MARKET OVERVIEW AND ASSESSMENT OF STATE DEBT

Presented to the

STATE OF NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

July 3, 2008

Public Financial Management, Inc.

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July 3, 2008

Senator John Arthur Smith, Chair
Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

Dear Chairman Smith:

It is our pleasure to present you with the following overview and analysis of the State of New Mexico's state-level debt. As part of this engagement, PFM collected data on the outstanding debt of the State, state-level borrowers, and various "pass-through" issuers that sell asset-backed debt at the State (rather than local or regional) level.

In general, we believe this assessment shows a generally healthy picture of the issuers examined. With the exception of New Mexico Educational Assistance Foundation, no agency has outstanding auction rate securities, the type of security hit hardest by the recent subprime mortgage crisis. The New Mexico Finance Authority (NMFA) recently refinanced all of its outstanding auction rate securities, and the EAF has taken similar steps to address its outstanding auction rate securities. Also, with the exception of a single NMFA series, no entity has outstanding variable rate demand bonds insured by a "troubled" bond insurance company. The NMFA is currently working on a plan to refinance this series of bonds.

As with most issuers in country, many of New Mexico's state level issuers were frequent users of bond insurance for fixed rate series of bonds. The bond insurance was either purchased directly as part of negotiated transactions or at the option of bidders on competitive sales. The risk associated with troubled bond insurers on fixed rate bonds has been passed on to investors and does not pose a financial threat to the issuers. However, depending on developments in the bond insurance industry, it may be more difficult for certain issuers to obtain similar insurance in the future. Given the high underlying credit quality of most state-level entities, this should not adversely affect their ability to issue fixed rate bonds in the future.

For several of the issuers covered by this report, we note certain types of risk such as "basis risk," "renewal risk," and "counterparty risk." These types of risk are inherent in the use of variable rate demand bonds that also involve interest rate swap contracts, both of which are used by the Finance Authority and the University of New Mexico. Although each transaction has a unique set of risks and considerations, we generally do not see these "synthetic fixed rate" and "basis swap" transactions as immediate threats to the issuers nor as structures requiring immediate refinancing. Used appropriately, these products can effectively lower issuers' costs of capital. However, they do require frequent and diligent monitoring.

The report is organized by issuer, with a textual overview and graphics that present the amounts and types of debt outstanding. Detailed analyses for the more complex transaction structures are included as appropriate.

We have enjoyed working with you on this engagement and would be happy to answer any questions you may have on this report.

Sincerely,

Public Financial Management, Inc.

John H. Bonow	Dennis Waley	Duncan Brown
Managing Director	Senior Managing Consultant	Consultant

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Summary Chart

Summary Chart

	Underlying Ratings			Fixed Rate Debt		Variable Rate Demand Bonds		Auction Rate Securities		Other Variable Debt	All Bonds		Swaps
	Moody's	S&P		Insured	Uninsured	Insured	Uninsured	Insured	Uninsured	Uninsured	Insured	Uninsured	
General Obligation	Aa1	AA+	Issues		6							6	
			Par Amount		$309.9							$309.9	
Severance Tax (Senior)	Aa2	AA	Issues	3	4						3	4	
			Par Amount	$211.8	$434.0						$211.8	$434.0	
Severance Tax (Supplemental)	Aa3	AA-	Issues	3	3						3	3	
			Par Amount	$33.0	$34.0						$33.0	$34.0	
Dept. of Transportation (Closed Liens)	Aa2	AAA	Issues	1	8						1	8	
	Aa2	AA-	Par Amount	$9.4	$247.2						$9.4	$247.2	
Finance Authority: GRIP	Aa2	AA+	Issues	3	1		6				3	7	5
	Aa3	AA	Par Amount	$884.7	$150.0		$425.6				$884.7	$575.6	$375.2
Finance Authority: PPRF (Senior)	Aa2	AA+	Issues	20	1						20	1	
			Par Amount	$466.4	$157.6						$466.4	$157.6	
Finance Authority: PPRF (Subordinate)	Aa3	A+	Issues	9							9		
			Par Amount	$381.4							$381.4		
Finance Authority: Cigarette Tax	A2	A	Issues	1	1	1					2	1	
	(2004A fixed-rate only)		Par Amount	$22.5	$2.4	$8.4					$30.9	$2.4	
Finance Authority: Misc.			Issues	1	4						1	4	
			Par Amount	$2.5	$26.5						$2.5	$26.5	
University of New Mexico	Aa3	AA	Issues	8	3		3				8	6	5
	(open lien)		Par Amount	$472.1	$92.9		$106.7				$472.1	$199.6	$144.4
New Mexico State University	Aa3	AA	Issues	6							6		
			Par Amount	$94.7							$94.7		
MFA: Single Family Mortgage			Issues	58						1	58	1	
			Par Amount	$1,087.8						$181.8	$1,087.8	$181.8	
MFA: Multifamily Housing			Issues	3	33		4				3	37	
			Par Amount	$16.1	$123.3		$19.0				$16.1	$142.3	
MFA: Capital Debt	not rated	not rated	Issues	1							1		
			Par Amount	$2.6							$2.6		
Regional Housing Authorities			Issues	2	15		2				2	17	
			Par Amount	$8.1	$36.2		$2.8				$8.1	$39.0	
Educational Assistance Foundation			Issues		7		5		15	2		29	
			Par Amount		$59.5		$436.0		$370.8	$175.4		$1,041.7	
Hospital Equip. Loan Council			Issues		3	2					2	3	
			Par Amount		$23.8	$201.9					$201.9	$23.8	

(Note: par amounts are expressed in millions.)

Direct State Debt

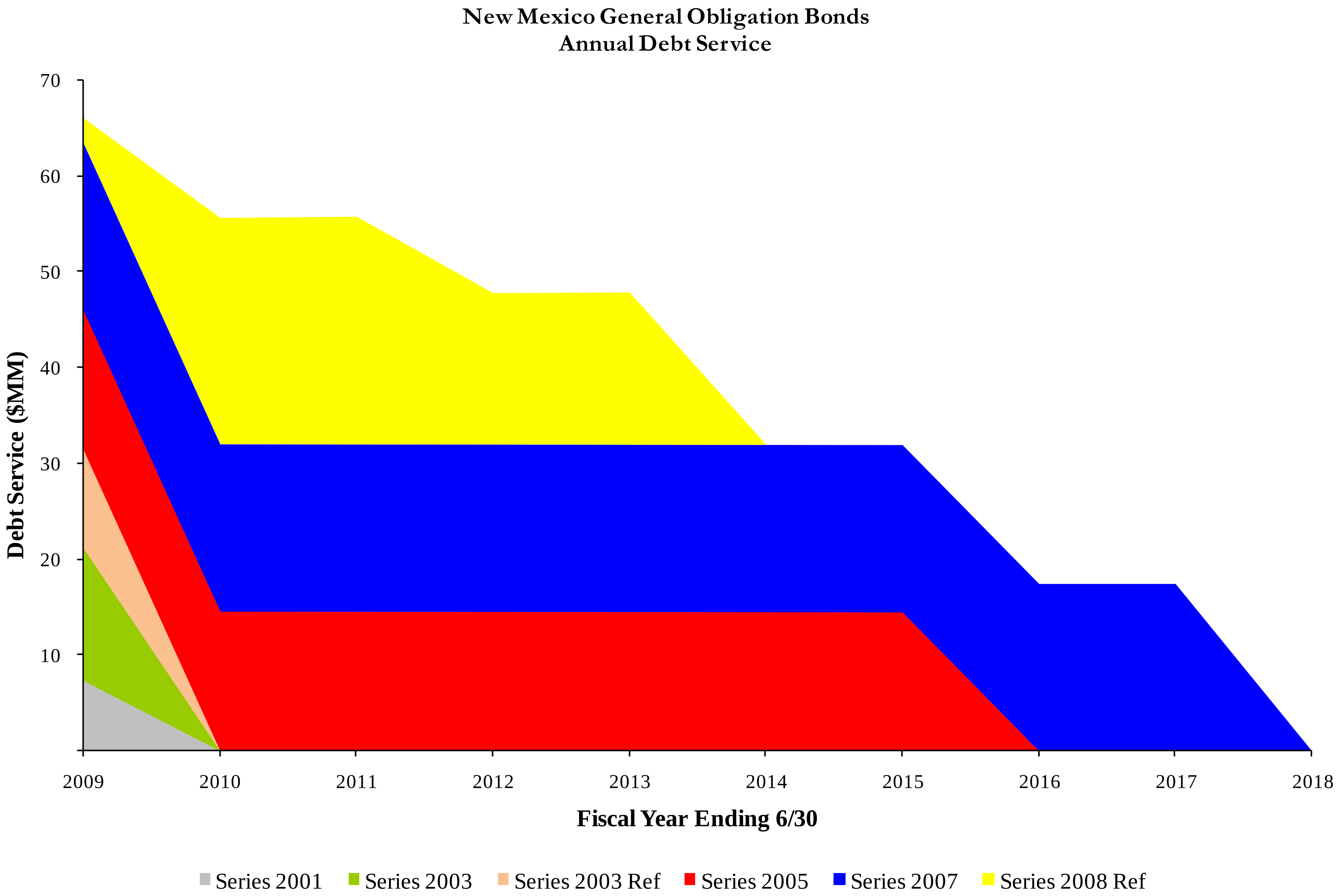
General Obligation

The State periodically issues bonds secured by the full faith and credit of the State of New Mexico: general obligation (GO) bonds payable from ad valorem property taxes. The State's GO bonds are typically sold via competitive sale and without bond insurance. Each series of GO bonds carries fixed interest rates, and the final maturity of each bond issue is no greater than 10 years from the date of issuance.

The State's GO bonds are rated "Aa1" by Moody's and "AA+" by Standard & Poor's. This is greater than the GO (or equivalent) ratings of 26 states rated by Moody's, lower than 9 states, and equal to 11 states. This is greater than the GO or equivalent ratings of 28 states rated by S&P, lower than 10 states, and equal to 12 states.

After giving effect to the Refunding Series 2008A General Obligation Bonds (scheduled to close July 29), the State will have $309.9 million of outstanding GO bonds.

Underlying Ratings			Fixed Rate Debt		All Bonds	
Moody's	**S&P**		**Insured**	**Uninsured**	**Insured**	**Uninsured**
Aa1	AA+	Issues		6		6
		Par Amount		$309.9		$309.9


New Mexico General Obligation Bonds
Annual Debt Service
Debt Service ($MM)
70
60
50
40
30
20
10
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Fiscal Year Ending 6/30
Series 2001
Series 2003
Series 2003 Ref
Series 2005
Series 2007
Series 2008 Ref

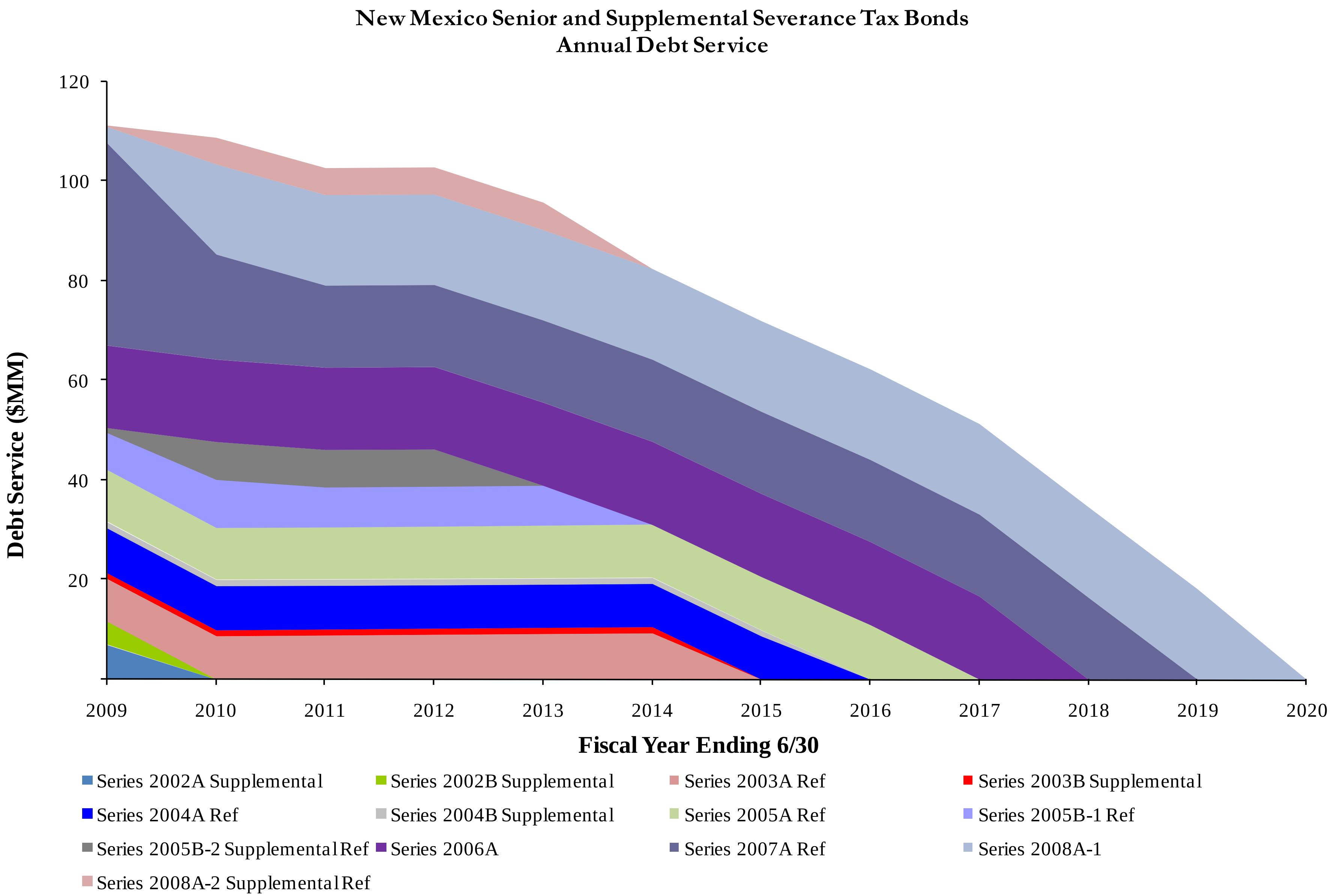
Severance Tax

The State periodically issues bonds secured solely by taxes levied upon the extraction of natural resources (severance taxes). These bonds are issued on two liens (Senior and Supplemental) and are used to finance various capital projects of the State. Typically, the bonds are sold with a maximum final maturity of ten years, and have been sold on both negotiated and competitive bases.

The State has occasionally used bond insurance on its Severance Tax Bonds; however, the underlying credit of the Senior and Supplemental liens (Aa2/AA and Aa3/AA- by Moody's and Standard & Poor's, respectively) is of a high enough quality that the State is not reliant upon bond insurance in order to place the bonds. Severance Tax Bonds carry only fixed rates of interest.

As of June 30, 2008, the State will have approximately $645.8 million of outstanding Senior Severance Tax Bonds and $66.9 million of outstanding Supplemental Severance Tax Bonds.

	Underlying Ratings			Fixed Rate Debt		All Bonds	
	Moody's	S&P		Insured	Uninsured	Insured	Uninsured
Severance Tax (Senior)	Aa2	AA	Issues	3	4	3	4
			Par Amount	$211.8	$434.0	$211.8	$434.0
Severance Tax (Supplemental)	Aa3	AA-	Issues	3	3	3	3
			Par Amount	$33.0	$34.0	$33.0	$34.0



New Mexico Senior and Supplemental Severance Tax Bonds
Annual Debt Service
Debt Service ($MM)
120
100
80
60
40
20
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Fiscal Year Ending 6/30
Series 2002A Supplemental
Series 2002B Supplemental
Series 2003A Ref
Series 2003B Supplemental
Series 2004A Ref
Series 2004B Supplemental
Series 2005A Ref
Series 2005B-1 Ref
Series 2005B-2 Supplemental Ref
Series 2006A
Series 2007A Ref
Series 2008A-1
Series 2008A-2 Supplemental Ref

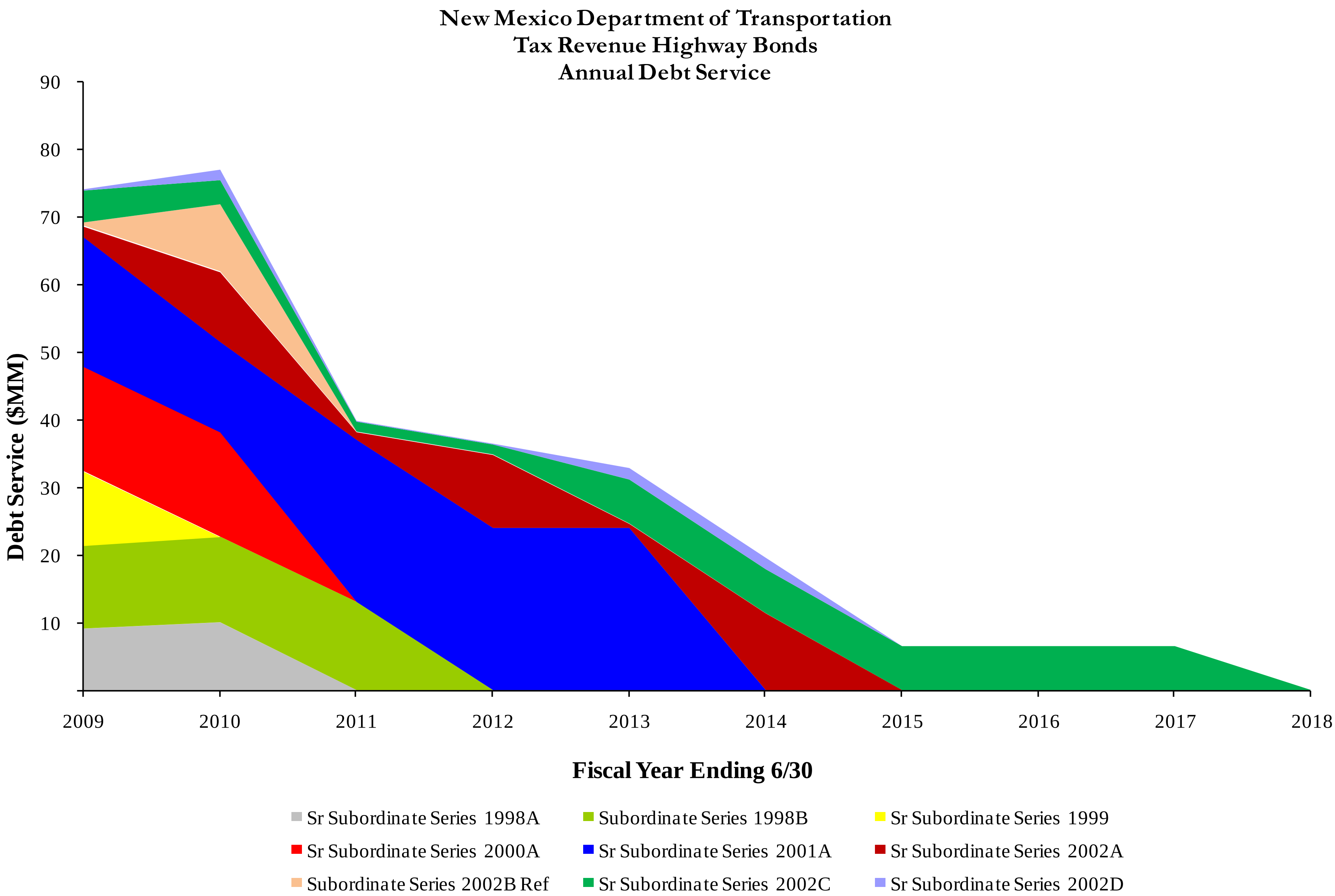
State-Level Issuers

Department of Transportation

Prior to 2003, the New Mexico Department of Transportation (then the State Highway and Transportation Department) periodically issued bonds secured by and payable from Senior, Senior Subordinate (intermediate) and Junior Subordinate pledges of various fuel- and vehicle-related fees and taxes, including gasoline excise taxes, vehicle transaction taxes and fees, and drivers license fees. Additionally, one series (Series 2002C) carried a senior lien pledge of Highway Infrastructure Fund revenues. All Tax Revenue Highway Bonds were sold on a negotiated basis and carried fixed interest rates. No series was sold with a final maturity greater than 15 years from the date of issuance. With one exception, the bonds were sold without insurance. Proceeds from the bonds were used for various highway-related capital projects. No Tax Revenue Highway Bonds have been sold since 2002, and the liens are now closed (no future parity debt can be issued by the Department or the Finance Authority). The liens were closed pursuant to the Master Indenture and State Transportation Commission Resolution 2004-5.

The outstanding Tax Revenue Highway Bonds were significantly restructured by the Series 2004 and 2006 Governor Richardson Investment Partnership Bonds issued by the New Mexico Finance Authority (see below), which were secured by a subordinate lien on the pledged fees and taxes. As of June 30, 2008, the Department had no outstanding Senior Lien Tax Revenue Highway Bonds, approximately $212.7 million outstanding Senior Subordinate Lien Tax Revenue Highway Bonds, and approximately $43.9 million outstanding Junior Subordinate Lien Tax Revenue Highway Bonds.

	Underlying Ratings			Fixed Rate Debt		All Bonds	
	Moody's	S&P		Insured	Uninsured	Insured	Uninsured
Senior Subordinate Lien	Aa2	AAA	Issues	1	8	1	8
Junior Subordinate Lien	Aa2	AA-	Par Amount	$9.4	$247.2	$9.4	$247.2


New Mexico Department of Transportation
Tax Revenue Highway Bonds
Annual Debt Service
Debt Service ($MM)
90
80
70
60
50
40
30
20
10
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Fiscal Year Ending 6/30
Sr Subordinate Series 1998A
Subordinate Series 1998B
Sr Subordinate Series 1999
Sr Subordinate Series 2000A
Sr Subordinate Series 2001A
Sr Subordinate Series 2002A
Subordinate Series 2002B Ref
Sr Subordinate Series 2002C
Sr Subordinate Series 2002D

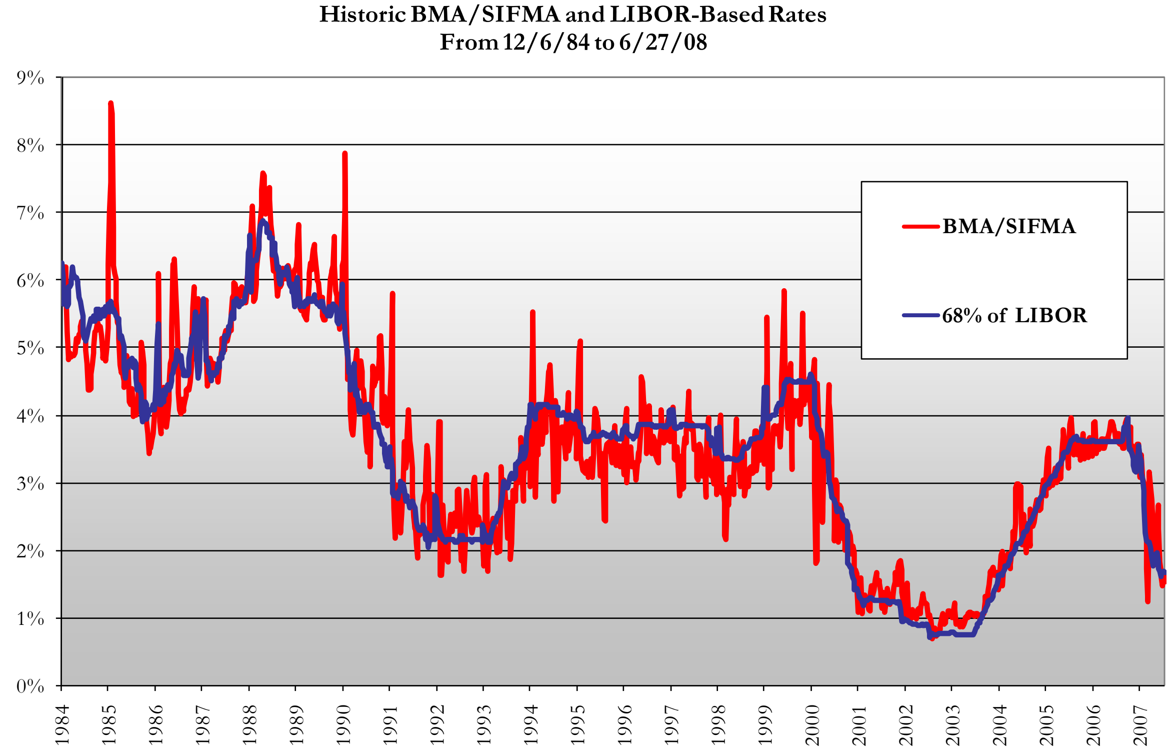
Finance Authority: Governor Richardson Investment Program

In 2004 and 2006, the NMFA issued several series of bonds in order to fund highway projects identified by the Governor Richardson Investment Partnership. The bonds were secured by a pledge of the fuel- and vehicle-related fees and taxes received by the state, and the bonds were issued on both senior and subordinate liens. Both liens were subordinate to the outstanding Department of Transportation Tax Revenue Highway Bonds which relied upon the same revenue streams to pay debt service. The senior lien bonds were issued as fixed-rate debt, while the subordinate lien bonds were issued as both fixed-rate debt and auction rate securities. Most series were insured by bond insurers now considered “troubled.” Although this development does not affect the NMFA’s financial obligations with respect to the fixed-rate bonds, it (along with the deterioration of the auction rate market generally) led to failed auctions and high interest rates on the then-outstanding auction-rate securities.

The NMFA recently closed two transactions that refinanced the trouble auction-rate securities with uninsured variable-rate demand bonds. $290 million of the new bonds are backed by a direct-pay letter of credit, and the remaining $135 million backed by a liquidity facility. The former provides credit and liquidity support, whereas the latter only provides liquidity in the event of an investor “putting” the bonds. These bonds will subject the NMFA to renewal risk, as liquidity facilities and letters of credit will periodically need to be renewed at uncertain cost and availability. The current letter of credit will expire in two years and the liquidity facility will expire in one year. The NMFA could be forced to seek additional liquidity and/or credit support before that time if the current providers were to have their credit downgraded significantly.

Most of the existing VRDB series are associated with interest rate swaps, originally entered into in 2004 in order to synthetically “fix” the interest rates on the bonds and to guard against future rate increases. These series of VRDBs are subject to basis risk, the risk that the floating rate paid by the swap counterparties will not match the floating rate paid on the bonds. Two of the swaps (approximately $220 million in notional amount) pay a floating rate based on the SIFMA Index, which is an index based on high-quality tax-exempt VRDBs. Unless the bonds or the related letter of credit banks were to be downgraded (causing the bond interest rates to rise due to their decreased creditworthiness), the basis risk associated with these swaps is low.

The other three swaps (an approximate notional amount of $155 million) pay a floating rate based on 68% of the taxable LIBOR index. Although the relationship between tax-exempt bond VRDB rates and LIBOR has remained fairly constant over time, it has shifted frequently and erratically over the past few months. Although most market participants believe that the relationship will begin to normalize shortly, it may subject the NMFA (and, by implication, the Department of Transportation) to short-term imbalances between the floating rates paid on the related bonds and received from the swaps. Seen here is a chart showing the relationship between SIFMA (approximately what the NMFA paid or would have paid on the tax-exempt VRDBs) and 68% of LIBOR (approximately what the NMFA received or would have received from the swaps) since 1984:



The LIBOR-based swaps also subject the NMFA to "tax risk": if the marginal United States personal income tax were to change, the relationship between tax-exempt and taxable (LIBOR) interest rates would shift as well, creating a potential imbalance in the swap and bond floating rates. If the marginal personal income tax were to decrease by 5%, tax-exempt interest rates would have to increase by 5% relative to taxable interest rates in order to provide an equivalent rate of return to the investor. Thus, if federal income tax rates were to decrease (increase), the rates paid on NMFA's bonds would likely increase (decrease) relative to the LIBOR index, but the percentage of LIBOR received by the NMFA via the swap would not change.

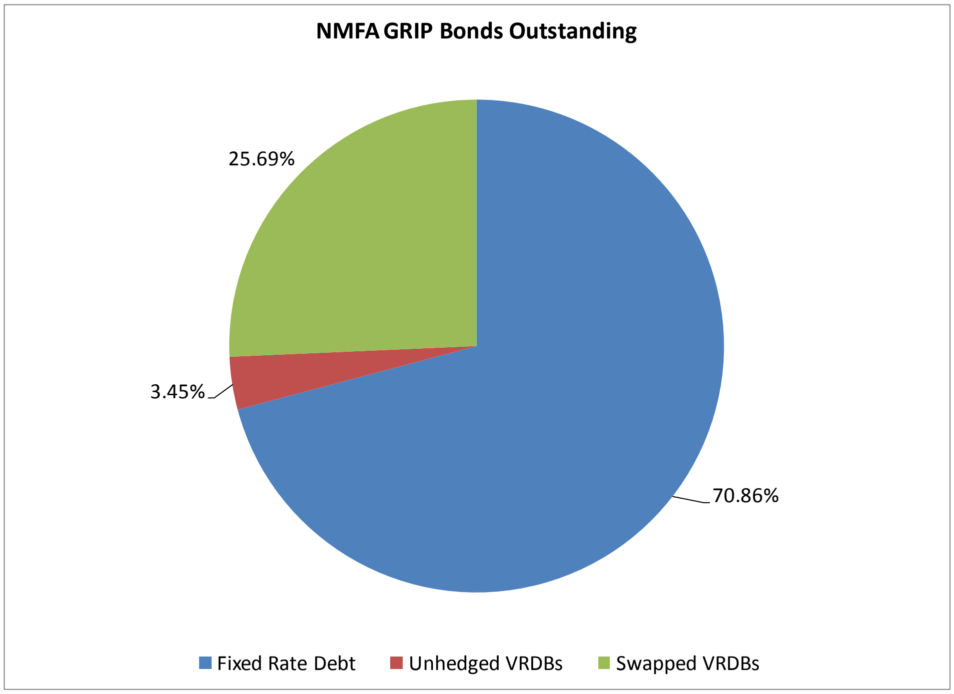
Additionally, the swaps subject the NMFA to counterparty risk: the risk that swap counterparties will not meet their financial obligations under the swap agreements. The swaps associated with the NMFA GRIP bonds are spread among five counterparties, diluting this risk. The counterparties and their credit ratings are:

- Royal Bank of Canada: Aaa/AA-
- Goldman Sachs Capital Markets: Aa3/AA-
- Lehman Brothers Special Financing: A1/A
- JPMorgan Chase: Aaa/AA
- UBS AG: Aa1/AA-

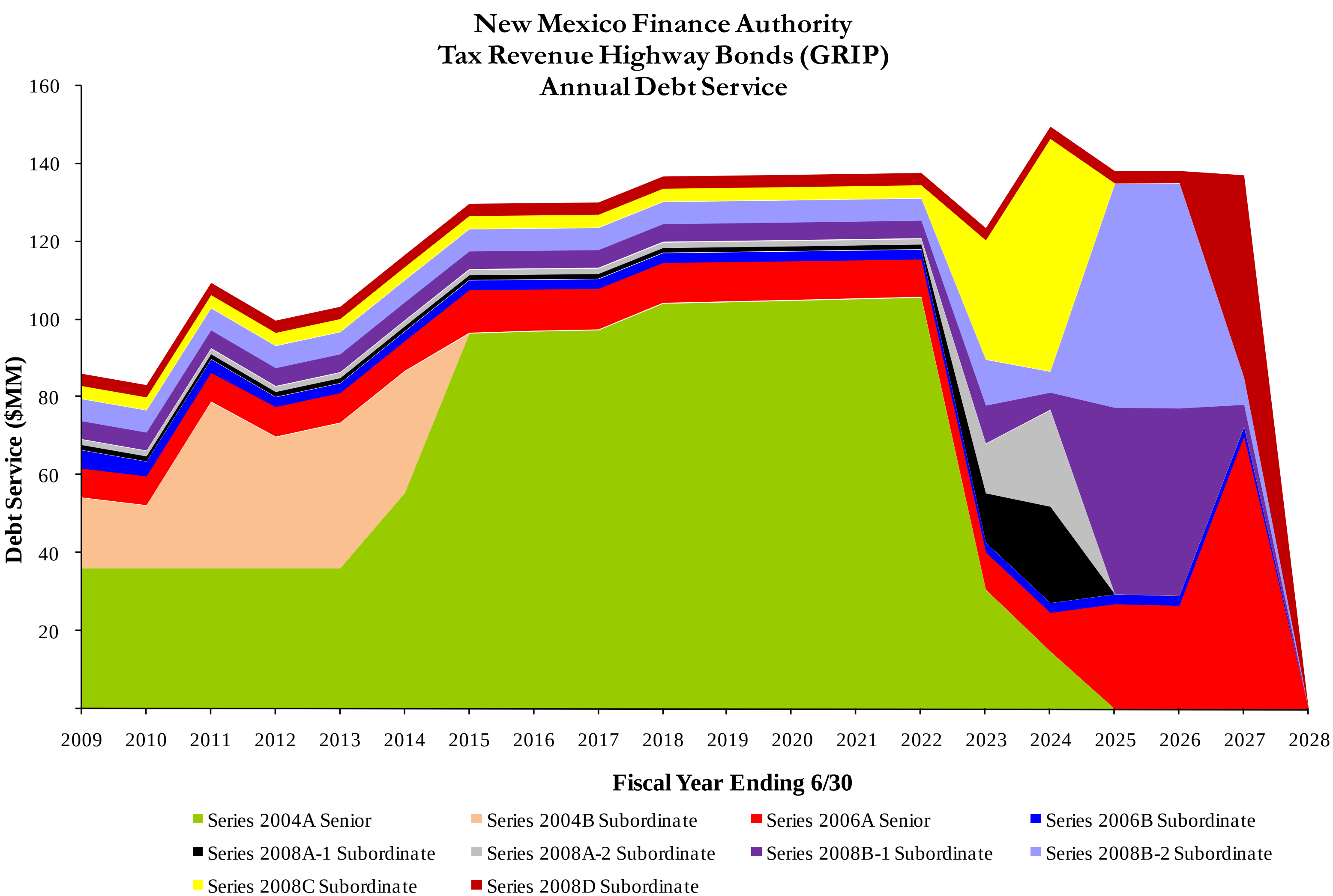
As with any floating rate bonds, those VRDBs that are not associated with interest rate swaps (approximately $50.4 million) also carry interest rate risk – the risk that interest rates in general will rise.

Without speculating as to the likelihood of the events described above under basis risk, tax risk, and counterparty risk, we note that the final maturities of the GRIP VRDBs are 2024 (Series 2008A and C) and 2026 (Series 2008B and D). The related interest rate swaps expire at the same time.

As of June 30, 2008, the NMFA will have outstanding approximately $1,034.7 million of fixed-rate Transportation Revenue Bonds and $425.6 million of Transportation Revenue VRDBs. The NMFA anticipates issuing additional Transportation Revenue debt within the next several years, though the mode and exact amount have not yet been determined.


NMFA GRIP Bonds Outstanding
25.69%
3.45%
70.86%
Fixed Rate Debt
Unhedged VRDBs
Swapped VRDBs

	Underlying Ratings			Fixed Rate Debt		Variable Rate Demand Bonds		All Bonds		Swaps
	Moody's	S&P		Insured	Uninsured	Insured	Uninsured	Insured	Uninsured	
Finance Authority: GRIP (2 Liens)	Aa2	AA+	Issues	3	1		6	3	7	5
	Aa3	AA	Par Amount	$884.7	$150.0		$425.6	$884.7	$575.6	$375.2



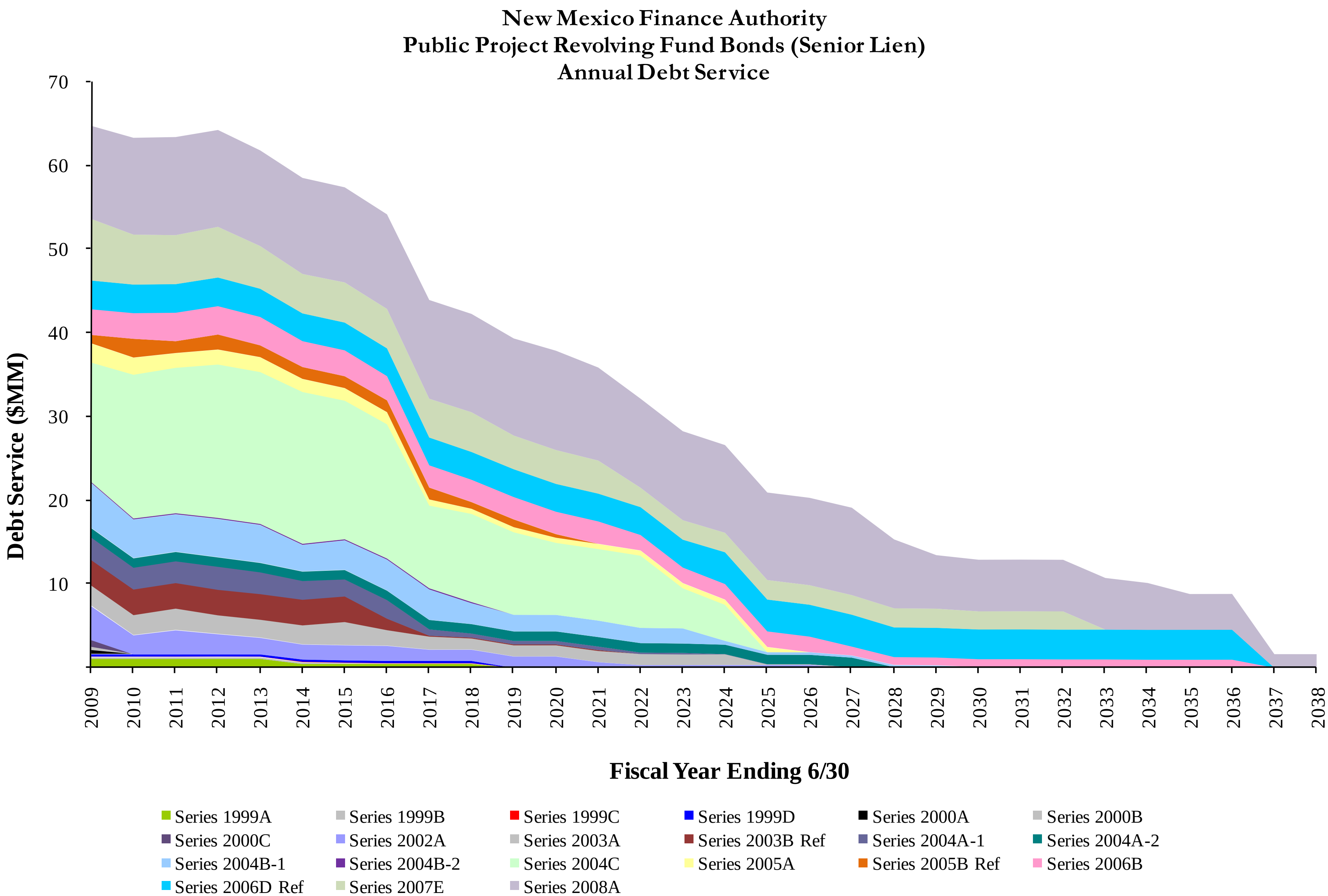
Finance Authority: Public Project Revolving Fund

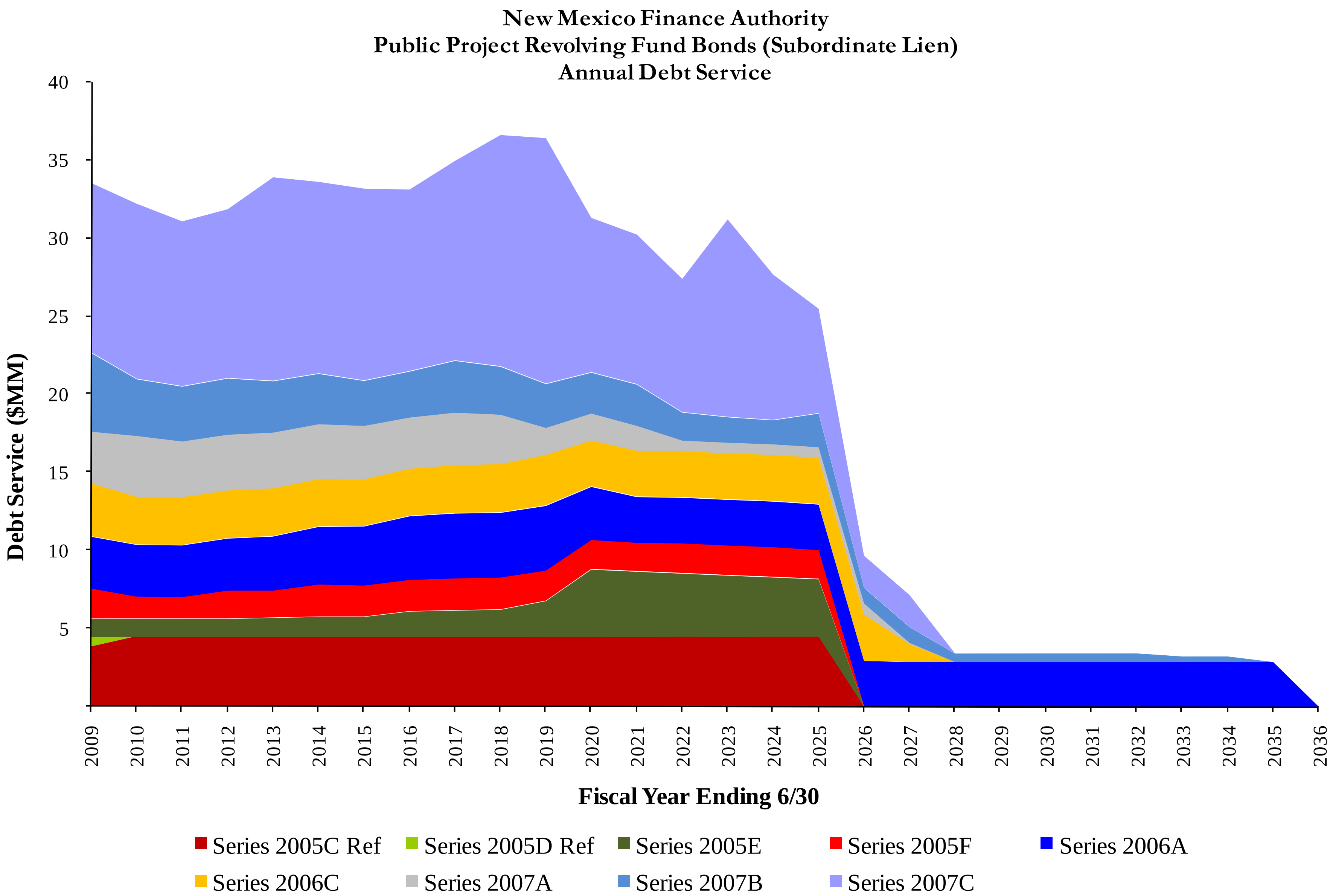
The New Mexico Finance Authority issues both Senior and Subordinate Public Project Revolving Fund (PPRF) Bonds. The proceeds of such bonds are used to originate loans to municipal entities statewide, which fund various capital projects. The bonds are secured by a trust estate consisting of loan agreements and related revenues received from recipients of PPRF loans as well as the NMFA's allocated share of the New Mexico Governmental Gross Receipts Tax (75% of the net revenues received from this tax). The bonds are typically sold on a negotiated basis, with final maturities between 20 and 30 years from the date of issue.

Currently, the NMFA has only fixed-rate PPRF Bonds outstanding. These bonds are subject to prepayment from prepayment of the underlying PPRF loans. Since 1999, with the exception of the most recent Series 2008A Senior Bonds, each PPRF Bond issue has been insured by either MBIA or Ambac insurance, both of which have had their credit ratings downgraded recently. This does not affect the NMFA's financial obligations with respect to outstanding PPRF bonds. However, the NMFA may have difficulty accessing similarly cost-effective credit enhancement in the future. The PPRF Senior and Subordinate Bonds carry underlying credit ratings from Moody's and S&P of Aa2/AA+ and Aa3/A+, respectively, and, as demonstrated by the sale of the 2008A Bonds, should not have difficulty accessing the capital markets based on these ratings. However, depending on the availability and nature of credit enhancement in the future, this access may come at a slightly higher cost of capital.

As of mid-June, 2008, the NMFA had $624 million of Senior PPRF Bonds outstanding and $381.4 million of Subordinate PPRF Bonds outstanding.

	Underlying Ratings			Fixed Rate Debt		All Bonds	
	Moody's	**S&P**		**Insured**	**Uninsured**	**Insured**	**Uninsured**
Finance Authority: PPRF (Senior)	Aa2	AA+	Issues	20	1	20	1
			Par Amount	$466.4	$157.6	$466.4	$157.6
Finance Authority: PPRF (Subordinate)	Aa3	A+	Issues	9		9	
			Par Amount	$381.4		$381.4	


New Mexico Finance Authority
Public Project Revolving Fund Bonds (Senior Lien)
Annual Debt Service
Debt Service ($MM)
70
60
50
40
30
20
10
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
2036
2037
2038
Fiscal Year Ending 6/30
Series 1999A
Series 1999B
Series 1999C
Series 1999D
Series 2000A
Series 2000B
Series 2000C
Series 2002A
Series 2003A
Series 2003B Ref
Series 2004A-1
Series 2004A-2
Series 2004B-1
Series 2004B-2
Series 2004C
Series 2005A
Series 2005B Ref
Series 2006B
Series 2006D Ref
Series 2007E
Series 2008A


New Mexico Finance Authority
Public Project Revolving Fund Bonds (Subordinate Lien)
Annual Debt Service
Debt Service ($MM)
40
35
30
25
20
15
10
5
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
2036
Fiscal Year Ending 6/30
Series 2005C Ref
Series 2005D Ref
Series 2005E
Series 2005F
Series 2006A
Series 2006C
Series 2007A
Series 2007B
Series 2007C

Finance Authority: Cigarette Tax

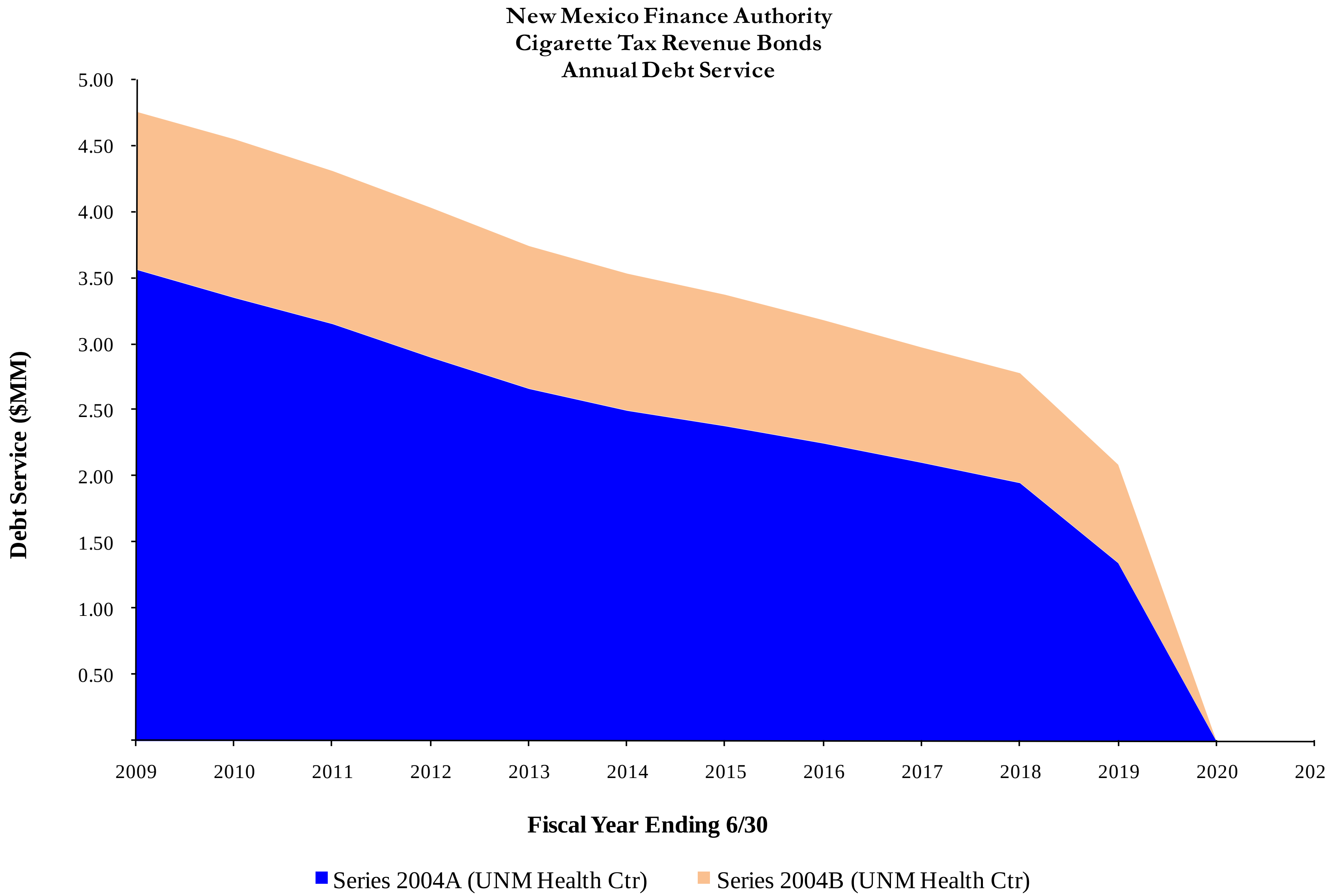
In 2004, the NMFA issued two series of revenue bonds secured by 14.52% of aggregate State Cigarette Tax receipts, net of penalties and interest, as well as a limited pledge of an additional 15.95% of such taxes. Proceeds from the bonds were used to fund a portion of the University of New Mexico Health Sciences Center Project. The Series A bonds were issued as a fixed-rate series while the Series B bonds were issued as variable-rate demand bonds. Both were insured the bond insurer MBIA, which was recently downgraded by Moody's and S&P from Aaa/AAA to A2/AA. This did not affect the NMFA's financial obligations with respect to the Series A (fixed rate) bonds.

At the beginning of calendar 2008, the MBIA insurance carried by the Series B VRDBs incurred only a small interest rate penalty. However, in recent weeks that penalty has grown, and the Series B VRDBs are currently resetting at interest rates between 6.5 and 7 percent. Based on feedback from investors, the NMFA believes that a portion of the Series B bonds will be "put" to Bank of America (the liquidity provider) on Friday, June 27. Should this occur, the NMFA plans to purchase and hold the tendered bonds itself until it can redeem the bonds using bond proceeds from a future PPRF transaction. Alternatively, given the size of the outstanding bonds relative to the NMFA's current fund balances, it may opt to redeem the bonds with cash on hand.

As of June 30, 2008, the Cigarette Tax Revenue Bonds will be outstanding in the amount of $22.5 million (Series A) and $8.4 million (Series B). Both series have final maturities in 2019.

Additionally, the NMFA has a third series of Cigarette Tax Revenue Bonds outstanding in the approximate amount of $2.4 million, with a final maturity of 2026. The bonds were used to fund behavioral health facilities and carry a fixed interest rate of 5.51%. Our research suggests this series was not publicly offered (i.e., it was sold directly to a financial institution) and it is not included in the debt service schedule below.

Underlying Ratings			Fixed Rate Debt		Variable Rate Demand Bonds		All Bonds	
Moody's	S&P		Insured	Uninsured	Insured	Uninsured	Insured	Uninsured
A2	A	Issues	1	1	1		2	1
(2004A fixed-rate only)		Par Amount	$22.5	$2.4	$8.4		$30.9	$2.4



Note: chart does not include $2.4 million outstanding privately placed Cigarette Tax bonds.

Finance Authority: Miscellaneous

In 1995 and 1996, the NMFA issued three series of Certificates of Participation (COPs), secured by underlying loan agreements with various municipal entities in the State. The COPs were not secured by real property or collateral. The proceeds of the COPs were used to make loans to municipal entities for various capital projects. The COPs were sold with fixed interest rates, no credit ratings, and no bond insurance. No COPs have been sold by the NMFA since 1996. As of June 30, 2008, the NMFA will have $464,000 of COPs outstanding.

In 1996, the NMFA sold a single series of fixed-rate, MBIA-insured bonds secured by Workers' Compensation Assessments received from in-state employers each year. There are no plans to issue additional bonds secured by the Assessments. The final maturity of the bonds is 2016. As of June 30, 2008, approximately $2.5 million of the bonds will be outstanding. Annual debt service is approximately $360,000 each year.

In 2002, the NMFA sold a single series of fixed-rate, uninsured bonds secured by a $500,000 per month portion of the State's Gross Receipts Tax. The proceeds were used to purchase and improve land and buildings on behalf of the General Services Department. To our knowledge, no additional bonds were issued under this lien. The final maturity of the bonds is 2021. As of June 30, 2008, approximately $26 million of the bonds will be outstanding. Annual debt service ranges between $2.7 and $2.8 million.

	Fixed Rate Debt		All Bonds	
	Insured	Uninsured	Insured	Uninsured
Issues	1	4	1	4
Par Amount	$2.5	$26.5	$2.5	$26.5

University of New Mexico

The Regents of the University of New Mexico periodically issue long-term debt secured solely by certain net revenues. These bonds are issued on two liens (senior and subordinate) with final maturities typically no longer than 30 years. The senior lien, however, is closed, pursuant to prior bond resolutions. Over 75% ($378 million) of the University's currently outstanding debt was sold in a fixed-rate mode. The University has frequently used bond insurance on its prior issues of fixed-rate debt, and recent developments in the bond insurance industry may make such insurance more difficult to obtain and/or less cost-effective. However, the University's underlying subordinate lien credit ratings are Aa3 and AA, which are of a high enough quality that it should not have difficulty accessing the capital markets without bond insurance if necessary. The University's Aa3 rating is lower than 24 public colleges and universities rated by Moody's, greater than 144, and equal to 34.

The University has three outstanding series of variable rate demand bonds (VRDBs) currently outstanding in the amount of approximately $107 million. Variable-rate demand bonds are not subject to the same liquidity stresses and investor distrust as auction rate securities, and because the University's VRDBs carry only standby bond purchase agreements (SBPAs or "liquidity facilities") rather than bond insurance, its VRDBs are not adversely affected by the troubled bond insurers. (Unlike letters of credit, liquidity facilities do not provide credit enhancement.) However, all VRDBs are subject to "renewal risk," in that the University is required to periodically renew its existing liquidity facilities at uncertain cost. The University's existing facilities (all provided by Dexia Bank) will expire in July 2009.

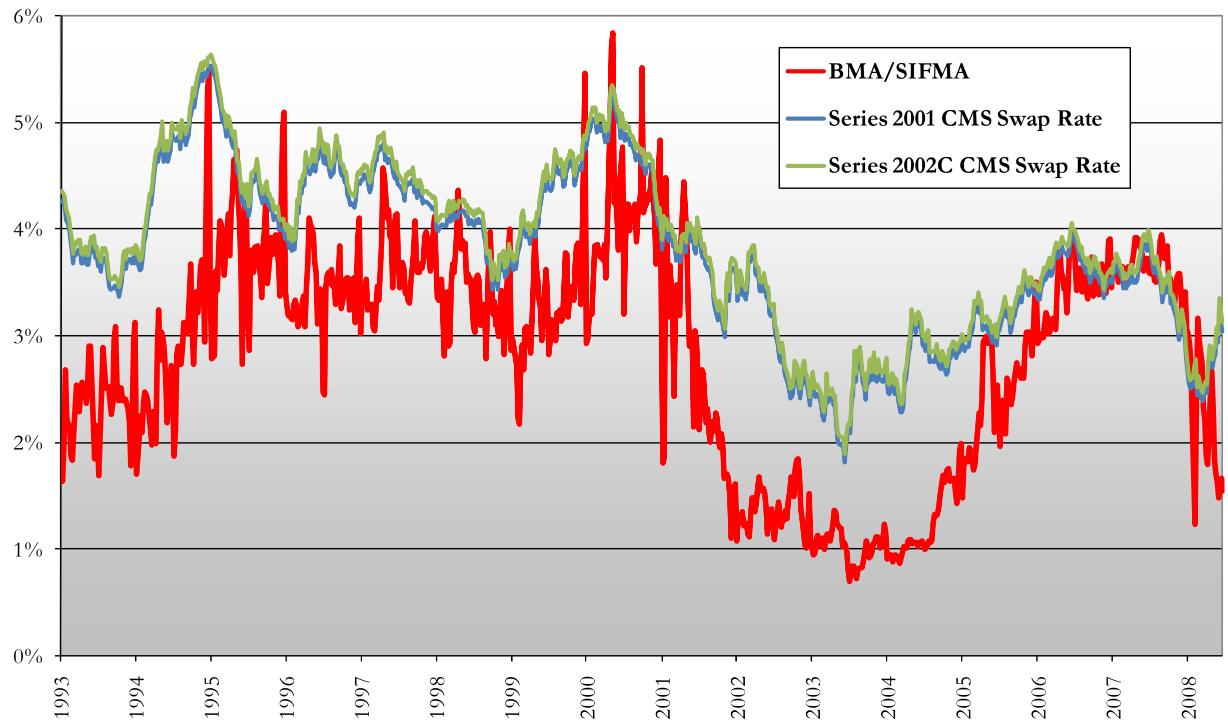
Most of the University's VRDBs carry synthetic "fixed" rates through the use of interest-rate swaps (see below). The unhedged portion (approximately $22.2 million) is subject to interest rate risk (the risk that interest rates in general will rise). However, interest rates for this portion are capped at 12%, and because it carries a direct-pay letter of credit and no troubled bond insurance, its interest rates have remained low throughout the subprime crisis.

Approximately 75% of the University's VRDBs ($84.5 million) has been hedged through one or more interest rate swaps. These swaps are designed as hedges against interest-rate risk and to provide an effective fixed cost of borrowing at a lower rate than traditional fixed-rate debt. However, they do expose the University to "basis risk," the risk that the floating rates received by the University will not match the floating rates paid on the underlying bonds. Four of these swaps are designed to match the amortization schedules of the underlying bonds and pay floating rates based on the SIFMA Index, an index based on high-quality tax-exempt VRDBs. Unless the bonds or the related letter of credit banks were to be downgraded (causing the bond interest rates to rise due to their decreased creditworthiness), the basis risk associated with these swaps is low.

The University also has in place two overlaid "constant maturity swaps," which effectively convert $50 million of the SIFMA-based swaps to swaps based on the taxable LIBOR index. Although the relationship between tax-exempt bond VRDB rates (SIFMA) and LIBOR has remained fairly constant over time, it has shifted frequently and erratically over the past few months. Although most market participants believe that the relationship will begin to normalize shortly, it may subject the University to short-term imbalances between the floating rates paid on the related bonds and received from the swaps.

Seen here is a chart showing the relationship between SIFMA (approximately what the University paid or would have paid on its tax-exempt VRDBs) and the LIBOR-based swap rates associated with the Series 2001 and 2002C constant maturity swaps (approximately what the NMFA received or would have received from the swaps) since 1993:

Historic BMA/SIFMA and LIBOR-Based Rates
From 1/1/93 to 6/27/08



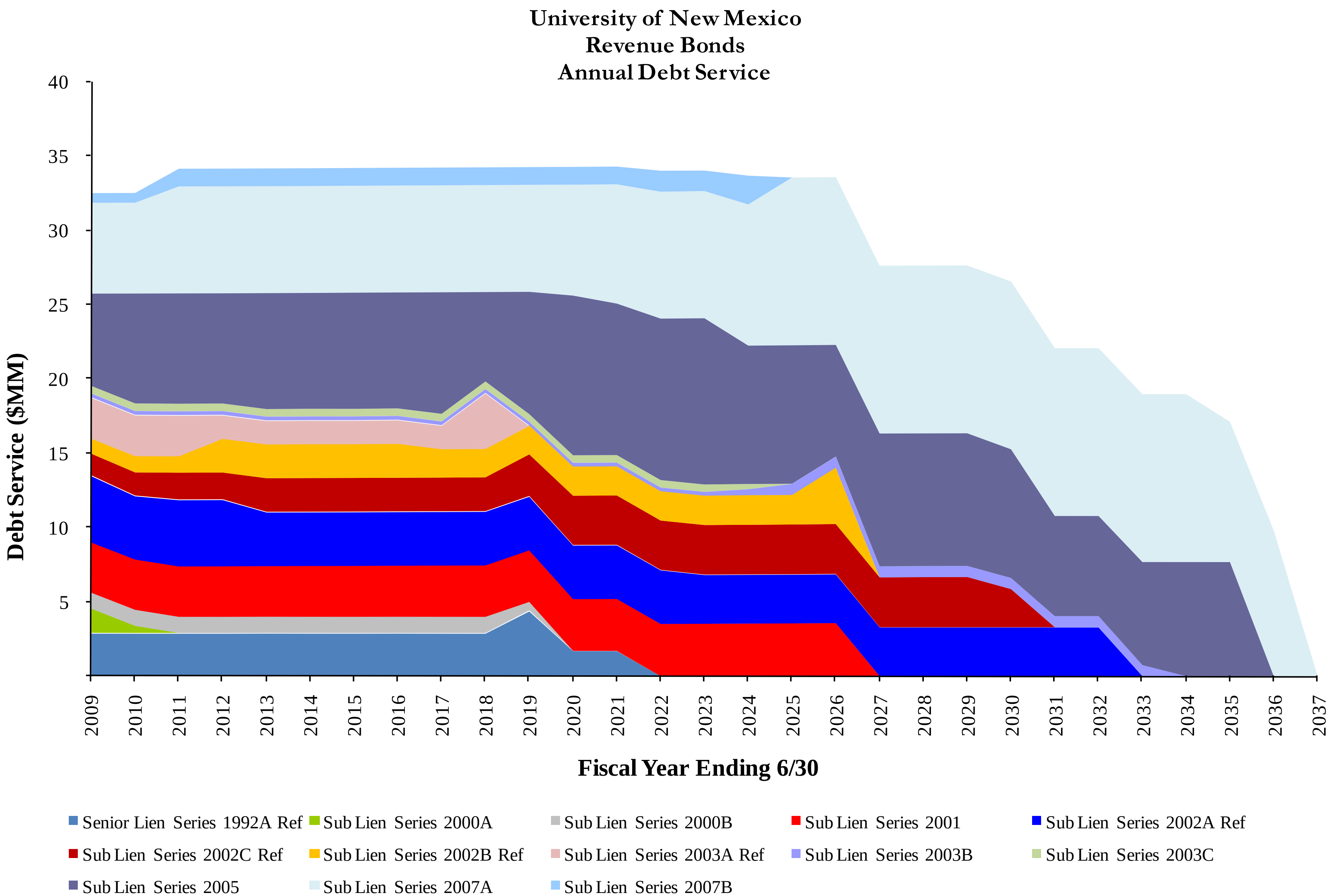
The LIBOR-based swaps also subject the University to “tax risk”: if the marginal United States personal income tax were to change, the relationship between tax-exempt and taxable (LIBOR) interest rates would shift as well, creating a potential imbalance in the swap and bond floating rates. If the marginal personal income tax were to decrease by 5%, tax-exempt interest rates would have to increase by 5% relative to taxable interest rates in order to provide an equivalent rate of return to the investor. Thus, if federal income tax rates were to decrease (increase), the rates paid on NMFA’s bonds would likely increase (decrease) relative to the LIBOR index, but the percentage of LIBOR received by the NMFA via the swap would not change.

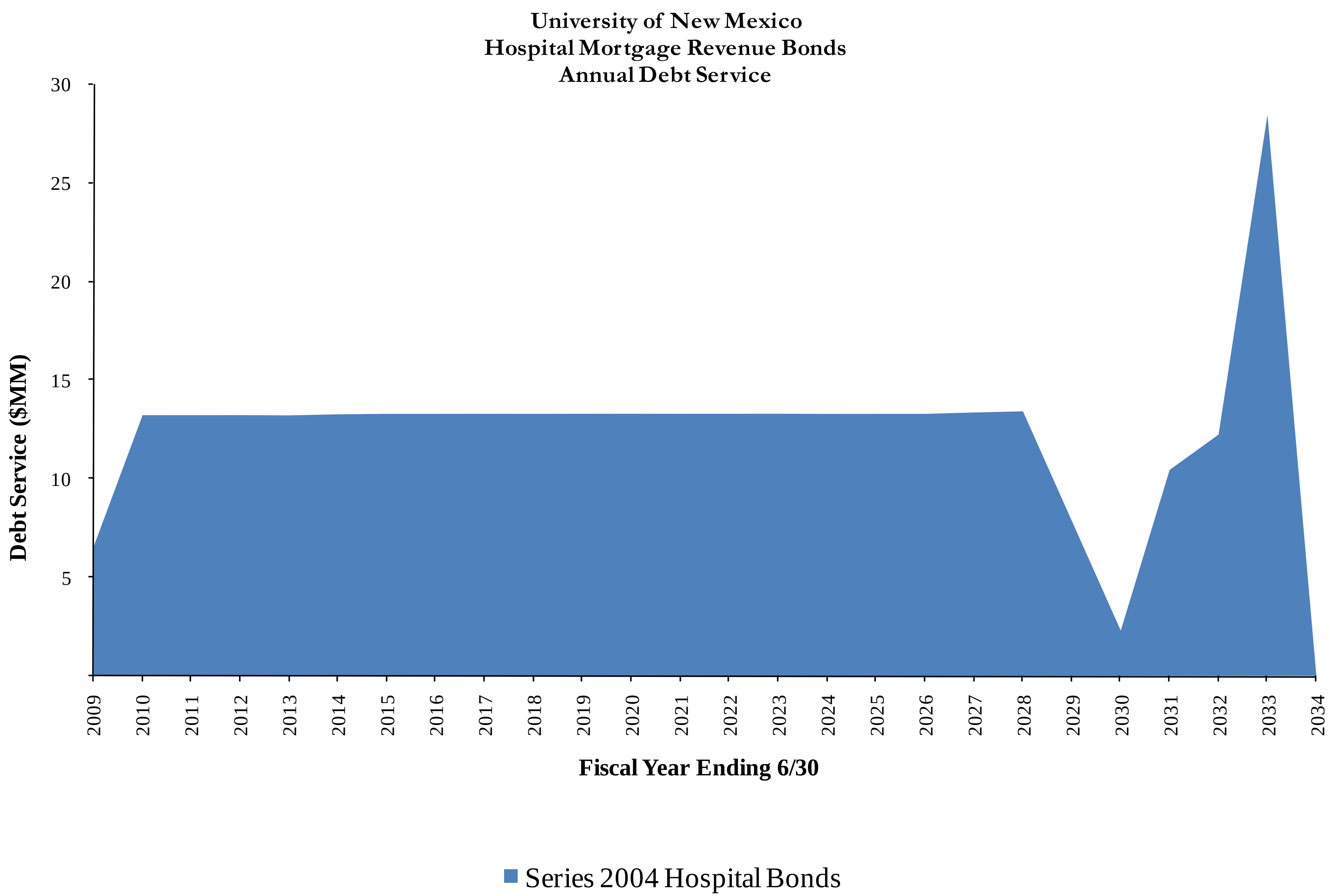
The University is also subject to “counterparty risk,” the risk that a swap counterparty will fail to fulfill its obligations under the terms of the swap agreement. Currently, the University has in place four swaps ($73.4 million of notional amount) with JP Morgan and one swap ($11.1 million) with Dain Rauscher. The counterparties are rated Aaa/AA and Aaa/AA-, by Moody’s and S&P, respectively. Although there is no immediate risk to the University, we note that its swap-related exposure rests largely with a single counterparty.

Without speculating as to the likelihood of the events described above under basis risk, tax risk, and counterparty risk, we note that the final maturities of the University’s VRDBs and related swaps are no earlier than 2026.

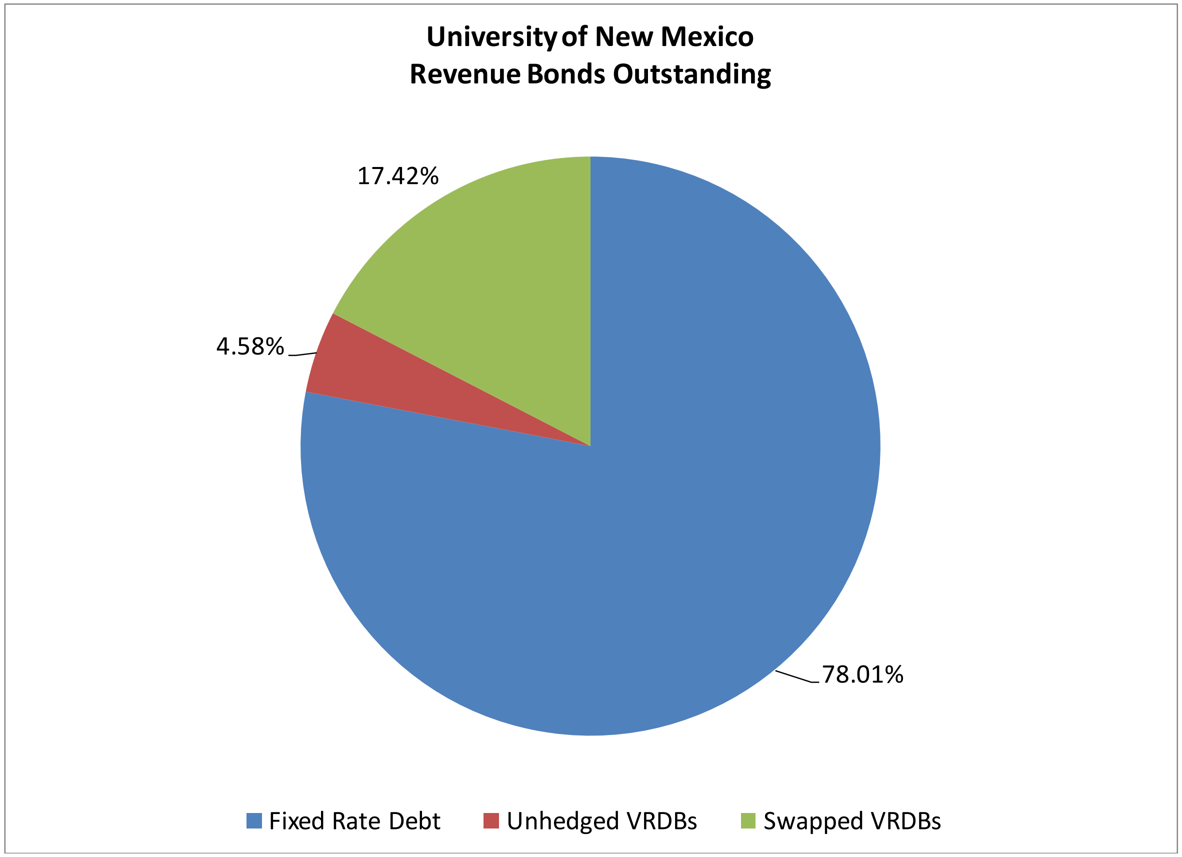
Lastly, the University has outstanding a single series of fixed-rate bonds secured by a mortgage on the Children’s Hospital and Critical Care Pavilion. The bonds carry both bond insurance (FSA) and mortgage insurance. These bonds are displayed in a separate debt service schedule below. Although they appear to have “balloon” payments in 2031-2033, these payments only reflect the nominal, scheduled debt service in those years. Principal in years 2031-2033 is subject to mandatory prepayment from excess available funds and the outstanding balance is expected to decrease between now and 2031. To date, over $1.7 million in principal maturing in years 2031-2033 has been redeemed.

As of June 30, 2008, the University will have outstanding approximately $25 million of Senior Lien System Revenue Bonds and approximately $460 million of Subordinate Lien System Revenue Bonds. Additionally, approximately $186.4 million of Hospital Mortgage Revenue Bonds will be outstanding.


University of New Mexico
Revenue Bonds
Annual Debt Service
Debt Service ($MM)
40
35
30
25
20
15
10
5
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
2036
2037
Fiscal Year Ending 6/30
Senior Lien Series 1992A Ref
Sub Lien Series 2000A
Sub Lien Series 2000B
Sub Lien Series 2001
Sub Lien Series 2002A Ref
Sub Lien Series 2002C Ref
Sub Lien Series 2002B Ref
Sub Lien Series 2003A Ref
Sub Lien Series 2003B
Sub Lien Series 2003C
Sub Lien Series 2005
Sub Lien Series 2007A
Sub Lien Series 2007B



Note: Bonds maturing in 2031-2033 are subject to mandatory extraordinary redemption and are expected to be fully redeemed prior to maturity.



Underlying Ratings			Fixed Rate Debt		Variable Rate Demand Bonds		All Bonds	
Moody's	S&P		Insured	Uninsured	Insured	Uninsured	Insured	Uninsured
Aa3	AA	Issues	8	3		3	8	6
(open lien)		Par Amount	$472.1	$92.9		$106.7	$473.8	$199.6

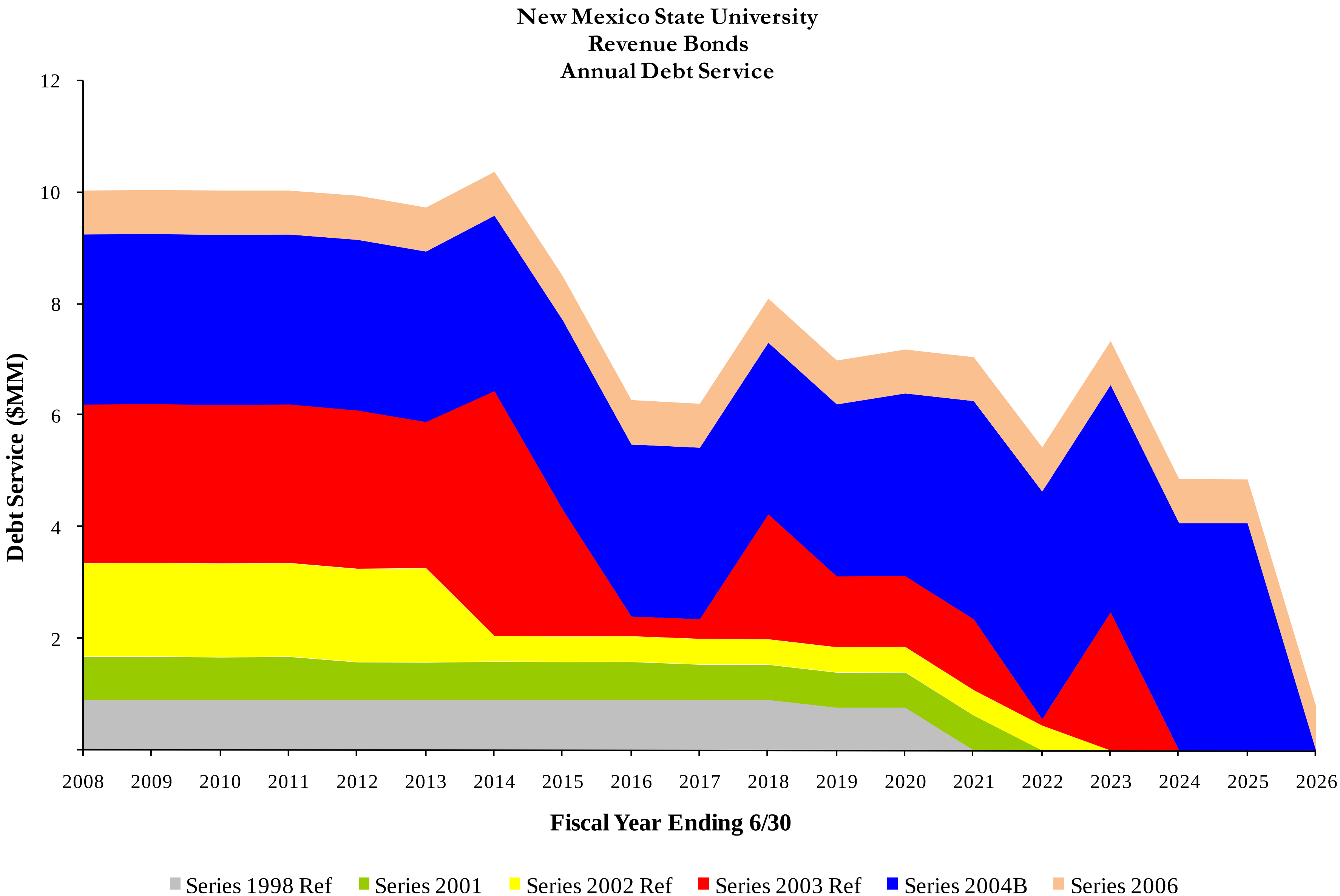
New Mexico State University

The Regents of New Mexico State University periodically issue bonds secured by a gross pledge of certain revenues of the University. The proceeds are used to finance capital projects of the University. The University sells bonds on a negotiated basis, with fixed interest rates, and with bond insurance. Final maturity dates typically do not exceed 25 years from the date of issue.

As with other issuers mentioned in this document, developments among bond insurers may reduce the availability of cost-effective bond insurance for future fixed-rate University bond issues. Like the University of New Mexico, however, New Mexico State University has used FSA bond insurance in the past, one of the few insurers that has not yet been negatively affected by the subprime crisis. Additionally, the University is rated Aa3 (Moody's) and AA (Standard & Poor's). The University's Aa3 rating is lower than 24 public colleges and universities rated by Moody's, greater than 144, and equal to 34.

As of June 30, 2008, New Mexico State University will have $94.7 million of Revenue Bonds outstanding.

Underlying Ratings			Fixed Rate Debt		All Bonds	
Moody's	S&P		Insured	Uninsured	Insured	Uninsured
Aa3	AA	Issues	6		6	
		Par Amount	$94.7		$94.7	


New Mexico State University
Revenue Bonds
Annual Debt Service
Debt Service ($MM)
12
10
8
6
4
2
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
Fiscal Year Ending 6/30
Series 1998 Ref
Series 2001
Series 2002 Ref
Series 2003 Ref
Series 2004B
Series 2006

Pass-Through Issuers

Mortgage Finance Authority: Single-Family Mortgage Program

The New Mexico Mortgage Finance Authority (MFA) frequently issues Single Family Mortgage Program Bonds, the proceeds of which are used to purchase GNMA, FNMA, and Federal Home Loan Mortgage Corporation mortgage loan pass-through certificates. The bonds are secured by these certificates and the revenues derived from the certificates; they are not obligations of the State. Bonds typically carry final maturities of approximately 30 years, though prepayments on the underlying mortgage certificates are used to redeem the bonds prior to maturity. The bonds are issued as fixed-rate obligations without bond insurance. As of March 31, 2008, the MFA had approximately $1.09 billion of Single Family Mortgage Program Bonds outstanding.

Additionally, the MFA maintains a floating-rate “draw down” bond held privately by a bank. The balance on this bond is periodically drawn down by the MFA and repaid in a process known as “recycling volume cap.” The federal government allows the MFA to issue only a certain amount of bonds each year, and by using this borrowing as a cash-flow mechanism, it can aid more qualified borrowers that it would be able to otherwise.

The interest rate on the bond is indexed to a combination of published rate indices and is offset by a similarly sized floating rate investment with a similar floating rate. The bond is subject to mandatory tender by the bank in 2010 and as of March 31, 2008, had an outstanding balance of $181.8 million.

	Fixed Rate Debt		Other Variable Debt	All Bonds	
	Insured	Uninsured	Uninsured	Insured	Uninsured
Issues	58		1	58	1
Par Amount	$1,087.8		$181.8	$1,087.8	$181.8

Mortgage Finance Authority: Multifamily Housing

The MFA also periodically issues revenue bonds, the proceeds of which are used to fund mortgage loans to developers of low- and moderate-income multifamily housing. The bonds are secured by the underlying mortgage loans, many of which carry mortgage insurance from the Federal Housing Administration or Fannie Mae. The bonds are not obligations of the State, nor are they secured by MFA revenues other than those from the specified mortgage loans.

As of March 31, 2008, the MFA had outstanding $158.4 million in Multifamily Housing Revenue Bonds. Bonds are typically sold as fixed-rate debt without bond insurance. Certain series of bonds have been sold as VRDBs in long-term reset mode with provisions for mandatory tender, although this is not common. Occasionally, bonds have been sold with bond insurance, although this has not occurred for several years. Should the MFA or a borrower wish to issue insured bonds in the future, it may have more difficulty obtaining cost-effective bond insurance.

	Fixed Rate Debt		Variable Rate Demand Bonds		All Bonds	
	Insured	**Uninsured**	**Insured**	**Uninsured**	**Insured**	**Uninsured**
Issues	3	33		4	3	37
Par Amount	$16.1	$123.3		$19.0	$16.1	$142.3

Mortgage Finance Authority: Capital Debt

In 2000, the MFA issued bonds secured by its general revenues in order to fund construction of its office building. The bonds are not backed by the State. The transaction was refinanced in 2005 with a fixed-rate series of bonds with Ambac insurance. The final maturity of the bonds is 2026, and annual debt service is approximately $200,000 in every year. Although additional general revenue bonds are permitted, to our knowledge, the MFA has no plans to issue general revenue bonds in the near future. The MFA does not carry an underlying rating on its general revenue bonds, and may have difficulty acquiring cost-effective bond insurance should it decide to issue additional general revenue debt.

As of June 30, 2008, the MFA will have approximately $2.6 million of general revenue debt outstanding.

Underlying Ratings			Fixed Rate Debt		All Bonds	
Moody's	**S&P**		**Insured**	**Uninsured**	**Insured**	**Uninsured**
not rated	not rated	Issues	1		1	
		Par Amount	$2.6		$2.6	

Regional Housing Authorities

New Mexico Regional Housing Law, Section 11-3A-1, authorized several Regional Housing Authorities, which served as conduit issuers for multifamily low- and moderate income housing developments (similar to the multifamily bonds issued by the Mortgage Finance Authority, mentioned above). These bonds were secured solely by loan agreements with developers of the projects. To our knowledge, the Authorities have not issued bonds since 2005 and have not released audited financial statements for at least several years. Therefore, our analysis may be incomplete. Additionally, at least one of the Authorities has been investigated for alleged improprieties. Notwithstanding the results of these investigations or the ultimate actual source of repayment on certain bond issues, the only security interest granted to bondholders was that of the underlying loan agreements.

Based on our analysis, three Regional Housing Authorities will have outstanding bonds as of June 30, 2008: Region II ($11.1 million), Region VI ($6.8 million), and Region III ($29.2 million). Several of these outstanding bonds were sold with credit enhancement provided by Fannie Mae; however, to our knowledge, only two outstanding issues carry bond insurance, and each of these issues carries fixed interest rates.

Only the Region III Housing Authority has outstanding variable-rate demand bonds (approximately $2.8 million), both series of which carry direct-pay letters of credit rather than bond insurance. The interest rates on both series of Region III VRDBs have been largely unaffected by the subprime crisis. However, due to the small size and relatively low credit quality of these transactions either could face potential difficulty and/or increased cost in securing a letter of credit after the current letter expires. Although the universe of letter of credit providers is substantially larger than that of bond insurers, some firms have increased prices and/or have come close to their capacity to issue letters of credit in recent months. Ultimately, it is the responsibility of borrowers, rather than the issuing Authority, to seek out, secure, and pay for letters of credit.

	Fixed Rate Debt		Variable Rate Demand Bonds		All Bonds	
	Insured	**Uninsured**	**Insured**	**Uninsured**	**Insured**	**Uninsured**
Issues	2	15		2	2	17
Par Amount	$8.1	$36.2		$2.8	$8.1	$39.0

Educational Assistance Foundation

The New Mexico Educational Assistance Foundation (EAF), doing business as New Mexico Student Loans, frequently issues bonds in order to originate student loans within the State. The bonds are secured by revenues received from the loans, the loans themselves, and guarantees provided by the New Mexico Student Loan Guarantee Corporation. The Corporation is a non-profit entity created by the State, though its guarantees are not backed by the State. The State is not obligated to purchase a defaulted student loan issued by the EAF, nor is it obligated to pay debt service on EAF bonds.

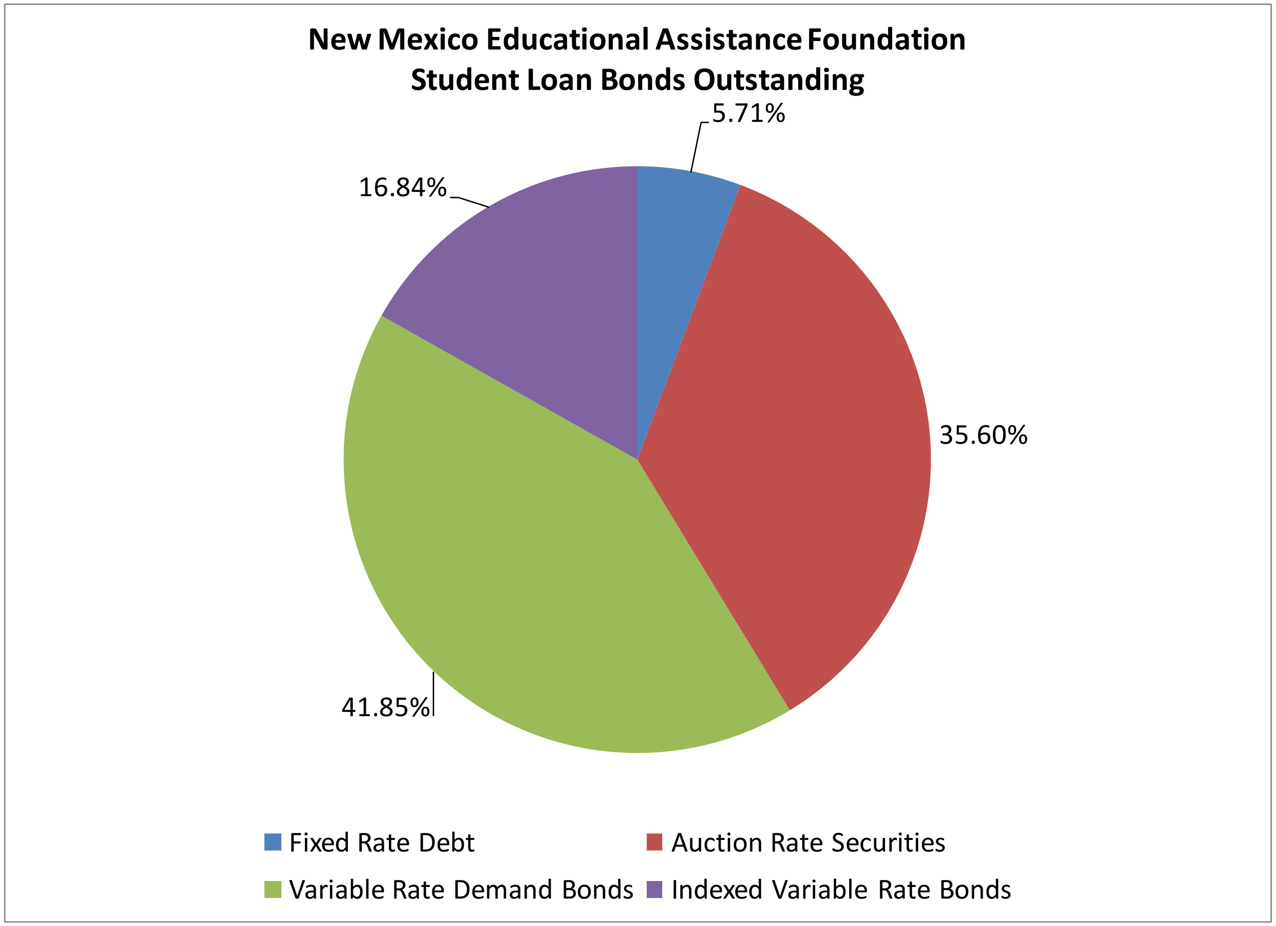
The EAF has issued bonds on several liens within several different bond indentures. The bonds may carry final maturities of up to 35 years; however, outstanding bonds are subject to redemption from loan prepayments and are frequently redeemed prior to maturity.

Prior to 2007, the EAF frequently issued bonds as auction rate securities. Although the bonds did not carry bond insurance, the liquidity issues faced by the auction rate market has led to almost constant failed auctions for those outstanding ARS. The failed auction interest rate for the EAF's bonds is set based on a formula and a relevant interest rate index, rather than a flat rate. Thus, while the outstanding ARS rates have been greater than is sustainable long-term, they have not been punitive. The federal government recently began purchasing outstanding student loans from issuers such as the EAF, helping ensure that the EAF has the capital to originate new loans to qualified borrowers. However, this measure does not fundamentally alter the gap between the interest rates paid on outstanding auction rate securities and the interest rates received from the underlying student loans.

In 2007, the EAF issued two series of "indexed" floating-rate bonds. Unlike ARS or VRDBs, which generally carry interest rates determined by particular investor preferences, these series carry interest rates that are mathematically derived from published floating interest rate indices. Neither series carries credit enhancement (bond insurance or a letter of credit).

The EAF recently issued $436 million of VRDBs backed by direct-pay letters of credit to refinance a portion of its outstanding ARS. As of June 26, 2008, the EAF will have outstanding $59.5 million of fixed-rate bonds, $370.8 million of auction rate securities, $175.4 million of indexed floating-rate bonds, and $436 million of variable-rate demand bonds. As discussed above, the auction rate securities, indexed floating rate bonds, and VRDBs are subject to interest rate risk. However, this risk is mitigated by the interest rates borne by the underlying student loans. In addition, the EAF's VRDBs are subject to renewal risk, in that it will need to renew its letters of credit at uncertain cost and availability periodically. The current letters of credit expire in June 2010.

It is our understanding that the EAF is moving towards redeeming or refinancing all outstanding ARS with letter of credit-backed VRDBs. However, due to the large amount of bonds in question, it may be difficult to secure adequate letter of credit capacity. Additionally, the EAF will need to renew its existing letters of credit periodically in the future at uncertain cost and availability.



	Fixed Rate Debt		Variable Rate Demand Bonds		Auction Rate Securities		Other Variable Debt	All Bonds	
	Insured	Uninsured	Insured	Uninsured	Insured	Uninsured	Uninsured	Insured	Uninsured
Issues		7		5		15	2		29
Par Amount		$59.5		$436.0		$370.8	$175.4		$1,041.7

Hospital Equipment Loan Council

The New Mexico Hospital Equipment Loan Council periodically serves as a conduit issuer for non-profit hospitals seeking to access the capital markets. As with other "pass-through" bond issuers, the Council sells revenue bonds in order to fund loans to certain hospitals in the State. The revenue bonds are secured solely by the loan agreements, which sometimes include a mortgage on hospital facilities.

The nature of the debt sold by the Council varies in credit quality and structure, though most series of bonds do not have final maturities greater than 30 years. As of June 30, 2008, the Council will have outstanding $225.7 million in debt. Of this, $23.8 million is fixed-rate debt. The remaining $201.9 million is split between two series of variable-rate demand bonds. Both series are insured by a bond insurer that has, to date, not been downgraded by credit rating agencies, and the interest rates on the bonds have not been adversely affected. However, should this bond insurer (FSA) be downgraded in the future, interest rates could suffer. The liquidity of these bonds is supported by a liquidity facility; it is the responsibility of the borrower to seek out, secure, and pay for the renewal or replacement of this facility.

Additionally, both of the Council's outstanding VRDBs have been synthetically "fixed" by the borrower using a swap. However, the Council is not a party to the swap transaction.

	Fixed Rate Debt		Variable Rate Demand Bonds		All Bonds	
	Insured	Uninsured	Insured	Uninsured	Insured	Uninsured
Issues		3	2		2	3
Par Amount		$23.8	$201.9		$201.9	$23.8