

**STANDARD
& POOR'S**

One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5000
reference no.: 1149177

November 12, 2010

State of New Mexico
State Board of Finance
190 Bataan Memorial Building
Santa Fe, NM 87501
Attention: Ms. Dannette K. Burch, Executive Officer

Re: *US\$146,200,000 State of New Mexico, New Mexico, Severance Tax Refunding Bonds, Series 2010D, dated: Date of Delivery, due: July 1, 2017*

Dear Ms. Burch,:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "AA". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial

Ms. Dannette K. Burch

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November 12, 2010

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Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

Standard & Poor's is pleased to be of service to you. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. If we can be of help in any other way, please call or contact us at nypublicfinance@standardandpoors.com. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a Standard & Poor's Financial Services LLC business

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enclosures

cc: Mr. David Paul
Ms. Stephanie Schardin Clarke



Standard & Poor's Ratings Services Terms and Conditions Applicable To Public Finance Ratings

You understand and agree that:

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All Rating Actions in Ratings Services' Sole Discretion. Ratings Services may assign, raise, lower, suspend, place on CreditWatch, or withdraw a rating, and assign or revise an Outlook, at any time, in Ratings Services' sole discretion. Ratings Services may take any of the foregoing actions notwithstanding any request for a confidential or private rating or a withdrawal of a rating, or termination of this Agreement. Ratings Services will not convert a public rating to a confidential or private rating, or a private rating to a confidential rating.

Publication. Ratings Services reserves the right to use, publish, disseminate, or license others to use, publish or disseminate the rating provided hereunder and any analytical reports, including the rationale for the rating, unless you specifically request in connection with the initial rating that the rating be assigned and maintained on a confidential or private basis. If, however, a confidential or private rating or the existence of a confidential or private rating subsequently becomes public through disclosure other than by an act of Ratings Services or its affiliates, Ratings Services reserves the right to treat the rating as a public rating, including, without limitation, publishing the rating and any related analytical reports. Any analytical reports published by Ratings Services are not issued by or on behalf of you or at your request. Notwithstanding anything to the contrary herein, Ratings Services reserves the right to use, publish, disseminate or license others to use, publish or disseminate analytical reports with respect to public ratings that have been withdrawn, regardless of the reason for such withdrawal. Ratings Services may publish explanations of Ratings Services' ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Ratings Services' ability to modify or refine its ratings criteria at any time as Ratings Services deems appropriate.

Information to be Provided by You. For so long as this agreement is in effect, in connection with the rating provided hereunder, you warrant that you will provide, or cause to be provided, as promptly as practicable, to Ratings Services all information requested by Ratings Services in accordance with its applicable published ratings criteria. The rating, and the maintenance of the rating, may be affected by Ratings Services' opinion of the information received from you or your agents or advisors. You further warrant that all information provided to Ratings Services by you or your agents or advisors regarding the rating or, if applicable, surveillance of the rating, as of the date such information is provided, (i) contains no untrue statement of material fact and does not omit a material fact necessary in order to make such information, in light of the circumstances in which it was provided, not misleading and (ii) does not infringe or violate the intellectual property rights of a third party. A material breach of the warranties in this paragraph shall constitute a material breach of this Agreement.

Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean verbal or written information that you or your agents or advisors have provided to Ratings Services and, in a specific and particularized manner, have marked or otherwise indicated in writing (either prior to or promptly following such disclosure) that such

information is “Proprietary and Confidential.” Notwithstanding the foregoing, information disclosed by you or your agents or advisors to Ratings Services shall not be deemed to be Confidential Information, and Ratings Services shall have no obligation to treat such information as Confidential Information, if such information (i) was known by Ratings Services or its affiliates at the time of such disclosure and was not known by Ratings Services to be subject to a prohibition on disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by an act of Ratings Services or its affiliates) subsequent to such disclosure, (iv) is disclosed to Ratings Services or its affiliates by a third party subsequent to such disclosure and Ratings Services reasonably believes that such third party’s disclosure to Ratings Services or its affiliates was not prohibited, (v) is developed independently by Ratings Services or its affiliates without reference to the Confidential Information, (vi) is approved in writing by you for public disclosure, or (vii) is required by law or regulation to be disclosed by Ratings Services or its affiliates. Ratings Services acknowledges that it is aware that U.S. and state securities laws impose restrictions on trading in securities when in possession of material, non-public information and has adopted securities trading policies to that effect.

Ratings Services’ Use of Information. Except as otherwise provided herein, Ratings Services shall not disclose Confidential Information to third parties. Ratings Services may (i) use Confidential Information to assign, raise, lower, suspend, place on CreditWatch, or withdraw a rating, and assign or revise an Outlook, and (ii) share Confidential Information with its affiliates engaged in the ratings business who are bound by appropriate confidentiality obligations; in each case, subject to the restrictions contained herein, Ratings Services and such affiliates may publish information derived from Confidential Information. Ratings Services may also use, and share Confidential Information with any of its affiliates or agents engaged in the ratings or other financial services businesses who are bound by appropriate confidentiality obligations (“Relevant Affiliates and Agents”), for modelling, benchmarking and research purposes; in each case, subject to the restrictions herein, Ratings Services and such affiliates may publish information derived from Confidential Information. With respect to structured finance ratings not maintained on a confidential or private basis, Ratings Services may publish data aggregated from Confidential Information, excluding data that is specific to and identifies individual debtors (“Relevant Data”), and share such Confidential Information with any of its Relevant Affiliates and Agents for general market dissemination of Relevant Data; you confirm that, to the best of your knowledge, such publication would not breach any confidentiality obligations you may have toward third parties. Ratings Services will comply with all applicable U.S. and state laws, rules and regulations protecting personally-identifiable information and the privacy rights of individuals. Ratings Services acknowledges that you may be entitled to seek specific performance and injunctive or other equitable relief as a remedy for Ratings Services’ disclosure of Confidential Information in violation of this Agreement. Ratings Services and its affiliates reserve the right to use, publish, disseminate, or license others to use, publish or disseminate any non-Confidential Information provided by you, your agents or advisors.

Ratings Services Not an Expert, Underwriter or Seller under Securities Laws. Ratings Services has not consented to and will not consent to being named an “expert” or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation, Section 7 of the U.S. Securities Act of 1933. Ratings Services is not an “underwriter” or “seller” as those terms are defined under applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation Sections 11 and 12(a)(2) of the U.S. Securities Act of 1933. Rating Services has not performed the role or tasks associated with an “underwriter” or “seller” under the United States federal securities laws or other regulatory guidance, rules or recommendations in connection with this engagement.

Office of Foreign Assets Control. As of the date of this Agreement, (a) neither you nor the issuer (if you are not the issuer) or any of your or the issuer’s subsidiaries, or any director or corporate officer of any of the foregoing entities, is the subject of any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury (“OFAC Sanctions”), (b) neither you nor the issuer (if you are not the issuer) is 50% or more owned or controlled, directly or indirectly, by any person or entity (“parent”) that is the subject of OFAC Sanctions, and (c) to the best of your knowledge, no entity 50% or more owned or controlled by a direct or indirect parent of you or the issuer (if you are not the issuer) is the subject of OFAC sanctions. For so long as this agreement is in effect, you will promptly notify Ratings Services if any of these circumstances change.

Ratings Services’ Use of Confidential and Private Ratings. Ratings Services may use confidential and private ratings in its analysis of the debt issued by collateralized debt obligation (CDO) and other investment vehicles. Ratings Services may disclose a confidential or private rating as a confidential credit estimate or assessment to the managers of CDO and similar investment vehicles. Ratings Services may permit CDO managers to use and disseminate credit estimates or

assessments on a limited basis and subject to various restrictions; however, Ratings Services cannot control any such use or dissemination.

Entire Agreement. Nothing in this Agreement shall prevent Ratings Services from acting in accordance with applicable laws, regulations and Ratings Services' policies as published from time to time. Subject to the prior sentence, this Agreement, including any amendment made in accordance with provisions hereof, constitutes the complete and entire agreement between the parties on all matters regarding the rating provided hereunder. The terms of this Agreement supersede any other terms and conditions relating to information provided to Ratings Services by you or your agents and advisors hereunder, including without limitation, terms and conditions found on, or applicable to, websites or other means through which you or your agents and advisors make such information available to Ratings Services, regardless if such terms and conditions are entered into before or after the date of this Agreement. Such terms and conditions shall be null and void as to Ratings Services.

Limitation on Damages. Ratings Services does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information. RATINGS SERVICES GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. Ratings Services, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to you, your affiliates or any person asserting claims on your behalf, directly or indirectly, for any inaccuracies, errors, or omissions, in each case regardless of cause, actions, damages (consequential, special, indirect, incidental, punitive, compensatory, exemplary or otherwise), claims, liabilities, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in any way arising out of or relating to the rating provided hereunder or the related analytic services even if advised of the possibility of such damages or other amounts except to the extent such damages or other amounts are finally determined by a court of competent jurisdiction in a proceeding in which you and Ratings Services are parties to result from gross negligence or willful misconduct of Ratings Services. In furtherance and not in limitation of the foregoing, Ratings Services will not be liable to you, your affiliates or any person asserting claims on your behalf in respect of any decisions alleged to be made by any person based on anything that may be perceived as advice or recommendations. In the event that Ratings Services is nevertheless held liable to you, your affiliates, or any person asserting claims on your behalf for monetary damages under this Agreement, in no event shall Ratings Services be liable in an aggregate amount in excess of seven times the aggregate fees paid to Ratings Services for the rating giving rise to the cause of action, up to a maximum of US\$5,000,000 except to the extent such monetary damages directly result from Ratings Services' intentional wrongdoing or willful misconduct. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. Neither party waives any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Termination of Agreement. This Agreement may be terminated by either party at any time upon written notice to the other party. Except where expressly limited to the term of this Agreement, these Terms and Conditions shall survive the termination of this Agreement.

No Third-Party Beneficiaries. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary of this Agreement or of the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Amendments. This Agreement may not be amended or superseded except by a writing that specifically refers to this Agreement and is executed manually or electronically by authorized representatives of both parties.

Governing law. You irrevocably agree that this Agreement and the rating letter, for purposes of any claim against Rating Services that may be asserted by you, your affiliates or any person asserting claims on your behalf, shall be governed by the internal laws of the State of New York. You irrevocably agree that, for purposes of any claim against Rating Services that may be asserted by you, your affiliates or any person asserting claims on your behalf in any dispute arising out of or relating to this Agreement, the state courts of New York located in the County of New York or the U.S. federal court for the Southern District of New York shall be the exclusive forums for such disputes and the parties hereby consent to the personal jurisdiction of such courts. For purposes of any claim against you that Rating Services may assert in any dispute arising out of or relating to the Agreement, neither party waives its right to contest the applicable governing law or the appropriate forum, including in connection with any assertion of sovereign immunity.

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One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5000
reference no.: 40155823

November 12, 2010

State of New Mexico
State Board of Finance
190 Bataan Memorial Building
Santa Fe, NM 87501
Attention: Ms. Dannette K. Burch, Executive Officer

Re: *State of New Mexico, New Mexico, Supplemental Severance Tax Bonds*

Dear Ms. Burch:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "AA-" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

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Ms. Dannette K. Burch
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November 12, 2010

Please send all information to:

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New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

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State of New Mexico
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Attention: Ms. Dannette K. Burch, Executive Officer

Re: *State of New Mexico, New Mexico, Supplemental Severance Tax Bonds*

Dear Ms. Burch:

Standard & Poor's has reviewed the Standard & Poor's underlying rating (SPUR) on the above-referenced obligations. After such review, we have affirmed the "AA-" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

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One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5000
reference no.: 40163142

November 12, 2010

State of New Mexico
State Board of Finance
190 Bataan Memorial Building
Santa Fe, NM 87501
Attention: Ms. Dannette K. Burch, Executive Officer

Re: *State of New Mexico, New Mexico, Severance Tax Bonds*

Dear Ms. Burch:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "AA" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

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Attention: Ms. Dannette K. Burch, Executive Officer

Re: *State of New Mexico, New Mexico, Severance Tax Bonds*

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Sincerely yours,

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Summary:

New Mexico; Miscellaneous Tax

Primary Credit Analyst:

Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

Secondary Credit Analyst:

Gabriel Petek, CFA, San Francisco (1) 415-371-5042; gabriel_petek@standardandpoors.com

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Credit Profile

US\$146.2 mil Severance Tax rfdg bnds ser 2010D due 07/01/2017

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to New Mexico's series 2010D severance tax refunding bonds. At the same time, Standard & Poor's affirmed its 'AA' long-term and underlying ratings (SPUR) on the state's parity severance tax bonds and 'AA-' rating on the state's subordinate supplemental severance tax bonds. The outlook is stable.

The ratings reflect what we view as the state's:

- Strong coverage by estimated fiscal 2010 severance tax revenues of 3.1x senior maximum annual debt service (MADS) and 2.5x total senior and supplemental bond MADS;
- Good bond provisions, including an additional bonds test (ABT) that requires at least 2x debt service coverage (DSC) on the senior bonds and 1.6x DSC on the subordinate long-term supplemental bonds; and
- Rapid debt amortization, with all principal to be retired by 2021.

In our opinion, mitigating these credit strengths are:

- The inherent instability associated with natural gas and oil prices and production levels, which account for the bulk of pledged revenues; and
- The state's geographic limitations in serving natural gas markets.

A lien on money deposited into the severance tax bonding fund, including net tax receipts generated from natural gas and oil and other severed natural resources in New Mexico, secures the senior severance tax bonds. Bond proceeds will be used to refund a portion of the series 2006A and 2007A severance tax bonds. Before this refunding, the state had \$700.8 million in senior severance tax bonds parity debt. New Mexico also has \$126 million of supplemental severance tax bonds secured by a second lien on pledged revenues.

New Mexico levies taxes on a variety of minerals. The primary severance tax revenue generators are natural gas (about 46% of the state's projected fiscal 2011 severance tax receipts), oil (42%) and coal (5%); investment earnings generate 5% of projected pledged revenue in fiscal 2010. Fiscal 2009 pledged severance taxes declined by 4% to \$550 million. In fiscal 2010, officials estimate pledged severance tax revenue declined 32% to \$374 million, which would provide what we view as still-strong 3.1x and 2.5x coverage of senior and combined MADS, respectively. Officials attribute revenue declines to price and demand fluctuations. Revenues vary widely from year to year, due in large part to the effect of mineral price fluctuations on severance tax receipts. Officials project future pledged revenue in fiscal 2012 when MADS occurs, based on the state's Consensus Group projections, to cover MADS on senior and supplemental bonds by 3.3x and 2.6x, respectively.

The historical ABT of 2x DSC for the senior severance tax bonds limits the state's ability to issue parity debt. This

test and a "best efforts" pledge to maintain annual deposits equal to 2x DSC are positive credit factors. The ABT for the long-term supplemental severance tax bonds is 1.6x. The state can also issue short-term severance tax notes maturing within the fiscal year if previous-year pledged deposits cover total combined debt service of senior, supplemental, and short-term bonds by at least 1.05x.

Severance tax bond proceeds represent a major source of capital project funding for the state. We expect regular additional borrowing. MADS occurs in fiscal 2012 with final maturity occurring over a rapid 10 years. The state uses the senior severance tax bonds to fund legislature-approved capital projects and the supplemental severance tax bonds for public school projects. It annually issues senior severance tax bonds. In addition to long-term senior and supplemental severance tax bonds, the state generally uses short-term senior and supplemental severance tax notes that mature within one day to fund additional authorized capital projects.

(For further information, please see full analysis published June 11, 2010, on RatingsDirect on the Global Credit Portal.)

Bond Provisions

The bonds are a special obligation of New Mexico, secured by deposits into the severance tax bonding fund. Such deposits include the net receipts of taxes levied on certain natural resources obtained from the ground in New Mexico and investment earnings on such deposits. According to the resolution, on Dec. 31 and June 30 of each fiscal year, the state transfers excess money--defined as amounts in excess of the next two semiannual debt service payments on bonds payable from severance taxes--into the severance tax permanent fund. Money in the permanent fund is not available to pay debt service. In practice, just before Dec. 31 and June 30, state officials have historically issued short-term severance tax notes that mature within 24 hours to cash-fund capital projects before transferring any surplus into the severance tax permanent fund.

State statute prohibits the state board of finance--which includes the governor, lieutenant governor, and state treasurer--from issuing additional senior long- and short-term severance tax bonds unless it can service total bonds outstanding by no more than 50% of the annual deposit into the severance tax bonding fund in the fiscal year preceding issuance, and total senior and long-term supplemental severance tax bonds by no more than 62.5% of the annual deposit. In addition, the board covenants that the state will use its best efforts to deposit into the bonding fund severance taxes that, when combined with other money in the fund, will equal at least 200% of principal and interest due in each fiscal year on the senior bonds. State officials can issue short-term supplemental tax notes maturing within the fiscal year if the state can service total combined bonds outstanding by no more than 95% of the annual deposit into the severance tax bonding fund in the fiscal year preceding issuance.

Mineral Production And Reserves

Natural gas (46% of projected fiscal 2011 severance taxes), oil (42%), and coal (5%) are New Mexico's major severance tax revenue generators. Carbon dioxide, copper, potash, and other minerals account for the balance. The state taxes non-Indian oil and gas production on tribal land. In fiscal 2009, a U.S. District Court ruled that the state could not impose severance taxes on non-Indian operators extracting oil and natural gas on Ute Mountain Ute Tribe tribal land. The ruling is under appeal. According to the New Mexico Tax and Revenue Department, non-tribal oil and gas production on native American land statewide, net of tax credits, generated a minor \$6.4 million of overall

revenues in fiscal 2010.

The state's forecasts reflect declining natural gas sales by 3% annually, on average, for fiscals 2012 through 2015; state officials also estimate that average gas prices will increase 15% over estimated fiscal 2011 prices to \$5.75 in fiscal 2012 and increase gradually to \$6.80 by fiscal 2015. Due to forecast increases in prices in fiscal 2012, despite projected declines in gas sales, the Consensus Group's October forecast assumes gas severance tax receipts will increase 11% in fiscal 2012, 6% in fiscal 2013, and 1% in fiscals 2014 and 2015.

State forecasts have oil sales increasing at about 1% annually through fiscal 2015. Official forecasts reflect \$76.50 average price per barrel in 2011 compared with \$71.30 in 2010, an 8.5% increase in 2012, and average annual 3.5% increases to reach \$92 by 2014.

The severance tax on surface-mined coal and coal mined underground in fiscal 2011 totaled \$1.13 and \$1.09, respectively, compared with \$1.02 and 99 cents per metric ton, respectively in fiscal 2010. Sales volume increased 4% in fiscal 2010 to generate \$21 million of net severance taxes.

Outlook

The stable outlook reflects our expectation that despite additional bond plans, a strong ABT provides some protection against dilution of MADS coverage or moderate decline in revenues. We also expect natural gas and oil reserves will continue to be replenished to maintain sufficient production over the bonds' life and severance tax collections will continue to provide good MADS coverage during the bonds' relatively short 10-year life despite recent declines. The volatility of the pledged revenue somewhat limits upward movement of the rating.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

Ratings Detail (As Of November 12, 2010)		
New Mexico severance tax		
<i>Long Term Rating</i>	AA/Stable	Affirmed
New Mexico severance tax		
<i>Long Term Rating</i>	AA/Stable	Affirmed
New Mexico supplemental severance tax		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
New Mexico supplemental severance tax bnds rfdg ser 2008A-2		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
New Mexico severance tax		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
New Mexico supplemental severance tax		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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