

## UPDATES TO JULY 18, 2017 OFFICIAL STATEMENT

### Introduction

After issuance of the State of New Mexico Capital Projects General Obligation Bonds, Refunding Series 2017B (the “Series 2017B Bonds”), the State discovered that its State of New Mexico Capital Projects General Obligation Bonds, Series 2015, dated March 25, 2015 (the “Series 2015 Bonds”), which were intended to be refunded with a portion of the proceeds of the Series 2017B Bonds, were not subject to redemption prior to maturity. The State of New Mexico Capital Projects General Obligation Bonds, Series 2013, dated April 23, 2013 (the “Series 2013 Bonds”) were refunded with a portion of the proceeds of the Series 2017B Bonds, were paid in full on September 1, 2017, and are no longer outstanding as of the date of this Supplement. On August 25, 2017, the State Board of Finance (the “Board”) passed a resolution directing that a portion of the Series 2017B Bond proceeds, which were initially invested in U.S. Government defeasance securities for the intended legal defeasance of the Series 2015 Bonds be liquidated and the proceeds thereof be reinvested in municipal securities to be held in escrow to achieve a full or partial economic refunding (but not legal defeasance) of the Series 2015 Bonds. Such proceeds have since been reinvested by the State in municipal securities. To reflect such liquidation and reinvestment, several tables in the Official Statement dated July 18, 2017 are hereby updated to account for the economic refunding, but not legal defeasance, of a portion of the Series 2015 Bonds. *The Series 2015 Bonds are not legally defeased and remain outstanding as general obligations of the State of New Mexico and the full faith and credit of the State of New Mexico is pledged to the payment of the Series 2015 Bonds.*

### KEY BONDING MEASURES FOLLOWING THE ISSUANCE OF THE BONDS\*

Total General Obligation Bonds per capita (2016 Estimate from Census Bureau)	\$228.61
Ratio of General Obligation Bonds to 2016 Net Taxable Value	0.836%
Ratio of General Obligation Bonds per capita to State 2016 estimated per capita personal income	0.589%
Percent of General Obligation Bonds due within 10 years	100.00%

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\* For purposes of this table, total general obligation bonds includes all of the Series 2015 Bonds notwithstanding the economic defeasance of a portion of the Series 2015 Bonds described above.

**TABLE 1  
General Obligation Bonds Outstanding Upon  
Issuance of the Bonds\***

Series	Principal Outstanding
2009	\$ 48,125,000
2011	8,150,000
2015	119,150,000
2017A	148,520,000
2017B	<u>151,790,000</u>
Total	<u>\$475,735,000</u>

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\* For purposes of this table, total general obligation bonds includes all of the Series 2015 Bonds notwithstanding the economic defeasance of a portion of the Series 2015 Bonds described above.

**TABLE 3**  
**Future General Obligation Bond Debt Service Requirements**  
**upon Issuance of the Bonds <sup>(1)</sup>**

Date	Principal on Outstanding Bonds <sup>(3)</sup>	Interest on Outstanding Bonds <sup>(3)</sup>	Total Outstanding Bonds Debt Service <sup>(3)</sup>	Less: Refunded Bonds Debt Service <sup>(2)</sup>	Less:	The Bonds Debt Service	Total Net Debt Service on Outstanding Bonds and the Bonds	Fiscal Year Net Debt Service
					Anticipated Revenue from Escrow Established to Effect Partial Economic Refunding of Series 2015 Bonds			
09/01/17		\$ 5,246,449	\$ 5,246,449	\$ 901,574			\$ 4,344,875	
03/01/18	\$ 51,395,000	5,246,449	56,641,449	14,421,574	\$ 1,877,875	\$ 35,094,042	75,436,042	\$ 79,780,917
09/01/18		4,173,974	4,173,974	766,374	1,877,875	6,849,375	8,379,100	
03/01/19	53,540,000	4,173,974	57,713,974	14,561,374	1,877,875	27,704,375	68,979,100	77,358,200
09/01/19		3,052,374	3,052,374	628,424	1,877,875	6,328,000	6,874,075	
03/01/20	29,900,000	3,052,374	32,952,374	14,698,424	1,877,875	28,733,000	45,109,075	51,983,150
09/01/20		2,526,299	2,526,299	487,724	1,877,875	5,767,875	5,928,575	
03/01/21	30,955,000	2,526,299	33,481,299	14,837,724	11,757,875	44,432,875	51,318,575	57,247,150
09/01/21		1,978,474	1,978,474	344,224	1,630,875	4,801,250	4,804,625	
03/01/22	29,800,000	1,978,474	31,778,474	14,979,224	16,660,875	46,091,250	46,229,625	51,034,250
09/01/22		1,434,705	1,434,705	179,580	1,255,125	3,769,000	3,769,000	
03/01/23	30,890,000	1,434,705	32,324,705	15,144,580	17,180,125	47,849,000	47,849,000	51,618,000
09/01/23		857,000	857,000		857,000	2,667,000	2,667,000	
03/01/24	16,720,000	857,000	17,577,000		17,577,000	34,382,000	34,382,000	37,049,000
09/01/24		439,000	439,000		439,000	1,874,125	1,874,125	
03/01/25	17,560,000	439,000	17,999,000		17,999,000	35,964,125	35,964,125	37,838,250
09/01/25						1,021,875	1,021,875	
03/01/26						20,646,875	20,646,875	21,668,750
09/01/26						531,250	531,250	
03/01/27						21,781,250	21,781,250	22,312,000
Total	<u>\$260,760,000</u>	<u>\$39,416,548</u>	<u>\$300,176,548</u>	<u>\$91,950,798</u>	<u>\$96,624,125</u>	<u>\$376,288,542</u>	<u>\$487,890,167</u>	<u>\$487,890,167</u>

<sup>(1)</sup> Totals may not add due to rounding.

<sup>(2)</sup> Reflects only debt service for the Series 2013 Bonds which were legally defeased through the issuance of the Series 2017B Bonds and are no longer outstanding.

<sup>(3)</sup> Includes debt service for all Series 2015 Bonds.

**TABLE 4**  
**Calculation of 1% Bonding Limitation and the Bonds**

Net Taxable Value	\$56,922,567,412
General Obligation Bond Limit (1% of net taxable value)	\$569,225,674
Total Outstanding Bonds <sup>(1)</sup>	\$260,760,000
Plus: The Bonds	300,310,000
Less: Refunded Bonds <sup>(2)</sup>	<u>(85,335,000)</u>
Total General Obligation Bonds <sup>(3)</sup>	<u>\$475,735,000</u>
Ratio of Total Debt to Net Taxable Value	0.836%

<sup>(1)</sup> Includes debt service for all Series 2015 Bonds.

<sup>(2)</sup> Reflects only the Series 2013 Bonds which were legally defeased through the issuance of the Series 2017B Bonds and are no longer outstanding.

<sup>(3)</sup> This chart assumes that the Series 2015 Bonds remain outstanding for purposes of the State Constitution of the State of New Mexico notwithstanding the economic defeasance of a portion thereof as described above.

## New Issue

*This Official Statement has been prepared by the State Board of Finance to provide information on the State of New Mexico \$148,520,000 Capital Projects General Obligation Bonds, Series 2017A (the "Series 2017A Bonds") and the \$151,790,000 General Obligation Bonds, Refunding Series 2017B (the "Series 2017B Bonds" and, collectively with the Series 2017A Bonds, the "Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision, a prospective investor should read the entire Official Statement. Certain capitalized terms used in the cover page and elsewhere in this Official Statement have the meanings given in the Official Statement.*



**THE STATE OF NEW MEXICO**  
**\$148,520,000 CAPITAL PROJECTS GENERAL OBLIGATION BONDS**  
**SERIES 2017A**  
**\$151,790,000 GENERAL OBLIGATION BONDS**  
**REFUNDING SERIES 2017B**

**Dated: Delivery Date**

**Due: March 1, as shown on the inside front cover**

*Ratings on Series 2017A Bonds* "Aa1" Moody's Investors Service, Inc.  
"AA" S&P Global Ratings

*Ratings on Series 2017B Bonds* "Aa1" Moody's Investors Service, Inc.  
"AA" S&P Global Ratings

*Tax Exemption*

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

*Optional Redemption*

The Series 2017A Bonds and the Series 2017B Bonds will not be subject to optional redemption prior to maturity.

*Source of Payment*

The 2017A Bonds are being issued under the authority of the 2016 Capital Projects General Obligation Bond Act, Chapter 82, Laws 2016 (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, and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.

The 2017B Bonds are being issued under the authority of NMSA 1978, Sections 6-12-6 through 6-12-14, as amended (the "State Refunding Bond Statutes"). The State Refunding Bond Statutes authorize the State Board of Finance (the "Board") on behalf of the State Treasurer to issue refunding bonds in such manner as it shall determine for the purpose of refunding any of the bonded indebtedness of the State. The State Refunding Bond Statutes further direct 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, and the full faith and credit of the State is pledged to the payment of Bonds issued under the State Refunding Bond Statutes.

*Purposes*

Net proceeds of the 2017A Bonds are being used to make capital expenditures for senior citizen facility improvements and acquisitions, for library acquisitions, for capital improvements and acquisitions at institutions of higher education, state special schools, and tribal schools and for capital improvements and acquisitions for public safety as set forth in the Act and approved by the voters of the State on November 8, 2016, as specified in the Act. The 2017B Bonds are being issued to refund certain outstanding maturities of the State of New Mexico, Capital Projects General Obligation Bonds, Series 2013 and Series 2015 (collectively, the "Refunded Bonds"). The Refunded Bonds were issued for the purpose of financing the acquisition or construction of certain projects specified in the 2013 Capital

Projects General Obligation Bond Act and the 2015 Capital Projects General Obligation Bond Act.

<i>Interest Payment Dates</i>	March 1 and September 1, commencing March 1, 2018.
<i>Closing/Settlement</i>	On or about August 1, 2017.
<i>Denominations</i>	\$5,000 or integral multiples thereof
<i>Book-Entry System</i>	The Depository Trust Company
<i>Registrar/Paying Agent</i>	State Treasurer of New Mexico
<i>Co-Bond Counsel</i>	Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C.
<i>Disclosure Counsel</i>	Kutak Rock LLP
<i>Issuer Contact</i>	State Board of Finance: Leila Burrows Kleats, Director, 505-827-4377; <a href="mailto:LeilaK.Burrows@state.nm.us">LeilaK.Burrows@state.nm.us</a>

Date of Official Statement: July 18, 2017

## MATURITY SCHEDULES

### THE STATE OF NEW MEXICO CAPITAL PROJECT GENERAL OBLIGATION BONDS, SERIES 2017A

<b>Maturity Date (March 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield at Issuance<sup>(1)</sup></b>	<b>Price at Issuance<sup>(1)</sup></b>	<b>CUSIP<sup>(2)</sup></b>
2018	\$12,295,000	5.000%	0.870%	102.397%	647293 RA9
2019	9,880,000	5.000	0.990	106.283	647293 RB7
2020	10,880,000	5.000	1.090	109.932	647293 RC5
2021	12,120,000	5.000	1.170	113.401	647293 RD3
2022	13,425,000	5.000	1.260	116.604	647293 RE1
2023	14,815,000	5.000	1.380	119.387	647293 RF8
2024	16,315,000	5.000	1.540	121.581	647293 RG6
2025	17,915,000	5.000	1.680	123.544	647293 RH4
2026	19,625,000	5.000	1.840	124.982	647293 RJ0
2027	21,250,000	5.000	2.000	126.043	647293 RK7

### THE STATE OF NEW MEXICO GENERAL OBLIGATION BONDS, REFUNDING SERIES 2017B

<b>Maturity Date (March 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield at Issuance<sup>(1)</sup></b>	<b>Price at Issuance<sup>(1)</sup></b>	<b>CUSIP<sup>(2)</sup></b>
2018	\$14,040,000	5.000%	0.870%	102.397%	647293 RL5
2019	10,975,000	5.000	0.990	106.283	647293 RM3
2020	11,525,000	5.000	1.090	109.932	647293 RN1
2021	26,545,000	5.000	1.170	113.401	647293 RP6
2022	27,865,000	5.000	1.260	116.604	647293 RQ4
2023	29,265,000	5.000	1.380	119.387	647293 RR2
2024	15,400,000	5.000	1.540	121.581	647293 RS0
2025	16,175,000	5.000	1.680	123.544	647293 RT8

<sup>(1)</sup> This information has not been provided by the State.

<sup>(2)</sup> Copyright 2017, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein is provided by CUSIP Global Services (“CGS”), which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the State and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. 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*

MAGGIE TOULOUSE OLIVER  
*Secretary of State*

JOHN A. SANCHEZ  
*Lieutenant Governor*

TIM EICHENBERG  
*State Treasurer*

TIM KELLER  
*State Auditor*

HECTOR BALDERAS  
*Attorney General*

AUBREY DUNN  
*Commissioner of Public Lands*

Public Regulation Commissioners:

CYNTHIA B. HALL  
*District I*

PATRICK H. LYONS  
*District II*

VALERIE ESPINOZA  
*District III*

LYNDA LOVEJOY  
*District IV*

SANDY JONES  
*District V*

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*Sherman & Howard L.L.C.*  
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*Denver, Colorado*

**FINANCIAL ADVISORS**

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*Boulder, Colorado*

*Public Resources Advisory Group*  
*(as subcontractor)*  
*Los Angeles, California*

In connection with the offering of the Bonds, the Underwriter (defined below) 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 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 State Board of Finance (the "Board") is the author of this Official Statement and is responsible for its accuracy and completeness. Citigroup Global Markets, Inc. (the "Underwriter") purchased the Bonds pursuant to a public sale held on July 18, 2017. The Underwriter is not the author of this Official Statement. In accordance with their responsibilities under federal securities laws, the Underwriter is 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.

**CliftonLarsonAllen LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. CliftonLarsonAllen LLP also has not performed any procedures relating to this offering document.**

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## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
THE BONDS .....	3
General Terms.....	3
No Optional Redemption of Bonds.....	3
Authorization and Purpose.....	3
Security for the Bonds .....	3
OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS.....	4
Outstanding General Obligation Bonds .....	4
Mill Levy Rate .....	6
Limitations to the Issuance of Additional State General Obligation Bonds.....	6
Underlying General Obligation Bonds.....	7
THE PROJECTS .....	7
Plan of Financing.....	7
State Capital Program .....	8
THE STATE OF NEW MEXICO .....	9
Governmental Organization .....	9
PROPERTY VALUATION AND TAXATION.....	10
Property Tax System.....	10
Property Tax Valuation Limitations.....	12
Property Tax Mill Levy Limitations .....	14
FINANCIAL OVERVIEW OF THE STATE.....	15
General Fund Revenues, Expenditures and Ending Fund Balances .....	15
General Fund Taxes and Revenues .....	21
Gross Receipts and Compensating Taxes .....	21
Personal Income Tax.....	22
Corporate Income Tax .....	23
Mineral Production Taxes .....	24
Royalties, Rents and Bonuses .....	24
Investment Income.....	25
Review of Results and Projections in the General Fund .....	25
Severance Taxes (Not Part of General Fund).....	30
Severance Tax on Indian Land.....	31
Severance Tax Permanent Fund and the Land Grant Permanent Fund .....	31
State Auditing and Accounting Systems.....	33
State Budgetary and Appropriation Process.....	34
State Treasurer’s Office Investment Responsibilities .....	35
Pension and Other Retirement Funds and Benefits .....	36
Economic and Demographic Characteristics .....	43
BOOK-ENTRY-ONLY SYSTEM .....	48
SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.....	50
Covenants .....	50
Defeasance.....	51
Amendment of Resolution .....	52
Remedies of Holders of Bonds .....	53
Payment of Principal and Interest .....	53
TRANSCRIPT AND LEGAL OPINIONS .....	53
TAX MATTERS .....	54
LITIGATION .....	56
FINANCIAL STATEMENTS .....	56
FINANCIAL ADVISORS .....	56
RATINGS.....	56
CONTINUING DISCLOSURE UNDERTAKING .....	57
MISCELLANEOUS .....	57
APPENDIX A	STATE OF NEW MEXICO STATE GENERAL FUND COMPONENT APPROPRIATION ACCOUNTS ANNUAL FINANCIAL STATEMENTS
APPENDIX B	STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016
APPENDIX C	FORMS OF ATTORNEY GENERAL’S NO LITIGATION LETTERS
APPENDIX D	FORM OF OPINIONS OF CO-BOND COUNSEL
APPENDIX E	FORM OF CONTINUING DISCLOSURE UNDERTAKING

## SUMMARY OF INFORMATION

### **\$148,520,000 CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2017A \$151,790,000 GENERAL OBLIGATION BONDS, REFUNDING SERIES 2017B**

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

<i>Dated:</i>	Delivery Date.
<i>Interest Payment:</i>	Interest is payable semi-annually on March 1 and September 1, commencing on March 1, 2018.
<i>Principal Payment:</i>	The Bonds mature in serial installments as set forth on the inside cover page of this Official Statement.
<i>Redemption of Bonds:</i>	The Bonds are not subject to optional redemption prior to maturity.
<i>Registration:</i>	The Bonds are being issued solely in book-entry form in the denomination of \$5,000 or any integral multiple thereof. The Bonds are being registered to Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository.
<i>Legal Opinion:</i>	The Bonds are offered when, as and if issued, subject to the approval of legality by Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel.
<i>Security:</i>	<p>The 2017A Bonds are being issued under the authority of the 2016 Capital Projects General Obligation Bond Act, Chapter 82, Laws 2016 (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 2017B Bonds are being issued under the authority of NMSA 1978, Sections 6-12-6 through 6-12-14, as amended (the “State Refunding Bond Statutes”). The State Refunding Bond Statutes authorize the Board on behalf of the State Treasurer to issue refunding bonds in such manner as it shall determine for the purpose of refunding any of the bonded indebtedness of the State. The State Refunding Bond Statutes further direct 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.</p> <p>The Bonds are general obligations of the State, and the full faith and credit of the State is pledged to the payment of Bonds issued under the Act.</p>
<i>Limitation to the Issuance of Additional General Obligation Indebtedness:</i>	Section 8 of Article IX of the New Mexico State Constitution provides (in part) that no debt may be created if the total indebtedness of the State would thereby be made to exceed 1 percent of the assessed valuation of all the property subject to taxation in the State. Additional general obligation bonds for other than refunding purposes and levy of additional ad valorem taxes for payment thereof are subject to approval of the voters.

**STATE GENERAL OBLIGATION BONDS**

General obligation bonds outstanding upon issuance of the Bonds	\$ 95,610,000
Plus: The Bonds	<u>300,310,000</u>
Total State General Obligation Bonds, following delivery of the Bonds	<u>\$395,920,000</u>

**KEY BONDING MEASURES  
FOLLOWING THE ISSUANCE OF THE BONDS**

Total General Obligation Bonds per capita (2016 Estimate from Census Bureau)	\$190.25
Ratio of General Obligation Bonds to 2016 Net Taxable Value	0.696%
Ratio of General Obligation Bonds per capita to State 2016 estimated per capita personal income	0.490%
Percent of General Obligation Bonds due within 10 years	100.00%

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## **OFFICIAL STATEMENT**

### **THE STATE OF NEW MEXICO**

**\$148,520,000**

**CAPITAL PROJECTS GENERAL OBLIGATION BONDS, SERIES 2017A**

**\$151,790,000**

**GENERAL OBLIGATION BONDS, REFUNDING SERIES 2017B**

### **INTRODUCTION**

The purpose of this Official Statement, including the cover page, the inside cover page, the Summary of Information and the Appendices hereto, is to furnish information regarding the issuance of the \$148,520,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2017A (the “Series 2017A Bonds”) and the \$151,790,000 General Obligation Bonds, Refunding Series 2017B (the “Series 2017B Bonds”) and, collectively with the Series 2017A Bonds, 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 2017A Bonds are authorized in the maximum principal amount of \$186,159,000 by the 2016 Capital Projects General Obligation Bond Act, Chapter 82, Laws 2016 (the “Act”), passed by the State Legislature and approved in part by the voters in a statewide election on November 8, 2016. The 2017B Bonds are authorized by NMSA 1978, Sections 6-12-6 through 6-12-14, as amended (the “State Refunding Bond Statutes”). See “THE BONDS,” below. The Bonds are issued pursuant to a resolution of the Board adopted on June 20, 2017 and a bond sale resolution of the Board to be adopted on July 18, 2017 (collectively, the “Bond Resolution”). The 2017A Bonds are being issued to make capital expenditures for senior citizen facility improvements and acquisitions, for library acquisitions, for capital improvements and acquisitions at institutions of higher education, state special schools, and tribal schools and for capital improvements and acquisitions for public safety as set forth in the Act and approved by the voters of the State on November 8, 2016, as specified in the Act. The 2017B Bonds are being issued to refund certain outstanding maturities of the State of New Mexico, Capital Projects General Obligation Bonds, Series 2013 and Series 2015 (collectively, the “Refunded Bonds”). The Refunded Bonds were issued for the purpose of financing the acquisition or construction of certain projects specified in the 2013 Capital Projects General Obligation Bond Act and the 2015 Capital Projects General Obligation Bond Act.

This Official Statement contains summaries of the terms of the Bonds, certain fiscal matters of the State, and the Taxes (defined below) imposed by the State. The descriptions included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and descriptions are qualified in their entirety by reference to such laws, and the definitive forms of documents, exhibits or appendices where applicable.

Requests for additional information about the State, the Taxes, or requests for copies of any document or statute referred to in this Official Statement, may be directed to:

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## **THE BONDS**

### **General Terms**

The Bonds are dated their date of delivery, bear interest until the principal amount thereof is paid, and mature as set forth on the inside cover page hereof. Interest on the Bonds is payable on March 1 and September 1, commencing on March 1, 2018. The Bonds are being issued solely in book-entry form in denominations of \$5,000 or integral multiples thereof. The Bonds are being registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as depository for the Bonds. The Bonds are subject to transfer and exchange as set forth in the transactions authorized by the State Board of Finance in its resolutions of June 20, 2017 (the “Bond Resolution”).

### **No Optional Redemption of Bonds**

The Bonds will not be 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 2017A 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.

The 2017B Bonds are being issued pursuant to the authority of NMSA 1978, Sections 6-12-6 through 6-12-14, as amended (the “State Refunding Bond Statutes”). The State Refunding Bond Statutes authorize the Board on behalf of the State Treasurer to issue refunding bonds in such manner as it shall determine for the purpose of refunding any of the bonded indebtedness of the State. The State Refunding Bond Statutes further direct 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.

### **Security for the Bonds**

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 2009, Series 2011, Series 2013 and Series 2015 (collectively, the “Outstanding Bonds”). Property taxes are also levied for local government purposes including locally-authorized general obligation bonds of various cities, counties, and school and special districts in the State.

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

## **OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS**

### **Outstanding General Obligation Bonds**

The principal amount of State general obligation bonds that will be outstanding upon issuance of the Bonds (including the Bonds but excluding the bonds being refunding by the Series 2017B Bonds), the annual debt service requirements on the Bonds, and the annual debt service requirements on all such outstanding bonds at the delivery of the Bonds, are set forth below.

**TABLE 1**  
**General Obligation Bonds Outstanding Upon**  
**Issuance of the Bonds**

<b>Series</b>	<b>Principal Outstanding</b>
2009	\$ 48,125,000
2011	8,150,000
2015	39,335,000
2017A	148,520,000
2017B	<u>151,790,000</u>
Total	<u>\$395,920,000</u>

**TABLE 2**  
**Debt Service Requirements on the Bonds**

**Series 2017A<sup>(1)</sup>**

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Annual Total</b>
2018	\$ 12,295,000	\$ 4,331,833	\$ 16,626,833
2019	9,880,000	6,811,250	16,691,250
2020	10,880,000	6,317,250	17,197,250
2021	12,120,000	5,773,250	17,893,250
2022	13,425,000	5,167,250	18,592,250
2023	14,815,000	4,496,000	19,311,000
2024	16,315,000	3,755,250	20,070,250
2025	17,915,000	2,939,500	20,854,500
2026	19,625,000	2,043,750	21,668,750
2027	<u>21,250,000</u>	<u>1,062,500</u>	<u>22,312,500</u>
<b>Total</b>	<b><u>\$148,520,000</u></b>	<b><u>\$42,697,833</u></b>	<b><u>\$191,217,833</u></b>

<sup>(1)</sup> Figures have been rounded to the nearest dollar.

**Series 2017B<sup>(1)</sup>**

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Annual Total</b>
2018	\$ 14,040,000	\$ 4,427,208	\$ 18,467,208
2019	10,975,000	6,887,500	17,862,500
2020	11,525,000	6,338,750	17,863,750
2021	26,545,000	5,762,500	32,307,500
2022	27,865,000	4,435,250	32,300,250
2023	29,265,000	3,042,000	32,307,000
2024	15,400,000	1,578,750	16,978,750
2025	<u>16,175,000</u>	<u>808,750</u>	<u>16,983,750</u>
<b>Total</b>	<b><u>\$151,790,000</u></b>	<b><u>\$33,280,708</u></b>	<b><u>\$185,070,708</u></b>

<sup>(1)</sup> Figures have been rounded to the nearest dollar.

**TABLE 3**  
**Future General Obligation Bond Debt Service Requirements**  
**Upon Issuance of the Bonds <sup>(1)</sup>**

Date	Principal on Outstanding Bonds	Interest on Outstanding Bonds	Total Outstanding Bonds Debt Service	Less: Refunded Bonds Debt Service	The Bonds Debt Service	Total Debt Service on Outstanding Bonds and the Bonds	Fiscal Year Debt Service
09/01/17	\$	\$ 5,246,449	\$ 5,246,449	\$ 2,896,949	\$	\$ 2,349,500	\$
03/01/18	51,395,000	5,246,449	56,641,449	16,416,949	35,094,042	75,318,542	77,668,042
09/01/18		4,173,974	4,173,974	2,761,749	6,849,375	8,261,600	
03/01/19	53,540,000	4,173,974	57,713,974	16,556,749	27,704,375	68,861,600	77,123,200
09/01/19		3,052,374	3,052,374	2,623,799	6,328,000	6,756,575	
03/01/20	29,900,000	3,052,374	32,952,374	16,693,799	28,733,000	44,991,575	51,748,150
09/01/20		2,526,299	2,526,299	2,483,099	5,767,875	5,811,075	
03/01/21	30,955,000	2,526,299	33,481,299	31,278,099	44,432,875	46,636,075	52,447,150
09/01/21		1,978,474	1,978,474	1,978,474	4,801,250	4,801,250	
03/01/22	29,800,000	1,978,474	31,778,474	31,778,474	46,091,250	46,091,250	50,892,500
09/01/22		1,434,705	1,434,705	1,434,705	3,769,000	3,769,000	
03/01/23	30,890,000	1,434,705	32,324,705	32,324,705	47,849,000	47,849,000	51,618,000
09/01/23		857,000	857,000	857,000	2,667,000	2,667,000	
03/01/24	16,720,000	857,000	17,577,000	17,577,000	34,382,000	34,382,000	37,049,000
09/01/24		439,000	439,000	439,000	1,874,125	1,874,125	
03/01/25	17,560,000	439,000	17,999,000	17,999,000	35,964,125	35,964,125	37,838,250
09/01/25					1,021,875	1,021,875	
03/01/26					20,646,875	20,646,875	21,668,750
09/01/26					531,250	531,250	
03/01/27					<u>21,781,250</u>	<u>21,781,250</u>	<u>22,312,500</u>
Total	<u>\$260,760,000</u>	<u>\$39,416,548</u>	<u>\$300,176,548</u>	<u>\$196,099,548</u>	<u>\$376,288,542</u>	<u>\$480,365,542</u>	<u>\$480,365,542</u>

<sup>(1)</sup> 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% Bonding Limitation and the Bonds**

Net Taxable Value	\$56,922,567,412
General Obligation Bond Limit (1% of net taxable value)	\$569,225,674
Total Outstanding Bonds	\$260,760,000
Plus: The Bonds	300,310,000
Less: Refunded Bonds	<u>(165,150,000)</u>
Total General Obligation Bonds	<u>\$395,920,000</u>
Ratio of Total Debt to Net Taxable Value	0.696%

**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, 2016. The table does not include debt of special districts or community colleges. Fiscal Year 2017 data were not available at the time of publication.

**TABLE 5  
Certain Underlying General Obligation Debt**

Counties.....	\$ 337,734,610
Cities.....	\$ 496,511,343
Schools .....	\$2,171,445,000

**THE PROJECTS**

**Plan of Financing**

The Bonds are being issued to make capital expenditures for senior citizen facility improvements and acquisitions, for library acquisitions, for capital improvements and acquisitions at institutions of higher education, state special schools, and tribal schools and for capital improvements and acquisitions for public safety 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.

**TABLE 6**  
**Source and Use of Funds**

<b>Source</b>	<b>Series 2017A</b>	<b>Series 2017B</b>	<b>Total</b>
Par Amount of Bonds	\$148,520,000.00	\$151,790,000.00	\$300,310,000.00
Original Issue Premium	26,897,248.15	23,160,082.65	50,057,330.80
Total	<u>\$175,417,248.15</u>	<u>\$174,950,082.65</u>	<u>\$350,367,330.80</u>
 <b>Uses</b>			
Senior Citizens Projects	\$ 15,243,300	--	\$ 15,243,300
Library Projects	10,000,000	--	10,000,000
Higher Education Projects	131,106,200	--	131,106,200
Public Safety	18,000,000	--	18,000,000
Capitalized Interest Fund	4,494.51	--	4,494.51
Underwriter's Discount	247,253.64	\$ 252,697.48	499,951.12
Escrow Deposit	--	174,693,368.20	174,693,368.20
Costs of Issuance	816,000.00	4,016.97	820,016.97
Total	<u>\$175,417,248.15</u>	<u>\$174,950,082.65</u>	<u>\$350,367,330.80</u>

**State Capital Program**

State General Fund balances and proceeds from General Obligation Bonds, Senior Severance Tax Bonds, Supplemental Severance Tax Bonds and Transportation Bonds are important sources of capital financing for the State. The following table summarizes the capital funding administered by the Board and certain other sources for Fiscal Year 2013 through Fiscal Year 2017 year-to-date.

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**TABLE 7**  
**Principal Sources of Capital Project Funding**  
**Fiscal Year Ended June 30**  
**(Dollars in millions)**

	2013	2014	2015	2016	2017
<b>Proceeds from General Obligation Bonding Program<sup>(1)</sup></b>					
General Obligation Bonds	\$ <u>139.3</u>	\$ <u>0.0</u>	\$ <u>167.0</u>	\$ <u>0.0</u>	\$ <u>0.0</u>
Subtotal	<u>139.3</u>	<u>0.0</u>	<u>167.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Proceeds from Severance Tax Bonding Program<sup>(1)</sup></b>					
Severance Tax Bonds	0.0	339.7	0.0	293.1	51.0
Severance Tax Funding Notes <sup>(2)</sup>	112.0	90.5	128.2	8.6	38.5
Supplemental Severance Tax Bonds	0.0	0.0	0.0	81.0	0.0
Supplemental Severance Tax Funding Notes <sup>(2)</sup>	<u>167.8</u>	<u>175.2</u>	<u>214.5</u>	<u>127.3</u>	<u>120.4</u>
Subtotal	279.8	605.4	342.7	510.0	209.9
<b>Proceeds From Other Sources</b>					
Transportation Bonds	<u>0.0</u>	<u>70.1</u>	0.0	0.0	0.0
Subtotal	<u>0.0</u>	<u>70.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total <sup>(3)</sup>	<u>\$419.1</u>	<u>\$675.5</u>	<u>\$509.7</u>	<u>\$510.0</u>	<u>\$209.9</u>

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

<sup>(2)</sup> The Board issues Senior Funding Notes and Supplemental Funding Notes to fund authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.

<sup>(3)</sup> Totals may not add due to rounding.

In addition to the General Obligation Bonding Program, the Severance Tax Bonding Program and the Supplemental Severance Tax Bonding Program issued and administered by the Board, there are a number of other sources of funds for capital projects throughout the State. These other sources of funding include surplus General Fund appropriation, special appropriations and proceeds of bonds issued by, among others, the New Mexico Finance Authority, the State Transportation Commission and state educational institutions.

## THE STATE OF NEW MEXICO

The State of New Mexico, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state in land area, containing approximately 121,593 square miles. The estimated 2016 population of the State is 2,081,015 according to the United States Census Bureau. The State has a semiarid subtropical climate with light precipitation. Its climate is characterized by sunshine and bright skies in both winter and summer. Every part of the State receives no less than 70 percent sunshine year-round. Humidity ranges from 30 to 60 percent. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

### Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, and Commissioner of Public Lands. These officials are elected to four-year terms beginning January 1 after their election. An elected Executive Branch officer may succeed himself or herself in office once. The primary functions of the

Executive Branch are currently carried out by the offices of each elected Executive Branch officeholder, in addition to approximately 22 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Legislature, and approximately 9 cabinet-level agencies. Elections for all statewide offices were held on November 4, 2014.

The State Board of Finance (the “Board”) 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 Secretary of the Department of Finance and Administration (“DFA”) serves as the Executive Officer of the Board and is a non-voting Board member. The Board, in addition to other powers and duties provided by law, has general supervisory authority over the fiscal affairs of the State and over the safekeeping and depositing of all money and securities belonging to, or in the custody of, the State. The Governor serves as the President of the Board.

The DFA is the principal financial organization of State government and performs through its divisions the duties and functions relating to State and local government financing and general administration. The executive and administrative head of the DFA is the Secretary, who is appointed by the Governor with the advice and consent of the Senate. The Board of Finance is a division of the DFA that provides operational, analytical and administrative support to the Board. The Director of the Board is appointed by the Secretary with the approval of the Board.

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

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

## **PROPERTY VALUATION AND TAXATION**

### **Property Tax System**

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

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

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

Property valuations are established as of January 1 of each year (except for certain livestock). Centrally assessed property is verified and certified to local assessors who combine the values with all locally assessed property values. The totals are reported to the Central Assessment Bureau and the DFA, and certified for budgetary use. County treasurers levy the applicable rates against individual properties and are required to mail tax bills for the current tax year no later than November 1. Property taxes are due in two equal installments on November 10 and April 10. Taxes become delinquent on December 10 and May 10 following the two respective due dates. Civil penalties and interest are imposed on delinquent taxes. County treasurers are responsible for collecting property taxes and distributing them to governmental entities that receive them. Major property tax recipients include counties, municipalities, and school districts. In Property Tax Year 2016, 4.5 percent of property tax collections statewide were distributed to the State for payment of principal of and interest on general obligation bonds.

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

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

Oil and natural gas properties and related production equipment are subject to property taxation in the State. The oil and natural gas ad valorem production tax is levied and collected by the Oil and Gas Bureau of the TRD on the basis of assessed value deemed the equivalent of 50 percent of the actual price of oil and natural gas received at the production unit multiplied by the volume of oil and natural gas

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

### **Property Tax Valuation Limitations**

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

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

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

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

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

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

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

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

While the Supreme Court declared the change-of-ownership exception to the revaluation limitation constitutional, it remains to be seen whether county assessors around the State who stopped the practice of revaluing properties at their current fair market value upon a change of ownership will reinstitute it. If the county assessors re-institute acquisition-value taxation under the exception, it will likely increase property tax revenue going forward, barring any material reduction in residential property values statewide. Any such reduction could result in a diminution of state general obligation bond capacity. Additionally, limitations on assessments could cause an increase to the property tax levied against tax payers necessary to pay debt service on state general obligation bonds.

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

**TABLE 8**  
**Final Net Taxable Valuations**  
**(Dollars in Thousands)**

<b>Property Tax Year</b>	<b>Residential</b>	<b>Non-Residential</b>	<b>Oil and Gas</b>	<b>Copper</b>	<b>Net Taxable Value</b>
2007	\$25,805,629	\$14,458,192	\$5,758,696	\$133,262	\$47,288,631
2008	27,798,246	15,259,324	7,245,955	160,279	50,463,804
2009	29,455,894	16,383,859	9,033,975	172,481	55,046,209
2010	29,845,647	16,513,415	4,556,355	125,538	51,040,955
2011	30,265,867	16,594,029	5,868,724	117,476	52,846,098
2012	30,794,394	16,639,038	6,938,090	119,440	54,490,962
2013	31,320,905	16,824,354	6,431,256	149,491	54,726,006
2014	31,678,950	17,161,038	7,710,780	184,736	56,735,505
2015	32,396,576	17,720,157	8,463,290	211,459	58,791,482
2016	33,533,677	18,181,319	4,982,793	224,778	56,922,567

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 9**  
**Maximum Operating Mill Levy Rates**

Counties .....	11.85
Cities .....	7.65
Schools.....	0.50
Maximum Combined Statutory Rate .....	20.00

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

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

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

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

## **FINANCIAL OVERVIEW OF THE STATE**

### **General Fund Revenues, Expenditures and Ending Fund Balances**

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

The following table lists audited revenues, expenditures and ending fund balances for Fiscal Years 2013 through 2016 and result projections for Fiscal Year 2017 and 2018.

**TABLE 10**

**GENERAL FUND FINANCIAL SUMMARY FISCAL YEAR 2013 – FISCAL YEAR 2018**  
**(Dollars in thousands)**

	<u>Actual</u> <u>2013</u>	<u>Actual</u> <u>2014</u>	<u>Actual</u> <u>2015</u>	<u>Actual</u> <u>2016</u>	<u>Projected*</u> <u>2017</u>	<u>Projected*</u> <u>2018</u>
<b>A. APPROPRIATION ACCOUNT</b>						
<b>Recurring Receipts:</b>						
General and Selective Sales Taxes	\$ 2,397,750	\$ 2,514,262	\$ 2,695,544	\$ 2,553,767	\$ 2,453,800	\$ 2,629,600
Income Taxes	1,508,102	1,451,733	1,594,190	1,445,711	1,401,000	1,446,000
Severance Taxes	438,357	557,113	427,453	279,751	310,600	335,300
License Fees	50,011	51,667	55,875	54,815	55,800	56,900
Investment Income	631,786	638,851	702,493	770,258	740,900	811,000
Rents and Royalties	504,263	617,341	584,419	437,822	475,000	489,000
Miscellaneous Receipts	41,272	45,015	56,153	48,063	61,500	56,700
Tribal Revenue Sharing	70,709	67,582	67,178	64,413	64,200	64,700
Reversions/Adjustments	65,761	96,538	51,455	54,184	37,500	40,000
<b>Total Recurring Receipts</b>	<b>5,708,012</b>	<b>6,040,103</b>	<b>6,234,759</b>	<b>5,708,783</b>	<b>5,600,300</b>	<b>5,929,200</b>
<b>Total Nonrecurring and Adjustments<sup>(1)</sup></b>	<b>618</b>	<b>443</b>	<b>1,100</b>	<b>74</b>	<b>199,397</b>	<b>13,403</b>
<b>Total Receipts</b>	<b>\$ 5,708,629</b>	<b>\$ 6,040,547</b>	<b>\$ 6,235,859</b>	<b>\$ 5,708,858</b>	<b>\$ 5,799,697</b>	<b>\$ 5,942,603</b>
<b>Recurring Appropriations:</b>						
Legislative	\$ 27,314	\$ 24,495	\$ 29,419	\$ 26,035	\$ 28,141	18,897
Judicial	199,026	207,643	218,643	273,949	268,147	274,452
General Control	160,634	176,216	201,436	135,273	123,053	114,837
Commerce and Industry/Exam. and Lic.	43,890	46,010	50,019	53,391	58,543	54,949
Agriculture, Energy and Natural Resources	62,814	66,424	71,920	71,144	64,772	62,870
Health, Hospitals and Human Services	1,584,339	1,637,277	1,641,473	1,655,433	1,652,187	1,651,538
Public Safety	367,803	377,493	393,903	415,656	428,419	430,202
Other Education	52,573	68,734	106,910	112,902	105,697	101,250
Higher Education	757,717	796,011	838,565	843,428	786,867	779,345
Public School Support	2,402,768	2,498,742	2,608,378	2,623,316	2,580,233	2,594,274
Recurring Appropriations	5,658,878	5,899,044	6,160,667	6,210,527	6,096,056	6,082,614
Other Recurring Appropriations	-	-	-	-	-	-
<b>Total Recurring Appropriations</b>	<b>5,658,878</b>	<b>5,899,044</b>	<b>6,160,667</b>	<b>6,210,527</b>	<b>6,096,056</b>	<b>6,082,614</b>
<b>Nonrecurring Appropriations<sup>(2)</sup></b>	<b>68,225</b>	<b>36,961</b>	<b>114,551</b>	<b>98,308</b>	<b>13,112</b>	<b>-</b>

	<u>Actual</u> <u>2013</u>	<u>Actual</u> <u>2014</u>	<u>Actual</u> <u>2015</u>	<u>Actual</u> <u>2016</u>	<u>Projected*</u> <u>2017</u>	<u>Projected*</u> <u>2018</u>
<b>Total Appropriations</b>	\$ 5,727,103	\$ 5,936,005	\$ 6,275,218	\$ 6,308,835	\$ 6,109,168	\$ 6,082,614
Transfers from/(to) Other Accounts <sup>(3)</sup>				5,500	332,453	8,000
<b>TRANSFER FROM/(TO) RESERVE ACCOUNTS</b>	<b>\$ 18,474</b>	<b>\$ (104,542)</b>	<b>\$ 39,359</b>	<b>\$ 594,477</b>	<b>\$ (22,983)</b>	<b>\$ 132,011</b>
<b>B. OPERATING RESERVE</b>						
<b>Beginning Balance</b>	\$ 346,945	\$ 327,306	\$ 274,603	\$ 319,790	\$ 2,000	\$ 22,983
Revenues/Repayments/Reversions	92	973	0	0		
Appropriations:						
Contingencies		(103,746)	100,000			
Restricted Funds		(36,000)		36,000		
Other Appropriations and Adjustments	(1,257)	(1,471)	(454)	(390)	(2,000)	(2,000)
<b>Total Appropriations<sup>(4)</sup></b>	<b>(1,257)</b>	<b>(141,217)</b>	<b>99,546</b>	<b>35,610</b>	<b>(2,000)</b>	<b>(2,000)</b>
Transfers:						
From/(To) General Fund Appropriations Account	(18,474)	104,542	(39,359)	(485,425)	22,983	(132,011)
From/(To) Appropriation Contingency Fund		(17,000)	(15,000)	(20,000)	-	-
From/(To) Tax Stabilization Reserve Fund				147,469		
From/(To) Other State Funds				4,555		
<b>Total Transfers</b>	<b>(18,474)</b>	<b>87,542</b>	<b>(54,359)</b>	<b>(353,401)</b>	<b>22,983</b>	<b>(132,011)</b>
<b>Ending Balance<sup>(5)</sup></b>	<b>\$ 327,306</b>	<b>\$ 274,603</b>	<b>\$ 319,790</b>	<b>\$ 2,000</b>	<b>\$ 22,983</b>	<b>\$ (111,028)</b>
<b>C. STATE SUPPORT RESERVE</b>						
<b>Beginning Balance</b>	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Transfers From Operating Reserve/ Appropriation Account	-					
<b>Ending Balance</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>
<b>D. APPROPRIATION CONTINGENCY FUND</b>						
<b>Beginning Balance, Excluding Education Reform</b>	\$ 29,505	\$ 16,394	\$ 18,409	\$ 28,440	\$ 34,372	\$ 26,122
Receipts:						
Reversions	15,314	4,240	7,709	2,182	8,000	8,000
Transfers From General Fund/Appropriation Contingency Fund	-	17,000	15,000	20,000		
Expenditures/Appropriations: <sup>(6)</sup>						
Disasters	(28,425)	(19,225)	(12,625)	(16,250)	(16,000)	(16,000)

	<u>Actual</u> <u>2013</u>	<u>Actual</u> <u>2014</u>	<u>Actual</u> <u>2015</u>	<u>Actual</u> <u>2016</u>	<u>Projected*</u> <u>2017</u>	<u>Projected*</u> <u>2018</u>
Other	-	-	(53)	-	(250)	-
<b>Ending Balance, Excluding Education Reform</b>	<b>\$ 16,394</b>	<b>\$ 18,409</b>	<b>\$ 28,440</b>	<b>\$ 34,372</b>	<b>\$ 26,122</b>	<b>\$ 18,122</b>
<b>Education Reform:</b>						
<b>Beginning Balance, Education Reform</b>	<b>\$ 39,047</b>	<b>\$ 9,047</b>	<b>\$ 3,047</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Transfers In	-	-	-	-	-	-
Expenditures	(30,000)	(6,000)	(3,047)			
<b>Ending Balance, Education Reform</b>	<b>\$ 9,047</b>	<b>\$ 3,047</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Ending Balance, Appropriation Contingency Fund</b>	<b>\$ 25,441</b>	<b>\$ 21,456</b>	<b>\$ 28,440</b>	<b>\$ 34,372</b>	<b>\$ 26,122</b>	<b>\$ 18,122</b>
<b>E. TAX STABILIZATION RESERVE</b>						
<b>Beginning Balance</b>	<b>\$ 147,469</b>	<b>\$ 147,469</b>	<b>\$ 147,469</b>	<b>\$ 147,469</b>	<b>\$ -</b>	<b>\$ -</b>
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	(147,469)	-	-
<b>Ending Balance<sup>(7)</sup></b>	<b>\$ 147,469</b>	<b>\$ 147,469</b>	<b>\$ 147,469</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE <sup>(8)</sup></b>						
<b>Beginning Balance</b>	<b>\$ 148,978</b>	<b>\$ 170,166</b>	<b>\$ 193,461</b>	<b>\$ 216,362</b>	<b>\$ 110,357</b>	<b>\$ 146,117</b>
Transfers In	39,303	21,124	35,036	39,552	54,251	39,000
Transfers Out	(39,303)	(29,354)	(19,283)	(149,135)	(37,000)	(39,000)
Gains/(Losses)	21,188	31,526	7,147	3,579	18,508	9,498
<b>Ending Balance</b>	<b>\$ 170,166</b>	<b>\$ 193,461</b>	<b>\$ 216,362</b>	<b>\$ 110,357</b>	<b>\$ 146,117</b>	<b>\$ 155,614</b>
<b>G. TAXPAYER DIVIDEND FUND</b>						
<b>Beginning Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Gains/Losses	-	-	-	-	-	-
<b>Ending Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>H. TOTAL RESERVE BALANCES</b>						
<b>Beginning Balance</b>	<b>\$ 712,944</b>	<b>\$ 671,382</b>	<b>\$ 637,989</b>	<b>\$ 713,060</b>	<b>\$ 147,729</b>	<b>\$ 196,222</b>
<b>Ending Balance*</b>	<b>\$ 671,382</b>	<b>\$ 637,989</b>	<b>\$ 713,060</b>	<b>\$ 147,729</b>	<b>\$ 196,222</b>	<b>\$ 63,709</b>
Reserves as a Percentage of Current-Year Recurring Appropriations	11.9%	10.8%	11.6%	2.4%	3.2%	1.0%

## **NOTES TO GENERAL FUND FINANCIAL SUMMARY:**

**\*The General Fund Financial Summary reflects the December 2016 consensus revenue estimate, which is expected to be revised upward with the release of the August 2017 consensus revenue estimate. Based on year-to-date FY2017 revenue accruals, FY2017 revenues are expected to exceed the December 2016 estimate by roughly \$120 million, resulting in a FY2017 ending balance of \$316 million or 5.2% of recurring appropriations and FY2018 ending balance of \$184 million or 3.0% of recurring appropriations. A portion of the revenue strength is expected to be recurring, carrying over to FY2018.**

### **(1) Appropriation Account, Nonrecurring Revenue:**

**FY17 includes the following from Laws 2016:** \$8.0 million in disencumbered balances from prior year general fund appropriations (Laws 2016, Ch. 12), \$3.9 million reversion of unspent balances of prior year taxable bond proceeds (Laws 2016, Ch. 12), \$56.2 million in deauthorized and reverted general fund capital outlay funding (Laws 2016, 2<sup>nd</sup> Special Session, Ch. 5), and a revenue reduction of \$672,000 from the State Lands Maintenance Fund (Laws 2016, Ch. 11).

**FY17 includes the following from Laws 2017:** \$46.1 million reduction in Public School state equalization guarantee distributions as credit for excess FY2016 operational fund cash balances (Laws 2017, Ch. 3), \$78.3 million from adopting an insurance premiums revenue recognition process compliant with generally accepted accounting principles and aligning cash receipts to cash disbursements, and an \$8.0 million reduction in special appropriations to the Public Education Department (Laws 2017, Ch. 2).

**FY18 includes the following from Laws 2017:** \$10.7 million from adopting an insurance premiums revenue recognition process compliant with generally accepted accounting principles and aligning cash receipts to cash disbursements, \$0.8 million from the elimination of a distribution of cigarette tax revenue to the New Mexico Finance Authority, \$0.9 million from increases to penalties for Occupational Safety and Health Act violations and the imposition of penalty and interest on tax liability assigned to successors in business, and a \$0.9 million suspension of distribution to the legislative retirement fund.

### **(2) Appropriation Account, Nonrecurring Appropriations:**

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

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

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

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

**FY15 includes the following appropriations from Laws 2015:** \$93.7 million from Sections 5 and 6 of the General Appropriation Act of 2015 (Laws 2015, Ch. 101) and \$4.3 million from the 2015 1<sup>st</sup> Special Session (Laws 2015, Ch. 1, Sec. 3).

**FY16 includes the following appropriations from Laws 2015:** \$1.4 million from Section 5 of the General Appropriation Act of 2015 (Laws 2015, Ch. 101) and \$30 million for capital outlay projects (Laws 2015, 1<sup>st</sup> Special Session, Ch. 3).

**FY16 includes the following appropriations from Laws 2016:** \$66.9 million from Sections 5 and 6 of the General Appropriation Act of 2016 (Laws 2016, Ch. 11).

**FY17 includes the following appropriations from Laws 2016:** \$0.4 million from Section 5 of the General Appropriation Act of 2016 (Laws 2016, Ch. 11), \$1.0 million to the SBOF to be disbursed to agencies experiencing hardship as a result of special session budget cuts (Laws 2016, 2<sup>nd</sup> Special Session, Ch. 6), and \$1.5 million for child abuse prevention (Laws 2016, 2<sup>nd</sup> Special Session, Ch. 3).

**FY17 includes the following appropriations from Laws 2017:** \$6.4 million from Sections 5 and 6 of the General Appropriation Act of 2017 (Laws 2017, Ch. 135), \$1.7 million in supplemental appropriations to the courts (Laws 2017, Ch. 5), \$2.1 million in supplemental general appropriations (Laws 2017, 1st Special Session, Ch. 2).

### **(3) Appropriation Account, Transfers from/(to) Other Accounts:**

**FY16 includes** \$5.5 million transfer from the state government unemployment compensation reserve fund.

**FY17 includes** \$44.0 million transfer from other state funds (Laws 2016, Ch. 12), \$10 million transfer from the New Mexico Finance Authority (Laws 2016, Ch. 12), \$9.1 million transfer of unspent balances of prior year taxable bond proceeds (Laws 2016, Ch. 12), \$19.2 million to restore general fund capital expenditures to be funded through severance tax bond proceeds (Laws 2016, 2nd Special Session, Ch. 5), \$28.3 million from the suspension of a distribution of severance tax bond revenue to the severance tax permanent fund (Laws 2016, 2nd Special Session, Ch. 5), \$61.2 million transfer from other state funds (Laws 2016, 2nd Special Session, Ch. 4), \$15.5 million transfer from the New Mexico Mortgage Finance Authority (Laws 2016, 2nd Special Session, Ch. 4), \$16.1 million transfer from the Public Education Department (Laws 2016, 2nd Special Session, Ch. 4), \$47.2 million transfer from other state funds (Laws 2017, Ch. 5), an \$81.4 million swap of supplemental severance tax funding notes to restore prior year general fund capital expenditures (Laws 2017, 1st Special Session, Ch. 1), and \$730,000 transfer from other state funds (Laws 2017, 1st Special Session, Ch. 1).

**FY18 includes** \$8 million transfer from other state funds (Laws 2017, 1st Special Session, Ch. 1).

### **(4) General Fund Operating Reserve:**

**FY13 includes** \$1.3 million for State Board of Finance Emergency Fund appropriation and repayment/reversion.

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

**FY15 includes** \$0.5 million for State Board of Finance Emergency Fund appropriation and repayment/reversion, \$15 million transfer to the appropriation contingency fund, and release of the \$100 million contingent liability established in the Fiscal Year 2012 and Fiscal Year 2014 General Fund financial statements.

**FY16 includes** \$0.4 million for State Board of Finance Emergency Fund appropriation and repayment/reversion, \$20 million transfer to the appropriation contingency fund, \$147.5 million transfer from the tax stabilization reserve, \$4.6 million transfer from other state funds (HB311, Laws 2016), and release of the \$36 million restricted fund balance for Special Education Maintenance of Effort funding (HB311, Laws 2016).

**FY17 includes** \$2.0 million for the State Board of Finance Emergency Fund appropriation.

**FY18 includes** \$2.0 million for the State Board of Finance Emergency Fund appropriation.

**(5) Year-ending Balances in the Operating Reserve:**

If the ending 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.

**(6) Appropriation Contingency Fund Appropriations:**

**FY13 includes the following appropriations/transfers from Laws 2012:** \$1.5 million for education reform (Laws 2012, Ch. 19, Sec. 5).

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

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

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

**FY15 includes the following appropriations/transfers from Laws 2014:** \$15 million transfer from the operating reserve (Laws 2014, Ch. 63, Sec. 12), \$12.6 million for disaster allotments, and \$3.1 million for education reform (Laws 2015, Ch. 101, Sec. 5).

**FY16 includes the following appropriations/transfers from Laws 2015:** \$20 million transfer from the operating reserve (Laws 2015, Ch. 101, Sec. 11), and \$16.3 million for disaster allotments.

**FY17 includes the following appropriations/transfers from Laws 2016:** \$0.3 million for the relocation of the Bernalillo County child wellness center (Laws 2016, Ch. 11, Sec. 5).

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

Prior to July 1, 2018, if the ending balance in the Tax Stabilization Reserve exceeds 6 percent of the previous year's recurring appropriations, the excess over 6 percent is transferred to the Taxpayer's Dividend Fund.

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

**FY13** – 100 percent of Tobacco Settlement Permanent Fund revenues, equaling \$39.3 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50 percent transfer (Laws 2011, Chapter 3).

**FY14** – Tobacco Settlement Permanent Fund revenues were reduced by approximately \$18.4 million as a result of a panel decision that found New Mexico noncompliant in its 2003 enforcement of the Master Settlement Agreement. 50 percent of Tobacco Settlement Permanent Fund revenues, or \$10.6 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, 25 percent of Tobacco Settlement Permanent Fund revenues or \$5.3 million were transferred to CYFD for early childhood learning initiatives, and 25 percent of Tobacco Settlement Permanent Fund revenues or \$5.3 million were transferred to the Legislative Lottery Scholarship Fund to address solvency (Laws 2013, Ch. 228). \$8.2 million was appropriated from the Tobacco Settlement Permanent Fund for Medicaid (Laws 2014, Ch. 63, Sec. 12).

**FY15** – 50 percent of Tobacco Settlement Permanent Fund revenues, or \$19.3 million, were transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978.

**FY16** – 100 percent of Tobacco Settlement Permanent Fund revenues, or \$39.6 million, were transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978.

\$0.5 million was appropriated from the Tobacco Settlement Permanent Fund for Medicaid (Laws 2015, Ch. 101, Sec. 11). \$109.1 million was transferred to the Appropriation Account (Laws 2016, 2<sup>nd</sup> Special Session, Ch. 4).

**FY17** – \$37 million of Tobacco Settlement Permanent Fund revenues were transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978 and Laws 2016, Ch. 12 and Laws 2017, Ch. 135. The settlement distribution was increased by \$17 million over the estimate due to the State's prevailing in a motion filed to vacate the Partial Arbitration Award issued by the 2003 NPM Adjustment Dispute arbitration panel.

## **General Fund Taxes and Revenues**

Programs and operations of the State are predominantly funded through a system of 28 major taxes, and a substantial number of minor taxes, administered by the TRD. The Office of the Superintendent of Insurance collects taxes on insurance premiums. The Regulation and Licensing Department collects professional licensing fees and a number of charges for regulating activities and professions in the state. In addition, interest income and earnings from the Land Grant Permanent Fund, the Severance Tax Permanent Fund and cash balances invested by the State 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 city and county local-option gross receipts taxes. The statewide gross receipts tax rate was increased from 5 to 5.125 percent effective July 1, 2010 as a result of action taken during the 2010 special legislative session. Receipts from the statewide gross receipts tax levy, less certain disbursements, are deposited in the State General Fund. The disbursements include 1.225 percent of the taxable gross receipts reported in each incorporated municipality to that municipality. The County Equalization Distribution is made annually from state gross receipts tax revenues; it has averaged \$18.9 million over the past five years. After all other distributions, the General Fund share of gross receipts tax collections was 64 percent in Fiscal Year 2016 and is expected to be about 60 percent for subsequent years. Fiscal Year 2017 data were not available at the time of publication.

Receipts from the compensating tax, less distributions, are transferred to the state General Fund. Compensating tax distributions include 15 percent to the small cities assistance fund and 10 percent to the small counties assistance fund, and a distribution to municipalities based on the level of their taxable gross receipts. In Fiscal Year 2012, legislation increased the distribution to small cities from 10 percent

to 15 percent, increased the minimum distribution to small cities from \$35,000 to \$90,000, and amended statute to allow for larger distributions to small counties. The distribution changes went into effect in Fiscal Year 2014.

In 2005, the Legislature made a number of changes to the state gross receipts tax laws in Sections 7-1-6.16, 7-1-6.46, 7-1-6.47, 7-9-92 and 7-9-93 NMSA 1978. The credit of 0.5 percent granted to municipalities against the statewide rate was eliminated. The tax on food for off-premise consumption and certain medical services also was eliminated. After the 2005 legislative changes, retailers are required to report receipts from sales of groceries to claim the deduction. The deduction does not apply to receipts of restaurants or sales of prepared foods. The legislation also created a gross receipts tax deduction for some receipts of licensed health care providers (broadly defined) from Medicare Part C and managed health care plans, and health care insurers. This medical deduction was modestly expanded in the 2007 legislative session. The 2005 legislation also provided for payments from the State to reimburse local governments for all lost gross receipts tax revenues due to these deductions. Legislation in 2007 froze the rate, but not the size, of these payments for counties with a population over 48,000, and municipalities with a population greater than 10,000 or greater than average per capita taxable gross receipts. In the 2013 legislative session, a bill was enacted which, among other things, will eliminate these payments to certain large local governments over a 15 year period beginning in Fiscal Year 2016.

In Fiscal Year 2016, total distributions to the General Fund from gross receipts and compensating taxes decreased by 6.7 percent over the previous fiscal year to \$2.0 billion, comprising 35 percent of recurring General Fund revenue. Fiscal Year 2017 data were not available at the time of publication.

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

In the 2016 Fiscal Year, total distributions to the General Fund from personal income tax decreased by 0.9 percent over the previous fiscal year to \$1.3 billion, and generated 23.3 percent of total recurring General Fund revenue. Fiscal Year 2017 data were not available at the time of publication.

Current State tax rates are set forth below:

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

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

### **Corporate Income Tax**

The corporate income tax is imposed on the net income of a corporation doing business in the State or deriving any income from property or employment in the State by Section 7-2A-3 NMSA 1978. Collections, net of refunds, are transferred to the General Fund. Corporations are required to file a return on or before the 15<sup>th</sup> 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.

For tax year 2015, 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 6.9 percent on income in excess of \$1,000,000. For the 2016 Fiscal Year the top rate for 2016 was 6.6 percent, with total distributions to the General Fund of net receipts from corporate income taxes totaled \$118.5 million. This is a decrease of 53.4 percent from the prior fiscal year and generated 2.1 percent of recurring General Fund revenue. Fiscal Year 2017 data were not available at the time of publication.

In recent years, a number of credits administered through the corporate income tax system have been enacted. These include: the film production credit, enacted as Section 7-2F-1 NMSA 1978; the real property tax credit, enacted as Section 7-2-18.10 NMSA 1978; the rural jobs tax credit, enacted as Section 7-2E-1 NMSA 1978; the biodiesel production and sale credit, enacted as Section 7-2-18.21 NMSA 1978; the sustainable building tax credit, enacted as Section 7-2-18.19 NMSA 1978; and the renewable energy production tax credit, enacted as Section 7-2A-19 NMSA 1978. The 2011 Legislature placed a cap of \$50 million per year on the film production tax credit, and added a deferred payment process for larger productions. In the first year of enactment, Fiscal Year 2012, film credit refunds totaled \$10 million, partly due to the rush to file claims in Fiscal Year 2011 prior to enactment of the cap. The film credit cap has been reached each year since the \$50 million cap was imposed. TRD expects the State to continue to invest \$50 million into the film industry in the foreseeable future. This is for two reasons: (1) the number of applications for this refundable tax credit has been increasing over time, and (2) by statute, if there are less than \$50 million in film credits refunded, the State is required to accelerate payments for taxpayers who have already filed.

In the 2013 legislative session, House Bill 641 (Chapter 160) was enacted, which will reduce the State corporate income tax rate over several years to a maximum marginal rate of 5.9 percent. The legislation also allows manufacturers in the State to use sales as a single factor in calculating income tax liability. The Legislation also requires certain corporate taxpayers to adhere to mandatory combined reporting of unitary corporations for tax purposes. During the 2014 legislative session, Senate Bill 106 (Chapter 53) was enacted extending the net operating loss carryforward to 20 years from 5 years in prior law.

### **Mineral Production Taxes**

Mineral production taxes (Resources 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 (“CO<sub>2</sub>”) 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 2016 Fiscal Year, distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled \$236.4 million. This represents a 36.9 percent decrease from the prior fiscal year. Other General Fund taxes on natural resource production totaled \$43.0 million. For Fiscal Year 2016, these mineral production taxes contributed 4.8 percent of recurring General Fund revenue. Fiscal Year 2017 data were not available at the time of publication.

In 2002, the Legislature created the Jicarilla Apache Tribal Capital Improvement Tax Credit, codified in Section 7-31-27 NMSA 1978. This tax credit can reduce the Oil and Gas Emergency School Tax on products severed from wells drilled on the Jicarilla Apache Nation by up to 0.7 percent of the taxable value of production. Proceeds of the tax credit must be used exclusively to fund capital improvement projects on Jicarilla Apache tribal lands, although funds may not be used to finance commercial activity. This credit totaled \$400 thousand for Fiscal Year 2016. Fiscal Year 2017 data were not available at the time of publication.

### **Royalties, Rents and Bonuses**

*Federal Lands.* Under terms of the 1920 Federal Mineral Leasing Act, the State receives 50 percent of all income generated from leasing federal lands located in the State for mineral production. Principal sources of income are royalty payments on oil and natural gas production. Additional income is derived from bonus payments for oil and natural gas leases and royalty payments on production of coal, potash and other minerals. The U.S. Office of Natural Resources Revenue, part of the former Minerals Management Service, collects federal mineral lease income and deducts 2 percent from the State’s share for administrative costs. The State receives payments on a monthly basis and makes deposits to the General Fund. In Fiscal Year 2016, total distributions to the General Fund from federal mineral leases totaled \$390.0 million. This equals 6.8 percent of recurring General Fund receipts for the fiscal year. Fiscal Year 2017 data were not available at the time of publication.

Federal Fiscal Year 2009 appropriations bills implemented a 2 percent administrative fee cut from the federal royalty payments to states. This 2 percent fee was extended each federal fiscal year since 2009, and extended for 10 years in the 2013 Bipartisan Budget Act. Approximately \$11.9 million was

deducted in Fiscal Year 2014, \$11.1 million was deducted in Fiscal Year 2015, and \$8.0 million was deducted in Fiscal Year 2016. Fiscal Year 2017 data were not available at the time of publication.

In Federal Fiscal Year 2016, federal mineral leasing revenues were sequestered at the rate of 6.8 percent, totaling \$24.3 million. These revenues were returned to New Mexico at the beginning of Federal Fiscal Year 2017. The sequestration of these revenues continues in Federal Fiscal Year 2017 at the rate of 6.9 percent. These revenues are expected to be returned to the State in Federal Fiscal Year 2018. Fiscal Year 2017 data were not available at the time of publication.

*State Trust Lands.* The Commissioner of Public Lands and the State Land Office manages lands acquired by the State under the federal Fergusson Act and the Enabling Act for New Mexico enacted prior to statehood, as well as under the State Constitution. All income from State trust lands is dedicated to specific institutions; each section of State trust land has a specific named beneficiary institution. As with federal lands, the oil and natural gas industry is the principal source of revenue from State trust lands. Bonus income is also collected in the form of cash payments as a result of competitive bidding for State leases. Rentals and bonus income are distributed to the respective beneficiary institutions. The largest beneficiary group is the State's public school system. Mineral production from State trust lands also generates royalty income which is deposited in the State Land Grant Permanent Fund ("LGPF"). Royalties are imposed on most mineral production values at the rate of 12.5 percent, although there is a provision for rates of up to 20 percent for new leases on developed acreage. LGPF beneficiaries and "State lands" beneficiaries are the same institutions and public schools. In Fiscal Year 2016, distributions to the General Fund from the State Land Office totaled \$47.8 million, which equaled 0.8 percent of recurring General Fund receipts for the fiscal year. Fiscal Year 2017 data were not available at the time of publication.

## **Investment Income**

Investment earnings credited to the General Fund are from three primary sources: the LGPF, the STPF, and cash balances invested by the State Treasurer. A percentage of market value from the LGPF is distributed among the beneficiary institutions and public schools. The allocation received by the public schools, which was approximately 84.5 percent in Fiscal Year 2016, is deposited in the General Fund. For the 2016 Fiscal Year, \$555.1 million of LGPF distributions were transferred to the General Fund for public school purposes. Also in Fiscal Year 2016, the State distributed \$193.5 million of income from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In the 2016 Fiscal Year, the Treasurer's cash balances produced \$21.6 million for the General Fund. Total investment income credited to the General Fund was \$770.3 million. This is 13.5 percent of recurring General Fund receipts. For Fiscal Year 2017 the estimated investment income from the Treasurer's cash balances is \$13.6 million, and for Fiscal Year 2018 the estimated income is \$15.4 million. Fiscal Year 2017 data were not available at the time of publication.

## **Review of Results and Projections in the General Fund**

*Fiscal Year 2013.* New Mexico's economy stagnated in Fiscal Year 2013. Total General Fund revenues fell by 1.6 percent. Total recurring revenue was approximately \$5.7 billion. Approximately half of the decline in General Fund revenue was attributable to lower oil and natural gas prices, a reflection of national and international trends in energy markets and lackluster state lease sales. The price of oil averaged \$85.82 per barrel and the price of natural gas averaged \$4.40 per mcf in Fiscal Year 2013. Mineral production taxes, bonuses and royalties totaled \$943 million in Fiscal Year 2013, a decrease of 9 percent from Fiscal Year 2012. In addition, the federal government sequestered about \$21 million in Federal Mineral Leasing (FML) revenues, which were returned to the state in the early half of Fiscal Year 2014, causing a shift in revenue accounting periods.

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

General Fund reserves were approximately \$651.4 million at the end of Fiscal Year 2013, approximately 11.5 percent of Fiscal Year 2013 recurring appropriations, after accounting for the \$31.7 million contingent liability established in the Fiscal Year 2013 General Fund financial statements for potential charges related to unreconciled cash transactions. This balance also includes a \$20 million contingent appropriation related to special education funding maintenance of effort.

*Fiscal Year 2014.* General Fund revenues rebounded from the Fiscal Year 2013 decline largely as a result of high oil and natural gas revenues. Recurring revenue grew by 5.8 percent in Fiscal Year 2014, reaching \$6.0 billion. New Mexico oil prices averaged \$95.14 per barrel and the price of natural gas averaged \$5.13 per mcf. Strong oil and natural gas production contributed to the revenue increase with oil volume growth of 17 percent and natural gas volume growth of 1 percent. Mineral production taxes, rents and royalties increased by 24.6 percent over Fiscal Year 2013 to \$1.2 billion. General sales taxes, including the gross receipts tax (GRT) and compensating tax, also experienced growth of 5.2 percent. Permanent fund investment income benefited from a larger fund corpus and strong stock market returns. Income tax revenues decreased slightly, reflecting a one-time acceleration of capital gains income in Fiscal Year 2013.

Major changes were made to the corporate income tax in the 2013 legislative session to be phased in over several years beginning in Fiscal Year 2014. These changes include a phased-in reduction of corporate tax rates and single sales factor income apportionment for manufacturers. Legislation passed in the 2014 legislative session allows taxpayers to carry forward net operating losses (NOLs) for 20 years.

The General Fund reserve balance was approximately \$638 million at the end of Fiscal Year 2014 or 10.8 percent of Fiscal Year 2014 recurring appropriations. Reserves were negatively impacted by a reduction of \$73.1 million of federal Medicaid reimbursements. The reserves were also affected by a \$20 million reduction in tobacco settlement distributions in Fiscal Year 2014 as a result of a recent arbitration decision that found New Mexico was lacking in diligence in Fiscal Year 2003 with regards to non-participating manufacturers to the Master Settlement Agreement. In addition, the State booked a \$26 million contingent appropriation related to federal special education funding maintenance of effort requirements. The State believes it has met maintenance of effort requirements, and has appealed the federal ruling, but a full resolution will likely take more than a year. This balance does not include the \$100 million contingent liability established for the potential loss related to book to bank reconciliation.

*Fiscal Year 2015.* A steep drop in crude oil and natural gas prices during Fiscal Year 2015 sharply reduced the growth rate of total General Fund recurring revenue. Whereas non-oil and natural gas related revenues grew by over 7 percent, total revenue including oil and natural gas related revenues grew at a slower rate of 2.6 percent to \$6.2 billion. New Mexico oil prices averaged \$60.64 per barrel in Fiscal Year 2015, while New Mexico natural gas prices averaged \$3.78 per mcf. Strong volume growth offset declining energy prices with oil volumes growing 25 percent over Fiscal Year 2014 volumes. Natural gas volumes remained unchanged from the prior fiscal year. With strong growth across the retail, construction, wholesale, and service sectors, GRT grew by 5.2 percent. Distributions from the State's two

permanent funds continued to benefit from a larger fund corpus and strong stock market returns, and reached a total of \$685 million or 11 percent of total General Fund revenues. Income tax revenues also grew in Fiscal Year 2015 with 6.8 percent growth for personal income tax and 29.3 percent growth for corporate income tax. Due to stronger-than-expected non-oil and natural gas revenues, state General Fund reserves grew to \$713.1 million or 11.6 percent of recurring appropriations at the end of Fiscal Year 2015.

*Fiscal Year 2016.* Fiscal Year 2016 recurring revenues decreased by 8.4 percent to \$5.7 billion, driven by a decrease of 29.1 percent in oil and natural gas related revenue. New Mexico oil prices averaged \$37.94 per barrel in Fiscal Year 2016, while New Mexico natural gas prices averaged \$2.42 per mcf. Growth of 3.7 percent in oil volumes partially offset declining oil prices, while natural gas volumes decreased by 1.0 percent over Fiscal Year 2015. Results show a significant decline in the State's broad-based gross receipts, compensating, personal income, and corporate income taxes, which were all impacted by ongoing weakness in the oil and natural gas sectors. The decline in revenue was partially affected by the diversion of a large portion of the liquor excise tax to the lottery tuition scholarship program. Offsetting this and other declines, the insurance premiums tax collections increased sharply due to expansion of the Medicaid program.

Following enactment of the Fiscal Year 2016 budget, several downward revisions to the consensus revenue estimate led to additional budget cuts and fund transfers, and prompted the Governor to call a special session early in Fiscal Year 2017. As a result of the revised forecast, during the 2016 legislative session the legislature enacted a 0.5 percent across-the-board reduction in Fiscal Year 2016 appropriations, with the exception of the Medicaid program and certain other healthcare-related programs. The Legislature also passed House Bill 311, which allowed one-time transfers from various state funds into the General Fund, totaling \$40.6 million in Fiscal Year 2016 and \$74.9 million in Fiscal Year 2017. The Fiscal Year 2016 transfer included the \$36 million operating reserve fund balance that had been restricted for supplemental special education maintenance of effort funding.

During the 2016 special legislative session, Senate Bill 2 authorized the transfer of \$109.1 million from the Tobacco Settlement Permanent Fund to the General Fund appropriation account to close Fiscal Year 2016 in balance. Also to close Fiscal Year 2016, \$485.4 million was transferred from operating reserves to the General Fund appropriation account. Due to the rapid deterioration in oil- and gas-related revenues, Fiscal Year 2016 ending balances fell to \$147.8 million or 2.4 percent of recurring appropriations from \$713.1 million or 11.6 percent in Fiscal Year 2015.

*Fiscal Year 2017.* According to the December 2016 consensus revenue estimate, Fiscal Year 2017 recurring revenues are estimated to be \$5.6 billion, representing a decrease of 1.9 percent over Fiscal Year 2016. Oil and natural gas related revenue is projected to increase slightly from Fiscal Year 2016 levels. New Mexico oil prices are projected to average \$43.00 per barrel in Fiscal Year 2017, while New Mexico natural gas prices are expected to average \$3.15 per mcf. Oil volumes are projected to decline by 2.5 percent in Fiscal Year 2017 and natural gas volumes are estimated to decline by 2.6 percent. Non-oil and gas related revenue was forecast to decline by 3.6 percent, reflecting a decline of 5.1 percent in gross receipts tax revenue, offset in part by growth of 0.3 percent in personal income tax and 10.2 percent in insurance premiums tax. Corporate income tax revenues are expected to decline by 40.9 percent over the previous fiscal year. In February 2017, the Consensus Revenue Estimating Group conducted a mid-legislative session review of the December 2016 revenue estimate; the group closely evaluated both new upside and downside information and concluded the net result did not warrant a revision to the December 2016 forecast.

During the 2016 special legislative session, several bills were enacted to address Fiscal Year 2017 solvency including, authorization to transfer the balance in the Tobacco Settlement Reserve Fund to the appropriation account to cover Fiscal Year 2016 and Fiscal Year 2017 expenditures, \$92.8 million in

funding sweeps to the General Fund, a \$12.5 million appropriation of supplemental severance tax note proceeds for public school capital outlay needs to replace General Fund appropriations, reduced Legislative Retirement Fund distributions, an increased distribution of insurance premiums tax revenue to General Fund, and reduction in General Fund distributions to the Retiree Health Care Fund.

Senate Bill 8 of the special session provided for certain short-term taxable severance tax note and supplemental severance tax note proceeds totaling \$19.2 million to be swept to the General Fund to restore past capital allotments, and the exchange of \$56.2 million of General Fund appropriations for capital outlay projects with severance tax bond funding. Senate Bill 8 also allowed the one-time transfer of excess severance tax revenue to the general fund rather than the severance tax permanent fund. This transfer, known as the “super sweep,” totaled \$28,279,400 million. Senate Bill 9 reduced State agency budgets, excepting certain health- and safety-related appropriations, by 5.5 percent, with judicial and legislative cuts of 3.0 percent, all of which reduced recurring appropriations by \$170.9 million in Fiscal Year 2017. Senate Bill 9 also provided for redistributing public school State Equalization Guarantee distributions to special education services if funding is insufficient to meet federal maintenance of effort requirements.

Revenue measures passed during the 2016 special session include, narrowing the eligibility criteria for the health care practitioner gross receipts tax deduction and the High Wage Jobs Tax Credit, with an estimated benefit to recurring revenues of \$10.2 million. Following the 2016 special legislative session, Fiscal Year 2017 ending reserves were projected to be -\$61.6 million or -1.2 percent of recurring appropriations.

During the 2017 regular legislative session, additional action was taken to address Fiscal Year 2017 solvency and increase reserve levels, including generating \$78.3 million in non-recurring revenue by aligning the insurance revenue streams with current GAAP standards, \$47.2 million of non-recurring revenue through various state fund sweeps and transfers, \$46.1 million to the general fund by reducing the Fiscal Year 2017 State Equalization Guarantee distributions for school districts and charter schools as a credit against Fiscal Year 2016 year-end operational cash balances. Exempting any Fiscal Year 2017 emergency supplemental distributions, each school district’s and charter school’s credit share was proportional to their Fiscal Year 2016 program cost (or formula funding).

Ongoing funding shortfalls projected in Fiscal Year 2018 and the need to shore up Fiscal Year 2017 reserves led to the call for another special session in May 2017. Solvency measures passed during the 2017 special legislative session include authority to issue \$84.1 million of short-term taxable supplemental severance tax notes to restore past General Fund capital allotments. After action in both the regular and special 2017 legislative sessions, Fiscal Year 2017 reserves are projected to be \$196.2 million, or 3.2 percent of recurring appropriations assuming the December 2016 consensus revenue forecast. However, an additional \$120 million in revenue strength seen in the second half of Fiscal Year 2017, which has not yet been adopted into the consensus forecast, is expected to add to the reserves. The Department of Finance and Administration estimates that Fiscal Year 2017 revenue will exceed the December 2016 consensus forecast, bringing Fiscal Year 2017 ending reserves above 5.0 percent of recurring appropriations.

A combination of economic factors including rising enrollments, a decrease in the federal matching rate for the new adult group (a.k.a. Medicaid expansion), rising drug costs, and insufficient legislative appropriations caused the State to experience a funding shortfall in the Medicaid program in Fiscal Years 2016 and 2017. In response to the shortfall, the State implemented a number of cost-reduction measures, including reduced reimbursement rates for health care providers and reduced administrative spending for Medicaid managed care organizations (“MCOs”). The State is also proposing new mandatory payments for some patients. Slightly lower enrollment rates, a delay in the imposition of

certain federal fees on insurance companies, including MCOs, and the possibility of additional federal funding for services provided to Native Americans reduced the General Fund shortfall for Fiscal Year 2017. The State also reached a settlement with the Centers for Medicare and Medicaid Services (CMS) for old claims for federal funding, resulting in the return of \$16.8 million to the State. The Medicaid program is now projected to close Fiscal Year 2017 with a surplus.

In November 2015, the United States Health and Human Services Office of Inspector General (the “Inspector General”) released a report concluding that the State received more than \$16.0 million in unallowable performance bonus payments under the Children’s Health Insurance Program Reauthorization Act (“CHIPRA”) for Fiscal Years 2009 through 2013. Specifically, the Inspector General determined that the State included ineligible individuals in its enrollment figures for bonus requests to the Centers for Medicare and Medicaid Services (“CMS”), resulting in an overpayment of \$16.0 million by CMS to the State. The Inspector General recommended that the State refund the money to the federal government. In the report, the State stated that it believed its methodology for determining enrollment was correct and that the bonus payments received were allowable under federal requirements. According to the State, the methodology was delineated in the supporting documentation submitted with each CHIPRA bonus application, and the documentation indicated the specific population groups that were being excluded. CMS approved payments based on this methodology, and at no time did CMS deem the state’s methodology to be incorrect or not in compliance with its guidelines. It is expected that the CMS will determine whether to pursue any recovery in connection with the Inspector General’s recommendation.

In September 2016, the Office of the State Auditor (the “OSA”) released an audit conducted in partnership with the Office of the Superintendent of Insurance (the “OSI”) that suggested that insurance firms had been underpaying the premiums tax. It examined the insurance premiums taxes collected between April 2010 and April 2015 and found that within a sample comprising 26 percent of the total collected there was likely underpayment of \$193 million over the five year period. The OSI has disagreed with the audit findings and has called for the repayment of a lower amount, which could be substantially less than the amounts that would be produced by using the OSA methodology. The Executive worked with the OSA and the Legislature to ensure that a special audit would be conducted. A request for proposals was issued and the contract was awarded to Examination Resources, LLC. The special audit is underway with a final report to be delivered to the OSA by September 30, 2017.

*Fiscal Year 2018.* According to the December 2016 consensus revenue estimate, which was reviewed and retained by the consensus group in the February 2017 mid-session review, Fiscal Year 2018 recurring revenues are estimated to be \$5.9 billion, representing an increase of 5.9 percent over the Fiscal Year 2017 consensus forecast. Oil and natural gas related revenue is projected to increase by 4.9 percent over Fiscal Year 2017 levels. New Mexico oil prices are projected to average \$48.00 per barrel, while New Mexico natural gas prices are expected to average \$3.31 per mcf. Oil volumes are projected to remain flat in Fiscal Year 2018 and natural gas volumes are estimated to decline by 3.1 percent. Non-oil and natural gas related revenue was forecast to increase by 6.0 percent, reflecting increases of 7.5 percent in gross receipts tax, 1.1 percent in personal income tax, and 4.1 percent in insurance premiums tax.

In the 2017 special legislative session, additional action was taken to increase Fiscal Year 2018 non-recurring revenue, including the transfer to the General Fund of \$8 million of governmental gross receipts tax revenue that would otherwise pass to the New Mexico Finance Authority and the temporary suspension of an annual \$900,000 distribution to the legislative retirement fund in Fiscal Years 2018 and 2019 conditional on a determination by the Public Employees Retirement Association that the funded ratio remains at or above 100 percent.

Legislation passed during the 2017 special session included the establishment of a natural resource tax stabilization reserve to minimize the volatility of oil and gas revenue and provide additional rainy day funds to protect against sharp declines in revenue. The legislation requires any revenues generated from the Oil and Gas School Tax that are in excess of the 5-year average for that revenue source to be deposited into the Tax Stabilization Reserve Fund, which is part of the General Fund reserves. Appropriations from the Tax Stabilization Reserve require a super majority and a declaration from the governor that the appropriation is necessary for public peace, health or safety. The first such distribution is estimated to occur in Fiscal Year 2020.

After action in the 2017 special legislative session, total Fiscal Year 2018 appropriations were set at \$6.1 billion, resulting in projected ending balances of \$63 million or 1.0 percent of recurring appropriations based on the December 2016 consensus revenue estimate. However due to the revenue strength experienced in Fiscal Year 2017, which has not yet been adopted into the consensus forecast, the Department of Finance and Administration estimates that Fiscal Year 2018 ending reserves will be near 3.0 percent of recurring appropriations.

*Education Funding Litigation.* Two lawsuits challenging the funding of the State's primary and secondary education system have been pending since 2014. In March 2014, individual plaintiffs in New Mexico District Court in McKinley County reinstated a suit originally brought against the State and others in 1998, alleging, primarily, that the State's educational funding formula violates the sufficiency of education and uniform system of public schools provisions of the New Mexico Constitution. The Plaintiffs in the McKinley County case have asked the court for injunctive relief ordering the State to develop a budget and funding formula that sufficiently, uniformly and equitably funds the public school system. In April 2014, individual plaintiffs in New Mexico District Court in Santa Fe County brought suit against the State, among others, alleging, among other things, that the State has failed to provide a sufficient and uniform system of education in violation of the sufficiency, uniformity, equal protection and due process provisions of the New Mexico Constitution because of an inadequate and arbitrary funding system. The lawsuit asks for a declaratory judgment and injunctive relief requiring the adoption of a school finance system to remedy the alleged violations. Neither lawsuit asks for a specific award of damages. On January 26, 2015, The Honorable Judge Singleton of the First Judicial District Court of Santa Fe County ordered that the two pending lawsuits be consolidated and that venue for the consolidated cases be in the First Judicial District Court of Santa Fe County. A bench trial in the consolidated cases began on June 12, 2017 and is expected to conclude on or about August 10, 2017.

### **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<sub>2</sub> are due the 25<sup>th</sup> day of the second month following the end of the sale month. Other severance taxes are due the 25<sup>th</sup> 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 96.6 percent of total Fiscal Year 2016 Severance Tax Bonding Fund tax receipts.

### **Severance Tax 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 Company 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 non-Indian oil and natural gas production on tribal land was upheld by the United States District Court in New Mexico in *Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922. In 2009, the United States District Court for the District of New Mexico held that the State may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal land of the Ute Mountain Ute Tribe. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009) (Parker, J.). The Tenth Circuit Court of Appeals overturned the district court opinion and held that the State severance taxes are not preempted by federal law because, among other things, the State had asserted sufficient justification for imposing the taxes. *Ute Mountain Ute Tribe v. Rodriguez*, 660 F.3d 1177 (10th Cir. 2011). The Ute Mountain Ute Tribe petitioned for an *en banc* review, which the court denied on September 12, 2011. The United States Supreme Court denied the Ute Mountain Ute Tribe's petition for a *writ of certiorari* on February 21, 2012. *Ute Mountain Ute Tribe v. Padilla*, 132 S.Ct. 1557 (2012).

Information reported on the ONGARD website by TRD based on oil and gas tax return data indicates that natural gas production and crude oil production on Indian land was approximately 3.6 percent and 0.7 percent, respectively, of total statewide production in Fiscal Year 2016. The TRD estimates that oil and natural gas production on Indian land generated \$3.2 million in gross Severance Tax revenues to the State before the claiming of applicable credits in the production months corresponding to Fiscal Year 2016. On December 30, 2014, the Navajo Nation completed the purchase of the Navajo coal mine. As a result, there has not been any production reported to the TRD since such purchase. No potash, copper or carbon dioxide (CO<sub>2</sub>) is produced on Indian land.

Section 7-29C-1 NMSA 1978, enacted by the 1995 Legislature, authorized a credit against state production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of state taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State's credit is lowered. The ONGARD website reports that total credits claimed under this provision were about \$1.1 million in Fiscal Year 2016. About \$442,000 of these credits were applied against oil and natural gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

The 2001 Legislature enacted Sections 7-29C-2, 7-9-88.2 and 9-11-12.2 NMSA 1978, which provided a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation. The TRD reports that this credit did not reduce Bonding Fund revenue in Fiscal Year 2016.

### **Severance Tax Permanent Fund and the Land Grant Permanent Fund**

The Severance Tax Permanent Fund ("STPF") was established in the State Treasury in 1973 to receive the residual revenues from the Bonding Fund and serve as an endowment for the State. In 1976,

the electorate approved a constitutional amendment giving the STPF constitutional status. In 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the STPF, thereby creating a permanent endowment fund. Distributions from investments of the STPF, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance tax receipts have been the primary source of funding for the STPF. The State Investment Council (“SIC”) invests the corpus and non-appropriated income of the STPF. The market value of the STPF as of June 30, 2016 was approximately \$4.54 billion, an overall asset decrease of approximately 4.1 percent from the prior fiscal year. Investment performance for the one year period ended June 30, 2016 was 0.44 percent, 0.23 percentage points below the Fund policy index. As of the end of the third quarter of Fiscal Year 2017, the STPF had returned 9.5 percent net of manager fees, while the Fund’s assets grew to \$4.83 billion as of March 31, 2017. Funds on deposit in the STPF are not pledged to and may not be used to pay any Bonds. As noted above, during the 2016 Special Legislative Session, Senate Bill 8 allowed the one-time transfer of excess severance tax revenue to the general fund rather than the severance tax permanent fund. This transfer, known as the super sweep, totaled \$28,279,400 million.

The State 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, including the public schools, which received the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the LGPF), so the current total is nine million surface acres and 13.4 million subsurface acres.

Pursuant to NMSA 1978, Section 19-1-1 (1912), the State Land Office is charged with the custody and disposition of the land granted to the State. The Commissioner of Public Lands sells or leases these properties in accordance with the provisions of the appropriate statutes. The SIC invests the corpus and income of the LGPF. As of June 30, 2016, the market value of the LGPF was approximately \$14.61 billion, an asset decrease of approximately 1.3 percent over the prior fiscal year. Investment performance for the year ended June 30, 2016 was 0.37 percent, and 0.31 percentage points below the LGPF’s policy index, and below its annual target rate of return of 7.0 percent. The SIC lowered its annual rate of return target from 7.5 percent to 7.0 percent during Fiscal Year 2016, in anticipation of a low-return investment environment. The first three quarters of Fiscal Year 2017 have thus far seen much improved returns, with the LGPF returning 9.5 percent net of fees for the fiscal year to date. LGPF assets have also grown, rising to \$15.81 billion as of March 31, 2017. The corpus of the LGPF is constitutionally protected from appropriation and LGPF assets are not pledged to and may not be used to pay debt. The LGPF is also protected by the Federal Enabling Act of 1910.

In November 1996, the State electorate approved a constitutional amendment regarding distributions from both of the State’s permanent funds. Distributions are now calculated on a total return basis rather than an income distribution method. In addition, distributions to beneficiaries are now based on a formula under which a statutorily specified percentage of the previous average five-year market value of the fund is distributed.

In September 2003, the State electorate approved a constitutional amendment increasing the rate of annual distribution from the LGPF from the previous 4.7 percent, to a new base distribution of 5.0 percent of the LGPF’s five-year average market value, beginning in Fiscal Year 2005. Certain additional distributions were made to implement and maintain educational reforms as provided by law.

An additional 0.8 percent was distributed in fiscal years 2005 through 2012 and an additional 0.5 percent was distributed in fiscal years 2013 through 2016. In Fiscal Year 2017, the rate was 5.0 percent

In May 2009 an investigation by the New York Attorney General into placement fees paid in relation to investments made by New York pension funds, led to an indictment of an investment advisor to that fund as well as New Mexico SIC and ERB. The investment advisor later pled guilty to a fraud charge relating to investments made by the New York retirement fund. In connection with that plea, the investment advisor stated that from 2004 to 2009 his business had acted as an advisor to the SIC and the ERB and that, contrary to his fiduciary responsibilities to the SIC and ERB, he ensured recommendations of certain proposed investments pushed on him by politically connected individuals or their associates who stood to benefit financially or politically from the investments, and that the investments were not necessarily in the best interests of the State. No criminal charges were filed by state or federal investigators in New Mexico. In May 2011, the SIC filed recovery lawsuits against more than a dozen placement agents, the former State Investment Officer, and other individuals alleging they improperly benefited from pay-to-play and kickback schemes involving SIC investments. To date, settlements of more than \$38 million have been recovered or placed in escrow pending final approval by the courts, for ultimate return to the permanent funds. Additional legal recovery efforts are ongoing, and additional settlements or court judgments are anticipated in 2017.

In response to these and other events and the negative returns suffered by the State's various investment funds during the market turmoil associated with the downturn in the nation's economy in 2008 and 2009, the Board and the Legislative Council Service ("LCS") co-sponsored an Independent Fiduciary and Operational Review of State Investment Policies, Procedures and Practices prepared by Ennis, Knupp & Associates, Inc. (the "Review"). The scope of the work of this Review included, among other things, review and recommendations for appropriate governance and organizational structure, and investment best practices for the SIC and New Mexico's public employee and state educator pensions (PERA & ERB). The findings and recommendations of the Review were reported to the Board at a meeting on January 13, 2010. In order to address certain recommendations of the Review, during the 2010 legislative session the Legislature, among other things, modified the composition of the SIC, clarified the authority of the SIC and the State Investment Officer, provided for the appointment of the State Investment Officer by the SIC and changed the method of appointment of public members of the SIC. Removal of individual investment authorization powers by the Investment Officer alone, and addition of Council Investment, Audit, Governance and legal Committees have greatly improved Council practices and governance procedures. To date, the Investment Council has adopted or accomplished 77 of the 82 recommendations made by EnnisKnupp in their 2010 Operational Review, with the remainder still being considered for partial or full adoption.

### **State Auditing and Accounting Systems**

The financial affairs of every agency in the State are examined and audited annually 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 governmental auditing standards. The audit reports include financial statements that are presented in accordance with generally accepted governmental accounting principles.

In July 2006, the State implemented a Statewide Human Resources, Accounting and Management Reporting System ("SHARE"). SHARE is an Enterprise Resource Planning system using the widely adopted PeopleSoft software, and it replaced the State's existing central accounting system, central payroll system, personnel system, treasury reconciliation accounting and cashing system, and 114

additional systems then in place at various State agencies. Since June 2007, the State has officially used SHARE as its book of record.

When originally implemented, SHARE's business processes related to banking activities were not fully developed and the associated system's configuration was incomplete. This resulted in a period when book to bank reconciliations were not performed. A remediation effort undertaken in Fiscal Year 2013 and implemented later that year, developed a process that allowed the DFA and the State Treasurer's Office to begin performing monthly book to bank reconciliations of statewide cash activity on a go-forward basis. After sufficient run time, the Fiscal Year 2015 audit of the State General Fund reported that the reconciliation procedures performed during the fiscal year provided sufficient audit evidence to confirm management's assertion that the financial assets held in the State General Fund Investment Pool were equivalent to the claims on those assets recorded in the general ledger. In Fiscal Year 2016, the State General Fund audit reported that the monthly reconciliation procedures confirmed the continuing consistency of the book and bank value of financial assets and that there were no material differences. Accordingly, a \$100 million contingent liability, initially established in Fiscal Year 2012 and revised in Fiscal Year 2014, was released and all related audit findings closed.

The State of New Mexico Comprehensive Annual Financial Report ("CAFR") was initially audited in Fiscal Year 2013 and released in November 2014. Previous CAFRs were reviewed by an independent auditor. A review of financial statements provides a lower standard of assurance than an audit of financial statements. The Fiscal Year 2013 audited CAFR received a disclaimed opinion and identified the following material weaknesses: (1) book to bank reconciliation; (2) interagency/interfund transactions; (3) government fund type classifications; (4) budget statements; and (5) internal control over financial reporting.

Since the initial audit of the CAFR, the findings related to book to bank reconciliation, governmental fund type classification and budget statement have been addressed and the release of the CAFR has occurred earlier each subsequent year.

However, the issues related to internal transactions, control over financial reporting and timeliness remain. These issues result from a weakness in the existing CAFR process, which aggregates separately issued and audited agency-level financial statements that can employ financial reporting conventions different from those used at the statewide level. While agency accounting practices appear rational at a parochial level, they can be misaligned with those used in the CAFR. The traditional approach employed to address these differences has been to record top-down reclassifications and adjustments; however, that has been considered inappropriate by GASB. Since agency level presentations can differ from the state presentation, it was not possible to rely on the audit opinion of some of the underlying audits used to build the CAFR or to be confident that all necessary adjustments and reclassifications had been made. As a result, the CAFR auditor was unable to obtain sufficient audit evidence to express an opinion on the state's financial statements, even though most agencies received "clean" opinions on their individual audits. These concerns have been discussed thoroughly with the independent auditing firm and the Office of the State Auditor and efforts are underway to address divergent practices and move towards a unified annual audit.

### **State Budgetary and Appropriation Process**

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

Division presents comprehensive budget recommendations to the Governor, as required by Section 6-3-15(B) NMSA 1978.

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

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

### **State Treasurer's Office Investment Responsibilities**

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

The State Treasurer's Office is in the process of implementing the PeopleSoft Treasury Management Module of the SHARE system concurrent with the upgrade of the overall system to version 9.2. This module will eliminate a separate investment accounting platform and will integrate investment activity into the State's general ledger. The system is also anticipated to provide the State Treasurer's Office with additional controls and improved financial reporting. The implementation and upgrade are anticipated to be completed in October 2017.

According to the Investment Policy, the State Treasurer's Investment Committee is appointed by the State Treasurer and the Board. The Investment Committee is an advisory committee that reviews investment reporting and any other matters of the State Treasurer's choosing. The Investment Committee consists of five voting members: the State Treasurer or designee; the State Treasurer's Chief Investment Officer, who serves as Investment Committee Chair; the Director of the State Board of Finance or designee; and two additional members. These additional members must be participants in the private investment community or have expert knowledge or professional experience in public finance or public money investing. One member is appointed by the State Treasurer and approved by the Board and one member is appointed by the Board and approved by the State Treasurer.

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

## **Pension and Other Retirement Funds and Benefits**

*Legislative History.* The Legislature enacted the Educational Retirement Act, Section 22-11-1 et seq. NMSA 1978, the Public Employees Retirement Act, Section 10-11-1 et seq. NMSA 1978, and the Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19, NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are managed by the Educational Retirement Board (“ERB”), the Public Employees Retirement Association (“PERA”), and the New Mexico Retiree Health Care Authority (“NMRHCA”) and described below. The Legislature establishes all financing provisions of the plans and the provisions are not subject to negotiation. Financing provisions include employee and employer contributions, fund investment provisions and benefit provisions. In 1998, the voters amended the State Constitution, adopting Section 22 of Article XX, which states that upon meeting the minimum service requirements of an applicable retirement plan created by law for employees of the State or any of its political subdivisions or institutions, a member of a plan shall acquire a vested property right with due process protections under the applicable provisions of the New Mexico and United States Constitutions. The amendment also stated that nothing in Section 22 shall be construed to prohibit modifications to retirement plans that enhance or preserve their actuarial soundness.

*Educational Retirement Board-Historic Financial Information.* The ERB had 150,082 members as of June 30, 2016, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the “Fund”) as of June 30, 2016 was \$11.5 billion. The ERB had net investment gains for the Fiscal Year 2016 of 3.1 percent. As of March 31, 2017, the market value of the Fund was \$12.1 billion. Fiscal Year 2017 data were not available at the time of publication.

As with many other states, the State has experienced funding issues regarding its pension funds. The Legislature has enacted several reforms in recent years to better ensure the continued sustainability of the ERB pension program. In 2009, the Legislature increased the years in service requirement from 25 to 30 years, and extended the rule whereby ERB members could retire with full benefits if their combined service and age at retirement met or exceeded 75 to 80 for new members hired after July 1, 2010. A 2011 change in law required retired members who return to work with an educational employer to pay non-refundable contributions to the Fund equal to the amount paid by non-retired employees. Employers continue to pay the employers’ contributions to the Fund for retired members who return to work. Finally, in 2013, the Legislature increased employee contributions for members whose salary exceeds \$20,000 per year to 10.1 percent in Fiscal Year 2014 and 10.7 percent beginning in Fiscal Year 2015, kept in place scheduled increases in employer contribution rates, created a new tier of membership for persons who become members on or after July 1, 2013, created certain actuarial limitations on benefits of new tier members, and placed limitations on future cost of living adjustments (“COLA”) for current and future retirees which are tied to the future funded ratios of the plan. The projected actuarial funded ratio in 2043 with these changes was 100.7 percent.

In April 2011, the ERB voted to change its assumed rate of return on the pension fund’s investments from 8.0 percent to 7.75 percent. As of June 30, 2016, the actuarial value of assets was \$11.5 billion and the unfunded accrued actuarial liability (“UAAL”) was \$6.6 billion. Other changes were made to the ERB’s actuarial assumptions in April 2011, the most significant of which included: changing the funding method to traditional individual entry age normal; revising post-retirement mortality to reflect slightly longer life expectancy; changing retirement rates at ages 65 and 69 and with 25 or more years of service; decreasing salary increases for members with 10 or more years of service; and decreasing membership growth assumptions. The combined effect of the changes in actuarial assumptions, including to the assumed investment return rate, increased the UAAL by \$426.1 million at that time. In April 2013, the ERB made further changes to its assumptions regarding post-retirement, disabled, and active mortality rates, retirement rates, changes to its service-based termination table and

decreases in wage inflation from 4.75 percent to 4.25 percent and in the payroll growth from 3.75 percent to 3.50 percent. These changes reduced the June 30, 2013 UAAL by \$81.5 million. Finally, in June 2015, the ERB voted to further lower the wage inflation assumption from 4.25 percent to 3.75 percent, to adopt a generational mortality projection to better reflect future longevity improvements, to remove its population growth assumption for projections and to make minor changes to several demographic assumptions.

In April 2017, following a six-year experience study ending June 30, 2016, the ERB voted to decrease the inflation assumption from 3.00 percent to 2.50 percent. This change resulted in the decrease in the assumed rate of return on the pension fund's investments from 7.75 percent to 7.25 percent although the real rate of return remained at 4.75 percent. The assumed rate of return is composed of the 2.50 percent assumed inflation rate plus the 4.75 percent assumed real return. Other changes were made to the ERB's actuarial assumptions in April 2017 including decreasing payroll growth assumption from 3.50 percent to 3.00 percent and decreasing the annual assumed COLA from 2.00 percent to 1.90 percent. These assumptions were adopted as of June 30, 2017. The combined effect of changes in actuarial assumptions increases the UAAL from \$6.6 billion to \$7.4 billion.

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

As of June 30, 2016, the UAAL had an amortization period of 45.0 years. The amortization period, also referred to as the funding period, is a calculation based on actuarial models of the period required to amortize the UAAL, assuming ERB's experience exactly follows actuarial assumptions. The calculation is based on current contribution rates which are established by state statute. Fiscal Year 2017 data were not available at the time of publication.

#### **Schedule of Statutorily-Mandated Contribution Rates**

<b>Wage Category</b>	<b>Fiscal Year(s)</b>	<b>Date Range</b>	<b>Member Rate</b>	<b>Employer Rate</b>	<b>Total</b>
\$20k or less	2010–2013	07/01/2009–06/30/2013	7.90%	12.40%	20.30%
	2014	07/01/2013–06/30/2014	7.90%	13.15%	21.05%
	2015–Future	07/01/2014–Future	7.90%	13.90%	21.80%
Over \$20k	2010–2011	07/01/2009–06/30/2011	9.40%	10.90%	20.30%
	2012	07/01/2011–06/30/2012	11.15%	9.15%	20.30%
	2013	07/01/2012–06/30/2013	9.40%	10.90%	20.30%
	2014	07/01/2013–06/30/2014	10.10%	13.15%	23.25%
	2015–Future	07/01/2014–Future	10.70%	13.90%	24.60%

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

In addition, New Mexico universities and colleges make an additional contribution of 3 percent of the salary of those employees who elect to participate in the Alternative Retirement Plan (“ARP”), a defined contribution retirement plan available to certain faculty and professional employees, to satisfy the UAAL attributable to participation in the ARP.

The ERB implemented Governmental Accounting Standards Board (“GASB”) Statement 67 requirements with its June 30, 2013 financial statements. GASB Statement 67 requires ERB to report net pension liability (“NPL”) which is measured as total pension liability less the amount of the plan's

fiduciary net position. GASB 67 replaced GASB 25 which had required ERB to report the annual required contribution of the employer (“ARC”) and the percentage of the ARC contributed. ERB meets 100 percent of its statutorily required employer contributions annually. The following table lists the ARC, NPL and the ERB funded ratio for Fiscal Years 2011 through 2016. Fiscal Year 2017 data were not available at the time of publication.

**ERB Funded Ratio**

<b>Fiscal Year</b>	<b>Annual Required Contribution (GASB 25)</b>	<b>Net Pension Liability (GASB 67)</b>	<b>Funded Ratio</b>
2011	\$377,884,749	--	63.0%
2012	\$400,461,343	--	60.7
2013	--	\$6,276,852,149	60.1
2014	--	\$5,705,730,813	63.1
2015	--	\$6,477,266,299	63.7
2016	--	\$7,196,433,561	64.2

Source: Educational Retirement Board.

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

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

ERB pensions are adjusted annually by a COLA beginning on the later of either July 1 of the year in which a member reaches age 65 or July 1 following the year a member retires. Senate Bill 115 reduces the amount of the COLA until ERB is 100 percent funded. The amount of the adjustment is determined by the change in the Consumer Price Index (“CPI”), the retiree’s pension amount and the retiree’s service credit. Pensions cannot be decreased if there is a decrease in the CPI.

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

*The Public Employees Retirement Association-Historic Financial Information.* PERA had 48,693 active members as of June 30, 2016. As of June 30, 2016, the total market value of PERA Fund was \$15.182 billion. The Fiscal Year 2016 PERA total fund investment return was 0.7 percent. As of May 31, 2017, the total market value of the PERA fund was \$15.05 billion. Fiscal Year 2017 data were not available at the time of publication.

The PERA Board performs annual actuarial valuations of the retirement Funds it administers. Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the PERA Fund, Judicial

Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund as of June 30, 2016.

In May 2015, PERA actuaries conducted an experience study, testing actuarial assumptions currently used in its valuations. The PERA Board accepted the actuary's revised assumptions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 3.0 percent per annum and real rate of return rate of 4.75 percent, reflecting an investment rate of return of 7.75 percent. The Board also adopted reduced wage inflation and payroll growth assumptions of 3.5 percent, each compounded annually, as well as revised retirement and mortality assumptions.

In 2016, the PERA Board adopted a select and ultimate rate of return assumption for funding purposes. The change in the assumed rate of return was recommended by the PERA's outside actuaries and was made after consultations with the PERA's internal investment staff and its general investment consultant. The rate is 7.25 percent for the first 10 years (select period) and 7.75 percent for all other years (ultimate). The equivalent blended rate is 7.48 percent and will be used as the discount rate used to measure the total pension liability. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB Statement No. 67. Therefore, the 7.48 percent assumed long-term expected rate of return on pension plan investments will be applied to all periods of projected benefit payments to determine the total pension liability.

PERA member and employer contribution rates are established by State statute. In 2013, the Legislature amended the PERA Act, NMSA 1978 10-11-1 et seq. to increase the employer contribution rate by 0.4 percent beginning July 1, 2014, and to increase member contribution rates by 1.5 percent beginning July 1, 2013. Actuarial information for each fund as of June 30, 2016 is shown in the table below.

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

	<u>PERA<sup>(1)</sup></u>	<u>Judicial</u>	<u>Magistrate</u>	<u>VFF</u>	<u>Legislative</u>
Membership	100,974	307	179	9,418	320
<u>Actuarial Information</u>					
Accrued Liability <sup>(2)</sup>	\$19,474,241	\$146,935	\$53,547	\$45,256	\$27,943
Actuarial Value of Assets <sup>(3)</sup>	\$14,654,814	\$ 90,471	\$33,060	\$64,900	\$40,451
Unfunded (Overfunded) Accrued Liability	\$ 4,819,427	\$ 56,464	\$20,487	\$(19,643)	\$(12,508)
Present Value of Statutory Obligations	\$21,951,183	\$163,711	\$57,580	\$50,590	\$30,496

<sup>(1)</sup> Includes both the state and municipal divisions.

<sup>(2)</sup> Includes the accrued liability of both the retired and active members.

<sup>(3)</sup> The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to a 7.25 annually for the first 10 years and 7.75 thereafter percent annual return are smoothed over a four-year period.

Source: Public Employees Retirement Association.

As of June 30, 2016, PERA has an amortization or funding period of 56 years, based on the employer and member contribution rates in effect as of July 1, 2016. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-142 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 75.3 percent as of June 30, 2016 and the UAAL of the PERA Fund increased \$108 million to approximately \$4.8 billion. The State's portion of the UAAL of the PERA Fund is 52.9 percent, or \$2.5 billion. Prior to 2013 pension reform, the funded ratio was

65.3 percent and the UAAL of the PERA Fund was calculated to be approximately \$6.2 billion. The primary cause of the slight increase in the funded ratio is due to use of pensionable wages and the increase in accrued actuarial liability is reflective of the lower than expected investment return from the 2016 plan years. On a market value basis, PERA’s funded ratio is approximately 69.18 percent as of June 30, 2016. Current 30-year projections indicate the PERA Fund will be 76.8 percent funded in 2043.

In 2016, PERA implemented GASB 67 for the third year. PERA will also produce an audited Schedule of Employer Allocations and Pension Amounts in the winter of 2017 to assist its employer participants in implementing GASB 68. GASB 68 requires participating local governments to recognize their pro rata share of net pension liability (“NPL”) and other pension elements in the face of their financial statements. The total NPL as of June 30, 2016, for the PERA Fund allocated to its nearly 200 cost sharing employers that participate in the Fund is approximately \$6.2 billion. Fiscal Year 2017 data were not available at the time of publication.

In 2015, PERA completed the Schedule of Employer Allocations required by GASB 68 and provided local governments with the allocation percentage necessary to derive an employer’s proportionate share of the collective NPL as of June 30, 2014. This information assisted GASB 68 implementers in implementing GASB 68 for the first time in 2015. PERA continues to provide statewide outreach and assistance to local governments to ensure local governments continue to receive pertinent allocation information required by GASB 67 and 68. The following table lists the funded ratios for each individual PERA fund for Fiscal Years 2012 through 2016. Fiscal Year 2017 data were not available at the time of publication.

**Funded Ratio of State Retirement Funds Managed by PERA**

<b>Fiscal Year</b>	<b>PERA</b>	<b>Judicial</b>	<b>Magistrate</b>	<b>VFF</b>	<b>Legislative</b>
2012	65.3%	51.0%	53.2%	167.9%	91.8%
2013	72.9	55.7	58.4	138.2	115.2
2014	75.8	64.2	64.5	139.7	129.3
2015	74.9	62.5	62.4	140.2	138.5
2016	75.3	61.6	61.7	143.4	144.8

Source: Public Employees Retirement Association.

Recent legislative changes enacted during the 2009 through 2016 legislative sessions also amended various provisions of the Public Employees Retirement act to improve the long-term stability of the fund. House Bill 573 (Chapter 288, Laws 2009) included training requirements for members of the PERA board. House Bill 854 (Chapter 125, Laws 2009) modified 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 salary greater than \$20,000. House Bill 628 (Chapter 178, Laws 2011) extended the existing 1.5 percent shift made in House Bill 854 through Fiscal Year 2013 and shifted an additional 1.75 percent of the annual contribution rate from employers to employees for Fiscal Year 2012. The additional 1.75 percent of the annual contribution rate shifted back from the employees to the employers for Fiscal Year 2013. The 1.5 percent contribution shift from the employers to the employees remained in place through Fiscal Year 2013. House Bill 628 also required an actuarial study by PERA prior to September 20, 2013 to analyze whether contribution rate changes have had an adverse actuarial effect on the retirement systems.

Senate Bill 27 (Chapter 225, Laws 2013) significantly amended the Public Employees’ Retirement Act by creating a new tier of reduced benefits for new hires. The law reduces the cost of living adjustments for all current and future retirees; delays the application of cost of living adjustments for

certain future retirees; suspends the cost of living adjustments for certain return-to-work retirees; provides for an increase in the statutory employee contribution rate of 1.5 percent (subject to certain requirements) for employees earning \$20,000 or more in annual salary; provided for an increase in the statutory employer contribution of 0.4 percent beginning in Fiscal Year 2015; increased age and service requirements; lengthened the base average salary calculation amount from three to five years for Tier 2 employees; increased the vesting period for employees from five to eight years for most Tier 2 members; lowered the annual service credit by 0.5 for most members; and makes several other clarifying and technical changes.

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

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

House Bill 216 (Chapter 39, Laws 2014) amended the Magistrate Retirement Act. Among other things, the law suspended for two years and makes adjustments to cost of living increases, adjusted employee and employer contributions, required mandatory participation and implemented changes to the benefit structure. Senate Bill 160 (Chapter 43, Laws 2014) also made changes to the Magistrate Retirement Act. This law duplicated the changes made in House Bill 216.

During the 2016 2nd Second Special Session, the State's distribution to the legislative retirement fund from \$200,000 a month to \$75,000 a month, thus reducing the annual contribution from \$2.4 million to \$900,000. PERA's funded ratio is expected to increase from 75.3 percent to 76.8 percent by 2043, assuming the Plan meets all of its economic and demographic assumptions.

During the State of New Mexico (53rd Legislature ) Special Session in 2017, House Bill 2 was passed that suspended the State's distribution to the legislative retirement fund for two consecutive years (Fiscal Year 2018 and Fiscal Year 2019). Beginning July 1, 2019, the monthly distribution of \$75,000 to fund the legislative retirement coverage plan will resume, for a total annual contribution of \$900,000.

*New Mexico Retiree Health Care Authority-Historic Financial Information.* The NMRHCA was enacted for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service positions in the State and their eligible dependents. NMRHCA offers both pre Medicare and Medicare plans, as well as unsubsidized dental, vision and life insurance plans to eligible participants. As of July 2016, there were approximately 60,000 enrolled members and approximately 300 participating public entities. Fiscal Year 2017 data were not available at the time of publication.

NMRHCA's long-term investments struggled in Fiscal Year 2016 as the 1-year rate of return was -0.58 percent as of June 30, 2016 and the 5-year rate of return fell to 5.31 percent. Rates of return for Fiscal Year 2017 are not yet available for the entire year, but the rates of return improved as the 1-year rate of return was 12.10 percent for the period ending March 31, 2017, and the 5-year rate of return increased to 7.28 percent. An independent allocation analysis of the investment portfolio projects a 7 percent rate of return over the next 5 to 7 year period. In addition, NMRHCA has added over \$226 million to its trust fund over the past seven years. NMRHCA's trust fund balance as of April 30, 2017 was \$544 million.

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

NMRHCA, the agency that administers the Retiree Health Care Act, has a revenue base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund (“TAA Fund”). Employer and employee contribution rates are established in statute as is the amount distributed from the TAA Fund. Respective employer and employee contribution rates are 2 percent and 1 percent of the participating employee’s salary for Fiscal Years 2016 and 2017.

Based on the GASB Statement 43 valuation for Fiscal Year 2016, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust using a discount rate of 5 percent, the UAAL has been calculated to be approximately \$3.8 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. However, beginning in Fiscal Year 2017, NMRHCA will begin reporting under the new standards created under GASB 74, which is replacing GASB 43.

The NMRHCA continues to look for additional opportunities to further strengthen the financial standing of the NMRHCA. The NMRHCA Board of Directors has passed a five-year solvency plan to ensure the long term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and their employers. In addition to increased retiree cost sharing through plan design changes, the solvency plan calls for proportionately higher premiums for retirees who retired younger (decreased premium subsidies to pre-Medicare retirees) or did not work or pay into the system as long (increasing years of service required to receive maximum subsidy) and decreased subsidies for family members. Combined, these actions are expected to further improve the financial condition of the trust fund by increasing revenues and reducing future liabilities.

As of June 30, 2016, the NMRHCA program had a 20-year projected solvency (period of positive fund balance). However, Senate Bill 7 (Chapter 1, Laws 2016) passed during the 2016 2nd Special Session changes the distribution received from the Tax Administration Suspense Fund, reducing projected revenues by a cumulative \$250 million and effectively reducing the solvency period by approximately 3 years. NMRHCA will conduct another solvency study before the end of Fiscal Year 2017 to measure the full impact of the amended law.

Currently, GASB Statement 43 requires the NMRHCA to report its ARC and the percentage of the ARC contributed. The following table lists the NMRHCA ARC and percentage of the ARC contributed for Fiscal Years 2012 through 2016. Fiscal Year 2017 data were not available at the time of publication.

**NMRHCA Annual Required Contribution**

<b>Fiscal Year</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2012	\$340,074,787	41.77%
2013	353,657,828	38.28
2014	367,804,141	40.59
2015	292,656,765	53.53
2016	303,631,394	52.65

Source: New Mexico Retiree Health Care Authority.

## Economic and Demographic Characteristics

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the 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.

There are four Metropolitan Statistical Areas (“MSAs”) in the State. The Albuquerque MSA is comprised of Bernalillo, Sandoval, Tarrant 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 following table sets forth information on population growth in New Mexico and nationally.

**Population New Mexico and the United States  
2007-2016**

Year <sup>(1)</sup>	Population <sup>(2)</sup>		Annual Percentage Change	
	New Mexico	United States	New Mexico	United States
2007	1,966,357	301,231,207	--	--
2008	1,984,179	304,093,966	0.9%	1.0%
2009	2,007,315	306,771,529	1.2	0.9
2010	2,059,179	308,745,538	2.6	0.6
2011	2,078,226	311,718,857	0.9	1.0
2012	2,084,792	314,102,623	0.3	0.8
2013	2,086,890	316,427,395	0.1	0.7
2014	2,085,567	318,907,401	(0.1)	0.8
2015	2,085,109	321,418,820	(0.0)	0.8
2016	2,081,015	323,127,513	(0.2)	0.5

<sup>(1)</sup> As of July 1 (except for 2010 data which is as of April 1). Except for 2010 data, population figures are stated as intercensal estimates.

<sup>(2)</sup> All estimates are subject to change.

Source: U.S. Census Bureau, Population Division, 2007-2009 released September 2011; 2010-2016 released December 2016.

Major industries in the State include oil and natural gas production, tourism and retail, healthcare, government and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are a notable part of the State’s economy. Currently, lower global oil prices are negatively impacting mining and industries that serve the mining industry. In 2015, the largest employment sector in the State was government (comprising approximately 19.0 percent of the State’s workforce), followed, in order, by health care and social assistance; retail trade; accommodation and food services; and professional, scientific and technical services. For the twelve-month period ended December 31, 2015, total average employment in the State increased by 1.3 percent as compared to the same twelve-month period ending December 31, 2014. The following table sets forth information on employment by industry over the period of 2006 through 2015, the most recent figures available as of June 2017.

**Total New Mexico Full-time and Part-time Employment by North American Industry Classification System 2006-2015**

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Growth 2014-2015</b>	<b>Growth 2006-2015<sup>(1)</sup></b>
<b>Total employment</b>	1,080,732	1,105,413	1,107,869	1,075,660	1,060,716	1,065,291	1,067,757	1,075,867	1,082,277	1,095,949	1.3%	1.4%
Wage and salary employment	868,518	878,592	81,856	849,122	837,320	837,281	839,789	846,896	852,861	859,738	0.8	-1.0
Proprietors employment	212,214	226,821	226,013	226,538	223,396	228,010	227,968	228,971	229,416	236,211	3.0	11.3
Farm proprietors employment	15,255	18,193	18,041	18,270	19,083	20,715	21,436	21,547	21,322	21,311	-0.1	39.7
Nonfarm proprietors employment	196,959	208,628	207,972	208,268	204,313	207,295	206,532	207,424	208,094	214,900	3.3	9.1
Farm employment	22,829	25,804	24,702	25,228	25,630	27,323	28,370	29,218	28,111	28,772	2.4	26.0
Nonfarm employment	1,057,903	1,079,609	1,083,167	1,050,432	1,035,086	1,037,968	1,039,387	1,046,649	1,054,166	1,067,177	1.2	0.9
Private employment	843,571	869,670	869,872	834,214	817,651	824,157	827,488	835,812	844,809	858,620	1.6	1.8
Forestry, fishing and related activities <sup>(2)</sup>	5,131	5,161	5,293	5,287	5,200	5,237	5,138	5,247	5,682	5,884	3.6	14.7
Mining <sup>(3)</sup>	23,632	24,913	28,331	24,467	27,049	28,362	34,232	36,831	38,198	35,898	-6.0	51.9
Utilities	4,211	4,538	4,666	4,873	4,637	4,554	4,583	4,667	4,591	4,573	-0.4	8.6
Construction <sup>(4)</sup>	79,756	80,578	77,980	67,247	61,314	59,382	58,032	59,248	59,713	60,555	1.4	-24.1
Manufacturing	42,863	42,818	40,671	36,587	34,587	35,750	35,771	35,469	34,032	34,076	0.1	-20.5
Durable goods manufacturing <sup>(5)</sup>	29,961	29,770	28,091	24,485	23,086	23,698	23,217	22,553	21,241	20,935	-1.4	-30.1
Nondurable goods manufacturing <sup>(6)</sup>	12,902	13,048	12,580	12,102	11,501	12,052	12,554	12,916	12,791	13,141	2.7	1.9
Wholesale trade	29,430	29,015	28,755	26,698	26,921	26,513	26,486	26,694	27,496	28,567	3.9	-2.9
Retail trade <sup>(7)</sup>	116,789	119,034	118,204	114,095	110,475	111,583	111,908	112,808	114,086	115,724	1.4	-0.9
Transportation and warehousing <sup>(8)</sup>	25,906	27,435	26,703	24,361	23,430	24,333	25,361	25,505	25,846	26,447	2.3	2.1
Information <sup>(9)</sup>	18,451	18,879	18,971	17,497	17,130	16,508	16,473	16,059	15,723	16,006	1.8	-13.3
Finance and insurance <sup>(10)</sup>	32,407	33,829	34,633	36,035	34,660	35,632	35,138	34,903	34,602	34,612	0.0	6.8
Real estate and rental and leasing <sup>(11)</sup>	39,542	41,944	41,498	39,685	39,500	39,760	38,275	38,513	39,253	40,479	3.1	2.4
Professional, scientific and technical services	74,398	82,057	82,138	80,457	78,439	77,591	76,152	75,940	76,094	77,546	1.9	4.2
Management of companies and enterprises	6,419	6,072	5,908	5,566	5,380	5,491	5,449	5,503	5,632	5,814	3.2	-9.4
Administrative and waste services <sup>(12)</sup>	58,480	60,437	60,327	55,868	54,315	54,746	53,440	54,622	54,418	54,184	-0.4	-7.3
Educational services	15,952	15,801	15,988	16,363	16,814	16,280	16,152	16,404	16,716	17,553	5.0	10.0
Health care and social assistance <sup>(13)</sup>	107,985	111,857	114,850	118,169	119,533	121,675	123,264	123,782	124,943	129,672	3.8	20.1
Arts, entertainment and recreation <sup>(14)</sup>	21,943	23,000	23,352	23,308	23,110	23,142	23,722	23,743	24,052	24,885	3.5	13.4

Accommodation and food services <sup>(15)</sup>	84,498	85,156	84,057	81,759	81,222	82,391	83,232	85,532	88,375	90,601	2.5	7.2
Other services, except public administration <sup>(16)</sup>	55,778	57,146	57,547	55,892	53,935	55,227	54,680	54,342	55,357	55,544	0.3	-0.4
Government and government enterprises <sup>(17)</sup>	214,332	209,939	213,295	216,218	217,435	213,811	211,899	210,837	209,357	208,557	-0.4	-2.7

<sup>(1)</sup> Most recent data available.

<sup>(2)</sup> The “Forestry, fishing and related activities” category includes: forestry and logging; fishing, hunting and trapping; and support activities for agriculture and forestry.

<sup>(3)</sup> The “Mining” category includes: oil and gas extraction; mining (except oil and gas); and support activities for mining.

<sup>(4)</sup> The “Construction” category includes: construction of buildings; heavy and civil engineering construction; and specialty trade contractors.

<sup>(5)</sup> The “Durable goods manufacturing” category includes: wood product manufacturing; nonmetallic mineral product manufacturing; primary metal manufacturing; fabricated metal product manufacturing; machinery manufacturing; computer and electronic product manufacturing; electrical equipment, appliance, and component manufacturing; motor vehicles, bodies and trailers, and parts manufacturing; other transportation equipment manufacturing; furniture and related product manufacturing; and miscellaneous manufacturing.

<sup>(6)</sup> 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.

<sup>(7)</sup> The “Retail trade” category includes: motor vehicle and parts dealers; furniture and home furnishings stores; electronics and appliance stores; building material and garden equipment and supplies dealers; food and beverage stores; health and personal care stores; gasoline stations; clothing and clothing accessories stores; sporting goods, hobby, musical instrument, and book stores; general merchandise stores; miscellaneous store retailers; and nonstore retailers.

<sup>(8)</sup> 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.

<sup>(9)</sup> The “Information” category includes: publishing industries (except Internet); motion picture and sound recording industries; broadcasting (except Internet); Internet publishing and broadcasting; telecommunications; data processing, hosting, and related services; and other information services.

<sup>(10)</sup> The “Finance and insurance” category includes: monetary authorities-central bank; credit intermediation and related activities; securities, commodity contracts, and other financial investments and related activities; insurance carriers and related activities; and funds, trusts and other financial vehicles.

<sup>(11)</sup> The “Real estate and rental and leasing” category includes: real estate; rental and leasing services; and lessors of nonfinancial intangible assets (except copyrighted works).

<sup>(12)</sup> The “Administrative and waste services” category includes: administrative and support services; and waste management and remediation services.

<sup>(13)</sup> The “Health care and social assistance” category includes: ambulatory health care services; hospitals; nursing and residential care facilities; and social assistance.

<sup>(14)</sup> The “Arts, entertainment and recreation” category includes: performing arts, spectator sports, and related industries; museums, historical sites, and similar institutions; and amusement, gambling and recreation industries.

<sup>(15)</sup> The “Accommodation and food services” category includes: accommodation; and food services and drinking places.

<sup>(16)</sup> The “Other services, except public administration” category includes: repair and maintenance; personal and laundry services; religious, grantmaking, civic, professional, and similar organizations; and private households.

<sup>(17)</sup> The “Government and government enterprises” category includes: federal, civilian; military; and state and local governments.

Source: Regional Economic Information System, Bureau of Economic Analysis, Last Revised: September 2016 (the most recent information available as of March 2017).

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

**Employment and Labor Force**  
**New Mexico and the United States**  
**2008 – 2017**  
**(numbers in thousands)<sup>(1)</sup>**

Year	Civilian Labor Force		Number of Employed		Unemployment Rate		
	New Mexico	United States	New Mexico	United States	New Mexico	United States	N.M. as % of U.S. Rate
2008	945	154,655	902	143,369	4.5%	7.3%	61.6%
2009	940	153,111	869	138,013	7.5	9.9	75.8
2010	936	153,650	860	139,301	8.1	9.3	87.1
2011	930	153,995	860	140,902	7.5	8.5	88.2
2012	929	155,628	863	143,330	7.1	7.9	89.9
2013	924	155,151	859	144,741	7.0	6.7	104.5
2014	921	156,238	859	147,521	6.7	5.6	119.6
2015	920	157,957	859	150,030	6.6	5.0	132.0
2016	929	159,640	866	152,111	6.7	4.7	145.6
2017 <sup>(2)</sup>	936	159,784	873	152,923	6.7	4.3	155.8

<sup>(1)</sup> Figures rounded to nearest thousand.

<sup>(2)</sup> April 2017.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Last Revised: United States as of June 5, 2017.

**Personal Income**  
**New Mexico and the United States**  
**2007 – 2016**

Year	Personal Income (Dollars in thousands)		Annual Percentage Change	
	New Mexico	United States	New Mexico	United States
2007	\$63,091,733	\$11,995,419,000	--	--
2008	67,250,834	12,492,705,000	6.6%	4.1%
2009	66,243,018	12,079,444,000	(1.5)	(3.3)
2010	68,361,950	12,459,613,000	3.2	3.1
2011	72,175,501	13,233,436,000	5.6	6.2
2012	73,822,778	13,904,485,000	2.3	5.1
2013	72,465,608	14,068,960,000	(1.8)	1.2
2014	76,449,091	14,801,624,000	5.1	5.2
2015	79,104,093	15,463,981,000	3.5	4.5
2016	80,758,305	16,017,781,445	2.1	3.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. Last Revised: March 28, 2017 (the most recent information available as of June 2017).

**Per Capita Personal Income  
New Mexico and the United States  
2007-2016**

Year	Per Capita Income		N.M. as a % of U.S.	Annual Percentage Change	
	New Mexico	United States		N.M.	U.S.
2007	\$31,703	\$39,821	79.6%	--	--
2008	33,447	41,082	81.4	5.5%	3.2%
2009	32,523	39,376	82.6	(2.8)	(4.2)
2010	33,109	40,277	82.2	1.8	2.3
2011	34,737	42,461	81.8	4.9	5.4
2012	35,427	44,282	80.0	2.0	4.3
2013	34,752	44,493	78.1	(1.9)	0.5
2014	36,701	46,464	79.0	5.6	4.4
2015	38,025	48,190	78.9	3.6	3.7
2016	38,807	49,571	78.3	2.1	2.9

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. March 28, 2017 (the most recent information available as of June 2017).

**2006-2016  
Wages and Salaries by Industry Sector**

NAICS Earnings by Place of Work <sup>(1)</sup> Applicable to 2006-2016	New Mexico (Dollars in Thousands) <sup>(2)</sup>		United States (Dollars in Millions) <sup>(2)</sup>		Cumulative Annual Percent Change 2006 - 2016		Distribution of 2016 Wages & Salaries	
	2016	2006	2016	2006	N.M.	U.S.	N.M.	U.S.
	Farm Wage and Salary	\$ 261,658	\$ 206,195	\$ 26,933	\$ 18,764	26.9%	43.5%	0.7%
Non-farm Wage and Salary	37,729,371	30,578,029	8,157,244	6032912	23.4	35.2	99.3	21.5
Private Wage and Salary	27,716,318	22,088,036	6,864,030	5012443	25.5	36.9	73.0	18.1
Forestry, Fishing, and other related activities	93,309	58,552	19,260	12,145	59.4	25.6	0.3	.01
Mining	1,480,564	1,146,805	63,920	47,897	29.1	33.5	3.9	0.2
Utilities	381,749	252,375	59,813	43,599	51.3	37.2	1.0	0.2
Construction	2,017,340	2,165,630	411,410	354,613	-6.8	16.0	5.3	1.1
Manufacturing	1,596,154	1,687,295	829,368	737,769	-5.4	12.4	4.2	2.2
Wholesale Trade	1,164,496	1,064,016	449,085	349,163	9.4	28.6	3.1	1.2
Retail Trade	2,761,113	2,353,528	500,757	407,227	17.3	23.0	7.3	1.3
Transportation and Warehousing	987,896	846,528	269,016	193,964	16.7	38.7	2.6	0.7
Information	686,392	619,281	286,331	204,090	10.8	40.3	1.8	0.8
Finance and Insurance	1,491,091	1,090,392	636,077	490,398	36.7	29.7	3.9	1.7
Real Estate and Rental and Leasing	396,257	353,116	122,945	94,649	12.2	29.9	1.0	0.3
Professional, Scientific, and Technical Services	4,353,981	3,132,842	829,423	518,979	39.0	59.8	11.5	212
Management of Companies and Enterprises	367,817	307,884	270,538	164,687	19.5	64.3	1.0	0.7
Administrative and Waste Services	1,483,253	1,325,938	355,394	248,449	11.9	43.0	3.9	0.9
Educational Services	361,445	271,499	149,402	94,076	33.1	58.8	1.0	0.4
Health Care and Social Assistance	5,033,490	3,161,892	952,663	599,008	59.2	59.0	13.3	2.5
Arts, Entertainment, and Recreation	232,828	163,839	91,914	62,858	42.1	46.2	0.6	0.2
Accommodations and Food Services	1,721,007	1,189,469	309,535	200,893	44.7	54.1	4.5	0.8
Other Services, Except Public Administration	1,106,136	897,155	257,180	187,979	23.3	36.8	2.9	0.7
Government and Government Enterprises	10,013,053	8,489,993	1,293,214	1,020,469	17.9	26.7	26.4	3.4
Total	\$37,991,029	\$30,784,224	\$8,184,177	\$6,051,676				

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

<sup>(2)</sup> All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Last Revised: March 28, 2017 (the most recent information available as of June 2017).

## 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 each Series 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 an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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).

Principal, interest and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or Paying 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, Paying Agent or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest or redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by State statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and the State does not have responsibility for distributing such notices to the Beneficial Owners.

The State does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the Bonds.

## **SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

The following summarizes certain provisions of the Bond Resolution. This summary does not purport to be complete and reference is made to the Bond 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 Bond Resolution and in the Bonds; (c) the State will keep proper books of record and account, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to each of the funds and the accounts designated in the Bond Resolution; (d) any owner of any of the Bonds or any duly authorized agent of an owner, will have the right, at all reasonable times, to inspect all records, accounts and data relating to the Bonds, the collection of ad valorem taxes and the accounts designated in the Bond Resolution; provided, however, that pursuant to Section 6-14-10E NMSA 1978, as amended, records with regard to the ownership of or pledges of the Bonds are not subject to inspection or copying under any law of the State relating to the right of the public to inspect or copy public records; (e) the State will prepare annual statements or audits of collections and disbursements of ad valorem taxes in sufficient detail to show compliance with requirements of the Bond Resolution and the State will furnish a copy of such audit to any owner of Bonds upon written request therefor; (f) in order to prevent any accumulation of claims for interest after maturity, the State will not directly or indirectly extend or assent to the extension of time for the payment of interest on any of the Bonds and if the time for the payment of any such claim is extended, such extended payment or payments of interest will not be entitled, in the event of default under the Bond Resolution, to the benefit or security of the Bond Resolution, except upon the prior payment in full of the principal of and interest on the Bonds, on which the payment of interest has not been executed; (g) each official or other person having custody of any funds derived from State ad valorem taxes, or responsible for their handling, will be bonded as provided by law, which bond will be conditioned upon the proper application of those funds; (h) the State will make no use of the proceeds of the Bonds or any funds reasonably expected to be used to pay the Bonds which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") or which would result in the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds, and the Governor and the Secretary of the Department of Finance and Administration of the State, or any other officer of the State having responsibility for the issuance of the Bonds, will give an appropriate certificate of the State, for inclusion in the transcript of proceedings for the Bonds, setting forth the reasonable expectations of the State regarding the amount and use of all the proceeds of the Bonds, the facts, circumstances and estimate on which they are based, and other facts and circumstances relevant to the tax treatment of interest on the Bonds; (i) the State (1) will take or cause to be taken such actions which may be required of it for the interest on the Bonds to be and remain

excluded from gross income for federal income tax purposes and (2) will not take or permit to be taken any actions which would adversely affect that exclusion, and the State or persons acting for it, will, if necessary to maintain such exclusion, among other acts of compliance, (i) apply, or cause to be applied, the proceeds of the Bonds to the purpose of the borrowing, (ii) restrict the yield on investment property acquired with those proceeds, (iii) make timely rebate payments to the federal government in accordance with Section 148 of the Code and the Bond Resolution, (iv) maintain books and records and make calculations and reports, and (v) refrain from certain uses of proceeds, all in such manner and to the extent necessary to assure such exclusion of that interest under the Code, which the Secretary of the Department of Finance and Administration of the State, State Treasurer and other appropriate officers are authorized and directed to take any and all actions, make calculations and rebate payments, and make or give reports and certifications, as may be appropriate to assure; and (j) interest on the Bonds is exempt from taxation by the State.

## **Defeasance**

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

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

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

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

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

(iii) obligations described in Section 103(a) of the Code (a) provisions for the payment of the principal of, premium, if any, and interest on which (1) have been made by the irrevocable deposit, with a bank or trust company acting as a trustee or escrow agent for holders of such obligations, of non-callable securities described in clauses (i) and (ii) above, the maturing principal of and interest on which, when due and payable, without further investment or reinvestment, will provide sufficient moneys to pay when due the principal of and interest on such obligations, and (2) which securities described in clauses (i) and

(ii) are not available to satisfy any other claim, including any claim of such trustee or escrow agent or of any person claiming through such trustee or escrow agent or to whom such trustee or escrow agent may be obligated, including claims in the event of the insolvency of such trustee or escrow agent or proceedings arising out of such insolvency or (b) rated by either S&P Global Ratings 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 Bond Resolution may be invested only in noncallable Defeasance Obligations having maturity dates, or having redemption dates which, at the option of the holder of such Defeasance Obligations, shall not be later than the date or dates at which moneys will be required for the purposes described above. Within fifteen (15) days after any Bonds are deemed to be paid and discharged pursuant to this paragraph, a written notice of such deemed payment and discharge will be given to each registered owner of Bonds as shown on the registration books kept by the Registrar/Paying Agent on the date on which such Bonds are deemed paid and discharged. Such notice will state the numbers of the Bonds deemed paid and discharged or state that all Bonds are deemed paid and discharged and set forth a description of the obligations held pursuant to this paragraph.

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

### **Amendment of Resolution**

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

## **Remedies of Holders of Bonds**

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

## **Payment of Principal and Interest**

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

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

## **TRANSCRIPT AND LEGAL OPINIONS**

The Board will prepare 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 opinions of Co-Bond Counsel, attached hereto as Appendix D) are subject to the approving legal opinions of Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard L.L.C., Co-Bond Counsel to the State (“Co-Bond Counsel”). Certain legal matters will be passed upon for the State of New Mexico by Kutak Rock LLP, Disclosure Counsel. Certain legal matters will be passed upon for the State of New Mexico by the Office of the Attorney General of the State of New Mexico.

## TAX MATTERS

In the opinions of Co-Bond Counsel, assuming continuous compliance with certain covenants described below, interest on the Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Tax Code, interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the “adjusted current earnings” adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations as described below, and interest on the Bonds is exempt from income taxes imposed directly thereon by the State under New Mexico income tax laws in effect on the date of delivery of the Bonds as described herein.

The Tax Code and New Mexico law impose several requirements which must be met with respect to the Bonds in order for the interest thereon to be excluded from gross income, alternative minimum taxable income (except to the extent of the aforementioned adjustment applicable to corporations), New Mexico taxable income and New Mexico alternative minimum taxable income. Certain of these requirements must be met on a continuous basis throughout the term of the Bonds. These requirements include: (a) limitations as to the use of proceeds of the Bonds; (b) limitations on the extent to which proceeds of the Bonds may be invested in higher yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on the proceeds of the Bonds above the yield on the Bonds to be paid to the United States Treasury. The State will covenant and represent in the Bond Resolution that it will take all steps to comply with the requirements of the Tax Code and New Mexico law (in effect on the date of delivery of the Bonds) to the extent necessary to maintain the exclusion of interest on the Bonds from gross income and alternative minimum taxable income (except to the extent of the aforementioned adjustment applicable to corporations) under such federal income tax laws and New Mexico taxable income under such New Mexico income tax laws. Co-Bond Counsel’s opinions as to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income (to the extent described above), New Mexico taxable income and New Mexico alternative minimum taxable income is rendered in reliance on these covenants, and assumes continuous compliance therewith. The failure or inability of the State to comply with these requirements could cause the interest on the Bonds to be included in gross income, alternative minimum taxable income, New Mexico taxable income or New Mexico alternative minimum taxable income, or a combination thereof, from the date of issuance. Co-Bond Counsel’s opinions also are rendered in reliance upon certifications of the State and other certifications furnished to Co-Bond Counsel. Co-Bond Counsel have not undertaken to verify such certifications by independent investigation.

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

The Tax Code contains numerous provisions which may affect an investor’s decision to purchase the Bonds. Owners of the Bonds should be aware that the ownership of tax-exempt obligations by particular persons and entities, including, without limitation, financial institutions, insurance companies, recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, foreign corporations doing business in the United States and certain “subchapter S” corporations may result in adverse federal and New Mexico tax consequences. Under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the Bonds made to any owner who fails to provide certain required information,

including an accurate taxpayer identification number, to certain persons required to collect such information pursuant to the Tax Code. Backup withholding may also be applied if the owner underreports “reportable payments” (including interest and dividends) as defined in Section 3406, or fails to provide a certificate that the owner is not subject to backup withholding in circumstances where such a certificate is required by the Tax Code. Certain of the Bonds may be sold at a premium, representing a difference between the original offering price of those Bonds and the principal amount thereof payable at maturity. Under certain circumstances, an initial owner of such bonds (if any) may realize a taxable gain upon their disposition, even though such bonds are sold or redeemed for an amount equal to the owner’s acquisition cost. Co-Bond Counsel’s opinions relate only to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income, New Mexico taxable income and New Mexico alternative minimum taxable income as described above and will state that no opinion is expressed regarding other federal or New Mexico tax consequences arising from the receipt or accrual of interest on or ownership of the Bonds. Owners of the Bonds should consult their own tax advisors as to the applicability of these consequences.

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

The Internal Revenue Service (the “Service”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, the market value of the Bonds may be adversely affected. Under current audit procedures, the Service will treat the State as the taxpayer and the Owners may have no right to participate in such procedures. The State has covenanted in the Bond Resolution not to take any action that would cause the interest on the Bonds to lose its exclusion from gross income for federal income tax purposes or lose its exclusion from alternative minimum taxable income except to the extent described above for the owners thereof for federal income tax purposes. None of the State, the Board, Fiscal Strategies Group, Inc., Public Resources Advisory Group, Rodey, Dickason, Sloan, Akin & Robb, P.A., or Sherman & Howard L.L.C. is responsible for paying or reimbursing any Bondholder with respect to any audit or litigation costs relating to the Bonds.

A copy of the proposed form of opinion of Co-Bond Counsel is attached hereto as Appendix D.

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

## **LITIGATION**

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

The State is a party to various legal proceedings seeking damages or injunctive relief and generally incidental to its operations which proceedings are unrelated to the Bonds, and to the security therefor. The ultimate disposition of such proceedings is not presently determinable. Such proceedings are not, in the opinion of the State Attorney General, reasonably expected to have a material adverse effect on the Bonds or the security for the payment of the Bonds for the following reason: 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. See Appendix C for a summary of litigation and administrative action or proceedings that impact property taxes.

## **FINANCIAL STATEMENTS**

APPENDIX A contains the State of New Mexico State General Fund Component Appropriation Accounts Annual Financial Statements and APPENDIX B contains the State of New Mexico Office of the Treasurer Financial Statements for the year ended June 30, 2016, the most recent year for which such financial statements 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. Fiscal Strategies Group, Inc. has contracted with Public Resources Advisory Group (together with Fiscal Strategies Group, Inc., the "Financial Advisors") in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. The Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement nor the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. The Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The financial advisory fee for services performed with respect to the Bonds is contingent upon the issuance and delivery of the Bonds.

## **RATINGS**

The Bonds have received ratings from Moody's Investors Service, Inc., and S&P Global Ratings, as set forth on the cover of this Official Statement.

Such ratings reflect only the views of the respective organizations. An explanation of the significance of each rating may be obtained from the rating agency furnishing such rating. There is no assurance that such ratings will continue for any given period of time or that they will not be revised

downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of either rating can be expected to have an adverse effect on the market price of the Bonds.

### **CONTINUING DISCLOSURE UNDERTAKING**

The Board will agree, by means of a continuing disclosure undertaking (the substantial form of which appears in Appendix E) to be delivered to the purchaser of the Bonds at closing, for the benefit of owners of the Bonds, to provide certain annual financial information relating to the State by no later than 210 days after the end of each fiscal year of the State, commencing with the fiscal year ending June 30, 2017, and to provide notices of occurrence of certain enumerated events. 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) and material event notices 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 the First Judicial District Court in Santa Fe County, New Mexico.

As allowed under the terms of the prior continuing disclosure undertakings the State timely filed drafts of annual financial statements for 2012 and 2013 submitting the final audited financial statements when they were available. For the Fiscal Year ending June 30, 2012 (and in several proceeding years), the Board, on behalf of the State, made timely filings in accordance with continuing disclosure undertakings previously entered into by the Board in relation to the State's Capital Projects General Obligation Bonds; however, such filings did not contain certain State mill levy operating data information. The mill levy operating data was contained in official statements used in connection with the issuance and sale of the State's Capital Projects General Obligation Bonds, including without limitation, the official statement used in connection with the issuance and sale of the State's Capital Projects General Obligation Bonds, Series 2013 dated March 19, 2013. The Board, on behalf of the State, intends to include such information in all future continuing disclosure undertakings filings.

The continuing disclosure undertaking with respect to the Bonds 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 New Mexico State Board of Finance, 407 Galisteo Street, Bataan Memorial Building, Room 181, Santa Fe, New Mexico 87501, or by telephone at (505) 827-4980.

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

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

STATE BOARD OF FINANCE  
OF THE STATE OF NEW MEXICO

By: Governor Susana Martinez  
President

**APPENDIX A**

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

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**State of New Mexico  
Component Appropriation Funds  
Annual Financial Report  
June 30, 2016**

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**REDW**<sup>LLC</sup>

CPAs | Business & Financial Advisors

# State of New Mexico Component Appropriation Funds

## Table of Contents

	<u>Page</u>		
<b>Official Roster</b>	1		
<b>Independent Auditor’s Report</b>	2-4		
<b>Management’s Discussion and Analysis (Unaudited)</b>	5-12		
<b>Basic Financial Statements</b>			
Balance Sheets	13		
<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <u>Statutorily Created Funds</u> <ul style="list-style-type: none"> <li>• Common School Current Fund</li> <li>• Current School Fund</li> <li>• State Support Reserve Fund</li> <li>• Tobacco Settlement Permanent Fund</li> </ul> </td> <td style="width: 50%; vertical-align: top;"> <u>Administratively Created Funds</u> <ul style="list-style-type: none"> <li>• Appropriation Account Fund</li> <li>• Federal Mineral Leasing Fund</li> <li>• Appropriation Contingency Reserve Fund</li> <li>• General Operating Reserve Fund</li> <li>• Tax Stabilization Reserve Funds</li> </ul> </td> </tr> </table>	<u>Statutorily Created Funds</u> <ul style="list-style-type: none"> <li>• Common School Current Fund</li> <li>• Current School Fund</li> <li>• State Support Reserve Fund</li> <li>• Tobacco Settlement Permanent Fund</li> </ul>	<u>Administratively Created Funds</u> <ul style="list-style-type: none"> <li>• Appropriation Account Fund</li> <li>• Federal Mineral Leasing Fund</li> <li>• Appropriation Contingency Reserve Fund</li> <li>• General Operating Reserve Fund</li> <li>• Tax Stabilization Reserve Funds</li> </ul>	
<u>Statutorily Created Funds</u> <ul style="list-style-type: none"> <li>• Common School Current Fund</li> <li>• Current School Fund</li> <li>• State Support Reserve Fund</li> <li>• Tobacco Settlement Permanent Fund</li> </ul>	<u>Administratively Created Funds</u> <ul style="list-style-type: none"> <li>• Appropriation Account Fund</li> <li>• Federal Mineral Leasing Fund</li> <li>• Appropriation Contingency Reserve Fund</li> <li>• General Operating Reserve Fund</li> <li>• Tax Stabilization Reserve Funds</li> </ul>		
Statements of Revenues, Expenditures and Changes in Fund Balances	14		
<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <u>Statutorily Created Funds</u> <ul style="list-style-type: none"> <li>• Common School Current Fund</li> <li>• Current School Fund</li> <li>• State Support Reserve Fund</li> <li>• Tobacco Settlement Permanent Fund</li> </ul> </td> <td style="width: 50%; vertical-align: top;"> <u>Administratively Created Funds</u> <ul style="list-style-type: none"> <li>• Appropriation Account Fund</li> <li>• Federal Mineral Leasing Fund</li> <li>• Appropriation Contingency Reserve Fund</li> <li>• General Operating Reserve Fund</li> <li>• Tax Stabilization Reserve Funds</li> </ul> </td> </tr> </table>	<u>Statutorily Created Funds</u> <ul style="list-style-type: none"> <li>• Common School Current Fund</li> <li>• Current School Fund</li> <li>• State Support Reserve Fund</li> <li>• Tobacco Settlement Permanent Fund</li> </ul>	<u>Administratively Created Funds</u> <ul style="list-style-type: none"> <li>• Appropriation Account Fund</li> <li>• Federal Mineral Leasing Fund</li> <li>• Appropriation Contingency Reserve Fund</li> <li>• General Operating Reserve Fund</li> <li>• Tax Stabilization Reserve Funds</li> </ul>	
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<b>Notes to the Financial Statements</b>	15-29		
<b>Supplementary Information (Unaudited)</b>			
Schedule of Revenues by Source	30-31		
Schedule of Appropriations	32-36		
Schedule of Amounts Due From Other State Entities	37-39		

**State of New Mexico**  
**Component Appropriation Funds**

**Table of Contents — continued**

	<b><u>Page</u></b>
<b>Supplementary Information (Unaudited) — continued</b>	
Schedule of Amounts Due from Taxpayers	40
Schedule of Amounts Due to Local Governments	41
Schedule of Amounts Due to Taxpayers	42
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	43-44
Schedule of Findings and Responses	45
Schedule of Prior Year Audit Findings	46
Exit Conference	47

**State of New Mexico  
Component Appropriation Funds**

**Official Roster  
June 30, 2016**

**Elected Official**

Governor Susana Martinez

**Officials**

Department of Finance and Administration:

Cabinet Secretary Designate

State Controller

Deputy Division Director, Financial Control Division

Dorothy “Duffy” Rodriguez

Ron Spilman

Steve Gonzales

## Independent Auditor's Report

Ms. Dorothy "Duffy" Rodriguez, Cabinet Secretary Designate  
State of New Mexico  
Department of Finance and Administration  
and  
Mr. Timothy Keller  
New Mexico State Auditor

### **Report on the Financial Statements**

We have audited the accompanying financial statements of each of the statutorily and administratively created funds that comprise the Component Appropriation Funds of the State of New Mexico (the "Component Appropriation Funds") as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Component Appropriation Fund's as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1A, the accompanying financial statements present only the Component Appropriation Funds and do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements of the Component Appropriation Fund's. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of the Component Appropriation 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* in considering the Component Appropriation Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "REDW LLC". The letters are cursive and somewhat stylized, with the "R" being particularly large and looping.

Albuquerque, New Mexico  
November 29, 2016

**State of New Mexico**  
**Component Appropriation Funds**  
**Management's Discussion and Analysis**  
**June 30, 2016**

**Overview of the Reporting Entity**

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

Statutorily Created Funds

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

Administratively Created Funds

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

The Funds are part of the General Fund of the State of New Mexico, as reported in the State’s Comprehensive Annual Financial Report.

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

**Financial Highlights**

The Funds ended the year with aggregate reserves of 2.4% of recurring current year appropriations as compared to 10.0% in fiscal year 2015.

In fiscal year 2016, the aggregate fund balance of the Component Appropriation Funds decreased by \$601.4 million. In fiscal year 2015, the Component Appropriation Funds aggregate fund balance increased by \$75.1 million. The decrease in fiscal year 2016 is attributable to the decrease in revenues of \$531.6 million or 8.5% from 2015 revenues. In addition, appropriations increased by \$54.9 million in fiscal year 2016.

Fiscal year 2016 compares to fiscal year 2015 as follows:

- General and selective taxes are the largest revenue source, contributing 44.4% of total revenues in fiscal year 2016. Those revenues decreased by \$141.7 million or 5.3% in 2016.

**State of New Mexico**  
**Component Appropriation Funds**  
**Management's Discussion and Analysis**  
**June 30, 2016**

From the general and selective taxes category, both gross receipts and compensating taxes had significant decreases of \$119.7 million or 5.7% and \$25.0 million or 34.7%, respectively. Insurance taxes had an increase of \$17.9 million.

- Income taxes are the second largest revenue source contributing 25.1% of the total revenues. Those revenues decreased by \$148.5 million or 9.3% in fiscal year 2016. From the income taxes category corporate income tax decrease by \$136.0 million or 53.4% in fiscal year 2016.
- Severance taxes decreased by \$147.7 million or 34.5%. From the severance taxes category, oil and gas emergency school tax decreased by \$138.6 million or 36.9%.
- Appropriations increased by \$54.9 million or less than one percent from fiscal year 2015. Judicial increased by \$55.9 million or 25.3% while General Control decreased by \$48.0 million or 20%. Public School Support increased by \$14.9 million compared to fiscal year 2015.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Component Appropriation Funds use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Component Appropriation Funds are categorized as governmental funds and therefore report using the modified accrual basis of accounting. The basic financial statements of the Funds include balance sheets and statements of revenues, expenditures and changes in fund balances, which are reported on pages 13 and 14, respectively.

The Component Appropriation Funds do not adopt annual appropriated budgets. However, the appropriations of the Component Appropriation Funds by law must equal the individual amounts appropriated in the various Appropriation Acts, which are reported in the Schedule of Appropriations on pages 32-36.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 15 through 29 of this report.

**Other Information**

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

**State of New Mexico**  
**Component Appropriation Funds**  
**Management's Discussion and Analysis**  
**June 30, 2016**

Also presented as supplementary information are the following:

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

**Fund Financial Analysis**

The focus of the financial statements of the Funds is on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the financing requirements. In particular, unassigned fund balance may serve as a useful measure of financial position and net resources available for spending.

As of the end of the current fiscal year, the Funds reported aggregate fund balance of \$147.7 million, a decrease of \$601.4 million from fiscal year 2015. Aggregate assets, liabilities, deferred inflows of resources, and fund balance as of June 30, are as follows:

**Aggregate Assets, Liabilities, Deferred Inflows of Resources, and Fund Balance**  
**June 30,**  
*(in millions of dollars)*

	2016	2015
Assets	\$ 1,603.0	\$ 1,711.3
Liabilities	(1,402.3)	(921.4)
Deferred inflow of resources	(53.0)	(40.8)
Fund balance	\$ 147.7	\$ 749.1

The assets held by the Component Appropriation Funds are unappropriated and are committed with the exception of the Tobacco Settlement Permanent Fund and the State Support Reserve Fund, which are restricted. It has been the policy of the State of New Mexico to not consider the deferred inflows of resources, \$53.0 million, as available for appropriation.

**State of New Mexico**  
**Component Appropriation Funds**  
**Management's Discussion and Analysis**  
**June 30, 2016**

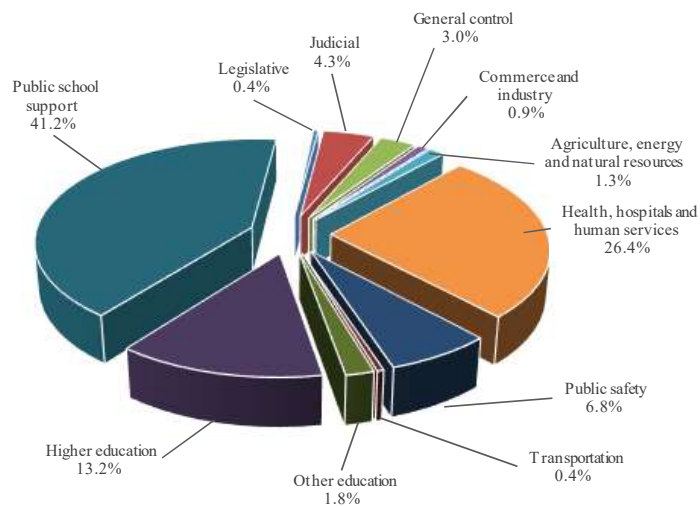
**Aggregate Change in Fund Balances**  
**For the Year Ended June 30,**  
*(in millions of dollars)*

	2016	2015	Increase (Decrease)
<b>Revenues</b>			
General and selective taxes	\$ 2,553.8	\$ 2,695.5	\$ (141.7)
Income taxes	1,445.7	1,594.2	(148.5)
Severance taxes	279.8	427.5	(147.7)
License fees	54.8	55.9	(1.1)
Investment income	773.8	709.7	64.1
Rents and royalties	437.8	584.4	(146.6)
Miscellaneous receipts	<u>208.5</u>	<u>218.6</u>	<u>(10.1)</u>
Total revenues	<u>5,754.2</u>	<u>6,285.8</u>	<u>(531.6)</u>
<b>Expenditures</b>			
Appropriations			
General control	193.1	241.1	(48.0)
Legislative	26.0	29.4	(3.4)
Judicial	276.5	220.6	55.9
Commerce and industry	59.6	84.7	(25.1)
Agriculture, energy and natural resources	84.3	73.6	10.7
Health, hospitals and human services	1,680.8	1,649.6	31.2
Public safety	435.3	418.9	16.4
Transportation	27.2	-	27.2
Higher education	843.4	865.8	(22.4)
Public school support	2,623.3	2,608.4	14.9
Other education	<u>116.1</u>	<u>118.6</u>	<u>(2.5)</u>
Total appropriations	<u>6,365.6</u>	<u>6,310.7</u>	<u>54.9</u>
Excess (deficit) of revenues over expenditures	<u>(611.4)</u>	<u>(24.9)</u>	<u>(586.5)</u>
<b>Other Financing Sources</b>			
Transfers in, net	<u>10.0</u>	-	<u>10.0</u>
Total other financing sources	<u>10.0</u>	-	<u>10.0</u>
Special items	<u>-</u>	<u>100.0</u>	<u>(100.0)</u>
Net change in fund balance	<u>(601.4)</u>	75.1	<u>(676.5)</u>
Fund balance - beginning	<u>749.1</u>	<u>674.0</u>	<u>75.1</u>
Fund balance - ending	<u>\$ 147.7</u>	<u>\$ 749.1</u>	<u>\$ (601.4)</u>

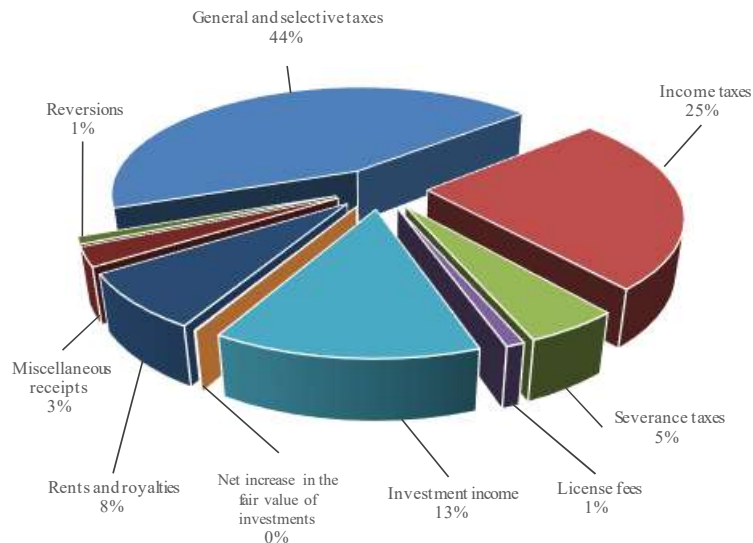
# State of New Mexico Component Appropriation Funds Management's Discussion and Analysis June 30, 2016

The Funds' aggregate fund balances decreased by \$601.4 million in fiscal year 2016 compared to a \$75.1 million increase in 2015. In fiscal year 2016, revenues decreased 8.5% compared to 2015, while appropriations increased less than one percent.

### *Appropriations by Function*



### *Aggregate Revenues by Source*



**State of New Mexico**  
**Component Appropriation Funds**  
**Management's Discussion and Analysis**  
**June 30, 2016**

**Economic Factors Affecting New Mexico's Fiscal Year 2016 Budget**

New Mexico utilizes a consensus of legislative and executive analysts to forecast General Fund revenue so that the Executive and Legislature work with the same revenue forecast in preparing their General Fund operating budget recommendations. This "consensus group" bases their revenue forecast on forecasts of the U.S. economy from IHS Global Insight and Moody's Analytics in combination with forecasts of the New Mexico economy prepared by the University of New Mexico's Bureau of Business and Economic Research and Moody's Analytics. Economic inputs are supplemented with information provided by state agencies, the Congressional Budget Office, and other national data sources. Historical information on the value and volume of crude oil and natural gas produced in the state is derived from the State's ONGARD reporting system, and product price forecasts are based on the national economic forecasting services and other sources.

Trends in the U.S. Economy

Although at a slower pace, the U.S. economy continued to grow in state fiscal year 2016. The national economy, as measured by Real Gross Domestic Product, grew by 1.7 percent in fiscal year 2016, hindered by the slowdown in the energy sector and a decline in business investment. Total employment levels averaged 2.7 million above fiscal year 2015 (or 1.9 percent). U.S. average hourly wages grew by 2.5 percent, exceeding low inflation of 0.7 percent to increase the purchasing power of paychecks. However, this growth in wages was partially offset by increases in healthcare costs of 3.0 percent.

U.S. economic growth is expected to accelerate in fiscal year 2017, with projected GDP growth of 2.4 percent. The Federal Reserve is expected to raise short-term interest rates in the early half of the fiscal year in response to stronger inflation and ongoing employment gains. Housing prices are projected to continue to rise in fiscal year 2017, while business spending is anticipated to show modest growth.

New Mexico Economy

Oil and natural gas prices continued to drop in fiscal year 2016, which affected drilling activity and employment in the state's oil and gas producing sector. Fiscal year 2016 New Mexico employment averaged 0.4 percent growth overall, or 3,300 jobs, above fiscal year 2015. Industry sectors saw clear divergence with the Education and Health Services sector averaging 6,300 additional jobs, and the Leisure and Hospitality sector increasing by 2,700 jobs, whereas the Mining Sector averaged 5,500 fewer jobs than in fiscal year 2015. Average prices in fiscal year 2016 for crude oil and natural gas were \$37.94 per barrel and \$2.43 per thousand cubic feet respectively, an ongoing decrease from fiscal year 2014 of 60.0 percent for oil and 52.6 percent for natural gas. Notwithstanding the price drop, New Mexico oil production reached a record 146.6 million barrels in fiscal year 2016. In fiscal year 2016, New Mexico was the sixth largest producing state for oil and eighth largest for natural gas accounting for about 4 percent of total U.S. production for each commodity. Dependence on government spending has also been a

**State of New Mexico**  
**Component Appropriation Funds**  
**Management's Discussion and Analysis**  
**June 30, 2016**

headwind for the state's economy because of constrained federal budget growth. Although direct federal government employment has begun to stabilize in New Mexico, in fiscal year 2016 it was down to its lowest level since at least 1990.

Fiscal Year 16 General Fund Revenue

Total fiscal year 2016 revenues were \$5.7 billion or \$523 million below fiscal year 2015 levels. Total recurring revenues fell by 7.9 percent, driven largely by oil and natural gas related revenues, which fell by 29.1 percent. The state's broad-based gross receipts, compensating, personal income, and corporate income taxes experienced slow or declining growth due to ongoing weakness in the oil and natural gas sectors and large one-time claims for job incentive tax credits and health care deductions. The decline in nonoil and natural gas related revenue was partially affected by the diversion of a large portion of the liquor excise tax to the lottery tuition scholarship program. Offsetting this and other declines, the insurance premiums tax collections increased sharply due to expansion of the Medicaid program.

The August 2016 forecast projected that the amount authorized to be transferred from reserves to cover fiscal year 2016 expenditures was insufficient. The estimate also indicated that fiscal year 2017 revenues were less than fiscal year 2017 appropriations and that there were inadequate reserve balances to make up the difference. For this reason, Governor Martinez called the legislature to a special session in September 2016. During the 2016 Special Session, Senate Bill 2 authorized the transfer of up to \$219.4 million from the Tobacco Settlement Permanent Fund to the general fund Appropriation Account in fiscal year 2016 and fiscal year 2017, of which \$109 million was used to close fiscal year 2016. After this transfer, reserves ended fiscal year 2016 at \$147.7 million, or 2.4 percent of recurring appropriations.

General Fund Revenue and Reserve Outlook

According to the August 2016 consensus revenue estimate, fiscal year 2017 recurring revenues are estimated to be, fractionally higher, still around \$5.7 billion, with an estimated 0.6 percent growth over the previous fiscal year. Oil and natural gas related revenue is projected to remain unchanged from fiscal year 2016 levels as supply and demand in energy markets respond to lower oil and gas prices. New Mexico oil prices are projected to average \$45.00 per barrel in fiscal year 2017, while New Mexico natural gas prices are expected to average \$3.00 per thousand cubic feet. Oil volumes are projected to decline by 4.1 percent in fiscal year 2017 and natural gas volumes are estimated to decline by 3.4 percent. Nonoil and gas related revenue is forecast to grow by 0.1 percent, reflecting growth of 0.5 percent in general sales tax, 1.6 percent in personal income tax, and 10.6 percent in insurance premiums tax. Corporate income tax revenues are expected to decline by 16.7 percent over the previous fiscal year. This weakness in broad-based taxes is due to expectations of lower employment and spending in the energy and minerals sectors. In addition, residential construction is expected to remain at historically low levels.

During the 2016 Special Session, several bills were passed to address fiscal year 2017 solvency.

**State of New Mexico**  
**Component Appropriation Funds**  
**Management's Discussion and Analysis**  
**June 30, 2016**

- Senate Bill 2 provides for the transfer of balances from various funds to the general fund in a total amount of \$65 million.
- Senate Bill 4 appropriates \$12.5 million in supplemental severance tax note proceeds for public school instructional materials to allow a general fund appropriation reduction of the same amount.
- Senate Bill 6 provides for reduced Legislative Retirement Fund distributions and clarifies eligibility for the healthcare gross receipts tax deduction and high wage jobs tax credit to better target the intended recipients.
- Senate Bill 7 reduces the distribution of insurance premiums tax revenue to the Fire Protection Grant Fund, thus increasing the reversion to general fund, and reduces general fund distributions to the Retiree Health Care Fund. The legislation is expected to increase fiscal year 2017 recurring revenue by \$4.8 million.
- Senate Bill 8 provides for certain taxable severance tax note and supplemental severance tax note proceeds to be swept to the general fund to restore past general fund capital allotments, resulting in an increase to general fund cash balances of about \$33.7 million and a reduction in general fund appropriations of about \$56.2 million.
- Senate Bill 9 reduces state agency budgets by a recurring \$148.9 million in fiscal year 2017. Under this legislation, the majority of state agency budgets are reduced by 5.5 percent, with judicial and legislative cuts of 3.0 percent. The Children Youth and Families Department, Department of Public Safety, and sexual assault services and prevention contracts at the Department of Health will not be subject to cuts. The governor vetoed language in the bill that would have cut public school improvement programs by \$22 million. Her veto message directed the Public Education Department to reduce discretionary spending by \$4.5 million in fiscal year 2017.

Following the 2016 Special Session, fiscal year 2017 ending reserves are projected to be \$60 million or 1.0 percent of recurring appropriations.

**Requests for Information**

This financial report is designed to provide a general overview of the Component Appropriation Funds' finances for all those with an interest in its finances.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

New Mexico State Controller  
Department of Finance and Administration  
407 Galisteo, Room 166  
Bataan Memorial Building  
Santa Fe, New Mexico 87501

## Basic Financial Statements

**State of New Mexico**  
**Component Appropriation Funds**  
**Balance Sheets**  
**June 30, 2016**

	Statutorily Created Funds			
	Common School Current	Current School	State Support Reserve	Tobacco Settlement Permanent
<b>Assets</b>				
Investments, State Treasurer (Note 2)	\$ -	\$ -	\$ 1,000,000	\$ -
Investments, State Investment Council (Note 2)	-	-	-	219,409,714
Due from other state general fund accounts	-	46,317,310	-	-
Due from other state entities (Note 4)	46,317,310	-	-	-
Due from taxpayers	-	-	-	-
Total assets	<u>\$ 46,317,310</u>	<u>\$ 46,317,310</u>	<u>\$ 1,000,000</u>	<u>\$ 219,409,714</u>
<b>Liabilities</b>				
Advance from State General Fund				
Investment Pool (Note 3)	\$ -	\$ -	\$ -	\$ -
Due to other state general fund accounts	46,317,310	46,317,310	-	109,052,359
Due to local governments	-	-	-	-
Due to taxpayers	-	-	-	-
Total liabilities	<u>46,317,310</u>	<u>46,317,310</u>	<u>-</u>	<u>109,052,359</u>
<b>Deferred Inflow of Resources</b>				
Unearned revenues	-	-	-	-
Total deferred inflow of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>				
Committed	-	-	-	-
Restricted	-	-	1,000,000	110,357,355
Total fund balances	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>110,357,355</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 46,317,310</u>	<u>\$ 46,317,310</u>	<u>\$ 1,000,000</u>	<u>\$ 219,409,714</u>
SHARE system fund number	71600	71700	85700	95200

Administratively Created Funds							Total
Appropriation Account	Federal Mineral Leasing	Appropriation Contingency Reserve	General Operating Reserve	Tax Stabilization Reserve	Eliminations		June 30, 2016 (Memorandum Only)
\$ -	\$ -	\$ 34,371,919	\$ 487,424,767	\$ -	\$ -	\$ -	\$ 522,796,686
-	-	-	-	-	-	-	219,409,714
640,794,436	-	-	-	-	(687,111,746)	-	-
761,551,570	-	-	-	-	-	-	807,868,880
52,968,870	-	-	-	-	-	-	52,968,870
<u>\$ 1,455,314,876</u>	<u>\$ -</u>	<u>\$ 34,371,919</u>	<u>\$ 487,424,767</u>	<u>\$ -</u>	<u>\$ (687,111,746)</u>		<u>\$ 1,603,044,150</u>
1,358,296,260	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,358,296,260
-	-	-	485,424,767	-	(687,111,746)	-	-
18,604,949	-	-	-	-	-	-	18,604,949
25,444,797	-	-	-	-	-	-	25,444,797
<u>1,402,346,006</u>	<u>-</u>	<u>-</u>	<u>485,424,767</u>	<u>-</u>	<u>(687,111,746)</u>		<u>1,402,346,006</u>
52,968,870	-	-	-	-	-	-	52,968,870
<u>52,968,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>52,968,870</u>
-	-	34,371,919	2,000,000	-	-	-	36,371,919
-	-	-	-	-	-	-	111,357,355
-	-	34,371,919	2,000,000	-	-	-	147,729,274
<u>\$ 1,455,314,876</u>	<u>\$ -</u>	<u>\$ 34,371,919</u>	<u>\$ 487,424,767</u>	<u>\$ -</u>	<u>\$ (687,111,746)</u>		<u>\$ 1,603,044,150</u>
85300	85100	85400	85200	84300			

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

**State of New Mexico**  
**Component Appropriation Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2016**

	Statutorily Created Funds			
	Common School Current	Current School	State Support Reserve	Tobacco Settlement Permanent
<b>Revenues</b>				
General and selective taxes	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-
Severance taxes	-	-	-	-
License fees	-	-	-	-
Investment income	-	555,103,287	-	-
Net increase in the fair value of investments	-	-	-	3,578,810
Rents and royalties	-	47,817,852	-	-
Miscellaneous receipts	-	4,500,561	-	39,551,987
Reversions	-	-	-	-
Total revenues	<u>-</u>	<u>607,421,700</u>	<u>-</u>	<u>43,130,797</u>
<b>Expenditures</b>				
Appropriations				
Legislative	-	-	-	-
Judicial	-	-	-	-
General control	-	-	-	40,082,700
Commerce and industry	-	-	-	-
Agriculture, energy and natural resources	-	-	-	-
Health, hospitals and human services	-	-	-	-
Public safety	-	-	-	-
Transportation	-	-	-	-
Other education	-	-	-	-
Higher education	-	-	-	-
Public school support	-	607,421,700	-	-
Total expenditures	<u>-</u>	<u>607,421,700</u>	<u>-</u>	<u>40,082,700</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,048,097</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(109,052,359)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(109,052,359)</u>
Net change in fund balance	-	-	-	(106,004,262)
Fund balances - beginning of year	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>216,361,617</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 110,357,355</u>
SHARE system fund numbers	71600	71700	85700	95200

Administratively Created Funds					
Appropriation Account	Federal Mineral Leasing	Appropriation Contingency Reserve	General Operating Reserve	Tax Stabilization Reserve	Total June 30, 2016 (Memorandum Only)
\$ 2,553,767,192	\$ -	\$ -	\$ -	\$ -	\$ 2,553,767,192
1,445,710,789	-	-	-	-	1,445,710,789
279,750,556	-	-	-	-	279,750,556
54,814,976	-	-	-	-	54,814,976
215,154,457	-	-	-	-	770,257,744
-	-	-	-	-	3,578,810
-	390,004,502	-	-	-	437,822,354
108,049,582	-	-	-	-	152,102,130
54,184,128	-	2,182,490	-	-	56,366,618
<u>4,711,431,680</u>	<u>390,004,502</u>	<u>2,182,490</u>	<u>-</u>	<u>-</u>	<u>5,754,171,169</u>
26,035,200	-	-	-	-	26,035,200
276,495,206	-	-	-	-	276,495,206
152,646,000	-	-	389,524	-	193,118,224
59,541,400	-	-	-	-	59,541,400
73,043,800	-	11,250,000	-	-	84,293,800
1,680,555,000	-	250,000	-	-	1,680,805,000
430,521,700	-	4,750,000	-	-	435,271,700
27,150,000	-	-	-	-	27,150,000
116,102,400	-	-	-	-	116,102,400
843,328,400	100,000	-	-	-	843,428,400
<u>1,625,989,699</u>	<u>389,904,502</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,623,315,901</u>
<u>5,311,408,805</u>	<u>390,004,502</u>	<u>16,250,000</u>	<u>389,524</u>	<u>-</u>	<u>6,365,557,231</u>
<u>(599,977,125)</u>	<u>-</u>	<u>(14,067,510)</u>	<u>(389,524)</u>	<u>-</u>	<u>(611,386,062)</u>
<u>599,977,125</u>	<u>-</u>	<u>20,000,000</u>	<u>(353,400,698)</u>	<u>(147,469,056)</u>	<u>10,055,012</u>
<u>599,977,125</u>	<u>-</u>	<u>20,000,000</u>	<u>(353,400,698)</u>	<u>(147,469,056)</u>	<u>10,055,012</u>
-	-	5,932,490	(353,790,222)	(147,469,056)	(601,331,050)
-	-	28,439,429	355,790,222	147,469,056	749,060,324
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,371,919</u>	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ 147,729,274</u>
85300	85100	85400	85200	84300	

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

## Notes to the Financial Statements

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

**1) Summary of Significant Accounting Policies**

A. Reporting Entity

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

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

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

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

***Statutorily Created Funds***

*1. Common School Current Fund – SHARE Fund 71600*

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

*2. Current School Fund – SHARE Fund 71700*

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

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

month the cash balance in the *Common School Current Fund* be transferred into this fund. Transfers will be presented as expenditures in these financial statements.

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

3. *State Support Reserve Fund – SHARE Fund 85700*

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

4. *Tobacco Settlement Permanent Fund – SHARE Fund 95200*

The *Tobacco Settlement Permanent Fund (TSPF)* 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 2011, House Bill 79 amended Section 6-4-9 NMSA 1978 related to the Tobacco Settlement Permanent Fund. This legislation temporarily changes the distribution of this fund as follows: in fiscal years 2011 through 2013, a distribution shall be made from the Tobacco Settlement Fund to the general fund in an amount equal to one hundred percent of the total amount of money distributed to the Tobacco Settlement Permanent Fund in that fiscal year. In fiscal year 2014 and in each fiscal year thereafter, an annual distribution will be made from the TSPF to the Tobacco Settlement Program Fund of an amount equal to fifty percent of the total amount of money distributed to the TSPF in the immediately preceding fiscal year until that amount is less than an amount equal to four and seven-tenths percent (4.7%) of the average of the year-end market values of the TSPF for the immediately preceding five calendar years. Thereafter, the amount of the annual distribution shall be four and seven-tenths percent (4.7%) of the average of the year-end market values of the TSPF for the immediately preceding five calendar years.

In 2003, legislation was enacted (Laws of 2003, Chapter 312) that made the fund a reserve within the *Component Appropriation Funds*. By statute, balances in the fund are to be invested by the state investment officer, which is accounted for in a private-purpose trust fund at the State Investment Council. The statute allows balances in the fund to be appropriated by the Legislature if balances in the *Component*

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

*Appropriation Funds*, including its *General Operating Reserve Fund*, *Appropriation Contingency Reserve Fund*, and *Tax Stabilization Reserve Fund*, do not meet the level of appropriations authorized from the Component Appropriation Funds for a fiscal year.

***Administratively Created Funds***

***1. Appropriation Account Fund – SHARE Fund 85300***

The *Appropriation Account Fund* is an administratively created fund the *Component Appropriation Funds* uses to account for the financial activity of the statutorily created *General Fund* and for portions of the financial activity of the statutorily created *Public School Fund* of the State of New Mexico.

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

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

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

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

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

the *Current School Fund*. Transfers will be presented as expenditures in these financial statements.

2. *Federal Mineral Leasing Fund – SHARE Fund 85100*

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

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

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

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

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

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

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

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

5. *Tax Stabilization Reserve Fund – SHARE Fund 84300*

Section 6-4-2.2, NMSA 1978, creates the tax stabilization reserve within the *General Fund*. To account for the reserve, the *Component Appropriation Funds* has established the *Tax Stabilization Reserve Fund*. The balance of the tax stabilization reserve consists of those funds directed to it by law (Section 6-4-4) and such other funds as the legislature may appropriate from time to time to the reserve. Except as otherwise provided in Subsection D of Section 6-4-2.2, NMSA 1978, any balance in the *Tax Stabilization Reserve Fund* 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.

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

B. Basis of Accounting and Presentation

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

*Fund Financial Statements*—Each of the Funds are reported as Governmental Funds. Accordingly, they are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. For derived tax revenues, related assets are recognized when the exchange transaction occurs or when the resources are received, whichever occurs first. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Funds consider tax revenues to be available if they are collected within 60 days after the end of the fiscal year. Unearned revenues are reported when assets, such as taxes are obtained prior to revenue being recognized.

Escheats are not considered susceptible to accrual and are therefore recognized when received. Reversions are recognized if collected within 90 days of the end of the current fiscal period and all other revenues are considered to be available if collected prior to completion of the Funds' financial statements, typically by December 1<sup>st</sup> following the end of the fiscal year. Appropriations generally are recorded when a liability is incurred. Debt service expenditures are recorded only when payment is due.

C. Assets, Deferred Outflow of Resources, Liabilities, and Deferred Inflow of Resources

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

The amounts due from other state entities reported in the accompanying financial statements are amounts due to the Funds under the authority of the two statutes cited above. The amount due from other state entities has been reduced by \$75.8 million, which represents the estimated amount of personal income tax refunds in excess of final personal income tax settlements, at June 30, 2016. The estimate is based on a ten year average of final settlement payments and refunds. Fiscal year 2016 is the fifth year the estimate was based on a ten year average. The estimate for fiscal year 2007

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

was based on a three year average, and the estimates for fiscal years 2008 and 2009 were based on the estimate for 2007.

2. *Due to Local Governments*—The amounts due to local governments reported in the accompanying financial statements are 1/12 of the annual appropriation amounts due to local governments. This is a timing difference and the amounts due to local governments are paid within 30 days of the fiscal year-end.
3. *Due from Taxpayers and Unearned Revenues*—GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65) states that when an asset is recorded in Governmental Fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available. Amounts due from taxpayers recorded as unearned revenues are earned during fiscal year 2017, but are not readily available until more than 60 days after the fiscal year-end, resulting in the reclassification to deferred outflow of resources (due to taxpayers) and unearned revenue (deferred inflow of resources).
4. *Use of Resources*—When both restricted and unrestricted resources are available for use, it is the Component Appropriation Funds’ policy to use restricted resources first and then unrestricted resources as they are needed.
5. *Interfund Activity*—The effect of interfund activity between these nine statutorily and administratively created funds has been eliminated from the memorandum totals in the accompanying financial statements. This interfund activity included the receivables and payables listed in the table below.

Due from Other Funds		Due to Other Funds		
Name	SHARE System Fund Number	Name	SHARE System Fund Number	Amount
Appropriations Accounts Fund	85300	General Operating Reserve	85200	\$ 485,424,767
Appropriations Accounts Fund	85300	Current School	71700	46,317,310
Appropriations Accounts Fund	85300	Tobacco Settlement Permanent Funds	95200	109,052,359
Current School Fund	71700	Common School Fund	71600	46,317,310
				<u>\$ 687,111,746</u>

**D. Revenues, Appropriations and Expenditures**

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

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

2. *Revenues*—The Component Appropriation Funds account for all financial resources of the State except those required to be accounted for by a fund within another state entity. Sources of revenues are collected by various agencies of the State and held within an agency fund to be transferred to one of the Component Appropriation Funds for revenue recognition. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.
3. *Expenditures*—Appropriations represent legislatively approved transfers of budgeted funds to state entities for the necessities of operations.

**E. Fund Balances**

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

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Restricted fund balance represents those portions of fund balance where constraints are placed on resources, either externally or by law through constitutional provisions or enabling legislation. Unassigned fund balance is the residual amount after all classifications were considered.

The accompanying financial statements report restricted fund balance in the Tobacco Settlement Permanent Fund and the State Support Reserve Fund because the balance is legally restricted for specific purposes.

**F. Budgets**

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

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

Appropriation Funds by law must equal the individual amounts appropriated in the various Appropriation Acts.

G. Recently Issued Accounting Standards

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Component Appropriation Funds have not completed the process of evaluating the impact of GASB 74 on its financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Component Appropriation Funds have not completed the process of evaluating the impact of GASB 76 on its financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). The objective is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. The Component Appropriation Funds have not completed the process of evaluating the impact of GASB 77 on its financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*—an amendment of GASB Statement No. 14 (GASB 80). The objective of this Statement is to improve financial reporting by clarifying the financial statements presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Component Appropriation Funds has not completed the process of evaluating the impact of GASB 80 on its financial statements.

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

**2) Investments**

State law (Section 8-6-3 NMSA 1978) requires investments of the Funds be managed by the New Mexico State Treasurer’s Office, with the exception of those belonging to the Tobacco Settlement Fund. State law requires that Tobacco Settlement Fund investments be managed by the New Mexico State Investment Council. The investments managed by the State Treasurer’s Office consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer’s Office. See the New Mexico State Treasurer’s Office and the New Mexico State Investment Council audited financial statements via the NM Office of the State Auditor’s website for further information.

As of June 30, 2016, the Funds had the following investments:

Description	Maturities	Fair Value
New Mexico State Treasurer's Office General Fund Investment Pool	1 day to 5 years	<u>\$ 522,796,686</u>

Those investments held by the State Investment Council are reported at fair value. Each investment asset or liability of the Portfolio that is measured and reported at fair value is assigned a level based on the significance and source of the inputs to its valuation. Various data inputs are used in determining the value of each of the Portfolio’s investments as of the reporting period end. These data inputs are categorized according to the following hierarchy:

1. Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities that can be assessed at the measurement date
2. Level 2 – inputs other than unadjusted quoted prices that are observable for the asset or liability either directly or indirectly
3. Level 3 – significant unobservable inputs

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment’s risk.

Debt securities classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Alternative investments classified in Level 3, due to lack of an independent pricing source, are valued using an internal fair value as provided by the investment manager.

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

These investments are classified as follows:

	Valuation			
	June 30, 2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Equities				
Large Cap Index Pool	\$ 119,235,081	\$ -	\$ 119,235,081	\$ -
Small/Mid Cap Active Pool	1,237,407	1,237,407	-	-
Small/Mid Cap Index Pool	5,578,732	-	5,578,732	-
Non- U.S. Developed Markets Pool	12,956,658	12,956,658	-	-
Non- U.S. Emerging Markets Pool	8,684,093	8,684,093	-	-
Core Bonds				
U.S. Core Bonds Pool	49,280,457	-	49,280,457	-
Hedge Fund Pool	20,334,611	-	-	20,334,611
Total Investments by Fair Value Level	217,307,039	<u>\$ 22,878,158</u>	<u>\$ 174,094,270</u>	<u>\$ 20,334,611</u>
Cash/Cash Equivalents/Accruals	2,102,675			
Total Investments State Investment Council	<u>\$ 219,409,714</u>			

**Interest Rate Risk**

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

**Credit Risk**

The New Mexico State Treasurer and New Mexico State Investment Council pools are not rated. For additional GASB Statement No. 40, *Deposit and Investment Risk Disclosures-An Amendment of GASB Statement No. 3*, disclosure information regarding cash held by the New Mexico State Treasurer, the reader should refer to the separate audit reports for the New Mexico State Treasurer's Office and the New Mexico State Investment Council for the fiscal year ended June 30, 2016. The Funds do not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**3) Advance from the State General Fund Investment Pool**

The Appropriation Account Fund disburses allotted appropriations to various entities based on New Mexico Legislative Appropriation Acts, in anticipation of the collection of tax revenues, fees and other sources. The State General Fund Investment Pool makes advances to the Appropriation Account Fund to the extent that such sources have not

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

yet been collected. Advances from the State General Fund Investment Pool totaling \$1,358,296,260 at June 30, 2016, will be repaid as amounts due from other state entities are collected.

**4) Due from Other State Entities**

Various state agencies, mainly New Mexico Taxation and Revenue Department, collect revenues on behalf of the Funds. In addition, state agencies are required to revert unspent balances to the Funds at the close of each fiscal year. Resulting aggregate amounts due from state entities are composed of the following at June 30, 2016:

SHARE System Fund Number	Source	Amount
83200	Gross Receipt and Withholding Tax	\$ 506,622,954
11820	Superintendent of Insurance	56,784,243
57800	Public Regulation Commission	15,069,194
60100	Land Grant Permanent Fund	46,317,310
27900	Corporate Income Taxes	147,510
64200	Regular Income Tax - PIT	510,754
02000	Tribal Revenue Sharing (Indian Gaming)	234,473
60200	Severance Tax Permanent Fund Income	16,125,828
57800	Fire Protection Fund - Insurance Fees	24,163
85800	Public Education Department	7,186,573
82800	Gaming Tax	27,193,839
82500	Traffic Violations/Penalty Assessment	13,008,917
73600	Law Enforcement Protection	15,277,162
Various	Other	<u>103,365,960</u>
		<u>\$ 807,868,880</u>

**5) Transfers**

For fiscal year 2016, the First Session of the 52<sup>nd</sup> Legislature, authorized the following:

- Laws of 2015 Chapter 101, Section 12(B) the transfer of \$65 million from the General Operating Reserve fund to the Appropriations Account Fund to meet fiscal year 2016 obligations.

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

- Laws of 2015 Chapter 101, Section 11(B) the transfer of \$5.5 million from the State Government Unemployment Compensation Reserve Fund (35000) to the Appropriation account (85300).

During the same Legislature's second session authority was provided for the following:

- Laws of 2016, section 13(A) to transfer the "amount necessary" from the General Operating Reserve Fund to the Appropriation Account Fund to meet fiscal year 2016 obligations. The amount totaled \$140 million in 2016.
- Laws of 2016, Chapter 12, section 1(A) and 1(B) the transfer of \$1 million from New Mexico Medical Board Fund (44600) to the General Operating Reserve Fund (85200). A transfer of \$300,000 from the Board of Examiners for Architects (40400) to the General Operating Reserve Fund (85200). A transfer of \$3.26 million from Homeland Security and Emergency Management Department (79500) to the General Operating Reserve Fund (85200).

Lastly, the laws of 2016 enacted during the 2<sup>nd</sup> special session in Chapter 4, Section 2(A) provided the authority to transfer up to \$219.4 million from the Tobacco Settlement Permanent Fund to the Appropriations Account Fund to meet the appropriations authorized by law from the general fund for fiscal year 2016. All transfer authority is conditioned upon receipt of the State Board of Finance Approval.

For fiscal year 2016, appropriations exceeded revenues by \$611.4 million.

**6) State General Fund Investment Pool**

The Financial Control Division (FCD), within the Department of Finance and Administration (DFA), in collaboration with the New Mexico State Treasurer's Office (STO), implemented a comprehensive reconciliation model that compared aggregated agency claims on the State General Fund Investment Pool (SGFIP) to the associated resources held by STO. This process has been in place for nearly two years and applied across three fiscal years with stable results. There have been many reviews of the process and each review of the reconciliation process has deemed it to be adequate and FCD in compliance with the established procedures. Successfully addressing this issue in fiscal year 2015, allowed the DFA to reinstate \$100M that had been reserved as a loss contingency.

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

For fiscal year 2016 the following assertions are provided:

- 1) The calculated difference between resources maintained by STO and the agency claims has remained stable and within a very narrow and acceptable range over the twelve months of fiscal year 2016.
- 2) Resources are equivalent to and can cover the face value of all agency claims against the pool.
- 3) All claims honored at face value.

For cash management and investment purposes, funds of various state agencies are deposited in the SGFIP which is managed by STO. The SGFIP is not a part of the accompanying financial statements, but is reported as a fiduciary fund in the financial statements of STO. Claims on the SGFIP are reported as assets by the various agencies investing in the SGFIP. By statute, the DFA is responsible for reconciling the SGFIP balances. As of June 30, 2016, the Component Appropriations Funds report an aggregate investment of \$522,796,686 in the SGFIP (see Note 2).

The monthly reconciliations suggest a variable but reasonable difference between claims and resources. Management recorded \$991,000 as an increase to other investments, and STO is to record the reconciled difference in the claims to resources reconciliation.

**7) Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pension Plans by Employees**

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2016.

The Component Appropriations Funds, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for Governmental Funds apply to the primary government as a whole, and as such, this information will be presented in the Comprehensive Annual Finance Report (CAFR) of the State of New Mexico. As of June 30, 2016, the States Funded Divisions' net pension liability is \$2.2 billion, and the States' total net pension liability is \$4.2 billion.

**State of New Mexico**  
**Component Appropriation Funds**  
**Notes to the Financial Statements**  
**June 30, 2016**

**8) Subsequent Events**

On October 26, 2016, the Legislature passed Senate Bill 9 relating to state expenditures. The bill reduces legislative appropriations in Laws 2016, Chapter 1 for Fiscal Year 2017 by \$148.5 million. Under this legislation, the majority of state agency budgets are reduced by 5.5 percent, with judicial and legislative cuts of 3.0 percent. The NM Children Youth and Families Department, NM Department of Public Safety, and sexual assault services and prevention contracts at the NM Department of Health will not be subject to cuts.

Supplementary Information (Unaudited)

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Revenues by Source**  
**For the Year Ended June 30, 2016**

	General and Selective Taxes	Income Taxes	Severance Taxes
MVD penalty assessment	\$ -	\$ -	\$ -
Motor vehicle miscellaneous fees	-	-	-
Notary public fees	-	-	-
Public Defender reimbursements	-	-	-
Legislative receipts	-	-	-
Media lease payments	-	-	-
District judges' receipts	-	-	-
Fines and forfeitures	-	-	-
Supreme Court fees	-	-	-
Miscellaneous receipts	-	-	-
Public utilities	-	-	-
Financial institution fees	-	-	-
Manufacturing housing receipts	-	-	-
Construction industry receipts	-	-	-
Security receipts	-	-	-
Gaming receipts	-	-	-
Corporate filing	-	-	-
Alcohol receipts	-	-	-
Corporate special	-	-	-
Pipeline fees	-	-	-
Birth and death certificates	-	-	-
Workers' compensation fees	-	-	-
Environment department filing fees	-	-	-
Tobacco master agreement	-	-	-
Weight distance tax	-	-	-
Land grant permanent fund distribution	-	-	-
Land office income	-	-	-
Insurance	207,904,081	-	-
Fire protection	15,069,194	-	-
Gross receipts tax	1,975,415,668	-	-
Compensating tax	46,881,771	-	-
Tobacco (Luxury) tax	79,818,918	-	-
Alcoholic beverage tax	6,732,464	-	-
Private car	702,731	-	-
Motor vehicle excise tax	150,394,864	-	-
Gaming tax	63,050,102	-	-
Leased vehicles surcharge	5,535,933	-	-
Gasoline tax	867,308	-	-
Telecommunications relay surcharge	69,263	-	-

License Fees	Investment Income	Rents and Royalties	Miscellaneous Receipts and Reversions	Total
\$ -	\$ -	\$ -	\$ 4,009,591	\$ 4,009,591
19,334	-	-	-	19,334
-	-	-	983,651	983,651
-	-	-	201,174	201,174
-	-	-	13,869	13,869
-	-	-	18,266	18,266
-	-	-	947,765	947,765
-	-	-	4,513,646	4,513,646
-	-	-	894	894
-	-	-	10,218	10,218
12,040,119	-	-	-	12,040,119
3,455,193	-	-	-	3,455,193
375,224	-	-	-	375,224
6,092,078	-	-	-	6,092,078
22,016,265	-	-	-	22,016,265
353,381	-	-	-	353,381
3,327,214	-	-	-	3,327,214
4,027,570	-	-	-	4,027,570
2,955,362	-	-	-	2,955,362
153,236	-	-	-	153,236
-	-	-	1,043,386	1,043,386
-	-	-	3,750	3,750
-	-	-	1,240,931	1,240,931
-	-	-	39,551,987	39,551,987
-	-	-	64,177	64,177
-	555,103,287	-	-	555,103,287
-	-	47,817,852	-	47,817,852
-	-	-	-	207,904,081
-	-	-	-	15,069,194
-	-	-	-	1,975,415,668
-	-	-	-	46,881,771
-	-	-	-	79,818,918
-	-	-	-	6,732,464
-	-	-	-	702,731
-	-	-	-	150,394,864
-	-	-	-	63,050,102
-	-	-	-	5,535,933
-	-	-	-	867,308
-	-	-	-	69,263

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Revenues by Source — continued**  
**For the Year Ended June 30, 2016**

	General and Selective Taxes	Income Taxes	Severance Taxes
Net personal income taxes	\$ -	\$ 1,327,207,505	\$ -
Net corporate income taxes	-	118,501,921	-
Estate taxes	-	1,363	-
Federal mineral leasing	-	-	-
Oil and gas emergency school tax	-	-	236,817,596
Oil and gas conservation tax	-	-	11,375,324
Resource excise tax	-	-	11,203,145
Natural gas processors	-	-	20,354,491
State Treasurer earnings on state balances	-	-	-
Severance tax permanent fund distribution	-	-	-
Tribal revenue sharing	-	-	-
Unclaimed property	-	-	-
Small county assistance	-	-	-
Law enforcement protection	-	-	-
Boat excise tax	195,341	-	-
Racing receipts	1,129,554	-	-
Reversions	-	-	-
Settlement/miscellaneous	-	-	-
Totals	<u>\$ 2,553,767,192</u>	<u>\$ 1,445,710,789</u>	<u>\$ 279,750,556</u>

License Fees	Investment Income	Rents and Royalties	Miscellaneous Receipts and Reversions	Total
\$ -	\$ -	\$ -	\$ -	\$ 1,327,207,505
-	-	-	-	118,501,921
-	-	-	-	1,363
-	-	390,004,502	-	390,004,502
-	-	-	-	236,817,596
-	-	-	-	11,375,324
-	-	-	-	11,203,145
-	-	-	-	20,354,491
-	21,644,516	-	-	21,644,516
-	193,509,941	-	-	193,509,941
-	-	-	64,412,904	64,412,904
-	-	-	19,788,748	19,788,748
-	-	-	11	11
-	-	-	15,297,162	15,297,162
-	-	-	-	195,341
-	-	-	-	1,129,554
-	-	-	56,366,618	56,366,618
-	3,578,810	-	-	3,578,810
<u>\$ 54,814,976</u>	<u>\$ 773,836,554</u>	<u>\$ 437,822,354</u>	<u>\$ 208,468,748</u>	<u>5,754,171,169</u>

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Appropriations**  
**For the Year Ended June 30, 2016**

			Chapter 101 and Chapter 11 (Section 10 reductions)		Laws of 2015 - 52nd
SHARE			Section 4 & 13	Section 5	Other Appropriations
Agency No.	Fund No.	Share Fund Name	Amounts	Amount	Chapter, Section
11100	12900	Legislative Council Services	\$ -	\$ -	Chapter 1, Sec 3 (A), 2nd Session
11200	13000	Legislative Finance Committee	-	-	Chapter 1, Sec 4, 2nd Session
11400	74300	Legislative Council Services/Senate Interim	-	-	Chapter 1, Sec 8, 2nd Session
11500	74400	Legislative Council Services/House Interim	-	-	Chapter 1, Sec 7, 2nd Session
11700	13100	Legislative Education Study Committee	-	-	Chapter 1, Sec 5, 2nd Session
11900	13200	Legislative Maintenance	4,306,300	-	
13100	13300	Legislature	38,400	-	Chapter 1, Sec 3 (B,C,D) and Sec 6, 2nd Session
13101	20030	Legislature - Senate	-	-	
13102	20040	Legislature - House	-	-	
		<b>Total - Legislative</b>	<u>4,344,700</u>	<u>-</u>	
20500	13400	Supreme Court Law Library	1,558,700	-	
21000	13500	Judicial Standards Commission	852,200	-	
21500	13700	Court of Appeals	5,898,600	-	
21600	13800	Supreme Court	3,332,900	-	
21800	11600	Magistrate Drug Court	217,100	-	
21800	12400	Court Appointed Attorney Fees	5,374,368	-	
21800	13600	Judge's Pro Tempore	30,715	-	
21800	13900	Administrative Office of the Courts	8,307,284	-	
21800	44300	AOC-Statewide Drug Court Technology	-	-	
21800	58300	AOC- Judicial Performance Evaluation	297,600	-	
21800	68900	Information System	3,463,593	-	
21800	69200	Magistrate Courts	26,596,746	-	
21801	01200	Jury and Witness Fee Fund	4,870,000	-	
21900	14000	Supreme Court Building Commission	971,100	-	
23100	14100	First Judicial District Court	7,066,600	-	
23200	14200	Second Judicial District Court	23,207,500	-	
23300	14300	Third Judicial District Court	6,574,900	-	
23400	14400	Fourth Judicial District Court	2,351,700	-	
23500	14500	Fifth Judicial District Court	6,661,700	-	
23600	14600	Sixth Judicial District Court	3,305,900	-	
23700	14700	Seventh Judicial District Court	2,386,900	-	
23800	14800	Eighth Judicial District Court	3,034,400	-	
23900	14900	Ninth Judicial District Court	3,441,600	-	
24000	15000	Tenth Judicial District Court	925,500	-	
24100	15100	Eleventh Judicial District Court	5,146,200	-	
24100	33500	Eleventh Judicial District Court/Drug Court	1,350,500	-	
24200	15200	Twelfth Judicial District Court	3,172,900	-	
24200	92900	Twelfth Judicial District Court - Other Programs	264,800	-	
24300	15300	Thirteenth Judicial District Court	7,163,700	-	
24400	15400	Bernalillo County Metropolitan Court	23,699,700	-	
25100	15500	First Judicial District Attorney	5,284,700	-	
25200	15600	Second Judicial District Attorney	18,411,800	-	
25300	15700	Third Judicial District Attorney	4,748,300	-	
25400	15800	Fourth Judicial District Attorney	3,151,700	-	
25500	15900	Fifth Judicial District Attorney	4,905,000	-	

**Legislature - First Session**

**Laws of 2015 - 51st Legislature - First Session**

Legislature - First Session		Laws of 2015 - 51st Legislature - First Session			Total Appropriations
Amount	Total	Chapter 11		Other Appropriations Chapter, Section	Fiscal Year 2016
		Section 5 Amount	Section 6 Amount		
\$ 6,078,200	\$ 6,078,200	\$ -	\$ -		\$ 6,078,200
4,324,200	4,324,200	-	-		4,324,200
1,213,900	1,213,900	-	-		1,213,900
1,178,800	1,178,800	-	-		1,178,800
1,301,100	1,301,100	-	-		1,301,100
-	4,306,300	-	-		4,306,300
1,358,300	1,396,700	-	-	Chapter 1, HB 1, Sec 1B (9) & Section 9	1,566,300
-	-	-	-	Chapter 1, HB 1, Sec 1B (1,3,5,7)	2,133,200
-	-	-	-	Chapter 1, HB 1, Sec 1B (2,4,6,8)	2,536,500
<u>15,454,500</u>	<u>19,799,200</u>	<u>-</u>	<u>-</u>		<u>26,035,200</u>
-	1,558,700	-	-		1,558,700
-	852,200	-	-		852,200
-	5,898,600	-	1,400		5,900,000
-	3,332,900	-	-		3,332,900
-	217,100	-	-		217,100
-	5,374,368	-	394,500		5,768,868
-	30,715	-	-		30,715
-	8,307,284	-	-		8,307,284
-	-	800,000	-		800,000
-	297,600	-	-		297,600
-	3,463,593	-	-		3,463,593
-	26,596,746	-	200,000		26,796,746
-	4,870,000	-	865,100		5,735,100
-	971,100	-	-		971,100
-	7,066,600	-	23,900		7,090,500
-	23,207,500	-	-		23,207,500
-	6,574,900	-	-		6,574,900
-	2,351,700	-	-		2,351,700
-	6,661,700	-	11,500		6,673,200
-	3,305,900	-	-		3,305,900
-	2,386,900	-	-		2,386,900
-	3,034,400	-	-		3,034,400
-	3,441,600	-	-		3,441,600
-	925,500	-	-		925,500
-	5,146,200	-	-		5,146,200
-	1,350,500	-	-		1,350,500
-	3,172,900	-	-		3,172,900
-	264,800	-	-		264,800
-	7,163,700	-	50,000		7,213,700
-	23,699,700	-	-		23,699,700
-	5,284,700	-	-		5,284,700
-	18,411,800	-	-		18,411,800
-	4,748,300	-	-		4,748,300
-	3,151,700	-	-		3,151,700
-	4,905,000	-	-		4,905,000

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Appropriations — continued**  
**For the Year Ended June 30, 2016**

			Chapter 101 and Chapter 11 (Section 10 reductions)		Laws of 2015 - 52nd
Agency No.	SHARE Fund No.	Share Fund Name	Section 4 & 13	Section 5	Other Appropriations Chapter, Section
			Amounts	Amount	
25600	16000	Sixth Judicial District Attorney	\$ 2,822,800	\$ -	
25700	16100	Seventh Judicial District Attorney	2,506,400	-	
25800	16200	Eighth Judicial District Attorney	2,676,400	-	
25900	16300	Ninth Judicial District Attorney	2,881,600	-	
26000	16400	Tenth Judicial District Attorney	1,251,300	-	
26100	16500	Eleventh Judicial District Attorney/Division 1	3,607,700	-	
26200	16600	Twelfth Judicial District Attorney	2,819,600	-	
26300	16700	Thirteenth Judicial District Attorney	5,064,700	-	
26400	16800	Administrative Office of the District Attorneys	2,228,200	-	
26500	16900	Eleventh Judicial District Attorney/Division 2	2,213,100	-	
2800	17510	Public Defender Department	47,850,100	-	
		<b>Total - Judicial</b>	<b>273,948,806</b>	<b>-</b>	
30500	17000	Attorney General	9,247,300	-	
30500	27800	AG - Medicaid Fraud	562,400	-	
30800	11100	State Auditor's Office	2,947,800	-	
33300	17200	Taxation & Revenue Department - Operating	56,385,100	-	
34000	71820	Taxation & Revenue Department	1,545,500	-	
34100	00900	DFA - Computer Systems Enhancement Fund	-	-	
34100	01000	Department of Finance and Administration - Operating	20,850,700	-	
34100	10780	DFA - Juvenile Adjudication	19,900	-	
34100	20130	DFA - County Detention Reimbursement Fund	2,690,900	-	
34100	20900	DFA - Board of Finance Emergency (85200)	-	-	NMSA 6-4-2.1, 6-1-2, Chapter 101, Sec 4, 1st Session
34100	21000	DFA - Emergency Water Supply	118,100	-	
34100	61800	DFA - Leasehold Community Assistance	128,500	-	
34100	62000	DFA Special Appropriations	174,700	-	
34100	62400	Civil Legal Services Fund	2,499,600	-	
34100	69700	DFA - Tobacco Settlement Program Fund	-	-	NMSA 6-4-9, Chapter 101, Sec 4, 1st
35000	17400	General Services Department	13,537,200	-	
35000	41700	General Services Department - State Aircraft Pool	600,300	-	
35400	34700	New Mexico Sentencing Commission	574,700	-	
35600	17600	Governor's Office	3,573,100	-	
36000	17700	Lieutenant Governor's Office	583,400	-	
36100	20310	Department of Information Technology	-	-	
36100	20370	Department of Information Technology	970,100	-	
36600	60600	PERA Administration	-	-	
36900	17900	State Commission of Public Records	2,775,000	-	
37000	18000	Secretary of State	7,187,100	541,400	
37800	18100	State Personnel Board	4,315,000	-	
37900	84800	Public Employees Labor Relations Board	229,600	-	
39400	18200	State Treasurer's Office	3,756,800	-	
		<b>Total - General Control</b>	<b>135,272,800</b>	<b>541,400</b>	

Legislature - First Session		Laws of 2015 - 51st Legislature - First Session				Total Appropriations	
Amount	Total	Chapter 11		Other Appropriations Chapter, Section	Amount	Fiscal Year 2016	
		Section 5 Amount	Section 6 Amount				
\$ -	\$ 2,822,800	\$ -	\$ -		\$ -	\$ 2,822,800	
-	2,506,400	-	-		-	2,506,400	
-	2,676,400	-	-		-	2,676,400	
-	2,881,600	-	-		-	2,881,600	
-	1,251,300	-	-		-	1,251,300	
-	3,607,700	-	-		-	3,607,700	
-	2,819,600	-	-		-	2,819,600	
-	5,064,700	-	-		-	5,064,700	
-	2,228,200	-	-		-	2,228,200	
-	2,213,100	-	-		-	2,213,100	
-	47,850,100	-	200,000		-	48,050,100	
-	273,948,806	800,000	1,746,400		-	276,495,206	
-	9,247,300	-	-		-	9,247,300	
-	562,400	-	-		-	562,400	
-	2,947,800	-	-		-	2,947,800	
-	56,385,100	-	-		-	56,385,100	
-	1,545,500	-	-		-	1,545,500	
-	-	12,653,100	-		-	12,653,100	
-	20,850,700	-	-		-	20,850,700	
-	19,900	-	-		-	19,900	
-	2,690,900	-	-		-	2,690,900	
389,524	389,524	-	-		-	389,524	
-	118,100	-	-		-	118,100	
-	128,500	-	-		-	128,500	
-	174,700	1,000,000	-		-	1,174,700	
-	2,499,600	-	-		-	2,499,600	
-	40,082,700	-	-		-	40,082,700	
-	13,537,200	-	-		-	13,537,200	
-	600,300	-	-		-	600,300	
-	574,700	-	-		-	574,700	
-	3,573,100	-	-		-	3,573,100	
-	583,400	-	-		-	583,400	
-	-	-	1,250,000		-	1,250,000	
-	970,100	400,000	-		-	1,370,100	
-	-	77,300	-		-	77,300	
-	2,775,000	-	-		-	2,775,000	
-	7,728,500	950,000	500,000		-	9,178,500	
-	4,315,000	-	1,400		-	4,316,400	
-	229,600	-	-		-	229,600	
-	3,756,800	-	-		-	3,756,800	
389,524	176,286,424	15,080,400	1,751,400		-	193,118,224	

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Appropriations — continued**  
**For the Year Ended June 30, 2016**

SHARE		Chapter 101 and Chapter 11 (Section 10 reductions)			Laws of 2015 - 52nd
Agency No.	Fund No.	Share Fund Name	Section 4 & 13 Amounts	Section 5 Amount	Other Appropriations Chapter, Section
34101	85300	Cumbres and Toltec Scenic Railroad Commission	\$ 123,200	\$ -	
41700	48000	NM Border Authority	328,100	-	
41800	18800	Tourism Department	13,495,500	-	
41900	18900	Economic Development Department	7,438,000	-	
41900	63800	Industrial Development (In-Plant Training)	2,000,000	-	
42000	93100	Economic Development GF Capital Outlay	-	-	Laws 2015, 1st SS, Chapter 3, Section 46
42000	20120	Regulation and Licensing Department	28,700	-	
42000	43300	Regulation and Licensing Department	13,347,400	-	
43000	55000	Public Regulation Commission Operating	7,793,200	-	
46500	53600	Gaming Control Board	5,765,500	-	
46900	19200	State Racing Commission	2,412,800	-	
49100	74800	Office of Military Base Planning and Support	199,300	-	
49500	87100	New Mexico Space Port Authority	459,700	500,000	
		<b>Total - Commerce and Industry</b>	<u>53,391,400</u>	<u>500,000</u>	
50500	19300	Office of Cultural Affairs	30,504,300	200,000	
50800	39500	New Mexico Livestock Board	1,387,400	-	
52100	19900	Energy, Mineral and Natural Resource Department	11,011,500	-	
52100	20010	EMNRD / State Parks	8,857,000	-	
52100	21300	EMNRD - Emergency Fire/ Insect and Disaster	-	-	Executive Orders Laws 2015, 1st SS, Chapter 3, Section 47
52100	93100	EMNRD - GF Capital Outlay	-	-	
53800	82900	Intertribal Ceremonial Office	104,800	-	
55000	21400	Office of State Engineer	19,278,800	-	
55000	93100	Office of State Engineer - GF Capital Outlay	-	-	Laws 2015, 1st SS, Chapter 3, Section 48 and 49
		<b>Total - Agriculture, Energy and Natural Resources</b>	<u>71,143,800</u>	<u>200,000</u>	
60300	28400	Office of African American Affairs	803,200	-	
60400	04600	Commission for Deaf and Hard of Hearing	298,200	-	
60500	06000	Martin Luther King, Jr., Commission	334,000	-	
60600	04700	Commission for the Blind	2,138,600	-	
60900	04800	New Mexico Office of Indian Affairs	2,682,500	-	
62400	04900	Aging and Long-term Services Dept. - Administration	47,592,700	-	
63000	05200	Human Services Department - General Operating Fund	114,098,400	-	
63000	97500	HSD Income Support - Care & Support	12,434,800	-	
63000	97600	HSD Medical Assistance	891,748,500	-	
63100	32900	NMDWS Operating Fund	10,814,900	-	
64400	20570	DVR - Independent Living Services	1,284,100	-	
64400	50000	Division of Vocational Rehabilitation	4,374,800	-	
64500	05800	Governor's Commission on Disability	1,313,100	-	
64700	07900	Developmental Disabilities Planning Council	5,364,400	-	

— continued

Legislature - First Session		Laws of 2015 - 51st Legislature - First Session				Total Appropriations	
Amount	Total	Chapter 11		Other Appropriations Chapter, Section	Amount	Fiscal Year 2016	
		Section 5 Amount	Section 6 Amount				
\$ -	\$ 123,200	\$ -	\$ -		\$ -	\$ 123,200	
-	328,100	-	-		-	328,100	
-	13,495,500	-	-		-	13,495,500	
-	7,438,000	-	-		-	7,438,000	
-	2,000,000	4,000,000	-		-	6,000,000	
1,600,000	1,600,000	-	-		-	1,600,000	
-	28,700	-	-		-	28,700	
-	13,347,400	-	-		-	13,347,400	
-	7,793,200	-	-		-	7,793,200	
-	5,765,500	50,000	-		-	5,815,500	
-	2,412,800	-	-		-	2,412,800	
-	199,300	-	-		-	199,300	
-	959,700	-	-		-	959,700	
<u>1,600,000</u>	<u>55,491,400</u>	<u>4,050,000</u>	<u>-</u>		<u>-</u>	<u>59,541,400</u>	
-	30,704,300	-	450,000		-	31,154,300	
-	1,387,400	-	-		-	1,387,400	
-	11,011,500	-	-		-	11,011,500	
-	8,857,000	-	-		-	8,857,000	
11,250,000	11,250,000	-	-		-	11,250,000	
250,000	250,000	-	-		-	250,000	
-	104,800	-	-		-	104,800	
-	19,278,800	-	-		-	19,278,800	
<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>1,000,000</u>	
<u>12,500,000</u>	<u>83,843,800</u>	<u>-</u>	<u>450,000</u>		<u>-</u>	<u>84,293,800</u>	
-	803,200	-	-		-	803,200	
-	298,200	-	-		-	298,200	
-	334,000	-	-		40,000	374,000	
-	2,138,600	-	-		-	2,138,600	
-	2,682,500	-	-		-	2,682,500	
-	47,592,700	-	-		-	47,592,700	
-	114,098,400	217,400	-		-	114,315,800	
-	12,434,800	-	-		-	12,434,800	
-	891,748,500	-	-		18,000,000	909,748,500	
-	10,814,900	-	-		-	10,814,900	
-	1,284,100	-	-		-	1,284,100	
-	4,374,800	-	-		-	4,374,800	
-	1,313,100	-	-		-	1,313,100	
-	5,364,400	-	-		-	5,364,400	

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Appropriations — continued**  
**For the Year Ended June 30, 2016**

SHARE		Laws of 2015 - 52nd			
Agency No.	Fund No.	Share Fund Name	Chapter 101 and Chapter 11 (Section 10 reductions)		Other Appropriations Chapter, Section
			Section 4 & 13 Amounts	Section 5 Amount	
66500	06100	Department of Health / General Operating	\$ 190,872,300	\$ -	
66500	20480	DOH - Fort Bayard Medical Center	4,050,000	-	
66500	25700	DOH - Trauma System Fund	2,935,400	-	
66500	40170	DOH - Developmental Disabilities Waiver	103,442,700	-	
66500	75600	DOH - Emergency Medical Services	3,064,700	-	
66500	95811	DOH - Birthing Workforce Retention	31,300	-	
66700	06400	Department of Environment	13,156,000	-	
66800	49300	Office of the Natural Resources Trustee	275,600	-	
67000	06500	Veterans' Service Department	3,404,300	136,200	
69000	06700	Children, Youth and Families Department	169,117,600	-	
69000	06700	Children, Youth and Families Department	-	-	
69000	20080	Children, Youth and Families Department	12,960,000	-	
69000	20090	Children, Youth and Families Department	2,765,000	-	
69000	48900	CYFD / Protective Services	21,120,400	-	
69000	49100	CYFD / Child Care Payments Fund	29,990,400	-	
69000	78000	CYFD / Childrens' Trust Fund Expendable	221,400	-	
69000	83900	CYFD / Juvenile Community Corrections	2,658,600	-	
69000	84100	CYFD / JJDP / Children's Justice	84,600	-	
		<b>Total - Health, Hospitals and Human Services</b>	<u>1,655,432,500</u>	<u>136,200</u>	
70500	07000	Dept. of Military Affairs - Adjutant General Emergency	-	-	Executive Order
70500	93200	Dept. of Military Affairs - Service Member Life Ins	1,125,000	-	
70500	99200	Department of Military Affairs	6,137,400	-	
76000	90500	Parole Board	486,800	-	
76500	90600	Juvenile Parole Board	14,900	-	
77000	90200	Community Corrections Program	4,421,700	-	
77000	90700	Corrections Department	256,493,200	-	
77000	91500	Probation & Parole Division	26,972,100	-	
78000	90900	Crime Victims Reparation Commission	2,504,900	-	
79000	12800	Department of Public Safety	114,995,500	-	
79500	20050	Homeland Security	2,504,600	-	
79500	20380	Homeland Security - Governor's Disaster Declarations	-	-	Executive Order
		<b>Total - Public Safety</b>	<u>415,656,100</u>	<u>-</u>	
80500	93100	Department of Transportation - GF Capital Outlay	-	-	Laws 2015, 1st SS, Chapter 3, Section 44 & 45
		<b>Total - Transportation</b>	<u>-</u>	<u>-</u>	
92400	05700	Public Education Department	11,879,700	-	
92400	11420	PED / Pre K Plus Fund	23,700,000	-	
92400	51300	PED / Pre Kindergarten Fund	21,000,000	-	
92400	79000	PED / Special Projects	56,322,700	-	
		<b>Total - Other Education</b>	<u>112,902,400</u>	<u>-</u>	

Legislature - First Session		Laws of 2015 - 51st Legislature - First Session				Total Appropriations	
Amount	Total	Chapter 11		Other Appropriations Chapter, Section	Amount	Fiscal Year 2016	
		Section 5 Amount	Section 6 Amount				
\$ -	\$ 190,872,300	\$ 4,400,000	\$ 1,436,000		\$ -	\$ 196,708,300	
-	4,050,000	-	-		-	4,050,000	
-	2,935,400	-	-		-	2,935,400	
-	103,442,700	-	-		-	103,442,700	
-	3,064,700	-	-		-	3,064,700	
-	31,300	-	-		-	31,300	
-	13,156,000	-	-		-	13,156,000	
-	275,600	-	-		-	275,600	
-	3,540,500	-	-		-	3,540,500	
-	169,117,600	-	-		-	169,117,600	
-	-	250,000	-		-	250,000	
-	12,960,000	-	-		-	12,960,000	
-	\$ 2,765,000	-	-		-	\$ 2,765,000	
-	21,120,400	-	892,900		-	22,013,300	
-	29,990,400	-	-		-	29,990,400	
-	221,400	-	-		-	221,400	
-	2,658,600	-	-		-	2,658,600	
-	84,600	-	-		-	84,600	
-	<u>1,655,568,700</u>	<u>4,867,400</u>	<u>2,328,900</u>		<u>18,040,000</u>	<u>1,680,805,000</u>	
1,000,000	1,000,000	-	-		-	1,000,000	
-	1,125,000	-	-		-	1,125,000	
-	6,137,400	-	-		-	6,137,400	
-	486,800	-	-		-	486,800	
-	14,900	-	-		-	14,900	
-	4,421,700	-	-		-	4,421,700	
-	256,493,200	13,000,000	-		-	269,493,200	
-	26,972,100	-	-		-	26,972,100	
-	2,504,900	-	-		-	2,504,900	
-	114,995,500	1,615,600	-		-	116,611,100	
-	2,504,600	250,000	-		-	2,754,600	
<u>3,750,000</u>	<u>3,750,000</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>3,750,000</u>	
<u>31,900,000</u>	<u>447,556,100</u>	<u>14,865,600</u>	<u>-</u>		<u>-</u>	<u>435,271,700</u>	
<u>27,150,000</u>	<u>27,150,000</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>27,150,000</u>	
<u>27,150,000</u>	<u>27,150,000</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>27,150,000</u>	
-	11,879,700	-	-		-	11,879,700	
-	23,700,000	-	-		-	23,700,000	
-	21,000,000	-	-		-	21,000,000	
-	<u>56,322,700</u>	<u>3,200,000</u>	<u>-</u>		<u>-</u>	<u>59,522,700</u>	
-	<u>112,902,400</u>	<u>3,200,000</u>	<u>-</u>		<u>-</u>	<u>116,102,400</u>	

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Appropriations — continued**  
**For the Year Ended June 30, 2016**

			Chapter 101 and Chapter 11 (Section 10 reductions)		Laws of 2015 - 52nd
Agency No.	SHARE		Section 4 & 13 Amounts	Section 5 Amount	Other Appropriations Chapter, Section
	Fund No.	Share Fund Name			
34100	10300	San Juan College	\$ 25,069,300	\$ -	
34100	10400	New Mexico Junior College	6,573,400	-	
34100	10500	New Mexico State University	207,020,200	-	
34100	10600	Central New Mexico Community College	56,801,100	-	
34100	10700	Eastern New Mexico University	46,675,200	-	
34100	10800	Luna Vocational Technical Institute	8,728,200	-	
34100	10900	Santa Fe Community College	14,819,000	-	
34100	22200	New Mexico Highlands University	31,561,400	-	
34100	22300	Mesalands Community College	4,539,700	-	
34100	22400	New Mexico Institute of Mining and Technology	38,429,700	-	
34100	22400	New Mexico Institute of Mining and Technology (851)	100,000	-	
34100	22600	New Mexico Military Institute	3,010,700	-	
34100	22700	Western New Mexico University	20,557,100	-	
34100	22800	Northern New Mexico Community College	11,472,900	-	
34100	23000	Clovis Community College	10,181,300	-	
34100	23100	New Mexico School for the Blind and Visually Impaired	1,383,200	-	
34100	23200	New Mexico School for the Deaf	4,265,200	-	
34100	23300	University of New Mexico	316,125,300	-	
95000	21600	HED/Special Programs	24,116,800	-	
95000	91000	Higher Education Department/Operations	11,998,700	-	
		<b>Total - Higher Education</b>	<u>843,428,400</u>	<u>-</u>	
92400	63300	PED / Indian Education	1,824,600	-	
92400	72500	Public School Energy Fund	48,893	-	
92400	79000	PED / Supplemental Special Education MOE	6,000,000	-	
92400	79000	PED / Dual Credit Instructional Materials	1,000,000	-	
92400	85600	Instructional Material Fund (851)	21,900,000	-	Mineral Leasing Act
92400	85800	Public School Support	2,592,542,407	-	
		<b>Total - Public School Support</b>	<u>2,623,315,900</u>	<u>-</u>	
		<b>Total - Component Appropriation Funds</b>	<u>\$ 6,188,836,806</u>	<u>\$ 1,377,600</u>	

— continued

Legislature - First Session		Laws of 2015 - 51st Legislature - First Session				
Amount	Total	Chapter 11		Other Appropriations Chapter, Section	Amount	Total Appropriations Fiscal Year 2016
		Section 5 Amount	Section 6 Amount			
\$ -	\$ 25,069,300	\$ -	\$ -		\$ -	\$ 25,069,300
-	6,573,400	-	-		-	6,573,400
-	207,020,200	-	-		-	207,020,200
-	56,801,100	-	-		-	56,801,100
-	46,675,200	-	-		-	46,675,200
-	8,728,200	-	-		-	8,728,200
-	14,819,000	-	-		-	14,819,000
-	31,561,400	-	-		-	31,561,400
-	4,539,700	-	-		-	4,539,700
-	38,429,700	-	-		-	38,429,700
-	100,000	-	-		-	100,000
-	3,010,700	-	-		-	3,010,700
-	20,557,100	-	-		-	20,557,100
-	11,472,900	-	-		-	11,472,900
-	10,181,300	-	-		-	10,181,300
-	1,383,200	-	-		-	1,383,200
-	4,265,200	-	-		-	4,265,200
-	316,125,300	-	-		-	316,125,300
-	24,116,800	-	-		-	24,116,800
-	11,998,700	-	-		-	11,998,700
-	<u>843,428,400</u>	-	-		-	<u>843,428,400</u>
-	1,824,600	-	-		-	1,824,600
-	48,893	-	-		-	48,893
-	6,000,000	-	-		-	6,000,000
-	1,000,000	-	-		-	1,000,000
-	21,900,000	-	-		-	21,900,000
-	<u>2,592,542,407</u>	-	-		-	<u>2,592,542,408</u>
-	<u>2,623,315,900</u>	-	-		-	<u>2,623,315,901</u>
<u>\$ 61,844,024</u>	<u>\$ 6,292,141,130</u>	<u>\$ 42,863,400</u>	<u>\$ 6,276,700</u>		<u>\$ 24,276,000</u>	<u>\$ 6,365,557,231</u>

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Amounts Due From Other State Entities**  
**June 30, 2016**

Share System Fund Number	Description	Amount
12900	Legislative Council Services	\$ 631,949
13000	Legislative Finance Committee	63,215
74300	Legislative Council Services-Senate	379,538
74400	Legislative Council Services-House	361,237
13100	Legislative Education Study Committee	124,633
13200	Legislative Building Services	350,521
13400	Supreme Court Law Library	497
13500	Judicial Standards Commission	5,836
13700	Court of Appeals	8,356
13800	Supreme Court	15,000
Various	Administrative Office of the Courts	11,519
14000	Supreme Court Building	9,000
14100	First Judicial District Court	92
Various	Third Judicial District Court	6,631
14400	Fourth Judicial District Court	824
14500	Fifth Judicial District Court	30,191
14600	Sixth Judicial District Court	2,236
14700	Seventh Judicial District Court	6,857
14800	Eighth Judicial District Court	8,277
14900	Ninth Judicial District Court	606
15000	Tenth Judicial District Court	1,702
Various	Eleventh Judicial District Court	2,169
15200	Twelfth Judicial District Court	14,766
15300	Thirteenth Judicial District Court	21,051
15400	Bernalillo County Metropolitan Court	15,894
15500	First Judicial District Attorney	62,783
15900	Fifth Judicial District Attorney	1,316
16000	Sixth Judicial District Attorney	11,802
16100	Seventh Judicial District Attorney	30,400
16300	Ninth Judicial District Attorney	12,786
16400	Tenth Judicial District Attorney	925
16600	Twelfth Judicial District Attorney	4,693
16800	Administrative Office of the District Attorney	7,408
16900	Eleventh Judicial District Attorney, Division II	13,604
17510	Public Defender Department	37,920
11100	Office of the State Auditor	3,802

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Amounts Due From Other State Entities — continued**  
**June 30, 2016**

Share System Fund Number	Description	Amount
Various	Taxation and Revenue Department	7,352,904
83300	State Investment Council	51,424,985
60200	Severance Tax Permanent Fund Income	16,125,828
71820	Administrative Hearing Office	147,510
64200	Personal Income Tax	510,754
71000	Unclaimed Property Tax	5,000,000
82500	Traffic Violations/Penalty Assessment	13,008,917
82800	Gaming Tax	27,193,839
83100	Worker's Compensation	37,390
83200	Withholding Taxes	506,622,954
Various	Department of Finance and Administration	1,869,787
73600	DFA Law Enforcement Protection	15,277,162
Various	General Services Department	5,579,938
17600	Office of the Governor	352,274
17700	Office of the Lieutenant Governor	131,898
17900	State Commission of Public Records	157,567
18000	Secretary of State	39,020
18100	State Personnel Board	118,089
N/A	New Mexico Finance Authority	784,804
Various	State Treasurer's Office	15,344,041
18800	Tourism Department	385,440
18900	Economic Development Department	234,473
43300	Regulation and Licensing Department	491,021
57800	Public Regulation Commission	15,069,194
Various	Superintendent of Insurance	64,159,476
53600	Gaming Control Board	147,893
19200	State Racing Commission	24,163
74800	Military Homebase Planning	11,331
19301	Department of Military Affairs	25
Various	Energy, Mineral and Natural Resources Department	212,466
21400	Office of the State Engineer	277,827
60100	Land Grant Permanent Fund	46,317,310
28400	Office of African American Affairs	43,503
06000	Martin Luther Kind, Jr. Commission	2,779
04800	Indian Affairs Department	702,657
04900	Aging and Long-Term Services Department	908,375
05800	Governor's Commission on Disability	15,486
07900	Developmental Disabilities Planning Council	1,580
Various	Department of Health	1,689,422

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Amounts Due From Other State Entities — continued**  
**June 30, 2016**

Share System Fund Number	Description	Amount
Various	Environment Department	90,023
49300	Office of the Natural Resources Trustee	22,086
06500	Department of Veteran Services	47,810
90500	Adult Parole Board	49,924
Various	Corrections Department	2,370
90900	Crime Victims Reparation Commission	230
Various	Department of Public Safety	195,976
05700	Public Education Department	63,125
79000	Public Education Department	176,645
85800	Public Education Department	7,186,573
	Total due from other state entities	<u>\$ 807,868,880</u>

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Amounts Due From Taxpayers**  
**June 30, 2016**

Share System Fund Number	Description	Amount
27900	Corporate Income Tax	\$ 9,261,707
64200	OGP - Remitter	1,180,589
64200	PTW - Remitter	17,106,485
64200	Personal Income Tax	9,612,662
82800	Bingo & Raffle Tax	255
82800	Fiduciary Income Tax	74,936
82800	Gaming Tax	9,142
82800	Liquor Excise Tax	1,228
82800	Tobacco Products Tax	2,258
82800	Telecom Relay Service Surcharge	14
83100	Workers' Compensation	13,869
83200	Withholding Taxes	3,145,371
83200	Gross Receipt Tax	12,587,917
83200	Compensating Tax	(28,976)
83300	Resource Excise Tax	1,413
	Total due from taxpayers	<u>\$ 52,968,870</u>

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Amounts Due to Local Governments**  
**June 30, 2016**

Share System Fund Number	Description	Amount
832	Taxation and Revenue Dept. (Unidentified 60 Day Remittances) due to local governments	\$ 18,604,949
	Total due to local governments	<u>\$ 18,604,949</u>

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Amounts Due to Taxpayers**  
**June 30, 2016**

Share System Fund Number	Description	Amount
833	Taxation and Revenue Dept. (Oil & Gas Advance Payments)	\$ 25,444,797
	Total due to taxpayers	<u>\$ 25,444,797</u>

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

Ms. Dorothy "Duffy" Rodriguez, Cabinet Secretary Designate  
State of New Mexico  
Department of Finance and Administration  
and  
Mr. Timothy Keller  
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the statutorily and administratively created funds that comprise the Component Appropriation Funds of the State of New Mexico (the "Component Appropriation Funds"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2016.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Albuquerque, New Mexico  
November 29, 2016

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2016**

**Section I — Financial Statement Findings**

None

**State of New Mexico**  
**Component Appropriation Funds**  
**Schedule of Prior Year Audit Findings**  
**For the Year Ended June 30, 2016**

<b>Audit Finding</b>	<b>Status</b>
2013-001; Timely Resolution of Uncertainties	Resolved

**State of New Mexico**  
**Component Appropriation Funds**  
**Exit Conference**  
**For the Year Ended June 30, 2016**

**Exit Conference**

An exit conference was conducted on November 22, 2016, in which the contents of this report were discussed with the following:

**Component Appropriation Funds Management**

Dorothy “Duffy” Rodriguez	DFA Cabinet Secretary Designate
Ron Spilman	State Controller
Steve Gonzales	Deputy Director, Financial Control Division

**REDW<sub>LLC</sub>**

Javier Machuca, CPA, CGFM, CGMA	Senior Manager
Daniela Moya, CPA	Senior Associate

Financial Statement Preparation

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

**APPENDIX B**

**STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER FINANCIAL STATEMENTS FOR THE FISCAL YEAR  
ENDED JUNE 30, 2016**

**STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2016**

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2016**

<b>OFFICIAL ROSTER</b>	<b>1</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>5</b>
<b>BASIC FINANCIAL STATEMENTS</b>	<b>13</b>
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	
<b>STATEMENT OF ACTIVITIES</b>	<b>14</b>
<b>FUND FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEET - GOVERNMENTAL FUNDS</b>	<b>15</b>
<b>RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION</b>	<b>16</b>
<b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>17</b>
<b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES</b>	<b>18</b>
<b>STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENT FUNDS - BUDGET AND ACTUAL (BUDGETARY BASIS)</b>	<b>19</b>
<b>STATEMENT OF FIDUCIARY NET POSITION</b>	<b>20</b>
<b>STATEMENT OF CHANGES IN FIDUCIARY NET POSITION</b>	<b>21</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>22</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULE 1 - CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS - SCHEDULE OF CHANGES BY ASSET CLASS AND SOURCE</b>	<b>69</b>
<b>SCHEDULE 2 - COMBINING BALANCE SHEET - GENERAL OBLIGATION BONDS - GENERAL OBLIGATION BOND DEBT SERVICE FUNDS</b>	<b>70</b>
<b>SCHEDULE 3 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL OBLIGATION DEBT SERVICE FUNDS</b>	<b>72</b>
<b>SCHEDULE 4 - COMBINING BALANCE SHEET - SEVERANCE TAX BONDS - SEVERANCE TAX BOND DEBT SERVICE FUNDS</b>	<b>74</b>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2016**

<b>SCHEDULE 5 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - SEVERANCE TAX BOND DEBT SERVICE FUNDS</b>	<b>76</b>
<b>SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS - LONG- TERM DEBT ROLLFORWARD</b>	<b>79</b>
<b>SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS - SCHEDULE OF DEBT SERVICE MATURITIES</b>	<b>81</b>
<b>SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS – ADDITIONAL INFORMATION</b>	<b>83</b>
<b>SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS</b>	<b>84</b>
<b>SCHEDULE 8 - COMBINING STATEMENT OF FIDUCIARY NET POSITION</b>	<b>94</b>
<b>SCHEDULE 9 - COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION</b>	<b>95</b>
<b>SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY</b>	<b>96</b>
<b>SCHEDULE 11 - SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUND – GAMING SUSPENSE FUND</b>	<b>100</b>
<b>SCHEDULE 12 - SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (EXCLUDING GRT) - UNAUDITED</b>	<b>101</b>
<b>SCHEDULE 13 - SCHEDULE OF ARBITRAGE ON TAX EXEMPT BONDS - UNAUDITED</b>	<b>102</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>103</b>
<b>SCHEDULE OF AUDIT FINDINGS AND RESPONSES</b>	<b>105</b>
<b>SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS</b>	<b>107</b>
<b>EXIT CONFERENCE</b>	<b>108</b>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
OFFICIAL ROSTER  
JUNE 30, 2016**

**Office of the State Treasurer**

Tim Eichenberg, State Treasurer

Sam Collins, Deputy State Treasurer

**State Treasurer's Investment Committee**

Tim Eichenberg, Chairman

Charmaine Cook, Chief Investment Officer, Investment Division Director

Paul Cassidy, Member

Mark Pike, Member

Leila Burrows Kleats, State Board of Finance Member

## INDEPENDENT AUDITORS' REPORT

Honorable Susana Martinez, Governor  
State Board of Finance  
Honorable Tim Eichenberg, State Treasurer  
Honorable Timothy Keller, State Auditor  
State of New Mexico Office of the State Treasurer  
Santa Fe, New Mexico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparison for the general fund, and each fiduciary fund, of the State of New Mexico Office of the State Treasurer (the Office) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Honorable Susana Martinez, Governor  
State Board of Finance  
Honorable Tim Eichenberg, State Treasurer  
Honorable Timothy Keller, State Auditor  
State of New Mexico Office of the State Treasurer

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, each fiduciary fund, and the aggregate remaining fund information of the Office as of June 30, 2016, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the financial statements of the State of New Mexico Office of the State Treasurer are intended to present the financial position, the changes in financial position, of only that portion of the governmental activities, and each major fund of the Office that is attributable to the transactions of the Office. They do not purport to, and do not present fairly the financial position of State of New Mexico as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. Schedules 1 – 13 in the Supplementary Information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Susana Martinez, Governor  
State Board of Finance  
Honorable Tim Eichenberg, State Treasurer  
Honorable Timothy Keller, State Auditor  
State of New Mexico Office of the State Treasurer

Schedules 1 – 13 in the Supplementary Information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 – 11 in the Supplementary Information section are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The vendor schedule, required by 2.2.2.10(A)(2)(g) NMAC, and schedule of arbitrage on tax exempt bonds have not been subjected to the auditing procedures applied in the audit of the basic and combining and individual fund financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of the Office’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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office’s internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
December 1, 2016

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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

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

### **Financial Highlights**

- The State Treasurer's net position increased by \$103,799,244.
- The General Fund's main financing source was appropriations, which amounted to \$3,756,800 or 96.8% of all revenue.

### **Overview of the Financial Statements**

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

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal year periods (e.g., uncollected taxes and earned but unused vacation leave).

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**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 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 State Treasurer maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, General Obligation Bond Fund and the Severance Tax Bond Fund. The General Obligation and Severance Tax Bond funds combine into a single, aggregated presentation of the activity of each individual bond issue.

Individual bond transaction data of these governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

Fiduciary funds provide the same type of information as the government-wide financial statements, only in more detail. The fiduciary fund financial statements provide separate information for the Short-term Investment Pool, Consolidated Investment Pool (comprised of the Bond Proceeds Investment Pools #1 (Tax Exempt) and #2 (Taxable)), and the State Funds Investment Pool. The State Treasurer's fiduciary funds account for cash, securities, and other investments identified and held on behalf of local and State government agencies. The Short-term Investment Pool accounts for the Local Government Investment Pool (LGIP), the Consolidated Investment Pool accounts for funds held in custody for both State and local government agencies, and the State Funds Investment Pool accounts for funds identified and held on behalf of State agencies. Collectively, these funds are shown on the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position as the Investment Trust Fund. The Gaming Suspense Fund was established to collect monies owed to the State from gaming establishments. It is reported as an agency fund.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Notes to the Financial Statements.** The notes to the financial statements provide additional information that is essential to a user's full understanding of the data provided in the government-wide and fund financial statements, and begin on page 22 of this report.

**Other Information.** The combining statements referred to earlier in connection with the General Obligation and Severance Tax Bond funds are presented immediately following the notes to the financial statements. Combining statements, schedules of capital assets, and schedules of long-term debt can be found beginning on page 69 of this report. Fiduciary schedules begin on page 84.

**Government-wide Financial Analysis**

**Net Position:** Table A-1 summarizes the State Treasurer's net position as of June 30, 2016. Total State Treasurer net position for fiscal year 2016 is \$263,398,712, the majority of which is restricted as to purpose.

**Table A-1  
The State Treasurer's Net Position**

	Years Ended June 30,	
	2016	2015
<b>ASSETS</b>		
Cash, Cash Equivalents and Repurchase Agreements	\$ 190,813,875	\$ 184,019,252
Due from Other Agencies	73,222,862	112,239,369
Bond Interest Receivable	-	660,636
Other Assets	3,450	3,451
Capital Assets, Net	28,101	17,539
Total Assets	<u>\$ 264,068,288</u>	<u>\$ 296,940,247</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Others	\$ 483,500	\$ 137,242,988
Compensated Absences, Amounts Due in One Year	\$ 186,076	97,791
Total Liabilities	669,576	137,340,779
<b>NET POSITION</b>		
Investment in Capital Assets	28,101	17,539
Restricted	263,556,687	159,670,836
Unrestricted	(186,076)	(88,907)
Total Net Position	<u>263,398,712</u>	<u>159,599,468</u>
Total Liabilities and Net Position	<u>\$ 264,068,288</u>	<u>\$ 296,940,247</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the State Treasurer, assets exceeded liabilities by \$263,398,712 at the close of the most recent fiscal year.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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

The State Treasurer anticipates the future tax revenues generated will be adequate to service the debt obligations.

The restricted portion of the State Treasurer's net position, \$263,556,687, represents resources that are subject to external restrictions on their use.

**Changes in Net Position:** Governmental activities increased the State Treasurer's net position by \$103,799,244. Key elements of this decrease are shown in Table A-2.

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

	Years Ended June 30,	
	2016	2015
<b>GOVERNMENTAL ACTIVITIES</b>		
Revenues:		
Program Revenues:		
General Government	\$ -	\$ -
Total Program Revenues	-	-
General Revenues:		
State General Fund Appropriations, net	3,617,932	3,726,719
State Property Tax Levy	74,139,519	78,006,684
Severance and Other Taxes	254,966,459	426,330,559
Interest Revenue	10,467,331	6,551,241
Other State/Federal Revenue	122,312	-
Total General Revenues	<u>343,313,553</u>	<u>514,615,203</u>
Total Revenues	343,313,553	514,615,203

(Continued on next page)

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Table A-2  
Changes in the State Treasurer's Net Position (Continued)**

	Years Ended June 30,	
	2016	2015
Expenses and Other Financing Sources (Uses):		
General Government	\$ (4,672,766)	\$ (4,482,917)
Debt Service Activity	(233,122,337)	(573,231,052)
Other Sources:		
Bond Proceeds	-	403,649
Transfers in from Other State Agencies	(1,719,206)	1,347,785
Net (Expenses) Revenue	<u>(239,514,309)</u>	<u>(575,962,535)</u>
Increase (Decrease) in Net Position	103,799,244	(61,347,332)
Net Position - Beginning of Year	<u>159,599,468</u>	<u>220,946,800</u>
Net Position - End of Year	<u>\$ 263,398,712</u>	<u>\$ 159,599,468</u>

**Financial Analysis of the Government's Funds**

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

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

At the end of the current fiscal year, the State Treasurer's governmental funds reported combined ending fund balances of \$263,556,687, which is an increase of \$103,876,967 in comparison with the prior year. The primary reason for the decrease in fund balance is debt service payments exceeding property and severance taxes and transfers in from other state agencies.

The fund balance of the State Treasurer's debt service funds decreased in comparison to the prior year due to large debt service payments offset by property and severance taxes and transfers in from other agencies as disclosed in Schedule 3 - Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - General Obligation Bond Debt Service Funds, and Schedule 5 - Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Severance Tax Bond Debt Service Funds.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**General Fund Budgetary Highlights**

There were no significant variations between the original budget and the final amended budget.

There were no significant variances between final budget amounts and actual budget results for the General Fund. The General Fund actual expenditures were less than the final budgeted amounts by 3.5%.

**Capital Assets and Debt Administration**

**Capital Assets.** The State Treasurer's investment in capital assets for its governmental activities as of June 30, 2016 amounts to \$28,101, net of accumulated depreciation. This investment in capital assets includes equipment. Additional information on the State Treasurer's capital assets can be found in Note 8 of this report.

**Long-Term Debt.** For the year ended June 30, 2016, the State Treasurer was responsible for administering debt service payments on total bonded debt outstanding of \$1,519,011,937, all of which is secured by pledged tax revenues. More detailed information about the State Treasurer's long-term debt is presented in Schedule 6. Long-term debt service requirements increased by \$305,876,298 from the prior year as new issuances in fiscal year 2016 exceeded principal payments.

	Years Ended June 30,	
	2016	2015
General obligation bonds	\$ 379,529,245	\$ 457,647,826
Severance tax bonds	1,139,482,692	755,487,813
Total principal balances	<u>\$ 1,519,011,937</u>	<u>\$ 1,213,135,639</u>

**Significant Highlights**

During fiscal year 2016, the State Treasurer's Office continued to hold operating costs down to stay within state budget constraints. The executive management team continued to closely review weekly budget status reports in order to identify potential cost savings. By the end of fiscal year 2016, cost savings yielded a \$138,868 reversion to the General Fund. Over the past five years, the State Treasurer's budget has been reduced by approximately \$163,085 through vacancies and other cost-saving measures.

Following the agency's stated objective of selecting investments based primarily on safety, then liquidity, and finally, yield, the agency ended fiscal year 2016 with unrealized gains of \$17,350,948 as compared to unrealized gains of \$9,710,368 in fiscal year 2015. Earnings increased to \$38,107,400 in 2016 from \$26,658,045 in 2015, an increase of 42.9%. The values of the agency's portfolios which are primarily bond portfolios benefited from historically low interest rates as the value of bonds rise as market interest rates fall. The low yields, however, caused the decline in interest earned. Assets of fiduciary funds managed by the State Treasurer totaled \$3,848,264,338 at June 30, 2016, a decrease of 12.7% from June 30, 2015 when balances totaled \$4,408,577,512. This decrease is due primarily to a decline in the balance of the General Fund Investment Pool which has been negatively impacted by declining tax revenues related to oil and gas pricing and production.

The State Treasurer's office began working with the Department of Finance and Administration (DFA) and the Department of Information Technology (DoIT) on the remediation of the business processes

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

and issues with the Statewide Human Resources, Accounting, and Management Reporting (SHARE) system that prevented DFA from performing a meaningful reconciliation between its general ledger and funds held by STO. On June 20, 2012, the "Current State Diagnostic of Cash Control" report was issued by consultants that were hired to assess the current state of cash reconciliation and make recommendations for remediation. The Diagnostic identified a number of issues that were preventing the completion of a timely and accurate statewide cash reconciliation and recommended an approach to remediate the current cash control issues. Deloitte was consultant prepared the diagnostic and performed project management.

Most issues are a result of inadequate implementation of the SHARE system in 2006. The SHARE system which is Oracle/PeopleSoft based did not have the full treasury management system implemented at conversion. This resulted in many processes being disjointed and the system that tracks the investment portfolios that the State Treasurer's office manages not integrated into SHARE.

DFA considers the remediation project to be a success and is reconciling on a monthly basis. Additional remediation recommendations require that the SHARE system receive software upgrades. The legislature appropriated \$1,950,000 in 2013 to fund the implementation of the integrated treasury module which will include the deal management module, which is an integrated investment and accounting system, is anticipated to occur after the SHARE software is upgraded in the fall of calendar year 2017. A request to extend the appropriation through 2018 was submitted in October 2014. This extension was approved by the legislature in January 2015. STO engage a consultant to assist with the design phase of the project which began after the close of the fiscal year in August 2016. Once this integration is complete, it will replace QED, the State Treasurer's Office legacy investment accounting software. Once this integration is completed, the State Treasurer's Office will not have to enter financial information into two different systems, which will simplify reconciliations.

Staff development programs provided ongoing education and training for the State Treasurer's Office employees, providing training on supervisory skills, working in a union environment, defensive driving, civil rights, ethics sexual harassment prevention and EEOC. Other training was resourced on the benefits of the deferred compensation program, the state public employees retirement program and retiree health care coverage. The State Treasurer's Office continues to honor retiring employees and recognize employee years of service once they have been employed for five years or longer.

In fiscal year 2016, the State Treasurer's Office hosted ratings analysts from Standard & Poor's rating agency to review the status and management of the Local Government Investment Pool (LGIP), which is a pooled investment managed on behalf of local governments, school districts, higher education institutions, special districts, quasi-governmental agencies and Indian tribes and pueblos. Standard & Poor's representatives confirmed that the AAAM rating was reaffirmed based on a strong analysis of credit quality, market price exposure and management.

The Investment Division of the State Treasurer's Office hosted the 7<sup>th</sup> Annual LGIP Stakeholder Meeting in September 2015, inviting all participants to attend. The program was held in Albuquerque and included speakers such as James E. Glassman, Head Economist with JPMorgan Chase Bank and Barry Weiss, Director from Standard & Poor's. Participants heard presentations on management of the LGIP, market conditions, the economic outlook and other specific topics and issues. Participants found the meeting beneficial and it was hosted with minimal cost to the Treasurer's Office.

In fiscal year 2015, the State Treasurer's Office implemented a new process for the selection of broker-dealers for the annual list of trading partners. The object of the revised process was to maximize usefulness to STO's investment strategy while keeping the list to a reasonable number per

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

industry practice. The new process was well received and the Broker-Dealer list for FY16, effective 10/1/2015, was approved by the State Board of Finance.

The Investment Division outreach on behalf of the Local Government Investment Pool was continued in fiscal year 2016 through the New Mexico Association of Counties, and the New Mexico Municipal League.

The Investment Division reviewed additional repurchase agreements (REPO) and Triparty counterparties. On the topic of collateral, a state collateral pool program is being researched and discussed with the state's banking community. The Agency worked with the NM Board of Finance to conduct a new Fiscal Agent and Investment Custodian procurement. Additionally, the reintroduction of corporate credit into the investment portfolios was approved by Treasurer Eichenberg. Procedures and practices for corporate credit investments were in process as of year-end.

The Cash Management Division successfully implemented a cash confirmation process to comply with the State Auditor's rule 2.2.2.10. This included verifying transaction activity to corroborate the integrity of statewide cash balances totaling \$3.1 billion.

The State Treasurer places a high priority on active participation on all of the boards and commissions on which he serves. In fiscal year 2016, a significant amount of time was dedicated to service on boards and commissions.

**Economic Factors and Next Year's Budgets and Rates**

- Challenging economic conditions require state government to reduce expenditure levels and the State Treasurer's Office will continue to look for cost savings within these budget constraints.
- The State Treasurer's Office continues to reduce budget through vacancy savings and through attrition. Staffing levels were reduced and existing staff job duties were enhanced.
- The overall costs of facilities, equipment and transportation were reduced within current budget constraints.

These factors were considered in preparing the State Treasurer's budget for fiscal year 2016.

**Contacting the State Treasurer's Financial Management**

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

Tim Eichenberg, State Treasurer  
Office of the State Treasurer  
PO Box 5135  
Santa Fe, New Mexico 87505

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

	Governmental Activities
<b>ASSETS</b>	
Investment in State General Fund Investment Pool	\$ 360,850
Repurchase Agreements (Held in State General Fund Investment Pool)	190,453,025
Due from Other Agencies	73,222,862
Other Assets	3,450
Capital Assets, Net of Accumulated Depreciation:	
Equipment	28,101
Total Assets	\$ 264,068,288
<b>LIABILITIES</b>	
Accounts Payable	\$ 240,360
Accrued Payroll	81,262
Accrued Payroll Taxes	20,021
Unearned Revenue	2,326
Due to State General Fund	139,531
Compensated Absences	186,076
Total Liabilities	669,576
<b>NET POSITION</b>	
Investment in Capital Assets	
Restricted for:	28,101
Debt Service	263,556,687
Unrestricted	(186,076)
Total Net Position	263,398,712
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 264,068,288</b>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Primary Government
<b>PRIMARY GOVERNMENT</b>			
<b>GOVERNMENTAL ACTIVITIES</b>			
General Government	\$ 4,672,766	\$ -	\$ (4,672,766)
Interest on Debt Service Activity	34,703,441	-	(34,703,441)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 39,376,207</b>	<b>\$ -</b>	<b>(39,376,207)</b>
<b>GENERAL REVENUES:</b>			
State Property Tax Levy			74,139,519
Severance Taxes			254,966,459
<b>BOND ACTIVITY:</b>			
Bond Proceeds			-
Bond Principal Payments			(198,418,896)
<b>TRANSFER FROM (TO) STATE AGENCY:</b>			
State General Fund Appropriations			3,756,800
Reversions to State General Fund FY15			(138,868)
Other State Agencies			(1,719,206)
Interest			10,467,331
Other State Funds			122,312
Total General Revenues and Transfers			143,175,451
<b>CHANGE IN NET POSITION</b>			<b>103,799,244</b>
Net Position - Beginning			159,599,468
<b>NET POSITION - ENDING</b>			<b>\$ 263,398,712</b>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	Major Funds			Total Governmental Funds
	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund	
<b>ASSETS</b>				
Investment in State General Fund				
Investment Pool	\$ 360,850	\$ -	\$ -	\$ 360,850
Repurchase Agreements (Held in State General Fund Investment Pool)	-	29,450,262	161,002,763	190,453,025
Other Assets	3,450	-	-	3,450
Bond Interest Receivable	-	-	-	-
Due from Other Agencies	-	16,444,621	56,778,241	73,222,862
	<u>364,300</u>	<u>45,894,883</u>	<u>217,781,004</u>	<u>264,040,187</u>
Total Assets	<u>\$ 364,300</u>	<u>\$ 45,894,883</u>	<u>\$ 217,781,004</u>	<u>\$ 264,040,187</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ 121,160	\$ -	\$ 119,200	\$ 240,360
Unearned Revenue	2,326	-	-	2,326
Due to State General Fund	139,531	-	-	139,531
Accrued Payroll	81,262	-	-	81,262
Accrued Payroll Taxes	20,021	-	-	20,021
Total Liabilities	<u>364,300</u>	<u>-</u>	<u>119,200</u>	<u>483,500</u>
<b>FUND BALANCES:</b>				
Restricted for:				
Debt Service	-	45,894,883	217,661,804	263,556,687
Unassigned	-	-	-	-
Total Fund Balances	<u>-</u>	<u>45,894,883</u>	<u>217,661,804</u>	<u>263,556,687</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 364,300</u>	<u>\$ 45,894,883</u>	<u>\$ 217,781,004</u>	<u>\$ 264,040,187</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

<b>Total Fund Balance - Governmental Funds (Balance Sheet - Governmental Funds)</b>	\$ 263,556,687
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position

Capital assets total acquisition value	187,770
Total accumulated depreciation	(159,669)
Total Capital Assets, Net	28,101

Some liabilities (compensated absences) are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position

	(186,076)
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<b>Net Position of Governmental Activities (Statement of Net Position)</b>	<b><u><u>\$ 263,398,712</u></u></b>
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**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016**

	Major Funds			Total Governmental Funds
	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund	
<b>REVENUES</b>				
Interest Income - Debt Service	\$ -	\$ 1,690,897	\$ 8,776,434	\$ 10,467,331
Severance Taxes	-	-	254,966,459	254,966,459
State Property Tax Levy	-	74,139,519	-	74,139,519
Total Revenues	-	75,830,416	263,742,893	339,573,309
<b>EXPENDITURES</b>				
Current:				
Personnel Services and Employee Benefits	2,827,707	-	-	2,827,707
Operating Costs:				
Contractual Services	392,761	-	-	392,761
Other Administrative Expenditures	510,126	-	-	510,126
Debt Service:				
Principal and Interest on Long-Term Debt	-	78,118,581	19,098,064	97,216,645
Principal and Interest on Short-Term Debt	-	-	135,905,692	135,905,692
Other Charges	-	3,418	842,497	845,915
Capital Outlay	18,534	-	-	18,534
Total Expenditures	3,749,128	78,121,999	155,846,253	237,717,380
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(3,749,128)	(2,291,583)	107,896,640	101,855,929
<b>OTHER FINANCING SOURCES (USES):</b>				
State General Fund Appropriations	3,756,800	-	-	3,756,800
Special Appropriation	-	-	-	-
Reversions to State General Fund FY16	(138,868)	-	-	(138,868)
Miscellaneous other sources	122,312	-	-	122,312
Transfer (to) from Other State Agency	-	1,064,125	(2,783,331)	(1,719,206)
Total Other Financing Sources (Uses)	3,740,244	1,064,125	(2,783,331)	2,021,038
<b>NET CHANGE IN FUND BALANCES</b>	(8,884)	(1,227,458)	105,113,309	103,876,967
Fund Balances - Beginning of Year	8,884	47,122,341	112,548,495	159,679,720
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 45,894,883</u>	<u>\$ 217,661,804</u>	<u>\$ 263,556,687</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

<b>Net Change in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)</b>	<b>\$ 103,876,967</b>
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital Outlay	18,534
Depreciation expense	(7,972)
Excess of capital outlay over depreciation expense	10,562

Some expenses reported in the statement of activities do not require the use of current financial resources, and these are not reported as expenditures in governmental funds:

Increase in Compensated Absences	(88,285)
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<b>Change in Net Position of Governmental Activities</b>	<b>\$ 103,799,244</b>
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**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND -  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2016**

	General Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State General Fund Appropriation	\$ 3,785,100	\$ 3,756,800	\$ 3,756,800	\$ -
Federal Grants	4,000	4,000	-	(4,000)
Other	122,300	122,300	122,312	12
Total Revenues	<u>3,911,400</u>	<u>3,883,100</u>	<u>3,879,112</u>	<u>(3,988)</u>
<b>EXPENDITURES</b>				
Current:				
Personnel Services and Benefits	3,185,500	2,918,530	2,827,707	90,823
Contractual Services	206,400	426,400	392,761	33,639
Operating Costs	519,500	538,170	528,660	9,510
Total Expenditures	<u>3,911,400</u>	<u>3,883,100</u>	<u>3,749,128</u>	<u>133,972</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	129,984	<u>\$ 129,984</u>
<b>RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE</b>				
Unbudgeted Reversions to State General Fund			<u>(138,868)</u>	
<b>NET CHANGE IN FUND BALANCES (GAAP BASIS)</b>			<u>\$ (8,884)</u>	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016**

	<u>Investment Trust Fund</u>	<u>Agency Fund - Gaming Suspense Fund</u>
<b>ASSETS</b>		
Cash and Investments:		
Fiscal Agent Bank Account	\$ 42,002,853	\$ -
Cash in Banks	393,269,534	-
Certificates of Deposit	65,950,066	-
U.S. Government Securities	2,329,998,845	-
Municipal Bonds	57,600,339	-
Repurchase Agreements	808,000,000	-
Asset Backed Bonds	20,300,922	-
Miscellaneous Cash	6,870,000	-
Discounted Notes	116,395,652	-
Total Cash and Investments	3,840,388,211	-
Securities Receivable	3,911	-
Other Receivables	-	15,203,938
Accrued Interest Receivable	7,872,216	-
	3,848,264,338	15,203,938
<b>TOTAL ASSETS</b>	<b>\$ 3,848,264,338</b>	<b>\$ 15,203,938</b>
<b>LIABILITIES</b>		
Due to Broker	\$ 39,295,605	\$ -
Other Liabilities	28,307	-
Due To State General Fund	-	15,203,938
Total Liabilities	39,323,912	\$ 15,203,938
<b>NET POSITION - HELD IN TRUST</b>	<b>3,808,940,426</b>	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 3,848,264,338</b>	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
JUNE 30, 2016**

	Investment Trust Fund
<b>ADDITIONS</b>	
Investment Income	\$ 38,107,400
Deposits	53,366,388,986
<b>DEDUCTIONS</b>	
Management Fees	(341,045)
Withdrawals	(53,987,171,507)
Change in Net Position	(583,016,166)
<b>NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2015</b>	<b>4,391,956,592</b>
<b>NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2016</b>	<b>\$ 3,808,940,426</b>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1 DEFINITION OF REPORTING ENTITY**

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

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

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

- (1) Sections 8-6-1 through 8-6-7 NMSA 1978 (1983 Repl.), as amended. Section 8-6-3 NMSA 1978 (1983 Repl.) provides that the State Treasurer shall receive and keep all monies of the State, except when otherwise provided, shall disburse the public money upon lawful warrants and shall keep a just, true and comprehensive account of all monies received and disbursed.
- (2) Section 6-1-13 NMSA 1978 (1978 Repl.) provides that the State Treasurer shall authorize all State agency deposit accounts and shall establish conditions and reports appropriate to the accounts.
- (3) Section 6-8-2 NMSA 1978 (1988 Repl.) provides that the State Treasurer shall be a member of the State Investment Council. Section 6-8-6 NMSA 1978 (1988 Repl.) states that the State Treasurer shall maintain custody of the State permanent fund.
- (4) Sections 6-10-10 (G), (H), and (I) NMSA 1978 (1988 Supp.) empower the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in demand deposits and not immediately needed for the operation of State government in certain specified securities or investments.
- (5) Section 6-12A-2 NMSA 1978 is to ensure an orderly and uninterrupted flow of money to the general fund by anticipating the receipt of taxes and other State revenue.
- (6) Section 6-10-10.1 NMSA 1978. Short-term investment fund created; distribution of earnings; report of investment.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1    DEFINITION OF REPORTING ENTITY (CONTINUED)**

- a. There is created in the State treasury the "short-term investment fund." The fund shall consist of all deposits from governmental entities and Indian tribes or pueblos that are placed in the custody of the State Treasurer for short-term investment purposes pursuant to this section. The State Treasurer shall maintain a separate account for each governmental entity and Indian tribe or pueblo having deposits in the fund.
- b. If any local public body is unable to receive payment on public money at the rate of interest as set forth in Section 6-10-36 NMSA 1978 from financial institutions within the geographic boundaries of the governmental unit, then a local public finance official having money of that local public body in his custody required for expenditure within thirty days or less may, with the consent of the appropriate local board of finance, if any, remit some or all of such money to the State Treasurer, bank, savings and loan association or credit union for deposit for the purpose of short-term investment as allowed by this section.
- c. Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to this section, the local public body finance official shall notify and make sure funds are made available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the State Treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.
- d. The local public body finance official shall specify the length of time each deposit shall be in the short-term investment fund, but in any event the deposit shall not be made for more than thirty days. The State Treasurer, through the use of the State fiscal agent, shall separately track each such deposit and shall make such information available to the public upon written request.
- e. The State Treasurer shall invest the fund as provided for State funds under Section 6-10-10 NMSA 1978 and may elect to have the short-term investment fund consolidated for investment purposes with the State funds under the control of the State Treasurer, provided that accurate and detailed accounting records are maintained for the account of each participating entity and Indian tribe or pueblo and that a proportionate amount of interest earned is credited to each of the separate government accounts. The fund shall be invested to achieve its objective, which is to realize the maximum return consistent with safe and prudent management.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 DEFINITION OF REPORTING ENTITY (CONTINUED)**

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

The State Treasurer is responsible for making the State of New Mexico's debt service and interest payments on general obligation and severance tax bonds and maintaining the related accounting records. The proceeds from the issuance of these general obligation and severance tax bonds and the related debt are not part of this audit.

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

The State Treasurer's Office operates several investment pools which collectively represent the cash and investments held at the State Treasurer's Office. These pools represent amounts being held and invested for State agencies and for local governments. They have been identified as: 1) State funds investment pool, 2) short-term investment pool, 3) consolidated investment pool and 4) The Reserve Contingency Fund.

**Advice and Consent by the State Board of Finance**

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

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Financial Reporting Entity**

The financial statements for the State Treasurer have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The State Treasurer is an office of the State of New Mexico. The financial statements and notes to the financial statements include all funds for which the State Treasurer is responsible. These financial statements only present activity related to the State Treasurer's Office. The State Treasurer receives funding from State and federal sources and must comply with the requirements of these funding source entities. However, the State Treasurer is not included in any other governmental "reporting entity" as defined by GASB pronouncements, since the State Treasurer is elected by the public and has decision making authority, the power to designate management, and the ability to significantly influence operations and have primary financial accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement 14 (amended by GASBs 39 and 61) which are included in the State Treasurer's reporting entity.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements (Continued)**

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

**General Fund (SHARE Fund 18200)**

The government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is funded through the 2009 General Appropriation Act (Laws of 2009, Chapter 3, Section F) and is subject to reversion.

**Debt Service Funds:**

The General Obligation Bond Fund (see Schedules 2 and 3 in the Supplementary Information section for SHARE Fund numbers) accounts for payment of principal and interest on general obligation bonds. Financing sources are provided through the collection of property tax levies by other State agencies. The fund does not receive State General Fund appropriations that are subject to reversion.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The Severance Tax Bond Fund (see Schedules 4 and 5 in the Supplementary Information section for SHARE Fund numbers) accounts for tax receipts levied by other State agencies upon natural resource products, severed and saved from the lands of the State of New Mexico, and to account for payment of principal and interest on severance tax bonds. The fund does not receive State General Fund appropriations that are subject to reversion.

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

The LGIP Short-Term Investment Pool (SHARE Fund 68590) accounts for cash, securities and other investments identified and held in custody only for the Local Government Investment Pool (LGIP).

The Consolidated Investment Pool (SHARE Fund 10190) accounts for cash and short-term securities, such as overnight repurchase contracts, held in custody for State agencies.

The State Funds Investment Pool (SHARE Fund 10090) accounts for securities and other investments identified and held in custody only for State agencies.

The Gaming Suspense Fund (SHARE Fund 02000) was established to collect monies owed to the State from gaming establishments. The fund does not receive State General Fund appropriations that are subject to reversion. This is an agency fund.

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

**Deposits and Investments**

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

State statutes authorize the State Treasurer to invest in, subject to various restrictions, U.S. government obligations; U.S. government agency obligations; commercial paper; corporate bonds; asset backed obligations; repurchase agreements; bank, savings and loan association or credit union deposits; variable rate notes; tax-exempt securities; securities issued by the State or a political subdivision of the State, or an agency, institution or instrumentality of the State, and money market mutual funds.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables and Payables**

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

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

**Capital Assets**

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

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

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

<u>Assets</u>	<u>Years</u>
Office Equipment	5
Computer Equipment	5

**Compensated Absences**

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

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Long-Term Obligations**

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

**Fund Balance**

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or committed, assigned or unassigned. Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or, in some cases, by legislation. See Note 22 for additional information about fund balances.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's policy to spend committed resources first.

**Net Position**

The government-wide statements utilize a net position presentation categorized as follows:

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

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

**Restricted assets** are liquid assets (generated from revenues and not bond proceeds) which have third-party (statutory or granting agency) limitations that are legally enforceable on their use. When there is an option, the State Treasurer spends restricted resources first. Net position is restricted by the bond indenture for debt service. Restricted net position totals \$263,556,687.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position (Continued)**

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office did not have any items that qualified for reporting in this category as of June 30, 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Department did not have any items that were required to be reported in this category as of June 30, 2016.

**Pensions**

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

In January 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability.

Compliant with the requirements of Government Accounting Standards Board Statement No.68 and No.71, the State of New Mexico has implemented the standards for the fiscal year ending June 30, 2015.

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, the total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pensions (Continued)**

State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

**NOTE 3 STATE GENERAL FUND INVESTMENT POOL**

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

The State Controller indicated on August 8, 2016 that calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months; resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP and that all claims will be honored at face value.

The State Treasurer has established daily and monthly procedures that mitigate the risk of misstatement of the Board's balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

State law (Section 8-6-3 NMSA 1978) requires the State Treasurer's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the State

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 STATE GENERAL FUND INVESTMENT POOL (CONTINUED)**

Treasurer consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

**NOTE 4 INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL**

At June 30, 2016, the State Treasurer General Fund had \$360,850 invested in the State General Fund Investment Pool.

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

Credit Risk - The New Mexico State Treasurer pools are not rated.

**NOTE 5 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Per the General Appropriation Act, Laws of 2009, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2009 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget. Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control is at the appropriation unit level.

The debt service funds of the State Treasurer are not budgeted.

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

1. By September 1, the State Treasurer prepares a budget appropriation request by category to be presented to the next legislature.
2. The appropriation request is submitted to the DFA's Budget Division and to the Legislative Finance Committee (LFC).
3. The DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 5 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**Budgets and Budgetary Accounting (Continued)**

4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level of the State Treasurer as a whole and changes are approved by the DFA.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund only. The debt service funds (General Obligation Bond Funds and Severance Tax Bonding Funds) are non-budgeted funds.
8. The General Appropriations Act of 2004 established the modified accrual basis of accounting as the budgetary basis of accounting for the State of New Mexico beginning July 1, 2004. Accordingly, future budgets will be prepared using the modified accrual basis of accounting.
9. The State Treasurer's budget for the fiscal year ended June 30, 2016 was amended in a legally permissible manner by reallocating line item category totals as the need arose during the fiscal year. Individual amendments were not material in relation to the original budget.

**NOTE 6 DEPOSITS AND INVESTMENTS**

**Fiscal Agent Bank**

The State Board of Finance entered into an agreement with Wells Fargo Bank in Albuquerque to provide banking services as Fiscal Agent for the State of New Mexico through May 1, 2016 with an option to renew to 2018.

**Custody Bank**

The State Board of Finance and JP Morgan Chase entered into an agreement whereby JP Morgan Chase would provide banking services as Custody Bank for the State of New Mexico effective July 1, 2014 for a two-year period, with the option to renew for up to six additional years at the discretion of the State Board of Finance.

**Investment Trust Fund**

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

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investment Trust Fund (Continued)**

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

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

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from fifty percent (50%) to one hundred two percent (102%) of the par value of the investment dependent upon the institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50 percent (50%) of the average investment balance.

At June 30, 2016, collateral pledged to public money deposits was as follows:

	Fiscal Agent Account	Certificates of Deposit
Cash in Bank (Bank Balance)	\$ 39,068,549 *	\$ 65,950,066
Less FDIC Insurance Coverage	-	1,809,687
Total Unsecured Public Funds	\$ 39,068,549	\$ 64,140,379
Collateral Requirement (50%, 75% or 102%) of Uninsured Public Funds	\$ 19,534,275	\$ 48,485,126
Collateral Pledged:		
US Government Securities	64,317,921	48,964,751
Excess (Under) Collateralized	\$ 44,783,647	\$ 479,625

\* Fiscal agent bank is required to collateralize the monthly average balance.

See Schedule 10 for reconciliation.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Brokered Transactions**

The State Treasurer initiated electronic purchase trades with the following brokers during the year ended June 30, 2016:

Broker Name	Number of Transactions
BAIRD (ROBERT W.) & CO. INCORPORATED	15
BANK OD NYC (PERSHING)	37
BANK OF NEW YORK	6
BANK OF NEW YORK (BARCLAYS)	2
BANK OF NEW YORK (BBTSEC)	21
BANK OF NEW YORK (CANTOR)	1
BANK OF NEW YORK (DAIWA)	10
BANK OF NEW YORK (DBGOV)	18
BANK OF NEW YORK (FUSI)	49
BANK OF NEW YORK (HGSI)	13
BANK OF NEW YORK (HILLTOP)	1
BANK OF NEW YORK (MIZUHOSEC)	96
BANK OF NEW YORK (PARIBAS)	1
BANK OF NEW YORK (TDS)	26
BANK OF NEW YORK (WEDBUSH)	1
BANK OF NY (CANTORPRIME)	24
BANK OF NY/MIZUHO SECS USA TREAS FIN	1
BANK OF NY/TORONTO DOMINION SEC INC	1
BANK OF NYC (JEFFERIES)	15
BARCLAYS CAP INC/BARCLAYS CAP INC FI	2
BARCLAYS CAPITAL INC./LE	23
CANTOR FITZGERALD & CO /CASTLEOAK	1
CANTOR FITZGERALD & CO INC	4
CANTOR FITZGERALD & CO./CCS	3
CANTOR FITZGERALD/STOCK LOAN	5
CORPORATE REORGANIZATIONS	29
DEUTSCHE BANK SECURITIES INC.	5447
FIRST SOUTHWEST CO (FSWC)	8
FIRST TENNESSEE BK MEMPHIS (1010)	5
GEORGE K BAUM (GKBAUM)	3
GUGGENHEIM SECURITIES, LLC	4
HILLTOP SECURITIES INC. (HILLTOP)	20
JPM CHASE/FCSTONE	52
JPMORGAN CHASE (JPMCC)	6
JPMORGAN CHASE BANK/HSBCSI	44
JPMORGAN CHASE BK	4
JPMORGAN CHASE BK (CLARKE)	2
JPMORGAN CHASE BK (CUST)	19
JPMORGAN CHASE BK (GREENWICH)	6256
JPMORGAN CHASE BK (HSBCSI)	404
JPMORGAN CHASE BK/RBS SECURITIES INC	8

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Brokered Transactions (Continued)**

<u>Broker Name</u>	<u>Number of Transactions</u>
KEYBANC CAPITAL MARKETS INC.	2
LOOP CAPITAL MARKETS LLC (PERSHING)	1
MITSUBISHI UFJ SECURITIES (USA), INC.	325
MIZUHO SECURITIES USA INC	1440
MORGAN STANLEY & CO. INCORPORATED	7
PERSHING LLC	27
PIPER JAFFRAY & CO.	3
RBC CAPITAL MARKETS LLC	90
REDEMPTIONS	238
SCOTT & STRINGFELLOW INC	6
SG AMERICAS SECURITIES, LLC (SGAS)	3
STIFEL NICOLAUS & CO INC	1
SWITCHES	6
THE BANK OF NY/TD BANK	2
TORONTO-DOMINION BANK (TDBANNK)	3
UBS FINANCIAL SERVICES (UBSFS)	1
UBS WARBURG	2
WEDBUSH MORGAN SECURITIES INC	7
WELLS FARGO SECURITIES, LLC	3
	<hr/>
Total	<u><u>14,854</u></u>

**Investment Balances**

The fair value of investments administered by the State Treasurer at June 30, 2016 follows:

	<u>Cost</u>	<u>Carrying Amount Fair Value</u>
Fiscal Agent Bank Account	\$ 42,002,853	\$ 42,002,853
Certificates of Deposit	65,950,066	65,950,066
Cash in Bank	393,269,534	393,269,534
U.S. Government Securities	2,312,753,438	2,329,998,845
Investment in LGIP	171,554,633	171,554,633
Municipal Bonds	57,551,239	57,600,339
Repurchase Agreements	808,000,000	808,000,000
Miscellaneous Cash	6,870,000	6,870,000
Asset Backed Bonds	20,288,583	20,300,922
Discounted Notes	116,351,550	116,395,652
	<hr/>	<hr/>
	3,994,591,896	4,011,942,844
Less interfund investments	(171,554,633)	(171,554,633)
Total	<u><u>\$ 3,823,037,263</u></u>	<u><u>\$ 3,840,388,211</u></u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investment Balances (Continued)**

The fair value includes repurchase agreements of \$190,453,025 of debt service funds reported in the Statement of Net Position - Governmental Activities and Governmental Funds Activity for general obligation funds and severance tax bond funds. In addition, it includes \$360,850 of cash in STO's general fund.

**General Fund Investment Pool**

The General Fund is the State of New Mexico's main operating account. All State revenues are credited to the General Fund. Income taxes, sales taxes, rents and royalties, and other recurring revenues are deposited into the fund. The fund also comprises numerous State agency accounts whose assets, by statute, must be held at the State Treasury. Expenditures are disbursed only in accordance with appropriations authorized by the State Legislature.

**Consolidated Investment Pool (Tax-Exempt Bond Proceeds Investment Pool # 1)**

The Tax-Exempt Bond Proceeds Investment Pool comprises pooled assets received through the issuance of tax-exempt State of New Mexico general obligation bonds, severance tax bonds, and supplemental severance tax bonds. The fund's objective is to preserve capital, provide liquidity, and generate returns relative to the true interest cost of all State of New Mexico debt outstanding in accordance with the Investment Policy of the Office of the State Treasurer.

**Consolidated Investment Pool (Taxable Bond Proceeds Investment Pool # 2)**

The Taxable Bond Proceeds Investment Pool comprises pooled assets received through the issuance of State of New Mexico severance tax bonds. The fund's objective is to preserve capital, provide liquidity, and generate returns relative to a benchmark and in accordance with the State Treasurer's Investment Policy.

**Local Government Investment Pool (LGIP) (Short Term Investment Pool)**

Cities, counties, and other agencies invest monies in the State Treasurer external investment pool (LGIP). In fiscal year 2016 LGIP implemented a portion of GASBS No. 79 Certain External Investment Pools and Pool Participants (See Note 7 for further detail), which permits external investments pools to elect to measure all of their investments at amortized cost. The LGIP investments are presented at fair value based on the valuation date in the financial statements. The individual participant balances remain at their amortized cost. As of June 30, 2016, LGIP amortized cost approximated fair value, difference is immaterial (see Schedule 7).

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10.1, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies, and are either direct obligations of the United States or are backed by the full faith and credit of the United States government, or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Local Government Investment Pool (LGIP) (Short Term Investment Pool) (Continued)**

the same investment committee and the same policies and procedures that apply to all other State investments. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the Local Government Investment Pool is voluntary. As of June 30, 2016, the WAM(R) of the LGIP was 44 days, and the WAM(F) was 77 days. The fund was rated AAAM by Standard & Poor's as of June 30, 2016.

**Investment Guidelines and Limitations**

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

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

1. Preservation of Principal – to ensure the performance of basic governmental functions, the first priority must be accorded to the preservation and protection of the principal of the funds to be invested;
2. Maintenance of Liquidity – the second level of priority must be accorded to maintaining sufficient liquidity to satisfy the reasonably anticipated, continuing operational requirements of State Government, and
3. Maximum Return – the third priority must be accorded to maximizing investment return, through budgetary and economic cycles, consistent with the higher priority accorded to the security and liquidity of principal.

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

The State Treasurer or his designees, acting in accordance with this policy and any other written procedures pertaining to the investment of public money and exercising due

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investment Guidelines and Limitations (Continued)**

diligence, shall be relieved of personal responsibility, if any, for credit risk or market price changes of a particular security, provided that deviations from expectations are timely noted and appropriate action is taken to control and prevent further adverse developments.

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

The State Treasurer and the State Board of Finance have determined that only the following statutorily authorized investments may be made, and these investments shall be subject to further limitations or restrictions as follows:

**Investments Permitted by Policy**

1. U.S. Government Obligations – Securities backed by the full faith and credit of the U.S. government including direct obligations of the U.S. Treasury and obligations of U.S. Government agencies and instrumentalities which are guaranteed by the U.S. Treasury. Investments shall be limited to a maximum maturity of five (5) years at time of purchase, except securities for any advance refunding escrow which may be invested in securities with a maturity of more than five (5) years. These securities may be either fixed rate or variable rate.
2. U.S. Government Agency Obligations – Securities issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises, but which are not backed by the full faith and credit of the U.S. Government. These securities include mortgage-backed certificates, collateralized mortgage obligations, and debentures issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

Also included are direct obligations of the Federal Farm Credit Bank and the Federal Home Loan Bank. These obligations shall consist of discount notes, notes and debentures with either fixed or LIBOR-based floating rate coupons. Investments in U.S. government agency obligations shall be limited to a maximum maturity of five (5) years at time of purchase.

3. Commercial Paper – Unsecured obligations with a maturity up to 270 days at time of purchase issued by corporations organized and operating within the United States. The commercial paper shall have investment grade ratings and shall not be split-rated. If the rating declines below investment grade, the State Treasurer's Investment Committee (STIC) will meet to evaluate a course of action.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments Permitted by Policy (Continued)**

4. Corporate Bonds – Debt instruments issued by a corporation organized and operating in the United States with a maturity not exceeding five (5) years at time of purchase. Corporate bonds with maturities up to three (3) years shall be rated A1 or better at the time of purchase. Corporate bonds with maturities between three (3) and five (5) years shall be rated AA or better. If the rating declines below investment grade, then the STIC will meet to evaluate a course of action.
5. Asset-Backed Obligations – Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding five (5) years at time of purchase and rated AAA, or its equivalent, by all national rating agencies that rate the security. If the rating declines below AAA, or its equivalent, then the STIC will meet to evaluate a course of action.
6. Repurchase Agreements – Contracts for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the State. No contract shall be invested in unless the contract is fully secured by obligations of the United States, or its agencies or instrumentalities, or other securities backed by the United States having a market value of at least one hundred two percent (102%) of the amount of the contract. Repurchase agreements and flexible repurchase agreements shall be limited to a maximum maturity of one (1) year, but flexible repurchase agreements, in which bond proceeds are invested, may have a maximum maturity of three (3) years. Repurchase agreements for the Local Government Investment Pool shall be limited to a maximum maturity of thirty (30) days, although any underlying U.S. government obligations pledged as collateral may have maturities extending beyond the term of such repurchase agreements. Subject to these conditions and the prior approval of the State Board of Finance with respect to the custodial undertaking agreement, tri-party repurchase agreements are proper investments under this policy.
7. Bank, Savings and Loan Association or Credit Union Deposits – Deposits are allowed in certified and designated New Mexico financial institutions whose deposits are insured by an agency of the United States. All deposits will comply with state statute and State Board of Finance policies related to interest rate and collateral requirements. CD deposits shall not be made with custodial banks. Deposits shall be limited to a maximum maturity of three (3) years. A deposit in any credit union shall be limited to the amount insured by an agency of the United States.
8. Variable Rate Notes – Variable rate notes (VRN) may be United States government obligations, commercial paper or repurchase agreements. The use of VRNs is considered to be prudent in the management of the portfolio within certain maturity, indexing and
9. Municipal Securities – Pursuant to 6-14-10.1, the State Treasurer or designee may also invest in municipal securities that at time of purchase are investment grade and have a final maturity of up to three (3) years. If the rating declines below investment grade, then the STIC will meet to evaluate a course of action.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments Permitted by Policy (Continued)**

10. Securities Issued by the State or a Political Subdivision of the State, or any Agency, Institution or Instrumentality of the State or a Political Subdivision – These include, but are not limited to, the New Mexico Mortgage Finance Authority, the New Mexico Finance Authority and the New Mexico Educational Assistance Foundation, if the statute authorizing the issuance of such securities expressly authorizes the State or the State Treasurer to purchase such security.
11. Government Money Market Mutual Funds – Shares of an open-ended diversified investment company that: (i) is registered with the United State Securities and Exchange Commission; (ii) complies with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, of the United States Securities and Exchange Commission applicable to money market mutual funds; (iii) assesses no fees pursuant to Rule 12b-1, or any successor rule, of the United States Securities and Exchange Commission, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, however designated, provided that the State shall not, at any time, own more than five percent (5%) of a money market mutual fund's assets, and (iv) is rated AAA or equivalent by a nationally recognized rating agency. In addition, the State Treasurer may act as the investing authority for those agencies which have independent statutory authority to invest. The State Treasurer shall act in a manner consistent with each agency's guidelines and directives.
12. Local Government Investment Pool: General fund dollars may be invested in the Local Government Investment Pool (LGIP), up to five percent (5%) of the LGIP.

**Unauthorized Investments/Investment Actions**

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

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

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

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

The State Treasurer's Office Collateral Manager reviews and tracks all state funds held in state depository institutions. Deposits and collateral are reviewed almost daily and a statutorily required risk assessment is performed quarterly, although the assessments are not intended as an opinion as to the financial health of the subject institution. The \$534,627,935 in balances are collateralized in compliance with NMAC 2.60.4. Although in compliance with NMAC 2.60.4 as of June 30, 2016, there was \$161,771,094 of the State Treasurer's bank balances of \$534,627,935 that was exposed to custodial credit risk as uninsured and uncollateralized.

**Credit Risk**

The State Treasurer's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub-asset classes and/or as outlined in each portfolio manager contract.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2016 for the general fund investment pool are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
<b>AAA:</b>		
Municipals	\$ 1,978,055	0.11%
<b>AA+:</b>		
Treasuries	474,425,574	26.92%
Government Agency	455,967,844	25.87%
Municipals	1,824,523	0.10%

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Credit Risk (Continued)**

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
<b>AA:</b>		
Municipals	\$ 4,968,766	0.28%
<b>AA-:</b>		
Municipals	2,528,699	0.14%
<b>A:</b>		
Municipals	200,008	0.01%
<b>A-:</b>		
Municipals	526,741	0.03%
<b>NR:</b>		
Municipals	4,256,533	0.24%
Investment in LGIP	144,028	0.01%
Fiscal Agent Account	42,002,853	2.38%
Cash Miscellaneous	6,870,000	0.39%
Repurchase Agreements	375,311,935	21.30%
Certificates of Deposit	52,750,066	2.99%
Cash in Banks	338,585,062	19.21%
Total	<u>\$ 1,762,340,687</u>	<u>100.00%</u>

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2016 for the local government investment pool are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
<b>AA+:</b>		
Government Agency	\$ 15,017,400	2.00%
Government Agency	328,737,545	43.84%
<b>NR:</b>		
Cash in Banks	54,684,472	7.29%
Discounted Notes	116,395,652	15.52%
Repurchase Agreements	235,000,000	31.34%
Total	<u>\$ 749,835,069</u>	<u>100.00%</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Credit Risk (Continued)**

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2016 for the Bond Proceeds Investment Pool #2 are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
<b>AAA:</b>		
Municipals	\$ 2,157,387	0.32%
<b>AA+:</b>		
Treasuries	249,933,000	36.82%
Government Agency	246,479,939	36.31%
Municipals	2,908,000	0.43%
Asset Backed Bonds	10,150,461	1.50%
<b>AA:</b>		
Municipals	1,547,980	0.23%
<b>AA-:</b>		
Municipals	1,989,351	0.29%
<b>A+:</b>		
Municipals	1,683,217	0.25%
<b>A:</b>		
Municipals	879,055	0.13%
<b>NR:</b>		
Repurchase Agreements	40,501,974	5.97%
Certificates of Deposit	10,200,000	1.50%
Investment in LGIP	110,343,936	16.26%
Total	<u>\$ 678,774,300</u>	<u>100.00%</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Credit Risk (Continued)**

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard & Poor's) at June 30, 2016 for the Bond Proceeds Investment Pool # 1 are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
<b>AAA:</b>		
Municipals	\$ 304,737	0.04%
<b>AA+:</b>		
Treasury	184,989,190	22.53%
Government Agency	366,564,176	44.65%
Municipals	5,251,748	0.64%
Municipals	10,150,461	1.24%
<b>AA:</b>		
Municipals	11,606,221	1.41%
<b>AA-:</b>		
Municipals	5,448,857	0.66%
<b>A+:</b>		
Municipals	2,941,671	0.36%
<b>A:</b>		
Municipals	1,037,226	0.13%
<b>NR:</b>		
Municipals	3,561,565	0.43%
Government Agency	7,884,176	0.96%
Repurchase Agreements	157,186,091	19.15%
Mutual Funds	61,066,669	7.44%
Certificates of Deposit	3,000,000	0.37%
Total	<u>\$ 820,992,788</u>	<u>100.00%</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk**

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

1. Investment maturities will be staggered to avoid undue concentration of assets in a specific maturity sector and to reflect cash flow requirements.
2. Investment in callable instruments is permitted for the State General Fund, but the amount invested in callable instruments should not exceed twenty-five percent (25%) of the total amount invested of each portfolio. Investment in callable investments may be allowed in the local government investment pool, bond proceeds, bond debt service funds and such pension and permanent fund monies for which the State Treasurer is the investing authority. Investment in callable investments is prohibited for tax and revenue anticipation note proceeds (and any other liquidity vehicle).
3. The maximum level of CD deposits for the entire portfolio shall be \$400 million with not more than \$30 million in any single financial institution. The State Board of Finance urges banks to loan this money out in their respective local communities to spur economic development.
4. Investments in commercial paper, corporate bonds and asset-backed obligations shall not exceed forty percent (40%) of assets of each portfolio. Commercial paper and corporate bonds shall be limited, per issuer, to five percent (5%) of each portfolio.
5. Investments in United States agency securities issued by any single agency shall be limited to thirty-five percent (35%) of the combined portfolios.
6. Investment in repurchase agreements from any single provider shall be limited to thirty-five percent (35%) of the combined portfolios.
7. Investment in commercial paper and corporate bonds guaranteed by the full faith and credit of the United States government, with a final maturity not to exceed the expiration date of any such guarantee, shall not exceed forty percent (40%) of the assets of each portfolio. Commercial paper and corporate bonds guaranteed by the full faith and credit of the United States government shall be limited, per issuer, to twenty percent (20%) of each portfolio.
8. United States Government Agency issued mortgage-backed securities and collateralized mortgage obligations shall be limited to twenty-five percent (25%) of a portfolio.
9. Securities issued by a municipal entity shall be limited to fifteen percent (15%) of a portfolio.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk (Continued)**

10. Securities issued by the State or a political subdivision of the State, or any agency, institution or instrumentality of the State shall be limited to fifteen percent (15%) of the general fund portfolio.

The following lists investments held in the general fund investment pool with a single issuer as a percentage of total:

Securities	Fair Value	Percentage of Portfolio
<b>U.S. Treasury Obligations:</b>		
U.S. Treasuries	\$ 474,425,574	26.92%
<b>U.S. Government Agency Obligations:</b>		
FFCB	100,349,080	5.69%
FHLB	34,905,440	1.98%
FHLMC	137,517,600	7.80%
FNMA	183,195,724	10.40%
<b>Municipals</b>		
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	500,050	0.03%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	1,000,130	0.06%
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG	200,014	0.01%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 27/DEC/2007	200,618	0.01%
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	500,685	0.03%
CHOCTAW CNTY MISS HOSP REV TAXABLE-CHOCTAW COUNTY	256,533	0.01%
ENERGY NORTHWEST WASH ELEC REV FORMERLY KNOWN AS	2,370,284	0.13%
GADSDEN INDEPENDENT SCHOOL DISTRICT NO 16 BOND	2,000,000	0.11%
GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1	170,544	0.01%
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	179,004	0.01%
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	347,738	0.02%
LAS CRUCES N MEX HOLD HARMLESS GROSS RCPTS TAX	158,415	0.01%
LAS CRUCES N MEX JT UTIL REV RFDG & IMPT	1,094,386	0.06%
LAS CRUCES SCHOOL DISTRICT NO 2 BOND 08/MAR/2016	501,545	0.03%
NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B	477,860	0.03%
NEW MEXICO ST SEVERANCE TAX RFDG-SER D 08/DEC/2010	100,013	0.01%
NEW MEXICO ST SEVERANCE TAX SER A 21/JUN/2012	180,023	0.01%
RIO RANCHO N MEX RFDG & IMPT 21/JUN/2016	838,282	0.05%
RUIDOSO N MEX WASTERWATER REV RFDG 12/JUL/2013	200,008	0.01%
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	300,786	0.02%
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	225,819	0.01%
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2016 2%	370,455	0.02%
SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2016	225,284	0.01%
SILVER CITY N MEX JT UTIL SYS REV RFDG-SER B	259,510	0.01%
STATE OF NEW MEXICO - SANTA FE PUBLIC	2,000,000	0.11%
TEXAS A & M UNIV SYS BRD REGTS PERM UNIV FD RFDG	1,500,195	0.09%
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	125,144	0.01%
<b>Certificate of Deposits</b>	<b>52,750,066</b>	<b>2.99%</b>
<b>Miscellaneous Cash</b>	<b>6,870,000</b>	<b>0.39%</b>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk (Continued)**

Securities	Fair Value	Percentage of Portfolio
<b>Fiscal Agent Account</b>	\$ 42,002,853	2.38%
<b>Investment in LGIP</b>	144,028	0.01%
<b>Repurchase Agreements</b>	375,311,935	21.30%
<b>Cash in Banks</b>	338,585,062	19.21%
Total	<u>\$ 1,762,340,687</u>	<u>100%</u>

The following lists investments held in the local government investment pool with a single issuer as a percentage of total:

Securities	Fair Value	Percentage of Portfolio
<b>U.S. Treasury Obligations:</b>		
U.S. Treasuries	\$ 15,017,400	2.00%
<b>U.S. Government Agency Obligations:</b>		
FFCB	117,829,966	15.71%
FHLB	121,265,810	16.17%
FNMA	42,486,844	5.67%
FHLMC	47,154,925	6.29%
<b>Cash</b>	54,684,472	7.29%
<b>Discounted Notes</b>	116,395,652	15.52%
<b>Repurchase Agreements</b>	235,000,000	31.34%
Total	<u>\$ 749,835,069</u>	<u>98%</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk (Continued)**

The following lists investments held in the bond proceeds investment pool # 2 with a single issuer as a percentage of total:

Securities	Fair Value	Percentage of Portfolio
<b>U.S. Treasury Obligations:</b>		
U.S. Treasuries	\$ 249,933,000	36.82%
<b>U.S. Government Agency Obligations:</b>		
FFCB	504,205	0.07%
FHLMC	73,661,670	10.85%
FNMA	113,495,364	16.72%
FHLB	58,818,700	8.67%
<b>Municipal Bonds</b>		
ALBUQUERQUE METROPOLITAN ARROYO FLOOD CONTROL	1,855,581	0.27%
ALBUQUERQUE N MEX ARPT REV RFDG 11/MAR/2008	1,000,130	0.15%
ALBUQUERQUE N MEX ARPT REV RFDG-SUB LIEN-SER A	306,855	0.05%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SER B	501,745	0.07%
BELEN N MEX 20/JUL/2016 01/AUG/2017 2%	278,570	0.04%
BELEN N MEX 20/JUL/2016 01/AUG/2018 2%	291,846	0.04%
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG	160,331	0.02%
CLOVIS NEW MEX GROSS RCPTS TAX REV RFDG & IMPT	683,087	0.10%
COLFAX CNTY N MEX GROSS TAX RCPTS IMPT 24/FEB/2015	225,279	0.03%
GALLUP MC KINLEY CNTY N MEX SCH DIST NO 001	250,330	0.04%
JEMEZ VY N MEX PUB SCH DIST NO 031 25/NOV/2014	274,101	0.04%
LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013	476,055	0.07%
LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG 28/OCT/2015	282,222	0.04%
LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG-SER A	195,115	0.03%
NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B	301,806	0.04%
NEW MEXICO ST SEVERANCE TAX TAXABLE-SER C	1,989,351	0.29%
PHILADELPHIA PA 27/JUL/2006 01/AUG/2024 5%	572,200	0.08%
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	600,816	0.09%
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	400,876	0.06%
SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SER A	268,154	0.04%
SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N	250,540	0.04%
<b>Repurchase Agreements</b>	40,501,974	5.97%
<b>Certificate of Deposit</b>	10,200,000	1.50%
<b>Asset Backed Bonds</b>	10,150,461	1.50%
<b>Investment in LGIP</b>	110,343,936	16.26%
Total	<u>\$ 678,774,300</u>	<u>100.00%</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk (Continued)**

The following lists investments held in the bond proceeds investment pool # 1 with a single issuer as a percentage of total:

Securities	Fair Value	Percentage of Portfolio
<b>U.S. Treasury Obligations:</b>		
U.S. Treasuries	\$ 184,989,190	22.53%
<b>U.S. Government Agency Obligations:</b>		
FFCB	39,147,450	4.77%
FHLMC	154,827,940	18.86%
FNMA	117,586,238	14.32%
FHLB	55,002,548	6.70%
Finance Corp	7,884,176	0.96%
<b>Municipal Bonds</b>		
ALAMOGORDO N MEX TAXABLE-SER A 24/DEC/2014	45,123	0.01%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	1,500,195	0.18%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	665,086	0.08%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	100,010	0.01%
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	540,038	0.07%
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV	450,032	0.05%
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV	192,657	0.02%
ALBUQUERQUE N MEX GROSS RCPTS TAX REV	1,120,000	0.14%
ALBUQUERQUE N MEX GROSS RCPTS TAX REV	602,214	0.07%
ALBUQUERQUE N MEX MET ARROYO FLOOD CTL AUTH	304,737	0.04%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	601,332	0.07%
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	721,598	0.09%
ARTESIA N MEX GROSS RCPTS TAX REV RFDG 15/SEP/2015	1,513,374	0.18%
ARTESIA N MEX GROSS RCPTS TAX REV RFDG 15/SEP/2015	266,633	0.03%
BEAUMONT TEX WTRWKS & SWR SYS REV SER A	2,060,767	0.25%
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	1,001,290	0.12%
GADSDEN N MEX INDPT SCH DIST NO 016 29/OCT/2014	475,831	0.06%
GRANT CNTY N MEX RFDG 11/DEC/2014 01/SEP/2016 2%	315,680	0.04%
HOBBS N MEX MUN SCH DIST NO 16 26/MAY/2015	391,888	0.05%
LAS CRUCES N MEX SCH DIST NO 002 RFDG-SER B	253,683	0.03%
NEW JERSEY ECONOMIC DEV AUTH RETIREMENT CMNTY REV	3,561,565	0.43%
NEW MEXICO ST SEVERANCE TAX TAXABLE-SER C	4,863,696	0.59%
ROSWELL N MEX INDPT SCH DIST SCH BLDG-SER A	253,518	0.03%
RUIDOSO N MEX GROSS RCPTS TAX REV RFDG & IMPT	158,630	0.02%
SAN JUAN CNTY N MEX GROSS RCPTS TAX REV RFDG-SER A	721,546	0.09%
SAN JUAN CNTY N MEX JR COLLEGE DIST 10/NOV/2015	2,229,072	0.27%
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2017 3%	384,285	0.05%
SANDOVAL CNTY N MEX INCENTIVE PAYMENT REV	101,499	0.01%
SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N	2,620,100	0.32%
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	200,304	0.02%
UNIVERSITY N MEX UNIV REVS TAXABLE-RFDG & IMPT-SUB	55,134	0.01%
UNIVERSITY N MEX UNIV REVS TAXABLE-RFDG & IMPT-SUB	250,663	0.03%
UNIVERSITY N MEX UNIV REVS RFDG-TAXABLE-GNMA	1,009,070	0.12%
UNIVERSITY N MEX VALENCIA CNTY BRANCH CMNTY	620,775	0.08%

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk (Continued)**

Securities	Fair Value	Percentage of Portfolio
<b>Repurchase Agreement</b>	\$ 157,186,091	19.15%
<b>Asset Backed Bonds</b>	10,150,461	1.24%
<b>Investment in LGIP</b>	61,066,669	7.44%
<b>Certificate of Deposits</b>	3,000,000	0.37%
Total	<u>\$ 820,992,788</u>	<u>100.00%</u>

**Interest Rate Risk**

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

1. **Relative Yield to Maturity:** Comparison of return available from alternative investments for comparable maturity dates.
2. **Marketability:** Analysis of relative marketability of alternate investments in case of forced sale or possibility of future trades.
3. **Intermarket Yield Analysis:** Analysis of the spread relationship between sectors of the market (e.g., Treasury Bonds or Bills versus Agency Bonds or Discount Notes), to take advantage of aberrations in yield differentials.
4. **Yield Curve Analysis:** Analysis of the slope of the yield curve to determine the most attractive maturities for earning maximum return with minimal risk.
5. **General Economic and Interest Rate Outlook:** Review and analysis of current literature on interest rate projections to assist in timing transactions and selecting appropriate maturities.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Interest Rate Risk (Continued)**

Maturities on investments in the general fund investment pool are as follows:

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
<b>AAA:</b>			
Municipals	\$ 1,978,055	\$ 477,860	\$ 1,500,195
<b>AA+:</b>			
Treasuries	474,425,574	42,066,519	432,359,055
Gov Agency	455,967,844	185,335,990	270,631,854
Municipals	1,824,523	1,297,918	526,605
<b>AA:</b>			
Municipals	4,968,766	4,709,255	259,511
<b>AA-:</b>			
Municipals	2,528,699	-	2,528,699
<b>A:</b>			
Municipals	200,008	200,008	-
<b>A-:</b>			
Municipals	526,741	-	526,741
<b>NR:</b>			
Municipals	4,256,533	4,000,000	256,533
Investment in LGIP	144,028	144,028	-
Fiscal Agent Account	42,002,853	42,002,853	-
Cash Miscellaneous	6,870,000	6,870,000	-
Repurchase Agreements	375,311,935	375,311,935	-
Certificate of Deposits	52,750,066	52,750,066	-
Cash in Banks	338,585,062	338,585,062	-
<b>Total</b>	<b>\$ 1,762,340,687</b>	<b>\$ 1,053,751,494</b>	<b>\$ 708,589,193</b>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Interest Rate Risk (Continued)**

Maturities on investments in the local government investment pool are as follows:

Securities by Quality Rating	Fair Value	Maturities	
		Less than 1 Year	1-5 Years
<b>AA+:</b>			
Gov Agency	\$ 15,017,400	\$ -	\$ 15,017,400
Gov Agency	328,737,545	-	328,737,545
<b>NR:</b>			
Cash	54,684,472	54,684,472	-
Discounted Notes	116,395,652	116,395,652	-
Repurchase Agreements	235,000,000	235,000,000	-
Total	<u>\$ 749,835,069</u>	<u>\$ 406,080,124</u>	<u>\$ 343,754,945</u>

Maturities on investments in the bond proceeds investment pool # 2 are as follows:

Securities by Quality Rating	Fair Value	Maturities	
		Less than 1 Year	1-5 Years
<b>AAA:</b>			
Municipals	\$ 2,157,387	\$ 301,800	\$ 1,855,587
<b>AA+:</b>			
Treasuries	249,933,000	155,388,050	94,544,950
Gov Agency	246,479,939	80,594,150	165,885,789
Municipals	2,908,000	2,438,784	469,216
Asset Backed Securities	10,150,461	10,150,461	-
<b>AA:</b>			
Municipals	1,547,980	475,819	1,072,161
<b>AA-:</b>			
Municipals	1,989,351	-	1,989,351
<b>A+:</b>			
Municipals	1,683,217	1,683,217	-
<b>A:</b>			
Municipals	879,055	306,855	572,200
<b>NR:</b>			
Repurchases Agreements	40,501,974	40,501,974	-
CD's	10,200,000	10,200,000	-
Investment in LGIP	110,343,936	110,343,936	-
Total	<u>\$ 678,774,300</u>	<u>\$ 412,385,046</u>	<u>\$ 266,389,254</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Interest Rate Risk (Continued)**

Maturities on investments in the bond proceeds investment pool # 1 are as follows:

Securities by Quality Rating	Fair Value	Maturities	
		Less than 1 Year	1-5 Years
<b>AAA:</b>			
Municipals	\$ 304,737	\$ -	\$ 304,737
<b>AA+:</b>			
Treasury	184,989,190	84,146,790	100,842,400
Gov Agency	366,564,176	121,915,200	244,648,976
Municipals	5,251,748	2,124,447	3,127,301
Asset Backed Bonds	10,150,461	-	10,150,461
<b>AA:</b>			
Municipals	11,606,221	7,400,504	4,205,717
<b>AA-:</b>			
Municipals	5,448,857	585,161	4,863,696
<b>A+:</b>			
Municipals	2,941,671	620,775	2,320,896
<b>A:</b>			
Municipals	1,037,226	1,037,226	-
<b>NR:</b>			
Municipals	3,561,565	-	3,561,565
Gov Agency	7,884,176	7,884,176	-
Repurchase Agreements	157,186,091	157,186,091	-
CD'S	61,066,669	61,066,669	-
Investment in LGIP	3,000,000	3,000,000	-
Total	<u>\$ 820,992,788</u>	<u>\$ 446,967,039</u>	<u>\$ 374,025,749</u>

**Foreign Currency Risk**

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

All holdings at June 30, 2016 were denominated in United States Dollars.

The State General Fund Investment Pool and the Consolidated Investment Pool (BPIP #1 and #2) are part of the Local Government Fund Investment Pool (LGIP), and whenever a combined presentation of the Investment Trust Fund is presented, these investments are eliminated.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Securities Collateralizing Repurchase Agreements**

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

1. The market value of the collateral including accrued interest must be equal to one hundred two percent (102%) of the amount of cash transferred by the State Treasurer to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the market value of securities held as collateral slips below one hundred two percent (102%) of the value of the cash transferred plus accrued interest, then additional cash and/or acceptable securities must be delivered to the third party custodian sufficient to cure any deficiency, and
2. For repurchase agreements with terms to maturity of greater than one (1) day, the State will value the collateral securities continuously and require that, if additional collateral is required, then that collateral must be delivered within one business day. If a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated, and
3. The collateral on all repurchase agreements will have a maturity date that exceeds the term of the repurchase agreement. If the duration of the collateral is longer than ten (10) years than the term of the repurchase agreement, then the collateral margin must be 103% to compensate for market risk.

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

<u>Securities by Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
<b>AA+:</b>		
U.S. Government Agency Obligations	<u>\$ 828,513,510</u>	<u>100.00%</u>
Total	<u><u>\$ 828,513,510</u></u>	<u><u>100.00%</u></u>

Maturities on collateral are as follows:

<u>Securities by Quality Rating</u>	<u>Maturities</u>					
	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>11-20 Years</u>	<u>Over 20 Years</u>
<b>AA+:</b>						
U.S. Government Mortgage Backed Securities	<u>\$ 828,513,510</u>	<u>\$ -</u>	<u>\$ 340,848,878</u>	<u>\$ 50,980,467</u>	<u>\$ 174,363,472</u>	<u>\$ 262,320,693</u>
Total	<u><u>\$ 828,513,510</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 340,848,878</u></u>	<u><u>\$ 50,980,467</u></u>	<u><u>\$ 174,363,472</u></u>	<u><u>\$ 262,320,693</u></u>

Schedule 10 discloses collateral pledged for repurchase agreements.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Fair Value of Financial Instruments**

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The Office categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The State Treasurer has the following recurring fair value measurements as of June 30, 2016:

	Fair Value Measurements Using			
	Quoted Prices in Level 1	Observable Inputs Level 2	Unobservable Level 3	Fair Value 6/30/2016
Debt Securities:				
U.S. Government Securities	\$ -	\$ 2,329,998,845	\$ -	\$ 2,329,998,845
Municipal Bonds	-	57,600,339	-	57,600,339
Repurchase Agreements	-	808,000,000	-	808,000,000
Asset Backed Bonds	-	20,300,922	-	20,300,922
Discounted Notes	-	116,395,652	-	116,395,652
Total Debt Securities	-	3,332,295,758	-	3,332,295,758
Total Investments				
Measured by Fair Value	\$ -	\$ 3,332,295,758	\$ -	\$ 3,332,295,758

**NOTE 7 EXTERNAL INVESTMENT POOL (LGIP) – AMORTIZED COST**

In December 2015, GASB issued statement No. 79 titled “Certain External Investment Pools and Pool Participants”, which established criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. If the external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool’s participants also should measure their investments in that external investment pool at cost for financial reporting purposes. Most provisions of GASBS No. 79 are effective for reporting periods beginning after June 15, 2015. Certain provisions relating to portfolio quality, custodial credit risk, and shadow pricing are effective for reporting periods beginning after December 15, 2015. STO elected to implement the amortized cost provision of GASB 79 as of June 30, 2016, and will implement the portfolio quality, custodial credit risk, and shadow pricing as of July 1, 2016 or for fiscal year 2017. The difference between the amortized cost and fair value is immaterial, as of June 30, 2016. GASBS 79 was in response to the Securities and Exchange Commission’s amendments in 2014 to regulations that apply to money market funds.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 7 EXTERNAL INVESTMENT POOL (LGIP) – AMORTIZED COST (CONTINUED)**

Below are the limitations or restrictions on LGIP participant withdrawals:

- Amounts less than \$30 million may be withdrawn within 24 hours of notice to the State Treasurer;
- Amounts of \$30 million to \$60 million require notice of 2 business days to the State Treasurer;
- Amounts of \$60 million to \$100 million require notice of 5 business days to the State Treasurer;
- Amounts in excess of \$100 million require notification of 10 business days to the State Treasurer.

Notwithstanding the withdrawal guidelines, the State Treasurer reserves the right to limit participant withdrawals if the State Treasurer determines that doing so is required to ensure the stability of the LGIP.

**NOTE 8 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Balance, June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2016</u>
Governmental Activities:				
Depreciable Assets:				
Equipment	\$ 263,731	\$ 18,534	\$ 94,495	\$ 187,770
Total Capital Assets	<u>263,731</u>	<u>18,534</u>	<u>94,495</u>	<u>187,770</u>
Less Accumulated Depreciation:				
Equipment	246,192	7,972	94,495	159,669
Total	<u>\$ 17,539</u>	<u>\$ 10,562</u>	<u>\$ -</u>	<u>\$ 28,101</u>

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

Governmental activities:	
General government	<u>\$ 7,972</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 9 LONG-TERM OBLIGATIONS**

**Compensated Absences**

As in prior years, the general fund is used to liquidate compensated absences. Following are the changes in compensated absences for the year ended June 30, 2016:

	Balance, June 30, 2015	Increase	(Decrease)	Balance, June 30, 2016	Amounts Due within One Year
<b>Compensated Absences</b>	<u>\$ 97,791</u>	<u>\$ 110,546</u>	<u>\$ (22,261)</u>	<u>\$ 186,076</u>	<u>\$ 186,076</u>

**NOTE 10 CONDENSED FINANCIAL STATEMENTS**

Condensed financial statements of the Investment Trust Fund, inclusive of external and internal participants for the fiscal year ended June 30, 2016 are as follows:

**ASSETS**

Investments	\$ 3,840,388,211
Due from Broker	3,911
Interest and Other Receivables	7,872,216
Total Assets	<u>\$ 3,848,264,338</u>

**LIABILITIES**

Due to Broker	\$ 39,295,605
Other Liabilities	28,307

**NET POSITION**

External Participant Account Balances	579,044,319
Other Internal Participant Account Balances:	
Primary Government	3,229,896,107
Total Liabilities And Net Position	<u>\$ 3,848,264,338</u>

At June 30, 2016, the State Treasurer's investment income earnings were as follows:

Local Government Investment Pool	\$ 2,150,467
Consolidated Investment Pool	12,016,211
State Funds Investment Pool	23,940,722
Total	<u>\$ 38,107,400</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 11 APPROPRIATIONS**

The State Treasurer received the following appropriations for the year ended June 30, 2016:

General Fund	
General Appropriation (General Appropriation Act)	\$ 3,756,800

**NOTE 12 COLLATERAL IN TRUST**

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

**NOTE 13 DUE TO/FROM OTHER STATE AGENCIES**

Due to State Treasurer's Office	Fund No.	Amount	Due from Agency/Purpose	Fund No.	Amount
Severance Tax Bonding Fund	41000	\$ 51,309,776	Tax & Revenue Dept. of Finance & Administration	83300	\$ 51,309,776
G.O. 2009 Series Debt Service	10630	5,128,751	Dept. of Finance & Administration	80000	5,128,751
G.O. 2011 Series Debt Service	11630	443,247	Dept. of Finance & Administration	80000	443,247
G.O. 2013 Series Debt Service	11680	3,076,357	Dept. of Finance & Administration	80000	3,076,357
G.O. 2007 Series Debt Service	28800	3,525,237	Dept. of Finance & Administration	80000	3,525,237
G.O. 2015 Series Debt Service	35170	3,332,308	Dept. of Finance & Administration	80000	3,332,308
G.O. 2013 Series Debt Service	11680	938,722	Board of Finance	34103	938,722
Severance Tax Bonding Fund	41000	5,468,464	Board of Finance	34103	5,468,464
		\$ 73,222,862			\$ 73,222,862

Purpose: To receive tax receipts billed by other state agencies.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 14 TRANSFERS**

**Interfund Transfers**

Interfund transfers are completed to move revenue from various debt service funds to specific Debt Service funds per bond resolutions, to cover principal and interest payments.

**Severance Tax Bonds (see schedule 5):**

SHARE Fund	Transfer from	Amount	SHARE Fund	Transfer to	Amount
41000	Severance Tax Bond Fund	\$ 19,421,387	10750	2009-A Series Debt Service	\$ 19,421,387
41000	Severance Tax Bond Fund	16,958,798	10950	2010-A Series Debt Service	16,958,798
41000	Severance Tax Bond Fund	12,471,720	10960	2010-B Series Debt Service	12,471,720
41000	Severance Tax Bond Fund	32,513,573	11280	Series 2011A-1 Refunding	32,513,573
41000	Severance Tax Bond Fund	8,239,068	11480	2010-D Series Debt Service	8,239,068
41000	Severance Tax Bond Fund	19,282,440	11770	Series 2013A	19,282,440
41000	Severance Tax Bond Fund	14,777,379	12160	Series 2014A	14,777,379
41000	Severance Tax Bond Fund	17,456,366	30820	Series 2012A Refunding	17,456,366
41000	Severance Tax Bond Fund	6,220,474	30830	Series 2011A-2 Refunding	6,220,474
41000	Severance Tax Bond Fund	6,008,543	50170	Series 2015B	6,008,543
41000	Severance Tax Bond Fund	7,814,522	50180	Series 2015A	7,814,522
		<u>\$ 161,164,270</u>			<u>\$ 161,164,270</u>

**General Obligation Bonds (see schedule 3):**

SHARE Fund	Transfer from	Amount	SHARE Fund	Transfer to	Amount
10630	Series 2009 Debt Service	\$ 879	03100	2003 Series Debt Service	\$ 141
11680	2013 Series Debt Service	879	03200	2005 Series Debt Service	141
28800	2007 Series Debt Service	<u>8,700,878</u>	41400	2001 Series Debt Service	118
			35170	2015 Series Debt Service	6,199,122
			41800	2003B Series Refunding	3,993
			11630	2011 Series Debt Service	2,499,121
		<u>\$ 8,702,636</u>			<u>\$ 8,702,636</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 14 TRANSFERS (CONTINUED)**

**Interagency Transfers**

**Transfers to/from Other State Agencies – Severance Tax Bonds**

<u>Transfers from (Purpose)</u>	<u>Fund No.</u>	<u>Amount</u>	<u>Transfers to (Purpose)</u>	<u>Fund No.</u>	<u>Amount</u>
Board of Finance	34103	\$ 5,684,809	Severance Tax Bonding Fund	41000	\$ 5,684,809
Severance Tax Bonding Fund	41000	<u>(8,468,140)</u>	Severance Tax Permanent Fund	60200	<u>(8,468,140)</u>
		<u>\$ (2,783,331)</u>			<u>\$ (2,783,331)</u>

**Transfers to/from Other State Agencies – General Obligation Bonds**

<u>Transfers from (Purpose)</u>	<u>Fund No.</u>	<u>Amount</u>	<u>Transfers to (Purpose)</u>	<u>Fund No.</u>	<u>Amount</u>
Board of Finance	34103	\$ 938,722	2013 Series Debt Service	11680	\$ 938,722
Board of Finance	34103	125,185	2011 Series Debt Service	11630	125,185
Board of Finance	34103	218	2007 Series Debt Service	28800	218
Total - Severance Tax Bond Funds		<u>\$ 1,064,125</u>			<u>\$ 1,064,125</u>

**NOTE 15 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Plan Description**

Substantially all of the State Treasurer’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA’s website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

**Funding Policy**

Plan members are required to contribute 8.92% of their gross salary. The State Treasurer’s Office is required to contribute 16.99% of the gross covered salary. The contribution

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 15 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)**

**Funding Policy (Continued)**

requirements of plan members and the State Treasurer's Office are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The State Treasurer's contributions to PERA for the fiscal years ended June 30, 2016, 2015 and 2014 were \$341,552, \$334,242 and \$332,687, respectively, which equal the amount of the required contributions for each fiscal year.

**NOTE 16 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

**Plan Description**

The State Treasurer's Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978).

The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

**Funding Policy**

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

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 16 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN  
(CONTINUED)**

**Funding Policy (Continued)**

premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1, and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary, and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The State Treasurer's contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014 were \$40,592, \$39,361 and \$40,179, respectively, which equal the required contributions for each year.

**NOTE 17 RISK MANAGEMENT**

The State Treasurer is exposed to various risks of loss for which the State Treasurer carries insurance (auto; employee fidelity bond; general liability; civil rights and foreign jurisdiction; money and securities; property, and workers' compensation) with the State of New Mexico Risk Management Division. Public employee fidelity bonding coverage is self-insured by the State of New Mexico. The current policy year is July 1, 2015 to June 30, 2016. The limit of coverage is \$5,000,000, with \$1,000 deductible per occurrence. All State Treasurer employees are covered by this bond.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 17 RISK MANAGEMENT (CONTINUED)**

The State Treasurer had no significant reductions in insurance coverage from coverage in the prior year. In the fiscal years ended June 30, 2016, 2015 and 2014, there were no settlements that exceeded insurance coverage.

**NOTE 18 MEMORANDUM OF UNDERSTANDING**

The Office is party to the following Memorandum of Understanding, which may be terminated by either party upon thirty days' written notice to the other party:

New Mexico Educational Retirement Board (NMERB) dated June 17, 2015. Under this agreement, the Office invests certain monies belonging to NMERB within the Local Government Investment Pool (LGIP) in accordance with the Office's investment policies. The parties agree that the management fee on the LGIP is 0.05% (five basis points); the Office agrees to notify NMERB should the rate of return on LGIP assets fall below the management fee.

**NOTE 19 REVERSION TO THE STATE GENERAL FUND**

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

The amount expected to revert to the State General Fund as of June 30, 2016 was \$138,868. The amount Due to the State General Fund as of June 30, 2016 is \$139,531.

**NOTE 20 SHORT-TERM DEBT**

**Sponge Bonds**

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

	<u>Purchased</u>	<u>Matured</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
Sponge Bond - Senior Note	12/29/2015	12/30/2015	\$ 8,614,496	\$ 98	\$ 8,614,594
Sponge Bond - Supplemental Note	12/29/2015	12/30/2015	23,203,200	264	23,203,464
Sponge Bond - Supplemental Note	6/29/2016	6/30/2016	104,086,200	1,434	104,087,634
<b>Total</b>			<u>\$ 135,903,896</u>	<u>\$ 1,796</u>	<u>\$ 135,905,692</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 20 SHORT-TERM DEBT (CONTINUED)**

**Sponge Bonds (Continued)**

Short-term debt activity for the year ended June 30, 2016 was as follows:

	Balance, June 30, 2015	Issued	Redeemed	Issuance Costs	Balance, June 30, 2016
Sponge Bonds	\$ -	\$ 135,903,896	\$ 135,903,896	\$ -	\$ -

**NOTE 21 BOND ISSUANCE ACTIVITY**

During fiscal year 2016, there were five new bond issues as noted below:

- \$129,195,000 STB - Series 2015A
- \$69,745,000 SSTB - Series 2016B
- \$260,145,000 STB - 2016A & Refunding STB – 2016B
- \$41,925,000 STB - Series 2016C

Total activity related to the bonds was approximately as follows: costs - \$1,023,548; premiums - \$82,238,520; and transfers to other state agencies of \$502,033,548.

Rather than being recorded in the financial statements of a specific component unit, the long-term debt is only recorded in the State of New Mexico Comprehensive Annual Financial Report.

**NOTE 22 FUND BALANCES**

The Department's fund balances represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2016 follows:

	General Fund	General Obligation Bond Fund	Severance Tax Bond Fund
Fund Balances:			
Restricted for:			
Debt Service	\$ -	\$ 45,894,883	\$ 217,661,804
Unassigned	-	-	-
Total Fund Balances	<u>\$ -</u>	<u>\$ 45,894,883</u>	<u>\$ 217,661,804</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 23 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS**

GASB has issues the following statements, which are applicable in future years. At this time, management has not determined the impact, if any on the Agency.

**Statement No. 74**

***Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans***

Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

**Statement No. 75**

***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

Establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 23 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

***GASB Statement No. 77***  
***Tax Abatement Disclosures***

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after December 15, 2015. Earlier application is encouraged.

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 23 SUBSEQUENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
 SCHEDULE 1 - CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS -  
 SCHEDULE OF CHANGES BY ASSET CLASS AND SOURCE  
 YEAR ENDED JUNE 30, 2016**

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
<b>GOVERNMENTAL FUNDS</b>				
<b>CAPITAL ASSETS</b>				
Equipment, Furniture and Fixtures	<u>\$ 263,731</u>	<u>\$ 18,534</u>	<u>\$ 94,495</u>	<u>\$ 187,770</u>
Total Governmental Funds Capital Assets by Source	<u><u>\$ 263,731</u></u>	<u><u>\$ 18,534</u></u>	<u><u>\$ 94,495</u></u>	<u><u>\$ 187,770</u></u>
<b>INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS</b>				
General Fund Revenues	<u>\$ 263,731</u>	<u>\$ 18,534</u>	<u>\$ 94,495</u>	<u>\$ 187,770</u>
Total Governmental Funds Capital Assets	263,731	18,534	94,495	187,770
Less Accumulated Depreciation Equipment	<u>246,192</u>	<u>7,972</u>	<u>94,495</u>	<u>159,669</u>
Total	<u><u>\$ 17,539</u></u>	<u><u>\$ 10,562</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 28,101</u></u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 2 - COMBINING BALANCE SHEET - GENERAL OBLIGATION BONDS -  
GENERAL OBLIGATION BOND DEBT SERVICE FUNDS  
JUNE 30, 2016**

	SHARE Fund	Assets			Liabilities
		Repurchase Agreements	Due From		Total Liabilities
			Other Agencies	Total Assets	
2003 Series - Debt Service	03100	\$ -	\$ -	\$ -	\$ -
2005 Series - Debt Service	03200	-	-	-	-
2007 Series - Debt Service	28800	2,758,958	3,525,237	6,284,195	-
2001 Series - Debt Service	41400	-	-	-	-
2003B Series - Refunding	41800	4	-	4	-
2009 Series - Debt Service	10630	11,427,213	5,128,750	16,555,963	-
2011 Series - Debt Service	11630	1,628,313	443,247	2,071,560	-
2013 Series - Debt Service	11680	2,563,198	4,015,079	6,578,277	-
2008A Series - Redemption	73030	220,698	-	220,698	-
2008A Series - Debt Service	73010	-	-	-	-
2015 Series - Debt Service	35170	10,076,999	3,332,308	13,409,307	-
<b>Total Debt Service</b>		<b>28,675,383</b>	<b>16,444,621</b>	<b>45,120,004</b>	<b>-</b>
2003 Series - Rebate	41300	4,852	-	4,852	-
2001 Series - Rebate	41500	56	-	56	-
2003 Refunding Series - Rebate	41900	9	-	9	-
2005 Series - Rebate	42600	649,640	-	649,640	-
911 - Rebate	48800	-	-	-	-
<b>Total Rebate Accounts</b>		<b>654,557</b>	<b>-</b>	<b>654,557</b>	<b>-</b>
2009 Series - Cost of Issuance	10650	-	-	-	-
2011 Series - Cost of Issuance	11320	(650)	-	(650)	-
2013 Series - Cost of Issuance	11620	13,826	-	13,826	-
2015 Series - Cost of Issuance Fund	40130	107,146	-	107,146	-
<b>Total Cost of Issuance</b>		<b>120,322</b>	<b>-</b>	<b>120,322</b>	<b>-</b>
<b>COMBINED TOTAL</b>		<b>\$ 29,450,262</b>	<b>\$ 16,444,621</b>	<b>\$ 45,894,883</b>	<b>\$ -</b>

Fund Balance		
Balance Restricted for Debt Service	Total Fund Balance	Total Liabilities & Fund Equity
\$ -	\$ -	\$ -
-	-	-
6,284,195	6,284,195	6,284,195
-	-	-
4	4	4
16,555,963	16,555,963	16,555,963
2,071,560	2,071,560	2,071,560
6,578,277	6,578,277	6,578,277
220,698	220,698	220,698
-	-	-
13,409,307	13,409,307	13,409,307
45,120,004	45,120,004	45,120,004
4,852	4,852	4,852
56	56	56
9	9	9
649,640	649,640	649,640
-	-	-
654,557	654,557	654,557
-	-	-
(650)	(650)	(650)
13,826	13,826	13,826
107,146	107,146	107,146
120,322	120,322	120,322
<u>\$ 45,894,883</u>	<u>\$ 45,894,883</u>	<u>\$ 45,894,883</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 3 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GENERAL OBLIGATION DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 2016**

	SHARE Fund	Revenues		Expenditures	
		Interest Income	State Property Tax Levy	Principal and Interest on Long-Term Debt	Other Charges
2003 Series - Debt Service	03100	\$ -	\$ -	\$ -	\$ -
2005 Series Debt Service	03200	-	-	-	-
2007 Series - Debt Service	28800	26,463	11,286,333	17,463,750	684
2001 Series - Debt Service	41400	-	-	-	-
2003-B Series - Refunding	41800	14	-	-	-
2009 Series - Debt Service	10630	123,055	23,263,195	25,878,500	683
2011 Series - Debt Service	11630	24,770	2,184,879	2,243,550	684
2013 Series - Debt Service	11680	256,832	12,632,296	15,323,148	683
2008A Series - Redemption	73030	-	-	-	-
2008A Series - Debt Service	73010	-	-	-	-
2015 Series - Debt Service	35170	1,253,309	24,772,816	17,209,633	684
<b>Total Debt Service</b>		<b>1,684,443</b>	<b>74,139,519</b>	<b>78,118,581</b>	<b>3,418</b>
2003 Series - Rebate	41300	39	-	-	-
2001 Series - Rebate	41500	-	-	-	-
2003 Series - Refunding	41900	-	-	-	-
2005 Series - Rebate	42600	6,415	-	-	-
911 - Rebate	48800	-	-	-	-
<b>Total Rebate Accounts</b>		<b>6,454</b>	<b>-</b>	<b>-</b>	<b>-</b>
2009 Series - Cost of Issuance	10650	-	-	-	-
2011 Series - Cost of Issuance	11320	-	-	-	-
2013 Series - Cost of Issuance	11620	-	-	-	-
2015 Series - Cost of Issuance Fund	40130	-	-	-	-
<b>Total Cost of Issuance</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>COMBINED TOTAL</b>		<b>\$ 1,690,897</b>	<b>\$ 74,139,519</b>	<b>\$ 78,118,581</b>	<b>\$ 3,418</b>

Total Expenditures	Excess (Deficiency) of Revenues Over (Under) Expenditures	Other Financing Sources (Uses)			Net Change in Fund Balance	Beginning Fund Balances	Fund Balances June 30, 2016
		Transfers (to) from Other State Agencies	Interfund Transfers				
\$ -	\$ -	\$ -	\$ (141)	\$ (141)	\$ 141	\$ -	
-	-	-	(141)	(141)	141	-	
17,464,434	(6,151,638)	218	8,700,878	2,549,458	3,734,737	6,284,195	
-	-	-	(118)	(118)	118	-	
-	14	-	(3,993)	(3,979)	3,983	4	
25,879,183	(2,492,933)	-	879	(2,492,054)	19,048,017	16,555,963	
2,244,234	(34,585)	125,185	(2,499,121)	(2,408,521)	4,480,081	2,071,560	
15,323,831	(2,434,703)	938,722	879	(1,495,102)	8,073,379	6,578,277	
-	-	-	-	-	220,698	220,698	
-	-	-	-	-	-	-	
17,210,317	8,815,808	-	(6,199,122)	2,616,686	10,792,621	13,409,307	
78,121,999	(2,298,037)	1,064,125	-	(1,233,912)	46,353,916	45,120,004	
-	39	-	-	39	4,813	4,852	
-	-	-	-	-	56	56	
-	-	-	-	-	9	9	
-	6,415	-	-	6,415	643,225	649,640	
-	-	-	-	-	-	-	
-	6,454	-	-	6,454	648,103	654,557	
-	-	-	-	-	-	-	
-	-	-	-	-	(650)	(650)	
-	-	-	-	-	13,826	13,826	
-	-	-	-	-	107,146	107,146	
-	-	-	-	-	120,322	120,322	
<u>\$ 78,121,999</u>	<u>\$ (2,291,583)</u>	<u>\$ 1,064,125</u>	<u>\$ -</u>	<u>\$ (1,227,458)</u>	<u>\$ 47,122,341</u>	<u>\$ 45,894,883</u>	

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 4 - COMBINING BALANCE SHEET - SEVERANCE TAX BONDS -  
SEVERANCE TAX BOND DEBT SERVICE FUNDS  
JUNE 30, 2016**

	SHARE Fund	Assets		Total Assets
		Repurchase Agreements	Due From Other Agencies	
2009-A Series - Debt Service	10750	\$ 17,742,916	\$ -	\$ 17,742,916
2010-A Series - Debt Service	10950	15,138,901	-	15,138,901
2010-B Series - Debt Service	10960	11,208,912	-	11,208,912
2010-C Series - Debt Service	11190	215	-	215
2010-D Series - Debt Service	11280	31,390,484	-	31,390,484
Series 2013A	11770	16,930,197	-	16,930,197
2013 S-C Maturity	11980	-	-	-
Series 2014A	12160	12,160,092	-	12,160,092
Series 2011A-1	30830	5,771,856	-	5,771,856
Series 2011A-2 Refunding	30820	16,268,880	-	16,268,880
2012-A Series - Debt Service	11480	7,110,618	-	7,110,618
2004-A Series Debt Service	49200	-	-	-
2004-B Series Debt Service	18300	93	-	93
2005-B1 Series Debt Service	38800	2,032	-	2,032
Severance Tax Bonding	41000	15,266,197	56,778,241	72,044,438
2005-A Series Debt Service	41200	107,962	-	107,962
Series 2016A & Refunding Series 2016B	43230	29,159	-	29,159
2003-B Series-Debt Service	48400	220	-	220
Series 2015B	50170	5,195,227	-	5,195,227
Series 2015A	50180	6,329,739	-	6,329,739
Series 2016C	50450	9,624	-	9,624
2007-A Debt Service	53700	60,087	-	60,087
2005-B2 Series Debt Service	57100	1,496	-	1,496
2008A-1 Series - Debt Service	72010	157,134	-	157,134
2008A-2 Series - Debt Service	72070	1,508	-	1,508
2006-A Series Debt Service	96300	2,505	-	2,505
<b>Total Debt Service</b>		<b>160,886,054</b>	<b>56,778,241</b>	<b>217,664,295</b>
2004-B Series-Rebate	41100	302	-	302
2003-B Supp-Rebate	42000	12,934	-	12,934
2005-A Series-Rebate	48300	45,941	-	45,941
2005-B1 Series-Rebate	57000	11,320	-	11,320
2005-B2 Series-Rebate	96000	6,643	-	6,643
2006-A Series-Rebate	96400	39,569	-	39,569
<b>Total Rebate Accounts</b>		<b>116,709</b>	<b>-</b>	<b>116,709</b>
<b>COMBINED TOTAL</b>		<b>\$ 161,002,763</b>	<b>\$ 56,778,241</b>	<b>\$ 217,781,004</b>

Liabilities		Fund Equity		
Accounts Payable	Total Liabilities	Restricted for Debt Service	Total Fund Equity	Total Liabilities & Fund Equity
\$ -	\$ -	\$ 17,742,916	\$ 17,742,916	\$ 17,742,916
-	-	15,138,901	15,138,901	15,138,901
-	-	11,208,912	11,208,912	11,208,912
-	-	215	215	215
-	-	31,390,484	31,390,484	31,390,484
-	-	16,930,197	16,930,197	16,930,197
-	-	-	-	-
-	-	12,160,092	12,160,092	12,160,092
-	-	5,771,856	5,771,856	5,771,856
-	-	16,268,880	16,268,880	16,268,880
-	-	7,110,618	7,110,618	7,110,618
-	-	-	-	-
-	-	92	92	92
-	-	2,032	2,032	2,032
117,985	117,985	71,926,450	71,926,450	72,044,435
-	-	107,962	107,962	107,962
-	-	29,159	29,159	29,159
-	-	220	220	220
-	-	5,195,227	5,195,227	5,195,227
-	-	6,329,739	6,329,739	6,329,739
-	-	9,624	9,624	9,624
-	-	60,087	60,087	60,087
-	-	1,496	1,496	1,496
-	-	157,134	157,134	157,134
1,215	1,215	295	295	1,511
-	-	2,507	2,507	2,506
119,200	119,200	217,545,095	217,545,095	217,664,295
-	-	302	302	302
-	-	12,934	12,934	12,934
-	-	45,941	45,941	45,941
-	-	11,320	11,320	11,320
-	-	6,643	6,643	6,643
-	-	39,569	39,569	39,569
-	-	116,709	116,709	116,709
<u>\$ 119,200</u>	<u>\$ 119,200</u>	<u>\$ 217,661,804</u>	<u>\$ 217,661,804</u>	<u>\$ 217,781,004</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 5 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - SEVERANCE TAX BOND DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 2016**

	Revenues			Expenditures	
	SHARE Fund	Interest Income	Severance Taxes	Principal and Interest on Long-Term Debt	Other Charges
2009-A Series - Debt Service	10750	\$ 45,284	\$ -	\$ 1,728,375	\$ -
2010-A Series - Debt Service	10950	14,459	-	1,837,500	-
2010-B Series - Debt Service	10960	592	-	1,263,651	-
2010-C Series - Debt Service	11190	2	-	-	-
2010-D Series - Debt Service	11280	1,019	-	1,124,750	-
Series 2013A	11770	458,846	-	2,865,375	-
2013 S-C Maturity	11980	-	-	-	-
Series 2014A	12160	794,229	-	3,494,250	-
2011A-1 Series	30830	91,307	-	549,393	-
2011A-2 Series Refunding	30820	680	-	1,188,499	-
2012A - Series	11480	68,992	-	1,205,625	-
2004-A Series Debt Service	49200	-	-	-	-
2004-B Series Debt Service	18300	-	-	-	-
2005-B1 Series Debt Service	38800	16	-	-	-
Severance Tax Bonding	41000	5,677,111	254,966,459	135,905,692	842,497
2005-A Series -Debt Service	41200	794	-	-	-
Series 2016A & Refunding Series 2016B	43230	29,159	-	-	-
2003-B Series-Debt Service	48400	2	-	-	-
Series 2015B	50170	533,149	-	1,346,465	-
Series 2015A	50180	1,009,398	-	2,494,181	-
Series 2016C	50450	9,624	-	-	-
2007-A Series-Debt Service	53700	526	-	-	-
2005-B2 Series Debt Service	57100	11	-	-	-
2008A-1 Debt Service	72010	40,339	-	-	-
2008A-2 Debt Service	72070	11	-	-	-
2006-A Series Debt Service	96300	20	-	-	-
<b>Total Debt Service</b>		<b>8,775,570</b>	<b>254,966,459</b>	<b>155,003,756</b>	<b>842,497</b>
2004-B Series-Rebate	41100	8	-	-	-
2003-B Supp-Rebate	42000	95	-	-	-
2005-A Series-Rebate	48300	338	-	-	-
2005-B1 Series-Rebate	57000	83	-	-	-
2005-B2 Series-Rebate	96000	49	-	-	-
2006-A Series-Rebate	96400	291	-	-	-
<b>Total Rebate Accounts</b>		<b>864</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>COMBINED TOTAL</b>		<b>\$ 8,776,434</b>	<b>\$ 254,966,459</b>	<b>\$ 155,003,756</b>	<b>\$ 842,497</b>

Total Expenditures	Excess (Deficiency) of Revenues Over (Under) Expenditures	Other Financing Sources (Uses)	
		Transfers (to) from Other State Agencies	Interfund Transfers
\$ 1,728,375	\$ (1,683,091)	\$ -	\$ 19,421,387
1,837,500	(1,823,041)	-	16,958,798
1,263,651	(1,263,059)	-	12,471,720
-	2	-	-
1,124,750	(1,123,731)	-	32,513,573
2,865,375	(2,406,529)	-	19,282,440
-	-	-	-
3,494,250	(2,700,021)	-	14,777,379
549,393	(458,086)	-	6,220,474
1,188,499	(1,187,819)	-	17,456,366
1,205,625	(1,136,633)	-	8,239,068
-	-	-	-
-	-	-	-
-	16	-	-
136,748,189	123,895,381	(2,783,331)	(161,164,270)
-	794	-	-
-	29,159	-	-
-	2	-	-
1,346,465	(813,316)	-	6,008,543
2,494,181	(1,484,783)	-	7,814,522
-	9,624	-	-
-	526	-	-
-	11	-	-
-	40,339	-	-
-	11	-	-
-	20	-	-
<u>155,846,253</u>	<u>107,895,776</u>	<u>(2,783,331)</u>	<u>-</u>
-	8	-	-
-	95	-	-
-	338	-	-
-	83	-	-
-	49	-	-
-	291	-	-
<u>-</u>	<u>864</u>	<u>-</u>	<u>-</u>
<u>\$ 155,846,253</u>	<u>\$ 107,896,640</u>	<u>\$ (2,783,331)</u>	<u>\$ -</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 5 - COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - SEVERANCE TAX BOND DEBT SERVICE FUNDS  
(CONTINUED)  
YEAR ENDED JUNE 30, 2016**

	SHARE Fund	Total Other Financing Sources (Uses)	Net Change in Fund Balance	Beginning Fund Balance	Fund Balances June 30, 2016
2009-A Series - Debt Service	10750	\$ 19,421,387	\$ 17,738,296	\$ 4,620	\$ 17,742,916
2010-A Series - Debt Service	10950	16,958,798	15,135,757	3,144	15,138,901
2010-B Series - Debt Service	10960	12,471,720	11,208,661	251	11,208,912
2010-C Series - Debt Service	11190	-	2	213	215
2010-D Series - Debt Service	11280	32,513,573	31,389,842	642	31,390,484
Series 2013A	11770	19,282,440	16,875,911	54,286	16,930,197
2013 S-C Maturity	11980	-	-	-	-
Series 2014A	12160	14,777,379	12,077,358	82,734	12,160,092
2011A-1 Series	30830	6,220,474	5,762,388	9,468	5,771,856
2011A-2 Series Refunding	30820	17,456,366	16,268,547	333	16,268,880
2012A - Series	11480	8,239,068	7,102,435	8,183	7,110,618
2004-A Series Debt Service	49200	-	-	-	-
2004-B Series Debt Service	18300	-	-	92	92
2005-B1 Series Debt Service	38800	-	16	2,016	2,032
Severance Tax Bonding	41000	(163,947,601)	(40,052,220)	111,978,670	71,926,450
2005-A Series -Debt Service	41200	-	794	107,168	107,962
Series 2016A & Refunding Series 2016B	43230	-	29,159	-	29,159
2003-B Series-Debt Service	48400	-	2	218	220
Series 2015B	50170	6,008,543	5,195,227	-	5,195,227
Series 2015A	50180	7,814,522	6,329,739	-	6,329,739
Series 2016C	50450	-	9,624	-	9,624
2007-A Series-Debt Service	53700	-	526	59,561	60,087
2005-B2 Series Debt Service	57100	-	11	1,485	1,496
2008A-1 Debt Service	72010	-	40,339	116,795	157,134
2008A-2 Debt Service	72070	-	11	284	295
2006-A Series Debt Service	96300	-	20	2,487	2,507
<b>Total Debt Service</b>		<b>(2,783,331)</b>	<b>105,112,445</b>	<b>112,432,650</b>	<b>217,545,095</b>
2004-B Series-Rebate	41100	-	8	294	302
2003-B Supp-Rebate	42000	-	95	12,839	12,934
2005-A Series-Rebate	48300	-	338	45,603	45,941
2005-B1 Series-Rebate	57000	-	83	11,237	11,320
2005-B2 Series-Rebate	96000	-	49	6,594	6,643
2006-A Series-Rebate	96400	-	291	39,278	39,569
<b>Total Rebate Accts.</b>		<b>-</b>	<b>864</b>	<b>115,845</b>	<b>116,709</b>
<b>COMBINED TOTAL</b>		<b>\$ (2,783,331)</b>	<b>\$ 105,113,309</b>	<b>\$ 112,548,495</b>	<b>\$ 217,661,804</b>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS -  
LONG-TERM DEBT ROLLFORWARD  
YEAR ENDED JUNE 30, 2016**

Issue	SHARE Fund	Date of Issue	Issue Amount	Interest Rate	Unpaid Balance June 30, 2015
<b>General Obligation and Revenue Bonds:</b>					
Series 2007 Debt Service	28800	3/1/07	\$ 134,870,000	5.00%	\$ 32,475,000
Series 2009 Debt Service	10630	5/28/09	196,330,000	5.00%	91,770,000
Series 2011 Debt Service	11630	5/26/11	18,645,000	2.00-4.00%	11,805,000
Series 2013 Debt Service	11680	4/23/13	137,220,000	2.00-2.40%	111,585,000
Series 2015 Debt Service	35170	2/17/15	141,635,000	5.00%	141,635,000
Total General Obligation Bonds			628,700,000		389,270,000
<b>Severance Tax Bonds:</b>					
Series 2009A Refunding	10750	7/30/09	218,450,000	2.00-5.00%	69,135,000
Series 2010A	10950	3/24/10	132,265,000	3.00-5.00%	73,500,000
Series 2010B Supplemental	10960	3/24/10	100,000,000	4.00-5.00%	52,795,000
Series 2010D Refunding	11280	12/8/10	140,520,000	3.00-5.00%	44,990,000
Series 2011A-1	30830	12/6/11	47,790,000	3.00-5.00%	33,250,000
Series 2011A-2 Refunding	30820	12/6/11	75,715,000	4.00-5.00%	47,540,000
Series 2012A	11480	6/21/12	57,990,000	3.00-5.00%	48,225,000
Series 2013A	11770	6/21/12	157,560,000	2.00-5.00%	132,210,000
Series 2014A	12160	6/21/12	143,770,000	3.00-5.00%	139,770,000
Series 2015A	50180	8/12/15	129,195,000	0.05	-
Series 2015B	50170	8/12/15	69,745,000	0.05	-
Series 2016A & Refunding Series 2016B	43230	6/23/16	260,145,000	3.00-5.00%	-
Series 2016C	50450	6/23/16	41,925,000	0.02	-
Total Severance Tax Bonds			1,575,070,000		641,415,000
<b>TOTAL GENERAL LONG-TERM DEBT</b>			<b>\$ 2,203,770,000</b>		<b>\$ 1,030,685,000</b>
<u>Premium/Discount</u>					
Current Year Bond Premiums:					
STB Series 2015A			\$ 23,120,534		
STB Series 2015B			11,427,758		
STB Series 2016A & Refunding Series 2016B			46,694,038		
STB Series 2016C			996,190		
<b>TOTAL CURRENT YEAR BOND PREMIUMS</b>			<b>\$ 82,238,520</b>		

New Bonds	Reductions			Unpaid Balance June 30, 2016	Interest to Maturity	Debt Service Requirements
	Refunded Debt	Principal Payments	Total Reductions			
\$ -	\$ -	\$ 15,840,000	\$ 15,840,000	\$ 16,635,000	\$ 831,750	\$ 17,466,750
-	-	21,290,000	21,290,000	70,480,000	7,162,750	77,642,750
-	-	1,790,000	1,790,000	10,015,000	1,212,950	11,227,950
-	-	12,995,000	12,995,000	98,590,000	8,684,045	107,274,045
-	-	10,600,000	10,600,000	131,035,000	34,882,750	165,917,750
-	-	62,515,000	62,515,000	326,755,000	52,774,245	379,529,245
-	-	-	-	69,135,000	7,129,375	76,264,375
-	-	-	-	73,500,000	9,546,250	83,046,250
-	-	-	-	52,795,000	6,255,850	59,050,850
-	-	-	-	44,990,000	1,861,000	46,851,000
-	8,290,000	-	8,290,000	24,960,000	2,136,744	27,096,744
-	-	-	-	47,540,000	3,642,750	51,182,750
-	-	-	-	48,225,000	8,920,375	57,145,375
-	87,975,000	-	87,975,000	44,235,000	5,149,125	49,384,125
-	91,115,000	-	91,115,000	48,655,000	7,714,250	56,369,250
129,195,000	-	-	-	129,195,000	38,745,625	167,940,625
69,745,000	-	-	-	69,745,000	19,463,125	89,208,125
260,145,000	-	-	-	260,145,000	71,430,690	331,575,690
41,925,000	-	-	-	41,925,000	2,442,533	44,367,533
501,010,000	187,380,000	-	187,380,000	955,045,000	184,437,692	1,139,482,692
<u>\$ 501,010,000</u>	<u>\$ 187,380,000</u>	<u>\$ 62,515,000</u>	<u>\$ 249,895,000</u>	<u>\$ 1,281,800,000</u>	<u>\$ 237,211,937</u>	<u>\$ 1,519,011,937</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED)  
SCHEDULE OF DEBT SERVICE MATURITIES  
YEAR ENDED JUNE 30, 2016**

Issue	SHARE Fund	2017	2018
<b>General Obligation Bonds:</b>			
Series 2007	28800	\$ 17,466,750	\$ -
Series 2009 Debt Service	10630	25,879,000	25,881,250
Series 2011	11630	2,246,950	2,246,000
Series 2013	11670	15,323,248	15,323,147
Series 2015	35170	18,436,750	18,437,500
<b>Total General Obligation Bonds</b>		79,352,698	61,887,897
<b>Severance Tax Bonds:</b>			
Series 2009A Refunding	10750	19,066,500	19,065,500
Series 2010A	10950	16,642,500	16,625,875
Series 2010B Supplemental	10960	12,223,675	11,989,675
Series 2010D Refunding	11280	31,757,875	15,093,125
Series 2011A-1 Refunding	30830	6,079,744	5,968,825
Series 2011A-2 Refunding	30820	17,080,000	17,062,125
Series 2012A	11480	8,163,750	8,166,125
Series 2013A	11770	17,650,500	15,876,875
Series 2014A	12160	13,095,625	13,108,000
Series 2015A	50180	9,384,750	11,184,750
Series 2015B	50170	6,802,250	8,484,750
Series 2016A & 2016B Refunding	43230	5,845,390	11,193,300
Series 2016C	50450	437,883	5,590,500
<b>Total Severance Tax Bonds</b>		164,230,442	159,409,425
<b>TOTAL DEBT SERVICE REQUIREMENTS</b>		<b>\$ 243,583,140</b>	<b>\$ 221,297,322</b>

<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 17,466,750
25,882,500	-	-	-	77,642,750
2,244,200	2,244,400	2,246,400	-	11,227,950
15,327,747	15,326,848	15,325,447	30,647,608	107,274,045
18,433,500	18,433,500	18,435,750	73,740,750	165,917,750
<u>61,887,947</u>	<u>36,004,748</u>	<u>36,007,597</u>	<u>104,388,358</u>	<u>379,529,245</u>
19,067,375	19,065,000	-	-	76,264,375
16,610,125	16,593,500	16,574,250	-	83,046,250
11,781,175	11,586,425	11,469,900	-	59,050,850
-	-	-	-	46,851,000
3,955,600	3,705,325	3,697,725	3,689,525	27,096,744
17,040,625	-	-	-	51,182,750
8,163,000	8,163,625	8,162,125	16,326,750	57,145,375
15,856,750	-	-	-	49,384,125
14,093,625	16,072,000	-	-	56,369,250
16,765,250	18,648,875	18,657,625	93,299,375	167,940,625
9,360,500	9,826,750	9,121,500	45,612,375	89,208,125
11,193,300	23,173,800	46,023,500	234,146,400	331,575,690
10,444,500	14,604,500	11,578,200	1,711,950	44,367,533
<u>154,331,825</u>	<u>141,439,800</u>	<u>125,284,825</u>	<u>394,786,375</u>	<u>1,139,482,692</u>
<u>\$ 216,219,772</u>	<u>\$ 177,444,548</u>	<u>\$ 161,292,422</u>	<u>\$ 499,174,733</u>	<u>\$ 1,519,011,937</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
 SCHEDULE 6 - SUMMARY OF LONG-TERM DEBT OBLIGATIONS (CONTINUED) -  
 ADDITIONAL INFORMATION  
 JUNE 30, 2016**

**ADDITIONAL INFORMATION RELATED TO LONG-TERM DEBT OBLIGATIONS**

The following information is presented as additional information of the long-term debt obligations of the State of New Mexico as detailed in Schedule 6 of this report.

**GENERAL OBLIGATION BONDS**

General Obligation Bonds are issued to provide funds for capital expenditures for construction, acquisition, or improvement of the projects specified in the Acts authorized by the Legislature of the State of New Mexico. Funds are provided through the collection of property tax levies levied by other State agencies.

The annual requirements to amortize the combined General Obligation Bond issues outstanding as of June 30, 2016, including interest payments, are as follows (see details on Schedule 6):

Years Ending June 30:	Amount
2017	\$ 79,352,698
2018	61,887,897
2019	61,887,947
2020	36,004,748
2021	36,007,597
Thereafter	104,388,358
Total	\$ 379,529,245

**SEVERANCE TAX BONDS:**

Severance tax bonds are for State agencies, local governments and public and higher education, including a broad range of State and local capital needs. Funds are provided through tax receipts levied upon natural resource products, severed and saved from the lands of the State of New Mexico.

The annual requirements to amortize the combined Severance Tax Bond issues outstanding as of June 30, 2016, including interest payments, are as follows (see details on Schedule 6):

Years Ending June 30:	Amount
2017	\$ 164,230,442
2018	159,409,425
2019	154,331,825
2020	141,439,800
2021	125,284,825
Thereafter	394,786,375
Total	\$ 1,139,482,692

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>GENERAL FUND INVESTMENT POOL:</b>					
<b>Repurchase Agreements</b>	Various	Various	\$ 375,311,935	\$ 375,311,935	\$ -
<b>Cash in Banks</b>	Various	Various	338,585,062	338,585,062	-
<b>Certificates of Deposit</b>	Various	Various	52,750,066	52,750,066	-
<b>Cash Miscellaneous</b>	Various	Various	6,870,000	6,870,000	-
<b>Fiscal Agent Bank Account</b>	0.000%	N/A	42,002,853	42,002,853	-
<b>Mutual Funds (LGIP Participant)</b>	Various	Various	144,028	144,028	-
<b>Municipal Bonds:</b>					
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	4.000%	7/1/2016	500,000	500,050	50
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	5.000%	7/1/2016	1,000,000	1,000,129	129
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV RFDG	3.000%	7/1/2016	200,000	200,013	13
ALBUQUERQUE N MEX MUN SCH DIST NO 012 27/DEC/2007	4.000%	8/1/2016	200,575	200,618	43
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	2.000%	8/1/2016	500,523	500,685	162
CHOCTAW CNTY MISS HOSP REV TAXABLE-CHOCTAW COUNTY	7.500%	8/1/2028	256,456	256,533	77
ENERGY NORTHWEST WASH ELEC REV FORMERLY KNOWN AS	5.000%	7/1/2023	2,370,000	2,370,284	284
GADSDEN INDEPENDENT SCHOOL DISTRICT NO 16 BOND	0.600%	8/15/2016	2,000,000	2,000,000	-
GRANTS / CIBOLA CNTY N MEX SCH DIST NO 1	2.000%	10/1/2016	170,574	170,544	(30)
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	5.800%	12/1/2019	178,659	179,004	345
KNOX CNTY KY RFDG-KNOX CNTY HOSP PJ 01/DEC/2006	5.875%	12/1/2036	347,214	347,738	524
LAS CRUCES N MEX HOLD HARMLESS GROSS RCPTS TAX	4.000%	6/1/2018	157,060	158,415	1,355
LAS CRUCES N MEX JT UTIL REV RFDG & IMPT	2.000%	6/1/2017	1,092,312	1,094,386	2,074
LAS CRUCES SCHOOL DISTRICT NO 2 BOND 08/MAR/2016	4.000%	8/1/2016	501,446	501,545	99
NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B	4.000%	9/1/2016	477,749	477,860	111
NEW MEXICO ST SEVERANCE TAX RFDG-SER D 08/DEC/2010	5.000%	7/1/2016	100,000	100,013	13
NEW MEXICO ST SEVERANCE TAX SER A 21/JUN/2012	5.000%	7/1/2016	180,000	180,023	23
RIO RANCHO N MEX RFDG & IMPT 21/JUN/2016	5.000%	8/1/2016	838,043	838,282	239
RUIDOSO N MEX WASTERWATER REV RFDG 12/JUL/2013	2.000%	7/1/2016	200,000	200,008	8
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	1.000%	8/1/2017	300,806	300,786	(20)
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	1.000%	8/1/2018	224,998	225,819	821
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2016 2%	2.000%	8/1/2016	370,470	370,455	(15)
SANDOVAL CNTY N MEX RFDG 13/DEC/2013 01/AUG/2016	2.000%	8/1/2016	225,246	225,284	38
SILVER CITY N MEX JT UTIL SYS REV RFDG-SER B	2.000%	12/1/2017	258,579	259,511	932
STATE OF NEW MEXICO - SANTA FE PUBLIC	0.750%	8/1/2016	2,000,000	2,000,000	-
TEXAS A & M UNIV SYS BRD REGTS PERM UNIV FD RFDG	5.000%	7/1/2036	1,500,000	1,500,195	195
TRUTH OR CONSEQUENCES N MEX MUN SCH DIST NO 006	2.000%	8/1/2016	125,106	125,144	38
<b>Total Municipal Bonds</b>			<u>16,275,816</u>	<u>16,283,324</u>	<u>7,508</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>US Government Securities:</b>					
<b>US Treasury Notes:</b>					
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	5/31/2017	\$ 19,930,238	\$ 20,018,000	\$ 87,762
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	11/30/2017	19,873,830	20,016,400	142,570
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	4/30/2018	24,745,922	25,016,500	270,578
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	6/30/2017	19,944,884	20,046,200	101,316
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	7/31/2019	15,696,390	16,065,600	369,210
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2018	4,966,105	5,023,250	57,145
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	7/15/2017	8,991,591	9,032,310	40,719
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	9/15/2017	9,993,080	10,052,700	59,620
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	8/31/2016	2,000,233	2,002,320	2,087
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	5/31/2018	24,892,436	25,193,250	300,814
UNITED STATES OF AMERICA NOTES FIXED 1.125%	1.125%	3/31/2020	33,428,099	34,092,900	664,801
UNITED STATES OF AMERICA NOTES FIXED 1.25%	1.250%	1/31/2019	19,991,423	20,295,400	303,977
UNITED STATES OF AMERICA NOTES FIXED 1.375%	1.375%	4/30/2020	13,436,691	13,754,205	317,514
UNITED STATES OF AMERICA NOTES FIXED 1.375%	1.375%	11/30/2018	19,986,410	20,346,200	359,790
UNITED STATES OF AMERICA NOTES FIXED 1.5%	1.500%	10/31/2019	24,451,588	25,070,360	618,772
UNITED STATES OF AMERICA NOTES FIXED 1.625%	1.625%	3/31/2019	34,888,316	35,877,800	989,484
UNITED STATES OF AMERICA NOTES FIXED 1.75%	1.750%	12/31/2020	20,318,519	20,688,200	369,681
UNITED STATES OF AMERICA NOTES FIXED 1.75%	1.750%	10/31/2020	41,491,079	42,378,830	887,751
UNITED STATES OF AMERICA NOTES FIXED 2%	2.000%	11/30/2020	20,183,449	20,899,200	715,751
UNITED STATES OF AMERICA NOTES FIXED 2.125%	2.125%	8/31/2020	25,663,792	26,220,750	556,958
UNITED STATES OF AMERICA NOTES FIXED 2.375%	2.375%	7/31/2017	20,268,904	20,395,400	126,496
UNITED STATES OF AMERICA NOTES FIXED 4.25%	4.250%	11/15/2017	20,859,779	21,006,200	146,421
UNITED STATES OF AMERICA NOTES FIXED 4.75%	4.750%	8/15/2017	20,829,640	20,933,600	103,960
<b>Total US Treasury Notes</b>			<u>466,832,398</u>	<u>474,425,575</u>	<u>7,593,177</u>
<b>Federal Farm Credit Banks Cons Long:</b>					
FEDERAL AGRICULTURAL MORTGAGE CORP BOND FIXED 2%	2.000%	7/27/2016	7,808,779	7,809,750	971
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	1.150%	9/18/2017	4,498,895	4,528,530	29,635
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	1.900%	9/18/2019	12,991,925	13,432,770	440,845
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	3.020%	7/14/2017	9,181,630	9,221,310	39,680
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	1.100%	1/26/2017	25,000,000	25,081,500	81,500
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.980%	4/10/2017	8,997,571	9,027,720	30,149
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.930%	5/1/2017	7,997,348	8,022,320	24,972
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.440%	10/5/2016	14,999,338	15,000,300	962
FEDERAL FARM CREDIT BANK BOND FIXED 1.8%	1.800%	11/12/2019	8,000,978	8,224,880	223,902
<b>Total Federal Farm Credit Banks</b>			<u>99,476,464</u>	<u>100,349,080</u>	<u>872,616</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>Federal Home Loan Banks:</b>					
FEDERAL HOME LOAN BANKS BOND FIXED 1.375%	1.375%	2/18/2021	\$ 33,794,316	\$ 34,400,860	\$ 606,544
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED 1.1%	1.100%	12/27/2018	499,998	504,580	4,582
<b>Total Federal Home Loan Banks</b>			<u>34,294,314</u>	<u>34,905,440</u>	<u>611,126</u>
<b>Federal Home Loan Mortgage Corporation</b>					
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .875%	0.875%	10/14/2016	30,001,155	30,038,100	36,945
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 0.875%	0.875%	3/7/2018	14,855,997	15,027,600	171,603
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	3/8/2017	39,994,817	40,131,200	136,383
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1.125%	1.125%	4/15/2019	19,993,990	20,170,000	176,010
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 3.75%	3.750%	3/27/2019	21,059,497	21,593,600	534,103
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 5.5%	5.500%	8/23/2017	10,503,119	10,557,100	53,981
<b>Total Federal Home Loan Mortgage Corporation</b>			<u>136,408,575</u>	<u>137,517,600</u>	<u>1,109,025</u>
<b>Federal National Mortgage Association</b>					
FEDERAL NATIONAL MORTGAGE ASSOCIATION BOND ZERO	0.000%	10/9/2019	21,429,771	22,037,354	607,583
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.250%	1/30/2017	40,045,125	40,180,800	135,675
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.125%	4/27/2017	10,006,194	10,044,300	38,106
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.875%	10/26/2017	24,905,622	25,087,000	181,378
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.875%	9/18/2018	20,189,963	20,511,000	321,037
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.625%	11/27/2018	14,957,034	15,319,350	362,316
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.875%	2/19/2019	20,101,123	20,553,400	452,277
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.000%	9/27/2017	14,978,302	15,068,700	90,398
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.750%	11/26/2019	14,024,628	14,393,820	369,192
<b>Total Federal National Mortgage Corporation</b>			<u>180,637,762</u>	<u>183,195,724</u>	<u>2,557,962</u>
<b>Total US Government Securities</b>			<u>917,649,513</u>	<u>930,393,419</u>	<u>12,743,906</u>
<b>Total General Fund Investment Pool (State Funds Investment Pool)</b>			1,749,589,273	1,762,340,687	12,751,414

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>LOCAL GOVERNMENT INVESTMENT POOL:</b>					
<b>Repurchase Agreements</b>	Various	Various	\$ 235,000,000	\$ 235,000,000	\$ -
<b>Bank Accounts:</b>					
BANK OF THE WEST	Variable	12/31/2049	12,427,818	12,427,818	-
US BANK	Variable	12/31/2049	3,184,071	3,184,071	-
WELLS FARGO CHECKING	0.15%	12/31/2049	36,705,509	36,705,509	-
WELLS FARGO SAVINGS	Variable	12/31/2049	2,367,074	2,367,074	-
<b>Total Bank Accounts</b>			54,684,472	54,684,472	-
<b>Discounted Notes:</b>					
FEDERAL FARM CREDIT DISCOUNT NOTES DISCOUNT NOTES	0.000%	8/30/2016	24,976,873	24,979,578	2,705
FEDERAL FARM CREDIT DISCOUNT NOTES DISCOUNT NOTES	0.000%	11/22/2016	9,980,753	9,984,800	4,047
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	8/16/2016	19,988,832	19,993,620	4,788
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	9/16/2016	499,382	499,701	319
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	12/9/2016	19,955,246	19,964,220	8,974
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	12/12/2016	5,979,215	5,989,068	9,853
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	7/19/2016	4,998,493	4,999,600	1,107
FEDERAL HOME LOAN BANKS DISCOUNT NOTES ZERO CPN	0.000%	7/29/2016	4,997,917	4,999,340	1,423
FEDERAL HOME LOAN MORTGAGE CORP DISCOUNT NOTES	0.000%	8/5/2016	4,997,613	4,998,785	1,172
FEDERAL HOME LOAN MORTGAGE CORP DISCOUNT NOTES	0.000%	9/23/2016	19,977,226	19,986,940	9,714
<b>Total Discounted Notes</b>			116,351,550	116,395,652	44,102
<b>US Government Securities:</b>					
<b>US Treasury Notes:</b>					
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	8/31/2016	15,013,604	15,017,400	3,796
<b>Total US Treasury Notes</b>			15,013,604	15,017,400	3,796
<b>Federal National Mortgage Association:</b>					
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	4.875%	12/15/2016	4,876,189	4,880,939	4,750
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.250%	9/15/2016	4,290,963	4,291,905	942
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.250%	9/28/2016	5,010,122	5,009,900	(222)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.375%	11/15/2016	20,062,898	20,069,000	6,102
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.375%	7/5/2016	3,224,959	3,225,000	41
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.750%	4/20/2017	5,001,601	5,010,100	8,499
<b>Total Federal National Mortgage Association</b>			42,466,732	42,486,844	20,112
<b>Federal Farm Credit Bank:</b>					
FEDERAL FARM CREDIT BANK BOND FIXED .69%	0.690%	9/23/2016	2,001,373	2,001,380	7
FEDERAL FARM CREDIT BANK BOND VARIABLE 03/JAN/2017	0.500%	1/3/2017	7,001,117	7,000,000	(1,117)
FEDERAL FARM CREDIT BANK BOND VARIABLE 11/OCT/2016	0.467%	10/11/2016	10,001,980	10,001,400	(580)
FEDERAL FARM CREDIT BANK BOND VARIABLE 14/SEP/2016	0.467%	9/14/2016	1,374,928	1,375,206	278
FEDERAL FARM CREDIT BANK BOND VARIABLE 17/APR/2017	0.496%	4/17/2017	7,404,434	7,405,370	936
FEDERAL FARM CREDIT BANK BOND VARIABLE 17/JAN/2017	0.496%	1/17/2017	10,000,000	10,000,700	700
FEDERAL FARM CREDIT BANK BOND VARIABLE 20/APR/2017	0.480%	4/20/2017	5,397,150	5,397,138	(12)
FEDERAL FARM CREDIT BANK BOND VARIABLE 20/JUL/2016	0.530%	7/20/2016	24,001,362	24,002,400	1,038
FEDERAL FARM CREDIT BANK BOND VARIABLE 20/OCT/2016	0.530%	10/20/2016	25,375,856	25,380,329	4,473
FEDERAL FARM CREDIT BANK BOND VARIABLE 27/APR/2017	0.420%	4/27/2017	249,814	249,793	(21)
FEDERAL FARM CREDIT BANK BOND VARIABLE 30/MAY/2017	0.650%	5/30/2017	25,020,876	25,016,250	(4,626)
<b>Total Federal Farm Credit Bank</b>			117,828,890	117,829,966	1,076
<b>Federal Home Loan Bank:</b>					
FEDERAL HOME LOAN BANKS BOND FIXED .5% 28/SEP/2016	0.500%	9/28/2016	1,770,477	1,770,690	213
FEDERAL HOME LOAN BANKS BOND FIXED .5% 29/AUG/2016	0.500%	8/29/2016	9,999,784	10,002,900	3,116
FEDERAL HOME LOAN BANKS BOND FIXED .58%	0.580%	11/14/2016	7,999,607	8,004,000	4,393
FEDERAL HOME LOAN BANKS BOND FIXED .625%	0.625%	11/23/2016	20,012,553	20,010,800	(1,753)
FEDERAL HOME LOAN BANKS BOND FIXED .75%	0.750%	11/18/2016	9,002,361	9,010,350	7,989
FEDERAL HOME LOAN BANKS BOND FIXED 2% 09/SEP/2016	2.000%	9/9/2016	19,246,302	19,253,161	6,859
FEDERAL HOME LOAN BANKS BOND VARIABLE 01/AUG/2016	0.482%	8/1/2016	1,499,989	1,500,105	116
FEDERAL HOME LOAN BANKS BOND VARIABLE 02/AUG/2016	0.494%	8/2/2016	10,000,000	10,000,800	800
FEDERAL HOME LOAN BANKS BOND VARIABLE 16/NOV/2016	0.422%	11/16/2016	29,999,558	29,998,800	(758)
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED .51%	0.510%	9/9/2016	5,400,971	5,401,404	433
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED .75%	0.750%	5/25/2017	5,000,000	5,002,800	2,800
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED .85%	0.850%	4/17/2017	1,310,000	1,310,000	-
<b>Total Home Loan Bank</b>			121,241,602	121,265,810	24,208

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>Federal Home Loan Mortgage Corp:</b>					
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	0.650%	9/29/2016	\$ 3,001,522	\$ 3,001,830	\$ 308
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .625%	0.625%	11/1/2016	450,154	450,270	116
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .875%	0.875%	10/14/2016	15,014,308	15,019,050	4,742
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2%	2.000%	8/25/2016	11,831,178	11,832,624	1,446
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 5.5%	5.500%	7/18/2016	6,851,171	6,851,951	780
FEDERAL HOME LOAN MORTGAGE CORP NOTES VARIABLE	0.493%	4/27/2017	9,996,736	9,999,200	2,464
<b>Total Federal Home Loan Mortgage Corp</b>			<u>47,145,069</u>	<u>47,154,925</u>	<u>9,856</u>
<b>Total Governmental Bonds</b>			<u>343,695,897</u>	<u>343,754,945</u>	<u>59,048</u>
<b>Total Local Government Investment Pool (Short-term Investment Pool)</b>			749,731,919	749,835,069	103,150

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>BOND PROCEEDS INVESTMENT POOL #2 (TAXABLE):</b>					
<b>Repurchase Agreements</b>	Various	Various	\$ 40,501,974	\$ 40,501,974	\$ -
<b>Certificates of Deposit</b>	Various	Various	10,200,000	10,200,000	-
<b>Mutual Funds (LGIP Pool Participant)</b>	Various	Various	110,343,936	110,343,936	-
<b>Asset Backed Bonds:</b>					
NCUA GUARANTEED NOTES OTHER SECURED LOANS FIXED	2.350%	6/12/2017	10,144,292	10,150,461	6,169
<b>Total Asset Backed Bonds</b>			10,144,292	10,150,461	6,169
<b>Municipal Bonds:</b>					
ALBUQUERQUE METROPOLITAN ARROYO FLOOD CONTROL	5.110%	7/1/2018	1,855,431	1,855,581	150
ALBUQUERQUE N MEX ARPT REV RFDG 11/MAR/2008	5.000%	7/1/2016	1,000,000	1,000,130	130
ALBUQUERQUE N MEX ARPT REV RFDG-SUB LIEN-SER A	4.000%	8/1/2016	310,344	306,855	(3,489)
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SER B	4.500%	8/1/2019	501,680	501,745	65
BELEN N MEX 20/JUL/2016 01/AUG/2017 2%	2.000%	8/1/2017	278,322	278,570	248
BELEN N MEX 20/JUL/2016 01/AUG/2018 2%	2.000%	8/1/2018	291,002	291,846	844
BERNALILLO N MEX MUN SCH DIST NO 1 RFDG	3.000%	8/1/2016	160,347	160,331	(16)
CLOVIS NEW MEX GROSS RCPTS TAX REV RFDG & IMPT	2.000%	6/1/2017	682,386	683,087	701
COLFAX CNTY N MEX GROSS TAX RCPTS IMPT 24/FEB/2015	2.000%	8/1/2016	225,300	225,279	(21)
GALLUP MC KINLEY CNTY N MEX SCH DIST NO 001	2.000%	8/1/2016	250,274	250,330	56
JEMEZ VY N MEX PUB SCH DIST NO 031 25/NOV/2014	2.000%	8/1/2017	273,633	274,101	468
LAS CRUCES N MEX SCH DIST NO 002 SCH 23/DEC/2013	3.000%	8/1/2016	475,948	476,055	107
LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG 28/OCT/2015	2.000%	7/15/2016	280,418	282,222	1,804
LOS LUNAS N MEX SCH DIST NO 1 SCH BLDG-SER A	2.000%	7/15/2018	195,116	195,115	(1)
NEW MEXICO EDL ASSISTANCE FNDTN ED LN-SR-SER B	4.000%	9/1/2016	301,765	301,806	41
NEW MEXICO ST SEVERANCE TAX TAXABLE-SER C	2.000%	7/1/2018	1,984,607	1,989,351	4,744
PHILADELPHIA PA 27/JUL/2006 01/AUG/2024 5%	5.000%	8/1/2024	572,166	572,200	34
RIO RANCHO N MEX PUB SCH DIST NO 94 RFDG-SCH BLDG	2.000%	8/1/2016	600,688	600,816	128
SAN JUAN CNTY N MEX CENT CONS INDPT SCH DIST NO	3.000%	8/1/2016	400,798	400,876	78
SANTA FE N MEX GROSS RCPTS TAX REV RFDG-SER A	4.000%	6/1/2017	267,767	268,154	387
SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N	3.000%	8/1/2016	250,527	250,540	13
<b>Total Municipal Bonds</b>			11,158,519	11,164,990	6,471
<b>US Government Securities:</b>					
<b>US Treasury Notes:</b>					
UNITED STATES OF AMERICA NOTES FIXED .5%	0.500%	7/31/2017	4,978,190	4,998,450	20,260
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	12/15/2016	19,996,364	20,020,400	24,036
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	5/31/2017	24,933,736	25,022,500	88,764
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	8/31/2017	10,955,481	11,009,900	54,419
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	7/15/2016	15,000,544	15,002,550	2,006
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	6/30/2017	4,987,302	5,011,550	24,248
UNITED STATES OF AMERICA NOTES FIXED .75%	0.750%	2/28/2018	14,885,726	15,040,950	155,224
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	11/30/2016	20,010,225	20,041,000	30,775
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2017	15,015,263	15,037,350	22,087
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	2/28/2017	5,002,874	5,012,900	10,026
UNITED STATES OF AMERICA NOTES FIXED .875%	0.875%	1/31/2018	19,896,955	20,093,000	196,045
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	3/15/2018	7,499,247	7,551,600	52,353
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	9/30/2016	15,012,007	15,024,150	12,143
UNITED STATES OF AMERICA NOTES FIXED 1%	1.000%	10/31/2016	15,018,268	15,032,850	14,582
UNITED STATES OF AMERICA NOTES FIXED 1.25%	1.250%	10/31/2018	15,105,494	15,208,050	102,556
UNITED STATES OF AMERICA NOTES FIXED 2.75%	2.750%	12/31/2017	20,481,473	20,643,000	161,527
UNITED STATES OF AMERICA NOTES FIXED 3.125%	3.125%	10/31/2016	20,168,051	20,182,800	14,749
<b>Total US Treasury Notes</b>			248,947,200	249,933,000	985,800

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>Federal Farm Credit Banks Cons Long:</b>					
FEDERAL FARM CREDIT BANK BOND FIXED 1.16%	1.160%	6/18/2018	\$ 502,405	\$ 504,205	\$ 1,800
<b>Total Federal Farm Credit Banks</b>			502,405	504,205	1,800
<b>Federal Home Loan Banks:</b>					
FEDERAL HOME LOAN BANKS BOND FIXED .75%	0.750%	9/8/2017	499,943	500,600	657
FEDERAL HOME LOAN BANKS BOND FIXED .82%	0.820%	7/6/2018	4,993,610	5,006,700	13,090
FEDERAL HOME LOAN BANKS BOND FIXED .875%	0.875%	3/19/2018	12,511,184	12,544,000	32,816
FEDERAL HOME LOAN BANKS BOND FIXED 1% 09/JUN/2017	1.000%	6/9/2017	15,024,493	15,058,650	34,157
FEDERAL HOME LOAN BANKS BOND FIXED 2% 14/SEP/2018	2.000%	9/14/2018	25,554,699	25,708,750	154,051
<b>Total Federal Home Loan Banks</b>			58,583,929	58,818,700	234,771
<b>Federal Home Loan Mortgage Corporation</b>					
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.150%	4/27/2018	6,003,417	6,001,020	(2,397)
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.240%	3/29/2019	12,500,000	12,503,750	3,750
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	3/8/2017	30,071,239	30,098,400	27,161
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2%	2.000%	8/25/2016	25,027,196	25,058,500	31,304
<b>Total Federal Home Loan Mortgage Corporation</b>			73,601,852	73,661,670	59,818
<b>Federal National Mortgage Association</b>					
FEDERAL NATIONAL MORTGAGE ASSOCIATION BOND ZERO	0.000%	10/9/2019	14,359,931	14,409,150	49,219
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.000%	12/19/2017	2,002,756	2,008,940	6,184
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.200%	11/22/2017	350,356	350,074	(282)
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.200%	12/30/2019	5,000,000	5,012,400	12,400
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.000%	5/11/2017	10,364,822	10,378,600	13,778
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.125%	7/20/2018	14,975,758	15,132,000	156,242
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.875%	3/28/2018	9,983,111	10,034,400	51,289
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.875%	8/28/2017	4,991,645	5,013,800	22,155
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.875%	5/21/2018	9,946,971	10,039,600	92,629
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.750%	9/12/2019	20,057,226	20,553,800	496,574
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.750%	11/26/2019	20,015,415	20,562,600	547,185
<b>Total Federal National Mortgage Corporation</b>			112,047,991	113,495,364	1,447,373
<b>Total US Government Securities</b>			493,683,377	496,412,939	2,729,562
<b>Total Bond Proceeds Investment Pool #2 (Tax Exempt) (Part 1 of the Consolidated Investment Pool)</b>			676,032,098	678,774,300	2,742,202

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>BOND PROCEEDS INVESTMENT POOL #1 (TAX EXEMPT):</b>					
<b>Certificates of Deposit</b>	Various	Various	\$ 3,000,000	\$ 3,000,000	\$ -
<b>Repurchase Agreements</b>	Various	Various	157,186,091	157,186,091	-
<b>Mutual Funds (LGIP Pool Participant)</b>	Various	Various	61,066,669	61,066,669	-
<b>Asset Backed Bonds:</b>					
NCUA GUARANTEED NOTES OTHER SECURED LOANS FIXED	2.350%	6/12/2017	10,144,292	10,150,461	6,169
<b>Total Asset Backed Bonds</b>			<u>10,144,292</u>	<u>10,150,461</u>	<u>6,169</u>
<b>Municipal Bonds:</b>					
ALAMOGORDO N MEX TAXABLE-SER A 24/DEC/2014	4.000%	8/1/2016	45,112	45,123	11
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	5.000%	7/1/2026	1,500,000	1,500,195	195
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	5.250%	7/1/2016	665,000	665,086	86
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	4.000%	7/1/2016	100,000	100,010	10
ALBUQUERQUE BERNALILLO CNTY WTR UTIL AUTH N MEX JT	3.000%	7/1/2016	540,000	540,038	38
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV	3.000%	7/1/2016	450,000	450,032	32
ALBUQUERQUE N MEX GROSS RCPTS LODGERS TAX REV	3.000%	7/1/2018	191,563	192,657	1,094
ALBUQUERQUE N MEX GROSS RCPTS TAX REV	0.550%	7/1/2016	1,120,000	1,120,000	-
ALBUQUERQUE N MEX GROSS RCPTS TAX REV	1.050%	7/1/2017	600,000	602,214	2,214
ALBUQUERQUE N MEX MET ARROYO FLOOD CTL AUTH	2.000%	8/1/2017	304,036	304,737	701
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	3.000%	8/1/2016	601,261	601,332	71
ALBUQUERQUE N MEX MUN SCH DIST NO 012 SCH BLDG-SER	3.000%	8/1/2016	721,444	721,598	154
ARTESIA N MEX GROSS RCPTS TAX REV RFDG 15/SEP/2015	2.000%	6/1/2017	1,512,062	1,513,374	1,312
ARTESIA N MEX GROSS RCPTS TAX REV RFDG 15/SEP/2015	2.000%	6/1/2018	264,926	266,633	1,707
BEAUMONT TEX WTRWKS & SWR SYS REV SER A	5.000%	9/1/2024	2,060,629	2,060,767	138
BELEN N MEX CONS SCH DIST NO 2 FORMERLY BELEN N	2.000%	8/1/2016	1,001,312	1,001,290	(22)
GADSDEN N MEX INDPT SCH DIST NO 016 29/OCT/2014	2.000%	8/15/2016	475,790	475,831	41
GRANT CNTY N MEX RFDG 11/DEC/2014 01/SEP/2016 2%	2.000%	9/1/2016	315,742	315,680	(62)
HOBBS N MEX MUN SCH DIST NO 16 26/MAY/2015	3.000%	9/15/2016	391,983	391,888	(95)
LAS CRUCES N MEX SCH DIST NO 002 RFDG-SER B	2.000%	8/1/2017	253,502	253,683	181
NEW JERSEY ECONOMIC DEV AUTH RETIREMENT CMNTY REV	5.250%	11/15/2026	3,560,489	3,561,565	1,076
NEW MEXICO ST SEVERANCE TAX TAXABLE-SER C	2.000%	7/1/2017	4,852,891	4,863,696	10,805
ROSWELL N MEX INDPT SCH DIST SCH BLDG-SER A	2.000%	8/1/2017	252,956	253,518	562
RUIDOSO N MEX GROSS RCPTS TAX REV RFDG & IMPT	2.000%	6/1/2018	157,638	158,630	992
SAN JUAN CNTY N MEX GROSS RCPTS TAX REV RFDG-SER A	4.000%	6/15/2017	720,787	721,546	759
SAN JUAN CNTY N MEX JR COLLEGE DIST 10/NOV/2015	2.000%	8/15/2016	2,229,286	2,229,072	(214)
SANDOVAL CNTY N MEX 07/MAY/2015 01/AUG/2017 3%	3.000%	8/1/2017	383,795	384,285	490
SANDOVAL CNTY N MEX INCENTIVE PAYMENT REV	1.952%	6/1/2018	100,926	101,499	573
SANTA FE N MEX PUB SCH DIST FORMERLY SANTA FE N	5.000%	8/1/2017	2,610,324	2,620,100	9,776
TORRANCE ETC CNTYS N MEX MUN SCH DIST NO 8	1.500%	9/1/2016	200,336	200,304	(32)
UNIVERSITY N MEX UNIV REVS TAXABLE-RFDG & IMPT-SUB	0.970%	6/1/2017	55,000	55,134	134
UNIVERSITY N MEX UNIV REVS TAXABLE-RFDG & IMPT-SUB	1.220%	6/1/2018	250,000	250,663	663
UNIVERSITY N MEX UNIV REVS RFDG-TAXABLE-GNMA	1.438%	6/20/2018	1,007,351	1,009,070	1,719
UNIVERSITY N MEX VALENCIA CNTY BRANCH CMNTY	2.000%	8/1/2016	620,762	620,775	13
<b>Total Municipal Bonds</b>			<u>30,116,903</u>	<u>30,152,025</u>	<u>35,122</u>
<b>US Government Securities:</b>					
<b>US Treasury Notes/Securities:</b>					
UNITED STATES OF AMERICA NOTES FIXED .5%	0.500%	7/31/2017	4,978,190	4,998,450	20,260
UNITED STATES OF AMERICA NOTES FIXED .625%	0.625%	12/15/2016	14,993,029	15,015,300	22,271

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Interest Rate	Maturity Date	Book Value	Market Value	Unrealized Gain (Loss)
<b>US Government Securities (Continued):</b>					
<b>Federal National Mortgage Association:</b>					
FEDERAL NATIONAL MORTGAGE ASSOCIATION BOND ZERO	0.000%	10/9/2019	\$ 14,353,327	\$ 14,409,150	\$ 55,823
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.000%	9/20/2017	5,010,299	5,023,550	13,251
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	0.750%	3/14/2017	24,020,990	24,035,040	14,050
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	2.200%	10/27/2017	1,020,370	1,020,210	(160)
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.350%	7/11/2018	1,312,652	1,315,808	3,156
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.220%	10/25/2018	10,000,000	10,000,800	800
FEDERAL NATIONAL MORTGAGE ASSOCIATION CALLABLE	1.750%	8/24/2018	5,041,272	5,010,250	(31,022)
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	5.000%	5/11/2017	15,547,713	15,567,900	20,187
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.375%	11/15/2016	5,003,058	5,017,250	14,192
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.000%	2/26/2019	9,982,469	10,049,200	66,731
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	0.875%	5/21/2018	14,933,065	15,059,400	126,335
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES FIXED	1.000%	9/27/2017	4,992,767	5,022,900	30,133
FEDERAL NATIONAL MORTGAGE ASSOCIATION NOTES ZERO	0.000%	6/1/2017	6,053,375	6,054,780	1,405
<b>Total Federal National Mortgage Association</b>			<b>117,271,357</b>	<b>117,586,238</b>	<b>314,881</b>
<b>Federal Farm Credit Bank:</b>					
FEDERAL AGRICULTURAL MORTGAGE CORP MEDIUM TERM	0.650%	7/10/2017	4,989,221	5,000,900	11,679
FEDERAL FARM CREDIT BANK BOND FIXED .85%	0.850%	12/6/2017	5,009,930	5,015,600	5,670
FEDERAL FARM CREDIT BANK BOND FIXED 1% 25/SEP/2017	1.000%	9/25/2017	15,025,713	15,059,700	33,987
FEDERAL FARM CREDIT BANK BOND FIXED 1.06%	1.060%	7/24/2018	1,003,777	1,006,850	3,073
FEDERAL FARM CREDIT BANK BOND FIXED 1.1%	1.100%	6/28/2017	1,003,945	1,004,700	755
FEDERAL FARM CREDIT BANK BOND FIXED 1.95%	1.950%	9/17/2018	2,045,656	2,051,000	5,344
FEDERAL FARM CREDIT BANK CALLABLE BOND FIXED 1.65%	1.650%	7/29/2019	10,000,000	10,008,700	8,700
<b>Total Federal Farm Credit Bank</b>			<b>39,078,242</b>	<b>39,147,450</b>	<b>69,208</b>
<b>Federal Home Loan Bank:</b>					
FEDERAL HOME LOAN BANKS BOND FIXED .625%	0.625%	10/26/2017	4,992,947	5,001,800	8,853
FEDERAL HOME LOAN BANKS BOND FIXED .875%	0.875%	3/19/2018	12,511,167	12,544,000	32,833
FEDERAL HOME LOAN BANKS BOND FIXED 1% 27/OCT/2017	1.000%	10/27/2017	1,002,808	1,004,570	1,762
FEDERAL HOME LOAN BANKS BOND FIXED 1.23%	1.230%	10/20/2017	2,011,502	2,015,900	4,398
FEDERAL HOME LOAN BANKS BOND FIXED 1.25%	1.250%	6/8/2018	1,008,014	1,011,290	3,276
FEDERAL HOME LOAN BANKS BOND FIXED 1.25%	1.250%	6/9/2017	2,010,270	2,013,180	2,910
FEDERAL HOME LOAN BANKS BOND FIXED 1.375%	1.375%	3/9/2018	13,677,826	13,743,401	65,575
FEDERAL HOME LOAN BANKS BOND FIXED 1.5%	1.500%	3/8/2019	10,098,541	10,181,600	83,059
FEDERAL HOME LOAN BANKS CALLABLE BOND FIXED 1.1%	1.100%	2/12/2018	7,486,798	7,486,807	9
<b>Total Home Loan Bank</b>			<b>54,799,873</b>	<b>55,002,548</b>	<b>202,675</b>
<b>Federal Home Loan Mortgage Corp:</b>					
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.200%	9/24/2018	1,257,092	1,263,513	6,421
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.500%	7/18/2019	2,014,967	2,037,800	22,833
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.050%	10/30/2018	2,509,894	2,511,825	1,931
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.240%	3/29/2019	12,500,000	12,503,750	3,750
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.070%	10/26/2018	7,219,325	7,223,682	4,357
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE MEDIUM	1.000%	12/28/2018	5,000,000	5,009,550	9,550
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES	1.100%	5/7/2018	1,000,000	1,000,170	170
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES	1.050%	5/10/2018	5,000,000	5,004,900	4,900
FEDERAL HOME LOAN MORTGAGE CORP CALLABLE NOTES	1.000%	8/10/2018	4,995,216	5,004,950	9,734
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .75%	0.750%	1/12/2018	23,943,985	24,041,040	97,055
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED .75%	0.750%	7/14/2017	24,002,401	24,035,760	33,359
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 0.875%	0.875%	3/7/2018	19,982,364	20,036,800	54,436
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	3/8/2017	10,016,718	10,032,800	16,082
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	7/28/2017	5,011,140	5,021,400	10,260
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 1%	1.000%	12/15/2017	10,041,775	10,053,200	11,425
FEDERAL HOME LOAN MORTGAGE CORP NOTES FIXED 2%	2.000%	8/25/2016	20,025,781	20,046,800	21,019
<b>Total Federal Home Loan Mortgage Corp</b>			<b>154,520,658</b>	<b>154,827,940</b>	<b>307,282</b>
<b>Miscellaneous Government Securities:</b>					
TENNESSEE VALLEY AUTHORITY BOND FIXED 6.25%	6.250%	12/15/2017	6,457,376	6,477,834	20,458
UNITED STATES DEPARTMENT OF HOUSING AND URBAN	5.450%	8/1/2019	1,453,083	1,406,342	(46,741)
<b>Total Miscellaneous Government Securities</b>			<b>7,910,459</b>	<b>7,884,176</b>	<b>(26,283)</b>
<b>Total Governmental Bonds</b>			<b>557,724,651</b>	<b>559,437,542</b>	<b>1,712,891</b>
<b>Total Bond Proceeds Investment Pool #1 (Tax Exempt) (Part 2 of the Consolidated Investment Pool)</b>			<b>819,238,606</b>	<b>820,992,788</b>	<b>1,754,182</b>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 7 - SCHEDULE OF INVESTMENTS - FIDUCIARY FUNDS (CONTINUED)  
JUNE 30, 2016**

Security Description	Book Value	Market Value	Unrealized Gain (Loss)
Local Government Investment Pool (Short-term Investment Pool)	\$ 749,731,919	\$ 749,835,069	\$ 103,150
General Fund Investment Pool (State Funds Investment Pool)	1,749,589,273	1,762,340,687	12,751,414
Bond Proceeds Taxable (Consolidated Investment Pool)	676,032,098	678,774,300	2,742,202
Bond Proceeds Tax Exempt (Consolidated Investment Pool)	819,238,606	820,992,788	1,754,182
<b>Grand Total of All Funds</b>	<b><u><u>\$ 3,994,591,896</u></u></b>	<b><u><u>\$ 4,011,942,844</u></u></b>	<b><u><u>\$ 17,350,948</u></u></b>

Reconciliation to Financial Statements:

Per Schedule of Investments	\$ 4,011,942,844
Less: Interfund Investments in Local Government Investment Pool, General Fund Investment Pool*	(144,028)
Bond Proceeds Taxable*	(110,343,936)
Bond Proceeds Tax Exempt*	<u>(61,066,669)</u>
Total Interfund Investments	<u>(171,554,633)</u>
Total Cash and Investments, Statement of Fiduciary Net Position	<u><u>\$ 3,840,388,211</u></u>

\* Amounts are deducted from respective pools.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 8 - COMBINING STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016**

	Investment Trust Funds			Total
	LGIP Short-term Investment Pool	Consolidated Investment Pool BPIP #1 and #2	General Fund Investment Pool	
<b>ASSETS</b>				
Cash and Investments:				
Fiscal Agent Bank Account	\$ -	\$ -	\$ 42,002,853	\$ 42,002,853
Cash in Banks	54,684,472	-	338,585,062	393,269,534
Certificates of Deposit	-	13,200,000	52,750,066	65,950,066
U.S. Government Securities	343,754,945	1,055,850,481	930,393,419	2,329,998,845
Municipal Bonds	-	41,317,015	16,283,324	57,600,339
Interfund Investments	(171,554,633)	171,410,605	144,028	-
Repurchase Agreements	235,000,000	197,688,065	375,311,935	808,000,000
Miscellaneous Cash	-	-	6,870,000	6,870,000
Asset Backed Bonds	-	20,300,922	-	20,300,922
Discounted Notes	116,395,652	-	-	116,395,652
Total Cash and Investments	578,280,436	1,499,767,088	1,762,340,687	3,840,388,211
Due from Broker	-	3,911	-	3,911
Accrued Interest Receivable	763,883	3,299,194	3,809,139	7,872,216
<b>TOTAL ASSETS</b>	<u>\$ 579,044,319</u>	<u>\$ 1,503,070,193</u>	<u>\$ 1,766,149,826</u>	<u>\$ 3,848,264,338</u>
<b>LIABILITIES</b>				
Due to Broker	\$ -	\$ 1,593,605	\$ 37,702,000	\$ 39,295,605
Other Liabilities	-	-	28,307	28,307
<b>TOTAL LIABILITIES</b>	-	1,593,605	37,730,307	39,323,912
<b>NET POSITION - HELD IN TRUST</b>	<u>579,044,319</u>	<u>1,501,476,588</u>	<u>1,728,419,519</u>	<u>3,808,940,426</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 579,044,319</u>	<u>\$ 1,503,070,193</u>	<u>\$ 1,766,149,826</u>	<u>\$ 3,848,264,338</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 9 - COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2016**

	Investment Trust Fund			Total
	LGIP Short-term Investment Pool	Consolidated Investment Pool BPIP #1 and #2	General Fund Investment Pool	
<b>Additions:</b>				
Investment Income	\$ 2,150,467	\$ 12,016,211	\$ 23,940,722	\$ 38,107,400
Deposits	8,660,784,342	1,019,799,700	43,685,804,944	53,366,388,986
<b>Deductions:</b>				
Expenses - Management Fees	(341,045)	-	-	(341,045)
Withdrawals	<u>(8,760,506,941)</u>	<u>(987,601,357)</u>	<u>(44,239,063,209)</u>	<u>(53,987,171,507)</u>
Subtotal of Change in Net Position	(97,913,177)	44,214,554	(529,317,543)	(583,016,166)
Net Position, Held in Trust for Pool Participants, June 30, 2015	<u>676,957,496</u>	<u>1,457,262,034</u>	<u>2,257,737,062</u>	<u>4,391,956,592</u>
Net Position, Held in Trust for Pool Participants, June 30, 2016	<u><u>\$ 579,044,319</u></u>	<u><u>\$ 1,501,476,588</u></u>	<u><u>\$ 1,728,419,519</u></u>	<u><u>\$ 3,808,940,426</u></u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY  
JUNE 30, 2016**

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (Under)
					Surety Bond Letter of Credit	Securities	
<b>BANKS:</b>							
<b>Alamogordo</b>							
(FHLB)	First National Bank	\$ 98,398	\$ 98,398	\$ -	\$ -	\$ 1,240,442	\$ 1,240,442
(FHLB)	Western Bank	3,612,864	250,000	1,681,432	-	3,000,495	1,319,063
<b>Albuquerque</b>							
(WFB)	Bank of America	161,117	161,117	-	-	292,998	292,998
(WFB)	Bank of the West	314,267,861	250,000	157,008,931	-	164,798,348	7,789,418
(WFB)	Compass Bank	2,060,374	250,000	1,846,581	3,000,000	-	1,153,419
(FHLB)	U.S. Bank N.A.	4,271,275	250,000	2,010,638	40,000,000	-	37,989,363
(WFB)	New Mexico Bank & Trust	280,331	250,000	15,166	-	273,478	258,313
(USB)	Wells Fargo Bank, N.A.	100,919,301	250,000	50,334,651	-	128,340,991	78,006,341
<b>Artesia</b>							
(FHLB)	First American Bank	50,588	50,588	-	-	-	-
<b>Belen</b>							
(USB)	My Bank	350,331	250,000	50,166	250,000	-	199,835
<b>Carlsbad</b>							
(FHLB)	Carlsbad National Bank	600	600	-	-	-	-
(FHLB)	Western Commerce Bank	4,101,378	250,000	1,925,689	-	3,354,995	1,429,306
<b>Clayton</b>							
(FHLB)	Farmers & Stockmens Bank	10,032,975	250,000	4,891,488	5,100,000	-	208,513
(FHLB)	First National Bank of NM	3,204,984	250,000	1,477,492	-	2,814,790	1,337,298
<b>Clovis</b>							
(TIB)	Bank of Clovis	528,846	250,000	139,423	-	848,577	709,154
	Citizens Bank	11,848	11,848	-	-	250,000	250,000
(FHLB)	Western Bank	3,100,000	250,000	1,425,000	-	2,381,507	956,507
<b>Hobbs</b>							
(TIB)	Lea County State Bank	139,225	139,225	-	-	-	-
<b>Las Vegas</b>							
(FHLB)	Southwest Capital Bank	10,723,316	250,000	5,236,658	-	5,543,992	307,334
(FHLB)	Community First Bank LV	322,769	250,000	74,224	-	556,543	482,319
<b>SUBTOTAL</b>		458,238,381	3,961,776	228,117,537	48,350,000	313,697,156	133,929,619

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)  
JUNE 30, 2016**

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (Under)
					Surety Bond Letter of Credit	Securities	
<b>BANKS (Continued)</b>							
<b>Lordsburg</b>							
(FHLB)	Western Bank	\$ 111,271	\$ 111,271	\$ -	\$ -	\$ -	\$ -
<b>Los Alamos</b>							
(FHLB)	Los Alamos National Bank	39,182	39,182	-	-	-	-
<b>Raton</b>							
(TIB)	International State Bank	58,948	58,948	-	-	150,178	150,178
<b>Roswell</b>							
(FHLB)	Bank of the Southwest	658,959	250,000	204,480	300,000	142,551	238,072
(TIB)	Valley Bank of Commerce	90,835	90,835	-	-	-	-
<b>Santa Fe</b>							
(FHLB)	Century Bank	3,001,190	250,000	1,375,595	-	1,360,912	(14,683)
(WFB)	First National Bank	30,086,307	250,000	30,433,033	-	42,565,443	12,132,410
<b>Socorro</b>							
(BA)	First State Bank	71,577	71,577	-	-	-	-
<b>Taos</b>							
(TIB)	Centinel Bank	49,342	49,342	-	-	-	-
<b>SAVINGS AND LOANS:</b>							
<b>Alamogordo</b>							
(FHLB)	BANK'34	2,001,987	250,000	1,787,027	-	2,054,780	267,753
<b>Roswell</b>							
(FHLB)	Washington Federal	30,905	30,905	-	-	-	-
<b>CREDIT UNION:</b>							
<b>Santa Fe</b>							
	Guadalupe Credit Union	250,000	250,000	-	-	-	-
<b>SUBTOTAL</b>		36,450,503	1,702,060	33,800,134	300,000	46,273,864	12,773,730

Details of the collateral pledged are on file with the Office of the State Treasurer.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)  
JUNE 30, 2016**

Location of Depository	Name of Institution	Deposits	FDIC	Collateral Required	Collateral Pledged		Excess (Under)
					Letter of Credit	Securities	
<b>ANCILLARY RECEIVERSHIP ACCOUNTS:</b>							
<b>Santa Fe</b>							
(WFB)	Century Bank	\$ 1,607,556	\$ 250,000	\$ 678,778	\$ -	\$ 1,275,991	\$ 597,213
<b>FISCAL AGENT BANK:</b>							
(USB)	Wells Fargo Bank N.A.	39,068,549	-	19,534,275	-	64,317,921	44,783,647
<b>SUBTOTAL</b>		<u>40,676,105</u>	<u>250,000</u>	<u>20,213,053</u>	<u>-</u>	<u>65,593,912</u>	<u>45,380,860</u>
<b>TOTAL</b>		<u>\$ 535,364,989</u>	<u>\$ 5,913,836</u>	<u>\$ 282,130,724</u>	<u>\$ 48,650,000</u>	<u>\$ 425,564,932</u>	<u>\$ 192,084,208</u>
<b>Reconciliation to Note 6:</b>							
	Fiscal Agent Account	\$ 39,068,549	\$ -	\$ 19,534,275	\$ -	\$ 64,317,921	\$ 44,783,647
	Certificates of Deposit	65,950,066	1,809,687	48,485,126	5,000,000	48,964,751	5,479,625
		<u>105,018,615</u>	<u>1,809,687</u>	<u>68,019,401</u>	<u>5,000,000</u>	<u>113,282,672</u>	<u>50,263,272</u>
<b>Add:</b>							
	Agency Deposits	428,001,830	3,854,149	213,052,824	38,650,000	305,756,239	131,353,415
	Ancillary Receivership Accounts	1,607,556	250,000	678,778	-	1,275,991	597,213
		<u>429,609,386</u>	<u>4,104,149</u>	<u>213,731,602</u>	<u>38,650,000</u>	<u>307,032,230</u>	<u>131,950,628</u>
		<u>\$ 534,628,001</u>	<u>\$ 5,913,836</u>	<u>\$ 281,751,003</u>	<u>\$ 43,650,000</u>	<u>\$ 420,314,902</u>	<u>\$ 182,213,900</u>
<b>Custodial Banks:</b>							
(USB)	US Bank						
(FHLB)	Fed. Home Loan Bank Dallas						
(WFB)	Wells Fargo Bank						
(TIB)	The Independent Bankers Bank						

Details of the collateral pledged are on file with the Office of the State Treasurer.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 10 - SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY (CONTINUED)  
JUNE 30, 2016**

REPURCHASE AGREEMENTS:

Name of Custodian	Location of Custodian	Repurchase Agreements per Financial Statement	Collateral Required	Collateral Pledged Mortgage Backed Securities (MBS) *	Issuer	CUSIP Number	Excess (Under) Collateralized
JP Morgan Chase	New York, NY	\$ 205,332,000	\$ 209,438,640	\$ 212,043,570	FNMA	31418B6K7	\$ 2,604,930.00
JP Morgan Chase	New York, NY	48,877,000	49,854,540	50,277,124	FNMA	3138ELCS0	422,584
JP Morgan Chase	New York, NY	168,791,000	172,166,820	174,363,472	FNMA	3138ETM29	2,196,652
JP Morgan Chase	New York, NY	185,000,000	188,700,000	188,678,690	GOVT	912828XE5	(21,310)
JP Morgan Chase	New York, NY	50,000,000	51,000,000	50,595,720	GOVT	912828XE5	(404,280)
JP Morgan Chase	New York, NY	50,000,000	51,000,000	50,880,584	GOVT	912828XE5	(119,416)
JP Morgan Chase	New York, NY	50,000,000	51,000,000	50,693,883	GOVT	912828XE5	(306,117)
JP Morgan Chase	New York, NY	50,000,000	51,000,000	50,980,467	GOVT	912828XE5	(19,533)
<b>Total</b>		<u>\$ 808,000,000</u>	<u>\$ 824,160,000</u>	<u>\$ 828,513,510</u>			<u>\$ 4,353,510</u>

\* Mortgaged Backed Securities is a type of asset backed security that is secured by a mortgage or collection of mortgages.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 11 - SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND  
GAMING SUSPENSE FUND  
YEAR ENDED JUNE 30, 2016**

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2016</u>
<b>ASSETS</b>				
Investment in State General Fund				
Investment Pool	\$ -	\$ 66,004,680	\$ 66,004,680	\$ -
Other Receivables	-	15,203,938	-	15,203,938
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$ 81,208,618</u>	<u>\$ 66,004,680</u>	<u>\$ 15,203,938</u>
<b>LIABILITIES</b>				
Due to State General Fund	\$ -	\$ 81,208,618	\$ 66,004,680	\$ 15,203,938
<b>TOTAL LIABILITIES</b>	<u>\$ -</u>	<u>\$ 81,208,618</u>	<u>\$ 66,004,680</u>	<u>\$ 15,203,938</u>

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
 SCHEDULE 12 - SCHEDULE OF VENDOR INFORMATION FOR PURCHASES  
 EXCEEDING \$60,000 (EXCLUDING GRT) - UNAUDITED  
 YEAR ENDED JUNE 30, 2016**

RFB#/RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address, Per the Procurement Documentation, of ALL Vendor(s) That Responded	In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the Vendor In-State and Chose Veteran's Preference (Y or N) - For Federal Funds, Answer N/A	Brief Description of the Scope of Work
No purchases exceeding \$60,000								

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SCHEDULE 13 - SCHEDULE OF ARBITRAGE ON TAX EXEMPT BONDS - UNAUDITED  
YEAR ENDED JUNE 30, 2016**

	First Computation Date	First Payment Due to IRS	First Computation of Arbitrage Completed	Last / Next Payment Due to IRS
General Obligation Bonds Series 2007	3/1/2012	4/30/2012	X	3/1/2017
General Obligation Bonds Series 2009	5/28/2014	7/28/2014	X	3/1/2019
General Obligation Bonds Series 2011	5/26/2016	7/25/2016	X	3/1/2021
General Obligation Bonds Series 2013	4/23/2018	6/22/2018	X	3/1/2023
General Obligation Bonds Series 2015	3/25/2020	5/26/2020	X	3/1/2025
Severance Tax Bonds Series 2009A	7/30/2014	9/29/2014	X	7/1/2019
Severance Tax Bonds Series 2010A	3/24/2015	5/26/2015	X	3/24/2020
Supplemental Severance Tax Bonds Series 2010B	3/24/2015	5/26/2015	X	3/24/2020
Severance Tax Bonds Refunding Series 2010D	12/8/2015	2/8/2016	X	7/1/2017
Severance Tax Bonds Series 2011A-1	12/6/2016	2/6/2017	X	7/1/2021
Severance Tax Bonds Refunding Series 2011A-2	12/6/2016	2/6/2017	X	7/1/2021
Severance Tax Bonds Series 2012A	6/21/2017	8/21/2017	X	6/21/2022
Severance Tax Bonds Series 2013A	7/23/2018	9/24/2018	X	7/1/2023
Severance Tax Bonds Series 2014A	6/24/2019	8/23/2019	X	6/24/2024



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Susana Martinez, Governor  
State Board of Finance  
Honorable Tim Eichenberg, State Treasurer  
Honorable Timothy Keller, State Auditor  
State of New Mexico Office of the State Treasurer  
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund, fiduciary fund and the combining and individual funds presented as supplementary information of the State of New Mexico, Office of the State Treasurer (the Office), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 1, 2016.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged

Honorable Susana Martinez, Governor  
State Board of Finance  
Honorable Tim Eichenberg, State Treasurer  
Honorable Timothy Keller, State Auditor  
State of New Mexico Office of the State Treasurer

with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, of which are provided in the summary of audit findings and responses as 2016-001 and 2016-002.

### **The Office's Response to Findings**

The Office's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. The Office's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
December 1, 2016

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2016**

**SECTION I – FINANCIAL STATEMENT FINDINGS**

**Finding 2016-001 Cash Confirmation and Investment Reconciliation Process (Compliance and Other Control Deficiency Matters)**

**Condition:** The 2016 New Mexico State Auditor Rule, 2.2.2 NMAC Section M (3)(f) states that auditors of state agencies are required to obtain a cash confirmation from the New Mexico State Treasurer's Office (STO). During our review to document the compliance and process of this requirement we noted the following; only one person within STO, at this time, has the knowledge to perform the confirmation process and the cash confirmation process only occurs at year end. Additionally we noted that the same individual performs the monthly investment reconciliation process, and prepares the audit schedules at year end. During our audit we were made aware that this person is retiring from the State.

**Criteria:** Per the Committee of Sponsoring Organization (COSO) report which defines internal control for organizations, under the control environment, management should have employees that are competent to perform functions that have a direct alignment with their financial reporting objectives. The duties noted above are imperative to the financial reporting for STO both internally and externally.

**Cause:** STO has limited resources and there are already time constraints on employees that would have the knowledge to perform the functions noted above, which makes cross training difficult.

**Effect:** Possible delay in performing these critical tasks when, or if the current employee retires, which could result in a delay of financial reporting and the cash confirmation requirement as outlined in the New Mexico State Auditor Rule.

**Recommendation:** We recommend that Management hire another competent employee or start training a current employee as a back up to perform these functions. In addition we recommend that the cash confirmation process be performed on a monthly or quarterly basis.

**State Treasurer's Office Response:** The State Treasurer's Office understands this finding. FY16 was the first year that the Cash Confirmation process had been required so procedures were developed and implemented. Now additional staff can be cross-trained or hired to learn these newly developed procedures and to provide redundancy. Budgetary constraints could create challenges in achieving compliance.

- Responsible party: Leo Marquez, Chief Financial Officer
- Date to implement corrective action: June 30, 2017

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2016**

**SECTION I – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Finding 2016-002 Debt Activity - Transfer (Compliance and Other Control Deficiency Matters)**

**Condition:** CLA became aware of a transfer that was made in error from the STO Investment Trust Bank account to the New Mexico State Board of Finance's bank account. The transfer was for the Good Faith Deposit, of \$6,655,700, for the Severance Tax Bond Series 2016A and 2016C bonds issued during fiscal year 2016. The Good Faith Deposit had been paid but was then transferred by the Treasurer's Office to the State Board of finance.

**Criteria:** Per Sections 8-6-1 through 8-6-7 NMSA 1978 as amended states the State Treasurer shall keep a true and comprehensive account of all monies received and disbursed. And per the Committee of Sponsoring Organization (COSO) report which defines internal control for organizations, under control activities and monitoring components organizations should establish controls over relevant processes and then monitor the progress.

**Cause:** Per review of the statement sent to STO to make the transfer to the State Board of Finance the amount requested noted the gross amount. STO has an internal review process prior to amounts being transferred to the State Board of Finance but they do not confirm with the State Board of Finance that the amounts they are transferring are accurate.

**Effect:** There was no effect on the cash at the State-wide level, however the State Board of Finance's bank account at year end was overstated by \$6,655,700. In addition there was a reconciling item for the state's cash reconciliation process performed by the Department of Finance and Administration.

**Recommendation:** STO should update their current process over transfers related to the debt activity, to ensure their accuracy, by adding a step to verify with the State Board of Finance the amounts being transferred are correct. These amounts are large and can be more complex in nature.

**State Treasurer's Office Response:** The State Treasurer's Office concurs with this finding. STO's corrective action plan includes increasing communication as needed with Board of Finance and their contractors to ensure:

1. Transfer amounts are correct.
  2. Transactions comply with the closing memo documentation.
- Responsible party: Stephen Vigil, Investment Accounting Bureau Chief
  - Date to implement corrective action: December 31, 2016

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2016**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2015-001 Accounts Payable (Significant Deficiency) Resolved**

**Condition:** During our search for unrecorded liabilities, we encountered a payment to the Department of Information and Technology (DOIT) in the amount of \$11.5K that related to the Public Education Retirement Association (PERA) rather than the New Mexico State Treasurer's Office (the Office). The amount was approved for payment by the CFO of the Office.

**Finding 2007-04 Reporting of Agency Interest in the State General Fund Investment Pool (Material Weakness) – Resolved**

**Condition:** On July 1, 2006, the State of New Mexico implemented the SHARE accounting system requiring changes to business processes at the State Treasurer's Office, DFA and other State Agencies. The State Treasurer's Office was not allowed to maintain the TRACS subsidiary system that provided for reporting of each State Agency's interest in the State General Fund Investment Pool (SGFIP) when the transition to the SHARE system occurred due to lack of funding for redundant systems.

In June 2012, the State Controller of the Financial Control Division at the DFA commissioned a diagnostic report with the purpose of assessing the current state of cash reconciliation and determining recommendations for remediating the system configuration and business process issues pertaining to the book to bank processes. Some key observations revealed by the diagnostic report relating to the Treasury application are summarized below:

1. Complete functionality available in the SHARE Treasury application was not implemented. The premise of the reconciliation functionality in PeopleSoft is that all system transactions have an accounting entry on the GL and that each bank transaction reconciles to the system transaction. This is not the case for the current implementation of SHARE.

**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER  
EXIT CONFERENCE  
June 30, 2016**

An exit conference was held with the State Treasurer's Office on November 28, 2016. The conference was held at the State Treasurer's offices in Santa Fe, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

**STATE OF NEW MEXICO  
OFFICE OF THE STATE TREASURER**

Tim Eichenberg, State Treasurer  
Sam Collins, Deputy State Treasurer  
Leo Marquez, Chief Financial Officer, Budget and Finance Division Director  
Christina Baca, Budget and Finance Bureau Chief  
Steve Vigil, Investment Accounting Bureau Chief

**CLIFTONLARSONALLEN LLP**

Georgie Ortiz, CPA, CGFM, Principal  
Christopher W. Gregory, CPA, Senior Associate

**PREPARATION OF FINANCIAL STATEMENTS**

The financial statements presented in this report have been prepared by the independent auditor and were reviewed and approved by the State Treasurer's Office. However, the financial statements remain the responsibility of management, as addressed in the Independent Auditors' Report. Management reviewed and approved the financial statements.

**APPENDIX C**

**FORMS OF ATTORNEY GENERAL'S NO LITIGATION LETTERS**

August 1, 2017

State Board of Finance  
State of New Mexico  
Bataan Memorial Building, Ste. 181  
Santa Fe, NM 87501

Sherman & Howard LLC  
500 Marquette Ave. NW #1203  
Albuquerque, NM 87102-5340

Rodey, Dickason, Sloan, Akin & Robb, P.A.  
201 3rd St. NW, Ste. 2200  
Albuquerque, NM 87102

Kutak Rock LLP  
1801 California Street, Suite 3000  
Denver, CO 80202-2626

Ladies and Gentlemen:

Re: \$148,520,000 State of New Mexico Capital Projects General Obligation Bonds, Series 2017A and \$151,790,000 State of New Mexico General Obligation Bonds, Refunding Series 2017B

This letter will serve as our certificate of litigation concerning the State of New Mexico Capital Projects General Obligation Bonds, Series 2017, in the aggregate principal amount of \$148,520,000, and the State of New Mexico General Obligation Bonds, Refunding Series 2017B, in the aggregate principal amount of \$151,790,000, 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 sale, award, issuance and delivery of these bonds; (iii) the effectiveness of the legislation authorizing the issuance of these bonds (i.e. Section 6-12-6 through 6-12-14, NMSA 1978, as amended); (iv) the transactions authorized by the State Board of Finance in its resolutions of June 20, 2017 (the "Bond Resolution") relating to the sale, award, issuance and delivery of these bonds; or (v) the validity or enforceability of the bonds or the Bond Resolution.

Property Tax Litigation

The New Mexico Department of Taxation and Revenue has informed this office that currently there is no pending or threatened action, suit or proceeding at law or in equity that contests the validity of the State's imposition of property taxes.

The State is a party to suits in which the taxpayers contest the assessed value of their properties, but do not contest the validity of the State's imposition of the tax itself. Such proceedings are not reasonably expected to have a material adverse effect on these bonds, the security for these bonds, or any improvements financed by these bonds.

State Board of Finance  
Rodey, Dickason, Sloan, Akin & Robb, P.A.  
Sherman & Howard LLC  
Kutak Rock LLP  
August 1, 2017  
Page 2

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,

Sally Malavé  
Assistant Attorney General

**APPENDIX D**

**FORM OF OPINIONS OF CO-BOND COUNSEL**

August 1, 2017

State Board of Finance  
State of New Mexico

\$148,520,000  
State of New Mexico  
Capital Projects General Obligation Bonds  
Series 2017A

Ladies and Gentlemen:

We have acted as co-bond counsel to the State Board of Finance (the “Board”) of the State of New Mexico (the “State”) in connection with the issuance of the State of New Mexico Capital Projects General Obligation Bonds, Series 2017A, in the aggregate principal amount of \$148,520,000 (the “Bonds”) on August 1, 2017, and being a series of bonds in registered form maturing on March 1, 2018 and serially thereafter on March 1 of each year through 2027.

In such capacity, we have examined the transcript of proceedings (the “Transcript”) relating to the Bonds and have also examined the provisions of the Constitution and laws of the State including the 2016 Capital Projects General Obligation Bond Act, Chapter 82, Laws 2016, under authority of which the Bonds were issued, the resolution authorizing the issuance and sale of the Bonds (the “Bond Legislation”) adopted by the Board on June 20, 2017, an executed Bond of the first maturity, and the Tax Regulatory Certificate of the State (the “Tax Certificate”). We have also made such further inquiries and investigations and have examined such law of the United States of America and such further documents and matters as we have considered necessary in rendering this opinion.

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

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds

has concluded with their issuance, and we disclaim any obligation to update this letter. Furthermore, we have assumed the continued accuracy of the representations and the continuing compliance with the covenants and agreements contained in the Bond Legislation and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations of the Board pursuant to the Bonds, the Bond Legislation and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of New Mexico. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or any other statements made in connection with any offer or sale of the Bonds and express herein no opinion relating thereto.

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

1. The Bonds constitute valid and binding general obligations of the State and the principal of and interest on the Bonds, unless paid from other sources, are payable from the proceeds of the levy of ad valorem taxes on all property in the State, subject to property taxation for State purposes, without limit as to rate and in an amount sufficient to pay the principal and interest on the Bonds when due.

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

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

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

Very truly yours,

August 1, 2017

State Board of Finance  
State of New Mexico

\$151,790,000  
State of New Mexico  
General Obligation Bonds  
Refunding Series 2017B

Ladies and Gentlemen:

We have acted as co-bond counsel to the State Board of Finance (the “Board”) of the State of New Mexico (the “State”) in connection with the issuance of the State of New Mexico General Obligation Bonds, Refunding Series 2017B, in the aggregate principal amount of \$151,790,000 (the “Bonds”) on August 1, 2017, and being a series of bonds in registered form maturing on March 1, 2018 and serially thereafter on March 1 of each year through 2025.

In such capacity, we have examined the transcript of proceedings (the “Transcript”) relating to the Bonds and have also examined the provisions of the Constitution and laws of the State including NMSA 1978, Sections 6-12-6 to -14 (1935, as amended through 1983), under authority of which the Bonds were issued, the resolution authorizing the issuance and sale of the Bonds (the “Bond Legislation”) adopted by the Board on June 20, 2017, an executed Bond of the first maturity, and the Tax Regulatory Certificate of the State (the “Tax Certificate”). We have also made such further inquiries and investigations and have examined such law of the United States of America and such further documents and matters as we have considered necessary in rendering this opinion.

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

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

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

the Bonds, the Bond Legislation and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of New Mexico. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or any other statements made in connection with any offer or sale of the Bonds and express herein no opinion relating thereto.

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

1. The Bonds constitute valid and binding general obligations of the State and the principal of and interest on the Bonds, unless paid from other sources, are payable from the proceeds of the levy of ad valorem taxes on all property in the State, subject to property taxation for State purposes, without limit as to rate and in an amount sufficient to pay the principal and interest on the Bonds when due.

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

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

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

Very truly yours,

## **APPENDIX E**

### **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 its Capital Projects General Obligation Bonds, Series 2017A, and General Obligation Bonds, Refunding Series 2017B, in the aggregate principal amounts of \$148,520,000 and \$151,790,000, respectively (collectively, the “Bonds”). The Bonds are being issued pursuant to the Bond Resolution adopted by the Board on June 20, 2017 and July 18, 2017 (collectively, the “Bond Resolution”).

#### **BACKGROUND**

1. The Bonds are being issued to provide funds for the payment of the costs of certain Projects and the refunding of certain outstanding maturities of the State of New Mexico, Capital Projects General Obligation Bonds, Series 2013 and Series 2015. The Bonds are authorized pursuant to the 2016 Capital Projects General Obligation Bonds Act (the “2016 Act”), duly promulgated by the Legislature of the State of New Mexico (the “State”) as Chapter 82, Laws 2016, and NMSA 1978, Sections 6-12-6 to -14 (1935, as amended through 1983).

2. In order to allow the underwriter 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, as amended to the date hereof), the State is required to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Bonds.

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

#### **STATE COVENANTS AND AGREEMENTS**

##### **Section 1. Definitions.**

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

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

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

(d) “MSRB” means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1300 I Street NW, Suite 1000, Washington, DC 20005, phone (202) 838-1500, fax (202) 898-1500.

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

Electronic Municipal Market Access (“EMMA”)  
c/o Municipal Securities Rulemaking Board  
1300 I Street NW, Suite 1000  
Washington, DC 20005  
[www.emma.msrb.org](http://www.emma.msrb.org)  
(202) 838-1500]

(f) “Official Statement” means the Official Statement dated July 18, 2017 delivered in connection with the original issue and sale of the Bonds.

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

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

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

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

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

(a) Commencing with the Fiscal Year ending June 30, 2017 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 two hundred ten (210) days after the end of each fiscal year for the State (i.e., each June 30). If the Audited Financial Statements are not available by the time the other Annual Financial Information must be provided, unaudited financial statements shall be provided as part of the Annual Financial Information. If not provided as a part of the Annual Financial Information, the Audited Financial Statements will be provided when available.

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

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

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or 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 of 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 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 the First Judicial District Court in Santa Fe, County, New Mexico. Breach of the obligations of the State hereunder shall not constitute an event of default under the Bond Resolution and none of the rights and remedies provided by the Bond 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 Bond 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 and applicable federal law, including the Rule.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Undertaking as of \_\_\_\_\_, 2017.

STATE BOARD OF FINANCE

By \_\_\_\_\_  
President

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