

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on \$111,850,000 Capital Projects General Obligation Bonds, Series 2005 (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 on the cover page and elsewhere in this Official Statement have the meanings given in the Official Statement.

\$111,850,000
THE STATE OF NEW MEXICO
CAPITAL PROJECTS GENERAL OBLIGATION BONDS
SERIES 2005

Dated: Delivery Date**Due: March 1, as shown on inside cover****Ratings**

"AA1" Moody's Investors Service

"AA+" Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

Tax Exemption

In the opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is not an item of tax preference for purposes of the federal alternative minimum tax imposed 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. Bond Counsel is further of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

No Optional RedemptionThe Bonds are not subject to optional redemption prior to maturity.**Security**

The Bonds are being issued under the authority of the 2004 Capital Projects General Obligation Bond Act, Chapter 117, Laws 2004 (the "Act"). The Act authorizes and directs State tax officials to levy on all property in the State that is subject to taxation an *ad valorem* 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.

Purpose

The Bonds are being issued to provide funds for construction, acquisition or improvement of public library, senior citizen, kindergarten classroom, and higher education projects as set forth in the Act and approved by the voters of the State on November 2, 2004.

Interest Payment Dates

March 1 and September 1, commencing September 1, 2005

Closing/Settlement

On or about March 1, 2005.

Denominations

\$5,000

Book-Entry System

The Depository Trust Company

Registrar/Paying Agent

State Treasurer of New Mexico

Bond Counsel

Sutin, Thayer & Browne A Professional Corporation

Disclosure Counsel

Brownstein Hyatt & Farber, P.C.

Issuer Contact

State Board of Finance: Scott W. Stovall, (505) 827-3930; sstovall@state.nm.us

Dated: January 11, 2005

\$111,850,000
THE STATE OF NEW MEXICO
CAPITAL PROJECTS GENERAL OBLIGATION BONDS
SERIES 2005

<u>CUSIP</u>	<u>Year (March 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield at Issuance</u>	<u>Price at Issuance</u>
647293LL1	2006	\$8,350,000	4.0%	2.100%	101.870%
647293LM9	2007	9,440,000	5.0%	2.225%	105.399%
647293LN7	2008	9,900,000	5.0%	2.360%	107.602%
647293LP2	2009	10,380,000	5.0%	2.490%	109.500%
647293LQ0	2010	10,885,000	5.0%	2.800%	110.198%
647293LR8	2011	11,415,000	5.0%	3.090%	110.387%
647293LS6	2012	11,970,000	5.0%	3.220%	111.076%
647293LT4	2013	12,550,000	5.0%	3.430%	110.903%
647293LU1	2014	13,160,000	5.0%	3.550%	111.087%
647293LV9	2015	13,800,000	5.0%	3.670%	111.048%

ELECTED STATE OFFICIALS

BILL RICHARDSON
Governor

REBECCA D. VIGIL-GIRON
Secretary of State

DIANE DENISH
Lieutenant Governor

ROBERT E. VIGIL
State Treasurer

DOMINGO P. MARTINEZ
State Auditor

PATRICIA A. MADRID
Attorney General

PATRICK H. LYONS
Commissioner of Public Lands

Public Regulation Commissioners:

DAVID W. KING
District I
LYNDA LOVEJOY
District IV

JASON A. MARKS
District II

BEN R. LUJAN
District III
E. SHIRLEY BACA
District V

STATE BOARD OF FINANCE

Ex Officio Members

GOVERNOR BILL RICHARDSON
President

LT. GOVERNOR
DIANE DENISH
Member

STATE TREASURER
ROBERT E. VIGIL
Member

Appointed Members

PAUL BLANCHARD
Secretary

KIM SANCHEZ RAELE
Member

MARIA GRIEGO-RABY
*Member**

ROBERTA COOPER RAMO
Member

JAMES C. JIMENEZ
Executive Officer

State Board of Finance
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Santa Fe, New Mexico 87501
505-827-4980
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Scott W. Stovall, Director
505-827-3930

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A Professional Corporation
Albuquerque and Santa Fe, New Mexico

DISCLOSURE COUNSEL
Brownstein Hyatt & Farber, P.C.
Albuquerque, New Mexico

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

*Confirmation pending.

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
CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2005**

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.

Dated:	Delivery Date
Interest Payment:	Interest is payable semi-annually on September 1 and March 1, commencing on September 1, 2005.
Principal Payment:	The Bonds mature in serial installments as set forth on the inside cover page of this Official Statement.
No Optional Redemption:	The Bonds are <u>not</u> subject to optional redemption prior to maturity.
Registration:	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.
Legal Opinion:	The Bonds are offered when, as and if issued, subject to the approval of legality by Sutin, Thayer & Browne A Professional Corporation, Bond Counsel.
Security:	The Bonds are being issued under the authority of the 2004 Capital Projects General Obligation Bond Act, Chapter 117, Laws 2004 (the “Act”). The Act authorizes and 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.
Limitation to the Issuance of Additional General Obligation Indebtedness:	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.

STATE GENERAL OBLIGATION BONDS

Outstanding as of the closing of the Bonds	\$220,940,000
Plus: Series 2005 Bonds	<u>111,850,000</u>
Total State General Obligation Bonds, following the closing of the Bonds	\$332,790,000

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

Total General Obligation Bonds per capita (2000 Census)	\$ 182.67
Ratio of General Obligation Bonds to 2003 <i>ad valorem</i> assessed value	.955%
Ratio of General Obligation Bonds per capita to State 2003 per capita income	0.72%
Percent of General Obligation Bonds due within 10 years	100%

Official Statement

\$111,850,000

State of New Mexico

CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2005

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 Capital Projects General Obligation Bonds, Series 2005 in the principal amount of \$111,850,000 (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 were authorized by the 2004 Capital Projects General Obligation Bond Act, Chapter 117, Laws 2004 (the “Act”) passed by the State Legislature and approved by the voters in a statewide election on November 2, 2004. See “THE BONDS”, below. The Bonds are being issued to provide funds for capital expenditures for construction, acquisition or improvement of public library, senior citizen, kindergarten classroom and higher education projects specified in the Act.

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:	Director, State Board of Finance
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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 September 1, 2005. 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 authorizing the issuance, sale and delivery of the Bonds adopted by the Board on January 11, 2005 (the “Resolution”).

No Optional Redemption of Bonds

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

Authorization and Purpose

General obligation bonds of the State are issued and the proceeds thereof appropriated to various purposes pursuant to an act of the Legislature of the State, consisting of the Senate and the House of Representatives (the “Legislature”). Under the State Constitution, general obligation bonds cannot be issued pursuant to such an act unless it has been submitted to the qualified electors of the State at a general election and receives a majority of all the votes cast thereon at such election. It takes effect upon certification of the State Canvassing Board announcing the results of such election. In addition, the Act provides that general obligation bonds may be issued for refunding purposes without further legislative action or referendum.

The Bonds are being issued pursuant to the Act, which authorizes and directs State tax officials to levy on all property in the State which is subject to taxation an *ad valorem* tax sufficient to produce an amount equal to the interest and principal redemption requirements of each year for any general obligation 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 imposes and levies, during each year in which the Bonds are outstanding, an *ad valorem* tax on all property in the State subject to property 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. The State Treasurer is required to keep separate accounts of all

amounts collected from taxes imposed pursuant to the Act and to use that money only for the purposes of paying the principal of and interest on the Bonds as they become due, and expenses relating thereto.

Currently the only property taxes levied for State purposes are those for the outstanding General Obligation Bonds, Series 2001 and Series 2003, the Refunding Series 2001B, and the Refunding Series 2003B. 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 previously issued of State general obligation bonds that will be outstanding at the delivery of the Bonds, the annual debt service on the Bonds and the annual debt service requirements on all outstanding bonds, including the Bonds, are set forth below:

General Obligation Bonds Outstanding Immediately Prior to the Issuance of the Bonds	
<u>Series</u>	<u>Principal Outstanding</u>
Series 2001	\$ 47,000,000
Refunding Series 2001B	16,345,000
Series 2003	120,320,000
Refunding Series 2003B	<u>37,275,000</u>
Total	\$220,940,000

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Debt Service Requirements on the Bonds

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Fiscal Year Debt Service</u>
09/01/05		\$ 2,754,500	\$ 2,754,500	
03/01/06	\$ 8,350,000	2,754,500	11,104,500	\$13,859,000
09/01/06		2,587,500	2,587,500	
03/01/07	9,440,000	2,587,500	12,027,500	14,615,000
09/01/07		2,351,500	2,351,500	
03/01/08	9,900,000	2,351,500	12,251,500	14,603,000
09/01/08		2,104,000	2,104,000	
03/01/09	10,380,000	2,104,000	12,484,000	14,588,000
09/01/09		1,844,500	1,844,500	
03/01/10	10,885,000	1,844,500	12,729,500	14,574,000
09/01/10		1,572,375	1,572,375	
03/01/11	11,415,000	1,572,375	12,987,375	14,559,750
09/01/11		1,287,000	1,287,000	
03/01/12	11,970,000	1,287,000	13,257,000	14,544,000
09/01/12		987,750	987,750	
03/01/13	12,550,000	987,750	13,537,750	14,525,500
09/01/13		674,000	674,000	
03/01/14	13,160,000	674,000	13,834,000	14,508,000
09/01/14		345,000	345,000	
03/01/15	13,800,000	345,000	14,145,000	14,490,000
Total	\$111,850,000	\$33,016,250	\$144,866,250	\$144,866,250

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>
03/01/05	\$ 16,865,000	\$ 4,785,219	\$ 21,650,219			\$21,650,219
09/01/05	16,630,000	4,447,919	21,077,919	\$ 2,754,500	\$45,482,638	
03/01/06	17,665,000	4,075,669	21,740,669	11,104,500		56,677,588
09/01/06	17,475,000	3,664,419	21,139,419	2,587,500	56,572,088	
03/01/07	18,500,000	3,227,544	21,727,544	12,027,500		57,481,963
09/01/07	9,515,000	2,796,894	12,311,894	2,351,500	48,418,438	
03/01/08	19,375,000	2,559,019	21,934,019	12,251,500		48,848,913
09/01/08	10,000,000	2,171,519	12,171,519	2,104,000	48,461,038	
03/01/09	20,290,000	1,921,519	22,211,519	12,484,000		48,971,038
09/01/09	0	1,511,338	1,511,338	1,844,500	38,051,357	
03/01/10	21,250,000	1,511,338	22,761,338	12,729,500		38,846,676
09/01/10	0	1,077,144	1,077,144	1,572,375	38,140,357	
03/01/11	22,255,000	1,077,144	23,332,144	12,987,375		38,969,038
09/01/11	0	622,400	622,400	1,287,000	38,228,919	
03/01/12	15,210,000	622,400	15,832,400	13,257,000		30,998,800
09/01/12	0	318,200	318,200	987,750	30,395,350	
03/01/13	15,910,000	318,200	16,228,200	13,537,750		31,071,900
09/01/13	0	0	0	674,000	30,439,950	
03/01/14	0	0	0	13,834,000		14,508,000
09/01/14	0	0	0	345,000	14,179,000	
03/01/15	0	0	0	14,145,000		14,490,000
09/01/15	0	0	0		14,145,000	
Total	\$220,940,000	\$36,707,885	\$257,647,885	\$144,866,250	\$402,514,135	\$402,514,135

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 (1%) 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.

Calculation of 1% Bonding Limitation and the Bonds

Net Taxable Value		\$34,864,973,562
General obligation bond limitation @ 1% of Net Taxable Value		\$348,649,736
General obligation bonds outstanding:		
Series 2001	\$47,000,000	
Series 2003	120,320,000	
Refunding Series 2001B	16,345,000	
Refunding Series 2003B	<u>37,275,000</u>	
Total general obligation bonds outstanding as of the closing of the Bonds	\$220,940,000	\$220,940,000
Plus: Series 2005 Bonds		<u>111,850,000</u>
Total general obligation bonds, following closing of the Bonds		<u>\$332,790,000</u>
Ratio of total debt to net taxable value		.955%

Underlying General Obligation Bonds

The following table presents the most recent 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 June 30, 2004.

**Principal Amount of
Underlying General Obligation Bond Debt**

Counties.....	\$171,344,123
Cities	\$247,395,000
Schools	\$884,701,000

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

THE PROJECTS

Plan of Financing

The Bonds are being issued to provide for certain capital expenditures for public library, senior citizen, kindergarten classroom and higher education projects described in the Act, and to pay the expenses incurred in the preparation and sale of the Bonds. The following table sets forth the sources and uses of funds, excluding accrued interest, with respect to the Bonds and the projects.

Sources:

Par Amount of Bonds	\$111,850,000
Original Issue Premium (Discount)	<u>10,378,033.85</u>
Total Sources	<u>\$122,228,033.85</u>

Uses:

Public Library Projects	\$16,200,000.00
Senior Citizen Projects	5,965,801.00
Kindergarten Classroom Projects	5,000,000.00
Higher Education Projects	94,577,548.00
Underwriter's Discount	144,286.50
Costs of Issuance	<u>340,398.35</u>
Total Uses	<u>\$122,228,033.85</u>

State Capital Program

Proceeds from general obligation bonds are an important source of capital financing for the State. Additional State sources of funding for capital projects are surplus general fund balances, severance tax and supplemental severance tax bonds, highway bonds and bonds issued by the New Mexico Finance Authority. The following table summarizes capital authorization by funding source for Fiscal Year 2000 through December 1, 2004.

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u> (as of Year to Date) ⁽³⁾
Proceeds from General Obligation Bonding Program						
General Obligation Bonds	-	\$ 62.6	-	\$130.9	-	\$111.8
Subtotal	<u>\$ 0.0</u>	<u>\$ 62.6</u>	<u>\$ 0.0</u>	<u>\$130.9</u>	<u>\$ 0.0</u>	<u>\$111.8</u>
Proceeds from Severance Tax Bonding Program						
Severance Tax Bonds	\$59.7	-	\$67.0	\$73.9	\$71.0	-
Severance Tax Funding Notes ⁽¹⁾	3.4	5.7	103.0	56.3	63.7	13.5
Supplemental Severance Tax Bonds	12.0	12.0	65.0	45.0	10.0	10.0
Supplemental Severance Tax Funding Notes ⁽¹⁾	<u>55.0</u>	<u>74.5</u>	<u>35.1</u>	<u>111.8</u>	<u>151.8</u>	<u>106.7</u>
Subtotal	\$130.1	\$ 92.2	\$270.1	\$287.0	\$296.5	\$130.2
Proceeds From Other Sources						
General Fund	\$23.4	\$103.2	\$72.4	-	\$36.9	-
E-911 Revenue Bonds	-	4.5	-	-	-	-
Special Funds	-	-	9.2	-	-	-
Highway Bonds ⁽²⁾	690.6	198.8	162.8	16.0	700.0	-
New Mexico Finance Authority ⁽²⁾	<u>52.3</u>	<u>18.5</u>	<u>34.7</u>	<u>24.9</u>	<u>82.9</u>	<u>-</u>
Subtotal	\$766.3	\$325.0	\$279.1	\$ 40.9	\$819.8	-
Total	\$896.4	\$479.8	\$549.2	\$458.8	\$1,116.3	\$242.0

- (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) 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.
- (3) The Board, on March 1, 2005, will issue \$111,850,000 in general obligation bonds.

THE STATE OF NEW MEXICO

The State of New Mexico, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The State has a semiarid subtropical climate characterized by sunshine and warm, bright skies in both winter and summer, with light precipitation.

Every part of the State receives no less than 70 percent sunshine year-round. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains). Humidity ranges from 60 percent (mornings) to 30 percent (afternoons). Evenings are crisp and cool in all seasons because of low humidity. The State is an experience in comfortable living with its clean air, blue skies and fair weather.

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor elected for a four-year term, but limited to two consecutive terms in office. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The State Board of Finance, 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 Board has seven members consisting of the Governor, the Lieutenant Governor, the 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 Department of Finance and Administration, created in 1957 as a part of governmental reorganization measures of that year, 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. On July 1, 1983, the Department of Finance and Administration was reorganized into the DFA, which retained the prior name and handles the State's financial functions, and the General Services Department, which now handles the administrative functions. 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 Board. In 1983, a Board of Finance Division was created in the DFA, to staff and coordinate the functions of the Board.

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 on official State business.

The judicial branch is composed of a statewide system of 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 Taxation System

With certain limited exceptions, real and personal property owned by individuals or corporations is subject to *ad valorem* taxation in the State. Local county assessors are responsible for the appraisal of most residential and commercial property. The Appraisal Bureau of the State Taxation and Revenue Department (“TRD”) provides technical assistance to the county assessors and assists in the implementation of the Property Tax Code.

The Central Assessment Bureau of the TRD is responsible for the assessment of certain types of properties not assessed by the counties. Property assessments undertaken by the Central Assessment Bureau are referred to as central valuations and include 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 property

Property valuations are established as of January 1 of each year (except certain livestock). Centrally assessed property is verified and certified to the 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. The 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 to the county treasurers 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 the collection of property taxes and their distribution to the governmental entities participating in the tax receipts, including those amounts due 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 the county 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, the value of property is its market value as determined by the sales of comparable property. If comparable sales are unavailable, an income or cost method of valuation is used. Residential properties are eligible for a \$2,000 head of family exemption. Prior to tax year 2003, there was also a \$2,000 veteran’s exemption, which is being raised over the next four years as follows: \$2,500 for tax year 2003; \$3,000 for tax year 2004; \$3,500 for tax year 2005; and \$4,000 for tax year 2006 and thereafter. On November 2, 2004, voters approved an amendment to the State Constitution extending the veterans’ exemption to include all honorably discharged members of the armed forces. Net taxable value is computed as one-third of the assessed value less exemptions, the maximum assessment ratio allowed under the State Constitution.

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. Differing rates of taxation may apply to residential and non-residential properties.

Oil and 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 TRD (“OGAS”) on the basis of assessed value deemed the equivalent of 50 percent of the actual price of the 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.

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 the participating governmental entities.

On November 3, 1998, as a result of approval by the New Mexico electorate, Article 8, Section 1 of the New Mexico Constitution was amended to authorize the Legislature to limit increases in valuation of residential property for property taxes. The limitation may be applied to classes of residential property taxpayers based on owner-occupancy, age or income. The limitations may be authorized statewide or at the option of a local jurisdiction and may include conditions under which the limitation is applied. Any valuation limitations authorized as a local jurisdiction option shall provide for applying statewide or multi-jurisdictional property tax rates to the value of the property as if the valuations increase limitation did not apply. This amendment and related legislation may have an impact on future property taxation increases.

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

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

Final Net Taxable Valuations
(Dollars in thousands)

<u>Property Tax Year</u>	<u>Residential</u>	<u>Non-Residential</u>	<u>Oil and Gas</u>	<u>Copper</u>	<u>Net Taxable Value</u>
1994	\$ 8,723,123	\$ 7,342,186	\$1,893,527	\$ 173,007	\$ 18,131,843
1995	10,729,781	7,867,383	1,694,195	184,300	20,475,659
1996	11,150,455	8,120,033	1,562,623	214,300	21,047,411
1997	12,228,583	8,563,893	2,371,034	235,557	23,399,067
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*	18,559,009	11,628,916	4,611,891	65,157	34,864,973

* Estimate.

Source: Department of Finance and Administration

Property Tax 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:

Maximum Operating Tax Rates

Counties	11.85
Cities	7.65
Schools	0.50
Maximum combined statutory rate	20.00

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
- 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 revenue 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 and improvements to properties.

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 and other institutions.

The table on the following two pages sets forth the revenues, expenditures and ending fund balances over the past four Fiscal Years and projected results for the current Fiscal Year.

General Fund Financial Summary
Fiscal Year 2001 – Fiscal Year 2005

(Dollars in thousands)

	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Actual</u> <u>2004</u>	<u>Estimated</u> <u>2005</u>
A. APPROPRIATION ACCOUNT					
Recurring Receipts:					
General & Selective Sales Taxes	\$1,535,925	\$1,581,937	\$1,651,614	\$1,797,835	\$1,939,159
Income Taxes	1,150,109	1,188,605	1,040,203	1,153,133	1,173,000
Severance Taxes	363,521	241,511	268,411	329,559	381,900
License Fees	34,408	30,892	38,420	42,885	43,619
Investment Income	453,439	473,093	478,596	484,324	563,800
Rents & Royalties	401,703	249,242	283,552	356,944	408,700
Miscellaneous Receipts	26,886	30,520	30,625	26,146	25,239
Tribal Revenue Sharing		18,721	32,596	35,097	36,000
Tobacco Settlement			43,759	37,449	34,800
Reversions/adjustments	24,553	32,793	23,288	19,623	25,100
Total Recurring Receipts	\$3,990,543	\$3,847,314	\$3,891,064	\$4,282,996	\$4,631,317
Growth	18.3%	-3.6%	1.1%	10.1%	8.1%
Non-recurring & Adjustments	4,000	-	57,821	48,324	8,300
Accounting Policy Change				280,392	
Total Non-Recurring & Adjustments	\$4,000	\$88,618	\$57,821	\$328,716	\$8,300
Total Receipts	\$3,994,543	\$3,935,931	\$3,948,885	\$4,611,711	\$4,639,617
Growth	16.8%	-1.5%	0.3%	16.8%	0.6%
Recurring Appropriations:					
Legislative	\$19,781	\$17,657	\$21,198	\$14,892	\$15,457
Judicial	115,120	126,116	133,555	136,557	147,509
General Control	199,405	188,963	142,331	135,479	144,307
Commerce & Ind./Exam. & Lic.	44,814	46,129	45,409	47,285	48,683
Agric., Energy & Nat. Res.	54,841	63,611	59,192	58,708	62,384
Health & Human Services	681,416	791,953	814,136	911,320	1,004,860
Public Safety	236,311	256,280	266,699	280,690	287,318
Other Education	25,039	23,328	20,112	20,365	18,167
Higher Education	565,129	569,978	605,050	639,328	670,994
Public School Support	1,632,305	1,782,210	1,788,566	1,863,274	1,974,906
Recurring Appropriations	3,574,160	3,866,226	3,896,247	4,107,896	4,374,584.8
Other Recurring Appropriations				161	290
Total Recurring Appropriations	\$3,574,160	\$3,866,226	\$3,896,247	\$4,108,057	\$4,374,875
Growth	7.4%	8.2%	0.8%	5.4%	6.5%
Nonrecurring Appropriations(1)					
Capital Outlay/Supplemental/Contingency	252,336	180,354	155,289	178,319	8,900
Other Nonrecurring adj for leg	1,152	2,075	-	96,617	-
Total Nonrecurring	\$253,489	\$182,429	\$155,289	\$274,936	\$8,900
Total Expenditures	\$3,827,649	\$4,048,655	\$4,051,536	\$4,382,993	\$4,383,775
Growth	12.9%	5.8%	0.1%	8.2%	0.0%
Transfer to Appropriation Contingency Fund				(120,000)	
TRANSFER TO RESERVES	166,894	(112,723)	(102,650)	108,718	255,842
B. OPERATIVE RESERVE					
Beginning Balance	\$191,600	\$267,187	\$154,778	\$46,931	\$128,832
Revenues/Loan Repayments	-	-	-	-	-
Appropriations: Contingencies	-	-	-	-	-
Other Appropriations & Adjustments	(3,744)	(350)	(5,200)	(26,817)	(2,500)
Total Appropriations(2)	\$(3,744)	\$(350)	\$(5,200)	\$(26,817)	\$(2,500)
Transfers:					
To General Fund/State Support Reserve	-	-	-	-	-
From General Fund (Approp. Account)	79,179	(112,723)	(102,650)	108,718	255,842
Special Session/Approp. Cont. Fund	-	-	-	-	-
Total Transfers	79,179	(112,723)	(102,650)	108,718	255,842
Other Adjustments	152	664	-	-	-
Changes in Loan Repay Balances	-	-	-	-	-
Ending Balance	\$267,187	\$154,778	\$46,931	\$128,832	\$382,174

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

General Fund Financial Summary
Fiscal Year 2001 – Fiscal Year 2005

	<u>Actual 2001</u>	<u>Actual 2002</u>	<u>Actual 2003</u>	<u>Actual 2004</u>	<u>Estimated 2005</u>
C. APPROPRIATE CONTINGENCY FUND					
Beginning Balance	\$958	\$93,987	\$77,934	\$58,535	\$169,903
Expenditures/Appropriations(3):					
Disasters	(6,150)	(20,379)	(8,117)	(10,248)	(10,000)
Medicaid	(68,000)	(5,000)	(19,500)	-	-
Other	-	-	-	(2,381)	(1,178)
Allot. Reversions(4)	2,779	9,326	8,218	3,997	-
Transfers:					
From General Fund	164,400	-	-	120,000	-
To Surplus/State Support Reserve	-	-	-	-	-
Ending Balance	\$93,987	\$77,934	\$58,535	\$169,903	\$158,725
D. RISK RESERVE FUND					
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Transfers					
From Risk Mgmt Funds	-	-	-	-	-
To Risk Mgmt Funds	-	-	-	-	-
Interest Earnings	-	-	-	-	-
Ending Balance	\$0	\$0	\$0	\$0	\$0
E. TAX STABILIZATION RESERVE					
Beginning Balance	\$0	\$87,715	\$87,715	\$77,715	\$77,715
Transfer In	87,715	-	-	-	-
Transfers Out(5)	-	-	(10,000)	-	-
Ending Balance	\$87,715	\$87,715	\$77,715	\$77,715	\$77,715
F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE					
Beginning Balance	\$0	\$60,993	\$59,642	\$62,042	\$70,689
Transfers In	-	43,637	42,900	37,449	34,779
Transfers Out	-	(40,513)	(42,900)	(37,449)	(34,779)
Gains Losses	-	(4,416)	2,400	8,647	5,796
Ending Balance	\$0	\$59,642	\$62,042	\$70,689	\$76,485
G. TOTAL BALANCES					
Beginning of Period	\$192,558	\$448,889	\$380,068	\$245,222	\$447,139
End of Period	\$448,889	\$380,068	\$245,222	\$447,139	\$690,099
Reserves as % of recurring appropriations	12.6%	9.8%	6.3%	10.9%	15.9%

NOTES TO GENERAL FUND FINANCING SUMMARY:

- (1) **Non-Recurring Appropriations:** Fiscal Year 2003 includes \$3.6 million for the purchase of Eagle Nest Lake and a \$151.7 million appropriation from the 2002 legislative session.
- (2) **Appropriations from the Operating Reserve:** Fiscal Year 2003 includes a \$3.5 million appropriation for the Department of Corrections, \$0.664 million appropriation to the Computer Systems Enhancement Fund, and \$1.036 million for BOF emergencies.
- (3) **Appropriation Contingency Fund Expenditures:** Fiscal Year 2003 includes \$8.1 million for disaster allotments and \$19.5 million for Medicaid (\$0.1 million for the Racing Commission was excluded).
- (4) **Appropriation Contingency Fund Revenue & Reversions:** Fiscal Year 2003 includes \$8.2 million for federal reimbursements for fire season 2002.
- (5) **Tax Stabilization Reserve Transfers Out:** Fiscal Year 2003 includes \$10.0 million to purchase water rights (see Laws 2002, Chapter 109).

General Fund Taxes and Revenues

Programs and operations of the State are predominantly funded through a system of 29 major taxes administered by the Taxation and Revenue Department. The Public Regulation Commission collects taxes on insurance premiums. In addition, interest income and earnings from the Land Grant Permanent Fund and the Severance Tax Permanent Fund provide important sources of revenue for State purposes. The most important tax and revenue sources, as measured by magnitude of revenue generation, and the application of the monies to certain funds and purposes are described below.

Gross Receipts and Compensating Taxes

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

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

The gross receipts and compensating taxes are the largest single source of State General Fund revenue. The gross receipts tax is also a significant source of revenue for cities and counties. The gross receipts tax includes the statewide gross receipts tax levy of 5 percent plus several city and county local-option gross receipts taxes. Until January 1, 2005, a credit of 0.5 percent against the statewide rate of 5 percent was allowed for municipal local-option taxes. Receipts from the statewide gross receipts tax levy, less disbursement to each incorporated municipality of 1.225 percent of the taxable gross receipts reported in that municipality and less disbursement to the State Aviation Fund of 3.59 percent of the value of jet fuel sales, are deposited in the State General Fund. After all other distributions, the General Fund share of gross receipts tax collections is about 63 percent. In terms of the compensating tax, after distributions of 10 percent to the small cities assistance fund and 10 percent to the small counties assistance fund, the remaining receipts from the 5 percent compensating tax are deposited in 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 taxes on food and certain medical services were eliminated. The credit of 0.5 percent against the statewide rate granted municipalities was 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 legislation enacts significant penalties for improper filings. The

deduction does not apply to receipts of restaurants and sellers of prepared foods. The legislation also created a gross receipts tax deduction for some receipts of licensed health care providers (broadly defined) from Medicare Part C and managed health care plans, and health care insurers. The legislation also provides for payments from the State to reimburse local governments for lost gross receipts tax revenues.

In Fiscal Year 2004, total distributions to the General Fund from gross receipts and compensating taxes grew by 5.0 percent over the previous Fiscal Year to \$1.443 billion. These combined revenues represented 33.6 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. Collections, net of refunds, are placed in the General Fund.

State statutes provide for a number of tax rebates and tax credits which are paid from or credited against the personal income tax and which have the effect of reducing available personal income tax collections. Rebate programs target those with very low incomes and include a general low-income rebate and a rebate for property taxes paid by the elderly. Credits are available for day care costs.

Laws of 2003, Chapter 2, enacted a significant personal income tax reduction that will reduce the top marginal personal income tax rate from 8.2 percent to 4.9 percent, to be phased in from Calendar Year 2002 to Calendar Year 2007. The legislation will encourage economic development and investment in New Mexico by making State income tax rates more competitive with neighboring states.

State tax rates by filing status effective Calendar Year 2004, are set forth below:

If the taxable income is:	Married Filing Separate:	If the taxable income is:	Surviving Spouse and Married Filing Joint
Not over \$4,000	1.7% of taxable income	Not over \$8,000	1.7% of taxable income
\$4,000 to \$8,000	\$68.00 plus 3.2% of excess over \$4,000	\$8,000 to \$16,000	\$136.00 plus 3.2% of excess over \$8,000
\$8,000 to \$12,000	\$196.00 plus 4.7% of excess over \$8,000	\$16,000 to \$24,000	\$392.00 plus 4.7% of excess over \$16,000
\$12,000 to \$20,000	\$384.00 plus 6.0% of excess over \$12,000	\$24,000 to \$40,000	\$768.00 plus 6.0% of excess over \$24,000
Over \$20,000	\$864.00 plus 6.8% of excess over \$20,000	Over \$40,000	\$1,728.00 plus 6.8% of excess over \$40,000
If the taxable income is:	Single Including Trust and Estates:	If the taxable income is:	Head of Household:
Not over \$5,500	1.7% of taxable income	Not over \$7,000	1.7% of taxable income
\$5,500 to \$11,000	\$93.50 plus 3.2% of excess over \$5,500	\$7,000 to \$14,000	\$119.00 plus 3.2% of excess over \$7,000
\$11,000 to \$16,000	\$269.50 plus 4.7% of excess over \$11,000	\$14,000 to \$20,000	\$343.00 plus 4.7% of excess over \$14,000
\$16,000 to \$26,000	\$504.50 plus 6.0% of excess over \$16,000	\$20,000 to \$33,000	\$625.00 plus 6.0% of excess over \$20,000
Over \$26,000	\$1,104.50 plus 6.8% of excess over \$26,000	Over \$33,000	\$1,405.00 plus 6.8% of excess over \$33,000

State tax rates by filing status effective Calendar Year 2005, are set forth below:

If the taxable income is:	Married Filing Separate:	If the taxable income is:	Surviving Spouse and Married Filing Joint
Not over \$4,000	1.7% of taxable income	Not over \$8,000	1.7% of taxable income
\$4,000 to \$8,000	\$68.00 plus 3.2% of excess over \$4,000	\$8,000 to \$16,000	\$136.00 plus 3.2% of excess over \$8,000
\$8,000 to \$12,000	\$196.00 plus 4.7% of excess over \$8,000	\$16,000 to \$24,000	\$392.00 plus 4.7% of excess over \$16,000
Over \$12,000	\$384.00 plus 6.0% of excess over \$12,000	Over \$24,000	\$768.00 plus 6.0% of excess over \$24,000
If the taxable income is:	Single Including Trust and Estates:	If the taxable income is:	Head of Household:
Not over \$5,500	1.7% of taxable income	Not over \$7,000	1.7% of taxable income
\$5,500 to \$11,000	\$93.50 plus 3.2% of excess over \$5,500	\$7,000 to \$14,000	\$119.00 plus 3.2% of excess over \$7,000
\$11,000 to \$16,000	\$269.50 plus 4.7% of excess over \$11,000	\$14,000 to \$20,000	\$343.00 plus 4.7% of excess over \$14,000
Over \$16,000	\$504.50 plus 6.0% of excess over \$16,000	Over \$20,000	\$625.00 plus 6.0% of excess over \$20,000

State tax rates by filing status effective Calendar Year 2006, are set forth below:

If the taxable income is:	Married Filing Separate:	If the taxable income is:	Surviving Spouse and Married Filing Joint
Not over \$4,000	1.7% of taxable income	Not over \$8,000	1.7% of taxable income
\$4,000 to \$8,000	\$68.00 plus 3.2% of excess over \$4,000	\$8,000 to \$16,000	\$136.00 plus 3.2% of excess over \$8,000
\$8,000 to \$12,000	\$196.00 plus 4.7% of excess over \$8,000	\$16,000 to \$24,000	\$392.00 plus 4.7% of excess over \$16,000
Over \$12,000	\$384.00 plus 5.3% of excess over \$12,000	Over \$24,000	\$768.00 plus 5.3% of excess over \$24,000
If the taxable income is:	Single Including Trust and Estates:	If the taxable income is:	Head of Household:
Not over \$5,500	1.7% of taxable income	Not over \$7,000	1.7% of taxable income
\$5,500 to \$11,000	\$93.50 plus 3.2% of excess over \$5,500	\$7,000 to \$14,000	\$119.00 plus 3.2% of excess over \$7,000
\$11,000 to \$16,000	\$269.50 plus 4.7% of excess over \$11,000	\$14,000 to \$20,000	\$343.00 plus 4.7% of excess over \$14,000
Over \$16,000	\$504.50 plus 5.3% of excess over \$16,000	Over \$20,000	\$625.00 plus 5.3% of excess over \$20,000

State tax rates by filing status effective Calendar Year 2007 and on are set forth below:

If the taxable income is:	Married Filing Separate:	If the taxable income is:	Surviving Spouse and Married Filing Joint
Not over \$4,000	1.7% of taxable income	Not over \$8,000	1.7% of taxable income
\$4,000 to \$8,000	\$68.00 plus 3.2% of excess over \$4,000	\$8,000 to \$16,000	\$136.00 plus 3.2% of excess over \$8,000
\$8,000 to \$12,000	\$196.00 plus 4.7% of excess over \$8,000	\$16,000 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:	If the taxable income is:	Head of Household:
Not over \$5,500	1.7% of taxable income	Not over \$7,000	1.7% of taxable income
\$5,500 to \$11,000	\$93.50 plus 3.2% of excess over \$5,500	\$7,000 to \$14,000	\$119.00 plus 3.2% of excess over \$7,000
\$11,000 to \$16,000	\$269.50 plus 4.7% of excess over \$11,000	\$14,000 to \$20,000	\$343.00 plus 4.7% of excess over \$14,000
Over \$16,000	\$504.50 plus 4.9% of excess over \$16,000	Over \$20,000	\$625.00 plus 4.9% of excess over \$20,000

Corporate Income Tax

The corporate income tax is imposed on the net income of a corporation doing business in the State or deriving any income from property and employment in the State. No corporate income tax is imposed upon insurance companies, which pay a premium tax to the State, or on nonprofit organizations or retirement trust funds. Collections, net of refunds, are placed in 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. In Fiscal Year 2004, net receipts received by the General Fund from corporate income tax were \$138.2 million, representing an increase of 35.8 percent over the prior Fiscal Year and a decline of 6.7 percent from Fiscal Year 2002. The corporate income tax represents 3.2 percent of recurring General Fund revenue.

Oil and Gas Emergency School Tax

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. Oil and gas emergency school tax receipts are disbursed to the General Fund. Tax is imposed at a rate of 3.15 percent of taxable value of oil and 4.0 percent of taxable value for natural gas. Taxable value reflects gross sales value less deductions for royalties paid to government entities and for certain processing and transportation expenses. This is the same definition of taxable value that is used for calculation of oil and gas severance tax liability.

Oil and gas emergency school tax receipts are disbursed to the General Fund. Oil and gas emergency school tax receipts were \$297.1 million in Fiscal Year 2004. Other General Fund taxes on natural resources production amounted to \$32.5 million. Together, mineral production taxes contributed approximately 7.7 percent of recurring General Fund revenue in Fiscal Year 2004.

Laws 2002, Chapter 15, created the Jicarilla Apache Tribal Capital Improvement Tax Credit. This new 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. This credit does not apply against the severance tax revenues due on the same production, and therefore does not affect revenue pledged to the Bonds.

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. In Fiscal Year 2004, an estimated \$334.9 million, approximately 7.8 percent of recurring General Fund receipts, was derived from Federal mineral leases.

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. Minerals production from State trust lands also generates royalty income which is deposited in the State Land Grant Permanent Fund. 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 State Land Grant Permanent Fund 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 State LGPF. The amendment provided that beginning in Fiscal Year 2005 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 State Land Grant Permanent Fund, the Severance Tax Permanent Fund, and cash balances held by the State Treasurer. Income from the State Land Grant Permanent Fund is distributed among the beneficiary educational institutions and public schools. The 82.8 percent share dedicated to public schools is deposited in the General Fund. In Fiscal Year 2004, \$292.2 million of Land Grant Permanent Fund distributions were transferred to the General Fund for public school purposes. \$172.4 million of income was distributed from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In Fiscal Year 2004, Treasurer's cash balances produced \$25.4 million of investment income, which was credited to the General Fund. Total Fiscal Year 2004 interest and investment income credited to the General Fund was \$490.0 million, representing 11.4 percent of recurring General Fund receipts.

Review of Historical Results in the General Fund

Fiscal Year 2000. Fiscal Year 2000 recurring revenue reached \$3.37 billion, with growth of 8.0 percent above the previous Fiscal Year. The General Fund saw strong growth in revenues related to mineral production in the State as energy prices recovered from low levels in Fiscal Year 1999. Total expenditures for Fiscal Year 2000 were approximately \$3.39 billion, an increase of 6.0 percent over Fiscal Year 1999. The operating reserve received a \$31.3 million transfer and ended the year with a balance of \$191.6 million. Year-end total General Fund balances were approximately \$191.6 million as the Risk Reserve was transferred out of the General Fund.

Fiscal Year 2001. Recurring General Fund revenue in Fiscal Year 2001 was \$3.99 billion, growing 18.3 percent over the previous Fiscal Year. Robust revenue growth continued during Fiscal Year 2001 bolstered by strong energy prices. Revenues relating to mineral production and rents and royalties increased 84.1 percent over the previous year. General sales revenue grew by 9.9 percent, the corporate income tax revenue grew 36.4 percent, and investment income grew 10.4 percent. Revenues from the personal income tax increased 9.8 percent before adjusting for legislative changes. Total appropriations for Fiscal Year 2001 were \$3.83 billion. Fund balances grew from \$192.6 million at the end of Fiscal Year 2000 to \$448.9 million, as the Operating Reserve grew from \$191.6 million to \$267.2

million, and the Appropriation Contingency Fund and Tax Stabilization Reserve, which also serve as budgetary reserves, were increased to \$94.0 million and \$87.7 million, respectively.

Fiscal Year 2002. Recurring revenue was \$143.2 million lower than Fiscal Year 2001 or \$3.85 billion. Revenue declined considerably due to the September 11, 2001 terrorist attacks and an already weakening economy. A significant downward revision in the price of natural gas also contributed to the decline. Recurring appropriations of \$3.87 billion were signed into law, an increase of 8.2 percent over the previous Fiscal Year. Total General Fund reserves were \$320.4 million, or 8.3 percent of recurring appropriations, comprising the Operating Reserve of \$154.8 million, and the Appropriation Contingency Fund and Tax Stabilization Reserve of \$77.9 million and \$87.7 million, respectively.

Fiscal Year 2003. Recurring general fund revenue was \$3.89 billion in Fiscal Year 2003, growing 1.1 percent over Fiscal Year 2002. High oil and natural gas prices led to strong growth in mineral production taxes and rents, royalties, and bonuses, but were offset by weakness in income tax collections. Total appropriations were \$4.05 billion, representing growth of only 0.1 percent over the previous Fiscal Year. To meet appropriations, \$103.3 million was transferred from the operating reserve to the general fund. Total General Fund reserves at the close of Fiscal Year 2003 were \$244.5 million, or 6.3 percent of recurring appropriations.

Fiscal Year 2004. In Fiscal Year 2004, based on preliminary actual results, recurring General Fund revenue totaled \$4.293 billion or 10.3 percent above Fiscal Year 2003. Abnormally high oil and natural gas prices resulted in 22.8 percent growth in severance taxes, and 25.9 percent growth in rents and royalties. Sales and income taxes grew 8.6 and 10.9 percent, respectively. Total appropriations were \$4.383 billion, growing by 8.2 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. Fiscal Year 2005 recurring General Fund revenue is expected to be \$4.63 billion, representing growth of 8.1 percent over Fiscal Year 2004. Prices for oil and natural gas will remain elevated, leading to growth of 15.9 percent in severance taxes and 14.5 percent in rents and royalties. General and selective sales taxes are expected to grow by 6.1 and 15.1 percent, respectively. High growth in selective sales is due to the 2004 Legislature's adoption of a health insurance premium surtax and to the opening of a new casino in Hobbs that will increase gaming excise tax collections. Income taxes will grow 1.7 percent in Fiscal Year 2005; this growth rate incorporates the continued phase-in of the personal income tax reduction passed by the 2003 Legislature. Revenues from investments are expected to increase by 15.1 percent in Fiscal Year 2005 due to rising interest rates. Total appropriations are expected to equal \$4.38 billion, representing flat growth over the previous year. An anticipated transfer of \$255.8 million to reserves will bring reserves to 15.9 percent of recurring appropriations.

Severance Taxes

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, oil and coal. Severance Tax collections on these three mineral resources produced \$99.8 percent of total Fiscal Year 2004 Severance Tax Bonding Fund tax receipts. Severance Tax collections on natural gas and oil in Fiscal Year 2004 represent approximately 94.0 percent of total Fiscal Year 2004 Severance Tax Bonding Fund tax receipts. Overall receipts from severance taxes deposited in the Severance Tax Bonding Fund totaled \$305.6 million, or 95.7 percent of total Severance Tax Bonding Fund receipts, an increase of 28.6 percent from the prior fiscal year.

Severance Tax on Indian Land

The United States Supreme Court has ruled that the State can tax non-Indian oil and gas production on tribal land (*Cotton Petroleum Co. v. State of New Mexico*, 490 US 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 [1989]). The authority of the State to impose Severance Taxes on Indian oil and gas production on tribal land was upheld by the United States District Court in New Mexico (*Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922).

The Tax Department reports that natural gas production and crude oil production on Indian land were approximately 4.0 percent and 1.0 percent, respectively, of total taxable statewide production in Fiscal Year 2004. DFA estimates that oil and gas production on Indian lands generated \$5.3 million in Severance Tax revenues to the State in the production months corresponding to Fiscal Year 2004. 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 a credit against State production and property taxes for similar taxes imposed by tribal governments. The intergovernmental 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 Tax Department estimates that total credits claimed under this provision were about \$1.7 million in 2004. About \$0.7 million of these credits were applied against oil and gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

Laws 2001, Chapter 134 provides a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo nation. The Taxation and Revenue Department estimates that this credit reduced Severance Tax Bonding Fund revenue by \$3.4 million in Fiscal Year 2004.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund was established in the State Treasury in 1973 to receive the residual revenues from the Severance Tax Bonding Fund and serve as an endowment for future capital

projects. In the General Election of 1976, the electorate approved a constitutional amendment giving the Severance Tax Permanent Fund constitutional status. In the General Election of 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the Severance Tax Permanent Fund. Distributions from investments of the 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 income of the Severance Tax Permanent Fund. The market value of the Severance Tax Permanent Fund as of July 31, 2004 was approximately \$3.62 billion, an increase of approximately 9.0 percent from the prior year. **Money on deposit in the Severance Tax Permanent Fund is not pledged to pay the Bonds.**

The New Mexico State Land Grant Permanent Fund (“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 8.9 million surface acres and 12.7 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 July 31, 2004, the market value of the LGPF was approximately \$7.64 billion, an increase of approximately 12.2 percent from the prior 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 the Bonds.** The LGPF is also protected by the Federal Enabling Act of 1910.

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

In September 2003, the electorate of the State of New Mexico approved a constitutional amendment regarding distributions for educational purposes from the State LGPF. The Amendment increases the rate of distribution from the LGPF from 4.7 percent to 5.0 percent of the average Fiscal Year market value of the LGPF beginning in Fiscal Year 2005. Certain additional distributions shall be made to implement and maintain educational reforms as provided by law. An additional 0.8 percent 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 thoroughly examined and audited each year by the State Auditor, personnel of the Auditor’s office designated by the Auditor, or by the

independent auditors approved by the 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.

State Budgetary and Appropriation Process

All State agencies are required to submit their budget requests to the Budget Division of the Department of Finance and Administration (“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. 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 Bill, 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 Bill, which thereby becomes the General Appropriations Act, veto it, veto line items or veto parts of it. Upon enactment the Budget Division of the DFA approves the agency budgets and monitors the expenditure of the funds pursuant to the General Appropriations Act, beginning on July 1, the first day of the Fiscal Year.

Investment Management

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 adopted by the State Treasurer and approved by the State Board of Finance. The State Treasurer’s 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 is subject to review and approval no less than every two years.

The investment policy governs the investment activities of the State Treasurer. This policy applies to all financial assets of the State invested by the Treasurer in the exercise of his statutory authority or invested as directed by other agencies which have specific investment authority and for which the Treasurer acts as agent. These funds include, but are not limited to the Treasurer’s General Fund, and agency funds such as the Local Government Investment Pool, bond funds, debt service reserve funds, those pension and permanent fund monies not yet allocated to money managers, and all float.

According to the investment policy, an Investment Committee must be appointed by the State Treasurer with the specific purpose and responsibility of establishing, maintaining and administering the investment policy. The Investment Committee consists of five (5) voting members: the State Treasurer, or designee, who serves as Chairman, two members of the State Treasurer’s Office involved in the investment decision making process, one of whom will serve as vice-chairman, the Director of the State Board of Finance or designee, and a professional participant in the private investment community or an individual with expert knowledge or professional experience in the subject or professional practice of public finance or

public fund investing, appointed by the State Treasurer with the advice and consent of the State Board of Finance.

The functions of the Investment Committee include:

- Reviewing and recommending, if advisable, modifications in the investment policy of the State Treasurer from time to time;
- Assessing the utility and efficacy of established internal controls as loss prevention measures with respect to the investment portfolio subject to the investing authority of the State Treasurer;
- Determining whether legislation affecting the investment activities of State Treasurer should be recommended;
- Recommending investment procedures that may be useful or required in maintaining currency with public finance market practices;
- Meeting monthly to deliberate such topics as: economic outlook, portfolio diversification and maturity structure, potential risks, the target rate of return on the investment portfolio and the like;
- Identify potential violations of and suggesting remedial actions to achieve conformity with the investment policy;
- Recommending depositories, custodians, broker/dealers and investment managers and advisors; and
- Assessing whether the investment policy of State Treasurer is being properly implemented by the individuals and entities involved in the administration and management of investment activities.

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 membership as of June 30, 2004 was officially reported as 111,475. The annual actuarial valuation of the Educational Retirement Act of the State was conducted and reported as of June 30, 2004 by Gabriel, Roeder, Smith & Co. The Educational Retirement Board accepted the actuary's conclusion that the existing statutory contributions equal to 7.6 percent by members and 8.65 percent by employers were inadequate to provide for the benefits payable under the system. Accrued assets at fair value on June 30, 2004 were \$6.9 billion and the unfunded liability was \$2.439 billion. As of June 30, 2004, the Educational Retirement Board has an infinite funding period. This is an increase from last year's funding period of 78.0 years. Therefore, if the 8.65 percent employer contribution rate and 7.60 percent member contribution rate remain in place, and all actuarial assumptions are exactly realized, including an 8.00 percent investment return on the actuarial value of assets, then the unfunded liability will never achieve complete amortization. The contribution that would be required in order to amortize the unfunded liability over 40

years is 10.67 percent. Last year the 40-year funding rate was 9.33 percent. Forty years is the maximum funding period under GASB 25, effective through Fiscal Year 2006, when a GASB 25 transition period ends and the maximum amortization period becomes 30 years.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at June 30, 2003 was 81.1 percent, while the funded ratio at June 30, 2004 is 75.4 percent. It is anticipated the Educational Retirement Board will seek legislation to increase the contributions to the system, either from the employer or the employee in order to decrease the unfunded liability and to achieve compliance with GASB 25 regarding the amortization period.

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, 2004. 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 5 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, 2004, is shown below.

Summary of State Retirement Funds
(Dollars in thousands)

	<u>PERA</u>	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
Membership	69,116	207	106	5,546	331
<u>Actuarial Information</u>					
Accrued Liability	\$ 9,950,224.3	\$ 87,620.2	\$30,194.6	\$17,778.2	\$23,530.7
Value of Assets	<u>9,267,268.1</u>	<u>66,208.8</u>	<u>30,071.6</u>	<u>33,000.3</u>	<u>8,407.7</u>
Unfunded (Overfunded) Accrued Liability	\$ 682,956.2	\$ 21,411.4	\$ 123.0	(\$15,222.1)	\$15,123.0
Present Value of Statutory Obligations	\$13,287,899.7	\$113,626.4	\$38,838.2	\$33,721.0	\$25,203.6

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 1990's, 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 three Metropolitan Statistical Areas (MSAs) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval and Valencia Counties; the Las Cruces MSA is Doña Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Doña Ana. The following table sets forth information on population growth in New Mexico and nationally over the past decade.

**Population
New Mexico and the United States
1993-2003**

<u>Year</u>	<u>Population</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>N.M.</u>	<u>U.S.</u>
1993	1,636,453	259,918,588	2.6%	1.3%
1994	1,682,398	263,125,821	2.8%	1.2%
1995	1,720,394	266,278,393	2.3%	1.2%
1996	1,752,326	269,394,284	1.9%	1.2%
1997	1,774,839	272,646,925	1.3%	1.2%
1998	1,793,484	275,854,104	1.1%	1.2%
1999	1,808,082	270,040,168	0.8%	1.2%
2000	1,821,767	282,224,348	0.8%	1.1%
2001	1,830,935	285,317,559	0.5%	1.1%
2002	1,855,059	288,368,698	1.3%	1.1%
2003	1,874,614	290,809,777	1.2%	1.0%

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

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. In Fiscal Year 2001, the value of energy resources production (crude petroleum, natural gas, and coal) was approximately \$10.6 billion. 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 1980-2000.

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Total Full-time and Part-time Employment by Industry

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>Growth</u>	
				<u>1980-1990</u>	<u>1990-2000</u>
Total employment	598,200	767,044	974,877	28.2%	27.1%
Wage and salary employment	513,307	635,630	791,613	23.8%	24.5%
Proprietors employment	84,893	131,1415	183,264	54.8%	39.5%
Farm proprietors employment		13,600	14,985	1.5%	10.2%
Nonfarm proprietors employment	13,400	117,814	168,279	64.8%	42.8%
By industry					
Farm employment	22,191	19,766	21,737	-10.9%	10.0%
Nonfarm employment	576,009	747,278	953,140	29.7%	27.5%
Private employment	430,735	571,688	762,295	32.7%	33.3%
Agri. services, forestry, fishing and other	4,358	8,410	13,673	93.0%	62.6%
Mining	31,152	20,488	19,274	-34.2%	-5.9%
Metal mining	10,603	2,187	1,677	-79.4%	-23.3%
Coal mining	1,980	1,787	1,644	-10.1%	-7.7%
Oil and gas extraction	15,116	14,068	14,390	-6.9%	2.3%
Nonmetallic minerals, except fuels	3,453	2,452	1,563	-29.0%	-36.3%
Construction	38,873	40,816	60,829	5.0%	49.0%
General building contractors	11,933	11,857	16,896	-0.6%	42.5%
Heavy construction contractors	8,287	6,945	9,189	-16.2%	32.3%
Special trade contractors	18,653	22,014	34,744	18.0%	57.8%
Manufacturing	35,962	48,242	48,746	34.1%	1.0%
Durable goods	21,582	33,014	33,231	53.0%	0.7%
Nondurable goods	14,380	15,228	15,515	5.9%	1.9%
Transportation and public utilities	30,726	33,709	43,422	9.7%	28.8%
Wholesale trade	22,733	27,860	33,742	22.6%	21.1%
Retail trade	98,075	134,690	173,782	37.3%	29.0%
Finance, insurance, and real estate	37,945	46,966	63,017	23.8%	34.2%
Services	130,911	210,507	305,810	60.8%	45.3%
Government and government enterprises	145,274	175,590	190,845	20.9%	8.7%
Federal, civilian	29,963	31,619	30,118	5.5%	-4.7%
Military	21,794	22,552	17,167	3.5%	-23.9%
State and local	93,517	121,419	143,560	29.8%	18.2%
State governmental	42,560	55,722	64,665	30.9%	16.0%
Local government	50,957	65,697	78,896	28.9%	20.1%

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

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

**Employment and Labor Force
New Mexico and the United States
1992-2003**

<u>Year</u>	<u>Civilian Labor Force</u> (000)		<u>Number of Employed</u> (000)		<u>Unemployment Rate</u>		<u>N.M. as % of U.S. Rate</u>
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>	
1992	744	128,105	692	118,492	7.0%	7.5%	94%
1993	761	129,200	703	120,259	7.7%	6.9%	111%
1994	782	131,047	733	123,071	6.3%	6.1%	103%
1995	797	132,315	747	124,908	6.3%	5.6%	112%
1996	807	133,951	742	126,723	8.1%	5.4%	149%
1997	826	136,301	774	129,572	6.2%	4.9%	126%
1998	845	137,680	793	131,476	6.2%	4.5%	137%
1999	824	139,380	778	133,501	5.6%	4.2%	132%
2000	854	142,588	812	136,902	5.0%	4.0%	125%
2001	860	143,756	819	136,944	4.8%	4.8%	100%
2002	875	144,888	828	136,487	5.4%	5.8%	93%
2003	897	146,516	840	137,739	6.4%	6.0%	106%

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

**Personal Income
New Mexico and the United States
1993-2003**

<u>Year</u>	<u>Personal Income</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>N.M.</u>	<u>U.S.</u>
1993	\$27,818,749	\$5,598,446,000	7.1%	4.1%
1994	29,670,305	5,878,362,000	6.7%	5.0%
1995	31,716,159	6,192,235,000	6.9%	5.3%
1996	33,231,753	6,538,103,000	4.8%	5.6%
1997	34,859,773	6,928,545,000	4.9%	6.0%
1998	36,857,333	7,418,497,000	5.7%	7.1%
1999	37,725,000	7,779,521,000	2.4%	4.9%
2000	39,692,294	8,398,871,000	5.2%	8.0%
2001	42,260,462	8,677,490,000	6.5%	3.3%
2002	44,412,507	8,922,320,000	5.1%	2.8%
2003 ⁽¹⁾	47,879,533	9,199,077,802	4.2%	3.4%

⁽¹⁾ Preliminary.

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

**Per Capita Personal Income
New Mexico and the United States**

<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>
1993	\$16,999	\$21,539	79%	4.5%	2.8%
1994	17,636	22,340	79%	3.7%	3.7%
1995	18,435	23,255	79%	4.5%	4.1%
1996	18,964	24,270	78%	2.9%	4.4%
1997	19,641	25,412	77%	3.6%	4.7%
1998	20,551	26,893	76%	4.6%	5.8%
1999	20,865	27,880	75%	1.5%	3.7%
2000	21,788	29,760	73%	4.4%	6.7%
2001	23,081	30,413	76%	5.9%	2.2%
2002	23,941	30,941	77%	3.7%	1.7%
2003 ⁽¹⁾	25,541	31,632	81%	2.9%	2.4%

⁽¹⁾ Preliminary.

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

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 issue of the Bonds, each in the aggregate principal amount of such issue, 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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 provided 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 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 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 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 nor 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.

DTC may discontinue providing its services as 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 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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 does not take any responsibility for the accuracy thereof.

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.

When reference is made to any action which 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 owner 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 each of the funds and 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, *ad valorem* taxes for the payment of the Bonds and the funds 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 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; (j) the State 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, (1) apply, or cause to be applied, the proceeds of the Bonds to the purpose of the borrowing, (2) restrict the yield on investment-type property acquired with those proceeds, (3) make timely rebate payments to the federal government in accordance with Section 148 of the Code and the Resolution, (4) maintain books and records and make calculations and reports, and (5) 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 (k) 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 clause (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 Ratings Services or Moody’s Investors Service, Inc., 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, 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.

Notwithstanding that Bonds may be deemed to have been paid, 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 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, the rate of interest on, or the redemption premium on any 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 Sutin, Thayer & Browne A Professional Corporation, 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 Brownstein Hyatt & Farber, P.C., as Disclosure Counsel to the State.

TAX MATTERS

In the opinion of Sutin, Thayer & Browne A Professional Corporation (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is not an item of tax preference for purposes of the federal alternative minimum tax imposed 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. Bond Counsel is further of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Board, on behalf of the State, has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events

occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Bond Resolution and the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed 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), and is exempt from State of New Mexico personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code 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 tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State has covenanted, however, to comply with the requirements of the Code.

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 State 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 IRS positions with which the State 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 State or the Beneficial Owners to incur significant expense.

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 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. Fiscal Strategies Group, Inc. has contracted with Public Resources Advisory Group (together with Fiscal Strategies Group, Inc., 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 Advisory’ 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, Inc. and Standard & Poor’s Ratings Services, 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, 2005, 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 Board has never failed to comply in all material respects with any previous undertakings entered in compliance with 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.

APPROVAL BY FINANCE COUNCIL

On May 23, 2003, Governor Bill Richardson signed Executive Order No. 2003-017 establishing the Governor's Finance Council to oversee and approve bond transactions issued by State agencies. The Board has requested approval of the issuance of the Bonds from the Governor's Finance Council and expects to receive approval prior to the closing of the Bonds.

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.

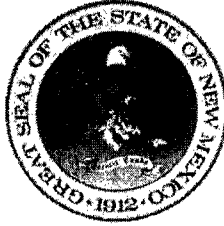
State Board of Finance of the State of New Mexico

By /s/ Bill Richardson
President

APPENDIX A

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

YEAR ENDED JUNE 30, 2003



State of New Mexico

ANNUAL FINANCIAL REPORT
State General Fund
Component Appropriation Accounts

Fiscal Year Ended June 30, 2003

Bill Richardson, Governor

Prepared by
The Department of Finance and Administration



State of New Mexico
OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

Mr. James C. Jimenez, Cabinet Secretary
State of New Mexico, Department of Finance and Administration
180 Bataan Memorial Building
Santa Fe, New Mexico 87501

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, 2003, which collectively comprise the State General Fund's basic financial statements 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 financial position of only that portion of the governmental activities and the major fund financial statements of the State that is attributable to the transactions of the State General Fund. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2003, 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, 2003, 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 accordance with Government Auditing Standards, we have also issued our reported dated December 18, 2003 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 grants. 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 in considering the results of our audit.

The accompanying management's discussion and analysis on pages 9 through 15 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 primarily of inquiries 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 financial statements that collectively comprise the State General Fund's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR

December 18, 2003

GOVERNMENT-WIDE FINANCIAL STATEMENTS

State of New Mexico
State General Fund
COMPONENT APPROPRIATION ACCOUNTS
Statement of Net Assets
June 30, 2003

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Pooled cash and investments, Note 2	\$ 324,213,620	\$ -	\$ 324,213,620
Investments held by State Investment Council	62,009,360	-	62,009,360
Due from other state entities	645,926,119	-	645,926,119
Total assets	<u>1,032,149,099</u>	<u>-</u>	<u>1,032,149,099</u>
LIABILITIES			
Current liabilities:			
Cash overdraft, Note 2	449,361,194	-	449,361,194
Voucher payable	1,054	-	1,054
Due to other state entities	78,150,944	-	78,150,944
Total liabilities	<u>527,513,192</u>	<u>-</u>	<u>527,513,192</u>
NET ASSETS			
Unrestricted	504,635,907	-	504,635,907
Total net assets	<u>\$ 504,635,907</u>	<u>\$ -</u>	<u>\$ 504,635,907</u>

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, 2003

Functions Primary Government:	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-type Activities
General government	\$ 212,547,115	\$ -	\$ (204,852,644)	\$ -
Legislative	21,417,728	-	(21,337,386)	-
Judicial	134,989,900	-	(125,578,591)	-
Commerce and industry	56,509,300	-	(18,568,413)	-
Natural resources	72,562,000	-	(72,562,000)	-
Health and human services	901,265,300	-	(898,749,213)	-
Public safety	269,723,623	-	(269,723,623)	-
Transportation	975,500	-	(948,742)	-
Higher education	611,112,250	-	(611,112,250)	-
Public school support	1,789,467,000	-	(1,768,739,813)	-
Other education	23,782,400	-	(23,782,400)	-
Interest on short term debt	8,171,602	-	(8,171,602)	-
Issuance costs on short term debt	374,680	-	(374,680)	-
Total primary government	\$ 4,102,898,398	\$ -	(4,024,501,357)	(374,680)
				\$ (204,852,644)
				(21,337,386)
				(125,578,591)
				(18,568,413)
				(72,562,000)
				(898,749,213)
				(269,723,623)
				(948,742)
				(611,112,250)
				(1,768,739,813)
				(23,782,400)
				(8,171,602)
				(374,680)
				(4,024,501,357)

General revenues:	General revenues and changes in net assets
Taxes:	
Sales and use	275,872,738
Business privilege	1,656,184,265
Personal income	974,118,173
Corporate income	102,846,146
Severance	17,998,534
Other	268,459,602
Investment income (Unrestricted)	211,458,890
Investment income (Restricted)	275,683,876
Tribal gaming revenue sharing	33,096,236
Escheats	6,200,947
Reversions	54,751,683
Transfers	112,318,255
Total general revenues and transfers	3,988,989,345
Change in net assets	(35,512,012)
Net assets-beginning (restated), Note 5	540,147,919
Net assets-ending	\$ 504,635,907

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, 2003

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets:			
Pooled cash and investments, Note 2	\$ 324,213,620	\$ -	\$ 324,213,620
Investments held by State Investment Council	62,009,360	-	62,009,360
Due from other state entities	645,926,119	-	645,926,119
Total assets	\$ 1,032,149,099	\$ -	\$ 1,032,149,099
 LIABILITIES AND FUND BALANCES			
Current liabilities:			
Deferred revenues	259,445,217	-	259,445,217
Cash overdraft, Note 2	449,361,194	-	449,361,194
Voucher payable	1,054	-	1,054
Due to other state entities	78,150,944	-	78,150,944
Total Liabilities	786,958,409	-	786,958,409
 Fund balances:			
Unreserved/undesignated	245,190,690	-	245,190,690
Total liabilities and fund balances	\$ 1,032,149,099	\$ -	
The amounts due from other entities are not all available to pay for current period expenditures and, therefore, are deferred in the funds.			259,445,217
Net assets of governmental activities			\$ 504,635,907

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, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General and selective taxes	\$ 1,655,513,863	\$ -	\$ 1,655,513,863
Income taxes	1,062,702,650	-	1,062,702,650
Severance taxes	268,410,629	-	268,410,629
License fees	38,420,233	-	38,420,233
Investment income	487,142,766	-	487,142,766
Rents and royalties	289,092,917	-	289,092,917
Miscellaneous receipts	63,721,151	-	63,721,151
Reversions	50,339,788	-	50,339,788
Total revenues	<u>3,915,343,997</u>	<u>-</u>	<u>3,915,343,997</u>
EXPENDITURES			
Current:			
Appropriations:			
Legislative	21,417,728	-	21,417,728
Judicial	134,989,900	-	134,989,900
General Control	212,547,115	-	212,547,115
Commerce and industry	56,509,300	-	56,509,300
Natural resources	72,562,000	-	72,562,000
Health and human services	901,265,300	-	901,265,300
Public safety	269,723,623	-	269,723,623
Transportation	975,500	-	975,500
Other education	23,782,400	-	23,782,400
Higher education	611,112,250	-	611,112,250
Public school support	1,789,467,000	-	1,789,467,000
	<u>4,094,352,116</u>	<u>-</u>	<u>4,094,352,116</u>
Tax and Revenue Anticipation Notes:			
Interest expense	8,171,602	-	8,171,602
Issuance costs	374,680	-	374,680
	<u>8,546,282</u>	<u>-</u>	<u>8,546,282</u>
Total Expenditures	<u>4,102,898,398</u>	<u>-</u>	<u>4,102,898,398</u>
Deficiency of revenues under expenditures	(187,554,401)	-	(187,554,401)
OTHER FINANCING SOURCES			
Transfers In	112,318,255	-	112,318,255
Total other financing sources	<u>112,318,255</u>	<u>-</u>	<u>112,318,255</u>
Net change in fund balance	(75,236,146)	-	(75,236,146)
Fund balance - beginning	<u>320,426,836</u>	<u>-</u>	<u>320,426,836</u>
Fund balance - ending	<u>\$ 245,190,690</u>	<u>\$ -</u>	<u>\$ 245,190,690</u>

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, 2003

Amounts reported for governmental activities in the Statement of Activities (page 19) are different because:

Net change in fund balances—total governmental funds (page 22)	(\$75,236,147)
Revenues earned in fiscal year 2002 that were not “available” until fiscal year 2003 are reported in the funds as fiscal year 2003 revenue	(219,721,082)
Revenues earned in fiscal year 2003 that will not be “available” until fiscal year 2004 are <u>not</u> reported in the funds	259,445,217
Change in net assets of governmental activities (page 19)	<u>(\$35,512,012)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2003

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, 2003

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 to the *tobacco permanent settlement fund*. Subsection C of that section requires that, in fiscal year 2007 and beyond, an annual distribution be made from the *tobacco settlement permanent fund* to the *tobacco settlement program fund* of an amount equal to fifty percent of the total amount distributed to the *tobacco settlement permanent fund* in that fiscal year until the amount is less than an amount equal to four and seven-tenths percent of the average of the year-end market values of the *tobacco settlement permanent fund* for the immediately preceding five years.

Administratively Created Funds

1. Appropriation Account Fund

The *appropriation account fund* is an administratively created fund the State General Fund uses to account for the financial activity of

the statutorily created *general fund* and for portions of the financial activity of the statutorily created *public school fund*.

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

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

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

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

2. Federal Mineral Leasing Fund

As noted above, the State General Fund administers two other activities of the *public school fund* through its administratively created *federal mineral leasing fund*. Those activities include receiving receipts under the Federal Minerals Land Act, 30 USC 181, and allotting cash—based on legislative appropriation—from the portion of the *public school fund* administered

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2003

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
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Notes to the Financial Statements
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interfund activity included the receivables and payables listed in the table below.

Due from Other Fund		Due to Other Funds		Amount
Name	Central Accounting System Fund Number	Name	Central Accounting System Fund Number	
Appropriations Account Fund	853	Current School Fund	717	\$ 25,034,467
Current School Fund	717	Common School Current Fund	716	22,979,116
Appropriation Account Fund	853	Federal Mineral Leasing Fund	851	35,544,835
Appropriation Account Fund	853	Operating Reserve Fund	852	<u>102,650,208</u>
				<u>\$ 186,208,626</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
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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 30 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."

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2. Pooled Cash and Investments

Pooled cash and investments are on deposit with the State of New Mexico, Office of the State Treasurer's external investment pool. The Office of the State Treasurer's scope of authority for the types of investments, which may be made with State funds, is statutorily defined and governed by the State Treasurer's Investment Policy approved by the State Board of Finance. In general, state statutes require that deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. The following is a schedule of pooled cash and investments on deposit with the State Treasurer.

Name of Statutorily or Administratively Created Funds	Central Accounting System Fund Number	General Fund
Tobacco Settlement Permanent Fund	404	\$ -
Common School Current Fund	716	-
Current School Fund	717	2,056,405
Tax Stabilization Reserve Fund	843	77,714,956
Federal Mineral Leasing Fund	851	36,325,677
General Fund Operating Reserve Fund	852	149,581,133
Appropriation Contingency Reserve Fund	854	<u>58,535,449</u>
		<u>\$ 324,213,620</u>
Cash Overdraft:		
Appropriation Account Fund	853	<u>\$ (449,361,194)</u>

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The State Treasurer's external investment pool's June 30, 2003 audited financial statements were not available as of December 15, 2003. Based on the State Treasurer's unaudited information, the State General Fund has presented pooled cash and investments at a value, which approximates fair values as required by GASB No. 31, *Accounting and*

Financial Reporting for Certain Investments and for External Investment Pools. The pooled cash and investments on deposit with the State Treasurer are not classified by credit or custodial risk.

3. Tax and Revenue Anticipation Notes

The following notes were issued by the State of New Mexico during fiscal year 2003 and matured June 30, 2003:

- A. 2002-2003 Tax and Revenue Anticipation Notes, Series 2002, \$400.0 million.
- B. 2002-2003 Tax and Revenue Anticipation Notes, Series 2002A, \$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 2003.

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:

4. Transfer Authority

For fiscal year 2003, the General Appropriations Act of 2003 provide the State General Fund with authority to transfer \$130.0 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

The Office of the State Treasurer deposited the net proceeds from the sale of the notes, \$707,143,996, to its *anticipation notes fund* (Central Accounting System fund number 323). The Office of the State Treasurer subsequently transferred the entire amount of the proceeds to the *appropriation account fund* (Central Accounting System fund number 853).

To the pay the notes, the State General Fund transferred \$715,690,278 from the *appropriation account fund* to the *state treasurer anticipation notes debt service fund* (Central Accounting System fund number 393). 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, 2003, the State of New Mexico issued the following Tax and Revenue Anticipation notes: 03-04 Tax and Revenue Anticipation Notes, Series 2003, \$400.0 million.

school state-support reserve) were not sufficient to meet appropriations.

For fiscal year 2003, revenues and transfers were not sufficient to meet appropriations by \$102,650,208.

5. Restatement of Beginning Net Assets

The beginning net assets presented in the accompanying Statement of Activities reflect an adjustment of \$17,960,227. The adjustment is necessary to correct an error, which resulted in an

overstatement of revenues in 2002. The overstatement resulted from the erroneous accrual of Corporate Income Tax, Personal Income Tax, Motor vehicle Excise Tax and Motor Vehicle Penalty and

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Miscellaneous fees at June 30, 2002. The error did not impact the governmental fund balance.

Summary of Adjustments:

	<u>Net Assets</u>
Unadjusted beginning balance	\$558,108,145
Adjustment to full accrual	(17,960,226)
Adjusted beginning balance	<u>\$540,147,919</u>

6. Transfers In/out

For fiscal year 2003, fund 404 – Tobacco Settlement Permanent fund had Transfers in of \$ 105,768,494 from the State Investment Council private-purpose trust fund. The fund also had transfers out of \$ 43,759,134 to fund 853 – Appropriation Account. Fund 853 had transfers in of \$43,759,134 noted above, along with \$6,549,761 from

fund 697 – Tobacco Settlement Program fund and \$102,650,208 from fund 852 – General Operating Reserve. Fund 852 – General Operating Reserve had transfers out of \$102,650,208 to fund 853 – Appropriation Account to cover June 30, 2003 deficiency.

APPENDIX B

FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER

[date]

State Board of Finance	Sutin Thayer & Browne	Brownstein Hyatt & Farber, P.C.
State of New Mexico	A Professional Corporation	201 Third Street, N.W.
Bataan Memorial Building, Suite 181	P.O. Box 2187	Suite 1500
Santa Fe, NM 87501	Santa Fe, NM 87504	Albuquerque, NM 87102

Re: \$111,850,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2005

Ladies and Gentlemen:

This letter will serve as our certificate of litigation concerning the State of New Mexico Capital Projects General Obligation Bonds, Series 2005, in the principal amount of \$111,850,000 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. Chapter 117, Laws 2004); (iv) the transactions authorized by the State Board of Finance in its resolutions of December 14, 2004 and January 11, 2005 (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

The New Mexico Department of Taxation and Revenue has informed this office that currently there is no 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
CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2005**

(Form of Bond Counsel Opinion)

_____, 2005

State Board of Finance
State of New Mexico
Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance of the \$111,850,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2005 (the "Bonds"), dated the date of delivery and being a series of bonds in registered form maturing on March 1, 2006, and serially thereafter on March 1 of each year through 2015.

We have also examined the provisions of the Constitution and laws of the State of New Mexico (the "State") including the 2004 Capital Projects General Obligation Bond Act, Chapter 117, Laws 2004, 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 January 11, 2005, an executed Bond of the first maturity, and the Tax 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, the Bond Legislation and the Tax Certificate 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.

Very truly yours,

SUTIN, THAYER & BROWNE
A Professional Corporation

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 \$111,850,000 Capital Projects General Obligation Bonds, Series 2005 (the “Bonds”). The Bonds are being issued pursuant to the Bond Resolution adopted by the Board on January 11, 2005 (the “Resolution”).

BACKGROUND

1. The Bonds are being issued to provide funds for capital expenditures for construction, acquisition or improvement of public library, senior citizens, kindergarten classroom and higher education projects as set forth in the 2004 Capital Projects General Obligation Bond Act, Chapter 117, Laws 2004 and approved by the voters of the State on November 2, 2004.

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, audited by a firm of certified public accountants.

(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
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Email: NRMSIR@FTID.com
Web: www.interactivedata.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.jjkenny.com/jjkenny/pser_descrip_data_rep.html

(f) "Official Statement" means the Official Statement dated January 11, 2005 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, 2005 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: _____, 2005

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 STATE GENERAL FUND COMPONENT APPROPRIATION
ACCOUNTS FINANCIAL STATEMENTS (Audited)
All

