New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on the $218,450,000 State of New Mexico Severance Tax Bonds, Series 2009A (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.

THE STATE OF NEW MEXICO
$218,450,000 SEVERANCE TAX BONDS, SERIES 2009A

Dated: Delivery Date **Due: July 1, as shown on the inside front cover**

Ratings	"Aa2" Moody's Investors Service, Inc.
	"AA" Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.
Tax Exemption	In the opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes as described herein. See "TAX MATTERS."
No Optional Redemption	The Bonds are not subject to optional redemption prior to maturity.
Sources of Payment	The Bonds are special limited obligations of the State payable primarily from, and secured by, taxes levied upon certain natural resource products severed and saved from the soil of the State deposited into the Severance Tax Bonding Fund.
Priority	The Bonds are being issued under the authority of the State of New Mexico Severance Tax Bonding Act. The Bonds will be on a parity with Senior Severance Tax Bonds now or hereafter outstanding and senior to Supplemental Severance Tax Bonds now or hereafter outstanding.
Purposes	Net proceeds of the Bonds are being used to finance certain projects specified in Chapters 5, 125 and 128, Laws 2009; Chapter 9, Laws 2008 (Second Special Session); Chapter 92, Laws 2008; Chapter 3, Laws 2007 (1st Special Session); Chapter 334, Laws 2007; Chapter 134, Laws 2003, and for the refunding of the 2010 through 2013 and 2010 through 2014 maturities of the State of New Mexico Severance Tax Bonds, Series 2003A and 2004A, respectively.
Interest Payment Dates	January 1 and July 1, commencing January 1, 2010.
Closing/Settlement	On or about July 30, 2009.
Denominations	$5,000
Book-Entry System	The Depository Trust Company
Registrar/Paying Agent	State Treasurer of New Mexico
Bond Counsel	Sutin, Thayer & Browne A Professional Corporation
Disclosure Counsel	Brownstein Hyatt Farber Shreck, LLP
Issuer Contact	State Board of Finance: Olivia Padilla-Jackson, Director, 505-827-4980; *olivia.padilla-jackson@state.nm.us*

Dated: June 23, 2009

SERIES 2009A BONDS

CUSIP[1]	Year (July 1)	Principal Amount	Interest Rate	Yield at Issuance[2]	Price at Issuance[3]
647310G88	2010	$ 22,665,000	2.000%	.0480%	101.392%
647310G96	2011	28,145,000	4.000	1.150	105.394
647310H20	2012	29,405,000	4.000	1.600	106.817
647310H38	2013	30,900,000	5.000	2.050	111.054
647310H46	2014	22,970,000	5.000	2.430	111.846
647310H53	2015	15,230,000	5.000	2.730	112.327
647310H61	2016	16,010,000	5.000	2.970	112.610
647310H79	2017	16,830,000	5.000	3.230	112.278
647310H87	2018	17,695,000	5.000	3.430	111.973
647310H95	2019	18,600,000	5.000	3.590	111.677

[1] The State takes no responsibility for the accuracy of CUSIP numbers, which are included solely for the convenience of owners of the Bonds.
[2] This information not provided by State.
[3] This information not provided by State.

ELECTED STATE OFFICIALS

BILL RICHARDSON
Governor

MARY HERRERA
Secretary of State

DIANE D. DENISH
Lieutenant Governor

JAMES B. LEWIS
State Treasurer

HECTOR H. BALDERAS
State Auditor

GARY K. KING
Attorney General

PATRICK H. LYONS
Commissioner of Public Lands

Public Regulation Commissioners:

JASON A. MARKS
District I

DAVID W. KING
District II

JEROME D. BLOCK
District III

CAROL K. SLOAN
District IV

SANDY R. JONES
District V

STATE BOARD OF FINANCE

Ex Officio Members

GOVERNOR BILL RICHARDSON
President

LT. GOVERNOR
DIANE D. DENISH
Member

STATE TREASURER
JAMES B. LEWIS
Member

Appointed Members

JOHN LOEHR
Member

KIM SANCHEZ RAEL
Secretary

MARIA GRIEGO-RABY
Member

STEVEN K. MOISE
Member

KATHERINE B. MILLER
Executive Officer

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Olivia Padilla-Jackson, Director

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A Professional Corporation
Albuquerque and Santa Fe, New Mexico

DISCLOSURE COUNSEL
Brownstein Hyatt Farber Shreck, LLP
Albuquerque, New Mexico

FINANCIAL ADVISORS
Fiscal Strategies Group, Inc.
Swarthmore, Pennsylvania
Public Resources Advisory Group
(as subcontractor)
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 severance 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 this Official Statement. Both the Preliminary Official Statement and the Official Statement are "deemed final" by the State Board of Finance for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

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TABLE OF CONTENTS

LIST OF APPENDICES

SUMMARY OF INFORMATION

$218,450,000 SEVERANCE TAX BONDS, SERIES 2009A

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 January 1 and July 1, commencing on January 1, 2010.
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 not subject to optional redemption prior to maturity.
Registration:	The Bonds are being issued solely in book-entry form in the denomination of $5,000 or any integral multiple thereof. The Bonds are being registered to Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as depository.
Legal Opinion:	The Bonds are offered when, as and if issued, subject to the approval of legality by Sutin, Thayer & Browne A Professional Corporation, Bond Counsel.
Security:	The Bonds constitute special limited obligations of the State of New Mexico and will be payable solely from deposits to and revenues of the Severance Tax Bonding Fund, consisting primarily of receipts from certain taxes levied on certain natural resource products severed and saved from the soil of the State of New Mexico as more fully described herein.
Additional Parity Bonds:	The State Board of Finance is prohibited by State statute from issuing Senior Severance Tax Bonds unless the aggregate amount of parity Senior Severance Tax Bonds outstanding, including the Bonds to be issued, can be serviced with not more than 50 percent of the annual deposits into the Severance Tax Bonding Fund, as determined by the deposits during the fiscal year preceding the issuance of the Bonds.

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TABLE 1

Summary of Projected and Historical Coverage in Severance Tax Bonding Fund
Fiscal Year Ended June 30
(Dollars in thousands)

	2009	2010	2011	2012	2013
Projected Bonding Fund Receipts	$524,632	$336,673	$406,235	$439,284	$450,753
Senior Bond Debt Service[(1)(2)]	$96,019	$96,281	$101,854	$106,623	$106,972
Senior Bond Debt Service Coverage Ratio	5.46x	3.50x	3.99x	4.12x	4.21x
Supplemental Bond Debt Service[(2)]	$15,391	$15,452	$15,452	$15,432	$7,989
Supplemental Bond Debt Service Coverage Ratio	4.71x	3.01x	3.46x	3.60x	3.92x

	2004	2005	2006	2007	2008
Bonding Fund Receipts	$319,337	$405,549	$534,676	$510,120	$573,595
Senior Bond Debt Service[(3)]	$68,270	$68,204	$69,902	$72,886	$81,270
Senior Bond Debt Service Coverage Ratio	4.68x	5.95x	7.65x	7.00x	7.06x
Supplemental Bond Debt Service[(3)]	$18,230	$19,008	$19,646	$20,119	$18,020
Supplemental Bond Debt Service Coverage Ratio	3.69x	4.65x	5.97x	5.48x	5.78x

(1) Includes debt service on the Series 2009A Bonds.
(2) Excludes debt service on refunded bonds, which will be paid from escrowed securities and severance tax debt obligations sold to the State Treasurer which are retired within the same fiscal year.
(3) Represents scheduled debt service by fiscal year.

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THE STATE OF NEW MEXICO
$218,450,000 SEVERANCE TAX BONDS, SERIES 2009A

INTRODUCTION

The purpose 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 $218,450,000 State of New Mexico Severance Tax Bonds, Series 2009A (the "Series 2009A Bonds"), the State of New Mexico (the "State"), and the State Board of Finance (the "Board").

The Series 2009A Bonds are being issued under authority of the State Severance Tax Bonding Act, Sections 7-27-1 through 7-27-27 NMSA 1978, as amended (the "Severance Tax Bonding Act"), and pursuant to resolutions of the Board adopted on May 19, 2009, and June 23, 2009 (the "Series 2009A Resolution").

This Official Statement contains summaries of the terms of the Bonds, certain fiscal matters of the State, and the Severance Taxes (defined below) 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 Severance Taxes, or requests for copies of any document or statute referred to in this Official Statement, may be directed to:

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

THE SEVERANCE TAX BONDS

General Terms

The Bonds are dated their date of delivery, 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 January 1 and July 1, commencing on January 1, 2010. The Bonds are being issued solely in book-entry form in denominations of $5,000 or integral multiples 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 Series 2009A Resolution.

No Optional Redemption of Bonds

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

Security for the Bonds

There are two categories of bonds issued by the State Board of Finance wherein the money in the Severance Tax Bonding Fund (the "Bonding Fund") is pledged for their retirement. Those bonds are referred to in the Severance Tax Bonding Act as "New Mexico Severance Tax Bonds" and as "New Mexico Supplemental Severance Tax Bonds" but, for clarity, are referred to herein as "Senior Severance Tax Bonds" and "Supplemental Severance Tax Bonds," respectively. Where appropriate, Senior Severance Tax Bonds and Supplemental Severance Tax Bonds are collectively referred to herein as "Severance Tax Bonds."

Security for the Series 2009A Bonds

The Series 2009A Bonds are special limited obligations of the State secured by and payable solely from, on a parity basis to Senior Severance Tax Bonds now or hereafter outstanding and on a prior lien basis to Supplemental Severance Tax Bonds now or hereafter outstanding, deposits to the Bonding Fund into which are deposited, pursuant to the Severance Tax Bonding Act, the net receipts from taxes levied in accordance with the Severance Tax Act, Sections 7-26-1 through 7-26-11 NMSA 1978, as amended (the "Severance Tax Act"), and the Oil and Gas Severance Tax Act, Sections 7-32-1 through 7-32-28 NMSA 1978, as amended (the "Oil and Gas Severance Tax Act"), upon certain natural resource products severed and saved from the soil of the State ("Severance Taxes"), investment earnings on such deposits and on unused bond proceeds in certain accounts, and such other moneys as the Legislature in its sole discretion may from time to time determine. On June 30 and December 31 of each year the excess money in the Bonding Fund over the amount necessary to meet all principal and interest payments on all outstanding Senior Severance Tax Bonds and all outstanding Supplemental Severance Tax Bonds on the next two ensuing semiannual payment dates must be transferred to the Severance Tax Permanent Fund.

Once moneys are so transferred, they no longer may be used to pay, or to secure payment of, principal of, premium, if any, or interest on any Senior Severance Tax Bonds or Supplemental Severance Tax Bonds. Severance Tax Bonds are not general obligations of the State and the State is prohibited by law from using the proceeds of property taxes as a source of payment of revenue bonds, including Severance Tax Bonds.

The State Treasurer keeps separate accounts for all money collected as Severance Taxes, and is directed by State statute to pay Severance Tax Bonds from moneys on deposit in the Bonding Fund. The Series 2009A Bond Resolution provides for the creation of a separate Debt Service Account within the Bonding Fund for the payment of principal and interest on the Series 2009A Bonds.

The Board is prohibited by State statute from issuing Senior Severance Tax Bonds unless the aggregate amount of total Senior Severance Tax Bonds outstanding, including the Senior Severance Tax Bonds proposed to be issued, can be serviced with not more than 50 percent of the annual deposits into the Bonding Fund, as determined by the deposits made in the fiscal year immediately preceding the issuance of the proposed Severance Tax Bonds. The total aggregate principal amount of outstanding Senior Severance Tax Bonds issued by the State does not now, nor will such amount upon the issuance of the Bonds, exceed any applicable limit prescribed by the Constitution or laws of the State.

The Severance Tax Bonding Act requires the Legislature to provide for the continued assessment, levy, collection and deposit into the Bonding Fund of Severance Taxes which, together with such other moneys as may be deposited into the Bonding Fund, will be sufficient to produce an amount at least equal to annual debt service on all outstanding Senior Severance Tax Bonds and Supplemental Severance Tax Bonds.

In addition, the Board covenants in the Series 2009A Resolution that the State will use its best efforts to collect and deposit in the Bonding Fund sufficient income from Severance Taxes so that, when combined with other moneys deposited in the Bonding Fund, the amount deposited annually in the Bonding Fund will equal at least 200 percent of the amount of the principal and interest scheduled to be due in each fiscal year on all Senior Severance Tax Bonds. However, the Board does not have the power to levy or impose Severance Taxes, and no assurance exists that the 200 percent requirement will be met.

The Severance Tax Bonding Act also permits the Board to issue Supplemental Severance Tax Bonds also payable from amounts in the Bonding Fund, but subject to the prior payment of Senior Severance Tax Bonds. The Series 2009A Bonds, all currently outstanding Senior Severance Tax Bonds, and any Senior Severance Tax Bonds issued on a parity with the Series 2009A Bonds will have a pledge and lien senior to any Supplemental Severance Tax Bonds now outstanding or hereafter issued.

USE OF PROCEEDS

Proceeds of the Severance Tax Bonds, Series 2009A are being issued to finance certain projects specified in Chapters 5, 125 and 128, Laws 2009; Chapter 9, Laws 2008 (Second Special Session); Chapter 92, Laws 2008; Chapter 3, Laws 2007 (1st Special Session); Chapter 334, Laws 2007; Chapter 134, Laws 2003, as well as to provide for the refunding, on or about July 31, 2009, of the 2010 through 2013 maturities of the State's Severance Tax Bonds, Series 2003A, and 2010 through 2014 maturities of the State's Severance Tax Bonds, Series 2004A (the "Refunded Bonds"). Bond proceeds deposited in the project accounts or used for the redemption of the Refunded Bonds are not available for the payment of debt service on the Bonds except to the extent that upon completion or abandonment of the project or expiration of a statutorily created reversionary period (which may be extended by the Legislature) for the project, amounts remaining in the project account for that project must be transferred to the Bonding Fund, and become available to pay debt service on the Bonds until transferred to the Severance Tax Permanent Fund. Costs incurred in the issuance of the Bonds (other than the underwriters' discount) are payable from the Bonding Fund, not from proceeds of the Bonds. The costs incurred to issue the Series 2009A Bonds are expected to be approximately $447,200.00.

The sources and uses of funds for the Bonds are as follows:

SOURCES:	Series 2009A Bonds
Par Amount	$ 218,450,000
Reoffering Premium	20,228,084
Transfers from Refunded Bonds Debt Service Funds	251,414.58
TOTAL SOURCES	$238,929,498.58
USES:	
Deposit to Capital Projects Account	$165,696,605.64
Deposit for the Redemption of the Refunded Bonds	$ 72,821,414.58
Underwriters' Discount	$ 408,785.92
Deposit to Debt Service Fund	$ 2,692.44
TOTAL USES	$238,929,498.58

SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS

Severance taxes have been collected by the State since the adoption of the Severance Tax Act in 1937. Since 1959, certain Severance Tax receipts and certain other moneys determined by the Legislature have been deposited into the Bonding Fund and used, in part, to retire bond issues, which have funded a variety of capital improvements in the State.

Pursuant to the provisions of the Severance Tax Act and the Oil and Gas Severance Tax Act, severance tax receipts, including penalties and interest, and such other moneys as the Legislature in its sole discretion may from time to time determine (including interest earnings on moneys in the Bonding Fund and the project accounts and reversions from project accounts in the Bonding Fund), are deposited into the Bonding Fund. As of the date of this Official Statement other moneys including interest earnings on moneys in the Bonding Fund, reversions from project accounts in the Bonding Fund, prepayments and tax settlements have been so deposited. See the table entitled "SEVERANCE TAX BONDING FUND RECEIPTS, DISBURSEMENTS AND TRANSFERS" herein. The moneys in the Bonding Fund are pledged for the payment of principal of, premium, if any, and interest on Severance Tax Bonds and Supplemental Severance Tax Bonds, and there are no other liens or encumbrances of any nature on or against (i) the Bonding Fund, or (ii) the net revenues derived from Severance Taxes that are required to be credited to the Bonding Fund.

Severance taxation is determined by State statute. For a description of the various Severance Tax rates and methods of their calculation, see "SEVERANCE TAX REVENUE" below.

Investments

Funds on deposit in the Bonding Fund, including the Debt Service Account and the Project Fund (established by the Series 2009A Resolution), are invested by the State Treasurer at the direction and approval of the Board, pursuant to the State Treasurer's Investment Policy ("Investment Policy"). For a description of the Investment Policy, see "Appendix A." Investments are made in securities, which are at the time legal investments of the State, and no such investment or deposit shall violate any applicable restrictions imposed by the Code (defined below) and applicable Treasury Regulations relating to the market price and the existence of an established market.

Except for funds deposited into the Rebate Fund (defined in the Series 2009A Resolution), net interest earned on the amounts on deposit in the Debt Service Account shall be retained therein, and net interest earned on amounts on deposit in the Project Fund shall be credited to the Debt Service Account and applied to the payment of principal of and interest on the Bonds next becoming due. Any net loss after applying any earnings in that account or fund to the loss resulting from any such investment shall be charged to the applicable account from which such investment was made.

Issuance of Severance Tax Bonds

The Severance Tax Bonding Act authorizes the issuance and sale of Senior Severance Tax Bonds and Supplemental Severance Tax Bonds payable from the net receipts from taxes levied upon certain natural resource products severed and saved from the soil ("Severance Taxes") in accordance with the provisions of, and as described in, the Severance Tax Bonding Act.

Severance Taxes are collected on a monthly basis by the New Mexico Taxation and Revenue Department (the "TRD") and deposited in the Extraction Taxes Suspense Fund within the General Fund of the State. On or around the 25th day of the month following the collection of the Severance Taxes, if the TRD determines that there is no substantial risk of protest or litigation over those tax revenues, they are released from the Extraction Taxes Suspense Fund and deposited in the Bonding Fund; otherwise the tax revenues are held in the Extraction Taxes Suspense Fund until the substantial risk of protest or litigation is no longer present.

On December 31 and June 30 of each fiscal year, excess funds in the Bonding Fund are transferred into the Severance Tax Permanent Fund. Excess funds are defined as funds in excess of the next two semi-annual payments of debt service on Severance Tax Bonds and Supplemental Severance Tax Bonds. **Balances in the Severance Tax Permanent Fund are not pledged as security for the Bonds.**

In addition to the sale of long-term Senior Severance Tax Bonds and Supplemental Severance Tax Bonds, the State issues short-term Severance Tax Funding Notes and Supplemental Severance Tax Funding Notes from time to time to utilize excess capacity available in the Bonding Fund, as authorized by the Legislature, and to make those funds available for capital projects of the State. These short-term obligations generally have a maturity of five days or less, mature in the fiscal year in which they are issued and are purchased by the State Treasurer.

State Capital Program

State General Fund balances and proceeds from General Obligation Bonds, Severance Tax Bonds, Supplemental Severance Tax Bonds and Transportation Bonds are important sources of capital financing for the State. The following table summarizes the capital funding administered by the Board and certain other sources for Fiscal Year 2004 through Fiscal Year 2008 and for Fiscal Year 2009 year to date through June 1, 2009.

TABLE 2

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

	2004	2005	2006	2007	2008	2009 (Estimated as of 6/1/09)
Proceeds from General Obligation Funding Program						
General Obligation Bonds	$ 0.0	$ 121.7	$ 0.0	$ 142.8	$ 0.0	$ 196.3
Subtotal	$ 0.0	$ 121.7	$ 0.0	$ 142.8	$ 0.0	$ 196.3
Proceeds from Severance Tax Bonding Program						
Severance Tax Bonds	$ 74.5	$ 87.6	$ 136.1	$ 136.4	$ 153.6	$ 0.0
Severance Tax Funding Notes [1]	63.7	87.8	102.1	193.3	150.9	169.4
Supplemental Severance Tax Bonds	10.0	10.5	0.0	0.0	0.0	0.0
Supplemental Severance Tax Funding Notes [1]	$ 151.9	$ 213.3	$ 193.6	$ 210.8	$ 222.8	$ 105.5
Subtotal	$ 300.0	$ 399.1	$ 431.8	$ 540.4	$ 527.3	$ 274.9
Proceeds and Funds From Other Sources						
General Fund	$ 184.4	$ 238.6	$ 454.6	$ 548.4	$ 123.0	$ 0.0
Transportation Bonds [2]	$ 743.6	$ 0.0	$ 0.0	$ 459.4	$ 0.0	$ 100.0
Subtotal	$ 927.0	$ 238.6	$ 454.6	$1,007.8	$ 123.0	$ 100.0
Total	$1,227.1	$ 759.0	$ 886.5	$1,690.9	$ 650.3	$ 571.2

(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. On July 1, 2008, the New Mexico Finance Authority entered into a line of credit with a bank to provide an additional $100,000,000 of available new money funding secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund.

Source: New Mexico State Board of Finance, the Department of Finance and Administration and the New Mexico Finance Authority.

In addition to the General Obligation Bonding Program, the Severance Tax Bonding Program and the Supplemental Severance Tax Bonding Program issued and administered by the

Board, there are a number of other sources of funds for statewide capital projects. These other sources of funding include surplus General Fund appropriation, special appropriations and proceeds of bonds issued by, among others, the New Mexico Finance Authority, the State Transportation Commission and state educational institutions.

Outstanding and Additional Senior Severance Tax Bonds

The Series 2009A Bonds will be secured on a parity with the following Senior Severance Tax Bonds anticipated to be outstanding upon the issuance of the Series 2009A Bonds (exclusive of those Severance Tax Bonds, including the Refunded Bonds, additionally secured by escrowed securities).

TABLE 3

Principal Outstanding on Parity Senior Severance Tax Bonds
Upon the Delivery of the Bonds[(1)]

Severance Tax Bonds, Series 2005A	$56,590,000
Severance Tax Bonds, Refunding Series 2005B-1	$22,665,000
Severance Tax Bonds, Series 2006A	$100,995,000
Severance Tax Bonds, Series 2007A	$112,670,000
Severance Tax Bonds, Series 2008A-1	$137,050,000
Total	**$ 429,970,000**

(1) Excludes the Refunded Bonds and the Series 2009A Bonds.

Additional parity bonds may be issued in the future if all outstanding Senior Severance Tax Bonds, including the bonds proposed to be issued, can be serviced with not more than 50 percent of the annual deposits into the Bonding Fund as determined by the deposits during the fiscal year preceding the date of issuance of such Senior Severance Tax Bonds. In addition to the projects that will be funded with the proceeds of Series 2009A Bonds, projects in the amount of approximately $210,000,000 remain authorized but for which bonds have not been issued, a portion of which projects are expected to be funded with the proceeds of Severance Tax Funding Notes to be issued by the end of June and July 2009.

The Series 2009A Bonds will be issued with a lien senior to the Supplemental Severance Tax Bonds, set forth in Table 4 below, anticipated to be outstanding upon the delivery of the Bonds.

Outstanding and Additional Supplemental Severance Tax Bonds

Supplemental Severance Tax Bonds were authorized pursuant to an amendment to the Severance Tax Bonding Act enacted in May 1999. Long-term Supplemental Severance Tax Bonds may be issued if all outstanding Senior Severance Tax Bonds and Supplemental Severance Tax Bonds, including the proposed Bonds, can be serviced with not more than 62.5 percent of the annual deposits into the Bonding Fund as determined by the deposits during the fiscal year preceding the date of issuance of such Supplemental Severance Tax Bonds. In addition, short-term supplemental Severance Tax Funding Notes may be issued with a term that does not extend beyond the current fiscal year if the debt service on such Supplemental Severance Tax Funding Notes, when added to the debt service previously paid or scheduled to be paid during that fiscal year on Severance Tax Bonds and Supplemental Severance Tax Bonds and Severance Tax Funding Notes and Supplemental Severance Tax Funding Notes, does not exceed 95 percent of the deposits into the Bonding Fund during the preceding year. The Legislature has authorized the

Board to issue Supplemental Severance Tax Bonds for public school projects in amounts certified to the Board from time to time by the Public School Capital Outlay Council of the State. The lien of the pledge of such Supplemental Severance Tax Bonds (including short-term funding notes) is subordinate to any outstanding Severance Tax Bonds.

TABLE 4
Outstanding Supplemental Severance Tax Bonds
Upon the Delivery of the Bonds

Supplemental Severance Tax Bonds, Series 2003B	$ 4,630,000
Supplemental Severance Tax Bonds, Series 2004B	5,380,000
Supplemental Severance Tax Bonds, Refunding Series 2005B-2	14,335,000
Supplemental Severance Tax Bonds, Refunding Series 2008A-2	15,715,000
Total	**$40,060,000**

Source: New Mexico State Board of Finance.

The following tables set forth actual and projected results for the Bonding Fund including receipts, disbursements, debt service requirements, transfers and projected debt service coverage ratios.

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TABLE 5
Severance Tax Bonding Fund
Receipts, Disbursements and Transfers
Fiscal Year Ended June 30[1][2]
(Dollars in thousands)

	2004	2005	2006	2007	2008
Beginning Balance	$ 10,184	$ 27,175	$ 103,909	$ 240,717	$ 224,840
Receipts:					
Oil and Gas Severance Tax	$ 287,320	$ 372,943	$ 477,139	$ 433,357	$ 493,293
Other Minerals Severance Taxes	18,273	18,637	20,198	19,545	18,501
Total Severance Taxes	$ 305,594	$ 391,581	$ 497,336	$ 452,901	$ 511,794
Other Income:					
Interest on Investments	$ 5,475	$ 10,994	$ 27,573	$ 56,501	$ 57,410
Other financing sources	8,268	2,975	9,766	718	4,391
Subtotal	13,743	13,969	37,339	57,219	61,801
Total Receipts	$ 319,337	$ 405,549	$ 534,676	$ 510,120	$ 573,595
Disbursements:					
Senior Bond Debt Service	$ 67,590[3]	$ 7,551	$ 69,332	$ 72,886	$ 158,564
Senior Short-term Obligations[4]	63,657	87,793	102,158	74,434	269,750
Supplemental Bond Debt Service	18,215[3]	3,290	19,691	20,119	39,056
Supplemental Short-term Obligations[4]	$ 151,859	$ 213,345	$193,577	$ 210,830	$ 222,799
Fiscal Charges	618	518	738	446	665
Total Disbursements	$ 301,940	$ 312,497	$ 385,495	$ 378,715	$ 690,834
Transfers:					
To Severance Tax Permanent Fund	$ 406	$ 16,318	$ 12,372	$ 147,282	$ 404
Total transfers	$ 406	$ 16,318	$ 12,372	$ 147,282	$ 404
Ending Balance, June 30	$ 27,175[3]	$ 103,909	$240,717[5]	$ 224,840	$ 107,197[6]

(1) All receipts, expenditures and balances exclude amounts in rebate accounts retained for potential arbitrage rebates.
(2) Proceeds and expenditures attributable to refunding bonds are excluded from this table because such proceeds and expenditures are reserved for payments on appropriate refunding bonds and are not available for debt service payments on other Severance Tax Bonds.
(3) Includes payment of $76.37 million of debt service due July 1, 2004 on senior and supplemental bonds that was paid on June 29, 2004. Ending balance would have been $103.5 million if this payment was not made during the period.
(4) The Board, in order to take advantage of Bonding Fund revenues that would otherwise be transferred to the Severance Tax Permanent Fund, issues short-term Severance Tax Funding Notes and Supplemental Severance Tax Funding Notes to the State Treasurer which are retired within the same fiscal year with such revenue to fund authorized projects.
(5) The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 12, 2006 in the amount of $123.2 million and an additional transfer of $22.3 million made on December 11, 2006.
(6) The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 31, 2008 in the amount of $41.1 million.

Source: *New Mexico State Board of Finance based on the Central Financial Reporting and Accounting System (the "CFRAS System") for data provided from 2004 to 2006 and the Statewide Human Resources, Accounting, and Management Reporting System (the "SHARE System") for data provided from 2007 to present.*

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TABLE 6

Severance Tax Bonding Fund Projected Receipts
Fiscal Year Ending June 30[1]
(Dollars in thousands)

	2009	2010	2011	2012	2013
Severance Tax Bonding Fund Receipts					
Natural Gas	$306,055	$188,955	$240,312	$261,176	$258,602
Oil	$144,268	$ 94,014	$104,945	$113,673	$126,517
CO_2	$945	$ 900	$ 900	$ 900	$ 900
Oil & Gas Advanced payments, etc.	$ 0	$ 0	$ 0	$ 0	$ 0
Subtotal-Oil & Gas Severance Tax	$451,268	$283,869	$346,157	$375,749	$386,019
Coal	$19,167	$ 18,254	$ 18,254	$ 18,254	$ 18,254
Other Minerals	$1,493	$ 1,397	$ 1,397	$ 1,397	$ 1,397
Subtotal-Other Severance Tax	$20,660	$ 19,651	$ 19,651	$ 19,651	$ 19,651
Investment Earnings	$52,021	$ 32,723	$ 39,904	$ 43,315	$ 44,499
Other Income	$ 682	$ 430	$ 524	$ 569	$ 584
Total Receipts	$524,632	$336,673	$406,235	$439,284	$450,753
Scheduled Senior Debt Service[2]	$96,019	$96,281	$101,854	$106,623	$106,972
Senior Bond Debt Service Coverage	5.46x	3.50x	3.99x	4.12x	4.21x
Scheduled Supplemental Debt Service	$15,391	$15,452	$15,452	$15,432	$7,989
Supplemental Bond Debt Service Coverage	4.71x	3.01x	3.46x	3.60x	3.92x

(1) Columns may not total due to rounding.
(2) Includes debt service on the Bonds. Excludes debt service on Refunded Bonds which will be payable from escrowed securities and severance tax debt obligations sold to the State Treasurer which are retired within the same fiscal year.
Source: New Mexico Department of Finance and Administration and Fiscal Strategies Group.

See also, "NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE – Projections of Severance Tax Revenues from Natural Gas," "OIL PRODUCTION AND SEVERANCE TAX REVENUE – Projections of Severance Tax Revenues from Oil," and "COAL PRODUCTION AND SEVERANCE TAX REVENUE – Projections of Severance Tax Revenue from Coal" herein.

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TABLE 7

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

Fiscal Year Ending 6/30	Projected STBF Revenues	Scheduled Senior Debt Service[(1)]	Projected Senior Debt Service Coverage	Scheduled Supplemental Debt Service	Projected Supplemental Coverage
2009	$524,632,144	$96,018,973	5.46x	$15,390,858	4.71x
2010	336,672,704	96,281,390	3.50x	15,452,258	3.01x
2011	406,235,168	101,854,044	3.99x	15,451,745	3.46x
2012	439,283,578	106,623,088	4.12x	15,432,414	3.60x
2013	450,752,712	106,972,088	4.21x	7,988,524	3.92x
2014	443,333,660	99,148,813	4.47x	2,463,283	4.36x
2015	435,965,615	89,949,694	4.85x	1,178,750	4.78x
2016	428,647,607	81,433,850	5.26x		
2017	421,378,687	70,442,638	5.98x		
2018	414,157,920	53,718,800	7.71x		
2019	406,984,393	37,243,775	10.93x		

(1) Includes debt service on the bonds. Excludes debt service on refunded bonds which will be payable from escrowed securities and severance tax debt obligations sold to the State Treasurer which are retired within the same fiscal year.
Sources: New Mexico State Board of Finance and Fiscal Strategies Group.

See also, the table entitled "SEVERANCE TAX BONDING FUND PROJECTED RECEIPTS" herein.

SEVERANCE TAX REVENUE

The minerals extracted from the State that contribute the largest portion of Severance Tax revenues are natural gas, oil and coal. Severance Tax collections on these three mineral resources produced 99.5 percent of total Fiscal Year 2008 Severance Tax Bonding Fund tax collections. Severance Taxes from natural gas and oil together represent 96.5 percent of total Fiscal Year 2008 Bonding Fund tax receipts.

The State's Energy, Minerals, and Natural Resources Department ("EMNRD") records and generates data on mineral resources in the State. EMNRD produces annual reports on the State's mineral resources. The TRD compiles reports of taxable volume, value, deductions and tax receipts by commodity and land type. The State Consensus Revenue Estimating Group (the "Consensus Group") is composed of economists from the executive and legislative branches of New Mexico state government. The Consensus Group annual production estimates and projections of Severance Tax receipts are made jointly by the Department of Finance and Administration (the "DFA") in cooperation with the TRD and the Legislative Finance Committee. See "Appendix C: FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER" for a discussion of pending litigation and other proceedings concerning the collection of Severance Taxes.

Severance Tax Collections and Reporting

Operators, purchasers and working interest owners are required to submit monthly reports to the TRD showing the total value, volume and kind of products sold from every production unit each month. The report is due 55 days after the month of production, and taxes must be paid at the same time. Each production report must be accompanied by a company identification number, which facilitates automated processing of return information. Production and associated tax liability is reported by "production unit" and a designation for a well or group of wells that is assigned by the TRD based on the master operation, property name identification and pool. A suffix is added to the production unit number to designate the specific land type and taxing authority including counties, school districts, and municipalities. The TRD receives approximately 550 to 700 oil and natural gas returns per month. These returns contain approximately 77,000 to 140,000 lines of detailed information about production from different production units.

Complete reporting forms must be mailed or delivered, or their information electronically transmitted, on or before the twenty-fifth day of the second month after the calendar month for which the report is required. Taxpayers whose total tax liability for the month (including the oil and gas emergency school tax, the oil and gas conservation tax and the oil and gas *ad valorem* tax, as well as the oil and gas severance tax) exceeds $25,000 must provide payment by automated clearinghouse or by wire transfer on or before the due date. Taxpayers who fail to report or pay in a timely fashion are assessed interest at a rate of 1.25 percent per month beginning the day after the due date and continuing until the date the tax is reported or paid. A penalty is assessed when a taxpayer fails to pay any tax or file any report by the due date because of negligence or disregard of rules and regulations. A penalty is charged at a rate of 2 percent a month, up to a maximum of 10 percent of the tax due.

The State maintains an automated database system ("ONGARD" for Oil and Natural Gas Administration and Revenue Database) to monitor production and sales activities of oil and natural gas producers. ONGARD functions include: managing the inventory of lands within the state and tracking all leases to determine whether royalty payments are owed to the State; monitoring all oil and natural gas wells for compliance with unitization agreements and other production-related information; and processing tax and royalty payments due to the State. The integrated database gives the State enhanced capabilities to compare and evaluate production, tax and royalty reports, and to issue automated exception reports.

Severance tax amounts received by the TRD are deposited into the Extraction Taxes Suspense Fund. Using the ONGARD system, the TRD reconciles monthly information reports with the payments received to identify the appropriate amounts to distribute to each tax beneficiary. Oil and gas severance tax amounts that have been reconciled and as to which the TRD has determined no substantive risk of protest or litigation is present are then transferred, once a month, to the Bonding Fund.

Severance Tax on Indian Land

The United States Supreme Court has ruled that the State can tax non-Indian oil and gas production on tribal land (*Cotton Petroleum Co. v. State of New Mexico*, 490 U.S. 163, 104 L.Ed. 2d 209, 109 S. Ct. 1968 (1989)). The authority of the State to impose severance taxes on Indian oil and gas production on tribal land was upheld by the United States District Court in New Mexico (*Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. U.S.D.C. 87-922). The TRD reports that natural gas production and crude oil production on Indian land was approximately 3.4 percent and 0.8 percent, respectively, of total taxable statewide production in Fiscal Year 2008. The TRD estimates that oil and natural gas production on Indian land generated $13.2 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2008. The TRD estimates that coal production on Indian land ranges from 40 to 45 percent of total statewide production from year to year. No potash or copper is produced on Indian land.

Section 7-29C-1 NMSA 1978, enacted by the 1995 Legislature authorized a credit against State production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of State taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State's credit is lowered. The TRD estimates that total credits claimed under this provision were about $3.7 million in Fiscal Year 2008. About $1.5 million of these credits were applied against oil and gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

The 2001 Legislature enacted Sections 7-29C-2, 7-9-88.2 and 9-11-12.2 NMSA 1978, which provides a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation. The TRD reports that this credit reduced Bonding Fund revenue by $4.5 million in Fiscal Year 2008.

The enactment of Section 7-31-27 NMSA 1978 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. This tax credit is a maximum of 0.7 percent of the taxable value of oil and natural gas products produced on Jicarilla Apache Tribal lands, is in addition to the tax credit authorized in Section 7-29C-1 and is claimed as a reduction of emergency school tax amounts. Proceeds of the tax credit must be used exclusively to fund capital improvement projects on Jicarilla Apache tribal lands, although funds may not be used to finance commercial activity.

NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE

Natural Gas Reserves and Well Completions

The chart on the following page presents the U.S. Energy Information Administration ("EIA") estimates of natural gas "proved reserves" in New Mexico over the years 1998 to 2007. Proved reserves are estimates of recoverable volumes under existing economic and operating conditions. They represent the narrowest measurement of energy resources. Each year the EIA updates its estimates to reflect new information, new discoveries and the production during the year. Increases due to revisions and new discoveries usually offset some or all of the decline due to current production.

New Mexico's proved natural gas reserves were estimated to be 18,397 billion cubic feet (bcf) at the end of calendar year 2007, up from 16,700 bcf at the end of calendar year 1997, a decade earlier. Reserves increased by about 1,697 bcf during the period, and production was about 15,814 bcf. Additions through new discoveries and revised estimates have offset 110.7 percent of the production during the decade. The current reserve estimate represents a New Mexico reserve-to-current-production ratio of 12.5:1.

New Mexico's proved natural gas reserves increased in the early 1990's due to exploration and development in coal seams that was triggered by the federal income tax credit (Section 29 of the Internal Revenue Code). The credit was worth more than $1.00 per thousand cubic feet (mcf) of production and grew with inflation, but it is no longer available for production occurring after 2002. Production from coal seam formations now accounts for approximately 30.2 percent of total statewide natural gas production.

The "proven reserves-to-production" ratio is a measure analogous to inventory-to-production for manufacturers. It represents the known resources that could be developed at today's prices. As is the case for other industries, oil and natural gas producers have to balance their need for adequate inventories with the cost of exploring and developing the reserves. Although they have maintained higher ratios at times in the past, the industry has targeted lower ratios in recent years as a cost savings measure.

Over the last two decades, natural gas producers have replaced most of their production with new discoveries. As a result, reserves of natural gas at the end of calendar year 2007 were 18,397 bcf, 1,697 bcf above the level at the beginning of 1998, which were 16,700 bcf, although 15,814 bcf had been produced in the period. Replacement of reserves by new discoveries and further development of existing formations is a key component of the State's long-term production forecast. New discoveries are expected to offset much of future production. As a result, annual production is expected to decline only gradually. Over time, technological improvements like horizontal drilling have advanced the discovery of new reserves and the production capability for reserves. The reserve-to-current production ratio has steadily increased from 10.0:1 in 1998 to 12.5:1 in 2007.

TABLE 8

New Mexico Natural Gas Reserves[(1)]
(Natural Gas numbers in billion cubic feet)

Calendar Year	Beginning Reserves	Net Additions/ Adjustments	Estimated Production	Ending Reserves
1998	16,700	1,114	1,555	16,259
1999	16,259	2,137	1,646	16,750
2000	16,750	3,382	1,623	18,509
2001	18,509	1,699	1,649	18,559
2002	18,559	1,528	1,634	18,453
2003	18,453	1,299	1,526	18,226
2004	18,226	3,093	1,632	19,687
2005	19,687	1,251	1,594	19,344
2006	19,344	1,285	1,525	19,104
2007	19,104	167	1,445	18,397

(1) As measured by wet after lease separation. Wet after lease separation represents the volume of natural gas that is marketable after exclusion of pentanes, hydrocarbons and nonhydrocarbons. The presence of these chemicals renders natural gas unmarketable.

Source: *Taxation and Revenue Department Tax Analysis, Research and Statistics Office (U.S. Energy Information Administration and the "ONGARD System").*

Drilling activity in New Mexico had increased substantially from the nadir recorded in 1998 and 1999. The collapse of oil prices in 1998 caused sharp cutbacks in drilling for both oil and natural gas wells. With the exception of a price-driven dip in 2002, the drilling rig count in the State steadily increased from 1999 until 2006 when it peaked and began to decline. Historically, the number of drilling rigs increases as oil and natural gas prices rise. The strength of this relationship has changed, however, because high-productivity horizontal rigs are used more frequently in unconventional coal seam gas production. Fiscal Year 2008 witnessed a decline in rig counts despite record prices. Tightening credit markets for new rigs may also be contributing to the decline in the total number of rigs given the present state of the economy.

In early August 1999, a joint venture between Sonat Raton and PennzEnergy Corporation announced plans for an extensive development program in the Raton Basin in northeastern New Mexico. Production from the Raton Basin steadily increased until Fiscal Year 2006 when it leveled off at approximately 25.8 million cubic feet and declined to approximately 25.6 million cubic feet in Fiscal Year 2008. Historically, natural gas prices from production in the Raton Basin exceeded prices in the San Juan Basin due to differences in pipeline access to markets, but that price difference ceased at the end of 2005. Production from the Raton Basin averages 1.8 percent of total natural gas production in the State, the San Juan Basin 63.3 and the Permian Basin 34.9 percent.

On May 9, 2008, EMNRD (Oil Conservation Division) adopted new "pit rules" regulating the maintenance of open pits. Members of the industry have estimated that these new rules will increase drilling costs by up to $250,000 per well, which could affect the number of new wells drilled in the State. The Oil Conservation Division conducted detailed studies and estimated that the increase in cost per well could be between $2,971 and $89,933; this impact will decrease as the industry gains experience. The cabinet secretary for EMNRD has publicly disputed the contention that the pit rules will have a negative effect on the number of new wells drilled.

TABLE 9

Number of Natural Gas Well Completions by Calendar Year

1998	770
1999	892
2000	1,225
2001	1,422
2002	1,292
2003	1,552
2004	1,702
2005	1,778
2006	1,755
2007	1,478
2008	1,190

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division, (the "ONGARD System").

Natural Gas Markets

Between 1986 and 2002, total United States consumption of natural gas had grown in all but one year, reaching 23 trillion cubic feet (tcf) in calendar year 2002. Since 2002, total consumption declined to 22.3 tcf in calendar year 2003, 22.4 tcf in 2004, 22 tcf in 2005, and 21.7 tcf in 2006, but returned to 2002 levels in 2007 at 23 tcf and exceeded these levels in 2008 at 23.2 tcf. Consistently higher prices over the past several years have resulted in a decrease in demand for natural gas as users switched to alternative coal or petroleum-based products or were priced out of the market, although prices for alternative products increased in 2008 as well. According to the EIA, during the period 1986 through 2003, domestic production increased steadily from less than 17 tcf in 1986 to 19.1 tcf in calendar year 2003. From 2003 to 2006, domestic production decreased by 3 percent to 18.5 tcf; however, in 2007, domestic production increased again to near 2003 levels at 19.09 tcf and exceeded these levels in 2008 at 20.6 tcf. Prior to 2008, declining production in mature provinces such as West Texas has been offset by sharp production increases from coal-bed methane formations and deepwater Gulf of Mexico deposits. The gap between domestic production and domestic consumption has been met by growing imports, increasing from 0.8 tcf in 1986 to 2.6 tcf in 2008. New drilling methods led to sharp increases in domestic production of shale and tight formation natural gas in 2008.

The balance between supply and demand has shifted periodically during the 1990's, depending on the availability of pipeline capacity for expanded imports, as well as the usual weather-related conditions. Average wellhead prices steadily increased from 1998 through 2005, with the exception of 2002. From 2005 to 2007, wellhead prices ranged from $6.18 to $6.91 per thousand cubic feet. For the purposes of comparison, national average wellhead prices and average New Mexico wellhead prices for calendar years 1998 through 2007, as reported by the EIA, are presented in the following table.

TABLE 10

Average Wellhead Price by Calendar Year
($ per thousand cubic feet)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
National Average Wellhead Price	$1.96	$2.19	$3.68	$4.00	$2.95	$4.88	$5.46	$7.33	$6.39	$6.37
New Mexico Producers	$1.76	$2.11	$3.43	$3.89	$2.68	$4.56	$4.97	$6.91	$6.18	$6.88
NM as a percentage of National Average	89.8%	96.3%	93.2%	97.3.%	90.8%	93.4%	91.0%	94.3%	96.7%	108.0%

Sources: Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (U.S. Energy Information Administration).

New Mexico's producers have benefited from higher wellhead prices since the mid 1990s. Economic growth in California, the end-use market for a majority of natural gas produced in the State, has caused prices received in the San Juan Basin to increase relative to eastern markets. Additions to pipeline infrastructure have enabled the State's producers to move natural gas east or west to more profitable markets. This has improved New Mexico wellhead prices compared to the national average. In fact, in 2007 New Mexico wellhead prices exceeded the national average. EIA data for 2008 is not yet available.

Natural Gas Production

Total natural gas production in New Mexico increased sharply in the early 1990's due to increased coal seam production in the San Juan Basin. This production was stimulated by federal income tax credits that expired at the end of calendar year 2002. Coal seam natural gas production now accounts for approximately 30.2 percent of total statewide production. After rising steadily through the 1990s, total statewide production began to decline in 2002, falling below 1,600 bcf in Fiscal Years 2003 through 2008. Total revenue almost doubled in Fiscal Year 2001 as shortages caused natural gas prices to spike to unprecedented levels during the winter of 2000-2001. Since that time, revenue continued to rise through Fiscal Year 2008 as the price of natural gas continued to increase, spiking in Fiscal Year 2006 and setting records in Fiscal Year 2008. In June 2008, the Henry Hub price reached $13.06 per mcf and the weighted average price for New Mexico natural gas reached $12.58 per mcf in July 2008. Taxable production volume, sales revenue and average price per thousand cubic feet for Fiscal Years 1999 through 2008 are presented in the following table.

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TABLE 11

Natural Gas Subject to Taxation
Production, Revenues and Average Price
Fiscal Years 1999-2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales Volume (bcf)	1,618	1,655	1,650	1,627	1,576	1,544	1,548	1,529	1,519	1,428
Gross Sales Revenues (millions)	$2,839	$4,446	$8,431	$4,000	$6,213	$7,357	$9,033	$11,475	$9,918	$11,925
Gross Average Price per mcf	$1.75	$2.69	$5.11	$2.46	$3.94	$4.76	$5.84	$7.51	$6.53	$8.35
Net Taxable Value (millions)	$2,195	$3,553	$6,938	$3,126	$5,030	$6,044	$7,454	$9,523	$8,069	$9,653
Net Average Price per mcf	$1.36	$2.15	$4.20	$1.92	$3.19	$3.91	$4.82	$6.23	$5.31	$6.76

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the "ONGARD System").

The following table sets forth the production levels of the State's largest natural gas producers in calendar year 2008.

TABLE 12

Ten Largest Natural Gas Producers in New Mexico and 2008 Production

	Thousand Cubic Feet
Burlington Resources Oil & Gas Company LP	311,828,009
ConocoPhillips Company	205,596,640
Devon Energy Production Company LP	85,342,125
BP America Production Company	84,663,846
XTO Energy Inc.	69,325,714
Energen Resources Corporation	61,648,286
Williams Production Company LLC	54,032,035
Yates Petroleum Corporation	42,789,368
Chevron USA Inc.	38,448,984
Mewbourne Oil Company	27,797,916

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division, (the "ONGARD System")

Severance Taxes on Natural Gas

Severance taxes are levied by State statute on the sale or transport out of state of natural gas produced in the State. State taxation of minerals production for the General Fund began as early as 1933. The Severance Tax Bonding Act, enacted in 1961, earmarked a portion of the existing severance tax to pay debt service on severance tax bonds, with remaining revenues going to the General Fund. The severance tax at that time was 2.5 percent of the marketable sales value, with deductions allowed for royalties to governments and for certain processing and transportation expenses. Beginning in 1973, the Severance Tax Permanent Fund was created, receiving excess severance tax revenues not required for debt service payments.

The tax rate was increased to 3.75 percent of value in 1974. Beginning in 1977, the tax rate was converted to a per unit basis, $0.05 per mcf of natural gas, with a deduction allowed for royalties to governments. A surtax was added, equal to the base tax rate times the percentage increase in the Consumer Price Index (CPI) from the base year. This surtax rate was updated annually. The base tax rate was increased to $0.087 per mcf in 1980, and the surtax provision continued to apply.

By July 1, 1986 the surtax had reached $0.076 and the total tax rate was $0.163 per mcf. With the sharp decline in wellhead natural gas prices in 1986, the effective severance tax rate was over 8 percent of gross sales value. The combined effective tax rate on natural gas production, including General Fund taxes, was over 11 percent, significantly higher than in neighboring natural gas-producing states. The 1987 Legislature responded to declining prices by converting the tax to 3.75 percent of value on a phased in basis. Beginning July 1, 1990, the new tax rate applied to all production.

The 1995 Legislature authorized reduced severance tax rates for certain categories of production. A 10-year exemption from Severance Taxes was provided for production from previously non-producing wells ("restoration"). A 50 percent rate reduction was provided for incremental production from a qualifying work over project ("recompletion"). Qualified volumes are expected to grow slowly over time.

In response to sharply lower oil prices and declining production of oil and associated natural gas, the 1999 Legislature adopted new severance tax incentives for production from recompletion wells and stripper wells. For natural gas, a stripper well is defined as one having average daily production of less than 60,000 cubic feet per day. For oil wells, the threshold is 10 barrels per day. Instead of a 50 percent rate reduction (from 3.75% to 1.875%) for only the *incremental* production from recompletion wells, a tax rate of 2.45 percent was applied to *all* production from qualified wells. This provision had a minimal effect on severance tax collections, as the higher incentive tax rate offsets the increase in eligible volumes.

For stripper well production, the 1999 legislation introduced a sliding scale of applicable tax rates, depending on the prevailing taxable value of products.

The following table summarizes incentive tax rates applied to various categories of oil and natural gas production in New Mexico as of Fiscal Year 2008. However, due to the rise in oil and natural gas prices, none of these incentive programs are currently in effect and are not expected to come into effect in the five-year forecast period based on the Consensus Group's revenue forecast.

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TABLE 13

Oil and Natural Gas Tax Incentive Programs

Incentive Category	Incentive Tax Rate	Threshold Price Below Which Incentive Rate Applies	Qualified Production As a Percent of Fiscal Year 2008 Total
Restoration wells	0.0%	$24.00 per barrel[1]	0.0% Oil[3] 0.0% Natural Gas[3]
Well workover wells	2.45%	$24.00 per barrel[1]	0.0% Oil[3] 0.0% Natural Gas[3]
Stripper wells	1.875%	$1.15 per mcf-Natural Gas[2] $15.00 per barrel-Oil[2]	0.0% Natural Gas[3] 0.0% Oil[3]
	2.8125%	$1.35 per mcf-Natural Gas[2] $18.00 per barrel-Oil[2]	0.0% Natural Gas[3] 0.0% Oil[3]
Enhanced oil recovery	1.875%	$28.00 per barrel[1]	0.0% Oil[3]

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

Projections of Severance Tax Revenues from Natural Gas

The natural gas price outlook is based on analysis by the Consensus Group, which relies on forecasts by PIRA (formerly Petroleum Industry Research Associates) and Global Insight and NYMEX futures contracts. Natural gas prices rose to levels that were unprecedented during the winter of 2000-2001. Supplies failed to keep up with increasing demand and inventories reached record low levels. After falling back to lower levels, in response to the economic recession and slower economic growth, prices rose again in anticipation of the war with Iraq. The 2005 hurricane season and resulting damage of the natural gas infrastructure in the Gulf of Mexico caused prices to increase to historically high levels. Volatility in oil producing countries such as Iran and Nigeria also caused natural gas prices to increase in 2006. In 2008, increased consumption, exacerbated by speculation in commodities markets, resulted in record prices. Since then commodities markets have tumbled along with financial markets. As of June 5, 2009, the price for Henry Hub was $3.87 per mcf. The ongoing recession has caused a steep decline in demand.

For Fiscal Year 2008, New Mexico producers received a weighted average price of $8.35 per mcf, up from $6.53 in Fiscal Year 2007 and $7.51 in Fiscal Year 2006. In February 2009, the Consensus Group estimated an average price for Fiscal Year 2009 of $5.60 per mcf and $4.80 for Fiscal Year 2010. Prices are expected to increase to $6.20, $6.90 and $7.00 per mcf for Fiscal Years 2011, 2012 and 2013 respectively.

Natural gas volume production decreased by 6 percent in Fiscal Year 2008, from 1,519.2 bcf in Fiscal Year 2007 to 1,427.7 bcf in Fiscal Year 2008. Because of higher prices, however, aggregate gross revenue for New Mexico producers increased 20.2 percent in Fiscal Year 2008.

Natural gas production in New Mexico has declined since Fiscal Year 2000 with the exception of Fiscal Year 2005, which registered a slight increase. Declines in other years have ranged from 0.3 percent in 2001 to 6 percent in 2008. Fiscal Year 2003 registered a 3.1 percent decline with production in all other fiscal years declining by less than 1 or 2 percent. In February 2009, the Consensus Group's revenue forecast assumed that natural gas production would decline by approximately 5.5, 3.7, 1.5, 2.3 and 2.4 percent in Fiscal Years 2009, 2010, 2011, 2012 and 2013 respectively. This is a somewhat steeper decline than has been assumed in the past.

Historically, regional factors have held down prices for New Mexico natural gas producers. Production in the northern Rocky Mountain region continues to grow faster than the pipeline capacity for carrying that fuel to markets. Producers have bid down prices in an effort to get their natural gas into the scarce pipeline space available. Completion of an eastbound pipeline from the Rocky Mountain area has relieved some of this price competition. However, production in the northern Rocky Mountain region primarily consists of unconventional shale, which has significant cost advantages over conventional production. This price pressure will affect New Mexico producers because some Rocky Mountain natural gas is exported through the San Juan Basin. Environmental concerns have been raised regarding the use of hydraulic fracturing to break apart natural gas formations and increase gas flows in tight plays, including shales and coal seams. Restrictions on hydraulic fracturing would improve the cost competitiveness of conventional gas production in the State.

Most of the wells in the State have been producing for a prolonged period and the loss of pressure in natural gas formations will lead to declines in per well production that will be partially offset by new drilling. Natural gas development in the Raton Basin has peaked and volumes are declining. Any new development on the Otero Mesa, in Mora, Rio Arriba and Santa Fe Counties, and in the Pedernal uplift areas are not expected by the State to add measurably to production volume in the foreseeable future. Moreover, local governments in Mora, Rio Arriba and Santa Fe Counties have either imposed or are considering the implementation of tighter restrictions on drilling activity in their respective counties.

Natural gas markets have been redefined by technological improvements in the extraction of unconventional natural gas, like coal bed methane, shale and tight formation natural gas. Efforts to extract shale in Texas increased reserves and producers have intensified efforts to extract unconventional natural gas in other states. New Mexico's production of conventional and coal seam natural gas accounts for close to 10 percent of the United States total, although the State has no shale or tight formation natural gas that is currently developable.

Almost all new power plant capacity being planned at the present time is natural gas-fired. The only notable exception in the State is a proposed coal-fired power plant in San Juan County located on the Navajo Nation reservation, which is the subject of a Federal challenge filed by the State and environmental groups who claim that various procedural requirements related to the Clean Air Act and Endangered Species Act were not met. Environmental concerns with coal power make natural gas a preferred option. In addition, deregulation of electric power markets places a premium on "distributed generation" – power generation facilities that are closer to end use markets than traditional, central-station facilities.

The severance tax base for natural gas is defined as the wellhead value less deductions for the expense of transporting and processing their product to the first point of sale. In addition, deductions are allowed for royalties paid to governmental entities (federal, state and tribal). The combined value of all deductions has averaged 19.3 percent of gross wellhead sales value over the past 10 years. The percentage was 19.1 percent in Fiscal Year 2008 and has ranged from 17.1

percent in Fiscal Year 2006 to 22.8 percent in Fiscal Year 1999. Deductions of 19.25% were assumed in the February 2009 forecast by the Consensus Group.

TABLE 14

New Mexico Natural Gas Volume, Price and Severance Tax Projections
Fiscal Years Ending June 30

	2009	2010	2011	2012	2013
Natural gas sales (bcf)	1,350	1,300	1,280	1,250	1,220
Average sales price ($ per mcf)	$5.60	$4.80	$6.20	$6.90	$7.00
Severance Taxes on Natural Gas (in thousands)	$228,926	$188,955	$240,312	$261,176	$258,602

Sources: The Consensus Group.

OIL PRODUCTION AND SEVERANCE TAX REVENUE

Oil Reserves and Production

The chart below presents the EIA's estimate of oil "proven reserves" from 1998 to 2007. Proven reserves are estimates of recoverable barrels under existing economic and operating conditions. As oil prices rise, proven reserves increase. They represent the narrowest measurement of the country's energy resources. Each year the EIA updates its estimates to reflect new information, new discoveries and production during the year. Increases due to revisions and new discoveries usually offset some or all of the decline due to current production. The EIA reports on proven reserves of crude oil in the State on the basis of company surveys.

In 2006, New Mexico reserves represented approximately 12.6 years of production. This "proven reserves-to-production" ratio is a measure analogous to inventory-to-production for manufacturers. It represents the known resources that could be developed at today's prices. As is the case for other industries, oil producers have to balance their need for adequate inventories with the cost of exploring and developing the reserves. Although they have maintained higher ratios at times in the past, the industry has targeted lower ratios in recent years as a cost savings measure.

Oil reserves at the end of calendar year 2007 are at the same level they were at the beginning of calendar year 1998, likely due to successful exploration and better extraction technologies. The price environment in 2006 through 2008 made high-cost wells more economically feasible. Although production has declined gradually since 2002, it has remained fairly stable at around 60 million barrels per year from Fiscal Years 2006 through 2008. The Consensus Group is forecasting a 0.2 percent decline in Fiscal Year 2009, a 1 percent decline per year in Fiscal Years 2010 through 2012 and 0.7 percent decline in Fiscal Year 2013.

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TABLE 15

New Mexico Oil Reserves
Crude Oil[(1)]

Year	Beginning Reserves	Additions/ Adjustments	Estimated Production	Ending Reserves
1998	735	(45)	70	620
1999	620	166	68	718
2000	718	71	70	719
2001	719	66	70	715
2002	715	64	69	710
2003	710	34	67	677
2004	677	57	65	669
2005	669	82	61	690
2006	690	75	60	705
2007	705	90	60	735

(1) Barrels in millions.
Source: Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (U.S. Energy Information Administration and the "ONGARD System").

Potential new development of oil resources is indicated by exploration and drilling activity. Secondary or tertiary recovery projects (water or carbon dioxide injection) typically require new development wells. The following chart presents oil well completions during the period 1999 through 2008.

TABLE 16

Number of Oil Well Completions

1999	636
2000	428
2001	779
2002	514
2003	676
2004	774
2005	887
2006	1,167
2007	871
2008	1,125

Source: New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division, (the "ONGARD System").

Oil Production

Oil production in the State reached its highest level in 1969 at 129.2 million barrels. After declining during the 1980's, a period of dramatically lower oil prices, production had stabilized around 70 million barrels per year during most of the 1990's and through 2002 when it began to decline 1 to 2 percent per year through Fiscal Year 2004. Fiscal Years 2005 and 2006 saw decline rates of approximately 5.9 and 4.3 percent, respectively, but production has stabilized at around 60 million barrels per year since Fiscal Year 2006. Fiscal Year 2008 actually saw a slight increase. Application of three-dimensional seismic technology has been very successful in New Mexico, enabling production from shallower depths in older, mature fields. The following table sets forth the production levels of the largest oil producers in the State in calendar year 2008.

TABLE 17

Ten Largest Oil Producers in New Mexico and 2008 Production

	Barrels
Chevron USA Inc.	4,733,533
Occidental Permian Ltd.	4,455,438
Cog Operating LLC	4,396,945
ConocoPhillips Company	3,748,353
Apache Corporation	3,309,387
Marbob Energy Corporation	3,195,507
Devon Energy Production Company LP	2,662,667
XTO Energy Inc.	2,062,871
Oxy USA Inc.	1,968,204
Yates Petroleum Corporation	1,874,115

Source: *New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division, (the "ONGARD System").*

Severance Taxes are levied on oil on the basis of sales value at the time of either sale or transportation from the State. Oil production and oil sales are related but are not directly proportional because of stockpiling and price fluctuations from period to period. Estimates of oil sales occurring in the last ten fiscal years are presented in the following table.

TABLE 18

Oil Subject to Taxation
Production, Revenues and Average Prices
Fiscal Years 1999-2008

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Sales Volume (bbl in millions)	67.6	68.8	70.0	69.3	68.4	67.0	63.0	60.3	60.1	60.1
Gross Sales Revenues (millions)	$839	$1,691	$1,992	$1,522	$1,930	$2,139	$2,858	$3,625	$3,553	$5,617
Gross Average Price per bbl	$12.41	$24.57	$28.47	$21.96	$28.24	$31.93	$45.34	$60.11	$59.11	$93.42
Net Taxable Value (millions)	$766	$1,543	$1,811	$1,383	$1,754	$1,944	$2,594	$3,283	$3,193	$5,044
Net Average Price per bbl	$11.33	$22.41	$25.88	$19.95	$25.66	$29.02	$41.15	$54.42	$53.11	$83.89

Source: *New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistic Office (the "ONGARD System").*

Severance Taxes on Oil

Severance taxes are levied by State statute on the sale or transport out of state of oil produced in the State. The severance tax rate on oil was increased to 3.75 percent of sales value in 1974. Beginning in 1977, the rate was converted to $0.45 per barrel, with a surtax indexed to the CPI. In 1980, the tax rate was converted back to 3.75 percent of value.

In 1992, the Legislature provided a 50 percent reduction of the severance tax rate applied to oil produced through enhanced recovery methods. Enhanced methods include carbon dioxide miscible fluid displacement, water flood, pressure maintenance and thermal methods. The reduced rate applies to all production from an enhanced recovery project following certification of a positive production response by EMNRD's Oil Conservation Division.

The 1995 Legislature authorized reduced severance tax rates for certain categories of production. A 10-year exemption from Severance Tax was provided for production from previously non-producing wells ("restoration"). A 50 percent rate reduction was provided for incremental production from a qualifying work over project ("recompletion"). During Fiscal Year 1999, 100,000 barrels of oil had qualified for the restoration tax exemption. During the same period, 500,000 barrels of oil had qualified for the recompletion rate reduction. Combined, these volumes represent less than 1 percent of annual production of oil. Qualified volumes are expected to grow slowly over time. The 1999 Legislature expanded the incentive program for recompletion wells and created a new incentive for stripper wells. Presently, no production qualifies for the incentives because the price of oil is above the ceiling prices provided in the incentives. The February 2009 revenue forecast by the Consensus Group assumes that the incentives will not apply through Fiscal Year 2013.

Projections of Severance Tax Revenues from Oil

Volume of Production: The natural rate of production decline from an oil field, absent application of enhanced recovery methods ("EOR") or additional drilling for exploration and development, is usually estimated at 10 percent per year. During most of the 1990's, producers prevented a decline in total production by a combination of new well drilling, well maintenance activity and EOR investment. Oil producers responded to higher world oil prices by increasing output to 70 million barrels in Fiscal Year 2001, up from 68.8 million barrels in Fiscal Year 2000. Production declined to 69.3 million barrels in Fiscal Year 2002, 68.4 in Fiscal Year 2003, 67.0 in Fiscal Year 2004, 63.0 in Fiscal Year 2005, 60.3 in Fiscal Year 2006, and 60.1 in Fiscal Years 2007 and 2008. Forecasters expect a long-term downward trend in State production levels.

Prices: Weighted average annual oil prices received by New Mexico producers have fluctuated from a low of $12.41 in Fiscal Year 1999 to a high of $93.42 in Fiscal Year 2008. A dramatic cycle in crude oil prices was initiated in the fall of 1997, when the OPEC cartel announced its intention to increase production quotas. Coincident with a worldwide economic slowdown, the announcement led to a drop of about 50 percent in world crude oil prices. A new agreement to reduce production levels was reached by the cartel during the spring of 1999. The OPEC action and the dramatic rise in the domestic price for natural gas led to a spike in oil prices in 2001. Prices abated in 2002 as world economic growth slowed, rose gradually in 2002 and 2003, and spiked again in 2005 in anticipation of potential production shortfalls related to the war in Iraq and other potential instability in oil-producing countries. Prices continued to rise dramatically until June 2008 when New Mexico producers received a weighted average price of $130.75 per barrel. The price of West Texas Intermediate crude oil set a record of $145.31 per barrel on July 3, 2008. According to some market participants, two of the drivers supporting these record-setting prices were market speculation and geopolitical risks. Since September 2008 West Texas Intermediate crude oil prices have declined and remained well below $100 per barrel, reaching a low of $30.28 per barrel on December 22, 2008. As of June 5, 2009, West Texas Intermediate crude oil was $70.02 per barrel. The expectation for New Mexico is a long-term downward trend in production levels, with prices stabilizing, as set forth in the table below. The revenue forecast performed by the Consensus Group released in February 2009 assumes a price per barrel of $62 in Fiscal Year 2009, $47 in Fiscal Year 2010, $53 in Fiscal Year 2011, $58 in Fiscal Year 2012, and $65 in Fiscal Year 2013.

TABLE 19
New Mexico Oil Volume, Price, and Severance Tax Projections
Fiscal Years Ending June 30

	2009	2010	2011	2012	2013
Oil sales (million barrels)	60.0	59.4	58.8	58.2	57.8
Average price ($/barrel)	$62.00	$47.00	$53.00	$58.00	$65.00
Severance Taxes on Oil (in thousands)	$125,271	$94,014	$104,945	$113,673	$126,517

Source: The Consensus Group.

COAL PRODUCTION AND SEVERANCE TAX REVENUE

Coal Reserves and Production

The main coal-bearing strata are the Mesa Verde and Fruitland Formations in the San Juan Basin and the Raton and Vermejo Formations in the Raton area. Currently, all coal is being produced in the San Juan Basin. According to the EIA, the State had 25,645 thousand short tons of reserves as of 2008. The quality of coal located in the State ranges from high-heat content bituminous coal to lower rank sub-bituminous coal. Coal found in the State is relatively low in sulfur content, ranging from 0.5 to 1.1 percent, compared to the national average of 1 to 2 percent. The State's coal varies widely in ash and moisture content.

During Fiscal Year 2008, there were five coal mining companies in New Mexico: BHP Navajo Coal Company; Chevron Mining, Inc.; El Segundo Coal Company, LLC; Lee Ranch Coal Company; and San Juan Coal Company. BHP Navajo Coal Company and the San Juan Coal Company are owned by BHP Billiton Marketing, Inc. The El Segundo Coal Company and the Lee Ranch Coal Company are owned by Peabody Natural Resources.

Until 2007 Chevron operated two mines, McKinley North and South. Chevron closed its South mine in 2007 and is expected to close its North mine, which is on the Navajo Reservation. The El Segundo Coal Company commenced operations in June 2008. Peabody's two companies, the El Segundo Coal Company and the Lee Ranch Coal Company, have acquired contracts to produce coal in mines formerly operated by Chevron, so production is expected to increase.

The majority of New Mexico coal is used for electrical generation. From January through September 2008, 68.9 percent of all New Mexico coal used for electrical generation was sent to power stations in New Mexico, with the remaining 31.1 percent transported by rail to Arizona. All coal produced by Peabody's El Segundo mine during this period was transported to the Springerville Generating Station in east-central Arizona, which is operated by Tucson Electric Power Company. Tucson Electric Power Company expects to take 3 million tons a year for 20 years for its Springerville Generating Station and Arizona Public Service Company will take as much as 4 million tons of coal a year for 19 years for its Cholla Generating Station in eastern Arizona. Peabody's Lee Ranch mine also supplies the Cholla and Springerville Generating Stations, as well as the Escalante Generating Station near Prewitt, New Mexico. Until the McKinley North mine shuts down, it will continue to supply the Cholla Generating Station.

All of the coal produced in the BHP Navajo mine goes to the Four Corners Power plant in New Mexico, which is a mine-mouth power plant. It is the largest power producing plant by generation capacity in New Mexico and transmits electricity throughout New Mexico, as well as

Arizona and California. The Arizona Public Service Company operates the plant. All of the coal produced by San Juan Coal Company goes to the San Juan Generating Station, which is also a mine-mouth power plant owned by BHP. The Public Service Company of New Mexico operates the plant.

As reflected in Table 20, gross average prices have ranged from $24.82 per ton in Fiscal Year 2005 to $29.18 in Fiscal Year 2008. Output in short tons over the same period has ranged from 22.8 million in Fiscal Year 2008 to 26.6 million in Fiscal Year 2006. Total coal sales are expected to decline gradually in the revenue forecast due to increased competition from other electricity sources and environmental concerns. An increasing portion of total sales is expected to be eligible for the surtax exemption.

Severance Taxes on Coal

Severance taxes have been levied on coal production in New Mexico since 1937. Revenues were distributed to the State General Fund until adoption of the Severance Tax Bonding Act in 1961. Tax rates were imposed on an *ad valorem* basis, 0.125 percent of value from 1937 to 1974, and 0.5 percent of value from 1974 to 1977. In 1977, rates were converted to $0.38 per ton plus a surtax indexed to the CPI. The base rate was then increased to the current base rate of $0.57 per ton in 1980. A slightly reduced base rate of $0.55 per ton was provided for underground-mined coal in 1982.

Effective July 1, 1989, the severance surtax was frozen for a period of four years at $0.60 per ton for surface coal and $0.58 per ton for underground coal. When added to the base tax rate, this action had the effect of freezing the total rate at $1.17 per ton for surface coal and $1.13 per ton for underground coal (only a very small portion of coal production comes from underground mines). Originally the surtax freeze was to have terminated on July 1, 1993. However, the 1993 Legislature extended the freeze until July 1, 1994, after which time the surtax is adjusted in accordance with the increase in the Producer Price Index ("PPI") for coal. The surtax formula provides that in no case will the surtax be decreased, so a fall in the PPI for coal will not trigger a drop in the surtax rate.

The 1990 Legislature suspended the surtax until July 1, 2009, for coal sold under new contracts entered into on or after July 1, 1990, and before July 1, 1994. The provision also extends to incremental sales under existing contracts measured by the increase in sales over the annual average established in Fiscal Years 1987 to 1989. The 1992 Legislature extended the surtax exemption to incremental sales under renegotiated contracts. Subsequent legislatures extended the period for new contracts to qualify for the extension to June 30, 1999.

The 1999 Legislature reexamined coal severance taxes in the light of deregulation of the electric power market. Increased competition in power markets make it harder for utilities to pass on the cost of high production taxes on coal used in generation. A study of New Mexico's coal taxes by economists at the TRD and the DFA in 1998 indicated that at that time New Mexico's taxes were among the highest in the region ("Taxation of Coal Production in Western States" by Dr. Kelly O'Donnell, New Mexico Taxation and Revenue Department and Dr. Thomas Clifford, New Mexico Department of Finance and Administration; presentation to the Revenue Stabilization and Tax Policy Committee, November, 1998). In view of these findings, the 1999 Legislature and Governor acted to repeal the sunset of the severance surtax exemption. Thus, as existing contracts expire which are currently subject to the surtax, any subsequent contracts will be exempt from the surtax. A total of approximately $8.2 million in severance surtax was collected in Fiscal Year 2005, $9.1 million in Fiscal Year 2006, $8.3 million in Fiscal Year 2007 and $8.9 million in Fiscal Year 2008.

The surtax rate for surface-mined coal in Fiscal Year 2007 was $0.73 per ton, resulting in a combined rate of $1.30 per ton. The surtax rate for coal mined underground was $0.71 for a combined rate of $1.26; however, all coal mined underground during Fiscal Year 2007 was exempt from the surtax. The surtax rate for Fiscal Year 2008 is $0.80 per ton for surface coal, resulting in a combined rate of $1.37 per ton. The surtax rate for coal mined underground is $0.77 per ton, resulting in a combined rate of $1.32 per ton. All coal mined underground during Fiscal Year 2008 to date has been exempt from the surtax. In Fiscal Year 2009, the surtax for surface coal is $0.83 per ton for a combined rate of $1.40 per ton. The surtax for coal mined underground is $0.80 per ton, resulting in a combined rate of $1.35 per ton.

The table below sets forth data on coal production, pricing and average tax rates for the past four fiscal years.

TABLE 20
Coal Production, Prices, Revenues, and Taxes
Fiscal Years 2005 to 2008[1]

	2005	2006	2007	2008
Production:				
Total Sales Volume	26,555,045	26,566,669	25,591,892	22,801,290
Surface Mined Surtax Exempt	6,207,544	6,455,233	7,157,518	5,862,728
Surface Mined Non-Exempt	13,434,239	13,140,540	11,437,268	11,080,122
Underground Mined Surtax Exempt	6,913,261	6,970,895	6,997,106	5,858,440
Prices:				
Weighted Average Price per Ton for All Coal	$24.82	$25.03	$26.49	$29.18
Sales Revenue:				
Total Sales Revenue	$659,068,570	$665,063,753	$677,871,249	$665,449,922
Taxes Collected and Intergovernmental Tax Credits (ITC):				
Gross Severance Tax and Severance Surtax Due	$23,192,996	$24,070,557	$22,796,642	$21,743,664
Intergovernmental Tax Credit	$5,702,026	$5,886,169	$5,478,600	$4,534,144
Net Severance Tax and Severance Surtax Liability (Net of ITC)	$17,490,971	$18,184,388	$17,318,042	$17,209,520
Effective Taxes:				
Effective Tax Rate	2.65%	2.73%	2.55%	2.59%
Effective Tax per Ton for all Coal (Net of ITC)	$0.66	$0.68	$0.68	$0.75

(1) The State implemented a tax processing system known as the GenTax processing system in 2005. Therefore, Table 20 only reflects data for Fiscal Years 2005 through 2008, as Fiscal Year 2004 information is no longer comparable.
Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the "GenTax System").

Projections of Severance Tax Revenue from Coal

Coal Severance Tax projections are prepared based on an analysis of the demand for State produced coal. While the Consensus Group does not forecast Severance Tax Revenues on coal separately, the State Board of Finance relies on lineal historical trends for purposes of projecting revenues associated the production of coal in the Bonding Fund, confirmed with the DFA chief economist from time to time.

Output from the BHP Navajo Coal Company was 8.2 million tons in Fiscal Year 2008, a decrease from 8.4 million tons in Fiscal Year 2007 and 9 million tons in Fiscal Years 2005 and 2006. None of BHP's sales were exempt from the surtax in Fiscal Year 2008, compared to 0.1 percent, 3.4 percent, and 6.6 percent in Fiscal Years 2005, 2006 and 2007, respectively.

Output from the Chevron Mining was 3.2 million tons in Fiscal Year 2008, a decrease from 4.3 million tons in Fiscal Year 2007, 5.7 million tons in Fiscal Year 2006, and 5.6 million tons in Fiscal Year 2005. In Fiscal Year 2008, 99.8 percent of Chevron's sales were exempt from the surtax, compared to 67.8 percent, 68.5 percent and 79.9 percent in Fiscal Years 2005, 2006 and 2007, respectively.

Output from the El Segundo Coal Company was 131,397 tons in June 2008, its first month of production. In that month, 24.5 percent of the El Segundo Coal Company's sales were exempt from the surtax.

Output from the Lee Ranch Coal Company was 5.4 million tons in Fiscal Year 2008, a decrease from 5.9 million tons in Fiscal Year 2007, but an increase from 4.9 million tons in Fiscal Year 2006 and 5.1 million tons in Fiscal Year 2005. In Fiscal Year 2008, 47.9 percent of its sales were exempt from the surtax, compared to 47.7 percent, 46.1 percent and 53.4 percent in Fiscal Years 2005, 2006 and 2007, respectively.

Output from the San Juan Coal Company was 4.9 million tons in Fiscal Year 2008, a decrease from 7 million tons in Fiscal Years 2005, 2006 and 2007. All coal mined by the San Juan Coal Company is underground. Historically, the San Juan Coal Company's sales have historically been exempt from the severance surtax.

OTHER MINERAL PRODUCTION AND SEVERANCE TAXES

Carbon Dioxide

The Bravo Dome carbon dioxide ("CO_2") field, encompassing 1.2 million acres in Harding, Union and Quay Counties in the northeastern area of the State, contains estimated resources of 16.3 trillion cubic feet, of which 7.0 to 10.6 trillion cubic feet are considered economically recoverable. Although the State has long produced limited quantities of liquid and solid CO_2 for use in the food and the engineering industries, the main commercial value of CO_2 deposits is derived from the use of the product in its gaseous form in enhanced oil recovery projects in the Permian Basin of Texas and New Mexico. Future sales ultimately will depend on the CO_2 requirements of such projects and on the State's proportion of the market, which is shared with Colorado's Sheep Mountain and Little Sheep Mountain, McElmo Dome and Doe Creek Fields. Sales of CO_2 were approximately 101 bcf during Fiscal Year 2008 and are expected to decline by 2.5 and 2.8 percent per year over the five-year forecast period. The weighted average wellhead price of CO_2 sales for Fiscal Year 2008 was \$1.22 per mcf reported at the production facility, and is expected to increase to \$1.25 and remain stable over the forecast period. Severance taxes on CO_2 are levied at the rate of 3.75 percent of taxable sales value. Deductions during Fiscal Year 2008 averaged 23 percent. Therefore, the 3.75 percent is applied to only 77 percent of total sales value.

Other Minerals

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

TABLE 21
Severance Tax Rates on Other Minerals

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

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office.

Severance tax revenue from potash was $1,136,912 in Fiscal Year 2008. Severance tax revenue from copper is limited because of the statutorily defined narrow tax base. Revenue from copper peaked at $760,288 in Fiscal Year 2008, up from $610,966 in Fiscal Year 2007 and $526,380 in 2006. Weighted average copper prices were $3.50 per pound in Fiscal Year 2008.

OTHER TAXES OF NATURAL RESOURCES NOT PLEDGED

Rates for unpledged production and property taxes on New Mexico natural resources are summarized below. As discussed in prior sections of this Official Statement, proceeds from the Severance Tax and the Oil and Gas Severance Tax are pledged to the Bonding Fund for payment of interest, premium and principal of the Bonds. **Proceeds of other taxes shown below are not pledged to the payment of principal, premium, if any, or interest on Severance Tax Bonds**.

Production and Property Taxes on Oil and Natural Gas

Current effective production tax rates expressed on ad valorem and unit bases are shown below. The rates were based on data from Fiscal Year 2008 and reflect an average sales price of $93.42 per barrel for oil and $8.35 per thousand cubic feet (mcf) for natural gas. The gross rates presented in the table below show taxes paid as a percentage of gross sales value before subtracting allowable deductions. The gross tax per unit is also based on gross sales value. The net tax per unit, however, is based on taxable value net of allowable deductions.

TABLE 22

Tax Rates on Oil and Natural Gas
Fiscal Year 2008

	Volume	FY 08 Price	Crude Oil Gross Rate	Crude Oil Gross Tax Per Barrel	Crude Oil Net Tax Per Barrel	Natural Gas Gross Rate	Natural Gas Gross Tax Per mcf	Natural Gas Net Tax Per mcf
Oil	60,125,217	$93.42						
Natural Gas	1,427,761,011	$8.35						
Type of Tax:								
Oil and Gas Emergency School Tax			3.15%	$2.94	$2.64	4.00%	$0.33	$0.27
Oil and Gas Severance Tax			3.75%	$3.50	$3.14	3.75%	$0.31	$0.25
Oil and Gas Conservation Tax			0.19%	$0.18	$0.16	0.19%	$0.02	$0.01
Subtotal - excludes ad valorem taxes			7.09%	$6.62	$5.94	7.94%	$0.66	$0.53

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the "ONGARD System").

The School Tax rate of 3.15 percent imposed on natural gas was raised to 4 percent effective July 1, 1993, pursuant to Chapter 360, Laws 1993. This action was taken partially to compensate for the large decreases in revenues due to the 1987 tax changes for natural gas. Further, it was believed that the tax increase was tolerable to industry because of relatively higher prices. The School Tax rate imposed on crude oil continues to be 3.15 percent.

Statutory rates on oil for the Emergency School Tax (3.15 percent), the Oil and Gas Severance Tax (3.75 percent) and the Conservation Tax (0.19 percent) are effectively reduced by deductions allowed for trucking costs and for Federal, State and Indian royalties. Statutory rates on natural gas for the Emergency School Tax (4 percent), the Oil and Gas Severance Tax (3.75 percent), and the Conservation Tax (0.19 percent) are effectively reduced by deductions for Federal, State and Indian royalties and by deductions for transportation and processing tariffs upstream of the sales location. The *oil and gas production ad valorem* tax and the *oil and gas production equipment ad valorem equipment* tax are imposed in lieu of property taxes on mineral reserves and equipment located on the leasehold. Tax rates applied to these tax bases are local rates and vary by jurisdiction. The ad valorem production tax is subject to the same deductions as for School Tax, Severance Tax and Conservation Tax. The tax base for the Oil and Gas Production Equipment Ad Valorem Tax is the wellhead price, not reduced by the value of royalties.

Production and Property Taxes on Coal

Total State production and property taxes on coal amounted to approximately $28.9 million in Fiscal Year 2008. Total coal production was about 22.8 million tons in that year. Thus, the average effective tax per ton was approximately $1.27. With total sales revenue of over $665.4 million, the average effective tax was 4.34 percent of total sales revenue. The breakout of the effective tax and the total amount collected for each tax is shown in the following table.

TABLE 23

Tax Burden
Fiscal Year Ended June 30, 2008

Type of Tax	**Tax Burden Effective Rate (per ton)**	**Amount[1]**
Severance Tax and Surtax	$0.75	$ 17,209,520
Resources Excise Tax	0.20	4,470,727
Conservation Tax	0.05	1,132,584
Property Tax[2]	0.27	6,071,098
Gross Receipts Tax	1.55	35,369,395
Total	**$2.82**	**$ 64,253,324**
Price Per Ton		**$29.18**
Total Production		**22,801,290**
Total Value		**$665,449,922**

(1) The figures reported in this table come from the New Mexico Taxation and Revenue Department's GenTax System. They reflect only the information contained in all tax returns and amendments filed during Fiscal Year 2008. These figures differ from actual distributions made by the Taxation and Revenue Department's Financial Services Bureau, as the distributions include penalties, interest, and other modifications such as previously unallocated or unidentified receipts.
(2) Property taxes were billed in Fiscal Year 2007 and collected in Fiscal Year 2008.
Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the "GenTax System," Financial Services Bureau and Property Tax Division's Central Assessment Unit).

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

In addition to production taxes, gross receipts tax is imposed on coal produced and sold within the State. Approximately 94 percent of all coal produced in New Mexico is subject to the gross receipts tax. The combined state and local tax rate is 6.2495 percent of value.

BOOK-ENTRY-ONLY SYSTEM

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

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of such 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

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

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 State 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 RESOLUTIONS

The following summarizes certain provisions of the Series 2009A Resolution. This summary does not purport to be complete and reference is made to the Series 2009A 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 use its best efforts to collect and deposit in the Bonding Fund proceeds from Severance Taxes as set forth in the Severance Tax Bonding Act which, when combined with other amounts the State Legislature, in its sole discretion, may from time to time deposit in the Bonding Fund, will equal at least two hundred percent (200%) of the amount of principal and interest scheduled to be due in each fiscal year of the State on the Senior Severance Tax Bonds, including the Series 2009A Bonds; (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 Bond Resolutions 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 Severance Taxes, the Bonding Fund and each project account; (d) any registered owner or Beneficial Owner of any of the Bonds or any duly authorized agent of such registered owner or Beneficial Owner, shall have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds, the collection of Severance Taxes and the Bonding Fund; 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; (e) the State will prepare annual statements or audits of collections and disbursements of Severance Taxes in sufficient detail to show compliance with requirements of the Bond Resolutions 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) 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; (h) the State (i) will take or cause to be taken such actions which may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes, and (ii) 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 Bond Resolutions, (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.

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 Bond Resolutions shall cease to be effective 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 Bond Resolutions 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, non-callable 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 or prior redemption dates, as the case may be; provided, that if any Bonds or portions of Bonds are to be redeemed prior to their maturities, notice of that redemption shall have been duly given or irrevocable provision shall have been made for the giving of that notice.

As used in the Bond Resolutions, "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 year any other claim, including any claim of such trustee or escrow agent or of any person claiming through such trustee or escrow agent or to whom such trustee or escrow agent may be obligated, including claims in the event of the insolvency of such trustee or escrow agent or proceedings arising out of such insolvency or (b) rated by either Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. or Moody's Investors Service, Inc., or similar rating agency in its highest rating category (without regard to any refinement or gradation by numerical modifier or otherwise).

Any moneys held in trust in accordance with the defeasance provisions of the Bond Resolutions may be invested only in non-callable Defeasance Obligations having maturity dates, or having redemption dates which, at the option of the holder of such Defeasance 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 Bond Resolutions 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 Bond Resolutions. Notwithstanding any provision of the Bond Resolutions to the contrary, any provisions of the Bond Resolutions 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 Bond Resolutions

The Bond Resolutions 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) before or after issuance of the Bonds to add to, subtract from, amend or clarify the list for which Bond Proceeds will be used; (b) to cure any ambiguity, omission, formal defect or inconsistency; or (c) 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 (d) 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 Bond Resolutions 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 Bond Resolutions; 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 Bond Resolutions in any court of competent jurisdiction, for the specific performance of any covenant or agreement contained in the Bond Resolutions 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 Bond Resolutions. 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

The Bonds and the interest accruing on the Bonds shall be payable and collectible out of the Bonding Fund, which is pledged for such payment as provided in the Severance Tax Bonding Act. 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 (15^{th}) 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 and the redemption price of the Bonds are 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 D) are subject to the approving legal opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the State ("Bond Counsel"). Certain legal matters will be passed upon for the State of New Mexico by Brownstein Hyatt Farber Shreck, LLP, Disclosure Counsel. Certain legal matters will be passed upon for the State of New Mexico by the Office of the Attorney General of the State of New Mexico.

TAX MATTERS

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

In the opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that the interest on the Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code.

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

Bond Counsel is also of the opinion that the difference between the principal amount of the Bonds and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of Bonds were sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest basis over the term of each Bond. For purposes of determining gain or loss on the sale or other disposition of a Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Bonds. Owners of the Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning Bonds.

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

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

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

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

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

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

Copies of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

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

LITIGATION

At the time of the original delivery of the Bonds, the Board will deliver a no-litigation certificate to the effect that no litigation or administrative action or proceeding is pending, or, to the knowledge of the appropriate State officials, threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, the effectiveness of the legislation authorizing the issuance of the Bonds, the levying or collecting of any taxes for the payment of the debt service on the Bonds (other than those cases described in Appendix C, 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 Bonds for the following reason: Severance Taxes are the primary source of payment for the Bonds which are limited obligations of the State. See Appendix C for a summary of litigation and administrative action or proceedings that impact Severance Taxes.

FINANCIAL ADVISORS

The Board has retained Fiscal Strategies Group, Inc., as Financial Advisor in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. Fiscal Strategies Group, Inc. has contracted with Public Resources Advisory Group (together with Fiscal Strategies Group, Inc., the "Financial Advisors") in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. The Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement nor the information, covenants and representations contained in any of the

Bond documentation with respect to the federal income tax status of the Bonds. The Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The financial advisory fee for services performed with respect to the Bonds is contingent upon the issuance and delivery of the Bonds but is payable from the Bonding Fund.

RATINGS

The Bonds have received ratings from Moody's Investors Service, Inc. 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 rating 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 E) to be delivered to the purchaser of the Bonds at closing, for the benefit of owners of the Bonds, to provide certain annual financial information relating to the State by no later than 210 days after the end of each fiscal year of the State, commencing with the fiscal year ending June 30, 2009, and to provide notices of occurrence of certain enumerated events, if material. The Board will further agree in the continuing disclosure undertaking that if its audited financial statements are not provided as part of the annual financial information, the Board will provide such audited statements when available. The annual financial information and audited financial statements (when available) will be filed by the Board with 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"). Except as set forth in the succeeding sentences, the State has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. Continuing disclosure undertakings previously entered into by the Board in relation to the State's Capital Projects General Obligation Bonds and Severance Tax Bonds called for it to file audited financial statements of the State as part of the Board's annual financial information disclosures, or when available if the financial statements had not been finally audited by the time that it was required to make the annual financial disclosures. Due to the investigation by federal authorities of potentially criminal activity by two prior elected State Treasurers, and the seizure of financial information from the State Treasurer's Office to further that investigation, preparation and auditing of the audited financial statements of the State for the Fiscal Year ended June 30, 2005 was substantially delayed, and the audited financial statements were not available until

August 22, 2006. The State filed the audited financial statements on October 31, 2006, and, on that date, the State notified the Municipal Securities Rulemaking Board of the filing.

Continuing disclosure undertakings previously entered into by the Board in relation to the State's Capital Projects General Obligation Bonds and Severance Tax Bonds state that if 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. In connection with its continuing disclosure obligations for Fiscal Year 2008, the State timely filed its annual financial information on January 23, 2009. At that time, neither unaudited nor audited financial statements from the State of New Mexico State General Fund Annual Financial Report (the "General Fund Audit") and the State of New Mexico Office of the State Treasurer Financial Statements (the "STO Audit") for the fiscal year ended June 30, 2008, were available. The annual financial information disclosed this fact and provided that as soon as they were available the unaudited and audited financial statements would be submitted. On February 17, 2009, the State filed the unaudited financial statements from the General Fund Audit. On March 5, 2009, the State filed the audited financial statements from the STO Audit. On March 31, 2009, the State filed the audited financial statements from the General Fund Audit. The Board believes that it is now in compliance with all its continuing disclosure undertakings.

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.

GOVERNOR'S FINANCE COUNCIL

The Governor's Finance Council was established to develop an overall strategy for issuing long-term debt obligations and making investments to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. The Executive Order concerning the Council 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 New Mexico State Board of Finance, 131 South Capitol Street, Bataan Memorial Building, Room 181, Santa Fe, New Mexico 87501, or by telephone at (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

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The State has a semiarid subtropical climate with light precipitation. Its 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. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

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 22 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature, and 9 cabinet-level agencies.

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

The Governor serves as the President of the Board. In December 2008, President-elect Barack Obama nominated Governor Richardson to be Secretary of the United States Department of Commerce. On January 4, 2009, Governor Richardson issued a statement that, due to a pending investigation of a company that has done business with New Mexico State government, he had asked the President-elect not to move forward with his nomination at that time.

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 Board.

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

State Budget for Fiscal Years 2009 and 2010

After receiving lower revenue projections, the 2009 Legislature adopted and the Governor signed legislation bringing the Fiscal Year 2009 budget back into balance, while leaving reserves at the targeted level of 10.1 percent of recurring appropriations. Chapter 5, Laws 2009 cancelled the authorization for various capital outlay projects that were previously appropriated from the General Fund and Severance Tax bond funds and reauthorized certain other projects. Chapter 2, Laws 2009 provided for a 1 to 5 percent reduction (2.7 percent average) in certain General Fund operating budgets for Fiscal Year 2009. Chapter 3, Laws 2009 reduced and repealed General Fund appropriations and authorized transfers to the General Fund from several other funds. That bill also partially restored reductions to public schools and Medicaid by appropriating from the Appropriation Contingency Fund's education reform balance and from the Tobacco Settlement Permanent Fund. Laws 2009, Chapter 4 restored the requirement that was inadvertently deleted in 2003 legislation for a first quarterly installment of corporate estimated income tax, causing some corporate income tax revenue to arrive during Fiscal Year 2009 instead of Fiscal Year 2010. Several other tax changes were enacted to assist in closing the anticipated revenue shortfall.

The Fiscal Year 2010 General Fund budget enacted in the 2009 regular session contains $5.5 billion of recurring appropriations, a decrease of 8.9 percent from Fiscal Year 2009. General Fund balances are expected to be 9.9 percent of Fiscal Year 2010 recurring appropriations. The Fiscal Year 2010 budget was balanced using $331.2 million in federal American Recovery and Reinvestment Act funding to avoid significant reductions in public education and Medicaid spending, substituting $24.1 million of State Medicaid funding with annual tobacco settlement payments on a recurring basis, shifting 1.5 percent of annual State pension contributions from the employer to employees to save $42.6 million, and reducing budgets by $140 million. Lastly, an executive initiative to collect outstanding tax obligations owed to the State by taxpayers is expected to increase recurring revenue by $21.3 million in Fiscal Year 2010.

The Governor has indicated that he may call a special session after July 1, 2009 (the start of Fiscal Year 2010) to address the status of receipt of funds in connection with the American Recovery and Reinvestment Act and to revisit the budget if Consensus Group revenue forecasts continue to decline. Additionally, the DFA and State Treasurer convened a cash flow forecast group to forecast the State's cash balances over the next 12 to 18 months. These cash flow projections do not relate to the severance tax revenue that is used to repay the Series 2009A Bonds.

Pension Funds

The Legislature enacted the Educational Retirement Act, Section 22-11-1 through 22-11-53 NMSA 1978, and the Public Employees Retirement Act, Section 10-11-1 through 10-11-141 NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are described below. In 1998, the voters adopted an amendment to Section 22D of Article XX of the State Constitution which stated that upon meeting the minimum service requirements of an applicable retirement plan created by law for employees of the State or any of its political subdivisions or institutions, a member of a plan shall acquire a vested property right with due process protections under the applicable provisions of the New Mexico and United States Constitutions. The Legislature establishes all financing provisions of the plans and the provisions are not subject to negotiation. Financing provisions include employee and employer contributions, fund investment provisions and benefit provisions. The balances reported below are official data as of June 30, 2008. Due to the significant market turmoil related to the downturn in the nation's economy, New Mexico's pension funds, along with pension funds throughout the nation, have been subject to a material loss in market value for the twelve month period ended March 31, 2009.

House Bill 573, which was enacted during the 2009 regular legislative session, amends various provisions of the Educational Retirement Act, the Public Employees Retirement Act and the New Mexico Retiree Health Care Act in order to increase the solvency of the pension funds. House Bill 573 (Chapter 288, Laws 2009) increases the years of service requirement from 25 years to 30 years for new members who join the Educational Retirement Board (the "ERB") and the Public Employees Retirement Association ("PERA") on or after July 1, 2010, while existing ERB and PERA members remain under the 25-year service requirement. In addition, House Bill 573 increases payroll contributions by employers and employees to the New Mexico Retiree Health Care Fund (the "NMRHCF"). House Bill 573 also includes training requirements for members of the ERB and PERA boards and establishes a 25-member retirement systems solvency task force to study the pension plans and make recommendations to the Legislature and Governor by October 1, 2010. Related to House Bill 573, House Bill 631 (Chapter 286, Laws 2009), which was enacted during the 2009 regular legislative session, adds a section to the Educational Retirement Act to extend the rule whereby ERB members could retire with full benefits if their combined service and age at retirement met or exceeded 75, to a combined service and age at retirement of 80 for ERB members hired after July 1, 2010.

House Bill 351 (Chapter 287, Laws 2009), which was enacted during the 2009 regular legislative session, increases the employer/employee contribution to the NMRHCF from the current 1.95 percent to 3 percent for most employers and employees. The contribution increase would be slightly higher for employees in an enhanced retirement plan. The increase would be phased-in over a four-year period. Due to the passage of this legislation, the NMRHCA estimates that solvency will be extended from approximately 2018 to 2027.

Finally, House Bill 854 (Chapter 124, Laws 2009), which was enacted during the 2009 regular legislative session, modifies most employer and employee contributions to the State's retirement funds for Fiscal Years 2010 and 2011, shifting 1.5 percent of the annual contribution rate from employers to employees for those employees with a full-time equivalent annual salary greater than $20,000. In Fiscal Year 2012, the employee contribution rate will return to previous levels.

Educational Retirement Board

The ERB had 124,872 members as of June 30, 2008, including active, retired, inactive vested and inactive non-vested members. An actuarial valuation of the Educational Retirement Fund completed by Gabriel Roeder, Smith & Co., reported that as of June 30, 2008 the actuarial value of assets was $9.3 billion and the unfunded accrued actuarial liability ("UAAL") was $3.7 billion. The funded ratio (ratio of the actuarial value of assets to actuarial accrued liability) increased from 70.5 percent at June 30, 2007 to 71.5 percent at June 30, 2008. As of June 30, 2008, the UAAL had an amortization period of 61.4 years, compared to an infinite period as of the 2007 actuarial valuation. The amortization period, also referred to as the funding period, is a calculation based on actuarial models of the period required to amortize the UAAL, assuming ERB's experience exactly follows actuarial assumptions. The actuarial assumptions include an 8 percent rate of return. As required by Governmental Standards Accounting Board ("GASB") Statement 25, the calculation is based on current contribution rates and does not take into account the statutorily scheduled increases in those rates described below.

The ERB has suffered investment losses since June 30, 2008. The market value of the ERB Fund as of March 31, 2009 was approximately $6.2 billion. For the twelve month period ended March 31, 2009, the ERB Fund lost approximately 28.2 percent of its value.

Member and employer contribution rates are established by State statute. In 2005, the Legislature amended Section 22-11-21 NMSA 1978 to increase the employer contribution rate by 75 basis points (0.75 percent) for each of the seven years beginning July 1, 2005, and to increase member contribution rates by 7.5 basis points (0.075 percent) for each of the four years beginning July 1, 2005. As of July 1, 2008, the start of Fiscal Year 2009, the employer contribution rate is 11.65 percent and the member contribution rate is 7.9 percent. In addition, New Mexico universities and colleges make an additional contribution of 3 percent of the salary of those employees who elect to participate in the Alternative Retirement Plan ("ARP"), a defined contribution retirement plan available to certain faculty and professional employees to satisfy the UAAL attributable to participation in the ARP.

As indicated above, as of June 30, 2008, ERB has an amortization or funding period of 61.4 years, based on the employer and member contribution rates in effect as of July 1, 2008. The employer contribution in Fiscal Year 2009 that would have been required in order to amortize the UAAL over 30 years was 13.54 percent. Under current law, the employer rate will increase to 13.9 percent on July 1, 2011. As GASB Statement 25 does not permit the consideration of contribution rates not yet in effect, the 61.4 year funding period must be reported.

The Public Employees Retirement Association

The PERA had 85,844 members as of June 30, 2008. Gabriel, Roeder, Smith & Co. completed an actuarial valuation of the PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund ("VFF") as of June 30, 2008. The Public Employees Retirement Board accepted the actuary's conclusions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 4 percent per annum, compounded annually, and other risk assumption changes including salary increases for longevity and merit, an 8 percent rate of return on investments, mortality, active member withdrawals, disability and retirement rates to allow for expected future experience. See solvency information on Table A-1 below.

As of June 30, 2008, PERA has an amortization or funding period of 13 years, based on the employer and member contribution rates in effect as of July 1, 2008. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-141 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to actuarial accrued liability) was 93 percent in Fiscal Years 2007 and 2008. PERA may consider proposing legislation to increase contributions in response to material losses in value related to the downturn in the nation's economy since June 30, 2008.

The PERA has suffered investment losses since June 30, 2008. The market value of the PERA Fund as of March 31, 2009 was approximately $8.2 billion. For the twelve month period ended March 31, 2009, the PERA Fund lost approximately 32.7 percent of its value.

Actuarial information, for each fund, as of June 30, 2008, is shown in Table 10.

TABLE A-1

Summary of State Retirement Funds
(Dollars in thousands)

	PERA[1]	Judicial	Magistrate	VFF	Legislative
Membership	80,302	233	120	4,952	277
Actuarial Information					
Accrued Liability[2]	$ 13,740,335	$ 111,721	$ 41,721	$ 16,946	$ 21,414
Value of Assets[3]	$ 12,816,218	$ 87,430	$ 38,866	$ 48,438	$ 19,999
Unfunded (Overfunded) Accrued Liability	$ 924,117	$ 24,292	$ 2,855	($31,492)	$ 1,415
Present Value of Statutory Obligations	$ 17,351,959	$ 142,492	$ 49,378	$ 25,633	$ 23,977

(1) Includes both the State and municipal divisions.
(2) Includes the accrued liability of both the retired and active members.
(3) The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to an 8 percent annual return are smoothed in over a four-year period.
Source: Public Employees Retirement Association.

New Mexico Retiree Health Care Authority

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

The New Mexico Retiree Health Care Authority (the "NMRHCA"), the agency that administers the Retiree Health Care Act, has a fund base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund ("TAA Fund"). There were 42,111 NMRHCA enrolled participants as of June 30, 2008. Employer and employee contribution rates are established in State statute as is the amount distributed from the TAA Fund. Respective employer/employee contribution rates are currently 1.3 percent and 0.65 percent of the participating employee's salary. These rates combined, as well as other sources of revenue, are significantly less than what is necessary to fund the normal cost and amortization of the UAAL (as described below) over a 30-year period.

Based on the GASB Statement 43 valuation for Fiscal Year 2008, and assuming that the NMRHCF is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5 percent, the UAAL has been calculated to be approximately $2.9 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCF. The UAAL is approximately $1.2 billion less than calculated in the June 30, 2006 GASB Statement 43 valuation. In addition, the June 30, 2008 GASB Statement 43 valuation indicates that the State's annual required contribution, (the amount necessary to fully fund normal cost plus a 30-year amortization of the UAAL) is approximately $100 million less than in the June 30, 2006 valuation. The Board has taken several actions to reduce the UAAL in 2008 and in future years, including raising premiums and increasing contributions from retirees for the most generous plans, and continues to investigate additional opportunities including legislative initiatives to increase the combined employer/employee contribution.

The NMRHCA has suffered investment losses since June 30, 2008. The market value of the NMRHCF as of April 30, 2009 was approximately $136.8 million. For the twelve month period ended April 30, 2009, the NMRHCF lost approximately 22 percent of its value.

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 1976, the electorate approved a constitutional amendment giving the Severance Tax Permanent Fund constitutional status. In 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the Severance Tax Permanent Fund. Distributions from investments of the Severance Tax Permanent Fund, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance tax receipts have been the primary source of funding for the Severance Tax Permanent Fund. The State Investment Officer under the direction of the State Investment Council (the "SIC") invests the corpus and non-appropriated income of the Severance Tax Permanent Fund. The market value of the Severance Tax Permanent Fund as of March 31, 2009 was approximately $3.1 billion. For the twelve month period ended March 31, 2009, the Severance Tax Permanent Fund lost approximately 25.7 percent of its value. Money on deposit in the Severance Tax Permanent Fund is not pledged to and may not be used to pay any Bonds.

The LGPF is designed solely to benefit the public 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), so the current total is 9 million surface acres and 12.8 million subsurface acres. The corpus of the LGPF is constitutionally protected from appropriation and amounts on deposit therein are not pledged to and may not be used to pay debt. The LGPF is also protected by the Federal Enabling Act of 1910.

Pursuant to Section 19-1-1 NMSA 1978, the State Land Office is charged with the custody and disposition of the land granted to the State. The Commissioner of Public Lands sells or leases these properties in accordance with the provisions of the appropriate State statutes. The State Investment Officer under the direction of the SIC invests the corpus and income of the LGPF. The market value of the LGPF as of March 31, 2009 was approximately $7.7 billion. For the twelve month period ended March 31, 2009, the LGPF lost approximately 23.8 percent of its value.

In November 1996, the State electorate approved a constitutional amendment regarding distributions from both of the State's permanent funds. Distributions are now based on a total return basis rather than an income distribution method. In addition, distributions to beneficiaries are now 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 State electorate approved a constitutional amendment increasing the rate of distribution from the LGPF from 4.7 percent to 5 percent of the five-year average market value of the LGPF beginning in Fiscal Year 2005. Certain additional distributions shall be made to implement and maintain educational reforms as provided by law. An additional 0.8 percent has been and will be distributed in Fiscal Years 2005 through 2012 and an additional 0.5 percent will be distributed in Fiscal Years 2013 through 2016. A three-fifths majority of each house of the Legislature may suspend this additional distribution.

Financial Process; Procedures

State Auditing and Accounting Systems. The financial affairs of every agency in the State are examined and audited each year by the State Auditor, personnel of the State Auditor's office designated by the State Auditor, or by the independent auditors approved by the State Auditor, as required by Section 12-6-3 NMSA 1978. The audits are conducted in accordance with generally accepted auditing standards. The audit reports include financial statements that are presented in accordance with generally accepted accounting principles.

In July 2006, the State implemented a Statewide Human Resources, Accounting and Management Reporting System (the "SHARE System"). The SHARE System replaced the State's existing Central Accounting System, central payroll system, personnel system, treasury reconciliation accounting and cashiering system, and 114 additional systems then in place at various State agencies. Since June 2007, the State has officially used SHARE as its books of record.

State Budgetary and Appropriation Process. All State agencies are required by Section 6-3-19 NMSA 1978 to submit completed budget forms to the DFA Budget Division by September 1 of each year. Guidelines and forms are provided to State agencies in advance of the September 1 deadline. Budget hearings to examine the merits of budget requests are scheduled through the fall and are usually completed by mid-December. The DFA Budget Division presents comprehensive budget recommendations to the Governor, as required by Section 6-3-15(B) NMSA 1978.

The Governor is required by Section 6-3-21 NMSA 1978 to submit a budget for the upcoming fiscal year to the Legislature in early January. The Governor's budget includes the executive recommendations for public education; higher education; State agencies; and historical information on prior expenditures, revenues and revenue projections, among other information. The State budget is contained in a General Appropriation Act, which also may contain proposals for supplemental and deficiency appropriations for the 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 DFA Budget Division approves the agency budgets and monitors the expenditure of the funds beginning on July 1, the first day of the fiscal year.

State Treasurer's Practices

Pursuant to Section 6-10-10(I) NMSA 1978, the State Treasurer, with the advice and consent of the State Board of Finance, may invest money not immediately needed for government operations. These investment responsibilities are conducted in accordance with the State Treasurer's Investment Policy (the "Investment Policy"). The Investment Policy is 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 State Treasurer's investment activities. This policy applies to all financial assets of the State invested by the Treasurer in the exercise of the Treasurer's statutory authority or invested as directed by other agencies which have specific investment authority and for which the Treasurer acts as the investing authority. The public money includes the State's General Fund, the Local Government Investment Pool ("LGIP"), Bond Proceeds Investment Pools, bond debt service funds, and other special funds with respect to which the State Treasurer is the investing authority.

The State Treasurer's Office invested a portion of the General Fund and the State Bond Proceeds Investment Pool in the Reserve Primary Fund ("RPF"), a money market fund, in Fiscal Years 2007 and 2008 respectively. On September 15, 2008, the balance of the General Fund's RPF investment was \$448.7 million, and the balance of the State Bond Proceeds Investment Pool's RPF investment was \$311.6 million. On September 16, 2008, the RPF net asset value fell below \$1.00 and holdings in the fund were frozen. Since then, RPF has returned approximately \$0.90 per share to shareholders. The remaining RPF position held in the General Fund is \$45 million, and the remaining position in the State Bond Proceeds Investment Pool is \$31.3 million. The remaining positions in the RPF are non-performing assets. On February 26, 2009, RPF announced that it was withholding \$3.5 billion of RPF assets for anticipated and pending litigation against it, which amount could increase or decrease as RPF evaluates information related to such litigation. As a result, the State Treasurer's Office cannot anticipate what the actual losses to the General Fund and the State Bond Proceeds Investment Pool from the RPF may be or when they may be realized. No actual losses have been realized to date. On May 5, 2009, the U.S. Securities and Exchange Commission filed a civil lawsuit in federal court against the operators of RPF, alleging fraud, seeking the pro rata distribution of the remaining RPF assets, and seeking the release of the \$3.5 billion currently being withheld from investors pending the outcome of the lawsuits against RPF. On May 20, 2009, the New Mexico Attorney General filed a complaint and injunction petition in State district court on behalf of the New Mexico State Treasurer's Office and the New Mexico Finance Authority (collectively "the investors") against RPF. The Attorney General's complaint alleges that RPF's setting aside \$3.5 billion to pay legal fees and expenses is a willful and intentional conversion of the investors' assets and a breach of contract. The complaint further alleges that RPF's failure to honor redemption requests on September 16, 2008, is a breach of contract. Additionally, the Attorney General's injunction petition seeks the release of the investors' pro rata share of the $3.5 billion RPF set aside for its anticipated and pending legal costs.

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 voting members: the State Treasurer, or designee, who serves as Investment Committee Chair; the State Treasurer's Chief Investment Officer (with the State Cash Manager as an alternate); the Director of the State Board of Finance or designee; and two additional members. These additional members must be participants in the private investment community or have expert knowledge or professional experience in public finance or public fund investing. One member is appointed by the State Treasurer and approved by the Board and one member is 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 on such topics as economic outlook, portfolio diversification and maturity structure, potential risks, the target rate of return on the investment portfolio;

Identifying potential violations of and suggesting remedial actions to achieve conformity with the Investment Policy;

Recommending, no less than annually, action on depositories, custodians, broker/dealers and investment managers and advisors; and

Assessing whether the Investment Policy is being properly implemented by the individuals and entities involved in the administration and management of investment activities.

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

Following the indictment of Mr. Vigil, the State engaged the law firm of Hogan and Hartson, LLP and Deloitte Financial Advisory Services L.L.P. to conduct a special audit of the State Treasurer's Office. The special audit found a significant number of internal control weaknesses and deficiencies in the operations of the State Treasurer's Office; however, the special audit did not find that the integrity of funds held at the State Treasurer's Office had been compromised. The special audit recommended a slate of legislative, rulemaking and control enhancements designed to ensure that funds held by the State Treasurer's Office are prudently invested and safely handled.

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

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 2000 United States Census was 1,819,046. In the 1990s, the State was the 12th fastest growing state, as the population increased 20.1 percent from 1990 to 1,820,704 in 2004. Over the same period of time, the national population grew 13.2 percent. From 2000 to 2008, the State's population grew 9 percent to 1,984,356, while the national population grew 7.8 percent over the same period.

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

TABLE A-2

Population

New Mexico and the United States
1999-2008

	Population		Annual Percentage Change	
Year	**New Mexico**	**United States**	**New Mexico**	**United States**
1999	1,808,082	279,040,168	0.8%	1.2%
2000	1,820,704	282,171,936	0.7%	1.1%
2001	1,828,330	285,039,803	0.4%	1.0%
2002	1,848,986	287,726,647	1.1%	0.9%
2003	1,867,909	290,210,914	1.0%	0.9%
2004	1,889,266	292,892,127	1.1%	0.9%
2005	1,912,884	295,560,549	1.3%	0.9%
2006	1,937,916	298,362,973	1.3%	0.9%
2007	1,964,402	301,290,332	1.4%	1.0%
2008	1,984,356	304,059,724	1.0%	0.9%

Source : Population Division, U.S. Census Bureau, March 2009.

Major industries in the State include oil and natural gas production, manufacturing, tourism, services, arts and crafts, agribusiness, government and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. The following table sets forth information on employment by industry over the period of 1998 through 2007.

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TABLE A-3

Total New Mexico Full-time and Part-time Employment by North American Industry Classification System 1998-2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Growth 2006-2007	Growth 1998-2007
Total employment	945,474	951,156	972,954	977,815	987,693	1,013,107	1,038,845	1,051,704	1,091,651	1,115,677	2.20%	18.00%
Wage and salary employment	765,582	773,819	789,690	801,610	809,872	822,438	838,544	855,049	877,954	887,936	1.25%	16.11%
Proprietors employment	179,892	177,337	183,264	176,205	177,821	190,669	200,301	196,655	213,697	227,741	6.57%	26.60%
Farm proprietors employment	15,818	15,237	14,985	17,470	17,649	17,035	16,972	17,159	17,095	17,519	2.48%	10.75%
Nonfarm proprietors employment	164,074	162,100	168,279	158,735	160,172	173,634	183,329	179,496	196,602	210,222	6.93%	28.13%
Farm employment	23,203	21,982	21,760	24,091	24,038	23,855	23,757	24,550	24,318	24,575	1.06%	5.91%
Nonfarm employment	922,271	929,174	951,194	953,724	963,655	989,252	1,015,088	1,027,154	1,067,333	1,091,169	2.23%	18.31%
Private employment	723,483	730,406	748,804	748,250	754,776	775,615	797,520	808,390	853,037	881,017	3.28%	21.77%
Forestry, fishing, related activities and other[(1)]	7,469	7,250	7,144	7,019	7,284	7,080	7,132	7,219	7,164	7,086	-0.84%	-4.89%
Mining[(2)]	19,348	17,428	18,823	19,469	17,520	18,875	19,025	21,118	23,666	24,596	3.93%	27.12%
Utilities	4,253	4,214	4,312	4,272	4,100	4,120	4,063	4,082	4,142	4,397	6.16%	3.39%
Construction[(3)]	60,783	60,167	60,646	63,144	61,086	63,927	68,145	72,453	79,654	82,275	3.29%	35.36%
Manufacturing	48,246	46,895	47,294	46,001	43,939	41,770	40,954	41,083	42,857	42,563	-0.69%	-11.78%
Durable goods manufacturing[(4)]	35,139	33,902	33,888	32,671	30,887	28,868	28,162	28,412	29,877	29,705	-0.58%	-15.46%
Nondurable goods manufacturing[(5)]	13,107	12,993	13,406	13,330	13,052	12,902	12,792	12,671	12,980	12,858	-0.94%	-1.90%
Wholesale trade	27,862	27,634	28,022	27,970	27,181	26,761	27,441	28,248	29,419	30,243	2.80%	8.55%
Retail trade[(6)]	115,073	113,110	112,676	111,250	111,912	113,827	115,746	116,168	118,189	121,257	2.60%	5.37%
Transportation and warehousing[(7)]	24,726	24,310	24,903	23,854	23,930	23,920	24,980	25,077	26,060	27,625	6.01%	11.72%
Information[(8)]	16,468	17,287	18,194	19,331	18,584	17,942	17,238	17,240	18,511	18,663	0.82%	13.33%
Finance and insurance[(9)]	33,079	32,216	31,904	30,996	31,079	31,515	31,844	31,460	32,210	32,460	0.78%	-1.87%
Real estate and rental and leasing[(10)]	26,192	27,250	30,598	29,117	29,489	32,319	34,859	35,664	38,754	41,905	8.13%	59.99%
Professional and technical services	59,006	60,081	62,146	60,386	60,693	64,443	67,459	66,884	75,824	81,750	7.82%	38.55%
Management of companies and enterprises	6,307	5,848	5,815	6,083	5,923	5,423	5,354	6,388	6,426	6,105	-5.00%	-3.20%
Administrative and waste services[(11)]	43,969	47,680	51,125	52,659	53,555	53,077	54,423	54,336	58,185	60,687	4.30%	38.02%
Educational services	10,457	11,067	11,411	11,826	12,535	13,936	14,838	15,015	15,850	16,645	5.02%	59.18%
Health care and social assistance[(12)]	82,368	85,883	89,726	89,614	96,323	102,830	107,352	108,336	112,171	115,090	2.60%	39.73%
Arts, entertainment and recreation[(13)]	18,359	19,294	19,605	18,570	19,496	20,722	21,479	21,062	22,081	22,823	3.36%	24.32%
Accommodation and food services[(14)]	70,552	72,611	74,398	76,403	77,903	79,733	80,498	81,137	84,443	85,528	1.28%	21.23%
Other services, except public administration[(15)]	48,966	50,181	50,062	50,286	52,244	53,395	54,690	55,420	57,431	59,319	3.29%	21.14%
Government and government enterprises[(16)]	198,788	198,768	202,390	205,474	208,879	213,637	217,568	218,764	214,296	210,152	1.93%	5.72%

[(1)] The "Forestry, fishing, related activities, and other" category includes: forestry and logging; fishing, hunting and trapping; agriculture and forestry support activities; and other.
[(2)] The "Mining" category includes: oil and natural gas extraction; mining (except oil and natural gas); and support activities for mining.
[(3)] The "Construction" category includes: construction of buildings; heavy and civil engineering construction; and specialty trade contractors.

(4) The "Durable good manufacturing" category includes: wood product manufacturing; nonmetallic mineral product manufacturing; primary metal manufacturing; fabricated metal product manufacturing; machinery manufacturing; computer and electronic product manufacturing; electrical equipment and appliance manufacturing; motor vehicles, bodies and trailers, and parts manufacturing; other transportation equipment manufacturing; furniture and related product manufacturing; and miscellaneous manufacturing.

(5) The "Nondurable goods manufacturing" category includes: food manufacturing; beverage and tobacco product manufacturing; textile mills; textile product mills; apparel manufacturing; leather and allied product manufacturing; paper manufacturing; printing and related support activities; petroleum and coal products manufacturing; chemical manufacturing; and plastics and rubber products manufacturing.

(6) The "Retail trade" category includes: motor vehicle and parts dealers; furniture and home furnishings stores; electronics and appliance stores; building material and garden supply stores; food and beverage stores; health and personal care stores; gasoline stations; clothing and clothing accessories stores; sporting goods, hobby, book and music stores; general merchandise stores; miscellaneous store retailers; and nonstore retailers.

(7) The "Transportation and warehousing" category includes: air transportation; rail transportation; water transportation; truck transportation; transit and ground passenger transportation; pipeline transportation; scenic and sightseeing transportation; support activities for transportation; couriers and messengers; and warehousing and storage.

(8) The "Information" category includes: publishing industries, except Internet; motion picture and sound recording industries; broadcasting, except Internet; Internet publishing and broadcasting; telecommunications; ISPs, search portals and data processing; and other information services.

(9) The "Finance and insurance" category includes: monetary authorities-central bank; credit intermediation and related activities; securities, commodity contracts, investments; insurance carriers and related activities; and funds, trusts and other financial vehicles.

(10) The "Real estate and rental and leasing" category includes: real estate; rental and leasing services; and lessors of nonfinancial intangible assets.

(11) The "Administrative and waste services" category includes: administrative and support services; and waste management and remediation services.

(12) The "Health care and social assistance" category includes: ambulatory health care services; hospitals; nursing and residential care facilities; and social assistance.

(13) The "Arts, entertainment and recreation" category includes: performing arts and spectator sports; museums, historical sites, zoos and parks; and amusement, gambling and recreation.

(14) The "Accommodation and food services" category includes: accommodation; and food services and drinking places.

(15) The "Other services, except public administration" category includes: repair and maintenance; personal and laundry services; membership associations and organizations; private households;

(16) The "Government and government enterprises" category includes: federal, civilian; military; state and local; and state government and local government.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, February 2009.

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

TABLE A-4

Employment and Labor Force
New Mexico and the United States
1999-2008

	Civilian Labor Force (Thousands)		Number of Employed (Thousands)		Unemployment Rate		
Year	New Mexico[1]	United States[1][2]	New Mexico[1]	United States[1][2]	New Mexico[1]	United States[1][2]	N.M. as % of U.S. Rate
1999	840	139,439	793	133,414	5.5%	4.3%	128%
2000[3]	853	142,278	811	136,531	4.9%	4.0%	123%
2001	864	143,654	822	137,071	4.9%	4.6%	107%
2002	872	144,803	824	136,413	5.6%	5.8%	97%
2003[3]	889	146,485	836	137,474	6.0%	6.2%	97%
2004[3]	902	147,692	850	139,556	5.7%	5.5%	104%
2005[3]	918	149,445	871	142,029	5.1%	5.0%	102%
2006[3]	935	151,414	897	144,427	4.1%	4.7%	87%
2007[3]	945	153,101	912	145,972	3.5%	4.7%	74%
2008[3]	959	154,506	919	145,596	4.2%	5.8%	72%

[1] July figures rounded to nearest thousand.
[2] United States figures are unweighted averages of reported monthly figures, as annual figures were not available from the U.S. Department of Labor.
[3] The U.S. Department of Labor notes that 2004-2008 New Mexico figures reflect revised population controls, model re-estimation, and new seasonal factors, and that 2000 and 2003-2008 United States figures are affected by changes in population controls.
Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2009.

TABLE A-5

Personal Income
New Mexico and the United States
1999-2008

	Personal Income (Dollars in thousands)		Annual Percentage Change	
Year	New Mexico	United States	New Mexico	United States
1999	38,045,599	7,796,137,000	2.7%	5.1%
2000	40,318,443	8,422,074,000	6.0%	8.0%
2001	44,138,165	8,716,992,000	9.5%	3.5%
2002	44,986,517	8,872,871,000	1.9%	1.8%
2003	46,650,275	9,150,320,000	3.7%	3.1%
2004	49,813,042	9,711,363,000	6.8%	6.1%
2005	53,382,823	10,252,973,000	7.2%	5.6%
2006	56,870,351	10,978,053,000	6.5%	7.1%
2007	60,318,370	11,634,322,000	6.1%	6.0%
2008	63,679,909	12,086,533,576	5.6%	3.9%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2009.

TABLE A-6

Per Capita Personal Income
New Mexico and the United States
1999-2008

Year	Per Capita Income: New Mexico	Per Capita Income: United States	N.M. as a % of U.S.	Annual Percentage Change: N.M.	Annual Percentage Change: U.S.
1999	21,042	27,939	75%	1.9%	3.9%
2000	22,144	29,847	74%	5.2%	6.8%
2001	24,141	30,582	79%	9.0%	2.5%
2002	24,330	30,838	79%	0.8%	0.8%
2003	24,975	31,530	79%	2.7%	2.2%
2004	26,366	33,157	80%	5.6%	5.2%
2005	27,907	34,690	80%	5.8%	4.6%
2006	29,346	36,794	80%	5.2%	6.1%
2007	30,706	38,615	80%	4.6%	4.9%
2008	32,091	39,751	81%	4.5%	3.5%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2009.

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TABLE A-7

Wages and Salaries by Industry Sector
2001 - 2008

NAICS Earnings by Place of Work Applicable to 2001-2008	New Mexico (Dollars in Thousands)				United States (Dollars in Millions)				Average Annual Percent Change 2001 – 2008		Distribution of 2008 Wages & Salaries	
	2008	2006	2004	2001	2008	2006	2004	2001	N.M.	U.S.	N.M.	U.S.
Farm Wage and Salary	235,238	213,944	191,662	176,072	20,715	18,967	18,876	17,920	4.23%	2.09%	0.70%	0.32%
Nonfarm Wage and Salary	33,243,211	30,064,390	26,386,576	22,844,868	6,523,283	6,001,832	5,369,804	4,922,024	5.51%	4.11%	99.30%	99.68%
Private Wage and Salary	24,564,982	21,851,009	18,442,668	16,283,154	5,409,023	4,993,232	4,440,460	4,116,908	6.05%	3.98%	83.38%	82.66%
Forestry, Fishing related activities, and other	103,563	89,378	80,388	72,008	19,709	18,416	17,078	15,968	5.33%	3.05%	0.31%	0.30%
Mining	1,410,526	1,136,225	770,642	726,676	61,424	48,014	34,904	32,132	9.94%	9.70%	4.21%	0.94%
Utilities	317,904	245,731	225,434	228,143	47,828	43,028	40,525	39,491	4.85%	2.77%	0.95%	0.73%
Construction	2,414,386	2,142,053	1,640,536	1,481,698	367,315	352,572	293,577	271,681	7.22%	4.40%	7.21%	5.61%
Manufacturing	1,682,966	1,654,144	1,460,227	1,570,957	741,439	731,105	686,623	709,116	0.99%	0.64%	5.03%	11.33%
Wholesale Trade	1,150,601	1,047,336	897,316	834,834	378,199	347,239	305,524	283,974	4.69%	4.18%	3.44%	5.78%
Retail Trade	2,482,504	2,326,851	2,152,322	1,920,672	419,173	406,507	379,552	354,981	3.73%	2.40%	7.42%	6.41%
Transportation and Warehousing	891,010	822,823	733,646	638,771	200,811	190,358	172,799	165,070	4.87%	2.84%	2.66%	3.07%
Information	680,253	602,832	518,502	563,140	218,638	202,099	190,215	208,122	2.74%	0.71%	2.03%	3.34%
Finance and Insurance	1,110,908	1,060,964	946,307	818,734	526,943	489,560	422,192	374,872	4.46%	4.98%	3.32%	8.05%
Real Estate and Rental and Leasing	366,943	346,254	288,525	241,904	95,979	93,998	80,773	69,812	6.13%	4.65%	1.10%	1.47%
Professional, Scientific, and Technical Services	3,865,766	3,216,953	2,462,544	2,063,251	618,653	535,249	451,654	427,017	9.38%	5.44%	11.55%	9.45%
Management of Companies and Enterprises	292,693	294,550	237,950	239,165	181,635	159,823	138,049	117,571	2.93%	6.41%	0.87%	2.78%
Administrative and Waste Services	1,418,544	1,279,687	1,110,014	977,868	263,573	242,040	211,901	190,428	5.46%	4.75%	4.24%	4.03%
Educational Services	311,727	262,908	239,484	184,925	108,272	93,809	83,786	69,558	7.74%	6.53%	0.93%	1.65%
Health Care and Social Assistance	3,647,606	3,155,711	2,748,331	2,084,777	678,386	599,249	532,753	441,213	8.32%	6.34%	10.90%	10.37%
Arts, Entertainment, and Recreation	186,538	164,300	151,220	128,294	69,158	63,065	56,964	49,457	5.49%	4.91%	0.56%	1.06%
Accommodation and Food Services	1,243,683	1,138,177	1,001,028	858,461	211,160	194,190	171,618	149,565	5.44%	5.05%	3.71%	3.23%
Other Services, Except Public Administration	986,861	864,132	778,252	648,876	200,730	182,911	169,973	146,880	6.17%	4.56%	2.95%	3.07%
Government and Government Enterprises	8,678,229	8,213,381	7,943,908	6,561,714	1,114,260	1,008,600	929,344	805,116	4.07%	4.75%	25.92%	17.03%
Total	33,478,449	30,278,334	26,578,238	23,020,940	6,543,998	6,020,799	5,388,680	4,939,944	5.50%	4.10%	100.00%	100.00%

In 2001, the Bureau of Economic Analysis (BEA) converted from the Standard Industrial Classification (SIC) scheme that emphasized the industrial sectors of a traditional manufacturing economy to the North American Industrial Classification System (NAICS), which emphasizes service industries. The table now exhibits four years of consitent NAICS data (2001, 2004, 2006 and 2008). SIC-based data prior to 2001 and NAICS-based data for 2002, 2003 2005 and 2007 are available from the BEA

APPENDIX B

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

STATE OF NEW MEXICO
OFFICE OF THE
STATE TREASURER

Financial Statements
for the Year Ended
June 30, 2008,
and Independent
Auditors' Report

STATE OF NEW MEXICO
OFFICE OF THE STATE TREASURER

Table of Contents

Table of Contents - continued

Year Ended June 30, 2008

Office of the State Treasurer

James B. Lewis, State Treasurer

Mark F. Valdes, Deputy State Treasurer

State Treasurer's Investment Committee

James B. Lewis, Chairman

Joelle Mevi, Vice-chairman, Chief Investment Officer

Steve Bohlin, Member

Paul Cassidy, Member

Olivia Padilla-Jackson, State Board of Finance Member

INDEPENDENT AUDITORS' REPORT

Honorable Bill Richardson, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information and the general fund budget comparisons of the State of New Mexico Office of the State Treasurer (State Treasurer) as of and for the year ended June 30, 2008, which collectively comprise the State Treasurer's basic financial statements as listed in the table of contents. We have also audited the Schedules 2 through 5 and Schedules 8 through 9 and Schedule 6 – Summary of Long Term Debt Obligations, as listed in the table of contents and included in the financial statements as supplementary information as of and for the year ended June 30, 2008. These financial statements are the responsibility of the State Treasurer'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 Treasurer'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 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 of our opinions.

As discussed in Note 1, the financial statements of the State Treasurer are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the State Treasurer. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2008, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
Santa Fe, New Mexico

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the State Treasurer as of and for the year ended June 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, Schedules 2 through 5 and Schedules 8 through 9 and Schedule 6 – Summary of Long Term Debt Obligations referred to above, present fairly, in all material respects, the respective financial and fiduciary funds of the State Treasurer and the long-term debt obligations of the State of New Mexico as of and for the year ended June 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the State Treasurer's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis presented on pages 4 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). 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 made for the purpose of forming opinions on the financial statements that collectively comprise the State Treasurer's basis financial statements. Schedules 1, 7 and 10, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Schedules 1, 7 and 10, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

December 15, 2008

The State of New Mexico Office of the State Treasurer's (State Treasurer) Management's Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues, provide an overview of the State Treasurer's financial activity, identify changes in the State Treasurer's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The MD&A is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the State Treasurer's financial statements and notes which follow this section.

Significant Highlights

New Mexico State Treasurer James B. Lewis accepted the recommendations of his Blue Ribbon Commission to provide staff with continuing education and training to further achieve the goals of the State Treasurer's Office. Treasurer Lewis offered to all staff members approximately 12 training and education seminars, including four levels of training in Microsoft Excel and Word applications, supervisory training, orientation on banking operations, trading updates, information technology systems certification, and professional and governmental classes. This continuing education and training has enhanced the skills and performance of State Treasurer's Office staff and management.

The Statewide Human Resources, Accounting, and Management Reporting System (SHARE) presented significant challenges to the State Treasurer's Office and to most, if not, all state agencies. Through the collaborative efforts of the State Treasurer's Office and the DFA these challenges are being addressed. The State Treasurer's Office and the DFA designed the State Treasurer's Investment Transaction Matrix, which was tested with positive results. The transaction matrix has led to timely and accurate updates to banking and investment processes and more efficient business practices. State agencies also have a clearer understanding of their responsibilities and the responsibilities of the State Treasurer's Office.

Treasurer Lewis, his staff, the agency's legal counsel, the State Personnel Office and the labor union have reviewed all existing internal policies and procedures to ensure compliance with state and federal law, the collective bargaining agreement, and State Personnel Board rules. The policy and procedures manuals were reviewed during fiscal year 2008 and are being finalized.

The State Treasurer's Office developed a disaster recovery plan, with a "hot site" location in Albuquerque and received partial funding to implement the plan. Once completed, it will be the first true business continuity plan implemented in the case that an unforeseen disaster at the current office location prevents treasury operations as usual from occurring. The "hot site" location will provide equipment and office space to allow critical staff to perform their banking, investment and administrative functions off site to ensure business continuity.

During fiscal year 2008, the State Treasurer's Office worked with state law enforcement authorities to apprehend suspects engaging in check fraud schemes with the state's bank accounts. A large meeting was

Significant Highlights - continued

sponsored by the State Treasurer's Office, which included Attorney General, State Auditor, the DFA, federal, state and local law enforcement and the state's fiscal agent bank to discuss and seek solutions to the bank/check/warrant fraud problem. Subsequently, a large forum sponsored by the Albuquerque Chamber of Commerce was scheduled to raise awareness in the business community about the problem and discuss ways of preventing fraudulent bank transactions using state accounts.

The Cash Management Division solicited additional human resources from various internal and external sources in fiscal year 2008 to assist with the backlog of unreconciled items in the bank reconciliation from prior fiscal years. These resources originated from internal assistance of other divisions, temporary external employee assignments from the DFA and through temporary hires. Steady progress was made on this backlog during fiscal year 2008. The goal was to complete the backlog by early in fiscal year 2009.

The State Treasurer's Office issued two series of Tax and Revenue Anticipation notes in fiscal year 2008, totaling $700 million. These short term notes are issued to address temporary cash flow needs and to minimize reliance on inter-fund borrowing to cover temporary cash flow deficits in the general fund. Issuing these short-term notes at a tax-exempt rate and reinvesting at higher taxable investment rates generates additional revenue for the state.

In fiscal year 2008, the State Treasurer's Office reviewed, made necessary revisions and received State Board of Finance approval to the State Treasurer's Investment Policy and the Approved Broker/Dealer list. This is done annually as mandated by the State Treasurer's Investment Policy.

The State Treasurer's Office implemented the new state Linked Deposit program that was authorized the 2007 Legislature and signed into law by the Governor. State Treasurer's staff met with the New Mexico Bankers Association and Independent Community Bankers Association to discuss this new program and also the administration of the existing Certificate of Deposit program, where the State Treasurer deposits state funds in banks across the state. These investments in banks provide economic development to communities, statewide.

Financial Highlights

- The State Treasurer's net assets changed by $149,938,174, and the net assets of the State Treasurer's governmental activities changed by $149,869,971 due to short-term debt payments of $775,187,500 due on July 1, 2008.

- The General Fund's main revenue was appropriations, which amounted to ninety-nine percent (99%) of all revenue.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State Treasurer's basic financial statements. The State Treasurer's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the State Treasurer's finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the State Treasurer's assets and liabilities, the difference between the two being reported as net assets.

The statement of activities presents information showing how the government'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 result in cash flows in future fiscal year periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. The State Treasurer, like other State and local government entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State Treasurer can be divided into two categories: governmental funds and fiduciary funds.

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.

Fund Financial Statements - continued

Governmental Funds - continued

The State Treasurer maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, General Obligation Bond Fund, Severance Tax Bond Fund, and the Tax and Revenue Anticipation Notes Fund, all of which are considered to be major funds. The General Obligation and Severance Tax Bond funds combine into a single, aggregated presentation of the activity of each individual bond issue. Individual bond transaction data of these governmental funds is provided in the form of combining statements elsewhere in this report.

The State Treasurer adopts an annual operating budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the State Treasurer. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the State Treasurer's own programs.

Fiduciary funds provide the same type of information as the government-wide financial statements, only in more detail. The fiduciary fund financial statements provide separate information for the Short-term Investment Pool, Consolidated Investment Pool, and State Funds Investment Pool. The State Treasurer's fiduciary funds account for cash, securities, and other investments identified and held in custody on behalf of local and State government agencies, and are separately identified by the types of State and local agencies for which the funds are held. The Short-term Investment Pool accounts for the Local Government Investment Pool (LGIP), the Consolidated Investment Pool accounts for funds held in custody for both State and local government agencies, and the State Funds Investment Pool accounts for funds identified and held in custody on behalf of State agencies.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a user's full understanding of the data provided in the government-wide and fund financial statements, and begin on page 25 of this report.

Other Information

The combining statements referred to earlier in connection with the General Obligation and Severance Tax Bond funds are presented immediately following the notes to the financial statements. Combining statements, schedules of capital assets, and schedules of long-term debt can be found beginning on page 61 of this report. Fiduciary schedules begin on page 80.

Required Supplementary Information (Other than MD&A)

In addition to the basic statements and accompanying notes, this report also presents certain required supplementary information concerning the State Treasurer's progress in funding its obligation to provide pension benefits to its employees.

Government-wide Financial Analysis

Net Assets: Table A-1 summarizes the State Treasurer's net assets for the fiscal year ended June 30, 2008. Total State Treasurer net assets for fiscal year 2008 are $371,463,933. However, most of those net assets are restricted as to the purposes for which they can be used.

Table A-1
The State Treasurer's Net Assets

		Total	
		2008	2007
Assets:			
Cash, cash equivalents and repurchase agreements	$	**106,800,299**	308,355,701
Due from other agencies		**1,014,225,384**	41,419,554
Accrued interest and other receivables		**3,821,128**	51,005
Prepaid expense		**96,716,613**	-
Capital assets, net		**148,206**	64,332
Total assets	$	**1,221,711,630**	349,890,592
Current liabilities:			
Accounts payable and other	$	**850,103,059**	128,249,200
Compensated absences, amounts due in one year		**144,638**	128,967
Compensated absences, amounts due beyond one year		**-**	-
Total liabilities		**850,247,697**	128,378,167
Net assets:			
Invested in capital assets		**148,206**	64,332
Restricted		**371,460,365**	221,500,961
Unrestricted		**(144,638)**	(52,868)
Total net assets		**371,463,933**	221,512,425
Total liabilities and net assets	$	**1,221,711,630**	349,890,592

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 Treasurer, assets exceeded liabilities by $371,463,933 at the close of the most recent fiscal year.

By far the largest portion of the State Treasurer's net assets reflects amounts to be provided to satisfy its General Obligation and Severance Tax Bond obligations. It is the responsibility of the State Treasurer to record and administer debt on behalf of the agencies and departments of the State of New Mexico. The proceeds of bond issues authorized by the State Board of Finance are transferred to various State agencies in the form of grants. The State Treasurer anticipates the future tax revenues generated will be adequate to service the debt obligations.

Government-wide Financial Analysis - continued

An additional portion of the State Treasurer's net assets, $371,460,365, represents resources that are subject to external restrictions on their use.

Changes in Net Assets: Governmental activities decreased the State Treasurer's net assets in the governmental financial statements by $149,938,174. Key elements of this increase are shown in Table A-2.

Table A-2
Changes in the State Treasurer's Net Assets

	Total 2008	Total 2007
Revenues:		
Federal funds	$ (4,824)	(4,768)
State appropriation	(4,385,800)	(4,236,000)
Interest income	(58,303,246)	(65,753,769)
Total revenues	(62,693,870)	(69,994,537)
Expenses:		
Current:		
Personnel services and employee benefits	3,183,521	2,809,380
Operating costs	690,294	1,061,628
Contractual services	364,250	356,833
Debt Service:		
Interest on debt service activity	468,316,600	431,918,294
Principal on debt service activity	875,960,000	86,943,022
Other charges	761,411	1,415,504
Non-operating (revenue) and expense	(1,136,644,032)	(481,042,109)
Total expenses	212,632,044	43,462,552
Change in net assets	149,938,174	26,531,985
Net assets, beginning, restated	221,525,759	194,980,440
Net assets, ending	$ 371,463,933	221,512,425

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the State Treasurer's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State Treasurer's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At of the end of the current fiscal year, the State Treasurer's governmental funds reported combined ending fund balances of $371,460,365, an increase of $149,869,971 in comparison with the prior year. This increase includes an adjustment to prior period of $13,334. The primary reason for the significant increase in the overall change in net assets is the increase in severance tax receipts.

The fund balance of the State Treasurer's general fund increased by $15,304 during the current fiscal year. This was not a significant change from the prior year.

The fund balance of the State Treasurer's individual debt service funds increased in comparison to the prior year due to new bond issues and an increase in interest income as disclosed in Schedule 3 – Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Obligation Bond Debt Service Funds, and Schedule 5 – Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Severance Tax Bond Debt Service Funds.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget.

There were no significant variances between final budget amounts and actual budget results for the General Fund. The General Fund actual expenditures were less than the final budgeted amounts by one percent (1%). There were no significant variances between final budget amounts and actual budget results for the General Fund.

Capital Assets and Debt Administration

Capital Assets. The State Treasurer's investment in capital assets for its governmental activities as of June 30, 2008, amounts to $148,206, net of accumulated depreciation. This investment in capital assets includes equipment. The State Treasurer's capital assets increased by $87,637, mainly due to purchases of capital assets.

Capital Assets and Debt Administration - continued

Additional information on the State Treasurer's capital assets can be found in Note 4 of this report.

GASB #34 requires the recording and depreciation of infrastructure assets such as roads, bridges and traffic signals. The State Treasurer does not own any infrastructure assets.

Long-Term Debt. For the year ended June 30, 2008, the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of $1,322,657,208, all of which is secured by pledged tax revenues. More detailed information about the State Treasurer's long-term debt is presented in Note 5 to the financial statements and Schedule 6. Long-term debt increased by $99,583,663 from the prior year due to three new bonds issued in fiscal year ended June 30, 2008.

		Total	
		2008	2007
General Obligation Bonds	$	**456,709,904**	438,756,876
Severance Tax Bonds		**865,947,304**	784,316,669
Total principal balances	$	**1,322,657,208**	1,223,073,545

Economic Factors and Next Year's Budgets and Rates

- Additional resources were added to improve the investment function. A portfolio manager was added to manage the new bond proceeds portfolio. Additionally, a new financial analyst will be added to provide analytical and accounting support. A new electronic trading platform (Trade Web) was initiated to allow transparent, competitive investment trades. The Local Government Investment Pool received its maiden rating (AAAm) from Standard & Poor's. These additional resources greatly benefited the investment function of the State Treasurer.

- The State Treasurer contracted for a higher level of legal services to assist with investment and other internal policy updates, provide legal counsel for various personnel lawsuits and grievance hearings, and draft proposed legislation and other miscellaneous legal advice.

- The State Treasurer added resources to implement numerous recommendations included in the forensic audit prepared by Deloitte.

- The State Treasurer initiated personnel, system, facility and security recommendations made by the Office of the Chief Information Officer.

Economic Factors and Next Year's Budgets and Rates - continued

- The State Treasurer reduced IT budget based on decommissioning of TRACS and recognized staffing efficiencies in banking operations due to SHARE implementation.

These factors were considered in preparing the State Treasurer's budget for fiscal year 2009.

Contacting the State Treasurer's Financial Management

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

James B. Lewis, State Treasurer
Office of the State Treasurer
P.O. Box 608
Santa Fe, New Mexico 87504-0608

FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

		Governmental Activities
ASSETS:		
Investment in State General Fund Investment Pool	$	651,498
Repurchase agreements		106,148,801
Due from other agencies		1,014,225,384
Accrued interest receivable		3,820,667
Other receivables		461
Prepaid expense		96,716,613
Capital assets, net of accumulated depreciation (Note 4):		
Equipment		148,206
TOTAL ASSETS	$	1,221,711,630
LIABILITIES AND NET ASSETS:		
Accounts payable	$	775,630,446
Accrued payroll		116,528
Accrued payroll taxes		64,741
Due to Interest in State Funds Investment Pool		11,893,123
Due to State General Fund		242,340
Due to Severance Tax Permanent Fund		-
Due to other agencies		1,215
Compensated absences		144,638
Deferred revenue		62,154,666
TOTAL LIABILITIES		850,247,697
NET ASSETS:		
Invested in capital assets		148,206
Restricted for:		
Debt service		369,987,569
Debt service-arbitrage		1,472,796
Unrestricted		(144,638)
TOTAL NET ASSETS		371,463,933
TOTAL LIABILITIES AND NET ASSETS	$	1,221,711,630

YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenue	Net (Expenses) Revenue and Changes in Net Assets Primary Government
PRIMARY GOVERNMENT:			
GOVERNMENTAL ACTIVITIES:			
General government	$ 5,003,239	4,824	(4,998,415)
Interest on debt service activity	468,316,600	-	(468,316,600)
Depreciation	24,853	-	(24,853)
TOTAL GOVERNMENTAL ACTIVITIES	473,344,692	4,824	(473,339,868)
GENERAL REVENUES:			
State property tax levy			56,195,565
Severance taxes			598,578,767
Other taxes			6,168,350
Capital projects, reversions in			-
Severance tax permanent fund, reversions out			-
Reversions to State General Fund FY08			(40,436)
Interest			58,303,246
UNRESTRICTED INVESTMENT EARNINGS			
BOND ACTIVITY:			
Bond proceeds			459,250
Bond premiums			-
Bond principal payments			(875,960,000)
Bond appropriations expense			-
Other proceeds			775,187,500
TRANSFER FROM STATE AGENCY:			
State general fund appropriations			4,385,800
TOTAL GENERAL REVENUES AND TRANSFERS			623,278,042
CHANGE IN NET ASSETS			149,938,174
NET ASSETS, BEGINNING			221,512,425
PRIOR PERIOD ADJUSTMENTS			13,334
NET ASSETS, BEGINNING, restated			221,525,759
NET ASSETS, ENDING			$ 371,463,933

AS OF JUNE 30, 2008

		Major Funds					
		General Fund	General Obligation Bond Fund	Severance Tax Bond Fund	Tax & Revenue Anticipation Notes	Gaming Suspense Fund	Total Governmental Funds
ASSETS:							
Investment in State General Fund							
Investment Pool	$	566,180	-	-	-	85,318	651,498
Repurchase agreements		-	53,160,957	52,987,844	-	-	106,148,801
Other receivables		461	-	-	-	-	461
Due from other agencies		-	-	239,037,884	775,187,500	-	1,014,225,384
Interest receivable		-	603,542	3,217,125	-	-	3,820,667
Prepaid expense		-	-	96,716,613	-	-	96,716,613
TOTAL ASSETS	$	566,641	53,764,499	391,959,466	775,187,500	85,318	1,221,563,424
LIABILITIES AND FUND BALANCES:							
LIABILITIES:							
Accounts payable	$	228,350	-	214,596	775,187,500	-	775,630,446
Due to Severance Tax Permanent Fund		-	-	-	-	-	-
Due to other agencies		-	-	1,215	-	-	1,215
Due to Interest on State Funds							
Investment Pool		-	-	11,893,123	-	-	11,893,123
Due to State General Fund		157,022	-	-	-	85,318	242,340
Deferred Revenue		-	-	62,154,666	-	-	62,154,666
Accrued payroll		116,528	-	-	-	-	116,528
Accrued payroll taxes		64,741	-	-	-	-	64,741
TOTAL LIABILITIES		566,641	-	74,263,600	775,187,500	85,318	850,103,059
FUND BALANCES:							
Reserved for:							
New Mexico Business Development Corp.		-	-	-	-	-	-
Debt service		-	52,291,703	317,695,866	-	-	369,987,569
Arbitrage		-	1,472,796	-	-	-	1,472,796
Unreserved, reported in general fund		-	-	-	-	-	-
Unreserved, reported in:							
Gaming Suspense Fund		-	-	-	-	-	-
Taxation & Revenue Anticipation Notes		-	-	-	-	-	-
TOTAL FUND BALANCES		-	53,764,499	317,695,866	-	-	371,460,365
TOTAL LIABILITIES AND FUND BALANCES	$	566,641	53,764,499	391,959,466	775,187,500	85,318	1,221,563,424

YEAR ENDED JUNE 30, 2008

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	$	371,460,365
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		148,206
Some liabilities (compensated absences) are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		(144,638)
Net assets of governmental activities (Statement of Net Assets)	$	371,463,933

YEAR ENDED JUNE 30, 2008

		Major Funds	
		General Fund	General Obligation Bond Fund
REVENUES:			
Federal funds	$	4,824	-
Other income		-	-
Interest income		-	-
Interest income - debt service		-	10,537,730
Interest income - arbitrage		-	-
TOTAL REVENUES		4,824	10,537,730
EXPENDITURES:			
Current:			
Personnel services and employee benefits		3,167,850	-
Operating costs:			
Contractual services		364,250	-
Other administrative expenditures		690,294	-
Debt service:			
Principal and interest on long-term debt		-	66,317,413
Principal and interest on short-term debt		-	-
Arbitrage		-	-
Other charges		-	3,314
Capital outlay		112,490	-
TOTAL EXPENDITURES		4,334,884	66,320,727
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		(4,330,060)	(55,782,997)
OTHER FINANCING SOURCES (USES):			
State general fund appropriations		4,262,400	-
Special appropriation		123,400	-
Reversions to State General Fund FY08		(40,436)	-
Severance taxes		-	-
State property tax levy		-	56,195,565
Bond proceeds		-	-
Other proceeds		-	-
Bond premiums (discounts)		-	-
Other		-	2,181,344
Capital projects, reversions in		-	-
Payment to escrow agent		-	-
Miscellaneous other sources		-	-
Severance tax permanent fund, reversions out		-	-
Transfers in (out)		-	-
Transfer to other state agency		-	-
TOTAL OTHER FINANCING SOURCES (USES)		4,345,364	58,376,909
NET CHANGE IN FUND BALANCES		15,304	2,593,912
FUND BALANCES, June 30, 2007		76,099	51,170,587
PRIOR PERIOD ADJUSTMENTS		(91,403)	-
FUND BALANCES, JUNE 30, 2007, restated		(15,304)	51,170,587
FUND BALANCES, June 30, 2008	$	-	53,764,499

See Independent Auditors' Report and Notes to Financial Statements.

Severance Tax Bond Fund	Tax & Revenue Anticipation Notes	Total Governmental Funds
-	-	4,824
-	-	-
-	-	-
47,765,516	-	58,303,246
-	-	-
47,765,516	-	58,308,070
-	-	3,167,850
-	-	364,250
-	-	690,294
129,095,766	-	195,413,179
373,675,921	775,187,500	1,148,863,421
-	-	-
758,097	-	761,411
-	-	112,490
503,529,784	775,187,500	1,349,372,895
(455,764,268)	(775,187,500)	(1,291,064,825)
-	-	4,262,400
-	-	123,400
-	-	(40,436)
598,578,767	-	598,578,767
-	-	56,195,565
459,250	-	459,250
-	775,187,500	775,187,500
-	-	-
-	-	2,181,344
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
3,987,006	-	3,987,006
603,025,023	775,187,500	1,440,934,796
147,260,755	-	149,869,971
170,330,374	-	221,577,060
104,737	-	13,334
170,435,111	-	221,590,394
317,695,866	-	371,460,365

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Funds

YEAR ENDED JUNE 30, 2008

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	$	149,869,971
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
This is the amount by which capital outlay expense of $112,490 exceeded depreciation expense of $24,853 in the current period:		87,637
This is the amount by which capital asset deletions of $18,919 exceeded adjustments to acculumated depreciation of $15,156 in the current period:		(3,763)
Some expenses reported in the statement of activities do not require the use of current financial resources, and these are not reported as expenditures in governmental funds:		
Increase in compensated absences		(15,671)
Change in net assets of governmental activities	$	149,938,174

YEAR ENDED JUNE 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final	(GAAP Basis)	Positive (Negative)
REVENUES:				
State General Fund appropriation	$ 4,262,400	4,262,400	4,262,400	-
Special appropriation	123,400	123,400	123,400	-
Supplemental appropriation	-	-	-	-
Federal grants	4,284	4,284	4,824	540
Other	-	-	-	-
TOTAL REVENUES	$ 4,390,084	4,390,084	4,390,624	540
EXPENDITURES:				
Current:				
Personnel services and benefits	$ 3,077,100	3,177,100	3,167,850	9,250
Contractual services	354,000	381,000	364,250	16,750
Operating costs	958,984	831,984	802,787	29,197
TOTAL EXPENDITURES	4,390,084	4,390,084	4,334,887	55,197
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FUNDING SOURCES (USES)	$ -	-	55,737	55,737

RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

REVENUES AND OTHER FINANCING SOURCES:	
State General Fund Appropriations, page 19	$ 4,262,400
Special Appropriation, page 19	123,400
Federal Grant Revenue, page 19	4,824
TOTAL REVENUES PER ABOVE	$ 4,390,624
EXPENDITURES, page 19	$ 4,334,884
ROUNDING DIFFERENCE	3
TOTAL EXPENDITURES PER ABOVE	$ 4,334,887

AS OF JUNE 30, 2008

		Investment Trust Fund
ASSETS:		
Cash and investments:		
Cash	$	581,871
Certificates of Deposit		201,800,000
Institutional Money Market		1,232,593,000
Commercial Paper		222,084,054
U.S. Government Securities		2,655,098,324
Corporate Bonds		236,711,386
Municipal Bonds		37,000,000
Flex Repurchase Agreements		-
Repurchase agreements		918,851,199
Total cash and investments		5,504,719,834
Other assets		56,205,445
TOTAL ASSETS	$	5,560,925,279
LIABILITIES:		
Other liabilities	$	-
TOTAL LIABILITIES		-
NET ASSETS HELD IN TRUST		5,560,925,279
TOTAL LIABILITIES AND NET ASSETS HELD IN TRUST	$	5,560,925,279

Statement of Changes in Fiduciary Net Assets

AS OF JUNE 30, 2008

		Investment Trust Fund
INVESTMENT INCOME	$	212,343,573
EXPENSES:		
Management fees		(384,000)
NET INVESTMENT INCOME		211,959,573
NET PROCEEDS OF DEPOSITS (WITHDRAWALS)		443,433,690
NET ASSETS, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2007		4,905,532,016
NET ASSETS, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2008	$	5,560,925,279

NATURE OF ORGANIZATION

The Office of the State Treasurer (State Treasurer) has existed continuously since 1851 (Laws 1851-1852). The Legislative Assembly of the Territory of New Mexico passed an act to establish and regulate the Treasury Department of the Territory of New Mexico. This act established the office of territorial Treasurer and designed the duties of Treasurer. The Office of the State Treasurer is established by the New Mexico Constitution, Article V, Section 1, which provides in part:

> *"The executive department shall consist of a governor, lieutenant governor, secretary of state, State auditor, State treasurer, attorney general, and commissioner of public lands, who shall, unless otherwise provided in the constitution of New Mexico, be elected for terms of four years beginning on the first day of January next after their election. The governor and lieutenant governor shall be elected jointly by the casting by each voter of a single vote applicable to both offices."*

Statutory powers and duties of the State Treasurer are contained in numerous articles of the New Mexico Statutes Annotated. Principal statutory provisions related to the New Mexico State Treasurer's Investment Fund are listed below:

(1) Sections 8-6-1 through 8-6-7 NMSA 1978 (1983 Repl.), as amended. Section 8-6-3 NMSA 1978 (1983 Repl.) provides that the State Treasurer shall receive and keep all monies of the State, except when otherwise provided, shall disburse the public money upon lawful warrants and shall keep a just, true and comprehensive account of all monies received and disbursed.

(2) Section 6-1-13 NMSA 1978 (1978 Repl.) provides that the State Treasurer shall authorize all State agency deposit accounts and shall establish conditions and reports appropriate to the accounts.

(3) Section 6-8-2 NMSA 1978 (1988 Repl.) provides that the State Treasurer shall be a member of the State Investment Council. Section 6-8-6 NMSA 1978 (1988 Repl.) states that the State Treasurer shall maintain custody of the State permanent fund.

(4) Sections 6-10-10 (G), (H), and (I) NMSA 1978 (1988 Supp.) empower the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in demand deposits and not immediately needed for the operation of State government in certain specified securities or investments.

(5) Section 12-6-4 NMSA 1978 provides that the cost of the annual audit of the State Treasurer shall be borne by special appropriations to the State Board of Finance.

(6) Section 6-12A-2 NMSA 1978 is to ensure an orderly and uninterrupted flow of money to the general fund by anticipating the receipt of taxes and other State revenue.

NATURE OF ORGANIZATION – continued

(7) Section 6-10-10.1 NMSA 1978. Short-term investment fund created; distribution of earnings; report of investment.

a. There is created in the State treasury the "short-term investment fund." The fund shall consist of all deposits from governmental entities and Indian tribes or pueblos that are placed in the custody of the State Treasurer for short-term investment purposes pursuant to this section. The State Treasurer shall maintain a separate account for each governmental entity and Indian tribe or pueblo having deposits in the fund.

b. If any local public body is unable to receive payment on public money at the rate of interest as set forth in Section 6-10-36 NMSA 1978 from financial institutions within the geographic boundaries of the governmental unit, then a local public finance official having money of that local public body in his custody required for expenditure within thirty days or less may, with the consent of the appropriate local board of finance, if any, remit some or all of such money to the State Treasurer, bank, savings and loan association or credit union for deposit for the purpose of short-term investment as allowed by this section.

c. Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to this section, the local public body finance official shall notify and make sure funds are made available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the State Treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.

d. The local public body finance official shall specify the length of time each deposit shall be in the short-term investment fund, but in any event the deposit shall not be made for more than thirty days. The State Treasurer, through the use of the State fiscal agent, shall separately track each such deposit and shall make such information available to the public upon written request.

e. The State Treasurer shall invest the fund as provided for State funds under Section 6-10-10 NMSA 1978 and may elect to have the short-term investment fund consolidated for investment purposes with the State funds under the control of the State Treasurer, provided that accurate and detailed accounting records are maintained for the account of each participating entity and Indian tribe or pueblo and that a proportionate amount of interest earned is credited to each of the separate government accounts. The fund shall be invested to achieve its objective, which is to realize the maximum return consistent with safe and prudent management.

NATURE OF ORGANIZATION – continued

f. At the end of each month, all interest earned from investment of the short-term investment fund shall be distributed by the State Treasurer to the contributing entities and Indian tribes or pueblos in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts in the fund were invested. No fees or transfer expenses shall be charged to the participating entities and Indian tribes or pueblos for investment in the short-term investment fund.

The State Treasurer is responsible for making the State of New Mexico's debt service and interest payments on general obligation and severance tax bonds and maintaining the related accounting records. The proceeds from the issuance of these general obligation and severance tax bonds and the related debt are maintained in agency funds at the DFA and are not part of this audit. Those funds are included in the DFA's financial statements. The debt service activity, including the ending balances for the general obligation and severance tax bonds and the amortization of bond premiums, discounts and issuance costs, are included in the Supplementary Information section of this report and the statewide Comprehensive Annual Financial Report (CAFR).

Certain investments owned and administered by the Department of Transportation are purchased through the State Treasurer's Office. The fair value and other gratuitous information related to these investments are not included in the financial statements of the Investment Trust Fund.

The State Treasurer's Office operates several investment pools which collectively represent the cash and investments held at the State Treasurer's Office. These pools represent amounts being held and invested for State agencies and for local governments. They have been identified as: 1) State funds investment pool, 2) short-term investment pool, and 3) consolidated investment pool.

Oversight by the State Board of Finance

The State Board of Finance (Board) by statute is comprised of the State of New Mexico governor, lieutenant governor, State treasurer and four members from the general public, and each is a voting member of the Board.

The Board has the responsibility for the issuance of the general obligation and severance tax bonds and for the investment and distribution of the proceeds from such bonds. In that regard, the Board approves the issuance of all such bonds, and provides information for bond prospectuses in order to ensure compliance with financial disclosure requirements and to present information concerning bond issues in a meaningful and informative format. Debt Service Funds are maintained by the State Treasurer for Bonds issued by the Board. The State Treasurer does not report the corresponding debt. The debt is reported on the statement of the Board. The details of the debt are reported in the supplementary and additional information sections in this report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Financial Reporting Entity**

The State Treasurer is an office of the State of New Mexico. The financial statements and notes to the financial statements include all funds for which the State Treasurer is responsible. These financial statements only present activity related to the State Treasurer's Office. The State Treasurer receives funding from State and federal sources and must comply with the requirements of these funding source entities. However, the State Treasurer is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since the State Treasurer is elected by the public and has decision making authority, the power to designate management, and the ability to significantly influence operations and have primary financial accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement 14 which are included in the State Treasurer's reporting entity.

- **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 nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely 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 or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

- **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are billed.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued**

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. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Federal grant revenue 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. All other revenue items are considered to be measurable and available when cash is received by the government.

The government reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is funded through the 2007 General Appropriation Act (Laws of 2007, Chapter 3, Section F) and is subject to reversion.

The government reports the following **Debt Service Funds**:

<u>The General Obligation Bond Fund</u> accounts for payment of principal and interest on general obligation bonds. Financing sources are provided through the collection of property tax levies by other State agencies. The fund does not receive State General Fund appropriations that are subject to reversion.

<u>The Severance Tax Bond Fund</u> accounts for tax receipts levied by other State agencies upon natural resource products, severed and saved from the lands of the State of New Mexico, and to account for payment of principal and interest on severance tax bonds. The fund does not receive State General Fund appropriations that are subject to reversion.

<u>The Taxation and Revenue Anticipation Notes (TRANS) Fund (SHARE Fund 32300)</u> was established to account for the transactions related to the issuance of Taxation and Revenue Notes. The fund does not receive State General Fund appropriations that are subject to reversion.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued**

Debt Service Funds - continued:
The Gaming Suspense Fund (SHARE Fund 02000) was established to collect monies owed to the State from gaming establishments. The fund does not receive State General Fund appropriations that are subject to reversion.

Additionally, the government reports the following **Fiduciary Funds**:

The Short-Term Investment Pool (SHARE Fund 68599) accounts for cash, securities and other investments identified and held in custody only for the Local Government Investment Pool (LGIP).

The Consolidated Investment Pool (SHARE Fund 10199) accounts for cash and short-term securities, such as overnight repurchase contracts, held in custody for State agencies.

The State Funds Investment Pool (SHARE Fund 10099) accounts for securities and other investments identified and held in custody only for State agencies.

Amounts reported as **Program Revenues** include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as **General Revenues** rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

- **Deposits and Investments**

The State Treasurer's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the State Treasurer to invest in, subject to various restrictions, U.S. government obligations, commercial paper, corporate bonds, asset backed obligations, repurchase agreements, certificates of deposit, securities lending transactions, variable rate notes, tax-exempt securities and money market mutual funds.

- **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Receivables and Payables - continued**

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are not recorded as revenue until received.

- **Capital Assets**

Capital assets, which include equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5) and *AICPA Statement of Position 98-1*.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Equipment of the State Treasurer is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Office equipment	5
Computer equipment	5

- **Compensated Absences**

Employees are entitled to accumulate annual leave at the rate based on appointment date and length of continuous service. A maximum of 240 hours of such accumulated annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Compensated Absences - continued**

Employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period. There is no limit to the amount of sick leave which an employee may accumulate. State agencies are allowed to pay fifty percent (50%) of each employee's hourly rate for accumulated sick leave over 600 hours up to 120 hours. Payment may be made only once per fiscal year at an employee-specified pay period in either January or July.

- **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are not reported as liabilities in the applicable governmental activities. The State Treasurer is not the issuer of the debt, nor is it ultimately responsible for the debt. The details of the long-term debt are reported in the Supplementary Information section of the financial statements as Schedule 6. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method, and are reported as Supplementary Information in Schedule 6 of the financial statements. Bonds payable are reported net of the applicable bond premium or discount in Schedule 6.

The State Treasurer reports the debt service activity of the State of New Mexico in its fund financial statements. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Since the State Treasurer reports the debt service activity in its fund financial statements, but does not report the related liabilities in the governmental activities, the State Treasurer reports the debt service activity of the State of New Mexico in its government-wide financial statements under general revenues and program expenses as follows:

Bond Proceeds. To report the proceeds received from bonds issued by the State Board of Finance.

Bond Premiums. To report premiums on bonds issued by the State Board of Finance.

Bond Principal Payments. To report principal payments on long-term debt made by the State Treasurer on debt issued by the State Board of Finance.

Bond Appropriations Expense. To report bond proceeds transferred to the DFA State Board of Finance for the agencies to draw down as needed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Long-term Obligations - continued**

  Debt Issuance Costs. Debt issuance costs are reported as other charges and included in program expenses.

- **Fiduciary Net Assets**

The combining statement of changes in fiduciary net assets reports the deposits and withdrawals made by the participants in the Investment Trust Funds. These amounts are reported as net, rather than gross, due to the volume of transactions completed during a fiscal period.

- **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

- **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

- **Net Assets**

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investments in capital assets (net of related debt), restricted and unrestricted.

Investments in capital assets is intended to reflect the portion of net assets which is associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is debt less the outstanding liquid assets and any associated unamortized cost.

Restricted assets are liquid assets (generated from revenues and not bond proceeds) which have third-party (statutory or granting agency) limitation on their use. When there is an option, the State Treasurer spends restricted resources first. Net assets are restricted by the bond indenture for debt service. Restricted net assets total $274,743,752.

Unrestricted assets are all other assets that do not meet the definition of "restricted assets" or "investments in capital assets".

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- **Budgets and Budgetary Accounting**

The State Treasurer follows these procedures in establishing the budgetary data reflected in the financial statements:

1. By September 1, the State Treasurer prepares a budget appropriation request by category to be presented to the next legislature.

2. The appropriation request is submitted to the DFA's Budget Division and to the Legislative Finance Committee (LFC).

3. The DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.

4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.

5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.

6. Budgetary control is exercised at the category level of the State Treasurer as a whole and changes are approved by the DFA.

7. Formal budgetary integration is employed as a management control device during the year for the General Fund only. The debt service funds (General Obligation Bond Funds and Severance Tax Bonding Funds) are non-budgeted funds.

8. The General Appropriations Act of 2004 established the modified accrual basis of accounting as the budgetary basis of accounting for the State of New Mexico beginning July 1, 2004. Accordingly, future budgets will be prepared using the modified accrual basis of accounting.

9. The State Treasurer's budget for the fiscal year ending June 30, 2008, was amended in a legally permissible manner by reallocating line item category totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.

3. DEPOSITS AND INVESTMENTS

- **Fiscal Agent Bank**

The State Board of Finance and Bank of America in Albuquerque (Bank) entered into an agreement whereby the Bank would provide banking services as Fiscal Agent for the State of New Mexico through April 3, 2008, with the option to renew for two additional years at the option of the State Board of Finance, not to extend beyond April 12, 2010.

- **Custody Bank**

The State Board of Finance and Northern Trust entered into an agreement whereby Northern Trust would provide banking services as Custody Bank for the State of New Mexico through January 31, 2008, with the option to renew for two additional years at the option of the State Board of Finance.

- **Investment Trust Fund**

Cash on deposit represents the demand deposit account with the fiscal agent bank. Current year transactions reflect all banking activity for the fiscal year as well as the activity of investments purchased and disposed of during the fiscal year.

The State Treasurer invests all public monies held in excess of the minimum compensating balance maintained with the fiscal agent bank in accordance with an investment policy approved by the State Board of Finance.

The State Treasurer has implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments.* This statement requires certain investments as defined in GASB Statement No. 31 to be valued at fair value. Fair value is based on quoted market prices as of the valuation date. The change in fair value is recognized as a component of investment income in the current year.

The State Treasurer invests excess cash balances on behalf of certain earmarked funds of State agencies identified by State statute and local governments. Interest earnings are distributed based on average outstanding cash balances for local governments and the State agencies where interest is allowed to be earned. All other interest earnings are transferred to the State General Fund.

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the $100,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from fifty percent (50%) to one hundred two percent (102%) of the par value of the investment dependent upon the institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50 percent (50%) of the average investment balance.

3. DEPOSITS AND INVESTMENTS - continued

- **Investment Trust Fund – continued**

At June 30, 2008, collateral pledged to public money deposits was as follows:

		Fiscal Agent Account	Certificates of Deposit
Cash in bank	$	75,406,713	201,800,000
Less FDIC insurance coverage		100,000	1,248,991
Total unsecured public funds	$	75,306,713	200,551,009
Collateral requirement (50% of uninsured public funds)	$	37,653,356	109,275,505
Collateral pledged:			
US Government securities		43,399,383	113,679,179
Surety Bond		-	42,000,000
(Over) under collateralized	$	(5,746,027)	(46,403,674)

- **Brokered Transactions**

The State Treasurer initiated electronic purchase trades with the following brokers during the year ended June 30, 2008:

Broker Name	Number of Transactions
Merrill Lynch	24
CS First Boston	18
Citigroup	10
Lehman Bros.	15
Morgan Stanley	22
Bank of America	14
Goldman Sachs	5
JP Morgan Chase	34
Cantor Fitzgerald	16
FTN	14
Bear Stearns	24
UBS	12

3. DEPOSITS AND INVESTMENTS - continued

- **Brokered Transactions - continued**

Broker Name	Number of Transactions
Greenwich Capital	1
BB&T Capital	1
Morgan Keegan	4
Williams Financial	1
Piper Jaffrey	4
Jackson Securities	5
Stiffel Nicolaus	3
Jeffries	3
MFR	4
HSBC	12
Deutsche	12

- **Investment Balances**

The fair value of investments administered by the State Treasurer at June 30, 2008 follows:

		Amortized Cost	Carrying Amount Fair Value
Cash in Banks	$	581,871	581,871
Certificates of Deposit		201,800,000	201,800,000
Institutional Money Market		1,232,593,000	1,232,593,000
Commercial Paper		222,515,000	222,084,054
U.S. Government Securities		2,625,302,074	2,655,098,324
Corporate Bonds		236,711,386	236,711,386
Municipal Bonds		37,000,000	37,000,000
Overnight Repurchase Agreements		1,025,000,000	1,025,000,000
	$	5,581,503,331	5,610,868,635

The fair value includes repurchase agreements of $126,836,261 of debt service funds reported in the Statement of Net Assets – Governmental Activities and Governmental Funds Activity for general obligation funds, severance tax bond funds, and taxation and revenue anticipation notes fund. The remaining $898,163,739 represents the investment portion of the investment trust fund reported in the Statement of Fiduciary Net Assets.

3. DEPOSITS AND INVESTMENTS – continued

- **Local Government Investment Pool**

Cities, counties, and other non-state agencies invest monies in the State Treasurer external investment pool (Local Government Investment Pool). The investments are recorded at fair value based on quoted market prices as of the valuation date in the financial statements; however, the individual participant balances remain at their carrying cost. At June 30, 2008, the Local Government Investment Pool carrying cost approximated the fair value.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10.1, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies, and are either direct obligations of the United States or are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other State investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the Local Government Investment Pool is voluntary.

- **Investment Guidelines and Limitations**

The investment policy is a comprehensive guide governing the investment functions of the New Mexico State Treasurer with respect to all financial assets of the State of New Mexico invested by the State Treasurer in the exercise of his authority and for which the State Treasurer acts as the investing authority. These assets include, as examples only, the State General Fund, the Local Government Investment Pool, bond proceeds, bond debt service funds, and those pension and permanent funds and other special funds with respect to which the State Treasurer is the investing authority.

The investment policy and the public finance investment decisions of the State Treasurer must serve and satisfy several fiduciary, fiscal and financial obligations. In making these decisions and in resolving any conflict or competing considerations that may arise from time to time among these obligations, the State Treasurer will observe the following priority:

1. Preservation of Principal – to ensure the performance of basic governmental functions, clearly the highest priority must be accorded to the preservation and protection of capital or the principal of the funds and other assets to be invested;

2. Maintenance of Liquidity – similarly, the next level of priority must be accorded to maintaining sufficient liquidity to ensure the immediate availability of public funds to satisfy the reasonably anticipated, continuing operational requirements of State Government; and

3. DEPOSITS AND INVESTMENTS – continued

- **Investment Guidelines and Limitations - continued**

3. Maximum Return – to serve the legislative policy of revenue enhancement, third priority will be accorded to maximizing investment yield, through budgetary and economic cycles, consistent with the higher priority accorded to the security and liquidity of principal.

The standard of prudence to be applied in the investment of State assets shall be the "Prudent Person" rule that specifies that: "Investments shall be made with the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The State Treasurer or his designees, acting in accordance with this policy and any other written procedures pertaining to the administration and management of State assets and exercising due diligence, shall be relived of personal responsibility, if any, for credit risk or market price changes of a particular security, provided that deviations from expectations are timely noted and appropriate action is taken to control and prevent further adverse developments.

- **Investments Permitted by Policy**

The scope of investment authority of the State Treasurer is defined by law. The applicable investment statutes, principally Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-14-10.1, NMSA 1978, as well as Article VIII, Section 4 of the New Mexico Constitution, specify particular types of investments that may be made by the State Treasurer, and they establish certain prerequisites, limitations and other requirements relating to such investments. Moreover, the State Treasurer, in his discretion, may further limit or restrict such investments.

In this regard, the State Treasurer has determined that only the following statutorily authorized investments may presently be made, and these investments shall be subject to such further limitations or restrictions as follows:

1. U.S. Government Obligations – Securities, including discount notes, that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies sponsored by the Untied States government. Investments shall be limited to a maximum maturity of five (5) years at time of purchase, except securities for any advanced refunding escrow with a duration of more than five (5) years.

3. DEPOSITS AND INVESTMENTS – continued

- **Investments Permitted by Policy - continued**

2. Commercial Paper – Unsecured obligations with a maturity up to 270 days at time of purchase issued by corporations organized and operating within the United States. The commercial paper shall have short-term credit ratings of A-1, P-1 or equivalent or better by two national rating services. If the rating declines below A-1, P-1, then the State Treasurer's Investment Committee (STIC) will meet to evaluate a course of action.

3. Corporate Bonds – Debt instruments issued by a corporation organized and operating in the United States with a maturity not exceeding five (5) years at time of purchase and at the time of purchase rated A or its equivalent or better by Standard & Poor's and/or Moody's. If the rating declines below A- or A3, then the STIC will meet to evaluate a course of action.

4. Asset-Backed Obligations – Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding five (5) years at time of purchase and rated AAA, or its equivalent by Standard & Poor's and/or Moody's. If the rating declines below AAA, then the STIC will meet to evaluate a course of action.

5. Repurchase Agreements – Contracts for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the State. No such contract shall be invested in unless the contract is fully secured by deliverable obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent (102%) of the amount of the contract. Repurchase agreements and flexible repurchase agreements shall be limited to a maximum maturity of one (1) year, but flexible repurchase agreements, in which bond proceeds are invested, may have a maximum maturity of three (3) years. Repurchase agreements for the Local Government Investment Pool shall be limited to a maximum maturity of thirty (30) days, although any underlying U.S. government obligations may have maturities extending beyond the term of such repurchase agreements. Subject to these conditions and the prior approval of the State Board of Finance with respect to the custodial undertaking agreement, tri-party repurchase agreements are proper investments under this policy.

6. Bank, Savings and Loan Association or Credit Union Deposits – Deposits are allowed in certified and designated New Mexico financial institutions whose deposits are insured by an agency of the United States. All deposits will comply with the Interest Rate and Collateral Policies adopted by the State Board of Finance. Deposits shall be limited to a maximum maturity of three (3) years. A deposit in any credit union shall be limited to the amount insured by an agency of the United States.

3. DEPOSITS AND INVESTMENTS – continued

- **Investments Permitted by Policy – continued**

7. Variable Rate Notes – Variable rate notes (VRN) may be United States government obligations, commercial paper, corporate bonds or repurchase agreements. The use of VRNs is considered to be prudent in the management of the portfolio within certain maturity, indexing and concentration restrictions.

8. Tax Exempt Securities – Pursuant to 6-14-10.1, the State Treasurer or designee may also invest in tax exempt securities that at time of purchase are rated in any of the three highest major rating categories by one or more national rating agencies and have a final maturity of up to three (3) years. If the rating declines below A, then the STIC will meet to evaluate a course of action.

9. Money Market Mutual Funds – Shares of an open-end money market mutual fund, registered under the Federal Investment Company Act of 1940 and managing total assets of at least one billion dollars ($1,000,000,000), that invests in United States fixed income securities or debt instruments specified in Subsections I, J and N of Section 6-10-10 NMSA 1978, provided that the investments made by the State Treasurer in any particular money market mutual fund are less than five percent (5%) of the assets of the investment company. In addition, the State Treasurer may act as the investing authority for those agencies which have independent statutory authority to invest. The State Treasurer shall act in a manner consistent with each agency's guidelines and directives.

- **Unauthorized Investments/Investment Actions**

Except as otherwise provided by law, the State Treasurer will not borrow funds for the sole purpose of investing those funds at a higher yield. The State Treasurer is not authorized by law to invest or as a matter of policy has determined not to invest in securities, assets, investment agreements or instruments except as specifically permitted in this Investment Policy. Accordingly, as examples only, the following securities, assets, investment agreements or instruments are presently impermissible:

1. Common or preferred stock
2. Exchange traded future contracts
3. Inverse floaters
4. Whole-loan mortgage obligations
5. Interest only and principal only as they relate to asset-backed obligations
6. Currency swaps
7. Range notes and index amortizing notes
8. Reverse repurchase agreements
9. Short sales

3. DEPOSITS AND INVESTMENTS – continued

- **Custodial Credit Risk**

Custodial credit risk is the risk that the State Treasurer will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of State Treasurer and are held by either the counterparty of the counterparty's trust department of agent but not in State Treasurer's name.

The State Treasurer's Investment Policy for safekeeping and custody states that all investment securities purchased by the State, held as collateral on repurchase agreements or held as collateral on securities lending arrangements shall be held in third-party safekeeping at a fiduciary qualified to act in this capacity. All securities held for the State account will be held free and clear of any lien and all transactions will be conducted in compliance with Section 6-10-10(O) NMSA 1978, which requires contemporaneous transfer and same day settlement. On a monthly basis, the custodian will provide reports which list all transactions that occurred during the month and all securities held for the State at month-end, including the book and market value of holdings. The Fiscal agent and representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the State shall be bonded in such a fashion as to protect from losses from malfeasance and misfeasance.

All investment and collateral securities were held by the State Treasurer or its Custodian in the name of the State Treasurer. As of June 30, 2008, the State Treasurer's bank balances were not exposed to custodial credit risk.

3. DEPOSITS AND INVESTMENTS – continued

- **Credit Risk**

The State Treasurer's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub-asset classes and/or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2008, are as follows:

Quality Rating		Fair Value	Percentage of Portfolio
AAA:			
U.S. Government Agency Obligations	$	2,655,098,324	47.32%
Institutional Money Market Funds		1,232,593,000	21.97%
A-1+:			
Commercial Paper		222,084,054	3.96%
AA:			
Corporate Bonds		236,711,386	4.22%
Not rated and other:			
Overnight Repurchase Pool		1,025,000,000	18.27%
Short-term Government Notes and CDs		238,800,000	4.26%
Cash in Bank		581,871	-
Grand Total	$	5,610,868,635	100.00%

- **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. It is the policy of the State to diversify its investment portfolios. Assets shall be diversified to reduce the risk of loss resulting from an over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The following diversification limitations shall be imposed on the portfolio:

1. Investment maturities will be staggered to avoid undue concentration of assets in a specific maturity sector and to reflect cash flow requirements.

2. Investment in callable instruments is permitted for the State General Fund, but the amount invested in callable instruments should not exceed the range of twenty to twenty-five percent (20% to 25%) of the total amount invested from the State General Fund. Investment in callable investments is prohibited for Tax and Revenue Anticipation Note proceeds (and any other liquidity vehicle), and such pension and permanent fund monies with respect to which the State Treasurer is the investing authority.

3. DEPOSITS AND INVESTMENTS - continued

- **Concentration of Credit Risk – continued**

3. The maximum level of CD deposits for the entire portfolio shall be $350 million with not more than $30 million in any single financial institution. The State Board of Finance urges banks to loan this money out in their respective local communities to spur economic development.

4. Investments in commercial paper, corporate bonds and asset-backed obligations shall not exceed forty percent (40%) of assets of a fund. Commercial paper and corporate bonds shall be limited, per issuer, to five percent (5%) of each portfolio.

5. Investments purchased with Tax Revenue Anticipation Note proceeds will be excluded from State General Fund investments for the purpose of determining investment allocation limits.

6. Investment in US Agency securities issued by any single agency shall be limited to thirty-five percent (35%) of the combined portfolios and investment in repurchase agreements from any single provider shall be limited to twenty-five percent (25%) of the combined portfolios.

7. Investment in rule 2a-7 compliant money market mutual funds shall be limited to five percent (5%) of that money market mutual fund.

The following lists investments with a single issuer at a percentage of total:

Quality Rating		Fair Value	Percentage of Portfolio
US Government Agency Obligations:			
FHLB	$	719,336,377	12.82%
FHLMC		848,871,826	15.13%
FNMA		732,061,331	13.05%
FFCB		140,787,320	2.51%
Tennessee Valley Authority		5,967,464	0.11%
SLGS		20,687,463	0.36%
US Treasuries		187,386,543	3.34%
Overnight Repurchase Pool		1,025,000,000	18.27%
Corporate Bonds		236,711,386	4.22%

3. DEPOSITS AND INVESTMENTS - continued

- **Concentration of Credit Risk – continued**

Quality Rating		Fair Value	Percentage of Portfolio
Commercial Paper	$	222,084,054	3.96%
Institutional Money Market		1,232,593,000	21.97%
Short-term Government Notes & CDs		238,800,000	4.26%
Cash in Bank		581,871	-
Grand Total	$	5,610,868,635	100.00%

- **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The State Treasurer recognizes that any portfolio of marketable investment securities is subject to interest rate risk. The State Treasurer, in an attempt to limit the possibility of loss due to interest rate fluctuations, will attempt to match investments with anticipated cash requirements. The State Treasurer or designee shall give particular emphasis to the following factors when selecting a specific security for inclusion in the portfolio:

1. Relative Yield to Maturity: Comparison of return available from alternative investment media for comparable maturity dates.

2. Marketability: Analysis of relative marketability of alternate investments in case of forced sale and/or possibility of future trades.

3. Intermarket Yield Analysis: Analysis of the spread relationship between sectors of the market (e.g., Treasury Bonds or Bills versus Agency Bonds or Discount Notes), to take advantage of aberrations in yield differentials.

4. Yield Curve Analysis: Analysis of the slope of the yield curve to determine the most attractive maturities for earning maximum return with minimal risk.

5. General Economic and Interest Rate Outlook: Review and analysis of current literature on interest rate projections to assist in timing transactions and selecting appropriate maturities.

3. DEPOSITS AND INVESTMENTS - continued

- **Interest Rate Risk – continued**

Maturities on investment are as follows:

Quality Rating		Fair Value	Maturities: Less Than 1 Year	Maturities: 1 – 5 Years
AAA:				
U.S. Government Agency Obligations	$	2,655,098,324	1,331,066,808	1,324,031,516
Institutional Money Market		1,232,593,000	1,232,593,000	-
A-1+:				
Commercial Paper		222,084,054	222,084,054	-
AAA:				
Corporate Bonds		41,902,700	31,644,200	10,258,500
AA:				
Corporate Bonds		129,504,168	9,985,500	119,518,668
A:				
Corporate Bonds		65,304,518	-	65,304,518
Not rated and other:				
Overnight Repurchase Pool		1,025,000,000	1,025,000,000	-
Short-term Government Notes & CDs		238,800,000	238,800,000	-
Cash in Bank		581,871	581,871	-
Grand Total	$	5,610,868,635	4,091,755,433	1,519,113,202

- **Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The State Treasurer's investment policy does not have a specific policy on foreign currency risk. However, the listing of permissible investments includes descriptions on the limitations related to each investment type.

All holdings at June 30, 2008, were denominated in United States Dollars.

3. DEPOSITS AND INVESTMENTS - continued

- **Securities Collateral**

The State's Investment Policy states that no such contract shall be invested in unless the contract is fully secured by deliverable obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent (102%) of the amount of the contract. The State's collateral requirements follow:

1. The market value of the collateral including accrued interest must be equal to one hundred two percent (102%) of the amount of cash transferred by the State to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below one hundred two percent (102%) of the value of the cash transferred, then additional cash and/or acceptable securities must be delivered to the third party custodian sufficient to cure any deficiency; and

2. For repurchase agreements with terms to maturity of greater than one (1) day, the State will value the collateral securities continuously and require that, if additional collateral is required, then that collateral must be delivered within one business day. If a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated; and

3. The collateral on all repurchase agreements will have a maturity date that exceeds the term of the repurchase agreement. If the maturity date of the collateral is significantly longer than that of the repurchase agreement, then the collateral rate must be higher than one hundred two percent (102%) to compensate for market risk.

Credit ratings and concentration of risk on collateral securities are as follows:

Quality Rating		Fair Value	Percentage of Portfolio
AAA:			
US Government Agency Obligations	$	1,025,000,000	100.00%
US Treasury Notes		-	-
Grand Total	$	1,025,000,000	100.00%

3. DEPOSITS AND INVESTMENTS - continued

- **Securities Collateral - continued**

Maturities on collateral are as follows:

Quality Rating	Fair Value	Maturities 1-5 Years	1-10 Years	11-20 Years
AAA:				
US Government Mortgage Backed Securities	$ 1,025,000,000	-	-	1,025,000,000
US Treasury Notes	-	-	-	-
Grand Total	$ 1,025,000,000	-	-	1,025,000,000

Schedule 10 discloses collateral pledged for repurchase agreements.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions	Adjustments/ Deletions	Balance June 30, 2008
Governmental activities:				
Non-depreciable assets:				
Construction in Progress (CIP)	$ -	112,490	-	112,490
Depreciable assets:				
Equipment	$ 277,210	-	18,919	258,291
Total capital assets:	$ 277,210	112,490	18,919	370,781
Less accumulated depreciation:				
Equipment	$ 212,878	24,853	15,156	222,575
Total	$ 64,332	87,637	3,763	148,206

Depreciation expense was charged to functions/programs of the State Treasurer's Office as follows:

Governmental activities:	
General government	$ 24,853

5. LONG-TERM OBLIGATIONS

- **Compensated Absences**

As in prior years, the general fund is used to liquidate compensated absences. Following are the changes in compensated absences for the year ended June 30, 2008:

		Balance June 30, 2007	Increase	(Decrease)	Balance June 30, 2008	Amounts Due Within One Year
Compensated absences:	$	128,967	149,869	134,198	144,638	144,638

6. CONDENSED FINANCIAL STATEMENTS

Condensed financial statements of the Investment Trust Fund, inclusive of external and internal participants for the fiscal year ended June 30, 2008, are as follows:

ASSETS:		
Investments	$	5,504,719,834
Interest receivable		56,205,445
TOTAL ASSETS	$	5,560,925,279
LIABILITY:		
Other liabilities	$	-
NET ASSETS:		
External Participant account balances		1,674,193,957
Other Internal Participant account balances:		
Primary government		3,857,366,018
Undistributed reserves and unrealized gains (losses)		29,365,304
TOTAL LIABILITIES AND NET ASSETS	$	5,560,925,279

INVESTMENT INCOME

At June 30, 2008, the State Treasurer's investment income earnings were as follows:

Local Governmental Investment Pool	$	50,892,896
Consolidated Investment Pool		54,493,062
State Funds Investment Pool		106,957,615
Unrealized loss		-
	$	212,343,573

7. APPROPRIATIONS

The State Treasurer received the following appropriations for the year ended June 30, 2008:

General Fund		
General appropriation, (General Appropriation Act)	$	4,262,400
Special appropriation		123,400
Total appropriations	$	4,385,800

The State Treasurer's Office received a special appropriation, Law 2007, Chapter 3, Section F, to fund compensation for fiscal year 2008.

8. COLLATERAL IN TRUST

The State Treasurer holds a variety of different types of collateral, government guaranteed loans and mortgages, certificates of deposit, surety bonds, etc., for certain State agencies, which are not included in the financial statements.

9. DUE TO SEVERANCE TAX PERMANENT FUND AND REVERSIONS

The State Treasurer is required by statute (Section 7-27-8 NMSA 1978, 1986 Repl.) to transfer to the Severance Tax Permanent Fund, all monies in the Severance Tax Bonding Fund, except the amount necessary to meet principal and interest payments on bonds payable of the next two ensuing semi-annual payment dates. No balance remained in the Severance Tax Bonding Fund that was due and payable to the Severance Tax Permanent Fund for the fiscal year ended June 30, 2008.

10. ARBITRAGE ON TAX EXEMPT BONDS

Prior to the Tax Reform Act (TRA) of 1986, State and local governments had up to three years to use the proceeds from tax exempt bonds issued by them before arbitrage on such proceeds had to be paid to the Treasury Department. Arbitrage, as defined, is the excess interest earned by a State or local government on proceeds from the sale of its bonds over interest paid to bond holders.

TRA 1986 required rebate of such arbitrage to the Treasury Department on governmental bonds issued after August 31, 1986, and on private activity bonds issued after December 31, 1984, when the proceeds were held for six months or longer. These rebates must be calculated annually and paid at the end of every fifth year until the bonds are retired.

10. ARBITRAGE ON TAX EXEMPT BONDS - continued

The Revenue Reconciliation Act of 1989 amended the six-month rule. For bonds issued after December 19, 1989, the rebate requirement does not apply if: 1) all of the gross proceeds of the issue, other than the reserve fund, are spent within the six-month period following the date of issue, and 2) the rebate requirement is satisfied for the reserve fund after the six month period. The term gross proceeds for purposes of the rule include both the sale proceeds received from the bond purchase on the issue date and investment earnings on such proceeds during the six-month period. Gross proceeds deposited in a reserve fund or bona fide debt service fund, however, are not subject to the expenditure requirement.

The following is a schedule of bond issues, along with the bond year ends and arbitrage rebate due dates. The State Treasurer's Office has had the first arbitrage computation for the bonds, completed as indicated:

	First Computation Date	First Payment Due to IRS	First Computation of Arbitrage Completed
General Obligation Capital Projects Bonds Series 1999	9/1/2004	10/1/2004	X
General Obligation Bonds Series 2001	3/21/2006	5/20/2006	X
General Obligation Bonds Refunding Series 2001A	9/1/2004	10/31/2004	X
General Obligation Bonds Refunding Series 2001B	9/1/2006	10/31/2006	X
General Obligation Bonds Series 2003	3/18/2008	5/17/2008	X
General Obligation Bonds Refunding Series 2003B	4/16/2008	6/15/2008	X
General Obligation Bonds Series 2005	3/1/2010	4/30/2010	
Severance Tax Bonds Series 1993B	7/1/1998	8/31/1998	X
Severance Tax Bonds Series 1994B	7/1/1999	8/31/1999	X
Severance Tax Bonds Series 1995A	7/1/2000	8/31/2000	X
Severance Tax Bonds Series 1995B	7/1/2000	8/31/2000	X
Severance Tax Bonds Series 1996A	12/20/2001	2/20/2002	X
Severance Tax Refunding Bonds Series 1997A	7/1/2001	8/31/2002	X
Severance Tax Refunding Bonds Series 1998A	7/1/2003	8/31/2003	X
Severance Tax Bonds Series 1999B	7/1/2004	8/31/2004	X
Severance Tax Bonds Series 1999A Supplemental	11/17/2004	1/17/2005	X
Severance Tax Bonds Series 2000	7/1/2005	8/31/2005	X
Severance Tax Bonds 2000C Supplemental	11/16/2005	1/16/2006	X

10. ARBITRAGE ON TAX EXEMPT BONDS - continued

	Bond Year-End of First Rebate Computation	First Arbitrage Rebate Due Date	First Computation of Arbitrage Completed
Severance Tax Bonds Refunding Series 2001A	12/20/2006	2/20/2007	X
Severance Tax Bonds Series 2002A Supplemental	1/16/2007	3/16/2007	X
Severance Tax Bonds Series 2002A	6/19/2007	8/18/2007	X
Severance Tax Bonds Series 2002B Supplemental	11/14/2007	1/13/2008	X
Severance Tax Bonds Series 2003A	6/27/2008	8/26/2008	X
Severance Tax Bonds Series 2003B Supplemental	10/14/2008	12/13/2008	X
Severance Tax Bonds Series 2004A	6/15/2009	8/14/2009	
Severance Tax Bonds Series 2004B Supplemental	11/17/2009	1/16/2010	
Severance Tax Bonds Series 2005A	6/15/2010	8/14/2010	
Severance Tax Bonds Series 2005B-1 Refunding	6/28/2010	8/27/2010	
Severance Tax Bonds Series 2005B-2 Supplemental	6/28/2010	8/27/2010	
Severance Tax Bonds Series 2006A	6/20/2011	8/16/2011	
Enhanced 911 Revenue Bonds Series 2000	9/12/2005	11/11/2005	X

Interest earnings on invested bond proceeds through June 30, 2008 did not exceed the interest costs of the bonds. Such amounts would have been included as a reservation of fund balance in the accompanying financial statements. Amounts due the Internal Revenue Service which are known and measurable are recorded as a liability - accrued arbitrage interest payable in the accompanying financial statements.

11. TRANSFERS

Interfund Transfers

Interfund transfers are completed to move revenue from Fund 410, Severance Tax Bonding Fund, to the specific Debt Service funds per bond resolutions.

Debt Service:
Severance Tax Bonds:

11. TRANSFERS - continued

SHARE Fund	Transfer From		Amount	SHARE Fund	Transfer To		Amount
41000	Severance Tax Bonding Fund	$	93,710,000	96300	STB – 2006A Debt Service	$	9,900,000
				57100	STB – 2005B2 Debt Service		535,000
				49200	STB – 2004A Debt Service		8,000,000
				18300	STB – 2004B Debt Service		1,130,000
				38800	STB – 2005B1 Debt Service		7,580,000
				41200	STB – 2005A Debt Service		7,970,000
				09500	STB – 2002 Supplemental Debt Service		6,740,000
				39000	STB – 2002B Supplemental Debt Service		5,400,000
				88400	STB – 2003A Debt Service		8,365,000
				48400	STB – 2003B Debt Service		1,090,000
				53700	STB – 2007A Debt Service		37,000,000
	Total	$	93,710,000		Total	$	93,710,000

General Obligation Bonds:

SHARE Fund	Transfer From		Amount	SHARE Fund	Transfer To		Amount
41800	GO 2003B Refunding	$	4,500,000	03100	GO 2003 Debt Service	$	4,466,320
				03200	GO 2005 Debt Service		33,680
	Total	$	4,500,000		Total	$	4,500,000

12. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

- **Plan Description**

Substantially all of the State Treasurer's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required

12. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION - continued

- **Plan Description - continued**

supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

- **Funding Policy**

Plan members are required to contribute 7.42% (ranges from 4.78% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The State Treasurer's Office is required to contribute 16.59% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the (name of employer) are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The State Treasurer's contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were $370,067, $324,931, and $292,265, respectively, which equal the amount of the required contributions for each fiscal year.

13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

- **Plan Description**

The State Treasurer's Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN - continued

- **Funding Policy**

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The State Treasurer 's contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were $29,002, $24,981 and $22,297, respectively, which equal the required contributions for each year.

14. RISK MANAGEMENT

The State Treasurer is exposed to various risks of loss for which the State Treasurer carries insurance (auto; employee fidelity bond; general liability; civil rights and foreign jurisdiction; money and securities; property; and workers' compensation) with the State of New Mexico Risk Management Division. Public employee fidelity bonding coverage is self-insured by the State of New Mexico. The current policy year is July 1, 2007 to June 30, 2008. The limit of coverage is $5,000,000, with $1,000 deductible per occurrence. All State Treasurer employees are covered by this bond.

15. REVERSION TO THE STATE GENERAL FUND

Under State Statute 6-5-10 NMSA, 1978, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30 to the general fund. The division may adjust the reversion within forty-five days of release of the audit report for that fiscal year.

The amount expected to revert to the State General Fund as of June 30, 2008, is $157,022.

Amounts reverted to the State General Fund during 2008 were as follows:

		Appropriation	Reversion
Reversion to State General Fund fiscal year 2008	$	4,385,800	40,436
Reversion to State General Fund fiscal year 2007		4,202,300	25,183
Reversion to State General Fund fiscal year 2006		3,847,900	91,403
Subtotal - Reversion to State General Fund	$	12,436,000	157,022
Gaming Suspense Fund			85,318
Total due to State General Fund	$		242,340

16. SHORT-TERM DEBT

- **Taxation and Revenue Anticipation Notes**

The State Board of Finance issues six month, fixed-rate tax and revenue anticipation notes to provide short-term cash to carry on the State of New Mexico operations until tax revenues are received in June. Repayment of the notes comes from tax payments received in the year.

Short-term debt activity for the year ended June 30, 2008, was as follows:

		Balance July 1, 2007	Issued	Redeemed	Issuance Cost	Balance June 30, 2008
Tax and Revenue Anticipation Notes	$	-	775,187,500	-	-	775,187,500

16. SHORT-TERM DEBT - continued

- **Sponge Bonds**

The State Board of Finance issues one to three day sponge bonds. Sponge bonds were purchased on the dates specified below. Bond proceeds are recorded by the State Board of Finance. Principal and interest payments were made from the Severance Tax Bonding Fund (SHARE Fund 41000) are as follows:

	Purchased	Matured	Principal Payments	Interest Payments	Total
Sponge Bond - Senior Note	12/27/08	12/28/08	$ 61,031,298	7,459	61,038,757
Sponge Bond - Supplemental Note	12/27/08	12/28/08	95,750,000	11,703	95,761,703
Sponge Bond - Senior Note	06/26/08	06/27/08	74,828,736	5,638	74,834,374
Sponge Bond - Sweep Note	06/27/08	06/30/08	15,000,000	3,390	15,003,390
Sponge Bond - Supplemental Note	06/27/08	06/30/08	127,008,989	28,708	127,037,697
Total			$ 373,619,023	56,898	373,675,921

Short-term debt activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Issued	Redeemed	Issuance Costs	Balance June 30, 2008
Sponge Bonds	$ -	373,675,921	373,675,921	-	-

17. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were recorded as of June 30, 2008:

SHARE Fund			Amount	Purpose
18200	General	$	(91,403)	The amount recorded as due to the State General Fund was understated due to an error in calculating the amount to be reverted for fiscal year ended June 30, 2006. This entry decreased the fund balance by $91,403.
41000	Severance Tax Bond Fund 1999A Series – Supplemental		757,928	To correct severance tax and interest income accrued in error for fiscal year ended June 30, 2008. These entries increased fund balance by $757,928.
49200	Taxation & Revenue Anticipation Notes		(653,191)	A duplicate cash receipt was erroneously recorded to this fund for the fiscal year ended June 30, 2007. This entry decreased the fund balance by $653,191.
	Total	$	13,334	

18. BOND ISSUANCE ACTIVITY

During fiscal year 2008, there were three new bond issues as noted below;

- $ 71,270,000 Capital Projects General Obligation Bond Series Refunding 2008A-1
- $ 149,000,000 Severance Tax Bond Series 2008A-1
- $ 20,550,000 Severance Tax Bond Series Refunding 2008A-2

Total activity related to the bonds were approximately as follows; costs $933,154, premiums $9,119,291, and total transfers to other State agencies of $149,000,000.

19. SUBSEQUENT EVENT DISCLOSURE

The economy subsequent to year-end is experiencing the negative effects of the subprime credit crisis, as an estimated $4 to $6 trillion of the nation's housing equity evaporated over the last year. Rising food costs, stagnant wages, higher unemployment, and declining oil and gas prices have negatively impacted the financial markets. The State Treasurer's Office foresees interest rates in the near term remaining level or decreasing due this overall weakness in the economy. From June 30 to November 30, 2008, the State Treasurer's Office investment portfolios have declined by fifteen percent (15%). This is due primarily to declining fund balances resulting from the $400 million revenue shortfall projected for New Mexico's 2009 fiscal year and an 18% decline in LGIP participation. All State Treasurer's Office portfolios reflected unrealized gains at November 30, 2008.

APPENDIX C

FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER

July 30, 2009

State Board of Finance State of New Mexico Bataan Memorial Bldg., Ste. 181 Santa Fe, NM 87501	Sutin, Thayer & Browne A Professional Corporation P.O. Box 1945 Albuquerque, NM 87103	Brownstein Hyatt Farber Schreck, LLP 201 Third St. NW, Ste. 1700 Albuquerque, NM 87102

Re: $218,450,000 State of New Mexico Severance Tax Bonds, Series 2009A

Ladies and Gentlemen:

This letter will serve as our certificate of litigation affecting New Mexico Severance Taxes.

In 2001, the New Mexico Taxation and Revenue Department ("TRD") began assessing a number of taxpayers for additional taxes based upon the taxpayers' under-valuation of carbon dioxide and natural gas. A number of taxpayers have paid assessments under these programs, filed for refunds, and initiated litigation against TRD. Upon the New Mexico Supreme Court's denial of a petition for certiorari filed by the taxpayer in a carbon dioxide case that was reopened by the district court in July, 2006, which petition challenged a ruling in favor of TRD by the New Mexico Court of Appeals in October, 2008, that case has been closed. In two other carbon dioxide cases, in which the district partially granted the taxpayers' refund claims, the taxpayers appealed to the New Mexico Court of Appeals. One taxpayer has settled with the TRD; an appeal is still pending in the second case. The taxpayer's payment of an assessment is in suspense, as described below. Finally, a declaratory action seeking prospective relief only was filed in federal district court in the fall of 2007 challenging the collection of severance taxes on oil and natural gas production by non-tribal members under a unique set of facts involving an unpopulated area of the Ute Mountain Ute reservation in northwestern New Mexico. Following the grant of a partial motion to dismiss in favor of TRD on a non-tax claim in February, 2008, and the denial of both parties' motions for summary judgment, the case has been tried to the district court; the court's decision is pending.

Finally, at any given time, a number of protests/refund claims are pending at the administrative level.

As of June 15, 2001, payments on severance tax assessments issued by TRD, including any on undervaluation assessments made after that date, typically are held in a suspense fund until the TRD Secretary determines that there is no substantial risk of protest or other litigation. See NMSA 1978, § 7-1-6.20(B) (2001).

While we are unable to predict with reasonable certainty the outcome of pending litigation and administrative proceedings, they would not, in our opinion, reasonably be expected to have a material effect on the bondholders.

This office is not aware of any other pending or threatened litigation that would affect the severance tax of the state or the authority of the state to issue these severance tax bonds.

Sincerely,

Assistant Attorney General

APPENDIX D

FORM OF OPINION OF BOND COUNSEL
STATE OF NEW MEXICO SEVERANCE TAX BONDS, SERIES 2009A

July 30, 2009

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

RE: $218,450,000 State of New Mexico Severance Tax Bonds, Series 2009A

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance of $218,450,000 State of New Mexico Severance Tax Bonds, Series 2009A (the "Bonds"), dated the date of delivery, and being a series of bonds in registered form maturing on July 1, 2010, and serially thereafter on July 1 of each year through 2019.

We have also examined the provisions of the Constitution and laws of the State of New Mexico (the "State") under authority of which the Bonds were issued, the resolutions authorizing the issuance and sale of the Bonds (the "Bond Legislation") adopted by the State Board of Finance (the "Board") on May 19, 2009, and June 23, 2009, an executed Bond of the first maturity, and the Tax Certificate of the State (the "Tax Certificate"). We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion.

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

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

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

1. The Bonds constitute valid and binding special obligations of the State in accordance with the terms and provisions thereof.

2. The Bonds are payable solely from, and such payment is secured by a pledge (but not an exclusive pledge) of, the money on deposit in the Severance Tax Bonding Fund (defined in the Bond Legislation), consisting of the net receipts from taxes levied upon certain natural resource products severed and saved from the soil of the State and such other moneys as the State Legislature may, in its sole discretion, from time to time determine to deposit in the Severance Tax Bonding Fund, certain interest earnings on moneys on deposit in the bond accounts and such proceeds of the Bonds as may from time to time be deposited in the Severance Tax Bonding Fund as a result of statutorily required reversions or otherwise. Under the Bond Legislation, the Board may also issue additional obligations on a parity with the Bonds on the terms and conditions of the Bond Legislation. The owners of the Bonds have no right to have ad valorem taxes levied by the State for the payment of principal of or interest on the Bonds and the Bonds do not represent or constitute a debt or pledge of, or a charge against, the general credit of the State.

3. The Bond Legislation is valid and binding on the Board, is enforceable in accordance with its terms and creates the pledge which it purports to create.

4. The interest on the Bonds is excludable 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 an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and 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.

5. The interest on the Bonds is exempt from income taxes imposed directly thereon by the State.

Very truly yours,

SUTIN, THAYER & BROWNE
A Professional Corporation

APPENDIX E

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 ("Board") of the State of New Mexico (the "State") on behalf of the State in connection with the issuance by the State of $218,450,000 State of New Mexico Severance Tax Bonds, Series 2009A (the "Series 2009A Bonds"). The Bonds are being issued pursuant to Bond Resolutions adopted by the Board on May 19, 2009, and June 23, 2009 (the "Resolutions").

BACKGROUND

1. The Bonds are being issued to finance capital projects approved by the State Legislature and to refund certain maturities of the State's outstanding severance tax bonds.

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

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

STATE COVENANTS AND AGREEMENTS

Section 1. Definitions.

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

(b) "Audited Financial Statements" means the annual financial statements for the State, prepared in accordance with generally accepted accounting principles, as in effect from time to time, audited by a firm of certified public accountants.

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

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

(e) "National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following is the only National Repository:

Electronic Municipal Market Access ("EMMA")
c/o Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314
www.emma.msrb.org
(703)797-6600

(f) "Official Statement" means the Official Statement dated June 23, 2009, delivered in connection with the original issue and sale of the Bonds.

(g) "Repository" means "EMMA" and 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. <u>Provision of Annual Information and Reporting of Event Information</u>.

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

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

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

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

i. Principal and interest payment delinquencies;

ii. Non-payment related defaults;

iii. Unscheduled draws on debt service reserves reflecting financial difficulties;

iv. Unscheduled draws on credit enhancements reflecting financial difficulties;

v. Substitution of credit or liquidity providers, or their failure to perform;

vi. Adverse tax opinions or events affecting the tax-exempt status of the security;

vii. Modifications to rights of security holders;

viii. Bond calls, other than mandatory sinking fund redemption;

ix. Defeasances;

x. Release, substitution or sale of any property securing repayment of the securities; and

xi. Rating changes.

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

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

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

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

Section 5. **Additional Information.** Nothing in the Disclosure Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other annual information or notice of occurrence of an event which is not Event Information, in addition to that which is required by this Disclosure Undertaking; provided that the State shall not be required to do so. If the State chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Undertaking, the State shall have no obligation under this Disclosure Undertaking to update such information or include it in any future annual filing or Event Information filing.

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

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

Section 8. **<u>Beneficiaries</u>.** 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. **<u>Governing Law</u>.** This Disclosure Undertaking shall be governed by the laws of the State.

Date: ____________________, 2009

STATE BOARD OF FINANCE

By____
President

By____
Secretary

EXHIBIT A

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

1. SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS
   Investments
   Issuance of Severance Tax Bonds
   State Capital Program
   Outstanding and Additional Severance Tax Bonds
   Outstanding and Additional Supplemental Severance Tax Bonds
   - Table entitled "Severance Tax Bonding Fund Receipts, Disbursements and Transfers"
   - Table entitled "State of New Mexico Severance Tax Bonds - Projected Receipts, Debt Service Requirements and Coverage"
     Fiscal Year and Scheduled Debt Service columns

2. SEVERANCE TAX REVENUE
   All

3. NATURAL GAS PRODUCTION AND SEVERANCE TAX REVENUE
   Natural Gas Production
   - Data for chart entitled: "Natural Gas Subject to Taxation: Production, Revenues and Average Price"

   Severance Taxes on Natural Gas
   - All

4. OIL PRODUCTION AND SEVERANCE TAX REVENUE
   Oil Production
   - Data for chart entitled: "Oil Subject to Taxation: Production, Revenues and Average Price"

   Severance Taxes on Oil
   - All

5. COAL PRODUCTION AND SEVERANCE TAX REVENUE
   Severance Taxes on Coal
   - Data for chart entitled: "Coal Production, Pricing and Tax Rates"

   Projections of Severance Tax Revenue from Coal
   - All

6. OTHER MINERAL PRODUCTION AND SEVERANCE TAXES
   Any statements therein relating to the severance tax collected and tax rates

7. TAXATION OF ENERGY MINERALS NOT PLEDGED
   All

8. APPENDIX A - GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO
   All

9. STATE OF NEW MEXICO FINANCIAL STATEMENTS (Audited)