

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on \$137,220,000 Capital Projects General Obligation Bonds, Series 2013 (the "Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision, a prospective investor should read the entire Official Statement. Certain capitalized terms used on the cover page and elsewhere in this Official Statement have the meanings given in the Official Statement.

\$137,220,000
THE STATE OF NEW MEXICO
CAPITAL PROJECTS GENERAL OBLIGATION BONDS
SERIES 2013

Dated: Delivery Date

Due: March 1, as shown below

<i>Ratings</i>	"Aaa" Moody's Investors Service, Inc. "AA+" Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.
<i>Tax Exemption</i>	In the opinion of Brownstein Hyatt Farber Schreck LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes as described herein. See "TAX MATTERS."
<i>Optional Redemption</i>	The Bonds maturing on or after March 1, 2018 are subject to optional redemption prior to maturity by the State in whole or in part on any date after March 1, 2017 at par plus accrued interest.
<i>Security</i>	The Bonds are being issued under the authority of the 2012 Capital Projects General Obligation Bond Act, Chapter 54, Laws 2012, (the "Act"). The Act authorizes and directs State tax officials to levy on all property in the State that is subject to taxation an <i>ad valorem</i> tax sufficient to produce an amount equal to the interest and principal requirements for each year for any general obligation bonds outstanding. The Bonds are general obligations of the State of New Mexico (the "State"), and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.
<i>Purpose</i>	The Bonds are being issued to provide funds for construction, acquisition or improvement of senior citizen centers and facilities, library acquisitions, and higher education and special schools improvements and acquisitions as set forth in the Act and approved by the voters of the State on November 6, 2012.
<i>Interest Payment Dates</i>	March 1 and September 1, commencing September 1, 2013.
<i>Closing/Settlement</i>	On or about April 23, 2013.
<i>Denominations</i>	\$5,000
<i>Book-Entry System</i>	The Depository Trust Company
<i>Registrar/Paying Agent</i>	State Treasurer of New Mexico
<i>Bond Counsel</i>	Brownstein Hyatt Farber Schreck, LLP
<i>Disclosure Counsel</i>	Brownstein Hyatt Farber Schreck, LLP
<i>Issuer Contact</i>	State Board of Finance: Stephanie Schardin Clarke, Director, (505) 827-3930; stephanie.schardin@state.nm.us

Dated: March 19, 2013

Year (March 1)	Principal Amount	Interest Rate	Yield at Issuance¹	Price at Issuance¹	CUSIP²
2014	\$12,895,000	2.00%	0.20%	101.537%	647293PJ2
2015	12,740,000	2.00%	0.35%	103.048%	647293PK9
2016	12,995,000	2.00%	0.54%	104.131%	647293PL7
2017	13,255,000	2.00%	0.74%	104.780%	647293PM5
2018	13,520,000	2.00%	1.05%	103.579%*	647293PN3
2019	13,795,000	2.00%	1.40%	102.243%*	647293PP8
2020	14,070,000	2.00%	1.75%	100.927%*	647293PQ6
2021	14,350,000	2.00%	2.00%	100.000%	647293PR4
2022	14,635,000	2.25%	2.20%	100.182%*	647293PS2
2023	14,965,000	2.40%	2.40%	100.000%	647293PT0

¹ This information not provided by the State.

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

* Priced to the first call date of March 1, 2017.

ELECTED STATE OFFICIALS

SUSANA MARTINEZ
Governor

DIANNA J. DURAN
Secretary of State

JOHN A. SANCHEZ
Lieutenant Governor

JAMES B. LEWIS
State Treasurer

HECTOR H. BALDERAS
State Auditor

GARY K. KING
Attorney General

RAY POWELL
Commissioner of Public Lands

Public Regulation Commissioners:

KAREN L. MONTOYA
District I

PATRICK H. LYONS
District II

VALERIE ESPINOZA
District III

THERESA BECENTI-AGUILAR
District IV

BEN L. HALL
District V

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JOHN A. SANCHEZ
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ADELMO ARCHULETA
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JOHN KORMANIK
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THOMAS E. CLIFFORD, PhD
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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 *ad valorem* taxes since the date hereof.

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

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

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SUMMARY OF INFORMATION

CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2013

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

<i>Dated:</i>	Delivery Date.
<i>Interest Payment:</i>	Interest is payable semi-annually on September 1 and March 1, commencing on September 1, 2013.
<i>Principal Payment:</i>	The Bonds mature in serial installments as set forth on the inside cover page of this Official Statement.
<i>Optional Redemption:</i>	The Bonds maturing on or after March 1, 2018 are subject to optional redemption prior to maturity by the State in whole or in part on any date after March 1, 2017 at par plus accrued interest.
<i>Registration:</i>	The Bonds are being issued solely in book-entry form in the denomination of \$5,000 or any integral multiple thereof. The Bonds are being registered to Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository.
<i>Legal Opinion:</i>	The Bonds are offered when, as and if issued, subject to the approval of legality by Brownstein Hyatt Farber Schreck LLP, Bond Counsel.
<i>Security:</i>	The Bonds are being issued under the authority of the 2012 Capital Projects General Obligation Bond Act, Chapter 54, Laws 2012. The Act authorizes and directs State tax officials to levy on all property in the State that is subject to taxation an <i>ad valorem</i> tax sufficient to produce an amount equal to the interest and principal requirements for each year for any general obligation bonds outstanding. The Bonds are general obligations of the State of New Mexico, and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.
<i>Limitation to the Issuance of Additional General Obligation Indebtedness:</i>	Section 8 of Article IX of the New Mexico State Constitution provides (in part) that no debt may be created if the total indebtedness of the State would thereby be made to exceed 1 percent of the assessed valuation of all the property subject to taxation in the State. Additional general obligation bonds for other than refunding purposes and levy of additional <i>ad valorem</i> taxes for payment thereof are subject to approval of the voters.

STATE GENERAL OBLIGATION BONDS

General obligation bonds outstanding as of the closing of the Bonds	\$235,480,000
Plus: Series 2013 Bonds	<u>137,220,000</u>
Total State General Obligation Bonds, following the closing of the Bonds	<u>\$372,700,000</u>

KEY BONDING MEASURES FOLLOWING THE ISSUANCE OF THE BONDS

Total General Obligation Bonds per capita (2010 population from Census Bureau)	\$180.99
Ratio of General Obligation Bonds to 2012 Net Taxable Value	0.684%
Ratio of General Obligation Bonds per capita to State 2010 per capita personal income	0.524%
Percent of General Obligation Bonds due within 10 years	100.0%

OFFICIAL STATEMENT

\$137,220,000

THE STATE OF NEW MEXICO CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2013

INTRODUCTION

The purpose of this portion of this Official Statement, including the cover page, the Summary of Information, and the Appendices hereto, is to furnish information regarding the issuance of the State of New Mexico Capital Projects General Obligation Bonds, Series 2013 in the principal amount of \$137,220,000, the State of New Mexico, and the State Board of Finance (the “Board”).

The Bonds are general obligations of the State for the payment of which the full faith and credit of the State is pledged. The Bonds are payable from *ad valorem* taxes levied without limit as to rate or amount on all property in the State subject to taxation for State purposes. The Bonds are authorized in the maximum principal amount of \$137,220,000 by the 2012 Capital Projects General Obligation Bond Act, Chapter 54, Laws 2012, passed by the State Legislature and approved in part by the voters in a statewide election on November 6, 2012. See “THE BONDS,” below. The Bonds are being issued to provide funds for capital expenditures for construction, acquisition or improvement of senior citizen centers and facilities, library acquisitions, and higher education and special schools improvements and acquisitions, as specified in the Act.

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

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IMPACT OF RECENT LEGISLATION ON THE STATE’S CURRENT FINANCIAL CONDITION

During the State’s 2013 legislative session, which closed on March 16, 2013, legislation relating to the budgets for Fiscal Years 2013 and 2014 was adopted. For a specific discussion regarding such legislation and its impact on the State’s financial condition, see “FINANCIAL OVERVIEW OF THE STATE—Review of Results and Projections in the General Fund—Fiscal Year 2013” and “—Fiscal Year 2014.” Legislation relating to the State’s pension and other retirement funds was also adopted. For a specific discussion regarding the State’s pension and retirement programs and related legislation, see “FINANCIAL OVERVIEW OF THE STATE—Pension and Other Retirement Funds and Benefits.”

THE BONDS

General Terms

The Bonds are dated as of their delivery date, bear interest until the principal amount thereof is paid, and mature as set forth on the inside cover page hereof. Interest on the Bonds is payable on September 1 and March 1, commencing on September 1, 2013. The Bonds are general obligations of the State for the payment of which the full faith and credit of the State is pledged under the authorizing Act. The Bonds are payable from *ad valorem* taxes levied on all property of the State subject to taxation for State purposes.

The Bonds are being issued solely in book-entry form in denominations of \$5,000 or an integral multiple thereof. The Bonds are being registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository for the Bonds. The Bonds are subject to transfer and exchange as set forth in the bond resolution authorizing the issuance, sale and delivery of the Bonds expected to be adopted by the Board on January 16, 2013 (the “Resolution”).

Optional Redemption of Bonds

The Bonds maturing on or after March 1, 2018 will be subject to optional redemption, at the option of the Board, in whole or in part on any date on or after March 1, 2017, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest on the principal amount redeemed to the date of redemption.

If less than all of the outstanding Bonds of a particular maturity are to be redeemed, the selection of Bonds or portions of Bonds to be redeemed, in amounts of \$5,000 or any integral multiple thereof, shall be made by lot within that maturity by the State Treasurer, as Registrar/Paying Agent, in such manner as the Registrar/Paying Agent may determine. If less than the full amount of any Bond is to be redeemed, then, upon surrender of such Bond by the owner to the Registrar/Paying Agent for payment of the redemption price, the Registrar/Paying Agent shall deliver to such owner, without charge, a new Bond or Bonds of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of, and with the same interest rate and maturity date as, the Bond surrendered.

The Board shall give the Registrar/Paying Agent notice that Bonds will be called for redemption not less than 30 nor more than 45 days prior to the redemption date. The Board will give, or cause to be given, notice of redemption to the owners of Bonds to be called for redemption by sending a copy of such notice by registered or certified first-class postage prepaid mail not less than 30 nor more than 45 days prior to the redemption date to the registered owner of each Bond, or portion of a Bond, to be redeemed at the address shown as of the fifth day prior to the mailing of notice on the registration books kept by Registrar/Paying Agent. So long as a book-entry system is used for determining beneficial ownership of the Bonds, such notice of redemption will be given to DTC, or its nominee, as registered owner of the Bonds. Such notice shall be sent to DTC by a secure means as set forth in the letter of representation from the Board and the Registrar/Paying Agent to DTC or as otherwise agreed to with DTC from time to time (the “Letter of Representation”) in a timely manner designed to assure that such notice is in DTC’s possession at the time set forth in the Letter of Representation.

In addition, if the Bonds are not being held by DTC, notice of redemption shall be published at least once, not less than 30 days nor more than 60 days prior to the date of redemption, in a newspaper published and of general circulation in the State. Neither the Board’s failure to give such notice to the Registrar/Paying Agent, nor the failure to publish such notice, nor the Board’s failure to give such notice to the registered owner of any Bond, or any defect in such notice, shall affect the validity of the proceedings for the redemption of any Series Bonds for which proper notice was given by mail as set

forth in this paragraph. All notices shall specify the maturity dates and the numbers of the Bonds to be redeemed (if less than all are to be redeemed) the amount of such Bond to be redeemed (if less than the full amount of any Bond is to be redeemed), the date fixed for redemption, the redemption price to be paid and shall further state that on such redemption date there will become and be due and payable upon each Bond to be redeemed at the office of the Registrar/Paying Agent the unpaid principal amount of such Bond, or the portion of such Bond so redeemed, plus accrued interest on such principal amount to the redemption date and that from and after such date interest will cease to accrue on such principal amount. The notice of redemption shall also include additional provisions required by the Letter of Representation. Notice having been given in the manner provided, the Bond or Bonds called for redemption shall become due and payable on the redemption date designated and if an amount of money sufficient to redeem all Bonds or portions of Bonds called for redemption is on deposit with the Registrar/Paying Agent on the redemption date, the Bonds or portions of Bonds to be redeemed shall no longer be deemed to be outstanding and shall cease to bear interest from and after such redemption date. Upon presentation of any Bond redeemed at the office of the Registrar/Paying Agent, the redemption price of such Bond or Bonds shall be paid as set forth in the Bond Resolution.

Authorization and Purpose

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

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

Security and Sources of Payment

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

The Act requires the State to impose, during each year in which the Bonds are outstanding, an *ad valorem* tax on all property in the State subject to taxation for State purposes sufficient to pay the principal of and interest on the Bonds as they become due. The *ad valorem* taxes are required to be imposed, levied, assessed and collected. The State Treasurer is required to keep separate accounts of all amounts collected from taxes imposed pursuant to the Act and to use that money only for the purposes of paying the principal of and interest on the Bonds as they become due, and expenses relating thereto.

Currently the property taxes levied for State purposes are for the outstanding General Obligation Bonds, Series 2005, Series 2007, Refunding Series 2008A, Series 2009, and Series 2011 (collectively, the "Outstanding Bonds"). Property taxes are also levied for local government purposes including locally-authorized general obligation bonds of various cities, counties, and school and special districts in the State.

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

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

OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS

Outstanding General Obligation Bonds

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

TABLE 1
General Obligation Bonds Outstanding as of the Closing of the Bonds

<u>Series</u>	<u>Principal Outstanding</u>
Series 2005	\$ 26,960,000
Series 2007	61,935,000
Series 2009	131,365,000
<u>Series 2011</u>	<u>15,220,000</u>
Total	\$ 235,480,000

TABLE 2
Debt Service Requirements on Outstanding GO Bonds as of the Closing of the Bonds

<u>Date</u>	<u>Principal</u>	<u>Interest⁽¹⁾</u>	<u>Fiscal Year Debt Service</u>
09/01/13		\$ 5,784,675	
03/01/14	\$ 48,535,000	5,784,675	\$ 60,104,350
09/01/14		4,596,650	
03/01/15	50,895,000	4,596,650	60,088,300
09/01/15		3,332,900	
03/01/16	38,920,000	3,332,900	45,585,800
09/01/16		2,368,850	
03/01/17	40,855,000	2,368,850	45,592,700
09/01/17		1,366,125	
03/01/18	25,395,000	1,366,125	28,127,250
09/01/18		740,850	
03/01/19	26,645,000	740,850	28,126,700
09/01/19		84,700	
03/01/20	2,075,000	84,700	2,244,400
09/01/20		43,200	
03/01/21	<u>2,160,000</u>	<u>43,200</u>	<u>2,246,400</u>
Total⁽²⁾	<u>\$235,480,000</u>	<u>\$36,635,900</u>	<u>\$272,115,900</u>

⁽¹⁾ Estimated.

⁽²⁾ Totals may not add due to rounding.

TABLE 3
Future General Obligation Bond Debt Service Requirements as of the Closing of the Bonds

<u>Date</u>	<u>Principal on Outstanding Bonds</u>	<u>Interest on Outstanding Bonds</u>	<u>Debt Service on Outstanding Bonds</u>	<u>Debt Service on 2013 Bonds*</u>	<u>Total Debt Service by Payment Date</u>	<u>Total Fiscal Year Debt Service</u>
09/01/13		\$ 5,784,675	\$ 5,784,675	\$ 1,010,079	\$ 6,794,754	
03/01/14	\$48,535,000	5,784,675	54,319,675	14,315,424	68,635,099	\$75,429,853
09/01/14		4,596,650	4,596,650	1,291,474	5,888,124	
03/01/15	50,895,000	4,596,650	55,491,650	14,031,474	69,523,124	75,411,248
09/01/15		3,332,900	3,332,900	1,164,074	4,496,974	
03/01/16	38,920,000	3,332,900	42,252,900	14,159,074	56,411,974	60,908,948
09/01/16		2,368,850	2,368,850	1,034,124	3,402,974	
03/01/17	40,855,000	2,368,850	43,223,850	14,289,124	57,512,974	60,915,948
09/01/17		1,366,125	1,366,125	901,574	2,267,699	
03/01/18	25,395,000	1,366,125	26,761,125	14,421,574	41,182,699	43,450,398
09/01/18		740,850	740,850	766,374	1,507,224	
03/01/19	26,645,000	740,850	27,385,850	14,561,374	41,947,224	43,454,448
09/01/19		84,700	84,700	628,424	713,124	
03/01/20	2,075,000	84,700	2,159,700	14,698,424	16,858,124	17,571,248
09/01/20		43,200	43,200	487,724	530,924	
03/01/21	2,160,000	43,200	2,203,200	14,837,724	17,040,924	17,571,848
09/01/21				344,224	344,224	
03/01/22				14,979,224	14,979,224	15,323,448
09/01/22				179,580	179,580	
03/01/23				15,144,580	15,144,580	15,324,160
Total⁽¹⁾	<u>\$235,480,000</u>	<u>\$36,635,900</u>	<u>\$272,115,900</u>	<u>\$ 153,245,643</u>	<u>\$ 425,361,543</u>	<u>\$425,361,543</u>

⁽¹⁾ Totals may not add due to rounding.

Mill Levy Rate

In August of each year, the Local Government Division (the “Division”) of the Department of Finance and Administration (the “DFA”) receives certified net taxable values for all property in the state subject to taxation, which represents one-third of assessed property values. By September 1 of each year, the Board certifies to the Division a State property tax mill levy rate that will generate sufficient property tax revenue to cover the next three debt service payments due for the Bonds and the Outstanding Bonds combined, beginning the following March. A mill levy is the property tax rate expressed as \$1 per \$1,000 of net taxable value. The property tax mill levy rate makes allowance for non-payment of property taxes. Once the property tax mill levy rate is certified by the Board, the State Treasurer, the Secretary of the DFA, the Director of the Division and the Director of the Board sign a memorandum to the Division requesting that the Division adopt that State property tax mill levy rate as the State property tax mill levy rate. The Division then certifies that State property tax mill levy rate to counties and local governments for inclusion in the property tax bills.

Limitations to the Issuance of Additional State General Obligation Bonds

Sections 7 and 8 of Article IX of the Constitution of the State limit the power of State officials to incur general obligation in the following ways:

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

2. Other debt may be contracted by or on behalf of the State only when authorized by law for some specified work or object. Such a law takes effect only after being submitted to the qualified electors of the State and having received a majority of the votes cast thereon at a general election. No debt may be created if the total indebtedness of the State, exclusive of the debts of the territory and several counties thereof assumed by the State, would thereby be made to exceed 1 percent of the assessed valuation of all property subject to taxation in the State, as shown by the last preceding general assessment.
3. The State may also contract debts to suppress insurrection and to provide for the public defense.

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

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

TABLE 4
Calculation of 1 Percent Bonding Limitation and the Bonds

Net Taxable Value	\$ 54,490,961,619
General obligation bond limitation @ 1 percent of net taxable value	\$ 544,909,616
Total general obligation bonds outstanding as of the closing of the Bonds	\$ 235,480,000
Plus: Series 2013 Bonds	\$ 137,220,000
Total general obligation bonds, following closing of the Bonds	\$ 372,700,000
Ratio of total debt to net taxable value	0.684%

Underlying General Obligation Bonds

The following table presents information on the principal amount of local debt outstanding, including the principal amount of county, city, and local public school district debt outstanding as of June 30, 2012. The table does not include debt of special districts or community colleges.

TABLE 5
Certain Underlying General Obligation Debt

Counties	\$ 264,240,000
Cities	\$ 498,297,462
Schools.....	\$1,951,469,000

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

THE PROJECTS

Plan of Financing

The Bonds are being issued to provide funds for capital expenditures for construction, acquisition or improvement of senior citizen centers and facilities, library acquisitions, and higher education and special schools improvements and acquisitions described in the Act, and to pay the expenses incurred in the preparation and sale of the Bonds.

The following table sets forth the sources and uses of funds, excluding accrued interest, with respect to the Bonds and the projects:

Sources:

Par Amount of Bonds	\$ 137,220,000.00
Original Issue Premium (Discount)	2,707,291.05
Total Sources	\$ 139,927,291.05

Uses:

Project Fund Deposits:	
Senior Citizen Projects	\$ 10,271,256.50
Library Projects	9,769,371.21
Higher Education Projects	119,259,872.29
Delivery Date Expenses:	
Underwriter's Discount ⁽¹⁾	274,440.00
Costs of Issuance and Rounding	350,000.00
Other Uses of Funds:	
Additional Proceeds	2,351.05
Total Uses	\$ 139,927,291.05

⁽¹⁾ The underwriter may choose to procure bond insurance, the cost of which would be paid from the underwriter's discount.

State Capital Program

Proceeds from the State's general obligation bonds are an important source of capital financing for the State. Additional State-level sources of funding for capital projects include surplus State general fund balances, severance tax and supplemental severance tax bonds issued by the Board, and state transportation bonds issued by the New Mexico Finance Authority.

The New Mexico Finance Authority (the "Finance Authority") was created by the State legislature in 1992 to assist qualified governmental entities in financing capital equipment and infrastructure projects. The Finance Authority is a state instrumentality governed by a board of directors and is not subject to the direct supervision or control of any other board, bureau, department or agency of the State. In July 2012, the Finance Authority disclosed that what it believed was the audit of its financial statements for the fiscal year ended June 30, 2011 was not completed properly (the "Incomplete Audit"). Upon such discovery, the Finance Authority withdrew the Incomplete Audit. The Finance Authority then initiated an investigation and determined that its former controller had misrepresented the status of the Incomplete Audit and provided financial statements for use by third parties that he falsely represented as "audited." Investigations also were conducted by i) the Office of the State Auditor and PricewaterhouseCoopers, ii) the Securities Division of the New Mexico Regulation and Licensing Department and iii) Hewitt EnnisKnupp. The reports have been completed with findings of no money missing. The United States Securities and Exchange Commission (the "SEC") issued an inquiry to the Finance Authority regarding the Incomplete Audit (the "SEC Inquiry"), to which the Finance Authority timely responded and provided all the requested information. It is unknown whether the SEC will pursue further action. The Finance Authority has retained REDW, LLC to perform the audits for Fiscal Years 2011 and 2012, with anticipated completion dates of January 15, 2013 and March 15, 2013, respectively. The Finance Authority's former controller entered into a plea agreement for forgery and securities fraud. The Finance Authority is implementing recommendations contained in the three recently published reports.

The following table summarizes bond proceeds and other capital authorizations by funding source for Fiscal Year 2008 through the first six months of Fiscal Year 2013.

TABLE 6

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

	2008	2009	2010	2011	2012
Proceeds from General Obligation Bonding Program⁽¹⁾					
General Obligation Bonds	<u>\$0.0</u>	<u>\$223.4</u>	<u>\$0.0</u>	<u>\$19.7</u>	<u>\$0.0</u>
Subtotal	<u>\$0.0</u>	<u>\$223.4</u>	<u>\$0.0</u>	<u>\$19.7</u>	<u>\$0.0</u>
Proceeds from Severance Tax Bonding Program⁽¹⁾					
Severance Tax Bonds	\$153.6	\$0.0	\$315.3	\$0.0	\$121.2
Severance Tax Funding Notes ⁽²⁾	150.9	188.7	178.6	27.3	76.2
Supplemental Severance Tax Bonds	0.0	0.0	112.9	0.0	0.0
Supplemental Severance Tax Funding Notes ⁽²⁾	<u>222.8</u>	<u>240.8</u>	<u>97.0</u>	<u>206.1</u>	<u>148.7</u>
Subtotal	<u>\$527.3</u>	<u>\$429.5</u>	<u>\$703.8</u>	<u>\$233.4</u>	<u>\$346.2</u>
Proceeds From Other Sources					
General Fund Appropriations ⁽³⁾	\$123.0	\$(148.6)	\$(259.2)	\$0.0	\$0.0
Transportation Bonds ⁽⁴⁾	0.0	40.0	80.5	81.1	0.0
Lease Appropriation Bonds	<u>0.0</u>	<u>60.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal	<u>\$123.0</u>	<u>\$(48.6)</u>	<u>\$(178.7)</u>	<u>\$81.1</u>	<u>\$0.0</u>
Total⁽⁵⁾	<u>\$650.3</u>	<u>\$604.3</u>	<u>\$525.1</u>	<u>\$334.2</u>	<u>\$346.2</u>

⁽¹⁾ Dollar amounts from State Board of Finance bonding programs reflect net proceeds available for capital expenditure. Amounts vary annually by legislative action and/or voter action.

⁽²⁾ The State Board of Finance issues Short-term Severance Tax funding notes and Supplemental Severance Tax funding notes to fund authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.

⁽³⁾ In Fiscal Year 2009, due to budgetary constraints, \$148.6 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding. In Fiscal Year 2010, due to budgetary constraints, \$259.2 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding.

⁽⁴⁾ In July 2008, the New Mexico Finance Authority entered into a \$200,000,000 line of credit which was drawn upon for transportation related capital expenditures in Fiscal Years 2009-2011. In Fiscal Year 2011, the New Mexico Finance Authority refunded the line of credit through the issuance of State Transportation Revenue and Refunding Bonds (Senior Lien) Series 2010A-1 and State Transportation Revenue and Refunding Bonds (Subordinate Lien) Series 2010A-2, the proceeds of which are available for transportation related capital expenditures. All subsequent bonds or notes issued by the New Mexico Finance Authority for transportation purposes have been either economic refundings of outstanding new money bonds or restructurings of outstanding new money bonds.

⁽⁵⁾ Totals may not add due to rounding.

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

The State also has, on a limited basis, funded capital projects backed by the state gross receipts tax and cigarette tax revenue.

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 current population of the State is 2,082,224. The State has a semiarid subtropical climate with light precipitation. Its climate is characterized by sunshine and bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 30 to 60 percent. 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. These officials are elected to four-year terms beginning 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 22 departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature, and approximately 9 cabinet-level agencies. Elections for all Executive Branch offices were held on November 6, 2012.

The State Board of Finance has seven voting 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 appointed members may be from the same political party. The Department of Finance and Administration (“DFA”) Secretary serves as the Executive Officer of the Board and is a non-voting Board member. 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.

The 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. The State Board of Finance is a division of the DFA. The Director of the Board is appointed by the Secretary with the approval 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 and members of the House are elected 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 60 calendar days in odd-numbered years and 30 calendar days in even-numbered years. Special sessions of the Legislature may be convened by the Governor. Extraordinary sessions may be convened by the Legislature under certain limited circumstances. Legislators do not receive any 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 Courts are the trial courts of record with general jurisdiction.

PROPERTY VALUATION AND TAXATION

Property Tax System

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

The State Assessed Property Bureau of the Tax Department, commonly known as the Central Assessment Bureau, is responsible for assessing certain types of property that are not assessed by counties

because assessing the property is exceptionally technical or because the property extends across county boundaries. Assessments undertaken by the Central Assessment Bureau, referred to as central valuations, are performed on the following types of properties:

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

Property valuations are established as of January 1 of each year (except for certain livestock). Centrally assessed property is verified and certified to local assessors who combine the values with all locally assessed property values. The totals are reported to the Central Assessment Bureau and the DFA, and certified for budgetary use. County treasurers levy the applicable rates against individual properties and are required to mail tax bills for the current tax year no later than November 1. Property taxes are due in two equal installments on November 10 and April 10. Taxes become delinquent on December 10 and May 10 following the two respective due dates. Civil penalties and interest are imposed on delinquent taxes. County treasurers are responsible for collecting property taxes and distributing them to governmental entities that receive them. Major property tax recipients include counties, municipalities, and school districts. In Property Tax Year 2012, 4.1 percent of property tax collections statewide were distributed to the State for payment of principal of and interest on general obligation bonds.

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

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

Oil and natural gas properties and related production equipment are subject to property taxation in the State. The oil and natural gas *ad valorem* production tax is levied and collected by the Oil and Gas Bureau of the Tax Department on the basis of assessed value deemed the equivalent of 50 percent of the actual price of oil and natural gas received at the production unit multiplied by the volume of oil and natural gas produced, less certain trucking expense deductions and royalties paid to the federal government, the State, or Indian tribes. The oil and natural gas production "equipment *ad valorem* tax" is levied based on assessed value deemed equivalent to 9 percent of the previous calendar year sales value of the product from each production unit. The tax year for oil and natural gas production begins on

September 1 based on tax rates that are set on August 31. The oil and natural gas “*ad valorem* production tax” is due by the 25th day of the second month following the month of production. Taxes are collected monthly. The oil and natural gas production “equipment *ad valorem* tax” is due on November 30 based upon assessments issued on or before October 15. The Tax Department distributes its collections to the county treasurers who further distribute the tax revenues to property tax recipients.

Property Tax Valuation Limitations

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

The 2000 Legislature passed and the Governor signed legislation limiting the increase in the value of residential property for property valuation purposes. Section 7-36-21.3 NMSA 1978 provides for a freezing of values for single-family dwellings occupied by certain low-income owners 65 years of age or older. Another law provides that the value of a residential property in any tax year, starting with the year 2001, shall not exceed certain percentage increases based on whether the county where the property is situated has a sales assessment ratio of at least 85 percent, as codified in Section 7-36-21.2 NMSA 1978. Sales assessment ratios are computed annually by the Tax Department and measure a county’s assessment valuations against current sales information. Counties that have at least an 85 percent sales assessment ratio are considered “current and correct,” while counties that fall below that threshold are considered not “current and correct.” If a residential property is situated in a current and correct county, the law limits the annual increase to no more than 3 percent (and 6.1 percent over the value 2 years ago). If a residential property is situated in a county that is not current and correct, the law limits the annual increase to 5 percent. In addition, in such a non-current and correct county, the law limits the aggregate annual increases for all residential properties (excluding net new properties added to the tax rolls) in that county to 3 percent. The annual limitations do not apply to new improvements or to any property that has had a change in ownership, use or zoning during the year.

The 2005 Legislature passed and the Governor signed a bill, codified as Section 7-38-12.1 NMSA 1978 of the Property Tax Code, requiring the disclosure only to the county assessor of sale prices and other items of value upon the sale of residential real property. This amendment has led to an increase in the assessed value of some residential properties.

The 2008 Legislature passed and the Governor signed legislation amending Section 7-36-15 NMSA 1978 to require county assessors to consider, in determining the market value of residential housing, any decrease in value that would be realized by an owner in the sale of the property because of the effects of any affordable housing subsidy, covenant or encumbrance under a federal, state or local housing program that restricts the future use or resale value of the property, or otherwise prohibits the owner from fully benefitting from any enhanced value of the property.

In August 2009, in the case of *Dzur v. Bernalillo County Valuation Protests Board*, No. CV-2008-12410, Judge Baca of the New Mexico Second Judicial District (comprising Bernalillo County, the county in which Albuquerque, New Mexico’s largest city, is located) issued an opinion and order finding certain sections of the New Mexico Property Tax Code, providing for limitations on annual increases in valuations of residential property except for residential property as to which a change of ownership has occurred in the prior tax year, inconsistent with Article VIII, Section 1 of the New Mexico Constitution by creating an inappropriate classification limiting valuation increases on residential properties which did not apply to residential properties as to which a change of ownership occurred. Judge Baca’s ruling

ordered that the statute be applied in a manner so as to apply the valuation limitation without regard to when residential property is acquired. A similar ruling has been made by another district court judge in *Wang v. Bernalillo County Assessor*, No. CV-2007-10109. Numerous other suits seeking refund of property taxes already paid by over 2,400 plaintiffs are reported to be pending in the Second Judicial District. The Bernalillo County Assessor decided not to appeal Judge Baca's decision and rolled back all potentially affected 2010 single family residential property values to reflect the two court rulings. Judge Baca has, in two pending but undecided cases, issued a certification order asking for review of the issue by the New Mexico Court of Appeals. Currently, the New Mexico Court of Appeals has placed on its general docket two cases that raise the constitutionality of the valuation cap on residential increases. The Legislature considered various bills dealing with the valuation cap on residential increases in the 2010 special legislative session, but no bills were enacted into law. To the extent that court or legislative action is taken or a further Constitutional amendment is passed amending the valuation provisions, it could have a material impact on the valuation of residential property.

In February 2011, Judge Manuel Arrieta of the Third Judicial District (comprising Doña Ana County, the County in which Las Cruces, New Mexico's second largest city, is located) also declared certain limitations on annual increases in valuation of residential property unconstitutional. At this time, the Doña Ana County Assessor has no plans to challenge the ruling in the New Mexico Court of Appeals.

The effect of the court cases, the Bernalillo County Assessor's announcement, and the possibility of further lawsuits in other counties is not known. Any material reduction in residential property values statewide could result in a diminution of state general obligation bond capacity. Additionally, limitations on assessments could cause an increase to the property tax levied against tax payers necessary to pay debt service on state general obligation bonds.

On March 28, 2012, in *Zhao v. Montoya*, 12-NMCA-056, on certification from the district court for Bernalillo County, the New Mexico Court of Appeals held that the valuation cap on residential property values until a change of ownership occurs does not violate the New Mexico Constitution. On May 23, 2012, the New Mexico Supreme Court granted the taxpayers' petition for writ of certiorari. The matter has not yet been heard by the court.

The following table sets forth the aggregate statewide next taxable valuations for the last 10 years.

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TABLE 7

**Final Net Taxable Valuations
(Dollars in thousands)**

Property Tax Year	Residential	Non- Residential	Oil and Gas	Copper	Net Taxable Value
2003	\$18,279,692	\$10,778,559	\$3,024,570	\$ 66,614	\$32,149,435
2004	19,421,800	10,839,281	5,563,785	65,157	35,890,023
2005	21,120,378	12,161,447	4,643,270	65,157	38,910,768
2006	23,016,630	12,605,105	7,259,891	103,402	42,985,028
2007	25,805,629	14,458,192	5,758,696	133,262	47,288,631
2008	27,798,246	15,259,324	7,245,955	160,279	50,463,804
2009	29,455,894	16,383,859	9,033,975	172,481	55,046,209
2010	29,845,647	16,513,415	4,556,355	125,538	51,040,955
2011	30,265,867	16,594,029	5,868,724	117,476	52,846,098
2012	30,794,394	16,639,038	6,938,090	119,440	54,490,962

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

Property Tax Mill Levy Limitations

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

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

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

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

**TABLE 8
Maximum Operating Mill Levy Rates**

Counties.....	11.85
Cities.....	7.65
Schools.....	0.50
Maximum combined statutory rate.....	20.00

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

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

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

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

FINANCIAL OVERVIEW OF THE STATE

General Fund Revenues, Expenditures and Ending Fund Balances

The State derives the majority of its recurring General Fund revenue from four major sources: general and selective sales taxes; income taxes; taxes and royalties on natural resource production; and investment earnings both on its two permanent funds and on cash balances. Effective July 1, 1981, the Legislature repealed the property tax levy for general State operating purposes, and has not reinstated it since that time. However, the New Mexico Constitution authorizes a levy of up to four mills for general State operating purposes and additional levies for the support of State educational, penal and other institutions.

The following table lists audited revenues, expenditures and ending fund balances for Fiscal Years 2009 through 2012, and projections for results for Fiscal Years 2013 and 2014.

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Table 9

**General Fund Financial Summary
Fiscal Year 2009 – Fiscal Year 2014
(Dollars in thousands)**

	<u>Actual</u> <u>2009</u>	<u>Actual</u> <u>2010</u>	<u>Actual</u> <u>2011</u>	<u>Actual</u> <u>2012</u>	<u>Projected</u> <u>2013</u>	<u>Projected</u> <u>2014</u>
A. APPROPRIATION ACCOUNT						
Recurring Receipts:						
General and Selective Sales Taxes	\$ 2,306,913	\$ 2,058,176	\$ 2,332,524	\$ 2,428,026	\$ 2,490,100	\$ 2,570,500
Income Taxes	1,120,990	1,081,661	1,290,752	1,431,516	1,446,600	1,559,300
Severance Taxes	440,191	390,702	423,796	456,402	419,400	436,100
License Fees	50,098	50,267	49,750	49,595	50,400	51,600
Investment Income	692,544	646,325	648,431	662,588	631,000	631,300
Rents and Royalties	543,671	423,004	477,439	595,082	500,500	528,200
Miscellaneous Receipts	42,707	44,351	52,176	45,104	46,200	42,700
Tribal Revenue Sharing	65,385	64,118	65,891	68,189	72,000	73,000
Tobacco Settlement	-	-	-	-	-	-
Reversions/Adjustments	57,243	40,000	67,816	65,885	51,000	40,000
Total Recurring Receipts	5,319,742	4,798,603	5,408,575	5,802,385	5,707,300	5,932,700
Total Nonrecurring and Adjustments	371,207	479,876	62,536	14,683	(3,300)	(900)
Total Receipts	\$ 5,690,949	\$ 5,278,480	\$ 5,471,111	\$ 5,817,068	\$ 5,704,000	\$ 5,931,800
Recurring Appropriations:						
Legislative	\$ 28,465	\$ 24,577	\$ 25,549	\$ 18,278	\$ 18,042	
Judicial	217,928	206,181	194,531	190,591	199,026	
General Control	205,295	198,050	173,711	156,436	160,634	
Commerce and Industry/Exam. and Lic.	61,735	57,767	50,759	43,142	43,890	
Agriculture, Energy and Natural Resources	90,529	82,100	69,299	61,551	62,814	
Health, Hospitals and Human Services	1,526,696	1,297,961	1,232,956	1,524,724	1,584,339	
Public Safety	411,585	393,287	363,110	354,101	367,803	
Other Education	57,053	48,226	26,088	27,590	52,573	
Higher Education	884,846	817,917	766,282	716,565	757,717	
Public School Support	2,551,012	2,231,900	2,309,665	2,338,422	2,402,768	
Total Recurring Appropriations	6,035,143	5,357,966	5,211,950	5,431,400	5,649,606	5,932,700
Nonrecurring Appropriations⁽¹⁾	(80,071)	93,160	18,254	82,671	23,700	
Total Appropriations	\$ 5,955,072	\$ 5,451,126	\$ 5,230,203	\$ 5,514,072	\$ 5,673,306	\$ 5,932,700
Transfer from/(to) Other Reserve Accounts	55,700	172,647	(804)	(40,000)	-	
TRANSFER FROM/TO OPERATING RESERVE	\$ 208,423	\$ -	\$ (240,103)	\$ (262,997)	\$ (30,694)	\$ 900
	Actual	Actual	Actual	Actual	Projected	Projected
B. OPERATING RESERVE						
Beginning Balance	\$ 247,246	\$ 37,451	\$ 36,236	\$ 276,688	\$ 346,945	\$ 375,889
Revenues/Repayments/Reversions	-	-	1,366	271		
Appropriations:						
Contingencies	-	-	-	(70,000)		
Other Appropriations and Adjustments	(1,372)	(1,215)	(1,016)	(1,551)	(1,750)	
Total Appropriations⁽²⁾	(1,372)	(1,215)	(1,016)	(71,551)	(1,750)	0

Table 9

**General Fund Financial Summary
Fiscal Year 2009 – Fiscal Year 2014
(Dollars in thousands)**

	<u>Actual</u> <u>2009</u>	<u>Actual</u> <u>2010</u>	<u>Actual</u> <u>2011</u>	<u>Actual</u> <u>2012</u>	<u>Projected</u> <u>2013</u>	<u>Projected</u> <u>2014</u>
Transfers:						
From/(To) General Fund Appropriations Account	(208,423)	-	240,103	226,997	30,694	(900)
Special Session/Appropriation Contingency Fund	-	-	-	-	-	-
To Tax Stabilization Reserve Fund	-	-	-	(121,461)	-	-
Total Transfers	(208,423)	-	240,103	141,537	30,694	(900)
Ending Balance⁽³⁾	\$ 37,451	\$ 36,236	\$ 276,688	\$ 346,945	\$ 375,889	\$ 374,989
C. STATE SUPPORT RESERVE						
Beginning Balance	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Transfers From Operating Reserve/ Appropriation Account ⁽⁴⁾	-	-	-	-	-	-
Ending Balance	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
D. APPROPRIATION CONTINGENCY FUND						
Beginning Balance, Excluding Education Reform	\$ 27,531	\$ 11,536	\$ 29,642	\$ 5,184	\$ 29,505	\$ 13,505
Receipts:						
Reversions	8,330	3,029	4,317	1,921	-	-
Transfers From General Fund	-	25,000	-	40,000	-	-
Expenditures/Appropriations: ⁽⁵⁾						
Disasters	(11,241)	(9,923)	(28,775)	(17,600)	(16,000)	(16,000)
Other	(13,084)	-	-	-	-	-
Prior period adjustment for water rights	-	-	-	-	-	-
Ending Balance, Excluding Education Reform	\$ 11,536	\$ 29,642	\$ 5,184	\$ 29,505	\$ 13,505	\$ (2,495)
Education Reform:						
Beginning Balance, Education Reform	\$ 69,051	\$ 19,047	\$ 53,047	\$ 47,047	\$ 39,047	\$ 38,047
Transfers In	-	40,000	-	-	-	-
Expenditures	(48,354)	(6,000)	(6,000)	(8,000)	(1,000)	-
Audit Adjustment	(1,650)	-	-	-	-	-
Ending Balance, Education Reform	\$ 19,047	\$ 53,047	\$ 47,047	\$ 39,047	\$ 38,047	\$ 38,047
Ending Balance, Appropriation Contingency Fund	\$ 30,583	\$ 82,689	\$ 52,231	\$ 68,552	\$ 51,552	\$ 35,552
E. TAX STABILIZATION RESERVE						
Beginning Balance	\$ 254,355	\$ 198,655	\$ 26,008	\$ 26,008	\$ 147,469	\$ 147,469
Transfers In	-	-	-	121,461	-	-
Transfers Out	(55,700)	(172,647)	-	-	-	-
Ending Balance⁽⁶⁾	\$ 198,655	\$ 26,008	\$ 26,008	\$ 147,469	\$ 147,469	\$ 147,469
F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE⁽⁷⁾						
Beginning Balance	\$ 135,884	\$ 120,956	\$ 132,031	\$ 148,786	\$ 148,978	\$ 160,178
Transfers In	48,856	40,950	38,565	39,321	39,000	39,500
Transfers Out	(48,856)	(40,950)	(38,565)	(39,321)	(39,000)	(19,750)
Gains Losses	(14,928)	11,075	16,755	191	11,200	12,013
Ending Balance	\$ 120,956	\$ 132,031	\$ 148,786	\$ 148,978	\$ 160,178	\$ 191,941

Table 9

General Fund Financial Summary
Fiscal Year 2009 – Fiscal Year 2014
(Dollars in thousands)

	<u>Actual</u> <u>2009</u>	<u>Actual</u> <u>2010</u>	<u>Actual</u> <u>2011</u>	<u>Actual</u> <u>2012</u>	<u>Projected</u> <u>2013</u>	<u>Projected</u> <u>2014</u>
G. TAXPAYER DIVIDEND FUND						
Beginning Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Gains/Losses	-	-	-	-	-	-
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
H. TOTAL RESERVE BALANCES						
Beginning Balance	\$ 735,066	\$ 388,645	\$ 277,964	\$ 504,714	\$ 712,944	\$ 736,088
Ending Balance	\$ 388,645	\$ 277,964	\$ 504,714	\$ 712,944	\$ 736,088	\$ 750,951
Reserves as a Percentage of Current-Year Recurring Appropriations	6.4%	5.2%	9.7%	13.1%	13.0%	12.7%

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

NOTES TO GENERAL FUND FINANCIAL SUMMARY:

(1) Appropriation Account, Nonrecurring Appropriations:

FY09 includes the following appropriations from Laws 2008: \$18.1 million for special appropriations from the General Appropriation Act of 2008 (Chapter 3), less \$5.2 million in information technology contingent appropriations not certified by CIO in FY09; \$0.5 million from HB140 for Soil and Water Districts (Chapter 78); \$8.4 million from SB 165 "Junior" (Chapter 6); \$1.5 million from SB 471 (Chapter 92), less \$0.5 million in contingencies that did not materialize; and \$45.8 million for various projects (2nd Special Session, Chapters 3, 5-8 and 10). **FY09 includes the following appropriations from Laws 2009:** -\$1.0 million from HB 9 (Chapter 5); -\$161.0 million from HB 10 (Chapter 2), -\$27.1 million from Sections 1 and of SB79 (Chapter 3); and \$40.4 million from the General Appropriation Act of 2009 (Chapter 124, Sections 5 and 6).

FY10 includes the following appropriations from Laws 2008: \$5.2 million in information technology appropriations transferred from FY09 (Chapter 3); and \$0.5 million in capital outlay appropriations transferred from FY09 (Chapter 92). The contingencies for these appropriations did not materialize during FY09.

FY10 includes the following appropriations from Laws 2009: \$100 million transferred to various funds (Laws 2009, Chapter 124, Section 12); -\$1.2 million in reductions to appropriations made in Section 5 of the General Appropriation Act of 2009 (1st Special Session, Chapter 2); \$3 million for public school supplemental funding (1st Special Session, Chapter 5); and -\$20.15 million in reductions of appropriations made by Laws 2009 (1st Special Session, Chapter 7, SB 28).

FY10 includes the following appropriations from Laws 2010: \$-0.2 million in reductions of appropriations made by Laws 2009 (Chapter 105); \$5.0 million for development training funds (Chapter 79); \$0.5 million from Section 5 of the General Appropriation Act of 2010 (2nd special Session, Chapter 3); and \$0.5 million for the temporary tax amnesty program (2nd special session, Chapter 2).

FY11 includes the following appropriations from Laws 2010: \$1.1 million from Section 5 of the General Appropriation Act of 2010 (2nd Special Session, Chapter 3), \$1.5 million for the 2011 redistricting session (Laws 2011, Chapter 1), and \$15.6 million from Section 5 and Section 6 of the General Appropriation Act of 2011 (Chapter 179).

FY12 includes the following appropriations from Laws 2011: \$0.25 million 2012 election expenses and \$0.5 million for Department of Health (Laws 2011, Ch. 179, Sec. 5); \$1.5 million for redistricting (Laws 2011, Ch. 1); and \$1.3 million for the 2011 1st Special Session (Chapter 1), \$0.5 million for Medicaid and SNAP (1st Special Session, Chapter 2), and \$4.0 million appropriated for police vehicles (1st Special Session, Chapter 5).

FY12 includes the following appropriations from Laws 2011: \$0.3 million 2012 election expenses and \$0.5 million for Department of Health (Laws 2011, Ch. 179, Sec. 5); \$1.5 million for redistricting (Laws 2011, Ch. 1); and \$1.3 million for the 2011 1st Special Session (Chapter 1), \$0.5 million for Medicaid and SNAP (1st Special Session, Chapter 2), and \$4.0 million appropriated for police vehicles (1st Special Session, Chapter 5).

FY12 includes the following appropriations from Laws 2012: \$69.1 million from Sections 5 and 6 of the General Appropriation Act of 2012 (Laws 2012, Ch. 19) and \$5.5 million for 2012 legislative session expenses (Laws 2012, Ch. 1).

FY13 includes the following appropriations from Laws 2012: \$23.7 million from Section 5 of the General Appropriation Act of 2012 (Laws 2012, Ch. 19).

(2) General Fund Operating Reserve Appropriations:

FY09 includes \$1.4 million for State Board of Finance Emergency Fund.

FY10 includes \$1.2 million for State Board of Finance Emergency Fund.

FY11 includes \$1.0 million for State Board of Finance Emergency Fund.

FY12 includes \$1.3 million for State Board of Finance Emergency Fund and a \$70 million contingent liability established in the Fiscal Year 2012 General Fund financial statements for potential charges related to unreconciled cash transactions.

FY13 includes \$1.75 million for State Board of Finance Emergency Fund.

(3) Year-ending Balances in the Operating Reserve:

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

FY12 includes \$121 million transfer from the Operating Reserve to the Tax Stabilization Fund due to the fund balance exceeding 8% of the previous year's recurring appropriation.

(4) Appropriation Contingency Fund Appropriations:

FY09 includes the following appropriations from Laws 2008: \$11.2 million for disaster allotments; \$0.5 million contingency to the Economic Development Department for the X-Prize (Chapter 3, Section 5, Item 51); \$12.6 million contingency for the Public Education Department (Chapter 3, Section 5, Item 98); and \$1.7 million contingency appropriation transferred from FY08 to FY09 for an unexpended appropriation from education reform for a Public Education Department information technology system (Chapter 3).

FY09 includes the following appropriations from Laws 2009: \$35.8 million for the State Equalization Guarantee (Chapter 3, Section 9); and \$12.6 million for education reform appropriations from the General Appropriation Act of 2009 (Chapter 124, Section 5, Items 57-60 and 63).

FY10 includes the following appropriations/transfers from Laws 2009: \$9.9 million for disaster allotments; \$25.0 million transferred from the general fund for general purposes (Chapter 124); and \$40.0 million transferred from the Appropriation Account for education reform (Chapter 124).

FY10 includes the following appropriations/transfers from Laws 2010: \$6.0 million for education reform appropriations from the General Appropriation Act of 2010 (2nd Special Session, Chapter 6, Section 5, Item 17).

FY11 includes the following appropriations/transfers from Laws 2010: \$28.8 million for disaster allotments; and \$4.0 million for education reform appropriations from the General Appropriation Act of 2010 (2nd Special Session, Chapter 6, Section 5, Item 16).

FY11 includes the following appropriations/transfers from Laws 2011: \$2.0 million for emergency support to public schools (Laws 2011, Ch. 179, Sec. 5, Item 23).

FY12 includes the following appropriations/transfers from Laws 2011: \$2.5 million for education reform appropriations (Ch. 179, Sec. 5, Item 25).

FY12 includes the following appropriations/transfers from Laws 2012: \$17.6 million for disaster allotments; \$5.5 million for education reform appropriations (Ch. 19, Sec. 5, Items 33-34); and \$40 million transferred from the general fund (Laws 2012, Ch. 19, Sec. 10).

FY13 includes the following appropriations/transfers from Laws 2012: \$1.0 million for education reform (Ch. 19, Sec. 5).

(5) Year-ending Balances in the Tax Stabilization Reserve:

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

FY09 includes \$55.7 million transfer from the Tax Stabilization Reserve into the Appropriation Account (Laws 2009, Chapter 3).

FY10 includes \$115.0 million transferred from the Tax Stabilization Reserve into the Appropriation Account (1st Special Session, Laws 2009, Chapter 3); and \$57.6 million transferred from the Tax Stabilization Reserve into the Appropriation Account (2nd Special Session, Laws 2010, Chapter 6, Section 15).

FY12 includes \$121.5 million transfer from the Operating Reserve to the Tax Stabilization Fund due to the fund balance exceeding 8% of the previous year's recurring appropriation.

(6) Tobacco Settlement Permanent Fund Reserve (established by Laws 2003, Chapter 312).

FY09 -- 100% of Tobacco Settlement Permanent Fund revenues, equaling \$48.9 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50% transfer (Laws 2009, Chapter 3).

FY10 -- 100% of Tobacco Settlement Permanent Fund revenues, equaling \$41.0 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50% transfer (Laws 2009, Chapter 3).

FY11 -- 100% of Tobacco Settlement Permanent Fund revenues, equaling \$38.6 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50% transfer (Laws 2010, Chapter 49).

FY12 -- 100% of Tobacco Settlement Permanent Fund revenues, equaling \$39.3 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50% transfer (Laws 2011, Chapter 3).

FY13 -- 100% of Tobacco Settlement Permanent Fund revenues, equaling \$39.0 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50% transfer (Laws 2011, Chapter 3).

FY14 -- 50% of Tobacco Settlement Permanent Fund revenues, or \$19.8 million, are estimated to be transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978.

General Fund Taxes and Revenues

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

Gross Receipts and Compensating Taxes

The gross receipts tax is levied on the total amount of money or the value of other consideration received from selling tangible and certain intangible personal property in the State, from leasing property

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

The general presumption is that all receipts of a person engaging in business are subject to the gross receipts tax, even though there are over 100 specified exemptions and deductions from gross receipts taxation. Exemptions from the gross receipts tax include, but are not limited to, certain receipts of governmental agencies and certain non-profit organizations; receipts from the sale of certain vehicles; occasional sales of property or services; wages; certain agricultural products; and dividends, interest and receipts from natural gas, oil or mineral interests sales or leases. Deductions from the gross receipts tax include, but are not limited to, receipts from various types of sales or leases of tangible personal property or service; receipts from certain sales of property to governmental agencies or to certain non-profit organizations; receipts from certain processing of some agricultural products; receipts from certain publication sales; certain receipts from interstate commerce transactions; and as set forth below, certain food and medical services as of January 1, 2005.

The gross receipts and compensating taxes are together the single largest source of State General Fund revenue. The gross receipts tax is also a significant source of revenue for cities and counties. The gross receipts tax includes the 5.125 percent statewide gross receipts tax levy, plus several city and county local-option gross receipts taxes. The statewide gross receipts tax rate was increased from 5 to 5.125 percent effective July 1, 2010 as a result of action taken during the 2010 special legislative session. Until January 1, 2005, a credit of 0.5 percent against the statewide rate of 5 percent was allowed for transactions taking place in municipalities. Receipts from the statewide gross receipts tax levy, less certain disbursements, are deposited in the State General Fund. The disbursements include 1.225 percent of the taxable gross receipts reported in each incorporated municipality to that municipality. The State Aviation Fund receives a monthly distribution equal to 4.79 percent of the reported value of jet fuel sales, and a statutory monthly distribution which increased from \$167,000 to \$250,000 in July 2009 as specified in Section 7-1-6.7 (D) NMSA 1978. An additional \$530,000 is currently distributed monthly to the New Mexico Finance Authority's State Building Fund Bonding Fund, pursuant to Section 7-1-6.42 NMSA 1978. Pursuant to legislation enacted in 2009, that distribution to the State Building Bonding Fund will increase to \$680,000 per month on the later of July 1, 2011 or upon certification that the increased distribution is needed to make debt service payments on bonds issued pursuant to Section 7-1-6.42 for construction of a new executive office building near the State Capitol in Santa Fe. The County Equalization Distribution is made annually from state gross receipts tax revenues; it has averaged \$16.7 million over the past five years. After all other distributions, the General Fund share of gross receipts tax collections was 59 percent in Fiscal Year 2012 after the statewide rate increase and is expected to be about 60 percent for subsequent years.

Receipts from the compensating tax, less distributions, are transferred to the state General Fund. Compensating tax distributions include 10 percent to the small cities assistance fund and 10 percent to the small counties assistance fund, and a distribution to municipalities based on the level of their taxable gross receipts. In Fiscal Year 2012, legislation increased the distribution to small cities to 15 percent, increased the minimum distribution to small cities from \$35,000 to \$90,000, and amended statute to allow for larger distributions to small counties. The distribution changes are scheduled to go into effect in Fiscal Year 2014.

In 2005, the Legislature made a number of changes to the state gross receipts tax laws in Sections 7-1-6.16, 7-1-6.46, 7-1-6.47, 7-9-92 and 7-9-93 NMSA 1978. The credit of 0.5 percent granted to municipalities against the statewide rate was eliminated. The tax on food and certain medical services also was eliminated. The legislation created a deduction for gross receipts tax from retail sales of food as defined for federal food stamp program purposes. Retailers are required to report receipts from sales of groceries and then claim a deduction for the receipts. The deduction does not apply to receipts of

restaurants or sales of prepared foods. The legislation also created a gross receipts tax deduction for some receipts of licensed health care providers (broadly defined) from Medicare Part C and managed health care plans, and health care insurers. This medical deduction was modestly expanded in the 2007 legislative session. The 2005 legislation also provided for payments from the State to reimburse local governments for all lost gross receipts tax revenues due to these deductions. Legislation in 2007 froze the rate, but not the size, of these payments for counties with a population over 48,000, and municipalities with a population greater than 10,000 or greater than average per capita taxable gross receipts. In its 2013 session, the Legislature passed a bill which, among other things, will eliminate these payments to certain larger local governments over a 15 year period beginning in Fiscal Year 2016. The bill has been sent to the Governor who has until April 5, 2013 to sign or veto this legislation. The Governor has stated that she expects to sign this legislation.

In Fiscal Year 2012, total distributions to the General Fund from gross receipts and compensating taxes increased by 5.2 percent over the previous fiscal year to \$2.0 billion, comprising 34.3 percent of recurring General Fund revenue.

Personal Income Tax

The personal income tax is imposed on the net income of every individual resident and upon the net income from business, property, or employment of individual nonresidents. Collections, net of refunds, are deposited in the General Fund. State taxable income is generally equal to federal adjusted gross income less deductions and amounts not taxable by State or federal laws. The State allows deductions for income earned by Indians on reservations, graduated deductions for income earned by taxpayers 65 years or older, and deductions for low- and middle-income taxpayers.

New Mexico's personal income tax structure has changed significantly in recent years, starting in 2003. The Legislature enacted significant personal income tax reductions that reduced the top marginal personal income tax rate from 8.2 percent in 2002 to 4.9 percent by 2008, codified in Section 7-2-7 NMSA 1978. This law combined the Head of Household filers' tax rate with the Married, Joint and Surviving Spouse filers' tax rate, beginning in 2006. Single parents are now taxed at the same rate as married couples. Statutory changes enacted in 2005 also provided low and middle-income tax exemptions, a personal income tax exemption for medical expenses, incentives to encourage business formation in rural areas, and incentives to encourage renewable energy production in the State.

In the 2012 Fiscal Year, total distributions to the General Fund from personal income tax increased by 8.4 percent over the previous fiscal year to \$1.2 billion, and generated 19.8 percent of total recurring General Fund revenue.

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Current State tax rates are set forth below:

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

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

Corporate Income Tax

The corporate income tax is imposed on the net income of a corporation doing business in the State or deriving any income from property or employment in the State by Section 7-2A-3 NMSA 1978. Collections, net of refunds, are transferred to the General Fund. Corporations are required to file a return on or before the 15th day of the third month following the end of each taxable year at which time corporate income taxes are also due. A corporation is required to make estimated tax payments if the tax, net of credits, is \$5,000 or more. Insurance companies do not pay corporate income tax; rather, they pay a tax on insurance premiums. Nonprofit organizations and retirement trust funds do not pay corporate income tax.

Tax rates are established under a graduated table and range from 4.8 percent on the first \$500,000 or less of taxable income to 7.6 percent on income in excess of \$1,000,000. For the 2012 Fiscal Year, total distributions to the General Fund of net receipts from corporate income taxes totaled \$281.0 million. This is an increase of 22.3 percent from the prior fiscal year and generated 4.8 percent of recurring General Fund revenue.

In recent years, a number of credits administered through the corporate income tax system have been enacted. These include: the film production credit, enacted as Section 7-2F-1 NMSA 1978; the real property tax credit, enacted as Section 7-2-18.10 NMSA 1978; the rural jobs tax credit, enacted as Section 7-2E-1 NMSA 1978; the biodiesel production and sale credit, enacted as Section 7-2-18.21 NMSA 1978; the agricultural water conservation tax credit, enacted pursuant to 7-2-18.20 NMSA 1978; the sustainable building tax credit, enacted as Section 7-2-18.19 NMSA 1978; and the renewable energy production tax credit, enacted as Section 7-2A-19 NMSA 1978. The 2011 Legislature placed a cap of \$50 million per year on the film production tax credit, and added a tiered refund system that distributed refunds over a period of one, two or three years depending on the size of the refund. In the first year of enactment, Fiscal Year 2012, film credit refunds totaled \$10 million, partly due to the rush to file claims in Fiscal Year 2011 prior to enactment of the cap. In Fiscal Year 2013 and subsequent fiscal years, claims are expected to reach the \$50 million cap.

In its 2013 session, the Legislature passed a bill which, among other things, will reduce the State corporate income tax rate over several years to a maximum marginal rate of 5.9 percent. The legislation also allows manufacturers in the State to use sales as a single factor in calculating income tax liability. The Legislation also requires certain corporate taxpayers to adhere to mandatory combined reporting of unitary corporations for tax purposes. The bill has been sent to the Governor, who has until April 5, 2013 to sign or veto this legislation. The Governor has stated that she expects to sign this legislation.

Mineral Production Taxes

Mineral production taxes (Resource Excise Tax, Natural Gas Processors Tax, Oil and Gas Conservation Tax, and Oil and Gas Emergency School Tax) are levied on producers and others on the value of severed minerals and material resources from within the State and these taxes are disbursed to the General Fund. The Oil and Gas Emergency School Tax is imposed for the privilege of engaging in the business of severing oil, natural gas, liquid hydrocarbons and carbon dioxide (“CO₂”) from the soil of the State. The Oil and Gas Emergency School Tax is imposed at a rate of 3.15 percent of taxable value of oil and 4 percent of taxable value for natural gas. Taxable value reflects gross sales value less deductions for royalties paid to government entities and for certain processing and transportation expenses. The same definition of taxable value is used for calculation of oil and gas severance tax liability.

In the 2012 Fiscal Year, distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled \$399.6 million. This represents a 6.2 percent increase from the prior fiscal year. Other General Fund taxes on natural resource production totaled \$56.8 million. For Fiscal Year 2012, mineral production taxes contributed 7.9 percent of recurring General Fund revenue.

In 2002, the Legislature created the Jicarilla Apache Tribal Capital Improvement Tax Credit, codified in Section 7-31-27 NMSA 1978. This tax credit can reduce the Oil and Gas Emergency School Tax on products severed from wells drilled on the Jicarilla Apache Nation by up to 0.7 percent of the taxable value of production. This credit totaled \$1.1 million for Fiscal Year 2012.

Royalties, Rents and Bonuses

Federal Lands. Under terms of the 1920 Federal Mineral Leasing Act, the State receives 50 percent of all income generated from leasing federal lands located in the State for mineral production. Principal sources of income are royalty payments on oil and natural gas production. Additional income is derived from bonus payments for oil and natural gas leases and royalty payments on production of coal, potash and other minerals. The U.S. Office of Natural Resources Revenue, formerly the Minerals Management Service, collects federal mineral lease income and deducts the State’s share of administrative costs. The State receives payments on a monthly basis and makes deposits to the General Fund. In Fiscal Year 2012, total distributions to the General Fund from federal mineral leases totaled \$502.6 million. This equals 8.7 percent of recurring General Fund receipts for the fiscal year.

Federal Fiscal Year 2009 appropriations bills implemented a 2 percent administrative fee cut from the federal royalty payments to states. This 2 percent fee was extended each federal fiscal year since 2009, and is included in the Obama Administration’s 2013 Budget Recommendation. Approximately \$10.3 million was deducted from the federal mineral leasing payments to the State for Fiscal Year 2009, \$7.2 million was deducted in Fiscal Year 2010 and \$8.4 million was deducted in Fiscal Year 2011. In Fiscal Year 2012, approximately \$10.2 million was deducted from the federal mineral leasing payments.

State Lands. The State Land Office manages lands acquired by the State under the federal Fergusson Act enacted prior to statehood, as well as under the State Constitution. All income from State lands is dedicated to specific educational purposes and institutions. As with federal lands, the oil and natural gas industry is the principal source of revenue from State lands. Bonus income is also collected in the form of cash payments as a result of competitive bidding for State leases. Rentals and bonus income are distributed to the respective beneficiary institutions. The largest beneficiary group is the State’s public school system. Mineral production from State trust lands also generates royalty income which is deposited in the State Land Grant Permanent Fund (“LGPF”). Royalties are imposed on most mineral production values at the rate of 12.5 percent, although there is a provision for rates of up to 20 percent for new leases on developed acreage. LGPF beneficiaries and “State lands” beneficiaries are the same: educational institutions and public schools. In Fiscal Year 2012, distributions to the General Fund from the State Land Office totaled \$92.5 million, which equaled 1.6 percent of recurring General Fund receipts for the fiscal year.

Investment Income

Investment earnings credited to the General Fund are from three primary sources: the LGPF, the Severance Tax Permanent Fund, and cash balances held by the State Treasurer. Income from the LGPF is distributed among the beneficiary institutions and public schools. The allocation received by the public schools, which is approximately 83 percent, is deposited in the General Fund. For the 2012 Fiscal Year, \$461.7 million of LGPF distributions were transferred to the General Fund for public school purposes. The State distributed \$183.4 million of income from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In the 2012 Fiscal Year, the Treasurer's cash balances produced \$17.4 million for the General Fund. Total investment income credited to the General Fund was \$662.6 million. This is 11.4 percent of recurring General Fund receipts.

Review of Results and Projections in the General Fund

Fiscal Year 2009. Recurring General Fund revenues decreased by 11.6 percent from the previous fiscal year to approximately \$5.3 billion in Fiscal Year 2009. The price of oil averaged \$64.71 per barrel and the price of natural gas averaged \$5.65 per mcf for the fiscal year. General and selective sales taxes declined by 0.7 percent while income taxes decreased by 28.5 percent. General Fund balances decreased by \$346.5 million to \$388.6 million, or 6.4 percent of Fiscal Year 2009 recurring appropriations.

Since Fiscal Year 2009, the executive branch has continued to implement austerity measures including a partial hiring freeze, freezing salary increases, eliminating non-essential overtime, limiting upward reclassification of postings, suspending awards of compensatory time for exempt employees, reducing expenses related to travel, equipment, supplies and furniture and employing energy conservation strategies. The Governor also requested elected public officials and the legislative and judicial branches to contribute to the overall effort to reduce expenditures.

The 2009 Legislature adopted and the Governor signed four bills revising the Fiscal Year 2009 budget. Laws 2009, Chapter 5 (House Bill 9) 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. Laws 2009, Chapter 2 (House Bill 10) provided for a 2.5 percent reduction in certain General Fund operating budgets, and other appropriations, with variations and exemptions for certain agencies and programs. Laws 2009, Chapter 3 (Senate Bill 79) reduced and repealed General Fund appropriations and authorized transfers to the General Fund from several other funds. This bill also partially restored reductions to public schools and Medicaid with appropriations from two reserve funds; the bill appropriated \$35.8 million from the Appropriation Contingency Fund's education reform balance to diminish the public schools budget reduction from 2.5 percent to 1.1 percent, and appropriated \$22.6 million from the Tobacco Settlement Permanent Fund to diminish the Medicaid budget reduction from 2.5 percent to 1 percent. Laws 2009, Chapter 4 (Senate Bill 80) 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. The executive sold certain stocks held in unclaimed property and transferred \$7.9 million in proceeds to the General Fund. Finally, a measure was enacted in the special session of the Legislature in October 2009 that authorized the Department of Finance and Administration to transfer funds from the General Fund Operating Reserve to the Appropriation Account.

Fiscal Year 2010. Recurring general fund revenues were \$4.8 billion in Fiscal Year 2010. The price of oil realized in New Mexico averaged \$71.29 per barrel and the price of natural gas averaged \$5.20 per mcf for Fiscal Year 2010.

General and selective sales taxes declined by 10.8 percent from Fiscal Year 2009 to Fiscal Year 2010, while personal income taxes decreased by 0.2 percent. Corporate income taxes fell by 23.0 percent in Fiscal Year 2010. Mineral production taxes declined by 11.2 percent from Fiscal Year 2009, while rents and royalties declined by 22.2 percent.

Fiscal Year 2010 also included \$479.9 million of non-recurring revenues resulting from transfers of balances from other funds to the general fund, cancelling certain capital projects, and austerity measures affecting state agency operating budgets. In addition, \$172.6 million was transferred to the Appropriation Account from the Tax Stabilization Reserve Fund. The solvency measures included reductions to operating budget and capital appropriations, furloughs, transfers of certain fund balances to the general fund, and use of federal American Recovery and Reinvestment Act of 2009 (“ARRA”) funds. New Mexico received over \$2 billion in federal stimulus funding from ARRA for use in Fiscal Years 2009 through 2011. New Mexico’s share of the federal funding contained in ARRA for Fiscal Years 2009 through 2011 included \$536.0 million for Medicaid, \$260.4 million for education, and \$57.9 million for general purposes. New Mexico received additional federal funding in August 2010 that provided a one-time payment of \$65 million for education and \$126 million for Medicaid to avoid states’ revenue shortfalls across the nation.

The Fiscal Year 2010 general fund budget contained \$5.4 billion of recurring appropriations, a decrease of 11.2 percent over the Fiscal Year 2009 adjusted budget. The budget was balanced using \$406.2 million (\$180.5 for Medicaid and \$225.7 for Education Stabilization) in ARRA funding to avoid significant reductions in public and higher education and Medicaid, temporarily substituting \$28.1 million of State Medicaid funding with annual tobacco settlement payments, shifting 1.5 percent of annual State pension contributions from the employer to employees to save \$42.6 million, reducing State agency, public education, and higher education budgets by \$139 million, mandating expenditure reductions to save \$79 million in general fund expenditures, implementing furloughs to save \$8.6 million in general fund expenditures and shifting funding sources or cancelling \$271.1 million in capital outlay projects. General fund reserves were \$278.0 million at the end of Fiscal Year 2010, 5.2 percent of current-year recurring appropriations.

Fiscal Year 2011. In Fiscal Year 2011, recurring general fund revenues increased by 12.7 percent to approximately \$5.4 billion on a year-over-year basis. The price of oil averaged \$84.60 per barrel and the price of natural gas averaged \$5.50 per mcf in Fiscal Year 2011. General and selective sales taxes increased by 11.5 and 18.3 percent, respectively, reflecting an increase in the statewide gross receipts tax and the compensating tax from 5 to 5.125 percent that took effect on July 1, 2010, closure of a compensating tax loophole relating to the applicability of compensating tax to sellers with no nexus to the state, and an increase in the cigarette tax rate of \$0.75 per package of cigarettes. Income taxes increased by 19.3 percent, including the impact of eliminating a deduction for state and local taxes paid. Mineral production taxes in Fiscal Year 2011 increased by 8.5 percent from Fiscal Year 2010 and rents and royalties increased by 12.9 percent. General fund balances ended the year at \$504.7 million at the end of Fiscal Year 2011, 9.7 percent of current-year recurring appropriations. During the 2010 Legislative Session, the Legislature mandated the Governor to proportionately reduce allotments to all general funded entities, excluding most Medicaid programs to ensure solvency in Fiscal Year 2011. As a result of the July 2010 revenue estimate, one allotment reduction in the amount of 3.2 percent was implemented for most programs on September 1, 2010. Additionally, the Governor requested state agencies reduce expenditures which resulted in an increase in general and other fund reversions and an increase of reserve balances.

Fiscal Year 2012. In Fiscal Year 2012, recurring general fund revenues increased to \$5.8 billion. The price of oil averaged \$89.64 per barrel and the price of natural gas averaged \$5.00 per mcf in Fiscal Year 2012. The Fiscal Year 2012 budget contained approximately \$5.4 billion of recurring appropriations. Among the measures taken to balance the budget were decreasing the fire protection fund distribution by \$1.3 million, reducing the film tax credit by \$23.3 million, shifting an additional 1.75 percent of annual State pension contributions from employer to employees to save \$49.7 million, improving the system for payment of unemployment insurance by State agencies resulting in cost savings of \$3 million, and implementing government efficiencies to save \$2.5 million. General fund reserves were \$712.9 million at fiscal year end after accounting for a \$70 million contingent liability established in the Fiscal Year 2012 General Fund financial statements for potential charges related to unreconciled cash transactions. The ending balance represents approximately 13.1 percent of current-year recurring

appropriations for Fiscal Year 2012. The Governor has expressed goals of maintaining reserves of 10 percent in future fiscal years, and providing for five-year expenditure forecasts to accompany consensus revenue forecasts. During the 2012 regular legislative session, \$100.8 million in Fiscal Year 2012 non-recurring appropriations were enacted, including \$55 million for Medicaid and personal care option program expenditures, as well as \$6 million for the Economic Development Department's job training incentive program.

Fiscal Year 2013. Based on the consensus revenue group projections for Fiscal Year 2013 made in December 2012, recurring general fund revenues are projected to decrease by approximately 1.6 percent over Fiscal Year 2012. Total recurring revenue is estimated to be approximately \$5.7 billion. The price of oil is expected to average \$85.00 per barrel and the price of natural gas is expected to average \$4.50 per mcf. Much of the decline in revenue is projected to occur in mineral rents and royalties. Rents and royalties are estimated to fall by 15.9 percent, and mineral production taxes are projected to decrease by 8.1 percent. General sales taxes are expected to grow by a modest 2.9 percent, while personal and corporate income taxes are estimated to grow by 1.1 percent. Interest earnings are projected to fall by 4.8 percent, primarily due to the constitutionally mandated reduction in distributions from the land grant permanent fund from 5.8 percent of 5-year average market value to 5.5 percent beginning in Fiscal Year 2013.

General fund reserves are estimated to be \$736.1 million at the end of Fiscal Year 2013, approximately 13.0 percent of Fiscal Year 2013 recurring appropriations. This amount may be reduced by potential supplemental, special, deficiency and internet technology appropriations enacted during the 2013 legislative session.

The consensus revenue group recently reviewed the December 2012 revenue forecast prior to presentation by the Legislature of its final budget proposal for review by the Governor. It was determined by the consensus revenue group that no additional changes to revenue projections are warranted.

Fiscal Year 2014. Based on the consensus revenue group projections for Fiscal Year 2014 made in December 2012, recurring general fund revenues are projected to increase by approximately 3.9 percent over Fiscal Year 2013. Total recurring revenue is estimated to be approximately \$5.9 billion. General and selective sales taxes are expected to grow by 3.2 percent, while income taxes are expected to grow by 7.8 percent. Mineral production taxes are expected to increase by 4.0 percent, and rents and royalties are expected to increase by 5.5 percent. Interest earnings are projected to remain flat.

Fiscal Year 2014 "new money", defined as Fiscal Year 2014 recurring revenue less Fiscal Year 2013 recurring appropriations, is estimated to be \$283 million. Several provisions enacted in prior legislative sessions are expected to reduce the amount of available new money to \$200 million. These existing appropriations include the scheduled reversal of the 1.5 percent employer to employee retirement contribution swap, a 0.75 percent increase in employer contributions for public school retirement, and the expiration of heightened distributions from the Tobacco Settlement Permanent Fund to Medicaid programs. House Bill 341 would amend Section 6-4-9 NMSA 1978 to provide that the Tobacco Settlement Permanent Fund is not a reserve fund of the State and therefore will not be included in an estimate of state reserves available for expenditure from the general fund. Additionally, House Bill 412 would transfer \$150,000,000 from the general fund operating reserve to the tobacco settlement permanent fund. The transfer would represent a restoration of funds diverted from the tobacco settlement permanent fund to meet state fiscal solvency requirements. The Governor has expressed goals of setting aside a portion of new money to implement tax reform.

Federal funding for special education programs is contingent upon the maintenance of State expenditures on programs that receive federal funding. In Fiscal Years 2010 and 2011, the Public Education Department received waivers from this "maintenance of effort" requirement from the U.S. Department of Education ("ED"); however, waivers may no longer be granted. The affect of the failure to receive waivers on the general fund is unknown; however, the Governor's Fiscal Year 2014 budget

proposal includes \$20 million in contingency funds to address the potential loss of federal funding. If the ED does not grant the waiver, additional contingency funds may need to be set aside in Fiscal Year 2015.

Severance Taxes (Not Part of General Fund)

Severance taxes are levied on producers and others severing minerals and natural resources from within the State. Severance taxes have been levied since 1937 when the first severance tax act was adopted. Severance taxes are distinguished from several other taxes on, or revenue sources related to, valuable mineral extraction in the State, including the taxes described above. Severance taxes are collected monthly. Taxes on oil, gas and CO₂ are due the 25th day of the second month following the end of the sale month. Other severance taxes are due the 25th day of the month following the end of the production month, with a few exceptions.

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

The minerals extracted from the State that contribute the largest portion of Severance Tax revenues are natural gas, crude oil and coal. Severance Tax collections on natural gas and crude oil together accounted for approximately 97.1 percent of total Fiscal Year 2012 Severance Tax Bonding Fund tax receipts.

Severance and Mineral Production Taxes on Indian Land

The State can tax non-Indian oil and natural gas production on tribal land, according to United States Supreme Court precedent in *Cotton Petroleum Co. v. State of New Mexico*, 490 U.S. 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989). The State's authority to impose severance taxes on Indian oil and natural gas production on tribal land was upheld by the United States District Court in New Mexico in *Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922. In 2009 however, in *Ute Mountain Ute Tribe v. Homans*, No. CIV 07-772 JP/WDS, the United States District Court for the District of New Mexico (Judge Parker) held that the State may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal land of the Ute Mountain Ute Tribe. The Tenth Circuit Court of Appeals overturned the district court opinion and held that the State severance taxes are not preempted by federal law. *Ute Mountain Ute Tribe v. Rodriguez*, 2011 WL 3134838 (10th Cir. 2011). The Ute Mountain Ute Tribe petitioned for an en banc review, which the court denied on September 12, 2011. The United States Supreme Court denied the Ute Mountain Ute Tribe's petition for a writ of certiorari on February 21, 2012.

Information reported on the ONGARD website by TRD based on oil and gas tax return data indicates that natural gas production and crude oil production on Indian land was approximately 3.8 percent and 0.6 percent, respectively, of total taxable statewide production in Fiscal Year 2012. The TRD estimates that oil and natural gas production on Indian land generated \$7.8 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2012 (net of Intergovernmental Production Tax Credit). Coal production on Indian land was 33.9 percent of total statewide production in Fiscal Year 2012. No potash, copper or carbon dioxide (CO₂) 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 ONGARD website reports that total credits claimed under this provision were about \$2.3 million in Fiscal Year 2012. About \$0.9 million of these credits were applied against oil and natural gas severance tax liability. The Severance Tax Bonding Fund revenue projection assumes that this amount will change slowly in the future.

The 2001 Legislature enacted Sections 7-29C-2, 7-9-88.2 and 9-11-12.2 NMSA 1978, which provided 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 Severance Tax Bonding Fund revenue by \$2.7 million in Fiscal Year 2012.

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.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund ("STPF") was established in the State Treasury in 1973 to receive the residual revenues from the Bonding Fund and serve as an endowment for future capital projects. In 1976, the electorate approved a constitutional amendment giving the STPF 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 STPF, thereby creating a permanent endowment fund. Distributions from investments of the STPF, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance tax receipts have historically been the primary source of funding for the STPF. The State Investment Council ("SIC") invests the corpus and non-appropriated income of the STPF. The market value of the STPF as of June 30, 2012 was approximately \$3.88 billion, an increase of approximately 0.2 percent from the prior Fiscal Year. Performance for the one year period ended June 30, 2012 was 2.7 percent below the Fund benchmark, and investment performance for the quarter ended June 30, 2012 was 0.3 percent below the fund policy index. STPF funds are not pledged to and may not be used to pay any Bonds.

The Land Grant Permanent Fund ("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 federal 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, with the public schools 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 nine million surface acres and 13.4 million subsurface acres.

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 statutes. The SIC invests the corpus and income of the LGPF. As of June 30, 2012, the market value of the LGPF was approximately \$10.73 billion, an increase of approximately 0.7 percent over the prior fiscal year. Performance for the year ended June 30, 2012 trailed its benchmark by 2.2 percent, while investment returns for the quarter were 0.6 percent below the LGPF's policy index. The corpus of the LGPF is constitutionally protected from

appropriation and LGPF assets are not pledged to and may not be used to pay debt. The LGPF is also protected by the Federal Enabling Act of 1910.

In November 1996, the State electorate approved a constitutional amendment regarding distributions from both of the State's permanent funds. Distributions are now calculated on a total return basis rather than an income distribution method. In addition, distributions to beneficiaries are now based on a formula under which a statutorily specified percentage 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 annual distribution from the LGPF from the previous 4.7 percent, to a new base distribution of 5 percent of the LGPF's five-year average market value, beginning in Fiscal Year 2005. The Constitutional change also provided for additional distributions of 0.8 percent to beneficiaries for fiscal years 2005 through 2012 and an additional 0.5 percent for distribution in fiscal years 2013 through 2016. A three-fifths majority of each house of the Legislature may suspend this additional distribution.

In May 2009 in connection with an ongoing investigation undertaken by the New York Attorney General relating to the use of third party placement agents in connection with investment transactions of that state's retirement fund, Saul Meyer, the founding partner of Aldus Equity Partners ("Aldus"), an investment advisor to that fund, was indicted in New York for allegedly paying illegal kickbacks in connection with investment recommendations to that fund. Aldus had acted as an investment advisor to the SIC and ERB on private equity investments until being terminated shortly after the May 2009 indictment of Mr. Meyer. In October 2009, Mr. Meyer pleaded guilty to a fraud charge relating to investments made by the New York retirement fund and recommended by Aldus. In connection with that plea, Mr. Meyer stated that from 2004 to 2009 Aldus had acted as an advisor to the SIC and the ERB and that, contrary to his fiduciary responsibilities to the SIC and ERB, he ensured that Aldus recommended certain proposed investments pushed on him by politically connected individuals or their associates who stood to benefit financially or politically from the investments, and that the investments were not necessarily in the best interests of the State. Several days later in October 2009, Gary Bland, the State Investment Officer at the time, resigned. In December 2012, Mr. Meyer received a deferred sentence and no jail time. To date, no criminal charges have been filed by state or federal investigators in New Mexico. In line with new statutory authority, in May 2011, the SIC in conjunction with the Day Pitney Law Firm and New Mexico Attorney General, filed recovery lawsuits against more than a dozen placement agents, former Investment Officer Bland, and other individuals, alleging that these individuals improperly benefited from pay-to-play and kickback schemes involving SIC investments. These legal recovery efforts are ongoing.

In response to these and other events and the negative returns suffered by the State's various investment funds during the market turmoil associated with the downturn in the nation's economy in 2008 and 2009, the Board and the Legislative Council Service ("LCS") co-sponsored an Independent Fiduciary and Operational Review of State Investment Policies, Procedures and Practices prepared by Ennis, Knupp & Associates, Inc. (the "Review"). The scope of the work of this Review included, among other things, review and recommendations for appropriate governance and organizational structure, and investment best practices for investing agencies. The findings and recommendations of the Review were reported to the Board at a meeting on January 13, 2010. In order to address certain recommendations of the Review, during the 2010 legislative session the Legislature, among other things, modified the composition of the SIC, clarified the authority of the SIC and the State Investment Officer, provided for the appointment of the State Investment Officer by the SIC and changed the method of appointment of public members of the SIC. In 2012, the SIC asked the consulting group (now known as) Hewitt-EnnisKnupp to revisit the SIC's recent efforts to improve the SIC's investment and governance practices, and assist the SIC in its continuing efforts to expand reforms. As of February 2013, the SIC has implemented or is in the process of implementing more than 79 of the 82 original reform recommendations made by EnnisKnupp.

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 ("SHARE System" or "SHARE"). The SHARE System replaced the State's existing central accounting system, central payroll system, personnel system, treasury reconciliation accounting and cashing 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.

Following the transition to SHARE, the State Treasurer's audit has contained audit findings of varying severity related to the timeliness of the book to bank reconciliation. This issue stems from certain SHARE System limitations as well as required improvements to overall SHARE business processes. In the 2009 Legislative session, an appropriation in the amount of \$1.2 million was made to DFA to address some of these issues. The material weakness related to timeliness of the book to bank reconciliation was reduced to a significant deficiency in the State Treasurer's Fiscal Year 2010 annual financial statements, and further reduced to a control deficiency in the Fiscal Year 2011 annual financial statements.

As of June 30, 2012, the balance sheet of the General Operating Reserve Fund reports an allowance for potential loss of \$70 million with a corresponding loss provision. The potential loss is reported as a special item on the statement of revenues, appropriations and changes in fund balances, since it is considered to be unusual, and its placement within the financial reporting entity of the State of New Mexico is under the control of management. In June 2012, an independent expert diagnostic report revealed that State General Fund Investment Pool (the "Pool") balances have not been reconciled at the business unit/fund level since the inception of SHARE.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (the "DFA/FCD") is taking aggressive action to address the situation. DFA/FCD has commenced the Cash Management Remediation Project (the "Remediation Project") in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert. The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the Pool in a manner that is complete, accurate, and timely. The Remediation Project is anticipated to result in changes to the SHARE configuration, cash accounting policies and procedures, business practices, and banking structure that will allow for the completion of timely and accurate reconciliation of balances on a point-forward basis only.

An approach and plan to address historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items. The effect of any unreconciled differences not allocable to other Pool participants will be reported in the General Operating Reserve Fund.

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 operating budgets and monitors the expenditure of the funds beginning on July 1, the first day of the fiscal year.

State Treasurer's Office

Pursuant to Section 6-10-10(I) NMSA 1978, the State Treasurer, with the advice and consent of the Board, 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"), which is approved by the State Treasurer's Investment Committee and the Board. 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 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 State Treasurer is the investing authority for the State's general fund, the Local Government Investment Pool, the State Bond Proceeds Investment Pool, bond debt service funds, and other special funds.

Reserve Primary Fund Investments. The State Treasurer's Office ("STO") 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 Year 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 \$0.9904 per share to shareholders. On the recommendations of the independent public accounting firm performing the Fiscal Year 2011 audit of the State Treasury, the remaining positions in the RPF, \$4.33 million of the general fund and \$3.01 million of the State Bond Proceeds Investment Pool, were written-down in Fiscal Year 2011. Once all pending litigation is settled, the remaining balance of the fund will be distributed, but this final recovery of funds is expected to be quite small.

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

In addition to Investment Committee oversight and recommendations, the State Treasurer contracts with an independent investment advisor to provide guidance and advice on investments, market conditions and benchmarks. The investment advisor provides quarterly performance reports on all of the State Treasurer's portfolios and information relating to the economic outlook and market trends.

Pension and Other Retirement Funds and Benefits

Legislative History. As with many other states, the State has ongoing funding issues regarding its pension and other retirement funds. In Fiscal Year 2012, the State experienced continued deterioration in the funded ratios and increases in the accrued liabilities of its two pension programs. As set forth below, steps have been proposed by the program funds to reform pension programs and to better ensure the continued viability of the programs.

The Legislature enacted the Educational Retirement Act, Section 22-11-1 et seq. NMSA 1978, the Public Employees Retirement Act, Section 10-11-1 et seq. NMSA 1978, and the Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19, NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are managed by the Educational Retirement Board ("ERB"), the Public Employees Retirement Association ("PERA"), and the New Mexico Retiree Health Care Authority ("NMRHCA") and described below. 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. In 1998, the voters amended the State Constitution, adopting Section 22 of Article XX, which states 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. As with other pension funds nationwide, New Mexico's pension funds were affected by the significant market turmoil related to the downturn in the nation's economy that began in 2008. While as of June 30, 2012, the funds had recovered substantially all of the losses incurred during the 2008 – early 2009 period, issues persist regarding the long-term financial status of the funds.

Recent legislative changes enacted during the 2009, 2010 and 2011 legislative sessions also amended various provisions of the Educational Retirement Act, the Public Employees Retirement Act, and the New Mexico Retiree Health Care Act to improve the long-term stability of these funds.

House Bill 573 (Chapter 288, Laws 2009) increased the years of service requirement from 25 years to 30 years for new members who joined ERB and PERA on or after July 1, 2010. Existing ERB and PERA members remain under the 25-year service requirement. In addition, House Bill 573 increased payroll contributions by employers and employees to the New Mexico Retiree Health Care Fund (the “NMRHCF”). House Bill 573 also included training requirements for members of the ERB and PERA boards.

House Bill 631 (Chapter 286, Laws 2009) added 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) increased the employer/employee contribution to the NMRHCF from 1.95 percent to 3 percent for most employers and employees. The contribution increase was slightly higher for employees in an enhanced retirement plan. The increase is being 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.

House Bill 854 (Chapter 124, Laws 2009) modified 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.

House Bill 628 (Chapter 178, Laws 2011) extended the existing 1.5 percent shift made in House Bill 854 through Fiscal Year 2013 and shifted an additional 1.75 percent of the annual contribution rate from employers to employees for Fiscal Year 2012, with the potential of that shift continuing in Fiscal Year 2013 if the Secretary of the DFA certified to the Legislative Finance Committee, the ERB and PERA that: (a) general fund revenues in Fiscal Year 2012 would not be at least \$100 million more than forecast to be in the Fiscal Year 2012 budget; and, (b) total state reserve funds at the end of Fiscal Year 2012 would be less than 5 percent or more of general fund appropriations in Fiscal Year 2012. In January 2012, the Secretary of the DFA indicated that the requirements to continue the additional 1.75 percent contribution shift would not be met. Accordingly, the additional 1.75 percent of the annual contribution rate shifted back from the employees back to the employers for Fiscal Year 2013. The 1.5 percent contribution shift from the employers to the employees remains in place through Fiscal Year 2013. House Bill 628 also required an actuarial study by PERA and ERB prior to September 20, 2013 to analyze whether contribution rate changes have had an adverse actuarial effect on the retirement systems.

House Bill 129 (Chapter 6, Laws 2011) required retired members who return to work with an educational employer pursuant to Paragraphs A, B or F of Section 22-11-25.1 NMSA 1978 to pay non-refundable contributions to the Educational Retirement Fund equal to the amount paid by non-retired employees. Formerly, the employers had paid those contributions. Employers continue to pay the employers’ contributions to the Fund for retired members who return to work under the statute.

2013 Legislative Developments. A significant number of bills relating to the State's pension and other retirement funds and benefits were introduced in the 2013 legislative session, which concluded on March 16, 2013. Several bills that passed will, if signed by the governor, affect various aspects of these funds and plans.

PERA Amendments. Senate Bill 27, which was endorsed by the PERA board, amends the Public Employees' Retirement Act. The bill reduces the cost of living adjustments for all current and future retirees; delays the application of cost of living adjustments for certain future retirees; suspends the cost of living adjustments for certain return-to-work retirees; provides for an increase

in the statutory employee contribution rate of 1.5 per cent (subject to certain requirements) for employees earning \$20,000 or more in annual salary; provides for an increase in the statutory employer contribution of 0.4 per cent beginning in fiscal year 2015; increases age and service requirements; lengthens the base average salary calculation amount from three to five years for future employees; increases the vesting period for employees from five to eight years for most members; lowers the annual service credit by 0.5 for most members; and makes several other clarifying and technical changes. Senate Bill 27 was passed by the legislature and sent to the Governor, who has until April 5, 2013 to sign or veto the legislation.

ERB Amendments. Senate Bill 115, endorsed by the ERB (duplicated at introduction with House Bill 64) amends the Educational Retirement Act. The bill increases employee contributions to 10.1 percent in fiscal year 2014 and 10.7 per cent in fiscal year 2015; keeps in place scheduled increases in employer contribution rates; creates a new tier membership for persons who become members of the ERB fund after July 1, 2013; creates certain actuarial limitations on benefits of new tier members; places limitations on future cost of living increases for current and future retirees which are tied to the future funded ratios of the plan; and makes certain other clarifying and technical changes. Senate Bill 115 was passed by the legislature and sent to the Governor, who has until April 5, 2013 to sign or veto the legislation.

Judicial and Magistrate Retirement Amendments. Senator Bill 25 amends the Judicial Retirement Act and the Magistrate Retirement Act. The bill adjusts employee contributions; converts employer contributions to a percentage of employee salary; increases age and service requirements; adjusts and limits cost of living increases and ties increases to the future funding ratios of the plan; makes certain adjustments to benefit and vesting calculations; and makes certain other clarifying and technical changes. Senate Bill 25 was passed by the legislature and sent to the governor, who has until April 5, 2013 to sign or veto the legislation.

Legislative Retirement Amendments. Senate Bill 114 provides temporary changes to the eligibility provisions of laws relating to state legislative pensions. The bill provides that certain legislators who failed to make timely contributions to the plan may qualify by making a payment of seven hundred dollars and also provides for certain other benefits for other members through making additional contributions. Senate Bill 114 was passed by the legislature and sent to the Governor, who has until April 5, 2013 to sign or veto the bill.

Other Legislation. Various other bills relating to pension and other retirement funds and benefits were introduced in the 2013 Legislative Session including Senate Bill 26 (PERA changes), Senate Bill 71 (retiree health care changes), Senate Bill 86 (PERA and ERB changes), Senate Bill 121 (PERA public safety member changes), Senate Bill 168 (PERA public safety member changes), Senate Bill 317 (PERA cost of living adjustments), House Bill 95 (Judicial and Magistrate retirement adjustments), House Bill 96 (ERB sick leave adjustments), House Bill 147 (PERA return to work adjustments) and House Bill 252 (public safety fund contributions to PERA). These bills did not pass, but certain of the provisions of these various bills were included in some form in those items of legislation that were passed.

Educational Retirement Board-Historic Financial Information. The ERB had 132,223 members as of June 30, 2012, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the "Fund") as of June 30, 2012 was \$9.5 billion, which was up from a low of \$6.0 billion in February 2009. The ERB had investment gains for the Fiscal Year 2012 of 1.6 percent. Based on preliminary data, the market value of the Fund as of December 31, 2012 increased to \$9.9 billion. Investment returns for the quarter and 12-month period ending December 31, 2012 were 1.4 percent and 13.6 percent, respectively.

In April 2011, the ERB voted to change its assumed rate of return on the pension fund's investments from 8.0 percent to 7.75 percent. As of June 30, 2012, the actuarial value of assets was \$9.5

billion and the unfunded accrued actuarial liability (“UAAL”) was \$6.2 billion based on the 7.75 percent assumed rate of return. The pooled nature and structure of the Fund, which covers all employees working in K-12, higher education and special state schools, and certain employees in state and special purpose agencies, does not allow the UAAL of the Fund to be apportioned among multiple employers. Others changes were made to the ERB's actuarial assumptions in April 2011, the most significant of which included: changing the funding method to traditional individual entry age normal; revising post-retirement mortality to reflect slightly longer life expectancy; changing retirement rates at ages 65 and 69 and with 25 or more years of service; decreasing salary increases for members with 10 or more years of service; and decreasing membership growth assumptions. The combined effect of the changes in actuarial assumptions, including to the assumed investment return rate, increased the UAAL by \$426.1 million. Based on the 7.75 percent assumed rate of return and the other changes described, the estimated funding ratio (ratio of the actuarial value of assets to actuarial accrued liability) as of June 30, 2011 was 63.0 percent. The funded ratio on June 30, 2012 was 60.7 percent.

The change in the assumed rate of return was recommended by the ERB's outside actuaries and was made after consultations with the ERB's internal investment staff and its general investment consultant. The ERB will continue to monitor both its investment returns and general market conditions and may again change its assumed rate of return as market conditions and experience warrant.

As of June 30, 2012, the UAAL had an infinite amortization period based on the 7.75 percent assumed rate of return. 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. 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.

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 0.75 percent for each of the seven years beginning July 1, 2005, and to increase member contribution rates by 0.075 percent for each of the four years beginning July 1, 2005. In the 2009 regular legislative session, the Legislature modified employer and member contribution rates for Fiscal Years 2010 and 2011 to shift 1.5 percent of the employer contribution rate to members whose annual salary exceeds \$20,000, resulting in a member contribution rate of 9.4 percent. In the 2011 regular legislative session, the Legislature again modified employer and member contribution rates for Fiscal Year 2012 to extend the 1.5 percent shift and add an additional 1.75 percent shift; for members whose salary exceeds \$20,000, the Fiscal Year 2012 contribution rate was 11.15 percent. As a result of the expiration of the 1.75 percent contribution shift described above, the contribution rate for those members whose salary exceeds \$20,000 is 9.4 percent in Fiscal Year 2013. For those members whose annual salary is \$20,000 or less, the contribution rate remains at 7.9 percent.

In both the 2010 and the 2011 regular legislative sessions, the Legislature also modified employer contribution rates. In Fiscal Years 2010 and 2011, the employer contribution rate for members whose salary is greater than \$20,000 was 10.9 percent. The employer contribution rate for those members was 9.15 percent in Fiscal Year 2012. The employer contribution rate in Fiscal Year 2013 has returned to 10.9 percent. The contribution rate for members whose salary is \$20,000 or less is 12.4 percent in Fiscal Years 2010, 2011, 2012, and 2013. In Fiscal Year 2014, the employer contribution rate for all members employed, regardless of salary, will increase to 13.15 percent. Beginning in Fiscal Year 2015, the employer contribution rate will be 13.9 percent for all members employed. As noted above, GASB Statement 25 does not permit the consideration of contribution rates not yet in effect, so the funding period is reported based on the contribution rates actually in effect as of the date the contribution is made. 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.

GASB Statement 25 also requires ERB to report the annual required contribution of the employer (the "ARC") and the percentage of the ARC contributed. ERB meets 100 percent of its statutorily required employer contributions annually. The following table lists the ARC and the ERB funded ratio for Fiscal Years 2008 through 2012.

Table 10

ERB Funded Ratio

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Funded Ratio</u>
2008	\$368,196,682	71.5%
2009	\$375,430,722	67.5
2010	\$357,220,043	65.7
2011	\$377,884,749	63.0
2012	\$400,461,343	60.7

Source: Educational Retirement Board

ERB pensions are adjusted annually beginning on the later of either July 1 of the year in which a member reaches age 65 or July 1 following the year a member retires. The adjustment is ½ of the CPI percentage increase, except that it will not exceed 4 percent or be less than 2 percent in absolute value. If the absolute value of the CPI percentage increase is less than 2 percent, the adjustment is the same as the CPI percentage increase. Pensions cannot be decreased if there is a decrease in the CPI.

In 2010, the ERB changed the manner in which interest was calculated on members' contributions that are subject to refund so that it would be calculated in a manner similar to a savings account. As a result of a programming error, interest was miscalculated on refunds during July and August 2010 leading to overpayment of approximately \$1.7 million to 693 individuals. The software was corrected after staff became aware of the error. Subsequently, the ERB undertook steps to recover the overpayments. To date, between \$1.1 and \$1.2 million has been recovered. The ERB has entered into payment plans with a number of the recipients through which it expects to recover additional funds and is continuing to pursue recovery from others who were overpaid.

In September 2011, the ERB adopted goals of achieving an 80 percent funded ratio by 2030 and a 95 percent funded ratio by 2040. To achieve these goals, following a series of statewide outreach meetings and a poll of active and retired members, in December 2011 the ERB endorsed proposed legislation that was introduced in the 2012 legislative session to amend the Education Retirement Act to establish a minimum age of 55 to receive retirement benefits, reduce the annual CPI-based adjustment described above for members age 65 and older by one-eighth overall with a maximum possible increase of 3.5 percent, and permanently increase all member contributions to 9.9 percent by July 1, 2017 and all employer contributions to 13.9 percent by July 1, 2018. The proposal passed the Senate and was favorably reported out of House committees. The session adjourned, however, before the full House could consider it.

The ERB will continue to support amendments to the Educational Retirement Act based on the following framework: shared responsibility among members, retirees and employers; intergenerational equity (i.e., the costs of achieving the goals must be borne by current members, retirees and employers, as well as future members); long term sustainability and preservation of the

defined benefit plan; and, maintaining a similar benefit structure for all members, current and future, over time.

The Public Employees Retirement Association-Historic Financial Information. PERA had 85,106 members as of June 30, 2012. As of September 30, 2012, the total market value of PERA Fund was \$12.3 billion. The September 30, 2012 quarterly PERA total fund investment return was 5.07 percent and the 12 month total fund investment return as of that date was 16.7 percent. On a preliminary basis, the market value of the PERA Fund as of December 31, 2012 increased to \$12.4 billion with an investment return of 2.01 percent for the quarter.

Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund (“VFF”) as of June 30, 2012. In July 2012, the PERA Board accepted the actuary’s revised assumptions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 3.5 percent per annum, a real rate of return on investment of 7.75 percent and salary increases for longevity and merit at 4.0 percent, each compounded annually.

Actuarial information for each fund as of June 30, 2012 is shown in Table 11.

TABLE 11

Summary of State Retirement Funds Managed by PERA
(Dollars in thousands)

	PERA⁽¹⁾	Judicial	Magistrate	VFF	Legislative
Membership	85,106	263	140	6,638	294
<u>Actuarial Information</u>					
Accrued Liability ⁽²⁾	\$ 17,788,044	\$ 147,923	\$ 58,037	\$ 28,219	\$ 27,429
Actuarial Value of Assets ⁽³⁾	\$ 11,612,047	\$ 75,507	\$ 30,878	\$ 47,382	\$ 25,168
Unfunded (Overfunded) Accrued Liability	\$ 6,175,997	\$ 72,416	\$ 27,158	\$ (19,162)	\$ 2,260
Present Value of Statutory Obligations	\$ 21,300,016	\$ 174,822	\$ 63,225	\$ 31,671	\$ 30,288

⁽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 7.75 percent annual return are smoothed in over a four-year period.

Source: *Public Employees Retirement Association.*

As of June 30, 2012, PERA has an amortization or funding period designated as infinite, based on the employer and member contribution rates in effect as of July 1, 2012. 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 accrued actuarial liability) was 65.3 percent as of June 30, 2012 and the UAAL of the PERA Fund has been calculated to be approximately \$6.2 billion. The State's portion of the UAAL of the PERA Fund is 50.1 percent, or \$3.1 billion. As of June 30, 2011, the funded ratio was 70.5 percent and the UAAL of the PERA Fund was calculated to be approximately \$4.8 billion. The primary cause of the deterioration of the funded ratio and increase in accrued actuarial liability is the investment losses applied over the four plan years between 2009 and 2012. On a market value basis, PERA’s funded ratio is approximately 65.1 percent as of June 30, 2012. The PERA Board has reviewed the results of its June 30, 2012 actuarial valuation, which indicates that additional contributions and significant benefit reforms are required in order to properly fund the PERA retirement plans. The PERA Board’s reform proposal (Senate Bill 27) will have an immediate impact on reducing the \$6.2 billion unfunded liability and restore the fund to approximately 100 percent funded status by 2042.

GASB Statement 25 requires PERA to report its ARC and the percentage of the ARC contributed. PERA meets 100 percent of its statutorily required employer contributions annually. The following tables list the funded ratios for each individual PERA fund for Fiscal Years 2008 through 2012.

TABLE 12

Funded Ratio of State Retirement Funds Managed by PERA

<u>Fiscal Year</u>	<u>PERA</u>	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
2008	93.3%	78.3%	93.2%	285.8%	93.4%
2009	84.2	60.5	66.3	242.5	86.9
2010	78.5	61.2	65.8	231.3	82.9
2011	70.5	56.0	59.8	173.4	89.2
2012	65.3	51.0	53.2	167.9	91.8

Source: Public Employee Retirement Association

New Mexico Retiree Health Care Authority-Historic Financial Information. The RHCA was enacted for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service positions in the State and their eligible dependents. NMRHCA offers both pre Medicare and Medicare plans, as well as dental, vision and life insurance plans to eligible retirees. There were approximately 51,000 enrolled members as of July 2012 and approximately 300 participating public entities.

While NMRHCA experienced an investment loss in Fiscal Year 2012 of approximately 2 percent, NMRHCA has been able to add over \$50 million to its trust fund over the past two years. NMRHCA’s market value as of December 31, 2012 was \$256.5 million.

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.

NMRHCA, the agency that administers the Retiree Health Care Act, has a revenue 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”). Employer and employee contribution rates are established in statute as is the amount distributed from the TAA Fund. Respective employer/employee contribution rates were 2 percent and 1 percent of the participating employee’s salary for Fiscal Year 2012.

Based on the GASB Statement 43 valuation for Fiscal Year 2012, and assuming that the NMRHCA Fund 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 \$3.6 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. The NMRHCA continues to look for additional opportunities to further strengthen the financial standing of the NMRHCA. The NMRHCA Board of Directors has passed a five-year solvency plan to ensure the long term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and their employers. In addition to increased retiree cost sharing through plan design changes, the solvency plan calls for proportionately higher premiums for retirees who retired younger (decreased premium subsidies to pre-Medicare retirees), didn’t work or pay into the system as long (increasing years of service

required to receive maximum subsidy) and decreased subsidies for family members. Taken as a whole, the plan is projected to extend the life of the NMRHCA’s trust fund into 2045.

As recently as five years ago, the NMRHCA was projected to be insolvent as early as 2014. However, actions taken by the NMRHCA decreasing subsidy levels, increasing premiums and modifying plan designs, coupled with increases in employer/employee contribution rates have extended the NMRHCA’s solvency to approximately 2029.

GASB Statement 43 also requires the NMRHCA to report its ARC and the percentage of the ARC contributed. The following table lists the NMRHCA ARC and percentage of the ARC contributed for Fiscal Years 2008 through 2012.

Table 13

NMRHCA Annual Required Contribution

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$286,538,244	33.8%
2009	\$297,999,753	37.6
2010	\$309,919,743	34.1
2011	\$326,994,988	36.9
2012	\$340,074,787	39.8

Source: New Mexico Retiree Health Care Authority

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 2011 United States Census was 2,082,224. From 2000 to 2010, the State’s population grew 13.2 percent, while the national population grew 9.7 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 Bernalillo, Doña Ana, McKinley, Sandoval, and Otero. The following table sets forth information on population growth in New Mexico and nationally.

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TABLE 14

**Population
New Mexico and the United States
2003-2012**

<u>Year</u>	<u>Population</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2003	1,868,121	290,242,027	1.0%	0.9%
2004	1,890,215	292,936,109	1.2	0.9
2005	1,914,699	295,618,454	1.3	0.9
2006	1,940,631	298,431,771	1.4	1.0
2007	1,966,357	301,393,632	1.3	1.0
2008	1,984,179	304,177,401	0.9	0.9
2009	2,007,315	306,656,290	1.2	0.8
2010 (est.)	2,059,179	308,747,508	2.6	0.7
2011 (est.)	2,078,674	311,587,816	0.9	0.9
2012 (est.)	2,085,538	313,914,040	0.3	0.7

Source: U.S. Census Bureau, Population Division. Last Revised: January 2013.

Major industries in the State include oil and natural gas production, manufacturing, service, 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 2002 through 2011.

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TABLE 15

Total New Mexico Full-time and Part-time Employment by North American Industry Classification System 2002-2011

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Growth 2010-2011</u>	<u>Growth 2002-2011</u>
Total employment	979,946	999,286	1,023,303	1,046,746	1,076,098	1,100,589	1,103,123	1,070,984	1,060,446	1,065,886	0.5%	8.8%
Wage and salary employment	800,588	812,914	829,861	845,127	868,119	878,205	881,348	848,392	840,219	840,690	0.1%	5.0%
Proprietors employment	179,358	186,372	193,442	201,619	207,979	222,384	221,775	222,592	220,227	225,196	2.3%	25.6%
Farm proprietors employment	14,530	16,045	15,632	15,588	15,255	18,193	17,745	17,581	18,664	19,797	6.1%	36.2%
Nonfarm proprietors employment	164,828	170,327	177,810	186,031	192,724	204,191	204,030	205,011	201,563	205,399	1.9%	26.2%
Farm employment	20,845	22,838	22,619	23,262	22,829	25,804	24,416	24,549	25,307	26,300	3.9%	26.2%
Nonfarm employment	959,101	976,448	1,000,684	1,023,484	1,053,269	1,074,785	1,078,707	1,046,435	1,035,139	1,039,586	0.4%	8.4%
Private employment	750,194	762,831	783,120	804,832	838,993	864,918	865,478	830,307	817,883	825,756	1.0%	10.1%
Forestry, fishing, related activities and other ⁽¹⁾	5,096	4,979	5,181	5,239	5,136	5,164	5,332	5,131	5,238	5,360	2.3%	5.2%
Mining ⁽²⁾	17,957	18,576	19,245	21,171	23,726	25,165	28,359	24,470	27,133	31,092	14.5%	73.1%
Utilities	4,078	4,114	4,040	4,075	4,121	4,418	4,570	4,805	4,576	4,537	-0.9%	11.3%
Construction ⁽³⁾	61,864	64,135	68,382	73,978	79,826	80,568	77,969	67,210	61,864	59,668	-3.6%	-3.6%
Manufacturing	43,908	41,544	40,542	41,106	42,710	42,753	40,600	36,358	34,626	35,419	2.3%	-19.3%
Durable goods manufacturing ⁽⁴⁾	30,838	28,715	27,857	28,451	29,821	29,719	27,979	24,358	23,065	23,471	1.8%	-23.9%
Nondurable goods manufacturing ⁽⁵⁾	13,070	12,829	12,685	12,655	12,889	13,034	12,621	12,000	11,561	11,948	3.4%	-8.6%
Wholesale trade	27,232	26,633	27,285	28,377	29,288	29,951	28,705	26,657	26,916	26,030	-3.3%	-4.4%
Retail trade ⁽⁶⁾	111,167	112,445	114,169	116,097	116,750	118,998	118,176	114,066	111,136	111,191	0.1%	0.1%
Transportation and warehousing ⁽⁷⁾	24,229	24,158	24,961	25,321	25,953	27,312	26,672	24,317	23,741	24,468	3.1%	1.0%
Information ⁽⁸⁾	18,578	17,927	17,163	17,299	18,445	18,648	18,749	17,313	17,051	16,181	-5.1%	-12.9%
Finance and insurance ⁽⁹⁾	31,251	31,544	31,769	32,039	32,172	33,357	34,809	36,160	34,699	35,218	1.5%	12.7%
Real estate and rental and leasing ⁽¹⁰⁾	30,229	31,922	34,715	38,209	40,313	42,406	41,858	40,019	40,073	40,596	1.3%	35.2%
Professional and technical services	59,834	62,534	65,461	66,337	73,827	81,546	81,578	80,716	78,627	78,570	-0.1%	34.3%
Management of companies and enterprises	6,129	5,440	5,354	6,354	6,425	6,076	5,912	5,571	5,392	5,497	2.0%	-10.3%
Administrative and waste services ⁽¹¹⁾	54,229	53,292	54,598	55,224	58,489	60,429	60,315	55,858	54,559	55,609	1.9%	2.5%
Educational services	12,765	13,932	14,888	15,384	15,919	15,767	15,986	16,152	16,749	17,580	5.0%	37.7%
Health care and social assistance ⁽¹²⁾	94,469	99,899	103,691	105,151	108,016	111,935	114,850	118,184	119,722	121,828	1.8%	29.0%
Arts, entertainment and recreation ⁽¹³⁾	19,994	20,376	20,987	21,463	21,795	22,952	23,311	23,251	23,049	23,311	1.1%	25.6%
Accommodation and food services ⁽¹⁴⁾	77,972	79,682	80,465	81,343	84,403	85,141	84,022	81,722	81,659	82,471	1.0%	16.6%
Other services, except public administration ⁽¹⁵⁾	49,213	49,699	50,224	50,665	51,679	53,332	53,705	52,347	51,073	51,130	0.1%	3.9%
Government and government enterprises ⁽¹⁶⁾	208,907	213,617	217,564	218,652	214,276	209,867	213,229	216,128	217,256	213,830	-1.6%	2.4%

[Footnotes on following page]

- (1) The “Forestry, fishing, related activities, and other” category includes: forestry and logging; fishing, hunting and trapping; agriculture and forestry support activities.
 - (2) The “Mining” category includes: oil and gas extraction; mining (except oil and 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; and
 - (16) The “Government and government enterprises” category includes: federal, civilian; military; state and local; and state government and local government.
- Source: *Regional Economic Information System, Bureau of Economic Analysis, January 2013.*

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

TABLE 16

**Employment and Labor Force
New Mexico and the United States
2002 - 2011**

<u>Year</u>	<u>Civilian Labor Force</u>		<u>Number of Employed</u>		<u>Unemployment Rate</u>		<u>N.M. as % of U.S. Rate⁽¹⁾</u>
	<u>New Mexico⁽¹⁾</u>	<u>United States⁽¹⁾</u>	<u>New Mexico⁽¹⁾</u>	<u>United States⁽¹⁾</u>	<u>New Mexico⁽¹⁾</u>	<u>United States⁽¹⁾</u>	
2002	872	145,066	823	136,426	5.5%	6.0%	92%
2003	888	146,729	836	138,441	5.9%	5.7%	104%
2004	902	148,059	850	140,125	5.8%	5.4%	107%
2005	913	150,030	866	142,752	5.2%	4.9%	106%
2006	925	152,732	887	145,970	4.1%	4.4%	93%
2007	934	153,936	902	146,272	3.4%	5.0%	68%
2008	952	154,669	910	143,324	4.5%	7.3%	62%
2009	942	153,172	876	137,960	7.0%	9.9%	71%
2010	956	153,690	874	139,206	8.6%	9.4%	91%
2011	927	153,887	863	140,790	7.0%	8.9%	79%

⁽¹⁾ Figures rounded to nearest thousand.

Source: United States Department of Labor; Bureau of Labor Statistics. Last Revised: January 2013.

TABLE 17

**Personal Income
New Mexico and the United States
2002 - 2011**

<u>Year</u>	<u>Personal Income (Dollars in thousands)</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2002	\$46,340,515	\$9,054,702,000	2.2%	2.0%
2003	48,139,404	9,369,072,000	3.9%	3.5%
2004	51,578,691	9,928,790,000	7.1%	6.0%
2005	55,341,826	10,476,669,000	7.3%	5.5%
2006	59,274,367	11,256,516,000	7.1%	7.4%
2007	63,043,607	11,899,853,000	6.4%	5.7%
2008	66,724,334	12,379,745,000	5.8%	4.0%
2009	65,585,583	11,852,715,000	-2.6%	-4.8%
2010	68,050,198	12,308,496,000	3.8%	3.8%
2011	71,073,183	12,949,905,000	4.4%	5.2%

Source: U.S. Department of Commerce, Bureau of Business & Economic Research. Last Revised: January 2013.

TABLE 18
Per Capita Personal Income
New Mexico and the United States
2002 - 2011

<u>Year</u>	<u>Per Capita Income</u>		<u>N.M. as a % of U.S.</u>	<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>		<u>N.M.</u>	<u>U.S.</u>
2002	\$25,048	\$31,461	80%	1.0%	1.0%
2003	25,747	32,271	80%	2.8%	2.6%
2004	27,264	33,881	80%	5.9%	5.0%
2005	28,876	35,424	82%	5.9%	4.6%
2006	30,513	37,698	81%	5.7%	6.4%
2007	32,022	39,458	81%	4.9%	4.7%
2008	33,584	40,673	83%	4.9%	3.1%
2009	32,200	38,637	83%	-3.9%	-5.6%
2010	32,940	39,791	83%	2.3%	3.0%
2011	34,133	41,560	82%	3.6%	4.4%

Source: U.S. Department of Commerce, Bureau of Business & Economic Research. Last Revised: January 2013.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

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

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

Principal, interest and redemption proceeds 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 or Agent, 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, Agent or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of

principal, interest or 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 or Agent, 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 securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

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

Covenants

So long as any Bonds are outstanding, the State and the Board have covenanted and agreed with the owners of Bonds that: (a) the State will levy, assess and collect *ad valorem* taxes, without limit as to rate or amount, in amounts sufficient to pay the principal of and interest on the Bonds as they become due and the State will cause the proceeds of the *ad valorem* taxes collected to be set aside and applied promptly to pay the principal of and interest on the Bonds when due; (b) the State will promptly pay the principal of and the interest on the Bonds, at the places, on the dates and in the manner specified in the Resolution and in the Bonds; (c) the State will keep proper books of record and account, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to each of the funds and the accounts designated in the Resolution; (d) any owner of any of the Bonds or any duly authorized agent of an owner, will have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds, the collection of *ad valorem* taxes and the accounts designated in the Resolution; provided, however, that pursuant to Section 6-14-10E NMSA 1978 Comp., as amended, records with regard to the ownership of or pledges of the Bonds are not subject to inspection or copying under any law of the State relating to the right of the public to inspect or copy public records; (e) the State will prepare annual statements or audits of collections and disbursements of *ad valorem* taxes in sufficient detail to show compliance with requirements of the Resolution and the State will furnish a copy of such audit to any owner of Bonds upon written request therefor; (f) in order to prevent any accumulation of claims for interest after maturity, the State will not directly or indirectly extend or assent to the extension of time for the payment of interest on any of the Bonds and if the time for the payment of any such claim is extended, such extended payment or payments of interest will not be entitled, in the event of default under the Resolution, to the benefit or security of the Resolution, except upon the prior payment in full of the principal of and interest on the Bonds, on which the payment of interest has not been executed; (g) each official or other person having custody of any funds derived from State *ad valorem* taxes, or responsible for their handling, will be bonded as provided by law, which bond will be conditioned upon the proper application of those funds; (h) the State will make no use of the proceeds of the Bonds or any

funds reasonably expected to be used to pay the Bonds which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") or which would result in the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds, and the Governor and the Secretary of the Department of Finance and Administration of the State, or any other officer of the State having responsibility for the issuance of the Bonds, will give an appropriate certificate of the State, for inclusion in the transcript of proceedings for the Bonds, setting forth the reasonable expectations of the State regarding the amount and use of all the proceeds of the Bonds, the facts, circumstances and estimate on which they are based, and other facts and circumstances relevant to the tax treatment of interest on the Bonds; (i) the State (1) will take or cause to be taken such actions which may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes and (2) will not take or permit to be taken any actions which would adversely affect that exclusion, and the State or persons acting for it, will, if necessary to maintain such exclusion, among other acts of compliance, (i) apply, or cause to be applied, the proceeds of the Bonds to the purpose of the borrowing, (ii) restrict the yield on investment property acquired with those proceeds, (iii) make timely rebate payments to the federal government in accordance with Section 148 of the Code and the Resolution, (iv) maintain books and records and make calculations and reports, and (v) refrain from certain uses of proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code, which the Secretary of the Department of Finance and Administration of the State, State Treasurer and other appropriate officers are authorized and directed to take any and all actions, make calculations and rebate payments, and make or give reports and certifications, as may be appropriate to assure; and (j) interest on the Bonds is exempt from taxation by the State.

Defeasance

If the State pays all of the outstanding Bonds, or causes 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, are otherwise paid to the owners of the outstanding Bonds, then the Resolution will cease and become null and void (except for those provisions surviving in accordance with the last paragraph of this section), and the covenants, agreements and obligations of the Board and the State under the Resolution will 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, in advance of any payment to the owners of the outstanding Bonds, has received sufficient moneys for the payment in full of the principal of and interest on the Bonds, or part thereof, or (2) there has been placed in trust for the payment of the Bonds and irrevocably committed to such payment, noncallable Defeasance Obligations (defined below) which are certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates, and scheduled to bear such interest, as will be sufficient, together with any moneys on deposit with the Registrar/Paying Agent available to pay principal of and interest on the Bonds, without further investment or reinvestment of either the principal amount or the interest earnings on such Defeasance Obligations (which earnings are to be held likewise in trust and so committed, except as provided herein), for the payment in full of all principal of and interest on the Bonds, or part of the Bonds, deemed to have been paid, at their maturity.

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

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

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

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

Any moneys held in trust in accordance with the defeasance provisions of the Resolution may be invested only in noncallable Defeasance Obligations having maturity dates, or having redemption dates which, at the option of the holder of such 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 pursuant to this paragraph, a written notice of such deemed payment and discharge will 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 will state the numbers of the Bonds deemed paid and discharged or state that all Bonds are deemed paid and discharged and set forth a description of the obligations held pursuant to this paragraph.

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

Amendment of Resolution

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

Except as provided above, the Resolution may only be amended or supplemented by resolution adopted by the Board in accordance with applicable law, with or without receipt by the State of any additional consideration, but with the written consent of the owners of a majority in principal amount of the Bonds then outstanding; provided, however, that no such resolution shall have the effect of

permitting: (i) an extension of the maturity of any Bond; or (ii) a reduction in the principal amount of, or the rate of interest on, any Bond; or (iii) a reduction of the principal amount of Bonds required for consent to such amendatory or supplemental resolution; or (iv) the establishment of priorities as between Bonds issued and outstanding under the provisions of the Resolution; or (v) the modification of, or otherwise affecting, the rights of the owners of less than all of the Bonds then outstanding (other than originally permitted by the Resolution).

Remedies of Holders of Bonds

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

Payment of Principal and Interest

Interest on the Bonds will be payable by check or draft mailed to their registered owners, as shown on the registration books for the Bonds maintained by the Registrar/Paying Agent at the address appearing in such books at the close of business on the fifteenth (15th) day of the calendar month next preceding each applicable interest payment date (the "Record Date") or, if such date is not a business day, the first (1st) 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 will cease to be payable to the owners of the Bonds (or of one or more predecessor Bonds) as of the Record Date, but will 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 will be fixed by the Registrar/Paying Agent whenever moneys become available for payment of the overdue interest, and notice of the Special Record Date will be given to owners of Bonds not less than ten (10) days prior to such date. The principal of the Bonds is payable upon presentation and surrender of the Bonds without deduction for exchange or collection charges at the office of the Registrar/Paying Agent. Principal of and interest on the Bonds are payable in lawful money of the United States of America.

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

TRANSCRIPT AND LEGAL OPINIONS

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

Legal matters incident to the issuance of the Bonds and the exclusion from gross income for Federal and State of New Mexico income tax purposes of interest on the Bonds (see "TAX MATTERS" below and the form of opinion of Bond Counsel attached hereto as Appendix C) are subject to the approving legal opinion of Brownstein Hyatt Farber Schreck LLP, Bond Counsel to the State. Certain

legal matters will be passed upon for the State by the Office of the Attorney General of the State of New Mexico and by Brownstein Hyatt Farber Schreck, LLP, as Disclosure Counsel to the State.

TAX MATTERS

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

In the opinion of Brownstein Hyatt Farber Schreck LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that the 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 maturing on March 1, 2014 through March 1, 2020 and maturing on March 1, 2022 (collectively, the “Premium Bonds”) and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Premium Bonds of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest basis over the term of each Premium Bond. For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser’s adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Interest on the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer 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 that could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for Federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of bond counsel other than Bond Counsel.

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

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

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

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

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or owners should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability,

inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in New Mexico and other states.

LITIGATION

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

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

FINANCIAL STATEMENTS

Appendix A contains excerpts from the State of New Mexico General Fund, Annual Financial Report for the year ended June 30, 2012, the most recent year for which such excerpts are available.

FINANCIAL ADVISORS

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

RATINGS

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

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

CONTINUING DISCLOSURE UNDERTAKING

The Board will agree, by means of a continuing disclosure undertaking (the substantial form of which appears in Appendix D) to be delivered to the purchaser of the Bonds at closing, for the benefit of owners of the Bonds, to provide certain annual financial information relating to the State by no later than 210 days after the end of each fiscal year of the State, commencing with the fiscal year ending June 30, 2013, 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 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.

On January 14, 2013, the Board on behalf of the State filed a notice of listed event (the "Notice") in connection with the \$149,000,000 State of New Mexico Severance Tax Bonds, Series 2008A-1 (the "Series 2008A-1 Bonds") with the Municipal Securities Rule Making Board through its Electronic Municipal Marketplace Access website. The Series 2008A-1 Bonds were refunded and defeased but not redeemed. Pursuant to the Escrow Agreement, the Escrow Agent remitted the interest payment due January 1, 2013 in the amount of \$1,650,200 to the State Treasurer on January 2, 2013. The State Treasurer submitted such interest payment to the Depository Trust Company on January 8, 2013. Section 2(d)(i) of the Continuing Disclosure Undertaking dated as of June 25, 2008, executed and delivered by the Board in conjunction with the issuance and delivery of the Series 2008A-1 Bonds, requires that the Board file the Notice describing the interest payment delinquency. As a result of the delinquent interest payment, the State Treasurer required that the Chief Investment Officer, the Chief Financial Officer and the Compliance and Quality Assurance Officer of the State Treasurer's Office review the internal and external processes of the State Treasurer's Office to avoid this oversight in the future. In addition, all banking and investment activity conducted by the State Treasurer's Office is expected to be integrated into the SHARE System. Integration into the SHARE System, would result in the automation of the debt service payment process and eliminate human error related to delinquent bond interest payments.

APPENDIX A

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

YEAR ENDED JUNE 30, 2012

State of New Mexico
Component Appropriation Funds

*Annual Financial Report
and
Independent Auditors' Report
June 30, 2012*

REDW^{LLC}
CPAs | Business & Financial Advisors

State of New Mexico Component Appropriation Funds

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State of New Mexico
Component Appropriation Funds

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**State of New Mexico
Component Appropriation Funds**

**Official Roster
June 30, 2012**

Elected Official

Governor Susana Martinez

Officials

Department of Finance and Administration:

Cabinet Secretary

Thomas E. Clifford, Ph.D.

State Controller

Ricky Bejarano, CPA

Deputy Division Director, Financial Control Division

Steve Gonzales

Independent Auditors' Report

Mr. Thomas E. Clifford, Ph.D., Cabinet Secretary Designate
State of New Mexico
Department of Finance and Administration
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of each of the statutorily and administratively created funds that comprise the Component Appropriation Funds of the State of New Mexico as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the State of New Mexico 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 internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1A, the accompanying financial statements present only the Component Appropriation Funds and do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each of the statutorily and administratively created funds that comprise the Component Appropriation Funds as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed on Note 6, the accompanying financial statements of the General Operating Reserve fund report a \$70 million allowance for potential loss, with a corresponding provision, based on management's estimate of the minimum effect of an ongoing project to reconcile the State General Fund Investment Pool managed by the State Treasurer's Office with the corresponding claim on the Pool's assets reported by various State agencies. To the extent differences resulting from this project are not allocated to the various State agencies, they will be recorded in the General Operating Reserve Fund. Our opinion on the financial statements of the General Operating Reserve Fund is not modified with respect to this matter; although, as the reconciliation project continues, management's estimate of its effect may change in the near term.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of the Component Appropriation Funds' internal control over financial reporting and on our tests of their 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 5 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Component Appropriation Funds' financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing

procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

REDW LLC

Albuquerque, New Mexico
December 17, 2012

State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2012

Overview of the Reporting Entity

The Component Appropriation Funds (the Funds) consist of nine funds of the State of New Mexico, four of which are created by statute and five created by management, as follows:

Statutorily Created Funds

- Common School Current Fund
- Current School Fund
- State Support Reserve Fund
- Tobacco Settlement Permanent Fund

Administratively Created Funds

- Appropriation Account Fund
- Federal Mineral Leasing Fund
- Appropriation Contingency Reserve Fund
- General Operating Reserve Fund
- Tax Stabilization Reserve Fund

The Funds are part of the general fund of the State of New Mexico, as reported in the State's Comprehensive Annual Financial Report.

This report has been prepared to meet the information needs of interested parties—the public, bond holders, bond rating agencies, the New Mexico State Legislature—and to comply with the State of New Mexico Audit Act. It presents the financial position and results of operations of each the Funds, with summary “memorandum only” totals.

In previous years, reports were prepared that presented the aggregate total of the Funds as a “general fund” in the basic financial statements, with financial statements of the individual funds presented as supplementary information. Previous years' reports also included an “entity-wide” statements of net assets and statements of activities using the full accrual basis of accounting. The accompanying report present substantially the same information by reporting each of the individual funds in the basic financial statements, with aggregate totals reported as “memorandum only.”

Financial Highlights

The Funds ended the year with aggregate reserves of 13.1% of recurring current year appropriations as compared to 9.7% in fiscal year 2011.

State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2012

The aggregate fund balance of the Funds increased by \$208.2 million in fiscal year 2012, it increased by \$226.7 million in fiscal year 2011, and it decreased by \$110.7 million in fiscal year 2010. The increase in 2012 is attributable to revenues increasing by 6.2% and appropriations increasing by 5.2% compared with the previous year.

As of June 30, 2012, the General Fund Operating Reserve Fund reports a contingent liability of \$70 million and a corresponding provision for potential loss, related to the General Fund Investment Pool maintained by the New Mexico State Treasurer's office. Management considers this necessary because the General Fund Operating Reserve Fund is expected to absorb adjustments not allocable to other State agencies that may result from a reconciliation process currently underway, as described in Note 6 to the financial statements.

Fiscal year 2012 compares to fiscal year 2011 as follows:

- General and selective taxes are the largest revenue sources, contributing 42% of total aggregate revenues in fiscal year 2012. Those revenues increased by \$95.5 million or 4.1%. From the general and selective taxes, gross receipts tax had an increase of \$106.0 million or 5.8%. Income taxes the second largest revenue source contributed 24% of the total revenues. Those revenues increased by \$104.7 million or 7.9%. Personal income tax rose by \$87.1 million and corporate income tax rose by \$51.2 million or 22.3%. Part of the growth in corporate income tax is that film credits payments were well below the forecast in fiscal year 2012.
- Rents and royalties increased by \$117.7 or 24.7%. Federal royalties and state land bonuses were larger than expected, resulting from increased oil prices and volumes. Land office income increased by \$26.8 million or 41.0% and federal mineral leasing increased by \$90.8 million or 22.0%.
- Appropriations increased by \$276.0 million or 5.2% from June 30, 2011. Health and human services increased by 25.4% while higher education decreased by 6.5%. The state continues curbing spending to position itself to ride out the current economic conditions.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Component Appropriation Funds use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Component Appropriation Funds are categorized as governmental funds and therefore report using the modified accrual basis of accounting. The basic financial statements of the Funds include balance sheets and statements of statements of revenues,

State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2012

expenditures and changes in fund balances, which are reported on pages 13 and 14, respectively.

The Component Appropriation Funds do not adopt annual appropriated budgets. However, the appropriations of the Component Appropriation Funds by law must equal the individual amounts appropriated in the various Appropriation Acts.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 15 through 26 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents, as supplementary information, the Schedule of Revenues by Source and the Schedule of Appropriations. These schedules provide detail information on revenues and appropriations to demonstrate legal compliance with the statutes governing the collection of revenue and disbursements of appropriations by the Component Appropriation Funds.

Also presented as supplementary information are the following:

- Schedule of Amounts Due from Other State Entities
- Schedule of Amounts Due from Tax Payers
- Schedule of Amounts Due to Other State Entities
- Schedule of Amounts Due To Local Governments
- Schedule of Amounts Due to Taxpayers

Fund Financial Analysis

The focus of the financial statements of the Funds is on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the financing requirements. In

State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2012

particular, unassigned fund balance may serve as a useful measure financial position and net resources available for spending.

As of the end of the current fiscal year, the Funds reported aggregate fund balance of \$712.9 million, an increase of \$208.2 million. Aggregate assets, liabilities and fund balance compare with the previous fiscal year end, as follows:

Aggregate Assets, Liabilities and Fund Balance
June 30,
(in millions of dollars)

	2012	2011	
Assets	\$ 1,448.1	\$ 1,192.3	
Liabilities	(735.2)	(687.6)	
Fund balance	\$ 712.9	\$ 504.7	

The assets held by the Component Appropriation Funds are unappropriated and are not restricted with the exception to the Tobacco Settlement Permanent Fund which is restricted.

It has been the policy of the State of New Mexico to not consider the revenue that is deferred under the modified accrual basis of accounting, \$ 23.1 million, to be available for appropriation.

State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2012

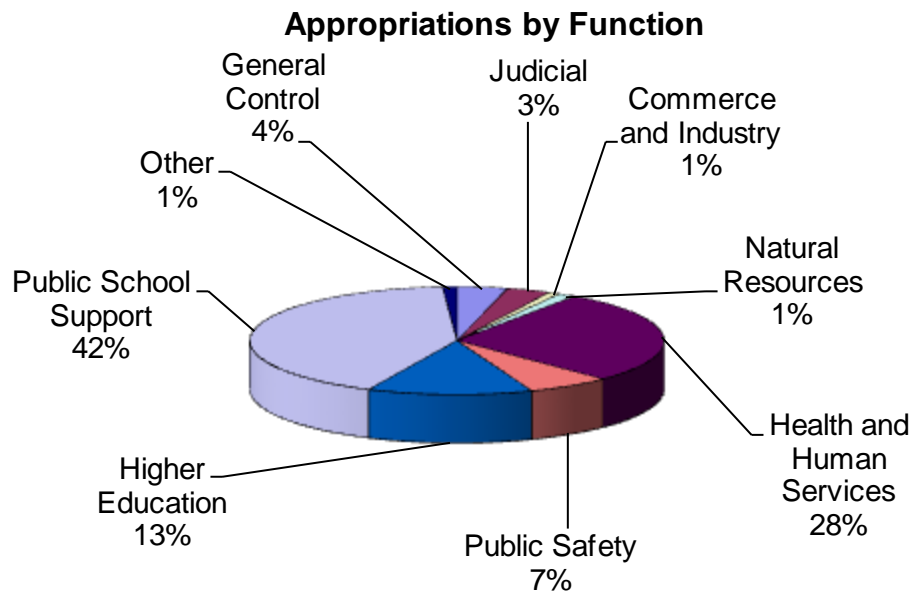
Aggregate Change in Fund Balances
Year Ended June 30,
(in millions of dollars)

	2012	2011	Increase (Decrease)
Revenues			
General and selective taxes	\$ 2,428.0	\$ 2,332.5	\$ 95.5
Income taxes	1,431.5	1,326.8	104.7
Severance taxes	456.4	423.8	32.6
License fees	49.6	49.8	(0.2)
Investment income	662.8	665.2	(2.4)
Rents and royalties	595.1	477.4	117.7
Miscellaneous receipts	224.0	230.6	(6.6)
Total revenues	<u>5,847.4</u>	<u>5,506.1</u>	<u>341.3</u>
Expenditures			
Appropriations			
General control	219.2	216.0	3.2
Legislative	26.6	27.0	(0.4)
Judicial	191.9	194.8	(2.9)
Commerce and industry	51.1	50.8	0.3
Natural resources	74.1	91.1	(17.0)
Health and human services	1,562.4	1,246.2	316.2
Public safety	364.4	370.1	(5.7)
Higher education	716.9	766.8	(49.9)
Public school support	2,338.4	2,309.7	28.7
Other education	35.6	32.1	3.5
Total appropriations	<u>5,580.6</u>	<u>5,304.6</u>	<u>276.0</u>
Interest expense	-	0.6	(0.6)
Issuance costs	-	0.2	(0.2)
Total expenditures	<u>-</u>	<u>0.8</u>	<u>(0.8)</u>
	<u>5,580.6</u>	<u>5,305.4</u>	<u>275.2</u>
Excess of revenues over appropriations and expenditures	<u>266.8</u>	<u>200.7</u>	<u>66.1</u>
Other Financing Sources			
Transfers In	11.4	26.1	(14.7)
Total other financing sources	<u>11.4</u>	<u>26.1</u>	<u>(14.7)</u>
Special item (Note 6)	(70.0)	-	(70.0)
Net change in fund balance	<u>208.2</u>	<u>226.8</u>	<u>(18.6)</u>
Fund balance - beginning	504.7	277.9	226.8
Fund balance - ending	<u>\$ 712.9</u>	<u>\$ 504.7</u>	<u>\$ 208.2</u>

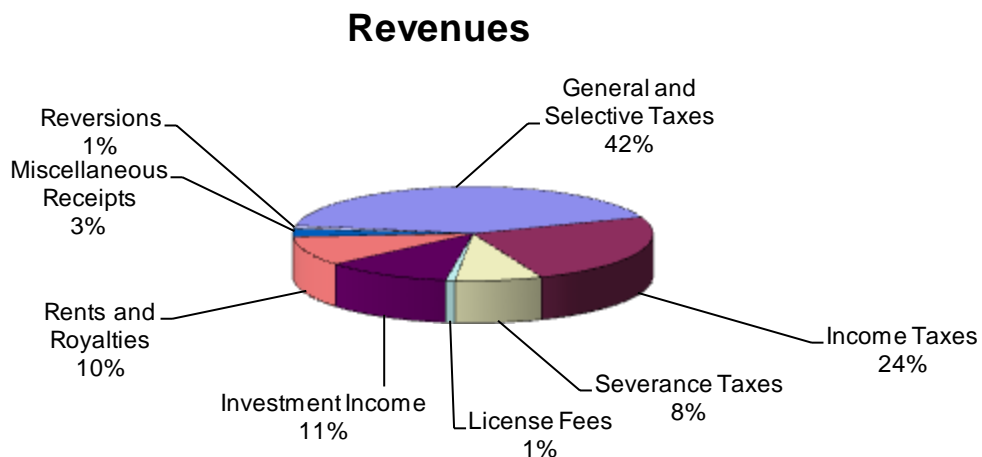
State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2012

The Funds' aggregate fund balances increased by \$208.2 million in fiscal year 2012, compared to a \$226.8 million increase in 2011. In fiscal year 2012, overall, revenues increased 6.2% compared to 2011, while appropriations increased 5.2%.

Appropriations by Function



Aggregate Revenues



State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2012

Economic Factors

Trends in the U.S. Economy

U.S. gross domestic product grew by just 1.8% during FY12. Decreasing government spending is one factor holding down growth, export demand is slowing, and although housing demand has begun to recover, consumers were reluctant to spend given the stubbornly high unemployment rate. U.S. inflation remains subdued. Although this enables the Federal Reserve to pursue monetary expansion to support growth, it also means the state has had subdued growth in its “top line” revenues like the Gross Receipts Tax (GRT). The U.S. budget deficit will exceed \$1 trillion in federal fiscal year 2012, the fourth straight year the deficit has topped \$1 trillion. Impending budget cuts to address these shortfalls are likely to hit New Mexico harder than many other states because of the state’s extensive reliance on federal government expenditures.

General Fund Revenue Outlook

Total recurring growth is projected to fall 1.0% in FY13, but increase to 4.1% in FY14. The FY13 decline is largely attributable to anticipated reductions in mineral-related revenues resulting from low natural gas prices and forecast weakness in oil prices. Relatively weak Gross Domestic Product (GDP) growth and sluggish job growth will limit growth in GRT revenues. Although the mining sector has rebounded strongly in the last two years, this growth is expected to slow in the future in response to falling energy prices. 2012 legislation reducing GRT on business inputs will reduce growth of revenue collections slightly over the next several years, but the measure should encourage new business investment in the state’s economy.

Personal Income Tax (PIT) revenue is projected to grow by 3.1% in FY13 and another 4.3% in FY14, growth rates consistent with forecast increases in wages and salaries. Growth in corporate income tax revenue is expected to grow by 6% in FY13 and 18% in FY14.

Stronger than expected oil volumes along with modest increases in energy prices are expected to increase mineral-related revenues by 7% in FY14 or \$65 million following a projected 11% decline in FY13.

Insurance premiums tax revenue is forecast to increase in the future based on impacts of the federal Affordable Care Act (ACA). The estimate assumes the increase in premiums revenue will be gradual, adding \$11 million in FY14 and \$26 million in FY15. There is much uncertainty regarding the implementation of the ACA and its impact on general fund revenues. Potential repeal of the ACA poses a negative risk to this premiums tax revenues forecast.

State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2012

Requests for Information

This financial report is designed to provide a general overview of the Component Appropriation Funds' finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

Basic Financial Statements

State of New Mexico
Component Appropriation Funds
Balance Sheets
June 30, 2012

	Statutorily Created Funds				
	Common School Current	Current School	State- support Reserve	Tobacco Settlement Permanent Fund	Appropriation Account
Assets					
Current assets					
Investments, State Treasurer (Note 2)	\$ -	\$ 32,239	\$ 1,000,000	\$ -	\$ -
Investments, State Investment Council (Note 2)	-	-	-	148,977,598	-
Due from other state general fund accounts	-	38,529,423	-	-	38,565,634
Due from other state entities	38,529,423	-	-	-	866,434,012
Due from tax payers	-	-	-	-	23,091,088
Total assets	<u>\$ 38,529,423</u>	<u>\$ 38,561,662</u>	<u>\$ 1,000,000</u>	<u>\$ 148,977,598</u>	<u>\$ 928,090,734</u>
Liabilities and Fund Balances					
Current liabilities					
Deferred revenues	\$ -	\$ -	\$ -	\$ -	\$ 23,091,088
Advance from State General Fund					
Investment Pool (Note 3)	-	-	-	-	592,584,564
Due to other state entities	-	-	-	-	1,062,338
Due to other state general fund accounts	38,529,423	38,561,662	-	-	262,997,209
Due to local governments	-	-	-	-	16,436,760
Due to taxpayers	-	-	-	-	31,918,775
Allowance for potential loss on State					
General Fund Investment Pool (Note 6)	-	-	-	-	-
Total liabilities	<u>38,529,423</u>	<u>38,561,662</u>	<u>-</u>	<u>-</u>	<u>928,090,734</u>
Fund balances					
Restricted	-	-	-	148,977,598	-
Unassigned	-	-	1,000,000	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>148,977,598</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 38,529,423</u>	<u>\$ 38,561,662</u>	<u>\$ 1,000,000</u>	<u>\$ 148,977,598</u>	<u>\$ 928,090,734</u>
SHARE system fund number	71600	71700	85700	95200	85300

Administratively Created Funds						Total June 30, 2012 (Memorandum Only)
Federal Mineral Leasing	Appropriation Contingency Reserve	General Operating Reserve	Tax Stabilization Reserve	Eliminations		
\$ 3,972	\$ 67,831,007	\$ 275,224,791	\$ 26,008,461	\$ -	\$ -	\$ 370,100,470
-	-	-	-	-	-	148,977,598
-	-	141,536,614	121,460,595	(340,092,266)	-	-
-	721,218	270,595	-	-	-	905,955,248
-	-	-	-	-	-	23,091,088
<u>\$ 3,972</u>	<u>\$ 68,552,225</u>	<u>\$ 417,032,000</u>	<u>\$ 147,469,056</u>	<u>\$ (340,092,266)</u>		<u>\$ 1,448,124,404</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,091,088
-	-	-	-	-	-	592,584,564
-	-	87,000	-	-	-	1,149,338
3,972	-	-	-	(340,092,266)	-	-
-	-	-	-	-	-	16,436,760
-	-	-	-	-	-	31,918,775
-	-	70,000,000	-	-	-	70,000,000
<u>3,972</u>	<u>-</u>	<u>70,087,000</u>	<u>-</u>	<u>(340,092,266)</u>		<u>735,180,525</u>
-	-	-	-	-	-	148,977,598
-	68,552,225	346,945,000	147,469,056	-	-	563,966,281
-	68,552,225	346,945,000	147,469,056	-	-	712,943,879
<u>\$ 3,972</u>	<u>\$ 68,552,225</u>	<u>\$ 417,032,000</u>	<u>\$ 147,469,056</u>	<u>\$ (340,092,266)</u>		<u>\$ 1,448,124,404</u>
85100	85400	85200	84300			

The accompanying notes are an integral part of these financial statements.

State of New Mexico
Component Appropriation Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2012

	Statorily Created Funds				
	Common School Current	Current School	State- support Reserve	Tobacco Settlement Permanent Fund	Appropriation Account
Revenues					
General and selective taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,428,025,771
Income taxes	-	-	-	-	1,431,515,514
Severance taxes	-	-	-	-	456,401,793
License fees	-	-	-	-	49,594,688
Investment income	-	461,737,162	-	-	200,850,664
Net increase in the fair value of investments	-	-	-	191,466	-
Rents and royalties	-	92,507,769	-	-	-
Miscellaneous receipts	-	6,052,823	-	39,320,878	110,523,064
Reversions	-	-	-	-	65,884,725
Total revenues	<u>-</u>	<u>560,297,754</u>	<u>-</u>	<u>39,512,344</u>	<u>4,742,796,219</u>
Expenditures					
Appropriations					
Legislative	-	-	-	-	26,625,654
Judicial	-	-	-	-	191,915,400
General control	-	-	-	39,320,878	178,353,100
Commerce and industry	-	-	-	-	51,071,600
Natural resources	-	-	-	-	62,109,300
Health and human services	-	-	-	-	1,562,378,900
Public safety	-	-	-	-	358,754,300
Other education	-	-	-	-	27,590,000
Higher education	-	-	-	-	716,850,302
Public school support	-	560,297,754	-	-	1,275,550,455
Total expenditures	<u>-</u>	<u>560,297,754</u>	<u>-</u>	<u>39,320,878</u>	<u>4,451,199,011</u>
Total expenditures	<u>-</u>	<u>560,297,754</u>	<u>-</u>	<u>39,320,878</u>	<u>4,451,199,011</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>191,466</u>	<u>291,597,208</u>
Other Financing Sources (Uses)					
Transfers in (out)	-	-	-	-	(291,597,208)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(291,597,208)</u>
Special Item (Note 6)					
Provision for the potential loss on the State General Fund Investment Pool	-	-	-	-	-
Net change in fund balance	-	-	-	191,466	-
Fund balances - beginning	-	-	1,000,000	148,786,132	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 148,977,598</u>	<u>\$ -</u>
SHARE system fund numbers	71600	71700	85700	95200	85300

Administratively Created Funds				
Federal Mineral Leasing	Appropriation Contingency Reserve	General Operating Reserve	Tax Stabilization Reserve	Total June 30, 2012 (Memorandum Only)
\$ -	\$ -	\$ -	\$ -	\$ 2,428,025,771
-	-	-	-	1,431,515,514
-	-	-	-	456,401,793
-	-	-	-	49,594,688
-	-	-	-	662,587,826
-	-	-	-	191,466
502,573,870	-	-	-	595,081,639
-	-	-	-	155,896,765
-	1,921,311	270,595	-	68,076,631
<u>502,573,870</u>	<u>1,921,311</u>	<u>270,595</u>	<u>-</u>	<u>5,847,372,093</u>
-	-	-	-	26,625,654
-	-	-	-	191,915,400
-	-	1,550,698	-	219,224,676
-	-	-	-	51,071,600
-	12,000,000	-	-	74,109,300
-	-	-	-	1,562,378,900
-	5,600,000	-	-	364,354,300
-	8,000,000	-	-	35,590,000
-	-	-	-	716,850,302
<u>502,573,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,338,422,079</u>
<u>502,573,870</u>	<u>25,600,000</u>	<u>1,550,698</u>	<u>-</u>	<u>5,580,542,211</u>
<u>502,573,870</u>	<u>25,600,000</u>	<u>1,550,698</u>	<u>-</u>	<u>5,580,542,211</u>
<u>-</u>	<u>(23,678,689)</u>	<u>(1,280,103)</u>	<u>-</u>	<u>266,829,882</u>
<u>-</u>	<u>40,000,000</u>	<u>141,536,614</u>	<u>121,460,594</u>	<u>11,400,000</u>
<u>-</u>	<u>40,000,000</u>	<u>141,536,614</u>	<u>121,460,594</u>	<u>11,400,000</u>
<u>-</u>	<u>-</u>	<u>(70,000,000)</u>	<u>-</u>	<u>(70,000,000)</u>
<u>-</u>	<u>16,321,311</u>	<u>70,256,511</u>	<u>121,460,594</u>	<u>208,229,882</u>
<u>-</u>	<u>52,230,914</u>	<u>276,688,489</u>	<u>26,008,462</u>	<u>504,713,997</u>
<u>\$ -</u>	<u>\$ 68,552,225</u>	<u>\$ 346,945,000</u>	<u>\$ 147,469,056</u>	<u>\$ 712,943,879</u>
85100	85400	85200	84300	

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

1) Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements report nine statutorily and administratively created funds administered by the Department of Finance and Administration of the State of New Mexico. The funds are referred to as “Component Appropriation Funds” (the Funds). Together with many other statutorily and administratively created funds, they comprise the general fund of the State of New Mexico, which is presented in the State of New Mexico’s Comprehensive Annual Financial Report.

The Funds do not constitute a primary government, component unit, or any other type of reporting entity as defined by generally accepted accounting principles.

Taken together, the Funds present the primary revenue and financing of the activities of the State of New Mexico. As such, the Legislature, state officials and the citizens of the State of New Mexico, as well as other groups such as bond issuers and rating services, have an interest in the operations of the Funds. The accompanying financial statements are presented to meet those needs.

In previous years, reports were prepared that presented the aggregate of the Funds as a “general fund” in the basic financial statements and financial statements of the individual Funds as supplementary information. Previous years’ reports also included “entity-wide” statements of net assets and statements of activities using the full accrual basis of accounting. The accompanying report present substantially the same information by reporting each of individual Funds in the basic financial statements, with aggregate totals reported as “memorandum only.”

The following is a description of the nine statutorily and administratively created funds.

Statutorily Created Funds

1. Common School Current Fund

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

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

2. *Current School Fund*

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

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

3. *State-support Reserve Fund*

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

4. *Tobacco Settlement Permanent Fund*

The *tobacco settlement permanent fund* was created by Section 6-4-9, NMSA 1978. Originally, the fund was created as a permanent fund as defined by generally accepted accounting principles. In 2003, legislation was enacted (Laws of 2003, Chapter 312) that made the fund a reserve within the Component Appropriation Funds. The amendment is not written clearly; however, the intent of the legislation was to make the fund a reserve within the *Component Appropriation Funds*.

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

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

Section 6-4-9(B), NMSA 1978, requires that all money received by the State Treasurer in fiscal years 2003 through 2006 be distributed from the *Tobacco Settlement Permanent Fund* to the *Component Appropriation Funds*. Subsection C of that section requires that, in fiscal year 2007 and beyond, an annual distribution be made from the *Tobacco Settlement Permanent Fund* to the *Tobacco Settlement Program Fund* of an amount equal to fifty percent of the total amount distributed to the *Tobacco Settlement Permanent Fund* in that fiscal year until the amount is less than an amount equal to four and seven-tenths percent of the average of the year-end market values of the *Tobacco Settlement Permanent fund* for the immediately preceding five years. If the amount distributed to the *Tobacco Settlement Program Fund* is insufficient to meet appropriations, the secretary of the NM Department of Finance and Administration shall reduce each appropriation proportionately. In fiscal year 2009 through 2012, the remaining fifty percent of money distributed to the tobacco settlement permanent fund shall be distributed to the *Tobacco Settlement Program Fund*. Transfers will be presented as expenditures in these financial statements.

Administratively Created Funds

1. Appropriation Account Fund

The *appropriation account fund* is an administratively created fund the Component Appropriation Funds uses to account for the financial activity of the statutorily created *general fund* and for portions of the financial activity of the statutorily created *public school fund* of the State of New Mexico.

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

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

One of those activities administered by the Component Appropriation Funds is the transfer from the *current school fund* to the *public school fund* required by Section 22-8-32, NMSA 1978. The Component Appropriation Funds administers the other two activities through its *federal mineral leasing fund* (see item 2 below). Those activities include receiving receipts under the Federal Minerals Land Act, 30 USC

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

181 (the General Appropriation Act defines *general fund* to include Federal Mineral Leasing Act receipts) and allotting cash, based on legislative appropriations, from the *public school fund* to the *Instructional Materials Fund* and to the Bureau of Mines and Mineral Resources of the New Mexico Institute of Mining and Technology.

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

2. *Federal Mineral Leasing Fund*

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

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

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

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

3. *Appropriation Contingency Reserve Fund*

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

4. *General Operating Reserve Fund*

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

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

5. *Tax Stabilization Reserve Fund*

Section 6-4-2.2, NMSA 1978, creates the tax stabilization reserve within the *general fund*. To account for the reserve, the Component Appropriation Funds has established the *Tax Stabilization Reserve Fund*. The balance of the tax stabilization reserve

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

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

Name	Due from Other Funds		Due to Other Funds	
	SHARE System Fund Number		SHARE System Fund Number	Amount
Appropriations Accounts Fund	85300	Current School Fund	71700	\$ 38,561,662
Appropriations Accounts Fund	85300	Federal Mineral leasing	85100	3,972
Current School Fund	71700	Common School Fund	71600	38,529,423
Tax Stabilization Reserve	84300	Appropriation Account Fund	85300	121,460,595
Operating Reserve Fund	85200	Appropriation Account Fund	85300	141,536,614
				<u>\$ 340,092,266</u>

B. Basis of Accounting and Presentation

Fund Financial Statements—Each of the Funds are reported as governmental funds. Accordingly, they are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. For derived tax revenues, related assets are recognized when the exchange transaction occurs or when the resources are received, whichever occurs first. 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 Funds consider tax revenues to be available if they are collected within 60 days after the end of the fiscal year. Deferred revenues are reported when assets, such as taxes receivable, are recognized before the revenues.

Escheats are not considered susceptible to accrual and are therefore recognized when received. Reversions are recognized if collected within 90 days of the end of the current fiscal period and all other revenues are considered to be available if collected prior to completion of the Funds financial statements, typically by December 15th following the end of the fiscal year. Appropriations generally are recorded when a liability is incurred. Debt service expenditures are recorded only when payment is due.

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

C. Assets, Liabilities and Fund Balances

1. *Due from Other State Entities*—Section 6-4-2, NMSA 1978, requires all revenues—not otherwise allocated by law—to be credited to the Component Appropriation Funds. In addition, Section 6-5-10, NMSA 1978, requires all undesignated/unreserved fund balances in reverting state agency funds to be reverted to the Component Appropriation Funds. Various state agencies collect revenues on behalf of the Component Appropriation Funds. In addition, most state agencies administer funds that revert balances to the Funds.

The amounts due from other state entities reported in the accompanying financial statements are amounts due to the Funds under the authority of the two statutes cited above. The amount due from other state entities has been reduced by \$54.4 million, which represents the estimated amount of personal income tax refunds in excess of final personal income tax settlements, at June 30, 2012. The estimate is based on a ten year average of final settlement payments and refunds. Fiscal year 2012 is the third year the estimate was based on a ten year average. The estimate for fiscal year 2007 was based on a three year average, and the estimates for fiscal years 2008 and 2009 were based on the estimate for 2007.

2. *Due to Other State Agencies and Due to Local Governments*—The amounts due to state agencies and due to local governments reported in the accompanying financial statements are 1/12 of the annual appropriation amounts due to state agencies and local governments. This is a timing difference and the amounts due to state and local governments are paid within 30 days of the fiscal year end.
3. *Restricted Resources*—When both restricted and unrestricted resources are available for use, it is the Component Appropriation Funds’ policy to use restricted resources first and then unrestricted resources as they are needed.
4. *Interfund Activity*—The effect of interfund activity between these nine statutorily and administratively created funds has been eliminated from the memorandum totals in the accompanying financial statements. This interfund activity included the receivables and payables listed in the table below.

D. Revenues, Appropriations and Expenditures

1. *Reversions*—Once an appropriation lapses, the related cash balance is usually required by law to be returned to the fund from where the appropriation allotment originated (that is, from where the cash related to the appropriation originated). In the accompanying financial statements, the cash returned to the Funds is treated as general revenue and presented as “reversions.”

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

E. Fund Balances

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance classifications are based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds in the following categories: nonspendable, restricted, committed, assigned, and unassigned.

The Funds classifies fund balances as restricted or unrestricted (unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by the law through constitutional provisions or enabling legislation. Unassigned fund balance is the residual amount after all classifications were considered.

The accompanying financial statements report restricted fund balance in the Tobacco Settlement Permanent Fund because the balance is legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. All other fund balances are unassigned.

F. Budgets

The Component Appropriation Funds do not adopt annual appropriated budgets, therefore, presentation of budgetary comparison information is not required. However, the appropriations of the Component Appropriation Funds by law must equal the individual amounts appropriated in the various appropriation Acts.

2) Investments

As of June 30, 2012, the Funds had the following investments:

Description	Maturities	Fair Value
New Mexico State Treasurer's Office General Fund Investment Pool	1 day to 5 years	\$ 370,100,470
New Mexico State Investment Council		
Equities	Not Applicable	
Large Cap Active Pool		\$ 42,737,287
Large Cap Index Pool		23,286,858
Small/Mid Cap Active Pool		12,441,704
Non-U.S. Developed Markets Pool		6,865,151
Non-U.S. Emerging Markets Pool		3,098,461
Core Bonds		
U.S. Core Bonds Pool	1 to 10 years	45,716,562
Hedge Fund Pool	Not Applicable	14,744,875
Cash/Cash Equivalents/Accruals	Not Applicable	86,700
		<u>\$ 519,078,068</u>

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

State law (Section 8-6-3 NMSA 1978) requires investments of the Funds be managed by the New Mexico State Treasurer's Office, with the exception of those belonging to the Tobacco Settlement Fund. State law requires that Tobacco Settlement Fund investments be managed by the New Mexico State Investment Council. Accordingly, the investments of the Funds' consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

Interest Rate Risk

The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk

The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should refer to the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

The Funds do not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The New Mexico State Treasurer and State Investment Council pools are not rated. For additional GASB 40 disclosure information related the above investment pools, the reader should see the separate audit reports for the State Treasurer's Office and the State Investment Council for the fiscal year ended June 30, 2012.

3) Advance from the State General Fund Investment Pool

The Appropriation Account Fund disburses allotted appropriations to various entities based on New Mexico legislative Appropriation Acts, which are made in anticipation of the collection of tax revenues, fees and other sources. The State General Fund Investment Pool makes advances to the Appropriations Account Fund to the extent that such sources have not yet been collected. Advances from the State General Fund Investment Pool totaling \$592,584,564 at June 30, 2012, will be repaid as amounts due from other state entities are collected.

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

4) Due from Other State Entities

Various state agencies, mainly New Mexico Taxation and Revenue Department, collect revenues on behalf of the Funds. In addition, state agencies are required to revert unspent balances to the Funds at the close of each fiscal year. Resulting aggregate amounts due from state entities are composed of the following at June 30, 2012:

SHARE System Fund Number	Source	Amount
83200	Gross receipt tax	\$ 339,258,610
83200	Withholding taxes	156,100,084
83300	Severance - school tax	89,678,869
27900	Corporate income taxes	59,127,931
60100	Land Grant Permanent Fund	38,529,423
64200	Regular income tax - PIT	36,126,058
50800	PRC insurance taxes	19,326,860
57800	Fire Protection Fund - insurance fees	18,812,069
02000	Tribal revenue sharing (Indian Gaming)	16,981,022
60200	Severance Tax Permanent Fund income	15,285,292
83200	Compensating tax	12,480,141
82800	Luxury tax	11,634,755
82800	Gaming tax	10,644,925
Various	NM Department of Health	10,624,932
82500	Motor vehicle excise tax	10,288,397
Various	Other	61,055,880
		<u>\$ 905,955,248</u>

5) Transfers

For fiscal year 2012, the laws of 2011, Chapter 179 from the 50th legislature, first session, section 13(A) provides the Funds with authority to transfer \$50.0 million from the operating reserve to the appropriation account to meet fiscal year 2011 or 2012 obligations. For fiscal year 2012, revenues exceeded appropriation and transfers by \$263.0 million.

Required Transfers

Laws of 2011, Chapter 179, section 11B, items 1-12, from the 50th legislature, first session, authorizes the following transfers to the appropriation account (85300), for fiscal year 2012:

- \$10.0 million from the college affordability endowment fund (23900)

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2012

- \$1.4 million from accounts established for the deposits of fees received by the New Mexico finance authority for the administration of transportation revenue bonds issued pursuant to Sections 67-3-59.3 and 67-3-4 NMSA 1978 (NMFA).

Laws of 2012, Chapter 19, Section 10 from the 50th Legislature, Second Session, authorized the following transfer:

- \$40.0 million from the appropriations account fund (85300) to the appropriation contingency reserve fund (85400).

For fiscal year 2012, in accordance with State statute and law, the following transfer was made:

- \$263.0 million from the appropriation account fund (85300) to the operating reserve fund (85200) for \$141.5 million and to the tax stabilization reserve fund (84300) for \$121.5 million.

6) General Operating Reserve Fund Contingency

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the State Treasurer. The Pool is not a part of the accompanying financial statements, but is reported as a fiduciary fund in financial statements of the Treasurer's Office. Claims on the Pool are reported as assets by the various agencies investing in the Pool. As of June 30, 2012 The Component Appropriations Funds report an aggregate investment of \$370,100,470 in the Pool (see Note 2).

In June 2012, an independent expert diagnostic report revealed that Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. The report, dated June 20, 2012 is available on the website of the New Mexico Department of Finance & Administration (DFA) at http://www.nmdfa.state.nm.us/Cash_Control.aspx. The report titled "Current State Diagnostic of Cash Control," describes a difference between Pool bank balances and the corresponding general ledger balances of approximately \$2.7 billion and indicates that the effect of reconciling items is unknown.

By State statute, DFA is responsible for reconciling the Pool balances. Therefore, under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking action to address the situation. DFA/FCD has commenced the Cash

State of New Mexico
Component Appropriation Funds
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June 30, 2012

Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement changes necessary to reconcile the Pool in a manner that is complete, accurate, and timely. The Remediation Project is anticipated to result in changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure that will allow for the completion of timely and accurate reconciliation of balances on a point-forward basis only, but it will not resolve historical reconciling items.

A plan to address historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve such historical reconciling items. Management considers it likely that this separate initiative will not be successful in allocating all historical reconciling items to the various State entities invested in the Pool. The effect of any differences not allocable to other Pool participants will be reported in the General Operating Reserve Fund.

Management has recorded a loss contingency of \$70 million in the General Operating Reserve Fund based on their estimate of the effect of issues related to the reconciliation of the Pool. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

The provision for potential loss is reported as a special item on the statement of revenues, expenditures and changes in fund balances because it is considered to be unusual, and its placement within the financial reporting entity of the State of New Mexico is under the control of management.

Supplementary Information

State of New Mexico
Component Appropriation Funds
Schedule of Revenue by Source
For the Year Ended June 30, 2012

	General and Selective Taxes	Income Taxes	Severance Taxes	License Fees
Motor vehicle miscellaneous fees	\$ -	\$ -	\$ -	\$ 135,811
MVD Penalty assessment	-	-	-	-
Notary public fees	-	-	-	-
Public defender reimbursements	-	-	-	-
Legislative receipts	-	-	-	-
Media lease payments	-	-	-	-
District judges' receipts	-	-	-	-
Fines and forfeitures	-	-	-	-
Supreme court fees	-	-	-	-
Public utilities	-	-	-	11,056,400
Financial institution fees	-	-	-	2,917,436
Manufacturing housing receipts	-	-	-	419,715
Construction industry receipts	-	-	-	5,052,172
Security receipts	-	-	-	18,765,301
Gaming receipts	-	-	-	391,712
Corporate filing	-	-	-	2,863,554
Alcohol receipts	-	-	-	3,855,629
Corporate special	-	-	-	4,096,354
Pipeline fees	-	-	-	40,604
Birth and death certificates	-	-	-	-
Workers' compensation fees	-	-	-	-
Environment department filing fees	-	-	-	-
Land office income	-	-	-	-
Insurance	114,075,812	-	-	-
Fire protection	18,812,069	-	-	-
Gross receipts tax	1,928,468,880	-	-	-
Compensating tax	62,066,210	-	-	-
Tobacco (luxury) tax	85,360,379	-	-	-
Alcoholic beverage tax	26,128,850	-	-	-
Private car	552,553	-	-	-
Motor vehicle excise tax	114,706,587	-	-	-
Gaming tax	65,526,989	-	-	-
Leased vehicles surcharge	5,366,391	-	-	-
Gasoline tax	5,539,323	-	-	-
Telecommunications relay surcharge	97,930	-	-	-
Net personal income taxes	-	1,141,456,859	-	-
Net corporate income taxes	-	281,047,492	-	-
Estate taxes	-	44	-	-
Franchise receipts	19,055	-	-	-
Fiduciary	-	9,011,119	-	-
Land grant permanent fund distribution	-	-	-	-
Federal mineral leasing	-	-	-	-
Oil and gas emergency school tax	-	-	399,588,896	-
Oil and gas conservation tax	-	-	21,452,054	-
Resource excise tax	-	-	12,018,385	-
Natural gas processors	-	-	23,342,458	-
State treasurer earnings on state balances	-	-	-	-
Severance tax permanent fund distribution	-	-	-	-
Tribal revenue sharing	-	-	-	-
Unclaimed property	-	-	-	-
Small county assistance	-	-	-	-
Law enforcement protection	-	-	-	-
Boat excise tax	452,914	-	-	-
Racing receipts	851,829	-	-	-
Reversions	-	-	-	-
Settlement/miscellaneous	-	-	-	-
Totals	\$ 2,428,025,771	\$ 1,431,515,514	\$ 456,401,793	\$ 49,594,688

Investment Income	Rents and Royalties	Miscellaneous Receipts	Total
\$ -	\$ -	\$ -	\$ 135,811
-	-	5,704,994	5,704,994
-	-	1,386,475	1,386,475
-	-	410,853	410,853
-	-	19,547	19,547
-	-	19,442	19,442
-	-	1,064,087	1,064,087
-	-	6,052,204	6,052,204
-	-	611	611
-	-	-	11,056,400
-	-	-	2,917,436
-	-	-	419,715
-	-	-	5,052,172
-	-	-	18,765,301
-	-	-	391,712
-	-	-	2,863,554
-	-	-	3,855,629
-	-	-	4,096,354
-	-	-	40,604
-	-	1,075,284	1,075,284
-	-	3,803	3,803
-	-	2,047,673	2,047,673
-	92,507,769	-	92,507,769
-	-	-	114,075,812
-	-	-	18,812,069
-	-	-	1,928,468,880
-	-	-	62,066,210
-	-	-	85,360,379
-	-	-	26,128,850
-	-	-	552,553
-	-	-	114,706,587
-	-	-	65,526,989
-	-	-	5,366,391
-	-	-	5,539,323
-	-	-	97,930
-	-	-	1,141,456,859
-	-	-	281,047,492
-	-	-	44
-	-	-	19,055
-	-	-	9,011,119
461,737,162	-	-	461,737,162
-	502,573,870	-	502,573,870
-	-	-	399,588,896
-	-	-	21,452,054
-	-	-	12,018,385
-	-	-	23,342,458
17,427,160	-	-	17,427,160
183,423,504	-	-	183,423,504
-	-	68,188,620	68,188,620
-	-	15,451,669	15,451,669
-	-	3,576,387	3,576,387
-	-	8,291,058	8,291,058
-	-	-	452,914
-	-	-	851,829
-	-	68,076,631	68,076,631
191,466	-	42,604,058	42,795,524
<u>\$ 662,779,292</u>	<u>\$ 595,081,639</u>	<u>\$ 223,973,396</u>	<u>\$ 5,847,372,093</u>

State of New Mexico

Component Appropriation Funds

Schedule of Appropriations

For the Year Ended June 30, 2012

Laws of 2011 - 50th Legislature - First Session and First Special Session								
Chapter 179								
Agency No.	Share Fund No.	Share Fund Name	Section 4			Other Appropriations Chapter, Section	Amount	Total
			Section 10 Reductions	Section 5 Amount	Amounts Includes		Section 10 Reductions	
11100	12900	Legislative Council Services	\$ -	\$ -		Chapter 1, Sec 3 (A), 1st Session	\$ 5,368,200	\$ 5,368,200
11200	13000	Legislative Finance Committee	-	-		Chapter 1, Sec 4, 1st Session	3,842,300	3,842,300
11400	74300	Legislative Council Services/Senate Interim	-	-		Chapter 1, Sec 8, 1st Session	1,101,100	1,101,100
11500	74400	Legislative Council Services/House Interim	-	-		Chapter 1, Sec 7, 1st Session	1,054,509	1,054,509
11700	13100	Legislative Education Study Committee	-	-		Chapter 1, Sec 5, 1st Session	1,181,708	1,181,708
11900	13200	Legislative Maintenance	3,853,177	-			-	3,853,177
						(Chap 1, Sec 3 (B,C,D) Sec 6, 9 and 10, 1st Sess) (Chap 1, Sec 1 A(3), Section 4, 1st SS		
13100	13300	Legislature	32,000	-			3,644,000	3,676,000
13101	20030	Legislature - Senate	-	-		Chapter 1, Sec 1 A(2), 1st Spec Session	472,360	472,360
13102	20040	Legislature - House	-	-		Chapter 1, Sec 1 A(1), 1st Spec Session	527,800	527,800
		Total - Legislative	<u>3,885,177</u>	<u>-</u>			<u>17,191,977</u>	<u>21,077,154</u>
20500	13400	Supreme Court Law Library	1,483,800	-			-	1,483,800
20800	07600	Compilation Commission	-	-			-	-
21000	13500	Judicial Standards Commission	706,900	-			-	706,900
21500	13700	Court of Appeals	5,339,400	-			-	5,339,400
21600	13800	Supreme Court	2,783,900	-			-	2,783,900
21800	11600	Magistrate Drug Court	50,600	-			-	50,600
21800	13600	Judge's Pro Tempore	30,000	-			-	30,000
21800	13900	Administrative Office of the Courts	5,433,800	-			-	5,433,800
21800	27300	AOC - Statewide Automation Bond Fund	-	-			-	-
21800	58300	AOC-Non Grant Projects	118,800	-			-	118,800
21800	68900	Information System	2,315,900	-			-	2,315,900
21800	69200	Magistrate Courts	22,066,100	-			-	22,066,100
21801	01200	Jury and Witness Fee Fund	3,800,400	-			-	3,800,400
21801	12400	Court Appointed Attorney Fees	4,437,100	-			-	4,437,100
21900	14000	Supreme Court Building Commission	777,500	-			-	777,500
23100	14100	First Judicial District Court	5,890,900	-			-	5,890,900
23200	14200	Second Judicial District Court	20,103,800	-			-	20,103,800
23300	14300	Third Judicial District Court	5,827,400	-			-	5,827,400
23400	14400	Fourth Judicial District Court	1,943,300	-			-	1,943,300
23500	14500	Fifth Judicial District Court	5,651,300	-			-	5,651,300
23600	14600	Sixth Judicial District Court	2,893,400	-			-	2,893,400
23700	14700	Seventh Judicial District Court	2,055,400	-			-	2,055,400
23800	14800	Eighth Judicial District Court	2,562,300	-			-	2,562,300
23900	14900	Ninth Judicial District Court	2,973,100	-			-	2,973,100
24000	15000	Tenth Judicial District Court	718,600	-			-	718,600
24100	15100	Eleventh Judicial District Court	4,416,500	-			-	4,416,500
24100	33500	Eleventh Judicial District Court/Drug Court	1,122,000	-			-	1,122,000
24200	15200	Twelfth Judicial District Court	2,555,000	-			-	2,555,000
24200	92900	Twelfth Judicial District Court - Other Programs	271,800	-			-	271,800
24300	15300	Thirteenth Judicial District Court	6,007,600	-			-	6,007,600
24400	15400	Bernalillo County Metropolitan Court	21,087,900	-			-	21,087,900
25100	15500	First Judicial District Attorney	4,455,400	-			-	4,455,400
25200	15600	Second Judicial District Attorney	15,866,300	-			-	15,866,300
25300	15700	Third Judicial District Attorney	4,185,000	-			-	4,185,000
25400	15800	Fourth Judicial District Attorney	2,852,800	-			-	2,852,800
25500	15900	Fifth Judicial District Attorney	4,074,000	-			-	4,074,000
25600	16000	Sixth Judicial District Attorney	2,358,800	-			-	2,358,800
25700	16100	Seventh Judicial District Attorney	2,190,600	-			-	2,190,600
25800	16200	Eighth Judicial District Attorney	2,346,200	-			-	2,346,200
25900	16300	Ninth Judicial District Attorney	2,537,600	-			-	2,537,600
26000	16400	Tenth Judicial District Attorney	931,400	-			-	931,400
26100	16500	Eleventh Judicial District Attorney/Division 1	2,995,300	-			-	2,995,300
26200	16600	Twelfth Judicial District Attorney	2,389,700	-			-	2,389,700
26300	16700	Thirteenth Judicial District Attorney	4,278,300	-			-	4,278,300
26400	16800	Administrative Office of the District Attorneys	1,793,900	-			-	1,793,900
26500	16900	Eleventh Judicial District Attorney/Division 2	1,910,700	-			-	1,910,700
		Total - Judicial	<u>190,590,500</u>	<u>-</u>			<u>-</u>	<u>190,590,500</u>
30500	17000	Attorney General	7,672,200	-			-	7,672,200
30500	27800	AG - Medicaid Fraud	485,100	-			-	485,100
30800	11100	State Auditor's Office	2,212,200	-			-	2,212,200
33300	17200	Taxation & Revenue Department - Operating	52,927,500	-			-	52,927,500
34100	00900	DFA - Computer Systems Enhancement Fund	-	-			-	-
34100	01000	Department of Finance and Administration - Operating	16,826,000	-			-	16,826,000
34100	20130	DFA - County Detention Reimbursement Fund	3,300,000	-			-	3,300,000
34100	20900	DFA - Board of Finance Emergency (85200)	1,550,698	-			-	1,550,698
34100	21000	DFA - Emergency Water Supply	118,400	-			-	118,400
34100	52900	DFA	-	-		Laws 2008, Chapter 92, Section 59, item 328	50,000	50,000
34100	61800	DFA - Leasehold Community Assistance	128,900	-			-	128,900
34100	62000	DFA Special Appropriations	-	-			-	-
34100	62400	Civil Legal Services Fund	1,610,700	-			-	1,610,700
34100	69700	DFA - Tobacco Settlement Program Fund	-	-		NMSA 6-4-9	39,320,878	39,320,878
35000	17400	General Services Department	12,803,900	-			-	12,803,900
35000	41700	General Services Department - State Aircraft Pool	-	-			-	-

Laws of 2012 - 50th Legislature - Second Session

Chapter 19				
Section 5 Amount	Section 6 Amount	Other Appropriations Chapter, Section	Amount	Total Appropriations Fiscal Year 2012
\$ -	\$ -		\$ -	\$ 5,368,200
-	-		-	3,842,300
-	-		-	1,101,100
-	-		-	1,054,509
-	-		-	1,181,708
-	-		-	3,853,177
-	-	Chapter 1, HB 1, Sec 1B (9), Section 9	1,248,600	4,924,600
-	-	Chapter 1, HB 1, Sec 1B (1,3,5,7)	1,991,600	2,463,960
-	-	Chapter 1, HB 1, Sec 1B (2,4,6,8)	2,308,300	2,836,100
-	-		5,548,500	26,625,654
-	-		-	1,483,800
-	-		-	-
-	-		-	706,900
-	-		-	5,339,400
-	-		-	2,783,900
-	-		-	50,600
-	-		-	30,000
-	-		-	5,433,800
500,000	-		-	500,000
-	-		-	118,800
-	-		-	2,315,900
-	300,000		-	22,366,100
-	296,000		-	4,096,400
-	74,800		-	4,511,900
-	27,000		-	804,500
-	-		-	5,890,900
41,800	63,000		-	20,208,600
-	-		-	5,827,400
-	22,300		-	1,965,600
-	-		-	5,651,300
-	-		-	2,893,400
-	-		-	2,055,400
-	-		-	2,562,300
-	-		-	2,973,100
-	-		-	718,600
-	-		-	4,416,500
-	-		-	1,122,000
-	-		-	2,555,000
-	-		-	271,800
-	-		-	6,007,600
-	-		-	21,087,900
-	-		-	4,455,400
-	-		-	15,866,300
-	-		-	4,185,000
-	-		-	2,852,800
-	-		-	4,074,000
-	-		-	2,358,800
-	-		-	2,190,600
-	-		-	2,346,200
-	-		-	2,537,600
-	-		-	931,400
-	-		-	2,995,300
-	-		-	2,389,700
-	-		-	4,278,300
-	-		-	1,793,900
-	-		-	1,910,700
541,800	783,100		-	191,915,400
-	-		-	7,672,200
-	-		-	485,100
-	-		-	2,212,200
-	-		-	52,927,500
16,654,000	-		-	16,654,000
-	50,000		-	16,876,000
-	-		-	3,300,000
-	-		-	1,550,698
-	-		-	118,400
-	-		-	50,000
-	-		-	128,900
3,450,000	-		-	3,450,000
-	-		-	1,610,700
-	-		-	39,320,878
-	500,000		-	13,303,900
-	-		-	-

State of New Mexico

Component Appropriation Funds

Schedule of Appropriations

For the Year Ended June 30, 2012

Laws of 2011 - 50th Legislature - First Session and First Special Session								
Chapter 179								
Agency No.	Share Fund No.	Share Fund Name	Section 4		Other Appropriations Chapter, Section	Amount Includes HB 2		Total
			Section 10 Reductions	Section 5 Amount		Section 10 Reductions	Section 10 Reductions	
35400	34700	New Mexico Sentencing Commission	\$ 529,800	\$ -		\$ -	\$ -	\$ 529,800
35500	17500	Public Defender Department	38,898,400	-		-	-	38,898,400
35600	17600	Governor's Office	3,357,600	-		-	-	3,357,600
36000	17700	Lieutenant Governor's Office	671,000	-		-	-	671,000
36100	20370	Department of Information Technology	472,000	-		-	-	472,000
36900	17900	State Commission of Public Records	2,405,300	-		-	-	2,405,300
37000	18000	Secretary of State	4,351,300	250,000		-	-	4,601,300
37800	18100	State Personnel Board	3,852,400	-		-	-	3,852,400
37900	84800	Public Employees Labor Relations Board	212,600	-		-	-	212,600
39400	18200	State Treasurer's Office	3,550,800	-		-	-	3,550,800
		Total - General Control	<u>157,936,798</u>	<u>250,000</u>		<u>39,370,878</u>	<u>-</u>	<u>197,557,676</u>
34101	85300	Cumbres and Toltec Scenic Railroad Commission	87,000	-		-	-	87,000
41700	05600	NM Border Authority	77,600	-		-	-	77,600
41700	48000	NM Border Authority	253,800	-		-	-	253,800
41800	18800	Tourism Department	8,268,500	-		-	-	8,268,500
41800	38200	Tourism Department - New Mexico Magazine	-	-		-	-	-
41900	18900	Economic Development Department	6,455,000	-		-	-	6,455,000
41900	63800	Industrial Development (In-Plant Training)	-	-		-	-	-
42000	20120	Regulation and Licensing Department	28,800	-		-	-	28,800
42000	43300	Regulation and Licensing Department	12,561,300	-		-	-	12,561,300
43000	55000	Public Regulation Commission Operating	7,771,200	-		-	-	7,771,200
46000	19100	New Mexico State Fair	-	-		-	-	-
46500	53600	Gaming Control Board	5,180,200	-		-	-	5,180,200
46900	19200	State Racing Commission	1,849,300	-		-	-	1,849,300
49100	74800	Office of Military Base Planning and Support	119,300	-		-	-	119,300
49500	87100	New Mexico Space Port Authority	489,600	-		-	-	489,600
		Total - Commerce and Industry	<u>43,141,600</u>	<u>-</u>		<u>-</u>	<u>-</u>	<u>43,141,600</u>
50500	19300	Office of Cultural Affairs	26,933,000	-		-	-	26,933,000
50800	39500	New Mexico Livestock Board	454,400	-		-	-	454,400
52100	19900	Energy, Mineral and Natural Resource Department	10,288,900	-		-	-	10,288,900
52100	20010	EMNRD / State Parks	9,246,200	-		-	-	9,246,200
52100	21300	EMNRD - Emergency Fire/ Insect and Disaster	-	-	Executive Orders	12,000,000	-	12,000,000
53800	82900	Intertribal Ceremonial Office	30,000	-		-	-	30,000
55000	21400	Office of State Engineer	14,598,500	-		-	-	14,598,500
56900	04200	Organic Commodity Commission	-	-		-	-	-
		Total - Agriculture, Energy and Natural Resources	<u>61,551,000</u>	<u>-</u>		<u>12,000,000</u>	<u>-</u>	<u>73,551,000</u>
60100	04300	Commission on the Status of Women	-	-		-	-	-
60300	28400	Office of African American Affairs	695,400	-		-	-	695,400
60400	04600	Commission for Deaf and Hard of Hearing	300,000	-		-	-	300,000
60500	06000	Martin Luther King, Jr., Commission	172,700	-		-	-	172,700
60600	04700	Commission for the Blind	1,889,400	-		-	-	1,889,400
60900	04800	New Mexico Office of Indian Affairs	2,400,100	-		-	-	2,400,100
62400	04900	Aging and Long-term Services Dept. - Administration	40,663,900	-		-	-	40,663,900
62400	76800	ALTSD / Traumatic Brain Injury Fund	-	-		-	-	-
63000	05200	Human Services Department - General Operating Fund	99,913,200	-		-	-	99,913,200
63000	97500	HSD Income Support - Care & Support	10,075,800	-	Laws 2011, 1st SS, Chapter 2, SB 3, Sec 3	450,000	-	10,525,800
63000	97600	HSD Medical Assistance	857,306,800	-		-	-	857,306,800
63100	32900	NMDWS Operating Fund	3,217,400	-		-	-	3,217,400
64400	50000	Division of Vocational Rehabilitation	5,348,700	-		-	-	5,348,700
64500	05800	Governor's Commission on Disability	645,700	-		-	-	645,700
64700	07900	Developmental Disabilities Planning Council	4,135,300	-		-	-	4,135,300
66500	06100	Department of Health / General Operating	277,606,500	500,000		-	-	278,106,500
66500	20480	DOH - Fort Bayard Medical Center	4,050,000	-		-	-	4,050,000
66500	25700	DOH - Trauma System Fund	3,946,200	-		-	-	3,946,200
66500	75600	DOH - Emergency Medical Services	3,073,100	-		-	-	3,073,100
66500	95810	DOH - Birthing Workforce Retention	31,300	-		-	-	31,300
66700	06400	Department of Environment	11,354,900	-		-	-	11,354,900
66800	49300	Office of the Natural Resources Trustee	86,400	-		-	-	86,400
66900	61500	New Mexico Health Policy Commission	4,700	-		-	-	4,700
67000	06500	Veterans' Service Department	2,634,400	-		-	-	2,634,400
69000	06700	Children, Youth and Families Department	136,694,500	-		-	-	136,694,500
69000	20080	Children, Youth and Families Department	8,221,700	-		-	-	8,221,700
69000	20090	Children, Youth and Families Department	1,440,000	-		-	-	1,440,000
69000	48900	CYFD / Protective Services	19,045,100	-		-	-	19,045,100
69000	49100	CYFD / Child Care Payments Fund	26,788,500	-		-	-	26,788,500
69000	78000	CYFD / Children's Trust Fund Expendable	221,400	-		-	-	221,400
69000	83900	CYFD / Juvenile Community Corrections	2,658,600	-		-	-	2,658,600
69000	84100	CYFD / JIDP / Children's Justice	102,100	-		-	-	102,100
		Total - Health, Hospitals and Human Services	<u>1,524,723,800</u>	<u>500,000</u>		<u>450,000</u>	<u>-</u>	<u>1,525,673,800</u>

continued

Laws of 2012 - 50th Legislature - Second Session

Chapter 19				
Section 5 Amount	Section 6 Amount	Other Appropriations Chapter, Section	Amount	Total Appropriations Fiscal Year 2012
\$ -	\$ -		\$ -	\$ 529,800
-	-		-	38,898,400
-	-		-	3,357,600
-	-		-	671,000
-	-		-	472,000
-	-		-	2,405,300
-	1,013,000		-	5,614,300
-	-		-	3,852,400
-	-		-	212,600
-	-		-	3,550,800
<u>20,104,000</u>	<u>1,563,000</u>		-	<u>219,224,676</u>
-	-		-	87,000
-	-		-	77,600
-	-		-	253,800
-	-		-	8,268,500
-	1,560,000		-	1,560,000
-	-		-	6,455,000
6,000,000	-		-	6,000,000
-	-		-	28,800
100,000	50,000		-	12,711,300
-	-		-	7,771,200
-	-		-	-
200,000	-		-	5,380,200
-	-		-	1,849,300
-	20,000		-	139,300
-	-		-	489,600
<u>6,300,000</u>	<u>1,630,000</u>		-	<u>51,071,600</u>
-	58,300		-	26,991,300
500,000	-		-	954,400
-	-		-	10,288,900
-	-		-	9,246,200
-	-		-	12,000,000
-	-		-	30,000
-	-		-	14,598,500
-	-		-	-
<u>500,000</u>	<u>58,300</u>		-	<u>74,109,300</u>
125,000	-		-	125,000
-	-		-	695,400
-	-		-	300,000
-	-		-	172,700
-	-		-	1,889,400
-	-		-	2,400,100
-	922,300		-	41,586,200
-	-		-	-
-	-		-	99,913,200
-	-		-	10,525,800
-	35,000,000		-	892,306,800
-	-		-	3,217,400
-	324,800		-	5,673,500
50,000	-		-	695,700
10,000	112,000		-	4,257,300
-	-		-	278,106,500
-	-		-	4,050,000
-	-		-	3,946,200
-	-		-	3,073,100
-	-		-	31,300
-	-		-	11,354,900
-	-		-	86,400
-	-		-	4,700
-	161,000		-	2,795,400
-	-		-	136,694,500
-	-		-	8,221,700
-	-		-	1,440,000
-	-		-	19,045,100
-	-		-	26,788,500
-	-		-	221,400
-	-		-	2,658,600
-	-		-	102,100
<u>185,000</u>	<u>36,520,100</u>		-	<u>1,562,378,900</u>

State of New Mexico
Component Appropriation Funds
Schedule of Appropriations
For the Year Ended June 30, 2012

Laws of 2011 - 50th Legislature - First Session and First Special Session							
Chapter 179							
Agency No.	Share Fund No.	Share Fund Name	Section 4		Other Appropriations Chapter, Section	Amount Includes	
			Section 10	Section 5		HB 2	Section 10
			Reductions	Amount		Reductions	Total
70500	07000	Dept. of Military Affairs - Adjutant General Emergency	\$ -	\$ -	Executive Order	\$ 1,750,000	\$ 1,750,000
70500	93200	Dept. of Military Affairs - Service Member Life Ins	1,158,000	-		-	1,158,000
70500	99200	Department of Military Affairs	5,139,600	-		-	5,139,600
76000	90500	Parole Board	442,700	-		-	442,700
76500	90600	Juvenile Parole Board	24,100	-		-	24,100
77000	90200	Community Corrections Program	2,897,900	-		-	2,897,900
77000	90700	Corrections Department	228,176,800	-		-	228,176,800
77000	91500	Probation & Parole Division	25,901,800	-		-	25,901,800
78000	90900	Crime Victims Reparation Commission	1,674,000	-		-	1,674,000
79000	12800	Department of Public Safety	86,218,800	-		-	86,218,800
79000	93100	Department of Public Safety	-	-	Laws 2011, 1st SS, Chapter 5, Sec 17	4,000,000	4,000,000
79500	20050	Homeland Security	2,467,600	-		-	2,467,600
79500	20380	Homeland Security - Governor's Disaster Declarations	-	-	Executive Order	3,850,000	3,850,000
		Total - Public Safety	<u>354,101,300</u>	<u>-</u>		<u>9,600,000</u>	<u>363,701,300</u>
80500	20100	Department of Transportation / Road Fund	-	-		-	-
		Total - Transportation	<u>-</u>	<u>-</u>		<u>-</u>	<u>-</u>
92400	05700	Public Education Department	10,534,200	-		-	10,534,200
92400	51300	PED / Pre Kindergarten Fund	6,292,600	-		-	6,292,600
92400	79000	PED / Special Projects	10,763,200	-		-	10,763,200
92400	79000	PED / Special Projects	-	2,500,000		-	2,500,000
		Total - Other Education	<u>27,590,000</u>	<u>2,500,000</u>		<u>-</u>	<u>30,090,000</u>
34100	10300	San Juan College	21,801,000	-		-	21,801,000
34100	10400	New Mexico Junior College	5,829,300	-		-	5,829,300
34100	10500	New Mexico State University	175,341,500	-		-	175,341,500
34100	10600	Central New Mexico Community College	43,086,000	-		-	43,086,000
34100	10700	Eastern New Mexico University	39,373,100	-		-	39,373,100
34100	10800	Luna Vocational Technical Institute	7,448,100	-		-	7,448,100
34100	10900	Santa Fe Community College	12,166,100	-		-	12,166,100
34100	22200	New Mexico Highlands University	27,433,700	-		-	27,433,700
34100	22300	Mesalands Community College	4,179,400	-		-	4,179,400
34100	22400	New Mexico Institute of Mining and Technology	34,596,600	-		-	34,596,600
34100	22400	New Mexico Institute of Mining and Technology (851)	-	-		-	-
34100	22600	New Mexico Military Institute	1,816,100	-		-	1,816,100
34100	22700	Western New Mexico University	16,532,500	-		-	16,532,500
34100	22800	Northern New Mexico Community College	10,091,200	-		-	10,091,200
34100	23000	Clovis Community College	8,428,800	-		-	8,428,800
34100	23100	New Mexico School for the Blind and Visually Impaired	675,202	-		-	675,202
34100	23200	New Mexico School for the Deaf	3,385,300	-		-	3,385,300
34100	23300	University of New Mexico	268,562,300	-		-	268,562,300
95000	21600	HED/Special Programs	21,884,600	-		-	21,884,600
95000	78200	HED/Performance Development	2,563,000	-		-	2,563,000
95000	91000	Higher Education Department/Operations	-	-		-	-
95000	91000	Higher Education Department/Operations	11,371,500	-		-	11,371,500
		Total - Higher Education	<u>716,565,302</u>	<u>-</u>		<u>-</u>	<u>716,565,302</u>
92400	63300	PED / Indian Education	1,824,600	-		-	1,824,600
92400	72500	Public School Energy Fund	303,613	-		-	303,613
92400	79000	PED / Dual Credit Instructional Materials	812,300	-		-	812,300
92400	85600	Instructional Material Fund	15,092,800	-		-	15,092,800
92400	85800	Public School Support/ML (851)	-	-		-	-
92400	85800	Public School Support/CS (717)	-	-		-	-
92400	85800	Public School Support/ ACF (854)	-	-		-	-
92400	85800	Public School Support	2,320,388,766	-		-	2,320,388,766
		Total - Public School Support	<u>2,338,422,079</u>	<u>-</u>		<u>-</u>	<u>2,338,422,079</u>
		Total - Component Appropriation Accounts	<u>5,418,507,556</u>	<u>3,250,000</u>		<u>78,612,855</u>	<u>5,500,370,411</u>

continued

Laws of 2012 - 50th Legislature - Second Session				
Chapter 19				
Section 5 Amount	Section 6 Amount	Other Appropriations Chapter, Section	Amount	Total Appropriations Fiscal Year 2012
\$ -	\$ -		\$ -	\$ 1,750,000
-	-		-	1,158,000
-	-		-	5,139,600
-	-		-	442,700
-	-		-	24,100
-	-		-	2,897,900
-	-		-	228,176,800
-	-		-	25,901,800
253,000	-		-	1,927,000
200,000	200,000		-	86,618,800
-	-		-	4,000,000
-	-		-	2,467,600
-	-		-	3,850,000
<u>453,000</u>	<u>200,000</u>		<u>-</u>	<u>364,354,300</u>
-	-		-	-
-	-		-	-
-	-		-	10,534,200
-	-		-	6,292,600
-	-		-	10,763,200
<u>5,500,000</u>	<u>-</u>		<u>-</u>	<u>8,000,000</u>
<u>5,500,000</u>	<u>-</u>		<u>-</u>	<u>35,590,000</u>
-	-		-	21,801,000
-	-		-	5,829,300
-	-		-	175,341,500
-	-		-	43,086,000
-	-		-	39,373,100
-	-		-	7,448,100
-	-		-	12,166,100
-	-		-	27,433,700
-	-		-	4,179,400
-	-		-	34,596,600
-	-		-	-
-	-		-	1,816,100
-	-		-	16,532,500
-	-		-	10,091,200
-	-		-	8,428,800
-	-		-	675,202
-	-		-	3,385,300
-	-		-	268,562,300
-	-		-	21,884,600
-	-		-	2,563,000
-	-		-	-
<u>200,000</u>	<u>85,000</u>		<u>-</u>	<u>11,656,500</u>
<u>200,000</u>	<u>85,000</u>		<u>-</u>	<u>716,850,302</u>
-	-		-	1,824,600
-	-		-	303,613
-	-		-	812,300
-	-		-	15,092,800
-	-		-	-
-	-		-	-
-	-		-	-
-	-		-	2,320,388,766
-	-		-	<u>2,338,422,079</u>
<u>33,783,800</u>	<u>40,839,500</u>		<u>5,548,500</u>	<u>5,580,542,211</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due From Other State Entities
For the Year Ended June 30, 2012

Share System Fund Number	Description	Amount
12900	Legislative Council Services	\$ 629,073
13000	Legislative Finance Committee	234,291
74300	Legislative Council Services-Senate	287,207
74400	Legislative Council Services-House	234,162
13100	Legislative Education Study Committee	113,874
13200	Legislative Building Services	152,563
13400	New Mexico Supreme Court Law Library	1,372
13500	Judicial Standards Commission	1,669
13700	Court of Appeals	10,000
13800	Supreme Court	1,682
13900	Administrative Office of the Courts	180,712
79400	Administrative Office of the Courts	384
14000	Supreme Court Building	1,824
14100	First Judicial District Court	384
14200	Second Judicial District Court	40,101
14300	Third Judicial District Court	15,236
92400	Third Judicial District Court	10,731
14400	Fourth Judicial District Court	5,038
14600	Sixth Judicial District Court	13,660
14700	Seventh Judicial District Court	19,518
14800	Eighth Judicial District Court	11,953
14900	Ninth Judicial District Court	4,732
14900	Ninth Judicial District Court	2,420
15000	Tenth Judicial District Court	1,711
15100	Eleventh Judicial District Court	3,160
15200	Twelfth Judicial District Court	26,669
92900	Twelfth Judicial District Court	17,056
15400	Bernalillo County Metro. Court	22,307
15500	First Judicial District Attorney	19,348
15700	Fifth Judicial District Attorney	26
16000	Sixth Judicial District Attorney	1,253
16100	Seventh Judicial District Attorney	30,695
16200	Eighth Judicial District Attorney	60
16400	Tenth Judicial District Attorney	1,920
16500	Eleventh Judicial District Attorney	2,443
16600	Twelfth Judicial District Attorney	44,292
16800	Administrative Office of the District Attorney	8,987
16900	Eleventh Judicial District Attorney (Division II)	43,320
11100	State Auditor's Office	1,839
17200	Taxation and Revenue Department	2,552,667
27900	Corporate Income Taxes	59,127,931
64200	Regular Income Tax - PIT	36,126,058

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due From Other State Entities — continued
For the Year Ended June 30, 2012

Share System Fund Number	Description	Amount
82500	Motor Vehicle Excise Tax	\$ 10,288,397
82500	Weight Distance Tax	73,119
82500	Traffic Violations/Penalty Assessment	558,148
82500	Court Fines	140
82800	Fiduciary Income Taxes	1,049,032
82800	Bingo and Raffle Tax	31,544
82800	Liquor Tax /Alcoholic Beverages	4,843,901
82800	Gasoline Tax	1,260,536
82800	Special Fuel Tax	(2,012)
82800	911 Emergency Surcharge Tax	(2,028)
82800	Luxury Tax (TAA)	1,128,332
82800	Luxury Tax	11,634,755
82800	Gaming Tax	10,644,925
82800	Telecommunications Relay Surcharge	16,157
82800	Environment Dept. Filing Fees	1,456
83100	Worker's Compensation	3,384
83200	Withholding Taxes	156,100,084
83200	Gross Receipt Tax	339,258,610
83200	Compensating Tax	12,480,141
83200	Lease Vehicle Surcharge	1,058,105
83300	Severance - School Tax	89,678,869
83300	Severance Tax - Processors	3,772,981
83300	Severance - Conservation Resource	177,254
83300	Severance - Conservation	4,865,052
83300	Resource Excise - Copper	797,430
83300	Resource Excise - Potash	120,310
83300	Resource Excise - Others	1,201,414
60100	Land Grant Permanent Fund	38,529,423
60200	Severance Tax Permanent Fund Income	15,285,292
01000	Department of Finance and Administration	1,145,899
20900	Department of Finance and Administration	270,595
21000	Department of Finance and Administration	84,165
23300	University of New Mexico	97,467
52900	Department of Finance and Administration	349,390
58100	Department of Finance and Administration	193
62000	Department of Finance and Administration	4,678
73600	DFA Law Enforcement Protection	8,291,058
73700	DFA Small County Assistance	3,576,387
96600	Department of Finance and Administration	7,500
17400	General Services Department	691,635
17500	Public Defender Department	704,472
75300	Public Defender Department	7,918

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due From Other State Entities — continued
For the Year Ended June 30, 2012

Share System Fund Number	Description	Amount
17600	Governor's Office	\$ 201,837
17700	Lt. Governor's Office	274,450
17900	State Commission of Public Records	233,935
18000	Secretary of State	93,661
79900	Notary Public Fees	3,293
18100	State Personnel Board	36,342
84800	Public Employees Labor Relations Board	236,454
N/A	Tobacco Luxury/New Mexico Finance Authority	809,411
02000	Tribal Revenue Sharing (Indian Gaming)	16,981,022
18200	State Treasurer's Office	97,246
80100	State Treasurer Earnings on State Balances	1,890,410
18800	Tourism Department	169,472
18900	Economic Development Department	706,688
43301	Regulation and Licensing Department	367,127
43505	Financial Institution Receipts	1,160
43605	Manufactured Housing Receipts	50,819
43705	Construction Industries Receipts	445,104
43805	Securities Receipts	40,070
80805	Alcoholic and Gaming Fees	11,980
50300	Corporate Filing	418
50500	Pipeline Fees	500
50600	Public Utilities	27
50800	PRC Insurance Taxes	19,326,860
55000	Public Regulation Commission	247,855
57800	Fire Protection Fund - Insurance Fees	18,812,069
53600	Gaming Control Board	391,168
19200	State Racing Commission	89,843
19300	Department of Cultural Affairs	307,068
19900	Energy, Mineral and Natural Resources Department	8,950
77300	Boat Excise Tax	125,545
21300	Energy, Mineral and Natural Resources Department	395,615
21400	State Engineers Office	349,636
26700	State Engineers Office	18,177
04900	Aging and Long-term Services Department	145,873
32900	Workforce Solutions Department	5,000
50000	Division of Vocational Rehabilitation	212,346
50204	Death and Birth Certificate Fees	223,908
Various	Department of Health	10,624,932
10350	Environment Department	188,808
10360	Environment Department	41,288
49300	Office of the Natural Resources Trustee	2,193
06500	Department of Veteran Services	86,429

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due From Other State Entities — continued
For the Year Ended June 30, 2012

Share System Fund Number	Description	Amount
07000	Military Affairs Department	\$ 325,603
99200	Military Affairs Department	582,363
90500	Adult Parole Board	12,454
90700	Corrections Department	6,331,316
90900	Crime Victims Reparation Committee	5,841
12800	Department of Public Safety	764,394
78600	Department of Public Safety	42,127
10070	Department of Transportation	26,766
Various	Public Education Department	3,518,959
		<u>\$ 905,955,248</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due from Tax Payers
For the Year Ended June 30, 2012

Share System Fund Number	Description	Amount
27900	Corporate Income Tax	\$ 1,218,255
64200	Regular Income Tax OGP Withholding	344,786
64200	OGP - Remitter	1,611,373
64200	PTW - Owner	23,295
64200	PTW - Remitter	884,004
64200	Personal Income Tax	7,340,757
82800	Fiduciary	18,181
82800	Tobacco Tax	4,843
83100	Workers' Compensation	17,059
83200	Withholding Taxes	4,896,705
83200	Gross Receipt Tax	7,318,962
83200	Compensating Tax	(587,132)
		<u>\$ 23,091,088</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due to Other State Entities
For the Year Ended June 30, 2012

Share System Fund Number	Description	Amount
13300	Legislature	\$ 533,100
20900	Department of Finance and Administration	87,000
23500	Public Regulation Commission	<u>529,238</u>
		<u>\$ 1,149,338</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due to Local Governments
For the Year Ended June 30, 2012

Share System Fund Number	Description	Amount
832	Taxation and Revenue Dept. (Unidentified 60 Day Remittance)	\$ 16,436,760
		<u>\$ 16,436,760</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due to Taxpayers
For the Year Ended June 30, 2012

Share System Fund Number	Description	Amount
833	Taxation and Revenue Dept. (Oil & Gas Advance Payments)	<u>\$ 31,918,775</u> <u>\$ 31,918,775</u>

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*

Mr. Thomas E. Clifford, Ph.D., Cabinet Secretary Designate
State of New Mexico
Department of Finance and Administration
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of each of the statutorily and Administratively created funds that comprise the Component Appropriation Funds of the State of New Mexico (the "Component Appropriation Funds"), as of and for the year ended June 30, 2012, as listed in the table of contents and have issued our report thereon dated December 17, 2012. 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.

Internal Control Over Financial Reporting

Management of the Component Appropriation Funds is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Component Appropriation Funds' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Component Appropriation Funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Component Appropriation Funds' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of*

findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Component Appropriation Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The Component Appropriation Funds' response to the finding identified in our audit is described in the accompanying *schedule of findings and responses*. We did not audit the Component Appropriation Funds' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Department of Finance and Administration, others within the entity, and the NM Office of the State Auditor, the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

REDW LLC

Albuquerque, New Mexico
December 17, 2012

State of New Mexico
Component Appropriation Funds
Schedule of Findings and Responses
For the Year Ended June 30, 2012

Section I — Financial Statement Findings

FS 12-01 — Consideration of State Government Issues (Material Weakness)

Criteria: The Component Appropriate Funds are a part of the State of New Mexico financial reporting entity. Procedures should be in place to ensure that reporting by the Component Appropriation Funds is consistent with other funds, departments and agencies within state government. Such procedures should ensure that situations within state government with potential to impact the Component Appropriation Funds are identified and evaluated. This evaluation may result in the need for recognition in the accounts of the Component Appropriation Funds and/or financial statement disclosure.

Condition: The State of New Mexico uses the General Fund Investment Pool (the Pool) to facilitate cash management by the various departments, agencies and funds within State government. Pool cash and investments are managed by the New Mexico Office of State Treasurer and, by statute, responsibility for reconciling the Pool rests with the New Mexico Department of Finance and Administration. The Component Appropriations Funds invest in the Pool, but are not responsible for managing Pool assets or reconciling the Pool.

As described in Note 6 to the financial statements, the Pool has not been reconciled and management considers it probable that its ultimate reconciliation will result in at least a \$70 million loss to the General Operating Reserve Fund. Accrual for this probable loss was recorded as an audit adjustment as of June 30, 2012 because procedures were not in place to timely identify and evaluate situations within state government with the potential to necessitate accounting recognition and/or financial statement disclosure by the Component Appropriation Funds.

Cause and Effect: Procedures were not in place to ensure that State government issues with potential impact on the Component Appropriations Funds were identified, evaluated and where applicable, recorded and/or disclosed in the financial statements. As a result, financial statement amounts and/or disclosures may be inaccurate or inadequate.

Auditors' Recommendations: Establish control procedures to ensure that the impact of state government issues with the potential to impact the Component Appropriation Funds are identified and evaluated and that accounting recognition and/or disclosure occurs, when appropriate, in accordance with generally accepted accounting standards.

State of New Mexico
Component Appropriation Funds
Schedule of Findings and Responses
For the Year Ended June 30, 2012

Section I — Financial Statement Findings

FS 12-01 — Consideration of State Government Issues (Material Weakness) — continued

Management's Response: Management agrees with this finding and the recommendations. Remediation efforts to correct the DFA's inability to reconcile cash balances within the General Fund Investment Pool have been under way since the Fall 2012. An outside contractor has been hired to help DFA implement the corrective actions necessary to generate accurate and timely book to bank reconciliations. As part of these corrective actions, the DFA is developing internal control processes to more timely identify impacts to the Component Appropriation Funds and to intervene to mitigate potential impacts.

The remediation project for cash reconciliation is progressing and should be complete by the end of March 2013.

State of New Mexico
Component Appropriation Funds
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2012

No findings were reported in the prior year.

State of New Mexico
Component Appropriation Funds
Exit Conference
For the Year Ended June 30, 2012

Exit Conference

An exit conference was conducted on December 13, 2012, in which the contents of this report were discussed with the following:

Component Appropriation Funds Management

Mr. Thomas E. Clifford, Ph.D., Cabinet Secretary, DFA

Ricky Bejarano, CPA, State Controller and Director, Financial Control Division, DFA

Steve Gonzales, Deputy Director, Financial Control Division, DFA

REDW_{LLC}

Bruce Bleakman Principal

Javier Machuca Senior Manager

APPENDIX B

FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER

[date]

State Board of Finance	Brownstein Hyatt Farber Schreck, LLP
State of New Mexico	201 Third Street, NW, Suite 1700
Bataan Memorial Bldg.	Albuquerque, NM 87102
Santa Fe, NM 87501	

Re: \$137,220,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2013

Ladies and Gentlemen:

This letter will serve as our certificate of litigation concerning the State of New Mexico Capital Projects General Obligation Bonds, Series 2013, in the principal amount of \$ 137,220,000 and other litigation affecting the State of New Mexico (the "State").

Litigation Directly Affecting Issuance of the Bonds

To the best of our knowledge, there is no pending or threatened action, suit or proceeding at law or in equity before or by any judicial or administrative agency against or affecting the State wherein an unfavorable decision, ruling, or finding would materially and adversely affect: (i) any officers of the State in their respective capacities as such or the existence, organization or power of the State, insofar as these matters relate to these bonds; (ii) the notice of sale, award, issuance and delivery of these bonds; (iii) the effectiveness of the legislation authorizing the issuance of these bonds (i.e. NMSA 1978, sections 6-12-6 through 14, as amended); (iv) the transactions authorized by the State Board of Finance in its resolution of January 16, 2013 (the "Bond Legislation") relating to the issuance, sale and delivery of these bonds; or (v) the validity or enforceability of the bonds or the Bond Legislation.

Property Tax Litigation

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

Other Litigation

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

Sincerely,

Assistant Attorney General

APPENDIX C

**FORM OF OPINION OF BOND COUNSEL
CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2013**

_____, 2013

State Board of Finance
State of New Mexico

Ladies and Gentlemen:

We have examined the transcript of proceedings (the “Transcript”) relating to the issuance of the \$137,220,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2013 (the “Bonds”), dated March 19, 2013 and being a series of bonds in registered form maturing on March 1, 2014 and serially thereafter on March 1 of each year through 2023.

We have also examined the provisions of the Constitution and laws of the State of New Mexico (the “State”) including the 2012 Capital Projects General Obligation Bond Act, Chapter 54, Laws 2012, under authority of which the Bonds were issued, the resolution authorizing the issuance and sale of the Bonds (the “Bond Legislation”) adopted by the State Board of Finance (the “Board”) on January 16, 2013, an executed Bond of the first maturity, and the Tax Regulatory Certificate of the State (the “Tax Certificate”). We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion.

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

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

other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of New Mexico. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express herein no opinion relating thereto.

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

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

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

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference for purposes of the alternative minimum tax imposed by the Code on individuals and corporations. We express no opinion regarding other federal income tax consequences caused by the receipt or accrual of interest on or ownership of the Bonds.

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

Very truly yours,

BROWNSTEIN HYATT FARBER SCHRECK
LLP

APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Disclosure Undertaking”) is executed and delivered by the State Board of Finance (the “Board”) of the State of New Mexico (the “State”) on behalf of the State in connection with the issuance by the State of \$137,220,000 Capital Projects General Obligation Bonds, Series 2013 (the “Bonds”). The Bonds are being issued pursuant to the Bond Resolution adopted by the Board on January 16, 2013 (the “Resolution”).

BACKGROUND

1. The Bonds are being issued to provide funds for capital expenditures for construction, acquisition or improvement of senior citizen centers and facilities, library acquisitions, and higher education and special schools improvements and acquisitions, as set forth in the 2012 Capital Projects General Obligation Act, Chapter 54, Laws 2012 and approved by the voters of the State on November 6, 2012.

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 Sections 2(a) and 2(b) hereof, of the type set forth in the sections of the final Official Statement identified on Exhibit A hereto. Annual Financial Information includes Audited Financial Statements.

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

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

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

(e) “National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) 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 March 19, 2013 delivered in connection with the original issue and sale of the Bonds.

(g) “Repository” means (i) EMMA and (ii) any SID.

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

(i) “SEC” means the Securities and Exchange Commission.

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

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

(a) Commencing with the Fiscal Year ending June 30, 2013 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, not in excess of ten business days to the MSRB and any SID notice of any of the following events with respect to the Bonds (provided, that any event under clauses (ii), (vii), (viii), (x), (xiv), and (xv) will be provided only if material):

Principal and interest payment delinquencies;

Non-payment related defaults;

Unscheduled draws on debt service reserves reflecting financial difficulties;

Unscheduled draws on credit enhancements reflecting financial difficulties;

Substitution of credit or liquidity providers, or their failure to perform;
Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Forms 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds;
Modifications to rights of bond holders;
Bond calls, other than mandatory sinking fund redemption;
Defeasances;
Release, substitution or sale of any property securing repayment of the securities;
Rating changes;
Tender offers;
Bankruptcy, insolvency, receivership or similar proceedings;
Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated person or their termination; and
Appointment of a successor or additional trustee or the change of name of a trustee.

(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.

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 this Disclosure Undertaking shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other annual information or notice of occurrence of an event which is not Event Information, in addition to that which is required by this Disclosure Undertaking; provided that the State shall not be required to do so. If the State chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Undertaking, the State shall have no obligation under this Disclosure Undertaking to update such information or include it in any future annual filing or Event Information filing.

Section 6. Term. This Disclosure Undertaking shall be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of (i) the date all principal and interest on the Bonds shall have been paid or legally defeased pursuant to the terms of the Resolution; (ii) the date that the State shall no longer constitute an “obligated person” with respect to the Bonds within the meaning of

the Rule; or (iii) the date on which those portions of the Rule which require this Disclosure Undertaking are determined to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

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

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

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

Date: March ___, 2013

STATE BOARD OF FINANCE

By _____
President

By _____
Secretary

EXHIBIT A

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

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