

**STANDARD
& POOR'S**

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reference no.: 722357

May 17, 2005

State of New Mexico
State Board of Finance
181 Bataan Memorial Building
131 South Capitol Street
Santa Fe, NM 87501
Attention: Mr. Scott Stovall, Director

Re: ***US\$38,295,000 The State of New Mexico, Severance Tax Refunding Bonds, Series 2005 B-1, dated: Date of Delivery, due: July 1, 2006-2014***

Dear Mr. Stovall:

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

Mr. Scott Stovall

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May 17, 2005

facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

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 division of The McGraw-Hill Companies, Inc.

By: 
Steven J. Murphy
Managing Director

ed
enclosures

cc: Mr. David Paul
Fiscal Strategies Group

STANDARD &POOR'S

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

Request for a rating. Standard & Poor's issues public finance ratings for a fee upon request from an issuer, or from an underwriter, financial advisor, investor, insurance company, or other entity, provided that the obligor and issuer (if different from the obligor) each has knowledge of the request. The term "issuer/obligor" in these Terms and Conditions means the issuer and the obligor if the obligor is different from the issuer.

Agreement to Accept Terms and Conditions. Standard & Poor's assigns Public Finance ratings subject to the terms and conditions stated herein and in the rating letter. The issuer/obligor's use of a Standard & Poor's public finance rating constitutes agreement to comply in all respects with the terms and conditions contained herein and in the rating letter and acknowledges the issuer/obligor's understanding of the scope and limitations of the Standard & Poor's rating as stated herein and in the rating letter.

Fees and expenses. In consideration of our analytic review and issuance of the rating, the issuer/obligor agrees to pay Standard & Poor's a rating fee. Payment of the fee is not conditioned on Standard & Poor's issuance of any particular rating. In most cases an annual surveillance fee will be charged for so long as we maintain the rating. The issuer/obligor will reimburse Standard & Poor's for reasonable travel and legal expenses if such expenses are not included in the fee. Should the rating not be issued, the issuer/obligor agrees to compensate Standard & Poor's based on the time, effort, and charges incurred through the date upon which it is determined that the rating will not be issued.

Scope of Rating. The issuer/obligor understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the issuer/obligor's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the issuer/obligor will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the issuer/obligor or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the issuer/obligor, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's 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, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Publication. Standard & Poor's reserves the right to publish, disseminate, or license others to publish or disseminate the rating and the rationale for the rating unless the issuer/obligor specifically requests that the rating be assigned and maintained on a confidential basis. If a confidential rating subsequently becomes public through disclosure by the issuer/obligor or a third party other than Standard & Poor's, Standard & Poor's reserves the right to publish it. Standard & Poor's may publish explanations of Standard & Poor's ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's criteria at any time as Standard & Poor's deems appropriate.

Information to be Provided by the Issuer/obligor. The issuer/obligor shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. The issuer/obligor also agrees to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from the issuer/obligor or its agents. Standard & Poor's undertakes no duty of due diligence or independent verification of

information provided by the issuer/obligor or its agents. Standard & Poor's reserves the right to withdraw the rating if the issuer/obligor or its agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. The issuer/obligor understands and agrees that Standard & Poor's is not acting as an investment, financial, or other advisor to the issuer/obligor and that the issuer/obligor should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and the issuer/obligor or between Standard & Poor's and recipients of the rating. The issuer/obligor understands and agrees that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. The issuer/obligor agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the issuer/obligor or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the issuer/obligor or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. 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. The issuer/obligor acknowledges and agrees that Standard & Poor's does not waive 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.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Standard & Poor's Not an Advisor, Fiduciary, or Expert" and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. 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 to this Agreement or to 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.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

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reference no.: 722674

May 17, 2005

State of New Mexico
State Board of Finance
181 Bataan Memorial Building
131 South Capitol Street
Santa Fe, NM 87501
Attention: Mr. Scott Stovall, Director

Re: ***US\$22,050,000 The State of New Mexico, Supplemental Severance Tax Bonds, Series 2005 B-2, dated: Date of Delivery, due: July 1, 2006-2011***

Dear Mr. Stovall:

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 "A+". 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

Mr. Scott Stovall
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Sincerely yours,

Standard & Poor's Ratings Services
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By: 
Steven J. Murphy
Managing Director

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cc: Mr. David Paul
Fiscal Strategies Group

Publication date: 18-May-2005
Reprinted from RatingsDirect

New Mexico

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Credit Profile

US\$22.05 mil supplemental
severance tax bnds ser 2005B-
2 due 07/01/2011
A+
Sale date: 23-MAY-2005

US\$38.295 mil severance tax
rdg bnds ser 2005B-1 due
07/01/2014
AA
Sale date: 23-MAY-2005

AFFIRMED
Outstanding severance tax
bnds
AA

Outstanding supplemental
severance tax bnds
A+(SPUR)

Outstanding supplemental
severance tax bnds
A+

OUTLOOK: STABLE

Rationale

The 'AA' rating on New Mexico's severance tax bonds, refunding series 2005B-1, and the 'A+' rating on the state's supplemental severance tax bonds, refunding series 2005B-2, are based on a pledge of severance taxes and reflect:

- Strong debt service coverage produced by severance tax revenues of 4.0x total senior and supplemental bond maximum annual debt service (MADS) by estimated fiscal 2005 revenues;
- Adequate legal provisions, including a 2.0x additional bonds test on the senior bonds and 1.6x test on the supplemental bonds; and
- Rapid debt amortization.

These credit strengths are mitigated by the inherent instability associated with prices and production levels of natural gas and oil, which account for the bulk of pledged revenues, and some geographic limitations in serving natural gas markets due to the state's location.

The bonds are secured by a lien on money deposited into the severance tax bonding fund, consisting of tax receipts generated from natural gas and oil and other severed natural resources in New Mexico.

The state levies taxes on a variety of minerals. The primary severance tax revenue generators are natural gas and oil (92% of projected fiscal 2005 severance tax receipts), with gas accounting for almost three-quarters of the gas/oil share. These taxes, combined with all other receipts and interest earnings, are projected to total \$362.8 million in fiscal 2005, up 13.8% from fiscal 2004. Total projected fiscal 2005 bonding fund receipts produce 4.0x coverage of MADS on senior and supplemental bonds. Annual debt service coverage on senior and supplemental bonds is projected to range from 3.5x-3.9x between fiscals 2006-2009. Debt service coverage of senior bond MADS by projected fiscal 2005 receipts is 5.1x.

The historical additional bonds test of 2.0x coverage for the bonds limits the state's ability to issue parity debt. This test and a "best efforts" pledge to maintain annual deposits equal to 2.0x debt service are positive credit factors. The additional bonds test for the supplemental severance tax bonds is 1.6x.

Severance tax bond proceeds represent a major source of capital project funding for the state. The state has \$400.2 million outstanding in senior severance tax bonds and \$114.4 million in supplemental bonds, with a front-loaded debt service schedule and final maturity in a rapid 11 years. Proceeds from the 2005B-1 bonds will refund certain maturities of the outstanding severance tax bonds, refunding series 2001A and 2002A; proceeds from the 2005B-2 bonds will refund certain maturities of the outstanding supplemental severance tax bonds, series 2002A.

Outlook

The stable outlook reflects the expectation that coverage of debt service will remain strong and natural gas and oil reserves will continue to be replenished to maintain sufficient production over the life of the bonds.

Legal Provisions

The bonds are special obligations of the state secured by deposits to 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. On Dec. 31 and June 1 of each fiscal year, excess funds, defined as amounts in excess of the next two debt service payments on the bonds, parity bonds, and the subordinate supplemental severance tax bonds, are transferred into the severance tax permanent fund. Money in the permanent fund is not available to pay debt service.

The state board of finance, which includes the governor, lieutenant governor, and state treasurer, is prohibited by statute from issuing severance tax bonds unless total bonds to be outstanding can be serviced by not more than 50% of the annual deposit to the severance tax bonding fund in the fiscal year preceding issuance, and total senior and supplemental severance tax bonds by not 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, and 160% of principal and interest on senior and supplemental bonds.

Economy

The major severance tax revenue generators are natural gas (67% of projected fiscal 2005 bonding fund receipts), oil (25%), and coal (5%). Carbon dioxide, copper, potash, and other minerals account for the balance. Gas reserves were 18,226 billion cubic feet (bcf) at the end of 2003, compared with 20,399 bcf in 1992, as annual production was at a higher level in each year after 1992, including 1,526 bcf in fiscal 2003. Over the past two decades, gas producers have replaced most of their production with new discoveries. Over its long-term forecast, the state expects a continuance of the replacement of reserves and further development of existing formations. California is the end-user of the majority of gas produced in New Mexico. However, improvements to pipeline infrastructure enable the state's gas producers to move gas to either western or eastern markets to take advantage of the more profitable market. The largest gas producers in 2003 included Burlington Resources, Conoco Phillips Co., and BP America Production Co. The state projects natural gas production to decline 1%-2% annually without rapid increases in gas prices. The average sales price of natural gas was \$3.60 per 1,000 cubic feet in fiscal 2003, up from \$2.60 in fiscal 2002, with a further increase to \$4.60 in fiscal 2004. Prices for New Mexico gas are estimated to average \$5.20 per 1,000 cubic feet in fiscal 2005, and are expected to decline gradually, ranging from \$4.80 in fiscal 2006 to \$4.35 in fiscal 2009. When combined with declining production, falling prices are projected to result in corresponding declines in severance tax receipts.

Oil reserves, like gas, also peaked in 1992. At the end of 1992, reserves totaled 1,019 million barrels but had fallen to 677 million barrels by 2003. Most of the oil produced in New Mexico over the past 20 years has been replaced by new discoveries, and the replacement trend and further development of existing formations are expected to continue. Oil production has averaged approximately 66 million barrels per year over the past decade. The leading oil producers in 2003 included Chevron USA Inc., Conoco Phillips Co., and Devon Energy Production Co.

Coal is produced in the San Juan Basin in the northern and northwestern areas of the state. Total coal resources of 45.8 billion tons at current production rates would last more than 1,000 years. The majority of the state's coal production has been used for electrical power generation in the state. New Mexico's coal is generally low in sulfur.

Finances

Total revenues vary widely, largely as a result of the effect of mineral price fluctuations on severance tax receipts. Over the past six fiscal years, total receipts have ranged from approximately \$197 million to a projected \$363 million. Actual coverage of senior and supplemental debt service was 3.7x in fiscal 2004 and an estimated 4.2x in fiscal 2005. Coverage of the senior bonds only was estimated at 5.3x in 2005. Bonding fund receipts for fiscals 2006-2009 are projected to cover senior and subordinate MADS by a minimum of 3.5x.

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