New Issue

This Official Statement has been prepared by the State Board of Finance to provide information on $18,645,000 Capital Projects General Obligation Bonds, Series 2011 (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.

$18,645,000
THE STATE OF NEW MEXICO
CAPITAL PROJECTS GENERAL OBLIGATION BONDS
SERIES 2011

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 Sutin, Thayer & Browne A Professional Corporation, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with the covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of New Mexico personal income taxes as described herein. See “TAX MATTERS.”

No Optional Redemption

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

Security

The Bonds are being issued under the authority of the 2010 Capital Projects General Obligation Bond Act, Chapter 3, Laws 2010, Second Special Session (the “Act”). The Act authorizes and directs State tax officials to levy on all property in the State that is subject to taxation an ad valorem tax sufficient to produce an amount equal to the interest and principal requirements for each year for any general obligation bonds outstanding. The Bonds are general obligations of the State of New Mexico, and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.

Purpose

The Bonds are being issued to provide funds for construction, acquisition or improvement of senior citizen centers and facilities, library acquisitions, pre-Kindergarten classrooms and facilities, school buses, and public school books and instructional materials as set forth in the Act and approved by the voters of the State on November 2, 2010.

Interest Payment Dates

March 1 and September 1, commencing September 1, 2011.

Closing/Settlement

On or about May 26, 2011.

Denominations

$5,000

Book-Entry System

The Depository Trust Company

Registrar/Paying Agent

State Treasurer of New Mexico

Bond Counsel

Sutin, Thayer & Browne A Professional Corporation

Disclosure Counsel

Brownstein Hyatt Farber Schreck, LLP

Issuer Contact

State Board of Finance: Stephanie Schardin Clarke, Interim Director, (505) 827-3930; stephanie.schardin@state.nm.us

Dated: April 19, 2011
<table>
<thead>
<tr>
<th>Year (March 1)</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
<th>Yield at Issuance(^1)</th>
<th>Price at Issuance(^1)</th>
<th>CUSIP(^2)</th>
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</thead>
<tbody>
<tr>
<td>2012</td>
<td>$1,770,000</td>
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<td>0.35%</td>
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<td>2013</td>
<td>1,655,000</td>
<td>2.00%</td>
<td>0.65%</td>
<td>102.363%</td>
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<tr>
<td>2014</td>
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<td>2.00%</td>
<td>1.00%</td>
<td>102.718%</td>
<td>647293PA1</td>
</tr>
<tr>
<td>2015</td>
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<td>4.00%</td>
<td>1.35%</td>
<td>109.691%</td>
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</tr>
<tr>
<td>2016</td>
<td>1,790,000</td>
<td>4.00%</td>
<td>1.70%</td>
<td>110.480%</td>
<td>647293PC7</td>
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<tr>
<td>2017</td>
<td>1,865,000</td>
<td>3.00%</td>
<td>2.05%</td>
<td>105.137%</td>
<td>647293PD5</td>
</tr>
<tr>
<td>2018</td>
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<td>4.00%</td>
<td>2.40%</td>
<td>109.931%</td>
<td>647293PE3</td>
</tr>
<tr>
<td>2019</td>
<td>1,995,000</td>
<td>4.00%</td>
<td>2.70%</td>
<td>109.047%</td>
<td>647293PF0</td>
</tr>
<tr>
<td>2020</td>
<td>2,075,000</td>
<td>4.00%</td>
<td>2.93%</td>
<td>108.213%</td>
<td>647293PG8</td>
</tr>
<tr>
<td>2021</td>
<td>2,160,000</td>
<td>4.00%</td>
<td>3.10%</td>
<td>107.528%</td>
<td>647293PH6</td>
</tr>
</tbody>
</table>

\(^1\) 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

HECTOR H. BALDERAS
State Auditor

GARY K. KING
Attorney General

JAMES B. LEWIS
State Treasurer

RAY POWELL
Commissioner of Public Lands

Public Regulation Commissioners:

JASON A. MARKS
District I

PATRICK H. LYONS
District II

JEROME D. BLOCK
District III

THERESA BECENTI-AGUILAR
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
JAMES B. LEWIS
Member

Appointed Members

ROBERT J. ARAGON
Member

THOMAS TINNIN
Member

SAMUEL SPENCER
Member

JOHN GASPARICH
Member

RICHARD E. MAY
Executive Officer

State Board of Finance
181 Bataan Memorial Building
131 South Capitol Street
Santa Fe, New Mexico 87501
505-827-4980
http://board.nmdfa.state.nm.us

Stephanie Schardin Clarke, Interim Director
505-827-3930

BOND COUNSEL
Sutin, Thayer & Browne
A Professional Corporation
Albuquerque and Santa Fe, New Mexico

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

FINANCIAL ADVISORS
Fiscal Strategies Group, Inc.
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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**APPENDIX A** STATE OF NEW MEXICO STATE GENERAL FUND COMPONENT
  APPROPRIATION ACCOUNTS FINANCIAL STATEMENTS

**APPENDIX B** FORM OF ATTORNEY GENERAL’S NO LITIGATION LETTER

**APPENDIX C** FORM OF OPINION OF BOND COUNSEL

**APPENDIX D** FORM OF CONTINUING DISCLOSURE UNDERTAKING
SUMMARY OF INFORMATION

CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2011

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

Dated: Delivery Date.
Interest Payment: Interest is payable semi-annually on September 1 and March 1, commencing on September 1, 2011.
Principal Payment: The Bonds mature in serial installments as set forth on the inside cover page of this Official Statement.
No Optional Redemption: The Bonds are not subject to optional redemption prior to maturity.
Registration: The Bonds are being issued solely in book-entry form in the denomination of $5,000 or any integral multiple thereof. The Bonds are being registered to Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository.
Legal Opinion: The Bonds are offered when, as and if issued, subject to the approval of legality by Sutin, Thayer & Browne A Professional Corporation, Bond Counsel.
Security: The Bonds are being issued under the authority of the 2010 Capital Projects General Obligation Bond Act, Chapter 3, Laws 2010, Second Special Session (the “Act”). The Act authorizes and directs State tax officials to levy on all property in the State that is subject to taxation an ad valorem tax sufficient to produce an amount equal to the interest and principal requirements for each year for any general obligation bonds outstanding. The Bonds are general obligations of the State of New Mexico, and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.

Limitation to the Issuance of Additional General Obligation Indebtedness: Section 8 of Article IX of the New Mexico State Constitution provides (in part) that no debt may be created if the total indebtedness of the State would thereby be made to exceed 1 percent of the assessed valuation of all the property subject to taxation in the State. Additional general obligation bonds for other than refunding purposes and levy of additional ad valorem 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 $336,855,000
Plus: Series 2011 Bonds 18,645,000
Total State General Obligation Bonds, following the closing of the Bonds $355,500,000

KEY BONDING MEASURES FOLLOWING THE ISSUANCE OF THE BONDS

Total General Obligation Bonds per capita (2009 population from Census Bureau) $176.89
Ratio of General Obligation Bonds to 2010 Net Taxable Value 0.696%
Ratio of General Obligation Bonds per capita to State 2009 per capita personal income 0.533%
Percent of General Obligation Bonds due within 10 years 100.0%
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 2011 in the principal amount of $18,645,000 (the “Bonds”), the State of New Mexico (the “State”), and the State Board of Finance (the “Board”).

The Bonds are general obligations of the State for the payment of which the full faith and credit of the State is pledged. The Bonds are payable from ad valorem taxes levied without limit as to rate or amount on all property in the State subject to taxation for State purposes. The Bonds are authorized in the maximum principal amount of $18,645,000 by the 2010 Capital Projects General Obligation Bond Act, Chapter 3, Laws 2010, Second Special Session (the “Act”), passed by the State Legislature and approved in part by the voters in a statewide election on November 2, 2010. 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, pre-Kindergarten classrooms and facilities, school buses, and public school books and institutional materials 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: Stephanie Schardin Clarke, Interim Director, State Board of Finance
Phone: 505-827-3930
Mail: 181 Bataan Memorial Building
131 South Capitol Street
Santa Fe, NM 87501
E-mail: stephanie.schardin@state.nm.us
Web Site: http://www.board.nmdfa.state.nm.us

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

During the State’s 2011 legislative session which concluded in March 2011, legislation relating to the budgets for Fiscal Years 2011 and 2012 was adopted. For a specific discussion regarding such legislation and its impact on the State’s financial condition, see “FINANCIAL OVERVIEW OF THE STATE—Review of Results and Projections in the General Fund—Fiscal Year 2011” and “—Fiscal Year 2012.”
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, 2011. 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 April 19, 2011 (the “Resolution”).

No Optional Redemption of Bonds

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

Authorization and Purpose

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

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

Security and Sources of Payment

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

The Act requires the State to impose, during each year in which the Bonds are outstanding, an ad valorem tax on all property in the State subject to taxation for State purposes sufficient to pay the principal of and interest on the Bonds as they become due. The ad valorem taxes are required to be imposed, levied, assessed and collected. The State Treasurer is required to keep separate accounts of all amounts collected from taxes imposed pursuant to the Act and to use that money only for the purposes of paying the principal of and interest on the Bonds as they become due, and expenses relating thereto.
Currently the property taxes levied for State purposes are for the outstanding General Obligation Bonds, Series 2005, Series 2007, Refunding Series 2008A, and Series 2009 (collectively, the “Outstanding Bonds”). Property taxes are also levied for local government purposes including locally-authorized general obligation bonds of various cities, counties, and school and special districts in the State.

The Act pledges the full faith and credit of the State for the payment of the Bonds and, pursuant to their provisions, constitutes an irrevocable contract with the holders of the Bonds. The payment of general obligation bonds from other than _ad valorem_ taxes collected for that purpose requires an appropriation by the Legislature. If at any point there is not a sufficient amount of money from _ad valorem_ taxes to make a required payment of principal of or interest on State general obligation bonds, the Governor may call a special session of the Legislature in order to secure an appropriation of money sufficient to make the required payment.

**OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS**

**Outstanding General Obligation Bonds**

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

**TABLE 1**

<table>
<thead>
<tr>
<th>Series</th>
<th>Principal Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series 2005</td>
<td>$51,480,000</td>
</tr>
<tr>
<td>Series 2007</td>
<td>88,655,000</td>
</tr>
<tr>
<td>Refunding Series 2008A</td>
<td>29,445,000</td>
</tr>
<tr>
<td>Series 2009</td>
<td>162,275,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$336,855,000</strong></td>
</tr>
</tbody>
</table>

[REMAINDER OF PAGE INTENTIONALLY BLANK]
### TABLE 2
Debt Service Requirements on the Bonds

<table>
<thead>
<tr>
<th>Date</th>
<th>Principal</th>
<th>Interest</th>
<th>Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/01/11</td>
<td>$164,891</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/12</td>
<td>$1,770,000</td>
<td>312,425</td>
<td>$2,247,316</td>
</tr>
<tr>
<td>09/01/12</td>
<td>294,725</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/13</td>
<td>1,655,000</td>
<td>294,725</td>
<td>2,244,450</td>
</tr>
<tr>
<td>09/01/13</td>
<td></td>
<td>278,175</td>
<td></td>
</tr>
<tr>
<td>03/01/14</td>
<td>1,690,000</td>
<td>278,175</td>
<td>2,246,350</td>
</tr>
<tr>
<td>09/01/14</td>
<td></td>
<td>261,275</td>
<td></td>
</tr>
<tr>
<td>03/01/15</td>
<td>1,725,000</td>
<td>261,275</td>
<td>2,247,550</td>
</tr>
<tr>
<td>09/01/15</td>
<td></td>
<td>226,775</td>
<td></td>
</tr>
<tr>
<td>03/01/16</td>
<td>1,790,000</td>
<td>226,775</td>
<td>2,243,550</td>
</tr>
<tr>
<td>09/01/16</td>
<td></td>
<td>190,975</td>
<td></td>
</tr>
<tr>
<td>03/01/17</td>
<td>1,865,000</td>
<td>190,975</td>
<td>2,246,950</td>
</tr>
<tr>
<td>09/01/17</td>
<td></td>
<td>163,000</td>
<td></td>
</tr>
<tr>
<td>03/01/18</td>
<td>1,920,000</td>
<td>163,000</td>
<td>2,246,000</td>
</tr>
<tr>
<td>09/01/18</td>
<td></td>
<td>124,600</td>
<td></td>
</tr>
<tr>
<td>03/01/19</td>
<td>1,995,000</td>
<td>124,600</td>
<td>2,244,200</td>
</tr>
<tr>
<td>09/01/19</td>
<td></td>
<td>84,700</td>
<td></td>
</tr>
<tr>
<td>03/01/20</td>
<td>2,075,000</td>
<td>84,700</td>
<td>2,244,400</td>
</tr>
<tr>
<td>09/01/20</td>
<td></td>
<td>43,200</td>
<td></td>
</tr>
<tr>
<td>03/01/21</td>
<td>2,160,000</td>
<td>43,200</td>
<td>2,246,400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$18,645,000</strong></td>
<td><strong>$3,812,166</strong></td>
<td><strong>$22,457,166</strong></td>
</tr>
</tbody>
</table>

(1)Totals may not add due to rounding.

[REMAINDER OF PAGE INTENTIONALLY BLANK]
TABLE 3

Future General Obligation Bond Debt Service Requirements

<table>
<thead>
<tr>
<th>Date</th>
<th>Principal on Outstanding Bonds</th>
<th>Interest on Outstanding Bonds</th>
<th>Debt Service on Outstanding Bonds</th>
<th>Debt Service on the Bonds</th>
<th>Total Debt Service by Payment Date</th>
<th>Total Fiscal Year Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/01/11</td>
<td>$8,421,375</td>
<td>$8,421,375</td>
<td>$164,891</td>
<td>$8,586,266</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/12</td>
<td>$56,840,000</td>
<td>$8,421,375</td>
<td>65,261,375</td>
<td>2,082,425</td>
<td>67,343,800</td>
<td>$75,930,066</td>
</tr>
<tr>
<td>09/01/12</td>
<td>7,000,375</td>
<td>7,000,375</td>
<td>1,949,725</td>
<td>8,549,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/13</td>
<td>59,755,000</td>
<td>66,755,375</td>
<td>1,968,175</td>
<td>54,319,675</td>
<td>60,104,350</td>
<td></td>
</tr>
<tr>
<td>09/01/13</td>
<td>5,506,500</td>
<td>5,506,500</td>
<td>278,175</td>
<td>5,784,675</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/14</td>
<td>46,845,000</td>
<td>52,351,500</td>
<td>1,986,275</td>
<td>55,491,650</td>
<td>60,088,300</td>
<td></td>
</tr>
<tr>
<td>09/01/14</td>
<td>4,335,375</td>
<td>4,335,375</td>
<td>226,175</td>
<td>4,561,550</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/15</td>
<td>49,170,000</td>
<td>53,005,375</td>
<td>1,332,900</td>
<td>53,335,275</td>
<td></td>
<td></td>
</tr>
<tr>
<td>09/01/15</td>
<td>3,106,125</td>
<td>3,106,125</td>
<td>226,175</td>
<td>3,332,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/16</td>
<td>37,130,000</td>
<td>40,236,125</td>
<td>2,016,775</td>
<td>42,252,900</td>
<td>45,585,800</td>
<td></td>
</tr>
<tr>
<td>09/01/16</td>
<td>2,177,875</td>
<td>2,177,875</td>
<td>190,975</td>
<td>2,368,850</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/17</td>
<td>38,990,000</td>
<td>41,167,875</td>
<td>2,055,975</td>
<td>43,223,850</td>
<td>45,592,700</td>
<td></td>
</tr>
<tr>
<td>09/01/17</td>
<td>1,203,125</td>
<td>1,203,125</td>
<td>163,000</td>
<td>1,366,125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/18</td>
<td>23,475,000</td>
<td>24,678,125</td>
<td>2,083,000</td>
<td>26,761,125</td>
<td>28,127,250</td>
<td></td>
</tr>
<tr>
<td>09/01/18</td>
<td>616,250</td>
<td>616,250</td>
<td>124,600</td>
<td>740,850</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/19</td>
<td>24,650,000</td>
<td>25,266,250</td>
<td>2,119,600</td>
<td>27,385,850</td>
<td>28,126,700</td>
<td></td>
</tr>
<tr>
<td>09/01/19</td>
<td></td>
<td></td>
<td>84,700</td>
<td>84,700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/20</td>
<td></td>
<td></td>
<td>2,159,700</td>
<td>2,159,700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>09/01/20</td>
<td></td>
<td></td>
<td>43,200</td>
<td>43,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/01/21</td>
<td></td>
<td></td>
<td>2,203,200</td>
<td>2,203,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total(1)</td>
<td><strong>$336,855,000</strong></td>
<td><strong>$64,734,000</strong></td>
<td><strong>$401,589,000</strong></td>
<td><strong>$22,457,166</strong></td>
<td><strong>$424,046,166</strong></td>
<td><strong>$424,046,166</strong></td>
</tr>
</tbody>
</table>

(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**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Taxable Value</td>
<td>$51,040,955,000</td>
</tr>
<tr>
<td>General obligation bond limitation @ 1 percent of net taxable value</td>
<td>$510,409,550</td>
</tr>
<tr>
<td>Total general obligation bonds outstanding as of the closing of the Bonds</td>
<td>$336,855,000</td>
</tr>
<tr>
<td>Plus: Series 2011 Bonds</td>
<td>$18,645,000</td>
</tr>
<tr>
<td>Total general obligation bonds, following closing of the Bonds</td>
<td>$355,500,000</td>
</tr>
<tr>
<td>Ratio of total debt to net taxable value</td>
<td>0.696%</td>
</tr>
</tbody>
</table>

**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, 2010. The table does not include debt of special districts or community colleges.

**TABLE 5**

**Certain Underlying General Obligation Debt**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties</td>
<td>$273,467,980</td>
</tr>
<tr>
<td>Cities</td>
<td>$249,180,000</td>
</tr>
<tr>
<td>Schools</td>
<td>$1,678,109,000</td>
</tr>
</tbody>
</table>

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

**THE PROJECTS**

**Plan of Financing**

The Bonds are being issued to provide funds for capital expenditures for construction, acquisition or improvement of senior citizen centers and facilities, library acquisitions, pre-Kindergarten classrooms and facilities, school buses, and public school books and institutional materials 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:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Par Amount of Bonds</td>
<td>$18,645,000</td>
</tr>
<tr>
<td>Original Issue Premium (Discount)</td>
<td>1,262,045</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$19,907,045</strong></td>
</tr>
</tbody>
</table>

**Uses:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Fund Deposits:</td>
<td></td>
</tr>
<tr>
<td>Senior Citizen Projects</td>
<td>$7,700,000</td>
</tr>
<tr>
<td>Library Projects</td>
<td>7,000,000</td>
</tr>
<tr>
<td>Education Development Expenses</td>
<td>5,000,000</td>
</tr>
<tr>
<td><strong>Total Project Fund Deposits</strong></td>
<td><strong>$19,700,000</strong></td>
</tr>
<tr>
<td>Delivery Date Expenses:</td>
<td></td>
</tr>
<tr>
<td>Costs of Issuance</td>
<td>$135,000</td>
</tr>
<tr>
<td>Underwriter’s Discount$^{(1)}</td>
<td>67,679</td>
</tr>
<tr>
<td><strong>Total Delivery Date Expenses</strong></td>
<td><strong>$202,679</strong></td>
</tr>
<tr>
<td>Other Uses of Funds:</td>
<td></td>
</tr>
<tr>
<td>Additional Proceeds</td>
<td>$4,366</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$19,907,045</strong></td>
</tr>
</tbody>
</table>

$^{(1)}$ The underwriter may choose to procure bond insurance, the cost of which would be paid from the underwriter’s discount.

**State Capital Program**

Proceeds from the State’s general obligation bonds are an important source of capital financing for the State. Additional State-level sources of funding for capital projects are 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 following table summarizes bond proceeds and other capital authorizations by funding source for Fiscal Year 2006 through Fiscal Year 2010.
TABLE 6
Principal Sources of Capital Project Funding
Fiscal Year Ended June 30
(Dollars in millions)

<table>
<thead>
<tr>
<th>Proceeds from General Obligation Bonding Program(1)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation Bonds</td>
<td>$0.0</td>
<td>$142.8</td>
<td>$0.0</td>
<td>$224.4</td>
<td>$0.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$0.0</td>
<td>$142.8</td>
<td>$0.0</td>
<td>$224.4</td>
<td>$0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proceeds from Severance Tax Bonding Program(1)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Severance Tax Bonds</td>
<td>$136.1</td>
<td>$136.4</td>
<td>$153.6</td>
<td>$0.0</td>
<td>$315.3</td>
</tr>
<tr>
<td>Severance Tax Funding Notes(2)</td>
<td>102.1</td>
<td>193.3</td>
<td>150.9</td>
<td>188.7</td>
<td>178.6</td>
</tr>
<tr>
<td>Supplemental Severance Tax Bonds</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>112.9</td>
</tr>
<tr>
<td>Supplemental Severance Tax Funding Notes(2)</td>
<td>193.6</td>
<td>210.8</td>
<td>222.8</td>
<td>240.8</td>
<td>97.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$431.8</td>
<td>$540.5</td>
<td>$527.3</td>
<td>$429.5</td>
<td>$703.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proceeds From Other Sources</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Appropriations(3)</td>
<td>$454.6</td>
<td>$548.4</td>
<td>$123.0</td>
<td>$(148.6)</td>
<td>$(259.2)</td>
</tr>
<tr>
<td>Transportation Bonds(4)</td>
<td>0.0</td>
<td>459.4</td>
<td>0.0</td>
<td>122.6</td>
<td>77.4</td>
</tr>
<tr>
<td>Lease Appropriation Bonds</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>60.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$886.5</td>
<td>$1,091.1</td>
<td>$650.3</td>
<td>$687.9</td>
<td>$522.0</td>
</tr>
</tbody>
</table>

(1) Dollar amounts from State Board of Finance bonding programs reflect net proceeds available for capital expenditure.
(2) The State Board of Finance, in order to take advantage of Severance Tax Bonding Fund revenue that would otherwise be transferred to the Severance Tax Permanent Fund, issues Funding Notes to the State Treasurer (which are retired within the same fiscal year with such revenue) to fund authorized projects.
(3) In Fiscal Year 2009, due to budgetary constraints, $148.6 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding. In Fiscal Year 2010, due to budgetary constraints, $259.2 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding.
(4) On October 19, 2006, the New Mexico Finance Authority issued $459,400,000 of new money bonds secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund. On July 1, 2008, the New Mexico Finance Authority entered into a line of credit with a bank to provide an additional $200,000,000 of available new money funding secured by a pledge of, and payable from, funds on deposit in the State Road Fund and the Highway Infrastructure Fund.

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

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

THE STATE OF NEW MEXICO

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The current population of the State is 2,059,179. 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 60 percent (mornings) to 30 percent (afternoons). Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, and Commissioner of Public Lands. These officials are elected to four-year terms beginning January 1 after their election. An elected Executive Branch officer may succeed himself or herself in office once. The primary functions of the Executive Branch are currently carried out by the offices of each elected Executive
Branch officeholder, in addition to 22 departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature, and approximately 9 cabinet-level agencies. Elections for all Executive Branch offices were held on November 2, 2010.

The State Board of Finance has seven voting members consisting of the Governor, the Lieutenant Governor, the State Treasurer, and four members appointed by the Governor with the advice and consent of the Senate. No more than two appointed members may be from the same political party. The Department of Finance and Administration (“DFA”) Secretary serves as the Executive Officer of the Board and is a non-voting Board member. The Board, in addition to other powers and duties provided by law, has general supervisory authority over the fiscal affairs of the State and over the safekeeping and depositing of all money and securities belonging to, or in the custody of, the State. The Governor serves as the President of the Board.

The DFA is the principal financial organization of State government and performs through its divisions the duties and functions relating to State and local government financing and general administration. The executive and administrative head of the DFA is the Secretary, who is appointed by the Governor with the advice and consent of the Senate.

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms and members of the House are elected for two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to 60 calendar days in odd-numbered years and 30 calendar days in even-numbered years. Special sessions of the Legislature may be convened by the Governor. Extraordinary sessions may be convened by the Legislature under certain limited circumstances. Legislators do not receive any salary, but do receive per diem and mileage allowances while in session or performing official State business.

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

**PROPERTY VALUATION AND TAXATION**

**Property Tax System**

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

The State Assessed Property Bureau of the Tax Department, commonly known as the Central Assessment Bureau, is responsible for assessing certain types of property that are not assessed by counties because assessing the property is exceptionally technical or because the property extends across county boundaries. Assessments undertaken by the Central Assessment Bureau, referred to as central valuations, are performed on the following types of properties:

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

Property valuations are established as of January 1 of each year (except for certain livestock). Centrally assessed property is verified and certified to local assessors who combine the values with all locally assessed property values. The totals are reported to the Central Assessment Bureau and the DFA, and certified for budgetary use. County treasurers levy the applicable rates against individual properties and are required to mail tax bills for the current fiscal 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 2009, 4.1 percent of property tax collections statewide were distributed to the State for payment of principal of and interest on general obligation bonds.

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

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

Oil and natural gas properties and related production equipment are subject to property taxation in the State. The oil and natural gas ad valorem production tax is levied and collected by the Oil and Gas Bureau of the Tax Department on the basis of assessed value deemed the equivalent of 50 percent of the actual price of oil and natural gas received at the production unit multiplied by the volume of oil and natural gas produced, less certain trucking expense deductions and royalties paid to the federal government, the State, or Indian tribes. The oil and natural gas production “equipment ad valorem tax” is levied based on assessed value deemed equivalent to 9 percent of the previous calendar year sales value of the product from each production unit. The tax year for oil and natural gas production begins on September 1 based on tax rates that are set on August 31. The oil and natural gas “ad valorem production tax” is due by the 25th day of the second month following the month of production. Taxes are collected monthly. The oil and natural gas production “equipment ad valorem tax” is due on November 30 based upon assessments issued on or before October 15. The Tax Department distributes its collections to the county treasurers who further distribute the tax revenues to property tax recipients.
Property Tax Valuation Limitations

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

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

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

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

In August 2009, in the case of Dzur v. Bernalillo County Valuation Protest Board, No. CV-2008-12410, Judge Baca of the New Mexico Second Judicial District (comprising Bernalillo County, the county in which Albuquerque, New Mexico’s largest city, is located) issued an opinion and order finding certain sections of the New Mexico Property Tax Code, providing for limitations on annual increases in valuations of residential property except for residential property as to which a change of ownership has occurred in the prior tax year, inconsistent with Article VIII, Section 1 of the New Mexico Constitution by creating an inappropriate classification limiting valuation increases on residential properties which did not apply to residential properties as to which a change of ownership occurred. Judge Baca’s ruling ordered that the statute be applied in a manner so as to apply the valuation limitation without regard to when residential property is acquired. A similar ruling has been made by another Second Judicial District Court judge in Wang v. Bernalillo County Assessor, No. CV-2007-10109. Numerous other suits seeking refund of property taxes already paid by over 2,400 plaintiffs are reported to be pending in the Second Judicial District. The Bernalillo County Assessor
decided not to appeal Judge Baca’s decision and rolled back all potentially affected 2010 single family residential property values to reflect the two court rulings. Judge Baca has, in two pending but undecided cases, issued a certification order asking for review of the issue by the New Mexico Court of Appeals. Currently, the New Mexico Court of Appeals has placed on its general docket two cases that raise the constitutionality of the valuation cap on residential increases. The Legislature considered various bills dealing with the valuation cap on residential increases in the 2010 special legislative session, but no bills were enacted into law. To the extent that court or legislative action is taken or a further Constitutional amendment is passed amending the valuation provisions, it could have a material impact on the valuation of residential property.

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

As of March 2011, the effect of the court cases, the Bernalillo County Assessor’s announcement, and the possibility of further lawsuits in other counties is not known. Any material reduction in residential property values statewide could result in a diminution of state general obligation bond capacity. Additionally, limitations on assessments could cause an increase to the property tax levied against taxpayers necessary to pay debt service on state general obligation bonds.

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

<table>
<thead>
<tr>
<th>Property Tax Year</th>
<th>Residential</th>
<th>Non-Residential</th>
<th>Oil and Gas</th>
<th>Copper</th>
<th>Net Taxable Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>16,336,147</td>
<td>10,209,818</td>
<td>4,238,592</td>
<td>117,376</td>
<td>30,901,933</td>
</tr>
<tr>
<td>2002</td>
<td>17,133,856</td>
<td>10,336,906</td>
<td>3,024,570</td>
<td>66,614</td>
<td>32,149,435</td>
</tr>
<tr>
<td>2003</td>
<td>18,279,692</td>
<td>10,778,559</td>
<td>3,024,570</td>
<td>65,157</td>
<td>35,890,023</td>
</tr>
<tr>
<td>2004</td>
<td>19,421,800</td>
<td>10,839,281</td>
<td>5,563,785</td>
<td>65,157</td>
<td>38,910,768</td>
</tr>
<tr>
<td>2006</td>
<td>23,016,630</td>
<td>12,605,105</td>
<td>7,259,891</td>
<td>103,402</td>
<td>48,890,023</td>
</tr>
<tr>
<td>2007</td>
<td>25,805,629</td>
<td>14,458,192</td>
<td>5,758,696</td>
<td>133,262</td>
<td>57,788,631</td>
</tr>
<tr>
<td>2008</td>
<td>27,798,246</td>
<td>15,259,324</td>
<td>7,245,955</td>
<td>160,279</td>
<td>50,463,804</td>
</tr>
<tr>
<td>2009</td>
<td>29,455,894</td>
<td>16,383,859</td>
<td>9,033,975</td>
<td>172,481</td>
<td>55,046,209</td>
</tr>
<tr>
<td>2010</td>
<td>29,845,647</td>
<td>16,513,415</td>
<td>4,556,355</td>
<td>125,538</td>
<td>51,040,955</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties</td>
<td>11.85</td>
</tr>
<tr>
<td>Cities</td>
<td>7.65</td>
</tr>
<tr>
<td>Schools</td>
<td>0.50</td>
</tr>
<tr>
<td>Maximum combined statutory rate</td>
<td>20.00</td>
</tr>
</tbody>
</table>

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 from its two permanent funds, and investments made by the State Treasurer’s Office. Effective July 1, 1981, the Legislature repealed the property tax levy for general State operating purposes, and has not reinstated it since that time. However, the New Mexico Constitution authorizes a levy of up to four mills for general State operating purposes and additional levies for the support of State educational, penal and other institutions.

The table on the following two pages sets forth the revenues, expenditures and ending fund balances for Fiscal Years 2007 through 2010, and estimated results for Fiscal Years 2011 and 2012.
## Table 9

**General Fund Financial Summary**  
**Fiscal Year 2007 – Fiscal Year 2012**  
*(Dollars in thousands)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. APPROPRIATION ACCOUNT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Recurring Receipts:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and Selective Sales Taxes</td>
<td>$2,315,105</td>
<td>$2,323,298</td>
<td>$2,306,913</td>
<td>$2,058,176</td>
<td>$2,238,600</td>
<td>$2,323,900</td>
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<tr>
<td>Income Taxes</td>
<td>1,640,161</td>
<td>1,568,119</td>
<td>1,120,990</td>
<td>1,081,661</td>
<td>1,275,000</td>
<td>1,355,000</td>
</tr>
<tr>
<td>Severance Taxes</td>
<td>486,564</td>
<td>625,937</td>
<td>440,191</td>
<td>390,702</td>
<td>373,100</td>
<td>411,300</td>
</tr>
<tr>
<td>License Fees</td>
<td>48,959</td>
<td>50,676</td>
<td>50,098</td>
<td>50,267</td>
<td>52,000</td>
<td>53,900</td>
</tr>
<tr>
<td>Investment Income</td>
<td>602,132</td>
<td>661,359</td>
<td>692,544</td>
<td>646,325</td>
<td>646,000</td>
<td>652,700</td>
</tr>
<tr>
<td>Rents and Royalties</td>
<td>551,533</td>
<td>610,267</td>
<td>543,671</td>
<td>423,004</td>
<td>427,000</td>
<td>441,900</td>
</tr>
<tr>
<td>Miscellaneous Receipts</td>
<td>37,017</td>
<td>50,263</td>
<td>42,707</td>
<td>44,351</td>
<td>47,200</td>
<td>40,000</td>
</tr>
<tr>
<td>Tribal Revenue Sharing</td>
<td>56,158</td>
<td>66,560</td>
<td>65,385</td>
<td>64,118</td>
<td>65,400</td>
<td>67,200</td>
</tr>
<tr>
<td>Reversions/Adjustments</td>
<td>36,867</td>
<td>58,992</td>
<td>57,243</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total Recurring Receipts</strong></td>
<td>$5,774,497</td>
<td>$6,015,471</td>
<td>$5,319,742</td>
<td>$4,798,603</td>
<td>$5,164,300</td>
<td>$5,389,800</td>
</tr>
<tr>
<td><strong>Total Nonrecurring and Adjustments</strong></td>
<td>0</td>
<td>47,160</td>
<td>371,207</td>
<td>479,876</td>
<td>71,100</td>
<td>42,900</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td>$5,774,498</td>
<td>$6,062,632</td>
<td>$5,690,949</td>
<td>$5,278,480</td>
<td>$5,235,400</td>
<td>$5,432,700</td>
</tr>
<tr>
<td><strong>Recurring Appropriations:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative</td>
<td>$17,334</td>
<td>$18,809</td>
<td>$28,465</td>
<td>$24,577</td>
<td>$27,321</td>
<td>$18,545</td>
</tr>
<tr>
<td>Judicial</td>
<td>180,824</td>
<td>205,779</td>
<td>217,928</td>
<td>206,181</td>
<td>194,531</td>
<td>192,537</td>
</tr>
<tr>
<td>General Control</td>
<td>165,885</td>
<td>197,706</td>
<td>205,295</td>
<td>198,050</td>
<td>173,924</td>
<td>157,973</td>
</tr>
<tr>
<td>Commerce and Industry/Exam. and Lic.</td>
<td>51,365</td>
<td>58,369</td>
<td>61,735</td>
<td>57,767</td>
<td>49,493</td>
<td>43,635</td>
</tr>
<tr>
<td>Agriculture, Energy and Natural Resources</td>
<td>75,409</td>
<td>86,560</td>
<td>90,529</td>
<td>82,100</td>
<td>69,299</td>
<td>62,413</td>
</tr>
<tr>
<td>Health, Hospitals and Human Services</td>
<td>1,233,645</td>
<td>1,393,378</td>
<td>1,526,996</td>
<td>1,297,961</td>
<td>1,233,341</td>
<td>1,528,369</td>
</tr>
<tr>
<td>Public Safety</td>
<td>333,262</td>
<td>383,336</td>
<td>411,585</td>
<td>393,287</td>
<td>362,292</td>
<td>356,280</td>
</tr>
<tr>
<td>Other Education</td>
<td>27,805</td>
<td>53,982</td>
<td>61,375</td>
<td>57,767</td>
<td>49,493</td>
<td>43,635</td>
</tr>
<tr>
<td>Higher Education</td>
<td>761,957</td>
<td>846,342</td>
<td>884,846</td>
<td>817,917</td>
<td>762,282</td>
<td>730,878</td>
</tr>
<tr>
<td>Public School Support</td>
<td>2,265,662</td>
<td>2,430,696</td>
<td>2,551,012</td>
<td>2,231,900</td>
<td>2,309,175</td>
<td>2,365,586</td>
</tr>
<tr>
<td>Recurring Adjustments(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(55,200)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Recurring Appropriations</strong></td>
<td>$5,113,148</td>
<td>$5,674,956</td>
<td>$6,035,143</td>
<td>$5,357,966</td>
<td>$5,211,747</td>
<td>$5,428,618</td>
</tr>
<tr>
<td><strong>Nonrecurring Appropriations(2)</strong></td>
<td>814,286</td>
<td>295,062</td>
<td>( 80,071)</td>
<td>93,160</td>
<td>19,500</td>
<td></td>
</tr>
<tr>
<td><strong>Total Appropriations</strong></td>
<td>$5,927,433</td>
<td>$5,970,018</td>
<td>$5,955,072</td>
<td>$5,451,126</td>
<td>$5,231,247</td>
<td>$5,428,618</td>
</tr>
<tr>
<td><strong>Transfer from/(to) Other Reserve Accounts</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>TRANSFER FROM/(TO) OPERATING RESERVE</strong></td>
<td>$ (152,936)</td>
<td>$ 92,614</td>
<td>$ (208,423)</td>
<td>-</td>
<td>$ 4,153</td>
<td>$ 4,082</td>
</tr>
</tbody>
</table>

### B. OPERATING RESERVE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Balance</strong></td>
<td>$359,530</td>
<td>$156,138</td>
<td>$247,246</td>
<td>$37,451</td>
<td>$36,236</td>
<td>$38,889</td>
</tr>
<tr>
<td><strong>Revenues/Repayments/Reversions</strong></td>
<td>377</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Appropriations:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingencies</td>
<td>(9,300)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Appropriations and Adjustments(3)</td>
<td>(1,533)</td>
<td>(1,506)</td>
<td>(1,372)</td>
<td>(1,215)</td>
<td>(1,500)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Appropriations</strong></td>
<td>(10,833)</td>
<td>(1,506)</td>
<td>(1,372)</td>
<td>(1,215)</td>
<td>(1,500)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Transfers:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From/(To) General Fund Appropriations Account</td>
<td>(152,936)</td>
<td>92,614</td>
<td>(208,423)</td>
<td>-</td>
<td>4,153</td>
<td>4,082</td>
</tr>
<tr>
<td>Special Session/Appropriation Contingency Fund</td>
<td>(40,000)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>To Tax Stabilization Reserve Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total Transfers</strong></td>
<td>(192,936)</td>
<td>92,614</td>
<td>(208,423)</td>
<td>-</td>
<td>4,153</td>
<td>4,082</td>
</tr>
<tr>
<td><strong>Ending Balance(4)</strong></td>
<td>$156,138</td>
<td>$247,246</td>
<td>$37,451</td>
<td>$36,236</td>
<td>$38,889</td>
<td>$42,971</td>
</tr>
</tbody>
</table>

(1) Recurring Appropriations: Reversions/Adjustments  
(2) Nonrecurring Appropriations: Transfers from/(to) Other Reserve Accounts  
(3) Other Appropriations and Adjustments: Contingencies  
(4) Ending Balance: Beginning Balance + Revenues/Repayments/Reversions + Appropriations + Transfers + Other Appropriations and Adjustments + Recurring Adjustments - Total Transfers
### C. STATE SUPPORT RESERVE

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Transfers From Operating Reserve/Appropriation Account</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ -</td>
<td>$ 1,000</td>
<td>$ 1,000</td>
</tr>
</tbody>
</table>

|                        |                   |                                                       |                |
| Transfers In           |                   |                                                       |                |
| Transfers Out          |                   |                                                       |                |
| Gains/Losses           |                   |                                                       |                |

### D. APPROPRIATION CONTINGENCY FUND

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance, Excluding Education Reform</th>
<th>Receipts:</th>
<th>Expenditures/Appropriations:</th>
<th>Prior period adjustment for water rights</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 19,851</td>
<td>Reversions</td>
<td>Disasters</td>
<td>(Laws 2008, Chapter 111, Section 78)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transfers From General Fund</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expenditures/Appropriations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Disasters)</td>
<td>(Other)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Prior period adjustment for water rights)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### E. TAX STABILIZATION RESERVE

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Transfers In</th>
<th>Transfers Out</th>
<th>Gains/Losses</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 254,355</td>
<td></td>
<td></td>
<td></td>
<td>$ 254,355</td>
</tr>
</tbody>
</table>

### F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Transfers In</th>
<th>Transfers Out</th>
<th>Gains/Losses</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 36,240</td>
<td></td>
<td>(55,700)</td>
<td></td>
<td>$ 116,719</td>
</tr>
</tbody>
</table>

### G. TAXPAYER DIVIDEND FUND

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Transfers In</th>
<th>Transfers Out</th>
<th>Gains/Losses</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
</tbody>
</table>

### H. TOTAL RESERVE BALANCES

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 19,885</td>
<td>$ 18,985</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ 8,328</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Note:
Detail may not add to column total due to independent rounding.
NOTES TO GENERAL FUND FINANCIAL SUMMARY:

(1) Recurring Adjustment:
FY12 includes a shift in retirement contributions from employer (State) to employee of $49.7 million; improvement to system for payment of unemployment insurance by state agencies of $2 million, and savings from additional restructuring, reorganization, and government efficiencies of $2.5 million.

(2) Appropriation Account, Nonrecurring Appropriations:
FY07 includes the following appropriations from Laws 2006: $68.7 million from Sections 5 and 12 of the General Appropriation Act of 2006 (Chapter 109); $0.3 million from HB337 for judgeships (Chapter 99); and $2.1 million from the “Junior” bill (Chapter 110).

FY07 includes the following appropriations from Laws 2007: $186.7 million from Sections 5 and 6 of the General Appropriation Act of 2007 (Chapter 28); $7.9 million from the Feed Bill (Chapter 1); $0.1 million for the Albuquerque Science and Engineering Fair (Chapter 52); $0.2 million for Mortgage Finance Authority oversight of regional housing authorities (Chapter 50); $487.4 million for capital outlay expenditures (Chapters 2 and 42); $1.0 million for capitol buildings planning and facilities (Chapter 64); and $60.0 million for transportation projects (1st Special Session, Chapter 3).

FY08 includes the following appropriations from Laws 2007: $15 million water trust fund transfer from General Appropriation Act of 2007 (Chapter 28); $0.2 million in a prior period adjustment related to the Secretary of State supplemental appropriation (Chapter 28); $8 million for development training programs (Chapter 363); $0.2 million for judgeships (Chapter 140); $12 million for faculty endowments (Chapter 364), $3.2 million for breast cancer research (Chapter 26); and $10.8 million from the “Junior” bill (Chapter 21).

FY08 includes the following appropriations from Laws 2008: $118.3 million from Sections 4, 5 and 6 of the General Appropriation Act of 2008 (Chapter 3); $5.9 million for expenses of the Legislature (Chapter 1); and $121.5 million for capital outlay (Chapter 92).

FY10 includes the following appropriations from Laws 2008: $18.1 million for special appropriations from the General Appropriation Act of 2008 (Chapter 3), less $5.2 million in information technology contingent appropriations not certified by CIO in FY09; $0.5 million from HB140 for Soil and Water Districts (Chapter 78); $8.4 million from SB 165 “Junior” (Chapter 6); $1.5 million from SB 471 (Chapter 92), less $0.5 million in contingencies that did not materialize; and $45.8 million for various projects (2nd Special Session, Chapters 3, 5-8 and 10).

FY09 includes the following appropriations from Laws 2009: -$1.0 million from HB 9 (Chapter 5); -$161.0 million from HB 10 (Chapter 2), -$27.1 million from Sections 1 and of SB79 (Chapter 3); and $40.4 million from the General Appropriation Act of 2009 (Chapter 124, Sections 5 and 6).

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

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

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

FY11 includes the following appropriations from Laws 2010: $1.1 million from Section 5 of the General Appropriation Act of 2010 (2nd Special Session, Chapter 3).

(3) General Fund Operating Reserve Appropriations:
FY07 includes $1,533 million for State Board of Finance Emergency Fund (Laws 2006, Chapter 109), $0.7 million contingency for water litigation (Laws 2002, Chapter 4 (1st E S.) as reauthorized by Laws 2006, Chapter 109); and $8.6 million contingency for the spaceport (Laws 1998 (1st SS), Chapter 13, Laws 1998 (1st SS), Chapter 11 and Laws 2005, Chapter 347, Section 173).

FY08 includes $1.5 million for State Board of Finance Emergency Fund.

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

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

FY11 includes $1.5 million for State Board of Finance Emergency Fund.

(4) 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.

(5) State Support Reserve (See Section 22-8-31 NMSA 1978):
FY07 includes $1 million transfer from the Appropriation Account (Laws 2007, Chapter 28, Section 5).

(6) Appropriation Contingency Fund Appropriations:
FY07 includes $18.2 million for disaster allotments; $2.0 million for DOH Behavioral Health Services Program (Laws 2006, Chapter 109); $1.9 million for Santa Fe Community College (Laws 2006, Chapter 109); $4.9 million to PED for education reform initiatives (Laws 2007, Chapter 28); $0.750 million contingency to Corrections Department (Laws 2005, Chapter 33, Section 4) for FY06; and $9 million appropriation reduction prior period adjustment for water rights appropriations (Laws 2006, Chapter 111, Sec 78 (HB 622).

FY08 includes $17.9 million for disaster allotments; $9 million contingency appropriation for water rights appropriations (Laws 2006, Chapter 111, Section 78 (HB 622; see prior period adjustment in FY07)); $7.5 million for education reform appropriations from the General Appropriation Act of 2008 (Laws 2008, Chapter 3, Section 5), less $1.7 million transferred to FY09 because the contingency on an appropriation for a PED IT system was not met until FY09.

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

FY09 includes the following appropriations from Laws 2009: $35.8 million for the State Equalization Guarantee (Chapter 3, Section 9); and $12.6 million for education reform appropriations from the General Appropriation Act of 2009 (Chapter 124, Section 5, Items 57-60 and 63).
FY10 includes the following appropriations/transfers from Laws 2009: $9.9 million for disaster allotments; $25.0 million transferred from the general fund for general purposes (Chapter 124); and $40.0 million transferred from the Appropriation Account for education reform (Chapter 124).

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

FY11 includes the following appropriations/transfers from Laws 2010: $16.0 million for disaster allotments; $4.0 million for education reform appropriations from the General Appropriation Act of 2010 (2nd Special Session, Chapter 6, Section 5, Item 16); and an estimated $12.015 million in estimated transfers authorized by the General Appropriation Act of 2010 transferred from the Appropriation Contingency Fund into the Appropriation Account (2nd Special Session, Chapter 6, Section 15).

(7) Year-ending Balances in the Tax Stabilization Reserve:
Annually, if the balance in the Tax Stabilization Reserve exceeds 6.0 percent of the previous year's recurring appropriations, the excess over 6 percent is transferred to the Taxpayer's Dividend Fund.

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

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

FY11 includes an estimated $25.4 million transferred from the Tax Stabilization Reserve into the Appropriation Account (2nd Special Session, Laws 2010, Chapter 6, Section 15).

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

FY09 -- A total of $48.9 million, an additional $24.4 million, was transferred from the Tobacco Settlement Permanent Fund to the Tobacco Settlement Program Fund for Medicaid (Laws 2009, Chapter 3).

FY10 -- A total of $41.0 million, an additional $20.5 million, was transferred from the Tobacco Settlement Permanent Fund to the Tobacco Settlement Program Fund for Medicaid (Laws 2009, Chapter 3).

FY11 -- A total of $40.0 million, an additional $20.0 million, is estimated to be transferred from the Tobacco Settlement Permanent Fund to the Tobacco Settlement Program Fund for Medicaid (Laws 2010, Chapter 49).

General Fund Taxes and Revenues

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

Gross Receipts and Compensating Taxes

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

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

The gross receipts and compensating taxes are together the single largest source of State General Fund revenue. The gross receipts tax is also a significant source of revenue for cities and counties. The gross receipts tax includes the 5.125 percent statewide gross receipts tax levy, plus several city and county local-option gross receipts taxes. The statewide gross receipts tax rate was increased from 5 to 5.125 percent effective July 1, 2010 as a result of action taken during the 2010 special legislative session. Until January 1, 2005, a credit of 0.5 percent against the statewide rate of 5 percent was allowed for transactions taking place in municipalities. Receipts from the statewide gross receipts tax levy, less certain disbursements, are deposited in the State General Fund. The disbursements include 1.225 percent of the taxable gross receipts reported in each incorporated municipality to that municipality. The State Aviation Fund receives a monthly distribution equal to 4.79 percent of the reported value of jet fuel sales, and a statutory monthly distribution, which increased from $167,000 to $250,000 in July 2009 as specified in Section 7-1-6.7 (D) NMSA 1978. An additional $530,000 is currently distributed monthly to the New Mexico Finance Authority’s State Building Fund Bonding Fund, pursuant to Section 7-1-6.42 NMSA 1978. Pursuant to legislation enacted in 2009, that distribution to the State Building Bonding Fund will increase to $680,000 per month on the later of July 1, 2011 or upon certification that the increased distribution is needed to make debt service payments on bonds issued pursuant to Section 7-1-6.42 for construction of a new executive office building near the State Capitol in Santa Fe. The County Equalization Distribution is made annually from state gross receipts tax revenues; it has averaged $13.5 million over the past 5 years. After all other distributions, the General Fund share of gross receipts tax collections was 55 percent in Fiscal Year 2010 and is expected to be approximately 56 percent in Fiscal Year 2011 after the statewide rate increase. Receipts from the compensating tax, less distributions, are transferred to the State General Fund. Compensating tax distributions include 10 percent to the small cities assistance fund and 10 percent to the small counties assistance fund, and a distribution to municipalities based on the level of their taxable gross receipts.

In 2005, the Legislature made a number of changes to the state gross receipts tax laws in Sections 7-1-6.16, 7-1-6.46, 7-1-6.47, 7-9-92 and 7-9-93 NMSA 1978. The credit of 0.5 percent granted to municipalities against the statewide rate was eliminated. The tax on food and certain medical services also was eliminated. The legislation created a deduction for gross receipts tax from retail sales of food as defined for federal food stamp program purposes. Retailers are required to report receipts from sales of groceries and then claim a deduction for the receipts. The deduction does not apply to receipts of restaurants or sales of prepared foods. The legislation also created a gross receipts tax deduction for some receipts of licensed health care providers (broadly defined) from Medicare Part C and managed health care plans, and health care insurers. This medical deduction was modestly expanded in the 2007 legislative session. The 2005 legislation also provided for payments from the State to reimburse local governments for all lost gross receipts tax revenues due to these deductions. Legislation in 2007 froze the rate, but not the size, of these payments for counties with a population over 48,000, and municipalities with a population greater than 10,000 or greater than average per capita taxable gross receipts.

In June 2008, the New Mexico Court of Appeals decided a tax dispute case, Dell Catalog Sales L.P. v. Taxation and Revenue Dep’t, No. 26,843, which could impact the collection of New Mexico gross receipts and compensating taxes from businesses conducting commerce across jurisdictional lines by creating uncertainty regarding which jurisdiction’s taxes are imposed and collected. The New Mexico Supreme Court declined to hear the case, as did the United States Supreme Court.

In Fiscal Year 2010, total distributions to the General Fund from gross receipts and compensating taxes decreased by 11.4 percent over the previous fiscal year to $1.7 billion, comprising 35.1 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 2010 Fiscal Year, total distributions to the General Fund from personal income tax declined by 0.2 percent over the previous fiscal year to $956.6 million, and generated 19.9 percent of total recurring General Fund revenue.

State tax rates by filing status effective Calendar Years 2010 and 2011 are set forth below:

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

<table>
<thead>
<tr>
<th>If the taxable income is:</th>
<th>Single Including Trust and Estates:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $5,500</td>
<td>1.7% of taxable income</td>
</tr>
<tr>
<td>$5,501 to $11,000</td>
<td>$93.50 plus 3.2% of excess over $5,500</td>
</tr>
<tr>
<td>$11,001 to $16,000</td>
<td>$269.50 plus 4.7% of excess over $11,000</td>
</tr>
<tr>
<td>Over $16,000</td>
<td>$504.50 plus 4.9% of excess over $16,000</td>
</tr>
</tbody>
</table>

**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. In the 2010 Fiscal Year, total distributions to the General Fund of net receipts from corporate income taxes totaled $125.1
In recent years, a number of credits administered through the corporate income tax system have been enacted. These include: the film production credit, enacted pursuant to Section 7-2F-1 NMSA 1978; the real property tax credit, enacted pursuant to Section 7-2-18.10 NMSA 1978; the rural jobs tax credit, enacted pursuant to Section 7-2E-1 NMSA 1978; the biodiesel production and sale credit, enacted pursuant Section 7-2-18.21 NMSA 1978; the agricultural water conservation tax credit, enacted pursuant to 7-2-18.20 NMSA 1978; the sustainable building tax credit, enacted pursuant to Section 7-2-18.19 NMSA 1978; and the renewable energy production tax credit, enacted pursuant to Section 7-2A-19 NMSA 1978.

**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 2010 Fiscal Year, distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled $324.5 million. This represents a 12.4 percent decrease from the prior fiscal year. Other General Fund taxes on natural resource production totaled $66.2 million. For Fiscal Year 2010, mineral production taxes contributed 8.1 percent of recurring General Fund revenue.

In 2002, the Legislature created the Jicarilla Apache Tribal Capital Improvement Tax Credit, codified in Section 7-31-27 NMSA 1978. This tax credit can reduce the Oil and Gas Emergency School Tax on products severed from wells drilled on the Jicarilla Apache Nation by up to 0.7 percent of the taxable value of production. This credit totaled $1.1 million for Fiscal Year 2010.

**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. Minerals Management Service collects federal mineral lease income and deducts the State’s share of administrative costs. The State receives payments on a monthly basis and makes deposits to the General Fund. For the 2010 Fiscal Year, total distributions to the General Fund from federal mineral leases totaled $355.3 million. This equals 7.4 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. However, this 2 percent fee cut was restored in the Federal Fiscal Year 2010 appropriations bills. Approximately $10.3 million was deducted from the federal mineral leasing payments to the State for Fiscal Year 2009 and $7.2 million was deducted in Fiscal Year 2010.
State Lands. The State Land Office manages lands acquired by the State under the federal Fergusson Act enacted prior to statehood, as well as under the State Constitution. All income from State lands is dedicated to specific educational purposes and institutions. As with federal lands, the oil and natural gas industry is the principal source of revenue from State lands. Bonus income is also collected in the form of cash payments as a result of competitive bidding for State leases. Rentals and bonus income are distributed to the respective beneficiary institutions. The largest beneficiary group is the State’s public school system. Mineral production from State trust lands also generates royalty income which is deposited in the State Land Grant Permanent Fund (“LGPF”). Royalties are imposed on most mineral production values at the rate of 12.5 percent, although there is a provision for rates of up to 20 percent for new leases on developed acreage. LGPF beneficiaries and “State lands” beneficiaries are the same: educational institutions and public schools. In Fiscal Year 2010, distributions to the General Fund from the State Land Office totaled $67.7 million, which equaled 1.4 percent of recurring General Fund receipts for the fiscal year.

Investment Income

Investment earnings credited to the General Fund are from three primary sources: the LGPF, the Severance Tax Permanent Fund, and cash balances held by the State Treasurer. Income from the LGPF is distributed among the beneficiary institutions and public schools. The allocation received by the public schools, which is approximately 83 percent, is deposited in the General Fund. For the 2010 Fiscal Year, $437.1 million of LGPF distributions were transferred to the General Fund for public school purposes. The State distributed $187.1 million of income from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In the 2010 Fiscal Year, the Treasurer’s cash balances produced $22.1 million for the General Fund. Total investment income credited to the General Fund was $646.3 million. This is 13.5 percent of recurring General Fund receipts.

Review of Results and Projections in the General Fund

Fiscal Year 2008. Recurring General Fund revenues increased by 4.2 percent to $6.0 billion in Fiscal Year 2008. Both oil and natural gas prices peaked late in the fiscal year, with oil prices averaging $132.14 per barrel in June 2008 for New Mexico producers. On balance, strength in mineral production taxes and royalties offset slow growth in the broad-based taxes. Mineral production taxes and rents and royalties increased 28.6 percent and 10.6 percent respectively. General and selective sales taxes increased for the fiscal year by 0.4 percent, while income taxes declined by 4.4 percent, due to the final step in the 2003 personal income tax rate cuts and an accounting policy change that shifted some corporate income tax payments to the next fiscal year. Although short-term interest rates decreased in the course of the fiscal year, investment income grew by 9.8 percent. Recurring appropriations for the fiscal year totaled $5.7 billion, representing 11.0 percent growth over the previous fiscal year. The Legislature appropriated and the Governor approved $295.1 million for nonrecurring projects during the 2007 and 2008 regular legislative sessions. Fiscal Year 2008 year-end reserves in the General Fund increased by $84.3 million to $735.1 million, or 13.0 percent of Fiscal Year 2008 recurring appropriations.

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

In addition to legislative actions taken during the 2009 regular legislative session, the executive branch implemented a partial hiring freeze as well as other austerity measures such as freezing salary increases, eliminating non-essential overtime, limiting upward reclassification of postings, suspending awards of compensatory time for exempt employees, reducing expenses related to travel, equipment,
The former Governor also requested elected public officials and the legislative and judicial branches to contribute to the overall effort to reduce expenditures.

The 2009 Legislature adopted and the former Governor signed four bills revising the Fiscal Year 2009 budget. Laws 2009, Chapter 5 (House Bill 9) cancelled the authorization for various capital outlay projects that were previously appropriated from the General Fund and Severance Tax bond funds and reauthorized certain other projects. Laws 2009, Chapter 2 (House Bill 10) provided for a 2.5 percent reduction in certain General Fund operating budgets for Fiscal Year 2009, and other appropriations, with variations and exemptions for certain agencies and programs. Laws 2009, Chapter 3 (Senate Bill 79) reduced and repealed General Fund appropriations and authorized transfers to the General Fund from several other funds. This bill also partially restored reductions to public schools and Medicaid with appropriations from two reserve funds. The bill appropriated $35.8 million from the Appropriation Contingency Fund’s education reform balance to diminish the public schools budget reduction from 2.5 percent to 1.1 percent, and appropriated $22.6 million from the Tobacco Settlement Permanent Fund to diminish the Medicaid budget reduction from 2.5 percent to 1 percent. Laws 2009, Chapter 4 (Senate Bill 80) restored the requirement that was inadvertently deleted in 2003 legislation for a first quarterly installment of corporate estimated income tax, causing some corporate income tax revenue to arrive during Fiscal Year 2009 instead of Fiscal Year 2010. Lastly, the executive branch implemented an initiative to sell certain stocks held in unclaimed property. As a result of this initiative, $7.9 million in proceeds were transferred to the General Fund. Finally, a measure was enacted in the special session of the Legislature in October 2009 that authorized the Department of Finance and Administration to transfer funds from the General Fund Operating Reserve to the Appropriation Account.

**Fiscal Year 2010.** Recurring general fund revenues, adjusted for 2010 legislation, were $4.80 billion in Fiscal Year 2010. The price of oil realized in New Mexico averaged $71.29 per barrel and the price of natural gas averaged $5.20 per mcf for Fiscal Year 2010.

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

Fiscal Year 2010 also included $479.9 million of non-recurring revenues. In addition, as the result of solvency measures, including actions taken in the 2009 1st special, 2010 regular and 2010 2nd special sessions of the Legislature and expenditure reductions mandated of executive branch agencies by Executive Order 2009-044, $172.6 million was transferred to the Appropriation Account from the Tax Stabilization Reserve Fund. The legislative sessions and executive order actions include reductions to operating budget and capital appropriations, expenditures, including furloughs, transfers of certain fund balances to the general fund, and use of federal American Recovery and Reinvestment Act of 2009 (“ARRA”) funds. In addition to this nonrecurring general fund revenue, New Mexico received over $2 billion in federal stimulus funding from ARRA for use in Fiscal Years 2009 through 2011. New Mexico’s share of the federal funding contained in ARRA for Fiscal Years 2009 through 2011 includes $536.0 million for Medicaid, $260.4 million for education, and $57.9 million for general purposes. New Mexico received additional federal funding in August 2010 that provided a one-time payment of $65 million for education and $126 million for Medicaid to avoid states’ revenue shortfalls across the nation.

After adjusting for Governor’s vetoes, the Fiscal Year 2010 general fund budget, enacted in the 2009 regular session and further adjusted during the October 2009 special session of the Legislature, contained $5.36 billion of recurring appropriations, a decrease of 11.2 percent over the Fiscal Year 2009 adjusted budget. The budget was balanced using $406.2 million ($180.5 for Medicaid and $225.7 for Education Stabilization) in ARRA funding to avoid significant reductions in public and higher education
and Medicaid, temporarily substituting $28.1 million of State Medicaid funding with annual tobacco settlement payments, shifting 1.5 percent of annual State pension contributions from the employer to employees to save $42.6 million, reducing State agency, public education, and higher education budgets by $139 million, mandating expenditure reductions to save $79 million in general fund expenditures, implementing furloughs to save $8.6 million in general fund expenditures and shifting funding sources or cancelling $271.1 million in capital outlay projects. General fund reserves were $278.1 million at the end of Fiscal Year 2010, 5.2 percent of current-year recurring appropriations.

Fiscal Year 2011. Based upon revenue projections for Fiscal Year 2011 made in December 2010, recurring general fund revenues are projected to rise 7.6 percent to approximately $5.2 billion on a year-over-year basis. The price of oil is expected to average $76.87 per barrel and the price of natural gas is expected to average $5.00 per mcf in Fiscal Year 2011. General and selective sales taxes are projected to increase by 8.8 percent, reflecting an increase in the statewide gross receipts tax and the compensating tax from 5 to 5.125 percent that took effect on July 1, 2010, closure of a compensating tax loophole relating to the applicability of compensating tax to sellers with no nexus to the state, and an increase in the cigarette tax rate of $0.75 per package of cigarettes. Income taxes are projected to increase by 17.9 percent, including the impact of eliminating a deduction for state and local taxes paid. Mineral production taxes in Fiscal Year 2011 are projected to decrease by 4.5 percent from Fiscal Year 2010 and rents and royalties are expected to increase by 0.9 percent. General fund balances are expected to close at $264.8 million at the end of Fiscal Year 2011, 5.1 percent of current-year recurring appropriations. If actual revenues and transfers to the general fund are insufficient to fund legislatively authorized appropriations, the Legislature mandated the Governor to proportionately reduce allotments to all general funded entities, excluding most Medicaid programs. As a result of the July revenue estimate, the first such allotment reduction in the amount of 3.2 percent was implemented for most programs on September 1, 2010. An additional allotment reduction has been unnecessary. The Governor has requested that during the remaining months of Fiscal Year 2011, state agencies reduce expenditures to increase general and other fund reversions and build reserve balances.

In February 2011, the Consensus Revenue Estimating Group (“CREG”) reviewed the December 2010 consensus forecast and decided not to revise the forecast for recurring revenue. However, due to strong cash deposits, the CREG revised nonrecurring Fiscal Year 2011 revenue upwards by $36 million.

Fiscal Year 2012. Based on the CREG projections for Fiscal Year 2012 made in December 2010, and adjusted for legislation enacted during the 2011 regular session, recurring general fund revenues are projected to increase by approximately 4.8 percent or $250.1 million over the current fiscal year. On April 8, 2011, the Governor signed the State's Fiscal Year 2012 general fund budget and related legislation. After adjusting for Governor's vetos of $4.5 million, the Fiscal Year 2012 budget contains 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 subsidy 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 are projected to be $277.4 million at fiscal year end, approximately 5.1 percent of current-year recurring appropriations for Fiscal Year 2012. The Governor has expressed goals of maintaining reserves of 10 percent in future fiscal years, and providing for five-year expenditure forecasts to accompany consensus revenue forecasts.

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 CO\textsubscript{2} 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 93.0 percent of total Fiscal Year 2010 Severance Tax Bonding Fund tax receipts.

**Severance and Mineral Production Taxes on Indian Land**

The State can tax non-Indian oil and natural gas production on tribal land, according to United States Supreme Court precedent in *Cotton Petroleum Co. v. State of New Mexico*, 490 U.S. 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989). The State’s authority to impose severance taxes on Indian oil and natural gas production on tribal land was upheld by the United States District Court in New Mexico in *Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922. In 2009 however, in *Ute Mountain Ute Tribe v. Homans*, No. CIV 07-772 JP/WDS, the United States District Court for the District of New Mexico (Judge Parker) held that the State may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal land of the Ute Mountain Ute Tribe. The TRD has appealed the ruling. The outcome and its effect are uncertain. Regardless of the outcome, however, it is unlikely that the decision will have any impact on taxes paid from production on other reservations in the State.

The TRD reports that natural gas production and crude oil production on Indian land were approximately 3.3 percent and 0.7 percent, respectively, of total taxable statewide production in Fiscal Year 2010. The TRD estimates that oil and natural gas production on Indian land generated $6.4 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2010 (net of Intergovernmental Production Tax Credit). Coal production on Indian land was 35.0 percent of total statewide production in Fiscal Year 2010. No potash, copper or CO\textsubscript{2} is produced on Indian land.

Section 7-29C-1 NMSA 1978, enacted by the 1995 Legislature, authorized a credit against state production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of state taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State’s credit is lowered. The TRD estimates that total credits claimed under this provision were about $2.6 million in Fiscal Year 2010. About $1.1 million of these credits were applied against oil and natural gas severance tax liability. The Severance Tax Bonding Fund revenue projection assumes that this amount will 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 $2.3 million in Fiscal Year 2010.
The enactment of Section 7-31-27 NMSA 1978 created the Jicarilla Apache Tribal Capital Improvement Tax Credit, but this credit does not apply against the severance tax revenues due on the same production. This tax credit is a maximum of 0.7 percent of the taxable value of oil and natural gas products produced on Jicarilla Apache Tribal lands, is in addition to the tax credit authorized in Section 7-29C-1 and is claimed as a reduction of emergency school tax amounts. Proceeds of the tax credit must be used exclusively to fund capital improvement projects on Jicarilla Apache tribal lands, although funds may not be used to finance commercial activity.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund (“STPF”) was established in the State Treasury in 1973 to receive the residual revenues from the Severance Tax Bonding Fund and served 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. 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 Officer under the direction of 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, 2010 was approximately $3.4 billion, an increase of approximately 12 percent from the prior Fiscal Year. For the quarter ended June 30, 2010, the SIC estimated losses of approximately 7 percent in the STPF. Performance for the one-year period ended June 30, 2010 was 2.3 percent below the fund benchmark, and performance for the quarter ended June 30, 2010 was 1.4 percent below the fund policy index. Money on deposit in the STPF is not pledged to and may not be used to pay any Bonds.

The Land Grant Permanent Fund (“LGPF”) is designed solely to benefit the public educational system of the State and other specified institutions. The origins of the LGPF are found in the federal Fergusson Act of 1898, which granted two sections of land in every township for the benefit of the public schools in the territories of New Mexico. Also under this Act, specific acreage was granted to individual education, medical and penal institutions in the territory. The initial grant totaled in excess of 5.5 million acres. In 1910, the Enabling Act granted additional lands to various beneficiaries in New Mexico, with the public schools receiving the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the LGPF), so the current total is nine million surface acres and 13.4 million subsurface acres.

Pursuant to Section 19-1-1 NMSA 1978, the State Land Office is charged with the custody and disposition of the land granted to the State. The Commissioner of Public Lands sells or leases these properties in accordance with the provisions of the appropriate statutes. The State Investment Officer under the direction of the SIC invests the corpus and income of the LGPF. As of June 30, 2010, the market value of the LGPF was approximately $8.8 billion, an increase of approximately 14 percent over the prior fiscal year. For the quarter ended June 30, 2010, the SIC estimated losses of approximately 6 percent in the LGPF. Performance for the year ending June 30, 2010 trailed its benchmark by 0.6 percent, while investment returns for the quarter were 0.3 percent below the fund’s policy index. The corpus of the LGPF is constitutionally protected from appropriation and amounts on deposit therein are not pledged to and may not be used to pay debt. The LGPF is also protected by the federal Enabling Act of 1910.

In November 1996, the State electorate approved a constitutional amendment regarding distributions from both of the State’s permanent funds. Distributions are now based on a total return basis rather than an income distribution method. In addition, distributions to beneficiaries are now based on a formula under which 4.7 percent of the previous average five-year market value of the fund is distributed.
In September 2003, the State electorate approved a constitutional amendment increasing the rate of distribution from the LGPF from 4.7 percent to 5 percent of the five-year average market value of the LGPF beginning in Fiscal Year 2005. Certain additional distributions shall be made to implement and maintain educational reforms as provided by law. An additional 0.8 percent has been and will be distributed in Fiscal Years 2005 through 2012 and an additional 0.5 percent will be distributed in Fiscal Years 2013 through 2016. A three-fifths majority of each house of the Legislature may suspend this additional distribution.

In May 2009 in connection with an ongoing investigation undertaken by the New York Attorney General relating to the use of third-party placement agents in connection with investment transactions of that state’s retirement fund, Saul Meyer, the founding partner of Aldus Equity Partners (“Aldus”), an investment advisor to that fund, was indicted in New York for allegedly paying illegal kickbacks in connection with investment recommendations to that fund. Aldus had acted as an investment advisor to the SIC and ERB on private equity investments until being terminated shortly after the May 2009 indictment of Mr. Meyer. In October 2009, Mr. Meyer pled guilty to a fraud charge relating to investments made by the New York retirement fund and recommended by Aldus. In connection with that plea, Mr. Meyer stated that from 2004 to 2009 Aldus had acted as an advisor to the SIC and the ERB and that, contrary to his fiduciary responsibilities to the SIC and ERB, he ensured that Aldus recommended certain proposed investments pushed on him by politically connected individuals or their associates who stood to benefit financially or politically from the investments, and that the investments were not necessarily in the best interests of the State. Several days later in October 2009, Gary Bland, the State Investment Officer, resigned. Mr. Meyer has not yet been sentenced. To date, no criminal charges have been filed by investigators in New Mexico, but their work is believed to be ongoing. Several civil complaints for breach of contract, including a filing by the ERB in October 2010, have been filed and are pending.

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, 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, investment best practices for investing agencies and the use of third party marketer fees. 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. The SIC, ERB and PERA, with the assistance of the Board and the LCS, continue to prioritize and address the recommendations contained in the Review based on the needs and resources of the investing agencies and will report to the Board on an ongoing basis.

**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 replaced the State’s existing central accounting system, central payroll system, personnel system, treasury reconciliation accounting
and cashiering system, and 114 additional systems then in place at various State agencies. Since June 2007, the State has officially used SHARE as its books of record.

Generally, the transition to SHARE was carried out as expected, however, for the last 3 years there has been a material weakness in the State Treasurer’s audited financial statements related to the timeliness of the book to bank reconciliation. This issue stems from certain SHARE system limitations as well as required improvements to reconciliation functionality within SHARE. In the 2009 legislative session, an appropriation in the amount of $1.2 million was made to address these issues and a project to address this finding concluded in December 2010. The material weakness related to timeliness of book to bank reconciliation was reduced to a significant deficiency in the State Treasurer’s Fiscal Year 2010 annual financial statements, and is anticipated to be resolved completely by the time Fiscal Year 2011 annual financial statements are released.

**State Budgetary and Appropriation Process**

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

The Governor is required by Section 6-3-21 NMSA 1978 to submit a budget for the upcoming fiscal year to the Legislature in early January. The Governor’s budget includes the executive recommendations for public education; higher education; State agencies; and historical information on prior expenditures, revenues and revenue projections, among other information. The State budget is contained in a General Appropriation Act, which also may contain proposals for supplemental and deficiency appropriations for the current fiscal year.

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

**State Treasurer’s Office**

Pursuant to Section 6-10-10(I) NMSA 1978, the State Treasurer, with the advice and consent of the Board, may invest money not immediately needed for government operations. These investment responsibilities are conducted in accordance with the State Treasurer’s Investment Policy (the “Investment Policy”), which is approved by the State Treasurer’s Investment Committee and the Board. The Investment Policy states that in keeping with the office’s fiduciary responsibility, all investment decisions made by the State Treasurer will adhere to the following three fundamental principles: safety, liquidity and return. The Investment Policy applies to all financial assets of the State invested by the Treasurer in the exercise of the Treasurer’s statutory authority or invested as directed by other agencies which have specific investment authority and for which the Treasurer acts as the investing authority. The State Treasurer is the investing authority for the State’s general fund, the Local Government Investment Pool, the State Bond Proceeds Investment Pool, bond debt service funds, and other special funds.

**Reserve Primary Fund Investments.** The State Treasurer’s Office invested a portion of the general fund and the State Bond Proceeds Investment Pool in the Reserve Primary Fund (“RPF”), a money market fund, in Fiscal Year 2007 and 2008 respectively. On September 15, 2008, the balance of the general fund’s RPF investment was $448.7 million, and the balance of the State Bond Proceeds Investment Pool’s RPF investment was $311.6 million. On September 16, 2008, the RPF net asset value
fell below $1.00 and holdings in the fund were frozen. Since then, RPF has returned approximately $0.99 per share to shareholders. On September 30, 2010, the remaining RPF position held in the general fund was $4.3 million, and the remaining position in the State Bond Proceeds Investment Pool was $3 million. The remaining positions in the RPF are non-performing assets. The State Treasurer’s Office cannot anticipate what the actual losses to the general fund and the State Bond Proceeds Investment Pool from the RPF may be or when they may be realized. Given that $0.99 per share has been recovered, any additional recovery of funds is expected to be quite small. On May 5, 2009, the U.S. Securities and Exchange Commission filed a civil lawsuit in federal court against the operators of RPF, alleging fraud, seeking the pro rata distribution of the remaining RPF assets, and seeking the release of the $3.5 billion currently being withheld from investors pending the outcome of the lawsuits against RPF. On May 20, 2009, the New Mexico Attorney General filed a complaint and injunction petition in State district court on behalf of the New Mexico State Treasurer’s Office and the New Mexico Finance Authority (collectively “the investors”) against RPF. The Attorney General’s complaint alleges that RPF’s setting aside $3.5 billion to pay legal fees and expenses is a willful and intentional conversion of the investors’ assets and a breach of contract. The complaint further alleges that RPF’s failure to honor redemption requests on September 16, 2008, is a breach of contract. Additionally, the Attorney General’s injunction petition seeks the release of the investors’ pro rata share of the $3.5 billion RPF set aside for its anticipated and pending legal costs. In late November 2010, the multi-district litigation judge in the Southern District of New York entered an order requiring the RPF to liquidate the remainder of the money in the fund and distribute it on a pro-rata basis. Based on the ruling, shareholders have recovered approximately $0.99 per share. The order also sets aside $87.5 million that the RPF may use for pending indemnification claims, includes an injunction barring any further claims against the RPF that would be subject to indemnification, and requires pro-rata distribution to investors of any funds not spent on any pending indemnification claims. The actual losses from the RPF will not be known until all pending litigation is settled and the remaining balance of the fund is distributed.

State Treasurer’s Investment Committee. According to the Investment Policy, an Investment Committee must be appointed by the State Treasurer with the specific purpose and responsibility of establishing, maintaining and administering the Investment Policy. The Investment Committee consists of five (5) voting members: the State Treasurer, or designee; the State Treasurer’s Chief Investment Officer (with the State Cash Manager as an alternate), who serves as Investment Committee Chair; the Director of the Board or designee; and two additional members. These additional members must be participants in the private investment community or have expert knowledge or professional experience in public finance or public fund investing. One member is appointed by the State Treasurer and approved by the Board and one member is appointed by the Board and approved by the State Treasurer.

The Investment Committee is charged with the following responsibilities:

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

Other Matters. On October 26, 2005, then-New Mexico State Treasurer Robert Vigil resigned following his indictment on multiple charges of extortion, money laundering and conspiracy related to his time in office. On September 30, 2006, Mr. Vigil was convicted of one count of attempted extortion and acquitted on 23 other charges.

In addition, the State Treasurer who preceded Mr. Vigil, Michael Montoya, pleaded guilty to extortion for actions he took as State Treasurer.

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

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

Pension Funds

The Legislature enacted the Educational Retirement Act, Section 22-11-1 et seq. NMSA 1978, and the Public Employees Retirement Act, Section 10-11-1 et seq. NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are 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. The balances reported below include official data as of June 30, 2010. As with other pension funds nationwide, New Mexico’s pension funds were affected by the significant market turmoil related to the downturn in the nation’s economy over the past 2 years. As of June 30, 2010, however, the funds had recovered a significant portion of the losses incurred during that period.
Several bills enacted during the 2009 regular legislative session amended various provisions of the Educational Retirement Act, the Public Employees Retirement Act, and the New Mexico Retiree Health Care Act to improve the long-term stability of these funds. House Bill 573 (Chapter 288, Laws 2009) increased the years of service requirement from 25 years to 30 years for new members who joined the Educational Retirement Board (the “ERB”) and the Public Employees Retirement Association (“PERA”) on or after July 1, 2010, while existing ERB and PERA members remain under the 25-year service requirement. In addition, House Bill 573 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 and established a 25-member retirement systems solvency task force to study the pension plans and make recommendations to the Legislature and Governor by October 1, 2010. 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.

Finally, 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, which passed the Legislature during the 2011 legislative session, extends the existing 1.5 percent shift for 2 or more years and shifts an additional 1.75 percent of the annual contribution rate from employers to employees for Fiscal Year 2012 and Fiscal Year 2013, under certain budgetary conditions, for plans administered by the PERA and the ERB. House Bill 628 also requires 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.

Educational Retirement Board. The Educational Retirement Board (“ERB”) had 128,878 members as of June 30, 2010, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund as of June 30, 2010 was $8.2 billion, which was up from a low of $5.97 billion in February 2009. As of September 30, 2010 the market value was $8.8 billion. The ERB had investment gains for the fiscal year ended June 30, 2010 of 18.2 percent. For the 12 months ended September 30, 2010, the ERB had an investment return of 13.4 percent. The ERB’s investment return for 2009 calendar year was 27.8 percent. An actuarial valuation of the Educational Retirement Fund completed by Gabriel Roeder, Smith & Co. reported that as of June 30, 2010 the actuarial value of assets was $9.43 billion and the unfunded accrued actuarial liability (“UAAL”) was $4.92 billion. The funded ratio (ratio of the actuarial value of assets to actuarial accrued liability) decreased from 67.5 percent at June 30, 2009 to 65.7 percent at June 30, 2010. If the funded ratio were calculated using the market value of assets rather than the actuarial value, it would be 57.4 percent as of June 30, 2010. That is an increase from 51.2 percent as of June 30, 2009. As of June 30, 2010, the UAAL had an amortization period of 62.5 years, compared to a period of 45 years as of the 2009 actuarial valuation. The amortization period, also referred to as the funding period, is a calculation based on actuarial models of the period required to amortize the UAAL, assuming ERB’s experience exactly follows actuarial assumptions. The actuarial assumptions include an 8 percent rate of return. As required by Governmental Standards Accounting Board (“GASB”) Statement 25, the calculation is based on current contribution rates and does not take into account the statutorily scheduled increases in those rates described below.
Member and employer contribution rates are established by State statute. In 2005, the Legislature amended Section 22-11-21 NMSA 1978 to increase the employer contribution rate by 75 basis points (0.75 percent) for each of the 7 years beginning July 1, 2005, and to increase member contribution rates by 7.5 basis points (0.075 percent) for each of the 4 years beginning July 1, 2005. In the 2009 regular legislative session, the Legislature modified employer and member contribution rates for Fiscal Years 2010 and 2011 to shift 1.5 percent of the employer contribution rate to members whose annual salary exceeds $20,000, resulting in a member contribution rate of 9.4 percent. In the 2011 regular legislative session, the Legislature again modified employer and member contribution rates for Fiscal Year 2012 to extend the 1.5 percent shift and add an additional 1.75 percent shift; for members whose salary exceeds $20,000, the Fiscal Year 2012 contribution rate will be 11.15 percent. In Fiscal Year 2013, the contribution rate for those members will be 9.4 percent. For those members whose annual salary is $20,000 or less, the contribution rates remain at 7.9 percent.

In both the 2010 and the 2011 regular legislative sessions, the Legislature also modified employer contribution rates. In Fiscal Years 2010 and 2011, the employer contribution rate for members whose salary is greater than $20,000 is 10.9 percent. The employer contribution rate for those members will be 9.15 percent in Fiscal Year 2012 and return to 10.9 percent in Fiscal Year 2013. The contribution rate for members whose salary is $20,000 or less is 12.4 percent in Fiscal Years 2010, 2011, 2012, and 2013. In Fiscal Year 2014, the employer contribution rate for all members employed, regardless of salary, will increase to 13.15 percent. Beginning in Fiscal Year 2013, the employer contribution rate will be 13.9 percent for all members employed. As noted above, the employer and employee contribution rates for Fiscal Year 2012 may continue to be effective in Fiscal Year 2013. 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.

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

As noted above, as of June 30, 2010, ERB has an amortization or funding period of 62.5 years, based on the employer and member contribution rates in effect as of July 1, 2010. The employer contribution required in order to amortize the UAAL over 30 years is 13.39 percent. Under current law, the employer rate will increase to 13.15 percent on July 1, 2011 and 13.9 percent on July 1, 2012. As GASB Statement 25 does not permit the consideration of contribution rates not yet in effect, the 62.5 year funding period must be reported. If the ERBs investment return is 8 percent per year in the future and if the employer contribution rate increases as scheduled under current law, the UAAL would be amortized in approximately 44 years.

The Public Employees Retirement Association. The Public Employees Retirement Association (“PERA”) had 84,528 members as of June 30, 2010. Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the Public Employees Retirement PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund (“VFF”) as of June 30, 2010. The Public Employees Retirement Board accepted the actuary’s conclusions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 4.5 percent per annum, compounded annually, and other risk assumption changes including salary increases for longevity and merit, the real rate of return on investments, mortality, active member withdrawals, disability and retirement rates to allow for expected future experience. For the quarter ended June 30, 2010, the quarterly PERA total fund return was negative 6.40 percent. For the 12 month period ended June 30, 2010, the annual PERA total fund return was 15.02 percent. The total market value of PERA Fund as of
June 30, 2010 was $10.2 billion. The investment return for the fiscal year to date as of March 31, 2011 was 21.52 percent and the total market value of the PERA portfolio was $12.2 billion.

As of June 30, 2010, PERA has an amortization or funding period designated as infinite, based on the employer and member contribution rates in effect as of July 1, 2010. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-141 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 78.5 percent as of June 30, 2010. As of June 30, 2010, the unfunded accrued actuarial liability of PERA has been calculated to be approximately $3.3 billion. On a market value basis, PERA’s funded ratio is approximately 65 percent as of June 30, 2010. The PERA Board has reviewed the results of its June 30, 2010 actuarial valuation, which indicates that additional contributions are required in order to properly fund the PERA retirement plans. Legislation to increase contribution rates totaling 8 percent over 4 years for State General, Judicial, Magistrate, Municipal Police and Municipal Fire retirement plans was not adopted by the Legislature during the 2011 legislative session. The Legislature is expected to be presented with proposals to address PERA solvency issues during future legislative sessions.

Actuarial information for each fund as of June 30, 2010 is shown in Table 10.

**TABLE 10**

Summary of State Retirement Funds Managed by PERA

(Dollars in thousands)

<table>
<thead>
<tr>
<th>Membership</th>
<th>PERA(1)</th>
<th>Judicial</th>
<th>Magistrate</th>
<th>VFF</th>
<th>Legislative</th>
</tr>
</thead>
<tbody>
<tr>
<td>84,528</td>
<td>245</td>
<td>128</td>
<td>5,966</td>
<td>287</td>
<td></td>
</tr>
</tbody>
</table>

Actuarial Information

| Accrued Liability(2) | $15,601,461 | $130,136 | $52,677 | $20,466 | $26,675 |
| Value of Assets(3)   | $12,243,713 | $79,645  | $34,652 | $47,346 | $22,126 |
| Unfunded (Overfunded) Accrued Liability | $3,357,749 | $50,491  | $18,025 | $(26,880) | $4,550 |
| Present Value of Statutory Obligations | $19,190,714 | $161,609 | $58,407 | $30,674 | $29,113 |

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

Source: Public Employees Retirement Association.

Effective July 1, 1992, the Public Employees Retirement Act was amended to provide a fixed annual cost of living adjustment (“COLA”) of 3 percent regardless of inflation or age, beginning two full calendar years after retirement and compounding annually. The COLA is taken into account in the statutory contribution rates of PERA plans. Cavanaugh Macdonald Consulting, LLC includes the COLA as part of the normal cost calculation which is the portion of the total contribution rate that pays for the ongoing service credit as opposed to the UAAL. 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.

In September 2010, the Retirement System Solvency Task Force (the “Task Force”) received a recent study by Chicago economists that placed New Mexico among 31 states predicted to run out of state pension fund money within the next 16 years. The Task Force also heard from Colorado-based consultants who predicted a decrease in funded ratios, but whose report was not as pessimistic as the report from the Chicago economists.
New Mexico Retiree Health Care Authority. The Retiree Health Care Act was enacted in Sections 10-7C-1 through 10-7C-19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service positions in the State and their eligible dependents. The New Mexico Retiree Health Care Authority (“NMRHCA”) offers both pre Medicare and Medicare plans, as well as dental, vision and life insurance plans to eligible retirees. There were approximately 48,000 enrolled participants as of January 2011 and approximately 300 participating public entities.

The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished or extinguished by the Legislature, and that the Act does not create any contract, trust or other rights in public employees to health care benefits.

The 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 are currently 1.666 percent and 0.833 percent of the participating employee’s salary for Fiscal Year 2011. By July 1, 2012, additional phased in increases will bring the employer contribution to 2 percent and the employee contribution to 1 percent.

As recently as 4 years ago, the NMRHCA was projected to be insolvent as early as 2014. However, actions taken by the NMRHCA decreasing subsidy levels, increasing premiums and modifying plan designs, coupled with increases in employer/employee contribution rates have extended the NMRHCA’s solvency to approximately 2026.

Based on the GASB Statement 43 valuation for Fiscal Year 2010, 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 $3.3 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 including increasing years of service requirements, further plan modifications and increases from all revenue sources. The NMRHCA is developing a five-year solvency plan to ensure the long term financial stability of the program.

The NMRHCA suffered investment losses in Fiscal Years 2008 and 2009; however, the NMRHCA’s fund balance has recovered and as of January 2011 stood at $193 million.

Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the 2010 United States Census was 2,059,179. From 2000 to 2010, the State’s population grew 13.2 percent, while the national population grew 9.7 percent over the same period.

There are four Metropolitan Statistical Areas (“MSAs”) in the State. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is comprised of Doña Ana County; the Santa Fe MSA is comprised of Santa Fe County; and the Farmington MSA is comprised of San Juan County. The fastest growing counties in the State are Bernalillo, Doña Ana, Santa Fe, Sandoval, San Juan and Valencia. The following table sets forth information on population growth in New Mexico and nationally.
Major industries in the State include oil and natural gas production, manufacturing, service, tourism, services, arts and crafts, agribusiness, government and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State’s economy. The following table sets forth information on employment by industry over the period of 2000 through 2009.
<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total employment</strong></td>
<td>964,673</td>
<td>968,929</td>
<td>979,946</td>
<td>999,286</td>
<td>1,023,303</td>
<td>1,046,746</td>
<td>1,076,098</td>
<td>1,100,324</td>
<td>1,104,723</td>
<td>1,075,339</td>
</tr>
<tr>
<td>Proprietors employment</td>
<td>183,506</td>
<td>177,002</td>
<td>179,358</td>
<td>186,372</td>
<td>193,442</td>
<td>201,619</td>
<td>207,979</td>
<td>222,151</td>
<td>222,968</td>
<td>226,782</td>
</tr>
<tr>
<td>Nonfarm proprietors employment</td>
<td>168,279</td>
<td>159,177</td>
<td>164,828</td>
<td>170,327</td>
<td>177,810</td>
<td>192,724</td>
<td>203,958</td>
<td>205,223</td>
<td>209,123</td>
<td></td>
</tr>
<tr>
<td>Farm employment</td>
<td>21,910</td>
<td>24,355</td>
<td>20,845</td>
<td>22,838</td>
<td>22,619</td>
<td>23,262</td>
<td>22,829</td>
<td>25,804</td>
<td>24,407</td>
<td>24,760</td>
</tr>
<tr>
<td>Nonfarm employment</td>
<td>942,763</td>
<td>944,574</td>
<td>959,101</td>
<td>976,448</td>
<td>1,000,684</td>
<td>1,023,484</td>
<td>1,053,269</td>
<td>1,074,520</td>
<td>1,080,316</td>
<td>1,050,579</td>
</tr>
<tr>
<td>Private employment</td>
<td>740,439</td>
<td>759,416</td>
<td>750,194</td>
<td>762,831</td>
<td>783,120</td>
<td>804,832</td>
<td>838,993</td>
<td>864,654</td>
<td>867,090</td>
<td>834,627</td>
</tr>
<tr>
<td>Forestry, fishing, related activities and other</td>
<td>5,489</td>
<td>5,163</td>
<td>5,096</td>
<td>4,979</td>
<td>5,181</td>
<td>5,239</td>
<td>5,136</td>
<td>5,158</td>
<td>5,308</td>
<td>5,216</td>
</tr>
<tr>
<td>Mining</td>
<td>19,015</td>
<td>19,612</td>
<td>17,957</td>
<td>18,576</td>
<td>19,245</td>
<td>21,171</td>
<td>23,726</td>
<td>24,875</td>
<td>28,406</td>
<td>27,909</td>
</tr>
<tr>
<td>Utilities</td>
<td>4,303</td>
<td>4,249</td>
<td>4,078</td>
<td>4,114</td>
<td>4,040</td>
<td>4,075</td>
<td>4,121</td>
<td>4,450</td>
<td>4,550</td>
<td>4,883</td>
</tr>
<tr>
<td>Construction</td>
<td>60,690</td>
<td>63,293</td>
<td>61,864</td>
<td>64,135</td>
<td>68,382</td>
<td>73,978</td>
<td>79,826</td>
<td>80,588</td>
<td>78,054</td>
<td>67,755</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>46,979</td>
<td>45,621</td>
<td>43,908</td>
<td>41,544</td>
<td>40,542</td>
<td>41,106</td>
<td>42,711</td>
<td>42,374</td>
<td>40,703</td>
<td>35,544</td>
</tr>
<tr>
<td>Nondurable goods manufacturing</td>
<td>13,280</td>
<td>13,294</td>
<td>13,070</td>
<td>12,829</td>
<td>12,685</td>
<td>12,655</td>
<td>12,889</td>
<td>13,024</td>
<td>12,667</td>
<td>11,863</td>
</tr>
<tr>
<td>Retail trade</td>
<td>113,080</td>
<td>110,010</td>
<td>111,167</td>
<td>112,445</td>
<td>114,169</td>
<td>116,097</td>
<td>116,750</td>
<td>118,944</td>
<td>118,144</td>
<td>112,194</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td>24,905</td>
<td>23,977</td>
<td>24,229</td>
<td>24,158</td>
<td>24,961</td>
<td>25,321</td>
<td>25,953</td>
<td>27,447</td>
<td>26,805</td>
<td>24,378</td>
</tr>
<tr>
<td>Information</td>
<td>18,033</td>
<td>19,438</td>
<td>18,578</td>
<td>17,927</td>
<td>17,163</td>
<td>17,299</td>
<td>18,445</td>
<td>18,870</td>
<td>18,898</td>
<td>17,757</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>31,613</td>
<td>30,848</td>
<td>31,251</td>
<td>31,544</td>
<td>31,769</td>
<td>32,039</td>
<td>32,172</td>
<td>33,565</td>
<td>35,006</td>
<td>36,959</td>
</tr>
<tr>
<td>Real estate and rental and leasing</td>
<td>29,636</td>
<td>29,363</td>
<td>30,229</td>
<td>31,922</td>
<td>34,715</td>
<td>38,209</td>
<td>40,313</td>
<td>42,302</td>
<td>41,904</td>
<td>40,831</td>
</tr>
<tr>
<td>Professional and technical services</td>
<td>59,258</td>
<td>59,391</td>
<td>59,834</td>
<td>62,534</td>
<td>65,461</td>
<td>66,337</td>
<td>73,827</td>
<td>81,473</td>
<td>82,311</td>
<td>81,917</td>
</tr>
<tr>
<td>Management of companies and enterprises</td>
<td>5,810</td>
<td>6,049</td>
<td>6,129</td>
<td>5,440</td>
<td>5,354</td>
<td>6,354</td>
<td>6,425</td>
<td>6,084</td>
<td>5,688</td>
<td>5,457</td>
</tr>
<tr>
<td>Administrative and waste services</td>
<td>51,414</td>
<td>53,226</td>
<td>54,229</td>
<td>53,292</td>
<td>54,598</td>
<td>55,224</td>
<td>58,489</td>
<td>60,292</td>
<td>59,859</td>
<td>55,049</td>
</tr>
<tr>
<td>Educational services</td>
<td>11,703</td>
<td>11,853</td>
<td>12,765</td>
<td>13,932</td>
<td>14,888</td>
<td>15,384</td>
<td>15,919</td>
<td>16,349</td>
<td>16,222</td>
<td>18,363</td>
</tr>
<tr>
<td>Health care and social assistance</td>
<td>88,903</td>
<td>87,694</td>
<td>94,469</td>
<td>99,899</td>
<td>103,691</td>
<td>105,151</td>
<td>108,016</td>
<td>111,645</td>
<td>114,832</td>
<td>118,379</td>
</tr>
<tr>
<td>Arts, entertainment and recreation</td>
<td>19,383</td>
<td>18,646</td>
<td>19,994</td>
<td>20,376</td>
<td>20,987</td>
<td>21,463</td>
<td>21,795</td>
<td>22,873</td>
<td>23,451</td>
<td>23,999</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>73,897</td>
<td>76,263</td>
<td>77,972</td>
<td>79,682</td>
<td>80,465</td>
<td>81,343</td>
<td>84,403</td>
<td>85,213</td>
<td>84,134</td>
<td>81,865</td>
</tr>
<tr>
<td>Government and government enterprises</td>
<td>202,324</td>
<td>205,158</td>
<td>208,907</td>
<td>213,617</td>
<td>217,564</td>
<td>218,652</td>
<td>214,276</td>
<td>209,866</td>
<td>213,226</td>
<td>215,952</td>
</tr>
</tbody>
</table>

(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.
The “Construction” category includes: construction of buildings; heavy and civil engineering construction; and specialty trade contractors.

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

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.

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.

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.

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

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.

The “Real estate and rental and leasing” category includes: real estate; rental and leasing services; and lessors of nonfinancial intangible assets.

The “Administrative and waste services” category includes: administrative and support services; and waste management and remediation services.

The “Health care and social assistance” category includes: ambulatory health care services; hospitals; nursing and residential care facilities; and social assistance.

The “Arts, entertainment and recreation” category includes: performing arts and spectator sports; museums, historical sites, zoos and parks; and amusement, gambling and recreation.

The “Accommodation and food services” category includes: accommodation; and food services and drinking places.

The “Other services, except public administration” category includes: repair and maintenance; personal and laundry services; membership associations and organizations; private households;

The “Government and government enterprises” category includes: federal, civilian; military; state and local; and state government and local government.

Source: Regional Economic Information System, Bureau of Economic Analysis, September 2010.
The following tables set forth selected additional economic and demographic data with respect to the State.

**TABLE 13**
Employment and Labor Force
New Mexico and the United States
2001-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>New Mexico (1)</th>
<th>United States (1)</th>
<th>New Mexico (1)</th>
<th>United States (1)</th>
<th>New Mexico (1)</th>
<th>United States (1)</th>
<th>N.M. as % of U.S. Rate (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>864</td>
<td>143,734</td>
<td>821</td>
<td>136,933</td>
<td>4.9%</td>
<td>4.7%</td>
<td>104%</td>
</tr>
<tr>
<td>2002</td>
<td>872</td>
<td>145,066</td>
<td>823</td>
<td>136,426</td>
<td>5.5%</td>
<td>6.0%</td>
<td>92%</td>
</tr>
<tr>
<td>2003</td>
<td>888</td>
<td>146,729</td>
<td>836</td>
<td>138,441</td>
<td>5.9%</td>
<td>5.7%</td>
<td>104%</td>
</tr>
<tr>
<td>2004</td>
<td>902</td>
<td>148,059</td>
<td>850</td>
<td>140,125</td>
<td>5.8%</td>
<td>5.4%</td>
<td>107%</td>
</tr>
<tr>
<td>2005</td>
<td>913</td>
<td>150,030</td>
<td>866</td>
<td>142,752</td>
<td>5.2%</td>
<td>4.9%</td>
<td>106%</td>
</tr>
<tr>
<td>2006</td>
<td>925</td>
<td>152,732</td>
<td>887</td>
<td>145,970</td>
<td>4.1%</td>
<td>4.4%</td>
<td>93%</td>
</tr>
<tr>
<td>2007</td>
<td>934</td>
<td>153,936</td>
<td>902</td>
<td>146,272</td>
<td>3.4%</td>
<td>5.0%</td>
<td>68%</td>
</tr>
<tr>
<td>2008</td>
<td>952</td>
<td>154,669</td>
<td>910</td>
<td>143,324</td>
<td>4.5%</td>
<td>7.3%</td>
<td>62%</td>
</tr>
<tr>
<td>2009</td>
<td>942</td>
<td>153,172</td>
<td>876</td>
<td>137,960</td>
<td>7.0%</td>
<td>9.9%</td>
<td>71%</td>
</tr>
<tr>
<td>2010</td>
<td>956</td>
<td>153,690</td>
<td>874</td>
<td>139,206</td>
<td>8.6%</td>
<td>9.4%</td>
<td>91%</td>
</tr>
</tbody>
</table>

(1) Figures rounded to nearest thousand.


**TABLE 14**
Personal Income
New Mexico and the United States
2000-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>New Mexico (Dollars in thousands)</th>
<th>United States (Dollars in thousands)</th>
<th>Annual Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>41,425,052</td>
<td>8,554,866,000</td>
<td>6.8%</td>
</tr>
<tr>
<td>2001</td>
<td>45,335,681</td>
<td>8,878,830,000</td>
<td>9.4%</td>
</tr>
<tr>
<td>2002</td>
<td>46,340,515</td>
<td>9,054,702,000</td>
<td>2.2%</td>
</tr>
<tr>
<td>2003</td>
<td>48,139,404</td>
<td>9,369,072,000</td>
<td>3.9%</td>
</tr>
<tr>
<td>2004</td>
<td>51,578,691</td>
<td>9,928,790,000</td>
<td>7.1%</td>
</tr>
<tr>
<td>2005</td>
<td>55,341,826</td>
<td>10,476,669,000</td>
<td>7.3%</td>
</tr>
<tr>
<td>2006</td>
<td>59,274,367</td>
<td>11,256,516,000</td>
<td>7.1%</td>
</tr>
<tr>
<td>2007</td>
<td>63,043,607</td>
<td>11,899,853,000</td>
<td>6.4%</td>
</tr>
<tr>
<td>2008</td>
<td>66,724,334</td>
<td>12,379,745,000</td>
<td>5.8%</td>
</tr>
<tr>
<td>2009</td>
<td>66,744,715</td>
<td>12,165,474,000</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

### TABLE 15
Per Capita Personal Income
New Mexico and the United States
2000-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>New Mexico</th>
<th>United States</th>
<th>N.M. as a % of U.S.</th>
<th>Annual Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>22,751</td>
<td>30,318</td>
<td>75%</td>
<td>6.0%</td>
</tr>
<tr>
<td>2001</td>
<td>24,790</td>
<td>31,145</td>
<td>80%</td>
<td>9.0%</td>
</tr>
<tr>
<td>2002</td>
<td>25,048</td>
<td>31,461</td>
<td>80%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2003</td>
<td>25,747</td>
<td>32,271</td>
<td>80%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2004</td>
<td>27,264</td>
<td>33,881</td>
<td>80%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2005</td>
<td>28,876</td>
<td>35,424</td>
<td>82%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2006</td>
<td>30,513</td>
<td>37,698</td>
<td>81%</td>
<td>5.7%</td>
</tr>
<tr>
<td>2007</td>
<td>32,022</td>
<td>39,458</td>
<td>81%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2008</td>
<td>33,584</td>
<td>40,673</td>
<td>83%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2009</td>
<td>33,212</td>
<td>39,626</td>
<td>84%</td>
<td>-1.1%</td>
</tr>
</tbody>
</table>


### BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the State 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 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.
A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant’s interest in the Securities, on DTC’s records, to Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC’s records and followed by a book-entry credit of tendered Securities to Agent’s DTC Account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

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

Covenants

So long as any Bonds are outstanding, the State and the Board have covenanted and agreed with the owners of Bonds that: (a) the State will levy, assess and collect ad valorem taxes, without limit as to rate or amount, in amounts sufficient to pay the principal of and interest on the Bonds as they become due and the State will cause the proceeds of the ad valorem taxes collected to be set aside and applied promptly to pay the principal of and interest on the Bonds when due; (b) the State will promptly pay the principal of and the interest on the Bonds, at the places, on the dates and in the manner specified in the Resolution and in the Bonds; (c) the State will keep proper books of record and account, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to ad valorem taxes and the accounts designated in the Resolution; (d) any registered owner or Beneficial Owner of any of the Bonds or any duly authorized agent of such registered owner or Beneficial Owner, shall have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds, the collection of ad valorem taxes and the accounts designated in the Resolution; (e) any registered owner or Beneficial Owner of any of the Bonds or any duly authorized agent of such registered owner or Beneficial Owner, shall have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds, the collection of ad valorem taxes and the accounts designated in the Resolution; provided, however, that pursuant to Section 6-14-10E NMSA 1978, records with regard to the ownership of or pledges of the Bonds are not subject to inspection or copying under any law of the State relating to the right of the public to inspect or copy public records; (e) the State will prepare annual statements or audits of collections and disbursements of ad valorem taxes in sufficient detail to show compliance with requirements of the Resolution and the State will furnish a copy of such audit to any owner of Bonds upon written request therefor; (f) in order to prevent any accumulation of claims for interest after maturity, the State will not directly or indirectly extend or assent to the extension of time for the payment of interest on any of the Bonds; (g) each official or other person having custody of any funds derived from State ad valorem taxes, or responsible for their handling, shall be bonded as provided by law, which bond shall be conditioned upon the proper application of those funds; (h) the State will make no use of the proceeds of the Bonds or any funds reasonably expected to be used to pay the Bonds which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”).
or which would result in the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds; (i) the State (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; and (j) interest on the Bonds is exempt from taxation by the State.

Defeasance

If the State shall pay all of the outstanding Bonds, or shall cause them to be paid and discharged in accordance with the next paragraph of this section, or if all payments of principal of and interest on the Bonds, due or to become due, shall otherwise be paid to the owners of the outstanding Bonds, then the Resolution shall cease and become null and void (except for those provisions surviving in accordance with the last paragraph of this section), and the covenants, agreements and obligations of the Board and the State under the Resolution shall be released, discharged and satisfied.

All or any part of the Bonds shall be deemed to have been paid and discharged if: (1) the Registrar/Paying Agent shall, in advance of any payment to the owners of the outstanding Bonds, have received sufficient moneys for the payment in full of the principal of and interest on the Bonds, or part thereof, or (2) there shall have been placed in trust for the payment of the Bonds and irrevocably committed to such payment, noncallable Defeasance Obligations (defined below) which are certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates, and scheduled to bear such interest, as will be sufficient, together with any moneys on deposit with the Registrar/Paying Agent available to pay principal of and interest on the Bonds, without further investment or reinvestment of either the principal amount or the interest earnings on such Defeasance Obligations (which earnings are to be held likewise in trust and so committed, except as provided herein), for the payment in full of all principal of and interest on the Bonds, or part of the Bonds, deemed to have been paid, at their maturity.

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

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

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

(iii) obligations described in Section 103(a) of the Code (a) provisions for the payment of the principal of, premium, if any, and interest on which (1) shall have been made by the irrevocable deposit, with a bank or trust company acting as a trustee or escrow agent for holders of such obligations, of non-callable securities described in clauses (i) and (ii) above, the maturing principal of and interest on which, when due and payable, without further investment or reinvestment, will provide sufficient moneys to pay when due the principal of and interest on such obligations, and (2) which securities described in 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 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 shall be given to each registered owner of Bonds as shown on the registration books kept by the Registrar/Paying Agent on the date on which such Bonds are deemed paid and discharged. Such notice shall state the numbers of the Bonds deemed paid and discharged or state that all Bonds are deemed paid and discharged and set forth a description of the obligations held 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, shall remain in effect and be binding upon the State and the Registrar/Paying Agent until final payment of all Bonds notwithstanding the release and discharge of the Resolution. Notwithstanding any provision of the Resolution to the contrary, any provisions of the Resolution that relate to the exclusion of interest from gross income for federal income tax purposes shall remain in effect and be binding upon the State and the Registrar/Paying Agent.

Amendment of Resolution

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

Except as provided above, the Resolution may only be amended or supplemented by resolution adopted by the Board in accordance with applicable law, with or without receipt by the State of any additional consideration, but with the written consent of the owners of a majority in principal amount of the Bonds then outstanding: provided, however, that no such resolution shall have the effect of permitting: (i) an extension of the maturity of any Bond; or (ii) a reduction in the principal amount of, or the rate of interest on, and Bond; or (iii) a reduction of the principal amount of Bonds required for consent to such amendatory or supplemental resolution; or (iv) the establishment of priorities as between Bonds issued and outstanding under the provisions of the Resolution; or (v) the modification of, or otherwise affecting, the rights of the owners of less than all of the Bonds then outstanding.

Remedies of Holders of Bonds

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

Payment of Principal and Interest

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

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

TRANSCRIPT AND LEGAL OPINIONS

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

Legal matters incident to the issuance of the Bonds and the exclusion from gross income for Federal and State of New Mexico income tax purposes of interest on the Bonds (see “TAX MATTERS” below and the form of opinion of Bond Counsel attached hereto as Appendix C) are subject to the approving legal opinion of Sutin, Thayer & Browne A Professional Corporation, Bond Counsel to the State. Certain legal matters will be passed upon for the State by the Office of the Attorney General of the State of New Mexico and by Brownstein Hyatt Farber Schreck, LLP, as Disclosure Counsel to the State.

TAX MATTERS

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

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

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

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

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

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

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

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

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

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

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

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

**LITIGATION**

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

The State is a party to various legal proceedings seeking damages or injunctive relief and generally incidental to its operations which proceedings are unrelated to the Bonds, and to the security therefor. The ultimate disposition of such proceedings is not presently determinable. Such proceedings
are not, in the opinion of the State Attorney General, reasonably expected to have a material adverse effect on the Bonds or the security for the payment of the 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, 2010, 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, 2011, and to provide notices of occurrence of certain enumerated events, if material. The Board will further agree in the continuing disclosure undertaking that if its audited financial statements are not provided as part of the annual financial information, the Board will provide such audited statements when available. The annual financial information and audited financial statements (when available) will be filed by the Board with the Municipal Securities Rulemaking Board and with any New Mexico State Information Depository. In the event of a failure of the Board to comply with any provision of the continuing disclosure undertaking, any owner of Bonds (including beneficial owners of the Bonds) may seek specific performance by court order from a State court in Santa Fe County, New Mexico.

The continuing disclosure undertaking is being executed by the Board to assist in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the “Rule”). Except as set forth in the succeeding sentences, the State has never
failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. Continuing disclosure undertakings previously entered into by the Board in relation to the State’s Capital Projects General Obligation Bonds and Severance Tax Bonds called for it to file audited financial statements of the State as part of the Board’s annual financial information disclosures, or when available if the financial statements had not been finally audited by the time that it was required to make the annual financial disclosures. Due to the investigation by federal authorities of potentially criminal activity by two prior elected State Treasurers, and the seizure of financial information from the State Treasurer’s Office to further that investigation, preparation and auditing of the audited financial statements of the State for the fiscal year ended June 30, 2005 was substantially delayed, and the audited financial statements were not available until August 22, 2006. The State filed the audited financial statements on October 31, 2006, and, on that date, the State notified the Municipal Securities Rulemaking Board of the filing.

Continuing disclosure undertakings previously entered into by the Board in relation to the State’s Capital Projects General Obligation Bonds and Severance Tax Bonds state that if audited financial statements are not available by the time the other annual financial information must be provided, unaudited financial statements shall be provided as part of the annual financial information. In connection with its continuing disclosure obligations for Fiscal Year 2008, the State timely filed its annual financial information on January 23, 2009. At that time, neither unaudited nor audited financial statements from the State of New Mexico State general fund Annual Financial Report (the “general fund Audit”) and the State of New Mexico Office of the State Treasurer Financial Statements (the “STO Audit”) for the fiscal year ended June 30, 2008, were available. The annual financial information disclosed this fact and provided that as soon as they were available the unaudited and audited financial statements would be submitted. On February 17, 2009, the State filed the unaudited financial statements from the general fund Audit. On March 5, 2009, the State filed the audited financial statements from the STO Audit. On March 31, 2009, the State filed the audited financial statements from the general fund Audit. The Board believes that it is now in compliance with all its continuing disclosure undertakings.

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

**MISCELLANEOUS**

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

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

State Board of Finance of the State of New Mexico

By /s/ Susana Martinez

Governor
APPENDIX A

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

YEAR ENDED JUNE 30, 2010
State of New Mexico

State General Fund
Component Appropriation Accounts
Annual Financial Report

Fiscal Year Ended June 30, 2010

Prepared by
The New Mexico Department of Finance and Administration

Bill Richardson, Governor
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Introductory Section
State of New Mexico

*

State General Fund

COMPONENT APPROPRIATION ACCOUNTS

June 30, 2010

Elected Official

Governor Bill Richardson


Appointed Officials

Department of Finance and Administration:

Cabinet Secretary
State Controller
Deputy Division Director, Financial Control Division

Dannette K. Burch
Anthony I. Armijo, CPA, CGFM
Steve Gonzales
Financial Section
Independent Auditors' Report

Ms. Dannette K. Burch, Cabinet Secretary
State of New Mexico
Department of Finance and Administration
and
Mr. Hector H. Balderas,
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities and the major fund of the State of New Mexico, State General Fund Component Appropriation Accounts (Hereafter referred to as the State General Fund), as of and for the year ended June 30, 2010, which collectively comprise the State General Fund’s basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the State General Fund’s statutorily and administratively created funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the State General Fund’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State General Fund’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1A, the financial statements of the State General Fund are intended to present the financial position, and the changes in the financial position, of only that portion of the governmental activities and the major fund financial statements that is attributable to the State General Fund. They do not purport to, and do not, present fairly in the financial position of the State of New Mexico as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.
Ms. Dannette K. Burch, Cabinet Secretary  
State of New Mexico  
Department of Finance and Administration  
and  
Mr. Hector H. Balderas,  
New Mexico State Auditor  

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the State General Fund as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each of the statutorily and administratively created funds of the State General Fund as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.  

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2010 on our consideration of the State General Fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.  

The accompanying management’s discussion and analysis on pages 4 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.  

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual fund financial statements. The accompanying other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.  

Albuquerque, New Mexico  
December 15, 2010
The State General Fund Component Appropriation Accounts (hereafter referred to as the State General Fund) is a single administratively created reporting entity. It consists of nine funds: four created by statute and five created by management. For presentation in the accompanying basic financial statements, management has consolidated the nine funds into one, the “general fund.”

As disclosed in the notes to the financial statements, the State General Fund is not a primary government, as defined by Governmental Accounting Standards Board Statement 14, because it is not fiscally independent or legally separated from the State of New Mexico.

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

Financial Highlights

The State ended the year with reserves of 5.2% of recurring current year appropriations as compared to 6.4% in fiscal year 2009.

The net assets of the State General Fund increased by $278.7 million in fiscal year 2005, by $102.4 million in fiscal year 2006, decreased by $167.3 million in fiscal year 2007, increased by $174.4 million in fiscal year 2008, decreased by $416.5 million in fiscal year 2009 and decreased by $132.0 million in fiscal year 2010. The decrease in 2010 is attributable to projected revenues not materializing, resulting in revenues not being sufficient to meet the appropriations authorized in for fiscal year 2010. For the same reasons, fund balances of the State General Fund decreased by $110.7 million in 2010.

Using This Annual Financial Report

This annual report consists of two categories of basic financial statements: 1) the government-wide financial statements (on pages 10 and 11), which provide information about the activities of the State General Fund as a whole and present a long-term view of the State General Fund’s finances; and 2) the fund financial statements (on pages 12 and 13), which for governmental activities tell how services were financed in the short term as well as what remains for future spending.

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

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the State General Fund’s finances, in a manner similar to a private-sector business.
The **statement of net assets** presents information on all of the State General Fund's assets and liabilities, with the difference between the two reported as **net assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State General Fund is improving or deteriorating.

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

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

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

The **government-wide financial statements** can be found on pages 10 and 11 of this report.

**Fund financial statements**

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

**Governmental funds.** **Governmental funds** are used to account for essentially the same functions reported as **governmental activities** in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on **near-term inflows and outflows of spendable resources**, as well as on **balances of spendable resources** available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

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

The General Fund has one fund, its general fund, which is considered to be a major fund. The State General Fund does not adopt an annual appropriated budget for its general fund. However, the expenditures of the State General Fund by law must equal the individual amounts appropriated in the various appropriation acts. To demonstrate legal compliance with the appropriation acts, a Schedule of Appropriations is included in this report as supplementary information.
The basic governmental fund financial statements can be found on pages 12 and 13 of this report.

Notes to the financial statements

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

Other information

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

Also provided as supplementary information are the Schedule of Revenues by Type and the Schedule of Revenues by Source. Revenue is presented by type in the Statement of Activities and by source in the Statement of Revenue, Expenditures, and Changes in Fund Balances—Governmental Funds. These schedules provide detail information on State General Fund revenues and demonstrate legal compliance with the statutes governing the collection of revenue by the State General Fund.

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

Government-wide Financial Analysis

<table>
<thead>
<tr>
<th>Net Assets</th>
<th>June 30, 2010 and 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in millions of dollars)</td>
</tr>
<tr>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Current assets</td>
<td>$1,381.4</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$(1,063.1)</td>
</tr>
<tr>
<td>Net assets, unrestricted</td>
<td>$318.3</td>
</tr>
</tbody>
</table>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State General Fund, assets exceeded liabilities by $318.3 million at the close of fiscal year 2010.

The assets held by the State General Fund are unappropriated and are not restricted. However, it has been the policy of the State of New Mexico to not consider the amount of revenue deferred under the modified accrual basis of accounting, $40.3 million, as available for appropriation.


Governmental activities

Changes in Net Assets
June 30, 2010 and 2009
(in millions of dollars)

<table>
<thead>
<tr>
<th>Revenues</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Program revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges for services</td>
<td>139.1</td>
<td>114.3</td>
</tr>
<tr>
<td>General Revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and use taxes</td>
<td>362.9</td>
<td>407.3</td>
</tr>
<tr>
<td>Business privilege taxes</td>
<td>2,072.5</td>
<td>2,315.5</td>
</tr>
<tr>
<td>Personal income taxes</td>
<td>942.1</td>
<td>889.8</td>
</tr>
<tr>
<td>Corporate income taxes</td>
<td>116.7</td>
<td>150.0</td>
</tr>
<tr>
<td>Severance taxes</td>
<td>24.9</td>
<td>30.3</td>
</tr>
<tr>
<td>Other taxes</td>
<td>399.3</td>
<td>544.4</td>
</tr>
<tr>
<td>Investment income (unrestricted)</td>
<td>220.3</td>
<td>255.8</td>
</tr>
<tr>
<td>Investment income (restricted)</td>
<td>437.1</td>
<td>433.5</td>
</tr>
<tr>
<td>Gaming revenue sharing</td>
<td>64.1</td>
<td>65.4</td>
</tr>
<tr>
<td>Escheats</td>
<td>11.8</td>
<td>13.5</td>
</tr>
<tr>
<td>Reversions</td>
<td>395.9</td>
<td>336.0</td>
</tr>
<tr>
<td>Transfers</td>
<td>125.5</td>
<td>107.3</td>
</tr>
<tr>
<td>Total revenues</td>
<td>5,312.2</td>
<td>5,663.1</td>
</tr>
</tbody>
</table>

Program Expenses

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General government</td>
<td>245.4</td>
<td>293.8</td>
<td>(48.4)</td>
</tr>
<tr>
<td>Legislative</td>
<td>24.6</td>
<td>27.9</td>
<td>(3.3)</td>
</tr>
<tr>
<td>Judicial</td>
<td>206.2</td>
<td>213.6</td>
<td>(7.4)</td>
</tr>
<tr>
<td>Commerce and industry</td>
<td>62.8</td>
<td>63.3</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Natural resources</td>
<td>90.3</td>
<td>95.0</td>
<td>(4.7)</td>
</tr>
<tr>
<td>Health and human services</td>
<td>1,298.0</td>
<td>1,495.0</td>
<td>(197.0)</td>
</tr>
<tr>
<td>Public safety</td>
<td>394.9</td>
<td>400.1</td>
<td>(5.2)</td>
</tr>
<tr>
<td>Higher education</td>
<td>832.9</td>
<td>867.4</td>
<td>(34.5)</td>
</tr>
<tr>
<td>Public school support</td>
<td>2,240.9</td>
<td>2,529.4</td>
<td>(288.5)</td>
</tr>
<tr>
<td>Other education</td>
<td>48.2</td>
<td>85.1</td>
<td>(36.9)</td>
</tr>
<tr>
<td>Total expenses</td>
<td>5,444.2</td>
<td>6,079.6</td>
<td>(635.4)</td>
</tr>
</tbody>
</table>

Decrease in net assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ (132.0)</td>
<td>$ (416.5)</td>
<td>$ 284.5</td>
<td></td>
</tr>
</tbody>
</table>

The State General Fund’s net assets decreased by $132.0 million, as compared to the $416.5 million decrease in 2009. In fiscal year 2010, overall, revenue decreased 6.0% compared to 2009, and expenses decreased 10.0%, which accounts for the decrease in net assets.
Management’s Discussion and Analysis

Expenses by Function – Governmental Activities

Expenditures
- general government: 9%
- judicial: 4%
- commerce and industry: 1%
- natural resources: 2%
- health and human services: 24%
- public safety: 7%
- higher education: 15%
- public school support: 41%
- other: 1%

Revenues – Governmental Activities

Revenues
- business privilege taxes: 40%
- sales and use taxes: 7%
- corporate income taxes: 2%
- personal income taxes: 10%
- charges for services: 3%
- gaming: 1%
- investment income (restricted): 9%
- investment income (unrestricted): 4%
- revestments: 8%
- other taxes: 8%

Business-type Activities

The State General Fund did not have any business-type activities during fiscal year 2010.

Financial Analysis of the State General Fund’s General Fund

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

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

As of the end of the current fiscal year, the State General Fund’s general fund reported an ending fund balance of $278.0 million, a decrease of $110.7 million. The decrease is attributable to the same key factors noted on page 7 for the decrease in net assets—expenditures exceeding revenues. The entire amount of the general fund’s ending fund balance is unreserved fund balance and is available for appropriation by the Legislature.

Economic Factors

Fiscal year 2010 compares to fiscal year 2009 as follows:

- The decrease in revenues between fiscal years reflects the condition of the economy—the most severe and longest national and world-wide recession since the “Great Depression” of 1929 to 1933. The largest sources of State General Fund revenue—sales and use taxes, business privilege taxes, corporate income taxes, and other taxes—decreased by $465.8 million or 14%.

- Reversion to the State General Fund increased by $59.9 million or 18%. This increase reflects the aggressive solvency initiatives the state has taken to curb spending. The state is curbing spending to position itself to ride out the current economic conditions.

- Transfers increased by $18.2 million. The increase reflects interfund transfers made by the state as part of its solvency plans. During fiscal year 2010, the state transferred unreserved, undesignated balances from a number of funds to the state general fund. Note 4 to the financial statements is a list of the funds and the amounts transferred from each fund.

- As of June 30, 2010, state general fund reserves were 5.2% of current-year recurring appropriations, which is 19% less of what they were on June 30, 2009. The decrease is the result of the conditions noted above. The fact that the state has reserves during these difficult economic times reflects the state’s commitment to sound fiscal management.

Program expenses decreased by $635.4 million or 10% from June 30, 2009.

Requests for Information

This financial report is designed to provide a general overview of the State General Fund’s finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of the Financial Control Division, Department of Finance and Administration, 407 Galisteo, Room 166 Bataan Memorial Building, Santa Fe, New Mexico 87501.
Basic Financial Statements
GOVERNMENT-WIDE FINANCIAL STATEMENTS
State of New Mexico  
**State General Fund**  
**COMPONENT APPROPRIATION ACCOUNTS**  
Statement of Net Assets  
June 30, 2010

<table>
<thead>
<tr>
<th>Primary Government</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Investments, State Treasurer, Note 2</td>
<td>$323,426,312</td>
</tr>
<tr>
<td>Investments, State Investment Council, Note 2</td>
<td>132,030,905</td>
</tr>
<tr>
<td>Due from other state entities</td>
<td>885,635,427</td>
</tr>
<tr>
<td>Due from taxpayers</td>
<td>40,296,297</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>1,381,388,941</strong></td>
</tr>
</tbody>
</table>

| **LIABILITIES**    |                         |
| Current liabilities: |                         |
| Cash overdraft, Note 2 | 1,008,320,269 |
| Due to other state entities | 7,432,835 |
| Due to local governments | 18,072,995 |
| Due to taxpayers | 29,302,461 |
| **Total liabilities** | **1,063,126,560**       |

| **NET ASSETS**      |                         |
| Unrestricted | 318,260,381 |
| **Total net assets** | **318,260,381**       |

The notes to the financial statements are an integral part of this statement.
State of New Mexico  
*State General Fund*  
**COMPONENT APPROPRIATION ACCOUNTS**  
Statement of Activities  
For the Year Ended June 30, 2010

<table>
<thead>
<tr>
<th>Functions</th>
<th>Expenses</th>
<th>Charges for Services</th>
<th>Net (Expense) Revenue and Changes in Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary government:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>$ 245,374,858</td>
<td>$ 7,226,622</td>
<td>$ (238,148,236)</td>
</tr>
<tr>
<td>Legislative</td>
<td>24,576,900</td>
<td>59,518</td>
<td>(24,517,382)</td>
</tr>
<tr>
<td>Judicial</td>
<td>206,180,900</td>
<td>8,536,940</td>
<td>(197,643,960)</td>
</tr>
<tr>
<td>Commerce and industry</td>
<td>62,766,700</td>
<td>50,127,449</td>
<td>(12,639,251)</td>
</tr>
<tr>
<td>Natural resources</td>
<td>90,350,200</td>
<td>-</td>
<td>(90,350,200)</td>
</tr>
<tr>
<td>Health and human services</td>
<td>1,297,951,200</td>
<td>5,448,276</td>
<td>(1,292,512,924)</td>
</tr>
<tr>
<td>Public safety</td>
<td>394,959,771</td>
<td>-</td>
<td>(394,959,771)</td>
</tr>
<tr>
<td>Higher education</td>
<td>832,916,800</td>
<td>-</td>
<td>(832,916,800)</td>
</tr>
<tr>
<td>Public school support</td>
<td>2,240,900,200</td>
<td>67,701,590</td>
<td>(2,173,198,610)</td>
</tr>
<tr>
<td>Other education</td>
<td>48,226,200</td>
<td>-</td>
<td>(48,226,200)</td>
</tr>
<tr>
<td><strong>Total primary government</strong></td>
<td>$ 5,444,213,729</td>
<td>$ 139,100,395</td>
<td>(5,305,113,334)</td>
</tr>
</tbody>
</table>

General revenues:

Taxes:
- Sales and use: 362,908,946
- Business privilege: 2,072,460,717
- Personal income: 942,061,932
- Corporate income: 116,753,254
- Severance: 24,952,123
- Other: 399,282,323
- Investment income (Unrestricted): 220,272,546
- Investment income (Restricted): 437,127,589
- Tribal gaming revenue sharing: 64,118,348
- Escheats: 11,757,131
- Reversions: 395,699,932
- Transfers: 125,536,953

**Total general revenues and transfers:** 5,173,111,894

Change in net assets: (132,001,440)

Net assets-beginning: 450,261,821

Net assets-ending: $ 318,260,381

The notes to the financial statements are an integral part of this statement.
FUND FINANCIAL STATEMENTS
State of New Mexico
State General Fund
COMPONENT APPROPRIATION ACCOUNTS
Balance Sheet
Governmental Funds
June 30, 2010

ASSETS
Current assets:
Investments, State Treasurer, Note 2 $ 323,426,312
Investments, State Investment Council, Note 2 132,030,905
Due from other state entities 885,635,427
Due from tax payers 40,296,297
Total assets $ 1,381,388,941

LIABILITIES AND FUND BALANCES
Current liabilities:
Deferred revenues 40,296,297
Cash overdraft, Note 2 1,008,320,269
Due to other state entities 7,432,835
Due to local governments 18,072,995
Due to taxpayer 29,302,461
Total liabilities 1,103,424,857

Fund balances:
Unreserved/undesignated 277,964,084

Total liabilities and fund balances $ 1,381,388,941

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

Net assets of governmental activities $ 318,260,381

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

State General Fund  

COMPONENT APPROPRIATION ACCOUNTS  

Statement of Revenues, Expenditures and Changes in Fund Balances  

Governmental Funds  
For the Year Ended June 30, 2010

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td>General and selective taxes</td>
<td>$ 2,058,175,528</td>
</tr>
<tr>
<td>Income taxes</td>
<td>1,081,660,886</td>
</tr>
<tr>
<td>Severance taxes</td>
<td>390,701,713</td>
</tr>
<tr>
<td>License fees</td>
<td>50,266,578</td>
</tr>
<tr>
<td>Investment income</td>
<td>646,325,436</td>
</tr>
<tr>
<td>Net increase (decrease) in the fair value of investments</td>
<td>11,074,799</td>
</tr>
<tr>
<td>Rents and royalties</td>
<td>423,003,864</td>
</tr>
<tr>
<td>Miscellaneous receipts</td>
<td>152,433,765</td>
</tr>
<tr>
<td>Reversions</td>
<td>394,353,823</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$ 5,207,995,992</td>
</tr>
</tbody>
</table>

| EXPENDITURES                                  |               |
| Current:                                      |               |
| Appropriations:                               |               |
| Legislative                                   | 24,576,900    |
| Judicial                                      | 206,180,900   |
| General control                               | 245,374,858   |
| Commerce and industry                         | 62,766,700    |
| Natural resources                             | 90,350,200    |
| Health and human services                     | 1,297,961,200 |
| Public safety                                 | 394,959,771   |
| Other education                               | 48,226,200    |
| Higher education                              | 832,916,800   |
| Public school support                         | 2,240,900,200 |
| Total expenditures                            | 5,444,213,729 |

| Excess of expenditures over revenues          | (236,217,737) |

| OTHER FINANCING SOURCES                      |               |
| Transfers in                                 | 125,536,953   |
| Total other financing sources                | 125,536,953   |
| Net change in fund balance                   | (110,680,784) |
| Fund balance - beginning                     | 388,644,888   |
| Fund balance - ending                        | $ 277,964,084 |

The notes to the financial statements are an integral part of this statement.
Amounts reported for governmental activities in the Statement of Activities (page 11) are different because:

Net change in fund balances—total governmental funds (page 13)  $(110,680,784)

Revenues earned in fiscal year 2009 that were not "available" until fiscal year 2010 are reported in the funds as fiscal year 2010 revenue  $(61,616,953)

Revenues earned in fiscal year 2010 that will not be "available" until fiscal year 2011 are not reported in the funds  $40,296,297

Change in net assets of governmental activities (page 11)  $(132,001,440)

The notes to the financial statements are an integral part of this statement.
NOTES TO THE FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS INDEX

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<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
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<td>Summary of Significant Accounting Policies</td>
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<tr>
<td></td>
<td>A. Reporting Entity</td>
<td>15</td>
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<td>19</td>
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<td>19</td>
</tr>
<tr>
<td></td>
<td>E. Revenue and Expenditures/Expenses</td>
<td>20</td>
</tr>
<tr>
<td>2.</td>
<td>Investments</td>
<td>20</td>
</tr>
<tr>
<td>3.</td>
<td>Transfer Authority</td>
<td>21</td>
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<td>4.</td>
<td>Transfers In/Out</td>
<td>21</td>
</tr>
</tbody>
</table>
1. Summary of Significant Accounting Policies

A. Reporting entity

The New Mexico Audit Act, Sections 12-6-1 through 12-6-14, NMSA 1978, as amended, requires the financial affairs of every New Mexico state agency to be audited. In addition, Section 12-6-3(B) of the Act states, "... the state auditor may cause the financial affairs and transactions of an agency to be audited in whole or in part [emphasis added]."

The financial affairs of the Department of Finance and Administration, a state agency, include administering nine statutorily and administratively created funds. Collectively, the nine funds are called the “State General Fund Component Appropriation Accounts” or, more commonly, the “State General Fund.” The State General Fund together with many other statutorily and administratively created funds comprise the general fund presented in the annual financial statements of the State of New Mexico.

Under generally accepted accounting principles, the State of New Mexico is the reporting entity and primary government; however, the State General Fund is not audited as part of that reporting entity. Instead it is treated as the nucleus of a reporting entity and audited separately.

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

The State General Fund does not constitute a primary government, component unit, or any other type of reporting entity as defined by generally accepted accounting principles. The State General Fund in the primary mechanism for accounting for the revenue and financing of the operations of the State of New Mexico. As such the Legislature, state officials and the citizens of the State of New Mexico, as well as other groups such as bond issuers and rating services, have an interest in the operations of the State General Fund. The accompanying financial statements are presented to meet that need.

For presentation in the accompanying financial statements, the State General Fund has elected to consolidate four statutorily created funds and five administratively created funds into one general fund.

However, to supplement the consolidated data and present data on a legally prescribed basis, a Schedule of Statutorily and Administratively Created Funds Balance Sheets and a Schedule of Statutorily and Administratively Created Funds Revenues, Expenditures, and Changes in Fund Balances are also presented as supplementary information.

The following is a description of the nine statutorily and administratively created funds presented in those schedules.

Statutorily Created Funds:

1. Common School Current Fund

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

2. Current School Fund

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

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

3. State-support Reserve Fund

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

4. Tobacco Settlement Permanent Fund

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

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

Section 6-4-9(B), NMSA 1978, requires that all money received by the State Treasurer in fiscal years 2003 through 2006 be distributed from the tobacco permanent settlement fund to the state general fund. Subsection C of that section requires that, in fiscal year 2007 and beyond, an annual distribution be made from the tobacco settlement permanent fund to the tobacco settlement program fund of an amount equal to fifty percent of the total amount distributed to the tobacco settlement permanent fund in that fiscal year until the amount is less than an amount equal to four and seven-tenths percent of the average of the year-end market values of the tobacco settlement permanent fund for the immediately preceding five years. If the amount distributed to the tobacco settlement program fund is insufficient to meet appropriations, the secretary of finance and administration shall reduce each appropriation proportionately. In fiscal year 2009, 2010 and 2011, the remaining fifty percent of money distributed to the tobacco settlement permanent fund shall be distributed to the tobacco settlement program fund.

Administratively Created Funds

1. Appropriation Account Fund

The appropriation account fund is an administratively created fund the State General Fund uses to account for the financial activity of the statutorily created general fund and for portions of the financial activity of the statutorily created public school fund.

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

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

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

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

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

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

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

3. Appropriation Contingency Reserve Fund

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

4. General Fund Operating Reserve Fund

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

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

5. Tax Stabilization Reserve Fund

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

The effect of interfund activity between these nine statutorily and administratively created funds has been eliminated from the accompanying financial statements. This interfund activity included the receivables and payables listed in the table below.

The State General Fund has no component units.

<table>
<thead>
<tr>
<th>Due from Other Funds</th>
<th>SHARE</th>
<th>Due to Other Funds</th>
<th>SHARE</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Number</td>
<td>Name</td>
<td>Number</td>
<td></td>
</tr>
<tr>
<td>Appropriations Account Fund</td>
<td>85300</td>
<td>Current School Fund</td>
<td>71700</td>
<td>$36,561,339</td>
</tr>
<tr>
<td>Current School Fund</td>
<td>71700</td>
<td>Common School Fund</td>
<td>71600</td>
<td>36,441,219</td>
</tr>
<tr>
<td>Appropriation Account Fund</td>
<td>85300</td>
<td>Tax Stabilization Reserve</td>
<td>84300</td>
<td>172,646,600</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>345,649,158</td>
</tr>
</tbody>
</table>

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the State General Fund. Since the State General Fund has only one fund, interfund activity did not exist. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which relay to a significant extent on fees and charges for support. The State General Fund does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues and are reported instead as general revenues.

Separate financial statements are provided for governmental funds. The State General Fund does not have proprietary or fiduciary funds. The State General Fund’s one and only fund, its general fund, is a major governmental fund. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.


C. Basis of Accounting and Presentation

1. Government-wide financial statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Derived tax revenues, which generally include income and sales taxes and similar assessments on earnings or consumption, and related assets, are recognized when the exchange transaction
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. For derived tax revenues, related assets are recognized when the exchange transaction occurs or when the resources are received, whichever occurs first. If the resources are not available, deferred revenues are reported for the assets that are recognized before the revenues. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State General Fund considers tax revenues to be available, if they are collected within 60 days after the end of the fiscal year; reversions, if collected within 90 days of the end of the current fiscal period; and all other revenues to be available if collected prior to completion of the State General Fund’s financial statements, which is usually the December 15th following the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

1. Due from Other State Entities

Section 6-4-2, NMSA 1978, requires all revenues—not otherwise allocated by law—to be credited to the State General Fund. In addition, Section 6-5-10, NMSA 1978, requires all undesignated/unreserved fund balances in reverting state agency funds to be reverted to the State General Fund. Various state agencies collect revenues on behalf of the State General Fund. In addition, most state agencies administer funds that revert balances to the State General Fund. The amounts due from other state entities, reported in the accompanying financial statements and in the Schedule of Amounts Due from Other State Entities, are amounts due to the State General Fund under the authority of the two statutes cited above. The amount due from other state entities has been reduced by $46.3 million, which represents the estimated amount of personal income tax refunds in excess of final personal income tax settlements, at June 30, 2010. The estimate is based on a ten year average of final settlement payments and refunds. Fiscal year 2010 is the first 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. Different estimates were not used for 2007, 2008, and 2009 because the recession caused unpredictable fluctuations in the amount of refunds and final settlements, invalidating use of a three year average; and once into the recession, new trend data was needed to determine the best period of time to consider when calculating the averages.
2. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the State General Fund’s policy to use restricted resources first, and then unrestricted resources as they are needed.

E. Revenues and Expenditures/Expenses

1. Reversions

Once an appropriation lapses, the related cash balance is usually required by law to be returned to the fund from where the appropriation allotment originated (that is, from where the cash related to the appropriation originated). In the accompanying financial statements, the cash returned to the State General Fund is treated as general revenue and presented as "reversions." Beginning fiscal year 2005, the State adopted generally accepted accounting principles for governmental funds as its budgetary basis of accounting.

2. Investments

State law requires the State General Fund investments be managed by the New Mexico State Treasurer’s Office, with the exception of those belonging to the Tobacco Settlement Fund. State law requires that Tobacco Settlement Fund investments be managed by the New Mexico State Investment Council. Accordingly, the investments of the State General Fund consist of investments in the investment pools managed by these two entities.

As of June 30, 2010 the State General Fund had the following investments:

<table>
<thead>
<tr>
<th>Investment</th>
<th>Maturities</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The New Mexico State Treasurer’s</td>
<td>1 day to 5 years</td>
<td>$223,426,312</td>
</tr>
<tr>
<td>Office:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund Investment Pool</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The State Investment Council:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equities—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap Active Pool</td>
<td>Not Applicable</td>
<td>$24,139,487</td>
</tr>
<tr>
<td>Large Cap Index Pool</td>
<td></td>
<td>$4,466,545</td>
</tr>
<tr>
<td>Small/Mid Cap Active Pool</td>
<td></td>
<td>$9,320,370</td>
</tr>
<tr>
<td>Non-US Developed Markets Pool</td>
<td></td>
<td>$5,092,947</td>
</tr>
<tr>
<td>Non-US Emerging Markets Pool</td>
<td></td>
<td>$3,038,472</td>
</tr>
<tr>
<td>Core Bonds—</td>
<td>&lt;1yr to &gt;10 years</td>
<td>$31,510,214</td>
</tr>
<tr>
<td>US Core Bonds Pool</td>
<td>Not Applicable</td>
<td>$9,083,443</td>
</tr>
<tr>
<td>Hedge Fund Pool</td>
<td>Not Applicable</td>
<td>$45,379,427</td>
</tr>
<tr>
<td>Cash/Cash Equivalents/Accruals</td>
<td></td>
<td>$132,030,905</td>
</tr>
</tbody>
</table>

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

*Credit Risk.* The New Mexico State Treasurer and State Investment Council pools are not rated. For additional GASB 40 disclosure information related the above investment pools, the reader should see the separate audit reports for the State Treasurer’s Office and the State Investment Council for the fiscal year ended June 30, 2010.

*Cash Overdraft.* At June 30, 2010, the State General Fund had a cash overdraft of $1,008,320,269. At June 30, 2010, the net cash overdraft, which includes $323,426,312 in the General Fund Investment Pool, was ($684,893,957). The amount of the cash overdraft decreased by $179,225,904 from fiscal year 2009. The cash overdraft is the result of revenue accruals of $885,635,427 not being recognized until fiscal year 2011 and revenue projected for fiscal year 2010 not materializing.
3. Transfer Authority

For fiscal year 2010, the laws of 2009, Chapter 3 from the 49th legislature, first special session, section 2 (B) provides the State General Fund with authority to transfer $115.0 million from the tax stabilization reserve to the appropriation account of the general fund, to meet fiscal year 2010 obligations. In addition, the laws of 2010, Chapter 6 from the 49th legislature, second special session, section 15(B) provides the State General Fund with authority to transfer $83.0 million from the tax stabilization reserve to the appropriation account to meet fiscal year 2010 or 2011 obligations, plus section 15(C) provides $49.0 million from the appropriation contingency fund if the amounts from the tax stabilization are not sufficient to meet fiscal year 2010 and 2011 obligations.

For fiscal year 2010, appropriations exceeded revenues and transfers by $172.6 million.

4. Transfers In/out

A. Required Transfers (Amounts in Thousands)

For fiscal year 2010, laws of 2010, Chapter 2, section 1 from the 49th legislature, first special session, authorizes the following transfers to the State General Fund appropriation account. $1,000.0 million from legislative cash balances (13300), $100.0 from the magistrate court mediation fund (30400), $500.0 from the administrative office of the courts ($1200), $150.0 from the metropolitan court warrant enforcement fund (69300), $100.0 from the metropolitan court median fund (93000), $150.0 from the alternative dispute resolution fund ($7700), $1,000.0 from the property valuation fund (34800), $1,500.0 from the electronic voting system revolving fund (21200), $412.0 from the public election fund (81200), $25.0 from the state employees’ career development conference fund (72800), $100.0 from the securities education and training fund (04400), $172.0 from the real estate recovery fund (29700), $100.0 from the barbers and cosmetologists fund (43900), $300.0 from the massage therapy fund (44200), $500.0 from the counseling and therapy fund (44400), $200.0 from the chiropractic fund (44600), $200.0 from the psychology fund (45400), $200.0 from the physical therapy (45500), $200.0 from the private investigation fund (45900), $400.0 from the public accountancy fund (46600), $1,500.0 from the real estate commission fund (46700), $650.0 from the board of social work examiners fund (46900), $1,000.0 from the New Mexico medical board fund (07100), $750.0 from the board of nursing fund (07200), $600.0 from the Office of cultural affairs fund (19301), $150.0 from the mining act fund (56600), $500.0 from the oil and gas reclamation fund (31100), $500.0 from the employment security department fund (61300), $3,500.0 from the workers’ compensation administration fund (98200), $1,000.0 from the uninsured employers’ fund (98300), $2,500.0 from the hazardous waste emergency fund (95700), $150.0 from the natural resources trustee fund (90000), $59.9 from the juvenile continuum grant fund (20090), $860.9 from the juvenile community corrections grant fund (83900), $1,500.0 from the community corrections grant fund (902000), $1,500.0 from the corrections department intensive supervision fund (91500), $1,000.0 from the crime laboratory fund (27200), $500.0 from the concealed handgun carry fund (59400), $975.0 from the educational technology deficiency correction fund (21600), $1,900.0 from the instructional material fund (85600), $68,000.0 from the college affordability endowment fund (23900), $2,848.7 from the higher education performance fund (54500), $314.1 from the higher education endowment fund (47900), $171.3 from the higher education program development enhancement fund (78200), $1,200.0 from the antitrust cases and consumer protection settlements through the attorney general (54400), $100.0 from cash balances of the energy, minerals and natural resources department’s mine reclamation program (73100), $1,700.0 collected pursuant to Subsection D of Section 66-5-44 (85800) and $5,000.0 from the cash balances of the higher education department’s special programs fund (21600).

Laws of 2010, Chapter 105, section 20 from the 49th legislature, second session authorizes the issuance of short-term severance tax bonds. Proceeds are transferred to the general fund appropriation account. $17,700.0 from the severance tax bonds series 2010SA fund (11160)

$172,646.0 from the Tax Stabilization Reserve (84300) to the Appropriation Account (85300). Laws 2009, Chapter 3, section 2(D), from the 49th legislature, first special session and Laws 2010, Chapter 6, section 15(B) from the 49th legislature, second special session and $65,000.0 from Appropriation Account (85300) to the Appropriation Contingency fund (85400). Laws 2009, Chapter 124, section 12 A and B, from the 49th legislature, first session.
Re: $18,645,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2011

Ladies and Gentlemen:

This letter will serve as our certificate of litigation concerning the State of New Mexico Capital Projects General Obligation Bonds, Series 2011, in the principal amount of $18,645,000 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 April 19, 2011 (the “Bond Legislation”) relating to the issuance, sale and delivery of these bonds; or (v) the validity or enforceability of the bonds or the Bond Legislation.

Property Tax Litigation

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

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

Sincerely,

Assistant Attorney General
APPENDIX C
FORM OF OPINION OF BOND COUNSEL
CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2011

May 26, 2011

State Board of Finance
State of New Mexico

Ladies and Gentlemen:

We have examined the transcript of proceedings (the “Transcript”) relating to the issuance of the $18,645,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2011 (the “Bonds”), dated May 26, 2011 and being a series of bonds in registered form maturing on March 1, 2012 and serially thereafter on March 1 of each year through 2021.

We have also examined the provisions of the Constitution and laws of the State of New Mexico (the “State”) including the 2010 Capital Projects General Obligation Bond Act, Chapter 3, Laws 2010 (2nd S.S.), under authority of which the Bonds were issued, the resolution authorizing the issuance and sale of the Bonds (the “Bond Legislation”) adopted by the State Board of Finance (the “Board”) on April 19, 2011, an executed Bond of the first maturity, and the Tax Regulatory Certificate of the State (the “Tax Certificate”). We have also made such further inquiries and investigations and have examined such further documents and matters as we have considered necessary in rendering this opinion.

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

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

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

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

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

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

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

Very truly yours,

SUTIN, THAYER & BROWNE
A Professional Corporation
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 $18,645,000 Capital Projects General Obligation Bonds, Series 2011 (the “Bonds”). The Bonds are being issued pursuant to the Bond Resolution adopted by the Board on April 19, 2011 (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, pre-Kindergarten classrooms and facilities, school buses, and public school books and institutional materials as set forth in the 2010 Capital Projects General Obligation Act, Chapter 3, Laws 2010 Second Special Session and approved by the voters of the State on November 2, 2010.

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

(a) Commencing with the Fiscal Year ending June 30, 2011 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: May 26, 2011

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