Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

---

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement (please include name of state where Issuer is located):

Provide nine-digit CUSIP* numbers if available, to which the information relates:

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): State of New Mexico

Other Obligated Person's Name (if any):

(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s) if available, of Issuer: 647310, 647293

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

XX Electronic (number of pages attached) 59 ☐ Paper (number of pages attached)

If information is also available on the Internet, give URL:

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. XX **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**
(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered: July 1, 2006 - June 30, 2007

B. XX **Financial Statements or CAFR pursuant to Rule 15c2-12** (State of New Mexico State General Fund)

Fiscal Period Covered: July 1, 2006 - June 30, 2007 (unaudited; audited statement to follow when available)

C. ☐ **Notice of a Material Event pursuant to Rule 15c2-12** (Check as appropriate)

1. ☐ Principal and interest payment delinquencies
2. ☐ Non-payment related defaults
3. ☐ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ☐ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ☐ Substitution of credit or liquidity providers, or their failure to perform
6. ☐ Adverse tax opinions or events affecting the tax-exempt status of the security
7. ☐ Modifications to rights of security holders
8. ☐ Bond calls
9. ☐ Defeasances
10. ☐ Release, substitution, or sale of property securing repayment of the securities
11. ☐ Rating changes

D. ☐ **Notice of Failure to Provide Annual Financial Information as Required**

E. ☐ **Other Secondary Market Information** (Specify): ____________

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name Olivia Padilla-Jackson Title Director

Employer New Mexico State Board of Finance

Address 181 Bataan Memorial Bldg., Room 181 City Santa Fe State NM Zip Code 87501

Telephone 505-827-3936 Fax 505-827-3985

Email Address olivia.padilla-jackson@state.nm.us Issuer Web Site Address www.nmsbof.state.nm.us

Dissemination Agent Contact, if any:

Name ____________ Title ____________

Employer ____________

Address ____________ City ____________ State ____________ Zip Code ____________

Telephone ____________ Fax ____________

Email Address ____________ Relationship to Issuer ____________

Obligor Contact, if any:

Name ____________ Title ____________

Employer ____________

Address ____________ City ____________ State ____________ Zip Code ____________

Telephone ____________ Fax ____________

Email Address ____________ Obligor Web Site Address ____________

Investor Relations Contact, if any:

Name ____________ Title ____________

Telephone ____________ Email Address ____________

THE STATE OF NEW MEXICO
CONTINUING DISCLOSURE
ANNUAL FINANCIAL INFORMATION FILING

FISCAL YEAR 2007

NEW MEXICO
STATE BOARD OF FINANCE

January 2008

853139

TABLE OF CONTENTS

STATE OF NEW MEXICO OUTSTANDING AND ADDITIONAL BONDS 1

Capital Program 1

General Obligation Bonds 2

Severance Tax Bonds 4

Tax and Revenue Anticipation Notes 6

Severance Tax Bonding Fund and Debt Service Requirements 6

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO 13

FINANCIAL OVERVIEW 17

State Auditing and Accounting Systems 17

State Budgetary and Appropriation Process 17

State Treasurer's Investment Responsibilities 17

General Fund 19

Review of Results in the General Fund 22

General Fund Taxes and Revenues 23

Gross Receipts and Compensating Taxes 23

Personal Income Tax 24

Corporate Income Tax 25

Mineral Production Taxes 26

Royalties, Rents and Bonuses 26

Severance Tax Permanent Fund and the Land Grant Permanent Fund 27

Investment Income 28

PROPERTY VALUATION AND TAXATION 28

Production and Property Taxes on Oil and Gas 29

Production, Sales, and Property Taxes on Coal 31

STATE OF NEW MEXICO
OUTSTANDING AND ADDITIONAL BONDS

Capital Program

Capital projects funded by the State of New Mexico (the "State") are financed primarily by surplus State general fund balances, General Obligation Bonds, Severance Tax Bonds (including Supplemental or Subordinated Severance Tax Bonds), and Transportation Bonds (backed primarily by the State Road Fund). Table 1 summarizes the capital funding administered by the Board and certain other sources for Fiscal Year 2003 through Fiscal Year 2007 and the first six months of Fiscal Year 2008 through December 31, 2007.

TABLE 1
Principal Sources of Capital Project Funding
Fiscal Year Ended June 30
(Dollars in millions)

	2003	2004	2005	2006	2007	2008 (As of 12/31/07)
Proceeds from General Obligation Bonding Program						
General Obligation Bonds	$ 134.4	$ 0.0	$ 121.7	$ 0.0	$ 142.8	$ 0.0
Subtotal	$ 134.4	$ 0.0	$ 121.7	$ 0.0	$ 142.8	$ 0.0
Proceeds from Severance Tax Bonding Program						
Severance Tax Bonds	$ 76.6	$ 74.5	$ 87.6	$ 136.1	$ 136.4	$ 0.0
Severance Tax Funding Notes(1)	56.4	63.7	87.8	102.1	193.3	61.0
Supplemental Severance Tax Bonds	45.0	10.0	10.0	0.0	0.0	0.0
Supplemental Severance Tax Funding Notes(1)	111.8	151.9	213.3	193.6	210.8	95.8
Subtotal	$ 289.8	$ 300.1	$ 398.7	$ 431.8	$ 540.3	$ 156.8
Proceeds From Other Sources						
General Fund(2)	$ 36.9	$ 183.4	$ 238.6	$ 454.6	$ 548.4	$ 0.0
Transportation Bonds(3)	16.0	743.6	0.0	0.0	459.4	0.0
Subtotal	$ 52.9	$ 927.0	$ 238.6	$ 454.6	$1,007.8	$ 0.0
Total	$ 477.1	$1,227.1	$ 759.0	$ 886.5	$1,690.9	$ 156.8

(1) The Board, in order to take advantage of Severance Tax Bonding Fund revenue that would otherwise be transferred to the Severance Tax Permanent Fund, issues Funding Notes to the State Treasurer (which are retired within the same Fiscal Year with such revenue) to fund authorized projects.
(2) $3,600,000 of the appropriation made in FY02 was not available until FY03.
(3) On May 20, 2004, the New Mexico Finance Authority issued $700,000,000 of new money bonds secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund. On October 19, 2006, the New Mexico Finance Authority issued $450,400,000 of new money bonds secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund.
Source: New Mexico State Board of Finance.

General Obligation Bonds

Sections 7 and 8 of Article IX of the Constitution of the State limits the power of State officials to incur general obligation indebtedness extending beyond the Fiscal Year in three ways:

(a) The State may borrow money not exceeding the sum of two hundred thousand dollars ($200,000) in the aggregate to meet casual deficits or failure in revenue, or for necessary expenses.

(b) Other debt may be contracted by or on behalf of the State only when authorized by law for some specified work or object. Such a law takes effect only after being submitted to the qualified electors of the State and having received a majority of all votes cast thereon at a general election. No debt may be created if the total indebtedness of the State, exclusive of the debts of the territory and several counties thereof assumed by the State, would thereby be made to exceed one percent of the assessed valuation of all property subject to taxation in the State, as shown by the last preceding general assessment.

(c) The State may also contract debts to suppress insurrection and to provide for the public defense.

Outstanding and Additional Parity General Obligation Bonds

The principal amounts of outstanding General Obligation Bonds, as of December 31, 2007, are shown in Table 2.

TABLE 2
Outstanding General Obligation Bonds

Series	Principal Outstanding
Series 2001	$ 28,765,000
Series 2003	85,525,000
Refunding Series 2003B	10,000,000
Series 2005	94,060,000
Series 2007	134,870,000
Total	**$353,220,000**

Source: New Mexico State Board of Finance website, December 2007.

Future debt payments, by Fiscal Year, on General Obligation Bonds outstanding, as of December 31, 2007, are shown in Table 3.

TABLE 3
Future General Obligation Bond Debt Service Requirements on Outstanding Bonds

Date	Principal	Interest	Total Debt Service	Calendar Year Debt Service	Fiscal Year Debt Service
03/01/08	40,000,000	8,282,268.75	48,282,268.75		48,282,268.75
09/01/08	10,000,000	7,379,143.75	17,379,143.75	65,661,412.50	
03/01/09	41,930,000	7,129,143.75	49,059,143.75		66,438,287.50
09/01/09	0	6,177,962.50	6,177,962.50	55,237,106.25	
03/01/10	43,955,000	6,177,962.50	50,132,962.50		56,310,925.00
09/01/10	0	5,176,143.75	5,176,143.75	55,309,106.25	
03/01/11	46,080,000	5,176,143.75	51,256,143.75		56,432,287.50
09/01/11	0	4,125,775.00	4,125,775.00	55,381,918.75	
03/01/12	40,215,000	4,125,775.00	44,340,775.00		48,466,550.00
09/01/12	0	3,196,450.00	3,196,450.00	47,537,225.00	
03/01/13	42,145,000	3,196,450.00	45,341,450.00		48,537,900.00
09/01/13	0	2,222,375.00	2,222,375.00	47,563,825.00	
03/01/14	27,530,000	2,222,375.00	29,752,375.00		31,974,750.00
09/01/14	0	1,534,125.00	1,534,125.00	31,286,500.00	
03/01/15	28,890,000	1,534,125.00	30,424,125.00		31,958,250.00
09/01/15	0	811,875.00	811,875.00	31,236,000.00	
03/01/16	15,840,000	811,875.00	16,651,875.00		17,463,750.00
09/01/16	0	415,875.00	415,875.00	17,067,750.00	
03/01/17	16,635,000	415,875.00	17,050,875.00	17,050,875.00	17,466,750.00
Total	**$353,220,000**	**$70,111,718.75**	**$423,331,718.75**	**$423,331,718.75**	**$423,331,718.75**

Source: New Mexico State Board of Finance website, December 2007.

The issuance of additional General Obligation Bonds, other than for refunding purposes, and the levy of additional *ad valorem* taxes are subject to approval of the voters. Any such additional General Obligation Bonds may be issued on a parity with, or subordinate to, all outstanding General Obligation Bonds.

Calculation of 1% Bonding Limitations	
Net Taxable Value as of December 31, 2007	$46,914,958,818.00
General obligation bond limitation @ 1% of Net Taxable Value	$469,149,588.18
Total general obligation bonds outstanding as of December 31, 2007	$353,220,000.00
Ratio of total debt to Net Taxable Value	0.753%

Underlying General Obligation Bonds

The following table presents information on outstanding county, city, local and public school district debt outstanding as of June 30, 2007. The table does not include debt of special districts or community colleges.

Certain Underlying General Obligation Debt

Counties	$212,628,998
Cities	$196,449,000
Schools	$1,031,554,000

Source: Local Government Division, New Mexico Department of Finance and Administration and New Mexico Department of Education.

Severance Tax Bonds

Amendments to the Severance Tax Bonding Act enacted in 1999 and 2000 permit the Board to issue two categories of bonds against Severance Tax Bonding Fund revenues: "New Mexico Severance Tax Bonds" and "New Mexico Supplemental Severance Tax Bonds" which are referred to herein as "Senior Severance Tax Bonds" and "Supplemental Severance Tax Bonds," respectively. The Board is prohibited by statute from issuing Senior Severance Tax Bonds and short-term Senior Severance Tax Funding Notes unless the aggregate amount of total Senior Severance Tax Bonds and Funding Notes outstanding, after giving effect to the proposed issuance, can be serviced with not more than 50 percent of the annual deposits into the Bonding Fund, from the preceding Fiscal Year. Pursuant to the 1999 and 2000 amendments to the Severance Tax Bonding Act, the Board is prohibited by statute from issuing Supplemental Severance Tax Bonds unless the aggregate amount of total Senior Severance Tax Bonds and Supplemental Severance Tax Bonds outstanding, after giving effect to the proposed issuance, can be serviced with not more than 62.5 percent of the annual deposits into the Bonding Fund, from the State's preceding Fiscal Year. In addition, short-term Supplemental Severance Tax Funding Notes may be issued if the debt service on such Supplemental Severance Tax Funding Notes, when added to the debt service previously paid or scheduled to be paid during that Fiscal Year on Senior and Supplemental Severance Tax Bonds and Funding Notes does not exceed 95 percent of the deposits into the Bonding Fund, from the preceding Fiscal Year. The Senior Severance Tax Bonds and Funding Notes fund all types of capital projects while Supplemental Severance Tax Bonds and Funding Notes are earmarked for capital projects for public education.

Under the terms of an amendment made to the Act in the 2001 Regular Session of the Legislature, the Legislature granted the Board authority to issue Supplemental Severance Tax Bonds for public school projects in amounts certified to the Board from time to time by the Public School Capital Outlay Council of the State. The lien of the pledge of such Supplemental Severance Tax Bonds (including short-term funding notes) is subordinate to any outstanding Senior Severance Tax Bonds.

Outstanding Senior Severance Tax Bonds

The principal amounts of outstanding Senior Severance Tax Bonds, as of December 31, 2007, are shown in Table 4.

TABLE 4
Outstanding Senior Severance Tax Bonds

Severance Tax Bonds, Series 2003A	$ 48,580,000
Severance Tax Bonds, Series 2004A	52,050,000
Severance Tax Bonds, Series 2005A	71,955,000
Severance Tax Bonds, Refunding Series 2005B-1	37,040,000
Severance Tax Bonds, Series 2006A	124,335,000
Severance Tax Bonds, Series 2007A	162,840,000
Total	**$496,800,000**

Source: New Mexico State Board of Finance website, December 2007.

Future payments, by Fiscal Year, on outstanding Senior Severance Tax Bonds, as of December 31, 2007, are shown in Table 5.

TABLE 5
Future Senior Severance Tax Bond Debt Service

Fiscal Year	Principal	Interest	Total
2008	–	$10,906,804.17	$ 10,906,804.17
2009	$ 72,740,000	19,931,800.00	92,671,800.00
2010	58,570,000	16,792,712.50	75,362,712.50
2011	55,005,000	14,171,718.75	69,176,718.75
2012	57,670,000	11,686,887.50	69,356,887.50
2013	60,525,000	9,197,162.50	69,722,162.50
2014	55,010,000	6,831,800.00	61,841,800.00
2015	47,960,000	4,693,618.75	52,653,618.75
2016	41,320,000	2,827,250.00	44,147,250.00
2017	31,860,000	1,313,437.50	33,173,437.50
2018	16,140,000	322,800.00	16,462,800.00
Total	**$496,800,000**	**$98,675,991.67**	**$595,475,991.67**

Source: New Mexico State Board of Finance website, December 2007.

Outstanding Supplemental Severance Tax Bonds

The principal amounts of Supplemental Severance Tax Bonds that are outstanding, as of December 31, 2007 are shown in Table 6.

TABLE 6
Outstanding Supplemental Severance Tax Bonds

Supplemental Severance Tax Bonds, Series 2002A	$ 6,790,000
Supplemental Severance Tax Bonds, Series 2002B	25,230,000
Supplemental Severance Tax Bonds, Series 2003B	6,620,000
Supplemental Severance Tax Bonds, Series 2004B	7,310,000
Supplemental Severance Tax Bonds, Series 2005B-2	21,095,000
Total	**$67,045,000**

Source: New Mexico State Board of Finance website, December 2007.

The future Fiscal Year debt payments on outstanding Supplemental Severance Tax Bonds, as of December 31, 2007, are shown in Table 7.

TABLE 7
Future Supplemental Severance Tax Bond Debt Service

Fiscal Year	Principal	Interest	Total
2008	–	$1,455,247.50	$ 1,455,247.50
2009	$13,275,000	2,624,232.50	15,899,232.50
2010	13,555,000	2,043,982.50	15,598,982.50
2011	14,145,000	1,444,920.00	15,589,920.00
2012	14,760,000	808,238.75	15,568,238.75
2013	7,805,000	317,848.75	8,122,848.75
2014	2,355,000	108,282.50	2,463,282.50
2015	1,150,000	28,750.00	1,178,750.00
Total	**$67,045,000**	**$8,831,502.50**	**$75,876,502.50**

Source: New Mexico State Board of Finance website, December 2007.

The lien of the pledge of such Supplemental Severance Tax Bonds is subordinate to any outstanding Senior Severance Tax Bonds.

Tax and Revenue Anticipation Notes

The State has issued, and expects to issue from time to time, Tax and Revenue Anticipation Notes. The Notes are not general obligations of the State. The purpose of the Notes is to fund a portion of the State's cash flow needs during the Fiscal Year in which the Notes are sold. As of December 31, 2007, $400,000,000 Tax and Revenue Anticipation Notes, Series 2007 and $350,000,000 Tax and Revenue Anticipation Notes, Series 2007A were outstanding and are due to mature on June 30, 2008.

Severance Tax Bonding Fund and Debt Service Requirements

Severance tax receipts contributed over 89 percent of total revenue to the Severance Tax Bonding Fund in Fiscal Year 2007, with the remainder attributable to interest and other investment income. Severance taxes are almost entirely attributable to natural gas, crude oil and coal sales. Natural gas and crude oil together accounted for approximately 95.7 percent of total Fiscal Year 2007 severance tax receipts as shown in Table 8.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 8
Severance Tax Bonding Fund
Receipts, Disbursements and Transfers
Fiscal Year Ended June 30(1)(2)(3)
(Dollars in thousands)

	2003	2004	2005	2006	2007(4)
Beginning Balance	$ 8,258	$ 10,184	$ 27,175	$103,909	$156,848
Receipts:					
Oil and Gas Severance Tax	$218,411	$287,320	$372,943	$477,139	$433,357
Other Minerals Severance Taxes	19,232	18,273	18,637	20,198	$ 19,545
Total Severance Taxes	$237,642	$305,594	$391,581	$497,336	$452,901
Other Income:					
Interest on Investments	$ 5,526	$ 5,475	$ 10,994	$ 25,284	$ 54,888
Other financial sources	13,988	8,268	2,975	9,766	$ 718
Subtotal	$ 19,514	$ 13,743	$ 13,969	$ 35,050	$ 55,607
Total Receipts	$257,157	$319,337	$405,549	$532,386	$508,508
Disbursements:					
Senior Bond Debt Service	$ 71,425(5)	$ 67,590(6)	$ 7,551	$132,594(7)	$ 9,624
Senior Short-term Obligations(8)	54,026	63,657	87,793	102,158	$ 74,434
Supplemental Bond Debt Service	17,569(5)	18,215(6)	3,290	38,011(7)	$ 1,800
Supplemental Short-term Obligations(8)	111,752	151,859	213,345	193,577	$210,830
Fiscal Charges	459	618	518	738	$ 446
Total Disbursements	$255,230	$301,940	$312,497	$467,076	$297,134
Transfers:					
To Severance Tax Permanent Fund	$ 0	$ 406	$ 16,318	$ 12,372	$147,282
Total transfers	$ 0	$ 406	$ 16,318	$ 12,372	$147,282
Ending Balance, June 30	$ 10,184(5)	$ 27,175(6)	$103,909	$156,847(7)	$220,939

(1) All receipts, expenditures and balances exclude amounts in rebate accounts retained for potential arbitrage rebates.
(2) Balances exclude loan receivables from Department of Labor. Loan repayment amounts are included as other income received.
(3) Proceeds and expenditures attributable to refunding bonds are excludable from this table because these amounts are reserved for payment to the escrow agent and are not available for debt service payments.
(4) Preliminary.
(5) Includes payment of $77.4 million of debt service due 7/1/03 on senior and supplemental bonds that was paid on 6/19/03. Ending balance would have been $87.6 million if this payment was not made during the period.
(6) Includes payment of $77.43 million of debt service due 7/1/04 on senior and supplemental bonds that was paid on 6/29/04. Ending balance would have been $104.5 million if this payment was not made during the period.
(7) Includes payment of $81.6 million of debt service due 7/1/06 on senior and supplemental bonds that was paid on 6/28/06. Ending balance would have been $238.4 million if this payment was not made during the period. The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 12, 2006 in the amount of $123,217,260.81 and additional transfer of $22,254,808.30 made on December 11, 2006.
(8) The Board, in order to take advantage of Bonding Fund revenues that would otherwise be transferred to the Severance Tax Permanent Fund, issues short-term Severance Tax funding notes and Supplemental Severance Tax funding notes to the State Treasurer which are retired within the same Fiscal Year with such revenue to fund authorized projects.

Source: New Mexico State Board of Finance based on the Statewide Human Resources, Accounting, and Management Reporting System (the "SHARE System").

TABLE 9
State of New Mexico Severance Tax Bonds
Projected Receipts, Debt Service Requirements and Coverage

Fiscal Year Ending 6/30	Projected STBF Revenues	Scheduled Senior Debt Service*	Projected Senior Debt Service Coverage	Scheduled Supplemental Debt Service(1)	Projected Supplemental Coverage
2008	$507,108,253	$81,270,467	6.24x	$18,020,276	5.11x
2009	498,537,857	92,671,800	5.38x	15,899,233	4.59x
2010	485,738,138	75,362,713	6.45x	15,598,983	5.34x
2011	473,540,300	69,176,719	6.85x	15,589,920	5.59x
2012	458,076,368	69,356,888	6.60x	15,568,239	5.39x
2013	393,130,802	69,722,163	5.64x	8,122,849	5.05x
2014	385,726,401	61,841,800	6.24x	2,463,283	6.00x
2015	378,511,467	52,653,619	7.19x	1,178,750	7.03x
2016	371,443,561	44,147,250	8.41x	–	8.41x
2017	364,520,651	33,173,438	10.99x	–	10.99x

* Excludes debt service on refunded bonds which will be payable from escrowed securities and severance tax debt obligations sold to the State Treasurer which are retired within the same Fiscal Year.

Source: New Mexico Department of Finance and Administration and Fiscal Strategies Group.

Investments

Funds on deposit in the Severance Tax Bonding Fund, including the Debt Service Account and Project Fund (established in accordance with the Bond Resolutions) are invested by the State Treasurer at the direction and approval of the Board, pursuant to the State Treasurer's Investment Policy. Investments are made in securities, which are at the time legal investments of the State, and no such investment or deposit shall violate any applicable restrictions imposed by the Code (defined below) and applicable Treasury Regulations relating to the market price and the existence of an established market.

Except for funds deposited into the Rebate Fund (defined in the Bond Resolutions), interest earned on the amounts on deposit in the Debt Service Account shall be retained therein, and interest earned on the amounts on deposit in the Project Fund shall be credited to the Debt Service Account and applied to the payment of principal and interest on the Bonds next becoming due. Any loss resulting from any such investment shall be charged to the applicable account from which such investments were made.

Severance Tax Collections and Reporting

Operators, purchasers and working interest owners are required to submit monthly reports to the Taxation and Revenue Department showing the total value, volume and kind of products sold from every production unit each month. Taxes must be paid at the same time and are due 55 days after the month of production. Each production report must be accompanied by a company identification number, which facilitates automated processing of return information. Production and associated tax liability is reported by "production unit" and a designation for a well or group of wells that is assigned by the Taxation and Revenue Department based on the master operation, property name identification and pool. A suffix is added to the production unit number to designate the specific land type and taxing authority including county, school districts, and municipalities.

The state maintains an automated database system ("ONGARD" for Oil and Natural Gas Administration and Revenue Database) to monitor production and sales activities of oil and natural gas producers.

ONGARD functions include: managing the inventory of lands within the state and tracking all leases to determine whether royalty payments are owed to the State; monitoring all oil and gas wells for compliance with unitization agreements and other production-related information; and processing tax and royalty payments due to the State. The integrated database gives the state enhanced capabilities to compare and evaluate production, tax and royalty reports, and to issue automated exception reports.

Severance tax amounts received by the Taxation and Revenue Department are deposited into the Oil and Gas Suspense Fund. Using the ONGARD system, the Taxation and Revenue Department reconciles monthly information reports with the payments received to identify the appropriate amounts to distribute to each tax beneficiary. Oil and gas severance tax amounts that have been reconciled are then transferred, once a month, to the bonding fund. Table 10 presents sales volume and total sales revenue for oil and natural gas subject to severance tax.

TABLE 10
New Mexico Oil and Natural Gas Subject to Taxation
Fiscal Years Ended June 30

	2002	2003	2004	2005	2006	2007
Oil						
Sales Volume (million barrels)	69.3	68.4	67.0	63.1	60.2	59.1
Value ($millions)	$1,521	$1,930	$2,138	$2,842	$3,616	$3,497
Average Price ($/barrel)	$21.95	$28.22	$31.91	$45.04	$60.07	$59.17
Natural Gas						
Sales Volume (bcf)	$1,627	$1,575	$1,543	$1,547	$1,527	$1,493
Value ($millions)	$3,981	$6,212	$7,352	$9,030	$11,469	$9,769
Average Price ($/mcf)	$2.45	$3.94	$4.77	$5.84	$7.51	$6.54

Source: New Mexico Taxation and Revenue Department.

Severance Taxes on Oil, Natural Gas, and Carbon Dioxide

The State collects taxes on the severance and sale of oil, natural gas and carbon dioxide. Table 11 summarizes the history of statutory tax rates imposed on natural gas, oil, and carbon dioxide. Tax rates are set by statute and are levied on the volume and/or value of product sold. With the exceptions noted below, tax rates have been imposed on an *ad valorem* basis, with deductions allowed for royalties paid to governments and also for certain expenses of transporting and processing products downstream of the production facility.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 11
History of Severance Tax Rates on Oil, Natural Gas and Carbon Dioxide

Year of Statutory Change	Natural Gas	Oil	Carbon Dioxide
1959	2.5%	2.5%	–
1974	3.75%	3.75%	–
1977	$0.05/mcf + surtax	$0.45/bbl + surtax	–
1980	$0.087/mcf + surtax	3.75%	–
1987	3.75%	3.75%	3.75%

Source: New Mexico Department of Finance and Administration.

Oil and Natural Gas Incentives

Although the State now offers reduced severance tax rates for several categories of production, the cumulative effect of these programs on severance tax receipts is expected to be small. Table 12 summarizes incentive tax rates applying to various categories of production as of Fiscal Year 2007. Due to the rise in oil and gas prices, most of these incentive programs are not currently in effect. Should prices decline in the future, some of these incentives will be applicable again.

TABLE 12
Oil and Gas Tax Incentive Programs

Incentive Category	Incentive Tax Rate	Threshold Price Below Which Incentive Rate Applies	Qualified Production As a Percent of Fiscal Year 2007 Total
Restoration wells	0.0%	$24.00 per barrel(1)	0.0% Oil(3) 0.0% Natural Gas(3)
Well workover wells	2.45%	$24.00 per barrel(1)	0.0% Oil(3) 0.0% Natural Gas(3)
Stripper wells	1.875%	$1.15 per mcf-Gas(2) $15.00 per barrel-Oil(2)	0.0% Natural Gas(3) 0.0% Oil(3)
	2.8125%	$1.35 per mcf-Gas(2) $18.00 per barrel-Oil(2)	0.0% Natural Gas(3) 0.0% Oil(3)
Enhanced oil recovery	1.875%	$28.00 per barrel(1)	0.0% Oil(3)

(1) Twelve-month average price for West Texas Intermediate crude oil as reported on Oil Postings for last day of each month.
(2) Average annual taxable value of natural gas or oil sold in New Mexico during the preceding calendar year.
(3) No natural gas volumes are expected to qualify for these incentives during the period because average taxable value exceeds the threshold levels.
Source: New Mexico Taxation and Revenue Department.

Severance Tax on Indian Land

The United States Supreme Court has ruled that the state can tax non-Indian oil and gas production on tribal land (*Cotton Petroleum Co. v. State of New Mexico*, 490 US 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989)). The authority of the state to impose severance taxes on Indian oil and gas production on tribal land was upheld by the United States District Court in New Mexico (*Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922). The Taxation and Revenue Department reports that natural gas production and crude oil production on Indian land was approximately 3.8 percent and 0.8 percent, respectively, of total taxable statewide production in 2007. The Department of Finance and Administration estimates that oil and gas production on Indian land, generated $12.5 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2007. The Tax Department estimates that coal production on Indian land ranges from 40-45 percent of total statewide production from year to year. No potash or copper is produced on Indian land.

The Laws of 1995, Chapter 171 authorized a credit against state production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of state taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the state's credit is lowered. The Department of Finance and Administration estimates that total credits claimed under this provision were about $4.5 million in 2007. About $2.2 million of these credits were applied against oil and gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

Laws 2001, Chapter 134, provides a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation. The Taxation and Revenue Department reports that this credit reduced Severance Tax Bonding Fund revenue by $7 million in Fiscal Year 2007. Laws 2002, Chapter 15, created the Jicarilla Apache Tribal Capital Improvement Tax Credit, but this credit does not apply against the severance tax revenues due on the same production.

Carbon Dioxide

The Bravo Dome carbon dioxide field, encompassing 1.2 million acres in Harding, Union and Quay Counties in the northeastern area of the State, contains estimated resources of 16.3 trillion cubic feet, of which 7.0 to 10.6 trillion cubic feet are considered economically recoverable. Although the state has long produced limited quantities of liquid and solid carbon dioxide (CO_2) for use in the food and the engineering industries, the main commercial value of carbon dioxide deposits is derived from the use of the product in its gaseous form in enhanced oil recovery projects in the Permian Basin of Texas and New Mexico. Future sales ultimately will depend on the CO_2 requirements of such projects and on the state's proportion of the market, which is shared with Colorado's Sheep Mountain and Little Sheep Mountain, McElmo Dome and Doe Creek Fields. Sales of CO_2 are expected to remain near 125 bcf per year. The wellhead value of CO_2 sales currently is approximately $0.35 per mcf reported at the production facility, and is expected to remain stable over the forecast period. Severance taxes on CO_2 are levied at the rate of 3.75 percent of sales value.

Severance Taxes on Coal

Excise taxes have been imposed on coal sales in New Mexico since 1937 and tax rates have been changed several times over the years. Revenues were initially earmarked to the Severance Tax Bonding Fund in 1961. At that time the tax rate on coal was 0.125 percent.

The 1999 Legislature reexamined coal severance taxes in the light of deregulation of the electric power market. Increased competition in power markets makes it harder for utilities to pass on the cost of high production taxes on coal used in generation. A study of New Mexico's coal taxes by economists at the Tax Department and the DFA indicated that New Mexico's taxes were among the highest in the region.[1] In view of these facts, the 1999 Legislature and Governor acted to repeal the sunset of the severance surtax exemption. Thus, as existing contracts expire which are currently subject to the surtax, any subsequent contracts will be exempt from the surtax. Although a total of $10.4 million in severance surtax was collected in Fiscal Year 2007, the impacts of the new statute are expected to be small, as most contracts subject to the surtax do not expire for a number of years. The full impact of the provision will not be felt until all existing contracts expire, in about 9 years.

TABLE 13
Coal Production, Pricing and Tax Rates
Fiscal Years 2002-2007

	2002	2003	2004(1)	2005	2006	2007(2)
Total Sales Volume (short tons)	26,589,634	26,704,979	25,584,920	26,555,045	26,566,669	26,002,101
Surface Mined Surtax Exempt Volume	10,405,420	10,918,338	10,104,895	6,207,544	6,455,233	7,605,557
Surface Mined Non-Exempt Volume	14,715,458	13,626,804	14,066,790	13,434,239	13,140,540	15,263,899
Underground Non-Exempt Volume	1,468,656	2,159,837	1,512,643	6,913,261	6,970,895	8,223,894
Total Sales Revenue	$528,324,790	$611,561,557	$583,588,317	$659,066,157	$659,678,864	$692,946,926
Average Price Per Ton	$19.87	$22.90	$22.81	$24.82	$24.83	$26.65
Total Intergovernmental Tax Credits	$4,154,255	$6,180,464	$6,965,252	$6,463,061	$6,927,776	$6,396,583
Estimated Net Severance Tax Liability	$20,761,702	$18,712,346	$17,161,561	$16,729,934	$17,142,780	$17,015,047
Average Tax Rate (dollars per ton)	$0.78	$0.67	$0.67	$0.63	$0.65	$0.65

(1) Total Volumes for 2004 are actual; Exempt and Non-Exempt Volumes are estimates from previous years' trends.
(2) 2007 figures are estimates based on eleven months of data for FY07 (July 2006 through May 2007) plus one month of data from FY06 (June 2006) in order to capture a twelve-month period in the absence of availability of June 2007 data.
Source: New Mexico Taxation and Revenue Department.

(1) "Taxation of Coal Production in Western States," by Kelly O'Donnell, New Mexico Taxation and Revenue Department and Dr. Thomas Clifford, New Mexico Department of Finance and Administration, presentation to the Revenue Stabilization and Tax Policy Committee, November, 1998.

Severance Taxes on Other Minerals

Many other minerals and natural resources are taxed in the State upon their severance from the earth or, in some cases, their sale or shipment. Existing tax rates are listed in Table 14. In many cases, flat percentage deductions are allowed to account for certain production costs. The result is that the taxable value is a percentage of the "full value." The "full value," in turn, is sometimes based upon published prices rather than actual revenues, as noted in Table 14.

TABLE 14
Severance Tax Rates on Other Minerals

Mineral Resources	Tax Rate	Taxable Value as % of Full Value
Potash	2.500%	16.67%
Copper	0.500	16.67[1]
Timber, Pumice, Gypsum, Sand, Gravel, Clay, Fluorspar, Other	0.125	100.00[2]
Molybdenum	0.125	50.00
Lead, Zinc	0.125	16.67[1]
Gold	0.200	50.00[1]
Silver	0.200	30.00[1]
Uranium	3.500	50.00

(1) Value based upon the indicated percentage of specified Comex, LME or London spot prices published in Metals Week.
(2) For products with a price at the point of production, value is that price less deductions allowed for actual costs for hoisting, loading, and crushing of up to 50 percent of price. For products, which must be processed before sale, deductions are allowed for cost of processing and freight charges to the point of sale.
Source: New Mexico Energy Minerals and Natural Resources Department.

Copper prices have rebounded due to strong world demand, particularly in China. Prices averaged approximately $3.15/lb in Fiscal Year 2007. Prices for 2008 are expected to be in the $3.25/lb to $3.75/lb range and remain in the $3.00 to $4.00 range through 2011. Revenues in Fiscal Year 2007 were $464,328, up from $306,665 in 2006.

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 60 percent (mornings) to 30 percent (afternoons). Evenings are crisp and cool in all seasons because of low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Major industries in the State are energy resources, manufacturing, services, tourism, arts and crafts, agribusiness, government, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. Agriculture plays a major role in the State's economy with irrigation and a variety of climatic conditions, a diverse assortment of quality agriculture products are produced.

Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General and Commissioner of Public Lands, who are elected to four-year terms beginning the January 1 after their election. An elected Executive Branch Officer may succeed himself or herself in office once. The primary functions of the Executive Branch are currently carried out by the offices of each elected Executive Branch officeholder, in addition to approximately 20 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature.

The Board of Finance has seven members consisting of the Governor, the Lieutenant Governor, the State Treasurer and four members appointed by the Governor with the advice and consent of the Senate; no more than two such appointed members may be from the same political party. The Board, in addition to other powers and duties provided by law, has general supervisory authority over the fiscal affairs of the State and over the safekeeping and depositing of all money and securities belonging to, or in the custody of, the State.

The Department of Finance and Administration ("DFA") is the principal financial organization of State government and performs through its divisions the duties and functions relating to State and local government financing and general administration. The executive and administrative head of the DFA is the Secretary, who is appointed by the Governor with the advice and consent of the Senate, and who also serves as Executive Officer of the State Board of Finance.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms, members of the House for two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the Legislature may be convened by the Governor, and under certain limited circumstances, extraordinary sessions may be convened by the Legislature. Legislators receive no salary, but do receive per diem and mileage allowances while in session or performing official State business.

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

Pension Funds

Two retirement plans, covering most of the employees of the State and its political subdivisions, have been established by statute. These retirement plans are described below. All financing of the plans, including employer and employee contributions and fund investment provisions, as well as all benefit provisions, are established by the Legislature and are not subject to negotiation.

Educational Retirement Board

Total Educational Retirement Board ("ERB") membership as of June 30, 2007 was officially reported as 122,598. The annual actuarial valuation of the Educational Retirement Fund of the State was conducted and reported as of June 30, 2007 by Gabriel Roeder, Smith & Co. Accrued assets at fair value on June 30, 2007 were $9.456 billion and the unfunded liability was $3.599 billion. The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at June 30, 2006 was 68.3 percent, and at June 30, 2007 was 70.5 percent.

As of June 30, 2007, ERB's unfunded actuarial liability (UAAL) had an amortization period of infinity. This is the same as the prior year's funding period. The amortization period, also referred to as the funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience exactly follows the actuarial assumptions.

Member and employer contribution rates are established by statute. Section 22-11-21 NMSA 1978 was amended in 2005 to increase the employer contribution rate by 75 basis points (0.75%) each of the seven years beginning July 1, 2005, and increase member contribution rates by 7.50 basis points (0.075%) for each of the four years beginning July 1, 2005. As of July 1, 2007, the employer contribution rate is 10.90 percent and the member contribution rate is 7.825 percent. The member rate will reach its ultimate level of 7.90 percent in Fiscal Year 2009, and the employer rate will reach its ultimate level of 13.90 percent in Fiscal Year 2012.

As indicated above, as of June 30, 2007, ERB has an infinite funding period. Therefore, if the employer contribution rate (10.90% as of July 1, 2007) and member contribution rate (7.825% as of July 1, 2007) were to remain in place, and all actuarial assumptions are exactly realized, including an 8.00 percent investment return on the actuarial value of assets, then the UAAL will never achieve complete amortization. The employer contribution in Fiscal Year 2007 that would have been required in order to amortize the UAAL over 30 years was 13.84 percent. As mentioned above, under current law, the employer and member rates will increase to 13.90 percent and 7.90 percent, respectively. However, GASB 25 does not permit the consideration of contribution rates not yet in effect, so an infinite funding period must be reported.

Over the course of seven years ending June 30, 2012, assuming the fund continues to earn an 8 percent investment return, overall contributions to the system will increase from 16.25 percent of salaries (as it was for Fiscal Year 2005) to 21.8 percent of salaries and the funding period will be reduced to less than 10 years by the early 2020s.

The Public Employees Retirement Association

Gabriel, Roeder, Smith & Co. completed an actuarial valuation of the Public Employees Retirement Fund ("PERA"), Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund ("VFF") as of June 30, 2007. The Public Employees Retirement Board accepted the actuary's conclusions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 4 percent per annum, compounded annually, and other risk assumption changes including salary increases for longevity and merit, the real rate of return on investments, mortality, active member withdrawals, disability and retirement rates to allow for expected future experience. Actuarial information, for each fund, as of June 30, 2007, is shown in Table 15.

TABLE 15
Summary of State Retirement Funds
(Dollars in thousands)

	PERA[1]	**Judicial**	**Magistrate**	**VFF**	**Legislative**
Membership	78,454	226	120	6,026	270
Actuarial Information					
Accrued Liability[2]	$12,962,480	$104,040	$36,964	$16,536	$19,592
Value of Assets	$12,032,215	$ 82,570	$37,242	$44,961	$17,143
Unfunded (Overfunded) Accrued Liability	$ 930,265	$ 21,471	($ 277)	($28,425)	$ 2,449
Present Value of Statutory Obligations	$16,492,182	$136,723	$46,891	$27,780	$21,878

(1) Includes both the state and municipal divisions.
(2) Includes the accrued liability of both the retired and active members.
Source: Public Employees Retirement Association of New Mexico.

New Mexico Retiree Health Care Authority

In addition to the pension benefits described above, the Retiree Health Care Act was enacted by Laws 1990, Chapter 6, Sections 1-16, codified as Sections 10-7C-1 through 10-7C-19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State and eligible dependents. The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished or extinguished by the Legislature, and that the act does not create any contract, trust or other rights in public employees to health care benefits.

The New Mexico Retiree Health Care Authority (the "NMRHCA"), the agency which administers the Retiree Health Care Act, has a fund base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation and Revenue Suspense Fund ("TRS Fund"). A separate distribution from the TRS Fund, which is currently set at $3,000,000 per year, is scheduled to sunset June 30, 2010. Employer and employee contribution rates are established by statute as is the amount of the distributions from the TRS Fund. Such contribution rates are currently 1.3 percent and 0.65 percent of the participating employee's salary, respectively. These rates combined, as well as other sources of revenue, are significantly less than what is necessary to fund the normal cost and amortization of the UAAL (as described below) over a 30-year period.

Total NMRHCA enrolled participants as of June 30, 2006 was reported as 36,268. Accrued assets at fair value on June 30, 2005 were $167,399,635, and on June 30, 2006 were $180,289,837.

Based on the GASB Statement 43 valuation for the Fiscal Year ended June 30, 2006, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5.0 percent, the unfunded actuarial accrued liability ("UAAL") has been calculated to be approximately $4.1 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. The Legislative Council, the Legislative Finance Committee, the Governor and the NMRHCA, as required by statute, established a working group that, among other things, examined the options to improve the actuarial soundness of the NMRHCA Fund and reported its findings to the Governor, the New Mexico Legislative Council, the Legislative Finance Committee and the NMRHCA.

Laws 2002, Chapter 75, Section 2 and Laws 2002, Chapter 382, Section 2, codified as Section 10-7C-17 NMSA 1978, also created the senior prescription drug program in the NMRHCA. Laws 2006, Chapter 26, amended Sections 10-7C-17 through 19 NMSA 1978, extending the program to all New Mexicans regardless of age.

FINANCIAL OVERVIEW

State Auditing and Accounting Systems

By statute, the financial affairs of every agency in the State are examined and audited each year by the State Auditor, personnel of the State Auditor's office designated by the State Auditor, or by the independent auditors approved by the State Auditor. The audits are conducted in accordance with generally accepted auditing standards. The audit reports include financial statements that are presented in accordance with generally accepted accounting principles.

In July 2006, the State implemented a Statewide Human Resources, Accounting and Management Reporting System (the "SHARE System"). The SHARE System replaced the State's existing Central Accounting System, central payroll system, personnel system, treasury recoding accounting and cashiering system and 114 additional systems currently in place at various State agencies. In June 2007, the State officially accepted SHARE as its books of record for the Fiscal Year ended June 30, 2007.

State Budgetary and Appropriation Process

All State agencies are required to submit their budget requests to the Budget Division of the DFA by September 1 of each year following guidelines and forms provided in advance for this purpose. Budget hearings are scheduled for the purpose of examining the merits of budget requests through the fall and are usually completed by mid-December. Statutes require the Budget Division to present comprehensive budget recommendations to the Governor annually by January 2.

By statute, the Governor is required to submit a budget for the upcoming Fiscal Year to the Legislature by the twenty-fifth legislative day (in mid-February). The Governor's budget includes the executive recommendations for higher education, public education and State agencies as well as historical information on prior expenditures and revenues and revenue projections, among other information. The State budget is contained in a General Appropriation Act, which may also contain proposals for supplemental and deficiency appropriations for the then current Fiscal Year.

Upon passage by the Legislature, the Governor may sign the General Appropriation Act, veto it, veto line items or veto parts of it. After the Governor has signed the General Appropriation Act, the Budget Division of the DFA approves the agency budgets and monitors the expenditure of the funds beginning on July 1, the first day of the Fiscal Year.

State Treasurer's Investment Responsibilities

By statute the State Treasurer is responsible for the investment of the operating and capital funds of the State. These responsibilities are conducted in accordance with the State Treasurer's Investment Policy (the "Investment Policy") adopted by the State Treasurer and approved by the State Board of Finance. The Investment Policy states that in keeping with the office's fiduciary responsibility, all investment decisions made by the State Treasurer will adhere to the following three fundamental principles: safety, liquidity and return.

The Investment Policy governs the investment activities of the State Treasurer. This policy applies to all financial assets of the State invested by the Treasurer in the exercise of his statutory authority or invested as directed by other agencies which have specific investment authority and for which the Treasurer acts as the investing authority. The public money includes the State's General Fund, the Local Government Investment Pool, bond funds, bond debt service funds, and other special funds with respect to which the State Treasurer is the investing authority.

According to the Investment Policy, an Investment Committee must be appointed by the State Treasurer with the specific purpose and responsibility of establishing, maintaining and administering the Investment Policy. The Investment Committee consists of five (5) voting members: the State Treasurer, or designee, who serves as Chairman; the State Treasurer's Chief Investment Officer (with the State Cash Manager as an alternate); the Director of the State Board of Finance or designee; and two members that are participants in the private investment community or have expert knowledge or professional experience in the subject of public finance or public fund investing, of which one member will be appointed by the State Treasurer and approved by the Board and one member will be appointed by the Board and approved by the State Treasurer.

The Investment Committee is charged with the following responsibilities:

- Reviewing the Investment Policy, no less than annually, and recommending, if advisable, modifications in the Investment Policy from time to time;
- Assessing, no less than annually, the utility and efficacy of established internal controls as loss prevention measures with respect to the investment portfolio;
- Determining, no less than annually, whether legislation affecting the investment activities of the State Treasurer should be recommended;
- Recommending investment procedures that may be useful or required in maintaining currency with public finance market practices;
- Deliberating such topics as: economic outlook, portfolio diversification and maturity structure, potential risks, the target rate of return on the investment portfolio;
- Identifying potential violations of and suggesting remedial actions to achieve conformity with the Investment Policy;
- Recommending, no less than annually, action on depositories, custodians, broker/dealers and investment managers and advisors; and
- Assessing whether the Investment Policy is being properly implemented by the individuals and entities involved in the administration and management of investment activities.

On October 26, 2005, then-New Mexico State Treasurer Robert Vigil resigned following his indictment on multiple charges of extortion, money laundering and conspiracy related to his time in office. On September 30, 2006, Mr. Vigil was convicted of one count of attempted extortion and acquitted on 23 other charges. The previous State Treasurer had pleaded guilty to extortion for actions he took as State Treasurer.

Following the indictment of Robert Vigil, the State engaged the law firm of Hogan and Hartson, LLP and Deloitte Financial Advisory Services L.L.P. to conduct a special audit of the State Treasurer's

Office. The special audit found a significant number of internal control weaknesses and deficiencies in the operations of the State Treasurer's Office; however, the special audit did not find that the integrity of funds held at the State Treasurer's Office had been compromised. The special audit recommended a slate of legislative, rulemaking and control enhancements designed to ensure that the funds held by the State Treasurer's Office are prudently invested and safely handled.

The State Treasurer's Office has undertaken to implement the recommendations of the special audit and has implemented a detailed corrective action plan of the type necessary to establish an effective internal control management program. Additionally, the State Treasurer's Office and the Board revised the Investment Policy to increase transparency and oversight and ensure better operating procedures in the State Treasurer's Office. Some of these changes include: a requirement to use electronic trading; a requirement to attain a financing rating for the Local Government Investment Pool from a national rating agency; a provision that the investment consultants used by the State Treasurer establish performance benchmarks for the State Treasurer's Office and report performance relative to that benchmark; improved reporting requirements and more meaningful controls over trading activity; requirements for the State Treasurer to adopt an employee code of conduct policy, a campaign contributions policy, and a whistleblower policy; and a requirement for the State Treasurer and employees involved in the investment process to refrain from personal business activity that may impair their ability to make impartial investment decisions.

General Fund

The State derives the majority of its recurring General Fund revenues from four major sources: general and selective sales taxes, income taxes, taxes and royalties on natural resource production, and investment earnings from its two permanent funds and investments made by the State Treasurer's Office.

Weakness in crude oil and natural gas markets in the 1980's contributed to a major restructuring of the State's tax base by the 1986, 1987, 1988, 1990, 1993 and 1994 Legislatures. Reliance on sales and income taxes were increased to offset declines in mineral resource taxes and royalty revenues. In recent years, volatility in oil and gas markets have resulted in an increased percentage of General Fund revenues generated from oil and gas taxes. Table 16 lists audited revenues, expenditures and ending fund balances for Fiscal Years 2005, 2006 and 2007, with projected results for Fiscal Years 2008 and 2009.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 16
General Fund Financial Summary
Fiscal Year 2004 – Fiscal Year 2008
(Dollars in thousands)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Estimated 2008[4]
A. APPROPRIATION ACCOUNT					
Recurring Receipts:					
General and Selective Sales Taxes	$1,797,835	$ 1,946,395	$ 2,147,069	$ 2,315,105	$ 2,381,770
Income Taxes	1,153,133	1,333,402	1,504,277	1,640,161	1,587,810
Severance Taxes	329,559	426,998	541,797	486,564	496,190
License Fees	42,885	44,265	48,971	48,959	49,720
Investment Income	484,324	547,287	590,193	602,132	646,830
Rents and Royalties	356,944	476,198	609,236	551,533	600,970
Miscellaneous Receipts	26,146	40,850	39,325	37,017	35,400
Tribal Revenue Sharing	35,097	41,263	49,520	56,158	64,460
Tobacco Settlement	37,449	38,009	34,892	0	0
Reversions/Adjustments	19,623	11,592	14,319	36,867	39,100
Total Recurring Receipts	**$4,282,996**	**4,906,259**	**5,579,599**	**5,774,497**	**5,902,250**
Total Non-Recurring and Adjustments	**$ 328,716**	**62,769**	**(62,461)**	**1**	**47,000**
Total Receipts	**$4,611,711**	**4,969,028**	**5,517,138**	**5,774,498**	**5,949,250**
Recurring Appropriations:					
Legislative	$ 14,892	15,435	16,113	17,334	18,809
Judicial	136,557	146,705	161,500	180,824	205,779
General Control	135,479	144,008	151,048	165,885	197,706
Commerce and Industry/Exam. and Lic.	47,285	48,595	47,695	51,365	58,369
Agriculture, Energy and Natural Resources	58,708	62,022	70,449	75,409	86,560
Health and Human Services	911,320	1,003,064	1,119,210	1,233,645	1,393,378
Public Safety	280,690	286,758	295,766	333,262	383,336
Other Education	20,365	17,950	24,705	27,805	53,982
Higher Education	639,328	670,121	714,951	761,957	846,501
Public School Support	1,863,274	1,974,906	2,107,196	2,265,662	2,430,696
Recurring Appropriations	4,107,896	4,369,564	4,708,633	5,113,148	5,675,115
Other Recurring Appropriations	11,908	15,435	0	0	0
Total Recurring Appropriations	**$4,119,803**	**4,384,999**	**4,708,633**	**5,113,148**	**5,675,115**
Nonrecurring Appropriations[1]:					
Capital Outlay/Supplemental/Contingency	178,319	8,924	617,522	71,057	49,171
Other Nonrecurring adj for leg	84,871	315,833	38,543	743,228	0
Total Nonrecurring Appropriations	**$ 263,190**	**324,757**	**656,065**	**814,286**	**290,679**
Total Expenditures	**$4,382,993**	**4,709,756**	**5,364,698**	**5,927,433**	**5,965,794**
Transfer to Appropriation Contingency Fund	(120,000)	0	0	0	0
TRANSFER TO RESERVES	**108,718**	**259,271**	**152,440**	**(152,936)**	**224,964**
B. OPERATING RESERVE					
Beginning Balance	**$ 46,931**	**$ 128,780**	**$ 330,071**	**$ 359,530**	**$ 156,138**
Revenues/Repayments/Reversions	0	0	0	377	0
Appropriations:					
Contingencies	0	0	(277)	(9,300)	0
Other Appropriations and Adjustments	(26,817)	(2,644)	(1,400)	(1,533)	(1,500)
Total Appropriations[2]	**($ 26,817)**	**(2,644)**	**(1,678)**	**(10,833)**	**(1,500)**
Transfers:					
From General Fund Appropriations Account	108,718	259,271	152,440	(152,936)	224,964
Special Session/Appropriations Contingency Fund	0	0	0	(40,000)	0
To Tax Stabilization Reserve Fund	0	(55,336)	(121,304)	0	0
Total Transfers	**$ 108,718**	**203,935**	**31,136**	**(192,936)**	**224,964**
Ending Balance[3]	**$ 128,832**	**330,071**	**359,530**	**156,138**	**379,602**

Note: Detail may not add to column total due to independent rounding.

TABLE 16
General Fund Financial Summary
Fiscal Year 2004 – Fiscal Year 2008
(Dollars in thousands)

	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Estimated 2008[4]
C. STATE SUPPORT RESERVE					
Beginning Balance	**0**	**0**	**0**	**0**	**1,000**
Transfers From Operating Reserve/ Appropriation Account	0	0	0	1,000	0
Ending Balance	**0**	**0**	**0**	**1,000**	**1,000**
D. APPROPRIATION CONTINGENCY FUND					
Beginning Balance, Excluding Education Reform	**$ 58,535**	**49,903**	**42,276**	**19,851**	**38,664**
Expenditures/Appropriations[5]					
Disasters	(10,248)	(8,113)	(13,309)	(18,161)	(15,000)
Other	(2,381)	(6,178)	(9,525)	(4,663)	0
Reversions	3,997	6,664	409	1,636	0
Transfers From General Fund	0	0	0	40,000	0
Ending Balance, Excluding Education Reform	**$ 49,903**	**42,276**	**19,851**	**38,664**	**23,664**
Education Reform					
Beginning Balance, Education Reform	**$ 0**	**120,000**	**105,350**	**79,828**	**74,928**
Transfers In	120,000	0	0	0	0
Expenditures	0	(14,650)	(25,523)	(4,900)	0
Ending Balance, Education Reform	**$ 120,000**	**105,350**	**79,828**	**74,928**	**74,928**
Ending Balance, Appropriation Contingency Fund	**$ 169,903**	**147,626**	**99,679**	**113,591**	**98,591**
E. TAX STABILIZATION RESERVE					
Beginning Balance	**$ 77,715**	**77,715**	**133,051**	**254,355**	**254,355**
Transfers In	0	55,336	121,304	0	0
Ending Balance[6]	**$ 77,715**	**133,051**	**254,355**	**254,355**	**254,355**
F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE[7]					
Beginning Balance	**$ 62,009**	**70,688**	**77,332**	**84,629**	**116,719**
Transfers In	46,129	38,009	34,892	36,240	40,796
Transfers Out	(37,449)	(38,009)	(35,257)	(18,120)	(20,398)
Gains Losses	0	6,644	7,662	13,970	9,921
Ending Balance	**$ 70,689**	**77,332**	**84,629**	**116,719**	**147,038**
G. TAXPAYER DIVIDEND FUND					
Beginning Balance	**0**	**0**	**0**	**0**	**0**
Transfers In	0	0	0	0	0
Transfers Out	0	0	0	0	0
Gains Losses	0	0	0	0	0
Ending Balance	**0**	**0**	**0**	**0**	**0**
H. TOTAL RESERVE BALANCES					
Beginning Balance	**$ 245,190**	**447,086**	**688,080**	**798,193**	**641,803**
Ending Balance	**$ 447,139**	**688,080**	**798,193**	**641,803**	**862,089**
Reserves as a % of Current Year Recurring Appropriations	10.9%	15.7%	17.0%	12.6%	15.2%

Note: Detail may not add to column total due to independent rounding.

NOTES TO GENERAL FUND FINANCIAL SUMMARY:

Appropriation Account, Nonrecurring Appropriations:

(1) **FY05 includes** $8.9 million from the General Appropriation Act of 2004; $69.813 million HB2, $7.429 million SB190, $238.592 million HB885.

FY06 includes $0.06 million from the General Appropriation Act of 2005 (Laws 2005, Chapter 33, Item 43); $0.817 million from SB 190 (Laws 2005, Chapter 34); $0.2562 from HB901 (Laws 2005, Chapter 284); $37.5 million for LIHEAP (Laws 2005 (1st SS), Chapter 2); $158.6 million from the General Appropriation Act of 2006 (Laws 2006, Chapter 109, Sections 5 and 6); $4.3 million from HB1 (Laws 2006, Chapter 1); and $487.6 million from HB622 (Laws 2006, Chapter 111).

FY07 includes $68.681 from the General Appropriation Act of 2006 (Laws 2006, Chapter 109); and $0.2835 from HB337 for judgeships (Laws 2006, Chapter 99, Sections 5 and 12).

Appropriations from the Operating Reserve:

(2) **FY04 includes** $0.434 million for BOF Emergency Fund, $18.911 million for capital outlay (Laws 2004, Chapter 126), $5.0 million for Economic Development Department for X-Prize (Laws 2004, Chapter 114, Section 5), $1.5 million for Economic Development Department for X-Prize (Laws 2001, Chapter 64, Section 6), and $0.972 to New Mexico State University.

FY06 includes $1.5 million for BOF Emergency Fund (Laws 2005, Chapter 33, Section 4, Subsection C); and $0.2774 million for the Corrections Department (Laws 2005, Chapter 33, Section 4, Subsection G).

FY07 includes $1.533 million for BOF Emergency Fund (Laws 2006, Chapter 109), $700.0 contingency for water litigation (Laws 2002, Chapter 4(1st E.S.) as reauthorized by Laws 2006, Chapter 109); and $8.6 million contingency for the spaceport (Laws 1998 (1st SS), Chapter 13, Laws 1998 (1st SS), Chapter 11 and Laws 2005, Chapter 347, Section 173).

Year-ending Balances in the Operating Reserve:

(3) Annually, if the balance in the Operating Reserve exceeds 8.0% of the previous year's recurring appropriations, the excess over 8% is transferred to the Tax Stabilization Reserve.

FY06 – On the date the excess over 8.0% was calculated, $8.73 million in FY07 activity in the General Fund Operating Reserve had been recorded. The transfer of $121,303,940 from the Operating Reserve to the Tax Stabilization Reserve brought the balance in the Operating Reserve to 8.2% as of the end of FY06, but to 8.0% on the date of the transfer.

(4) **FY08 only includes** appropriations actually made as of December 31, 2007.

Appropriation Contingency Fund:

(5) **FY05 includes** $8.113 million for disasters, $548.0 for the Secretary of State (Laws 2004, Chapter 114, Section 5, Item 28), $630.0 for the Department of Public Safety (Laws 2004, Chapter 114, Section 5, Subsection G), $5.0 million to Public Education Department for emergency supplemental funds to public schools (Laws 2005, Chapter 33, Section 5, Item 109). Education Reform Initiatives include $14.65 million to Public Education Department (Laws 2005, Chapter 33, Section 5 Subsection 5, Items 104, 105, 106, and 128). Includes reversions of $6.664 million for federal reimbursements for fire season 2003-2005.

FY07 includes $15.0 million for disaster allotments, $2.0 million for DOH Behavioral Health Services Program (Laws 2006, Chapter 109) $1,912.5 for Santa Fe Community College (Laws 2006, Chapter 109), and $4.9 million to PED for education reform initiatives (Laws 2007, Chapter 28) and $750 million contingency to Corrections (Laws 2005, Chapter 33, Section 4) for FY06.

FY08 includes $10 million for disaster allotments.

Year-ending Balances in the Tax Stabilization Reserve:

(6) Annually, if the balance in the Tax Stabilization Reserve exceeds 6.0% of the previous year's recurring appropriations, the excess over 6% is transferred to the Taxpayer's Dividend Fund.

FY06 – $121.3 million was transferred from the General Fund Operating Reserve, the excess in that fund of 8% of prior year recurring appropriations prior to the date of the transfer.

(7) **Tobacco Settlement Permanent Fund Reserve** established (see Laws 2003, Chapter 312).

Source: New Mexico Department of Finance and Administration.

Review of Results in the General Fund

Fiscal Year 2007. In Fiscal Year 2007, recurring General Fund revenue grew by only 3.5 percent to $5.777 billion. This slow growth followed three straight years in which General Fund recurring revenue grew at least 10.0 percent year-on-year. Prices for oil and natural gas remained higher than normal, but substantially lower than in Fiscal Year 2006. Mineral production tax collections fell by 7.6 percent, while rents and royalties fell 9.5 percent. General and selective sales taxes grew by 7.8 percent, while income tax growth was 9.0 percent. Revenues from investments increased by 2.0 percent. Total recurring appropriations in the budget for the Fiscal Year totaled $5.113 billion, representing 8.6 percent growth over the previous year. General fund balances of $814.3 million were appropriated by the Legislature largely for capital investments. Year-ending reserves in the General Fund decreased by $156.4 million to $641.8 million, or 12.6 percent of Fiscal Year 2007 recurring appropriations. Year-ending General Fund operating reserves did not exceed 8.0 percent of the 2006 Fiscal Year recurring appropriations, therefore no additional amounts were transferred from the General Fund Operating Reserve to the Tax Stabilization Reserve. The balance in the Tax Stabilization Reserve remains at $254.4 million or just under 5 percent of Fiscal Year 2007 recurring appropriations.

Fiscal Year 2008. Based upon the approved operating budget and projected revenue results for the 2008 Fiscal Year, recurring General Fund revenues are projected to increase by 2.2 percent to $5.902 billion. Although oil prices have firmed into the $80.00 to $90.00 per barrel range, natural gas prices have declined to pre-Katrina levels. On balance, this results in a modest increase in mineral production taxes and rents and royalties of 2.0 percent and 9.0 percent, respectively. General and selective sales taxes are projected to grow by 2.9 percent, while income taxes are projected to decline by 3.2 percent, because of the final step in 2005's personal income tax rate cuts. Although short-term interest rates are projected to decrease, investment income is expected to grow at a 7.4 percent pace. Total recurring appropriations in the budget for the Fiscal Year total $5.675 billion, representing 11.0 percent growth over the previous year. Non-recurring appropriations of approximately $291 million are expected to be appropriated by the legislature in the course of the 2008 legislative session. Assuming that the full amount of non-recurring appropriations from General Fund balances is used and without regard to any special or supplemental appropriations that may be made during the legislative session beginning in January 2008, Fiscal Year 2008 year-end reserves in the General Fund are projected to decrease by $2.8 million to $639.1 billion, or 11.3 percent of Fiscal Year 2008 recurring appropriations.

Fiscal Year 2009. Based upon projected revenues for Fiscal Year 2009, recurring General Fund revenues are projected to increase by 2.4 percent to $6.044.1 billion. Although oil prices are expected to remain in the $80.00 to $90.00 per barrel range, natural gas prices continue at pre-Katrina levels. On balance, this results in a modest decrease in mineral production taxes of 2.2 percent and a modest increase in rents and royalties of 3.2 percent. General and selective sales taxes are projected to grow by 3.3 percent while income taxes are projected to increase by 3.3 percent. In all cases, general and selective sales taxes and income taxes will grow, but substantially below the long-term trend. Because short-term interest rates are projected to remain low, investment income is expected to grow only slightly to 7.5 percent.

General Fund Taxes and Revenues

Programs and operations of the State are predominantly funded through a system of 28 major taxes, and a substantial number of minor taxes, administered by the Taxation and Revenue Department. The Public Regulation Commission collects taxes on insurance premiums. In addition, interest income and earnings from the Land Grant Permanent Fund and the Severance Tax Permanent Fund provide important sources of revenue for State purposes. The most important tax and revenue sources, as measured by magnitude of revenue generation, and the application of the monies to certain funds and purposes are described below.

Gross Receipts and Compensating Taxes

The gross receipts tax is levied on the total amount of money or the value of other consideration received from selling property, tangible and certain intangible personal property in the State, from leasing property employed in the State, from performing services in the State and from research and development services performed outside the State on a product which is initially used in the State. The tax is remitted by the seller but generally passed on to the purchaser. The compensating tax is imposed generally on property used in the State but purchased elsewhere. Gross receipts and compensating taxes are due on the 25th day of the month following the month in which the transaction occurs.

Exemptions from the gross receipts tax include, but are not limited to, certain receipts of governmental agencies and certain non-profit organizations and receipts from the sale of certain vehicles, occasional sales of property or services, wages, certain agricultural products, dividends and interest and receipts from the sale of or lease of natural gas, oil or mineral interests. Deductions from the gross receipts tax include, but are not limited to, receipts from various types of sales or leases of tangible personal property or service, receipts from certain sales of property to governmental agencies or to certain non-profit organizations, receipts from certain processing of some agricultural products, receipts from certain publication sales, certain receipts from interstate commerce transactions, and as set forth below, beginning January 1, 2005, certain food and medical services. There are over 50 specified exemptions and deductions from gross receipts taxation; nevertheless, the general presumption is that all receipts of a person engaging in business are subject to the gross receipts tax.

The gross receipts and compensating taxes are the largest single source of State General Fund revenue. The gross receipts tax is also a significant source of revenue for cities and counties. The gross receipts tax includes the statewide gross receipts tax levy of 5 percent plus several city and county local-option gross receipts taxes. Until January 1, 2005, a credit of 0.5 percent against the statewide rate of 5 percent was allowed for municipal local-option taxes. Receipts from the statewide gross receipts tax levy, less disbursement to each incorporated municipality of 1.225 percent of the taxable gross receipts reported in that municipality and less disbursement to the State Aviation Fund of 3.59 percent of the value of jet fuel sales plus a statutory monthly distribution of $300,000, are deposited in the State General Fund. After all other distributions, the General Fund share of gross receipts tax collections is about 63 percent. Receipts from the compensating tax, less distribution of 10 percent to the small cities assistance fund and less 10 percent to the small counties assistance fund, are transferred to the state General Fund.

Laws of 2004, Chapter 116, effective January 1, 2005, made a number of changes to the state gross receipts tax laws. The credit of 0.5 percent granted to municipalities against the statewide rate was eliminated. The taxes on food and certain medical services were eliminated. The legislation created a deduction for gross receipts tax from retail sales of food as defined for federal food stamp program purposes. The legislation requires retailers to report receipts from sales of these groceries and then claim a deduction for the receipts. The deduction does not apply to receipts of restaurants and sellers of prepared foods. The legislation also created a gross receipts tax deduction for some receipts of licensed health care providers (broadly defined) from Medicare Part C and managed health care plans, and health care insurers. The legislation also provides for payments from the State to reimburse local governments for lost gross receipts tax revenues. The legislation enacts significant penalties for improper filings. This medical deduction was modestly expanded in the 2007 legislative session.

Based upon audited results for Fiscal Year 2007, total distributions to the General Fund from gross receipts and compensating taxes grew by 8.9 percent over the previous fiscal year to $1,840.5 billion, comprising almost 32 percent of recurring General Fund revenue.

Personal Income Tax

The personal income tax is imposed on the net income of every resident individual and upon the net income from business, property, or employment of non resident individuals. State taxable income is generally equal to federal adjusted gross income less standard deductions or itemized deductions and amounts not taxable by the laws or Constitution of the State or the United States. The State also allows deductions for income earned by Indians on reservations and graduated deductions for income earned by taxpayers 65 years or older, as well as a relatively new additional deduction for low- and middle-income taxpayers. Collections, net of refunds, are placed in the General Fund.

Significant changes have been made to New Mexico's personal income tax structure in the last three years. Income tax incentives were enacted to encourage economic development and investment in New Mexico as well as assist low and middle-income taxpayers. The Laws of 2003, Chapter 2 and Laws of 2005, Chapter 104 enacted significant personal income tax reductions that will reduce the top marginal personal income tax rate from 8.2 percent in 2002 to 4.9 percent by 2008. Chapter 104 combined the tax rates of those filing Head of Household with those filing Married Joint and Surviving Spouse beginning in 2006. This provides single parents with the same tax rates as married couples. The Laws of 2005 also provided low and middle-income tax exemptions, a personal income tax exemption for medical expenses, and several additional incentives to encourage business formation in rural areas and encourage renewable energy production in the State.

Based upon audited results for the 2007 Fiscal Year, total distributions to the General Fund from personal income tax grew by 5.0 percent over the previous Fiscal Year to $1,180.2 billion, and generated just over 20 percent of total recurring General Fund revenue.

State tax rates by filing status effective Calendar Year 2008 are set forth below:

If the taxable income is:	**Married Filing Separate:**	**If the taxable income is:**	**Surviving Spouse, Married Filing Joint and Head of Household**
Not over $4,000	1.7% of taxable income	Not over $8,000	1.7% of taxable income
$4,001 to $8,000	$68.00 plus 3.2% of excess over $4,000	$8,001 to $16,000	$136.00 plus 3.2% of excess over $8,000
$8,001 to $12,000	$196.00 plus 4.7% of excess over $8,000	$16,001 to $24,000	$392.00 plus 4.7% of excess over $16,000
Over $12,000	$384.00 plus 4.9% of excess over $12,000	Over $24,000	$768.00 plus 4.9% of excess over $24,000

If the taxable income is:	**Single Including Trust and Estates:**
Not over $5,500	1.7% of taxable income
$5,501 to $11,000	$93.50 plus 3.2% of excess over $5,500
$11,001 to $16,000	$269.50 plus 4.7% of excess over $11,000
Over $16,000	$504.50 plus 4.9% of excess over $16,000

Corporate Income Tax

The corporate income tax is imposed on the net income of a corporation doing business in the State or deriving any income from property and employment in the State. No corporate income tax is imposed upon insurance companies, which pay a premium tax to the State or on nonprofit organizations or retirement trust funds. Collections, net of refunds, are transferred to the General Fund. Corporations are required to file a return on or before the fifteenth day of the third month following the end of each taxable year at which time corporate income taxes are also due. A corporation is required to file estimated tax payments if the tax, net of credits, is $5,000 or more.

Tax rates are established under a graduated table and range from 4.8 percent on the first $500,000 or less of taxable income to 7.6 percent on income in excess of $1,000,000. Based upon audited results for the 2007 Fiscal Year, total distributions to the General Fund of net receipts from corporate income taxes totaled $459.9 million, representing an increase of 21.9 percent from the prior Fiscal Year and generated almost 8 percent of recurring General Fund revenue.

Mineral Production Taxes

Mineral production taxes (Resource Excise Tax, Natural Gas Processors Tax, Oil and Gas Conservation Tax and Oil and Gas Emergency School Tax) are levied on producers and others on the value of severed minerals and material resources from within the State and are disbursed to the General Fund. The Oil and Gas Emergency School Tax is imposed for the privilege of engaging in the business of severing oil, natural gas, liquid hydrocarbons and carbon dioxide from the soil of the State. The Oil and Gas Emergency School Tax is imposed at a rate of 3.15 percent of taxable value of oil and 4.0 percent of taxable value for natural gas. Taxable value reflects gross sales value less deductions for royalties paid to government entities and for certain processing and transportation expenses. The same definition of taxable value is used for calculation of oil and gas severance tax liability.

Based upon audited results for the 2007 Fiscal Year, total distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled $420.3 million, representing a decrease of 13.0 percent from the prior Fiscal Year. Other General Fund taxes on natural resources production totaled $66.3 million. For Fiscal Year 2007, mineral production taxes contributed 8.4 percent of recurring General Fund revenue. This is down from the 9.7 percent of recurring revenues for the 2006 Fiscal Year.

Laws 2002, Chapter 15, created the Jicarilla Apache Tribal Capital Improvement Tax Credit. This tax credit can reduce the Oil and Gas Emergency School Tax on products severed from wells drilled on the Jicarilla Apache Nation by up to 0.7 percent of the taxable value of production.

Royalties, Rents and Bonuses

Federal Lands. Under terms of the 1920 Federal Mineral Leasing Act the State receives a 50 percent share of all income generated from the leasing of federally held lands located in the State for mineral production. Principal sources of income on federal lands are royalty payments on oil and gas production. Additional income is derived from bonus payments for oil and gas leases and royalty payments on production of coal, potash and other minerals. The U.S. Minerals Management Service collects federal mineral lease income where the State's share of administrative costs is deducted. The State receives payments on a monthly basis and makes the deposits to the General Fund. Based upon audited results for the 2007 Fiscal Year, total distributions to the General Fund from Federal mineral leases totaled $501.1 million, representing 8.7 percent of recurring General Fund receipts for the Fiscal Year. The federal fiscal year 2008 appropriations bills were enacted by Congress in the waning days of December 2007 and signed by the President. These appropriations implemented a 2 percent permanent deduction from the federal royalty payments to the States. This is approximately $8 million deducted from the federal mineral leasing payments to the state for Fiscal Year 2008 and $11 million for Fiscal Year 2009 (assuming the federal Fiscal Year 2009 budget will also contain the deduction).

State Lands. The State Land Office manages lands acquired by the State under the federal Fergusson Act enacted prior to statehood, as well as under the State Constitution. All income from such lands is dedicated to specific educational purposes and institutions. As with federal lands, the oil and gas industry is the principal source of revenue from State lands. Bonus income is also collected in the form of cash payments as a result of competitive bidding for State leases. Rentals and bonus income are distributed to the respective beneficiary institutions, with the single largest beneficiary being the State's public schools. Mineral production from State trust lands also generates royalty income which is deposited in the State Land Grant Permanent Fund ("LGPF"). Royalties are imposed on most minerals production values at the rate of 12.5 percent, although there is a provision for rates of up to 20 percent for new leases on developed acreage. Beneficiaries of the LGPF are the same as those educational institutions and public schools benefiting from "State lands."

In September 2003, the electorate of the State of New Mexico approved a constitutional amendment regarding distributions for educational purposes from the LGPF. The amendment provided that beginning in Fiscal Year 2006 and ending in Fiscal Year 2016, certain additional distributions shall be made to implement and maintain educational reforms as provided by law. A three-fifths majority of members elected to each house of the Legislature may suspend this additional distribution.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund was established in the State Treasury in 1973 to receive the residual revenues from the Severance Tax Bonding Fund and serve as an endowment for future capital projects. In the General Election of 1976, the electorate approved a constitutional amendment giving the Severance Tax Permanent Fund constitutional status. In the General Election of 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the Severance Tax Permanent Fund. Distributions from investments of the Severance Tax Permanent Fund, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance tax receipts have been the primary source of funding for the Severance Tax Permanent Fund. The State Investment Officer under the direction of the State Investment Council invests the corpus and non-appropriated income of the Severance Tax Permanent Fund. The market value of the Severance Tax Permanent Fund as of June 30, 2007 was approximately $4.704 billion, an increase of approximately 17.2 percent from the prior Fiscal Year. Money on deposit in the Severance Tax Permanent Fund is not pledged to and may not be used to pay any Bonds.

The LGPF is designed solely to benefit the educational system of the State and other specified institutions. The origins of the LGPF are found in the Fergusson Act of 1898, which granted two sections of land in every township for the benefit of the public schools in the territories of New Mexico. Also under this Act, specific acreage was granted to individual education, medical and penal institutions in the territory. The initial grant totaled in excess of 5.5 million acres. In 1910, the Enabling Act granted additional lands to various beneficiaries in New Mexico, including the public schools, with the latter receiving the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the LGPF), bringing the current total to nine million surface acres and 12.8 million subsurface acres.

The State Land Office is charged with the custody and disposition of the land granted to the State. Through the Commissioner of Public Lands these properties granted to the State are sold and/or leased in accordance with the provisions of the appropriate statutes. The State Investment Officer under the direction of the State Investment Council invests the corpus and income of the LGPF. As of June 30, 2007, the market value of the LGPF was approximately $10.673 billion, an increase of approximately 17.3 percent from the prior Fiscal Year. The corpus of the LGPF is constitutionally protected from appropriation and amounts on deposit therein are not pledged to and may not be used to pay debt. The LGPF is also protected by the Federal Enabling Act of 1910.

In November 1996, the electorate of the State of New Mexico approved a constitutional amendment regarding distributions from the State's permanent funds. Distributions are now based on a total return basis rather than an income distribution method. Distributions to beneficiaries are based on a formula under which 4.7 percent of the previous average five-year market value of the fund is distributed.

In September 2003, the electorate of the State of New Mexico approved a constitutional amendment increasing the rate of distribution from the LGPF from 4.7 percent to 5.0 percent of the average fiscal year market value of the LGPF beginning in Fiscal Year 2005. Certain additional distributions shall be made to implement and maintain educational reforms as provided by law. An additional 0.8 percent has been and will be distributed in Fiscal Years 2005 through 2012 and an additional 0.5 percent will be distributed in Fiscal Years 2013 through 2016. A three-fifths majority of members elected to each house of the Legislature may suspend this additional distribution.

Investment Income

Investment earnings are generated from three primary sources: the LGPF, the Severance Tax Permanent Fund, and cash balances held by the State Treasurer. Income from the LGPF is distributed among the beneficiary educational institutions and public schools. The 83.2 percent share dedicated to public schools is deposited in the General Fund. Based on audited results for the 2007 Fiscal Year, $364.7 million of LGPF distributions were transferred to the General Fund for public school purposes. $171 million of income was distributed from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In the 2007 Fiscal Year, Treasurer's cash balances produced $66.5 million for the General Fund, net of the issuance and interest cost of the Tax Refund Anticipation Notes (TRAN). Total investment income credited to the General Fund was $602.1 million, representing 10.4 percent of recurring General Fund receipts.

PROPERTY VALUATION AND TAXATION

A revaluation assessment started in property tax year 1986, as mandated by statute, and was completed within a 10-year period. In 1995, strong growth in residential valuations occurred as a result of timely revaluation assessment to comply with the statute. The valuation of oil and gas production and the assessment of the *ad valorem* production tax are based on the actual value of production on a monthly basis from September 1 to August 31 of each year. Pursuant to Section 7-32-15 NMSA 1978 as amended, oil and gas valuation is from the calendar year preceding the property tax year. For rate setting, Local Government Division ("LGD") may adjust levy for changes in oil and gas values.

On November 3, 1998, as a result of approval by the New Mexico electorate, Article VIII, Section 1 of the New Mexico Constitution was amended to authorize the Legislature to limit increases in valuation of residential property for property taxes. The limitation may be applied to classes of residential property taxpayers based on owner-occupancy, age or income. The limitations may be authorized statewide or at the option of a local jurisdiction and may include conditions under which the limitation is applied. Any valuation limitations authorized, as a local jurisdiction option, shall provide for applying statewide or multi-jurisdictional property tax rates to the value of the property as if the valuations increase limitation did not apply. This amendment and related legislation may have an impact on future property taxation increases.

The 2000 Legislature passed and the Governor signed legislation limiting the increase in the value of residential property for property valuation purposes. Laws of 2000, Chapter 21, codified as Section 7 36 21.3, NMSA 1978, provides for a freezing of values for single-family dwellings occupied by certain low-income owners 65 years of age or older. Laws of 2000, Chapter 10, codified as Section 7 36 21.2, NMSA 1978, provides that the value of a residential property in any tax year, starting with the year 2001, shall not exceed certain percentage increases based on whether the county where the property is situated has a sales assessment ratio of at least 85 percent. Sales assessment ratios are computed annually by TRD and measure a county's assessment valuations against current sales information. Counties that have at least an 85 percent sales assessment ratio are considered "current and correct" while counties that fall below that threshold are considered not "current and correct." If a property is situated in a current and correct county, the law limits the annual increase to no more than 3 percent (and 6.1 percent over the value two years ago). If a property is situated in a county that is not current and correct, the law limits the annual increase to 5 percent. In addition, in such a non-current and correct county, the law limits the aggregate annual increases for all properties (excluding net new properties added to the tax rolls) in that county to 3 percent. The annual limitations do not apply to new improvements or to any property that has had a change in ownership, use or zoning during the year.

The 2005 Legislature passed and the Governor signed Laws of 2005, Chapter 24, amending Section 7-38-12.1 of the Property Tax Code. The statute requires the disclosure of sale prices and other items of value upon the sale of residential real property. This amendment to the statute may lead to an increase in the assessed value of residential property.

The following Table 17 sets forth the aggregate statewide net taxable valuations for the last ten years.

TABLE 17
Final Net Taxable Valuations
(Dollars in thousands)

Property Tax Year	Residential	Non-Residential	Oil and Gas	Copper	Net Taxable Value
1998	12,678,034	8,750,029	2,520,530	236,629	24,185,223
1999	14,660,993	9,311,907	1,852,447	192,897	26,018,245
2000	15,311,042	9,946,121	2,166,427	160,906	27,584,497
2001	16,336,147	10,209,818	4,238,592	117,376	30,901,933
2002	17,133,856	10,336,906	3,024,570	–	30,495,332
2003	18,279,692	10,778,559	3,024,570	66,614	32,149,435
2004	19,421,800	10,839,281	5,563,785	65,157	35,890,023
2005	21,120,378	12,161,447	4,643,270	65,157	38,910,768
2006	23,016,630	12,605,105	7,259,891	103,402	42,985,028
2007*	25,729,386	14,168,764	6,883,546	133,262	46,914,958

* Estimate.
Source: New Mexico Department of Finance and Administration.

Production and Property Taxes on Oil and Gas

Statutory tax rates on oil and gas for the School Tax (3.15% and 4.0%, respectively), the Oil and Gas Severance Tax (3.75%) and the Conservation Tax (0.19%) are effectively reduced by deductions for royalties paid to governments and for certain transportation expenses. The *ad valorem* taxes are imposed in lieu of property taxes on reserves and lease equipment, and local rates vary in accordance with jurisdiction.

The 2005 Legislature amended current severance tax laws to include helium and hydrocarbon gases in the definition of products subject to the oil and gas severance tax, the oil and gas conservation tax, the oil and gas school emergency tax and the oil and gas production equipment *ad valorem* tax. Beginning January 2006, commercial helium production has been reported. Taxes paid by the new helium industry totaled about $22,000 from January 2006 through November 2007. According to a study by the New Mexico Bureau of Geology and Mineral Resources,[2] the State has produced commercial

[2] "Helium in New Mexico: Geologic Distribution and Exploration Possibilities," Ronald F. Broadhead and Lewis Gillard, New Mexico Bureau of Geology and Mineral Resources.

volumes of helium in the recent past. If the historical production volumes are reached in the future, increased taxes on helium and new hydrocarbon gases could generate as much as $1.3 million in revenue for the Bonding Fund.

Current effective production and property tax rates expressed on *ad valorem* and unit bases are shown below. The rates were based on data from Fiscal Year 2007 and reflect an average sales price of $60.23 per barrel for oil and $6.57 per thousand cubic feet (mcf) for natural gas. The effective rates presented in Table 18 shows taxes paid as a percentage of gross sales value before subtracting allowable deductions.

TABLE 18
Effective Tax Rates applicable for Fiscal Year 2008

	Crude Oil		Natural Gas	
Type of Tax	**Ad Valorem**	**Per Barrel**	**Ad Valorem**	**Per mcf**
Price		**$80.00**		**$6.40**
Oil and Gas School Tax	2.82%	$2.26	3.15%	$0.20
Oil and Gas Severance Tax	3.36%	$2.69	2.95%	$0.19
Oil and Gas Conservation Tax (General Fund only)	0.152%	$0.12	0.13%	$0.01
Oil and Gas Conservation Tax (Reclamation)	0.052%	$0.04	0.015%	$0.00
Natural Gas Processors Tax	N/A	N/A	0.38%	$0.02
Oil and Gas Production *ad valorem* Tax	1.05%	$0.84	0.87%	$0.06
Oil and Gas Production Equipment *ad valorem* Tax	0.13%	$0.10	0.13%	$0.01
Total	**7.51%**	**$6.05**	**7.62%**	**$0.49**
Subtotal: State Tax Only (excludes *ad valorem* taxes)	6.38%	$5.11	6.63%	$0.42

Source: New Mexico Department of Finance and Administration.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Production, Sales, and Property Taxes on Coal

The average burden of production and property taxes on a ton of coal produced and sold during Fiscal Year 2007 is shown in Table 19:

TABLE 19
Tax Burden

Type of Tax	Tax Burden Effective Rate	Amount
Severance Tax and Surtax	$0.65 per ton	$ 17,015,047.00
Resources Excise Tax	0.20 per ton	4,965,852.00
Conservation Tax	0.05 per ton	1,257,971.00
Property Tax	0.23 per ton	5,980,438.00
Gross Receipts Tax	0.70 per ton	18,201,471.00
Total	**$1.82 per ton**	**$ 47,420,779.00**
Price Per Ton		**$ 26.65**
Total Production		**26,002,101.00**
Total Value		**$692,946,926.00**

Source: New Mexico Taxation and Revenue Department.

Statutory rates for the resources excise tax and the conservation tax are effectively reduced by a deduction for Federal, State and Indian royalties. The effective severance tax rate on coal reflects the mix of old and new contract sales and of underground and surface mines. Property tax pertained to both equipment and production values. Fundamental differences in tax bases preclude a true comparison between property taxes and other taxes shown above. However, property taxes are included in this analysis to prevent understating the tax burden.

In addition to production taxes, gross receipts tax is imposed on coal produced and sold within the State. Currently, approximately 65.0 percent of all coal produced in the State is subject to gross receipts tax, even though a substantial portion is shipped out of the State for ultimate consumption. The combined state and local tax rate is 6.83 percent of value. To convert taxes per unit of output to tax rates per dollar of sales, the taxes shown above may be divided by the average price per ton of coal in Fiscal Year 2007, which was approximately $26.65.

Excluding Gross Receipts Tax	$1.12 / $26.65 = 4.20%
Including Gross Receipts Tax	$1.82 / $26.65 = 6.83%

State of New Mexico

State General Fund
Component Appropriation Accounts

Annual Financial Report
Fiscal Year Ended June 30, 2007

Prepared by
The New Mexico Department of Finance and Administration

Bill Richardson, Governor

(UNAUDITED)

TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

Elected and Appointed Officials 5

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS 9

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets 17
Statement of Activities 18

FUND FINANCIAL STATEMENTS

Balance Sheet—Governmental Funds 20
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 22

NOTES TO THE FINANCIAL STATEMENTS 24

(UNAUDITED)

State of New Mexico
State General Fund
COMPONENT APPROPRIATION ACCOUNTS
June 30, 2007

Elected Official

Governor Bill Richardson

Appointed Officials

Department of Finance and Administration:

Cabinet Secretary	Katherine B. Miller
State Controller	Anthony I. Armijo, CPA, CGFM
Deputy Division Director, Financial Control Division	Steve Gonzales

(UNAUDITED)

Photo Courtesy of Anthony I. Armijo

The State General Fund Component Appropriation Accounts (hereto after referred to as the State General Fund) is a single administratively created reporting entity. It consists of nine funds: four created by statute and five created by management. For presentation in the accompanying basic financial statements, management has consolidated the nine funds into one, the "general fund."

As disclosed in the notes to the financial statements, the State General Fund is not a primary government, as defined by Governmental Accounting Standards Board Statement 34, because it is not fiscally independent or legally separated from the State of New Mexico.

However, to comply with the State of New Mexico's Audit Act and to meet the information needs of interested parties—the public, bond holders, bond rating entities, Legislature, etc.—management has presented the State General Fund as a reporting entity in the accompanying financial statements.

Financial Highlights

The State ended the year with reserves of 17% of recurring prior year appropriations, a decline of 1.2% of the prior year. The decline is mainly due to expenditures exceeding revenues.

The net assets of the State General Fund increased by $278.7 million in fiscal year 2005, by $102.4 million in fiscal year 2006, and decreased by $167.3 million in fiscal year 2007. The decrease in 2007 is attributable to expenses exceeding revenues in 2007. For the same reasons, fund balances of the State General Fund decreased by $156.4 million in 2007.

Using This Annual Financial Report

This annual report consists of two categories of basic financial statements: 1) the government-wide financial statements (on pages 17 and 18), which provide information about the activities of the State General Fund as a whole and present a long-term view of the State General Fund's finances; and 2) the fund financial statements (on pages 20 and 21), which for governmental activities tell how services were financed in the short term as well as what remains for future spending.

Since the State General Fund consists of one fund, the fund statements report the State General Fund's operations at the same level of detail as the government-wide statements. However, this annual report includes other supplementary information that provides additional information on the financial activities of the nine funds that comprise the general fund of the State General Fund.

Government-wide Financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the State General Fund's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the State General Fund's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State General Fund is improving or deteriorating.

The *statement of activities* presents information showing how the State General Fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the State General Fund that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the State of New Mexico include general government, legislative, judicial, commerce and industry, natural resources, health and human services, public safety, transportation, higher education, public school support, and other education. The State General Fund did not have any business-type activities during the fiscal year.

The government-wide financial statements include only the State General Fund. Given the nature of the State General Fund—it is not a legal entity—it does not have organizations for which it is financially accountable or other organizations for which the nature and significance of their relationship are such that exclusion would cause the State General Fund's financial statements to be misleading.

The government-wide financial statements can be found on pages 17 and 18 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like states and local governments, the State General Fund uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State General Fund has one fund. That fund is categorized as a *governmental fund.*

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

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

The General Fund has one fund, its general fund, which is considered to be a major fund. The State General Fund does not adopt an annual appropriated budget for its general fund. However, the expenditures of the State General Fund by law must equal the individual amounts appropriated in the various appropriation acts. To demonstrate legal compliance with the appropriation acts, a Schedule of Appropriations is included in this report as supplementary information.

The basic governmental fund financial statements can be found on pages 20 and 21 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 23 through 31 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. The Schedule of Statutorily and Administratively Created Funds Balance Sheets and the Schedule of Statutorily and Administratively Created Funds Revenues, Expenditures, and Changes in Fund Balance provide detailed information on the nine statutorily and administratively created funds that comprise the general fund of the State General Fund. The schedules demonstrate legal compliance with the statutes governing those eight funds.

Also provided as supplementary information are the Schedule of Revenues by Type and the Schedule of Revenues by Source. Revenue is presented by type in the Statement of Activities and by source in the Statement of Revenue, Expenditures, and Changes in Fund Balances—Governmental Funds. These schedules provide detail information on State General Fund revenues and demonstrate legal compliance with the statutes governing the collection of revenue by the State General Fund.

The Schedule of Amounts Due from Other Entities, Schedule of Amounts Due to Other Entities, Schedule of Amounts Due to Taxpayers, and the Schedule of Amounts Due from Taxpayers are also included in this report. The schedules provide information on the amounts due by and due from other entities and individuals to the State General Fund, and are considered supplementary information.

Government-wide Financial Analysis

Net Assets
June 30, 2007 and 2006
(in millions of dollars)

	2007	2006
Current assets	$ 1,842.3	$1,625.2
Current liabilities	(1,158.8)	(774.4)
Net assets, unrestricted	$ 683.5	$ 850.6

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State General Fund, assets exceeded liabilities by $683.5 million at the close of fiscal year 2007.

The assets held by the State General Fund are unappropriated and are not restricted. However, it has been the policy of the State of New Mexico to not consider the amount of revenue deferred under the modified accrual basis of accounting, $ 41.7 million, as available for appropriation.

(UNAUDITED)

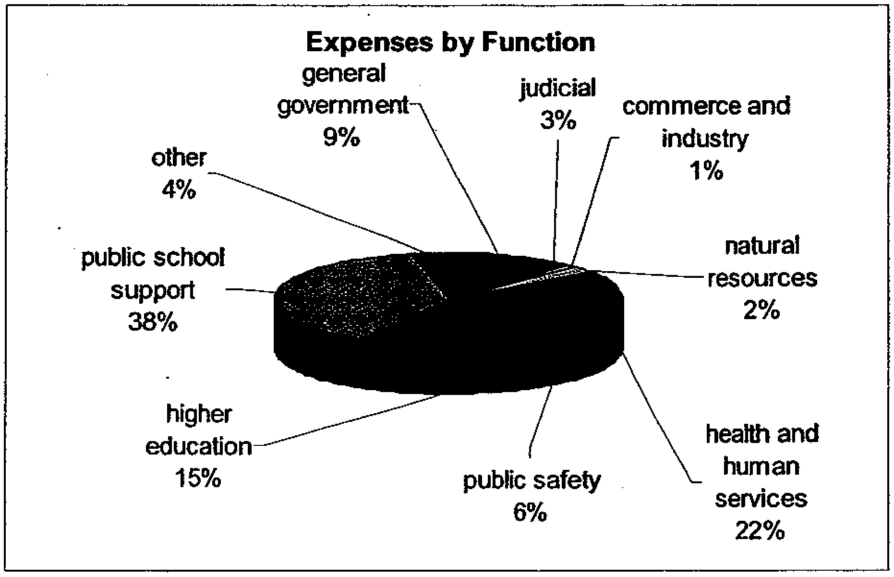
Governmental activities

Changes in Net Assets
June 30, 2007 and 2006
(in millions of dollars)

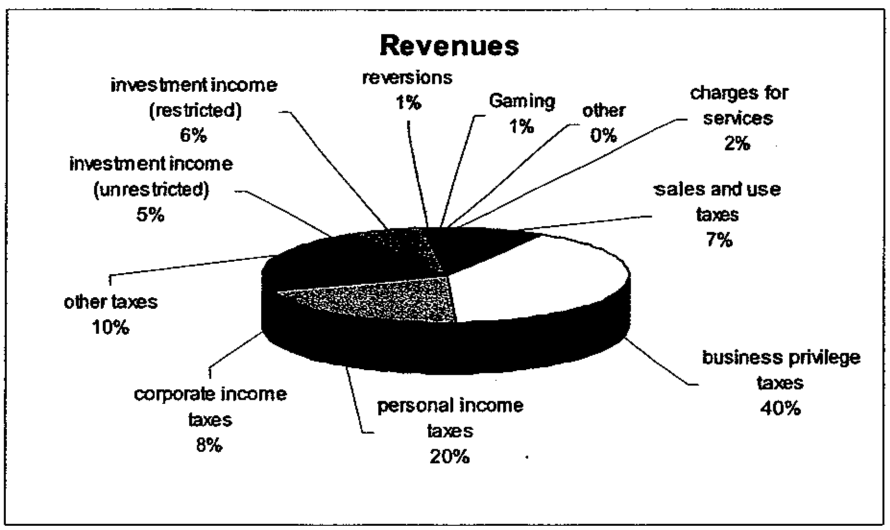
	2007	2006	Increase (Decrease)
Revenues			
Program revenues:			
Charges for services	$ 117.3	$ 119.9	$ (2.6)
General Revenues:			
Sales and use taxes	403.9	388.7	15.2
Business privilege taxes	2,362.1	2,283.8	78.3
Personal income taxes	1,187.2	1,022.1	165.1
Corporate income taxes	453.8	375.0	78.8
Severance taxes	30.7	31.7	(1.0)
Other taxes	545.0	591.5	(46.5)
Investment income (unrestricted)	265.6	257.0	8.6
Investment income (restricted)	364.7	354.1	10.6
Gaming revenue sharing	56.2	49.5	6.7
Escheats	12.3	12.5	(.2)
Reversions	38.9	45.0	(6.1)
Transfers	-	-	-
Total revenues	5,837.7	5,530.8	306.9
Program Expenses			
General government	530.8	361.5	169.3
Legislative	24.8	20.7	4.1
Judicial	178.7	163.4	15.3
Commerce and industry	64.2	72.5	(8.3)
Natural resources	121.8	124.8	(3.0)
Health and human services	1,341.6	1,231.9	109.7
Public safety	345.0	316.0	29.0
Transportation	73.9	22.6	51.3
Higher education	923.2	811.2	112.0
Public school support	2,277.6	2,120.4	157.2
Other education	102.6	169.8	(67.2)
Interest on short term debt	20.4	13.2	7.2
Issuance costs on short term debt	.4	.4	-
Total expenses	6,005.0	5,428.4	576.6
Increase (Decrease) in net assets	$ (167.3)	$ 102.4	$ (269.7)

The State General Fund's net assets decreased by $269.7 million, as compared to the $102.4 million increase in 2006. In fiscal year 2007, overall, revenue increased 5.5% compared to 2006, and expenses increased 10.6%, which accounts for the decrease in net assets.

Expenses by Function – Governmental Activities



Revenues – Governmental Activities



Business-type Activities

The State General Fund did not have any business-type activities during fiscal year 2007.

(UNAUDITED)

Financial Analysis of the State General Fund's General Fund

As noted earlier, the State General Fund uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the State General Fund's *governmental fund* (its general fund) is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the State General Fund's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the State General Fund's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the State General Fund's general fund reported an ending fund balance of $641.8 million, a decrease of $156.4 million.. The decrease is attributable to the same key factors noted on page 12 for the decrease in net assets—expenditures exceeding revenue. The entire amount of the general fund's ending fund balance is *unreserved fund balance* and is available for appropriation by the Legislature. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. It is the policy of the State of New Mexico to keep at least 5% of the amount of prior year reoccurring appropriations as unreserved fund balance. For fiscal year 2007, reserves were 17.0% of recurring prior year appropriations.

Economic Factors

Fiscal year 2007 compares to fiscal year 2006 as follows:

- Recurring revenue grew by $169.0 million or 3.0 percent. Total revenue grew by $306.9 million or 5.5 percent. This compares to the prior year's total revenue growth of $500.1 million or 10.0%.
- Receipts from the general sales tax and business privilege tax—the best measures of overall economic activity—grew by 3.5 percent.
- Corporate income tax collections grew by 21.0 percent. This compares to the prior year's growth of 42.0 percent.
- Other tax revenue decreased by $46.5million. This is attributable to a decrease in federal mineral lease receipts.

Requests for Information

This financial report is designed to provide a general overview of the State General Fund's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of the Financial Control Division, Department of Finance and Administration, 407 Galesteo, Room 166 Bataan Memorial Building, Santa Fe, New Mexico 87501.

(UNAUDITED)

Basic Financial Statements

(UNAUDITED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

State of New Mexico

State General Fund

COMPONENT APPROPRIATION ACCOUNTS

Statement of Net Assets

June 30, 2007

		Primary Government
		Governmental Activities
ASSETS		
Current assets:		
Investments, State Treasurer, Note 2	$	687,022,421
Investments, State Investment Council, Note 2		116,718,859
Due from other state entities		996,809,997
Due from tax payers		41,739,196
Total assets		1,842,290,473
LIABILITIES		
Current liabilities:		
Cash overdraft		891,709,246
Voucher payable		2,500
Due to other state entities		207,912,282
Due to local governments		18,068,124
Due to tax payers		41,056,024
Total liabilities		1,158,748,176
NET ASSETS		
Unrestricted		683,542,297
Total net assets	$	683,542,297

The notes to the financial statements are an integral part of this statement.

(UNAUDITED)

State of New Mexico

State General Fund

COMPONENT APPROPRIATON ACCOUNTS

Statement of Activities

For the Year Ended June 30, 2007

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets — Primary Government
Functions	Expenses	Charges for Services	*Governmental Activities*
Primary government:			
Governmental Activities:			
General government	$ 530,774,428	$ 6,659,417	$ (524,115,011)
Legislative	24,755,460	76,826	(24,678,634)
Judicial	178,734,859	9,128,361	(169,606,498)
Commerce and industry	64,151,400	48,641,466	(15,509,934)
Natural resources	121,763,085	-	(121,763,085)
Health and human services	1,341,603,614	2,341,541	(1,339,262,073)
Public safety	344,978,900	-	(344,978,900)
Transportation	73,915,552	-	(73,915,552)
Higher education	923,177,040	-	(923,177,040)
Public school support	2,277,642,800	50,409,672	(2,227,233,128)
Other education	102,613,034	-	(102,613,034)
Interest on short term debt	20,448,628	-	(20,448,628)
Issuance costs on short term debt	396,625	-	(396,625)
Total primary government	$ 6,004,955,425	$ 117,257,283	(5,887,698,142)

General revenues:	
Taxes:	
Sales and use	403,909,267
Business privilege	2,362,153,483
Personal income	1,187,170,894
Corporate income	453,857,010
Severance	30,682,526
Other	545,038,038
Investment income (Unrestricted)	265,575,647
Investment income (Restricted)	364,697,350
Tribal gaming revenue sharing	56,157,577
Escheats	12,290,906
Reversions	38,879,914
Total general revenues and transfers	5,720,412,612
Change in net assets	(167,285,530)
Net assets-beginning	850,827,827
Net assets-ending	$ 683,542,297

The notes to the financial statements are an integral part of this statement.

(UNAUDITED)

FUND FINANCIAL STATEMENTS

(UNAUDITED)

State of New Mexico

State General Fund

COMPONENT APPROPRIATION ACCOUNTS

Balance Sheet

Governmental Funds

June 30, 2007

		General
ASSETS		
Current assets:		
Investments, State Treasurer, Note 2	$	687,022,421
Investments, State Investment Council, Note 2		116,718,859
Due from other state entities		996,809,997
Due from tax payers		41,739,196
Total assets	$	1,842,290,473
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Deferred revenues		41,739,196
Cash overdraft		891,709,246
Voucher payable		2,500
Due to other state entities		207,912,282
Due to local governments		18,068,124
Due to taxpayer		41,056,024
Total liabilities		1,200,487,372
Fund balances:		
Unreserved/undesignated		641,803,101
Total liabilities and fund balances	$	1,842,290,473
The amounts due from other entities are not available to pay for current period expenitures and, therefore, are deferred in the funds.		41,739,196
Net assets of governmental activities	$	683,542,297

The notes to the financial statements are an integral part of this statement.

(UNAUDITED)

State of New Mexico

State General Fund

COMPONENT APPROPIATION ACCOUNTS

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

		General
REVENUES		
General and selective taxes	$	2,315,105,006
Income taxes		1,640,161,220
Severance taxes		486,564,131
License fees		48,959,450
Investment income		636,946,965
Rents and royalties		551,533,187
Miscellaneous receipts		130,415,580
Reversions		38,879,898
Total revenues		5,848,565,437
EXPENDITURES		
Current:		
Appropriations:		
Legislative		24,755,460
Judicial		178,734,859
General control		530,774,428
Commerce and industry		64,151,400
Natural resources		121,763,085
Health and human services		1,341,603,614
Public safety		344,978,900
Transportation		73,915,552
Other education		102,613,034
Higher education		923,177,040
Public school support		2,277,642,800
		5,984,110,172
Tax and Revenue Anticipation Notes:		
Interest expense		20,448,628
Issuance costs		396,625
		20,845,253
Total expenditures		6,004,955,425
Excess of expenditures over revenues		(156,389,988)
OTHER FINANCING SOURCES		
Transfers In		-
Total other financing sources		-
Net change in fund balance		(156,389,988)
Fund balance - beginning		798,193,089
Fund balance - ending	$	641,803,101

The notes to the financial statements are an integral part of this statement

(UNAUDITED)

State of New Mexico

State General Fund

COMPONENT APPROPRIATION ACCOUNTS

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Amounts reported for governmental activities in the Statement of Activities (page 18) are different because:

Net change in fund balances—total governmental funds (page 21)	(156,389,988)
Revenues earned in fiscal year 2006 that were not "available" until fiscal year 2007 are reported in the funds as fiscal year 2007 revenue	(52,634,738)
Revenues earned in fiscal year 2007 that will not be "available" until fiscal year 2008 are not reported in the funds	41,739,196
Change in net assets of governmental activities (page 18)	$(167,285,530)

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

(UNAUDITED)

NOTES TO THE FINANCIAL STATEMENTS INDEX

Page

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity 25

B. Government-wide and Fund Financial Statements 28

C. Basis of Accounting and Presentation
1. Government-wide Financial Statements 28
2. Fund Financial Statements 29

D. Assets, Liabilities, and Net Assets and Fund Balances 29

E. Revenue and Expenditures/Expenses 29

Note 2. Investments 30

Note 3. Tax and Revenue Anticipation Notes 30

Note 4. Transfer Authority 31

Note 5. Transfers In /out 31

1. Summary of Significant Accounting Policies

A. Reporting entity

The New Mexico Audit Act, Sections 12-6-1 through 12-6-14, NMSA 1978, as amended, requires the financial affairs of every New Mexico state agency to be audited. In addition, Section 12-6-3(B) of the Act states, " ... the state auditor may cause the financial affairs and transactions of an agency to be audited in whole or **in part** [emphasis added]."

The financial affairs of the Department of Finance and Administration, a state agency, include administering nine statutorily and administratively created funds. Collectively, the nine funds are called the "State General Fund Component Appropriation Accounts" or, more commonly, the "State General Fund." The State General Fund together with many other statutorily and administratively created funds comprise the general fund presented in the annual financial statements of the State of New Mexico.

Under generally accepted accounting principles, the State of New Mexico is the reporting entity and primary government; however, the State General Fund is not audited as part of that reporting entity. Instead it is treated as the nucleus of a reporting entity and audited separately.

Given the nature of the State General Fund—it is not a legal entity—it does not have organizations for which it is financially accountable or other organizations for which the nature and significance of their relationship are such that exclusion would cause the State General Fund's financial statements to be misleading.

The State General Fund does not constitute a primary government, component unit, or any other type of reporting entity as defined by generally accepted accounting principles. The State General Fund in the primary mechanism for accounting for the revenue and financing of the operations of the State of New Mexico. As such the Legislature, state officials and the citizens of the State of New Mexico, as well as other groups such as bond issuers and rating services, have an interest in the operations of the State General Fund. The accompanying financial statements are presented to meet that need.

For presentation in the accompanying financial statements, the State General Fund has elected to consolidate four statutorily created funds and five administratively created funds into one general fund. However, to supplement the consolidated data and present data on a legally prescribed basis, a Schedule of Statutorily and Administratively Created Funds Balance Sheets and a Schedule of Statutorily and Administratively Created Funds Revenues, Expenditures, and Changes in Fund Balances are also presented as supplementary information.

The following is a description of the nine statutorily and administratively created funds presented in those schedules.

Statutorily Created Funds:

1. Common School Current Fund

The *common school current fund* (also know as the *common school income fund*) was created by Section 19-1-17, NMSA 1978. This statute requires that the fund be credited with its respective proportion of money from the *state land income fund* and the *state permanent fund.* Section 22-8-32, NMSA 1978, requires that at the end of each month, the State Treasurer transfer out the cash balance in this fund to the *current school fund.*

2. Current School Fund

The *current school fund* was created by Section 22-8-32, NMSA 1978. This statute requires the State Treasurer to deposit into this fund: 1) all fines and forfeitures collected under general laws; 2) the net proceeds of property that may come to the State by escheat (however, Section 7-8A-13, NMSA 1978, requires all funds received under the Unclaimed Property Act to be deposited in the tax administration suspense fund for distribution to the *general fund)*; and 3) all other revenue required by law to be credited to the fund. In addition, as noted above, the statute requires that each month the cash balance in the *common school current fund* be transferred into this fund.

In addition to the above, Section 22-8-32 requires any unencumbered balance in this fund to be transferred out to the *public school fund*—a statutorily created fund administered by both the Education Department and the State General Fund.

3. State- support Reserve Fund

The *state-support reserve fund* was created by Section 22-8-31, NMSA 1978. This statute requires the following: The *state-support reserve fund* shall be used only to augment the appropriations for the state equalization guarantee distribution in order to ensure, to the extent of the amount undistributed in the fund, that the maximum figures for such distribution established by law shall not be reduced.

4. Tobacco Settlement Permanent Fund

The *Tobacco Settlement Permanent Fund* was created by Section 6-4-9, NMSA 1978. Originally the fund was created as a permanent fund as defined by generally accepted accounting principles. In 2003, legislation was enacted (Laws of 2003, Chapter 312) that made the fund a reserve within the State General Fund. The amendment is not written clearly; however, the intent of the legislation was to make the fund a reserve within the *state general fund.*

The statute allows balances in the fund to be appropriated by the Legislature if balances in the *state general fund,* including its *general fund operating reserve, appropriation contingency reserve fund, and tax stabilization reserve*, do not meet the level of appropriations authorized from the state general fund for a fiscal year. By statute, balances in the fund are to be invested by the state investment officer, which are accounted for in a private-purpose trust fund at State Investment Council.

Section 6-4-9(B), NMSA 1978, requires that all money received by the State Treasurer in fiscal years 2003 through 2006 be distributed from the *tobacco permanent settlement fund to the state general fund.* Subsection C of that section requires that, in fiscal year 2007 and beyond, an annual distribution be made from the *tobacco settlement permanent fund* to the *tobacco settlement program fund* of an amount equal to fifty percent of the total amount distributed to the *tobacco settlement permanent fund* in that fiscal year until the amount is less than an amount equal to four and seven-tenths percent of the average of the year-end market values of the *tobacco settlement permanent fund* for the immediately preceding five years.

Administratively Created Funds

1. Appropriation Account Fund

The *appropriation account fund* is an administratively created fund the State General Fund uses to account for the financial activity of the statutorily created *general fund* and for portions of the financial activity of the statutorily created *public school fund.*

State statute, Section 6-4-2, NMSA 1978, creates the *general fund* and requires the State Treasurer to credit all revenues, not otherwise allocated, to the fund. In addition, the statute requires that expenditures from the fund be made only in accordance with appropriations authorized by the Legislature. Those appropriations result in allotments of cash from the *general fund.* The allotments are presented as expenses/expenditures in the accompanying financial statements.

Section 22-8-14, NMSA 1978, creates the *public school fund.* The State General Fund administers three financial activities of that fund; all other activities of the fund are administered by the Education Department.

One of those activities administered by the State General Fund is the transfer from the *current school fund* to the *public school fund* required by Section 22-8-32, NMSA 1978. The State General Fund administers the other two activities through its *federal mineral leasing fund* (see item 2 below). Those activities include receiving receipts under the Federal Minerals Land Act, 30 USC 181 (the General Appropriation Act defines *general fund* to include Federal Mineral Leasing Act receipts) and allotting cash, based on legislative appropriations, from the *public school fund* to the *Instructional Materials Fund* and to the Bureau of Mines and Mineral Resources of the New Mexico Institute of Mining and Technology

The transfer described in the previous paragraph reduces (offsets) the appropriation and related cash allotments that have been made from the *general fund* to the portion of the *public school fund* administered by the Education Department. The General Appropriations Act requires that the appropriation from the *general fund* to the portion of the *public school fund* administered by the Education Department be reduced by the amounts transferred to the *public school fund* from the *current school fund.*

2. Federal Mineral Leasing Fund

As noted above, the State General Fund administers two other activities of the *public school fund* through its administratively created *federal mineral leasing fund.* Those activities include receiving receipts under the Federal Minerals Land Act, 30 USC 181, and allotting cash—based on legislative appropriation—from the portion of the *public school fund* administered by the State General Fund to the *Instructional Materials Fund* and to the Bureau of Mines and Mineral Resources of the New Mexico Institute of Mining and Technology

Like the transfer in from the *current school fund,* the receipts from the Federal Minerals Land Act, 30 USC 181 reduce (offset) the appropriation and related cash allotments that have been made from the *general fund* to portion of the *public school fund* administered by the Education Department. As noted above, the General Appropriations Act requires that the appropriation from the *general fund* to the portion of the *public school fund* administered by the Education Department be reduced by the amount of Federal Minerals Land Act receipts.

The General Appropriations Act is consistent with Section 22-8-34, NMSA 1978, in that Section 22-8-34 requires the State Treasurer to deposit all money received under the Federal Mineral Lands Leasing Act to the *public school fund*, except for the following: 1) that portion appropriated to the *instructional materials fund* and to the Bureau of Mines and Mineral Resources of the New Mexico Institute of Mining and Technology; and 2) the remainder of any prepayments after deducting the amount that the State would have received as its share of royalties during the fiscal year. (The statute requires that the remainder be distributed to the *common school permanent fund.*)

3. Appropriation Contingency Reserve Fund

Section 6-4-2.3, NMSA 1978, creates the appropriation contingency reserve within the *general fund.* To account for the reserve, the State General Fund has established the *Appropriation Contingency Reserve Fund.* Section 6-4-2.3 includes the following requirements: The appropriation contingency reserve may be expended only upon specific authorization by the legislature or as provided in Sections 6-7-1 through 6-7-3 NMSA 1978 in the event there is no surplus of unappropriated money in the *general fund.*

4. General Fund Operating Reserve Fund

Section 6-4-2.1, NMSA 1978, creates the general fund operating reserve within the *general fund.* To account for the reserve, the State General Fund has established the *general fund operating reserve fund.* Section 6-4-4, NMSA 1978, requires that excess revenue over appropriations (expenditures/expenses) in the *general fund* be transferred to the *general fund operating reserve* provided that 1) if the sum of the excess revenue plus the balance in the operating reserve prior to the transfer is greater than eight percent of the aggregate recurring appropriations from the *general fund* for the previous fiscal year, then an amount equal to the smaller of either the amount of the excess revenue or the difference between the sum and eight percent of the aggregate recurring appropriation from the *general fund* for the previous fiscal year; and 2) that if the total of the amount transferred to the *tax stabilization reserve fund* plus the balance in that reserve prior to the transfer is greater than six percent of the aggregate recurring appropriations from the *general fund* for the previous fiscal year, then an amount equal to the smaller of either the amount transferred or the difference between the total and six percent of the aggregate recurring appropriation from the *general fund* for the previous fiscal year is appropriated to the *taxpayer dividend fund.*

The *general fund operating reserve* may be expended only upon specific authorization by the legislature and only in the event *general fund* revenues and balances, including all other transfers to the *general fund* authorized by law, are insufficient to meet the level of appropriations authorized.

5. Tax Stabilization Reserve Fund

Section 6-4-2.2, NMSA 1978, creates the tax stabilization reserve within the *general fund.* To account for the reserve, the State General Fund has established the *Tax Stabilization Reserve Fund.* The balance of the tax stabilization reserve consists of those funds directed to it by law (Section 6-4-4) and such other funds as the legislature may appropriate from time to time to the reserve. Except as otherwise provided in Subsection D of Section 6-4-2.2, NMSA 1978, any balance in the *tax stabilization reserve* may be appropriated only by a two-thirds majority vote of both houses of the legislature following receipt by the legislature of a declaration of the governor that such an appropriation is necessary for the public peace, health and safety. However, subsection D allows the legislature to appropriate balances in the fund without any restrictions, in the event that resources are not sufficient to meet authorized appropriations.

The effect of interfund activity between these nine statutorily and administratively created funds has been eliminated from the accompanying financial statements. This interfund activity included the receivables and payables listed in the table below.

Due from Other Fund		Due to Other Funds		
Name	SHARE System Fund Number	Name	SHARE System Fund Number	Amount
Appropriations Account Fund	85300	Current School Fund	71700	$ 30,389,462
Current School Fund	71700	Common School Current Fund	71600	30,389,462
Appropriation Contingency Fd	85400	General Operating Reserve	85200	40,000,000
Appropriation Account Fund	85300	General Operating Fund	85200	152,935,679
				$253,714,603

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the State General Fund. Since the State General Fund has only one fund, interfund activity did not exist. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which relay to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues and are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The State General Fund does not have proprietary or fiduciary funds. The State General Fund's one and only fund, its general fund, is a major governmental fund.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

C. Basis of Accounting and Presentation

1. Government-wide financial statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Derived tax revenues, which generally include income and sales taxes and similar assessments on earnings or consumption, and related assets, are recognized when the exchange transaction occurs (due from other state agencies) or when the resources are received (cash), which ever occurs first.

2. Fund financial statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. For derived tax revenues, related assets are recognized when the exchange transaction occurs or when the resources are received, whichever occurs first. If the resources are not available, deferred revenues are reported for the assets that are recognized before the revenues. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State General Fund considers tax revenues to be available, if they are collected within 60 days after the end of the fiscal year; reversions, if collected within 90 days of the end of the current fiscal period; and all other revenues to be available if collected prior to completion of the State General Fund's financial statements, which is usually the December 15th following the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Taxes, investment income, and reversions associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Escheats are not considered susceptible to accrual and, therefore, are recognized when received.

D. Assets, Liabilities, and Net Assets and Fund Balances

1. Due from Other State Entities

Section 6-4-2, NMSA 1978, requires all revenues—not otherwise allocated by law— to be credited to the State General Fund. In addition, Section 6-5-10, NMSA 1978, requires all undesignated/unreserved fund balances in reverting state agency funds to be reverted to the State General Fund. Various state agencies collect revenues on behalf of the State General Fund. In addition, most state agencies administer funds that revert balances to the State General Fund. The amounts due from other state entities reported in the accompanying financial statements and in the Schedule of Amount Due from Other Entities are the amounts due to the State General Fund under the authority of the two statutes cited above.

2. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the State General Fund's policy to use restricted resources first, and then unrestricted resources as they are needed.

E. Revenues and Expenditures/Expenses

1. Reversions

Once an appropriation lapses, the related cash balance is usually required by law to be returned to the fund from where the appropriation allotment originated (that is, from where the cash related to the appropriation originated). In the accompanying financial statements, the cash returned to the State General Fund is treated as general revenue and presented as "reversions." Beginning fiscal year 2005, the State adopted generally accepted accounting principles for governmental funds as its budgetary basis of accounting.

2. Investments

State law requires the State General Fund investments be managed by the New Mexico State Treasurer's Office, with the exception of those belonging to the Tobacco Settlement Fund. State law requires that Tobacco Settlement Fund investments be managed by the New Mexico State Investment Council. Accordingly, the investments of the State General Fund consist of investments in the investment pools managed by these two entities.

As of June 30, 2007 the State General Fund had the following investments:

Investment	Maturities	Fair Value
The New Mexico State Treasurer's Office:		
General Fund Investment Pool	1 day to 3 years	$687,022,421
The State Investment Council:		
Equities–	Not Applicable	
Large Cap Active Pool		$ 29,325,369
Large Cap Index Pool		9,567,589
Small/Mid Cap Active Pool		12,626,631
Non-US Developed Markets Pool		7,747,289
Non-US Emerging Markets Pool		3,519,451
Core Bonds–		
US Core Bonds Pool	1 to 39 years	24,204,570
High Yield Bonds–		
US High Yield Bonds Pool	1 to 11 years	2,562,879
Hedge Fund Pool	Not Applicable	9,971,867
Cash/Cash Equivalents/Accruals	Not Applicable	21,193,214
		$ 116,718,859

Interest Rate Risk. The State General Fund does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

For additional GASB 40 disclosure information related the above investment pools, the reader should see the separate audit reports for the State Treasurer's Office and the State Investment Council for the fiscal year ended June 30, 2007.

3.Tax and Revenue Anticipation Notes

The following notes were issued by the State of New Mexico during fiscal year 2007 and matured June 30, 2007:

A. 2006-2007 Tax and Revenue Anticipation Notes, Series 2005, $400.0 million.

B. 2006-2007 Tax and Revenue Anticipation Notes, Series 2006A, $300.0 million

These notes were issued by the State of New Mexico under the authority of the Short-Term Cash Management Act, Section 6-12A-1, NMSA 1978. The notes were issued to fund a portion of the State's cash flow needs for the State General Fund during its fiscal year 2007.

The transactions related to the notes have been presented in accordance with generally accepted accounting principles (GASB Codification Section B50.101); accordingly, interest and issuance costs are presented in the accompanying financial statements as expenses/expenditures.

The processes to deposit the proceeds from the notes and subsequently pay the notes were as follows:

The Office of the State Treasurer deposited the net proceeds from the sale of the notes, $703,656,100 to its *anticipation notes fund* (Central Accounting System fund number 32300). The Office of the State Treasurer subsequently transferred the entire amount of the proceeds to the *appropriation account fund* (Central Accounting System fund number 85300).

To the pay the notes, the State General Fund transferred $724,501,353 from the *appropriation account fund* to the *state treasurer anticipation notes debt service fund* (Central Accounting System fund number 39300). From the debt service fund, the Office of the State Treasurer then paid the note principal and interest due at maturity.

Subsequent to June 30, 2007, the State of New Mexico issued the following Tax and Revenue Anticipation notes: 07-08 Tax and Revenue Anticipation Notes, Series 2007, $400.0 million.

4. Transfer Authority

For fiscal year 2007, the General Appropriations Act of 2007, section 12, provides the State General Fund with authority to transfer $270.0 million from the operating reserve to the *general fund*, in the event that revenues and transfers (exclusive of transfers to the general fund operating reserve, appropriation contingency fund, tax stabilization reserve, and public school state-support reserve) were not sufficient to meet appropriations.

For fiscal year 2007, appropriations exceeded revenues and transfers by $152,935,679.

5. Transfers In/out

A. Required Transfers

For fiscal year 2007, in accordance with State statute and law, the following transfers were made: $40,000,000 from the General Operating fund (fund 85200) to the Appropriation Contingency fund (fund 85400) and $152,935,679 from the General Operating Reserve Fund (fund 85200) to the Appropriation Account (fund 85300).