

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on \$71,270,000 General Obligation Bonds, Refunding Series 2008A (the "Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision, a prospective investor should read the entire Official Statement. Certain capitalized terms used in the cover page and elsewhere in this Official Statement have the meanings given in the Official Statement.

\$71,270,000
THE STATE OF NEW MEXICO
GENERAL OBLIGATION BONDS
REFUNDING SERIES 2008A

Dated: Delivery Date

Due: March 1, as shown below

<i>Ratings</i>	"Aa1" Moody's Investors Service "AA+" Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.
<i>Tax Exemption</i>	In the opinion of Brownstein Hyatt Farber Schreck, LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes as described herein. See "TAX MATTERS."
<i>No Optional Redemption</i>	The Bonds are <u>not</u> subject to optional redemption prior to maturity.
<i>Security</i>	The Bonds are being issued under the authority of Sections 6-12-6 through 6-12-14 NMSA 1978, as amended (the "Act"). The Act authorizes the Board on behalf of the State Treasurer to issue refunding bonds in such manner as it shall determine for the purpose of refunding any of the bonded indebtedness of the State. The Act further directs State tax officials to levy on all property in the State that is subject to taxation an <i>ad valorem</i> tax sufficient to produce an amount equal to the interest and principal requirements for each year for any general obligation bonds outstanding. The Bonds are general obligations of the State of New Mexico, and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.
<i>Purpose</i>	The Bonds are being issued to refund certain outstanding maturities of the State of New Mexico, Capital Projects General Obligation Bonds, Series 2001 and Capital Projects General Obligation Bonds, Series 2003 (collectively, the "Refunded Bonds"). The Refunded Bonds were issued for the purpose of financing the acquisition or construction of certain projects specified in the 2000 Capital Projects General Obligation Bond Act and the 2002 Capital Projects General Obligation Bond Act.
<i>Interest Payment Dates</i>	March 1 and September 1, commencing March 1, 2009.
<i>Closing/Settlement</i>	On or about July 29, 2008.
<i>Denominations</i>	\$5,000
<i>Book-Entry System</i>	The Depository Trust Company
<i>Registrar/Paying Agent</i>	State Treasurer of New Mexico
<i>Bond Counsel</i>	Brownstein Hyatt Farber Schreck, LLP
<i>Disclosure Counsel</i>	Sutin, Thayer & Browne A Professional Corporation
<i>Issuer Contact</i>	State Board of Finance: Olivia Padilla-Jackson, Director; (505) 827-4980; olivia.padilla-jackson@state.nm.us

Dated: June 17, 2008

Year (March 1)	Principal Amount	Interest Rate	Yield at Issuance¹	Price at Issuance¹	CUSIP²
2009	\$ 535,000	3.00%	1.90%	100.640%	647293 MU0
2010	20,075,000	5.00%	2.40%	104.027	647293 MV8
2011	21,215,000	5.00%	2.90%	105.198	647293 MW6
2012	14,320,000	5.00%	3.20%	106.054	647293 MX4
2013	15,125,000	5.00%	3.36%	106.917	647293 MY2

¹ This information not provided by the State.

² The State takes no responsibility for the accuracy of CUSIP numbers, which are included solely for the convenience of owners of the Bonds.

ELECTED STATE OFFICIALS

BILL RICHARDSON
Governor

MARY HERRERA
Secretary of State

DIANE D. DENISH
Lieutenant Governor

JAMES B. LEWIS
State Treasurer

HECTOR H. BALDERAS
State Auditor

GARY K. KING
Attorney General

PATRICK H. LYONS
Commissioner of Public Lands

Public Regulation Commissioners:

JASON A. MARKS
District I

DAVID W. KING
District II

BEN R. LUJAN
District III

CAROL K. SLOAN
District IV

SANDY R. JONES
District V

STATE BOARD OF FINANCE
Ex Officio Members

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President

LT. GOVERNOR
DIANE D. DENISH
Member

STATE TREASURER
JAMES B. LEWIS
Member

Appointed Members

JOHN LOEHR
Member

KIM SANCHEZ RAEI
Secretary

MARIA GRIEGO-RABY
Member

ROBERTA COOPER RAMO
Member

KATHERINE B. MILLER
Executive Officer

State Board of Finance
181 Bataan Memorial Building
131 South Capitol Street
Santa Fe, New Mexico 87501
505-827-4980
<http://board.nmdfa.state.nm.us>

Olivia Padilla-Jackson, Director

BOND COUNSEL
Brownstein Hyatt Farber Schreck, LLP
Albuquerque, New Mexico

DISCLOSURE COUNSEL
Sutin, Thayer & Browne
A Professional Corporation
Albuquerque, New Mexico

FINANCIAL ADVISORS
Fiscal Strategies Group, Inc.
Swarthmore, Pennsylvania
Public Resources Advisory Group
Los Angeles, California

In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of such Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement and, if given or made, such information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful to make such an offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sales hereunder shall under any circumstances create any implication that there has been no change in the affairs of the State of New Mexico or in the imposition and collection of *ad valorem* taxes since the date hereof.

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

The issuer is the author of this Official Statement and is responsible for its accuracy and completeness. The Underwriters are not the authors of the Official Statement. In accordance with their responsibilities under federal securities laws, the Underwriters are required to review the information in this Official Statement and must have a reasonable basis for their belief in the accuracy and completeness of the Official Statement. Both the Preliminary Official Statement and the Official Statement are "deemed final" by the Board for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

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SUMMARY OF INFORMATION

GENERAL OBLIGATION BONDS, REFUNDING SERIES 2008A

The following material represents a summary of information concerning the Bonds and the security therefor set forth in this Official Statement and is qualified in its entirety by the detailed information herein. Purchasers of the Bonds should review the entire Official Statement before making an investment decision.

<i>Dated:</i>	Delivery Date
<i>Interest Payment:</i>	Interest is payable semi-annually on September 1 and March 1, commencing on March 1, 2009.
<i>Principal Payment:</i>	The Bonds mature in serial installments as set forth on the inside cover page of this Official Statement.
<i>No Optional Redemption:</i>	The Bonds are <u>not</u> subject to optional redemption prior to maturity.
<i>Registration:</i>	The Bonds are being issued solely in book-entry form in the denomination of \$5,000 or any integral multiple thereof. The Bonds are being registered to Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository.
<i>Legal Opinion:</i>	The Bonds are offered when, as and if issued, subject to the approval of legality by Brownstein Hyatt Farber Schreck, LLP, Bond Counsel.
<i>Security:</i>	The Bonds are being issued under the authority of Sections 6-12-6 through 6-12-14, NMSA 1978, as amended (the “Act”). The Act authorizes the Board on behalf of the State Treasurer to issue refunding bonds in such manner as it shall determine for the purpose of refunding any of the bonded indebtedness of the State. The Act further directs State tax officials to levy on all property in the State that is subject to taxation an <i>ad valorem</i> tax sufficient to produce an amount equal to the interest and principal requirements for each year for any general obligation bonds outstanding. The Bonds are general obligations of the State of New Mexico, and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.
<i>Limitation to the Issuance of Additional General Obligation Indebtedness:</i>	Section 8 of Article IX of the New Mexico State Constitution provides (in part) that no debt may be created if the total indebtedness of the State would thereby be made to exceed 1 percent of the assessed valuation of all the property subject to taxation in the State. Additional general obligation bonds for other than refunding purposes and levy of additional <i>ad valorem</i> taxes for payment thereof are subject to approval of the voters.

GENERAL OBLIGATION BONDS

General obligation bonds outstanding as of the closing of the Bonds (giving effect to refunding)	\$ 238,595,000
Plus: Series 2008A Bonds	<u>71,270,000</u>
Total State General Obligation Bonds, following the closing of the Bonds	<u>\$ 309,865,000</u>

**KEY BONDING MEASURES
FOLLOWING THE ISSUANCE OF THE BONDS**

Total General Obligation Bonds per capita (2007 population from Census Bureau)	\$157.30
Ratio of General Obligation Bonds to 2007 Net Taxable Value	0.655%
Ratio of General Obligation Bonds per capita to State 2007 per capita personal income	0.500%
Percent of General Obligation Bonds due within 10 years	100%

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OFFICIAL STATEMENT

THE STATE OF NEW MEXICO \$71,270,000 GENERAL OBLIGATION BONDS, REFUNDING SERIES 2008A

INTRODUCTION

The purpose of this portion of this Official Statement, including the cover page, the Summary of Information, and the Appendices hereto, is to furnish information regarding the issuance of the State of New Mexico General Obligation Bonds, Refunding Series 2008A in the principal amount of \$71,270,000 (the “Bonds”), the State of New Mexico (the “State”), and the State Board of Finance (the “Board”).

The Bonds are general obligations of the State for the payment of which the full faith and credit of the State is pledged. The Bonds are payable from *ad valorem* taxes levied without limit as to rate or amount on all property in the State subject to taxation for State purposes. The Bonds are authorized pursuant to Sections 6-12-6 through 6-12-14, NMSA 1978, as amended (the “Act”), which authorizes the Board on behalf of the State Treasurer to issue refunding bonds in such a manner as it shall determine for the purpose of refunding any of the bonded indebtedness of the State. The Bonds will be issued pursuant to a resolution of the Board adopted on June 17, 2008 (the “Resolution”).

The Bonds are being issued to refund certain outstanding maturities of the State of New Mexico Capital Projects General Obligation Bonds, Series 2001 (the “Refunded 2001 Bonds”) and certain outstanding maturities of the State of New Mexico Capital Projects General Obligation Bonds, Series 2003 (the “Refunded 2003 Bonds” and, together with the Refunded 2001 Bonds, the “Refunded Bonds”). The Refunded Bonds were issued for the purpose of funding the acquisition or construction of certain projects specified in the 2000 Capital Projects General Obligation Bond Act and the 2002 Capital Projects General Obligation Bond Act. See “The Bonds – Authorization” below.

This Official Statement contains summaries of the terms of the Bonds, descriptions of the State, certain fiscal matters of the State and taxes imposed by the State. The descriptions included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and descriptions are qualified in their entirety by reference to such laws, and the definitive forms of documents, exhibits or appendices where applicable. Requests for additional information about the State, the Bonds or requests for copies of any document or statute referred to in this Official Statement, may be directed to:

Contact:	Olivia Padilla-Jackson, Director, State Board of Finance
Phone:	505-827-4980
Mail:	181 Bataan Memorial Building 131 South Capitol Street Santa Fe, NM 87501
E-mail:	olivia.padilla-jackson@state.nm.us
Web Site:	http://board.nmdfa.state.nm.us
Contact:	Olivia Padilla-Jackson, Director State Board of Finance

THE BONDS

General Terms

The Bonds are dated as of their delivery date, bear interest until the principal amount thereof is paid, and mature as set forth on the inside cover page hereof. Interest on the Bonds is payable on September 1 and March 1, commencing on March 1, 2009. The Bonds are general obligations of the State for the payment of which the full faith and credit of the State is pledged under the authorizing Act. The Bonds are payable from *ad valorem* taxes levied on all property of the State subject to taxation for State purposes.

The Bonds are being issued solely in book-entry form in denominations of \$5,000 or an integral multiple thereof. The Bonds are being registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository for the Bonds. The Bonds are subject to transfer and exchange as set forth in the Resolution.

No Optional Redemption of Bonds

The Bonds are not subject to optional redemption prior to maturity.

Authorization

The Bonds are authorized by the Act, which provides that the Board may issue refunding bonds in such a manner as it shall determine to refund bonded indebtedness of the State. The Act further authorizes and directs State tax officials to levy on all property in the State which is subject to taxation for State purposes an *ad valorem* tax sufficient to produce an amount equal to the interest and principal redemption requirements of each year for any refunding bonds outstanding.

Security and Sources of Payment

The Constitution of the State requires that any law, such as the Act, which authorizes general obligation debt of the State shall provide for an annual tax levy sufficient to pay the interest on and to provide a sinking fund to pay the principal of the debt. See “OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS—Limitations to the Issuance of Additional State General Obligation Bonds”, below.

The Act requires the State to impose, during each year in which the Bonds are outstanding, an *ad valorem* tax on all property in the State subject to taxation for State purposes sufficient to pay the principal of and interest on the Bonds as they become due. The *ad valorem* taxes are required to be imposed, levied, assessed and collected. In addition, the Act provides that taxes authorized to be levied to pay the Refunded Bonds continue to be levied and be pledged for the payments of the Bonds.

Currently the only property taxes levied for State purposes are those for the outstanding General Obligation Bonds, Series 2001, Series 2003, Series 2005 and Series 2007, and the Refunding Series 2003B (collectively, the “Outstanding Bonds”). Property taxes are also levied for local government purposes including locally authorized general obligation bonds of various cities, counties, and school and special districts in the State.

The Act pledges the full faith and credit of the State for the payment of the Bonds and, pursuant to their provisions, constitutes an irrevocable contract with the holders of the Bonds. The payment of

general obligation bonds from other than *ad valorem* taxes collected for that purpose requires an appropriation by the Legislature. If at any point there is not a sufficient amount of money from *ad valorem* taxes to make a required payment of principal of or interest on State general obligation bonds, the Governor may call a special session of the Legislature in order to secure an appropriation of money sufficient to make the required payment.

OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS

Outstanding General Obligation Bonds

The principal amount of State general obligation bonds previously issued that will be outstanding at the delivery of the Bonds, after giving effect to the refunding, and the annual debt service requirements on such outstanding bonds, are set forth below:

TABLE 1

General Obligation Bonds Outstanding After Giving Effect to the Refunding

<u>Series</u>	<u>Principal Outstanding</u>
Series 2001	\$ 7,010,000
Series 2003	13,280,000
Refunding Series 2003B	10,000,000
Series 2005	84,160,000
Series 2007	124,145,000
Series 2008A	<u>71,270,000</u>
Total	\$ 309,865,000

TABLE 2

Debt Service Requirements on the Bonds

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Fiscal Year Debt Service</u>
03/01/2009	\$ 535,000	\$ 2,092,204.44	\$ 2,627,204.44
09/01/2009		1,768,375.00	
03/01/2010	20,075,000	1,768,375.00	23,611,750.00
09/01/2010		1,266,500.00	
03/01/2011	21,215,000	1,266,500.00	23,748,000.00
09/01/2011		736,125.00	
03/01/2012	14,320,000	736,125.00	15,792,250.00
09/01/2012		378,125.00	
03/01/2013	<u>15,125,000</u>	<u>378,125.00</u>	<u>15,881,250.00</u>
Total	\$ 71,270,000	\$10,390,454.44	\$ 81,660,454.44

TABLE 3

Future General Obligation Bond Debt Service Requirements

<u>Date</u>	<u>Principal on Outstanding Bonds</u>	<u>Interest on Outstanding Bonds</u>	<u>Debt Service on Outstanding Bonds</u>	<u>Debt Service on the Bonds</u>	<u>Total Calendar Year Debt Service</u>	<u>Total Fiscal Year Debt Service</u>
09/01/08	\$ 10,000,000	\$ 5,867,806.25	\$ 15,867,806.25		\$ 15,867,806.25	
03/01/09	41,930,000	5,617,806.25	47,547,806.25	\$ 2,627,204.44		\$ 66,042,816.94
09/01/09		4,666,625.00	4,666,625.00	1,768,375.00	56,610,010.69	
03/01/10	22,705,000	4,666,625.00	27,371,625.00	21,843,375.00		55,650,000.00
09/01/10		4,099,000.00	4,099,000.00	1,266,500.00	54,580,500.00	
03/01/11	23,825,000	4,099,000.00	27,924,000.00	22,481,500.00		55,771,000.00
09/01/11		3,503,375.00	3,503,375.00	736,125.00	54,645,000.00	
03/01/12	25,005,000	3,503,375.00	28,508,375.00	15,056,125.00		47,804,000.00
09/01/12		2,878,250.00	2,878,250.00	378,125.00	46,820,875.00	
03/01/13	26,235,000	2,878,250.00	29,113,250.00	15,503,125.00		47,872,750.00
09/01/13		2,222,375.00	2,222,375.00		46,838,750.00	
03/01/14	27,530,000	2,222,375.00	29,752,375.00			31,974,750.00
09/01/14		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		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		415,875.00	415,875.00		17,067,750.00	
03/01/17	16,635,000	415,875.00	17,050,875.00			17,466,750.00
09/01/17					<u>17,050,875.00</u>	
Total⁽¹⁾	<u>\$238,595,000</u>	<u>\$51,748,612.50</u>	<u>\$ 290,343,612.50</u>	<u>\$81,660,454.44</u>	<u>\$ 372,004,066.94</u>	<u>\$ 372,004,066.94</u>

⁽¹⁾ Totals may not add due to rounding.

Mill Levy Rate

By September 1 of each year, the Board assists the Local Government Division of the Department of Finance and Administration (the “Division”) in setting a property tax mill levy rate that will generate sufficient property tax revenue to cover the next three debt service payments due for the Bonds and the Outstanding Bonds combined. The Division estimates preliminary net taxable values for all property in the State subject to taxation for State purposes in August of each year, and with the Board’s assistance determines a property tax mill levy rate that will generate the revenue necessary to make all payments of principal of and interest on the Bonds and the Outstanding Bonds on the three payment dates beginning the following March. The property tax mill levy rate makes allowance for non-payment of property taxes. Once the property tax mill levy rate has been determined, the State Treasurer, the Secretary of the Department of Finance and Administration, the Director of the Division and the Director of the Board sign a memorandum to the Division requesting that the Division adopt that property tax mill levy rate as the rate that will generate sufficient revenue to be used for the upcoming debt service on the Bonds and the Outstanding Bonds. The Division then certifies that property tax mill levy rate to counties and local governments for inclusion in the property tax bills.

Limitations to the Issuance of Additional State General Obligation Bonds

Sections 7 and 8 of Article IX of the Constitution of the State limit the power of State officials to incur general obligation indebtedness extending beyond the fiscal year in three ways:

1. 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.
2. 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 the 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.
3. The State may also contract debts to suppress insurrection and to provide for the public defense.

General obligation bonds for refunding purposes are not subject to approval of the voters.

The following table sets forth the calculation of State general obligation bonding capacity prior to and inclusive of the issuance of the Bonds.

TABLE 4
Calculation of 1% Bonding Limitation and the Bonds

Net Taxable Value		\$ 47,288,631,024
General obligation bond limitation @ 1% of Net Taxable Value		472,886,310
General obligation bonds outstanding, after giving effect to the refunding:		
Series 2001	\$ 7,010,000	
Series 2003	13,280,000	
Refunding Series 2003B	10,000,000	
Series 2005	84,160,000	
Series 2007	<u>124,145,000</u>	
Total general obligation bonds outstanding as of the closing of the Bonds		\$ 238,595,000
Plus: Series 2008A Bonds		<u>71,270,000</u>
Total general obligation bonds, following closing of the Bonds		\$ 309,865,000
Ratio of total general obligation bond debt to net taxable value		0.655%

Underlying General Obligation Bonds

The following table presents information on the principal amount of local debt outstanding, including the principal amount of county, city, and local public school district debt outstanding as of December 31, 2007. The table does not include debt of special districts or community colleges.

TABLE 5

Certain Underlying General Obligation Debt

Counties	\$215,508,000
Cities	\$241,928,000
Schools.....	\$1,067,247,000

Source: New Mexico Department of Finance and Administration and New Mexico Public Education Department.

THE REFUNDING

Plan of Refunding

The Bonds are being issued to refund the currently callable maturities of the outstanding General Obligation Bonds, Series 2001 maturing in 2010 and 2011, and the outstanding Series 2003 Bonds maturing 2010-2013, with a combined principal amount of \$75,994,969.

The following table sets forth the sources and uses of funds with respect to the Bonds and the Refunding:

Sources:

Par Amount of Bonds	\$ 71,270,000.00
Original Issue Premium	\$ 3,827,729.00
Transfers from Prior Issuers' Debt Service Funds	<u>\$ 1,242,655.28</u>
Total Sources	<u>\$ 76,340,384.28</u>

Uses:

Refunded 2001 & 2003 Bonds	75,994,969.93
Costs of Issuance and Rounding	210,001.35
Underwriter's Discount	<u>135,413.00</u>
Total Uses	<u>\$ 76,340,384.28</u>

State Capital Program

Proceeds from the State's general obligation bonds are an important source of capital financing for the State. Additional State-level sources of funding for capital projects are surplus State general fund balances, severance tax and supplemental severance tax bonds issued by the Board, state transportation bonds and other bonds issued by the New Mexico Finance Authority. The following table summarizes bond proceeds and other capital authorizations by funding source for Fiscal Year 2003 through June 30, 2007.

TABLE 6

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

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

⁽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 Fiscal Year 2002 was not available until Fiscal Year 2003.

⁽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.*

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, 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 two inches (lower Rio Grande Valley) to 300 inches (north central mountains).

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.

PROPERTY VALUATION AND TAXATION

Property Tax System

With certain limited exceptions, real and personal property owned by individuals or corporations is subject to *ad valorem* taxation (*i.e.*, taxation as fraction of value rather than on a per unit basis) in the State. County assessors are responsible for appraising most of New Mexico’s residential and commercial property. The Appraisal Bureau of the New Mexico Taxation and Revenue Department (the “Tax Department”) provides technical assistance to county assessors and helps them implement the Property Tax Code (Articles 35 through 38 of Chapter 7 NMSA 1978).

The State Assessed Property Bureau of the Tax Department, commonly known as the Central Assessment Bureau, is responsible for assessing certain types of property that is not assessed by counties because assessing the property is exceptionally technical or because the property extends across county boundaries. Assessments undertaken by the Central Assessment Bureau, referred to as central valuations, are performed on the following types of properties:

- Railroads,
- Communication systems,
- Pipelines,

- Public utilities,
- Airlines,
- Electric generating plants,
- Construction machinery and equipment, and other personal property of persons engaged in construction that is used in more than one county,
- Mineral property, excepting oil and gas related property.

Property valuations are established as of January 1 of each year (except for certain livestock). Centrally assessed property is verified and certified to local assessors who combine the values with all locally assessed property values. The totals are reported to the Central Assessment Bureau and the Department of Finance and Administration (“DFA”), and certified for budgetary use. County treasurers levy the applicable rates against individual properties and are required to mail tax bills for the current fiscal year no later than November 1. Property taxes are due in two equal installments on November 10 and April 10. Taxes become delinquent on December 10 and May 10 following the two respective due dates. Civil penalties and interest are imposed on delinquent taxes. County treasurers are responsible for collecting property taxes and distributing them to governmental entities that receive them. Major property tax recipients include counties, municipalities, and school districts. About 5% of property tax collections statewide are distributed to the State for payment of principal of, premium, if any, and interest on general obligation bonds.

State law provides a mechanism by which, in the event of a dispute with respect to property taxes owed, a taxpayer may make payment under protest. Such monies may not be spent by property tax recipients until the taxpayer’s claim has been decided. At that time, the monies are distributed either to the county or the taxpayer, depending on the outcome of the taxpayer’s claim. As a result, counties may experience delays in receiving tax revenues or may be required to refund monies already received.

Except for property that by statute is subject to special methods of valuation, assessed value of property is generally its market value as determined by the sales of comparable property subject to certain limitations. Income or cost methods valuation methods are also used when appropriate. Residential properties are eligible for a \$2,000 head of family exemption. A \$4,000 veteran exemption may be applied against residential and certain nonresidential property. Honorably discharged members of the armed services are eligible for the veteran exemption. Taxable value is one-third of assessed value, as required by Article VIII, Section 1 of the New Mexico Constitution. Net taxable value, against which rates are imposed, consists of taxable value less exemptions. Maximum property tax rates for operations for various types of local governments are imposed by the Constitution of the State and by governing statutes. See “Property Tax Limitations”, below. Different tax rates typically apply to residential and non-residential properties in the same tax jurisdiction due to the state’s “yield control” statute (Section 7-37-7.1 NMSA 1978) which is applied separately to residential property.

Oil and natural gas properties and related production equipment are subject to property taxation in the State. The oil and gas *ad valorem* production tax is levied and collected by the Oil and Gas Accounting Section of the Tax Department (“OGAS”) on the basis of assessed value deemed the equivalent of 50 percent of the actual price of oil and gas received at the production unit, less certain trucking expense deductions and royalties paid to the federal government, the State, or Indian tribes. The oil and gas production equipment *ad valorem* tax is levied based on assessed value deemed equivalent to 9 percent of the previous calendar year sales value of the product from each production unit. Properties subject to the oil and gas *ad valorem* production and production equipment taxes are typically outside municipal boundaries.

The tax year for oil and gas production begins on September 1 based on tax rates that are set on August 31. The oil and gas *ad valorem* production tax is due by the 25th day of the second month

following the month of production. Taxes are collected monthly. The oil and gas production equipment *ad valorem* tax is due on November 30. OGAS distributes its collections to the county treasurers who further distribute the tax revenues to property tax recipients. 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.

Property Tax Valuation Limitations

In 1998, as a result of approval by the New Mexico electorate, Article VIII, Section 1 of the New Mexico Constitution was amended to require 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.

In response to the 1998 constitutional amendment, the 2000 Legislature passed, and the Governor signed, legislation limiting increases in assessed value of residential property. Laws of 2000, Chapter 21, codified as NMSA 1978, § 7-36-21.3 freezes assessed values of single-family dwellings occupied by certain low-income owners 65 years of age or older. Laws of 2000, Chapter 10, codified as NMSA 1978, § 7-36-21.2 limits increases in assessed value of residential property to 3 percent annually and 6.1 percent over a two-year period. The annual limitation does 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 taxpayers to disclose to county assessors sales prices and other items of value associated with the sale of residential real property. The information “may only be used for analytical and statistical purposes in the application of appraisal methods” and may not be released to the public.

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

TABLE 7

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	25,805,630	14,458,193	6,891,546	133,262	47,288,631

Source: New Mexico Department of Finance and Administration.

Property Tax Mill Levy Limitations

Section 2 of Article VIII of the New Mexico Constitution states:

Taxes levied upon real or personal property for state revenue shall not exceed four mills annually on each dollar of the assessed valuation thereof except for the support of the educational, penal and charitable institutions of the state, payment of the state debt and interest thereon; and the total annual tax levy upon such property for all state purposes exclusive of necessary levies for the state debt shall not exceed ten mills; provided, however, that taxes levied upon real or personal tangible property for all purposes, except special levies on specific classes of property and except necessary levies for public debt shall not exceed twenty mills annually on each dollar of the assessed valuation thereof, but laws may be passed authorizing additional taxes to be levied outside of such limitation when approved by at least a majority of the qualified electors of the taxing district who paid a property tax therein during the preceding year voting on such proposition.

Currently the State imposes no levy of property taxes except for the payment of State debt.

Statutes establish maximum property tax rates for operating purposes for cities, counties and school districts. The DFA is permitted by statute to set a rate at less than the maximum rate in any tax year. These maximum property tax rates for operating purposes are set forth below:

TABLE 8

Maximum Operating Mill Levy Rates

Counties	11.85
Cities	7.65
Schools.....	<u>0.50</u>
Maximum combined statutory rate.....	20.00

Source: Section 7-37-7(B), NMSA 1978.

Apart from the allowable operating tax rates above, New Mexico governments may levy additional property taxes as authorized by statute and voter approval for:

- Debt service
- County hospitals and health care services
- School district capital improvements
- Branch and community colleges
- Vocational schools
- Flood control districts and authorities
- Judgments
- Water and sanitation districts
- Conservancy districts
- Public improvement districts
- Tax increment development districts
- Other special districts

In addition, the Legislature has established certain limits on the increase in property tax revenue that may be realized for county and city operating purposes. The “yield control” formula is activated by property valuation increases resulting from county assessor reappraisal programs. The yield control law limits the increase in operating revenue from existing properties in absence of new rate impositions in any one year over the prior year to the lesser of 5 percent or the percentage increase in the annual price index published by the United State Department of Commerce for State and Local Government Purchases of Goods and Services, plus increases in tax revenues resulting from new construction, improvements to properties and increased taxable value due to annexation.

FINANCIAL OVERVIEW OF THE STATE

General Fund Revenues, Expenditures and Ending Fund Balances

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 interest earnings from its two permanent funds. Effective July 1, 1981, the Legislature repealed the property tax levy for general State operating purposes, and has not reinstated it since that time. However, the New Mexico Constitution authorizes a levy of up to four mills for general State operating purposes and additional levies for the support of State educational, penal and other institutions.

The table on the following two pages sets forth the revenues, expenditures and ending fund balances for Fiscal Years 2004, 2005, 2006 and 2007 and projected results for Fiscal Year 2008.

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TABLE 9
General Fund Financial Summary
Fiscal Year 2004 – Fiscal Year 2008
(Dollars in thousands)

	<u>Actual</u> <u>2004</u>	<u>Actual</u> <u>2005</u>	<u>Actual</u> <u>2006</u>	<u>Actual</u> <u>2007</u>	<u>Estimated</u> <u>2008</u> ⁽¹⁾
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⁽²⁾:					
Capital Outlay/Supplemental/Contingency	178,319	8,924	617,522	71,057	49,171
Other Nonrecurring adjustments for legislation	84,871	315,833	38,543	743,228	263,845
Total Nonrecurring Appropriations	\$ 263,190	324,757	656,065	814,286	313,016
Total Expenditures	\$4,382,993	4,709,756	5,364,698	5,927,433	5,988,131
Transfer to Appropriation Contingency Fund	(120,000)	0	0	0	0
TRANSFER TO RESERVES⁽³⁾	108,718	259,271	152,440	(152,936)	(38,881)
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⁽⁴⁾	(\$ 26,817)	(2,644)	(1,678)	(10,833)	(1,500)
Transfers:					
From General Fund					
Appropriation Account	108,718	259,271	152,440	(152,936)	(38,881)
Special Session/Appropriation					
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)	(38,881)
Ending Balance⁽⁵⁾	\$ 128,832	330,071	359,530	156,138	115,756

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

TABLE 9 (cont'd)**General Fund Financial Summary
Fiscal Year 2004 – Fiscal Year 2008**

(Dollars in thousands)

	<u>Actual 2004</u>	<u>Actual 2005</u>	<u>Actual 2006</u>	<u>Actual 2007</u>	<u>Estimated 2008⁽⁵⁾</u>
C. STATE SUPPORT RESERVE⁽⁶⁾					
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 ⁽⁷⁾					
Disasters	(10,248)	(8,113)	(13,309)	(18,161)	(12,000)
Other	(2,381)	(6,178)	(9,525)	(4,663)	(500)
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	26,164
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)	(7,527)
Ending Balance, Education Reform	\$ 120,000	105,350	79,828	74,928	67,401
Ending Balance, Appropriation Contingency Fund	\$ 169,903	147,626	99,679	113,591	93,564
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⁽⁸⁾	\$ 77,715	133,051	254,355	254,355	254,355
F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE⁽⁹⁾					
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	611,713
Reserves as a % of Current Year Recurring Appropriations	10.9%	15.7%	17.0%	12.6%	10.8%

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

NOTES TO GENERAL FUND FINANCIAL SUMMARY:

Appropriation Account, Nonrecurring Appropriations:

- (1) **FY08 includes** appropriations made through the 2008 regular legislative session.
- (2) **FY05 includes** \$8.9 million from the General Appropriation Act of 2004; \$69.8 million HB2, \$7.4 million SB190, \$238.6 million HB885.
FY06 includes \$0.06 million from the General Appropriation Act of 2005 (Laws 2005, Chapter 33, Item 43); \$0.8 million from SB 190 (Laws 2005, Chapter 34); \$0.3 million 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 \$454.6 million from HB622 (Laws 2006, Chapter 111).
FY07 includes \$68.7 million from the General Appropriation Act of 2006 (Laws 2006, Chapter 109); and \$0.3 million from HB337 for judgeships (Laws 2006, Chapter 99, Sections 5 and 12); \$2.1 million from the "Junior" bill (Laws 2006, Chapter 110); and \$743.2 million from various bills from the Laws of 2007.
FY08 includes \$8 million for development training programs (Laws 2007, Chapter 363), \$0.2 million for judgeships (Laws 2007, Chapter 140), \$12 million for faculty endowments (Laws 2007, Chapter 364), \$3.2 million for breast cancer research (Laws 2007, Chapter 26), \$10.8 million from the "Junior" bill (Laws 2007, Chapter 21), \$15.0 million for the water trust fund (Laws 2007, Chapter 28, Section 11), \$135.0 million from Sections 5, 6 and 7 of the General Appropriation Act of 2008 (Laws 2008, Chapter 3), \$5.9 million for expenses of the Legislature (Laws 2008, Chapter 1), and \$123.0 million for capital outlay (Laws 2008, Chapter 92).

Appropriation Account, Transfer to Reserves:

- (3) A negative number represents a transfer from the Operating Reserve to the General Fund.

Appropriations from the Operating Reserve:

- (4) **FY04 includes** \$0.4 million for State Board of Finance Emergency Fund, \$18.9 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 \$1.0 million to New Mexico State University.
FY05 includes \$1 million for State Board of Finance Emergency Fund (Laws 2004, Chapter 114, Section 4, Subsection C) and \$1.5 million contingency for corrections.
FY06 includes \$1.5 million for State Board of Finance Emergency Fund (Laws 2005, Chapter 33, Section 4, Subsection C) and \$0.3 million for the Corrections Department (Laws 2005, Chapter 33, Section 4, Subsection G).
FY07 includes \$1.5 million for State Board of Finance Emergency Fund (Laws 2006, Chapter 109), \$0.7 million 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).
FY08 includes \$1.5 million for State Board of Finance Emergency Fund.

Year-ending Balances in the Operating Reserve:

- (5) Annually, if the balance in the Operating Reserve exceeds 8% 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 Fiscal Year 2007 activity in the General Fund Operating Reserve had been recorded. The transfer of \$121.3 million from the Operating Reserve to the Tax Stabilization Reserve brought the balance in the Operating Reserve to 8.2% as of the end of Fiscal Year 2006, but to 8.0% on the date of the transfer.

State Support Reserve

- (6) **FY07 includes** \$1 million transfer from the Appropriation Account (Laws 2007, Chapter 28, Section 5) (See Section 22-8-31, NMSA 1978).

Appropriation Contingency Fund:

- (7) **FY05 includes** \$8.1 million for disasters, \$0.5 million for the Secretary of State (Laws 2004, Chapter 114, Section 5, Item 28), \$0.6 million 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 \$14.7 million to Public Education Department (Laws 2005, Chapter 33, Section 5 Subsection 5, Items 104, 105, 106, and 128). Includes reversions of \$6.7 million for federal reimbursements for fire season 2003-2005.
FY06 includes \$13.3 million for disaster allotments, \$0.5 million to Department of Public Safety for criminal background check contingency (Laws 2005, Chapter 33, Section 4, Subsection G), \$4.5 million for Interstate Stream Commission for land and water rights for augmentation, \$4.5 million to Interstate Stream Commission for augmentation services (Laws 2006, Chapter 111), and \$25.5 million to the Public Education Department for education reform initiatives.

FY07 includes \$18.2 million for disaster allotments, \$2.0 million for Department of Health Behavioral Health Services Program (Laws 2006, Chapter 109), \$1.9 million for Santa Fe Community College (Laws 2006, Chapter 109), and \$4.9 million to PED for education reform initiatives (Laws 2007, Chapter 28).

FY08 includes \$12 million for disaster allotments and \$0.5 million to the Economic Development Department for the X-Prize Cup.

Year-ending Balances in the Tax Stabilization Reserve:

(8) Annually, if the balance in the Operating Reserve exceeds 8% of the previous year's recurring appropriations, the excess over 8% is transferred to the Tax Stabilization Reserve. Annually, if the balance in the Tax Stabilization Reserve exceeds 6% of the previous year's recurring appropriations, the excess over 6% is transferred to the Taxpayer's Dividend Fund.

FY05 – \$55.3 million was transferred from the General Fund Operating Reserve to the Tax Stabilization Reserve.

FY06 – \$121.3 million was transferred from the General Fund Operating Reserve to the Tax Stabilization Reserve.

(9) **Tobacco Settlement Permanent Fund Reserve** was established in 2003 as a depository account for funds received pursuant to the Master Tobacco Settlement Agreement (see Laws 2003, Chapter 312).

Source: New Mexico Department of Finance and Administration.

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 Tax 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 that 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, less disbursement to the State Aviation Fund of 4.79 percent of the value of jet fuel sales, and less a statutory monthly distribution of \$530,000 to the state building bonding fund are deposited in the State General Fund. After all other distributions, the General Fund share of gross receipts tax collections is approximately 58.3 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 partial payments from the State to reimburse local governments for lost gross receipts tax revenues. 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 9.2 percent over the previous fiscal year to \$1,901.8 million, comprising almost 33 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 recent 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 Fiscal Year 2007, total distributions to the General Fund from personal income tax grew by 5 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. The tax base is federal taxable income allocated or apportioned to the State under the rules codified in the Uniform Division of Income for Tax Purposes Act. 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 Fiscal Year 2007, 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. The corporate income tax generated almost 8 percent of recurring General Fund revenue in Fiscal Year 2007. Fiscal Year 2008 receipts are likely to be somewhat depressed from estimates due to the bonus depreciation features of the federal fiscal stimulus package passed in January 2007. The state allows a passive deduction for bonus depreciation claimed on federal corporate income tax returns.

In recent years, a number of credits administered through the corporate income tax system have been enacted. These include the film production credit (2006), real property tax credit, rural jobs tax credit, biodiesel production and sale credit, agricultural water conservation tax credit, sustainable building tax credit and the renewable energy production tax credit (2007). The fiscal effect of all these credits has been included in the revenue estimates at their initial estimated costs.

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 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 Fiscal Year 2007, total distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled \$420.3 million, representing a decrease of 13 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 Fiscal Year 2006.

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 Fiscal Year 2007, 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 deduction from the federal royalty payments to the States, which is expected to be permanent. 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.

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. Roughly 83 percent of the distribution, which is dedicated to public schools, is deposited in the General Fund. Based on audited results for Fiscal Year 2007, \$364.7 million of LGPF distributions were transferred to the General Fund for public school purposes. Another \$171 million was distributed from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In Fiscal Year 2007, the State Treasurer's cash balances produced \$66.5 million for the General Fund. Total investment income credited to the General Fund was \$602.1 million, representing 10.4 percent of recurring General Fund receipts.

Review of Historical Results in the General Fund

Fiscal Year 2004

In Fiscal Year 2004, recurring General Fund revenue totaled \$4.283 billion or 10.1 percent above Fiscal Year 2003. Abnormally high oil and natural gas prices resulted in 22.8 percent growth in severances taxes, and 25.9 percent growth in rents and royalties. Sales and income taxes grew 8.9 and 10.9 percent, respectively. Total recurring appropriations were \$4.12 billion, growing by 5.7 percent over Fiscal Year 2003. Year-end results included a transfer to reserves of \$108.7 million, increasing year-end reserves in the General Fund to \$447.1 million, or 10.9 percent of recurring appropriations.

Fiscal Year 2005

In the 2005 Fiscal Year, recurring General Fund revenue totaled \$4.906 billion, representing growth of 14.6 percent over the 2004 Fiscal Year. Prices for oil and natural gas remained elevated, leading to growth of 29.6 percent in mineral production taxes and 33.4 percent in rents and royalties. General and selective sales taxes grew 8.3 percent. Growth in selective sales is due to adoption of a health insurance premium surtax and to the opening of a new casino in Hobbs that increased gaming excise tax collections. Income taxes grew 15.6 percent in the 2005 Fiscal Year; this growth rate incorporates the continued phase-in of the personal income tax reduction passed by the 2003 Legislature. Revenues from investments increased by 13 percent in Fiscal Year 2005. Total recurring appropriations were \$4.385 billion, representing 6.4 percent growth over the previous year. Non-recurring appropriations of \$324.7 million were appropriated by the legislature, largely for capital investments. Year-end reserves in the General Fund increased by \$241 million and were \$688.1 million, or 15.7 percent of recurring appropriations.

Fiscal Year 2006

In the 2006 Fiscal Year, recurring General Fund revenue grew by 13.7 percent to \$5,579.6 million. Prices for oil and natural gas remained high, as Hurricane Katrina resulted in a spike in natural gas prices and international oil prices remained elevated through the year, leading to growth of 26.9 percent in mineral production taxes and 27.9 percent in rents and royalties. General and selective sales taxes grew by 10.3 percent, while income tax growth was 12.8 percent. Revenues from investments increased by 7.8 percent. Total recurring appropriations in the budget for the Fiscal Year totaled \$4.709 billion, representing 7.4 percent growth over the previous year. Non-recurring appropriations of \$656.1 million were appropriated by the legislature, largely for capital investments. Year-end reserves in the General Fund increased by \$110.1 million to \$798.2 million, or 17 percent of recurring appropriations.

Fiscal Year 2007

In the 2007 Fiscal Year, recurring General Fund revenues increased by 3.5 percent to \$5,774.5 million. Prices for oil moderated somewhat and natural gas prices declined to pre-Katrina levels, resulting in a decline in severance taxes and rents and royalties of 10.2 percent and 9.5 percent, respectively. General and selective sales taxes grew by 7.8 percent, while income taxes grew by 9.0 percent, with corporate income tax collections up by 21.9 percent. Investment income increased by 2 percent. Total recurring appropriations in the budget for the 2007 Fiscal Year total \$5,113.1 million, representing 8.6 percent growth over the previous year. Non-recurring appropriations of \$814.3 million were appropriated by the legislature, largely for capital investments. \$152.9 million was transferred from the General Fund Operating Reserve to the appropriation account. Year-end reserves in the General Fund decreased by \$156.4 million to \$641.8 million, or 12.6 percent of recurring appropriations.

Fiscal Year 2008

Based upon the approved operating budget and estimate results for the 2008 Fiscal Year, recurring General Fund revenues are expected to increase by 2.2 percent to \$5,902.3 million. Prices for oil that had moderated somewhat early in the fiscal year are expected to finish the fiscal year at prices over \$100 a barrel. Natural gas prices were also moderate early in the year and finally began tracking crude oil increases late in the fiscal year. In the December 2007 budget forecast, growth in severance taxes and rents and royalties was estimated at 2.0 percent and 9.0 percent, respectively. General and selective sales taxes are expected to grow by 2.9 percent, while income taxes are expected to decline by 3.2 percent. Investment income is expected to increase by 7.4 percent. Recent flash updates indicate that total recurring revenues will be approximately as forecast, although oil and gas based taxes will grow strongly in excess of forecast, while gross receipts, income and motor vehicle excise taxes will grow more slowly than forecast. Total recurring appropriations in the budget for the 2008 Fiscal Year total \$5.675.1 billion, representing 11.0 percent growth over the previous year. Non-recurring appropriations of \$313.0 million were appropriated by the legislature, largely for capital investments. Based on current estimates of revenues and appropriations, it is expected that there will a \$38.9 million transfer from the General Fund Operating Reserve to the appropriation account. Year-end reserves in the General Fund will decrease by \$29.6 million to \$612.2 million, or 10.8 percent of recurring appropriations.

Severance Taxes (Not Part of General Fund)

Severance taxes are levied on producers and others severing minerals and material resources from within the State. Severance taxes have been levied since 1937 when the first severance tax act was adopted. Severance taxes are distinguished from several other taxes on, or revenue sources related to, valuable mineral extraction in the State, including the taxes described above. Severance taxes are collected monthly. Taxes on oil, gas and carbon dioxide are due the 25th day of the second month following the end of the sale month. Other severance taxes are due the 25th day of the month following the end of the sale month.

Severance taxes are deposited in the Severance Tax Bonding Fund and pledged to the payment of principal of and interest on severance tax bonds and supplemental severance tax bonds issued in accordance with the Severance Tax Bonding Act. Revenues not required for the payment of principal of or interest on severance tax bonds as determined by the Severance Tax Bonding Act and the bond resolutions governing such outstanding bonds are transferred on a semi-annual basis to the Severance Tax Permanent Fund.

The minerals extracted from the State that contribute the largest portion of Severance Tax revenues are natural gas and oil. Severance Tax collections on natural gas and oil in Fiscal Year 2007 represent approximately 95.5 percent of total Fiscal Year 2007 Severance Tax Bonding Fund tax receipts.

Severance and Mineral Production Taxes 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 of New Mexico (*Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922).

The Tax Department reports that natural gas production and crude oil production on Indian land were approximately 4.3 percent and 0.9 percent, respectively, of total taxable statewide production in Fiscal Year 2007. DFA estimates that oil and gas production on Indian lands generated \$12.5 million in Severance Tax revenues to the State and Indian tribes 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.

Laws 1995, Chapter 171 authorizes an intergovernmental tax credit against State production and property taxes for similar taxes imposed by tribal governments. The tax 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 would be lowered. The DFA estimates that total credits claimed under this provision against the emergency school tax, oil and gas severance tax, conservation tax and oil and gas *ad valorem* production tax were in excess of \$22.1 million in 2007. About \$9.3 million of these credits were applied against oil and gas severance tax liability. The Severance Tax 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 Tax Department estimates that this credit reduced Severance Tax Bonding Fund revenue by \$6.9 million in Fiscal Year 2006. 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.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund was established 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 December 31, 2007 was approximately \$4.606 billion, an increase of approximately 5.1 percent over the previous calendar 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 December 31, 2007, the market value of the LGPF was approximately \$10.645 billion, an increase of approximately 7.9 percent over the previous calendar 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 calculated 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 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.

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 cashing system and 114 additional systems previously 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 State Treasurer in the exercise of statutory authority or invested as directed by other agencies that have specific investment authority and for which the State Treasurer acts as the investing authority. The public money includes the State's General Fund, the Local Government Investment Pool, bond proceeds, 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 and the Board 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 Board or designee; and two members who 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 money investment 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 State Treasurer who preceded Mr. Vigil also pleaded guilty to extortion for actions he took as State Treasurer.

Following the indictment of Mr. 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.

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 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 13.9 percent and 7.9 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 below.

TABLE 10

Summary of State Retirement Funds
(Dollars in thousands)

	<u>PERA</u> ⁽¹⁾	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
Membership	78,454	226	120	6,026	270
<u>Actuarial Information</u>					
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 funds 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 that 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 Tax Administration Suspense Fund ("TAS Fund"). A separate distribution from the TAS 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 TAS 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, 2007 was reported as 38,927. Accrued assets at fair value on June 30, 2006 were \$180,289,837, and on June 30, 2007 were \$176,343,749.

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 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.

The working group noted that the RHCA's actuary projected that the fund's solvency will extend only to June 30, 2014. The working group considered a wide range of options that involve changes to premiums, benefit design, and employer/employee contributions. The Retiree Health Care Authority Board adjusted the price of medical plans based on the actuarial value of the benefits, which is expected to add solvency to the Fund. Legislative changes based on the working group recommendations, including adjustments to employee contributions, were introduced in the 2008 Session; however, no action was taken. The proposals are expected to be introduced again at a special legislative session on healthcare or at the upcoming 60-day session in 2009. The Retiree Health Care Authority Board's goal is to achieve a 15-year rolling solvency.

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.

Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990s, the State was the 12th fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent.

Most of this population growth is occurring in or near the larger cities. There are four Metropolitan Statistical Areas (MSAs) in the State. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is comprised of Doña Ana County; the Santa Fe MSA is comprised of Santa Fe County; and the Farmington MSA is comprised of San Juan County. The fastest growing counties in the state are Sandoval, Doña Ana, Bernalillo, San Juan, Luna and Lincoln. The following table sets forth information on population growth in New Mexico and nationally over the past decade.

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TABLE 11
Population
New Mexico and the United States
1998-2007

<u>Year</u>	<u>Population</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
1998	1,793,484	275,854,104	1.1%	1.2%
1999	1,808,082	279,040,168	0.8%	1.2%
2000	1,820,861	282,194,308	0.7%	1.1%
2001	1,829,032	285,112,030	0.5%	1.0%
2002	1,850,562	287,888,021	1.2%	1.0%
2003	1,870,113	290,447,644	1.1%	0.9%
2004	1,892,182	293,191,511	1.2%	0.9%
2005	1,916,331	295,895,897	1.3%	0.9%
2006	1,942,302	298,754,819	1.4%	1.0%
2007	1,969,915	301,621,157	1.4%	1.0%

Source Population Division, U.S. Census Bureau, June 2008.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table sets forth information on employment by industry over the period 1980-2006.

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TABLE 12**Total New Mexico Full-time and Part-time Employment by Industry**

	1980	1990	2000	2001⁽¹⁾	2006⁽¹⁾	1980-1990	Growth 1990-2000	2001-2006⁽¹⁾
Total employment	598,199	767,139	972,954	977,815	1,099,401	28.2%	26.8%	12.4%
Wage and salary employment	513,306	635,725	789,690	801,610	878,157	23.8%	24.2%	9.6%
Proprietors employment	84,893	131,414	183,264	176,205	221,244	54.5%	39.7%	25.6%
Farm proprietors employment	13,400	13,600	14,985	17,470	17,094	1.5%	10.2%	-2.2%
Nonfarm proprietors employment	71,493	117,814	168,279	158,735	204,150	64.8%	42.8%	28.6%
By Industry								
Farm employment	22,191	19,766	21,760	24,091	24,319	-10.9%	10.1%	1.0%
Nonfarm employment	576,008	747,373	951,194	953,724	1,075,082	29.8%	27.3%	12.7%
Private employment	428,156	568,085	748,804	748,250	860,556	32.7%	31.8%	15.0%
Agricultural services, forestry, fishing and other	4,358	8,414	13,548	7,019	6,995	93.1%	61.0%	-0.3%
Mining	31,152	20,489	19,323	19,469	22,903	-34.2%	-5.7%	17.6%
Oil and gas extraction	15,116	14,068	14,425	6,447	7,211	-6.9%	2.5%	11.9%
Mining and support activities for mining ⁽²⁾	16,036	6,421	4,898	13,022	15,692	149.7%	23.7%	20.5%
Construction	38,873	40,606	59,895	63,144	80,317	4.5%	47.5%	27.2%
General building contractors	11,933	11,858	16,710	18,050	21,294	-0.6%	40.9%	18.00%
Heavy construction contractors	8,287	6,729	8,720	10,365	11,627	-18.8%	29.4%	12.2%
Special trade contractors	18,653	22,019	34,465	34,729	47,396	18.0%	56.5%	36.5%
Manufacturing ⁽³⁾	35,963	47,732	48,788	49,913	47,598	32.7%	2.2%	-4.6%
Durable goods	21,583	32,500	33,275	32,671	30,263	50.6%	2.4%	-7.4%
Nondurable goods ⁽⁴⁾	14,380	15,232	15,513	17,242	17,335	5.9%	1.8%	0.5%
Transportation and public utilities ⁽⁵⁾	30,732	34,130	43,350	39,423	39,346	11.1%	27.0%	-0.2%
Wholesale trade	22,733	27,896	33,751	27,970	30,112	22.6%	21.1%	7.7%
Retail trade ⁽⁶⁾	98,075	134,482	172,516	175,525	187,547	37.1%	28.3%	6.9%
Finance, insurance, and real estate ⁽⁷⁾	37,945	46,955	62,905	60,113	74,519	23.7%	34.0%	24.0%
Services ⁽⁸⁾	128,325	207,381	294,728	308,674	371,219	61.6%	42.1%	20.3%
Government and government enterprises	147,852	179,288	202,390	205,474	214,526	21.3%	63.1%	4.4%
Federal, civilian	29,963	31,621	30,205	28,785	30,554	5.5%	-4.5%	6.2%
Military	21,794	22,552	17,167	17,106	15,764	3.5%	-23.9%	-7.9%
State and local	96,095	125,115	155,018	159,583	168,208	30.2%	23.9%	5.4%
State governmental	42,560	55,722	64,654	65,503	63,870	30.9%	16.0%	-2.5%
Local government	53,535	69,393	90,364	94,080	104,338	29.6%	30.2%	10.9%

⁽¹⁾ Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry-specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2006 employment-by-industry data is not comparable with employment-by-industry data for the years 2000, 1990 and 1980. NAICS industry groups and subgroups in the 2001 and 2006 data have been combined or extracted to approximate the SIC industry groups listed for the years before 2001.

⁽²⁾ The SIC subgroups, "Metal Mining," "Coal Mining" and "Nonmetallic Minerals, Except Fuels" were combined to approximate the NAICS category "Mining and Support Activities for Mining."

⁽³⁾ The NAICS "Manufacturing" category and the NAICS subcategories of "Information – Publishing Industries, Except Internet" and "Information – Internet Publishing and Broadcasting" have been combined to approximate the former SIC "Manufacturing" group.

⁽⁴⁾ The NAICS "Manufacturing – Nondurable Goods" subcategory and the NAICS subcategories of "Information – Publishing Industries, Except Internet" and "Information – Internet Publishing and Broadcasting" have been combined to approximate the SIC "Manufacturing – Nondurable Goods" subcategory.

⁽⁵⁾ The NAICS categories of "Utilities" and "Transportation and Warehousing" and the NAICS subcategories of "Information – Broadcasting, Except Internet" and "Information – Telecommunications" have been combined to approximate the SIC "Transportation and Public Utilities" category.

⁽⁶⁾ The NAICS subcategory of "Accommodation and Food Services – Food Services and Drinking Places" has been added to the NAICS "Retail Trade" category to approximate the SIC "Retail Trade" category.

⁽⁷⁾ The NAICS categories of "Finance and Insurance" and "Real Estate and Rental and Leasing" have been combined to approximate the SIC category of "Finance, Insurance and Real Estate."

⁽⁸⁾ The NAICS categories of "Professional and Technical Services," "Management of Companies and Enterprises," "Administrative and Waste Services," "Educational Services," "Health Care and Social Assistance," "Arts, Entertainment and Recreation," "Other Services, Except Public Administration," and the subcategories of "Accommodation and Food Services – Accommodation," "Information – Motion Picture and Sound Recording Industries," "Information – ISPs, Search Portals, and Data Processing," "Information – Other Information Services" have been combined to approximate the SIC "Services" category.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, June 2008.

The following tables set forth selected additional economic and demographic data with respect to the State.

TABLE 13
Employment and Labor Force
New Mexico and the United States
1998-2007

<u>Year</u>	<u>Civilian Labor Force</u> (Thousands)		<u>Number of Employed</u> (Thousands)		<u>Unemployment Rate</u>		N.M. as % of U.S. Rate
	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾⁽²⁾	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾⁽²⁾	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾⁽²⁾	
1998	836	137,673	784	131,463	6.2%	4.5%	138%
1999	840	139,368	793	133,488	5.6%	4.2%	133%
2000	852	142,583	810	136,891	5.0%	4.0%	125%
2001	864	143,734	821	136,933	4.9%	4.7%	104%
2002	872	144,863	823	136,485	5.5%	5.8%	95%
2003 ⁽³⁾	888	146,510	836	137,736	5.9%	6.0%	98%
2004 ⁽³⁾	904	147,401	852	139,252	5.7%	5.5%	104%
2005 ⁽³⁾	920	149,320	872	141,730	5.2%	5.1%	102%
2006 ⁽³⁾	937	151,428	897	144,427	4.3%	4.6%	93%
2007 ⁽³⁾	943	153,124	910	146,047	3.5%	4.6%	76%

⁽¹⁾ Figures rounded to nearest thousand.

⁽²⁾ United States figures are unweighted averages of reported monthly figures, as annual figures were not available from the U.S. Department of Labor.

⁽³⁾ The U.S. Department of Labor notes that 2003-2007 New Mexico figures reflect revised population controls and model re-estimation.

Source: U.S. Department of Labor, Bureau of Labor Statistics, June 2008.

TABLE 14
Personal Income
New Mexico and the United States
1998-2007

<u>Year</u>	<u>Personal Income</u> (Dollars in thousands)		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
1998	\$37,045,765	\$7,415,709,000	6.0%	7.4%
1999	38,045,599	7,796,137,000	2.7%	5.1%
2000	40,318,443	8,422,074,000	6.0%	8.0%
2001	44,138,165	8,716,992,000	9.5%	3.5%
2002	44,986,517	8,872,871,000	1.9%	1.8%
2003	46,650,275	9,150,320,000	3.7%	3.1%
2004	49,813,042	9,711,363,000	6.8%	6.1%
2005	53,992,896	10,284,356,000	8.4%	5.9%
2006	58,131,416	10,968,393,000	7.7%	6.7%
2007 ⁽¹⁾	62,001,991	11,645,882,098	6.7%	6.2%

⁽¹⁾ Preliminary estimate.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, June 2008.

TABLE 15
Per Capita Personal Income
New Mexico and the United States
1998-2007

<u>Year</u>	<u>Per Capita Income</u>		<u>N.M. as a % of U.S.</u>	<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>		<u>N.M.</u>	<u>U.S.</u>
1998	20,656	26,883	77%	4.9%	6.1%
1999	21,042	27,939	75%	1.9%	3.9%
2000	22,143	29,845	74%	5.2%	6.8%
2001	24,132	30,574	79%	9.0%	2.4%
2002	24,310	30,821	79%	0.7%	0.8%
2003	24,945	31,504	79%	2.6%	2.2%
2004	26,326	33,123	79%	5.5%	5.1%
2005	28,175	34,757	81%	7.0%	4.9%
2006	29,929	36,714	82%	6.2%	5.6%
2007 ⁽¹⁾	31,474	38,611	82%	5.2%	5.2%

⁽¹⁾ Preliminary estimate.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, June 2008.

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments, from over 100 countries, that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship

with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the State, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC or its nominee, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the

State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

When reference is made to any action that is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the State does not have responsibility for distributing such notices to the Beneficial Owners.

The State does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owners of the Bonds.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

THE STATE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES HEREIN TO THE BONDHOLDERS OF THE BONDS WILL MEAN CEDE & CO., AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following summarizes certain provisions of the Resolution. This summary does not purport to be complete and reference is made to the Resolution for a full and complete statement of its provisions.

Covenants

So long as any Bonds are outstanding, the State and the Board have covenanted and agreed with the owners of Bonds that: (a) the State will levy, assess and collect *ad valorem* taxes, without limit as to rate or amount, in amounts sufficient to pay the principal of and interest on the Bonds as they become due and the State will cause the proceeds of the *ad valorem* taxes collected to be set aside and applied promptly to pay the principal of and interest on the Bonds when due; (b) the State will promptly pay the principal of and the interest on the Bonds, at the places, on the dates and in the manner specified in the Resolution and in the Bonds; (c) the State will keep proper books of record and account, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to *ad valorem* taxes and the accounts designated in the Resolution; (d) any registered owner or Beneficial Owner of any of the Bonds or any duly authorized agent of such registered owner or Beneficial Owner, shall have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds,

the collection of *ad valorem* taxes and the accounts designated in the Resolution; provided, however, that pursuant to Section 6-14-10E NMSA 1978, records with regard to the ownership of or pledges of the Bonds are not subject to inspection or copying under any law of the State relating to the right of the public to inspect or copy public records; (e) the State will prepare annual statements or audits of collections and disbursements of *ad valorem* taxes in sufficient detail to show compliance with requirements of the Resolution and the State will furnish a copy of such audit to any owner of Bonds upon written request therefor; (f) in order to prevent any accumulation of claims for interest after maturity, the State will not directly or indirectly extend or assent to the extension of time for the payment of interest on any of the Bonds; (g) each official or other person having custody of any funds derived from State *ad valorem* taxes, or responsible for their handling, shall be bonded as provided by law, which bond shall be conditioned upon the proper application of those funds; (h) the State will make no use of the proceeds of the Bonds or any funds reasonably expected to be used to pay the Bonds which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") or which would result in the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds; (i) the State (1) will take or cause to be taken such actions which may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes and (2) will not take or permit to be taken any actions which would adversely affect that exclusion, and the State or persons acting for it, will, if necessary to maintain such exclusion, among other acts of compliance, (i) apply, or cause to be applied, the proceeds of the Bonds to the purpose of the borrowing, (ii) restrict the yield on investment property acquired with those proceeds, (iii) make timely rebate payments to the federal government in accordance with Section 148 of the Code and the Resolution, (iv) maintain books and records and make calculations and reports, and (v) refrain from certain uses of proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code; and (j) interest on the Bonds is exempt from taxation by the State.

Defeasance

If the State shall pay all of the outstanding Bonds, or shall cause them to be paid and discharged in accordance with the next paragraph of this section, or if all payments of principal of and interest on the Bonds, due or to become due, shall otherwise be paid to the owners of the outstanding Bonds, then the Resolution shall cease and become null and void (except for those provisions surviving in accordance with the last paragraph of this section), and the covenants, agreements and obligations of the Board and the State under the Resolution shall be released, discharged and satisfied.

All or any part of the Bonds shall be deemed to have been paid and discharged if: (1) the Registrar/Paying Agent shall, in advance of any payment to the owners of the outstanding Bonds, have received sufficient moneys for the payment in full of the principal of and interest on the Bonds, or part thereof, or (2) there shall have been placed in trust for the payment of the Bonds and irrevocably committed to such payment, noncallable Defeasance Obligations (defined below) which are certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates, and scheduled to bear such interest, as will be sufficient, together with any moneys on deposit with the Registrar/Paying Agent available to pay principal of and interest on the Bonds, without further investment or reinvestment of either the principal amount or the interest earnings on such Defeasance Obligations (which earnings are to be held likewise in trust and so committed, except as provided herein), for the payment in full of all principal of and interest on the Bonds, or part of the Bonds, deemed to have been paid, at their maturity.

As used in the Resolution, “Defeasance Obligations” means, as permitted by law:

(i) direct obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, or obligations issued by or backed by the full faith and credit of corporations sponsored by, the United States of America;

(ii) obligations issued or guaranteed as to full and timely payment of principal and interest by any agency or person controlled by and acting as an instrumentality of the United States of America, pursuant to authority granted by the Congress of the United States of America; and

(iii) obligations described in Section 103(a) of the Code (a) provisions for the payment of the principal of, premium, if any, and interest on which (1) shall have been made by the irrevocable deposit, with a bank or trust company acting as a trustee or escrow agent for holders of such obligations, of non-callable securities described in clauses (i) and (ii) above, the maturing principal of and interest on which, when due and payable, without further investment or reinvestment, will provide sufficient moneys to pay when due the principal of and interest on such obligations, and (2) which securities described in clauses (i) and (ii) are not available to satisfy any other claim, including any claim of such trustee or escrow agent or of any person claiming through such trustee or escrow agent or to whom such trustee or escrow agent may be obligated, including claims in the event of the insolvency of such trustee or escrow agent or proceedings arising out of such insolvency or (b) rated by either Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or Moody’s Investors Service, or similar rating agency in its highest rating category (without regard to any refinement or gradation by numerical modifier or otherwise).

Any moneys held in trust in accordance with the defeasance provisions of the Resolution may be invested only in noncallable Defeasance Obligations having maturity dates, or having redemption dates which, at the option of the holder of such Obligations, shall not be later than the date or dates at which moneys will be required for the purposes described above. Within fifteen (15) days after any Bonds are deemed to be paid and discharged pursuant to this paragraph, a written notice of such deemed payment and discharge shall be given to each registered owner of Bonds as shown on the registration books kept by the Registrar/Paying Agent on the date on which such Bonds are deemed paid and discharged. Such notice shall state the numbers of the Bonds deemed paid and discharged or state that all Bonds are deemed paid and discharged and set forth a description of the obligations held pursuant to this paragraph.

Notwithstanding that Bonds may be deemed to have been paid and discharged pursuant to the above paragraph, any provisions of the Resolution which relate to the maturity of Bonds, interest payments and dates thereof, exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Registrar/Paying Agent in connection with all of the foregoing, shall remain in effect and be binding upon the State and the Registrar/Paying Agent until final payment of all Bonds notwithstanding the release and discharge of the Resolution. Notwithstanding any provision of the Resolution to the contrary, any provisions of the Resolution which relate to the exclusion of interest from gross income for federal income tax purposes shall remain in effect and be binding upon the State and the Registrar/Paying Agent.

Amendment of Resolution

The Resolution may be amended or supplemented from time to time without the consent of or notice to the holders of the Bonds for any of the following purposes: (a) to cure any ambiguity, omission, formal defect or inconsistency, or (b) to make any change that, in the judgment of the Board, in reliance upon an opinion of counsel, does not have a material adverse effect on the rights of the owners of any Bonds, or (c) to achieve compliance with any applicable federal securities or tax laws or to ensure the

exclusion of interest on the Bonds from the gross income of the owners of the Bonds for federal income tax purposes.

Except as provided above, the Resolution may only be amended or supplemented by resolution adopted by the Board in accordance with applicable law, with or without receipt by the State of any additional consideration, but with the written consent of the owners of a majority in principal amount of the Bonds then outstanding; provided, however, that no such resolution shall have the effect of permitting: (i) an extension of the maturity of any Bond; or (ii) a reduction in the principal amount of, or the rate of interest on, and Bond; or (iii) a reduction of the principal amount of Bonds required for consent to such amendatory or supplemental resolution; or (iv) the establishment of priorities as between Bonds issued and outstanding under the provisions of the Resolution; or (v) the modification of, or otherwise affecting, the rights of the owners of less than all of the Bonds then outstanding.

Remedies of Holders of Bonds

The registered owners, or Beneficial Owners, of not less than 25 percent in aggregate principal amount of the Bonds then outstanding may bring an action to protect the rights of the registered owners and Beneficial Owners of Bonds under the Resolution in any court of competent jurisdiction, for the specific performance of any covenant or agreement contained in the Resolution or to enjoin any act or thing which may be unlawful or in violation of any right of any owner of the Bonds. All such proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all owners of the Bonds then outstanding. The failure of any registered owner or owners or Beneficial Owner or Beneficial Owners of Bonds to so proceed shall not relieve the State or the Board of any obligation to perform any duty under the Resolution. Each right or privilege of such owner and Beneficial Owner is in addition and cumulative to any other right or privilege, and the exercise of any right or privilege by or on behalf of any registered owner or Beneficial Owner shall not be deemed a waiver of any other right or privilege.

Payment of Principal and Interest

Interest on the Bonds shall be payable by check or draft mailed to their registered owners, as shown on the registration books for the Bonds maintained by the Registrar/Paying Agent at the address appearing in such books at the close of business on the fifteenth (15th) day of the calendar month next preceding each applicable interest payment date (the "Record Date") or, if such date is not a business day, the first business day thereafter, or in such other manner as may be agreed upon by the Registrar/Paying Agent and the registered owner of a Bond. Interest which is not timely paid or duly provided for shall cease to be payable to the owners of the Bonds (or of one or more predecessor Bonds) as of the Record Date, but shall be payable to the registered owners of the Bonds (or of one or more predecessor Bonds) at the close of business on a special record date (the "Special Record Date") for the payment of that overdue interest to be fixed by the Registrar/Paying Agent. The Special Record Date shall be fixed by the Registrar/Paying Agent whenever moneys become available for payment of the overdue interest, and notice of the Special Record Date shall be given to owners of Bonds not less than ten (10) days prior to such date. The principal of the Bonds is payable upon presentation and surrender of the Bonds without deduction for exchange or collection charges at the office of the Registrar/Paying Agent. Principal of and interest on the Bonds are payable in lawful money of the United States of America.

While registered in the name of DTC or its nominee, payments of principal of and interest on the Bonds shall be made to DTC or its nominee as set forth in the Letter of Representation between DTC and the State.

TRANSCRIPT AND LEGAL OPINIONS

The Board will furnish an official transcript of proceedings of the authorization and issuance of the Bonds.

Legal matters incident to the issuance of the Bonds and the exclusion from gross income for Federal and State of New Mexico income tax purposes of interest on the Bonds (see “TAX MATTERS” below and the form of opinion of Bond Counsel attached hereto as Appendix C) are subject to the approving legal opinion of Brownstein Hyatt Farber Schreck, LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the State by the Office of the Attorney General of the State of New Mexico and by Sutin, Thayer & Browne A Professional Corporation, as Disclosure Counsel to the State.

TAX MATTERS

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Bonds. The issuer has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes.

In the opinion of Brownstein Hyatt Farber Schreck, LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that the Bonds are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code and, therefore, the interest on the Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. Interest on the Bonds owned by corporations will, however, be taken into account in determining the alternative minimum tax imposed by Section 55 of the Code on 75 percent of the excess of adjusted current earnings over alternative minimum taxable income (determined without regard to this adjustment and the alternative tax net operating loss deduction).

In rendering its opinion, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications, and compliance with certain covenants of the issuer. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the issuer. In addition, Bond Counsel has not been engaged, and will not undertake, to monitor the issuer’s compliance with the covenants or to inform any person as to whether the covenants are being complied with; nor has Bond Counsel undertaken to determine or to inform any person as to whether any actions taken or not taken, or events occurring or not occurring, after the date of the issuance of the Bonds may affect the federal tax-exempt status of the interest on the Bonds.

Bond Counsel is also of the opinion that the difference between the principal amount of the Bonds maturing on March 1, 2009, 2010, 2011, 2012 and 2013 (collectively, the “Premium Bonds”) and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Premium Bonds of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest basis over the term of each Premium Bond. For purposes of determining gain or loss on the sale or other disposition

of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Interest on the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate tax payer identification with the number to any person required to collect such information pursuant to Section 6049 of the Code.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for Federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of bond counsel other than Bond Counsel.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for Federal income tax purposes, a Beneficial Owner's Federal, State or local tax liability may otherwise be affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the Beneficial Owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to Federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Unless separately engaged, Bond Counsel is not obligated to defend the issuer or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS.

Under current procedures, parties other than the issuer and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of the IRS positions with which the issuer legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the issuer or the Beneficial Owners to incur significant expense.

Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes as described herein.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix C.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or owners should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability, inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in New Mexico and other states.

LITIGATION

At the time of the original delivery of the Bonds, the Board will deliver a no-litigation certificate to the effect that no litigation or administrative action or proceeding is pending, or, to the knowledge of the appropriate State Officials, threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, the effectiveness of the legislation authorizing the issuance of the Bonds, the levying or collecting of any taxes for the payment of the debt service on the Bonds (other than those cases described in Appendix B, which proceedings are not, in the opinion of the State Attorney General, reasonably expected to have a material effect on the bondholders), or contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Bonds.

The State is a party to various legal proceedings seeking damages or injunctive relief and generally incidental to its operations which proceedings are unrelated to the Bonds, and to the security therefor. The ultimate disposition of such proceedings is not presently determinable. Such proceedings are not, in the opinion of the State Attorney General, reasonably expected to have a material adverse effect on the Bonds or the security for the payment of the because property taxes levied under the Act may be used only for the payment of principal of and interest on the Bonds.

FINANCIAL STATEMENTS

Appendix A contains excerpts from the State of New Mexico General Fund, Annual Financial Report for the year ended June 30, 2007.

FINANCIAL ADVISORS

The Board has retained Fiscal Strategies Group, Inc., as Financial Advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds, and Public Resources Advisory Group serves as co-advisor with Fiscal Strategies Group (together, the “Financial Advisors”) in connection with the issuance of the Bonds. The Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement nor the information, covenants and representations contained in any of the Bond documentation with respect to the federal income tax status of the Bonds. The Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Financial Advisors’ fee for services performed with respect to the Bonds is contingent upon the issuance and delivery of the Bonds.

RATINGS

The Bonds have received ratings from Moody’s Investors Service and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., as set forth on the cover of this Official Statement.

Such ratings reflect only the views of the respective organizations. An explanation of the significance of each rating may be obtained from the rating agency furnishing such rating. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such agencies if, in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of either rating can be expected to have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The Board will agree, by means of a Continuing Disclosure Undertaking (the substantial form of which appears in Appendix D) to be delivered to the purchaser of the Bonds at closing, for the benefit of owners of the Bonds to provide certain Annual Financial Information relating to the State by no later than 210 days after the end of each fiscal year of the State, commencing with the Fiscal Year ending June 30, 2009, and to provide notices of occurrence of certain enumerated events, if material. The Board will further agree in the Continuing Disclosure Undertaking that if its audited financial statements are not provided as part of the Annual Financial Information, the Board will provide such audited statements when available. The Annual Financial Information and audited financial statements (when available) will be filed by the Board with each Nationally Recognized Municipal Securities Information Repository and with any New Mexico State Information Depository. The notices of material events will be filed by the Board with the Municipal Securities Rulemaking Board and with any New Mexico State Information Depository. In the event of a failure of the Board to comply with any provision of the Continuing Disclosure Undertaking, any owner of Bonds (including beneficial owners of the Bonds) may seek specific performance by court order from a State court in Santa Fe County, New Mexico.

The Continuing Disclosure Undertaking is being executed by the Board to assist in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the “Rule”). The Continuing Disclosure Undertaking will be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of: (i) the date the principal and interest on the Bonds is paid or deemed paid; (ii) the date the Board is no longer an “obligated

person” with respect to the Bonds within the meaning of the Rule; and (iii) the date on which those portions of the Rule which require the Continuing Disclosure Undertaking are held invalid or repealed.

Except as set forth in the succeeding sentences, the State has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. Continuing disclosure undertakings previously entered into by the Board in relation to the State’s Capital Projects General Obligation Bonds and Severance Tax Bonds called for it to file Audited Financial Statements of the State as part of the Board’s annual financial information disclosures, or when available if the financial statements had not been finally audited by the time that it was required to make the annual financial disclosures. Due to the investigation by federal authorities of potentially criminal activity by two prior elected State Treasurers, and the seizure of financial information from the State Treasurer’s Office to further that investigation, preparation and auditing of the Audited Financial Statements of the State for the Fiscal Year ended June 30, 2005 was substantially delayed, and the Audited Financial Statements were not available until August 22, 2006. The State filed the Audited Financial Statements on October 31, 2006, and, on that date, the State notified the Municipal Securities Rulemaking Board of the filing. The Board believes that it is now in compliance with all its continuing disclosure undertakings.

GOVERNOR’S FINANCE COUNCIL

The Governor’s Finance Council was established to develop an overall strategy for issuing long-term debt obligations and making investments to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. The Executive Order designates, among other state officials, the Director of the Board and a Board Member as selected by the Governor as members of the Governor’s Finance Council.

MISCELLANEOUS

The foregoing summaries, descriptions and references do not purport to be comprehensive or definitive, and such summaries, descriptions and references are qualified in their entirety by reference to each statute, document, exhibit or other materials summarized or described. The instruments and other materials referred to in this Official Statement may be examined, or copies thereof will be furnished in reasonable amounts, upon written request to the NM State Board of Finance, 131 South Capitol Street, Bataan Memorial Building, Room 181, Santa Fe, New Mexico 87501, 505-827-4980.

Statements made in this Official Statement involving matters of opinion, forecasts or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. The Appendices are integral parts of this Official Statement and must be read with all other parts of this Official Statement.

This Official Statement has been authorized and issued by the Board.

State Board of Finance of the State of New Mexico

By /s/ Governor Bill Richardson
President

APPENDIX A

**STATE OF NEW MEXICO
STATE GENERAL FUND
COMPONENT APPROPRIATION ACCOUNTS
FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2007



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

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Introductory Section



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

State Controller

Deputy Division Director, Financial Control Division

Katherine B. Miller

Anthony I. Armijo, CPA, CGFM

Steve Gonzales

Financial Section



Independent Auditors' Report

Ms. Katherine B. Miller, Cabinet Secretary
State of New Mexico
Department of Finance and Administration
and
Mr. Hector H. Balderas,
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities and the major fund of the State of New Mexico, State General Fund Component Appropriation Accounts (Hereafter referred to as the State General Fund), as of and for the year ended June 30, 2007, which collectively comprise the State General Fund's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the State General Fund's statutorily and administratively created funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the State General Fund's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1A, the financial statements of the State General Fund are intended to present the financial position, and the changes in the financial position, of only that portion of the governmental activities and the major fund financial statements that is attributable to the State General Fund. They do not purport to, and do not, present fairly in the financial position of the State of New Mexico as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the State General Fund as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each of the statutorily and administratively created funds of the State General Fund as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ms. Katherine B. Miller, Cabinet Secretary
State of New Mexico
Department of Finance and Administration
and
Mr. Hector H. Balderas,
New Mexico State Auditor

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007 on our consideration of the State General Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report and should be considered in assessing the results of our audit.

The accompanying management discussion and analysis on pages 4 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual fund financial statements. The accompanying other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Albuquerque, New Mexico
December 14, 2007



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 11 and 12), 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 13 and 14), 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 11 and 12 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 13 and 14 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 16 through 22 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)

	<u>2007</u>	<u>2006</u>
Current assets	\$ 1,842.3	\$1,625.2
Current liabilities	<u>(1,158.8)</u>	<u>(774.4)</u>
Net assets, unrestricted	<u>\$ 683.5</u>	<u>\$ 850.8</u>



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.

Governmental activities

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

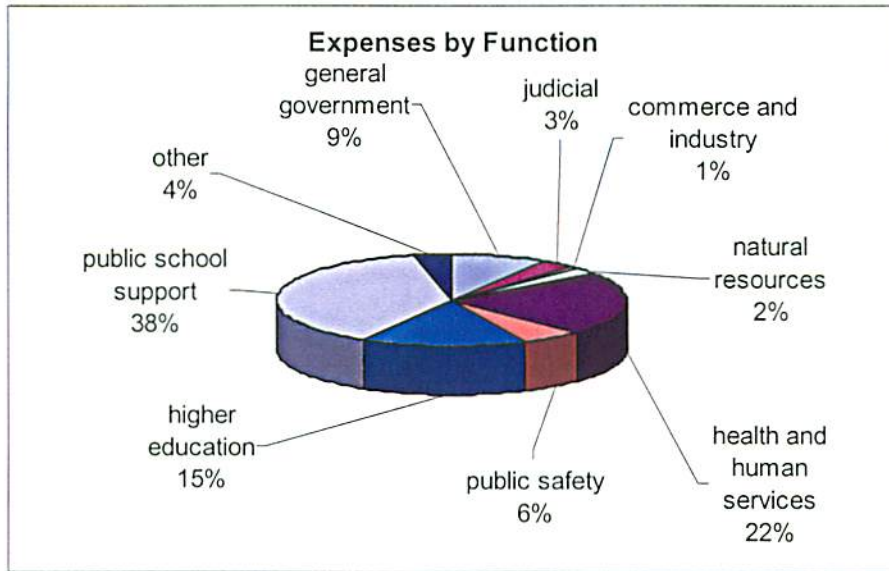
	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Revenues			
Program revenues:			
Charges for services	\$ 117.3	\$ 119.9	\$ (2.6)
General Revenues:			
Sales and use taxes	403.9	388.7	15.2
Business privilege taxes	2,362.1	2,283.8	78.3
Personal income taxes	1,187.2	1,022.1	165.1
Corporate income taxes	453.8	375.0	78.8
Severance taxes	30.7	31.7	(1.0)
Other	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	<u>5,837.7</u>	<u>5,530.8</u>	<u>306.9</u>
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	<u>6,005.0</u>	<u>5,428.4</u>	<u>576.6</u>
Increase (Decrease) in net assets	<u>\$ (167.3)</u>	<u>\$ 102.4</u>	<u>\$ (269.7)</u>



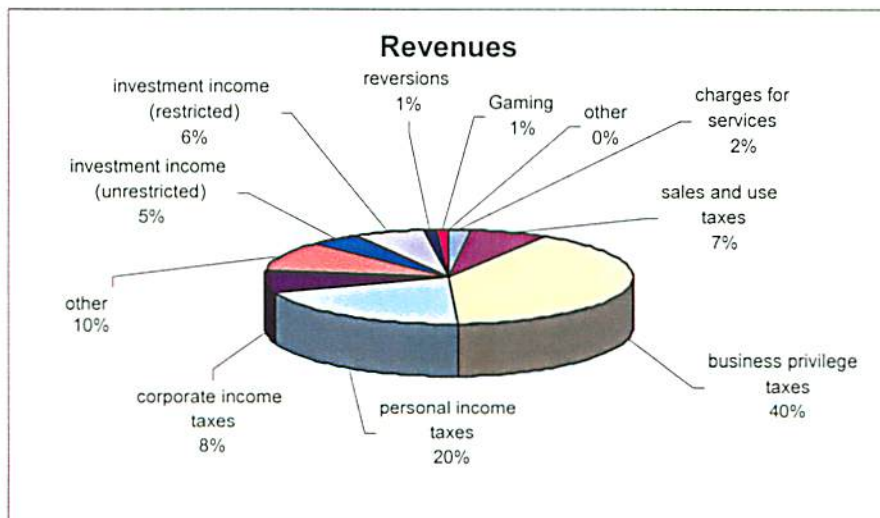
The State General Fund's net assets decreased by \$167.3 million, as compared to the \$102.4 million increase in 2006. In fiscal year 2007, overall, revenue increased 5.5% compared to

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.

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 8 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%. General fund revenue growth was held back in fiscal year 2007 by moderating average oil and gas production. However, growth was still significant.
- Corporate income tax collections grew by 21.0 percent. This compares to the prior year's growth of 42.0 percent. Much of the decline in growth is attributable to the net decline in oil and gas profits. Approximately two thirds of the prior year's growth came from mineral extraction firms.
- Other revenue decreased by \$46.5million. This is attributable to a decrease in federal mineral lease receipts.
- Personal income in New Mexico increased in fiscal year 2007 by 6.7%. Under the State's economic model, this usually translates to actual growth in tax collections of about 8%. However the State experienced almost twice that growth.
- Increases in expenditures are directly related to the amount of appropriations enacted by the Legislature.
- The cash overdraft increased significantly (thus causing most of the change in other liabilities from 2006 to 2007) during 2007 as a result of a policy change. The change requires state agencies to request an allotment

from the State General Fund immediately after the allotment becomes available by law. Prior policy allowed state agencies to request an allotment anytime during the related

appropriation period, even when the appropriation spanned more than one fiscal year.

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.

Basic Financial Statements



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.

State of New Mexico
State General Fund
COMPONENT APPROPRIATION ACCOUNTS
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u> <u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
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	<u>\$ 6,004,955,425</u>	<u>\$ 117,257,283</u>	<u>(5,887,698,142)</u>
General revenues:			
Taxes:			
			403,909,267
			2,362,153,483
			1,187,170,894
			453,857,010
			30,682,526
			545,038,038
			265,575,647
			364,697,350
			56,157,577
			12,290,906
			38,879,914
			<u>5,720,412,612</u>
			(167,285,530)
			850,827,827
			<u>\$ 683,542,297</u>

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

FUND FINANCIAL STATEMENTS

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 expenditures 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.

State of New Mexico
State General Fund
COMPONENT APPROPRIATION 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

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 11) are different because:

Net change in fund balances—total governmental funds (page 13)	(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 <u>not</u> reported in the funds	41,739,196
Change in net assets of governmental activities (page 11)	<u><u>\$(167,285,530)</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS INDEX

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State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2007

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 is 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 known 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

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2007

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

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2007

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

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
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interfund activity included the receivables and payables listed in the table below.

<u>Due from Other Fund</u>		<u>Due to Other Funds</u>		<u>Amount</u>
<u>Name</u>	SHARE System Fund Number	<u>Name</u>	SHARE System Fund Number	
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	<u>152,935,679</u>
				<u>\$253,714,603</u>

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.

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2007

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.

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
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F. Budgets

The component appropriation accounts are non-budgeted funds, as the Legislature does not make

appropriations to the State General Fund. Accordingly, budget comparisons are not presented in these financial statements.

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:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
The New Mexico State Treasurer's Office: General Fund Investment Pool	1 day to 3 years	<u>\$687,022,421</u>
The State Investment Council:		
Equities-	Not Applicable	
Large Cap Active Pool		\$ 29,325,369
Large Cap Index Pool		5,567,589
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	<u>21,193,214</u>
		<u>\$ 116,718,859</u>

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.

Cash Overdraft. At June 30, 2007, the State General Fund had a cash overdraft of \$891,709,246. At June 30, 2007, the net cash overdraft, which includes \$687,022,421 in the General Fund Investment Pool, was (\$204,686,825). The amount of cash overdraft has significantly increased due to an acceleration of allotments (\$585 million) related to special and capital project appropriations. The Financial Control Division now requires state agencies to budget special and capital projects appropriations, and request the allotments for those appropriations, in the first fiscal year the appropriations are available. In past fiscal years, most agencies budgeted projects in the year following the appropriation.

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
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* (SHARE System fund number 32300). The Office of the State Treasurer subsequently transferred the entire amount of the proceeds to the *appropriation account fund* (SHARE System fund number 85300).

To 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).

APPENDIX B

FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER

[Form of Attorney General's No Litigation Letter]

_____, 2008

State Board of Finance
State of New Mexico
Bataan Memorial Bldg. Ste. 181
Santa Fe, NM 87501

Brownstein Hyatt Farber
Schreck, LLP
201 Third St. NW, Ste. 1700
Albuquerque, NM 87102

Sutin, Thayer & Browne
A Professional Corporation
P.O. Box 1945
Albuquerque, NM 87103

Re: \$71,270,000 State of New Mexico General Obligation Bonds, Refunding Series 2008A

Ladies and Gentlemen:

This letter will serve as our certificate of litigation concerning the State of New Mexico General Obligation Bonds, Refunding Series 2008A, in the principal amount of \$71,270,000 and other litigation affecting the State of New Mexico (the "State").

Litigation Directly Affecting Issuance of the Bonds

To the best of our knowledge, there is no pending or threatened action, suit or proceeding at law or in equity before or by any judicial or administrative agency against or affecting the State wherein an unfavorable decision, ruling, or finding would materially and adversely affect: (i) any officers of the State in their respective capacities as such or the existence, organization or power of the State, insofar as these matters relate to these bonds; (ii) the notice of sale, award, issuance and delivery of these bonds; (iii) the effectiveness of the legislation authorizing the issuance of these bonds (*i.e.* NMSA 1978, sections 6-12-6 through 14, as amended); (iv) the transactions authorized by the State Board of Finance in its resolutions of May 20, 2008 and June 17, 2008 (the "Bond Legislation") relating to the issuance, sale and delivery of these bonds; or (v) the validity or enforceability of the bonds or the Bond Legislation.

Property Tax Litigation

There is one *pro se* tax resister case pending in state district court challenging the State's power to impose property and other taxes. The New Mexico Department of Taxation and Revenue has informed this office that currently there is no other pending or threatened action, suit or proceeding or law or in equity that contests the validity of the State's imposition of property taxes. The State is a party to suits in which the taxpayers contest the assessed value of their properties, but do not contest the validity of the State's imposition of the tax itself. Such proceedings are not reasonably expected to have a material adverse effect on these bonds, the security for these bonds, or any improvements financed by these bonds.

Other Litigation

The State is a party to various legal and administrative proceedings seeking damages or injunctive relief and generally incidental to its operations, which proceedings are unrelated to these bonds, the security therefor, or any improvements to be financed with these bonds.

Sincerely,

Assistant Attorney General

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[Form of Opinion of Bond Counsel]

_____, 2008

State Board of Finance
State of New Mexico
Santa Fe, New Mexico

Re: \$71,270,000 State of New Mexico General Obligation Bonds, Refunding Series 2008A

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance on the date hereof of \$71,270,000 aggregate principal amount of State of New Mexico General Obligation Bonds, Refunding Series 2008A (the "Bonds"), dated July ___, 2008 and being a series of bonds in registered form maturing on March 1, 2009 and serially thereafter on March 1 of each year through 2013.

We have also examined the provisions of the Constitution and laws of the State of New Mexico (the "State") including Sections 6-12-6 through 6-12-14, NMSA 1978, as amended, under authority of which the Bonds were issued, the resolution authorizing the issuance and sale of the Bonds (the "Bond Legislation") adopted by the State Board of Finance (the "Board") on June 17, 2008, an executed Bond of the first maturity, and the Tax Regulatory Certificate of the State (the "Tax Certificate"). We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion.

Certain agreements, requirements and procedures contained or referred to in the Bond Legislation, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon with respect to any such change or action taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with the covenants and agreements contained in the Bond Legislation and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds and the Bond Legislation and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of New

Mexico. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express herein no opinion relating thereto.

Based on our examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds constitute valid and binding general obligations of the State and the principal of and interest on the Bonds, unless paid from other sources, are required to be paid from the proceeds of the levy of *ad valorem* taxes on all property within the State subject to *ad valorem* taxes for State purposes, without limit as to rate or amount.

2. The Bond Legislation is valid and binding on the Board and is enforceable in accordance with its terms.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference for purposes of the alternative minimum tax imposed by the Code on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax on certain corporations. We express no opinion regarding other federal income tax consequences caused by the receipt or accrual of interest on or ownership of the Bonds.

4. The interest on the Bonds is exempt from personal income taxes imposed directly thereon by the State under existing law.

This letter is issued to and for the sole benefit of the above addressees and is issued for the sole purpose of the transaction specifically referred to herein. No person other than the above addressees may rely upon this letter without our express prior written consent. This letter may not be utilized by you for any other purpose whatsoever and may not be quoted by you without our express prior written consent, except that this opinion may be included in the Transcript.

Very truly yours,

APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Disclosure Undertaking”) is executed and delivered by the State Board of Finance (the “Board”) of the State of New Mexico (the “State”) on behalf of the State in connection with the issuance by the State of \$71,270,000 General Obligation Bonds, Refunding Series 2008A (the “Bonds”). The Bonds are being issued pursuant to the Bond Resolution adopted by the Board on June 17, 2008 (the “Resolution”).

BACKGROUND

1. The Bonds are being issued to provide funds for the refunding of certain outstanding maturities of the State of New Mexico, Capital Projects General Obligation Bonds, Series 2001 and Capital Projects General Obligation Bonds, Series 2003. The Bonds are authorized pursuant to Sections 6-12-6 through 6-12-14, NMSA 1978, as amended

2. In order to allow the underwriters of the Bonds to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12) to the date hereof, the State is required to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Bonds.

3. This Disclosure Undertaking is intended to satisfy the requirements of said Rule 15c2-12, as in effect on the date hereof.

STATE COVENANTS AND AGREEMENTS

Section 1. Definitions

(a) “Annual Financial Information” means the financial information or operating data with respect to the State, delivered at least annually pursuant to Section 2(a) and 2(b) hereof, of the type set forth in the sections of the final Official Statement identified on Exhibit A hereto. Annual Financial Information includes Audited Financial Statements.

(b) “Audited Financial Statements” means the annual financial statements for the State, prepared in accordance with generally accepted accounting principles, as in effect from time to time.

(c) “Event Information” means the information delivered pursuant to Section 2(d) hereof.

(d) “MSRB” means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, Virginia, 22314, phone (703) 797-6600, fax (703) 797-6700.

(e) “National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com
Web: www.bloomberg.com/markets/rates/municontacts.html

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com
Web: www.dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
Email: NRMSIR@interactivedata.com
Web: www.ftid.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com
Web: www.disclosuredirectory.standardandpoors.com

(f) "Official Statement" means the Official Statement dated June 17, 2008 delivered in connection with the original issue and sale of the Bonds.

(g) "Repository" means (i) each NRMSIR and (ii) any SID.

(h) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12), as the same may be amended.

(i) "SEC" means the Securities and Exchange Commission.

(j) "SID" means any State Information Depository operated or designated by the State that receives information from all issuers within the State. As of the date of this Disclosure Undertaking, no SID exists for the State.

Section 2. Provision of Annual Information and Reporting of Event Information

(a) Commencing with the Fiscal Year ending June 30, 2009 and annually while the Bonds remain outstanding, the State agrees to provide or cause to be provided the Annual Financial Information to each Repository annually.

(b) Such Annual Financial Information shall be provided not later than 210 days after the end of each fiscal year for the State (*i.e.*, each June 30). If the Audited Financial Statements are not available by the time the other Annual Financial Information must be provided, unaudited financial statements shall be provided as part of the Annual Financial Information. If not provided as a part of the Annual Financial Information, the Audited Financial Statements will be provided when available.

(c) The State may provide Annual Financial Information by specific reference to other documents, including information reports and official statements relating to other debt issues of the State, which have been submitted to each Repository; provided, however, that if the document so referenced is a final official statement within the meaning of the Rule, such final official statement must also be available from the MSRB.

(d) At any time the Bonds are outstanding, the State shall provide, in a timely manner, to the MSRB and any SID notice of any of the following events with respect to the Bonds, if material (provided, that any event under clauses (viii), (ix) or (xi) will always be deemed to be material):

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults;
- iii. Unscheduled draws on debt service reserves reflecting financial difficulties;
- iv. Unscheduled draws on credit enhancements reflecting financial difficulties;
- v. Substitution of credit or liquidity providers, or their failure to perform;
- vi. Adverse tax opinions or events affecting the tax-exempt status of the security;
- vii. Modifications to rights of security holders;
- viii. Bond calls, other than mandatory sinking fund redemption;
- ix. Defeasances;
- x. Release, substitution or sale of any property securing repayment of the securities; and
- xi. Rating changes.

(e) At any time the Bonds are outstanding, the State shall provide, in a timely manner, to the MSRB and any SID notice of any failure of the State to timely provide the Annual Financial Information as specified in Sections 2(a) and 2(b) hereof.

(f) Any filing under this Disclosure Undertaking may be made by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 3. Method of Transmission. Subject to technical and economic feasibility, the State shall employ such methods of electronic or physical information transmission as is requested or recommended by the Repositories or the MSRB unless otherwise required by law.

Section 4. Enforcement. The obligations of the State hereunder shall be for the benefit of the owners (including the beneficial owners) of the Bonds. The owner or beneficial owner of any Bonds is authorized to take action to seek specific performance by court order to compel the State to comply with its obligations under this Disclosure Undertaking, which action shall be the exclusive remedy available to it or any other owners or beneficial owners of the Bonds. Any such action shall be brought only in a State court of competent jurisdiction in Santa Fe County, New Mexico. Breach of the obligations of the State hereunder shall not constitute an event of default under the Resolution and none of the rights and remedies provided by the Resolution shall be available to the owners (including the beneficial owners) of the Bonds.

Section 5. Additional Information. Nothing in the Disclosure Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other

annual information or notice of occurrence of an event which is not Event Information, in addition to that which is required by this Disclosure Undertaking; provided that the State shall not be required to do so. If the State chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Undertaking, the State shall have no obligation under this Disclosure Undertaking to update such information or include it in any future annual filing or Event Information filing.

Section 6. Term. This Disclosure Undertaking shall be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of (i) the date all principal and interest on the Bonds shall have been paid or legally defeased pursuant to the terms of the Resolution; (ii) the date that the State shall no longer constitute an “obligated person” with respect to the Bonds within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this Disclosure Undertaking are determined to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

Section 7. Amendments and Waivers. Notwithstanding any other provision of this Disclosure Undertaking, the State may amend this Disclosure Undertaking from time to time, and any provision of this Disclosure Undertaking may be waived, without the consent of the owners or beneficial owners of the Bonds upon the State’s receipt of an opinion of counsel experienced in federal securities laws to the effect that such amendment or waiver will not adversely affect compliance with the Rule. Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information and Audited Financial Statements for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The State shall provide notice of any such amendment or waiver to each Repository.

Section 8. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the State and the owners (including beneficial owners) from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 9. Governing Law. This Disclosure Undertaking shall be governed by the laws of the State.

Date: _____, 2008

STATE BOARD OF FINANCE

By _____
President

By _____
Secretary

EXHIBIT A

Portions of the Official Statement
Containing the Type of Information
To Be Included As Annual Financial Information

1. OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS
All
2. THE STATE OF NEW MEXICO
All
3. PROPERTY VALUATION AND TAXATION
All
4. FINANCIAL OVERVIEW OF THE STATE
All
5. STATE OF NEW MEXICO FINANCIAL STATEMENTS (Audited)
All