

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on \$134,870,000 Capital Projects General Obligation Bonds, Series 2007 (the "Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision, a prospective investor should read the entire Official Statement. Certain capitalized terms used in the cover page and elsewhere in this Official Statement have the meanings given in the Official Statement.

\$134,870,000
THE STATE OF NEW MEXICO
CAPITAL PROJECTS GENERAL OBLIGATION BONDS
SERIES 2007

Dated: Delivery Date	Due: March 1, as shown on inside cover
Ratings	"Aa1" Moody's Investors Service "AA+" Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.
Tax Exemption	In the opinion of Brownstein Hyatt Farber Schreck, P.C., 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 Redemption	The Bonds are <u>not</u> subject to optional redemption prior to maturity.
Security	The Bonds are being issued under the authority of the 2006 Capital Projects General Obligation Bond Act, Chapter 108, Laws 2006 (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.
Purpose	The Bonds are being issued to provide funds for construction, acquisition or improvement of public library, senior citizen and higher education projects as set forth in the Act and approved by the voters of the State on November 7, 2006.
Interest Payment Dates	March 1 and September 1, commencing September 1, 2007.
Closing/Settlement	On or about March 1, 2007.
Denominations	\$5,000
Book-Entry System	The Depository Trust Company
Registrar/Paying Agent	State Treasurer of New Mexico
Bond Counsel	Brownstein Hyatt Farber Schreck, P.C.
Disclosure Counsel	Sutin, Thayer & Browne A Professional Corporation
Issuer Contact	State Board of Finance: Olivia Padilla-Jackson, Director; (505) 827-4980; olivia.padilla-jackson@state.nm.us

Dated: January 16, 2007

Year (March 1)	Principal Amount	Interest Rate	Yield at Issuance¹	Price at Issuance¹	CUSIP²
2008	\$10,725,000	5.00%	3.60%	101.363%	647293MF3
2009	11,260,000	5.00%	3.66%	102.561%	647293MG1
2010	11,820,000	5.00%	3.69%	103.688%	647293MH9
2011	12,410,000	5.00%	3.71%	104.754%	647293MJ5
2012	13,035,000	5.00%	3.71%	105.837%	647293MK2
2013	13,685,000	5.00%	3.73%	106.771%	647293ML0
2014	14,370,000	5.00%	3.76%	107.569%	647293MM8
2015	15,090,000	5.00%	3.79%	108.283%	647293MN6
2016	15,840,000	5.00%	3.86%	108.598%	647293MP1
2017	16,635,000	5.00%	3.87%	109.296%	647293MQ9

¹ This information not provided by the State.

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

ELECTED STATE OFFICIALS

BILL RICHARDSON
Governor

MARY HERRERA
Secretary of State

DIANE DENISH
Lieutenant Governor

JAMES B. LEWIS
State Treasurer

HECTOR H. BALDERAS
State Auditor

GARY K. KING
Attorney General

PATRICK H. LYONS
Commissioner of Public Lands

Public Regulation Commissioners:

JASON A. MARKS
District I

DAVID W. KING
District II

BEN R. LUJAN
District III

CAROL K. SLOAN
District IV

SANDY R. JONES
District V

STATE BOARD OF FINANCE

Ex Officio Members

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President

LT. GOVERNOR
DIANE DENISH
Member

STATE TREASURER
JAMES B. LEWIS
Member

Appointed Members

JOHN LOEHR
Member

KIM SANCHEZ RAEL
Secretary

MARIA GRIEGO-RABY
Member

ROBERTA COOPER RAMO
Member

KATHERINE B. MILLER
Executive Officer

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

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

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

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

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

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SUMMARY OF INFORMATION
CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2007

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, 2007.
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 Brownstein Hyatt Farber Schreck, P.C., Bond Counsel.
Security:	The Bonds are being issued under the authority of the 2006 Capital Projects General Obligation Bond Act, Chapter 108, Laws 2006 (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 (after March 1, 2007 payments of principal and interest on outstanding general obligation bonds)	\$227,865,000
Plus: Series 2007 Bonds	<u>134,870,000</u>
Total State General Obligation Bonds, following the closing of the Bonds	\$362,735,000

KEY BONDING MEASURES
FOLLOWING THE ISSUANCE OF THE BONDS

Total General Obligation Bonds per capita (2005 population from Census Bureau)	\$188.34
Ratio of General Obligation Bonds to 2006 Net Taxable Value	0.847%
Ratio of General Obligation Bonds per capita to State 2005 per capita income	0.675%
Percent of General Obligation Bonds due within 10 years	100%

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OFFICIAL STATEMENT

\$134,870,000

THE STATE OF NEW MEXICO CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2007

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 2007 in the principal amount of \$134,870,000 (the “Bonds”), the State of New Mexico (the “State”), and the State Board of Finance (the “Board”).

The Bonds are general obligations of the State for the payment of which the full faith and credit of the State is pledged. The Bonds are payable from *ad valorem* taxes levied without limit as to rate or amount on all property in the State subject to taxation for State purposes. The Bonds are authorized in the maximum principal amount of \$143,408,000 by the 2006 Capital Projects General Obligation Bond Act, Chapter 108, Laws 2006 (the “Act”) passed by the State Legislature and approved by the voters in a statewide election on November 7, 2006. 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 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:

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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, 2007. 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 16, 2007 (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 for State purposes an *ad valorem* tax sufficient to produce an amount equal to the interest and principal redemption requirements of each year for any 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 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, Series 2003 and Series 2005, and the Refunding Series 2003B (collectively, the “Outstanding Bonds”). Property taxes are also levied for local government purposes including locally authorized general obligation bonds of various cities, counties, and school and special districts in the State.

The Act pledges the full faith and credit of the State for the payment of the Bonds and, pursuant to their provisions, constitutes an irrevocable contract with the holders of the Bonds. The payment of general obligation bonds from other than *ad valorem* taxes collected for that purpose requires an appropriation by the Legislature. If at any point there is not a sufficient amount of money from *ad*

valorem taxes to make a required payment of principal of or interest on State general obligation bonds, the Governor may call a special session of the Legislature in order to secure an appropriation of money sufficient to make the required payment.

OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS

Outstanding General Obligation Bonds

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

General Obligation Bonds Outstanding After 3/1/07 Payments Immediately Prior to the Issuance of the Bonds

<u>Series</u>	<u>Principal Outstanding</u>
Series 2001	\$ 28,765,000
Series 2003	85,525,000
Refunding Series 2003B	19,515,000
Series 2005	<u>94,060,000</u>
Total	\$227,865,000

Debt Service Requirements on the Bonds

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Fiscal Year Debt Service</u>
09/01/07		\$3,371,750	
03/01/08	\$10,725,000	3,371,750	\$17,468,500
09/01/08		3,103,625	
03/01/09	11,260,000	3,103,625	17,467,250
09/01/09		2,822,125	
03/01/10	11,820,000	2,822,125	17,464,250
09/01/10		2,526,625	
03/01/11	12,410,000	2,526,625	17,463,250
09/01/11		2,216,375	
03/01/12	13,035,000	2,216,375	17,467,750
09/01/12		1,890,500	
03/01/13	13,685,000	1,890,500	17,466,000
09/01/13		1,548,375	
03/01/14	14,370,000	1,548,375	17,466,750
09/01/14		1,189,125	
03/01/15	15,090,000	1,189,125	17,468,250
09/01/15		811,875	
03/01/16	15,840,000	811,875	17,463,750
09/01/16		415,875	
03/01/17	<u>16,635,000</u>	<u>415,875</u>	<u>17,466,750</u>
Total	\$134,870,000	\$39,792,500	\$174,662,500

**Future General Obligation Bond Debt Service Requirements
After 3/1/07 Payments on Outstanding Bonds and After Issuance of the Bonds**

<u>Date</u>	<u>Principal on Outstanding Bonds</u>	<u>Interest on Outstanding Bonds</u>	<u>Debt Service on Outstanding Bonds</u>	<u>Debt Service on the Bonds</u>	<u>Total Calendar Year Debt Service</u>	<u>Total Fiscal Year Debt Service</u>
09/01/07	\$ 9,515,000	\$5,148,394	\$14,663,394	\$ 3,371,750	\$18,035,144	
03/01/08	29,275,000	4,910,519	34,185,519	14,096,750		\$66,317,413
09/01/08	10,000,000	4,275,519	14,275,519	3,103,625	65,661,413	
03/01/09	30,670,000	4,025,519	34,695,519	14,363,625		66,438,288
09/01/09	0	3,355,838	3,355,838	2,822,125	55,237,107	
03/01/10	32,135,000	3,355,838	35,490,838	14,642,125		56,310,926
09/01/10	0	2,649,519	2,649,519	2,526,625	55,309,107	
03/01/11	33,670,000	2,649,519	36,319,519	14,936,625		56,432,288
09/01/11	0	1,909,400	1,909,400	2,216,375	55,381,919	
03/01/12	27,180,000	1,909,400	29,089,400	15,251,375		48,466,550
09/01/12	0	1,305,950	1,305,950	1,890,500	47,537,225	
03/01/13	28,460,000	1,305,950	29,765,950	15,575,500		48,537,900
09/01/13	0	674,000	674,000	1,548,375	47,563,825	
03/01/14	13,160,000	674,000	13,834,000	15,918,375		31,974,750
09/01/14	0	345,000	345,000	1,189,125	31,286,500	
03/01/15	13,800,000	345,000	14,145,000	16,279,125		31,958,250
09/01/15	0	0	0	811,875	31,236,000	
03/01/16	0	0	0	16,651,875		17,463,750
09/01/16	0	0	0	415,875	17,067,750	
03/01/17	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,050,875</u>	<u>17,050,875</u>	<u>17,466,750</u>
Total*	\$227,865,000	\$38,839,363	\$266,704,363	\$174,662,500	\$441,366,863	\$441,366,863

* Totals may not add due to rounding.

Mill Levy Rate

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

the Outstanding Bonds. The Division then certifies that property tax mill levy rate to counties and local governments for inclusion in the property tax bills.

Limitations to the Issuance of Additional State General Obligation Bonds

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

1. The State may borrow money not exceeding the sum of two hundred thousand dollars (\$200,000) in the aggregate to meet casual deficits or failure in revenue, or for necessary expenses.
2. Other debt may be contracted by or on behalf of the State only when authorized by law for some specified work or object. Such a law takes effect only after being submitted to the qualified electors of the State and having received a majority of the votes cast thereon at a general election. No debt may be created if the total indebtedness of the State, exclusive of the debts of the territory and several counties thereof assumed by the State, would thereby be made to exceed one percent (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		\$42,828,113,935
General obligation bond limitation @ 1% of Net Taxable Value		\$428,281,139
General obligation bonds outstanding, after 3/1/07 payments:		
Series 2001	\$28,765,000	
Series 2003	85,525,000	
Series 2005	94,060,000	
Refunding Series 2003B	<u>19,515,000</u>	
Total general obligation bonds outstanding as of the closing of the Bonds	\$227,865,000	\$227,865,000
Plus: Series 2007 Bonds		<u>134,870,000</u>
Total general obligation bonds, following closing of the Bonds		<u>\$362,735,000</u>
Ratio of total debt to net taxable value		0.847%

Underlying General Obligation Bonds

The following table presents information on the principal amount of local debt outstanding, including the principal amount of county, city, and local public school district debt outstanding as of June 30, 2006. The table does not include debt of special districts or community colleges.

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

Counties.....	\$195,868,898
Cities	\$236,208,000
Schools	\$960,681,000

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 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	\$134,870,000.00
Original Issue Premium (Discount)	<u>8,393,790.45</u>
Total Sources	<u>\$143,263,790.45</u>

Uses:

Public Library Projects	\$ 9,000,000.00
Senior Citizen Projects	15,804,983.00
Higher Education Projects	117,995,000.00
Underwriter's Discount	188,253.97
Other Costs of Issuance	<u>275,553.48</u>
Total Uses	<u>\$143,263,790.45</u>

State Capital Program

Proceeds from the State's general obligation bonds are an important source of capital financing for the State. Additional State-level sources of funding for capital projects are surplus State general fund balances, severance tax and supplemental severance tax bonds issued by the Board, state transportation bonds and other bonds issued by the New Mexico Finance Authority. The following table summarizes bond proceeds and other capital authorizations by funding source for Fiscal Year 2002 through December 31, 2006.

Principal Sources of Capital Project Funding
Fiscal Year Ended June 30

(Dollars in millions)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u> (as of December 31, Year to Date) ⁽³⁾
Proceeds from General Obligation Bonding Program						
General Obligation Bonds	-	\$130.9	-	\$111.9	-	-
Subtotal	\$ 0.0	\$130.9	\$ 0.0	\$111.9	\$0.0	\$0.0
Proceeds from Severance Tax Bonding Program						
Severance Tax Bonds	\$67.0	\$73.9	\$71.0	\$85.6	\$136.1	-
Severance Tax Funding Notes ⁽¹⁾	103.0	56.3	63.7	87.8	102.1	\$24.4
Supplemental Severance Tax Bonds	65.0	45.0	10.0	10.0	-	-
Supplemental Severance Tax Funding Notes ⁽¹⁾	35.1	111.8	151.8	213.3	193.6	145.8
Subtotal	\$270.1	\$287.0	\$296.5	\$396.7	\$431.8	\$170.2
Proceeds From Other Sources						
General Fund	\$76.0	\$36.9	\$183.4	\$238.6	\$454.6	-
Special Funds	9.7	31.5	72.0	95.0	5.6	-
Transportation Bonds ⁽²⁾	165.0	16.0	743.6	-	-	\$459.4
New Mexico Finance Authority ⁽⁴⁾	34.7	-	39.0	5.6	23.6	23.2
Subtotal	\$285.4	\$84.4	\$1,038.0	\$339.2	\$483.8	\$482.6
Total	\$555.5	\$502.3	\$1,334.5	\$847.8	\$915.6	\$652.8

- (1) The Board, in order to take advantage of Severance Tax Bonding Fund revenue that would otherwise be transferred to the Severance Tax Permanent Fund, issues Funding Notes to the State Treasurer (which are retired within the same Fiscal Year with such revenue) to fund authorized projects.
- (2) On May 20, 2004, the New Mexico Finance Authority issued \$700,000,000 of new money bonds secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund. On October 19, 2006, the New Mexico Finance Authority issued \$450,400,000 of new money bonds secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund
- (3) The Board, on December 28, 2006, issued \$24,423,000 in severance tax short term notes and \$145,788,000 in supplemental severance tax short term notes.
- (4) These include only those bonds issued by the New Mexico Finance Authority for State facilities.

THE STATE OF NEW MEXICO

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The State's climate is characterized by sunshine and

warm, bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 60 percent (mornings) to 30 percent (afternoons). Evenings are crisp and cool in all seasons because of low humidity.

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

Governmental Organization

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

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

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

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

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

PROPERTY VALUATION AND TAXATION

Property 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 State Assessed Property Bureau of the TRD commonly known as the Central Assessment Bureau 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 for 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.

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

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

The 2000 Legislature passed and the Governor signed legislation limiting the increase in the value of residential property for property valuation purposes. Laws of 2000, Chapter 21, codified as NMSA 1978, § 7-36-21.3 provides for a freezing of values for single-family dwellings occupied by certain low-income owners 65 years of age or older. Laws of 2000, Chapter 10, codified as NMSA 1978, § 7-36-21.2 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 in valuation 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 in valuation to 5 percent. In addition, in such a non-current and correct county, the law limits the aggregate annual increases in valuation for all properties (excluding net new properties added to the tax rolls) in that county to 3 percent. The annual limitations do not apply to new improvements or to any property that has had a change in ownership, use or zoning during the year.

The 2005 Legislature passed and the Governor signed Laws of 2005, Chapter 24, amending Section 7-38-12.1 of the Property Tax Code. The statute requires the disclosure of sales prices and other

items of value upon the sale of residential real property. This amendment to the statute may lead to an increase in the assessed value of residential property.

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

<u>Final Net Taxable Valuations</u>					
(Dollars in thousands)					
<u>Property Tax Year</u>	<u>Residential</u>	<u>Non- Residential</u>	<u>Oil and Gas Production & Equipment</u>	<u>Copper</u>	<u>Net Taxable Value</u>
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	19,421,800	10,839,281	5,563,785	65,157	35,890,023
2005	21,120,378	12,161,447	5,563,785	65,157	38,910,768
2006	22,981,639	12,483,183	7,259,891	103,402	42,828,114

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	<u>0.50</u>
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, penal and other institutions.

The table on the following two pages sets forth the revenues, expenditures and ending fund balances for Fiscal Years 2003, 2004 and 2005, preliminary results for Fiscal Year 2006 and projected results for Fiscal Year 2007.

General Fund Financial Summary
Fiscal Year 2003 – Fiscal Year 2007
(Dollars in thousands)

	<u>Actual 2003</u>	<u>Actual 2004</u>	<u>Actual 2005</u>	<u>Preliminary 2006</u>	<u>Estimated 2007</u>
A. APPROPRIATION ACCOUNT					
Recurring Receipts					
General and Selective Sales Taxes	\$1,651,614	\$1,797,835	\$1,946,395	\$2,150,620	\$2,292,298
Income Taxes	1,040,203	1,153,133	1,333,402	1,512,300	1,538,000
Mineral Production Taxes	268,411	329,559	426,998	551,400	483,800
License Fees	38,420	42,885	44,265	48,300	49,647
Investment Income	478,596	484,324	547,287	585,500	643,100
Rents & Royalties	283,552	356,944	476,198	609,100	550,000
Miscellaneous Receipts	30,625	26,146	40,850	30,660	29,532
Tribal Revenue Sharing	32,596	35,097	41,263	49,200	51,450
Tobacco Settlement	43,759	37,449	38,009	34,860	0
Reversions/adjustments	23,288	19,623	11,592	22,100	23,400
Total Recurring Receipts	\$3,891,064	\$4,282,996	\$4,906,259	\$5,594,040	\$5,661,227
Non-Recurring & Adjustments					
Accounting Policy Change	57,821	48,324	62,769	(95,232)	1,000
	0	280,392	0		
Total Non-Recurring & Adjustments	\$57,821	\$328,716	\$62,769	\$(95,232)	\$1,000
Total Receipts	\$3,948,885	\$4,611,711	\$4,969,028	\$5,498,808	\$5,662,227
Recurring Appropriations					
Legislative	\$21,198	\$14,892	\$15,435	\$16,113	\$17,334
Judicial	133,555	136,557	146,705	161,500	180,824
General Control	142,331	135,479	144,008	151,048	165,476
Commerce & Ind./Exam. & Lic.	45,409	47,285	48,595	47,695	51,599
Agric., Energy & Nat. Res.	59,192	58,708	62,022	70,449	75,409
Health & Human Services	814,136	911,320	1,003,064	1,119,210	1,234,053
Public Safety	266,699	280,690	286,758	295,766	333,262
Other Education	20,112	20,365	17,950	24,705	27,805
Higher Education	605,050	639,328	670,121	714,951	761,957
Public Schools	1,788,566	1,863,274	1,974,906	2,107,196	2,265,662
Recurring Appropriations	3,896,136	4,107,896	4,369,564	4,708,633	5,113,382
Other Recurring Appropriations	0	11,908	15,435	0	(400)
Total Recurring Appropriations	\$3,896,136	\$4,119,803	\$4,384,999	\$4,708,633	\$5,112,982
Non-recurring Appropriations ⁽¹⁾					
Capital Outlay/Supplemental/Contingency	155,289	178,319	8,900	617,522	71,057
Other Non-recurring adj for leg	-	84,871	315,833	38,633	0
Total Non-recurring	\$155,289	\$263,190	\$324,733	\$656,155	\$71,057
Total Expenditures	\$4,051,536	\$4,382,993	\$4,709,732	\$5,364,788	\$5,184,039
Transfer to Appropriation Contingency Fund	0	(120,000)	0	0	0
TRANSFER TO RESERVES	(102,650)	108,718	259,295	134,020	478,188
B. OPERATING RESERVE					
Beginning Balance	\$154,778	\$46,931	\$128,832	\$330,147	\$350,792
Revenues/Loan Repayments	3	0	0	0	0
Appropriations:					
Contingencies	0	0	0	(277)	0
Other Appropriations & Adjustments	(5,200)	(26,817)	(2,644)	(1,500)	(1,500)
Total Appropriations ⁽²⁾	\$(5,200)	\$(26,817)	\$(2,644)	\$(1,777)	\$(1,500)
Transfers:					
From General Fund (Approp. Account)	(102,650)	108,718	259,295	134,020	478,188
To Tax Stabilization Reserve Fund	0	0	(55,336)	(111,598)	0
Total Transfers	\$(102,650)	\$108,718	\$203,959	\$22,422	\$478,188
Other Adjustments	0	0	0	0	0
Change in Loan Repay Balances	0	0	0	0	0
Ending Balance	\$46,931	\$128,832	\$330,147	\$350,792	\$827,480

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

General Fund Financial Summary
Fiscal Year 2003 – Fiscal Year 2007
(Dollars in thousands)

	<u>Actual</u> <u>2003</u>	<u>Actual</u> <u>2004</u>	<u>Actual</u> <u>2005</u>	<u>Preliminary</u> <u>2006</u>	<u>Estimated</u> <u>2007</u>
C. STATE SUPPORT RESERVE					
Beginning Balance	0	0	0	0	0
Ending Balance	0	0	0	0	0
D. APPROPRIATION CONTINGENCY FUND					
Beginning Balance, Excluding Education Reform	\$77,934	\$58,535	\$49,903	\$42,276	\$17,751
Expenditures/Appropriations ⁽³⁾					
Disasters	(8,117)	(10,248)	(8,113)	(15,000)	(16,916)
Medicaid	(19,500)	0	0	0	0
Other	0	(2,381)	(6,178)	(9,525)	(2,000)
Allot. Reversions	8,218	3,997	6,664	0	0
Ending Balance, Excluding Education Reform	\$58,535	\$49,903	\$42,276	\$17,751	\$(1,165)
Beginning Balance, Education Reform	0		\$120,000	\$105,350	\$79,828
Transfers In	0	120,000	0	0	0
Expenditures	0		(14,650)	(25,523)	0
Ending Balance, Education Reform	0	\$120,000	\$105,350	\$79,828	\$79,828
Ending Balance	\$58,535	\$169,903	\$147,626	\$97,578	\$78,663
E. RISK RESERVE FUND					
Beginning Balance	0	0	0	0	0
Ending Balance	0	0	0	0	0
F. TAX STABILIZATION RESERVE					
Beginning Balance	\$87,715	\$77,715	\$77,715	\$133,051	\$244,649
Transfers In		0	55,336	111,598	0
Transfers Out ⁽⁴⁾	(10,000)	0	0	0	0
Ending Balance	\$77,715	\$77,715	\$133,051	\$244,649	\$244,649
G. TOBACCO SETTLEMENT PERMANENT FUND RESERVE⁽⁵⁾					
Beginning Balance	\$59,642	\$62,009	\$70,689	\$77,333	\$84,995
Transfers In	42,900	46,129	38,009	34,892	36,190
Transfers Out	(42,900)	(37,449)	(38,009)	(34,892)	(18,095)
Gains/Losses	2,400	0	6,644	7,662	7,193
Ending Balance	\$62,042	\$70,689	\$77,333	\$84,995	\$110,283
H. TOTAL BALANCES					
Beginning of Period	\$380,068	\$245,190	\$447,139	\$688,157	\$778,015
End of Period	\$245,222	\$447,139	\$688,157	\$778,015	\$1,261,076
Reserves as a percent of recurring appropriations	6.3%	10.9%	15.7%	16.5%	24.7%

NOTES TO GENERAL FUND FINANCIAL SUMMARY:

Appropriation Account, Nonrecurring Appropriations:

- ⁽¹⁾ FY03 includes \$3.6 million for the purchase of Eagle Nest Lake and a \$151.7 million appropriation from the 2002 legislative session.
FY05 includes \$8.9 million from the General Appropriation Act of 2004; \$69.813 million HB2, \$7.429 million SB190, \$238.592 million HB885.
FY06 includes \$0.06 million from the General Appropriations Act of 2005; \$0.817 million SB190; \$0.2562 million HB901; \$37.5 million from the 2005 Special Session (LIHEAP). 2006 Regular Session includes \$158.6 million from the General Appropriations Act; \$4.3 million from HB1; \$487.6 million from HB622.
FY07 includes 2006 Regular Session appropriations of \$68.681 in the General Appropriations Act and \$0.2835 from HB337 (Additional Judgeships).

Appropriations from the Operating Reserve:

- ⁽²⁾ FY03 includes \$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 Emergency Fund.
FY04 includes \$0.434 million for BOF Emergency Fund, \$18.911 million for capital outlay (Laws 2004, Chapter 126), \$5.0 million for Economic Development Department for X-Prize (Laws 2004, Chapter 114, Section 5), \$1.5 million for Economic Development Department for X-Prize (Laws 2001, Chapter 64, Section 6), and \$0.972 to New Mexico State University.
FY05 includes \$1.144 million for BOF Emergency Fund and \$1.5 million contingency for corrections.
FY06 includes \$1.5 million for BOF Emergency Fund and \$0.2774 million for the Corrections Department (Laws 2005, Chapter 33, Section 4, Subsection G).
FY07 includes \$1.5 million for BOF Emergency Fund (Laws 2006, Chapter 109).

Appropriation Contingency Fund:

- ⁽³⁾ FY03 includes \$8.1 million for disaster allotments, \$19.5 million for Medicaid (\$0.1 million for the Racing Commission was excluded), and \$8.2 million for federal reimbursements for fire season 2002.
FY05 includes \$8.113 million for disasters, \$548.0 for the Secretary of State (Laws 2004, Chapter 114, Section 5, Item 28), \$630.0 for the Department of Public Safety (Laws 2004, Chapter 114, Section 5, Subsection G), \$5.0 million to Public Education Department for emergency supplemental funds to public schools (Laws 2005, Chapter 33, Section 5, Item 109). Education Reform Initiatives include \$14.65 million to Public Education Department (Laws 2005, Chapter 33, Section 5 Subsection 5, Items 104, 105, 106, & 128). Includes reversions of \$6.664 million for federal reimbursements for fire season 2003-2005.
FY06 includes \$15.0 million for disaster allotments and \$525.0 to Department of Public Safety for criminal background check contingency (Laws 2005, Chapter 33, Section 4 Subsection G). \$4.5 million for Interstate Stream Commission (ISC) for land and water rights for augmentation; \$4.5 million to ISC for augmentation services (Laws 2006, Chapter 111); and \$25.553 for Public Education Reform.
FY07 includes \$15.0 million for disaster allotments, \$2.0 million for DOH Behavioral Health Services Program (Laws 2006, Chapter 109) and 1,912.5 for Santa Fe Community College (Laws 2006, Chapter 109).
- ⁽⁴⁾ FY03 includes \$10.0 million to purchase water rights (Laws 2002, Chapter 109).
- ⁽⁵⁾ Tobacco Settlement Permanent Fund Reserve established (Laws 2003, Chapter 312).

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

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

and deductions from gross receipts taxation; nevertheless, the general presumption is that all receipts of a person engaging in business are subject to the gross receipts tax.

The gross receipts and compensating taxes are the largest single source of State General Fund revenue. The gross receipts tax is also a significant source of revenue for cities and counties. The gross receipts tax includes the statewide gross receipts tax levy of 5 percent plus several city and county local-option gross receipts taxes. Until January 1, 2005, a credit of 0.5 percent against the statewide rate of 5 percent was allowed for municipal local-option taxes. Receipts from the statewide gross receipts tax levy, less disbursement to each incorporated municipality of 1.225 percent of the taxable gross receipts reported in that municipality and less disbursement to the State Aviation Fund of 3.59 percent of the value of jet fuel sales, 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 credit of 0.5 percent granted to municipalities against the statewide rate was eliminated. The taxes on certain food and medical services were eliminated. The legislation created a deduction for gross receipts tax from retail sales of food as defined for federal food stamp program purposes. The legislation requires retailers to report receipts from sales of these groceries and then claim a deduction for the receipts. The deduction does not apply to receipts of restaurants and sellers of prepared foods. The legislation also created a gross receipts tax deduction for some receipts of licensed health care providers (broadly defined) from Medicare Part C and managed health care plans, and health care insurers. The legislation also provides for payments from the State to reimburse local governments for lost gross receipts tax revenues. The legislation enacts significant penalties for improper filings.

Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund from gross receipts and compensating taxes grew by 12.1 percent over the previous Fiscal Year to \$1.74 billion, comprising 31.7 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.

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

Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund from personal income tax grew by 3.7 percent over the previous Fiscal Year to \$1.127 billion, and generated 20.1 percent of total recurring General Fund revenue.

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 subsequent calendar years are 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.

Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund net receipts from corporate income taxes totaled \$382.6 million, representing an increase of 57.8 percent from the prior Fiscal Year, and generated 6.8 percent of recurring General Fund revenue.

Mineral Production Taxes

Mineral production taxes (Resource Excise Tax, Natural Gas Processors Tax, Oil and Gas Conservation Tax and Oil and Gas Emergency School Tax) are levied on producers and others on the value of severed minerals and material resources from within the State and are disbursed to the General Fund. The Oil and Gas Emergency School Tax is imposed for the privilege of engaging in the business of severing oil, natural gas, liquid hydrocarbons and carbon dioxide from the soil of the State. 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. The same definition of taxable value is used for calculation of oil and gas severance tax liability.

Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled \$491.6 million, representing an increase of 29.1 percent from the prior Fiscal Year. Other General Fund taxes on natural resources production totaled \$59.8 million. Based on these estimates, mineral production taxes contributed 9.9 percent of recurring General Fund revenue in the 2006 Fiscal Year.

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

Royalties, Rents and Bonuses

Federal Lands. Under terms of the 1920 Federal Mineral Leasing Act the State receives a 50 percent share of all income generated from the leasing of federally held lands located in the State for mineral production. Principal sources of income on federal lands are royalty payments on oil and gas production. Additional income is derived from bonus payments for oil and gas leases and royalty payments on production of coal, potash and other minerals. The U.S. Minerals Management Service collects federal mineral lease income where the State's share of administrative costs is deducted. The State receives payments on a monthly basis and makes the deposits to the General Fund. Based upon preliminary results for the 2006 Fiscal Year, total distributions to the General Fund from Federal mineral leases totaled \$556.4 million, representing 9.9 percent of recurring General Fund receipts for the Fiscal Year.

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 ("LGPF"). Royalties are imposed on most minerals production values at the rate of 12.5 percent, although there is a provision for rates of up to 20 percent for new leases on developed acreage. Beneficiaries of the LGPF are the same as those educational institutions and public schools benefiting from "State lands."

In September 2003, the electorate of the State of New Mexico approved a constitutional amendment regarding distributions for educational purposes from the LGPF. The amendment provided that beginning in Fiscal Year 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 LGPF, the Severance Tax Permanent Fund, and cash balances held by the State Treasurer. Income from the LGPF is distributed among the beneficiary educational institutions and public schools. The 82.8 percent share dedicated to public schools is deposited in the General Fund. Based on preliminary results for the 2006 Fiscal Year, \$354.0 million of LGPF distributions were transferred to the General Fund for public school purposes. \$171.8 million of income was distributed from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In the 2006 Fiscal Year, Treasurer's cash balances produced \$97.3 million in which \$59.7 million was credited to the General Fund. Total investment income credited to the General Fund was \$585.5 million, representing 10.5 percent of recurring General Fund receipts.

Review of Historical Results in the General Fund

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, \$102.7 million was transferred from the operating reserve to the general fund. Total General Fund reserves at the close of Fiscal Year 2003 were \$245.2 million, or 6.3 percent of recurring appropriations.

Fiscal Year 2004

In Fiscal Year 2004, recurring General Fund revenue totaled \$4.283 billion or 10.1 percent above Fiscal Year 2003. Abnormally high oil and natural gas prices resulted in 22.8 percent growth in severances taxes, and 25.9 percent growth in rents and royalties. Sales and income taxes grew 8.6 and 10.9 percent, respectively. Total appropriations were \$4.120 billion, growing by 5.7 percent over Fiscal Year 2003. Year-end results included a transfer to reserves of \$108.7 million, increasing year-end reserves in the General Fund to \$447.1 million, or 10.9 percent of recurring appropriations.

Fiscal Year 2005

In the 2005 Fiscal Year, recurring General Fund revenue totaled \$4.906 billion, representing growth of 14.6 percent over the 2004 Fiscal Year. Prices for oil and natural gas remained elevated, leading to growth of 29.6 percent in mineral production taxes and 33.4 percent in rents and royalties. General and selective sales taxes grew 8.3 percent. Growth in selective sales is due to adoption of a health insurance premium surtax and to the opening of a new casino in Hobbs that increased gaming excise tax collections. Income taxes grew 15.6 percent in the 2005 Fiscal Year. Revenues from investments increased by 13.0 percent in Fiscal Year 2005. Total recurring appropriations were \$4.385 billion, representing 6.4 percent growth over the previous year. Non-recurring appropriations of \$324.7 million were appropriated by the Legislature, largely for capital investments. Year-end reserves in the General Fund increased by \$241.0 million to \$688.2 million, or 15.5 percent of recurring appropriations.

Fiscal Year 2006

Based upon preliminary results for the 2006 Fiscal Year, recurring General Fund revenue grew by 14.0 percent to \$5.594 billion. Prices for oil and natural gas remained high, as Hurricane Katrina resulted in a spike in natural gas processing and international oil prices remained elevated through the year, leading to growth of 29.1 percent in mineral production taxes and 27.9 percent in rents and royalties. General and selective sales taxes grew by 10.5 percent, while income tax growth was 13.4 percent. Revenues from investments increased by 7.0 percent. Total recurring appropriations in the budget for the Fiscal Year totaled \$4.709 billion, representing 7.4 percent growth over the previous year. Non-recurring appropriations of \$656.2 million were appropriated by the Legislature, largely for capital investments. Year-end reserves in the General Fund increased by \$99.9 million to \$788.0 million, or 16.5 percent of recurring appropriations. Because year-ending General Fund operating reserves exceeded 8.0% of the 2005 Fiscal Year recurring appropriations, \$111.6 million was transferred from the General Fund Operating Reserve to the Tax Stabilization Reserve.

Fiscal Year 2007

Based upon the approved operating budget and projected results for the 2007 Fiscal Year, recurring General Fund revenue are projected to increase by 1.2 percent to \$5.661 billion. Prices for oil have moderated and natural gas prices in particular declined to pre-Katrina levels, resulting in a projected decline in mineral production taxes and rents and royalties of 12.3 percent and 9.7 percent, respectively. General and selective sales taxes are projected to grow by 6.6 percent, while income taxes are projected to grow by 4.5 percent. Higher short-term interest rates are projected to result in a 9.8 percent increase in investment income. Total recurring appropriations in the budget for the Fiscal Year total \$5.113 billion, representing 8.6 percent growth over the previous year. Non-recurring appropriations of \$71.1 million were appropriated by the Legislature, largely for capital investments. Without regard to any supplemental appropriations that may be made during the legislative session beginning in January 2007, year-end reserves in the General Fund are projected to increase by \$483.1 million to \$1.261 billion, or 24.7 percent of recurring appropriations. It is possible that this will be the first year that amounts transferred from the General Fund to the Tax Stabilization Reserve Fund, plus the balance currently in the Tax Stabilization Reserve Fund, will be greater than 6.0 percent of the aggregate recurring appropriations from the General Fund for the previous fiscal year, triggering a transfer of the smaller of either the amount transferred to the Tax Stabilization Reserve Fund or the difference between the total and 6.0 percent of the aggregate recurring appropriation from the General Fund for the previous fiscal year to the Taxpayer's Dividend Fund. By statute, Section 6-4-5, NMSA 1978, if the balance in the Taxpayer's Dividend Fund exceeds 1.0 percent of the tax liabilities reported to the Taxation and Revenue Department during that fiscal year, the Governor shall propose at the next session of the State Legislature a method for refunding the balance to the taxpayers.

Severance Taxes (Not Part of General Fund)

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

Severance taxes are deposited in the Severance Tax Bonding Fund and pledged to the payment of principal of and interest on severance tax bonds and supplemental severance tax bonds issued in

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

The minerals extracted from the State that contribute the largest portion of Severance Tax revenues are natural gas, oil and coal. Severance Tax collections on these three mineral resources produced 93.4 percent of total Fiscal Year 2006 Severance Tax Bonding Fund tax receipts. Severance Tax collections on natural gas and oil in Fiscal Year 2006 represent approximately 89.6 percent of total Fiscal Year 2006 Severance Tax Bonding Fund tax receipts.

Severance and Mineral Production Taxes on Indian Land

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

The Tax Department reports that natural gas production and crude oil production on Indian land were approximately 3.7 percent and 0.8 percent, respectively, of total taxable statewide production in Fiscal Year 2006. DFA estimates that oil and gas production on Indian lands generated \$12.3 million in Severance Tax revenues to the State in the production months corresponding to Fiscal Year 2006. The Tax Department estimates that coal production on Indian land ranges from 40-45 percent of total statewide production from year to year. No potash or copper is produced on Indian land.

Laws 1995, Chapter 171 authorizes an intergovernmental tax credit against State production and property taxes for similar taxes imposed by tribal governments. The tax credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995, on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of State taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State's credit would be lowered. The DFA estimates that total credits claimed under this provision were about \$4.65 million in 2006. About \$2.3 million of these credits were applied against oil and gas severance tax liability. The Severance Tax Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

Laws 2001, Chapter 134 provides a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo nation. The Department estimates that this credit reduced Severance Tax Bonding Fund revenue by \$6.9 million in Fiscal Year 2006. Laws 2002, Chapter 15, created the Jicarilla Apache Tribal Capital Improvement Tax Credit, but this credit does not apply against the severance tax revenues due on the same production.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund was established in 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 non-appropriated income of the Severance Tax Permanent Fund. The market value of the Severance Tax Permanent Fund as of June 30, 2006 was approximately \$4.02 billion, an increase of approximately 6.5 percent from the prior year. **Money on deposit in the Severance Tax Permanent Fund is not pledged to pay the Bonds.**

The LGPF is designed solely to benefit the educational system of the State and other specified institutions. The origins of the LGPF are found in the Fergusson Act of 1898, which granted two sections of land in every township for the benefit of the public schools in the territories of New Mexico. Also under this Act, specific acreage was granted to individual education, medical and penal institutions in the territory. The initial grant totaled in excess of 5.5 million acres. In 1910, the Enabling Act granted additional lands to various beneficiaries in New Mexico, including the public schools, with the latter receiving the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the LGPF), bringing the current total to 9.0 million surface acres and 12.8 million subsurface acres.

The State Land Office is charged with the custody and disposition of the land granted to the State. Through the Commissioner of Public Lands these properties granted to the State are sold and/or leased in accordance with the provisions of the appropriate statutes. The State Investment Officer under the direction of the State Investment Council invests the corpus and income of the LGPF. As of June 30, 2006, the market value of the LGPF was approximately \$9.1 billion, an increase of approximately 10.3 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 approved a constitutional amendment regarding distributions for educational purposes from the 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.

On or about July 1, 2006, the State implemented a Statewide Human Resources, Accounting and Management Reporting System (the "SHARE System"). The SHARE System replaced the State's

current Central Accounting System, central payroll system, personnel system, treasury warrant accounting reporting system and 114 additional systems currently in place at various State agencies. The State is currently in the process of making adjustments to the SHARE System to ensure it meets the State's accounting needs.

During the 2003 Fiscal Year, the State proceeded with the implementation of GASB 34. In the 2004 Fiscal Year, the State implemented a change in its revenue availability policy from 30 to 60 days. This change resulted in a one-time, non-recurring increase in revenues of approximately \$280.4 million in the State General Fund balance in comparison with the prior policy.

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

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

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 (the "Investment Policy") adopted by the State Treasurer and approved by the State Board of Finance. The Investment Policy states that in keeping with the office's fiduciary responsibility, all investment decisions made by the State Treasurer will adhere to the following three fundamental principles: safety, liquidity and return.

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

According to the Investment Policy, an Investment Committee must be appointed by the State Treasurer with the specific purpose and responsibility of establishing, maintaining and administering the Investment Policy. The Investment Committee consists of five (5) voting members: the State Treasurer, or designee, who serves as Chairman; the State Cash Manager; the Director of the Board or designee; and

two members that are participants in the private investment community or have expert knowledge or professional experience in the subject of public finance or public fund investing, of which one member will be appointed by the State Treasurer and approved by the Board and one member will be appointed by the Board and approved by the State Treasurer.

The Investment Committee is charged with the following responsibilities:

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

In an effort to continue to strengthen the Investment Policy, the State Treasurer and the Board have revised the Investment Policy in a process that included public comment. The revisions and additions to the Investment Policy increase transparency and oversight, ensure better operating procedures in the State Treasurer's Office, and incorporate legislative changes. Some of these changes include: a requirement to use electronic trading; a requirement to attain a financing rating for the Local Government Investment Pool from a national rating agency; a provision that the investment consultants used by the State Treasurer establish performance benchmarks for the State Treasurer's Office and report performance relative to that benchmark; various technical clarifications to reporting requirements and trading activity; requirements for the State Treasurer to adopt an employee code of conduct policy, a campaign contributions policy, and a whistleblower policy applicable to the public officers and employees subject to the State Treasurer's policies and supervision; and a requirement for the State Treasurer and employees involved in the investment process to refrain from personal business activity that may impair their ability to make impartial investment decisions. Final revisions to the Investment Policy were approved by the State Board of Finance at its meeting on June 22, 2006. The State Treasurer's Office is operating under this new Investment Policy.

On October 26, 2005, following indictment on multiple charges of extortion, money laundering and conspiracy related to his time in office, then-New Mexico State Treasurer Robert Vigil resigned. On September 30, 2006 he was convicted of one count of attempted extortion and acquitted on 23 other charges related to his time in office. The previous State Treasurer had pleaded guilty to extortion for actions he took as State Treasurer. An Interim State Treasurer, Douglas Minge Brown, was appointed by the Governor on November 3, 2005. On November 7, 2006, James B. Lewis was elected State Treasurer, and took office on December 15, 2006. Following the indictment of Robert Vigil, the State engaged the law firm of Hogan and Hartson, LLP and Deloitte Financial Advisory Services L.L.P. to conduct a special audit of the State Treasurer's Office. The special audit found a significant number of internal control weaknesses and deficiencies in the operations of the State Treasurer's Office; however, the special audit

did not find that the integrity of funds held at the State Treasurer's Office had been compromised. The special audit recommended a slate of legislative, rulemaking and control enhancements designed to ensure that the funds held by the State Treasurer's Office are prudently invested and safely handled. The State Treasurer's Office has undertaken to implement the recommendations of the special audit and has implemented a detailed corrective action plan of the type necessary to establish an effective internal control management program.

Pension Funds

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

Educational Retirement Board. Total Educational Retirement Board ("ERB") membership as of June 30, 2005 was officially reported as 114,890. The annual actuarial valuation of the Educational Retirement Fund of the State was conducted and reported as of June 30, 2005 by Gabriel, Roeder, Smith & Co. Accrued assets at fair value on June 30, 2005 were \$7.451 billion and the unfunded liability was \$3.134 billion. As of June 30, 2005, ERB's underfunded actuarial liability had an amortization period of infinity. This is the same as the prior year's funding period.

Member and employer contribution rates are established by statute. Since the prior actuarial valuation, Laws 2005, Chapter 273 was signed into law and will increase the employer contribution rate by 75 basis points (0.75%) each of the seven years beginning July 1, 2005, and increase member contribution rates by 7.50 basis points (0.075%) for each of the four years beginning July 1, 2005. As of July 1, 2006, the current employer contribution rate is 10.15% and the current member contribution rate is 7.75%. The member rate will reach its ultimate level of 7.90% in fiscal year 2009, and the employer rate will reach its ultimate level of 13.90% in fiscal year 2012.

These rates are intended to be sufficient to pay ERB's normal cost and to amortize ERB's unfunded accrued actuarial liability ("UAAL") in payments which are level as a percentage of payroll. Except for short-term fluctuations, the amortization period should not exceed the maximum period allowed under Governmental Accounting Standards Board ("GASB") No. 25 (30 years after a transition period expires at the end of fiscal year 2006). (The amortization period, also referred to as the funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience exactly follows the actuarial assumptions).

As indicated above, as of June 30, 2006, ERB has an infinite funding period. Therefore, if the employer contribution rate (10.15% as of July 1, 2006) and member contribution rate (7.75% as of July 1, 2006) were to remain in place, and all actuarial assumptions are exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL will never achieve complete amortization. The employer contribution in 2005 that would be required in order to amortize the UAAL over 40 years was 12.50%. Forty years is the maximum funding period under GASB 25, effective through fiscal year 2006, when a GASB 25 transition period ended and the maximum amortization period became 30 years. As mentioned above, under current law, the employer and member rates will increase to 13.90% and 7.90%, respectively. However, GASB 25 does not permit the consideration of contribution rates not yet in effect, so an infinite funding period must be reported.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) as of June 30, 2004 was 75.4%, and at June 30, 2005 was 70.4%.

Over the course of seven years ending June 20, 2012, assuming the fund continues to earn an 8% investment return, overall contributions to the system will increase from 16.25 percent of salaries to 21.8 percent of salaries and the funding period will be reduced to less than 10 years by the early 2020s.

The Public Employees Retirement Association. Gabriel, Roeder, Smith & Co. completed an actuarial valuation of the Public Employees Retirement Fund (PERA), Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund (VFF) as of June 30, 2006. The PERA 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, 2006, is shown below.

**Summary of Certain State Retirement Funds
(dollars in thousands)**

	<u>PERA</u> ⁽¹⁾	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
Membership	77,349	226	111	6,147	258
<u>Actuarial Information</u>					
Accrued Liability ⁽²⁾	\$11,781,722	\$ 95,216	\$33,362	\$23,743	\$19,434
Value of Assets	\$10,850,217	\$ 74,003	\$33,694	\$39,512	\$13,678
Unfunded (Overfunded) Accrued Liability	\$ 931,505	\$ 21,213	\$ (332)	(\$15,769)	\$ 5,756
Present Value of Statutory Obligations	\$15,065,365	\$124,324	\$42,446	\$40,834	\$21,246

⁽¹⁾ Includes both the state and municipal divisions.

⁽²⁾ Includes the accrued liability of both the retired and active members.

New Mexico Retiree Health Care Authority. In addition to the pension funds described above, the Retiree Health Care Act was enacted by Laws 1990, Chapter 6, Sections 1-16, codified as Sections 10-7C-1 through 10-7C-19 NMSA 1978, as amended, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State and eligible dependents. The New Mexico Retiree Health Care Authority (the "NMRHCA"), the agency which administers the Act, has a fund base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and an amount provided annually from the Taxation and Revenue Suspense Fund.

Total NMRHCA membership as of June 30, 2006 was reported as 36,268. Accrued assets at fair value on June 30, 2005 were \$168,307,187, and on June 30, 2006 were \$180,289,837.

The annual actuarial valuation under GASB 43 and the UAAL have been calculated for the fiscal year ended June 30, 2006. NMRHCA's UAAL is approximately \$5.0 billion based on a discount rate of 3.5% and giving no effect to the actuarial value of its assets. NMRHCA is seeking legislation during the upcoming session to place the assets in an irrevocable trust, thereby allowing the calculation of the unfunded liability to include assets held by NMRHCA and the future flow of funds, thereby reducing the unfunded liability projection by approximately \$1.3 billion to approximately \$3.7 billion.

Employer and employee contribution rates are established by statute. Such contribution rates are currently 1.3% and 0.65% of the participating employee's salary, respectively. These rates combined are significantly less than the rates necessary to fund the normal cost and amortization of the UAAL over a 30-year period. The Legislature is required by statute to review and adjust the employer and employee contribution rates and the distribution from the Taxation and Revenue Suspense Fund at the first session

of the Legislature following July 1, 2010 in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished or extinguished by the Legislature, and that it does not create any contract, trust or other rights in public employees to health care benefits. The State will be studying the results of the actuarial report and will address the issues raised by it.

Because total revenues for the NMRHCA's largest sponsor are over \$100 million per year, the NMRHCA must comply with GASB 43 for fiscal years beginning after December 15, 2005.

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

Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official April 1, 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 four Metropolitan Statistical Areas (MSAs) in the State. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is comprised of Doña Ana County; and the Farmington MSA is comprised of San Juan County. Prior to 2003, the Santa Fe MSA was comprised of Santa Fe and Los Alamos Counties. After 2003, the Santa Fe MSA consists only of Santa Fe County. The fastest growing counties in the state are Sandoval, Doña Ana, Bernalillo, San Juan, Luna and Lincoln. The following table sets forth information on population growth in New Mexico and nationally over the past decade.

**Population
New Mexico and the United States
1997-2006**

Year (as of July 1)	<u>Population</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
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	279,040,168	0.8%	1.2%
2000	1,821,656	282,216,952	0.7%	1.1%
2001	1,832,783	285,226,284	0.6%	1.0%
2002	1,855,353	288,125,973	1.2%	1.0%
2003	1,877,598	290,796,023	1.2%	0.9%
2004	1,900,620	293,638,158	1.2%	1.0%
2005	1,925,985	296,507,061	1.3%	1.0%
2006	1,954,599	299,398,484	1.5%	1.0%

Source: Population Division, U.S. Census Bureau, December 2006.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table sets forth information on employment by industry over the period 1980-2005.

Total Full-time and Part-time Employment by Industry

	1980	1990	2000	2001 ⁽¹⁾	2005 ⁽¹⁾	Growth		
						1980-1990	1990-2000	2001-2005 ⁽¹⁾
Total employment	598,199	767,139	972,954	977,815	1,063,753	28.2%	26.8%	8.8%
Wage and salary employment	513,306	635,725	789,690	801,610	855,993	23.8%	24.2%	6.8%
Proprietors employment	84,893	131,414	183,264	176,205	207,760	54.5%	39.7%	17.9%
Farm proprietors employment	13,400	13,600	14,985	17,470	16,972	1.5%	10.2%	-2.9%
Nonfarm proprietors employment	71,493	117,814	168,279	158,735	190,788	64.8%	42.8%	20.2%
By Industry								
Farm employment	22,191	19,766	21,760	24,091	24,500	-10.9%	10.1%	1.7%
Nonfarm employment	576,008	747,373	951,194	953,724	1,039,253	29.8%	27.3%	9.0%
Private employment	428,156	568,085	748,804	748,250	819,689	32.7%	31.8%	9.5%
Agricultural services, forestry, fishing and other	4,358	8,414	13,548	7,019	7,235	93.1%	61.0%	3.1%
Mining	31,152	20,489	19,323	19,469	20,986	-34.2%	-5.7%	7.8%
Oil and gas extraction	15,116	14,068	14,425	6,447	6,760	-6.9%	2.5%	4.9%
Mining and support activities for mining ⁽²⁾	16,036	6,421	4,898	13,022	14,226	149.7%	23.7%	9.2%
Construction	38,873	40,606	59,895	63,144	73,158	4.5%	47.5%	15.9%
General building contractors	11,933	11,858	16,710	18,050	19,392	-0.6%	40.9%	7.4%
Heavy construction contractors	8,287	6,729	8,720	10,365	10,178	-18.8%	29.4%	-1.8%
Special trade contractors	18,653	22,019	34,465	34,729	43,588	18.0%	56.5%	25.5%
Manufacturing ⁽³⁾	35,963	47,732	48,788	46,001	42,011	32.7%	2.2%	-8.7%
Durable goods	21,583	32,500	33,275	32,671	29,230	50.6%	2.4%	-10.5%
Nondurable goods ⁽⁴⁾	14,380	15,232	15,513	17,242	16,888	5.9%	1.8%	-2.1%
Transportation and public utilities ⁽⁵⁾	30,732	34,130	43,350	39,423	37,684	11.1%	27.0%	-4.4%
Wholesale trade	22,733	27,896	33,751	27,970	28,563	22.6%	21.1%	-2.1%
Retail trade ⁽⁶⁾	98,075	134,482	172,516	175,525	183,883	37.1%	28.3%	4.8%
Finance, insurance, and real estate ⁽⁷⁾	37,945	46,955	62,905	60,113	69,989	23.7%	34.0%	16.4%
Services ⁽⁸⁾	128,325	207,381	294,728	308,674	352,306	61.6%	42.1%	14.1%
Government and government enterprises	147,852	179,288	202,390	205,474	219,564	21.3%	63.1%	6.7%
Federal, civilian	29,963	31,621	30,205	28,785	30,099	5.5%	-4.5%	4.6%
Military	21,794	22,552	17,167	17,106	16,258	3.5%	-23.9%	-5.0%
State and local	96,095	125,115	155,018	159,583	173,207	30.2%	23.9%	8.5%
State governmental	42,560	55,722	64,654	65,503	69,782	30.9%	16.0%	6.5%
Local government	53,535	69,393	90,364	94,080	103,425	29.6%	30.2%	9.9%

⁽¹⁾ Prior to 2001, the U.S. Department of Commerce employed the Standard Industrial Classification ("SIC") system for industry specific data covered in its economic research and analysis of non-agricultural wage and salary employment information. In 2001, the U.S. Department of Commerce adopted a revised and expanded industry classification system, the North American Industry Classification System ("NAICS"). Consequently, 2001 and 2005 employment by industry data is not comparable with employment by industry data for the years 2000, 1990 and 1980. NAICS Industry groups and subgroups in the 2001 and 2005 data have been combined or extracted to approximate the SIC Industry groups listed for the years before 2001.

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

⁽³⁾ The NAICS "Information" subcategories, "Publishing industries, except Internet" and "Internet Publishing and broadcasting" and the NAICS "Manufacturing" category have been combined to approximate the former SIC "Manufacturing" group.

⁽⁴⁾ The NAICS "Information" subcategories, "Publishing industries, except Internet" and "Internet Publishing and broadcasting" and the NAICS "Manufacturing - Nondurable Goods" category have been combined to approximate the SIC "Manufacturing - Nondurable Goods" subcategory.

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

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

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

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

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2006.

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
1997-2006**

<u>Year</u>	<u>Civilian Labor Force</u> (000)		<u>Number of Employed</u> (000)		<u>Unemployment Rate</u>		N.M. as % of U.S. Rate
	<u>New Mexico</u> ⁽¹⁾	<u>United States</u> ⁽¹⁾	<u>New Mexico</u> ⁽¹⁾	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>	
1997	823	136,297	769	129,558	6.6%	4.9%	133%
1998	836	137,673	784	131,463	6.2%	4.5%	139%
1999	840	139,368	793	133,488	5.6%	4.2%	133%
2000	852	142,583	810	136,891	5.0%	4.0%	127%
2001	864	143,734	821	136,933	4.9%	4.7%	104%
2002	876	144,863	827	136,485	5.5%	5.8%	95%
2003	893	146,510	840	137,736	5.9%	6.0%	99%
2004	915	149,401	862	139,252	5.7%	5.5%	103%
2005	936	149,320	887	141,730	5.3%	5.1%	104%
2006 ⁽²⁾	954	151,064	915	143,878	4.1%	5.1%	85%

⁽¹⁾ Figures rounded to nearest thousand.

⁽²⁾ Through September 2006.

Source: U.S. Department of Labor, Bureau of Labor Statistics, October 2006.

**Personal Income
New Mexico and the United States
1996-2005**

<u>Year</u>	<u>Personal Income (000)</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
1996	\$33,345,192	\$6,512,485,000	5.2%	6.0%
1997	34,960,814	6,907,332,000	4.8%	6.1%
1998	37,045,765	7,415,709,000	6.0%	7.4%
1999	38,045,599	7,796,137,000	2.7%	5.1%
2000	40,318,443	8,422,074,000	8.8%	8.0%
2001	44,138,165	8,716,992,000	9.5%	3.5%
2002	44,986,517	8,872,871,000	1.9%	1.8%
2003	46,697,754	9,150,908,000	3.8%	3.1%
2004	50,792,060	9,717,173,000	8.8%	6.2%
2005	53,825,956	10,224,761,000	6.0%	5.2%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, December 2006.

**Per Capita Personal Income
New Mexico and the United States
1996-2005**

<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>
1996	\$19,029	\$24,175	79%	3.3%	4.8%
1997	19,698	25,334	78%	3.5%	4.8%
1998	20,656	26,883	77%	4.9%	6.1%
1999	21,042	27,939	75%	1.9%	3.9%
2000	22,134	29,845	74%	5.2%	6.8%
2001	24,085	30,574	79%	8.8%	2.4%
2002	24,246	30,810	79%	0.7%	0.8%
2003	24,849	31,463	79%	2.5%	2.1%
2004	26,690	33,090	81%	7.4%	5.2%
2005	27,912	34,495	81%	4.6%	4.2%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 2006.

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, a division of The McGraw-Hill Companies, Inc. or Moody’s Investors Service, or similar rating agency in its highest rating category (without regard to any refinement or gradation by numerical modifier or otherwise).

Any moneys held in trust in accordance with the defeasance provisions of the Resolution may be invested only in noncallable Defeasance Obligations having maturity dates, or having redemption dates which, at the option of the holder of such Obligations, shall not be later than the date or dates at which moneys will be required for the purposes described above. Within fifteen (15) days after any Bonds are deemed to be paid and discharged, 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 Brownstein Hyatt Farber Schreck, P.C., Bond Counsel to the State. Certain legal matters will be passed upon for the State by the Office of the Attorney General of the State of New Mexico and by Sutin, Thayer & Browne A Professional Corporation, as Disclosure Counsel to the State.

TAX MATTERS

In the opinion of Brownstein Hyatt Farber Schreck, P.C. (“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.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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 STATEMENTS

Appendix A contains excerpts from the State of New Mexico General Fund, Annual Financial Report for the year ended June 30, 2005.

FINANCIAL ADVISORS

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

RATINGS

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

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

CONTINUING DISCLOSURE UNDERTAKING

The Board will agree, by means of a Continuing Disclosure Undertaking (the substantial form of which appears in Appendix D) to be delivered to the purchaser of the Bonds at closing, for the benefit of owners of the Bonds to provide certain Annual Financial Information relating to the State by no later than 210 days after the end of each Fiscal Year of the State, commencing with the Fiscal Year ending June 30, 2007, and to provide notices of occurrence of certain enumerated events, if material. The Board will further agree in the Continuing Disclosure Undertaking that if its audited financial statements are not provided as part of the Annual Financial Information, the Board will provide such audited statements when available. The Annual Financial Information and audited financial statements (when available) will be filed by the Board with each Nationally Recognized Municipal Securities Information Repository and with any New Mexico State Information Depository. The notices of material events will be filed by the Board with the Municipal Securities Rulemaking Board and with any New Mexico State Information Depository. In the event of a failure of the Board to comply with any provision of the Continuing Disclosure Undertaking, any owner of Bonds (including beneficial owners of the Bonds) may seek specific performance by court order from a State court in Santa Fe County, New Mexico.

The Continuing Disclosure Undertaking is being executed by the Board to assist in complying with Rule 15c2-12 (b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule"). The Continuing Disclosure Undertaking will be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of: (i) the date the principal and interest on the Bonds is paid or deemed paid; (ii) the date the Board is no longer an "obligated person" with respect to the Bonds within the meaning of the Rule; and (iii) the date on which those portions of the Rule which require the Continuing Disclosure Undertaking are held invalid or repealed.

Except as set forth in the succeeding sentences, the State has never failed to comply in all material respects with any previous undertakings with regard to SEC Rule 15c2-12(b)(5) to provide annual reports or notices of material events. Continuing disclosure undertakings previously entered into by the Board in relation to the State's Capital Projects General Obligation Bonds and Severance Tax Bonds called for it to file Audited Financial Statements of the State as part of the Board's annual financial information disclosures, or when available if the financial statements had not been finally audited by the time that it was required to make the annual financial disclosures. Due to the investigation by federal authorities of potentially criminal activity by the two prior elected State Treasurers, and the seizure of financial information from the State Treasurer's Office to further that investigation, preparation and auditing of the Audited Financial Statements of the State for the Fiscal Year ended June 30, 2005 was substantially delayed, and the Audited Financial Statements were not available until August 22, 2006. The State filed the Audited Financial Statements on October 31, 2006, and, on that date, the State notified

the MSRB of the filing. The Board believes that it is now in compliance with all its continuing disclosure undertakings.

GOVERNOR'S FINANCE COUNCIL

The Governor's Finance Council was re-established pursuant to Executive Order No. 2006-066 on December 1, 2006, to develop an overall strategy for issuing long-term debt obligations and making investments to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. The Executive Order designates, among other state officials, the Director of the Board and a Board Member as selected by the Governor as members of the Governor's Finance Council.

MISCELLANEOUS

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

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

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

State Board of Finance of the State of New Mexico

By s/ Bill Richardson
President

APPENDIX A

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

YEAR ENDED JUNE 30, 2005

State of New Mexico
State General Fund
COMPONENT APPROPRIATION ACCOUNTS
June 30, 2005

Elected Official

Governor Bill Richardson

Appointed Officials

Department of Finance and Administration:

Cabinet Secretary

State Controller

Deputy Division Director, Financial Control Division

James C. Jimenez

Anthony I. Armijo, CPA, CGFM

Steve Gonzales



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

James C. Jimenez, Cabinet Secretary
New Mexico Department of Finance and Administration
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, 2005, which collectively comprise the State General Fund's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental funds presented as supplementary information in the accompanying combining and individual financial statements as of and for the year ended June 30, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State General Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

As discussed in Note 1A, the financial statements of the State General Fund are intended to present the financial position, and the changes in the financial position, of only that portion of the governmental activities and the major fund financial statements that is attributable to the State General Fund. They do not purport to, and do not, present fairly, the financial position of the State of New Mexico as of June 30, 2005, 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.

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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, 2005, 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.

As discussed in Note 1 to the financial statements, the Department changed to the modified accrual basis for the encumbrances and the budgetary comparisons.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2005 on our consideration of the State General Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 principally 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 subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR
December 15, 2005

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

As disclosed in the notes to the financial statements, the State General Fund is not a primary government, as defined by

Governmental Accounting Standards Board Statement 34, because it is not fiscally independent or legally separated from the State of New Mexico.

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

Financial Highlights

Continuing its fiscal restraint, the State transferred \$259.3 million of excess revenues over expenditures from the State General Fund's appropriation account to its operating reserve and tax stabilization reserve. The State ended the year with reserves of 15.5% of recurring appropriations.

The net assets of the State General Fund decreased \$35.5 million in fiscal year 2003. However, in fiscal year 2004, assets increased by \$19.2 million and by \$278.7 million in fiscal year 2005. The increase is attributable to a 13.1% increase in revenues compare to the prior year and fiscal control over expenses. For the

same reasons, fund balances of the State General Fund increased by \$253.4 million.

Included in total revenue, are two new sources, Gasoline Tax and Bed Surcharge Tax, which respectively contributed \$0.4 million and \$20.2 million to total revenues.

Beginning fiscal year 2005, the State adopted generally accepted accounting principles for governmental funds as its budgetary basis of accounting. This resulted in an increase in reversions to the general fund compared to the prior year.

Using This Annual Financial Report

This annual report consists of two categories of basic financial statements: 1) the government-wide financial statements (on pages 18 and 19), which provide information about the activities of the State General Fund as a whole and present a long-term view of the State General Fund's finances; and 2) the fund financial statements (on pages 21 and 22), which for governmental activities tell how services were financed in the short term as well as what remains for future spending.

Since the State General Fund consists of one fund, the fund statements report the State

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

Government-wide Financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the State

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

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

The government-wide financial statements can be found on pages 18 and 19 of this report.

Fund financial statements

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on

balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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



comparison between *governmental funds* and *governmental activities*.

The General Fund has one fund, its general fund, which is considered to be a major fund. The State General Fund does not adopt an annual appropriated budget for its general fund. However, the expenditures of the State General Fund by law must equal the individual amounts

appropriated in the various appropriation acts. To demonstrate legal compliance with the appropriation acts, a Schedule of Appropriations is included in this report as supplementary information.

The basic governmental fund financial statements can be found on pages 21 and 22 of this report.

Notes to the financial statements

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

The notes to the financial statements can be found on pages 24 through 33 of this report.

Other information

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

Revenue, Expenditures, and Changes in Fund Balances—Governmental Funds. These schedules provide detail information on State General Fund revenues and demonstrate legal compliance with the statutes governing the collection of revenue by the State General Fund.

Also provided as supplementary information are the Schedule of Revenues by Type and the Schedule of Revenues by Source. Revenue is presented by type in the Statement of Activities and by source in the Statement of

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

Government-wide Financial Analysis

Net Assets
June 30, 2005 and 2004
(in millions of dollars)

	<u>2005</u>	<u>2004</u>
Current assets	\$ 1,317.4	\$1,003.6
Current liabilities	(569.0)	(521.5)
Net assets, unrestricted	<u>\$ 748.4</u>	<u>\$ 482.1</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State General Fund, assets exceeded liabilities by \$748.4 million at the close of fiscal year 2005.

The assets held by the State General Fund are unappropriated and are not restricted.

However, it has been the policy of the State of New Mexico to not consider the amount of revenue deferred under the modified accrual basis of accounting, \$ 60.3 million, as available for appropriation.

Governmental activities

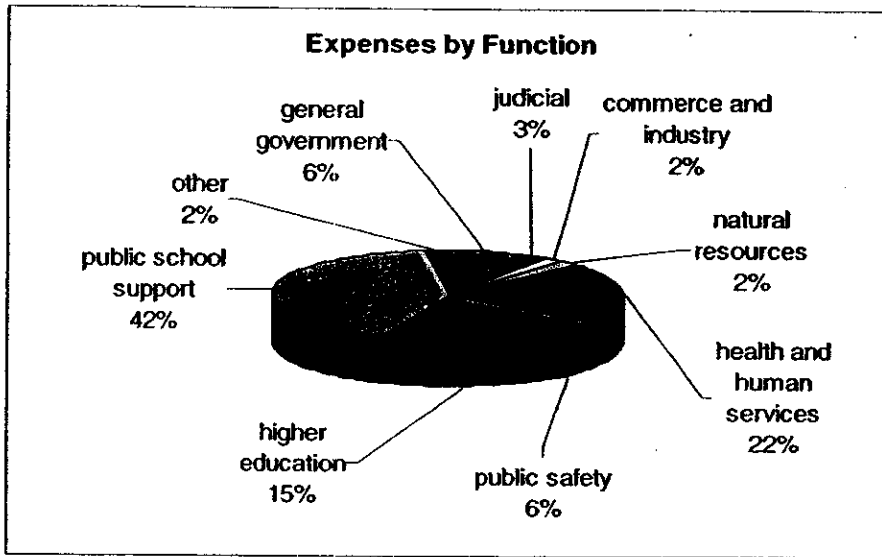
**Changes in Net Assets
June 30, 2005 and 2004
(in millions of dollars)**

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Revenues			
Program revenues:			
Charges for services	\$ 104.6	\$ 86.6	\$ 18.0
General Revenues:			
Sales and use taxes	368.7	327.9	40.8
Business privilege taxes	1,999.0	1,838.5	160.5
Personal income taxes	1,102.7	1,051.3	51.4
Corporate income taxes	244.4	131.9	112.5
Severance taxes	24.4	21.2	3.2
Other taxes	483.0	339.8	143.2
Investment income (unrestricted)	214.3	197.8	16.5
Investment income (restricted)	350.3	292.2	58.1
Gaming revenue sharing	41.3	58.6	(17.3)
Escheats	13.4	7.5	5.9
Reversions	84.6	48.0	36.6
Transfers	-	46.1	(46.1)
Total revenues	<u>5,030.7</u>	<u>4,447.4</u>	<u>583.3</u>
Program Expenses			
General government	298.4	349.5	(51.1)
Legislative	22.4	18.9	3.5
Judicial	148.5	135.9	12.6
Commerce and industry	69.6	63.8	5.8
Natural resources	98.3	96.1	2.2
Health and human services	1,055.6	917.4	138.2
Public safety	297.5	282.0	15.5
Transportation	16.1	.0	16.1
Higher education	702.2	655.0	47.2
Public school support	1,979.9	1,863.3	116.6
Other education	52.8	40.6	12.2
Interest on short term debt	10.2	5.3	4.9
Issuance costs on short term debt	.5	.4	.1
Total expenses	<u>4,752.0</u>	<u>4,428.2</u>	<u>323.8</u>
Increase (Decrease) in net assets	<u>\$ 278.7</u>	<u>\$ 19.2</u>	<u>\$ 259.5</u>

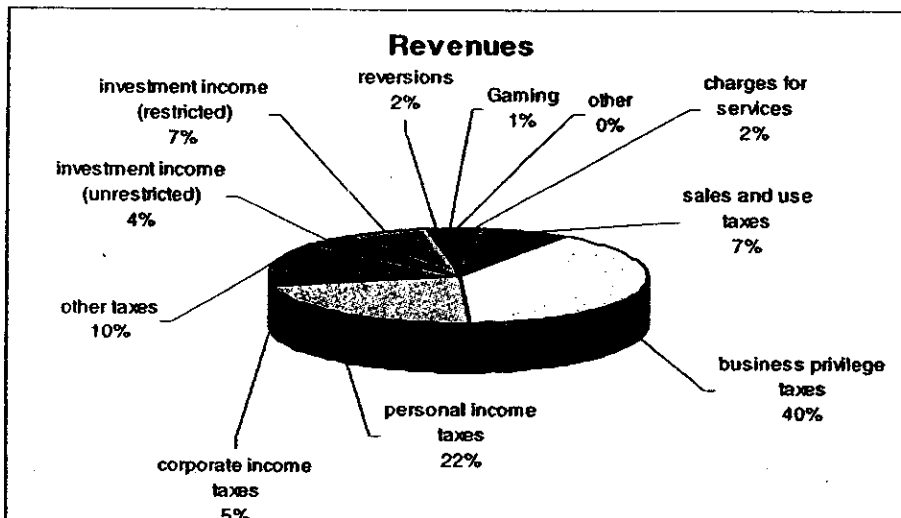
The State General Fund's assets increased by \$278.7 million, as compared to the \$19.2 million increase in 2004. In fiscal year 2005, overall, Revenue increased 13.1% compared to 2004, and

expenses increased only 7.3%, which accounts for the increase in net assets.

Expenses by Function – Governmental Activities



Revenues – Governmental Activities





Business-type Activities

The State General Fund did not have any business-type activities during fiscal year 2005.

Financial Analysis of the State General Fund's General Fund

As noted earlier, the State General Fund uses fund accounting to ensure and demonstrate

compliance with finance-related legal requirements.

Governmental funds

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

As of the end of the current fiscal year, the State General Fund's general fund reported an ending fund balance of \$447.1 million, an increase of \$243.6 million. The increase is attributable to the same key factors noted on

page 13 for the increase in net assets—increase in revenue and fiscal constraint over expenditures. The entire amount of the general fund's ending fund balance is *unreserved fund balance* and is available for appropriation by the Legislature. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. It is the policy of the State of New Mexico to keep at least 5% of the amount of prior year reoccurring appropriations as unreserved fund balance. For fiscal year 2005, reserves were 15.5% of recurring prior year appropriations.

Economic Factors

Fiscal year 2005 compares to fiscal year 2004 as follows:

- Recurring revenue grew by \$623.2 million or 14.5 percent. Total revenue grew by \$357.2 or 7.7 percent.
- Receipts from the general sales tax—the best measure of overall economic activity—grew by 7.3 percent.
- Taxable gross receipts, after adjusting for food and medical tax deductions enacted by the 2004 Legislature, grew by 4.3 percent.
- The largest sector—retail trade—which makes up 29.2 percent of all taxable gross receipts—contracted by 3.7 percent. This sector is the primary sector affected by the new food and medical tax deductions. Construction and mining posted solid growth of 9.0 percent and 21.3 percent respectively.
- Despite marginal income tax rate reductions, personal income tax collections grew by 7.8 percent, reflecting a stable labor market and strong personal income growth.
- Corporate income tax collections grew by 75.4 percent, indicative of profits in

the oil and gas and manufacturing industries.

- Estate tax collections declined by 35.9 percent. The state estate tax along with the federal estate tax will be fully phased out in FY 2007.
- Mineral production taxes and rents and royalties combined increased by 31.6 percent reflecting elevated energy prices.

Investment income increased by 13.0 percent resulting from higher portfolio balances and a higher federal funds rate.

Requests for Information

This financial report is designed to provide a general overview of the State General Fund's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be

addressed to the Director of the Financial Control Division, Department of Finance and Administration, 407 Galesteo, Room 166 Bataan Memorial Building, Santa Fe, New Mexico 87501.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

State General Fund
COMPONENT APPROPRIATION ACCOUNTS
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Investments, State Treasurer, Note 2	\$ 414,284,729	\$ -	\$ 414,284,729
Investments, State Investment Council, Note 2	77,333,210	-	77,333,210
Due from other state entities	765,423,292	-	765,423,292
Due from tax payers	60,303,542	-	60,303,542
Total assets	<u>1,317,344,773</u>	<u>-</u>	<u>1,317,344,773</u>
LIABILITIES			
Current liabilities:			
Cash overdraft	270,948,715	-	270,948,715
Voucher payable	5,000	-	5,000
Due to other state entities	257,991,349	-	257,991,349
Due to local governments	14,452,793	-	14,452,793
Due to tax payers	25,561,182	-	25,561,182
Total liabilities	<u>568,959,039</u>	<u>-</u>	<u>568,959,039</u>
NET ASSETS			
Unrestricted	748,385,734	-	748,385,734
Total net assets	<u>\$ 748,385,734</u>	<u>\$ -</u>	<u>\$ 748,385,734</u>

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

FUND FINANCIAL STATEMENTS

State of New Mexico
State General Fund
COMPONENT APPROPRIATION ACCOUNTS
Balance Sheet
Governmental Funds
June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets:			
Investments, State Treasurer, Note 2	\$ 414,284,729	\$ -	\$ 414,284,729
Investments, State Investment Council, Note 2	77,333,210	-	77,333,210
Due from other state entities	765,423,292	-	765,423,292
Due from tax payers	60,303,542	-	60,303,542
Total assets	<u>\$ 1,317,344,773</u>	<u>\$ -</u>	<u>\$ 1,317,344,773</u>
 LIABILITIES AND FUND BALANCES			
Current liabilities:			
Deferred revenues	60,303,542	-	60,303,542
Cash overdraft	270,948,715	-	270,948,715
Voucher payable	5,000	-	5,000
Due to other state entities	257,991,349	-	257,991,349
Due to local governments	14,452,793	-	14,452,793
Due to taxpayer	25,561,182	-	25,561,182
Total liabilities	<u>629,262,581</u>	<u>-</u>	<u>629,262,581</u>
 Fund balances:			
Unreserved/undesignated	688,082,192	-	688,082,192
Total liabilities and fund balances	<u>\$ 1,317,344,773</u>	<u>\$ -</u>	

The amounts due from other entities are not available to pay for current period expenditures and, therefore, are deferred in the funds.

60,303,542

Net assets of governmental activities

\$ 748,385,734

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, 2005

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
General and selective taxes	\$ 1,946,394,524	\$ -	\$ 1,946,394,524
Income taxes	1,333,402,464	-	1,333,402,464
Severance taxes	426,997,647	-	426,997,647
License fees	44,265,125	-	44,265,125
Investment income	564,564,628	-	564,564,628
Rents and royalties	487,047,796	-	487,047,796
Miscellaneous receipts	120,122,513	-	120,122,513
Reversions	82,589,273	-	82,589,273
Total revenues	<u>5,005,383,970</u>	<u>-</u>	<u>5,005,383,970</u>
EXPENDITURES			
Current:			
Appropriations:			
Legislative	22,442,889	-	22,442,889
Judicial	148,461,100	-	148,461,100
General control	298,438,678	-	298,438,678
Commerce and industry	69,609,700	-	69,609,700
Natural resources	98,319,793	-	98,319,793
Health and human services	1,055,614,222	-	1,055,614,222
Public safety	297,458,144	-	297,458,144
Transportation	16,102,810	-	16,102,810
Other education	52,777,890	-	52,777,890
Higher education	702,208,057	-	702,208,057
Public school support	1,979,906,400	-	1,979,906,400
	<u>4,741,339,683</u>	<u>-</u>	<u>4,741,339,683</u>
Tax and Revenue Anticipation Notes:			
Interest expense	10,168,835	-	10,168,835
Issuance costs	465,070	-	465,070
	<u>10,633,905</u>	<u>-</u>	<u>10,633,905</u>
Total expenditures	<u>4,751,973,588</u>	<u>-</u>	<u>4,751,973,588</u>
Excess of revenues over expenditures	253,410,382	-	253,410,382
OTHER FINANCING SOURCES			
Transfers In	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	253,410,382	-	253,410,382
Fund balance - beginning	434,671,810	-	434,671,810
Fund balance - ending	<u>\$ 688,082,192</u>	<u>\$ -</u>	<u>\$ 688,082,192</u>

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

State of New Mexico
State General Fund
COMPONENT APPROPRIATION ACCOUNTS
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2005

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)	253,410,382
Revenues earned in fiscal year 2004 that were not "available" until fiscal year 2005 are reported in the funds as fiscal year 2005 revenue	(34,999,428)
Revenues earned in fiscal year 2005 that will not be "available" until fiscal year 2006 are <u>not</u> reported in the funds	60,303,542
Change in net assets of governmental activities (page 19)	<u>\$278,714,496</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS INDEX

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State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2005

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, 2005

guarantee distribution in order to ensure, to the extent of the amount undistributed in the fund, that the maximum figures for such distribution established by law shall not be reduced.

4. Tobacco Settlement Permanent Fund

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

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

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

Administratively Created Funds

1. Appropriation Account Fund

The *appropriation account fund* is an administratively created fund the State General

Fund uses to account for the financial activity of the statutorily created *general fund* and for portions of the financial activity of the statutorily created *public school fund*.

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

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

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

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

2. Federal Mineral Leasing Fund

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

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2005

the portion of the *public school fund* administered by the State General Fund to the *Instructional Materials Fund* and to the Bureau of Mines and Mineral Resources of the New Mexico Institute of Mining and Technology

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

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

3. Appropriation Contingency Reserve Fund

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

4. General Fund Operating Reserve Fund

Section 6-4-2.1, NMSA 1978, creates the general fund operating reserve within the *general fund*. To account for the reserve, the State General Fund has established the *general fund operating reserve fund*. Section 6-4-4, NMSA 1978, requires that excess revenue over appropriations (expenditures/expenses) in the

general fund be transferred to the *general fund operating reserve* provided that 1) if the sum of the excess revenue plus the balance in the operating reserve prior to the transfer is greater than eight percent of the aggregate recurring appropriations from the *general fund* for the previous fiscal year, then an amount equal to the smaller of either the amount of the excess revenue or the difference between the sum and eight percent of the aggregate recurring appropriation from the *general fund* for the previous fiscal year; and 2) that if the total of the amount transferred to the *tax stabilization reserve fund* plus the balance in that reserve prior to the transfer is greater than six percent of the aggregate recurring appropriations from the *general fund* for the previous fiscal year, then an amount equal to the smaller of either the amount transferred or the difference between the total and six percent of the aggregate recurring appropriation from the *general fund* for the previous fiscal year is appropriated to the *taxpayer dividend fund*.

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

5. Tax Stabilization Reserve Fund

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

The effect of interfund activity between these nine statutorily and administratively created funds has been eliminated from the accompanying financial statements. This

State of New Mexico
State General Fund Component Appropriation Accounts
Notes to the Financial Statements
June 30, 2005

interfund activity included the receivables and payables listed in the table below.

<u>Due from Other Fund</u>		<u>Due to Other Funds</u>		Amount
<u>Name</u>	Central Accounting System Fund Number	<u>Name</u>	Central Accounting System Fund Number	
Appropriations Account Fund	853	Current School Fund	717	\$ 37,805,417
Current School Fund	717	Common School Current Fund	716	37,083,204
Tax Stabilization Reserve Fund	843	Appropriation Account Fund	853	55,336,166
Operating Reserve Fund	852	Appropriation Account Fund	853	203,936,432
Appropriation Account Fund	853	Federal Mineral Leasing	851	<u>45,809,749</u>
				<u>\$ 379,970,968</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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Notes to the Financial Statements
June 30, 2005

2. Fund financial statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. For derived tax revenues, related assets are recognized when the exchange transaction occurs or when the resources are received, whichever occurs first. If the resources are not available, deferred revenues are reported for the assets that are recognized before the revenues. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State General Fund considers tax revenues to be available, if they are collected within 60 days after the end of the fiscal year; reversions, if collected within 90 days of the end of the current fiscal period; and all other revenues to be

available if collected prior to completion of the State General Fund's financial statements, which is usually the December 15th following the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

1. Due from Other State Entities

Section 6-4-2, NMSA 1978, requires all revenues—not otherwise allocated by law—to be credited to the State General Fund. In addition, Section 6-5-10, NMSA 1978, requires all undesignated/unreserved fund balances in reverting state agency funds to be reverted to the State General Fund. Various state agencies collect revenues on behalf of the State General

Fund. In addition, most state agencies administer funds that revert balances to the State General Fund. The amounts due from other state entities reported in the accompanying financial statements and in the Schedule of Amount Due from Other Entities are the amounts due to the State General Fund under the authority of the two statutes cited above.

2. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the State General Fund's policy to use restricted

resources first, and then unrestricted resources as they are needed.

E. Revenues and Expenditures/Expenses

1. Reversions

Once an appropriation lapses, the related cash balance is usually required by law to be returned to the fund from where the appropriation allotment originated (that is, from where the cash related to the appropriation originated). In the accompanying financial statements, the cash

returned to the State General Fund is treated as general revenue and presented as "reversions." Beginning fiscal year 2005, the State adopted generally accepted accounting principles for governmental funds as its budgetary basis of accounting. This resulted in an increase in reversions to the general fund compared to the prior year.

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2. Investments

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

Fund consist of investments in the investment pools managed by these two entities.

As of June 30, 2005 the State General Fund had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
The New Mexico State Treasurer's Office: General Fund Investment Pool	1 day to 3 years	<u>\$414,284,729</u>
The State Investment Council:		
Equities-	Not Applicable	
Large Cap Active Pool		\$ 25,362,518
Large Cap Index Pool		8,348,250
Small/Mid Cap Active Pool		9,581,290
Non-US Developed Markets Pool		5,079,870
Non-US Emerging Markets Pool		1,782,048
Core Bonds-		
US Core Bonds Pool	1 to 37 years	24,388,648
High Yield Bonds-		
US High Yield Bonds Pool	3 to 5 years	2,259,753
Cash/Cash Equivalents/Accruals	Not Applicable	<u>530,833</u>
		<u>\$ 77,333,210</u>

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

For additional GASB 40 disclosure information related the above investment pools, the reader should see the separate audit reports for the State Treasurer's Office and the State Investment Council for the fiscal year ended June 30, 2005.

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

3. Tax and Revenue Anticipation Notes

The following notes were issued by the State of New Mexico during fiscal year 2005 and matured June 30, 2005:

- A. 2004-2005 Tax and Revenue Anticipation Notes, Series 2004, \$400.0 million.
- B. 2004-2005 Tax and Revenue Anticipation Notes, Series 2004A, \$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 2005.

The transactions related to the notes have been presented in accordance with generally accepted accounting principles (GASB Codification Section

State of New Mexico
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June 30, 2005

B50.101); accordingly, interest and issuance costs are presented in the accompanying financial statements as expenses/expenditures.

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

The Office of the State Treasurer deposited the net proceeds from the sale of the notes, \$712,715,539 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).

4. Transfer Authority

For fiscal year 2005, the General Appropriations Act of 2005 provide the State General Fund with authority to transfer \$40.0 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

To the pay the notes, the State General Fund transferred \$723,349,444 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, 2005, the State of New Mexico issued the following Tax and Revenue Anticipation notes: 05-06 Tax and Revenue Anticipation Notes, Series 2005, \$400.0 million.

contingency fund, tax stabilization reserve, and public school state-support reserve) were not sufficient to meet appropriations.

For fiscal year 2005, revenues and transfers exceeded appropriations by \$259,272,598.

5. Restatement of Beginning Net Assets

The beginning net assets presented in the accompanying Statement of Activities reflect an adjustment of \$12,414,818. The adjustment is necessary to correct an error, which resulted in an overstatement of revenues in 2004. The overstatement

resulted from not accruing an estimate for unidentified 60 day remittance distributed to the state general fund at June 30, 2004. The error impacted the governmental fund balance by the same amount.

Summary of Adjustments:

	<u>Net Assets</u>	<u>Fund Balance</u>
Unadjusted beginning balance	\$482,086,056	\$447,086,628
Adjustment to full accrual		
Unidentified 60 day remittance	<u>(12,414,818)</u>	<u>(12,414,818)</u>
Adjusted beginning balance	<u>\$469,671,238</u>	<u>\$434,671,810</u>

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6. Transfers In/out

A. Required Transfers

For fiscal year 2005, in accordance with State statute and law, the following transfers were made: \$38,009,047 from the Tobacco Settlement Permanent fund (fund 404) to the Appropriation Account (fund 853); \$55,336,166 from the Appropriation Account (fund 853) to the Tax Stabilization Reserve (fund 843); and \$203,936,432 from the Appropriation Account (fund 853) to the General Operating Reserve Fund (fund 852).

B. Reclassification of Receipts

In the Statement of Activities for the fiscal year ending June 30, 2004, Tobacco Settlement receipts were classified as "transfers." In the Statement of Activities for the fiscal year ending June 30, 2005, Tobacco Settlement receipts are classified as general revenues and unrestricted investment income. This reclassification was made to better reflect the nature of the receipts.

APPENDIX B

FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER

[date]

State Board of Finance State of New Mexico Bataan Memorial Building, Suite 181 Santa Fe, NM 87501	Brownstein Hyatt Farber Schreck, P.C. 201 Third Street, N.W. Suite 1700 Albuquerque, NM 87102	Sutin Thayer & Browne A Professional Corporation P.O. Box 1945 Albuquerque, NM 87103
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Re: \$134,870,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2007

Ladies and Gentlemen:

This letter will serve as our certificate of litigation concerning the State of New Mexico Capital Projects General Obligation Bonds, Series 2007, in the principal amount of \$134,870,000 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 108, Laws 2006); (iv) the transactions authorized by the State Board of Finance in its resolutions of December 19, 2006 and January 16, 2007 (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 at 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 2007**

March 1, 2007

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

Re: \$134,870,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2007

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance on the date hereof of \$134,870,000 aggregate principal amount of State of New Mexico Capital Projects General Obligation Bonds, Series 2007 (the "Bonds"), dated March 1, 2007 and being a series of bonds in registered form maturing on March 1, 2008 and serially thereafter on March 1 of each year through 2017.

We have also examined the provisions of the Constitution and laws of the State of New Mexico (the "State") including the 2006 Capital Projects General Obligation Bond Act, Chapter 108, Laws 2006, 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 16, 2007, an executed Bond of the first maturity, and the Tax Regulatory Certificate of the State (the "Tax Certificate"). We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion.

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with the covenants and agreements contained in the Bond Legislation and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds and the Bond Legislation and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of New Mexico. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express herein no opinion relating thereto.

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

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

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

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

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

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

Very truly yours,

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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 \$134,870,000 Capital Projects General Obligation Bonds, Series 2007 (the “Bonds”). The Bonds are being issued pursuant to the Bond Resolution adopted by the Board on January 16, 2007 (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 and higher education projects as set forth in the 2006 Capital Projects General Obligation Bond Act, Chapter 108, Laws 2006 and approved by the voters of the State on November 7, 2006.

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

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

STATE COVENANTS AND AGREEMENTS

Section 1. Definitions.

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

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

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

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

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

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

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

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

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

(f) "Official Statement" means the Official Statement dated January 5, 2007 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, 2007 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: _____, 2007

STATE BOARD OF FINANCE

By _____
President

By _____
Secretary

Portions Of The Official Statement
Containing The Type Of Information
To Be Included As
Annual Financial Information

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