

Supplement to Official Statement dated February 17, 2015
related to

\$141,635,000
THE STATE OF NEW MEXICO
CAPITAL PROJECTS GENERAL OBLIGATION BONDS
SERIES 2015

The cover page of the Official Statement for the above-captioned bonds (the “Bonds”), as well as the sections therein entitled “SUMMARY OF INFORMATION – CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2015” and “THE BONDS – Optional Redemption of Bonds,” incorrectly stated that the Bonds maturing on or after March 1, 2021 are subject to optional redemption prior to maturity by the State in whole or in part on any date after March 1, 2020 at par plus accrued interest.

This Supplement hereby corrects the optional redemption provisions contained in the Official Statement to state that the Bonds will not be subject to optional redemption prior to maturity.

The date of this Supplement is March 2, 2015

New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on \$141,635,000 Capital Projects General Obligation Bonds, Series 2015 (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.



\$141,635,000
THE STATE OF NEW MEXICO
CAPITAL PROJECTS GENERAL OBLIGATION BONDS
SERIES 2015

Dated: Delivery Date

Due: March 1, as shown below

Ratings

"Aaa" Moody's Investors Service, Inc.

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

Tax Exemption

In the opinion of Rodey Dickason Sloan Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the "Tax Code"), and interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations. The Bonds, and the interest thereon, are exempt from taxation by the State and any subdivision or public body thereof. See "TAX MATTERS."

Optional Redemption

The Bonds maturing on or after March 1, 2021 are subject to optional redemption prior to maturity by the State in whole or in part on any date after March 1, 2020 at par plus accrued interest.

Security

The Bonds are being issued under the authority of the 2014 Capital Projects General Obligation Bond Act, Chapter 65, Laws 2014 (the "Act"). The Act authorizes and directs State tax officials to levy on all property in the State that is subject to taxation an ad valorem tax sufficient to produce an amount equal to the interest and principal requirements for each year for any general obligation bonds outstanding. The Bonds are general obligations of the State of New Mexico (the "State"), and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.

Purpose

The Bonds are being issued to provide funds for construction, acquisition or improvement of senior citizen centers and facilities, library acquisitions, and higher education, special schools and tribal schools improvements and acquisitions as set forth in the Act and approved by the voters of the State on November 4, 2014.

Interest Payment Dates

March 1 and September 1, commencing September 1, 2015.

Closing/Settlement

On or about March 25, 2015.

Denominations

\$5,000 or integral multiples thereof

Book-Entry System

The Depository Trust Company

Registrar/Paying Agent

State Treasurer of New Mexico

Co-Bond Counsel

Rodey Dickason Sloan Akin & Robb, P.A. and Sherman & Howard L.L.C.

Co-Disclosure Counsel

Rodey Dickason Sloan Akin & Robb, P.A. and Sherman & Howard L.L.C.

Issuer Contact

State Board of Finance: Jeff Primm, Acting Director, (505) 827-3936; jeff.primm@state.nm.us

Dated: February 17, 2015

SERIES 2015 BONDS

<u>Year</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield at</u> <u>Issuance¹</u>	<u>Price at</u> <u>Issuance¹</u>	<u>CUSIP²</u>
2016	\$10,600,000	5.000%	0.200%	104.473	647293PU7
2017	11,885,000	5.000	0.480	108.687	647293PV5
2018	12,480,000	5.000	0.760	112.276	647293PW3
2019	13,100,000	5.000	0.970	115.515	647293PX1
2020	13,755,000	5.000	1.200	118.148	647293PY9
2021	14,445,000	5.000	1.400	120.427	647293PZ6
2022	15,165,000	5.000	1.650	121.861	647293QA0
2023	15,925,000	5.000	1.830	123.308	647293QB8
2024	16,720,000	5.000	2.000	124.429	647293QC6
2025	17,560,000	5.000	2.130	125.571	647293QD4

¹ This information not provided by the State.

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

ELECTED STATE OFFICIALS

SUSANA MARTINEZ
Governor

DIANNA J. DURAN
Secretary of State

JOHN A. SANCHEZ
Lieutenant Governor

TIM EICHENBERG
State Treasurer

TIM KELLER
State Auditor

HECTOR BALDERAS
Attorney General

AUBREY DUNN
Commissioner of Public Lands

Public Regulation Commissioners:

KAREN L. MONTOYA
District I

PATRICK H. LYONS
District II

VALERIE ESPINOZA
District III

LYNDA LOVEJOY
District IV

BEN L. HALL
District V

STATE BOARD OF FINANCE

Ex Officio Members

GOVERNOR SUSANA MARTINEZ
President

LT. GOVERNOR
JOHN A. SANCHEZ
Member

STATE TREASURER
TIM EICHENBERG
Member

Appointed Members

ROBERT J. ARAGON
Member

MICHAEL BRASHER
Member

ADELMO ARCHULETA
Member

JOHN KORMANIK
Member

THOMAS E. CLIFFORD, PhD
Executive Officer

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505-827-4980

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Berkeley, California
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 2015

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, 2015.
<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, 2021 are subject to optional redemption prior to maturity by the State in whole or in part on any date after March 1, 2020 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 Rodey Dickason Sloan Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel.
<i>Security:</i>	The Bonds are being issued under the authority of the 2014 Capital Projects General Obligation Bond Act, Chapter 65, Laws 2014. 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	\$247,635,000
Plus: Series 2015 Bonds	141,635,000
Total State General Obligation Bonds, following the closing of the Bonds	<u>\$389,270,000</u>

KEY BONDING MEASURES FOLLOWING THE ISSUANCE OF THE BONDS

Total General Obligation Bonds per capita (2013 Estimate from Census Bureau)	\$186.67
Ratio of General Obligation Bonds to 2014 Net Taxable Value	0.686%
Ratio of General Obligation Bonds per capita to State 2014 estimated per capita personal income	0.504%
Percent of General Obligation Bonds due within 10 years	100.0%

OFFICIAL STATEMENT

\$141,635,000

THE STATE OF NEW MEXICO CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2015

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 2015 in the principal amount of \$141,635,000, 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 \$169,000,000 by the 2014 Capital Projects General Obligation Bond Act, Chapter 65, Laws 2014, passed by the State Legislature and approved in part by the voters in a statewide election on November 4, 2014. 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, special schools and tribal 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:

Contact:	Jeff Primm, Acting Director, State Board of Finance
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Web Site:	http://www.nmdfa.state.nm.us/Board_of_Finance.aspx

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

During the State’s 2015 legislative session, which will close on March 21, 2015, legislation relating to the budgets for Fiscal Years 2015 and 2016 is expected to be adopted. Based on the consensus revenue group’s February 4, 2015 forecast, budget growth will be limited as a result of volatility in oil and natural gas prices. For a specific discussion regarding such legislation, the concensus revenue group’s forecast and the impact on the State’s financial condition, see “FINANCIAL OVERVIEW OF THE STATE—Review of Results and Projections in the General Fund—Fiscal Year 2015” and “—Fiscal Year 2016.”

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, 2015. 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 February 17, 2015 (the “Resolution”).

Optional Redemption of Bonds

The Bonds maturing on or after March 1, 2021 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, 2020, 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, Series 2009, Series 2011 and Series 2013 (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 that will be outstanding at the Closing of the Bonds (including the Bonds), the annual debt service requirements on the Bonds, and the annual debt service requirements on all such outstanding bonds at the Closing of the 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 2007	\$ 32,475,000
Series 2009	91,770,000
Series 2011	11,805,000
Series 2013	111,585,000
<u>Series 2015</u>	<u>141,635,000</u>
Total	\$ 389,270,000

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TABLE 2
Debt Service Requirements on Series 2015 GO Bonds

Date	Principal	Interest	Debt Service	Fiscal Year Debt Service
09/01/15		\$3,068,758.33	\$3,068,758.33	
03/01/16	\$10,600,000	3,540,875.00	14,140,875.00	\$17,209,633.33
09/01/16		3,275,875.00	3,275,875.00	
03/01/17	11,885,000	3,275,875.00	15,160,875.00	18,436,750.00
09/01/17		2,978,750.00	2,978,750.00	
03/01/18	12,480,000	2,978,750.00	15,458,750.00	18,437,500.00
09/01/18		2,666,750.00	2,666,750.00	
03/01/19	13,100,000	2,666,750.00	15,766,750.00	18,433,500.00
09/01/19		2,339,250.00	2,339,250.00	
03/01/20	13,755,000	2,339,250.00	16,094,250.00	18,433,500.00
09/01/20		1,995,375.00	1,995,375.00	
03/01/21	14,445,000	1,995,375.00	16,440,375.00	18,435,750.00
09/01/21		1,634,250.00	1,634,250.00	
03/01/22	15,165,000	1,634,250.00	16,799,250.00	18,433,500.00
09/01/22		1,255,125.00	1,255,125.00	
03/01/23	15,925,000	1,255,125.00	17,180,125.00	18,435,250.00
09/01/23		857,000.00	857,000.00	
03/01/24	16,720,000	857,000.00	17,577,000.00	18,434,000.00
09/01/24		439,000.00	439,000.00	
03/01/25	17,560,000	439,000.00	17,999,000.00	18,438,000.00
09/01/25				
Total⁽¹⁾	\$141,635,000	\$41,492,383	\$183,127,383	\$183,127,383

(1) Totals may not add due to rounding.

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

Date	Principal on Outstanding Bonds	Interest on Outstanding Bonds	Debt Service on Outstanding Bonds	Series 2015 Debt Service	Total Debt Service	Fiscal Year Debt Service
09/01/15		\$4,496,974	\$4,496,974	\$3,068,758	\$7,565,732	
03/01/16	\$51,915,000	4,496,974	56,411,974	14,140,875	70,552,849	\$78,118,581
09/01/16		3,402,974	3,402,974	3,275,875	6,678,849	
03/01/17	54,110,000	3,402,974	57,512,974	15,160,875	72,673,849	79,352,698
09/01/17		2,267,699	2,267,699	2,978,750	5,246,449	
03/01/18	38,915,000	2,267,699	41,182,699	15,458,750	56,641,449	61,887,898
09/01/18		1,507,224	1,507,224	2,666,750	4,173,974	
03/01/19	40,440,000	1,507,224	41,947,224	15,766,750	57,713,974	61,887,948
09/01/19		713,124	713,124	2,339,250	3,052,374	
03/01/20	16,145,000	713,124	16,858,124	16,094,250	32,952,374	36,004,748
09/01/20		530,924	530,924	1,995,375	2,526,299	
03/01/21	16,510,000	530,924	17,040,924	16,440,375	33,481,299	36,007,598
09/01/21		344,224	344,224	1,634,250	1,978,474	
03/01/22	14,635,000	344,224	14,979,224	16,799,250	31,778,474	33,756,948
09/01/22		179,580	179,580	1,255,125	1,434,705	
03/01/23	14,965,000	179,580	15,144,580	17,180,125	32,324,705	33,759,410
09/01/23			0	857,000	857,000	
03/01/24			0	17,577,000	17,577,000	18,434,000
09/01/24			0	439,000	439,000	
03/01/25			0	17,999,000	17,999,000	18,438,000
09/01/25						
Total⁽¹⁾	\$247,635,000	\$26,885,443	\$274,520,443	\$183,127,383	\$457,647,826	\$457,647,826

(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	\$56,735,504,632
General obligation bond limitation @ 1 percent of net taxable value	\$567,355,046
Total general obligation bonds outstanding as of the closing of the Bonds	\$247,635,000
Plus: Series 2015 Bonds	141,635,000
Total general obligation bonds, following closing of the Bonds	\$389,270,000
Ratio of total debt to net taxable value	0.686%

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, 2014. The table does not include debt of special districts or community colleges.

TABLE 5
Certain Underlying General Obligation Debt

Counties	\$ 292,080,694
Cities	\$ 438,818,780
Schools	\$2,044,547,000

Sources: 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, special schools and tribal 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	\$ 141,635,000.00
Original Issue Premium (Discount)	26,119,851.35
Total Sources	\$ 167,754,851.35

Uses:

Senior Citizen Projects	\$ 16,433,440.00
Library Projects	10,800,000.00
Higher Education Projects	139,755,000.00
Underwriter's Discount	362,762.64
Costs of Issuance and Rounding	403,648.71
Total Uses	\$ 167,754,851.35

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 were completed and found 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 audit completed by REDW, LLC for the Fiscal Year 2011 agreed with the Finance Authority in its application of accounting principles and did not disclose the presence of any missing funds. The Finance Authority's former controller entered into a plea agreement for forgery and securities fraud. Pursuant to that plea agreement, the former controller received a sentence of 5 years supervised probation. The Finance Authority is implementing recommendations contained in the three published reports. In

September 2012, the Finance Authority terminated its Chief Executive Officer and Chief Operating Officer. It has since hired a new Chief Executive Officer and has restructured its Audit Committee.

The following table summarizes bond proceeds and other capital authorizations by funding source for Fiscal Year 2010 through the first six months of Fiscal Year 2014.

TABLE 6
Principal Sources of Capital Project Funding
Fiscal Year Ended June 30
(Dollars in millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Proceeds from General Obligation Bonding Program⁽¹⁾					
General Obligation Bonds	\$ --	\$ 19.7	\$ --	\$139.3	\$ --
Subtotal	\$ --	\$ 19.7	\$ --	\$139.3	\$ --
Proceeds from Severance Tax Bonding Program⁽¹⁾					
Severance Tax Bonds	\$ 315.3	\$ --	\$121.2	\$ --	\$339.7
Severance Tax Funding Notes ⁽²⁾	178.5	27.3	76.2	112.0	90.5
Supplemental Severance Tax Bonds	112.9	--	--	--	--
Supplemental Severance Tax Funding Notes ⁽²⁾	97.0	206.1	148.7	167.8	175.2
Subtotal	\$ 703.7	\$233.4	\$346.1	\$279.8	\$605.4
Proceeds From Other Sources					
General Fund ⁽³⁾	\$(259.2)	\$ --	\$ --	\$ --	\$ --
Transportation Bonds ⁽⁴⁾	52.5	--	--	--	70.1
Lease Appropriation Bonds	--	--	--	--	--
Subtotal	\$(206.7)	\$ --	\$ --	\$ --	\$ 70.1
Total⁽⁵⁾	\$ 497.0	\$253.1	\$346.1	\$419.1	\$675.5

⁽¹⁾ Dollar amounts from State Board of Finance funding programs reflect net proceeds available for capital expenditure. Amounts vary annually by legislative action and the timing of bond closings.

⁽²⁾ The Board 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 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, with the exception of the State Transportation Highway Infrastructure Fund Revenue Bonds issued March 12, 2014 for \$70,110,000, 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 estimated 2014 population of the State is 2,085,572. 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 approximately 22 cabinet 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 statewide offices were held on November 4, 2014.

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 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 Board of Finance is a division of the DFA that provides operational, analytical and administrative support to the Board. 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 "TRD") 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 TRD, 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 2013, 4.7 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 Valuation 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 TRD 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 TRD 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 TRD and measure a county’s assessment valuations against current sales information. Counties that have at least an 85 percent sales assessment ratio are considered “current and correct,” while counties that fall below that threshold are considered not “current and correct.” If a 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 two 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 benefiting from any enhanced value of the property.

Several legal challenges were brought in response to the Legislature's enactment of Section 7-36-21.2 NMSA 1978, because of the exception to the annual valuation cap for residential properties which experienced a change in ownership in the previous tax year. This exception resulted in acquisition-value taxation, and also resulted in instances in which the property's valuation based on its fair market value at the time it changed ownership was much greater than its previously-capped valuation, also known as "tax lightning." In these situations, the new property owner faced greatly increased property taxes compared with the previous owner. Several lower courts concluded that the exception therefore violated Article VIII, Section 1 of the New Mexico Constitution by creating an inappropriate classification of taxpayers.

On March 28, 2012, in *Zhao v. Montoya*, 2012-NMCA-056, on certification from the district court for Bernalillo County, the New Mexico Court of Appeals reversed the district courts, and held that the change-of-ownership exception to the valuation cap on residential property values until a change of ownership occurs does not violate the New Mexico Constitution. The Court of Appeals reasoned that, given that the owner-occupancy class consists of persons who became owner-occupants only upon acquisition of the property, the exception applies to a sub-class of the constitutionally permissible owner-occupancy class.

On June 30, 2014, in *Zhao v. Montoya*, 2014-NMSC-025, the New Mexico Supreme Court affirmed in part and reversed in part the Court of Appeals' decision. The New Mexico Supreme Court agreed with the Court of Appeals that the change-of-ownership exception to the valuation cap for residential properties is constitutional, albeit on other grounds. The New Mexico Supreme Court stated that the Court of Appeals' holding based on the taxpayers' classification "creates the impression that ownership alone may equate to owner-occupant." The New Mexico Supreme Court held instead that the change-of-ownership exception to the valuation cap is constitutional because it focuses on the nature of the property, when it was acquired, and not on the classification of the taxpayer, whether the taxpayer is an owner-occupant.

Thus, although the Supreme Court's decision in *Zhao* focused on the constitutionality of the exception to the annual limitations on residential property revaluation, its holding supports that the New Mexico Property Tax Code is constitutional, including the general annual valuation cap. *Zhao* also supports that the Property Tax Code's additional exceptions to the cap for properties which have changed use or which have been subject to a zoning change during the previous year are also constitutional, as they similarly focus on the nature of property, rather than on the taxpayer.

While the Supreme Court declared the change-of-ownership exception to the revaluation limitation constitutional, it remains to be seen whether county assessors around the State who stopped the practice of revaluing properties at their current fair market value upon a change of ownership will re-institute it. If the county assessors re-institute acquisition-value taxation under the exception, it will likely increase property tax revenue going forward, barring any material reduction in residential property values statewide. Any such reduction 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.

The following table sets forth the aggregate statewide net 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
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
2013	31,320,905	16,824,354	6,431,256	149,491	54,726,006
2014	31,678,950	17,161,038	7,710,780	184,736	56,735,505

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.....	<u>0.50</u>
Maximum combined statutory rate.....	20.00

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

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

- Debt service;
- County hospitals and health care services;
- School district capital improvements;
- Branch and community colleges;
- Vocational schools;
- Flood control districts and authorities;
- Judgments;
- Water and sanitation districts;
- Conservancy districts;
- Public improvement districts;
- Tax increment development districts; 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 2011 through 2013, unaudited revenues, expenditures and ending fund balances for Fiscal Year 2014, and projections for results for Fiscal Years 2015 and 2016.

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TABLE 9
General Fund Financial Summary
Fiscal Year 2011 – Fiscal Year 2016
(Dollars in thousands)

	Actual <u>2011</u>	Actual <u>2012</u>	Actual <u>2013</u>	Unaudited <u>2014</u>	Projected <u>2015</u>	Projected <u>2016</u>
A. APPROPRIATION ACCOUNT						
Recurring Receipts:						
General and Selective Sales Taxes	\$ 2,332,524	\$ 2,428,026	\$ 2,397,750	\$ 2,514,262	\$ 2,682,100	\$ 2,808,900
Income Taxes	1,290,752	1,431,516	1,508,102	1,451,733	1,545,000	1,585,000
Severance Taxes	423,796	456,402	438,357	557,113	421,700	398,700
License Fees	49,750	49,595	50,011	51,667	51,600	51,800
Investment Income	648,431	662,588	631,786	638,851	693,900	781,800
Rents and Royalties	477,439	595,082	504,263	617,341	550,900	459,700
Miscellaneous Receipts	52,176	45,104	41,272	45,015	46,600	49,900
Tribal Revenue Sharing	65,891	68,189	70,709	67,582	70,000	53,300
Tobacco Settlement	-	-	-	-	-	-
Reversions/Adjustments	67,816	65,885	65,761	96,538	53,000	45,000
Total Recurring Receipts	5,408,575	5,802,385	5,708,012	6,040,103	6,114,800	6,234,100
Total Nonrecurring and Adjustments	62,536	14,683	618	443	-	-
Total Receipts	\$ 5,471,111	\$ 5,817,068	\$ 5,708,629	\$ 6,040,547	\$ 6,114,800	\$ 6,234,100
Recurring Appropriations:						
Legislative	\$ 25,549	\$ 23,778	\$ 27,314	\$ 24,495	\$ 18,112	
Judicial	194,531	190,591	199,026	207,643	224,146	
General Control	173,711	156,436	160,634	176,216	181,105	
Commerce and Industry/Exam. and Lic.	50,759	43,142	43,890	46,010	50,538	
Agriculture, Energy and Natural Resources	69,299	61,551	62,814	66,424	73,153	
Health, Hospitals and Human Services	1,232,956	1,524,724	1,584,339	1,637,277	1,648,153	
Public Safety	363,110	354,101	367,803	377,493	401,562	
Other Education	26,088	27,590	52,573	68,734	107,092	
Higher Education	766,282	716,565	757,717	796,011	838,607	
Public School Support	2,309,665	2,338,422	2,402,768	2,498,742	2,608,378	
Recurring Appropriations	5,211,950	5,436,899	5,658,878	5,899,044	6,150,845	
Other Recurring Appropriations	-	-	-	-	-	
Total Recurring Appropriations	5,211,950	5,436,899	5,658,878	5,899,044	6,150,845	6,234,100
Nonrecurring Appropriations⁽¹⁾	18,254	77,171	68,225	36,961	23,050	0
Total Appropriations	\$ 5,230,203	\$ 5,514,071	\$ 5,727,103	\$ 5,936,005	\$ 6,173,895	\$ 6,234,100
Transfer from/(to) Other Reserve Accounts	(804)	(40,000)				
TRANSFER FROM/(TO) OPERATING RESERVE	\$ (240,103)	\$ (262,997)	\$ 18,474	\$ (104,542)	\$ 59,095	\$ -

	Actual 2011	Actual 2012	Actual 2013	Unaudited 2014	Projected 2015	Projected 2016
B. OPERATING RESERVE						
Beginning Balance	\$ 36,236	\$ 276,688	\$ 346,945	\$ 327,306	\$ 274,603	\$ 198,508
Revenues/Repayments/Reversions	1,366	271	92	973		
Appropriations:						
Contingencies	-	(70,000)		(103,746)		
Restricted Funds	-	-	-	(36,000)		
Other Appropriations and Adjustments	(1,016)	(1,551)	(1,257)	(1,471)	(2,000)	(2,000)
Total Appropriations⁽²⁾	(1,016)	(71,551)	(52,957)	(141,217)	(2,000)	(2,000)
Transfers:						
From/(To) General Fund Appropriations Account	240,103	262,997	(18,474)	104,542	(59,095)	-
To Appropriation Contingency Fund	-	-	-	(17,000)	(15,000)	
To Tax Stabilization Reserve Fund	-	(121,461)	-	-		
Total Transfers	240,103	141,536	(18,474)	87,542	(74,095)	-
Ending Balance⁽³⁾	\$ 276,688	\$ 346,945	\$ 327,306	\$ 274,603	\$ 198,508	\$ 196,508
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	\$ 29,642	\$ 5,184	\$ 29,505	\$ 16,394	\$ 18,409	\$ 16,909
Receipts:						
Reversions	4,317	1,921	15,314	4,240	-	-
Transfers From General Fund	-	40,000	-	17,000	15,000	-
Expenditures/Appropriations: ⁽⁵⁾						
Disasters	(28,775)	(17,600)	(28,425)	(19,225)	(16,000)	(16,000)
Other	-	-	-	-	(500)	-
Ending Balance, Excluding Education Reform	\$ 5,184	\$ 29,505	\$ 16,394	\$ 18,409	\$ 16,909	\$ 909
Education Reform:						
Beginning Balance, Education Reform	\$ 53,047	\$ 47,047	\$ 39,047	\$ 9,047	\$ 3,047	\$ 3,047
Transfers In	-	-	-	-		
Expenditures	(6,000)	(8,000)	(30,000)	(6,000)		
Audit Adjustment	-	-	-	-		
Ending Balance, Education Reform	\$ 47,047	\$ 39,047	\$ 9,047	\$ 3,047	\$ 3,047	\$ 3,047
Ending Balance, Appropriation Contingency Fund	\$ 52,231	\$ 68,552	\$ 25,441	\$ 21,456	\$ 19,956	\$ 3,956
E. TAX STABILIZATION RESERVE						
Beginning Balance	\$ 26,008	\$ 26,008	\$ 147,469	\$ 147,469	\$ 147,469	\$ 147,469
Transfers In	-	121,461	-	-	-	-
Transfers Out	-	-	-	-	-	-
Ending Balance⁽⁶⁾	\$ 26,008	\$ 147,469	\$ 147,469	\$ 147,469	\$ 147,469	\$ 147,469

	<u>Actual</u> <u>2011</u>	<u>Actual</u> <u>2012</u>	<u>Actual</u> <u>2013</u>	<u>Unaudited</u> <u>2014</u>	<u>Projected</u> <u>2015</u>	<u>Projected</u> <u>2016</u>
F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE⁽⁷⁾						
Beginning Balance	\$ 132,031	\$ 148,786	\$ 148,978	\$ 170,166	\$ 193,461	\$ 227,921
Transfers In	38,565	39,321	39,303	21,124	39,900	40,100
Transfers Out	(38,565)	(39,321)	(39,303)	(29,354)	(19,950)	(20,050)
Gains Losses	16,755	191	21,188	31,526	14,510	17,094
Ending Balance	\$ 148,786	\$ 148,978	\$ 170,166	\$ 193,461	\$ 227,921	\$ 265,065
G. TAXPAYER DIVIDEND FUND						
Beginning Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Gains/Losses	-	-	-	-	-	-
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
H. TOTAL RESERVE BALANCES						
Beginning Balance	\$ 277,964	\$ 504,714	\$ 712,944	\$ 671,381	\$ 637,989	\$ 594,854
Ending Balance	\$ 504,714	\$ 712,944	\$ 671,381	\$ 637,989	\$ 594,854	\$ 613,998
Reserves as a Percentage of Current-Year Recurring Appropriations	9.7%	13.1%	11.9%	10.8%	9.7%	9.8%

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

NOTES TO GENERAL FUND FINANCIAL SUMMARY:

(1) Appropriation Account, Nonrecurring Appropriations:

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 2008: \$50 thousand for capital outlay projects for a Bernalillo county land grant.

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).

FY13 includes the following appropriations from Laws 2012: \$2.5 million for supplemental funding for public schools (Laws 2012, Ch. 19, Sec. 5).

FY13 includes the following appropriations from Laws 2013: \$65.7 million from Section 5 of the General Appropriation Act of 2013 (Laws 2013, Ch. 227).

FY14 includes the following appropriations from Laws 2014: \$37.0 million from Sections 5 and 6 of the General Appropriation Act of 2014 (Laws 2014, Ch. 63).

FY15 includes the following appropriations from Laws 2013: \$6.5 million for water litigation on interstate streams (Laws 2013, Ch. 227, Sec. 5, and reauthorized in Laws 2014, Ch. 63, Sec. 5).

FY 15 includes the following appropriations from Laws 2014: \$16.6 million from Section 5 of the General Appropriation Act of 2014 (Laws 2014, Ch. 63).

(2) General Fund Operating Reserve Appropriations:

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

FY12 includes \$1.6 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 \$1.3 million for State Board of Finance Emergency Fund.

FY14 includes \$1.5 million for State Board of Finance Emergency Fund, an additional \$30.0 million contingent liability established in the Fiscal Year 2014 General Fund financial statements for potential charges related to unreconciled cash transactions, a \$73.7 million contingent liability established in the Fiscal Year 2014 General Fund financial statements for Medicaid receivables, and a \$17 million transfer to the appropriation contingency fund to address reductions in federal funding to New Mexico agencies resulting from federal sequester. FY14 also includes \$36 million in restricted fund balances for Special Education Maintenance of Effort funding (HB628, Laws 2013).

FY15 includes \$2.0 million for State Board of Finance Emergency Fund, and a \$15 million transfer to the appropriation contingency fund.

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

Annually, if the balance in the General Fund Operating Reserve exceeds 8 percent of the previous year's recurring appropriations, the excess over 8 percent 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 percent of the previous year's recurring appropriation.

(4) Appropriation Contingency Fund Appropriations:

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: \$1.5 million for education reform (Laws 2012, Ch. 19, Sec. 5).

FY13 includes the following appropriations/transfers from Laws 2013: \$28.4 million for disaster allotments, and \$28.5 million for education reform (Laws 2013, Ch. 227, Sec. 5).

FY14 includes the following appropriations/transfers from Laws 2013: \$17 million transfer from the operating reserve to address reductions in federal funding to New Mexico agencies resulting from federal sequester.

FY14 includes the following appropriations/transfers from Laws 2014: \$19.2 million for disaster allotments, and \$6 million for education reform (Laws 2014, Ch. 63, Sec. 5).

FY15 includes the following appropriations/transfers from Laws 2014: \$15 million transfer from the operating reserve (Laws 2014, Ch. 63, Sec. 12) and \$0.5 million for preservation of U.S. military bases contingent on federal announcement of base realignment and closure initiative.

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

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

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

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

FY11 – 100 percent 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 percent transfer (Laws 2010, Chapter 49).

FY12 – 100 percent 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 percent transfer (Laws 2011, Chapter 3).

FY13 – 100 percent 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 percent transfer (Laws 2011, Chapter 3).

FY14 – Tobacco Settlement Permanent Fund revenues were reduced by approximately \$18.4 million as a result of a panel decision that found New Mexico noncompliant in its 2003 enforcement of the Master Settlement Agreement. 50 percent of Tobacco Settlement Permanent Fund revenues, or \$10.6 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, 25 percent of Tobacco Settlement Permanent Fund revenues or \$5.3 million were transferred to CYFD for early childhood learning initiatives, and 25 percent of Tobacco Settlement Permanent Fund revenues or \$5.3 million were transferred to the Legislative Lottery Scholarship Fund to address solvency (Laws 2013, Ch. 228). \$8.2 million was appropriated from the Tobacco Settlement Permanent Fund for Medicaid (Laws 2014, Sec. 12).

FY15 – 50 percent of Tobacco Settlement Permanent Fund revenues, or \$19.9 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 TRD. The Office of the Superintendent of Insurance 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. 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 \$17.9 million over the past five years. After all other distributions, the General Fund share of gross receipts tax collections was 61 percent in Fiscal Year 2014 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 15 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 from 10 percent 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 went 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 for off-premise consumption and certain medical services also was eliminated. After the 2005 legislative changes, retailers are required to report receipts from sales of groceries to claim the deduction. 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 the 2013 legislative session, a bill was enacted which, among other things, will eliminate these payments to certain larger local governments over a 15 year period beginning in Fiscal Year 2016.

In Fiscal Year 2014, total distributions to the General Fund from gross receipts and compensating taxes increased by 5.2 percent over the previous fiscal year to \$2.1 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 2014 Fiscal Year, total distributions to the General Fund from personal income tax increased by 1.1 percent over the previous fiscal year to \$1.3 billion, and generated 20.8 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 2014 Fiscal Year, total distributions to the General Fund of net receipts from corporate income taxes are projected to have totaled \$196.8 million. This is a decrease of 26.3 percent from the prior fiscal year and generated 3.3 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 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 deferred payment process for larger productions. 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 Fiscal Year 2014 claims reached the \$50 million cap, and the consensus revenue group expects the film credit cap to be reached in subsequent Fiscal Years.

In the 2013 legislative session, House Bill 641 (Chapter 160) was enacted, which 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 apportionment 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. During the 2014 legislative session, Senate Bill 106 (Chapter 53) was enacted extending the net operating loss carryforward to 20 years from 5 years in prior law.

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 2014 Fiscal Year, distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled \$500.7 million. This represents a 31.8 percent increase from the prior fiscal year. Other General Fund taxes on natural resource production totaled \$56.4 million. For Fiscal Year 2014, mineral production taxes contributed 9.2 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. 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. This credit totaled \$1.1 million for Fiscal Year 2014.

In April 2013, the County of Mora, New Mexico, became the first county in the United States to pass an ordinance that bans hydraulic fracturing. The County of San Miguel, New Mexico, had in place a moratorium on hydraulic fracturing since around 2010, and recently, in November 2014, it passed an ordinance that bans hydraulic fracturing entirely in one portion of the county and imposes strict requirements for the practice in another portion. In November 2013, the Independent Petroleum Association of New Mexico trade group and three Mora County property owners sued Mora County in federal district court over the ordinance, in *Vermillion v. Mora County*, 13-CV-01095 CG/GBW. In January 2014, SWEPI Limited Partnership, a subsidiary of Royal Dutch Shell, filed a second lawsuit against Mora County also in federal district court, in *SWEPI v. Mora County*, 14-CV-00035 JB-SCY. These lawsuits challenge the ordinances as violating the residents’ and SWEPI’s rights under the First, Fifth and Fourteenth Amendments to the United States Constitution, their corresponding rights under the New Mexico Constitution, and also challenge the ordinances as invalid under the United States Constitution’s Supremacy Clause.

On January 19, 2015, in *SWEPI v. Mora County*, the Honorable James O. Browning, United States District Judge for the District of New Mexico, invalidated several provisions of the Mora County ordinance which he found to be in conflict with federal law, and therefore in violation of the Supremacy Clause, other provisions he found to violate SWEPI’s constitutional rights, and others he found to conflict with New Mexico state law. Because the invalid provisions in the ordinance could not be severed from the ordinance’s remaining provisions, Judge Browning invalidated the ordinance entirely. The sister lawsuit, *Vermillion v. Mora County*, remains pending in federal court with a summary judgment motion filed by the plaintiffs against Mora County awaiting a decision. While Judge Browning’s invalidation of the Mora County ordinance is not binding on the *Vermillion v. Mora County* decision, it is likely that the two judges from the same federal district court will reach the same conclusion. If the conclusion in *SWEPI v. Mora County* is reached in *Vermillion v. Mora County*, such decisions will re-allow the practice of hydraulic fracturing in Mora County. Such decisions could also likely lead to challenges seeking to invalidate the San Miguel County hydraulic fracturing prohibition and the restrictions that the San Miguel County ordinance put in place on the other portion of the county. The *SWEPI v. Mora County* decision could presumably also dissuade, if not prevent, other counties and municipalities from enacting such bans in the future.

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, part of the former Minerals Management Service, collects federal mineral lease income and deducts 2 percent from the State's share for administrative costs. The State receives payments on a monthly basis and makes deposits to the General Fund. In Fiscal Year 2014, total distributions to the General Fund from federal mineral leases totaled \$569.9 million. This equals 9.4 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 extended for 10 years in the 2013 Bipartisan Budget Act. Approximately \$10.2 million was deducted from the federal mineral leasing payments to the State in Fiscal Year 2012, \$9.7 million was deducted in Fiscal Year 2013, and \$11.9 million was deducted in Fiscal Year 2014.

In Federal Fiscal Year 2014, federal mineral leasing revenues were sequestered at the rate of 7.2 percent, totaling \$42.9 million. These revenues were returned to New Mexico at the beginning of Federal Fiscal Year 2014. The sequestration of these revenues was extended in Federal Fiscal Year 2015 at the rate of 7.3 percent or an estimated \$3.0 million per month. These revenues are expected to be returned to the State in Federal Fiscal Year 2016.

State Trust Lands. The Commissioner of Public Lands and the State Land Office manages lands acquired by the State under the federal Fergusson Act and the Enabling Act for New Mexico enacted prior to statehood, as well as under the State Constitution. All income from State trust lands is dedicated to specific institutions; each section of State trust land has a specific named beneficiary institution. As with federal lands, the oil and natural gas industry is the principal source of revenue from State trust 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 institutions and public schools. In Fiscal Year 2014, distributions to the General Fund from the State Land Office totaled \$47.5 million, which equaled 0.8 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 invested by the State Treasurer. A percentage of market value from the LGPF is distributed among the beneficiary institutions and public schools. The allocation received by the public schools, which is approximately 84.2 percent, is deposited in the General Fund. For the 2014 Fiscal Year, \$449.4 million of LGPF distributions were transferred to the General Fund for public school purposes. The State distributed \$170.5 million of income from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In the 2014 Fiscal Year, the Treasurer's cash balances produced \$19.0 million for the General Fund. Total investment income credited to the General Fund was \$638.9 million. This is 10.6 percent of recurring General Fund receipts.

Review of Results and Projections in the General Fund

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 represented approximately 13.1 percent of current-year recurring appropriations for Fiscal Year 2012. The Governor 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. New Mexico's economy stagnated in Fiscal Year 2013. Total General Fund revenues fell by 1.6 percent during this period, however, this level of decline was anticipated by the consensus group, as actual revenue came in as forecast in December 2012. Total recurring revenue was approximately \$5.7 billion. Approximately half of the decline in general fund revenue was attributable to lower oil and natural gas prices, a reflection of national and international trends in energy markets and lackluster state lease sales. The price of oil averaged \$85.82 per barrel and the price of natural gas averaged \$4.40 per mcf in Fiscal Year 2013. Mineral production taxes, bonuses and royalties totaled \$943 million in Fiscal Year 2013, a decrease of 9 percent from Fiscal Year 2012. In addition, the federal government sequestered about \$21 million in Federal Mineral Leasing (FML) revenues, which were returned to the state in the early half of Fiscal Year 2014 causing a shift in revenue accounting periods.

The state's broad-based taxes grew minimally during Fiscal Year 2013, with the exception of personal income tax collections, which grew by 7.9 percent. This growth rate is partially driven by accelerated payments that were made in anticipation of federal tax changes. Fiscal Year 2013 general sales tax revenue was 1.1 percent below Fiscal Year 2012, primarily due to reduced federal procurement spending. Corporate income tax collections fell 4.9 percent compared to Fiscal Year 2012, apparently a reflection of the sluggish national rate of economic growth. Investment income to the general fund from the state's Permanent Funds also declined in Fiscal Year 2013 due to the constitutionally mandated decrease in the annual distribution from the Land Grant Permanent Fund from 5.8 percent to 5.5 percent in Fiscal Year 2013.

General fund reserves were approximately \$671.4 million at the end of Fiscal Year 2013, approximately 11.9 percent of Fiscal Year 2013 recurring appropriations.

Fiscal Year 2014. General Fund revenues rebounded from the Fiscal Year 2013 decline largely as a result of high oil and natural gas revenues. Recurring revenue grew by 5.8 percent in Fiscal Year 2014, reaching a record \$6.04 billion. New Mexico oil prices averaged \$95.14 per barrel and the price of natural gas averaged \$5.13 per mcf. Strong oil and natural gas production contributed to the revenue increase with oil volume growth of 17 percent and a natural gas volume increase of 1 percent following years of declining production. In Fiscal Year 2014, oil volumes were double the amount produced in Fiscal Year 2009. Mineral production taxes, rents and royalties increased by 24.6 percent over Fiscal Year 2013 to \$1.2 billion. General sales taxes, including the gross receipts tax (GRT) and compensating tax, also experienced growth of 5.2 percent. Permanent Fund investment income benefited

from a larger fund corpus and strong stock market returns. Income tax revenues decreased slightly, reflecting a one-time acceleration of capital gains income in Fiscal Year 2013.

Major changes were made to the corporate income tax in the 2013 legislation to be phased in over several years. These changes will reduce corporate tax rates and allow single sales factor income apportionment for manufacturers. Legislation passed in the 2014 legislative session will allow taxpayers to carry forward net operating losses (NOLs) for 20 years. While “static” estimates have projected a slight decline in revenues in the near term, these measures are likely to encourage new business investment and economic growth, with positive effects on state revenues.

The general fund reserve balance was approximately \$638.0 million at the end of Fiscal Year 2014 or 10.8 percent of Fiscal Year 2014 recurring appropriations. Reserves were negatively impacted by a reduction of \$73.7 million of federal Medicaid reimbursements and an additional \$30 million contingent liability for potential charges related to unreconciled cash transactions, bringing the total set aside for cash reconciliations to \$100.0 million. The reserves are also affected by a \$20 million reduction in tobacco settlement distributions in Fiscal Year 2014 as a result of a recent arbitration decision that found New Mexico lacking in diligence with regards to non-participating manufacturers to the Master Settlement Agreement. In addition, the State restricted \$36 million in fund balances for federal special education funding maintenance of effort requirements. The State believes it has met maintenance of effort requirements, and has appealed the federal ruling, but a full resolution will likely take more than a year.

Fiscal Year 2015. Based on its February 2015 forecast, the consensus revenue group projects Fiscal Year 2015 general fund recurring revenue to increase by 1.2 percent over Fiscal Year 2014. Total recurring revenue is estimated to be approximately \$6.1 billion. Revenue growth is hampered by the rapid decline in crude oil prices, which have fallen by 50 percent since the end of Fiscal Year 2014. The large decrease in mineral taxes, rents and royalties is expected to be offset by growth in broad-based taxes, as well as the recent strong investment performance of the state’s Permanent Funds. Strong employment growth in the second quarter of Fiscal Year 2015 and low gasoline prices are expected to support growth in sales tax and income tax revenues. Revenue collections in the first half of Fiscal Year 2015 were stronger than anticipated, which should minimize the impact of falling energy prices. Insurance premiums tax revenue is forecast to increase due to the expansion of Medicaid and dissolution of the New Mexico high-risk insurance pool through implementation of the Affordable Care Act. Timing and magnitude of these changes is uncertain.

In the 2014 legislative session, the legislature and executive branch worked together to produce a budget and tax policy changes that will help build a stronger economy while funding essential public services. For the fourth straight year, spending growth was limited to just over 4 percent, a figure that is in line with the long-term growth of state revenue. Prudent spending restraint made it possible to fund targeted public school reforms, healthcare workforce initiatives and economic development funding that will have long-term benefits for the state’s economy. Other significant enacted legislation included reforming the judicial and magistrate retirement programs to improve solvency through a balanced approach, and improved targeting of capital outlay funds to meet essential water and wastewater infrastructure needs and stimulate the construction economy. General fund reserves are estimated to be \$595.0 million at the end of Fiscal Year 2015, or 9.7 percent of recurring appropriations.

Fiscal Year 2016. The consensus revenue group revised downward the General Fund revenue forecast in February 2015 in response to a further decline in oil prices. Recurring revenue is expected to grow 2.0 percent in Fiscal Year 2016 to \$6.2 billion. Due to weaker oil and natural gas prices and volumes, mineral taxes, rents and royalties are projected to decrease by 11.7 percent to \$850 million. General sales taxes are estimated to grow by 4.6 percent, which is below the long-term average, while selective sales will benefit from increases in Insurance Premiums tax revenues and Motor Vehicle Excise tax revenue, which continues to benefit from low interest rates, a recovering labor market, and low gasoline prices. Income taxes will continue to grow but at a slower pace due to the phase in of the

corporate income tax rate reduction and single sales factor election, and investment income will continue to benefit from a larger fund corpus due to growing contributions and strong stock market gains.

New Mexico faces several challenges heading into the 2015 Legislative Session, not least of which is the reduction in “new money” – or Fiscal Year 2016 revenues less Fiscal Year 2015 recurring appropriations – resulting from the decline in oil prices. Based on the consensus revenue group’s February 4, 2015 forecast, new money is projected to be \$83 million in Fiscal Year 2016 or 1.4 percent of Fiscal Year 2015 recurring appropriations, which will limit budget growth to less than the 4 percent seen in previous Fiscal Years. In addition, pending a decision from the New Mexico Supreme Court, the General Fund faces a potential \$20 million recurring reduction in Gross Receipts Tax revenue due to an appellate court decision that would partially hold local governments harmless for taxpayer refunds and other revenue distribution adjustments. On May 20, 2014, in the *City of Eunice v. N.M. Taxation & Revenue Department*, 2014-NMCA-085, the New Mexico Court of Appeals held that the TRD has authority to seek repayment, or “claw back,” excessive transfers of gross receipts taxes to municipalities under Section 7-1-6.15 NMSA 1978 for no more than one year prior to the year in which the error was found, regardless of who is at fault for the erroneous distributions. In *City of Eunice*, the taxpayer filed several amended tax returns asserting that the taxpayer overpaid gross receipts taxes to the TRD based on a mistaken belief that the taxpayer was located within city limits, when the taxpayer was actually located in an unincorporated portion of the county, and therefore did not have to pay the city gross receipts tax. Because individual taxpayers can amend their returns for a period of three years prior, the TRD granted the taxpayer a refund going back from 2012 through 2009, and then sought repayment from the city for the taxpayer’s taxes paid to the city. The city objected. The Court of Appeals concluded that, while the taxpayer could reclaim the full amount of overpaid taxes, Section 7-1-6.15 NMSA 1978 limits the TRD to reclaim from the municipality the excess distributions going back only one year from the determination of error. This decision thus leaves the State of New Mexico obligated to refund to taxpayers overpaid gross receipts taxes for three years, but able to recover the excess gross receipts taxes paid to municipalities for only one year. The New Mexico Supreme Court granted review of *City of Eunice* on August 29, 2014.

Moreover, the General Fund risks losing up to \$100 million in protests from jobs-credit claim denials following 2013 legislative changes that better targeted the credit thereby reducing General Fund exposure. Finally, the General Fund looks to gain up to \$20 million in Tribal Revenue Share receipts if the 2001 Tribal Gaming Compact, which is set to expire at the end of Fiscal Year 2015, is extended.

Recent Education Funding Litigation. Recently two lawsuits were filed challenging the funding of the State’s primary and secondary education system. In March 2014, individual plaintiffs in New Mexico District Court in McKinley County brought suit against the State, among others, alleging, among other things, that the State’s educational funding formula violates the sufficiency of education and uniform system of public schools provisions of the New Mexico Constitution and asks the court for injunctive relief ordering the State to develop a budget and funding formula that sufficiently, uniformly and equitably funds the public school system. In April 2014, individual plaintiffs in New Mexico District Court in Santa Fe County brought suit against the State, among others, alleging, among other things, that the State has failed to provide a sufficient and uniform system of education in violation of the sufficiency, uniformity, equal protection and due process provisions of the New Mexico Constitution because of an inadequate and arbitrary funding system. The lawsuit asks for a declaratory judgment and injunctive relief requiring the adoption of a school finance system to remedy these violations. Neither lawsuit asks for a specific award of damages. Because these suits have been only recently filed, and because the allegations of violations have not been litigated or proven, the State believes it is premature to assess what effect, if any, these law suits might have on State budget matters.

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 97.7 percent of total Fiscal Year 2014 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, the United States District Court for the District of New Mexico 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. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009) (Parker, J.). The Tenth Circuit Court of Appeals overturned the district court opinion and held that the State severance taxes are not preempted by federal law because, among other things, the State had asserted sufficient justification for imposing the taxes. *Ute Mountain Ute Tribe v. Rodriguez*, 660 F.3d 1177 (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. *Ute Mountain Ute Tribe v. Padilla*, 132 S.Ct. 1557 (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 3.7 percent and 0.5 percent, respectively, of total taxable statewide production in Fiscal Year 2014. The TRD estimates that oil and natural gas production on Indian land generated \$7.9 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2014. Coal production on Indian land was 18.6 percent of total statewide production in Fiscal Year 2014. 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 \$3.4 million in Fiscal Year 2014. About \$1.4 million of these credits were applied against oil and natural gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

The 2001 Legislature enacted Sections 7-29C-2, 7-9-88.2 and 9-11-12.2 NMSA 1978, which 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 \$1.4 million in Fiscal Year 2014.

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, 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 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, 2014 was approximately \$4.77 billion, an overall asset increase of approximately 14.4 percent from the prior Fiscal Year. Investment performance for the one year period ended June 30, 2014 was 15.75 percent, 0.70 percent below the Fund policy index. Funds on deposit in the STPF are not pledged to and may not be used to pay any Bonds.

The LGPF is designed solely to benefit the public educational system of the State and other specified institutions. The origins of the LGPF are found in the 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, including the public schools, which received 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, 2014, the market value of the LGPF was approximately \$14.35 billion, an asset increase of approximately 17.6 percent over the prior fiscal year. Investment performance for the year ended June 30, 2014 was 15.67 percent, and 0.78 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. Certain additional distributions shall be made to implement and maintain educational reforms as provided by law. An additional 0.8 percent was distributed in fiscal years 2005 through 2012 and an additional 0.5 percent will be distributed in fiscal years 2013 through 2016. A three-fifths majority of each house of the Legislature may suspend this additional distribution.

In May 2009 an investigation by the New York Attorney General into placement fees paid in relation to investments made by New York pension funds, led to an indictment of an investment advisor to that fund as well as New Mexico SIC and ERB. The investment advisor later pled guilty to a fraud charge relating to investments made by the New York retirement fund. In connection with that plea, the investment advisor stated that from 2004 to 2009 his business 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 recommendations of 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. To date, no criminal charges have been filed by state or federal investigators in New Mexico. In May 2011, the SIC, filed recovery lawsuits against more than a dozen placement agents, the former State Investment Officer, and other individuals, alleging that these individuals improperly benefited from pay-to-play and kickback schemes involving SIC investments. To date, settlements of more than \$29 million have been placed in escrow pending final approval by the courts, or in some cases, delivered to the permanent funds. Additional legal recovery efforts are ongoing. Additional settlements and trials are anticipated in 2015 and 2016.

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. Removal of individual investment authorization powers by the Investment Officer alone, and addition of Council Investment, Audit, Governance and legal Committees have greatly improved Council practices and governance procedures. In an October 2013 strategic planning session, 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 operational practices, and assist the SIC in its continuing efforts to expand reforms. The SIC later endorsed a 2013 Strategic Planning Summary report and plan produced in conjunction with this effort.

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”). The SHARE System, based on commonly used PeopleSoft software, 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 book 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 statewide accounting processes. In the 2009 Legislative session, an appropriation in the amount of \$1.2 million was made to DFA, which has statutory responsibility for completion of the book to bank reconciliation, to address some of these issues. A material weakness finding related to the completion of an accurate and timely book to bank reconciliation was reported in DFA’s Fiscal Year 2012 and 2013 annual financial statements.

Because the book to bank reconciliation had not been completed, as of June 30, 2012, the balance sheet of the General Fund Operating Reserve Fund booked a contingent liability for potential loss of \$70 million with a corresponding loss provision. The potential loss was reported as a special item on the statement of revenues, appropriations and changes in fund balances, since it was 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 were not reconciled at the business unit/fund level since the inception of SHARE on July 1, 2006. The Fiscal Year 2012 Comprehensive Annual Financial Report (“CAFR”) for the State noted that the loss provision could be as high as \$100 million. An additional contingent liability of \$31.7 million was booked against the General Fund Operating Reserve Fund in Fiscal Year 2013, but in Fiscal Year 2014 the contingent liability was reduced by \$1.7 million, bringing the total contingent liability for cash reconciliation to \$100 million. The reduction did not reflect a revised calculation of the exact amount of the potential liability. The more approximate figure of \$100 million was deemed more appropriate given the uncertainty surrounding the estimate.

The Fiscal Year 2013 CAFR, the first audited State CAFR, was submitted to the State Auditor for review in June 2014 and released in November 2014 with a disclaimed opinion. Previous CAFRs were reviewed by an independent auditor. A review of financial statements is a lower standard than an audit of financial statements. The Fiscal Year 2013 audited CAFR identified the following material weaknesses: (1) book-to-bank reconciliation; (2) interagency/interfund transactions; (3) government fund type classifications; (4) budget statements; and (5) internal control over financial reporting. DFA has implemented corrective actions to address each of these findings, some of which have already been completed. The Fiscal Year 2014 CAFR is being prepared and is scheduled to be provided to the State Auditor ahead of the previous year’s schedule.

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”) continues to take aggressive action to address the book-to-bank reconciliation problem. DFA/FCD has undertaken the Cash Management Remediation Project (the “Remediation Project”) in partnership with the State Treasurer’s Office, the Department of Information Technology, and Deloitte & Touche LLC (“D&T”), a firm with significant experience with PeopleSoft software. 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 will result in changes (some of which have already been implemented) to the SHARE configuration, cash accounting policies and procedures, business practices, and banking structure that will allow for the completion of timely and accurate book to bank reconciliations.

The first phase of the Remediation Project was completed in Fiscal Year 2013 and resulted in the implementation of monthly cash reconciliation of statewide cash activity on a go-forward basis beginning

February 1, 2013. Prior to beginning the second phase of the Remediation Project, DFA received a legislative appropriation to conduct a historical reconciliation of statewide cash from July 1, 2006, the implementation date of SHARE, through January 31, 2013. The work conducted by the State and D&T with respect to the historical reconciliation resulted in fifteen findings, which are documented in D&T's final report. Four findings were corrected during the first phase of the Remediation Project and one was corrected during the historical reconciliation work. An additional eight findings will be addressed during the second phase of the Remediation Project, which began in December 2014 and is expected to be completed in the spring of 2016. The remaining findings will require an assessment of the State's enterprise resource planning and financial system capabilities and a reimplementation of the State's enterprise resource planning system to convert.

The historical reconciliation project has caused DFA/FCD to conclude that it is not possible to reliably determine the dollar amount of adjustments to SHARE State General Fund Investment Pool balances at the State agency level. In light of the fact that DFA/FCD will not be able to determine the final loss provision to be booked from the results of the historical reconciliation, DFA/FCD anticipates using the State agencies' audited balances since they are the most accurate information available.

DFA/FCD has determined that when appropriate adjustments to balances are identified, differences between the agency balances reported in SHARE and the balance of the Pool will be adjusted first against the \$100 million loss contingency accrued to the State General Fund and then, if necessary, against the State General Fund's General Operating Reserve Fund. Adjustments will not be applied to any prior period of any specific agency.

In September 2014, the DFA wrote to the former outside auditor of the State's General Fund Operating Reserve fund, alleging a material breach of certain of the auditor's contracts with the DFA, in that the auditor failed to identify and/or report that balances had not been reconciled at the agency level after the implementation of the SHARE System. The DFA requested a return of all fees paid to the auditor for compensation for audit and review work in order to avoid litigation. In October 2014, the former auditor responded that it was its belief that all of the pertinent information regarding its audit services may not have been considered, and that the former auditor was gathering information to provide what it considered a more complete perspective. To date, no litigation has been filed in this matter.

On February 5, 2015, in connection with the release of the Fiscal Year 2014 audit of the Component Appropriation Funds, the State Auditor identified two matters that, in his view, require additional information and may lead to subsequent action. First, the State Auditor stated his commitment of his office to work with the DFA in connection with the cash reconciliation issues and may recommend a more detailed correction action plan and additional testwork in connection with the review of internal controls and processes. Additionally, the State Auditor asked to review with the DFA an item for approximately \$74,000,000 due to other agencies relating to the State's Medicaid program. The State Auditor made a request to review the basis for this item not requiring a legislative appropriation in order to be booked against the General Fund. The DFA is considering the requests of the State Auditor.

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 Investment Responsibilities

Pursuant to Sections 6-10-10(I) through 6-10-10(O) NMSA 1978, the State Treasurer, with the advice and consent of the State Board of Finance, may invest money not immediately needed for government operations. These investment responsibilities are conducted in accordance with the State Treasurer's Investment Policy (the "Investment Policy") which is adopted by the State Treasurer and approved by the State Board of Finance. The Investment Policy states that in keeping with the office's fiduciary responsibility, all investment decisions made by the State Treasurer will adhere to the following three fundamental principles: safety, liquidity and return. The Investment Policy 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 Investment Pool, the Local Government Investment Pool, Bond Proceeds Investment Pools, the Severance Tax Bonding Fund and bond debt service funds.

In February 2014, working with the Financial Control Division, the Treasurer's Office recommended and implemented 12 new investment accounts for the State Wide Chart of Accounts in order to record all investment accounting activity on a monthly basis versus providing the information on a net basis once a year. This allows for the State Treasurer's investment transaction records to be input into the SHARE system until an appropriation for the configuration of the PeopleSoft Treasury Management Module can be implemented. This module will allow for real time recording of all investment and cash management activity and is scheduled to be implemented once PeopleSoft Financials 9.2 is implemented.

The State Treasurer's Office invested a portion of the general fund and the State Bond Proceeds Investment Pool in the Reserve Primary Fund ("RPF"), a money market fund, in Fiscal Years 2007 and 2008 respectively. On September 15, 2008, the balance of the general fund's RPF investment was \$448.7 million, and the balance of the State Bond Proceeds Investment Pool's RPF investment was \$311.6 million. On September 16, 2008, the RPF net asset value fell below \$1.00 and holdings in the fund were frozen. Since then, RPF has returned approximately \$0.9904 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. On December 6, 2013, a notice from the Primary Liquidating Fund (Primary Fund-In Liquidation, formerly known as the RPF) indicated that Form 1099-DIV (the "Form") relating to calendar year 2013 was expected to be distributed on or about January 31, 2014. The Form will report a shareholder's proportionate share of each Fund's income and expense. There also may be limitations on deductibility which may reduce or eliminate the ability to deduct such expense items against any taxable income for federal, state or local tax purposes. The State Treasurer's Office has not yet received the final distribution of Primary Fund-In Liquidation Assets for the general fund or the State Bond Proceeds Investment Pool.

According to the Investment Policy, the State Treasurer's Investment Committee is appointed by the State Treasurer and the Board. The Investment Committee is an advisory committee that reviewed investment reporting and any other matters of the State Treasurer's choosing. The Investment Committee consists of five voting members: the State Treasurer or designee; the State Treasurer's Chief Investment Officer, who serves as Investment Committee Chair; the Director of the State Board of Finance or

designee; and two additional members. These additional members must be participants in the private investment community or have expert knowledge or professional experience in public finance or public money 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.

In addition to the 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 experienced funding issues regarding its pension and other retirement funds. As set forth below, the Legislature has acted 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. The amendment also stated that nothing in Section 22 shall be construed to prohibit modifications to retirement plans that enhance or preserve their actuarial soundness.

Recent legislative changes enacted during the 2009, 2010, 2011, 2012 and 2013 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 in service requirement from 25 years to 30 years for new members who joined the ERB on or after July 1, 2010. Existing ERB members remain under the 25 year service requirement. This law also 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. 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. Employers continue to pay the employers' contributions to the Fund for retired members who return to work under the statute.

Senate Bill 27 (Chapter 225, Laws 2013) significantly amends the Public Employees' Retirement Act by creating a new tier of reduced benefits for new hires. The law 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 percent (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 percent 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. The projected actuarial funded ratio in 2043 with changes made by Senate Bill 27 is 108.8 percent.

Senate Bill 115 (Chapter 61, Laws 2013) amends the Educational Retirement Act. The law increases employee contributions for members whose salary exceeds \$20,000 per year to 10.1 percent in Fiscal Year 2014 and 10.7 percent beginning 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 on or after July 1, 2013; creates certain actuarial limitations on benefits of new tier members; places limitations on future cost of living adjustments ("COLA") for current and future retirees which are tied to the future funded ratios of the plan; and makes certain other clarifying and technical changes. The projected actuarial funded ratio in 2043 with changes made by Senate Bill 115 is 100.7 percent.

Legislative changes enacted during the 2014 legislative session amended sections of the law relating to the judicial and magistrate retirement funds and followed many of the changes implemented in the 2013 legislative session for the public employees' and educational retirement funds.

House Bill 33 (Chapter 35, Laws 2014) amends the Judicial Retirement Act. Among other things, the law suspends for two years and makes adjustments to cost of living increases, adjusts employee and employer contributions, requires mandatory participation in the fund and implements changes to the benefits structure.

House Bill 216 (Chapter 39, Laws 2014) amends the Magistrate Retirement Act. Among other things, the law suspends for two years and makes adjustments to cost of living increases, adjusts

employee and employer contributions, requires mandatory participation and implements changes to the benefit structure.

Senate Bill 160 (Chapter 43, Laws 2014) also makes changes to the Magistrate Retirement Act. This law duplicates the changes made in House Bill 216.

Educational Retirement Board-Historic Financial Information. The ERB had 140,008 members as of June 30, 2014, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the "Fund") as of December 31, 2014 was \$11.26 billion, which was up from a low of \$6.0 billion in February 2009. The ERB had net investment gains for the Fiscal Year 2014 of 14.2 percent.

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, 2014, the actuarial value of assets was \$10.7 billion and the unfunded accrued actuarial liability ("UAAL") was \$6.3 billion based on the 7.75 percent assumed rate of return. 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 at that time. In April 2013, the ERB made further changes to its assumptions regarding post-retirement, disabled, and active mortality rates, retirement rates, changes to its service-based termination table and decreases in wage inflation from 4.75 percent to 4.25 percent and in the payroll growth from 3.75 percent to 3.50 percent. These changes reduced the June 30, 2013 UAAL by \$81.5 million. The funded ratio on June 30, 2014 was 63.1 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, 2014, the UAAL had an amortization period of 42.1 years 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. The calculation is based on current contribution rates which are established by state statute and does not take into account the statutorily scheduled increases in those rates described below.

TABLE 10**Schedule of Statutorily-Mandated ERB Contribution Rates**

<u>Fiscal Year</u>	<u>Wage Category</u>	<u>Date Range</u>	<u>Member Rate</u>	<u>Employer Rate</u>	<u>Total</u>
2010	\$20k or less	7/1/2009-6/30/2011	7.90%	12.40%	20.30%
2010	Over \$20k		9.40%	10.90%	20.30%
2011	\$20k or less	7/1/2009-6/30/2011	7.90%	12.40%	20.30%
2011	Over \$20k		9.40%	10.90%	20.30%
2012	\$20k or less	7/1/2011-6/30/2012	7.90%	12.40%	20.30%
2012	Over \$20k		11.15%	9.15%	20.30%
2013	\$20k or less	7/1/2012-6/30/2013	7.90%	12.40%	20.30%
2013	Over \$20k		9.40%	10.90%	20.30%
2014	\$20k or less	7/1/2013-6/30/2014	7.90%	13.15%	21.05%
2014	Over \$20k		10.10%	13.15%	23.25%
2015	\$20k or less	7/1/2014 - Future	7.90%	13.90%	21.80%
2015	Over \$20k		10.70%	13.90%	24.60%

Source: *New Mexico Statutes Annotated 1978, Section 22-11-21, as amended.*

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.

The ERB successfully implemented Governmental Accounting Standards Board (“GASB”) Statement 67 requirements early with its June 30, 2013 financial statements. GASB Statement 67 requires ERB to report net pension liability (“NPL”) which is measured as total pension liability less the amount of the plan’s fiduciary net position. GASB 67 replaced GASB 25 which had required ERB to report the annual required contribution of the employer (“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, NPL and the ERB funded ratio for Fiscal Years 2010 through 2014.

TABLE 11**ERB Funded Ratio**

<u>Fiscal Year</u>	<u>Annual Required Contribution (GASB 25)</u>	<u>Net Pension Liability (GASB 67)</u>	<u>Funded Ratio</u>
2010	\$357,220,043	--	65.7
2011	\$377,884,749	--	63.0
2012	\$400,461,343	--	60.7
2013	--	\$6,276,852,149	60.1
2014	--	\$5,705,730,813	63.1

Source: *Educational Retirement Board.*

The ERB also implemented GASB Statement 68 early with its June 30, 2014 financial statements. GASB 68 requires the plan's participating employers to recognize their pro rata share of NPL on their balance sheets.

In July 2012, the ERB adopted goals of achieving a 95 percent, plus or minus 5 percent, funded ratio by 2040. The amendments to the Educational Retirement Act made through enactment of Senate Bill 115 (Chapter 61, Laws 2013) are intended to assist the ERB in achieving these goals.

ERB pensions are adjusted annually by a COLA 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. SB 115 reduces the amount of the COLA until ERB is 100 percent funded. The amount of the adjustment is determined by the change in the Consumer Price Index ("CPI"), the retiree's pension amount and the retiree's service credit. Pensions cannot be decreased if there is a decrease in the CPI.

In December 2013, the Supreme Court of New Mexico, in *Barlett v. Cameron*, 2014-NMSC-002, rejected the claims of certain retired teachers, professors and other public education employees challenging the state constitutionality of Senate Bill 115 (Chapter 61, Laws 2013) to the extent that it reduces the future amounts that all education retirees might receive as annual COLA. The court held that Article XX Section 22 of the State Constitution did not grant the retirees a right to an annual COLA based on the formula in effect on the date of their retirement. The court held that any future COLA to a retirement benefit is merely a year-to-year expectation that, until paid, does not create a property right under the State Constitution. Once paid, the COLA by statute becomes part of the retirement benefit and a property right subject to those constitutional protections.

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, over \$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.

The Public Employees Retirement Association-Historic Financial Information. PERA had 49,288 members as of June 30, 2014. As of June 30, 2014, the total market value of PERA Fund was \$14.5 billion. The Fiscal Year 2014 PERA total fund investment return was 17.03 percent.

Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund as of June 30, 2014. In May 2014, PERA actuaries conducted an experience study, testing actuarial assumptions currently used in its valuations. 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 3.0 percent per annum and real rate of return rate of 4.75 percent, reflecting an investment rate of return of 7.75 percent. The Board also adopted reduced wage inflation and payroll growth assumptions of 3.5 percent, each compounded annually, as well as revised retirement and mortality assumptions.

In 2013, the PERA Board lowered the interest rate on members' contributions from 5.25 percent to 2 percent. In 2014, the Board changed the accrual rate for service credit for non-vested members who regularly work part-time.

PERA member and employer contribution rates are established by State statute. In 2013, the Legislature amended the PERA Act, NMSA 1978 1-11-1 et seq. to increase the employer

contribution rate of 0.4 percent beginning July 1, 2014, and to increase member contribution rates by 1.5 percent beginning July 1, 2013.

Actuarial information for each fund as of June 30, 2014 is shown in Table 16.

TABLE 12

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

	<u>PERA⁽¹⁾</u>	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
Membership	92,732	285	151	9,129	319
<u>Actuarial Information</u>					
Accrued Liability ⁽²⁾	\$17,784,376	\$133,346	\$51,140	\$ 41,516	\$25,833
Actuarial Value of Assets ⁽³⁾	\$13,486,178	\$ 85,106	\$32,759	\$ 57,658	\$33,401
Unfunded (Overfunded) Accrued Liability	\$ 4,298,198	\$ 48,240	\$18,380	\$ (16,141)	\$ (7,568)
Present Value of Statutory Obligations	\$20,387,523	\$154,002	\$55,031	\$ 47,718	\$29,420

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

Source: *Public Employees Retirement Association.*

As of June 30, 2014, PERA has an amortization or funding period of 40 years, based on the employer and member contribution rates in effect as of July 1, 2014. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-142 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 75.8 percent as of June 30, 2014 and the UAAL of the PERA Fund has decreased \$321.0 million to approximately \$4.2 billion. The State's portion of the UAAL of the PERA Fund is 53.1 percent, or \$2.3 billion. Prior to 2013 pension reform, the funded ratio was 65.3 percent and the UAAL of the PERA Fund was calculated to be approximately \$6.2 billion. The primary cause of the increase in the funded ratio and decrease in accrued actuarial liability is the investment gain from 2014 plan years and passage of SB27 during the 2013 legislative session. On a market value basis, PERA's funded ratio is approximately 81.05% as of June 30, 2014.

The PERA Board's reform proposal (Senate Bill 27) had an immediate impact of reducing the \$6.2 billion unfunded liability by \$1.55 billion, increased the funded ratio by 6.6 percent and is projected to restore the fund to approximately 100 percent funded status by 2042. Current 30-year projections indicate the PERA Fund will be 100 percent funded in 2031.

In 2014, significant pension reform measures for the Judicial and Magistrate Retirement Funds were passed by the Legislature and signed into law by the Executive. Due to severe underfunding of these Funds, in addition to significant benefit reductions for future and current judges and magistrates, cost-of-living adjustments (COLAs) for retired judges and magistrates were suspended for two consecutive years and future COLAs will only be paid every third year unless the Funds are projected to be 100 percent funded.

In 2014, PERA implemented the new GASB 67 Statement and is preparing to implement the new GASB 68 Statement in 2015. Beginning in early 2015, PERA will work with local governments to allocate net pension liabilities (NPL) at the employer level. Beginning with FY15, GASB 68 requires participating local governments to recognize their pro rata share of NPL on their balance sheets.

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 2010 through 2014.

TABLE 13

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>
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
2013	72.9	55.7	58.38	138.16	115.2
2014	75.8	64.2	64.5	139.7	129.3

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 56,131 enrolled members as of July 2014 and approximately 300 participating public entities.

NMRHCA experienced an investment gain in Fiscal Year 2014 of approximately 17.21 percent, and NMRHCA has been able to add over \$125 million to its trust fund over the past four years. NMRHCA’s market value as of October 31, 2014 was \$381.9 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 2014.

Based on the GASB Statement 43 valuation for Fiscal Year 2014, 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 \$3.4 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 2040.

As recently as 2007, 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 through 2033.

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 2010 through 2014.

TABLE 14

NMRHCA Annual Required Contribution

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$309,919,743	34.1%
2011	\$326,994,988	36.9
2012	\$340,074,787	39.8
2013	\$353,657,828	38.3
2014	\$367,804,141	40.6
2015	\$292,656,756	NA

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 at the time of the U.S. Census Bureau's Annual Estimate (July 1, 2014) was 2,085,572. 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 between 2010 and 2013 ranked by percent of population change are Lea, Curry, Sandoval, Eddy, and Otero. The following table sets forth information on population growth in New Mexico and nationally.

TABLE 15

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

<u>Year</u> ⁽¹⁾	<u>Population</u> ⁽²⁾		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2005	1,932,274	295,516,599	--	--
2006	1,962,137	298,379,912	1.5%	1.0%
2007	1,990,070	301,231,207	1.4	1.0
2008	2,010,662	304,093,966	1.0	1.0
2009	2,036,802	306,771,529	1.3	0.9
2010	2,064,950	309,347,057	1.4	0.8
2011	2,078,407	311,721,632	0.7	0.8
2012	2,084,594	314,112,078	0.3	0.8
2013	2,086,895	316,497,531	0.1	0.8
2014	2,085,572	318,857,056	(0.1)	0.7

⁽¹⁾ As of July 1.

⁽²⁾ All estimates are subject to change.

Source: U.S. Census Bureau, Population Division, 2005-2009 released September 2011; 2010-2014 released December 2014.

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 located 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 2004 through 2013.

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TABLE 16

Total New Mexico Full-time and Part-time Employment by North American Industry Classification System 2004-2013

	<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>2012</u>	<u>2013</u>	<u>Growth 2012-2013</u>	<u>Growth 2004-2013</u>
Total employment	1,025,878	1,049,639	1,079,061	1,104,526	1,107,002	1,074,126	1,059,188	1,062,869	1,067,241	1,079,067	1.1%	5.2%
Wage and salary employment	830,075	845,476	868,518	878,592	881,856	849,122	837,320	837,281	842,188	849,701	0.9%	2.4%
Proprietors employment	195,803	204,163	210,543	225,934	225,146	225,004	221,868	225,588	225,053	229,366	1.9%	17.1%
Farm proprietors employment	15,632	15,588	15,255	18,193	17,745	17,752	18,664	19,791	20,332	20,424	0.5%	30.7%
Nonfarm proprietors employment	180,171	188,575	195,288	207,741	207,401	207,252	203,204	205,797	204,721	208,942	2.1%	16.0%
Farm employment	22,618	23,262	22,829	25,804	24,406	24,710	25,211	26,399	27,461	28,310	3.1%	25.2%
Nonfarm employment	1,003,260	1,026,377	1,056,232	1,078,722	1,082,596	1,049,416	1,033,977	1,036,470	1,039,780	1,050,757	1.1%	4.7%
Private employment	785,654	807,678	841,900	868,783	869,301	833,198	816,542	822,659	827,901	839,397	1.4%	6.8%
Forestry, fishing, related activities and other ⁽¹⁾	5,171	5,229	5,135	5,172	5,311	5,307	5,215	5,237	5,156	5,219	1.2%	0.9%
Mining ⁽²⁾	19,059	21,116	23,528	24,891	28,295	24,432	27,022	28,356	34,188	36,824	7.7%	93.2%
Utilities	4,042	4,074	4,122	4,451	4,564	4,801	4,565	4,508	4,542	4,612	1.5%	14.1%
Construction ⁽³⁾	68,299	73,895	79,675	80,478	77,887	67,177	61,238	59,293	58,116	59,519	2.4%	-12.9%
Manufacturing	40,611	41,175	42,745	42,810	40,595	36,422	34,537	35,613	35,670	35,431	-0.7%	-12.8%
Durable goods manufacturing ⁽⁴⁾	27,903	28,502	29,863	29,772	28,038	24,371	23,033	23,610	23,108	22,401	-3.1%	-19.7%
Nondurable goods manufacturing ⁽⁵⁾	12,708	12,673	12,882	13,038	12,557	12,051	11,504	12,003	12,562	13,030	3.7%	2.5%
Wholesale trade	26,800	27,878	28,863	28,749	28,606	26,582	26,801	26,373	26,100	26,392	1.1%	-1.5%
Retail trade ⁽⁶⁾	113,899	115,813	116,478	118,682	117,897	113,809	110,226	111,331	111,781	113,064	1.1%	-0.7%
Transportation and warehousing ⁽⁷⁾	24,888	25,271	25,875	27,380	26,629	24,279	23,351	24,281	25,336	25,419	0.3%	2.1%
Information ⁽⁸⁾	17,151	17,289	18,424	18,805	18,942	17,457	17,114	16,469	16,477	16,035	-2.7%	-6.5%
Finance and insurance ⁽⁹⁾	31,532	31,907	32,185	33,693	34,628	35,848	34,550	35,451	35,053	35,651	1.7%	13.1%
Real estate and rental and leasing ⁽¹⁰⁾	34,836	38,266	40,436	42,998	42,557	40,380	39,916	39,833	38,407	39,024	1.6%	12.0%
Professional/scientific/technical services	65,996	66,766	74,267	81,912	82,032	80,366	78,331	77,473	76,106	75,906	-0.3%	15.0%
Management of companies and enterprises	5,347	6,349	6,428	6,073	5,906	5,587	5,406	5,504	5,456	5,553	1.8%	3.9%
Administrative and waste services ⁽¹¹⁾	54,534	55,159	58,410	60,352	60,260	55,817	54,266	54,742	53,420	54,433	1.9%	-0.2%
Educational services	14,862	15,349	15,869	15,714	15,908	16,263	16,734	16,208	16,101	16,002	-0.6%	7.7%
Health care and social assistance ⁽¹²⁾	103,494	104,958	107,797	111,692	114,683	118,041	119,378	121,489	123,288	124,570	1.0%	20.4%
Arts, entertainment and recreation ⁽¹³⁾	20,933	21,404	21,792	22,840	23,229	23,212	22,981	23,007	23,592	24,247	2.8%	15.8%
Accommodation and food services ⁽¹⁴⁾	80,463	81,317	84,409	85,075	83,953	81,660	81,122	82,309	83,203	85,309	2.5%	6.0%
Other services, except public administration ⁽¹⁵⁾	53,737	54,463	55,462	57,016	57,419	55,758	53,789	55,182	55,909	56,187	0.5%	4.6%
Government and government enterprises ⁽¹⁶⁾	217,606	218,699	214,332	209,939	213,295	216,218	217,435	213,811	211,879	211,360	-0.2%	-2.9%

[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 goods 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; telecommunications; data processing, hosting, and related services; 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; and private households.
- ¹⁶⁾ The “Government and government enterprises” category includes: federal, civilian; military; and state government and local government.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, *Regional Data, Table SA25N, September 2014.*

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

TABLE 17

**Employment and Labor Force
New Mexico and the United States
2004 – 2013**

(numbers in thousands)

<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</u>
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>	
2004	902	147,401	850	139,252	5.8%	5.5%	105%
2005	913	149,320	866	141,730	5.2	5.1	102
2006	925	151,428	887	144,427	4.1	4.6	89
2007	936	153,124	904	146,047	3.5	4.6	76
2008	947	154,287	905	145,362	4.5	5.8	78
2009	934	154,142	870	139,877	6.9	9.3	74
2010	930	153,889	856	139,064	8.0	9.6	83
2011	924	153,617	854	139,869	7.6	8.9	85
2012	925	154,975	860	142,469	7.1	8.1	88
2013	926	155,389	863	143,929	6.9	7.4	93

Source: United States Department of Labor; Bureau of Labor Statistics. Last Revised: February 2014.

TABLE 18

**Personal Income
New Mexico and the United States
2004 – 2013**

**Personal Income
(Dollars in thousands)**

**Annual
Percentage Change**

<u>Year</u>	<u>Personal Income</u>		<u>Annual Percentage Change</u>	
	<u>New Mexico</u>	<u>United States</u>	<u>New Mexico</u>	<u>United States</u>
2004	\$52,314,496	\$10,043,231,000	--	--
2005	56,233,308	10,605,595,000	7.5%	5.6%
2006	60,090,836	11,376,405,000	6.9	7.3
2007	63,643,408	11,990,104,000	5.9	5.4
2008	67,188,091	12,429,234,000	5.6	3.7
2009	66,241,297	12,080,223,000	-1.4	-2.8
2010	68,505,892	12,417,659,000	3.4	2.8
2011	72,234,158	13,189,935,000	5.4	6.2
2012	74,601,613	13,873,161,000	3.3	5.2
2013	74,996,363	14,151,427,000	0.5	2.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data, Table SA1-3. Last Revised: September 2014.

TABLE 19
Per Capita Personal Income
New Mexico and the United States
2004 - 2013

Year	Per Capita Income		N.M. as a % of U.S.	Annual Percentage Change	
	New Mexico	United States		N.M.	U.S.
2004	\$27,479	\$34,300	80%	--	--
2005	29,102	35,888	81	5.9%	4.6%
2006	30,625	38,127	80	5.2	6.2
2007	31,980	39,804	80	4.4	4.4
2008	33,416	40,873	82	4.5	2.7
2009	32,522	39,379	83	-2.7	-3.7
2010	33,175	40,144	83	2.0	1.9
2011	34,763	42,332	82	4.8	5.5
2012	35,805	44,200	81	3.0	4.4
2013	35,965	44,765	80	0.4	1.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data, Table SA1-3. Last Revised: September 2014.

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TABLE 20
2003-2013

Wages and Salaries by Industry Sector

NAICS Place Applicable to 2003-2013	Earnings by Work ⁽¹⁾		New Mexico (Dollars in Thousands)		United States (Dollars in Millions)		Cumulative Annual Percent Change 2003 - 2013		Distribution of 2013 Wages & Salaries	
			2013	2003	2013	2003	N.M.	U.S.	N.M.	U.S.
Farm Wage and Salary			\$209,005	\$174,973	\$20,401	\$17,574	19.4%	16.1%	0.6%	0.3%
Non-farm Wage and Salary			35,282,027	25,288,561	7,108,997	5,116,398	39.5%	38.9%	99.4%	99.7%
Private Wage and Salary			25,908,543	17,573,283	5,931,913	4,215,224	47.4%	40.7%	73.0%	83.2%
Forestry, Fishing, and other related activities			73,847	51,515	16,517	10,591	43.4%	56.0%	0.2%	0.2%
Mining			1,953,758	702,190	80,679	31,196	178.2%	158.6%	5.5%	1.1%
Utilities			360,701	223,443	55,838	39,390	61.4%	41.8%	1.0%	0.8%
Construction			1,832,598	1,524,731	324,218	278,564	20.2%	16.4%	5.2%	4.5%
Manufacturing			1,661,683	1,485,853	747,821	674,229	11.8%	10.9%	4.9%	10.5%
Wholesale Trade			1,134,444	872,453	407,387	289,902	30.0%	40.5%	3.2%	5.7%
Retail Trade			2,540,535	2,052,316	437,524	367,022	23.8%	19.2%	7.2%	6.1%
Transportation and Warehousing			959,234	684,027	226,569	167,038	40.2%	35.6%	2.7%	3.2%
Information			616,027	540,455	235,488	186,291	14.0%	26.4%	1.7%	3.3%
Finance and Insurance			1,320,471	944,642	553,542	390,699	39.8%	41.7%	3.7%	7.8%
Real Estate and Rental and Leasing			379,619	272,504	102,711	75,412	39.3%	36.2%	1.1%	1.4%
Professional, Scientific, and Technical Services			3,846,144	2,240,988	702,566	409,336	71.6%	71.6%	10.8%	9.9%
Management of Companies and Enterprises			344,495	229,005	237,290	126,003	50.4%	88.3%	1.0%	3.3%
Administrative and Waste Services			1,478,454	1,072,292	302,704	200,554	37.9%	50.9%	4.2%	4.2%
Educational Services			341,462	216,361	131,141	79,496	57.8%	65.0%	1.0%	1.8%
Health Care and Social Assistance			4,364,737	2,546,074	817,928	499,285	71.4%	63.8%	12.3%	11.5%
Arts, Entertainment, and Recreation			206,718	147,367	76,665	54,848	40.3%	39.8%	0.6%	1.1%
Accommodations and Food Services			1,443,427	1,000,098	252,513	168,355	44.3%	50.0%	4.1%	3.5%
Other Services, Except Public Administration			1,050,192	766,969	222,816	167,013	36.9%	33.4%	3.0%	3.1%
Government and Government Enterprises			9,373,485	7,715,278	1,177,084	901,174	21.5%	30.6%	26.4%	16.5%
Total			\$35,491,032	\$25,463,534	\$7,129,398	\$5,133,972				

⁽¹⁾ The estimates of wage and salary disbursements for 2002-2006 are based on the 2002 North American Industry Classification System (NAICS). The estimates for 2007 forward are based on the 2007 NAICS.

⁽²⁾ Under 2007 NAICS, internet publishing and broadcasting was reclassified to other information services. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 25, 2014.

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 a 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.

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 the 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 depository with respect to the Bonds at any time by giving reasonable notice to the State or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

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

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, 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 Co-Bond Counsel attached hereto as Appendix C) are subject to the approving legal opinion of Rodey Dickason Sloan Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-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 Rodey Dickason Sloan Akin & Robb, P.A. and Sherman & Howard L.L.C., as Co-Disclosure Counsel to the State.

TAX MATTERS

In the opinion of Rodey Dickason Sloan Akin & Robb, P.A. and Sherman & Howard L.L.C, Co-Bond Counsel, assuming continuous compliance with certain covenants described below, interest on the Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the “Tax Code”), and interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the “adjusted current earnings” adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations as described below. The Bonds, and the interest thereon, are exempt from taxation by the State and any subdivision or public body thereof.

The Tax Code and New Mexico law impose several requirements which must be met with respect to the Bonds in order for the interest thereon to be excluded from gross income, alternative minimum taxable income (except to the extent of the aforementioned adjustment applicable to corporations). Certain of these requirements must be met on a continuous basis throughout the term of the Bonds. These requirements include: (a) limitations as to the use of proceeds of the Bonds; (b) limitations on the extent to which proceeds of the Bonds may be invested in higher yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on the proceeds of the Bonds above the yield on the Bonds to be paid to the United States Treasury. The State will covenant and represent in the Bond Legislation that it will take all steps to comply with the requirements of the Tax Code (in effect on the date of delivery of the Bonds) to the extent necessary to maintain the exclusion of interest on the Bonds from gross income and alternative minimum taxable income (except to the extent of the aforementioned adjustment applicable to corporations) under such federal income tax laws. Co-Bond Counsel’s opinion as to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income (to the extent described above) is rendered in reliance on these covenants, and assumes continuous compliance therewith. The failure or inability of the State to comply with these requirements could cause the interest on the Bonds to be included in gross income, alternative minimum taxable income, or a combination thereof, from the date of issuance. Co-Bond Counsel’s opinion also is rendered

in reliance upon certifications of the State and other certifications furnished to Co-Bond Counsel. Co-Bond Counsel has not undertaken to verify such certifications by independent investigation.

Section 55 of the Tax Code contains a 20% alternative minimum tax on the alternative minimum taxable income of corporations. Under the Tax Code, 75% of the excess of a corporation's "adjusted current earnings" over the corporation's alternative minimum taxable income (determined without regard to this adjustment and the alternative minimum tax net operating loss deduction) is included in the corporation's alternative minimum taxable income for purposes of the alternative minimum tax applicable to the corporation. "Adjusted current earnings" includes interest on the Bonds.

The Tax Code contains numerous provisions which may affect an investor's decision to purchase the Bonds. Owners of the Bonds should be aware that the ownership of tax-exempt obligations by particular persons and entities, including, without limitation, financial institutions, insurance companies, recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, foreign corporations doing business in the United States and certain "subchapter S" corporations may result in adverse federal and New Mexico tax consequences. Under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the Bonds made to any owner who fails to provide certain required information, including an accurate taxpayer identification number, to certain persons required to collect such information pursuant to the Tax Code. Backup withholding may also be applied if the owner underreports "reportable payments" (including interest and dividends) as defined in Section 3406, or fails to provide a certificate that the owner is not subject to backup withholding in circumstances where such a certificate is required by the Tax Code. Certain of the Bonds may be sold at a premium, representing a difference between the original offering price of those Bonds and the principal amount thereof payable at maturity. Under certain circumstances, an initial owner of such bonds (if any) may realize a taxable gain upon their disposition, even though such bonds are sold or redeemed for an amount equal to the owner's acquisition cost. Co-Bond Counsel's opinion relates only to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income and State of New Mexico income taxes as described above and will state that no opinion is expressed regarding other federal or New Mexico tax consequences arising from the receipt or accrual of interest on or ownership of the Bonds. Owners of the Bonds should consult their own tax advisors as to the applicability of these consequences.

The opinions expressed by Co-Bond Counsel are based on existing law as of the delivery date of the Bonds. No opinion is expressed as of any subsequent date nor is any opinion expressed with respect to pending or proposed legislation. Amendments to the federal or state tax laws may be pending now or could be proposed in the future that, if enacted into law, could adversely affect the value of the Bonds, the exclusion of interest on the Bonds from gross income or alternative minimum taxable income or both from the date of issuance of the Bonds or any other date, the tax value of that exclusion for different classes of taxpayers from time to time, or that could result in other adverse tax consequences. In addition, future court actions or regulatory decisions could affect the tax treatment or market value of the Bonds. Owners of the Bonds are advised to consult with their own tax advisors with respect to such matters.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, the market value of the Bonds may be adversely affected. Under current audit procedures, the Service will treat the State as the taxpayer and the Owners may have no right to participate in such procedures. The State has covenanted in the Bond Legislation not to take any action that would cause the interest on the Bonds to lose its exclusion from gross income for federal income tax purposes or lose its exclusion from alternative minimum taxable income except to the extent described above for the owners thereof for federal income tax purposes. None of the State, the Underwriters, the Financial Advisors, Co-

Bond Counsel, or Co-Disclosure Counsel is responsible for paying or reimbursing any Bond holder with respect to any audit or litigation costs relating to the Bonds.

A copy of the proposed form of opinion of Co-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, 2014, 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, 2015, 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.

For the Fiscal Years ending June 30, 2008 through 2012, the Board, on behalf of the State, made timely filings in accordance with continuing disclosure undertakings previously entered into by the Board in relation to the State's Capital Projects General Obligation Bonds; however, such filings did not contain certain State mill levy operating data information. This information was contained in official statements used in connection with the issuance and sale of the State's Capital Projects General Obligation Bonds, including without limitation, the official statement used in connection with the issuance and sale of the State's Capital Projects General Obligation Bonds, Series 2013 dated March 19, 2013. The Board, on behalf of the State, intends to include such information in all future continuing disclosure undertakings filings.

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"). Other than as described herein, the Board believes that it is in compliance with all its continuing disclosure undertakings.

The continuing disclosure undertaking will be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of: (i) the date the principal and interest on the Bonds is paid or deemed paid; (ii) the date the Board is no longer an "obligated person" with respect to the Bonds within the meaning of the Rule; and (iii) the date on which those portions of the Rule which require the continuing disclosure undertaking are held invalid or repealed.

In 2014, the Board filed a voluntary material event notice (the "Voluntary Disclosure") with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system, available on the Internet at <http://emma.msrb.org>, in connection with the State's Severance Tax Note, Series 2014S-A and Supplemental Severance Tax Note, Series 2014S-B (collectively, the "2014S

Notes”). The Voluntary Disclosure related to the sizing of the 2014S Notes in excess of the amount permitted by State statute as a result of an accounting oversight. This resulted in an underpayment on June 30, 2014 of a corresponding amount from the Severance Tax Bonding Fund to the Severance Tax Permanent Fund. As noted in the Voluntary Disclosure, upon discovering this oversight, in September 2014 Board staff directed the State Treasurer to transfer the required amount from the Severance Tax Bonding Fund to the Severance Tax Permanent Fund to correct the underpayment. The Board subsequently issued additional short-term notes in December 2014 which accounted for the September payment made to the Severance Tax Permanent Fund.

MISCELLANEOUS

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

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APPENDIX A

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

YEAR ENDED JUNE 30, 2014

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*State of New Mexico
Component Appropriation Funds
Annual Financial Report
Fiscal Year Ended June 30, 2014*



*Annual Financial Report
And
Independent Auditor's Report*

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, 2014**

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 Auditor's Report

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

Report on the Financial Statements

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 (the "Component Appropriation Funds") as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Disclaimer Section

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion/Disclaimer</u>
General Operating Reserve Fund	Disclaimer
State Support Reserve Fund	Disclaimer
Appropriation Contingency Reserve Fund	Disclaimer
Tax Stabilization Reserve Funds	Disclaimer

Unmodified Section

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion/Disclaimer</u>
Common School Current Fund	Unmodified
Current School Fund	Unmodified
Tobacco Settlement Permanent Fund	Unmodified
Appropriation Account Funds	Unmodified
Federal Mineral Leasing Fund	Unmodified

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. Except as explained in the Basis of Disclaimer of Opinion paragraph, 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 the *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the opinion units identified in the preceding Unmodified Section.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence on the value of the General Operating Reserve Fund, State Support Reserve Fund, Appropriation Contingency Reserve Fund, and Tax Stabilization Reserve Funds investment in the State General Fund Investment Pool (the "Pool") at June 30, 2014 through confirmation, and no reconciliation was prepared by the New Mexico Department of Finance and Administration on the investment in the Pool. Accounting principles generally accepted in the United States of America require that cash be reconciled from the bank statement to the financial records. The investment amount is included in the General Operating Reserve Fund's assets and is described in Note 6 to the financial statements. As a corrective measure to the reconciliation issue, the associated correcting accounting adjustments will be made against the State's General Operating Reserve Fund. The amount by which this lack of reconciliation would affect cash, fund balance, and expenditures of the fund has not been determined.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the preceding paragraph.

Unmodified Opinions

In our opinion, the financial statements for the Common School Current, Current School, Tobacco Settlement Permanent, Appropriation Account, and Federal Mineral Leasing Funds, referred to above present fairly, in all material respects, the respective assets, deferred outflows of resources, liabilities, deferred inflows of resources and fund balances and related changes in fund balances as of and for the year ended June 30, 2014, and the related notes to the financial statements as listed in the table of contents.

Emphasis of Matters

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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 13 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Component Appropriation Funds' basic 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.

Other Reports Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the Component Appropriation Funds' internal control over financial reporting and on our tests of the 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.

A handwritten signature in black ink that reads "REDW LLC". The letters are stylized and cursive.

Albuquerque, New Mexico
December 15, 2014

State of New Mexico
Component Appropriation Funds
Management's Discussion and Analysis
June 30, 2014

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 administration, 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 Funds

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.

Financial Highlights

The Funds ended the year with aggregate reserves of 7.3% of recurring current year appropriations as compared to 11.9% in fiscal year 2013.

In fiscal year 2014 the aggregate fund balance of the Component Appropriation Funds increased by \$2.6 million. Fund balance of the Component Appropriation Funds decreased by \$41.6 million in fiscal year 2013. The increase in fiscal year 2014 is attributable to revenues increasing by 5.4% and appropriations increasing by only 2.9% compared with the previous years.

As of June 30, 2014, the General Fund Operating Reserve Fund reports a contingent liability of \$100 million related to the State General Fund Investment Pool (the “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.

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Fiscal year 2014 compares to fiscal year 2013 as follows:

- General and selective taxes are the largest revenue source, contributing 41% of total aggregate revenues in fiscal year 2014. Those revenues increased by \$116.5 million or 4.9%. From the general and selective taxes, only gross receipts tax had a significant increase of \$74.4 million or 3.9%. Income taxes are the second largest revenue source contributing 26% of the total revenues. Those revenues decreased by \$56.4 million or 3.7%. Withholding tax increased by \$25.0 million and corporate income tax decreased by \$70.4 million or 26.3%.
- Rents and royalties increased by \$112.1 million or 2.2%. Federal royalties and state land bonuses were more than expected, resulting from increased production volumes. Land office income increased by \$2.8 million or 6.4% and federal mineral leasing increased by \$110.2 million or 24.0%.
- Appropriations increased by \$166 million or 2.9% from June 30, 2013. Public school support increased by \$95.9 million or 4%, health and human services increased by \$47.7 million or 3.0%, while higher education increased by \$46.5 million or by 6.1%.

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, expenditures and changes in fund balances, which are reported on pages 14 and 15, 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. As reported in the Schedule of Appropriations on pages 32-36.

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 16 through 29 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

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Component Appropriation Funds
Management's Discussion and Analysis
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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 Local Governments
- Schedule of Amounts Due to Taxpayers
- Schedule of Amounts Due to Other State Entities

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

As of the end of the current fiscal year, the Funds reported aggregate fund balance of \$673.9 million, an increase of \$2.6 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)

	2014	2013
Assets	\$ 1,779.2	\$ 1,749.9
Liabilities	(1,032.0)	(1,056.0)
Deferred inflow of resources	<u>(73.3)</u>	<u>(22.5)</u>
Fund balance	<u>\$ 673.9</u>	<u>\$ 671.4</u>

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 and the partially restricted General Operating Reserve Fund.

It has been the policy of the State of New Mexico to not consider the revenue that is unearned under the modified accrual basis of accounting, \$73.3 million, to be available for appropriation.

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Component Appropriation Funds
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Aggregate Change in Fund Balances

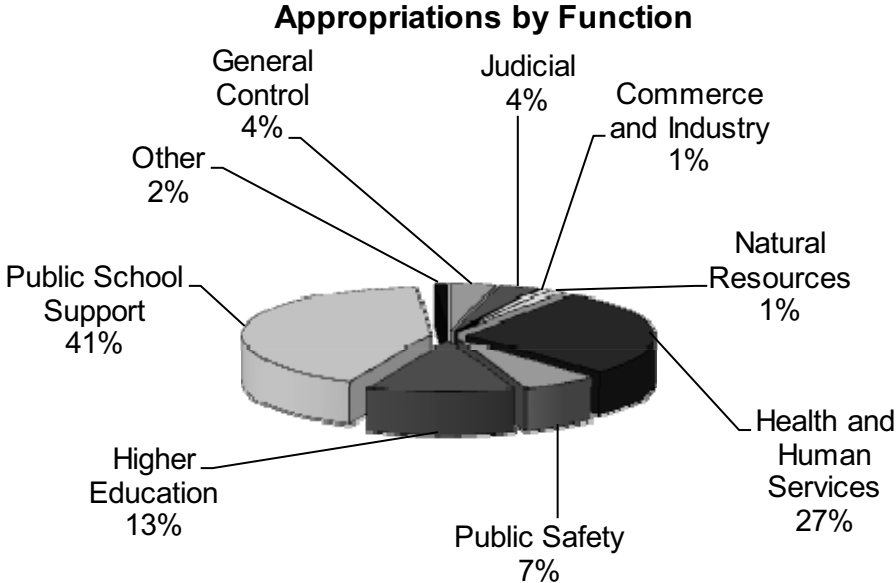
Year Ended June 30,
(in millions of dollars)

	2014	2013	Increase (Decrease)
Revenues			
General and selective taxes	\$ 2,514.3	\$ 2,397.8	\$ 116.5
Income taxes	1,451.7	1,508.1	(56.4)
Severance taxes	557.1	438.4	118.7
License fees	51.7	50.0	1.7
Investment income	662.1	653.0	9.1
Rents and royalties	617.3	504.3	113.0
Miscellaneous receipts	244.1	233.0	11.1
Total revenues	<u>6,098.3</u>	<u>5,784.6</u>	<u>313.7</u>
Expenditures			
Appropriations			
General control	218.9	233.8	(14.9)
Legislative	24.6	27.3	(2.7)
Judicial	208.5	201.0	7.5
Commerce and industry	57.3	51.1	6.2
Natural resources	70.0	84.0	(14.0)
Health and human services	1,638.0	1,590.3	47.7
Public safety	395.7	386.8	8.9
Higher education	804.5	758.0	46.5
Public school support	2,498.7	2,402.8	95.9
Other education	75.9	91.0	(15.1)
Total appropriations	<u>5,992.1</u>	<u>5,826.1</u>	<u>166.0</u>
Excess (deficit) of revenues over appropriations and expenditures	<u>106.2</u>	<u>(41.5)</u>	<u>147.7</u>
Other Financing Sources			
Transfers in	-	-	-
Total other financing sources	-	-	-
Special items (Note 6 and 7)	(103.7)	-	(103.7)
Net change in fund balance	2.5	(41.5)	43.9
Fund balance - beginning	671.4	712.9	(41.5)
Fund balance - ending	<u>\$ 673.9</u>	<u>\$ 671.4</u>	<u>\$ 2.5</u>

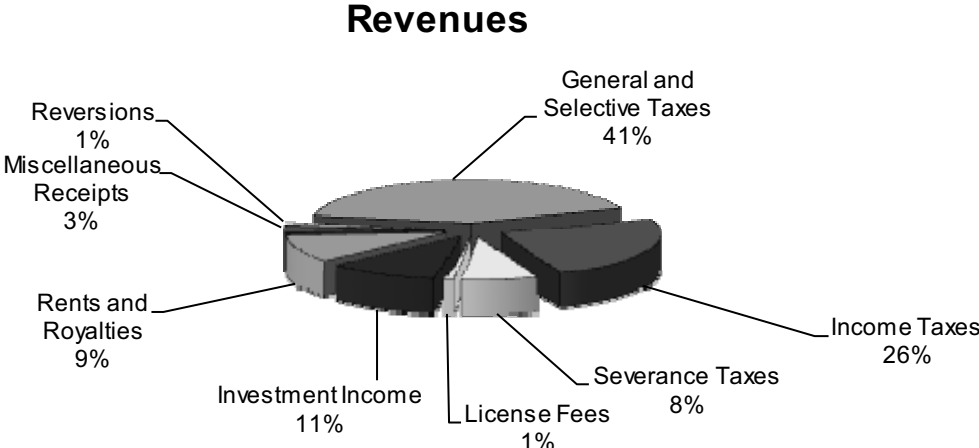
**State of New Mexico
Component Appropriation Funds
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The Funds' aggregate fund balances increased by \$2.6 million in fiscal year 2014 compared to a \$41.6 million decrease in 2013. In fiscal year 2014, revenues increased 5.4% compared to 2013, while appropriations increased 2.9%.

Appropriations by Function



Aggregate Revenues



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Economic Factors Affecting New Mexico's Fiscal Year 2014 Budget

New Mexico's General Fund operating budget is based on a revenue forecast prepared by a team of economists from the legislative and executive branches. This "consensus group" bases their revenue forecast on forecasts of the U.S. economy by IHS Global Insight and Moody's Analytics in combination with forecasts of the New Mexico economy provided by the University of New Mexico's Bureau of Business and Economic Research and Moody's Analytics. These data are supplemented with information provided by state agencies, the Congressional Budget Office, and other national data sources. Detailed information on the production of crude oil and natural gas are derived from the State's ONGARD reporting system. Forecasts of crude oil and natural gas prices are based in part on Moody's and IHS as well as other publicly-available sources like the NYMEX futures market and the U.S. Energy Information Administration.

Trends in the U.S. Economy

After contracting during the first quarter of 2014, the U.S. economy has expanded rapidly and is now on pace to produce the fastest job growth in 15 years during 2014. National forecasters expect the housing market to improve due to increased job growth, improved credit access, and low interest rates. Low gasoline prices should boost retail, which will encourage further business investment. "Fiscal drag" resulting from federal austerity measures is diminishing. This will be particularly important for New Mexico, because the State's economy relies upon federal spending to an unusual degree.

New Mexico Economy

New Mexico employment growth has rebounded in the first half of SFY15. Thru October, New Mexico has experienced stronger job gains across most sectors. Construction and the service sector have demonstrated improve-12d growth, in addition to health services, financial services and the mining sector. These trends are expected to continue and to produce job growth near the State's long-term average of 1.5% to 2.0% over the next two fiscal years. Oil and natural gas production buoyed the New Mexico economy in SFY14. New Mexico oil production reached 113 million barrels – roughly double the volume produced in SFY09. Meanwhile the historic decline in natural gas slowed due to production of associated gas from oil. The recent decline in oil prices threatens General Fund revenues, however, cheaper gasoline should increase consumer spending and hence Gross Receipts Tax revenue.

2014 General Fund Revenue

General Fund revenues rebounded from the SFY13 decline largely as a result of high oil and gas revenues. Recurring revenue grew at 5.8 percent in SFY14, reaching a record \$6.04 billion. Growth was mainly driven by an increase in oil and gas taxes, rents, and royalties, which grew 24.6 percent to \$1.17 billion or about 19.4 percent of total recurring revenue. General sales taxes, including the gross receipts tax (GRT) and compensating tax, also experienced healthy growth of 5.2 percent. The GRT is a broad-based tax on most business receipts, and is the State's single

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Management's Discussion and Analysis
June 30, 2014

largest revenue source, contributing roughly one-third of General Fund revenue as well as a substantial portion of local government revenues. Permanent Fund investment income benefited from a larger fund corpus and strong stock market returns. Income tax revenues decreased slightly, reflecting a one-time acceleration of capital gains income in SFY13.

SFY14 oil- and gas-related revenues were greater than forecast and contributed the bulk of the \$179 million 6-month estimating error. General sales and personal income tax revenues also came in higher than forecast. Insurance premiums tax growth was not as strong as expected, while corporate income tax (CIT) revenues were lower than expectations.

General Fund Revenue Outlook

Total revenue is projected to increase 1.3 percent in SFY15 and 2.8 percent in SFY16. Revenue growth is hampered by the rapid decline in crude oil prices, which have fallen 25-30% since the end of SFY14. The large decrease in mineral taxes, rents and royalties is expected to be offset by growth in sales and income taxes, as well as the recent strong investment performance of the state's Permanent Funds. Insurance premiums tax revenue is forecast to increase due to the expansion of Medicaid and dissolution of the New Mexico high-risk insurance pool through implementation of the Affordable Care Act. Timing and magnitude of these changes is uncertain. SFY16 will continue these trends.

Major changes were made to the corporate income tax during the 2013 legislation that will phase in over the next several years. These changes will reduce corporate tax rates and allow single sales factor income apportionment for manufacturers. Legislation passed in SFY14 will expand upon these tax reforms to allow taxpayers to carry forward net operating losses (NOLs) for 20 years. While "static" estimates have projected a slight decline in revenues in the near term, these measures are likely to encourage new business investment and economic growth, with positive effects on state revenues.

General Fund Reserves

The unexpected increase in General Fund revenues combined with prudent spending growth have bolstered the General Fund reserves, leading to a SFY14 year-end balance of 11.0 percent of recurring appropriations. The Martinez Administration advocates a 10 percent reserve balance to insure against oil and gas revenue volatility and other unforeseen contingencies. The State has been able to preserve a healthy reserve balance in part due to the consensus group's caution in forecasting General Fund revenues, as well as the Legislature's and Executive's commitment to restrain recurring spending growth in SFY15 to be consistent with the revenue level forecast by the group.

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Component Appropriation Funds
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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, 2014

	Statutorily Created Funds			
	Common School Current	Current School	State Support Reserve	Tobacco Settlement Permanent Fund
Assets				
Assets				
Investments, State Treasurer (Note 2)	\$ -	\$ -	\$ 1,000,000	\$ -
Investments, State Investment Council (Note 2)	-	-	-	193,461,494
Due from other state general fund accounts	-	37,526,586	-	-
Due from other state entities	37,526,586	-	-	-
Due from taxpayers	-	-	-	-
Total assets	<u>\$ 37,526,586</u>	<u>\$ 37,526,586</u>	<u>\$ 1,000,000</u>	<u>\$ 193,461,494</u>
Liabilities				
Liabilities				
Advance from State General Fund Investment Pool (Note 3)	\$ -	\$ -	\$ -	\$ -
Due to other state general fund accounts	37,526,586	37,526,586	-	-
Due to other state entities	-	-	-	-
Due to local governments	-	-	-	-
Due to taxpayers	-	-	-	-
Allowance for potential loss on State General Fund Investment Pool (Note 6)	-	-	-	-
Total liabilities	<u>37,526,586</u>	<u>37,526,586</u>	<u>-</u>	<u>-</u>
Deferred Inflow of Resources				
Deferred inflow of resources				
Unearned revenues	-	-	-	-
Total deferred inflow of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Fund balances				
Restricted	-	-	-	193,461,494
Unassigned	-	-	1,000,000	-
Total fund balances	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>193,461,494</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 37,526,586</u>	<u>\$ 37,526,586</u>	<u>\$ 1,000,000</u>	<u>\$ 193,461,494</u>
SHARE system fund number	71600	71700	85700	95200

Administratively Created Funds

Appropriation Account	Federal Mineral Leasing	Appropriation Contingency Reserve	General Operating Reserve	Tax Stabilization Reserve	Eliminations	Total June 30, 2014 (Memorandum Only)
\$ -	\$ -	\$ 19,247,378	\$ 380,271,196	\$ 147,469,056	\$ -	\$ 547,987,630
-	-	-	-	-	-	193,461,494
37,526,586	-	-	104,541,565	-	(179,594,737)	-
924,773,831	-	2,208,512	-	-	-	964,508,929
73,308,870	-	-	-	-	-	73,308,870
<u>\$ 1,035,609,287</u>	<u>\$ -</u>	<u>\$ 21,455,890</u>	<u>\$ 484,812,761</u>	<u>\$ 147,469,056</u>	<u>\$ (179,594,737)</u>	<u>\$ 1,779,266,923</u>
\$ 764,273,123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 764,273,123
104,541,565	-	-	-	-	(179,594,737)	-
27,244,324	-	-	74,209,762	-	-	101,454,086
25,143,542	-	-	-	-	-	25,143,542
41,097,863	-	-	-	-	-	41,097,863
-	-	-	100,000,000	-	-	100,000,000
<u>962,300,417</u>	<u>-</u>	<u>-</u>	<u>174,209,762</u>	<u>-</u>	<u>(179,594,737)</u>	<u>1,031,968,614</u>
<u>73,308,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,308,870</u>
<u>73,308,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,308,870</u>
-	-	-	36,000,000	-	-	229,461,494
-	-	21,455,890	274,602,999	147,469,056	-	444,527,945
-	-	21,455,890	310,602,999	147,469,056	-	673,989,439
<u>\$ 1,035,609,287</u>	<u>\$ -</u>	<u>\$ 21,455,890</u>	<u>\$ 484,812,761</u>	<u>\$ 147,469,056</u>	<u>\$ (179,594,737)</u>	<u>\$ 1,779,266,923</u>
85300	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, 2014

	Statutorily Created Funds			
	Common School Current	Current School	State Support Reserve	Tobacco Settlement Permanent Fund
Revenues				
General and selective taxes	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-
Severance taxes	-	-	-	-
License fees	-	-	-	-
Investment income	-	449,382,121	-	-
Net increase in the fair value of investments	-	-	-	23,295,922
Rents and royalties	-	47,480,532	-	-
Miscellaneous receipts	-	5,567,376	-	29,354,437
Reversions	-	-	-	-
Total revenues	<u>-</u>	<u>502,430,029</u>	<u>-</u>	<u>52,650,359</u>
Expenditures				
Appropriations				
Legislative	-	-	-	-
Judicial	-	-	-	-
General control	-	-	-	24,073,440
Commerce and industry	-	-	-	-
Agriculture, energy and natural resources	-	-	-	-
Health, hospitals and human services	-	-	-	-
Public safety	-	-	-	-
Other education	-	-	-	-
Higher education	-	-	-	5,281,000
Public school support	-	502,430,029	-	-
Total expenditures	<u>-</u>	<u>502,430,029</u>	<u>-</u>	<u>29,354,440</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,295,919</u>
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Special Items (Note 6 and 7)				
Provision for the potential loss - HSD	-	-	-	-
Provision for the potential loss on the State General Fund Investment Pool	-	-	-	-
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,295,919</u>
Fund balances - beginning of year	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>170,165,575</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 193,461,494</u>
SHARE system fund numbers	71600	71700	85700	95200

Administratively Created Funds					
Appropriation Account	Federal Mineral Leasing	Appropriation Contingency Reserve	General Operating Reserve	Tax Stabilization Reserve	Total June 30, 2014 (Memorandum Only)
\$ 2,514,261,668	\$ -	\$ -	\$ -	\$ -	\$ 2,514,261,668
1,451,733,384	-	-	-	-	1,451,733,384
557,113,163	-	-	-	-	557,113,163
51,667,031	-	-	-	-	51,667,031
189,469,346	-	-	-	-	638,851,467
-	-	-	-	-	23,295,922
-	569,860,173	-	-	-	617,340,705
107,473,565	-	-	-	-	142,395,378
96,538,306	-	4,239,731	972,776	-	101,750,813
<u>4,968,256,463</u>	<u>569,860,173</u>	<u>4,239,731</u>	<u>972,776</u>	<u>-</u>	<u>6,098,409,531</u>
24,551,600	-	-	-	-	24,551,600
208,528,600	-	-	-	-	208,528,600
193,335,400	-	-	1,471,263	-	218,880,103
57,308,100	-	-	-	-	57,308,100
67,754,100	-	2,250,000	-	-	70,004,100
1,638,036,900	-	-	-	-	1,638,036,900
378,705,600	-	16,975,000	-	-	395,680,600
69,834,200	-	6,000,000	-	-	75,834,200
799,108,900	100,000	-	-	-	804,489,900
1,426,551,498	569,760,173	-	-	-	2,498,741,700
<u>4,863,714,898</u>	<u>569,860,173</u>	<u>25,225,000</u>	<u>1,471,263</u>	<u>-</u>	<u>5,992,055,803</u>
<u>104,541,565</u>	<u>-</u>	<u>(20,985,269)</u>	<u>(498,487)</u>	<u>-</u>	<u>106,353,728</u>
<u>(104,541,565)</u>	<u>-</u>	<u>17,000,000</u>	<u>87,541,565</u>	<u>-</u>	<u>-</u>
<u>(104,541,565)</u>	<u>-</u>	<u>17,000,000</u>	<u>87,541,565</u>	<u>-</u>	<u>-</u>
-	-	-	(73,745,820)	-	(73,745,820)
-	-	-	(30,000,000)	-	(30,000,000)
-	-	(3,985,269)	(16,702,742)	-	2,607,908
-	-	25,441,159	327,305,741	147,469,056	671,381,531
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,455,890</u>	<u>\$ 310,602,999</u>	<u>\$ 147,469,056</u>	<u>\$ 673,989,439</u>
85300	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, 2014

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.

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

Statutorily Created Funds

1. Common School Current Fund – SHARE Fund 71600

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.

2. Current School Fund – SHARE Fund 71700

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

State of New Mexico
Component Appropriation Funds
Notes to Financial Statements
June 30, 2014

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 – SHARE Fund 85700*

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 – SHARE Fund 95200*

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.

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

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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 – SHARE Fund 85300*

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 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

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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 – SHARE Fund 85100*

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*.)

3. *Appropriation Contingency Reserve Fund – SHARE Fund 85400*

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*.

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4. *General Operating Reserve Fund – SHARE Fund 85200*

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 fund 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 – SHARE Fund 84300*

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 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.

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B. Basis of Accounting and Presentation

The financial statements of the Component Appropriation Funds have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units and funds. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

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. Unearned 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.

C. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, 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 unassigned 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 \$50.2 million, which represents the estimated amount of personal income tax refunds in excess of final personal income tax settlements, at June 30, 2014. The estimate is based on a ten year average of final settlement payments and refunds. Fiscal year 2014 is the fourth

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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 Entities 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. *Due from Taxpayers and Unearned Revenues*—GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 states that when an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available. Amounts due from taxpayers recorded as unearned revenues are earned during fiscal year 2014, but are not readily available until more than 60 days after the fiscal year-end, resulting in the reclassification to deferred outflow of resources (due to taxpayers) and unearned revenue (deferred inflow of resources).
4. *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.
5. *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.

Due from Other Funds		Due to Other Funds		
Name	SHARE System Fund Number	Name	SHARE System Fund Number	Amount
General Operating Reserve	85200	Appropriations Accounts Fund	85300	\$ 104,541,565
Appropriations Accounts Fund	85300	Current School	71700	37,526,586
Current School Fund	71700	Common School Fund	71600	37,526,586
				<u>\$ 179,594,737</u>

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

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- the accompanying financial statements, the cash returned to the Funds is treated as general revenue and presented as “reversions.”
2. *Revenues*—The Component Appropriation funds account for all financial resources of the State except those required to be accounted for by a fund within another state entity. Sources of revenues are collected by various agencies of the State and held within an agency fund to be transferred to one of the Component Appropriation funds for revenue recognition. 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.
 3. *Expenditures*—Appropriations represent legislatively approved transfers of budgeted funds to state entities for the necessities of operations.

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.

Restricted fund balance represents those portions of fund balance where constraints are placed on resources, either externally or by 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 and General Operating Reserve Fund because the balance is legally restricted for specific purposes.

The General Operating Reserve Fund reports \$36 million of restricted fund balance to address potential Maintenance of Effort (MOE) shortfalls in FY 13 and FY 14 by the New Mexico Public Education Department (PED). As enacted, the *Laws of 2013 chapter 191, 51st legislature first session* includes appropriations and language that committing the General Operating Reserve Fund to cover such shortfalls. The USDE and PED are in dispute over the calculations of the amount needed for maintenance of effort. An estimated \$36 million transfer will be made upon PED appearing at a future Board of Finance meeting to confirm the exact amount of the transfer needed to meet maintenance of effort requirements. Based on this information, restricted fund balance in the amount of \$36 million is reported in the General Operating Reserve Fund.

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F. Budgets

Annually, the Governor is required to submit a balanced budget by fund, function and activity to the Legislature. The Legislature authorizes expenditures in the annual Appropriations Act by source which is signed into law by the Governor. Annual appropriations lapse at fiscal year-end. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions or call a special session of the Legislature to address the budget issues. Adjustments to the budget may also be made throughout the year for changes in departmental or fund revenues so that departments and funds will not end the fiscal year in a deficit position. Expenditures are controlled at the program appropriation unit level. The budget is adopted on a budgetary basis that is not consistent with GAAP. The appropriations of the Component Appropriation Funds by law must equal the individual amounts appropriated in the various appropriation Acts.

G. Recently Issued Accounting Standards

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Adopting GASB 65 for fiscal year 2014 resulted in the reclassification of the due from taxpayers and unearned revenue financial statement balance sheet items. These amounts are now reported as Deferred Outflows of Resources and Deferred Inflow of Resources, respectfully.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012* (GASB 66). The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements—Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No.62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre – November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Adopting GASB 66 did not impact the Component Appropriation Fund’s financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing

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accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Adopting GASB 67 did not impact the Component Appropriation Fund's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The objective of this Statement is to improve the information provided in government financial reports about pension related financial support provided by certain non-employer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Funds elected to early implement this Statement during fiscal year 2014. Adopting GASB 68 did not impact the Component Appropriation Fund's financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The Funds elected to early implement this Statement during fiscal year 2014. Adopting GASB 69 did not impact the Component Appropriation Fund's financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Adopting GASB 70 did not impact the Component Appropriation Fund's financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Funds' elected to early implement this Statement during fiscal year 2014. Adopting GASB 71 did not impact the Component Appropriation Fund's financial statements.

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2) Investments

As of June 30, 2014, 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	\$ 547,987,630
New Mexico State Investment Council		
Equities	Not Applicable	
Large Cap Index Pool		\$ 90,337,409
Small/Mid Cap Active Pool		1,378,027
Small/Mid Cap Index Pool		18,773,678
Non-U.S. Developed Markets Pool		15,742,195
Non-U.S. Emerging Markets Pool		3,565,801
Core Bonds		
U.S. Core Bonds Pool	1 to 10 years	42,552,455
Hedge Fund Pool	Not Applicable	17,254,800
Cash/Cash Equivalents/Accruals	Not Applicable	3,857,129
		<u>\$ 193,461,494</u>

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 State 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 and State Investment Council pools are not rated. For additional GASB Statement No. 40, *Deposit and Investment Risk Disclosures-An Amendment of GASB Statement No. 3*, disclosure information regarding cash held by the New Mexico State Treasurer, the reader should refer to the separate audit reports for the New Mexico State Treasurer's Office and the State Investment Council for the fiscal year ended June 30, 2014.

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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.

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, in anticipation of the collection of tax revenues, fees and other sources. The State General Fund Investment Pool makes advances to the Appropriation Account Fund to the extent that such sources have not yet been collected. Advances from the State General Fund Investment Pool totaling \$764,273,123 at June 30, 2014, will be repaid as amounts due from other state entities are collected.

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, 2014:

SHARE System Fund Number	Source	Amount
83200	Gross Receipt Tax	\$ 345,876,958
60200	Severance Tax Permanent Fund Income	163,929,200
83200	Withholding Taxes	152,151,259
64200	Regular Income Tax - PIT	80,929,639
27900	Corporate Income Taxes	44,618,103
60100	Land Grant Permanent Fund	37,526,586
11820	Insurance Taxes	24,745,630
2000	Tribal Revenue Sharing (Indian Gaming)	16,464,096
83200	Compensating Tax	16,318,234
57800	Fire Protection Fund - Insurance Fees	16,082,190
82800	Luxury Tax	12,368,481
82800	Gaming Tax	11,055,493
82500	Motor Vehicle Excise Tax	10,867,943
Various	Other	31,575,117
		<u>\$ 964,508,929</u>

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5) Transfers

For fiscal year 2014, the laws of 2013, Chapter 227 from the 51st legislature, section 12(B) provides the Funds with authority to transfer \$17 million from the operating reserve to the appropriation contingency reserve to meet fiscal year 2014 obligations. In addition, for fiscal year 2014, the laws of 2014, Chapter 63 from the 51st legislature, 2nd Session, section 12 (A) and laws of 2013, Chapter 227, 51st legislature, 1st session, section 11(B) provides the Funds with authority to transfer \$105 million from the appropriation account to the general operating reserve fund to meet fiscal year 2015 obligations. For fiscal year 2014, revenues exceeded appropriations by \$105 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 fiduciary fund in the financial statements of the Treasurer's Office. Claims on the Pool are reported as assets by the various agencies investing in the Pool. By statute, the Department of Finance and Administration (DFA) is responsible for reconciling the Pool balances. As of June 30, 2014, the Component Appropriations Funds report an aggregate investment of \$547,987,630 in the Pool (see Note 2).

The statewide cash balance in the SHARE general ledger accounts have not been reconciled to the Pool since the implementation of SHARE in July 2006. In prior years it was reported the Phase I of the Cash Management Remediation Project (completed in May 2013) implemented statewide business process changes and corrected numerous SHARE System configurations. As a result of the changes and corrections, the Department of Finance & Administration's Financial Control Division (DFA/FCD) began reconciling activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013.

The Historical Cash Reconciliation Project in partnership with an external accounting firm commenced on July 11, 2014. The scope of this project was the period of July 1, 2006 to January 31, 2013. The final report from the historical reconciliation has not been released as of December 9, 2014. However, based on the Historical Cash Reconciliation Project draft report, the State was unable to complete a reconciliation of all transactional data for the entire period. Specifically, complete data sets from agency external systems (third-party and payment load) could not be provided in a number of cases.

Given these facts regarding incomplete population data sets, as well as the magnitude and complexity of the State's transactions during the period of July 1, 2006 – January 31,

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2013, it is not possible to perform a 100%, complete and accurate historical reconciliation of all general ledger and bank activity for this period. Determining a reliable amount of any correcting adjustments to the Pool's SHARE balances at the business unit/ Office level as a result of the Historical Cash Reconciliation Project will not be possible at this time.

DFA/FCD has determined that as information becomes available to allow for corrections of cash balances within the State General Ledger for the period from July 1, 2006 through January 31, 2013. No correcting accounting adjustments will be applied to any prior period of any specific business unit or individual fund of the State. As historical cash reconciliation related correcting accounting adjustments are identified they will be made against the State's General Operating Reserve Fund. Funds reported as Component Appropriation Funds subject to correcting adjusting entries include the State Support Reserve, Appropriation Contingency Reserve and the Tax Stabilization Reserve.

In FY 2014, DFA's management increased the recorded a loss contingency from \$70 million of \$100 million in the State General Fund based on its 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 DFA management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

On December 8, 2014, DFA informed the agencies that as information becomes available to allow for corrections of cash balances within the State General Ledger for the period of July 1, 2006 through January 31, 2013, the associated correcting accounting adjustments will be made against the State's General Operating Reserve Fund within the Component Appropriation Fund's future financial statements.

7) Federal Government Related Contingencies

In previous years, the New Mexico Human Services Department (HSD) recorded Medicaid revenue and the related receivable of approximately \$74 million. Claims for reimbursement of these funds were not timely, the period of availability of the funds has lapsed, and carryover authorizations were not obtained. Collectability of the related receivable reported by HSD is therefore doubtful. As a result, HSD may require financial support from other sources, possibly including the General Operating Reserve Fund, in order to fund its ongoing operations and fulfill its obligation to provide services to the citizens of the State of New Mexico. Management has elected to record a Due to Other Agencies specific to this matter as of June 30, 2014.

Supplementary Information

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Schedule of Revenues by Source
For the Year Ended June 30, 2014

	General and Selective		
	Taxes	Income Taxes	Severance Taxes
Motor vehicle miscellaneous fees	\$ -	\$ -	\$ -
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	-	-	-
Financial institution fees	-	-	-
Manufacturing housing receipts	-	-	-
Construction industry receipts	-	-	-
Security receipts	-	-	-
Gaming receipts	-	-	-
Corporate filing	-	-	-
Alcohol receipts	-	-	-
Corporate special	-	-	-
Pipeline fees	-	-	-
State engineer's fees	-	-	-
Licensure of health facilities	-	-	-
Birth and death certificates	-	-	-
Workers' compensation fees	-	-	-
Environment department filing fees	-	-	-
Telephone fees	-	-	-
Drivers' training fees	-	-	-
Land office income	-	-	-
Insurance	115,067,195	-	-
Fire protection	16,082,190	-	-
Gross receipts tax	1,992,034,860	-	-
Compensating tax	78,270,777	-	-
Bed surcharge tax	-	-	-
Tobacco (luxury) tax	78,478,968	-	-
Alcoholic beverage tax	26,356,823	-	-
Private car	619,892	-	-
Motor vehicle excise tax	133,274,640	-	-
Gaming tax	66,454,698	-	-
Leased vehicles surcharge	5,204,350	-	-
Gasoline tax	1,227,183	-	-
Bingo and raffle 3% tax	98,628	-	-

License Fees	Investment Income	Rents and Royalties	Miscellaneous Receipts	Total
\$ 111,297	\$ -	\$ -	\$ -	\$ 111,297
-	-	-	5,981,903	5,981,903
-	-	-	627,563	627,563
-	-	-	353,578	353,578
-	-	-	17,921	17,921
-	-	-	18,252	18,252
-	-	-	935,769	935,769
-	-	-	5,567,376	5,567,376
-	-	-	802	802
11,758,515	-	-	-	11,758,515
3,194,862	-	-	-	3,194,862
357,413	-	-	-	357,413
3,901,608	-	-	-	3,901,608
20,201,275	-	-	-	20,201,275
373,404	-	-	-	373,404
4,262,269	-	-	-	4,262,269
3,770,030	-	-	-	3,770,030
3,671,622	-	-	-	3,671,622
64,736	-	-	-	64,736
-	-	-	-	-
-	-	-	-	-
-	-	-	1,009,912	1,009,912
-	-	-	268,499	268,499
-	-	-	1,322,463	1,322,463
-	-	-	-	-
-	-	-	-	-
-	-	47,480,532	-	47,480,532
-	-	-	-	115,067,195
-	-	-	-	16,082,190
-	-	-	-	1,992,034,860
-	-	-	-	78,270,777
-	-	-	-	-
-	-	-	-	78,478,968
-	-	-	-	26,356,823
-	-	-	-	619,892
-	-	-	-	133,274,640
-	-	-	-	66,454,698
-	-	-	-	5,204,350
-	-	-	-	1,227,183
-	-	-	-	98,628

State of New Mexico
Component Appropriation Funds
Schedule of Revenues by Source
For the Year Ended June 30, 2014

	General and Selective Taxes	Income Taxes	Severance Taxes
Telecommunications relay surcharge	\$ 86,348	\$ -	\$ -
Net personal income taxes	-	1,451,733,384	-
Net corporate income taxes	-	-	-
Estate taxes	-	-	-
Franchise receipts	-	-	-
Fiduciary	-	-	-
Land grant permanent fund distribution	-	-	-
Federal mineral leasing	-	-	-
Oil and gas emergency school tax	-	-	500,658,559
Oil and gas conservation tax	-	-	27,244,167
Resource excise tax	-	-	13,012,973
Natural gas processors	-	-	16,197,464
State Treasurer earnings on state balances	-	-	-
Severance tax permanent fund distribution	-	-	-
Tribal revenue sharing	-	-	-
Unclaimed property	-	-	-
Small county assistance	-	-	-
Small city assistance	-	-	-
Law enforcement protection	-	-	-
Boat excise tax	184,342	-	-
Racing receipts	820,774	-	-
Reversions	-	-	-
Settlement/miscellaneous	-	-	-
Totals	<u>\$ 2,514,261,668</u>	<u>\$ 1,451,733,384</u>	<u>\$ 557,113,163</u>

— continued

License Fees	Investment Income	Rents and Royalties	Miscellaneous Receipts	Total
\$ -	\$ -	\$ -	\$ -	\$ 86,348
-	-	-	-	1,451,733,384
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	449,382,121	-	-	449,382,121
-	-	569,860,173	-	569,860,173
-	-	-	-	500,658,559
-	-	-	-	27,244,167
-	-	-	-	13,012,973
-	-	-	-	16,197,464
-	18,996,699	-	-	18,996,699
-	170,472,647	-	-	170,472,647
-	-	-	67,582,257	67,582,257
-	-	-	21,516,170	21,516,170
-	-	-	3,747,429	3,747,429
-	-	-	-	-
-	-	-	3,936,258	3,936,258
-	-	-	-	184,342
-	-	-	-	820,774
-	-	-	101,750,813	101,750,813
-	23,295,922	-	29,509,226	52,805,148
<u>\$ 51,667,031</u>	<u>\$ 662,147,389</u>	<u>\$ 617,340,705</u>	<u>\$ 244,146,191</u>	<u>\$ 6,098,409,531</u>

State of New Mexico
Component Appropriation Funds
Schedule of Appropriations
For the Year Ended June 30, 2014

Laws of 2013 - 51st

Agency No.	SHARE		Chapter 227		Other Appropriations Chapter, Section
	Fund No.	Share Fund Name	Section 4 Amounts	Section 5 and 8 amount	
11100	12900	Legislative Council Services	\$ -	\$ -	Chapter 1, Sec 3 (A), 2nd Session
11200	13000	Legislative Finance Committee	-	-	Chapter 1, Sec 4, 2nd Session
11400	74300	Legislative Council Services/Senate Interim	-	-	Chapter 1, Sec 8, 2nd Session
11500	74400	Legislative Council Services/House Interim	-	-	Chapter 1, Sec 7, 2nd Session
11700	13100	Legislative Education Study Committee	-	-	Chapter 1, Sec 5, 2nd Session
11900	13200	Legislative Maintenance	3,988,200	-	
13100	13300	Legislature	32,000	-	Chapter 1, Sec 3 (B,C,D) and Section 6, 2nd Session
13101	20030	Legislature - Senate	-	-	
13102	20040	Legislature - House	-	-	
		Total - Legislative	4,020,200	-	
20500	13400	Supreme Court Law Library	1,546,700	-	
21000	13500	Judicial Standards Commission	831,200	-	
21500	13700	Court of Appeals	5,691,100	-	
21600	13800	Supreme Court	3,069,900	-	
21800	11600	Magistrate Drug Court	50,600	-	
21800	13600	Judge's Pro Tempore	30,900	-	
21800	13900	Administrative Office of the Courts	6,709,600	-	
21800	44300	AOC - Statewide Drug Court Technology Fund	-	-	
21800	58300	AOC-Non Grant Projects	194,200	-	
21800	68900	Information System	2,886,200	-	
21800	69200	Magistrate Courts	24,567,700	-	
21801	01200	Jury and Witness Fee Fund	4,020,200	-	
21801	12400	Court Appointed Attorney Fees	4,706,100	-	
21900	14000	Supreme Court Building Commission	861,400	-	
23100	14100	First Judicial District Court	6,285,500	-	
23200	14200	Second Judicial District Court	21,594,000	-	
23300	14300	Third Judicial District Court	6,188,800	-	
23400	14400	Fourth Judicial District Court	2,129,000	-	
23500	14500	Fifth Judicial District Court	6,058,700	-	
23600	14600	Sixth Judicial District Court	3,101,300	-	
23700	14700	Seventh Judicial District Court	2,262,800	-	
23800	14800	Eighth Judicial District Court	2,791,500	-	
23900	14900	Ninth Judicial District Court	3,216,300	-	
24000	15000	Tenth Judicial District Court	792,200	-	
24100	15100	Eleventh Judicial District Court	4,636,600	-	
24100	33500	Eleventh Judicial District Court/Drug Court	1,291,500	-	
24200	15200	Twelfth Judicial District Court	2,779,400	-	
24200	92900	Twelfth Judicial District Court - Other Programs	288,100	-	
24300	15300	Thirteenth Judicial District Court	6,458,700	-	
24400	15400	Bernalillo County Metropolitan Court	22,694,200	-	
25100	15500	First Judicial District Attorney	4,835,200	-	
25200	15600	Second Judicial District Attorney	17,107,200	-	
25300	15700	Third Judicial District Attorney	4,417,800	-	
25400	15800	Fourth Judicial District Attorney	3,048,400	-	

Legislature - First Session

Laws of 2014 - 51st Legislature - Second Session

Legislature - First Session		Laws of 2014 - 51st Legislature - Second Session				Total
Amount	Total	Chapter 63		Other Appropriations Chapter, Section	Amount	Appropriations
		Section 5 Amount	Section 6 Amount			Fiscal Year 2014
\$ 5,560,000	\$ 5,560,000	\$ -	\$ -		\$ -	\$ 5,560,000
4,016,300	4,016,300	-	-		-	4,016,300
1,135,150	1,135,150	-	-		-	1,135,150
1,102,700	1,102,700	-	-		-	1,102,700
1,212,800	1,212,800	-	-		-	1,212,800
-	3,988,200	-	-		-	3,988,200
1,350,900	1,382,900	50,000	6,400	Chapter 1, HB 1, Section 1B (9) and Section 9	1,447,400	2,886,700
-	-	-	-	Chapter 1, HB 1, Section 1B (1,3,5,7)	2,113,250	2,113,250
-	-	-	-	Chapter 1, HB 1, Section 1B (2,4,6,8)	2,536,500	2,536,500
<u>14,377,850</u>	<u>18,398,050</u>	<u>50,000</u>	<u>6,400</u>		<u>6,097,150</u>	<u>24,551,600</u>
-	1,546,700	-	-		-	1,546,700
-	831,200	-	-		-	831,200
-	5,691,100	-	-		-	5,691,100
-	3,069,900	-	-		-	3,069,900
-	50,600	-	-		-	50,600
-	30,900	-	20,000		-	50,900
-	6,709,600	-	-		-	6,709,600
-	-	116,000	-		-	116,000
-	194,200	-	-		-	194,200
-	2,886,200	-	-		-	2,886,200
-	24,567,700	-	-		-	24,567,700
-	4,020,200	-	600,000		-	4,620,200
-	4,706,100	-	150,000		-	4,856,100
-	861,400	-	-		-	861,400
-	6,285,500	-	-		-	6,285,500
-	21,594,000	-	-		-	21,594,000
-	6,188,800	-	-		-	6,188,800
-	2,129,000	-	-		-	2,129,000
-	6,058,700	-	-		-	6,058,700
-	3,101,300	-	-		-	3,101,300
-	2,262,800	-	-		-	2,262,800
-	2,791,500	-	-		-	2,791,500
-	3,216,300	-	-		-	3,216,300
-	792,200	-	-		-	792,200
-	4,636,600	-	-		-	4,636,600
-	1,291,500	-	-		-	1,291,500
-	2,779,400	-	-		-	2,779,400
-	288,100	-	-		-	288,100
-	6,458,700	-	-		-	6,458,700
-	22,694,200	-	-		-	22,694,200
-	4,835,200	-	-		-	4,835,200
-	17,107,200	-	-		-	17,107,200
-	4,417,800	-	-		-	4,417,800
-	3,048,400	-	-		-	3,048,400

State of New Mexico
Component Appropriation Funds
Schedule of Appropriations — continued
For the Year Ended June 30, 2014

Laws of 2013 - 51st

Agency No.	SHARE		Share Fund Name	Chapter 227		Other Appropriations Chapter, Section
	Fund No.			Section 4 Amounts	Section 5 and 8 amount	
25500	15900		Fifth Judicial District Attorney	\$ 4,453,200	\$ -	
25600	16000		Sixth Judicial District Attorney	2,621,000	-	
25700	16100		Seventh Judicial District Attorney	2,383,800	-	
25800	16200		Eighth Judicial District Attorney	2,482,700	-	
25900	16300		Ninth Judicial District Attorney	2,676,700	-	
26000	16400		Tenth Judicial District Attorney	998,000	-	
26100	16500		Eleventh Judicial District Attorney/Division 1	3,339,400	-	
26200	16600		Twelfth Judicial District Attorney	2,603,600	-	
26300	16700		Thirteenth Judicial District Attorney	4,808,600	-	
26400	16800		Administrative Office of the District Attorneys	2,046,200	-	
26500	16900		Eleventh Judicial District Attorney/Division 2	2,086,400	-	
			Total - Judicial	207,642,600	-	
30500	17000		Attorney General	8,926,900	-	
30500	27800		AG - Medicaid Fraud	511,600	-	
30800	11100		State Auditor's Office	2,882,400	-	
33300	17200		Taxation & Revenue Department - Operating	54,659,900	-	
34100	00900		DFA - Computer Systems Enhancement Fund	-	-	
34100	01000		Department of Finance and Administration - Operating	17,685,200	-	
34100	20130		DFA - County Detention Reimbursement Fund	3,300,000	-	
34100	20900		DFA - Board of Finance Emergency (85200)	-	-	NMSA 6-4-2.1, 6-1-2,
34100	21000		DFA - Emergency Water Supply	118,400	-	Chapter 227, Sec 4, 1st Session
34100	52900		DFA - General Fund Capital Outlay	-	-	
34100	61800		DFA - Leasehold Community Assistance	128,900	-	
34100	62000		DFA Special Appropriations	334,000	7,472,700	
34100	62400		Civil Legal Services Fund	1,945,700	-	
34100	69700		DFA - Tobacco Settlement Program Fund	-	-	NMSA 6-4-9
35000	17400		General Services Department	13,286,000	-	
35000	41700		General Services Department - State Aircraft Pool	500,000	-	
35000	75200		General Services Department - Group Self Insurance Fund	-	-	
35400	34700		New Mexico Sentencing Commission	529,800	-	
35500	17500		Public Defender Department	41,799,700	-	
35600	17600		Governor's Office	3,587,100	-	
36000	17700		Lieutenant Governor's Office	585,800	-	
36100	20370		Department of Information Technology	855,800	-	
36900	17900		State Commission of Public Records	2,619,900	-	
37000	18000		Secretary of State	6,427,700	-	
37800	18100		State Personnel Board	4,159,800	-	
37900	84800		Public Employees Labor Relations Board	214,000	-	
39400	18200		State Treasurer's Office	3,684,500	-	
			Total - General Control	168,743,100	7,472,700	

Legislature - First Session		Laws of 2014 - 51st Legislature - Second Session				
Amount	Total	Chapter 63		Other Appropriations Chapter, Section	Amount	Total Appropriations Fiscal Year 2014
		Section 5 Amount	Section 6 Amount			
\$ -	\$ 4,453,200	\$ -	\$ -		\$ -	\$ 4,453,200
-	2,621,000	-	-		-	2,621,000
-	2,383,800	-	-		-	2,383,800
-	2,482,700	-	-		-	2,482,700
-	2,676,700	-	-		-	2,676,700
-	998,000	-	-		-	998,000
-	3,339,400	-	-		-	3,339,400
-	2,603,600	-	-		-	2,603,600
-	4,808,600	-	-		-	4,808,600
-	2,046,200	-	-		-	2,046,200
-	2,086,400	-	-		-	2,086,400
-	207,642,600	116,000	770,000		-	208,528,600
-	8,926,900	-	-		-	8,926,900
-	511,600	-	-		-	511,600
-	2,882,400	-	-		-	2,882,400
-	54,659,900	50,000	-		-	54,709,900
-	-	7,650,700	-		-	7,650,700
-	17,685,200	-	-		-	17,685,200
-	3,300,000	-	-		-	3,300,000
1,471,263	1,471,263	-	-		-	1,471,263
-	118,400	-	-		-	118,400
-	-	-	-		-	-
-	128,900	-	-		-	128,900
-	7,806,700	4,450,000	-		-	12,256,700
-	1,945,700	-	-		-	1,945,700
24,073,440	24,073,440	-	-		-	24,073,440
-	13,286,000	350,000	-		-	13,636,000
-	500,000	-	-		-	500,000
-	-	-	-		-	-
-	529,800	-	-		-	529,800
-	41,799,700	-	-		-	41,799,700
-	3,587,100	-	-		-	3,587,100
-	585,800	-	-		-	585,800
-	855,800	-	3,913,400		-	4,769,200
-	2,619,900	-	-		-	2,619,900
-	6,427,700	700,000	-		-	7,127,700
-	4,159,800	-	-		-	4,159,800
-	214,000	-	5,500		-	219,500
-	3,684,500	-	-		-	3,684,500
25,544,703	201,760,503	13,200,700	3,918,900		-	218,880,103

State of New Mexico
Component Appropriation Funds
Schedule of Appropriations — continued
For the Year Ended June 30, 2014

Laws of 2013 - 51st

Agency No.	SHARE		Chapter 227		Other Appropriations Chapter, Section
	Fund No.	Share Fund Name	Section 4 Amounts	Section 5 and 8 amount	
34101	85300	Cumbres and Toltec Scenic Railroad Commission	\$ 98,700	\$ -	
41700	48000	NM Border Authority	334,800	-	
41800	18800	Tourism Department	10,308,900	-	
41900	18900	Economic Development Department	6,592,800	-	
41900	63800	Industrial Development (In-Plant Training)	-	-	
42000	20120	Regulation and Licensing Department	28,800	-	
42000	43300	Regulation and Licensing Department	13,116,400	-	
43000	55000	Public Regulation Commission Operating	7,035,600	-	
46500	53600	Gaming Control Board	5,547,600	-	
46900	19200	State Racing Commission	2,345,400	-	
49100	74800	Office of Military Base Planning and Support	144,400	-	
49500	87100	New Mexico Space Port Authority	456,200	-	
		Total - Commerce and Industry	46,009,600	-	
50500	19300	Office of Cultural Affairs	28,884,600	-	
50800	39500	New Mexico Livestock Board	975,000	-	
52100	19900	Energy, Mineral and Natural Resource Department	10,208,000	-	
52100	20010	EMNRD / State Parks	10,730,100	-	
52100	21300	EMNRD - Emergency Fire/ Insect and Disaster	-	-	Executive Orders
53800	82900	Intertribal Ceremonial Office	105,000	-	
55000	21400	Office of State Engineer	15,521,400	-	
		Total - Agriculture, Energy and Natural Resources	66,424,100	-	
60300	28400	Office of African American Affairs	700,800	-	
60400	04600	Commission for Deaf and Hard of Hearing	300,000	-	
60500	06000	Martin Luther King, Jr., Commission	213,800	-	
60600	04700	Commission for the Blind	2,052,900	-	
60900	04800	New Mexico Office of Indian Affairs	2,413,600	-	
62400	04900	Aging and Long-term Services Dept - Administration	44,885,100	-	
63000	05200	Human Services Department - General Operating Fund	106,512,000	-	
63000	97500	HSD Income Support - Care & Support	11,901,700	-	
63000	97600	HSD Medical Assistance	917,903,000	-	
63100	32900	NMDWS Operating Fund	3,486,500	-	
64400	50000	Division of Vocational Rehabilitation	5,616,700	-	
64500	05800	Governor's Commission on Disability	1,038,700	-	
64700	07900	Developmental Disabilities Planning Council	4,830,800	-	
66500	06100	Department of Health / General Operating	290,417,500	-	
66500	20480	DOH - Fort Bayard Medical Center	4,050,000	-	
66500	25700	DOH - Trauma System Fund	3,946,200	-	
66500	75600	DOH - Emergency Medical Services	3,073,100	-	
66500	95810	DOH - Birthing Workforce Retention	31,300	-	
66700	06400	Department of Environment	11,468,400	-	
66800	49300	Office of the Natural Resources Trustee	87,000	-	
67000	06500	Veterans' Service Department	3,160,800	-	
69000	06700	Children, Youth and Families Department	151,898,700	-	
69000	20080	Children, Youth and Families Department	9,235,900	-	
69000	20090	Children, Youth and Families Department	2,690,000	-	

Legislature - First Session		Laws of 2014 - 51st Legislature - Second Session				
Amount	Total	Chapter 63		Other Appropriations Chapter, Section	Amount	Total Appropriations Fiscal Year 2014
		Section 5 Amount	Section 6 Amount			
\$ -	\$ 98,700	\$ -	\$ -		\$ -	\$ 98,700
-	334,800	-	-		-	334,800
-	10,308,900	-	-		-	10,308,900
-	6,592,800	10,800,000	-		-	17,392,800
-	-	-	-		-	-
-	28,800	-	-		-	28,800
-	13,116,400	-	-		-	13,116,400
-	7,035,600	-	498,500		-	7,534,100
-	5,547,600	-	-		-	5,547,600
-	2,345,400	-	-		-	2,345,400
-	144,400	-	-		-	144,400
-	456,200	-	-		-	456,200
-	46,009,600	10,800,000	498,500		-	57,308,100
-	28,884,600	300,000	-		-	29,184,600
-	975,000	490,000	-		-	1,465,000
-	10,208,000	150,000	-		-	10,358,000
-	10,730,100	-	-		-	10,730,100
2,250,000	2,250,000	-	-		-	2,250,000
-	105,000	65,000	-		-	170,000
-	15,521,400	325,000	-		-	15,846,400
2,250,000	68,674,100	1,330,000	-		-	70,004,100
-	700,800	-	-		-	700,800
-	300,000	-	-		-	300,000
-	213,800	-	-		-	213,800
-	2,052,900	75,000	-		-	2,127,900
-	2,413,600	-	-		-	2,413,600
-	44,885,100	175,000	-		-	45,060,100
-	106,512,000	-	-		-	106,512,000
-	11,901,700	-	-		-	11,901,700
-	917,903,000	-	-		-	917,903,000
-	3,486,500	-	221,000		-	3,707,500
-	5,616,700	-	-		-	5,616,700
-	1,038,700	50,000	-		-	1,088,700
-	4,830,800	-	164,000		-	4,994,800
-	290,417,500	25,000	-		-	290,442,500
-	4,050,000	-	-		-	4,050,000
-	3,946,200	-	-		-	3,946,200
-	3,073,100	-	-		-	3,073,100
-	31,300	-	-		-	31,300
-	11,468,400	-	-		-	11,468,400
-	87,000	-	-		-	87,000
-	3,160,800	-	-		-	3,160,800
-	151,898,700	50,000	-		-	151,948,700
-	9,235,900	-	-		-	9,235,900
-	2,690,000	-	-		-	2,690,000

State of New Mexico
Component Appropriation Funds
Schedule of Appropriations — continued
For the Year Ended June 30, 2014

Laws of 2013 - 51st

Agency No.	SHARE Fund No.	Share Fund Name	Chapter 227		Other Appropriations Chapter, Section
			Section 4 Amounts	Section 5 and 8 amount	
69000	48900	CYFD / Protective Services	\$ 19,045,100	\$ -	
69000	49100	CYFD / Child Care Payments Fund	33,290,400	-	
69000	78000	CYFD / Children's' Trust Fund Expendable	221,400	-	
69000	83900	CYFD / Juvenile Community Corrections	2,658,600	-	
69000	84100	CYFD / JJDP / Children's Justice	146,900	-	
		Total - Health, Hospitals and Human Services	1,637,276,900	-	
70500	07000	Dept of Military Affairs - Adjutant General Emergency	-	-	Executive Order
70500	89200	Department of Military Affairs	-	-	
70500	93200	Dept of Military Affairs - Service Member Life Ins	1,150,000	-	
70500	99200	Department of Military Affairs	5,660,400	-	
76000	90500	Parole Board	492,900	-	
76500	90600	Juvenile Parole Board	15,000	-	
77000	07700	Corrections Industries	150,000	-	
77000	90200	Community Corrections Program	3,169,800	-	
77000	90700	Corrections Department	239,238,700	-	
77000	91500	Probation & Parole Division	27,241,500	-	
78000	90900	Crime Victims Reparation Commission	1,837,100	-	
79000	12800	Department of Public Safety	96,113,200	-	
79500	20050	Homeland Security	2,424,300	-	
79500	20380	Homeland Security - Governor's Disaster Declarations	-	-	Executive Order
		Total - Public Safety	377,492,900	-	
92400	05700	Public Education Department	11,711,900	-	
92400	11420	PED / Pre K Plus Fund	15,950,000	-	
92400	51300	PED / Pre Kindergarten Fund	14,950,000	-	
92400	79000	PED / Special Projects	26,122,300	-	
92400	56200	PED / Teacher Professional Development	-	-	
92400	85600	PED / Instructional Materials	-	-	
		Total - Other Education	68,734,200	-	
34100	10300	San Juan College	24,172,500	-	
34100	10400	New Mexico Junior College	6,220,500	-	
34100	10500	New Mexico State University	194,053,300	-	
34100	10600	Central New Mexico Community College	51,647,300	-	
34100	10700	Eastern New Mexico University	43,825,800	-	
34100	10800	Luna Vocational Technical Institute	8,172,300	-	
34100	10900	Santa Fe Community College	13,350,000	-	
34100	22200	New Mexico Highlands University	29,860,300	-	
34100	22300	Mesalands Community College	4,296,700	-	
34100	22400	New Mexico Institute of Mining and Technology	36,335,100	-	
34100	22400	New Mexico Institute of Mining and Technology (851)	100,000	-	
34100	22600	New Mexico Military Institute	2,185,000	-	
34100	22700	Western New Mexico University	18,868,500	-	
34100	22800	Northern New Mexico Community College	10,999,200	-	

Legislature - First Session		Laws of 2014 - 51st Legislature - Second Session				
Amount	Total	Chapter 63		Other Appropriations Chapter, Section	Amount	Total Appropriations Fiscal Year 2014
		Section 5 Amount	Section 6 Amount			
\$ -	\$ 19,045,100	\$ -	\$ -		\$ -	\$ 19,045,100
-	33,290,400	-	-		-	33,290,400
-	221,400	-	-		-	221,400
-	2,658,600	-	-		-	2,658,600
-	146,900	-	-		-	146,900
-	<u>1,637,276,900</u>	<u>375,000</u>	<u>385,000</u>		-	<u>1,638,036,900</u>
750,000	750,000	-	-		-	750,000
-	-	-	-		-	-
-	1,150,000	-	-		-	1,150,000
-	5,660,400	-	-		-	5,660,400
-	492,900	-	-		-	492,900
-	15,000	-	-		-	15,000
-	150,000	-	-		-	150,000
-	3,169,800	-	-		-	3,169,800
-	239,238,700	-	-		-	239,238,700
-	27,241,500	-	-		-	27,241,500
-	1,837,100	-	-		-	1,837,100
-	96,113,200	400,000	-		-	96,513,200
-	2,424,300	-	812,700		-	3,237,000
<u>16,225,000</u>	<u>16,225,000</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>16,225,000</u>
<u>16,975,000</u>	<u>394,467,900</u>	<u>400,000</u>	<u>812,700</u>		<u>-</u>	<u>395,680,600</u>
-	11,711,900	-	-		-	11,711,900
-	15,950,000	-	-		-	15,950,000
-	14,950,000	-	-		-	14,950,000
-	26,122,300	1,100,000	-		-	27,222,300
-	-	2,500,000	-		-	2,500,000
-	-	3,500,000	-		-	3,500,000
-	<u>68,734,200</u>	<u>7,100,000</u>	<u>-</u>		<u>-</u>	<u>75,834,200</u>
-	24,172,500	-	-		-	24,172,500
-	6,220,500	-	-		-	6,220,500
-	194,053,300	148,000	-		-	194,201,300
-	51,647,300	-	-		-	51,647,300
-	43,825,800	150,000	-		-	43,975,800
-	8,172,300	-	-		-	8,172,300
-	13,350,000	-	-		-	13,350,000
-	29,860,300	-	-		-	29,860,300
-	4,296,700	-	-		-	4,296,700
-	36,335,100	-	-		-	36,335,100
-	100,000	-	-		-	100,000
-	2,185,000	-	-		-	2,185,000
-	18,868,500	-	-		-	18,868,500
-	10,999,200	-	-		-	10,999,200

State of New Mexico
Component Appropriation Funds
Schedule of Appropriations — continued
For the Year Ended June 30, 2014

Laws of 2013 - 51st

Agency No.	SHARE Fund No.	Share Fund Name	Chapter 227		Other Appropriations Chapter, Section
			Section 4 Amounts	Section 5 and 8 amount	
34100	23000	Clovis Community College	\$ 9,640,600	\$ -	
34100	23100	New Mexico School for the Blind and Visually Impaired	1,125,500	-	
34100	23200	New Mexico School for the Deaf	4,016,600	-	
34100	23300	University of New Mexico	296,571,200	-	
95000	21600	HED/Special Programs	21,976,600	-	
95000	63705	HED/Lottery Tuition Fund	-	-	
95000	63700	HED/Lottery Tuition Fund	-	-	NMSA 6-4-9
95000	78200	HED/Performance Development	1,250,000	-	
95000	91000	Higher Education Department/Operations	-	-	
95000	91000	Higher Education Department/Operations	11,499,100	5,844,800	
		Total - Higher Education	<u>790,166,100</u>	<u>5,844,800</u>	
92400	63300	PED / Indian Education	1,824,600	-	
92400	72500	Public School Energy Fund	282,025	-	
92400	79000	PED / Dual Credit Instructional Materials	857,000	-	
92400	85600	Instructional Material Fund (851)	20,975,800	-	
92400	85800	Public School Support/ML (851)	548,784,373	-	
92400	85800	Public School Support/CS (717)	464,903,443	-	
92400	85800	Public School Support/Special Education MOE	10,000,000	-	
92400	85800	Public School Support	1,451,114,459	-	
		Total - Public School Support	<u>2,498,741,700</u>	<u>-</u>	
		Total - Component Appropriation Accounts	<u>\$ 5,865,251,400</u>	<u>\$ 13,317,500</u>	

Legislature - First Session		Laws of 2014 - 51st Legislature - Second Session				
Amount	Total	Chapter 63		Other Appropriations Chapter, Section	Amount	Total Appropriations Fiscal Year 2014
		Section 5 Amount	Section 6 Amount			
\$ -	\$ 9,640,600	\$ -	\$ -		\$ -	\$ 9,640,600
-	1,125,500	-	-		-	1,125,500
-	4,016,600	-	-		-	4,016,600
-	296,571,200	-	-		-	296,571,200
-	21,976,600	-	-		-	21,976,600
-	-	2,900,000	-		-	2,900,000
5,281,000	5,281,000	-	-		-	5,281,000
-	1,250,000	-	-		-	1,250,000
-	-	-	-		-	-
-	17,343,900	-	-		-	17,343,900
<u>5,281,000</u>	<u>801,291,900</u>	<u>3,198,000</u>	<u>-</u>		<u>-</u>	<u>804,489,900</u>
-	1,824,600	-	-		-	1,824,600
-	282,025	-	-		-	282,025
-	857,000	-	-		-	857,000
-	20,975,800	-	-		-	20,975,800
-	548,784,373	-	-		-	548,784,373
-	464,903,443	-	-		-	464,903,443
-	10,000,000	-	-		-	10,000,000
-	1,451,114,459	-	-		-	1,451,114,459
-	2,498,741,700	-	-		-	2,498,741,700
<u>\$ 64,428,553</u>	<u>\$ 5,942,997,453</u>	<u>\$ 36,569,700</u>	<u>\$ 6,391,500</u>		<u>\$ 6,097,150</u>	<u>\$ 5,992,055,803</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due From Other State Entities
June 30, 2014

Share System Fund Number	Description	Amount
12900	Legislative Council Services	\$ 539,272
13000	Legislative Finance Committee	62,380
74300	Legislative Council Services-Senate	288,288
74400	Legislative Council Services-House	274,516
13100	Legislative Education Study Committee	64,129
13200	Legislative Building Services	325,543
13400	Supreme Court Law Library	10,140
13700	Court of Appeals	36,184
13800	Supreme Court	404
Various	Administrative Office of the Courts	56,262
14000	Supreme Court Building	1,119
67900	Second Judicial District Court	1,811
92400	Third Judicial District Court	12,046
14400	Fourth Judicial District Court	3,709
14600	Sixth Judicial District Court	2,655
14700	Seventh Judicial District Court	60,802
14800	Eighth Judicial District Court	2,113
14900	Ninth Judicial District Court	3,464
15000	Tenth Judicial District Court	1,908
15100	Eleventh Judicial District Court	3,086
15200	Twelfth Judicial District Court	1,960
15300	Thirteenth Judicial District Court	2,000
15400	Bernalillo County Metro. Court	19,686
15500	First Judicial District Attorney	14,327
15900	Fifth Judicial District Attorney	48,923
16000	Sixth Judicial District Attorney	416
16100	Seventh Judicial District Attorney	73,169
16300	Ninth Judicial District Attorney	2,754
16400	Tenth Judicial District Attorney	297
16500	Eleventh Judicial District Attorney	452
16600	Twelfth Judicial District Attorney	8,583
16700	Thirteenth Judicial District Attorney	152,784
16800	Administrative Office of the District Attorney	4,227
16900	Eleventh Judicial District Attorney, Division II	17,006
17000	Office of the Attorney General	695,248
11100	State Auditor's Office	35,068
17200	Taxation and Revenue Department	894,787
27900	Corporate Income Taxes	50,877,838
64200	Regular Income Tax - PIT	18,163,591
82500	Motor Vehicle Excise Tax	10,867,943
82500	Weight Distance Tax	26,307

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due From Other State Entities — continued
June 30, 2014

Share System Fund Number	Description	Amount
82500	Traffic Violations/Penalty Assessment	\$ 581,317
82500	Court Fines	100
82800	Fiduciary Income Taxes	(71,786)
82800	Bingo and Raffle Tax	22,367
82800	Liquor Tax /Alcoholic Beverages	4,887,185
82800	Gasoline Tax	1,801,816
82800	Special Fuel Tax	13,615
82800	911 Emergency Surcharge Tax	226
82800	Luxury Tax	12,390,595
82800	Gaming Tax	11,059,588
82800	Telecommunications Relay Surcharge	13,738
82800	Environment Dept. Filing Fees	(57)
83100	Worker's Compensation	84,757
83200	Withholding Taxes	155,519,874
83200	Gross Receipt Tax	366,566,697
83200	Compensating Tax	16,515,587
83200	Lease Vehicle Surcharge	889,535
83300	Severance - School Tax	139,170,198
83300	Severance Tax - Processors	2,933,385
83300	Severance - Conservation Resource	202,871
83300	Severance - Conservation	7,416,691
83300	Resource Excise - Copper	1,349,353
83300	Resource Excise - Potash	130,425
83300	Resource Excise - Others	871,743
60100	Land Grant Permanent Fund	37,526,586
60200	Severance Tax Permanent Fund Income	14,206,054
01000	Department of Finance and Administration	1,630,288
20900	Department of Finance and Administration	125,119
21000	Department of Finance and Administration	32,572
52900	Department of Finance and Administration	6,254
62000	Department of Finance and Administration	56,854
73600	DFA Law Enforcement Protection	3,936,258
73700	DFA Small County Assistance	3,747,429
76500	Department of Finance and Administration	546
93100	Department of Finance and Administration	30,198
96600	Department of Finance and Administration	3,000
34700	NM Sentencing Commission	30
17600	Office of the Governor	429,192
17700	Office of the Lieutenant Governor	49,268
20370	Department of Information Technology	42,916
17900	State Commission of Public Records	52,783
18000	Secretary of State	223,065

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due From Other State Entities — continued
June 30, 2014

Share System Fund Number	Description	Amount
18100	State Personnel Board	\$ 84,489
84800	Public Employee Labor Relation Board	59
N/A	Tobacco Luxury/New Mexico Finance Authority	603,957
02000	Tribal Revenue Sharing (Indian Gaming)	16,464,096
18200	State Treasurer's Office	96,117
80100	State Treasurer Earnings on State Balances	7,723,943
26900	NM Sports Authority	101,872
18800	Tourism Department	20,938
18900	Economic Development Department	201,720
43300	Regulation and Licensing Department	176,269
50800	PRC Insurance Taxes	25,745,630
55000	Public Regulation Commission	391,000
57800	Fire Protection Fund - Insurance Fees	16,082,190
11810	Superintendent of Insurance	4,580,894
53600	Gaming Control Board	339,257
19200	State Racing Commission	306,082
74800	Military Homebase Planning	1,107
19900	Energy, Mineral and Natural Resources Department	11,038
77300	Boat Excise Tax	63,689
21300	Energy, Mineral and Natural Resources Department	644,901
28400	Office of African American Affairs	63,937
4900	Aging and Long-Term Services Department	43,000
32900	Department of Workforce Solutions	4,924,921
5800	Governor's Commission on Disability	4,389
50204	Death and Birth Certificate Fees	167,798
6101	Department of Health	744,290
6400	Environment Department	260,939
65200	Environment Department	342,143
49300	Office of the Natural Resources Trustee	1,848
6500	Department of Veteran Services	353,174
6700	Children, Youth and Families Department	380,693
7000	Military Affairs Department	1,563,611
99200	Military Affairs Department	27,039
90500	Adult Parole Board	48,922
90900	Crime Victims Reparation Commission	2,023
12800	Department of Public Safety	341,735
93100	Department of Transportation	98,814
Various	Public Education Department	12,971,883
91000	Higher Education Department	423,093
	Total due from other state entities	<u>\$ 964,508,929</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due From Taxpayers
June 30, 2014

Share System Fund Number	Description	Amount
27900	Corporate Income Tax	\$ 2,835,257
64200	OGP - Remitter	6,246,334
64200	PTW - Owner	5,400
64200	PTW - Remitter	21,347,140
64200	Personal Income Tax	7,063,477
82800	Fiduciary	(164,190)
82800	Bingo and Raffle Tax	3,259
82800	Tobacco Tax	74,785
82800	Liquor Excise Tax	2,562
82800	Water Conservation Tax	20,214
83100	Workers' Compensation	27,496
83200	Withholding Taxes	16,958,449
83200	Gross Receipt Tax	18,406,588
83200	Compensating Tax	475,119
83300	Resource Excise Tax	6,980
	Total due from taxpayers	<u>\$ 73,308,870</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due to Local Governments
June 30, 2014

Share System Fund Number	Description	Amount
832	Taxation and Revenue Dept. (Unidentified 60 Day Remittances) due to local governments	\$ 25,143,542
	Total due to local governments	<u>\$ 25,143,542</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due to Taxpayers
June 30, 2014

Share System Fund Number	Description	Amount
833	Taxation and Revenue Dept. (Oil & Gas Advance Payments)	\$ 41,097,863
	Total due to taxpayers	<u>\$ 41,097,863</u>

State of New Mexico
Component Appropriation Funds
Schedule of Amounts Due To Other State Entities
June 30, 2014

Share System Fund Number	Description	Amount
80100	Interest on State Funds Fund	\$ 17,244,324
85800	Public Education Department	10,000,000
05200	Human Services Department (see note 7)	73,745,820
20900	DFA - Board of Finance Emergency	463,942
	Total due to other state entities	<u>\$ 101,454,086</u>

Independent Auditor's 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
State of New Mexico
Department of Finance and Administration
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited, in accordance with the 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, the financial statements 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2014. We modified our report for the Component Appropriation Funds as more fully described in our audit opinion beginning on page one.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Component Appropriation Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Component Appropriation Funds internal control. Accordingly, we do not express an opinion on the effectiveness of the Component Appropriation Funds internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Finding and Response*, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 Finding and Response* to be a material weakness. 2013-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Component Appropriation Funds' financial statements are free from 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 are required to be reported under *Government Auditing Standards*.

Management's Response to Finding

The Component Appropriations Funds' response to the finding identified in our audit is described in the accompanying *Schedule of Finding and Response*. The Component Appropriation Funds' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Component Appropriation Funds' internal control and compliance. 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, and is not suitable for any other purpose.



Albuquerque, New Mexico
December 15, 2014

State of New Mexico
Component Appropriation Funds
Schedule of Finding and Response
For the Year Ended June 30, 2014

Section I — Financial Statement Findings

2013-001 – Timely Resolution of Uncertainties (Material Weakness)

Condition: As of June 30, 2013, the General Operating Reserve Fund reported a \$70 million allowance for potential loss related to the reconciliation of the New Mexico State General Fund Investment Pool (the Pool) which was estimated to be \$100 million as of June 30, 2014. The allowance was the minimum considered probable based on the then current status of an ongoing project to reconcile the Pool.

While procedures have been implemented to reconcile current activity of the Pool, activity prior to February 2013 has not been reconciled. Accordingly, based on the most current information available, the allowance for potential loss reported in the 2014 financial statements is now at \$100 million.

Criteria: Procedures should be in place, and sufficient resources should be allocated, to enable timely resolution of significant uncertainties impacting the financial statements, including those related to historical Pool activity.

Cause and Effect: The uncertainty regarding the reconciliation of the Pool has not been resolved. Management's estimate of the loss has been recorded, but the actual loss amount, if any, has not been determined.

Auditor's Recommendations: Devote sufficient resources to complete the reconciliation of the Pool so that the actual loss, rather than an estimate, can be reported in the financial statements.

Management's Response: Agreed. Management commenced the Diagnostic of Cash Control project in June 2012 and a Cash Management Remediation Project thereafter. The State implemented the recommendations contained in the Cash Management Remediation Project in February 2013, including modifying the bank account structure, revising accounting procedures, developing system tools and building the organizational capability necessary to support an on-going monthly reconciliation process. As a result, an accurate reconciliation of bank to book balances at the State and Business Unit level is now functioning for current activities. Cash Remediation Project Phase 2 was started in December 2014. The project objectives will focus on payment processing, cash control processing and general ledger processing. The changes will also be needed in preparation for the SHARE upgrade.

State of New Mexico
Component Appropriation Funds
Schedule of Finding and Response
For the Year Ended June 30, 2014

Section I — Financial Statement Findings — continued

2013-001 – Timely Resolution of Uncertainties (Material Weakness) — continued

In October 2014 an independent consultant was hired to perform a reconciliation of the historical balances. During the reconciliation it became apparent that there was not sufficient detail to confirm the historical balances to the bank. The State will choose a date to begin a point forward balance and the cash balances will be adjusted to the reconciled bank balances. Any adjustments will be offset against the money that was set aside for the loss contingency.

State of New Mexico
Component Appropriation Funds
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2014

Audit Finding	Status
2013-001	Unresolved
2013-002	Resolved.

State of New Mexico
Component Appropriation Funds
Corrective Action Plan
For the Year Ended June 30, 2014

Audit Finding	Responsible Party	Corrective Action to Be Taken	Target Date
2013-001	Deputy Cabinet Secretary	See Management's Response 2013-001	Management is assessing the information from the Historical Cash Reconciliation Project Final Findings Report and establishing a timeline of completion.

State of New Mexico
Component Appropriation Funds
Exit Conference
For the Year Ended June 30, 2014

Exit Conference

An exit conference was conducted on December 8, 2014, 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	Deputy Secretary, Financial Control Division, DFA and State Controller
Steve Gonzales	Deputy Director, Financial Control Division, DFA

REDW_{LLC}

Tom Friend	Principal
Javier Machuca	Senior Manager
Richard Gillespie	Senior Auditor

Financial Statement Preparation

The State of New Mexico Component Appropriation Funds (Funds) independent public accountants assisted in the preparation of the financial statements presented in this report; however, the Funds' management is responsible for the financial statement and disclosure content. The Funds' management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

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APPENDIX B

FORM OF ATTORNEY GENERAL'S NO LITIGATION LETTER

[date]

State Board of Finance	Rodey Dickason Sloan Akin and Robb,
State of New Mexico	P.A.
Bataan Memorial Bldg.	201 Third Street, NW
Santa Fe, NM 87501	Albuquerque, NM 87102

Sherman & Howard L.L.C.
500 Marquette, NW
Albuquerque, NM 87102

Re: \$ _____ State of New Mexico Capital Projects General Obligation Bonds, Series 2015

Ladies and Gentlemen:

This letter will serve as our certificate of litigation concerning the State of New Mexico Capital Projects General Obligation Bonds, Series 2015, in the principal amount of \$141,635,000 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 21, 2015 (the "Bond Legislation") relating to the issuance, sale and delivery of these bonds; or (v) the validity or enforceability of the bonds or the Bond Legislation.

Property Tax Litigation

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

Other Litigation

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

Sincerely,

Assistant Attorney General

APPENDIX C

**FORM OF OPINION OF CO-BOND COUNSEL
CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2015**

_____, 2015

State Board of Finance
State of New Mexico

Ladies and Gentlemen:

We have acted as co-bond counsel to the State Board of Finance (the “Board”) of the State of New Mexico (the “State”) in connection with the issuance of the \$141,635,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2015 (the “Bonds”), dated _____, 2015 and being a series of bonds in registered form maturing on March 1, 2016 and serially thereafter on March 1 of each year through 2025.

In such capacity, we have examined the transcript of proceedings (the “Transcript”) relating to the Bonds and have also examined the provisions of the Constitution and laws of the State including the 2014 Capital Projects General Obligation Bond Act, Chapter 65, Laws 2014, under authority of which the Bonds were issued, the resolution authorizing the issuance and sale of the Bonds (the “Bond Legislation”) adopted by the Board on January 21, 2015, 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 law of the United States of America and such further documents and matters as we have considered necessary in rendering this opinion.

Regarding questions of fact material to our opinions, we have relied upon the State’s and Board’s respective certified proceedings relating to the Bonds and upon other representations and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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 the continued accuracy of the representations and the continuing 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 of the Board pursuant to 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 any other statements made in connection with any offer or sale of 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 payable from the proceeds of the levy of ad valorem taxes on all property in the State, subject to property taxation for State purposes, without limit as to rate and in an amount sufficient to pay the principal and interest on the Bonds when due.

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

3. Interest on the Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Tax Code"), and interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the adjusted current earnings adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations. We express no opinion regarding any other federal or state income tax consequences arising from the receipt or accrual of interest on or ownership or disposition of the Bonds.

4. The Bonds, and the interest thereon, are exempt from taxation by the State and any subdivision or public body thereof.

Very truly yours,

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 \$141,635,000 Capital Projects General Obligation Bonds, Series 2015 (the “Bonds”). The Bonds are being issued pursuant to the Bond Resolution adopted by the Board on January 21, 2015 (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 2014 Capital Projects General Obligation Act, Chapter 65, Laws 2014 and approved by the voters of the State on November 4, 2014.

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 February 17, 2015 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, 2015 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):

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or 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;
- (vii) Modifications to rights of bond holders;
- (viii) Bond calls, other than mandatory sinking fund redemption;
- (ix) Defeasances;
- (x) Release, substitution or sale of any property securing repayment of the securities;
- (xi) Rating changes;
- (xii) Tender offers;
- (xiii) Bankruptcy, insolvency, receivership or similar proceedings;
- (xiv) Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated person or their termination; and
- (xv) 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 ___, 2015

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

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