carries insurance (Workers' Compensation, Unemployment Compensation, Employee Liability and Transportation Property), with the State of New Mexico Risk Management Division (RMD) of the General Services Department.

There are no pending or known threatened legal proceedings involving material matters to which the Department is party.

17. FEDERAL HIGHWAY ADMINISTRATION (FHWA) AUTHORIZATIONS

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

In order to obtain funding commitments from FHWA for such allotments, projects must be submitted to and be approved by the FHWA. As of June 30, 2009, the amount of authorizations granted to the State of New Mexico that had not been converted to commitments because FHWA did not award sufficient obligation authority to the Department was \$80,962,917.

18. 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.

19. 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, 2009 was \$1,759,151.

The future minimum lease payments under operating leases as of June 30, 2009 are as follows:

Years ending June 30:	<u>Lease Amounts</u>
2010	\$ 1,283,791
2011	1,116,680
2012	613,168
2013	876,198
2014 and thereafter	<u>943,774</u>
	\$ <u>4,833,611</u>

20. 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, 2009 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.

21. UNRESERVED, UNDESIGNATED FUND BALANCE (DEFICIT)

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

22. BUDGET TO GAAP RECONCILIATION

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds		1,254,450,278
Add: Net change in accruals due to accounts payable past the DFA cut-off		(14,126,518)
Add: transfer activities reported in expenses in budgeting reporting		16,603,295
Less: multi-year fund budgetary expenses not reported in agency budget and actual		
Fund 10050	(2,838,118)	
Fund 10060	(53,383,092)	
Fund 10070	(69,012,455)	
Total multi-year expenditures		(125,233,665)
Add: State Infrastructure Bank included in agency budget and actual		5,438,450
Statement of Revenues and Expenditures Budget and Actual (Modified Accrual Basis)		<u><u>1,137,131,840</u></u>

23. BUDGETED VS. ACTUAL EXPENDITURES

The Department had expenditures that exceeded the final budget expenditures as follows:

- Programs and Infrastructure, Personal Services, in the amount of \$506,119
- Programs and Infrastructure, Transfers, in the amount of \$9,081,118
- Business/Program Support, Transfers, in the amount of \$28,712,991

23. BUDGET VS. ACTUAL EXPENDITURES continued**Programs and Infrastructure, Personal Services**

The personal services extended past budget due to issues regarding how SHARE is handled in reporting payroll and benefits. Due to the unique nature of how the Department is required to capture payroll costs for federal reimbursement, payroll is first captured and posted by Department of Finance and Administration in a summarized format which is then reversed and restated in a format that allows more granularity in the payroll reporting. However, when payroll liabilities are subsequently paid by the state, the categories are paid out of the original Department of Finance and Administration categories, not the subsequent categories from the Department's restated postings. At year end during the reconciliation process of the payroll liabilities, any differences cannot be attributed to the cause due to the highly summarized format. The Department expects this issue to be corrected when we go live with a direct payroll posting system that will capture original payroll with full granularity and post at that level of detail. This will enable the Department to reconcile each payroll and analyze all differences with full attribution of discrepancies and allow for correcting entries in a timely manner.

Programs and Infrastructure, Operating Transfers

The operating transfers in the Programs and Infrastructure occurred due to the ARRA projects being implemented and expended before all of the ARRA accounting structure was in place. The Department began to capture the ARRA expenditures in the road fund and then engaged in an operating transfer of the expenditures to the ARRA fund when the ARRA fund was up and running. The Department does not expect this to occur again.

Business/Program Support, Operating Transfers

The operating transfers in the Business/Program Support is due to technical difficulties in funding debt service payments from the road fund. House Bill 2 sets the appropriation for the debt service funding payments out of the Programs and Infrastructure in the expenditure category, not the operating transfer category. However, for GAAP purposes, the Department must record the funding payments from the road fund to the debt service funds as operating transfers and the expenditures from House Bill 2 in the debt service funds. Thus, the operating transfers are not budgeted formally. The Department is working with the Budget Division of the Department of Finance and Administration for advice in rectifying this technical difficulty in acquiring budget to allow for both the cash transfers and the debt service payments together.

24. SUBSEQUENT EVENTSSeries 2009A Refunding Bonds

The Department issued \$112,345,000 through the NMFA's State Transportation Senior Lien Refunding Revenue Bonds, Series 2009A in October 2009. The gross proceeds to the Department were \$120,756,035 including the premium of \$8,411,035. The cost of issuance, including the underwriter's discount, was \$918,173. The 2009A Bonds were structured to provide upfront debt service savings in fy10 and fy11. The refunded bonds were from series 1998A, 1998B, 2001A, 2002A and 2002C. The present value of the savings was \$6,189,928 or 4.984%. Principal is payable annually on June 15 thru 2017. Interest is payable on December 15 and June 15 thru 2017 for a total of \$15,229,841.

Long-Term Note Payable (Tax-Exempt Line of Credit)

Additional draws on the tax-exempt line of credit were \$79,780,294 as of May 17, 2010 bringing the total principal outstanding to \$119,808,919 and leaving the remaining available balance of \$80,191,181.

Updated Fair Value of Swaps

The estimated fair value of the swaps at May 5, 2010 was as follows:

<u>Counterparty</u>	<u>Notional Value</u>	<u>Fair Value</u>
Goldman Sachs	\$ 50,000,000	(8,158,960)
Deutsche	50,000,000	(8,158,960)
Royal Bank of Canada	100,000,000	(16,317,920)
JPMorgan Chase Bank	110,000,000	(24,996,828)
UBS AG	110,000,000	(24,996,828)
Total	<u>\$ 420,000,000</u>	<u>(82,629,496)</u>

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

25. FUND BALANCE RESTATEMENT

	STB Appropriations SHARE 10060	State Aviation Fund SHARE 205
Beginning Fund Balance June 30, 2008	\$ (3,257,016)	6,316,973
Reason for restatement: In implementing the Government Accounting Standards Board Statements (GASB 33), <i>Accounting and Financial Reporting for Nonexchange Transactions</i> , errors in calculating certain Severance Tax Bond Appropriations balances occurred and were subsequently corrected in the 2009 fiscal year. This resulted in a restatement to fund balance, increasing it by...	251,049	
In reporting an accrual of over-allocated tax revenues at the end of 2008, the liability of the amounts owed instead increased the tax revenue reported. Subsequently in 2009, this reporting error was corrected by reducing the fund balance by...		(2,772,216)
Restated Beginning Fund Balance June 30, 2008	(3,005,967)	3,544,757

26. DUE TO OTHER AGENCIES

Federal Mass Transit Fund	10030	4,079,569
Departmental Services (Inventories)	10040	30,765,671
STB Capital Improvement Projects	10060	15,915,241
2006A GRIP Bond Project Fund	10210	6,487,953
2006C Bond Project Fund	10250	9,587,697
LOC Project Fund	10450	8,455,198
2004A GRIP Bond Project Fund	20400	3,807,715
2000A CHAT Bond Project Fund	34500	1,886,711
2002A CHAT Bond Project Fund	36800	1,864,153
Total due State Treasurer's Office		82,849,908

DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements - continued

27. DUE FROM OTHER AGENCIES

Fund	Description	Sub-total	Total	Due From
20100	Reversion from grantee agency		46,011	Dept of Public Safety
89000	ARRA reimbursement due		199,965	ENMR
10070	General Fund Reauthorizations	773,000		State General Fund
	General Fund Reauthorizations	372,750		DFA-LGD
	General Fund Reauthorizations	135,000		State Engineer
	Total reauthorizations due		1,280,750	
20300	Interest accrued from Local Gov't Investment Pool	3,091		State Treasurer's Office
20800	Interest accrued from Local Gov't Investment Pool	434		State Treasurer's Office
20500	Interest accrued from Local Gov't Investment Pool	777		State Treasurer's Office
20600	Interest accrued from Local Gov't Investment Pool	50		State Treasurer's Office
39400	Interest accrued from Local Gov't Investment Pool	273		State Treasurer's Office
43000	Interest accrued from Local Gov't Investment Pool	362		State Treasurer's Office
00600	Interest accrued from Local Gov't Investment Pool	1,465		State Treasurer's Office
36100	Interest accrued from Local Gov't Investment Pool	223		State Treasurer's Office
11500	Interest accrued from Local Gov't Investment Pool	134		State Treasurer's Office
97200	Interest accrued from Local Gov't Investment Pool	2		State Treasurer's Office
54800	Interest accrued from Local Gov't Investment Pool	24		State Treasurer's Office
43400	Interest accrued from Local Gov't Investment Pool	24		State Treasurer's Office
43200	Interest accrued from Local Gov't Investment Pool	35		State Treasurer's Office
54700	Interest accrued from Local Gov't Investment Pool	14		State Treasurer's Office
75000	Interest accrued from Local Gov't Investment Pool	172		State Treasurer's Office
36300	Interest accrued from Local Gov't Investment Pool	11		State Treasurer's Office
18700	Interest accrued from Local Gov't Investment Pool	2		State Treasurer's Office
	Total accrued interest due		7,093	
10210	Outstanding transfer from trustee account		2,670,089	State Treasurer's Office
10060	Reimbursement due from Board of Finance		17,096,690	DFA Board of Finance
Total Due from other agencies--government funds only			21,300,598	
SIB	Interest accrued from Local Gov't Investment Pool		1,452	
Total Due from other agencies--government wide only			21,302,050	

28. NEGATIVE FUND BALANCES

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

Fund 10240: 2006B GRIP Debt Service fund \$73,579

This amount represents funds due to NMFA in excess of cash balance held at trustee and will reverse in 2010 upon transfers in.

Fund 10260: 2006D GRIP Debt Service Fund \$94,155

This amount represents funds due to NMFA in excess of cash balance held at trustee and will reverse in 2010 upon transfers in.

Fund 10410: 2008A GRIP Debt Service Fund \$52,142

This amount represents accounts and notes payable in excess of cash held at trustee--will reverse in 2010 upon transfers in.

Fund 10450: GRIP Line of Credit fund \$19,401,098

This amount represents cash overdrawn and due to the State Treasurer's Office, plus accounts payable in excess of cash available and will reverse in 2010 upon draw down from the line of credit.

Fund 34500: 2000 CHAT Project Fund \$1,886,711

This amount represents cash overdrawn and due to the State Treasurer's Office and will reverse in 2010 upon transfers in.

Fund 36800: 2002 CHAT Project Fund \$1,864,153

This amount represents cash overdrawn and due to the State Treasurer's Office and will reverse in 2010 upon transfers in.

Fund 89000: ARRA Projects Fund \$14,762,939

This amount represents revenue deferred due to receipt greater than 60 days past the year end and will reverse upon collection.

Fund 10030: Federal Planning and Development Fund \$3,669,693

This amount represents cash overdrawn and due to the State Treasurer's Office, plus revenue deferred due to receipt greater than 60 days past the year end, reduced by prepaid assets—part will reverse in 2010 upon collection of deferred revenue and recognition of prepaid amounts as expenditures. Part will require analysis in 2010 and corrective action as determined.

Fund 10060: Severance Tax Bond Fund \$3,055,966

This amount represents cash overdrawn and due to the State Treasurer's Office, reduced by receivables due from the State Board of Finance and will reverse in 2010 upon transfers in.

APPENDIX B

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

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

Certain Definitions

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

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

“Acquisition Fund” means the Fund so designated which is created by Section 501 of the Master Indenture.

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

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

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

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

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

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

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

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

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

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“Acquisition Fund” means the Fund so designated which is created by Section 501 of the Master Indenture.

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

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

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

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

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

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

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

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

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

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

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

“Business Day” means a day of the year on which banks located in the city (i) in which the office of the Trustee located at the address specified in Section 1106 of the Master Indenture is located or (ii) in which the office of a Liquidity Facility Provider is located, are not required or authorized to remain closed, and on which The New York Stock Exchange is not closed.

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

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

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

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

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

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

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

Master Indenture (which payment, other than Exchange Termination Payments, may be made net of Authority Exchange Payments).

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

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

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

“Debt Service Fund” means the Fund so designated which is created pursuant to Section 501 of the Master Indenture.

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

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

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

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

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

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

(e) In the computation of Debt Service Requirements relating to the issuance of additional Obligations as set forth in Section 206 of the Master Indenture, there shall be deducted from that computation amounts and investments which are irrevocably committed to make designated payments on Obligations and Additional Highway Bonds included as part of the computation during the applicable period, including, without limitation: (i) money on deposit in any debt service account, (ii) amounts on deposit in an escrow account, (iii) amounts deposited to the credit of an account for the payment of capitalized interest on Obligations and Additional Highway Bonds included as part of the computation, and (iv) money on deposit in an Account of Debt Service Reserve which may be used for payment of the final principal maturity of the Obligations secured by such Account in the Debt Service Reserve Fund.

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

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

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

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

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

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

"Debt Service Reserve Fund" means the Fund so designated which is created pursuant to Section 501 of the Master Indenture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Governmental Obligations;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Farmers Home Administration (FMHA) Certificates of Ownership;

(ii) Federal Housing Administration (FHA) Debentures;

(iii) General Services Administration Participation certificates;

(iv) Government National Mortgage Association (GNMA or “Ginnie Mae”) GNMA-guaranteed mortgage-backed bonds GNMA-guaranteed pass-through obligations (participation certificates);

(v) U.S. Maritime Administration Guaranteed Title XI financing;

(vi) U.S. Department of Housing and Urban Development (HUD) Project Notes Local Authority Bonds;

(vii) Tennessee Valley Authority (TVA) Debentures;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System Senior debt obligations (Consolidated debt obligations);

(ii) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(iii) Federal National Mortgage Association (FNMA or “Fannie Mae”) rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(iv) Student Loan Market Association (SLMA or Sallie Mae) Senior debt obligations;

(v) Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(vi) Farm Credit System Consolidated system-wide bonds and notes;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAAm” or “Aam” or by Moody’s of “Aaa,” including funds from which the Trustee or its affiliates receive fees for investment advisory or other services to such funds;

(e) Certificates of deposit (“CD”) secured at all times by collateral described in (a) and/or (b) above. CD’s must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” or better by S&P, and “Prime-1” or better by Moody’s. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

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

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

(i) Federal funds or bankers’ acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime- 1” by Moody’s and “A-I+” 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 the close of business on either (i) the day (whether or not a Business Day) immediately preceding an Interest Payment Date in the case of any Series 2008C/D Bonds bearing interest at Commercial Paper Rate, Daily Rate or Weekly Rate, (ii) the 15th day (whether or not a Business Day) immediately preceding an Interest Payment Date in the case of any Series 2008C/D Bonds bearing interest at a Semiannual Rate,

Term Rate, or Fixed Rate, or (iii) the Business Day immediately preceding an Interest Payment Date in the case of any Series 2008C/D Bonds bearing interest at an Auction Rate.

“Repayment Obligations” means the obligations of the Authority to repay a Credit Facility Provider, a Liquidity Facility Provider or the provider of a Reserve Alternative Instrument for amounts advanced by any such provider with respect to the principal of or interest on or the purchase price of Bonds issued under the Indenture.

“Reserve Alternative Instrument” means an insurance policy or surety bond or irrevocable letter of credit or guaranty rated in one of the top two Rating Categories by a Rating Agency deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for the deposit of cash and Investment Securities in satisfaction of the Debt Service Reserve Requirement for any Bonds. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account and the Principal Account in order to provide for the timely payment of interest and principal (whether at maturity or to pay a Mandatory Sinking Fund Installment therefor).

“Revenue Fund” means the fund so designated which is created by Section 501 of the Master Indenture.

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

“Securities Depository” means The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other securities depository designated in a Series Indenture, or (i) if the then Securities Depository resigns from its functions as depository of the Bonds, or (ii) if the Authority discontinues use of the Securities Depository pursuant to Section 308 of the Master Indenture, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Authority with the consent of the Trustee.

“Senior Lien Bonds” means Bonds issued by the Authority with a first lien (but not an exclusive first lien) on the Trust Estate, subject to the lien thereon of the Closed Lien Obligations and so designated in the applicable Series Indenture authorizing such Senior Lien Bonds.

“Series” means all Bonds of a designated series or subseries authenticated and delivered on original issuance authorized by a given Series Indenture, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the Master Indenture, regardless of variations in maturity, interest rate, Mandatory Sinking Fund Installments, or other provisions.

“Series Indenture” means any indenture of the Authority authorizing the issuance of a Series in accordance with the terms and provisions of the Master Indenture, executed and delivered in accordance with Section 203 thereof.

“SIFMA Index” means, with respect to any Series 2008C/D Bonds for which a rate is not set pursuant to the Indenture, the rate per annum determined on the basis of the seven-day high grade market index published weekly based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, Boston, Massachusetts, a Thomson Financial Services Company, or its successor, which meet specific criteria established by the Securities Industry and Financial Markets Association (formerly known as The Bond Market Association and the Public Securities Association).

“Special Record Date” for the payment of any Defaulted Interest on Bonds means a date fixed by the Trustee pursuant to Section 301 of the Master Indenture.

“State” means the State of New Mexico.

“State Revenues” means (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain public regulation commission

fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes (to the extent authorized to be paid into the State Road Fund in the future) in each case that are required by law to be paid into the State Road Fund, and interest on amounts in the State Road Fund; (ii) proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund; and (iii) such additional moneys as may in the future be authorized by law to be pledged as security, and are so pledged by the Authority pursuant to a Supplemental Indenture, as security for Obligations.

“State Road Fund” means the fund created pursuant to Section 67-3-65 NMSA 1978, as amended and supplemented.

“State Transportation Program” means the program of the Authority, the Commission and the State Transportation Department to finance, construct and improve State Transportation Projects as provided by the Act.

“State Transportation Program Financing Expenses” means (i) the fees and expenses of Fiduciaries, (ii) the fees and expenses of any auction agent, market agent and any broker-dealer then acting under a Series Indenture with respect to auction rate Bonds, (iii) the fees and expenses of any calculation agent then acting under a Series Indenture with respect to index-based Bonds, (iv) the costs of any remarketing of any Bonds, including the fees and expenses of any remarketing agent then acting under a Series Indenture with respect to variable rate Bonds, (v) the fees and expenses (but not Repayment Obligations) due to any Credit Facility Provider or any Liquidity Facility Provider with respect to any Bonds for which any Credit Enhancement Facility or a Liquidity Facility is in place, (vi) the fee of the Authority (other than Costs of Issuance) charged to the Commission and/or the Department in carrying out and administering its powers, duties and functions under the Act, the State Transportation Program, the Authority’s agreements with the Commission relating to the Bonds, the Closed Lien Obligations and the Master Indenture and the resolution of the Commission acknowledging and agreeing that the fee of the Authority shall be payable from the State Road Fund, (vii) fees and expenses associated with the delivery of a substitute Credit Enhancement Facility or Liquidity Facility under a Series Indenture, (viii) fees and expenses associated with the monitoring of the Bonds and the State Transportation Program by the Rating Agencies, and (ix) fees and expenses associated with (but not payments under) Qualified Exchange Agreements.

“State Transportation Projects” means the transportation projects authorized by Laws of New Mexico 2003 (First Special Session), Chapter 3, Sections 27 and 28, the cost of which projects are eligible for reimbursement from Federal Revenues pursuant to Title 23 of the United States Code and regulations promulgated thereunder, or such other federal statutes and regulations pursuant to which Federal Revenues are received by the Department and paid into the State Road Fund.

“Subordinate Lien Bonds” means Bonds issued by the Authority with a lien on the Trust Estate subordinate to the lien thereon of Senior Lien Bonds (but not an exclusive subordinate lien) and so designated in the applicable Series Indenture authorizing such Subordinate Lien Bonds.

“Subordinate Lien Obligations” means Subordinate Lien Bonds and any Qualified Exchange Agreement the priority of payment from the Trust Estate of which is equal with that of Subordinate Lien Bonds.

“Supplemental Indenture” means any indenture of the Authority, other than a Series Indenture, supplemental to or amendatory of the Master Indenture executed and delivered in accordance with Article VII of the Master Indenture.

“Tax Certificate” means, with respect to a Series the interest on which is intended to be excluded from the gross income of the owners thereof for federal income tax purposes, the certificate concerning certain federal tax matters furnished by the Authority and/or the Commission in connection with the initial issuance and delivery of such Series.

“Trust Estate” means (i) all rights, title, interest and privileges of the Authority to (a) the Pledged Revenues; (b) any Credit Enhancement Facility and any Liquidity Facility; (ii) the proceeds of the sale of Bonds, and all other moneys in all Funds and Accounts established under the Master Indenture or Series Indenture (other

than amounts in the Rebate Fund owing to the United States), including the investments, if any, thereof, and earnings, if any, thereon (other than as stated in Section 507 of the Master Indenture or Series Indenture) until applied in accordance with the terms of the Master Indenture; (iii) all rights, title, interest and privileges of the Authority in and to any Qualified Exchange Agreement and any Counterparty Payments (provided; however, that this clause (iii) shall not be for the benefit of a Qualified Counterparty with respect to its Qualified Exchange Agreement); and (iv) the money, Investment Securities and funds and all other right of every name and nature from time to time hereafter by delivery or by writing of any kind pledged, assigned transferred as and for additional security under the Indenture.

“Trustee” means Bank of Albuquerque, N.A. and the successor or successors of such bank or trust company and any other corporation which may at any time be substituted in its place pursuant to Article IX of the Master Indenture.

“Value” means, as of any date of computation, the value of the Trust Estate or Investment Securities calculated by or on behalf of the Authority as to (a) below and otherwise by the Trustee, as follows:

(a) with respect to any funds of the Authority held under the Master Indenture and on deposit in any commercial bank or as to any certificates of deposit or banker’s acceptances, the amount thereof plus accrued but unpaid interest;

(b) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, in *The New York Times*), the average of the bid and asked prices for such investments so published on such date of calculation or most recently prior to such date of calculation;

(c) as to investments (other than investment contracts and repurchase agreements) the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*, (i) the lower of the bid prices at such date of calculation for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments, or (ii) the bid price published by a nationally recognized pricing service;

(d) as to an investment contract, an amount equal to the principal amount plus any accrued interest required to be remitted to the Trustee (without regard to notice requirements of seven days or less) pursuant to the terms of such investment contract;

(e) as to a repurchase agreement, an amount equal to the unpaid repurchase price thereof plus any accrued interest thereon as of such date; and

(f) with respect to any investment not specified above, the value thereof established by prior written agreement by the Authority, the Trustee and the Rating Agencies.

Additional Obligations Payable from Trust Estate

Limitations Upon Issuance of Senior Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Senior Lien Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Senior Lien Bonds. However, before any Senior Lien Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to the Master Indenture):

(1) The Authority shall then be current in all accumulations required to be made pursuant to the Master Indenture with respect to Outstanding Obligations; and

(2) The State Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (x) then outstanding Closed Lien Obligations, (y) then Outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued; and

(3) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred and fifty percent (350%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (x) then outstanding Closed Lien Obligations, (y) then outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued;

Limitations Upon Issuance of Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Subordinate Lien Bonds or to prevent the issuance by the Commission of Additional Highway Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Subordinate Lien Bonds or any Additional Highway Bonds. However, before any Subordinate Lien Bonds, or Additional Highway Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of the Master Indenture (or similar sections of the Commission resolutions or instruments governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Bonds, or Additional Highway Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (v) then Outstanding Closed Lien Obligations, (w) then Outstanding Senior Lien Bonds, (x) then outstanding Subordinate Lien Obligations, (y) then outstanding Additional Highway Bonds, and (z) the Subordinate Lien Bonds proposed to be issued.

Limitations Upon Issuance of Junior Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Junior Subordinate Lien Bonds or to prevent the issuance of bonds or other obligations refunding all or a part of Junior Subordinate Lien Bonds. However, before any Junior Subordinate Lien Bonds are issued (excluding Refunding Bonds issued pursuant to Section 207 of the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to Section 503 of the Master Indenture (or similar sections of the Commission resolutions or instrument governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Junior Subordinate Lien Bonds shall have been sufficient to pay an amount representing two hundred percent (200%) of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on: (u) then Outstanding Closed Lien Obligations, (v) then Outstanding Senior Lien Bonds, (w) then Outstanding Subordinate Lien Bonds, (x) then Outstanding Additional Highway Bonds, (y) then Outstanding Junior Subordinate Lien Obligations, and (z) the Junior Subordinate Lien Bonds proposed to be issued.

Certification of State Revenues and Pledged Revenues. A written certificate or opinion by the Secretary of the Department, the chief financial officer of the Authority, or an Accountant's Certificate that such State Revenues and Pledged Revenues, as applicable, are sufficient to cover the amounts required by Sections 206(a), 206(b) or 206(c) of the Master Indenture shall be required and shall be conclusively presumed to be accurate in determining the right of the Authority to authorize, issue, sell and deliver additional Senior Lien Bonds, Subordinate Lien Bonds or Junior Subordinate Lien Bonds or the right of the Commission to authorize, issue, sell and deliver Additional Highway Bonds.

No provision of the Master Indenture shall be construed to prevent the issuance by the Authority or the Commission of additional bonds or other obligations payable from the Pledged Revenues constituting a lien on the

Trust Estate (or any portion thereof) subordinate and junior to the lien on the Trust Estate of Bonds described above. Such additional subordinate and junior bonds or other obligations may be issued pursuant to a Series Indenture and/or Supplemental Indenture prepared for that specific purpose or pursuant to an indenture or resolution separate and distinct from 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 Payment shall be credited toward the Interest Payment coming due on the next Interest Payment Date.

Application of Moneys in Other Funds and Accounts

(a) *Rebate Fund.* To the extent required by Section 606 of the Master Indenture, all of the amounts on deposit in the Funds and Accounts created and established pursuant to the Master Indenture and all amounts pledged to the payment of Debt Service for the Bonds pursuant to Section 501 of the Master Indenture, (i) shall be invested in compliance with the procedures established by the relevant Tax Certificate, and (ii) to the extent required by such Tax Certificate, the investment earnings thereon shall be deposited from time to time into the appropriate Rebate Account for timely payment of all amounts due and owing to the United States Department of the Treasury. Amounts on deposit in the Rebate Fund shall not be subject to the lien and pledge of the Master Indenture to the extent such amounts are required to be paid to the United States Department of the Treasury. The Authority shall verify or cause to be verified from the date of delivery of each Series the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that (x) all of requirements of this subsection (a) have been met on a continuing basis, (y) the proper amounts are deposited into each Rebate Account, and (z) the timely payment of all amounts due and owing to the United States Department of the Treasury from each Rebate Account has been made. Upon receipt of a verification report from an accounting or investment consultant retained for such purpose or an opinion of Bond Counsel that the balance in any Rebate Account is in excess of the amount required by the relevant Tax Certificate to be included therein, such excess shall be transferred to the Revenue Fund. Records of the determinations made with respect to the above covenant and the Rebate Fund shall be retained by the Authority until six years after the retirement of all of the Bonds.

(b) *Interest Accounts.* Moneys in each respective Interest Account shall be applied to pay interest on the related Bonds and any Repayment Obligations 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 hereto against a claims and demands of all Persons whomsoever.

In consideration of the purchase and acceptance of the Obligations by those who shall own the same from time to time, the provisions of the Master Indenture shall be a part of the contract of the Authority with the Owners and shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners.

Tax Covenants. The Authority covenants for the benefit of the Owners of each Series the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that it will not take any action or omit to take any action with respect to such Bonds, the proceeds thereof or any other funds of the Authority if such action or omission would cause the interest on such Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, would subject the Authority to any penalties under Section 148 of the Code, or would cause such Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code. The foregoing covenants shall remain in full force and effect notwithstanding the payment in full or defeasance of such Bonds until the date on which all obligations of the Authority in fulfilling the above covenant under the Code have been met. The Authority shall execute and deliver from time to time such certificates, instruments and documents as shall be deemed necessary or advisable to evidence compliance by the Authority with said Code sections and the regulations thereunder with respect to the use of the proceeds of such Bonds and any other funds of the Authority. Such certificates, instruments and documents may contain such stipulations as shall be necessary or advisable in connection with the stated purpose of the Master Indenture and the foregoing provisions thereof, and the Authority and the Trustee covenant and agree to comply with the provisions of any such stipulation throughout the term of such Bonds.

Books of Account; Annual Audit. The Authority shall cause to be kept and maintained proper books of account relating to the funds and accounts established under the Master Indenture, in which full, true and correct entries will be made, in accordance with generally accepted accounting principles, of all transactions of or in relation to the business of the Authority with respect to the funds and accounts established under the Master Indenture, and after the end of each Fiscal Year shall cause such books of account to be audited by a certified public accountant or firm of such accountants duly licensed to practice and practicing as such under the laws of the State, selected by the Authority, who is independent and not under the domination of the Authority, who does not have any substantial interest, direct or indirect, in the Authority, which audit shall be completed as soon as possible after the end of each Fiscal Year but in any event within 270 days thereafter. A copy of each annual balance sheet statement of net assets, statement of revenues and expenses, and statement of cash flows, showing in reasonable detail the financial condition of the Funds and Accounts established under the Master Indenture, as of the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for the Fiscal Year, shall be filed promptly with the Trustee and shall be available for inspection by any Owner at the office of the Trustee designated for such purposes during normal business hours.

Compliance with Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by the Master Indenture or a Series Indenture to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, shall have happened and shall have been

performed, and such Bonds, together with all indebtedness of the Authority, shall be within every debt and other limit prescribed by law.

Waiver of Laws. To the extent permitted by law and public policy, the Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Master Indenture, any Series or Supplemental Indenture, or the Obligations, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or claims for interest by the purchase or funding of such Bonds, or claims for interest by any other arrangement.

Security Interest in 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) enjoy 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 hereof) in order:

(a) to add to the covenants and agreements of the Authority in the Master Indenture other covenants and agreements thereafter to be observed by the Authority;

(b) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Master Indenture;

(c) to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Master Indenture;

(d) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee;

(e) to include as Pledged Revenues or money under, and subject to the provisions of, the Master Indenture any additional revenues or money legally available therefor;

(f) to cure any ambiguity, defect, omission or inconsistent provision in the Master Indenture or to insert such provisions clarifying matters or questions arising under the Master Indenture as are necessary or desirable, provided such action shall not adversely affect the interest of the Owners 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.

APPENDIX C

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic descriptions are furnished for information only. The Bonds do not constitute a general obligation of the State and are special limited obligations of NMFA payable solely from the Trust Estate. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the Series 2010B Bonds do not constitute or give rise to a personal liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA 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 NMFA 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 by land area, containing approximately 121,593 square miles. The State's 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). Evenings are crisp and cool in all seasons because of low humidity.

The State has a semiarid subtropical climate with light precipitation. 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). The State is an experience in comfortable living with its clean air, blue skies and fair weather.

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 who are elected to four-year terms beginning the 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.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms, members of the House 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 sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature may be convened by the Governor, and under certain limited circumstances, extraordinary sessions may be convened by the Legislature. Legislators receive no 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 court is the trial court 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 the time of the 2000 United States Census was 1,819,046. In the 1990's the State was the 12th fastest growing state in the nation, as the population increased 20.1 percent from 1990 to 1,820,704 in 2004. Over the same period of time the national population grew 13.2 percent. From 2000 to 2008, the State's population grew 9 percent to 1,984,356, while the national population grew 7.8 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 Sandoval, Doña Ana, Bernalillo, Santa Fe, Valencia, and San Juan. The following table sets forth information on population growth in New Mexico and nationally.

POPULATION NEW MEXICO AND THE UNITED STATES 2000-2009

<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>
2000	1,820,813	282,171,957	0.7%	1.1%
2001	1,828,809	285,081,556	0.4	1.0
2002	1,850,035	287,803,914	1.2	1.0
2003	1,869,683	290,326,418	1.1	0.9
2004	1,891,829	293,045,739	1.2	1.3
2005	1,916,538	295,753,151	1.3	0.9
2006	1,942,608	298,593,212	1.4	1.0
2007	1,968,731	301,579,895	1.3	1.0
2008	1,986,763	304,374,846	1.0	0.9
2009	2,009,671	307,006,550	1.2	0.9

(Source: U.S. Census Bureau, Population Estimates Program; last updated May 2010.)

Major industries in the State are include oil and natural gas production, manufacturing, 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 1999-2008.

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TOTAL FULL-TIME AND PART-TIME EMPLOYMENT BY INDUSTRY

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Growth 2007-2008	Growth 1999-2008
Total employment	942,689	964,673	968,929	979,946	999,286	1,023,303	1,046,746	1,076,098	1,100,456	1,117,433	1.54%	18.54%
Wage and salary employment	765,161	781,167	791,927	800,588	812,914	829,861	845,127	868,119	878,315	881,422	0.35	15.19
Proprietors employment	177,528	183,506	177,002	179,358	186,372	193,442	201,619	207,979	222,141	236,011	6.24	32.94
Farm proprietors employment	15,428	15,227	17,825	14,530	16,045	15,632	15,588	15,255	18,183	17,855	(1.80)	15.73
Nonfarm proprietors employment	162,100	168,279	159,277	164,828	170,327	177,810	186,031	192,724	203,958	218,156	6.96	34.58
Farm employment	22,120	21,910	24,355	20,845	22,838	22,619	23,262	22,829	25,794	24,532	(4.89)	10.90
Nonfarm employment	920,569	942,763	944,574	959,101	976,448	1,000,684	1,023,484	1,053,269	1,074,662	1,092,901	1.70	18.72
Private employment	721,909	740,439	739,416	750,194	762,831	783,120	804,332	838,993	864,806	880,216	1.78	21.93
Forestry, fishing, related activities ⁽¹⁾	5,900	5,489	5,163	5,096	4,979	5,181	5,239	5,136	5,167	5,410	4.70	(8.31)
Mining ⁽²⁾	17,252	19,016	19,612	17,957	18,576	19,245	21,171	23,726	24,865	27,555	10.82	59.72
Utilities	4,224	4,303	4,249	4,078	4,114	4,040	4,075	4,121	4,450	4,532	1.84	7.29
Construction ⁽³⁾	59,814	60,690	63,293	61,864	64,135	68,382	73,978	79,826	80,573	79,641	(1.16)	33.15
Manufacturing	46,176	46,979	45,621	43,908	41,544	40,542	41,106	42,710	42,732	41,611	2.62	(9.89)
Durable goods manufacturing ⁽⁴⁾	33,799	33,699	32,327	30,838	28,715	27,857	28,451	29,821	29,714	28,521	(4.01)	(15.16)
Nondurable goods manufacturing ⁽⁵⁾	12,917	13,280	13,294	13,070	12,829	12,685	12,655	12,889	13,018	13,090	0.55	1.34
Wholesale trade	27,390	28,526	27,801	27,232	26,633	27,285	28,377	29,288	29,116	29,399	0.97	7.33
Retail trade ⁽⁶⁾	112,089	113,080	110,010	111,167	112,445	114,169	116,097	116,750	118,932	119,843	0.77	6.92
Transportation and warehousing ⁽⁷⁾	24,282	24,905	23,977	24,229	24,158	24,961	25,321	25,953	27,443	27,691	0.90	14.04
Information ⁽⁸⁾	17,276	18,033	19,438	18,578	17,927	17,163	17,299	18,445	18,863	18,936	0.39	9.61
Finance and insurance ⁽⁹⁾	32,034	31,613	30,848	31,251	31,544	31,769	32,039	32,172	33,567	34,575	3.00	7.93
Real estate and rental and leasing ⁽¹⁰⁾	27,951	29,635	29,363	30,229	31,922	34,715	38,209	40,313	42,303	45,629	7.86	63.25
Professional, scientific and technical services	57,079	59,258	59,391	59,834	62,534	65,461	66,337	73,827	81,492	83,672	2.68	46.59
Management of companies and enterprises	5,906	5,810	6,049	6,129	5,440	5,354	6,354	6,425	6,084	5,663	(6.92)	(4.11)
Administrative and waste services ⁽¹¹⁾	47,958	51,414	53,226	54,229	53,292	54,598	55,224	58,489	60,352	60,954	1.00	27.10
Educational services	11,083	11,703	11,853	12,765	13,932	14,888	15,384	15,919	16,072	16,762	4.29	51.24
Health care and social assistance ⁽¹²⁾	84,849	88,903	87,694	94,469	99,899	103,691	105,151	108,016	111,576	115,883	3.86	36.58
Arts, entertainment and recreation ⁽¹³⁾	19,125	19,382	18,646	19,994	20,376	20,987	21,463	21,795	22,867	23,887	4.46	24.90
Accommodation and food services ⁽¹⁴⁾	72,511	73,897	76,263	77,972	79,682	80,465	81,343	84,403	85,211	84,138	(1.26)	16.03
Other services, except public administration ⁽¹⁵⁾	48,370	47,803	46,919	49,213	49,699	50,224	50,665	51,679	53,141	54,435	2.44	12.54
Government and government enterprises ⁽¹⁶⁾	198,660	202,324	205,158	208,907	213,617	217,564	218,652	214,276	209,856	212,685	1.35	7.06

⁽¹⁾ The "Forestry, fishing, related activities, and other" category includes: forestry and logging; fishing, hunting and trapping; agriculture and other 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 good 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; and private households.

⁽¹⁶⁾ The "Government and government enterprises" category includes: federal, civilian; military; state and local; and state government and local government.

(Source: U.S. Department of Commerce, Regional Economic Information System, Bureau of Economic Analysis; last updated March 25, 2010.)

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
2000-2009**

<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> ⁽¹⁾⁽²⁾	<u>United States</u> ⁽¹⁾⁽²⁾	<u>New Mexico</u> ⁽¹⁾⁽²⁾	<u>United States</u> ⁽¹⁾⁽²⁾	<u>New Mexico</u> ⁽¹⁾⁽²⁾	<u>United States</u> ⁽¹⁾⁽²⁾	
2000	852	142,583	810	136,891	5.0%	4.0%	125%
2001	864	143,734	821	136,933	4.9	4.7	104
2002	872	144,863	823	136,485	5.5	5.8	95
2003	888	146,510	836	137,736	5.9	6.0	98
2004	902	147,401	850	139,252	5.8	5.5	105
2005	913	149,320	866	141,730	5.2	5.1	102
2006	931	151,428	892	144,427	4.1	4.6	89
2007	942	153,124	909	146,047	3.5	4.6	76
2008	961	154,287	918	145,362	4.5	5.8	78
2009	956	151,142	887	139,877	7.2	9.3	77

(1) Annual Averages. Estimates made in accordance with the U.S. Department of Labor.

(2) Details may not add to total because of rounding.

(Source: New Mexico Department of Workforce Solutions, Economic Research and Analysis Bureau. Last revised March 20, 2010, for New Mexico figures and April 20, 2010, for U.S. figures.)

**PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
2000-2009**

<u>Year</u>	<u>Personal Income (000)</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2000	41,425,052	8,554,866,000	6.8%	8.2%
2001	45,335,831	8,878,830,000	9.4	3.8
2002	46,341,507	9,054,781,000	2.2	2.0
2003	48,141,274	9,369,072,000	3.9	3.5
2004	51,576,450	9,928,790,000	7.1	6.0
2005	55,342,340	10,476,669,000	7.3	5.5
2006	59,274,213	11,256,516,000	7.1	7.4
2007	63,182,025	11,879,836,000	6.6	5.5
2008	63,679,909	12,225,589,576	5.0	2.9
2009	66,304,015	12,015,534,968	0.0	(1.9)

(Source: U.S. Department of Commerce, Bureau of Economic Analysis; last revised March 2010. Bureau of Business and Economic Research, University of New Mexico; last revised April 2010.)

PER CAPITA PERSONAL INCOME
NEW MEXICO AND THE UNITED STATES
2000-2009

<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>N.M.</u>	<u>U.S.</u>
2000	\$22,751	\$30,318	75%	6.0%	7.0%
2001	24,790	31,145	80	9.0	2.7
2002	25,049	31,462	80	1.0	1.0
2003	25,748	32,271	80	2.8	2.6
2004	27,263	33,881	80	5.9	5.0
2005	28,876	35,424	82	5.9	4.6
2006	30,513	37,698	81	5.7	6.4
2007	32,093	39,392	81	5.2	4.5
2008	33,389	40,166	83	4.0	2.0
2009	32,992	39,138	84	(1.2)	(2.6)

(Sources: U.S. Department of Commerce, Bureau of Economic Analysis, December 2009; Bureau of Business and Economic Research, University of New Mexico; last revised April 2010.)

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WAGES AND SALARIES BY INDUSTRY SECTOR

2001-2008

NAICS Earnings by Place of Work ⁽¹⁾ Applicable to 2001-2008	New Mexico (Dollars in Thousands)				United States (Dollars in Millions)				Average Annual Percent Change 2001 - 2008		Distribution of 2008 Wages & Salaries	
	2008	2006	2004	2001	2008	2006	2004	2001	N.M.	U.S.	N.M.	U.S.
Farm Wage and Salary	208,698	219,765	189,172	176,815	20,721	20,005	19,109	17,926	18.00%	15.60%	0.20%	0.10%
Non-farm Wage and Salary	33,715,775	30,600,701	26,823,358	23,103,525	6,517,283	6,040,256	5,400,450	4,930,431	45.90	82.20	36.50	35.30
Private Wage and Salary	24,772,013	22,112,414	18,663,773	16,369,207	5,390,379	5,019,888	4,461,334	4,118,734	51.30	30.90	26.80	29.20
Forestry, Fishing, related activities, and other	59,740	58,724	53,726	48,420	12,923	11,993	10,812	9,711	23.40	33.10	0.10	0.10
Mining	1,434,355	1,147,049	787,524	737,368	62,230	47,867	34,856	32,011	94.50	94.40	1.60	0.30
Utilities	312,639	252,398	230,790	231,264	47,830	43,604	40,997	39,738	35.10	20.40	0.30	0.30
Construction	2,445,910	2,177,434	1,675,345	1,491,651	367,928	356,600	297,819	272,368	64.00	35.10	2.60	2.00
Manufacturing	1,708,923	1,688,940	1,476,915	1,576,829	741,831	738,484	693,091	712,816	8.40	4.10	1.80	4.00
Wholesale Trade	1,168,804	1,065,049	912,422	844,202	376,738	349,619	307,255	284,855	38.50	32.30	1.30	2.00
Retail Trade	2,501,968	2,359,401	2,176,025	1,928,437	417,338	408,360	380,491	354,110	29.70	17.90	2.70	2.30
Transportation and Warehousing	920,813	848,719	765,595	651,117	206,312	194,358	176,600	167,414	41.40	23.20	1.00	1.10
Information	681,221	619,675	534,061	573,774	215,134	204,231	192,338	209,312	18.70	2.80	0.70	1.20
Finance and Insurance	1,136,957	1,092,655	973,134	838,215	518,740	491,249	423,149	375,169	35.60	38.30	1.20	2.80
Real Estate and Rental and Leasing	367,554	354,529	294,687	245,480	95,738	95,016	81,648	70,280	49.70	36.20	0.40	0.50
Professional, Scientific, and Technical Services	3,805,813	3,135,727	2,386,588	1,987,406	595,728	519,853	437,091	412,697	91.50	43.40	4.10	3.20
Management of Companies and Enterprises	301,575	306,808	247,768	247,738	182,857	163,809	140,555	119,725	21.70	52.70	0.30	1.00
Administrative and Waste Services	1,460,751	1,326,078	1,147,985	1,002,275	266,043	248,521	217,562	192,949	45.70	37.90	1.60	1.40
Educational Services	322,727	272,132	247,916	185,864	109,293	94,694	84,982	69,003	73.60	58.40	0.30	0.60
Health Care and Social Assistance	3,629,952	3,165,313	2,757,001	2,073,310	677,182	598,933	531,725	438,217	75.10	54.50	3.90	3.70
Arts, Entertainment, and Recreation	196,907	172,465	152,909	132,041	71,203	65,582	57,472	50,672	49.10	40.50	0.20	0.40
Accommodations and Food Services	1,305,144	1,181,837	1,050,152	907,708	218,869	199,725	178,357	157,160	43.80	39.30	1.40	1.20
Other Services, Except Public Administration	1,010,260	887,481	802,190	666,108	206,462	187,390	174,534	150,572	51.70	37.10	1.10	1.10
Government and Government Enterprises	<u>8,943,762</u>	<u>8,488,287</u>	<u>8,168,625</u>	<u>6,734,318</u>	<u>1,126,904</u>	<u>1,020,368</u>	<u>939,116</u>	<u>811,697</u>	<u>32.80</u>	<u>38.80</u>	<u>9.70</u>	<u>6.10</u>
Total	<u>92,412,261</u>	<u>83,533,581</u>	<u>72,517,661</u>	<u>62,753,072</u>	<u>18,445,666</u>	<u>17,120,405</u>	<u>15,281,343</u>	<u>13,997,567</u>			<u>10.000%</u>	<u>100.00%</u>

(1) The estimates of wage and salary disbursements for 2001-2006 are based on the 2002 North American Industry Classification System (NAICS). The estimates for 2007 forward are based on the 2007 NAICS.

(Source: U.S. Department of Commerce, Bureau of Economic Analysis, December 2009 (Table SA079).)

APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

FORM OF OPINION OF BOND COUNSEL

Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the New Mexico Finance Authority, issued its opinion in substantially the following form at the time of initial delivery of the Series 2008C/D Bonds, i.e., May 22, 2008. Bond Counsel has not been asked to confirm or update its opinion and Bond Counsel has not undertaken to update or confirm its opinion since the date it was originally delivered. Such opinion speaks only as of its date:

SUTIN THAYER & BROWNE

A PROFESSIONAL CORPORATION
LAWYERS

IRWIN S. MOISE (1906-1984)
LEWIS R. SUTIN (1908-1992)
FRANKLIN JONES (1919-1994)
RAYMOND W. SCHOWERS (1948-1995)
GRAHAM BROWNE (1935-2003)
MICHAEL G. SUTIN (OF COUNSEL)
BENJAMIN ALLISON
C. SHANNON BACON
PAUL BARDACKE
JAMES E. BRISTOL III
ANNE P. BROWNE
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MARK CHAIKEN
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MARIA MONTOYA CHAVEZ
SAUL COHEN
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MICHAEL J. GOLDEN
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ROBERT G. HEYMAN
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HENRY A. KELLY
KERRY KIERNAN
PETER S. KIERST
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ANDREW P. KNIGHT
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DEREK V. LARSON
C. JOSEPH LENNIHAN
STEVEN DOUGLAS LOONEY
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New Mexico Finance Authority
Santa Fe, New Mexico

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the New Mexico Finance Authority (the "NMFA") of (i) its \$84,800,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C (the "2008C Bonds"), and (ii) its \$50,400,000 Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) (the "2008D Bonds and together with the 2008C Bonds the "2008C/D Refunding Bonds"). The 2008C/D Refunding Bonds are being issued for the purpose of providing funds to refund outstanding bonds of the NMFA issued on behalf of the Commission.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 et seq., NMSA 1978, as amended and supplemented (the "NMFA Act"). The 2008C/D Refunding Bonds are being issued pursuant to the March 20, 2008 direction of the Commission, Chapter 3, Laws of New Mexico 2003 (1st Special Session) (compiled in part as Sections 67-3-59.2, 67-3-59.3 and 67-3-65.1) (the "GRIP Financing Legislation"), the NMFA Act, resolutions adopted by the NMFA on February 28, 2008 and on April 24, 2008 (collectively, the "Resolutions"), the Master Indenture of Trust dated as of May 1, 2004 (the "Master Indenture") between the NMFA and Bank of Albuquerque, N.A., as trustee (the "Trustee") and the Sixth Series Indenture of Trust dated as of May 1, 2008 (the "Sixth Series Indenture" and collectively with the Master Indenture, the "Indenture") between the NMFA and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have examined the provisions of the NMFA Act, the GRIP Financing Legislation, the Resolutions, the Indenture, and an executed Bond of the first maturity of each series of the 2008C/D Refunding Bonds. We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion. Regarding questions of fact material to our opinion, we have relied on the representations of the NMFA contained in the Resolutions, and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The NMFA is a public body politic and corporate, separate and apart from the State of New Mexico, constituting a governmental instrumentality, duly organized and validly existing under the laws of the State of New Mexico (the "State") and has lawful authority to issue the 2008C/D Refunding Bonds.

2. The Resolutions have been duly adopted by the NMFA, are valid and binding obligations of the NMFA and create a valid lien on and pledge of the Pledged Revenues for the payment of principal of and interest on the 2008C/D Refunding Bonds.

3. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Pledged Revenues and the funds and accounts held by the Trustee and pledged under the Indenture to secure the payment of the principal of and interest on the 2008C/D Refunding Bonds on a parity with other Subordinate Lien Bonds issued or to be issued under the Indenture, and with a lien subordinate to the lien of thereon of the Senior Lien Bonds issued or to be issued under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

4. The 2008C/D Refunding Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Pledged Revenues, the funds and accounts held by the Trustee and pledged under the Indenture, and do not constitute a debt or liability of the State or any subdivision thereof within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights and obligations under the 2008C/D Refunding Bonds, the Resolutions and the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the NMFA;

(b) we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2008C/D Refunding Bonds and express herein no opinion relating thereto;

(c) we express no opinion as to the validity or enforceability of, or the security provided by, the liquidity facilities issued by JPMorgan Chase Bank, National Association with respect to the 2008C/D Refunding Bonds;

(d) our opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result;

(e) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters;

(f) our opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur;

(g) we have not addressed, nor do we express any opinion on, the tax consequences to any person regarding the investment in, the ownership or disposition of, or the accrual or receipt of interest on, the 2008C/D Refunding Bonds; and

(h) we express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein.

SUTIN, THAYER & BROWNE
A Professional Corporation

FORM OF OPINION OF SPECIAL TAX COUNSEL

Ballard Spahr LLP, Special Tax Counsel to the New Mexico Finance Authority, issued its opinion in substantially the following form at the time of initial delivery of the Series 2008C/D Bonds, i.e., May 22, 2008. Special Tax Counsel has not been asked to confirm or update its opinion and Special Tax Counsel has not undertaken to update or confirm its opinion since the date it was originally delivered. Such opinion speaks only as of its date:

_____, 2008

New Mexico Finance Authority
Santa Fe, New Mexico 87501

Re: New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2008C
New Mexico Finance Taxable Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2008D (Taxable)

We have acted as Special Tax Counsel to the New Mexico Finance Authority (the “NMFA”) in connection with the issuance by the NMFA of its (a) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008C in the aggregate principal amount of \$84,800,000 (the “Series 2008C Bonds”), and (b) Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2008D (Taxable) in the aggregate principal amount of \$50,400,000 (the “Series 2008D Bonds” and, collectively with the Series 2008C Bonds, the “Series 2008C/D Bonds”). The Series 2008C/D Bonds are being issued for the purpose of providing funds to refund certain outstanding bonds of the NMFA.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA, the New Mexico Department of Transportation (“NMDOT”) and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Furthermore, with respect to the validity of the Series 2008C/D Bonds, we are relying upon the opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the NMFA. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the “Code”), contains a number of requirements and restrictions which apply to the Series 2008C Bonds. The NMFA and NMDOT have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2008C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008C Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and NMDOT with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2008C Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as presently enacted and construed, as follows:

1. Interest on the Series 2008C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. Interest on the Series 2008D Bonds is taxable as ordinary income for purposes of federal income tax.

2. Interest on the Series 2008C/D 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 2008C/D Bonds; and

(b) although we have rendered an opinion that interest on the Series 2008C Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of or the accrual or receipt of interest on, the Series 2008C Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008C Bonds.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

DTC, New York, NY, will act as securities depository for the Series 2008C/D Bonds. The Series 2008C/D Bonds are 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 was issued for each maturity of the Series 2008C/D Bonds, each in the aggregate principal amount of such maturity, and were 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, 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 highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2008C/D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008C/D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008C/D 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 2008C/D Bonds, except in the event that use of the book-entry system for the Series 2008C/D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008C/D 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 2008C/D 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 2008C/D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series 2008C/D 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 any other DTC nominee) will consent or vote with respect to the Series 2008C/D Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 2008C/D 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 2008C/D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the NMFA or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2008C/D Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

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