THE STATE OF NEW MEXICO

CONTINUING DISCLOSURE

ANNUAL FINANCIAL INFORMATION FILING
FISCAL YEAR 2013

NEW MEXICO
STATE BOARD OF FINANCE

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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 2009 through Fiscal Year 2013.

TABLE 1

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

	2009	2010	2011	2012	2013
Proceeds from General Obligation Bonding Program[1]					
General Obligation Bonds	$ 223.4	$ --	$ 19.7	$ --	$139.3
Subtotal	$ 223.4	$ --	$ 19.7	$ --	$139.3
Proceeds from Severance Tax Bonding Program[1]					
Severance Tax Bond	$ --	$ 315.3	$ --	$121.2	$ --
Severance Tax Funding Notes[2]	188.7	178.5	27.3	76.2	112.0
Supplemental Severance Tax Bonds	--	112.9	--	--	--
Supplemental Severance Tax Funding Notes[2]	240.8	97.0	206.1	148.7	167.8
Subtotal	$ 429.5	$ 703.7	$233.4	$346.2	$279.8
Proceeds From Other Sources					
General Fund[3]	$(148.6)	$(259.2)	$ --	$ --	$ --
Transportation Bonds[4]	112.3	52.5	--	--	--
Lease Appropriation Bonds	60.0	--	--	--	--
Subtotal	$ 23.7	$(206.7)	$ --	$ --	$ --
Total[5]	$ 676.6	$ 497.0	$253.1	$346.2	$419.1

(1) Dollar amounts from State Board of Finance funding programs reflect net proceeds available for capital expenditure. Amounts vary annually by legislative action.
(2) The Board issues short-term Severance Tax funding notes and Supplemental Severance Tax funding notes to fund authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.
(3) In Fiscal Year 2009, due to budgetary constraints, $148.6 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding. In Fiscal Year 2010, due to budgetary constraints, $259.2 million previously appropriated for Capital Project Funding was reappropriated for purposes other than Capital Project Funding.
(4) In July 2008, the New Mexico Finance Authority entered into a $200,000,000 line of credit which was drawn upon for transportation related capital expenditures in Fiscal Years 2009-2011. In Fiscal Year 2011, the New Mexico Finance Authority refunded the line of credit through the issuance of State Transportation Revenue and Refunding Bonds (Senior Lien) Series 2010A-1 and State Transportation Revenue and Refunding Bonds (Subordinate Lien) Series 2010A-2, the proceeds of which are available for transportation related capital expenditures. All subsequent bonds or notes issued by the New Mexico Finance Authority for transportation purposes have been either economic refundings of outstanding new money bonds or restructurings of outstanding new money bonds.
(5) Totals may not add due to rounding.

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

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 appropriations and proceeds of bonds issued by, among others, the New Mexico Finance Authority, the State Transportation Commission and state educational institutions.

The New Mexico Finance Authority (the "Finance Authority") was created by the State legislature in 1992 to assist qualified governmental entities in financing capital equipment and infrastructure projects. The Finance Authority is a state instrumentality governed by a board of directors and is not subject to the direct supervision or control of any other board, bureau, department or agency of the State. In July 2012, the Finance Authority disclosed that what it believed was the audit of its financial statements for the fiscal year ended June 30, 2011 was not completed properly (the "Incomplete Audit"). Upon such discovery, the Finance Authority withdrew the Incomplete Audit. The Finance Authority then initiated an investigation and determined that its former controller had misrepresented the status of the Incomplete Audit and provided financial statements for use by third parties that he falsely represented as "audited." Investigations also were conducted by (i) the Office of the State Auditor and PricewaterhouseCoopers, (ii) the Securities Division of the New Mexico Regulation and Licensing Department and (iii) Hewitt EnnisKnupp. The reports have been completed with findings of no money missing. The United States Securities and Exchange Commission (the "SEC") issued an inquiry to the Finance Authority regarding the Incomplete Audit (the "SEC Inquiry"), to which the Finance Authority timely responded and provided all the requested information. It is unknown whether the SEC will pursue further action. The Finance Authority has retained REDW, LLC to perform the audits for Fiscal Years 2011 and 2012. Those audits were recently completed. The audit completed by REDW, LLC for the Fiscal Year 2011 agreed with the Finance Authority in its application of accounting principles and did not disclose the presence of any missing funds. The Finance Authority's former controller entered into a plea agreement for forgery and securities fraud. Pursuant to that plea agreement, the former controller received a sentence of 5 years supervised probation. The Finance Authority is implementing recommendations contained in the three published reports.

General Obligation Bonds

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

(a) 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.

(b) 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 all 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.

(c) The State may contract debts to suppress insurrection and to provide for the public defense.

Outstanding and Additional Parity General Obligation Bonds

The principal amounts of outstanding General Obligation Bonds, as of December 31, 2013, are shown in Table 2.

TABLE 2

Outstanding General Obligation Bonds

Series	Principal Outstanding
Series 2005	$26,960,000
Series 2007	61,935,000
Series 2009	131,365,000
Series 2011	15,220,000
Series 2013	137,220,000
Total	$372,700,000

Source: New Mexico State Board of Finance.

Future debt payments, by fiscal year, on General Obligation Bonds outstanding, as of December 31, 2013, are shown in Table 3.

TABLE 3

Future General Obligation Bond Debt Service[(1)]

Fiscal Year	Principal	Interest	Total
2014	$ 61,430,000	$ 7,205,099	$ 68,635,099
2015	63,635,000	11,776,248	75,411,248
2016	51,915,000	8,993,948	60,908,948
2017	54,110,000	6,805,948	60,915,948
2018	38,915,000	4,535,398	43,450,398
2019	40,440,000	3,014,448	43,454,448
2020	16,145,000	1,426,248	17,571,248
2021	16,510,000	1,061,848	17,571,848
2022	14,635,000	688,448	15,323,448
2023	14,965,000	359,160	15,324,160
Total	$372,700,000	$45,866,789	$418,566,789

(1) Figures may not add due to rounding.

Source: New Mexico State Board of Finance.

Voters must approve the issuance of additional General Obligation Bonds, other than for refunding purposes, and the levy of additional *ad valorem* taxes. Any such additional General Obligation Bonds may be issued on a parity with, or subordinate to, all outstanding General Obligation Bonds.

Calculation of 1 Percent Bonding Limitations

Net taxable value as of December 31, 2013	$54,726,005,795
General obligation bond limitation @ 1 percent of net taxable value	$547,260,057
Total general obligation bonds outstanding as of December 31, 2013	$372,700,000
Ratio of total debt to net taxable value	0.681%

Source: Fiscal Strategies Group.

Underlying General Obligation Bonds

The following table presents information on county, city, local and public school district debt outstanding as of June 30, 2013. The table does not include debt of special districts or community colleges.

Certain Underlying General Obligation Debt	
Counties	$ 298,988,153
Cities	$ 519,856,237
Schools	$ 1,951,559,000

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

Severance Tax Bonds

The Severance Tax Bonding Act, Sections 7-27-1 to 7-27-27 NMSA 1978, as amended, permits the State Board of Finance (the "Board") to issue two categories of bonds against Severance Tax Bonding Fund (the "Bonding Fund") revenues: "New Mexico Severance Tax Bonds," referred to herein as "Senior Severance Tax Bonds," and "New Mexico Supplemental Severance Tax Bonds," referred to herein as "Supplemental Severance Tax Bonds." The Board is prohibited by statute from issuing Senior Severance Tax Bonds and short-term Senior Severance Tax Funding Notes unless the aggregate amount of total Senior Severance Tax Bonds and Funding Notes outstanding, after giving effect to the proposed issuance, can be serviced with not more than 50 percent of the annual deposits into the Bonding Fund from the preceding fiscal year. The Board is prohibited by statute from issuing Supplemental Severance Tax Bonds unless the aggregate amount of Senior Severance Tax Bonds and Supplemental Severance Tax Bonds outstanding, after giving effect to the proposed issuance, can be serviced with not more than 62.5 percent of the annual deposits into the Bonding Fund from the preceding fiscal year. In addition, short-term Supplemental Severance Tax Funding Notes may be issued if the debt service on such Supplemental Severance Tax Funding Notes, when added to the debt service previously paid or scheduled to be paid during that fiscal year on Senior and Supplemental Severance Tax Bonds and Funding Notes does not exceed 95 percent of the deposits into the Bonding Fund from the preceding fiscal year. The Senior Severance Tax Bonds and Funding Notes fund a wide variety of capital projects while Supplemental Severance Tax Bonds and Funding Notes are earmarked for capital projects for public education.

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

Section 7-27-8 NMSA 1978 requires that on each December 31 and each June 30 the State Treasurer shall transfer to the Severance Tax Permanent Fund all money in the Bonding Fund except the amount necessary to meet all principal and interest payments on bonds payable from the Bonding Fund on the next two ensuing semiannual payment dates.

Outstanding and Additional Senior Severance Tax Bonds

The principal amounts of outstanding Senior Severance Tax Bonds, as of December 31, 2013 are shown in Table 4.

TABLE 4

Outstanding Senior Severance Tax Bonds

Severance Tax Bonds, Series 2009A	$107,335,000
Severance Tax Bonds, Series 2010A	98,350,000
Severance Tax Bonds, Refunding Series 2010C	19,140,000
Severance Tax Bonds, Refunding Series 2010D	101,240,000
Severance Tax Bonds, Series 2011A-1	42,995,000
Severance Tax Bonds, Refunding Series 2011A-2	75,715,000
Severance Tax Bonds, Series 2012A	56,490,000
Severance Tax Bonds, Series 2013A	157,560,000
Total	$658,825,000

Source: New Mexico State Board of Finance.

Future payments, by fiscal year, on outstanding Senior Severance Tax Bonds, as of December 31, 2013, are shown in Table 5.

TABLE 5

Future Senior Severance Tax Bond Debt Service[(1)]

Fiscal Year	Principal	Interest	Total
2014		$ 15,154,123	$ 15,154,123
2015	$105,035,000	28,704,813	133,739,813
2016	104,940,000	23,622,538	128,562,538
2017	99,800,000	18,504,038	118,304,038
2018	87,770,000	13,814,788	101,584,788
2019	76,725,000	9,788,663	86,513,663
2020	62,570,000	6,548,975	69,118,975
2021	45,860,000	4,142,056	50,002,056
2022	30,890,000	2,516,000	33,406,000
2023	26,235,000	1,324,525	27,559,525
2024	19,000,000	380,000	19,380,000
Total	$658,825,000	$124,500,517	$783,325,517

(1) Figures may not add due to rounding.

Source: New Mexico State Board of Finance.

Outstanding Supplemental Severance Tax Bonds

The principal amounts of Supplemental Severance Tax Bonds that are outstanding, as of December 31, 2013, are shown in Table 6.

TABLE 6

Outstanding Supplemental Severance Tax Bonds

Supplemental Severance Tax Bonds, Series 2004B	$ 1,150,000
Supplemental Severance Tax Bonds, Series 2010B	72,075,000
Total	$73,225,000

Source: New Mexico State Board of Finance.

The future fiscal year debt payments on outstanding Supplemental Severance Tax Bonds, as of December 31, 2013, are shown in Table 7.

TABLE 7

Future Supplemental Severance Tax Bond Debt Service[(1)]

Fiscal Year	Principal	Interest	Total
2014		$ 1,774,400	$ 1,774,400
2015	$10,705,000	3,281,175	13,986,175
2016	9,725,000	2,770,425	12,495,425
2017	9,945,000	2,278,675	12,223,675
2018	10,215,000	1,774,675	11,989,675
2019	10,525,000	1,256,175	11,781,175
2020	10,865,000	721,425	11,586,425
2021	11,245,000	224,900	11,469,900
Total	$73,225,000	$14,081,850	$87,306,850

(1) Figures may not add due to rounding.

Source: New Mexico State Board of Finance.

Tax Revenue Anticipation Notes

The State has issued, and expects to issue from time to time, Tax Revenue Anticipation Notes ("TRAN"). The TRAN are not general obligations of the State. The purpose of the TRAN is to fund a portion of the State's cash flow needs during the fiscal year in which the TRAN are sold. The State Treasurer's Office has not issued TRAN since Fiscal Year 2011, during which $200,000,000 was issued.

Severance Tax Bonding Fund and Debt Service Requirements

Severance tax receipts contributed 97.7 percent of total revenue to the Bonding Fund in Fiscal Year 2013, with the remainder attributable to interest and reversions. Severance taxes are almost entirely attributable to natural gas, crude oil and coal sales. Natural gas and crude oil together accounted for approximately 96.8 percent of total Fiscal Year 2013 severance tax receipts as shown in Table 8. This percentage is calculated net of Intergovernmental Tax Credits.

TABLE 8

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

	2009	2010	2011	2012	2013
Beginning Balance	$107,217	$172,318	$130,346	$161,190	$254,810
Receipts:					
Taxes:					
Oil and Gas Severance Tax	$492,885	$325,761	$350,718	$449,283	$400,959
Other Minerals Severance Taxes	23,431	24,362	16,009	13,548	13,416
Total Severance Taxes	$516,315	$350,123	$366,727	$462,831	$414,375
Other Income:					
Interest on Investments	$ 31,607	$ 21,610	$ 18,102	$9,941	$ 6,772
Bond Proceeds	0	369	0	4	0
Other financing sources	2,300	2,131	10,823	7,126	2,777
Total Other Income	$ 33,907	$ 24,111	$ 28,295	$17,072	$ 9,549
Total Receipts	$550,222	$374,234	$395,652	$479,903	$423,923
Disbursements:					
Senior Bond Debt Service	$ 12,433	$ 96,290	$103,867	$121,367	$127,951
Senior Short-term Obligations[(3)]	188,684	178,594	27,273	76,220	111,999
Supplemental Bond Debt Service	1,074	15,452	19,212	29,300	21,483
Supplemental Short-term Obligations[(3)]	240,841	97,001	206,130	148,745	167,832
Costs of Issuance and Other Charges	895	1,396	4,838[(4)]	3,034[(5)]	2,774[(6)]
Total Disbursements	$443,926	$388,734	$361,321	$378,665	$432,039
Transfers:					
To Severance Tax Permanent Fund	$ 41,195	$ 27,472	$ 3,488	$7,617	$103,888
Total Transfers	$ 41,195	$ 27,472	$ 3,488	$7,617	$103,888
Ending Balance, June 30	$172,318[(7)]	$130,346[(8)]	$161,190[(9)]	$254,810[(10)]	$142,806

(1) All receipts, expenditures and balances exclude amounts in rebate accounts retained for potential arbitrage rebates.
(2) Proceeds and expenditures attributable to refunding bonds are excluded from this table because such proceeds and expenditures are reserved for payments on appropriate refunding bonds and are not available for debt service payments on other Severance Tax Bonds.
(3) The Board issues short-term Severance Tax funding notes and Supplemental Severance Tax funding notes to fund the authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.
(4) Includes $2.0 million paid to escrow agent in connection to Series 2010D advance refunding.
(5) Includes $2.2 million paid to the Internal Revenue Service in August 2011 for arbitrage rebate liabilities.
(6) Includes $2.2 million that was incorrectly debited a second time in July 2012 for the August 2011 arbitrage rebate payment made to the Internal Revenue Service as part of the State Treasurer's Fiscal Year 2012 audit adjustments. The error was reversed in November 2013 to restore the $2.2 million, which will be reflected in Fiscal Year 2014 activity.
(7) The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was $27.5 million. An initial transfer of $30.1 million was made on July 14, 2009. After further review, a reversal to the Severance Tax Bonding Fund of $2.6 million was made on November 23, 2009, to reflect the correct amount necessary to be transferred.
(8) The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 1, 2010 in the amount of $3.5 million.
(9) The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on August 3, 2011 in the amount of $7.6 million.
(10) The ending balance includes the amount of the transfer to the Severance Tax Permanent Fund, which was made on July 3, 2012 in the amount of $103.9 million.

Source: New Mexico State Board of Finance based on the Statewide Human Resources, Accounting, and Management Reporting System (the "SHARE System").

TABLE 9

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

Fiscal Year Ending 6/30	Projected STBF Revenues	Scheduled Senior Debt Service[(1)]	Projected Senior Debt Service Coverage	Scheduled Supplemental Debt Service[(1)]	Projected Supplemental Coverage
2014	$488,373,919	$126,398,422	3.86x	$15,604,958	3.44x
2015	480,662,738	133,739,813	3.59x	13,986,175	3.25x
2016	469,120,300	128,562,538	3.65x	12,495,425	3.33x
2017	457,068,738	118,304,038	3.86x	12,223,675	3.50x
2018	449,609,781	101,584,788	4.43x	11,989,675	3.96x
2019	438,668,387	86,513,663	5.07x	11,781,175	4.46x
2020	432,807,811	69,118,975	6.26x	11,586,425	5.36x
2021	427,057,916	50,002,056	8.54x	11,469,900	6.95x
2022	421,415,957	33,406,000	12.61x	--	
2023	415,879,255	27,559,525	15.09x	--	

(1) Excludes debt service on refunded bonds which will be payable from escrowed securities and severance and supplemental severance tax debt obligations sold to the State Treasurer which are retired within the same fiscal year.

Sources: New Mexico State Board of Finance and Fiscal Strategies Group.

Investments

Funds on deposit in the Bonding Fund are invested by the State Treasurer at the direction and approval of the Board, pursuant to the State Treasurer's Investment Policy ("Investment Policy"), adopted as of July 17, 2013. Investments are made in securities, which are at the time legal investments of the State, and no such investment or deposit shall violate any applicable restrictions imposed by the Code (defined below) and applicable Treasury Regulations relating to the market price and the existence of an established market.

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

Severance Tax Collections and Reporting

Operators, purchasers and working interest owners are required to submit monthly reports to the TRD showing the total value, volume and kind of products sold from every production unit each month. Taxes must be paid at the same time and are due 55 days after the month of production. Each production report must be accompanied by a company identification number, which facilitates automated processing of return information. Production and associated tax liability are reported by "production unit" and a designation for a well or group of wells that is assigned by the TRD based on the master operation, property name identification and pool. A suffix is added to the production unit number to designate the specific land type and taxing authority including county, school district, and municipality. During calendar year 2013, the TRD received an average of 578 oil and natural gas returns per month containing an average of 151,714 lines of detailed information about production from different production units.

Complete reporting forms must be mailed or delivered, or their information electronically transmitted, on or before the 25th day of the second month after the calendar month for which the report is required. Taxpayers whose total tax liability for the month (including the oil and gas emergency school tax, the oil and gas conservation tax and the oil and gas ad valorem tax, as well as the oil and gas severance tax) exceeds $25,000 must provide payment by automated clearinghouse or by wire transfer on or before the due date. Taxpayers who fail to report or pay in a timely fashion are assessed interest at the rate established for individuals under Internal Revenue Code Section 6621 computed on a daily basis beginning the day after the due date and continuing until the date the tax is reported or paid. A penalty is assessed when a taxpayer fails to pay any tax or file any report by the due date because of negligence or disregard of rules and regulations. A penalty is charged at a rate of 2 percent per month, up to a maximum of 20 percent of the tax due.

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

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

TABLE 10

New Mexico Oil, Natural Gas and CO_2 Subject to Taxation
Fiscal Years Ended June 30

	2009	2010	2011	2012	2013
Oil					
Sales Volume (million barrels)	62.3	62.9	67.0	79.7	93.8
Value (millions)	$4,037	$4,470	$5,547	$7,144	$8,047
Average Price (per barrel)	$64.84	$71.29	$84.20	$89.64	$85.82
Natural Gas					
Sales Volume (bcf)	1,390	1,282	1,224	1,229	1,173
Value (millions)	$7,797	$6,657	$6,805	$6,145	$5,127
Average Price (per mcf)	$5.61	$5.20	$5.50	$5.50	$4.37
CO_2					
Sales Volume (bcf)	105.1	123.4	120.7	113.1	115.8
Value (millions)	$106.6	$128.4	$150.0	$149.6	$153.7
Average Price (per mcf)	$1.01	$1.04	$1.24	$1.32	$1.33

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (ONGARD, sales month basis as of November 2013).

Severance Taxes on Oil, Natural Gas, and Carbon Dioxide

The State collects taxes on the severance and sale of oil, natural gas and carbon dioxide ("CO_2"). Table 11 summarizes the history of statutory tax rates imposed on natural gas, oil, and CO_2. Tax rates are set by statute, Section 7-29-4 NMSA 1978, and are levied on the volume and/or value of product sold. With the exceptions noted below, tax rates have been imposed on an *ad valorem* basis, with deductions allowed for royalties paid to governments and also for certain expenses of transporting and processing products downstream of the production facility.

TABLE 11

History of Severance Tax Rates on Oil, Natural Gas and Carbon Dioxide

Year of Statutory Change	Natural Gas	Oil	Carbon Dioxide
1959	2.500%	2.500%	–
1974	3.750%	3.750%	–
1977	$0.050/mcf + surtax	$0.450/bbl + surtax	–
1980	$0.087/mcf + surtax	3.750%	–
1987	3.750%	3.750%	3.750%

Source: New Mexico Department of Finance and Administration.

Oil and Natural Gas Incentives

Although the State offers reduced severance tax rates for several categories of production, prices are above the threshold level, so none of these incentives are presently applicable. Table 12 summarizes incentive tax rates applying to various categories of production as of Fiscal Year 2013. Should prices decline in the future, some of these incentives may become applicable again.

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TABLE 12

Oil and Natural Gas Tax Incentive Programs

Incentive Category	Incentive Tax Rate	Threshold Price Below Which Incentive Rate Applies	Qualified Production As a Percent of Fiscal Year 2009 Total
Production Restoration Project	0.0000%[(1)]	$24.00 per barrel[(2)]	0.0% Oil[(4)]
		$24.00 per barrel[(2)]	0.0% Natural Gas[(4)]
Well workover wells	2.4500%	$24.00 per barrel[(2)]	0.0% Oil[(4)]
		$24.00 per barrel[(2)]	0.0% Natural Gas[(4)]
Stripper wells	1.8750%	$ 1.15 per mcf-Gas[(3)]	0.0% Natural Gas[(4)]
		$15.00 per barrel-Oil[(3)]	0.0% Oil[(4)]
	2.8125%	$ 1.35 per mcf-Gas[(3)]	0.0% Natural Gas[(4)]
		$18.00 per barrel-Oil[(2)]	0.0% Oil[(4)]
Enhanced oil recovery	1.8750%	$28.00 per barrel[(2)]	0.0% Oil[(4)]

(1) The incentive rate applies for 10 years after the restoration project is completed. Each year's production is tested against the threshold price.
(2) Twelve-month average price for West Texas Intermediate crude oil as reported on Oil Postings for last day of each month.
(3) Average annual taxable value of natural gas or oil sold in New Mexico during the preceding calendar year.
(4) No oil or natural gas volumes are expected to qualify for these incentives during the period because average taxable value exceeds the threshold levels.

Source: Sections 7-29A and 7-29B, New Mexico Statutes, Annotated 1978.

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 Co. v. State of New Mexico*, 490 U.S. 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989). The State's authority to impose severance taxes on Indian oil and natural gas production on tribal land was upheld by the United States District Court in New Mexico in *Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922. In 2009, the United States District Court for the District of New Mexico held that the State may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal land of the Ute Mountain Ute Tribe. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009) (Parker, J.). The Tenth Circuit Court of Appeals overturned the district court opinion and held that the State severance taxes are not preempted by federal law. *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 3.8 percent and 0.5 percent, respectively, of total statewide production in Fiscal Year 2013. The TRD estimates that oil and natural gas production on Indian land generated $6.2 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2013. Coal production on Indian land was 36.1 percent of total statewide production in Fiscal Year 2013. No potash, copper or carbon dioxide (CO_2) is produced on Indian land.

Section 7-29C-1 NMSA 1978, enacted by the 1995 Legislature, authorized a credit against state production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75 percent of the lesser of state taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State's credit is lowered. The ONGARD website reports that total credits claimed under this provision were about $2.3 million in Fiscal Year 2013. About $0.9 million of these credits were applied against oil and natural gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

The 2001 Legislature enacted Sections 7-29C-2, 7-9-88.2 and 9-11-12.2 NMSA 1978, which provided a similar 75 percent intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation. The TRD reports that this credit reduced Bonding Fund revenue by $3.4 million in Fiscal Year 2013.

Carbon Dioxide

The Bravo Dome CO_2 field encompasses 1.2 million acres in Harding, Union and Quay Counties in the northeastern area of the State. It contains estimated resources of 16.3 trillion cubic feet, of which 7.0 to 10.6 trillion cubic feet are considered economically recoverable. Although the State has long produced limited quantities of liquid and solid CO_2 for use in the food and the engineering industries, the main commercial value of CO_2 deposits is derived from the use of the product in its gaseous form in enhanced oil recovery projects in the Permian Basin of Texas and New Mexico. Future sales ultimately will depend on the CO_2 requirements of such projects and on the State's proportion of the market, which is shared with Colorado's Sheep Mountain and Little Sheep Mountain, McElmo Dome and Doe Creek Fields. Sales of CO_2 were approximately 115.8 bcf in Fiscal Year 2013, an increase of 2.4 percent from 113.1 bcf during Fiscal Year 2012. The weighted average wellhead price of CO_2 sales for Fiscal Year 2013 was $1.33 per mcf reported at the production facility, an increase of 1 cent from $1.32 per mcf during Fiscal Year 2012. Severance Taxes on CO_2 are levied at the rate of 3.75 percent of taxable sales value. Deductions have ranged from 32.7 percent in Fiscal Year 2006 to 22.9 percent in Fiscal Year 2008. Weighted average deductions were 29.3 percent in Fiscal Year 2013.

History of Severance Tax and Severance Tax Surtax on Coal Production

Severance taxes have been levied on coal production in New Mexico since 1937. Revenues were distributed to the State general fund until adoption of the Severance Tax Bonding Act in 1961. Tax rates were imposed on an ad valorem basis, 0.125 percent of value from 1937 to 1974, and 0.5 percent of value from 1974 to 1977. In 1977, rates were converted to $0.38 per short ton for seam coal and $0.18 per short ton for metallurgical coal. A severance surtax was also imposed. Subsequent rates were to be determined annually by multiplying the severance tax per short ton by the percentage increase in the Consumer Price Index ("CPI") from 1976 to the calendar year just prior to the year in which the surtax rates were to be computed. The base severance tax rate was then increased to the current base rate of $0.57 per ton in 1980. A slightly reduced base rate of $0.55 per ton was provided for underground-mined coal in 1982.

Effective July 1, 1989, the severance surtax was frozen for a period of four years at $0.60 per ton for surface coal and $0.58 per ton for underground coal. When added to the base tax rate, this action had the effect of freezing the total rate at $1.17 per ton for surface coal and $1.13 per ton for underground coal. The surtax freeze was to terminate on July 1, 1993.

In 1990 the Legislature exempted from the surtax coal sold under new contracts entered into on or after July 1, 1990, and before July 1, 1994. The exemption also extended to incremental sales under existing contracts measured by the increase in sales over the annual average established in Fiscal Years 1987 to 1989. In 1992 the exemption was extended to incremental sales under renegotiated contracts.

In 1993 the exemption was extended to July 1, 1994. The annual increase was to be based upon the Producer Price Index ("PPI") for coal instead of the CPI. The surtax formula provides that in no case will the surtax be decreased, so a fall in the PPI for coal will not trigger a drop in the surtax rate. In 1994 the exemption was extended to July 1, 1995. In 1995 it was extended to July 1, 1997. In 1997 it was extended to July 1, 1999.

Pursuant to actions of the 1999 Legislature, currently the following coal is exempt from the surtax: (1) coal sold and delivered pursuant to genuinely new contracts entered into on or after July 1, 1990; (2) coal sold and delivered pursuant to contracts already in effect on July 1, 1990, that exceeds the annualized average calendar year deliveries under the contract during production years 1987, 1988 and 1989 or the highest contract minimum during these three years, whichever is greater, unless the deliveries are reduced due to causes beyond the reasonable control of either party to the contract; (3) if a contract existing on July 1, 1990, and renegotiated after May 20, 1992, requires the purchaser to take annual coal deliveries in excess of the greater of the average calendar year deliveries from 1987-1989 or the highest annual contract minimum from 1987-1989, the surtax does not apply to such excess deliveries for the remaining term of the renegotiated contract. Taxpayers were required to register any contract for the sale of qualified coal with the department prior to taking the exemption.

After a number of years of stable revenues, 2011 marked a significant decrease of coal severance tax from $23.3 million in Fiscal Year 2010 to $15.7 million in Fiscal Year 2011. This decrease was caused by renegotiation of several long term mine-mouth contracts. Coal sold and delivered under the new contracts is exempt from the coal surtax. The resources excise tax collections were $5.4 million in Fiscal Year 2013.

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

TABLE 13

Coal Production, Prices, Revenues, and Taxes
Fiscal Years 2009 to 2013

	2009	2010	2011	2012	2013
Production:					
Total Sales Volume (tons)	25,482,801	23,213,759	24,202,247	23,024,642	22,634,537
Surface Mined Surtax Exempt	7,671,768	7,144,637	16,148,057	16,413,332	15,880,674
Surface Mined Non-Exempt	11,618,253	10,019,543	1,768,875	533,727	893,391
Underground Mined Surtax Exempt	6,192,780	6,049,579	6,285,315	6,077,582	5,860,472
Prices:					
Weighted Average Price per Ton for All Coal	$31.09	$28.97	$29.55	$33.65	$34.11
Sales Revenue:					
Total Sales Revenue	$792,304,607	$672,551,118	$715,148,886	$774,782,796	$772,134,654
Taxes Collected and Intergovernmental Tax Credits (ITC):					
Gross Severance Tax and Severance Surtax Due	$ 24,044,491	$ 23,330,785	$ 15,668,404	$ 13,626,955	$ 13,919,087
Intergovernmental Tax Credit (ITC)	$ 3,810,231	$ 2,257,604	$ 3,267,415	$ 2,747,567	$ 3,411,207
Net Severance Tax and Severance Surtax Liability (Net of ITC)	$ 20,234,260	$ 21,073,181	$ 12,400,989	10,879,388	$ 10,507,880
Effective Taxes (Net of ITC):					
Effective Tax Rate	2.55%	3.13%	1.73%	1.40%	1.36%
Effective Tax per Ton for all Coal (Net of ITC)	$0.79	$0.91	$0.51	$0.47	$0.46

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

Severance Taxes on Other Minerals

Many other minerals and natural resources are taxed in the State upon their severance from the earth or, in some cases, their sale or shipment. Existing tax rates are listed in Table 14. In many cases, flat percentage deductions are allowed to account for certain production costs. The result is that the gross value is a percentage of the "full value." The "full value," in turn, is sometimes based upon published prices rather than actual revenues. Generally, for products with a price at the point of production, value is that price less deductions allowed for actual costs for hoisting, loading, and crushing of up to 50 percent of price. For products that must be processed before sale, deductions are allowed for cost of processing and freight charges to the point of sale. Several exceptions apply, as detailed below.

For potash, the gross value is 40 percent of the posted field or market price, less those actual expenses of hoisting, crushing and loading necessary to place the severed product in marketable form and at a marketable price but allowable deductions may not exceed 50 percent. The gross value for each type of potash and potash product requiring processing or beneficiation (other than sizing) is 33.33 percent of the proceeds realized from the sale of muriate of potash and sulphate of potash magnesia, as standard grades, and 33.33 percent of the value of such products consumed in the production of other potash products, less 50 percent of such reported value as a deduction for expenses of hoisting, loading, crushing, processing, and beneficiation.

Gross values for copper, lead and zinc, gold, and silver are 66.66 percent of specified Comex, London Metal Exchange cash price, London Metal Exchange Final, and London spot, U.S. Equivalent, respectively, as published in *Metals Week*. The gross value for gold is the sales value established from published price date of the quantity of gold recoverable from the concentrate or other product which is sold or is shipped, transmitted or transported out of New Mexico without sale. The gross value for silver is 80 percent of the sales value established from published price date of the quantity of silver recoverable from the concentrate or other product which is sold or is shipped, transmitted or transported out of New Mexico without sale. For molybdenum, gross value is the value of molybdenum contained in concentrates shipped or sold from a mine site, but in no event shall it be less than market value. For copper, lead, zinc, gold, silver and molybdenum, deductions of 50 percent of the sales value are allowed for the expenses of hoisting, loading, crushing, processing and beneficiation, regardless of actual expenses incurred.

For sand and gravel, in the absence of substantial evidence of a different posted field or market price, it is presumed that the gross value is $1.75 per ton. In the absence of evidence of lower deductible expenses the maximum 50 percent deduction will be allowed. In determining taxable value, rent and royalty payments to the federal government or the State government are deductible from gross value.

TABLE 14

Severance Tax Rates on Other Minerals

Mineral Resources	Tax Rate (%)	Gross Value as Percent of Full Value (%)
Potash	2.500	Not fixed
Copper	0.500	16.67
Timber, Pumice, Gypsum, Clay, Fluorspar, Other	0.125	Not fixed
Molybdenum	0.125	50.00
Lead, Zinc	0.125	16.67
Gold	0.200	50.00
Silver	0.200	30.00
Uranium	3.500	50.00 (taxable value as percent of full value)

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

Severance tax revenue from potash was $1.9 million in Fiscal Year 2013, down from $2.0 million in Fiscal Year 2012. Severance tax revenue from copper, which is limited because of the statutorily defined narrow tax base, was $707,188 in Fiscal Year 2013, a significant increase from $571,012 in Fiscal Year 2012 after peaking at $760,288 in Fiscal Year 2008. Weighted average copper prices were $3.50 per pound in Fiscal Year 2013.

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The current population of the State is 2,085,538. 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 6, 2012.

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

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

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

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

Pension and Other Retirement Funds and Benefits

Legislative History. As with many other states, the State has experienced funding issues regarding its pension and other retirement funds. As set forth below, the Legislature has acted to reform pension programs and to better ensure the continued viability of the programs.

The Legislature enacted the Educational Retirement Act, Section 22-11-1 et seq. NMSA 1978, the Public Employees Retirement Act, Section 10-11-1 et seq. NMSA 1978, and the Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19, NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are managed by the Educational Retirement Board ("ERB"), the Public Employees Retirement Association ("PERA"), and the New Mexico Retiree Health Care Authority ("NMRHCA") and described below. The Legislature establishes all financing provisions of the plans and the provisions are not subject to negotiation. Financing provisions include employee and employer contributions, fund investment provisions and benefit provisions. In 1998, the voters amended the State Constitution, adopting Section 22 of Article XX, which states that upon meeting the minimum service requirements of an applicable retirement plan created by law for employees of the State or any of its political subdivisions or institutions, a member of a plan shall acquire a vested property right with due process protections under the applicable provisions of the New Mexico and United States Constitutions. The amendment also stated that nothing in Section 22 shall be construed to prohibit modifications to retirement plans that enhance or preserve their actuarial soundness. As with other pension funds nationwide, New Mexico's pension funds were affected by the significant market turmoil related to the downturn in the nation's economy that began in 2008. As of June 30, 2013, the funds had recovered substantially all of the losses incurred during the 2008 – early 2009 period.

Recent legislative changes enacted during the 2009, 2010, 2011, 2012 and 2013 legislative sessions also amended various provisions of the Educational Retirement Act, the Public Employees Retirement Act, and the New Mexico Retiree Health Care Act to improve the long-term stability of these funds.

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

House Bill 631 (Chapter 286, Laws 2009) added a section to the Educational Retirement Act to extend the rule whereby ERB members could retire with full benefits if their combined service and age at retirement met or exceeded 75, to a combined service and age at retirement of 80 for ERB members hired after July 1, 2010.

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

House Bill 854 (Chapter 124, Laws 2009) modified most employer and employee contributions to the State's retirement funds for Fiscal Years 2010 and 2011, shifting 1.5 percent of the annual contribution rate from employers to employees for those employees with a full-time equivalent annual salary greater than $20,000.

House Bill 628 (Chapter 178, Laws 2011) extended the existing 1.5 percent shift made in House Bill 854 through Fiscal Year 2013 and shifted an additional 1.75 percent of the annual contribution rate from employers to employees for Fiscal Year 2012. The additional 1.75 percent of the annual contribution rate shifted back from the employees back to the employers for Fiscal Year 2013. The 1.5 percent contribution shift from the employers to the employees remains in place through Fiscal Year 2013. House Bill 628 also required an actuarial study by PERA and ERB prior to September 20, 2013 to analyze whether contribution rate changes have had an adverse actuarial effect on the retirement systems.

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

Senate Bill 27 (Chapter 225, Laws 2013) significantly amends the Public Employees' Retirement Act by creating a new tier of reduced benefits for new hires. The law reduces the cost of living adjustments for all current and future retirees; delays the application of cost of living adjustments for certain future retirees; suspends the cost of living adjustments for certain return-to-work retirees; provides for an increase in the statutory employee contribution rate of 1.5 percent (subject to certain requirements) for employees earning $20,000 or more in annual salary; provides for an increase in the statutory employer contribution of 0.4 percent beginning in Fiscal Year 2015; increases age and service requirements; lengthens the base average salary calculation amount from three to five years for future employees; increases the vesting period for employees from five to eight years for most members; lowers the annual service credit by 0.5 for most members; and makes several other clarifying and technical changes. The projected actuarial funded ratio in 2043 with changes made by Senate Bill 27 is 108.8 percent.

Senate Bill 115 (Chapter 61, Laws 2013) amends the Educational Retirement Act. The law increases employee contributions for members whose salary exceeds $20,000 per year to 10.1 percent in Fiscal Year 2014 and 10.7 percent beginning in Fiscal Year 2015; keeps in place scheduled increases in employer contribution rates; creates a new tier membership for persons who become members of the ERB fund on or after July 1, 2013; creates certain actuarial limitations on benefits of new tier members; places limitations on future cost of living adjustments ("COLA") for current and future retirees which are tied to the future funded ratios of the plan; and makes certain other clarifying and technical changes. The projected actuarial funded ratio in 2043 with changes made by Senate Bill 115 is 100.7 percent.

Educational Retirement Board-Historic Financial Information. The ERB had 135,584 members as of June 30, 2013, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the "Fund") as of June 30, 2013 was $10.2 billion, which was up from a low of $6.0 billion in February 2009. The ERB had net investment gains for the Fiscal Year 2013 of 10.8 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, 2013, the actuarial value of assets was $9.8 billion and the unfunded accrued actuarial liability ("UAAL") was $6.5 billion based on the 7.75 percent assumed rate of return. The pooled nature and structure of the Fund, which covers all employees working in K-12, higher education and special state schools, and certain employees in state and special purpose agencies, does not allow the UAAL of the Fund to be apportioned among multiple employers. Others changes were made to the ERB's actuarial assumptions in April 2011, the most significant of which included: changing the funding method to traditional individual entry age normal; revising post-retirement mortality to reflect slightly longer life expectancy; changing retirement rates at ages 65 and 69 and with 25 or more years of service; decreasing salary increases for members with 10 or more years of service; and decreasing membership growth assumptions. The combined effect of the changes in actuarial assumptions, including to the assumed investment return rate, increased the UAAL by $426.1 million. 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 recent changes reduced the June 30, 2013 UAAL by $76 million. The funded ratio on June 30, 2013 was 60.1 percent.

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

As of June 30, 2013, the UAAL had an amortization period of 95.1 years based on the 7.75 percent assumed rate of return. The amortization period, also referred to as the funding period, is a calculation based on actuarial models of the period required to amortize the UAAL, assuming ERB's experience exactly follows actuarial assumptions. The calculation is based on current contribution rates and does not take into account the statutorily scheduled increases in those rates described below. The ERB successfully implemented Governmental Accounting Standards Board ("GASB") Statement 67 requirements early with its June 30, 2013 financial statements.

Member and employer contribution rates are established by State statute. In 2005, the Legislature amended Section 22-11-21 NMSA 1978 to increase the employer contribution rate by 0.75 percent for each of the seven years beginning July 1, 2005, and to increase member contribution rates by 0.075 percent for each of the four years beginning July 1, 2005. In the 2009 regular legislative session, the Legislature modified employer and member contribution rates for Fiscal Years 2010 and 2011 to shift 1.5 percent of the employer contribution rate to members whose annual salary exceeds $20,000, resulting in a member contribution rate of 9.4 percent. In the 2011 regular legislative session, the Legislature again modified employer and member contribution rates for Fiscal Year 2012 to extend the 1.5 percent shift and add an additional 1.75 percent shift; for members whose salary exceeds $20,000, the Fiscal Year 2012 contribution rate was 11.15 percent. As a result of the expiration of the 1.75 percent contribution shift described above, the contribution rate for those members whose salary exceeds $20,000 is 9.4 percent in Fiscal Year 2013. For those members whose annual salary is $20,000 or less, the contribution rate remains at 7.9 percent.

In both the 2010 and the 2011 regular legislative sessions, the Legislature also modified employer contribution rates. In Fiscal Years 2010 and 2011, the employer contribution rate for members whose salary is greater than $20,000 was 10.9 percent. The employer contribution rate for those members was 9.15 percent in Fiscal Year 2012. The employer contribution rate in Fiscal Year 2013 has returned to 10.9 percent. The contribution rate for members whose salary is $20,000 or less is 12.4 percent in Fiscal Years 2010, 2011, 2012, and 2013. In Fiscal Year 2014, the employer contribution rate for all members employed, regardless of salary, will increase to 13.15 percent. Beginning in Fiscal Year 2015, the employer contribution rate will be 13.9 percent for all members employed. As noted above, the funding period is reported based on the contribution rates actually in effect as of the date the contribution is made. In addition, New Mexico universities and colleges make an additional contribution of 3 percent of the salary of those employees who elect to participate in the Alternative Retirement Plan ("ARP"), a defined contribution retirement plan available to certain faculty and professional employees, to satisfy the UAAL attributable to participation in the ARP.

Governmental Accounting Standards Board ("GASB") Statement 67 requires ERB to report the annual required contribution of the employer (the "ARC"), also known as the actuarially determined contribution, and the percentage of the ARC contributed. ERB meets 100 percent of its statutorily required employer contributions annually. The following table lists the ARC and the ERB funded ratio for Fiscal Years 2009 through 2013.

TABLE 15

ERB Funded Ratio

Fiscal Year	Annual Required Contribution	Funded Ratio
2009	$375,430,722	67.5
2010	$357,220,043	65.7
2011	$377,884,749	63.0
2012	$400,461,343	60.7
2013	$480,700,326	60.1

Source: Educational Retirement Board.

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

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

In December 2013, the Supreme Court of New Mexico, in *Barlett v. Cameron* (Docket No. 34,210) rejected the claims of certain retired teachers, professors and other public education employees challenging the state constitutionality of Senate Bill 115 (Chapter 61, Laws 2013) to the extent that it reduces the future amounts that all education retirees might receive as annual COLA. The court held that Article XX Section 22 of the State Constitution did not grant the retirees a right to an annual COLA based on the formula in effect on the date of their retirement for the entirety of their retirement. The court held that in the absence of any contrary indication from the Legislature, 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, of course, the COLA by statute becomes part of the retirement benefit and a property right subject to those constitutional protections.

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

The Public Employees Retirement Association-Historic Financial Information. PERA had 89,613 members as of June 30, 2013. As of October 22, 2013, the total market value of PERA Fund was $13.8 billion. The Fiscal Year 2013 PERA total fund investment return was 13.26 percent.

Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund ("VFF") as of June 30, 2013. In July 2012, the PERA Board accepted the actuary's revised assumptions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 3.5 percent per annum, a real rate of return on investment of 7.75 percent and salary increases for longevity and merit at 4.0 percent, each compounded annually.

In 2013, the PERA Board lowered the interest rate on members' contributions from 5.25 percent to 2 percent.

PERA member and employer contribution rates are established by State statute. In 2013, the Legislature amended the PERA Act, NMSA 1978 1-11-1 et seq. to increase the employer contribution rate of 0.4 percent beginning July 1, 2014, and to increase member contribution rates by 1.5 percent beginning July 1, 2013.

Actuarial information for each fund as of June 30, 2013 is shown in Table 16.

TABLE 16

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

	PERA[1]	Judicial	Magistrate	VFF	Legislative
Membership	89,613	279	140	8,028	316
Actuarial Information					
Accrued Liability[2]	$17,057,380	$143,745	$54,498	$ 37,766	$25,127
Actuarial Value of Assets[3]	$12,438,151	$ 80,007	$31,813	$ 52,179	$28,939
Unfunded (Overfunded) Accrued Liability	$ 4,619,228	$ 63,738	$22,685	$ (14,412)	$ (3,811)
Present Value of Statutory Obligations	$20,253,756	$168,730	$59,033	$ 43,100	$28,907

(1) Includes both the state and municipal divisions.
(2) Includes the accrued liability of both the retired and active members.
(3) The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to a 7.75 percent annual return are smoothed in over a four-year period.

Source: Public Employees Retirement Association.

As of June 30, 2013, PERA has an amortization or funding period of 128 years, based on the employer and member contribution rates in effect as of July 1, 2013. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-141 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 72.9 percent as of June 30, 2013 and the UAAL of the PERA Fund has been significantly reduced to be approximately $4.6 billion. The State's portion of the UAAL of the PERA Fund is 52.6 percent, or $2.4 billion. As of June 30, 2012, the funded ratio was 65.3 percent and the UAAL of the PERA Fund was calculated to be approximately $6.2 billion. The primary cause of the increase in the funded ratio and decrease in accrued actuarial liability is the investment gain from 2013 plan year and passage of SB27 during the 2013 legislative session. On a market value basis, PERA's funded ratio is approximately 74.33 percent as of June 30, 2013. The PERA Board's reform proposal (Senate Bill 27) had an immediate impact of reducing the $6.2 billion unfunded liability by $1.55 billion, increased the funded ratio by 6.6 percent and is projected to restore the fund to approximately 100 percent funded status by 2042.

GASB Statement 25 requires PERA to report its ARC and the percentage of the ARC contributed. PERA meets 100 percent of its statutorily required employer contributions annually.

The following tables list the funded ratios for each individual PERA fund for Fiscal Years 2008 through 2013.

TABLE 17

Funded Ratio of State Retirement Funds Managed by PERA

Fiscal Year	PERA	Judicial	Magistrate	VFF	Legislative
2008	93.3%	78.3%	93.2%	285.8%	93.4%
2009	84.2	60.5	66.3	242.5	86.9
2010	78.5	61.2	65.8	231.3	82.9
2011	70.5	56.0	59.8	173.4	89.2
2012	65.3	51.0	53.2	167.9	91.8
2013	72.9	55.7	58.38	138.16	115.2

Source: Public Employee Retirement Association.

New Mexico Retiree Health Care Authority-Historic Financial Information. The RHCA was enacted for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service positions in the State and their eligible dependents. NMRHCA offers both pre Medicare and Medicare plans, as well as dental, vision and life insurance plans to eligible retirees. There were approximately 53,500 enrolled members as of July 2013 and approximately 300 participating public entities.

NMRHCA experienced an investment gain in Fiscal Year 2013 of approximately 11.6 percent, and NMRHCA has been able to add over $80 million to its trust fund over the past three years. NMRHCA's market value as of October 31, 2013 was $321.7 million.

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

NMRHCA, the agency that administers the Retiree Health Care Act, has a revenue base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund ("TAA Fund"). Employer and employee contribution rates are established in statute as is the amount distributed from the TAA Fund. Respective employer/employee contribution rates were 2 percent and 1 percent of the participating employee's salary for Fiscal Year 2013.

Based on the GASB Statement 43 valuation for Fiscal Year 2012, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5 percent, the UAAL has been calculated to be approximately $3.6 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. The NMRHCA continues to look for additional opportunities to further strengthen the financial standing of the NMRHCA. The NMRHCA Board of Directors has passed a five-year solvency plan to ensure the long term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and their employers. In addition to increased retiree cost sharing through plan design changes, the solvency plan calls for proportionately higher premiums for retirees who retired younger (decreased premium subsidies to pre-Medicare retirees), didn't work or pay into the system as long (increasing years of service required to receive maximum subsidy) and decreased subsidies for family members. Taken as a whole, the plan is projected to extend the life of the NMRHCA's trust fund into 2043.

As recently as 2007, the NMRHCA was projected to be insolvent as early as 2014. However, actions taken by the NMRHCA decreasing subsidy levels, increasing premiums and modifying plan designs, coupled with increases in employer/employee contribution rates have extended the NMRHCA's solvency through 2029.

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

TABLE 18

NMRHCA Annual Required Contribution

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

Source: New Mexico Retiree Health Care Authority.

FINANCIAL OVERVIEW

State Auditing and Accounting Systems

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

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

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

As of June 30, 2012, the balance sheet of the General Operating Reserve Fund reported an allowance for potential loss of $70 million with a corresponding loss provision. The potential loss is reported as a special item on the statement of revenues, appropriations and changes in fund balances, since it is considered to be unusual, and its placement within the financial reporting entity of the State of New Mexico is under the control of management. In June 2012, an independent expert diagnostic report revealed that State General Fund Investment Pool (the "Pool") balances have not been reconciled at the business unit/fund level since the inception of SHARE on July 1, 2006. The 2012 Comprehensive Annual Financial Report ("CAFR") for the State noted that the loss provision could be as high as $101 million. The 2013 CAFR has not been issued; however, a contract has been issued to audit the 2013 CAFR. The CAFR has been reviewed, but has not been audited since its inception. A review of financial statements is a lower standard than an audit of financial statements. DFA management has developed of range of $70 million to $101 million for the loss provision, in accordance with Government Accounting Standards Board (GASB) Statement 62. The lower amount in the range ($70 million) continues as the loss provision within the Fiscal Year 2013 General Operating Reserve Fund financial statements.

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

The first phase of the Remediation Project was completed in Fiscal Year 2013 and resulted in the implementation of monthly cash reconciliation of statewide cash activity. The DFA has requested a legislative appropriation to conduct a historical reconciliation of statewide cash from July 1, 2006, the implementation date of SHARE, through January 31, 2013. The reconciliation will be conducted by a contracted third party Peoplesoft Treasury expert. The results of the reconciliation will allow DFA to determine the final loss provision to be booked. The effect of any unreconciled differences not allocable to other Pool participants will be reported in the General Operating Reserve Fund.

State Budgetary and Appropriation Process

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

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

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

State Treasurer's 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 invested a portion of the general fund and the State Bond Proceeds Investment Pool in the Reserve Primary Fund ("RPF"), a money market fund, in Fiscal Years 2007 and 2008 respectively. On September 15, 2008, the balance of the general fund's RPF investment was $448.7 million, and the balance of the State Bond Proceeds Investment Pool's RPF investment was $311.6 million. On September 16, 2008, the RPF net asset value fell below $1.00 and holdings in the fund were frozen. Since then, RPF has returned approximately $0.9904 per share to shareholders. On the recommendations of the independent public accounting firm performing the Fiscal Year 2011 audit of the State Treasury, the remaining positions in the RPF, $4.33 million of the general fund and $3.01 million of the State Bond Proceeds Investment Pool, were written-down in Fiscal Year 2011. On December 6, 2013, a notice from the Primary Liquidating Fund (Primary Fund-In Liquidation, formerly known as the RPF) indicated that Form 1099-DIV (the "Form") relating to calendar year 2013 is expected to be distributed on or about January 31, 2014. The Form will report a shareholder's proportionate share of each Fund's income and expense. There also may be limitations on deductibility which may reduce or eliminate the ability to deduct such expense items against any taxable income for federal, state or local tax purposes. Once all pending litigation is settled, the remaining balance of the fund will be distributed after all mandated court costs and legal fees are paid, and this final recovery of funds is expected to be quite small.

According to the Investment Policy, an Investment Committee is appointed by the State Treasurer and the Board with the specific purpose and responsibility of establishing, maintaining and administering the Investment Policy. The Investment Committee consists of five 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 fund investing. One member is appointed by the State Treasurer and approved by the Board and one member is appointed by the Board and approved by the State Treasurer.

The Investment Committee meets monthly to:

- Review the Investment Policy, no less than annually, and recommend, if advisable, modifications in the Investment Policy from time to time;

- Assess, no less than annually, the utility and efficacy of established internal controls as loss prevention measures with respect to the investment portfolio;

- Determine, no less than annually, whether legislation affecting the investment activities of the State Treasurer should be recommended;

- Recommend investment procedures that may be useful or required in maintaining currency with public money investment practices;

- Deliberate on such topics as economic outlook, portfolio diversification and maturity structure, potential risks, the target rate of return on the investment portfolio;

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

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

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

In addition to 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.

General Fund

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 States 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 2010 through 2012, preliminary results for Fiscal Year 2013, and projections for Fiscal Years 2014 and 2015.

TABLE 19

General Fund Financial Summary
Fiscal Year 2010 – Fiscal Year 2015

(Dollars in thousands)

	Actual 2010	Actual 2011	Actual 2012	Preliminary 2013	Projected 2014	Projected 2015
A. APPROPRIATION ACCOUNT						
Recurring Receipts:						
General and Selective Sales Taxes	$ 2,058,176	$ 2,332,524	$ 2,428,026	$ 2,397,750	$ 2,487,100	$ 2,664,500
Income Taxes	1,081,661	1,290,752	1,431,516	1,508,102	1,490,500	1,569,000
Severance Taxes	390,702	423,796	456,402	438,357	477,700	473,400
License Fees	50,267	49,750	49,595	50,011	49,900	50,600
Investment Income	646,325	648,431	662,588	631,786	627,800	682,300
Rents and Royalties	423,004	477,439	595,082	504,263	537,600	567,600
Miscellaneous Receipts	44,351	52,176	45,104	41,272	49,200	51,200
Tribal Revenue Sharing	64,118	65,891	68,189	70,709	72,500	74,400
Tobacco Settlement	-	-	-	-	-	-
Reversions/Adjustments	40,000	67,816	65,885	65,761	71,400	53,000
Total Recurring Receipts	**4,798,603**	**5,408,575**	**5,802,385**	**5,708,012**	**5,863,700**	**6,186,000**
Total Nonrecurring and Adjustments	**479,876**	**62,536**	**14,683**	**618**	**-**	**-**
Total Receipts	**$ 5,278,480**	**$ 5,471,111**	**$ 5,817,068**	**$ 5,708,629**	**$ 5,863,700**	**$ 6,186,000**
Recurring Appropriations:						
Legislative	$ 24,577	$ 25,549	$ 23,778	$ 27,314	$ 18,514	
Judicial	206,181	194,531	190,591	199,026	209,090	
General Control	198,050	173,711	156,436	160,634	169,615	
Commerce and Industry/Exam. and Lic.	57,767	50,759	43,142	43,890	46,243	
Agriculture, Energy and Natural Resources	82,100	69,299	61,551	62,814	66,900	
Health, Hospitals and Human Services	1,297,961	1,232,956	1,524,724	1,584,339	1,639,394	
Public Safety	393,287	363,110	354,101	367,803	379,613	
Other Education	48,226	26,088	27,590	52,573	68,808	
Higher Education	817,917	766,282	716,565	757,717	796,029	
Public School Support	2,231,900	2,309,665	2,338,422	2,402,768	2,498,742	
Recurring Appropriations	5,357,966	5,211,950	5,436,899	5,658,878	5,892,947	
Other Recurring Appropriations	-	-	-	-	-	
Total Recurring Appropriations	**5,357,966**	**5,211,950**	**5,436,899**	**5,658,878**	**5,892,947**	**6,186,000**
Nonrecurring Appropriations[(1)]	**93,160**	**18,254**	**77,171**	**68,225**	**1,500**	**0**
Total Appropriations	**$ 5,451,126**	**$ 5,230,203**	**$ 5,514,071**	**$ 5,727,103**	**$ 5,894,447**	**$ 6,186,000**
Transfer from/(to) Other Reserve Accounts	172,647	(804)	(40,000)			
TRANSFER FROM/(TO) OPERATING RESERVE	**$ -**	**$ (240,103)**	**$ (262,997)**	**$ 18,474**	**$ 30,747**	**$ -**

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

		Actual 2010	Actual 2011	Actual 2012	Preliminary 2013	Projected 2014	Projected 2015
B.	**OPERATING RESERVE**						
	Beginning Balance	**$ 37,451**	**$ 36,236**	**$ 276,688**	**$ 346,945**	**$ 275,606**	**$ 209,859**
	Revenues/Repayments/Reversions	-	1,366	271	92	-	-
	Appropriations:						
	Contingencies	-	-	(70,000)	(51,700)	(16,000)	-
	Other Appropriations and Adjustments	(1,215)	(1,016)	(1,551)	(1,257)	(2,000)	(2,000)
	Total Appropriations[2]	**(1,215)**	**(1,016)**	**(71,551)**	**(52,957)**	**(18,000)**	**(2,000)**
	Transfers:						
	From/(To) General Fund Appropriations Account	-	240,103	262,997	(18,474)	(30,747)	-
	To Appropriation Contingency Fund	-	-	-	-	(17,000)	-
	To Tax Stabilization Reserve Fund	-	-	(121,461)	-	-	-
	Total Transfers	**-**	**240,103**	**141,536**	**(18,474)**	**(47,747)**	**-**
	Ending Balance[3]	**$ 36,236**	**$ 276,688**	**$ 346,945**	**$ 275,606**	**$ 209,859**	**$ 207,859**

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

		Actual 2010	Actual 2011	Actual 2012	Preliminary 2013	Projected 2014	Projected 2015
C.	**STATE SUPPORT RESERVE**						
	Beginning Balance	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**
	Transfers From Operating Reserve/ Appropriation Account[4]	-	-	-	-	-	-
	Ending Balance	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**
D.	**APPROPRIATION CONTINGENCY FUND**						
	Beginning Balance, Excluding Education Reform	**$ 11,536**	**$ 29,642**	**$ 5,184**	**$ 29,505**	**$ 16,394**	**$ 17,394**
	Receipts:						
	Reversions	3,029	4,317	1,921	15,314	-	-
	Transfers From General Fund	25,000	-	40,000	-	17,000	-
	Expenditures/Appropriations:[5]						
	Disasters	(9,923)	(28,775)	(17,600)	(28,425)	(16,000)	(16,000)
	Other	-	-	-	-	-	-
	Ending Balance, Excluding Education Reform	**$ 29,642**	**$ 5,184**	**$ 29,505**	**$ 16,394**	**$ 17,394**	**$ 1,394**
	Education Reform:						
	Beginning Balance, Education Reform	**$ 19,047**	**$ 53,047**	**$ 47,047**	**$ 39,047**	**$ 9,047**	**$ 9,047**
	Transfers In	40,000	-	-	-	-	-
	Expenditures	(6,000)	(6,000)	(8,000)	(30,000)	-	-
	Audit Adjustment	-	-	-	-	-	-
	Ending Balance, Education Reform	**$ 53,047**	**$ 47,047**	**$ 39,047**	**$ 9,047**	**$ 9,047**	**$ 9,047**
	Ending Balance, Appropriation Contingency Fund	**$ 82,689**	**$ 52,231**	**$ 68,552**	**$ 25,441**	**$ 26,441**	**$ 10,441**
E.	**TAX STABILIZATION RESERVE**						
	Beginning Balance	**$ 198,655**	**$ 26,008**	**$ 26,008**	**$ 147,469**	**$ 147,469**	**$ 147,469**
	Transfers In	-	-	121,461	-	-	-
	Transfers Out	(172,647)	-	-	-	-	-
	Ending Balance[6]	**$ 26,008**	**$ 26,008**	**$ 147,469**	**$ 147,469**	**$ 147,469**	**$ 147,469**

	Actual 2010	Actual 2011	Actual 2012	Preliminary 2013	Projected 2014	Projected 2015
F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE[7]						
Beginning Balance	**$ 120,956**	**$ 132,031**	**$ 148,786**	**$ 148,978**	**$ 170,166**	**$ 182,928**
Transfers In	40,950	38,565	39,321	39,303	19,500	39,501
Transfers Out	(40,950)	(38,565)	(39,321)	(39,303)	(19,500)	(19,751)
Gains Losses	11,075	16,755	191	21,188	12,762	13,720
Ending Balance	**$ 132,031**	**$ 148,786**	**$ 148,978**	**$ 170,166**	**$ 182,928**	**$ 216,398**
G. TAXPAYER DIVIDEND FUND						
Beginning Balance	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Gains/Losses	-	-	-	-	-	-
Ending Balance	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
H. TOTAL RESERVE BALANCES						
Beginning Balance	**$ 388,645**	**$ 277,964**	**$ 504,714**	**$ 712,944**	**$ 619,681**	**$ 567,697**
Ending Balance	**$ 277,964**	**$ 504,714**	**$ 712,944**	**$ 619,681**	**$ 567,697**	**$ 583,167**
Reserves as a Percentage of Current-Year Recurring Appropriations	5.2%	9.7%	13.1%	11.0%	9.6%	9.4%

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

NOTES TO GENERAL FUND FINANCIAL SUMMARY:

(1) Appropriation Account, Nonrecurring Appropriations:
FY10 includes the following appropriations from Laws 2008: $5.2 million in information technology appropriations transferred from FY09 (Chapter 3); and $0.5 million in capital outlay appropriations transferred from FY09 (Chapter 92). The contingencies for these appropriations did not materialize during FY09.
FY10 includes the following appropriations from Laws 2009: $100 million transferred to various funds (Laws 2009, Chapter 124, Section 12); -$1.2 million in reductions to appropriations made in Section 5 of the General Appropriation Act of 2009 (1st Special Session, Chapter 2); $3 million for public school supplemental funding (1st Special Session, Chapter 5); and -$20.15 million in reductions of appropriations made by Laws 2009 (1st Special Session, Chapter 7, SB 28).
FY10 includes the following appropriations from Laws 2010: $-0.2 million in reductions of appropriations made by Laws 2009 (Chapter 105); $5.0 million for development training funds (Chapter 79); $0.5 million from Section 5 of the General Appropriation Act of 2010 (2nd special Session, Chapter 3); and $0.5 million for the temporary tax amnesty program (2nd special session, Chapter 2).
FY11 includes the following appropriations from Laws 2010: $1.1 million from Section 5 of the General Appropriation Act of 2010 (2nd Special Session, Chapter 3), $1.5 million for the 2011 redistricting session (Laws 2011, Chapter 1), and $15.6 million from Section 5 and Section 6 of the General Appropriation Act of 2011 (Chapter 179).
FY12 includes the following appropriations from Laws 2011: $0.3 million 2012 election expenses and $0.5 million for Department of Health (Laws 2011, Ch. 179, Sec. 5); $1.5 million for redistricting (Laws 2011, Ch. 1); and $1.3 million for the 2011 1st Special Session (Chapter 1), $0.5 million for Medicaid and SNAP (1st Special Session, Chapter 2), and $4.0 million appropriated for police vehicles (1st Special Session, Chapter 5).
FY12 includes the following appropriations from Laws 2012: $69.0 million from Sections 5 and 6 of the General Appropriation Act of 2012 (Laws 2012, Ch. 19) and $5.5 million for 2012 legislative session expenses (Laws 2012, Ch. 1).
FY13 includes the following appropriations from Laws 2012: $2.5 million from Section 5 of the General Appropriation Act of 2012 (Laws 2012, Ch. 19).
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 2012: $1.5 million from Section 5 of the General Appropriation Act of 2012 (Laws 2012, Ch. 19).

(2) General Fund Operating Reserve Appropriations:
FY10 includes $1.2 million for State Board of Finance Emergency Fund.
FY11 includes $1.0 million for State Board of Finance Emergency Fund.
FY12 includes $1.3 million for State Board of Finance Emergency Fund and a $70 million contingent liability established in the Fiscal Year 2012 General Fund financial statements for potential charges related to unreconciled cash transactions.
FY13 includes $1.75 million for State Board of Finance Emergency Fund, a $31.7 million contingent liability established in the Fiscal Year 2013 General Fund financial statements for potential charges related to unreconciled cash transactions, and a $20 million contingent appropriation (HB628, Laws 2013) for Special Education Maintenance of Effort funding.
FY14 includes $2.0 million for State Board of Finance Emergency Fund, a $16 million contingent appropriation (HB628, Laws 2013) for Special Education Maintenance of Effort funding, and a $17 million transfer to the appropriation contingency fund to address reductions in federal funding to New Mexico agencies resulting from federal sequester.

(3) Year-ending Balances in the Operating Reserve:
Annually, if the balance in the General Fund Operating Reserve exceeds 8 percent of the previous year's recurring appropriations, the excess over 8 percent is transferred to the Tax Stabilization Reserve.
FY12 includes $121 million transfer from the Operating Reserve to the Tax Stabilization Fund due to the fund balance exceeding 8 percent of the previous year's recurring appropriation.

(4) Appropriation Contingency Fund Appropriations:
FY10 includes the following appropriations/transfers from Laws 2009: $9.9 million for disaster allotments; $25.0 million transferred from the general fund for general purposes (Chapter 124); and $40.0 million transferred from the Appropriation Account for education reform (Chapter 124).
FY10 includes the following appropriations/transfers from Laws 2010: $6.0 million for education reform appropriations from the General Appropriation Act of 2010 (2nd Special Session, Chapter 6, Section 5, Item 17).
FY11 includes the following appropriations/transfers from Laws 2010: $28.8 million for disaster allotments; and $4.0 million for education reform appropriations from the General Appropriation Act of 2010 (2nd Special Session, Chapter 6, Section 5, Item 16).
FY11 includes the following appropriations/transfers from Laws 2011: $2.0 million for emergency support to public schools (Laws 2011, Ch. 179, Sec. 5, Item 23).
FY12 includes the following appropriations/transfers from Laws 2011: $2.5 million for education reform appropriations (Ch. 179, Sec. 5, Item 25).
FY12 includes the following appropriations/transfers from Laws 2012: $17.6 million for disaster allotments; $5.5 million for education reform appropriations (Ch. 19, Sec. 5, Items 33-34); and $40 million transferred from the general fund (Laws 2012, Ch. 19, Sec. 10).
FY13 includes the following appropriations/transfers from Laws 2012: $1.5 million for education reform (Laws 2012, Ch. 19, Sec. 5).
FY14 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.

(5) Year-ending Balances in the Tax Stabilization Reserve:
Annually, if the balance in the Tax Stabilization Reserve exceeds 6 percent of the previous year's recurring appropriations, the excess over 6 percent is transferred to the Taxpayer's Dividend Fund.
FY10 includes $115.0 million transferred from the Tax Stabilization Reserve into the Appropriation Account (1st Special Session, Laws 2009, Chapter 3); and $57.6 million transferred from the Tax Stabilization Reserve into the Appropriation Account (2nd Special Session, Laws 2010, Chapter 6, Section 15).
FY12 includes $121.5 million transfer from the Operating Reserve to the Tax Stabilization Fund due to the fund balance exceeding 8 percent of the previous year's recurring appropriation.

(6) Tobacco Settlement Permanent Fund Reserve (established by Laws 2003, Chapter 312).
FY10 -- 100 percent of Tobacco Settlement Permanent Fund revenues, equaling $41.0 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50 percent transfer (Laws 2009, Chapter 3).
FY11 -- 100 percent of Tobacco Settlement Permanent Fund revenues, equaling $38.6 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50 percent transfer (Laws 2010, Chapter 49).
FY12 – 100 percent of Tobacco Settlement Permanent Fund revenues, equaling $39.3 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50 percent transfer (Laws 2011, Chapter 3).
FY13 –100 percent of Tobacco Settlement Permanent Fund revenues, equaling $39.0 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, rather than the historical 50 percent transfer (Laws 2011, Chapter 3).
FY14 – 50 percent of Tobacco Settlement Permanent Fund revenues, or $9.8 million, were transferred to the Tobacco Settlement Program Fund for Medicaid, 25 percent of Tobacco Settlement Permanent Fund revenues or $4.9 million were transferred to CYFD for early childhood learning initiatives, and 25 percent of Tobacco Settlement Permanent Fund revenues or $4.9 million were transferred to the Legislative Lottery Scholarship Fund to address solvency.
FY15 – 50 percent of Tobacco Settlement Permanent Fund revenues, or $19.8 million, are estimated to be transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978.

Review of Results and Projections in the General Fund

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

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

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

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

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

Fiscal Year 2012. In Fiscal Year 2012, recurring general fund revenues increased to $5.8 billion. The price of oil averaged $89.64 per barrel and the price of natural gas averaged $5.00 per mcf in Fiscal Year 2012. The Fiscal Year 2012 budget contained approximately $5.4 billion of recurring appropriations. Among the measures taken to balance the budget were decreasing the fire protection fund distribution by $1.3 million, reducing the film tax credit by $23.3 million, shifting an additional 1.75 percent of annual State pension contributions from employer to employees to save $49.7 million, improving the system for payment of unemployment insurance by State agencies resulting in cost savings of $3 million, and implementing government efficiencies to save $2.5 million. General fund reserves were $712.9 million at fiscal year end after accounting for a $70 million contingent liability established in the Fiscal Year 2012 draft General Fund financial statements for potential charges related to unreconciled cash transactions. The ending balance represented approximately 13.1 percent of current-year recurring appropriations for Fiscal Year 2012. The Governor expressed goals of maintaining reserves of 10 percent in future fiscal years, and providing for five-year expenditure forecasts to accompany consensus revenue forecasts. During the 2012 regular legislative session, $100.8 million in Fiscal Year 2012 non-recurring appropriations were enacted, including $55 million for Medicaid and personal care option program expenditures, as well as $6 million for the Economic Development Department's job training incentive program.

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

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

General fund reserves were approximately $619.7 million at the end of Fiscal Year 2013, approximately 11.0 percent of Fiscal Year 2013 recurring appropriations, after accounting for a $31.7 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. Based on the consensus revenue group projections for Fiscal Year 2014 made in December 2013, recurring general fund revenues are projected to increase 2.7 percent over Fiscal Year 2013. The ongoing effects of federal sequestration are expected to impede stronger gains in Fiscal Year 2014. Total recurring revenue is estimated to be approximately $5.9 billion. The Fiscal Year 2014 increase is largely attributable to stronger energy prices along with rapid oil production growth. The price of oil is expected to average $93.00 per barrel and the price of natural gas is expected to average $4.85 per mcf. Mineral production taxes, rents and royalties are estimated to increase by 7.7 percent over Fiscal Year 2013 to $1.0 billion. General sales tax revenues are expected to bounce back due to stronger employment growth and a reduction in payments for jobs credits. New legislation passed during the 2013 Legislative Session has allowed better targeting of the job credit, thus increasing the "bang for the buck" of the state's economic development initiative. Personal income tax revenues are forecast to decline in Fiscal Year 2014 due to an acceleration of payments that pushed these revenues into Fiscal Year 2013.

Major changes were made to the corporate income tax during the 2013 Legislative Session that will phase in over the next several years. These changes will reduce the top marginal corporate income tax rate from 7.6 to 5.9 percent and allow single sales factor income apportionment for manufacturers. Although "static" estimates show the changes will slightly reduce revenue growth between Fiscal Year 2017 and Fiscal Year 2021, the measures are likely to encourage new business investment and economic growth, with positive effects on state revenues. The legislation also included a 15-year phase-out of food and medical deduction distributions to larger local governments beginning in Fiscal Year 2016.

The general fund reserve balance is estimated to be $567.7 million at the end of Fiscal Year 2014 or 9.6 percent of Fiscal Year 2014 recurring appropriations. This figure takes into account a $20 million reduction in tobacco settlement distributions in Fiscal Year 2014 as a result of a recent arbitration decision that found New Mexico lacking in diligence with regards to non-participating manufacturers to the Master Settlement Agreement. This balance also takes into account a $16 million contingent appropriation related to federal special education funding maintenance of effort requirements.

Fiscal Year 2015. Based on its December 2013 forecast, the consensus revenue group projects Fiscal Year 2015 general fund recurring revenue to increase by 5.5 percent over Fiscal Year 2014. Total recurring revenue is estimated to be approximately $6.2 billion. Fiscal Year 2015 general fund revenue growth reflects trends in broad-based revenues, as well as the recent strong investment performance of the state's permanent funds. Insurance premiums tax revenue is forecast to increase due to the Affordable Care Act. Timing and magnitude of these changes is uncertain, but New Mexico seems likely to benefit due to the expansion of Medicaid – portions of which generate premium tax revenue – as well as the state's relatively high uninsured rate.

Fiscal Year 2015 "new money," defined as Fiscal Year 2015 recurring revenue less Fiscal Year 2014 recurring appropriations, is estimated to be $293 million. Potential liabilities, including $20 million in back payments to union workers, could decrease the amount available for general appropriations.

General Fund Taxes and Revenues

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

Gross Receipts and Compensating Taxes

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

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

The gross receipts and compensating taxes are together the single largest source of State General Fund revenue. The gross receipts tax is also a significant source of revenue for cities and counties. The gross receipts tax includes the 5.125 percent statewide gross receipts tax levy, plus several city and county local-option gross receipts taxes. The statewide gross receipts tax rate was increased from 5 to 5.125 percent effective July 1, 2010 as a result of action taken during the 2010 special legislative session. Until January 1, 2005, a credit of 0.5 percent against the statewide rate of 5 percent was allowed for transactions taking place in municipalities. Receipts from the statewide gross receipts tax levy, less certain disbursements, are deposited in the State General Fund. The disbursements include 1.225 percent of the taxable gross receipts reported in each incorporated municipality to that municipality. The State Aviation Fund receives a monthly distribution equal to 4.79 percent of the reported value of jet fuel sales, and a statutory monthly distribution which increased from $167,000 to $250,000 in July 2009 as specified in Section 7-1-6.7 (D) NMSA 1978. An additional $530,000 is currently distributed monthly to the New Mexico Finance Authority's State Building Fund Bonding Fund, pursuant to Section 7-1-6.42 NMSA 1978. Pursuant to legislation enacted in 2009, that distribution to the State Building Bonding Fund will increase to $680,000 per month on the later of July 1, 2011 or upon certification that the increased distribution is needed to make debt service payments on bonds issued pursuant to Section 7-1-6.42 for construction of a new executive office building near the State Capitol in Santa Fe. The County Equalization Distribution is made annually from state gross receipts tax revenues; it has averaged $17.8 million over the past five years. After all other distributions, the General Fund share of gross receipts tax collections was 59 percent in Fiscal Year 2013 after the statewide rate increase and is expected to be about 60 percent for subsequent years.

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

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

In Fiscal Year 2013, total distributions to the General Fund from gross receipts and compensating taxes decreased by 1.1 percent over the previous fiscal year to $1.9 billion, comprising 34.5 percent of recurring General Fund revenue.

Personal Income Tax

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

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

In the 2013 Fiscal Year, total distributions to the General Fund from personal income tax increased by 7.9 percent over the previous fiscal year to $1.2 billion, and generated 21.7 percent of total recurring General Fund revenue.

Current State tax rates are set forth below:

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

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

Corporate Income Tax

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

Tax rates are established under a graduated table and range from 4.8 percent on the first $500,000 or less of taxable income to 7.6 percent on income in excess of $1,000,000. For the 2013 Fiscal Year, total distributions to the General Fund of net receipts from corporate income taxes are projected to have totaled $267.2 million. This is a decrease of 4.9 percent from the prior fiscal year and generated 4.7 percent of recurring General Fund revenue.

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

In the 2013 legislative session a bill was enacted that 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.

Mineral Production Taxes

Mineral production taxes (Resource Excise Tax, Natural Gas Processors Tax, Oil and Gas Conservation Tax, and Oil and Gas Emergency School Tax) are levied on producers and others on the value of severed minerals and material resources from within the State and these taxes are disbursed to the General Fund. The Oil and Gas Emergency School Tax is imposed for the privilege of engaging in the business of severing oil, natural gas, liquid hydrocarbons and carbon dioxide (“CO_2”) 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 2013 Fiscal Year, distributions to the General Fund from Oil and Gas Emergency School Tax receipts totaled $379.9 million. This represents a 4.9 percent decrease from the prior fiscal year. Other General Fund taxes on natural resource production totaled $58.5 million. For Fiscal Year 2013, mineral production taxes are expected to have contributed 7.7 percent of recurring General Fund revenue.

In 2002, the Legislature created the Jicarilla Apache Tribal Capital Improvement Tax Credit, codified in Section 7-31-27 NMSA 1978. This tax credit can reduce the Oil and Gas Emergency School Tax on products severed from wells drilled on the Jicarilla Apache Nation by up to 0.7 percent of the taxable value of production. Proceeds of the tax credit must be used exclusively to fund capital improvement projects on Jicarilla Apache tribal lands, although funds may not be used to finance commercial activity. This credit totaled $836 thousand for Fiscal Year 2013.

Royalties, Rents and Bonuses

Federal Lands. Under terms of the 1920 Federal Mineral Leasing Act, the State receives 50 percent of all income generated from leasing federal lands located in the State for mineral production. Principal sources of income are royalty payments on oil and natural gas production. Additional income is derived from bonus payments for oil and natural gas leases and royalty payments on production of coal, potash and other minerals. The U.S. Office of Natural Resources Revenue, formerly the Minerals Management Service, collects federal mineral lease income and deducts the State's share of administrative costs. The State receives payments on a monthly basis and makes deposits to the General Fund. In Fiscal Year 2013, total distributions to the General Fund from federal mineral leases totaled $459.6 million. This equals 8.1 percent of recurring General Fund receipts for the fiscal year.

Federal Fiscal Year 2009 appropriations bills implemented a 2 percent administrative fee cut from the federal royalty payments to states. This 2 percent fee was extended each federal fiscal year since 2009, and extended for 10 years in the 2013 Bipartisan Budget Act. Approximately $8.4 million was deducted from the federal mineral leasing payments to the State in Fiscal Year 2011, $10.2 million was deducted in Fiscal Year 2012, and $9.7 million was deducted in Fiscal Year 2013.

In Federal Fiscal Year 2013, federal mineral leasing revenues were sequestered at the rate of 5.1 percent, totaling $25.7 million. These revenues were returned to New Mexico at the beginning of Federal Fiscal Year 2014. The sequestration of these revenues was extended in Federal Fiscal Year 2014 at the rate of 8.0 percent or an estimated $3.8 million per month. These revenues are expected to be returned to the State in Federal Fiscal Year 2015.

State Lands. The State Land Office manages lands acquired by the State under the federal Fergusson Act enacted prior to statehood, as well as under the State Constitution. All income from State lands is dedicated to specific educational purposes and institutions. As with federal lands, the oil and natural gas industry is the principal source of revenue from State lands. Bonus income is also collected in the form of cash payments as a result of competitive bidding for State leases. Rentals and bonus income are distributed to the respective beneficiary institutions. The largest beneficiary group is the State's public school system. Mineral production from State trust lands also generates royalty income which is deposited in the State Land Grant Permanent Fund ("LGPF"). Royalties are imposed on most mineral production values at the rate of 12.5 percent, although there is a provision for rates of up to 20 percent for new leases on developed acreage. LGPF beneficiaries and "State lands" beneficiaries are the same: educational institutions and public schools. In Fiscal Year 2013, distributions to the General Fund from the State Land Office are projected to have totaled $44.6 million, which equaled 0.7 percent of recurring General Fund receipts for the fiscal year.

Severance Tax Permanent Fund and Land Grant Permanent Fund

The Severance Tax Permanent Fund ("STPF") was established in the State Treasury in 1973 to receive the residual revenues from the Bonding Fund and serve as an endowment for future capital projects. In 1976, the electorate approved a constitutional amendment giving the STPF constitutional status. In 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the STPF, thereby creating a permanent endowment fund. Distributions from investments of the STPF, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance tax receipts have been the primary source of funding for the STPF. The State Investment Council ("SIC") invests the corpus and non-appropriated income of the STPF. The market value of the STPF as of June 30, 2013 was approximately $4.15 billion, an overall asset increase of approximately 6.0 percent from the prior Fiscal Year. Investment performance for the one year period ended June 30, 2013 was 12.15 percent, 0.67 percent below the Fund policy index. Funds on deposit in the STPF are not pledged to and may not be used to pay any Bonds.

The 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 Section 19-1-1 NMSA 1978, the State Land Office is charged with the custody and disposition of the land granted to the State. The Commissioner of Public Lands sells or leases these properties in accordance with the provisions of the appropriate statutes. The SIC invests the corpus and income of the LGPF. As of June 30, 2013, the market value of the LGPF was approximately $12.13 billion, an asset increase of approximately 11.5 percent over the prior fiscal year. Investment performance for the year ended June 30, 2013 was 13.27 percent, and 0.45 percent above the LGPF's policy index. The corpus of the LGPF is constitutionally protected from appropriation and LGPF assets are not pledged to and may not be used to pay debt. The LGPF is also protected by the Federal Enabling Act of 1910.

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

In September 2003, the State electorate approved a constitutional amendment increasing the rate of annual distribution from the LGPF from the previous 4.7 percent, to a new base distribution of 5 percent of the LGPF's five-year average market value, beginning in Fiscal Year 2005. The Constitutional change also provided for additional distributions of 0.8 percent to beneficiaries for fiscal years 2005 through 2012 and an additional 0.5 percent for distribution in fiscal years 2013 through 2016. A three-fifths majority of each house of the Legislature may suspend this additional distribution.

In May 2009 an investigation by the New York Attorney General into placement fees paid in relation to investments made by New York pension funds, led to the indictment of Saul Meyer, the founding partner of Aldus Equity Partners ("Aldus"), an investment advisor to that fund as well as New Mexico SIC and ERB. Mr. Meyer was accused of paying illegal kickbacks in connection with investment recommendations to the New York fund. Aldus, which had advised SIC and ERB for several years on private equity investments, was terminated by the New Mexico funds. Mr. Meyer later plead guilty to a fraud charge relating to investments made by the New York retirement fund and recommended by Aldus.

In connection with that plea, Mr. Meyer stated that from 2004 to 2009 Aldus had acted as an advisor to the SIC and the ERB and that, contrary to his fiduciary responsibilities to the SIC and ERB, he ensured that Aldus recommended certain proposed investments pushed on him by politically connected individuals or their associates who stood to benefit financially or politically from the investments, and that the investments were not necessarily in the best interests of the State. Several days later in October 2009, Gary Bland, the State Investment Officer at the time, resigned. In December 2012, Mr. Meyer received a deferred sentence and no jail time. To date, no criminal charges have been filed by state or federal investigators in New Mexico. In May 2011, the SIC in conjunction with the Day Pitney Law Firm and New Mexico Attorney General, filed recovery lawsuits against more than a dozen placement agents, former Investment Officer Bland, and other individuals, alleging that these individuals improperly benefited from pay-to-play and kickback schemes involving SIC investments. To date, settlements of more than $26 million have been placed in escrow pending final approval by the courts. Additional legal recovery efforts are ongoing.

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

Investment Income

Investment earnings credited to the General Fund are from three primary sources: the LGPF, the Severance Tax Permanent Fund, and cash balances held by the State Treasurer. Income from the LGPF is distributed among the beneficiary institutions and public schools. The allocation received by the public schools, which is approximately 83 percent, is deposited in the General Fund. For the 2013 Fiscal Year, $440.9 million of LGPF distributions were transferred to the General Fund for public school purposes. The State distributed $176.2 million of income from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In the 2013 Fiscal Year, the Treasurer's cash balances produced $14.7 million for the General Fund. Total investment income credited to the General Fund was $631.8 million. This is 11.1 percent of recurring General Fund receipts.

PROPERTY VALUATION AND TAXATION

Property Tax System

With certain limited exceptions, real and personal property owned by individuals or corporations is subject to *ad valorem* taxation (i.e., taxation as a fraction of value rather than on a per unit basis) in the State. County assessors are responsible for appraising most of New Mexico's residential and commercial property. The Appraisal Bureau of the New Mexico Taxation and Revenue Department (the "Tax

Department") provides technical assistance to county assessors and helps them implement the Property Tax Code (Articles 35 through 38 of Chapter 7 NMSA 1978).

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

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

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

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

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

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

Property Tax Valuation Limitations

The valuation of oil and natural gas production and the assessment of the *ad valorem* production tax are based on the actual value of production on a monthly basis from September 1 to August 31. Oil and natural gas are valued for the calendar year preceding the property tax year, as established in Section 7-32-15 NMSA 1978. For rate setting, the Local Government Division of the DFA may adjust the State levy for changes in oil and natural gas values.

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 Taxation and Revenue Department and measure a county's assessment valuations against current sales information. Counties that have at least an 85 percent sales assessment ratio are considered "current and correct" while counties that fall below that threshold are considered not "current and correct." If a 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.

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

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

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

On March 28, 2012, in *Zhao v. Montoya*, 12-NMCA-056, on certification from the district court for Bernalillo County, the New Mexico Court of Appeals held that the valuation cap on residential property values until a change of ownership occurs does not violate the New Mexico Constitution. On May 23, 2012, the New Mexico Supreme Court granted the taxpayers' petition for writ of certiorari. The case was submitted to the New Mexico Supreme Court on March 13, 2013. The New Mexico Supreme Court's decision is still pending.

Table 20 sets forth the aggregate statewide net taxable valuations for the last 10 years.

TABLE 20

Final Net Taxable Valuations
(Dollars in thousands)

Property Tax Year	Residential	Non-Residential	Oil and Gas	Copper	Net Taxable Value
2004	19,421,800	10,839,281	5,563,785	65,157	35,890,023
2005	21,120,378	12,161,447	4,643,270	65,157	38,910,768
2006	23,016,630	12,605,105	7,259,891	103,402	42,985,028
2007	25,805,629	14,458,192	5,758,696	133,262	47,288,631
2008	27,798,246	15,259,324	7,245,955	160,279	50,463,804
2009	29,455,894	16,383,859	9,033,975	172,481	55,046,209
2010	29,845,647	16,513,415	4,556,355	125,538	51,040,955
2011	30,265,867	16,594,029	5,868,724	117,476	52,846,098
2012	30,794,394	16,639,038	6,938,090	119,440	54,490,962
2013	31,320,905	16,824,354	6,431,256	149,491	54,726,006

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:

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.

Production and Property Taxes on Oil and Natural Gas

Current effective production tax rates expressed on ad valorem and unit bases are shown below. The rates were based on data from Fiscal Year 2013 and reflect an average sales price of $85.82 per barrel for oil and $4.40 per thousand cubic feet (mcf) for natural gas. The gross rates presented in the table below show taxes paid as a percentage of gross sales value before subtracting allowable deductions and tax credits. The gross tax per unit is also based on gross sales value. The net tax per unit, however, is also based on taxable value before subtracting allowable deductions and tax credits.

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TABLE 21

Effective Tax Rates applicable for Fiscal Year 2013

Type of Tax	Crude Oil Ad Valorem	Crude Oil Per Barrel	Natural Gas Ad Valorem	Natural Gas Per mcf
Price		$85.82		$4.40
Oil and Gas School Tax	2.82%	$2.42	2.99%	$0.13
Oil and Gas Severance Tax	3.36%	$2.88	2.81%	$0.12
Oil and Gas Conservation Tax (General Fund only)	0.22%	$0.18	0.14%	$0.01
Natural Gas Processors Tax	N/A	N/A	0.37%	$0.02
Oil and Gas Production *ad valorem* Tax	0.42%	$0.36	0.24%	$0.01
Oil and Gas Production Equipment *ad valorem* Tax	0.15%	$0.13	0.09%	$0.00
Total	**6.97%**	**$5.99**	**6.64%**	**$0.29**
Subtotal: State Tax Only (excludes *ad valorem* taxes)	6.40%	$5.49	6.31%	$0.28

Source: New Mexico Department of Finance and Administration.

Production, Sales, and Property Taxes on Coal

Total State production and property taxes on coal totaled approximately $23.5 million in Fiscal Year 2013, down from approximately $24.0 million in Fiscal Year 2012. Coal production, also, decreased from approximately 23.0 million tons in Fiscal Year 2012 to approximately 22.6 million tons in Fiscal Year 2013. Thus, the average effective tax per ton decreased from approximately $1.04 in Fiscal Year 2012 to approximately $1.03 per ton for Fiscal Year 2013. With total sales revenue of over $772.1 million in Fiscal Year 2013, the average effective tax was 3.04 percent of total sales revenue. This does not include the gross receipts tax. The average burden of production, property, and gross receipts taxes on a ton of coal produced and sold during Fiscal Year 2013 is shown in Table 19.

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TABLE 22

Tax Burden on Coal for Fiscal Year 2013

Type of Tax	Tax per Ton	Effective Tax Rate	Taxes Collected
Severance Tax and Surtax (Net of ITC)	$0.46	1.36%	$ 10,507,880
Resource Excise Tax	$0.24	0.70%	$ 5,430,233
Conservation Tax	$0.06	0.18%	$ 1,375,660
Total Production Taxes	$0.76	2.24%	$ 17,313,773
Property Tax	$0.27	0.80%	$ 6,200,183
Gross Receipts Tax	$2.07	6.08%	$ 46,935,097
Total Production and Non-Production Taxes	$3.10	9.12%	$ 70,449,053
Price per Ton			$34.11
Total Production (Short Tons)			22,634,537
Total Value			$772,134,654

(1) The figures reported in this table come from the New Mexico Taxation and Revenue Department's GenTax System. They reflect only the information contained in all tax returns and amendments filed during Fiscal Year 2013. These figures differ from actual distributions made by the Taxation and Revenue Department's Financial Services Bureau, as the distributions include penalties, interest, and other modifications such as previously unallocated or unidentified receipts. Total production is based on volumes reported on severance tax returns, which differ from the volumes reported on resource excise tax returns.

(2) Property taxes were billed for tax year 2012.

Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the GenTax System, Financial Services Bureau and Property Tax Division's Central Assessment Unit).

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

In addition to production taxes, gross receipts tax is imposed on coal produced and sold within the State. During 2012, 63.1 percent of all coal produced in the State was supplied to electric power plants in New Mexico. 93.1 percent of all coal produced in New Mexico is subject to gross receipts tax. The combined state and local tax rate for Fiscal Year 2013 is 6.431 percent of taxable gross receipts.

ADDITIONAL INFORMATION

Additional financial information from government agencies of the State may be obtained online from the State's Sunshine Portal. The information contained in the Sunshine Portal database may change over time. The State Board of Finance assumes no responsibility or liability for the contents of the Sunshine Portal. The State Board of Finance also maintains a website containing general information about the State and its bond programs.