THE STATE OF NEW MEXICO

CONTINUING DISCLOSURE
ANNUAL FINANCIAL INFORMATION FILING

FISCAL YEAR 1999

NEW MEXICO
STATE BOARD OF FINANCE

December 1999

STATE OF NEW MEXICO
OUTSTANDING AND ADDITIONAL BONDS

CAPITAL PROGRAM

The principal sources of funding for capital projects by the State are surplus general fund balances, General Obligation Bonds, Severance Tax Bonds, and the New Mexico Finance Authority. The following details capital funding, by source, for fiscal years 1995 through 1999.

Principal Sources of Capital Project Funding*
(In millions)

	FY95	FY96	FY97	FY98	FY99
General Fund	$53.4	$20.1	-	$18.6	$4.0
General Obligation Bonds	$66.3	-	$64.8	-	$82.5
Severance Tax Bonds	$100.1	$95.6	$1.3	$140.5	$77.4
Special Funds	$4.0	$4.7	$0.4	$28.5	$3.4
New Mexico Finance Authority	$56.5	$22.6	$27.9	$37.4	$23.5

*The State Highway Commission and the State Highway and Transportation Department have issued bonds from time to time to fund various highway projects in New Mexico. These bonds are not listed in the above table.

GENERAL OBLIGATION BONDS

Outstanding and Additional Parity General Obligation Bonds

The principal amounts of general obligation bonds that are outstanding, as of December 1, 1999, are as follows:

General Obligation Bonds	Series	1993	$38,305,000
General Obligation Bonds	Series	1995	40,883,000
General Obligation Bonds	Series	1997	52,925,000
General Obligation Bonds	Series	1999	80,895,000
		Total:	$213,008,000

The future fiscal year debt payments on outstanding general obligation bonds, as of December 1,1999, are as follows;

Fiscal Year	Principal	Interest	Total
2000		$4,881,420	$4,881,420
2001	$33,986,000	8,960,296	42,946,296
2002	35,257,000	7,311,062	42,568,062
2003	36,177,000	5,637,734	41,814,734
2004	24,695,000	4,237,533	28,932,533
2005	25,993,000	3,022,460	29,015,460
2006	17,680,000	2,002,375	19,682,375
2007	18,535,000	1,225,600	19,760,600
2008	10,135,000	624,700	10,759,700
2009	10,550,000	211,000	10,761,000
Total	$213,008,000	$38,114,180	$251,122,180

SEVERANCE TAX BONDS

As of July 1, 1999, pursuant to an amendment to the Severance Tax Bonding Act enacted in May 1999, there are two categories of bonds issued by the State Board of Finance wherein the money in the Severance Tax Bonding Fund is pledged for retirement. These bonds are legally known as “New Mexico Severance Tax Bonds” and as “New Mexico Supplemental Severance Tax Bonds” but are referred to as “Senior Severance Tax Bonds and Supplemental Severance Tax Bonds”, respectively. Pursuant to the May 1999 amendment to the Severance Tax Bonding Act, the Board is prohibited by statute from issuing Supplemental Severance Tax Bonds unless the aggregate amount of total Senior Severance Tax Bonds and Supplemental Severance Tax Bonds outstanding can be serviced with not more than 62.5% of the annual deposits into the Bonding Fund, as determined by the deposits during the State’s preceding fiscal year. The Board is prohibited by statute from issuing Senior Severance Tax Bonds unless the aggregate amount of total Senior Severance Tax Bonds outstanding can be serviced with not more than 50% of the annual deposits into the Bonding Fund, as determined by the deposits during the State’s preceding fiscal year. The total aggregate principal amount of outstanding Severance Tax Bonds issued by the State does not exceed any applicable limit prescribed by the Constitution or laws of the State. The senior Severance Tax Bonds fund capital projects while supplemental Severance Tax Bonds fund public educational facilities projects.

Outstanding and Additional Parity Senior Severance Tax Bonds

The principal amounts of senior severance tax bonds that are outstanding, as of December 1, 1999 are as follows:

Severance Tax Bonds	Series	1993	B	$23,390,000
Severance Tax Bonds	Series	1994	B	19,120,000
Severance Tax Bonds	Series	1995	A	3,024,000
Severance Tax Bonds	Series	1995	B	38,375,000
Severance Tax Bonds	Series	1996	A	15,665,000
Severance Tax Bond Refunding	Series	1997	A	19,902,000
Severance Tax Bond Refunding	Series	1998	A	22,655,000
Severance Tax Bonds	Series	1998	B	125,155,000
Severance Tax Bonds	Series	1999	B	50,668,000
				$317,954,000

The future fiscal year debt payments on outstanding senior severance tax bonds, as of December 1, 1999, are as follows:

Fiscal Year	Principal	Interest	Total
2000	$52,339,000	$15,203,881	$67,542,881
2001	50,569,000	12,713,421	63,282,421
2002	45,821,000	10,315,117	56,136,117
2003	38,835,000	8,149,005	46,984,005
2004	32,100,000	6,274,390	38,374,390
2005	27,095,000	4,744,563	31,839,563
2006	20,620,000	3,440,375	24,060,375
2007	21,620,000	2,447,287	24,067,287
2008	22,670,000	1,406,050	24,076,050
2009	6,285,000	314,250	6,599,250
Total	$317,954,000	$65,008,339	$382,962,339

Additional parity bonds may be issued in the future if all fiscal year debt service on outstanding Severance Tax Bonds can be serviced with not more than fifty percent (50%) of the annual fiscal year deposits into the state Bonding Fund. The size of new issues is determined by the deposits during the fiscal year proceeding the date of issuance of such parity bonds. In addition, as of December 1, 1999, $3.5 million of parity bonds have been authorized for capital projects but have not been issued.

Outstanding and Additional Parity Supplemental Severance Tax Bonds

The principal amounts of supplemental severance tax bonds that are outstanding, as of December 1, 1999 are as follows:

Supplemental Severance Tax Bonds	Series	1999	A	$12,000,000

The future fiscal year debt payments on outstanding supplemental severance tax bonds, as of December 1, 1999, are as follows:

Fiscal Year	Principal	Interest	Total
2000			
2001	$1,435,000	$666,470	$2,101,470
2002	1,565,000	463,328	2,028,328
2003	1,635,000	394,101	2,029,101
2004	1,710,000	319,656	2,029,656
2005	1,795,000	239,672	2,034,672
2006	1,885,000	153,394	2,038,394
2007	1,975,000	54,313	2,029,313
Total	$12,000,000	$2,290,934	$14,290,934

TAX AND REVENUE ANTICIPATION NOTES

The State has issued and will issue from time to time, Tax and Revenue Anticipation Notes. The Notes are not general obligations of the State. The purpose of the Notes is to fund a portion of the State's cash flow needs during the fiscal year in which the Notes are sold.

As of December 1, 1999, $450,000,000 Tax and Revenue Anticipation Notes, Series 1999 due June 30, 2000 were outstanding. On December 7, 1999, the state issued $350,000,000 Tax and Revenue Anticipation Notes, Series 1999A due June 30, 2000

SEVERANCE TAX BONDING FUND AND DEBT SERVICE REQUIREMENTS

Severance tax receipts contribute over 90 percent of total revenue to the Severance Tax Bonding Fund, with the remainder attributable to interest and other investment income. Severance taxes are almost entirely attributable to natural gas, crude oil and coal sales. Natural gas and crude oil together accounted for approximately 78 percent of total fiscal year 1998-99 tax receipts.

Severance Tax Bonding Fund
Receipts, Disbursements and Transfers
(Dollars in Thousands)
Fiscal Year Ended June 30

	1994-95	1995-96	1996-97	1997-98	1998-99*
BEGINNING BALANCE[1]	**$64,235**	**$82,174**	**$66,958**	**$69,284**	**$79,069**
RECEIPTS					
Severance tax:					
Oil	35,431	44,546	54,565	44,392	29,383
Natural gas	68,779	60,315	97,447	106,454	76,434
Carbon Dioxide	1,054	1,048	1,332	1,346	542
Subtotal	$105,264	$105,909	$153,344	$152,192	$106,359
Copper	555	593	484	446	295
Potash	760	778	832	796	867
Coal	27,390	25,951	26,612	28,408	28,396
Other	83	97	81	171	208
Subtotal—Severance tax	$134,053	$133,328	$181,353	$182,013	$29,766
Other income:					
Interest on investments	$12,332	$ 9,047	$12,308	$4,738	10,041
Accrued interest	234	268	212	0	0
Other	2,014	1,438	2,074	624	668
Subtotal—Other income	$14,580	$10,753	$14,594	$5,362	10,709
TOTAL RECEIPTS	**$148,632**	**$144,081**	**$195,947**	**$187,375**	**$146,834**
DISBURSEMENTS					
Principal and interest	$72,781	$72,538	$68,215	$75,192	93,578
Fiscal charges	412	263	255	719	232
TOTAL DISBURSEMENTS	**$73,193**	**$71,801**	**$68,470**	**$75,911**	**$93,810**
TRANSFERS					
To Severance Tax Permanent Fund	**$57,500**	**$86,496**	**$125,151**	**$71,076**	**$65,430**
ENDING BALANCE	**$82,174**	**$66,958**	**$69,284**	**$79,069**	**$66,663**

Source: NM Department of Finance and Administration.

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

1. FY97 receipts and ending balance exclude $62,659,730 from Series 1997A Refunding Bonds. These proceeds were used for defeasance of refunded bonds in July 1997.
2. Balances exclude loan receivable from Department of Labor loan. Loan repayment amounts are included as Other Income when received.
3. The State Treasurer reserves excess earnings in separate accounts for potential arbitrage rebates. Interest earnings on these accounts are included in Interest Income, although some portion may be payable in the future.

***Pre-audit**

Severance Taxes on Natural Gas

Severance taxes are owed on the severance and sale of natural gas in the State. Tax rates are set by statute and are levied on the volume of natural gas sold or transported. 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. Taxes are due 55 days following the end of each calendar month in which products are sold. The following table presents sales volume and total sales revenue for natural gas subject to severance tax.

New Mexico Natural Gas Subject to Taxation
Fiscal Years Ended June 30

	1995	1996	1997	1998	1999
Sales Volume (bcf)	1,465	1,509	1,554	1,617	1,607
Value ($ millions)	$2,124	$2,097	$3,315	$3,347	$2,700
Average Price ($/mcf)	$1.45	$1.39	$2.13	$2.07	$1.68

Source: NM Department of Finance and Administration.

Severance tax was initially imposed on natural gas and oil in 1959 at a rate of 2.5 percent of sales value. Rates were increased to 3.75 percent in 1974. Beginning July 1, 1977, the Severance Tax rate on natural gas was converted to a per unit rate of $0.05/mcf. On July 1, 1978, and on July 1 of each succeeding year, Severance Taxes on natural gas were increased by surtax. The surtax rate was indexed to the Consumer Price Index. The 1980 Legislature raised the base tax on each mcf of natural gas to $0.087. The surtax remained applicable. By July 1, 1986 the surtax had reached $0.076 and the total of surtax and base tax was $0.163/mcf. With the sharp decline in average wellhead natural gas prices in 1986, the effective Severance Tax on natural gas came to represent over 8 percent of average wellhead prices. The total effective tax rate on gas production--including General Fund taxes--was over 11 percent, significantly greater than the tax burden in Oklahoma and Texas.

The following table summarizes the history of statutory tax rates imposed on both natural gas and oil.

History of Severance Tax Rates on Oil and Natural Gas

Year of Statutory Change	Natural Gas	Oil
1959	2.5%	2.5%
1974	3.75%	3.75%
1977	$0.05/mcf + surtax	$0.45/bbl + surtax
1980	$0.087 + surtax	3.75%
1987	3.75%	3.75%

Source: NM Department of Finance and Administration.

In 1995 the Legislature authorized tax incentives for crude oil and natural gas, including a 10-year exemption from Severance Taxes for previously non-producing wells ("restoration") and a 50 percent reduction in Severance Tax for incremental production from a qualifying work over ("recompletion") project. As of June 1998, a cumulative 5.0 bcf of gas sales and 233 thousand barrels of oil production had qualified for the restoration exemption. During the same period, a cumulative 20.1 bcf of gas and 466 thousand barrels of oil production had qualified for the recompletion tax rate reduction. These production volumes represent less than 1 percent of annual production of each product. Total qualified volumes are expected to grow slowly over time, but the impacts on average effective tax rates are expected to be small.

In response to sharply lower oil prices and declining production of oil and associated natural gas, the 1999 Legislature adopted new severance tax incentives for production from re-completion wells and stripper wells. Instead of a 50% rate reduction (from 3.75% to 1.875%) for only the *incremental* production from re-completion wells, a tax rate of 2.45% will apply to all production from qualified wells. This proposal is expected to have a minimal effect on severance tax collections, as the higher incentive tax rate will offset the increase in eligible volumes.

For stripper well production, the new legislation introduced a sliding scale of applicable tax rates, depending in the prevailing taxable value of products. For natural gas, a stripper well is defined as one having average daily production of less than 60,000 cubic feet per day. For oil wells, the threshold is 10 barrels per day.

The following table summarizes incentive tax rates applying to various categories of production as of fiscal year 1999- 2000.

Oil and Gas Tax Incentive Programs

Incentive Category:	Incentive Tax Rate:	Threshold price below which incentive rate applies:	Qualified Production as a percent of FY 2000 total:
Restoration wells	0.0%	$24.00 per barrel[1]	0.2% Oil 0.5% Natural Gas
Re-completion wells	2.45%	$24.00 per barrel[1]	1.7% Oil 1.4% Natural Gas
Stripper wells	1.875%	$1.15 per mcf-Gas[2] $15.00 per barrel-Oil[2]	0.0% Natural Gas[3] 16.7% Oil
	2.8125%	$1.35 per mcf-Gas[2] $18.00 per barrel-Oil[2]	0% Natural Gas[3] 0.0% Oil
Enhanced oil recovery	1.875%	$28.00 per barrel[1]	8.3% Oil

Notes:

1. Average price for West Texas Intermediate crude oil.
2. Average annual taxable value of natural gas or oil sold in New Mexico during the preceding calendar year.
3. No natural gas volumes are expected to qualify for these incentives during the period because average taxable value exceeds the threshold levels.

Although the State now offers reduced severance tax rates for several categories of production, the cumulative effect of these programs on severance tax receipts is expected to be small. Based on projections of qualified volumes for fiscal year 1999-2000, the total reduction of revenues due to all incentive programs would be approximately $4 million, or about 2.9% of total severance tax bonding fund revenue. This estimate may overstate projected revenue generation because it neglects any increase in production volumes that is stimulated by the incentive programs. Conditioning the incentives on prevailing product prices ensures that they will help to offset the negative impacts of low prices on industry, but they will not reduce tax collections during the periods when prices are high.

Severance Taxes on Oil

Since March 1, 1980, the Severance Tax rate on oil has been levied at 3.75 percent of value, as defined by statute. Chapter 38, Laws 1992 provides for a 50 percent reduction in the Oil and Gas Severance Tax rate for oil produced through enhanced recovery methods. The legislation reduces the statutory rate for qualifying oil production from 3.75 percent to 1.875 percent. Enhanced methods include carbon dioxide miscible fluid displacement, water flood, pressure maintenance, and thermal methods. The reduced rate is applicable to all production from an enhanced recovery project following certification of a positive production response by the EMNRD's Oil Conservation Division. During FY 1999, approximately 4.0 million barrels of production qualified for the reduced tax rate. This represents about 6 percent of total sales. Qualified volumes are expected to increase gradually over time.

New Mexico Oil Subject to Taxation:
Fiscal Years Ended June 30

	1995	1996	1997	1998	1999
Sales volume (million barrels)	69.5	75.7	75.4	73.5	66.0
Value (million dollars)	$1,123	$1,300	$1,590	$1,235	$740
Average price ($ per barrel)	$16.16	$17.17	$21.09	$16.80	$11.21

Severance Taxes on Coal

Excise taxes have been imposed on coal sales in New Mexico since 1933. Revenues were initially earmarked to the Severance Tax Bonding Fund in 1961. At that time the tax rate on coal was 0.125 percent. The rate was increased by statute to 0.5 percent in 1974, and then converted to a per unit tax of $0.38 per ton in 1977. Surtax was added that was indexed to the Consumer Price Index. The per unit rate was increased to $0.57 per ton in 1980. 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 (no underground mines are currently in operation in the state). The Legislature extended the freeze on the surtax, after which time the surtax is adjusted in accordance with the increase in the Producer Price Index (PPI), for coal. 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. The surtax rate for fiscal year 1994-95 increased $0.01 to $0.61/per ton for surface coal and $0.59/per ton for underground coal. Tax rates have not increased since then because coal prices have been flat or declining.

The 1990 Legislature enacted temporary suspension of the severance surtax for coal sold under new contracts entered into on or after July 1, 1990 and before July 1, 1994. The provision also extends to incremental sales under existing contracts measured by the increase in sales over the annual average established in the years 1987-1989. The 1992 Legislature extended the surtax exemption to incremental sales under renegotiated contracts. Subsequent Legislatures have extended the period for new contracts qualifying for the surtax exemption to new sales occurring before June 30, 1999.

The 1999 Legislature undertook a reexamination of coal severance taxes in the light of deregulation of the electric power market. Increased competition in power markets will make it harder for utilities to pass on the cost of high production taxes. A recent study of coal taxes in western states1 found New Mexico's taxes to be among the highest in the region. In view of these issues, the 1999 Legislature acted to repeal the sunset of the severance surtax exemption. Thus, as existing contracts that are currently subject to the surtax expire, any subsequent contracts to sell coal from the same mine will not be subject to the surtax. Currently a total of approximately $11.7 million in severance surtax is collected each year. The initial impact of the legislation is expected to be small, as most currently taxed contracts do not expire for a number of years. Revenues are expected to decline by less than $1 million in fiscal year 1999-2000. The full impact of the provision—a decrease of $11.7 million per year from current revenue levels, is not expected to occur until the year 2015.

Taxable Coal Sales and Average Price
Fiscal Years Ended June 30

	1995	1996	1997	1998	1999
Sales Volume (million tons)	28.2	24.9	26.5	26.9	227.0
Sales Value (million dollars)	$696	$601	$565	$539	$552
Average Price ($ per ton)	$24.65	$24.34	$21.32	$20.04	$20.48

Source: N.M. Department of Finance and Administration estimates.

Carbon Dioxide

The Bravo Dome carbon dioxide field, encompassing 1.2 million acres in Harding, Union and Quay Counties in the northeastern area of the State, contains estimated resources of 16.3 trillion cubic feet, of which 7.0 to 10.6 trillion cubic feet are considered recoverable. Although the State has long produced limited quantities of liquid and solid carbon dioxide (CO_2) for use in the food and the engineering industries, the main commercial value of carbon dioxide 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. 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.

In 1993, a large number of new wells were drilled; total CO_2 wells increased from 265 in May of 1993 to 346 wells in December of 1993. The December data consisted of 333 producing well and 13 non-producing wells. (In recent years, there was a stable number of about 190 producing wells 190.) This activity is consistent with Amoco's (operator of the major Bravo Dome development) previously announced plans to increase capacity by 25 percent, and the forecast assumes a sales level of around 125 bcf per year.

The wellhead value of CO_2 sales currently is approximately $0.36 per mcf, and is expected to remain stable over the forecast period. Severance Taxes on CO_2 are levied at the rate of 3.75 percent of sales value.

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 below. In many cases, flat percentage deductions are allowed to account for certain production costs, with the result that the taxable value is a percentage of the "full" value. The "full value", in turn, is sometimes based upon published prices rather than actual revenues, as noted in the following table:

Mineral Resources	Tax Rate	Taxable Value as Percent of Full Value

1 "Taxation of Coal Production in Western States," by Kelly O'Donnell and Thomas Clifford, State Tax Notes, vol. 16, no. 2, January 11, 1999.

Potash	2.500%	16.67%
Copper	0.500%	16.67%*
Timber, Pumice, Gypsum, Sand, Gravel, Clay, Fluorspar, other	0.125%	100.00%**
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%

* Value based upon the indicated percentage of specified Comex, LME or London spot prices published in Metals Week.
** 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 which must be processed before, deductions sale are allowed for cost of processing and freight charges to the point of sale.

Tax revenues from potash increased to $851,000 in fiscal year 1998-1999. Severance Tax revenue from copper is modest because of the statutorily defined narrow tax base. Revenue from copper was as high as $593,000 in fiscal year 1995-1996. However, revenue fell sharply in the last two years as a worldwide economic slump reduced demand and price. One large mine in the state was closed last year in response to low prices. The combined effect of lower prices and lower volume reduced copper severance tax revenue to $283,000 in fiscal year 1998-1999.

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

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. Sunshine and warm bright skies characterize the State's climate in both winter and summer. The State has a semiarid climate with light precipitation. 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).

Major industries in the State are energy resources, tourism, services, arts and crafts, agribusiness, government, manufacturing, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. Agriculture plays a major role in the State's economy with irrigation and a variety of climatic conditions, a diverse assortment of quality agriculture products are produced.

GOVERNMENTAL ORGANIZATION

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The head of the executive branch is the Governor who is elected for a four-year term. A governor may succeed himself in office once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by sixteen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The Board of Finance has seven members consisting of the Governor, the Lieutenant Governor, the Treasurer and four members appointed by the Governor with the advice and consent of the Senate; no more than two such appointed members may be from the same political party. 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 Department of Finance and Administration, created in 1957 as a part of governmental reorganization measures of that year, 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. On July 1, 1983, the Department of Finance and Administration was reorganized into the DFA, which retained the prior name and handles the State's financial functions, and the General Services Department, which now handles the administrative functions. 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, and who also serves as Executive Officer of the Board. In 1983, a Board of Finance Division was created in the DFA, to staff and coordinate the functions 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, members of the House 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 sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, the Governor under certain limited circumstances may convene special sessions of the Legislature. Legislators receive no salary, but do receive per diem and mileage allowances while in session or on 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 court is the trial court of record with general jurisdiction.

PENSION FUNDS

Two retirement plans, covering most of the employees of the State and its political subdivisions, have been established by statute. These retirement plans are described below. All financing of the plans, including employer and employee contributions and fund investment provisions, as well as all benefit provisions, are established by the Legislature and are not subject to negotiation.

Educational Retirement Association

Total active membership as of June 30, 1998 was officially reported as 91,386. The annual actuarial valuation of the Educational Retirement Act of the State was conducted and reported as of June 30, 1998, by Wyatt and Company. The Educational Retirement Board accepted the actuary's conclusion that the existing statutory contributions equal to 7.6 percent by members and 8.65 percent by employers were adequate to provide for the benefits payable under the system. Accrued assets at fair value on June 30, 1998 were $6.1 billion and the unfunded liability was $1.23 billion.

The Public Employees Retirement Association

Gabriel, Roeder, Smith & Co completed an actuarial valuation of the Public employees Retirement Fund, Judicial Retirement

Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund as of June 30, 1998. The Public Employees Retirement Board accepted the actuary's conclusions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 5% per annum, compounded annually, and other risk assumption changes including salary increases for longevity and merit, the real rate of return on investments, mortality, active member withdrawals, disability and retirement rates to allow for expected future experience. Actuary information for each fund as of June 30, 1998 is as follows (dollars in thousands):

	PERA	Judicial	Legislative	Magistrate	VFF
Membership	58,873	170	243	93	10,532
Actuarial Information					
Accrued Liability	$6,000,439	$56,176	$6,279	$20,338	$14,897
Value of Assets	$5,487,476	$41,974	$3,466	$19,988	$16,248
Unfunded Accrued Liability	$ 512,963	$14,202	$2,813	$ 400	($1,351)
Present Value of Statutory Obligations	$8,341,080	$74,805	$7,046	$281,581	$44,784

FINANCIAL OVERVIEW

State Auditing and Accounting Systems

By statute, the financial affairs of every agency in the State are thoroughly examined and audited each year by the State Auditor, personnel of his office designated by him, or by the independent auditors approved by him. 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.

State Budgetary and Appropriation Process

All State agencies are required to submit their budget requests to the Budget Division of the DFA by September 1 of each year following guidelines and forms provided in advance for this purpose. Budget hearings are scheduled for the purpose of examining the merits of budget requests through the fall and are usually completed by the middle of December. Statutes require the Budget Division to present comprehensive budget recommendations to the Governor annually by January 2.

By statute, the Governor is required to submit a budget for the upcoming fiscal year to the Legislature by the twenty-fifth legislative day. The Governor's budget includes the executive recommendations for higher education, public education and State agencies as well as historical information on prior expenditures and revenues and revenue projections, among other information. The State budget is contained in a General Appropriation Bill, which is first referred to the House Appropriations and Finance Committee for consideration. The General Appropriation Act may also contain proposals for supplemental and deficiency appropriations for the then current fiscal year.

The Senate and the Senate Finance Committee consider the General Appropriation Act after its approval by the House of Representatives. Upon Senate passage 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 Budget Division of the DFA approves the agency budgets and monitors the expenditure of the funds beginning on July 1, the first day of the fiscal year.

General Fund

The State derives the majority of its recurring General Fund revenues from four major sources: general and selective sales taxes, income taxes, taxes and royalties on natural resource production, and investment earnings from its two Permanent Funds and the State Treasurer’s Office. Effective July 1, 1981, the Legislature suspended all property taxes for State operating purposes.

Weakness in crude oil and natural gas markets in the 1980’s contributed to a major restructuring of the State's tax base by the 1986, 1987, 1988, 1990 and 1993 and 1994 Legislatures. Reliance on sales and income taxes were increased to offset declines in severance tax and royalty revenue. The following summary detail revenues, expenditures and ending fund balances over the last four fiscal years and estimated amounts for the current fiscal year.

GENERAL FUND FINANCIAL SUMMARY:
1995 - 1999 ACTUAL AND ESTIMATES
(dollars in thousands) *

	Actual 1995-96	Actual 1996-97	Actual 1997-98	Pre-Audit 1998-1999	Estimate 1999-00
A. APPROPRIATION ACCOUNT					
Receipts:					
General & Selective Sales Taxes	$1,230,210	$1,279,945	$1,339,876	$1,368,216	$1,401,700
Income Taxes	808,042	864,156	989,299	985,926	1,017,500
Severance Taxes	143,072	181,623	183,941	132,847	175,700
License Fees	26,731	27,292	29,970	29,678	30,400
Investment Income	358,795	362,840	387,697	414,829	412,600
Rents & Royalties	130,589	192,784	185,684	147,628	193,000
Miscellaneous Receipts	29,891	25,320	25,705	24,361	23,400
Tribal Revenue Sharing	N/A	N/A	N/A	30,180	20,000
Tobacco Settlement	N/A	N/A	N/A	0	0
Reversions/adjustments	21,639	29,981	15,822	19,824	22,000
Total Recurring Receipts	$2,748,970	$2,963,941	$3,157,995	$3,153,489	$3,296,300
Nonrecurring & Adjustments	7,954	68,800	48,393	18,572	38,000
Total Receipts	**$2,756,924**	**$3,032,741**	**$3,206,388**	**$3,172,060**	**$3,334,300**
Appropriations:					
Recurring					
Legislative	12,840	15,846	10,903	17,809	12,058
Judicial	82,320	85,141	91,849	101,658	109,216
General Control	106,825	146,866	123,730	123,330	120,119
Commerce & Industry/Examination & Licensing	30,982	28,672	42,895	35,419	40,559
Agriculture, Energy & Natural Resources	50,382	51,401	53,137	52,409	51,614
Health & Human Services	559,133	581,434	646,766	615,451	643,531
Public Safety	170,054	178,885	182,943	201,174	215,964
Other Education	48,748	43,260	16,709	16,545	19,997
Higher Education	464,790	476,884	482,867	515,075	541,197
Public School Support	1,246,526	1,261,593	1,357,576	1,470,716	1,543,036
Total Recurring Appropriations	2,772,600	2,869,981	3,009,374	$3,149,586	$3,297,291
Other Recurring Appropriations	(21,916)			3,095	1,322
Nonrecurring					
Capital Outlay/Supplemental/Contingency	10,660	21,018	4,435	11,389	5,390
Other Nonrecurring adjustments for legislation	11,220	83,470	47,336	35,109	15,825
Total Nonrecurring	21,880	104,488	51,771	$46,498	21,215
Total Expenditures	**$2,772,564**	**$2,974,469**	**$3,061,145**	**$3,199,179**	**$3,319,828**
TRANSFER TO RESERVES	**($15,641)**	**$58,272**	**$145,243**	**($27,118)**	**14,472**
B. OPERATING RESERVE					
Beginning Balance	**52,056**	**21,628**	**80,781**	**225,323**	**191,600**
Revenues/Loan Repayments	0	0	0	0	0
Appropriations:					
Contingencies	(10,000)				
Other Appropriations & Adjustments	(1,000)	(1,000)	(702)	(17,100)	(8,800)
Total Appropriations	(11,000)	(1,000)	(702)	(17,100)	(8,800)
Transfers:					
To General Fund/SSR	0	0	0	5,246	0
From General Fund (Appropriation Account)	(15,641)	75,353	145,243	(21,868)	14,472
Special Session/Appropriation Contingency Fund	0	0	0	0	0
Total Transfers	(15,641)	75,353	145,243	(16,622)	14,472
Other Adjustments	(4,000)	(15,200)	0	0	0
Change in Loan Repay Balances	212	0	0	0	0
Ending Balance	**$21,628**	**$80,781**	**$225,323**	**$191,600**	**$197,272**

GENERAL FUND FINANCIAL SUMMARY (CONTINUED)

	Actual 1995-96	Actual 1996-97	Actual 199-98	Pre-Audit 1998-99	Estimate 1999-00
C. STATE SUPPORT RESERVE					
Beginning Balance	**1,379**	**5,996**	**5,246**	**5,246**	**0**
Revenues					
Appropriations:					
For Equalization Guarantee					
Transfers:					
From Public School Support/Appropriation Contingency Fund	3,367	1,250	0	0	0
From Operating Reserve/Appropriation Account	1,250	(2,000)	0	(5,246)	0
Ending Balance	**$5,996**	**$5,246**	**$5,246**	**$0**	**$0**
D. APPROPRIATION CONTINGENCY FUND					
Beginning Balance	5,387	535	9,435	6,884	3,884
Appropriations:					
Disaster Allotments	(5,387)	(5,100)	(3,858)	(3,000)	(3,000)
Allot. Reversions	535		1,308		
Transfers:					
From General Fund		14,000	0	0	0
To Surplus/State Support Reserve					
Total Transfers		0	0	0	0
Ending Balance	**$535**	**$9,435**	**$6,884**	**$3,884**	**$884**
E. RISK RESERVE FUND					
Beginning Balance	0	115,855	136,203	140,493	130,604
Transfers					
From Risk Mgmt Funds	115,855	13,392	31,191	0	0
To Operating Reserve	0	0	(34,813)	(16,855)	(16,855)
Interest Earnings		6,955	7,912	6,966	6,966
Ending Balance	**$115,855**	**$136,203**	**$140,493**	**$130,604**	**$120,715**
F. TOTAL BALANCES					
Beginning of Period	**58,822**	**144,013**	**231,664**	**377,945**	**326,088**
End of Period	**144,013**	**231,664**	**377,945**	**326,088**	**318,871**

* Detail may not add to column total due to independent rounding.

Fiscal Year 1995-96

Fiscal year 1995-96 total revenue was $2.757 billion. This represents growth of 4.8 percent from the previous fiscal year. Recurring appropriations for Fiscal Year 1995-96, after the 1996 legislative session and special legislative session, were reduced to an increase of only 4.9 percent. This includes a recurring appropriation reduction of $34.8 million, offset slightly by supplemental and special appropriations. The Appropriations Account required a $15.6 million transfer from the operating reserve; a $30 million transfer was authorized by the 1996 legislature. The ending balance of the operating reserve was 21.6 million, or approximately 1 percent of recurring appropriations.

Fiscal Year 1996-97

General fund revenue for Fiscal Year 1996-97 was $3.03 billion, including $68.8 million in nonrecurring funds due to implementation of quarterly estimated personal income tax payments and approximately $100 million due to sharply higher oil and natural gas prices. Total revenue grew by 10.0 percent between FY 96 and FY 97. Recurring revenues were $2.96 billion, up 7.8 percent from the prior fiscal year. Total appropriations were $2.97 billion including $104 million of supplemental and special appropriations for Medicaid, capital projects and other purposes. The ending balance in the Operating Reserve reached $81 million at the end of FY 97, 2.8 percent of recurring appropriations.

Fiscal Year 1997-98
Fiscal year 1997-98 total revenue was $3.21 billion, 5.7 percent higher than for fiscal year 1996-97. Continued growth in gross receipts tax collections and unexpectedly strong growth in personal income taxes accounted for much of total revenue growth. Receipts from personal income taxes grew 18 percent over the previous year due to a combination of a strong stock market and increases in capital gains realizations resulting from a change in federal law that reduced the top tax rate on capital gains realizations. Growth in personal income taxes is not expected to continue at the same rate in subsequent years. Legislative changes enacted in the 1998 Legislative Session will reduce personal income taxes by $15.8 million on a recurring basis. Capital gains realizations will likely slow dramatically. Total non-recurring revenue was $48.4 million. with revenue sharing from Indian gaming operations accounting for $18.7 million and Reversions accounting for $26.5 million. $16.1 million of the non-recurring reversions are attributable to savings in the Medicaid program. Total revenue exceeded appropriations by $145.2 million. The operating reserve balance rose to $225.3 million or 7.5 percent of recurring appropriations.

Fiscal Year 1998-99
Preliminary results for FY1998-99 show zero growth in recurring revenue, or $3.15 billion. Oil and natural gas related revenue fell by $90 million as prices fell sharply. Corporate income tax collections fell as the international economic slowdown reduced earnings for the State’s mining and manufacturing companies. Personal income tax collections were only slightly above the level of FY1997-98 as a new computer system was fully implemented, and a large backlog of refunds were processed. Total appropriations were $20 million higher than total revenue. Total General Fund Balances fell to $321.9 million, while the ending balance in the Operating Reserve declined to $188.6 million, 6.0 percent of recurring appropriations.

Fiscal Year 1999-00
Fiscal Year 1999-00 general fund revenue is projected to be $3.33 billion, or 5.1% above the previous fiscal year. Recurring revenue is estimated to be $3.30 billion, or growth of 4.5%. Very little growth in gross receipt taxes is projected due to a slowing in the New Mexico economy however this is expected to be offset by strength in oil and gas receipts. Estimated ending balances in the Operating Reserve are $207.8 million or 6.3% of recurring appropriations.

STATE TAXES AND REVENUE

Programs and operations of the State are predominantly funded through a system of 29 major taxes administered by the Taxation and Revenue Department. The State Corporation Commission (whose duties will be assumed in 1999 by the Public Regulation Commission) collects taxes on insurance premiums. In addition, interest income and earnings from the Permanent Fund and the Severance Tax Permanent Fund 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 property (including tangible 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 a product which is initially used in the State. The tax is paid 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.

Exemptions from gross receipts tax include, but are not limited to, certain receipts of governmental agencies and certain non-profit organizations and receipts from the sale of certain vehicles, occasional sales of property or services, wages, certain agricultural products, dividends and interest and receipts from the sale of or lease of natural gas, oil or mineral interests. 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, and certain receipts from interstate commerce transactions. There are over 50 specified exemptions and deductions from gross receipts taxation; nevertheless, the general presumption is that all receipts of a person engaging in business are subject to gross receipts tax.

The gross receipts and compensating taxes are the largest single source of State General Fund revenue. The gross receipt tax is a primary source of revenue for cities and counties. The gross receipt tax includes the statewide gross receipts tax levy of 5 percent plus several local option city and county levies. A credit of 0.5 percent against the statewide rate of 5% is allowed for municipal local option taxes. Receipts from the statewide gross receipts tax levy, less disbursement to each incorporated municipality of 1.225 percent of the taxable gross receipts reported in that municipality and less disbursement to the State Aviation Fund of 3.59 percent of the value of jet fuel sales, are deposited in the State General Fund. After all other distributions, the General Fund share of gross receipts tax collections is about 63 percent. All receipts from the 5 percent compensating tax are deposited in the State General Fund.

In fiscal year 1998-99, total distributions to the General Fund from gross receipts and compensating taxes grew 2.9 percent over the previous fiscal year to $1,153 million. These combined revenues represented 36.3 percent of total General Fund revenue for fiscal year 1999.

Personal Income Tax

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

State statutes provide for a number of tax rebates and tax credits which are paid from or credited against the personal income tax and which have the effect of reducing available personal income tax collections. Rebate programs target those with very low incomes and include a general low-income rebate and a rebate for property taxes paid by the elderly. Credits are available for day care costs.

In fiscal year 1998-99, the General Fund received $803.3 million of recurring revenue from net personal income tax. The distribution to the General Fund represented 25.3 percent of total General Fund receipts. Personal income tax collections grew by 7.6 percent during the fiscal year due to a strong stock market and an increase in capital gains realizations encouraged by lower federal tax rates. Below are State tax rates by filing status.

If Taxable Income is:	Married filing Separate	If Taxable Income is:	Surviving Spouses and Married filing Joint
Not over $4,000	1.7% of taxable income	Not over $8,000	1.7% of taxable income
$4,000 to $8,000	$68 plus 3.2% of excess over $4,000	$8,000 to $16,000	$136 plus 3.2% of excess over $8,000
$8,000 to $12,000	$196 plus 4.7% of excess over $8,000	$16,000 to $24,000	$392 plus 4.7% of excess over $16,000
$12,000 to $20,000	$384 plus 6.0% of excess over $12,000	$24,000 to $40,000	$768 plus 6.0% of excess over $24,000
$20,000 to $32,000	$864 plus 7.1% of excess over $20,000	$40,000 to $64,000	$1,728 plus 7.1% of excess over $40,000
$32,000 to $50,000	$1,716 plus 7.9% of excess over $32,000	$64,000 to $100,000	$3,432 plus 7.9% of excess over $64,000
Over $50,000	$3,138 plus 8.2% of excess over $50,000	Over $100,000	$6,276 plus 8.2% of excess over $100,000

If Taxable Income is:	Single including Estates & Trusts	If Taxable Income is:	Head of Household
Not over $5,500	1.7% of taxable income	Not over $7,000	1.7% of taxable income
$5,500 to $11,000	$93.50 plus 3.2% of excess over $5,500	$7,000-$14,000	$119 plus 3.2% of excess over $7,000
$11,000 to $16,000	$269.50 plus 4.7% of excess over $11,000	$14,000 to $20,000	$343 plus 4.7% of excess over $14,000
$16,000 to $26,000	$504.50 plus 6.0% of excess over $16,000	$20,000 to $33,000	$625 plus 6.0% of excess over $20,000
$26,000 to $42,000	$1,104.50 plus 7.1% of excess over $26,000	$33,000 to $53,000	$1,405 plus 7.1% of excess over $33,000
$42,000 to $65,000	$2,240.50 plus 7.9% of excess over $42,000	$53,000 to $83,000	$2,825 plus 7.9% of excess over $53,000
Over $65,000	$4,057.50 plus 8.2% of excess over $65,000	Over $83,000	$5,195 plus 8.2% of excess over $83,000

Corporate Income Tax

The corporate income tax is imposed on the net income of corporation doing business in the State or deriving any income from property and employment in the State. No corporate income tax is imposed upon insurance companies, which pay a premium tax to the State, or on nonprofit organizations or retirement trust funds. Collections, net of refunds, are placed in the General Fund. Corporations are required to file a return on or before the fifteenth 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 file estimated tax payments if the tax, net of credits, is $5,000 or more.

Tax rates are established under a graduated table and range from 4.8% on the first $500,000 or less of taxable income to 7.6% on income in excess of $1,000,000. In fiscal year 1998-99, net receipts received by the General Fund from corporate income tax were $160.7 million, which represents 5.1 percent of General Fund receipts.

Oil and Gas Emergency School Tax

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 from the soil of the State. Tax is imposed at a rate of 3.15 percent of taxable value of oil and 4.0 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. This is the same definition of taxable value that is used for calculation of oil and gas severance tax liability.

Oil and gas emergency school tax receipts are disbursed to the General Fund. Oil and gas emergency school tax receipts were $107.7 million in fiscal year 1998-99. Other General Fund taxes on natural resources production amounted to $25.1 million. Together, severance-related taxes contributed approximately 4.3 percent of total General Fund Revenue in fiscal year 1998-1999.

Royalties, Rents and Bonuses

Federal Lands. Under terms of the 1920 federal Mineral Leasing Act the State receives a 50 percent share of all income generated from the leasing of federally held lands located in the State for mineral production. Principal sources of income on federal lands are royalty payments on oil and gas production. Additional income is derived from bonus payments for oil and gas leases and royalty payments on production of coal, potash and other minerals. The U.S. Minerals Management Service collects Federal mineral lease income where the State's share of administrative costs is deducted. The State receives payments on a monthly basis and makes the deposits to the General Fund, almost exclusively for funding public schools. In fiscal year 1998-99, $135.7 million, or 4.3 percent of total receipts, was deposited in the General Fund from this source.

State Lands. The State Land Office manages lands acquired by the State under the Federal Ferguson Act enacted prior to statehood, as well as under the State Constitution. All income from such lands is dedicated to specific educational purposes and institutions. As with Federal lands, the oil and 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, with the single largest beneficiary being the State's public schools. Fiscal year 1998-99 receipts were $11.9 million.

Minerals production from State trust lands also generates royalty income which is deposited in the State Land Grant Permanent Fund. Royalties are imposed on most minerals 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. Beneficiaries of the State Land Grant Permanent Fund are the same as those educational institutions and public schools benefiting from "State lands."

State Land Grant Permanent Fund and Severance Tax Permanent Fund

The New Mexico State Land Grant Permanent Fund is designed solely to benefit the educational system of the State and other specified institutions. The seeds of the Fund are found in the Ferguson 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, with the latter receiving the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the Fund), bringing the current total to 8.9 million surface acres and 12.7 million subsurface acres.

The State Land Office is charged with the custody and disposition of the land granted to the State. Through the Commissioner of Public Lands these properties granted to the State are sold and/or leased in accordance with the provisions of the appropriate statutes. The State Investment Officer under the direction of the State Investment Council invests the corpus of the Land Grant Permanent Fund. As of June 30, 1999, the market value of the Permanent Fund was $7.3 billion, an increase of approximately 12.9% over the prior year.

The Severance Tax Permanent Fund was established in the State Treasury in 1973 to receive the residual revenues from the Severance Tax Bonding Fund and serve as an endowment for future capital projects. In the General Election of 1976, the electorate approved a constitutional amendment giving the Severance Tax Permanent Fund constitutional status. In the General Election of 1982, the electorate approved a second constitutional amendment which removed the discretionary power of the Legislature to appropriate funds from the corpus of the Severance Tax Permanent Fund. Distributions from investments of the Fund, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance Tax receipts are the primary source of funding for the Severance Tax Permanent Fund. The market value of the Severance Tax Permanent Fund as of June 30, 1999 was $3.7 billion, an approximate increase of 12.8 percent over the prior year.

In November 1996, the electorate of New Mexico approved a constitutional amendment regarding distributions from the State's permanent funds. Distributions will be based on a total return basis rather than an income distribution method. Distributions to beneficiaries will be based on a formula under which 4.7 percent of the previous average five-year market value of the fund would be distributed. The objective of the new formula is to protect the funds against inflation by distributing long term expected "real" return (total return minus inflation), thus allowing the funds to grow a rate equal to inflation. The formula was derived based on 50-year historic trends. Until the new distribution formula takes effect, distributions to the beneficiaries will be 102% of the previous fiscal year distribution.

Investment Income

Investment earnings are generated from three primary sources: the State Land Grant Permanent Fund, the Severance Tax Permanent Fund, and cash balances held by the State Treasurer. Income from the State Land Grant Permanent Fund is distributed among the beneficiary educational institutions and public schools. The 82.3% share dedicated to public schools is deposited in the General Fund. In fiscal year 1998-99, $215.4 million of Permanent Fund earnings were transferred to the General Fund for public school purposes. During 1998-99, approximately $139.0 million of income was generated from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. Treasurer's cash balances produced $59.6 million of investment income in fiscal year 1998-99 which was credited to the General Fund. Total fiscal year 1998-99 interest and investment income credited to the General Fund was $414.1 million, representing 13.1% of total General Fund receipts.

PROPERTY VALUATION AND TAXATION

Property Tax Year ("PTY") is September 1 to August 31. A re-valuation assessment started in property tax year 1986, as mandated by statute, and was completed within a 10-year period. In PTY 1995, strong growth in residential valuations occurred as a result of timely re-valuation assessment to comply with the statute. The valuation of oil and 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 of each year. Pursuant to Section 7-32-15 NMSA 1978 as amended, oil and gas valuation is from the calendar year preceding the property tax year. For rate setting, Local Government Division ("LGD") may adjust levy for changes in oil and gas values.

On November 3, 1998, as a result of approval by the New Mexico electorate, Article 8, Section 1 of the New Mexico Constitution was amended to authorize the Legislature to limit increases in valuation of residential property 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 under which the limitation is applied. 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 may have an impact on future property taxation increases.

The following table shows net taxable valuations for the last ten years.

Final Net Taxable Valuations (in thousands)

PTY	Residential	Non-residential	Oil & Gas	Copper	Net Taxable Value
1990	7,503,894	6,608,558	1,353,811		$15,466,263
1991	7,601,280	6,822,384	1,628,532		$16,052,196
1992	8,236,961	7,059,737	1,452,517	210,417	$16,959,632
1993	8,419,063	7,286,479	1,721,983	177,834	$17,605,359
1994	8,723,123	7,342,186	1,893,527	173,007	$18,131,843
1995	10,729,781	7,867,383	1,694,195	184,300	$20,475,659
1996	11,150,455	8,120,033	1,562,623	214,300	$21,047,411
1997	12,228,583	8,563,893	2,371,034	235,557	$23,399,067
1998	12,678,034	8,750,029	2,520,530	236,629	$24,185,223
1999*	14,527,670	9,460,193	1,852,447	192,897	$26,033,208
2000**	15,108,776	9,649,397	2,108,800	100,000	$26,966,973

* Based on property valuations as of January 1, 1999. ** Estimate

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

Production and Property Taxes on Oil and Gas

The School Tax rate imposed on natural gas was raised from 3.15 percent to 4.00 percent effective July 1, 1993, pursuant to Laws 1993, Chapter 360. This action was taken partially to compensate for the large decreases in revenues due to the 1987 tax changes for natural gas. Further, it was believed that the tax increase was tolerable to the industry because of relatively higher prices. The School Tax rate imposed on crude oil continues to be 3.15 percent.

Statutory tax rates on oil and gas for the School Tax (3.15%), the Oil and Gas Severance Tax (3.75%) and the Conservation Tax (0.19%) are effectively reduced by deductions for royalties paid to governments and for certain transportation expenses. The ad valorem taxes are imposed in lieu of property taxes on reserves and lease equipment, and local rates vary in accordance with jurisdiction.

Current effective production and property tax rates expressed on ad valorem and unit bases are shown below. The rates were based on data from fiscal year 1998-99 and reflect an average sales price of $11.21 per barrel for oil and $1.68 per thousand cubic feet (mcf) for natural gas. The effective rates presented in the table show taxes paid as a percentage of gross sales value before subtracting allowable deductions.

Effective Tax Rates

	Oil		Gas	
	Ad Valorem	Per Barrel	Ad Valorem	Per mcf
Type of Tax				
School Tax	2.88%	$0.32	3.13%	$0.053
Oil and Gas Severance Tax	3.43	0.38	2.94	0.049
Conservation Tax	0.17	0.02	0.15	0.002
Ad Valorem Production	0.97	0.11	0.80	0.013
Ad Valorem Production Equipment	0.30	0.03	0.26	0.004
Total	7.75%	$0.87	7.28%	$0.122

Production, Sales and Property Taxes on Coal

The average burden of production and property taxes on a ton of coal produced and sold during fiscal year 1998-1999 were as follows:

Type of Tax	Effective Rate	Amount
Severance Tax & Surtax	$1.055 per ton	$28,441,789
Resources Excise Tax	0.15 per ton	4,142,760
Gross receipts tax	1.10 per ton	29,796,097
Property Tax	0.28 per ton	7,559,596
Conservation Tax	0.04 per ton	1,046,303
Total	$2.63 per ton	$70,986,545

Statutory rates for the Resources Excise 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 pertained 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. Currently, about 85 percent of all coal produced in the State is subject to gross receipts tax, even though a substantial portion is shipped out of the State for ultimate consumption. The combined state and local tax rate is 5.625 percent of value.

To convert taxes per unit of output to tax rates per dollar of sales, the taxes shown above may be divided by the average price per ton of coal in fiscal year 1998-99, which was approximately $20.48.

Excluding Gross receipts tax	$1.53/$20.48 = 7.5%
Including gross receipts tax	$2.63/$20.48 = 12.9%