# THE STATE OF NEW MEXICO

# CONTINUING DISCLOSURE
# ANNUAL FINANCIAL INFORMATION FILING

## FISCAL YEAR 2003

## NEW MEXICO
## STATE BOARD OF FINANCE

**January 2004**

## STATE OF NEW MEXICO
## OUTSTANDING AND ADDITIONAL BONDS

### CAPITAL PROGRAM

Capital projects funded by the State of New Mexico (the "State") are financed primarily by surplus general fund balances, General Obligation Bonds, Severance Tax Bonds (including Supplemental or Subordinated Severance Tax Bonds), Highway Bonds and obligations of the New Mexico Finance Authority. Table 1 details capital funding, by source, for fiscal years 2000 through 2003 and for the first six months of fiscal year 2004.

**TABLE 1**
**Principal Sources of Capital Project Funding**
**Fiscal Year Ending June 30**
**(In millions)**

| | 2000 | 2001 | 2002 | 2003 | 2004 YTD |
|---|---|---|---|---|---|
| **Proceeds from General Obligation Bonding Program** | | | | | |
| General Obligation Bonds | - | $62.6 | - | 130.9 | |
| General Obligation Funding Notes | - | - | - | - | - |
| **Subtotal** | $0.0 | $62.6 | $0.0 | $130.9 | $0.0 |
| **Proceeds from Severance Tax Bonding Program** | | | | | |
| Severance Tax Bonds | 59.6 | - | 67.0 | 73.9 | |
| Severance Tax Funding Notes (1) | 3.4 | 5.7 | 103.0 | 56.4 | 3.1 |
| Supplemental Severance Tax Bonds | 12.0 | 12.0 | 65.0 | 45.0 | 10.0 |
| Supplemental Severance Tax Funding Notes (1) | 55.0 | 74.5 | 35.1 | 111.7 | 78.2 |
| **Subtotal** | $130.0 | $92.2 | $270.1 | $287.0 | $91.3 |
| **Proceeds From Other Sources** | | | | | |
| General Fund | 23.4 | 103.2 | 72.4 | - | 36.9 |
| E-911 Revenue Bonds | - | 4.5 | - | - | - |
| Special Funds | - | - | 9.2 | - | - |
| Highway Bonds | 690.6 | 198.8 | 162.8 | 16.0 | |
| New Mexico Finance Authority | 52.3 | 18.5 | 34.7 | 24.9 | |
| **Subtotal** | $766.3 | $325.0 | $279.1 | $40.9 | $36.9 |
| **Total** | $896.3 | $479.8 | $549.2 | $458.8 | $128.2 |

*The Board, in order to take advantage of Severance Tax Bonding Fund revenue that would otherwise be transferred to the Severance Tax Permanent Fund, issues Funding Notes to the State Treasurer (which are retired within the same fiscal year with such revenue) to fund authorized projects.

### GENERAL OBLIGATION BONDS

Sections 7 and 8 of Article IX of the Constitution of the State limits the power of State officials to incur general obligation indebtedness extending beyond the fiscal year in three 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 one percent (1%) 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 also 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, 2003, are shown in Table 2.

**TABLE 2**
**Outstanding General Obligation Bonds**

| | | |
|---|---|---|
| General Obligation Bonds | Series 1999 | $34,950,000 |
| General Obligation Bonds | Series 2001 | 52,520,000 |
| General Obligation Refunding Bonds | Series 2001A | 9,005,000 |
| General Obligation Refunding Bonds | Series 2001B | 23,830,000 |
| General Obligation Bonds | Series 2003 | 130,900,000 |
| General Obligation Refunding Bonds | Series 2003B | 37,275,000 |
| | **Total** | **$288,480,000** |

Future debt payments, by fiscal year, on General Obligation Bonds outstanding, as of December 31, 2003, are shown in Table 3.

**TABLE 3**
**Future General Obligation Bond Debt Service**

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2004 | 16,100,000 | 6,237,894 | 22,337,894 |
| 2005 | 42,300,000 | 11,246,513 | 53,546,513 |
| 2006 | 34,295,000 | 9,563,788 | 43,858,788 |
| 2007 | 41,295,000 | 7,825,763 | 49,120,763 |
| 2008 | 39,025,000 | 5,980,613 | 45,005,613 |
| 2009 | 40,840,000 | 4,304,038 | 45,144,038 |
| 2010 | 21,250,000 | 3,022,676 | 24,272,676 |
| 2011 | 22,255,000 | 2,154,288 | 24,409,288 |
| 2012 | 15,210,000 | 1,244,800 | 16,454,800 |
| 2013 | 15,910,000 | 636,400 | 16,546,400 |
| **Total** | **$288,480,000** | **$52,216,773** | **$340,696,773** |

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

**Calculation of 1% Bonding Limitations**

| | |
|---|---|
| Net Taxable Value as of December 31, 2003 | $30,495,331,936 |
| General obligation bond limitation @ 1% of Net Taxable Value | $304,953,319 |
| Total general obligation bonds outstanding as of the closing of the Bonds | $288,480,000 |
| Ratio of total debt to net taxable value | 0.946% |

**Underlying General Obligation Bonds**

The following table presents the most recent information on outstanding county, city, local and public school district debt outstanding as of December 31, 2003.

**Underlying General Obligation Debt***

| | |
|---|---|
| Counties........................................ | $151,198,175 |
| Cities............................................. | 106,435,000 |
| Schools......................................... | 850,026,000 |

*Source: Local Government Division, Department of Finance and Administration, Department of Education

**SEVERANCE TAX BONDS**

Amendments to the Severance Tax Bonding Act enacted in 1999 and 2000 permit the Board to issue two categories of bonds against Severance Tax Bonding Fund revenues: "New Mexico Severance Tax Bonds" and "New Mexico Supplemental Severance Tax Bonds" which are referred to herein as "Senior Severance Tax Bonds" and "Supplemental Severance Tax Bonds", respectively. 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, after giving effect to the proposed issuance, outstanding can be serviced with not more than 50% of the annual deposits into the Bonding Fund, from the preceding fiscal year. Pursuant to the 1999 and 2000 amendments 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, after giving effect to the proposed issuance, can be serviced with not more than 62.5% of the annual deposits into the Bonding Fund, from the State's 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 87.5% of the deposits into the Bonding Fund. The Senior Severance Tax Bonds and Funding Notes fund all types of capital projects while Supplemental Severance Tax Bonds and Funding Notes are earmarked for capital projects for public education.

**Outstanding and Additional Parity Senior Severance Tax Bonds**

The principal amounts of outstanding Senior Severance Tax Bonds, as of December 31, 2003, are shown in Table 4.

**TABLE 4**
**Outstanding Senior Severance Tax Bonds**

| | | |
|---|---|---|
| Severance Tax Bonds | Series 1999A | $ 10,615,000 |
| Severance Tax Bonds | Series 2000 | 32,035,000 |
| Severance Tax Refunding Bonds | Series 2001A | 103,530,000 |
| Severance Tax Bonds | Series 2002A | 61,675,000 |
| Severance Tax Bonds | Series 2003A | 89,660,000 |
| | | $ 297,515,000 |

Future payments, by fiscal year, on outstanding Senior Severance Tax Bonds, as of December 31, 2003, are shown in Table 5.

**TABLE 5**
**Future Senior Severance Tax Bond Debt Service**

| Fiscal Year | Principal | Interest | Total* |
|---|---|---|---|
| 2004 | | 6,936,775 | 6,936,775 |
| 2005 | 53,970,000 | 12,290,000 | 66,260,000 |
| 2006 | 49,075,000 | 10,000,550 | 59,075,550 |
| 2007 | 42,560,000 | 7,739,762 | 50,299,763 |
| 2008 | 36,830,000 | 5,770,425 | 42,600,425 |
| 2009 | 36,585,000 | 4,006,450 | 40,591,450 |
| 2010 | 20,925,000 | 2,715,100 | 23,640,100 |
| 2011 | 15,370,000 | 1,961,475 | 17,331,475 |
| 2012 | 16,140,000 | 1,335,175 | 17,475,175 |
| 2013 | 16,945,000 | 666,700 | 17,611,700 |
| 2014 | 9,115,000 | 159,512 | 9,274,513 |
| Total | **$297,515,000** | **$53,581,925** | **$351,096,925** |

*excludes senior bond debt service payable from escrowed portfolio of securities.

As of December 31, 2003, $1.85 million of parity bonds have been authorized for specific capital projects but have not been issued. $12 million of parity bonds have been authorized but unissued for sewer projects in the North and South Valley through FY 2010; of which, no more than $2 million can be sold each fiscal year.

**Outstanding and Additional Parity Supplemental Severance Tax Bonds**
The principal amounts of Supplemental Severance Tax Bonds that are outstanding, as of December 31, 2003, are shown in Table 6.

**TABLE 6**
**Outstanding Supplemental Severance Tax Bonds**

| | | |
|---|---|---|
| Supplemental Severance Tax Bonds | Series 1999A | $ 5,655,000 |
| Supplemental Severance Tax Bonds | Series 2000C | 7,480,000 |
| Supplemental Severance Tax Bonds | Series 2002A | 53,765,000 |
| Supplemental Severance Tax Bonds | Series 2002B | 41,425,000 |
| Supplemental Severance Tax Bonds | Series 2003B | 10,000,000 |
| Total | | $118,325,000 |

The future fiscal year debt payments on outstanding Supplemental Severance Tax Bonds, as of December 31, 2003 are shown in Table 7.

**TABLE 7**
**Future Supplemental Severance Tax Bond Debt Service**

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2004 | | 1,836,425 | 1,836,425 |
| 2005 | 13,950,000 | 5,529,908 | 19,479,908 |
| 2006 | 14,610,000 | 4,725,028 | 19,335,028 |
| 2007 | 15,230,000 | 4,136025 | 19,366,025 |
| 2008 | 13,835,000 | 3,457,297 | 17,292,297 |
| 2009 | 12,325,000 | 2,774,450 | 15,099,450 |
| 2010 | 12,875,000 | 2,190,650 | 15,065,650 |
| 2011 | 13,455,000 | 1,657,200 | 15,112,200 |
| 2012 | 14,065,000 | 1,100,475 | 15,165,475 |
| 2013 | 6,735,000 | 519,075 | 7,254,075 |
| 2014 | 1,245,000 | 111,000 | 1,356,000 |
| **Total** | **$118,325,000** | **$28,037,533** | **$146,362,533** |

The lien of the pledge of such Supplemental Severance Tax Bonds is subordinate to any outstanding Senior Severance Tax Bonds. Also, existing authorizations to fund public school projects may be certified from time to time by the State's Public School Capital Outlay Council.

## TAX AND REVENUE ANTICIPATION NOTES

The State has issued, and expects to 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 31, 2003, $400,000,000 Tax and Revenue Anticipation Notes Series 2003 and $300,000,000 Tax and Revenue Anticipation Notes, Series 2003A were outstanding and are due to mature on June 30, 2004.

## ENHANCED 911 REVENUE BONDS

The E-911 Act was adopted in response to a perceived need to upgrade basic 911 service throughout most areas of the state. The primary objectives of the E-911 Program are to provide statewide funding, administrative and technical services leading to the installation of better telecommunications and computer equipment for faster location of and response to emergency calls. The Act authorizes the Board of Finance to issue and sell Enhanced 911 bonds to provide grant funds to local governments to acquire, extend, enlarge, better, repair, improve, construct, purchase, furnish, equip or rehabilitate E-911 systems. The Act imposes an Equipment Surcharge of twenty-five cents ($.25) to be billed monthly, with certain exceptions as set forth in the Act by local exchange telephone companies on all local exchange lines in the state, and to be remitted to the Taxation and Revenue Department for deposit into the E-911 Fund. The Bonds are payable from amounts on deposit in the E-911 Fund.

**Outstanding Enhanced 911 Revenue Bonds**
The principal and interest amounts of Enhanced 911 Revenue Bonds outstanding, as of December 31, 2003, are shown in Table 8.

**TABLE 8**
**Future Enhanced 911 Revenue Bond Debt Service**

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2004 | | 62,115 | 62,115 |
| 2005 | 645,000 | 110,040 | 755,040 |
| 2006 | 675,000 | 80,662 | 755,663 |
| 2007 | 710,000 | 49,500 | 759,500 |
| 2008 | 745,000 | 16,762 | 761,763 |
| Total | $2,775,000 | $319,080 | $3,094,080 |

## 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 84 percent of total FY 2003 severance tax receipts as shown in Table 9.

**TABLE 9**
**Severance Tax Bonding Fund**
**Receipts, Disbursements and Transfers**
**Fiscal Year Ended June 30 (1)(2)(3)**
**(Dollars in thousands)**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Beginning Balance | $68,983 | $69,934 | $70,521 | $80,748 | $8,258 |
| Receipts: | | | | | |
| Oil & Gas Severance Tax | $110,427 | $156,146 | $309,365 | $206,552 | $218,411 |
| Other Minerals Severance Taxes | 28,753 | 28,161 | 28,255 | 23,954 | 19,232 |
| Total Severance Taxes | $139,180 | $184,307 | $337,620 | $230,506 | $237,643 |
| Other Income: | | | | | |
| Interest on Investments | $7,783 | $10,515 | $13,879 | $11,007 | $5,526 |
| Bond Proceeds | 427 | 827 | 100 | - | - |
| Other financing sources | 451 | 1,114 | 4,662 | 4,533 | 13,988 |
| Subtotal | $8,661 | $12,456 | $18,641 | $15,540 | $19,514 |
| Total Receipts | $147,841 | $196,763 | $356,261 | $246,046 | $257,157 |
| Disbursements: | | | | | |
| Senior Bond Debt Service (5,6) | $66,842 | $69,924 | $68,227 | $132,511 | $71,425 |
| Senior Short-term Obligations (4) | 26,737 | 3,400 | 5,685 | 103,078 | 54,026 |
| Supplemental Bond Debt Service (5,6) | | | 2,101 | 14,947 | 17,569 |
| Supplemental Short-term Obligations (4) | | 54,954 | 74,500 | 35,075 | 111,752 |
| Fiscal Charges | 70 | 421 | 367 | 890 | 459 |
| Total Disbursements | $93,649 | $128,699 | $150,880 | $286,501 | $255,230 |
| Transfers: | | | | | |
| To Severance Tax Permanent Fund | $53,241 | $67,475 | $195,153 | $32,035 | $0 |
| Other | | 1 | | | |
| Total transfers | $53,241 | $67,476 | $195,153 | $32,035 | $0 |
| Ending Balance, June 30 | $69,934 | $70,521 | $80,748 | $8,258 | $10,184 |

(1) All receipts, expenditures and balances exclude amounts in rebate accounts received for potential arbitrage rebates.
(2) Balances exclude loan receivable from Department of Labor. Loan repayments amounts are included as other income received. FY 2000-01 loan repayments were $192,918.
(3) Proceeds and expenditures attributable to refunding bonds are excluded from this table since these amounts are reserved for payment to the escrow agent and are not available for debt service payments.
(4) The Board, in order to take advantage of Bonding Fund revenues that would otherwise be transferred to the Severance Tax Permanent Fund, issue short-term Severance Tax funding notes and Supplemental Severance Tax Funding notes to the State Treasurer which are retired within the same fiscal year with such revenue to fund authorized projects.
(5) Includes payment of $71.5 million of debt service due 7/1/02 on senior and supplemental bonds that was paid on 6/29/02. Ending balance would have been $79.8 million if this payment was not made during the period.
(6) Includes payment of $77.4 million of debt service due 7/1/03 on senior and supplemental bonds that was paid on 6/19/03. Ending balance would have been $87.6 million if this payment was not made during the period.

Source: State Board of Finance based on the Comprehensive Financial Reporting Accounting System

**TABLE 9A**
**State of New Mexico Severance Tax Bonds**
**Projected Receipts, Debt Service Requirements and Coverage**

| Fiscal Year Ending June 30 | Projected STB Revenues | Scheduled Senior Debt Service (1) | Projected Senior Coverage | Scheduled Supplemental Debt Service | Projected Supplemental Coverage |
|---|---|---|---|---|---|
| 2004 | 261,282,609 | 69,008,862 | 3.79 | 18,230,252 | 3.00 |
| 2005 | 224,175,223 | 66,259,838 | 3.38 | 19,007,653 | 2.63 |
| 2006 | 218,068,309 | 59,075,925 | 3.69 | 19,013,664 | 2.79 |
| 2007 | 216,229,809 | 50,299,788 | 4.3 | 18,936,667 | 3.12 |
| 2008 | 178,660,238 | 42,600,425 | 4.19 | 16,838,826 | 3.01 |
| 2009 | 176,905,823 | 40,591,450 | 4.36 | 14,721,283 | 3.2 |
| 2010 | 176,052,512 | 23,640,100 | 7.45 | 14,707,920 | 4.59 |
| 2011 | 173,576,338 | 17,331,475 | 10.02 | 14,697,958 | 5.42 |
| 2012 | 171,529,653 | 17,475,175 | 9.82 | 14,690,676 | 5.33 |
| 2013 | 167,931,111 | 17,611,700 | 9.54 | 6,913,099 | 6.85 |
| 2014 | 165,537,616 | 9,274,513 | 17.85 | 1,268,033 | 15.7 |

Notes: (1) Excludes senior bond debt service payable from escrowed securities.
*Source:* NM Department of Finance and Administration and Fiscal Strategies Group

**Investments**

Funds on deposit in the Severance Tax Bonding Fund, including the Debt Service Account and Project Fund (established in accordance with the Bond Resolutions) are invested by the State Treasurer at the direction and approval of the Board, pursuant to the State Treasurer's Investment Policy. 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 (defined in the Bond Resolutions), interest earned on the amounts on deposit in the Debt Service Account shall be retained therein, and interest earned on the amounts on deposit in the Project Fund shall be credited to the Debt Service Account and applied to the payment of principal and interest on the Bonds next becoming due. Any loss resulting from any such investment shall be charged to the applicable account from which such investments were made.

**Severance Tax Collections and Reporting**

Operators, purchasers and working interest owners are required to submit monthly reports to the Taxation and Revenue Department 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 is reported by "production unit" and a designation for a well or group of wells that is assigned by the Taxation and Revenue Department 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 districts, and municipalities.

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 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 tax amounts received by the Taxation and Revenue Department are deposited into the Oil and Gas Suspense Fund. Using the ONGARD system, the Taxation and Revenue Department 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 are then transferred, once a month, to the bonding fund. Table 10 presents sales volume and total sales revenue for oil and natural gas subject to severance tax.

**TABLE 10**
**New Mexico Oil and Natural Gas Subject to Taxation**
**Fiscal Years Ending June 30**

| **Oil** | **1999** | **2000** | **2001** | **2002** | **2003** |
|---|---|---|---|---|---|
| **Sales volume (million barrels)** | 66.0 | 67.3 | 70.1 | 69.0 | 68.3 |
| **Value ($ millions)** | $740 | $1,485 | $2,012 | $1,521 | $1,895 |
| **Average price ($/barrel)** | $11.21 | $22.07 | $28.70 | $22.00 | $27.74 |
| **Natural Gas** | | | | | |
| **Sales Volume (bcf)** | 1,607 | 1,620 | 1,628 | 1,614 | 1,538 |
| **Value ($ millions)** | $2,700 | $3,985 | $8,107 | $4,318 | $5,504 |
| **Average Price ($/mcf)** | $1.68 | $2.46 | $4.98 | $2.67 | $3.58 |

Source: NM Department of Finance and Administration and Taxation and Revenue Department

**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. Table 11 summarizes the history of statutory tax rates imposed on natural gas, oil, and carbon dioxide. Tax rates are set by statute and are levied on the volume 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 | 2.5% | 2.5% | |
| 1974 | 3.75% | 3.75% | |
| 1977 | $0.05/mcf + surtax | $0.45/bbl + surtax | |
| 1980 | $0.087/mcf + surtax | 3.75% | |
| 1987 | 3.75% | 3.75% | 3.75% |

Source: NM Department of Finance and Administration.

**Oil and Natural Gas Incentives**

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 qualified volumes and taxable values for FY 2003, the total reduction of revenues from oil and gas due to all incentive programs was approximated $5.4 million, or about 7.6% of total severance tax bonding fund revenue. Table 12 summarizes incentive tax rates applying to various categories of production as of FY 2003.

**TABLE 12**
**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 2003 total: |
|---|---|---|---|
| Restoration wells | 0.0% | $24.00 per barrel[1] | 0.1% Oil<br>0.1% Natural Gas |
| Well workover wells | 2.45% | $24.00 per barrel[1] | 1.0% Oil<br>6.9% Natural Gas |
| Stripper wells | 1.875% | $1.15 per mcf-Gas[2]<br>$15.00 per barrel-Oil[2] | 0.0% Natural Gas[3]<br>0.0% Oil |
| | 2.8125% | $1.35 per mcf-Gas[2]<br>$18.00 per barrel-Oil[2] | 0.0% Natural Gas[3]<br>0.0% Oil |
| Enhanced oil recovery | 1.875% | $28.00 per barrel[1] | 2.7% Oil |

Notes:
1. Twelve-month average price for West Texas Intermediate crude oil as reported on Oil Postings for last day of each month.
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.

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.

During FY 2003, approximately 2.6 million barrels of production qualified for the reduced tax rates with the enhanced oil recovery incentive being the largest at 1.8 million barrels. This represents 2.7 percent of total volumes produced and sold. Qualified volumes are expected to increase gradually over time. Altogether, these incentives are estimated to have reduced bonding fund revenue from oil production by $1.3 million in FY 2003.

During FY 2003, approximately 107 million mcf of production qualified for the reduced tax rates with the well workover incentive being the largest at 106 million mcf. This represents 6.9% of total volumes produced and sold. Qualified volumes are expected to increase over time as well workovers on producing wells continue. Altogether, these gas incentives are estimated to have reduced bonding fund revenue from gas production by $4.0 million in FY 2003.

NOTE: Because of the strength in prices in FY 2003, the only incentive that is still applicable for FY 2004 is the Enhanced Oil Tax Incentive.

**Severance Tax on Indian Land**

The United States Supreme Court has ruled that the state can tax non-Indian oil and gas production on tribal land (Cotton Petroleum Co. v. State of New Mexico, 490 US 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 [1989]). The authority of the state to impose severance taxes on Indian oil and gas production on tribal land was upheld by the United States District Court in New Mexico (Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department, No. USDC 87-922). The Taxation and Revenue Department reports that natural gas production and crude oil production on Indian land was approximately 3.75% and 1.0%, respectively, of total taxable statewide production in 2003. Roughly 43% of the severance tax collections on coal production are derived from Indian lands.

The Laws of 1995, Chapter 171 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% 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.

**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 economically 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. 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 $CO_2$ are expected to remain near 125 bcf per year. The wellhead value of $CO_2$ sales currently is approximately $0.35 per mcf reported at the production facility, 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.

**Severance Taxes on Coal**

Excise taxes have been imposed on coal sales in New Mexico since 1933 and tax rates have been changed several times over the years. 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 1999 Legislature undertook a reexamination of coal severance taxes in the light of deregulation of the electric power market because increased competition in power markets was expected to make it harder for utilities to pass on the cost of high production taxes. The change reduced FY 2000 revenues by less than $1 million. The full impact of the provision will not be felt until all existing contracts expire in 2015. Table 13 presents sales volume and total sales revenue for coal subject to severance tax.

**TABLE 13**
**Taxable Coal Sales and Average Price**
**Fiscal Years Ended June 30**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Sales Volume (million tons) | 27.0 | 25.0 | 27.1 | 26.6 | 27.6 |
| Sales Value (million dollars) | $552.0 | $506.0 | $548.2 | 528.3 | $607.9 |
| Average Price ($ per ton) | $20.44 | $20.24 | 20.21 | 19.87 | $21.98 |

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

**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 15. In many cases, flat percentage deductions are allowed to account for certain production costs. The result is 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 Table 14.

**TABLE 14**
**Severance Tax Rates On Other Minerals**

| Mineral Resources | Tax Rate | Taxable Value as % of Full Value |
|---|---|---|
| Potash | 2.500 | 16.67 |
| Copper | 0.500 | 16.67[1] |
| Timber, Pumice, Gypsum, Sand, Gravel, Clay, Fluorspar, Other | 0.125 | 100.00[2] |
| Molybdenum | 0.125 | 50.00 |
| Lead, Zinc | 0.125 | 16.67[1] |
| Gold | 0.200 | 50.00[1] |
| Silver | 0.200 | 30.00[1] |
| Uranium | 3.500 | 50.00 |

Notes
1 Value based upon the indicated percentage of specified Comex, LME or London spot prices published in Metals Week.

2 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 sale, deductions are allowed for cost of processing and freight charges to the point of sale.

Tax revenue from potash was about $638,000 in FY 2003. Severance tax revenue from copper is limited because of the statutorily defined narrow tax base. Revenue from copper peaked at $593,000 in FY 1996, a result of the combination of high prices and strong production, but most recent revenues were $142,000 in FY 2003. Copper prices have been depressed for the last several years by weakness in world copper prices

## GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

The State of New Mexico admitted as the forty-seventh state on January 6, 1912, is the fifth largest state in land area, containing approximately 121,593 square miles. 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 monsoon moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 30 inches (north central mountains). New Mexico is currently experiencing a statewide drought, which has been detrimental to the State's agricultural sector, as well as to many tourist activities on which limitations have been imposed to preserve water and protect against wildfires.

Major industries in the State are energy resources, manufacturing, services, tourism, arts and crafts, agribusiness, government, and mining. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State's economy. 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 mirrors the American political system with executive, legislative and judicial branches. 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 most 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, special sessions of the Legislature may be convened by the Governor, and under certain limited circumstances, extraordinary sessions may be convened by the Legislature. Legislators receive no 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 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 Board*

Total membership as of June 30, 2003 was officially reported as 107,776 members. The annual actuarial valuation of the Educational Retirement Act of the State was conducted and reported as of June 30, 2003 by Gabriel, Roeder, Smith & Co. 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, 2003 were $6.8 billion and the unfunded liability was $1.75 billion.

#### *The Public Employees Retirement Association*

Gabriel, Roeder, Smith & Co completed an actuarial valuation of the Public Employees Retirement Fund (PERA), Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund (VFF) as of June 30, 2003. 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. Actuarial information, for each fund, as of June 30, 2003, is shown in Table 15.

**TABLE 15**
**Summary of PERA Retirement Funds**
**(dollars in thousands)**

| | PERA | Judicial | Magistrate | VFF | Legislative |
|---|---|---|---|---|---|
| Membership | 66,693 | 186 | 127 | 5,596 | 273 |
| Actuarial Information | | | | | |
| Accrued Liability | $9,215,945.5 | $85,951.6 | $29,078.1 | $17,058.3 | $7,657.2 |
| Value of Assets | $8,971,080.8 | $65,223.3 | $29,629.5 | $31,221.5 | $5,826.6 |
| Unfunded (Overfunded) Accrued Liability | $244,864.7 | $20,728.3 | ($551.4) | ($14,163.3) | $1,830.6 |
| Present Value of Statutory Obligations | $12,297,651.9 | $109,641.9 | $38,188.5 | $33,194.0 | $8,399.0 |

## 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.

**State Treasurer's Investment Responsibilities**
A major responsibility of the State Treasurer is to invest money in his custody not immediately needed for the operations of State government in order to enhance state revenues. The State Treasurer's 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.

This investment policy is a comprehensive one that governs the investment activities of the State Treasurer. This policy applies to all financial assets of the State invested by the Treasurer in the exercise of his statutory authority or invested as directed by other agencies which have specific investment authority and for which the Treasurer acts as agent. These funds include, but are not limited to the State's General Fund, and agency funds such as the Local Government Investment Pool, bond funds, debt service reserve funds, those pension and permanent fund monies not yet allocated to money managers and all float.

According to the investment policies, an Investment Committee must be appointed by the State Treasurer with the specific purpose and responsibility of establishing, maintaining and administering the investment policy. The Investment Committee consists of five (5) voting members: the State Treasurer, or designee, who serves as Chairman, two members of the State Treasurer's Office involved in the investment decision making process, one of whom will serve as vice-chairman, the Director of the State Board of Finance or designee, and a professional participant in the private investment community or an individual with expert knowledge or professional experience in the subject or professional practice of public finance or public fund investing, appointed by the State Treasurer with the advice and consent of the State Board of Finance.

The Investment Committee is charged with the following responsibilities:

- Reviewing and recommending, if advisable, modifications in the investment policy of the State Treasurer from time to time;
- Assessing the utility and efficacy of established internal controls as loss prevention measures with respect to the investment portfolio subject to the investing authority of the State Treasurer;
- Determining whether legislation affecting the investment activities of State Treasurer should be recommended;
- Recommending investment procedures that may be useful or required in maintaining currency with public finance market practices;
- Meeting monthly to deliberate such topics as: economic outlook, portfolio diversification and maturity structure, potential risks, the target rate of return on the investment portfolio and the like;
- Identifying potential violations of and suggesting remedial actions to achieve conformity with the investment policy;
- Recommending depositories, custodians, broker/dealers and investment managers and advisors; and
- Assessing whether the investment policy of State Treasurer is being properly implemented by the individuals and entities involved in the administration and management of investment activities.

**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 investments made by 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, 1993 and 1994 Legislatures. Reliance on sales and income taxes were increased to offset declines in severance tax and royalty revenues. Table 16 lists revenues, expenditures and ending fund balances over the last four fiscal years and estimated amounts for the current fiscal year.

**General Fund Financial Summary**
**FY 2000 - FY 2004**
**(Dollars in thousands)**

| | Actual 2000 | Actual 2001 | Actual 2002 | Preliminary 2003 | Estimated 2004 |
|---|---|---|---|---|---|
| **A. APPROPRIATION ACCOUNT** | | | | | |
| **Receipts:** | | | | | |
| General & Selective Sales Taxes | $1,415,090 | $1,535,925 | $1,581,937 | $1,658,800 | $1,803,400 |
| Income Taxes | 1,047,417 | 1,150,109 | 1,188,605 | 1,040,100 | 1,097,500 |
| Severance Taxes | 194,517 | 363,521 | 241,511 | 268,400 | 297,900 |
| License Fees | 32,414 | 34,408 | 30,892 | 31,100 | 33,600 |
| Investment Income | 410,629 | 453,439 | 473,093 | 478,600 | 493,100 |
| Rents & Royalties | 221,107 | 401,703 | 249,242 | 283,600 | 326,900 |
| Miscellaneous Receipts | 29,924 | 26,886 | 30,520 | 30,600 | 26,300 |
| Reversions/adjustments | 22,290 | 24,553 | 32,793 | 32,600 | 34,700 |
| Tribal Revenue Sharing | | | 18,721 | 43,800 | 35,700 |
| Tobacco Settlement Revenue | | | | 23,300 | 28,000 |
| Total Recurring Receipts | 3,373,388 | 3,990,543 | 3,847,314 | 3,890,900 | 4,177,100 |
| Nonrecurring & Adjs. (1) | 30,042 | 4,000 | | 57,800 | 58,400 |
| Tribal Revenue Sharing | 17,917 | | 88,618 | | |
| Nonrecurring & Adjs. (1) | 47,959 | 4,000 | 88,618 | 57,800 | 58,400 |
| **Total Receipts** | **$3,421,346** | **$3,994,543** | **$3,935,931** | **$3,948,700** | **$4,235,500** |
| **Appropriations:** | | | | | |
| Recurring | | | | | |
| Legislative | $15,531 | $19,781 | $17,657 | $22,120 | $14,766 |
| Judicial | 107,628 | 115,120 | 126,116 | 133,505 | 134,969 |
| General Control | 149,266 | 199,405 | 188,963 | 141,349 | 161,903 |
| Commerce & Ind./Exam. & Lic. | 40,214 | 44,814 | 46,129 | 45,409 | 46,881 |
| Agric., Energy & Nat. Res. | 50,981 | 54,841 | 63,611 | 59,192 | 58,039 |
| Health & Human Services | 641,661 | 681,416 | 791,953 | 814,136 | 906,804 |
| Public Safety | 215,606 | 236,311 | 256,280 | 266,699 | 278,799 |
| Other Education | 19,872 | 25,039 | 23,328 | 20,112 | 53,748 |
| Higher Education | 520,628 | 565,129 | 569,978 | 605,050 | 593,099 |
| Public School Support | 1,543,036 | 1,632,305 | 1,782,210 | 1,788,566 | 1,859,274 |
| Recurring Appropriations | 3,304,421 | 3,574,160 | 3,866,226 | 3,896,136 | 4,108,282 |
| Other Recurring Appropriations (2), (3) | 24,068 | | | | 300 |
| Total Recurring Appropriations | 3,328,490 | 3,574,160 | 3,866,226 | 3,896,136 | 4,108,582 |
| Nonrecurring | | | | | |
| Capital Outlay/Supplemental/Contingency | 28,356 | 252,336 | 180,354 | 155,289 | |
| Other Nonrecurring adj for leg | 33,171 | 1,152 | 2,075 | - | 4,300 |
| Total Nonrecurring | 61,527 | 253,489 | 182,429 | 155,289 | 4,300 |
| **Total Expenditures** | **$3,390,016** | **$3,827,649** | **$4,048,655** | **$4,051,425** | **$4,112,882** |
| **TRANSFER TO RESERVES** | **$31,330** | **$166,894** | **($112,723)** | **($102,725)** | **$122,618** |
| **B. OPERATING RESERVE** | | | | | |
| **Beginning Balance** | **$185,425** | **$191,600** | **$267,187** | **$154,778** | **$44,889** |
| Appropriations & Adjs. | (15,323) | (3,744) | (350) | (7,664) | (1,472) |
| Total Appropriations | (15,323) | (3,744) | (350) | (7,664) | (1,472) |
| Transfers: | | | | | |
| From/(To) General Fund (Approp. Account). | 31,330 | 79,179 | (112,723) | (102,725) | 122,618 |
| Special Session/Approp Cont. Fund | (10,000) | 0 | 0 | 0 | 0 |
| Total Transfers | 21,330 | 79,179 | (112,723) | (102,725) | 122,618 |
| Other Adjustments | 168 | 152 | 664 | 500 | 0 |
| **Ending Balance** | **$191,600** | **$267,187** | **$154,778** | **$44,889** | **$166,035** |

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

**TABLE 16**

## TABLE 16

**General Fund Financial Summary [continued]**
**FY 2000 - FY 2004**
**(Dollars in thousands)**

| | Actual 2000 | Actual 2001 | Actual 2002 | Preliminary 2003 | Estimated 2004 |
|---|---|---|---|---|---|
| **C. APPROPRIATION CONTINGENCY FUND** | | | | | |
| **Beginning Balance** | **$3,617** | **$958** | **$93,987** | **$77,934** | **$61,494** |
| Appropriations: | | | | | |
| Allotments (Medicaid, Disasters, etc.) | (16,666) | (74,150) | (25,379) | (29,500) | (10,000) |
| Allot. Reversions | 4,007 | 2,779 | 9,326 | 13,060 | (2,026) |
| Transfers: | | | | | |
| From General Fund | 10,000 | 164,400 | 0 | 0 | 0 |
| To Surplus/SSR | | | | | |
| **Ending Balance** | **$958** | **$93,987** | **$77,934** | **$61,494** | **$49,468** |
| **D. RISK RESERVE FUND** | | | | | |
| **Beginning Balance** | **$132,770** | **$0** | **$0** | **$0** | **$0** |
| Transfers | | | | | |
| From Risk Mgmt Funds | 0 | 0 | 0 | 0 | 0 |
| To Risk Mgmt Funds | (139,770) | 0 | 0 | 0 | 0 |
| Interest Earnings | 7,000 | 0 | 0 | 0 | 0 |
| **Ending Balance** | **$0** | **$0** | **$0** | **$0** | **$0** |
| **E. TAX STABILIZATION RESERVE** | | | | | |
| Beginning Balance | | | **$87,715** | **$87,715** | **$77,715** |
| Transfers Out | | 0 | 0 | (10,000) | (20,000) |
| **Ending Balance** | | **$87,715** | **$87,715** | **$77,715** | **$57,715** |
| **F. TOBACCO STETTLEMENT PERMANENT FUND RESERVE** | | | | | |
| Beginning Balance | | | **$60,933** | **$59,642** | **$57,000** |
| Transfers In | | | 43,637 | 42,900 | 37,200 |
| Transfers Out | | | (40,513) | (42,900) | (37,200) |
| Gains/(Losses) | | | (4,416) | (2,642) | 0 |
| **Ending Balance** | | | **$59,642** | **$57,000** | **$57,000** |
| **G. TOTAL BALANCES** | | | | | |
| **Beginning of Period** | **$321,812** | **$192,558** | **$448,889** | **$380,069** | **$241,097** |
| **End of Period** | **$192,558** | **$448,889** | **$320,427** | **$241,097** | **$330,217** |

**Notes:** Detail may not add to column total due to independent rounding.
(1) Tobacco Settlement Permanent Fund Reserve created as General Fund Reserve in Fiscal Year 2003.

### Fiscal Year 2000

FY 2000 recurring revenue reached $3.37 billion with growth of 8.0 percent over the previous fiscal year. The general fund experienced strong growth in revenues related to mineral production as energy prices recovered from low levels in FY 1999. Total expenditures for FY 2000 were approximately $3.39 billion, an increase of 6.0 percent over FY 1999. The operating reserve received a $31.3 million transfer and ended the year with a balance of $191.6 million. Year-end total general fund balances were $192.6 million or 5.8 percent of recurring appropriations.

### Fiscal Year 2001

Recurring general fund revenue in FY 2001 was $3.99 billion, growing 18.3 percent over the previous fiscal year. Revenue growth in FY 2001 was bolstered by strong energy prices. General and selective sales, personal income taxes, and corporate income tax collections were also very robust. Total appropriations for FY 2001 were $3.83 billion. The legislature approved an appropriation from the appropriation contingency fund equal to $164.4 million; $68 million was specifically for the Medicaid Program. Of this amount, $53 million was considered a recurring expenditure. There was a transfer of $167.0 million to the operating reserve less an approximate transfer of $87.7 million to the tax stabilization reserve. The operating reserve finished the fiscal year with an ending balance of $267.2 million. Year-end total general fund balances were $448.9 million, or 12.6 percent of recurring appropriations.

**Fiscal Year 2002**
Recurring revenue was $3.85 billion in FY 2002, $143.2 million lower than in FY 2001. Revenue declined considerably due to the September 11, 2001 terrorist attacks and an already weakening economy. A significant downward revision in the price of natural gas also contributed to the decline. Appropriations totaled $4.05 billion, 5.8 percent over the previous fiscal year. The general fund drew $112.7 million from the operating reserve. Total general fund reserves were $320.4 million or 8.3 percent of recurring appropriations at year-end.

**Fiscal Year 2003**
Recurring general fund revenue reached $3.89 billion in FY 2003, growing 1.1 percent over FY 2002. High oil and natural gas prices led to strong growth in mineral production taxes and rents, royalties, and bonuses, but were offset by weakness in income tax collections. Total appropriations were $4.05 billion, representing growth of only 0.1 percent over the previous fiscal year. To meet appropriations, $103.3 million was transferred from the operating reserve to the general fund. Total general fund reserves at the close of FY 2003 were $244.5 million, or 6.3 percent of recurring appropriations.

**Fiscal Year 2004**
In FY 2004, recurring general fund revenue is estimated to total $4.18 billion, or 7.4 percent above FY 2003. Natural gas prices are expected to be abnormally high in FY 2004, leading to another year of strong growth in mineral production taxes and revenues from rents and royalties. As the economy gains momentum, sales and income taxes are expected to grow at 8.7 and 5.5 percent, respectively. Appropriations are estimated to total $4.12 billion, growing by 1.6 percent over FY 2003. A transfer to the operating reserve equal to $118.8 million is expected bringing the year-end operating reserve balance to $161.6 million. Total year-end balances are expected to be $336.0 million, or 8.2 percent of recurring appropriations.

## STATE TAXES AND REVENUE

Programs and operations of New Mexico are predominantly funded through a system of 29 major taxes administered by the Taxation and Revenue Department. The Public Regulation Commission collects taxes on insurance premiums. In addition, distributions from the Land Grant Permanent Fund and the Severance Tax Permanent Fund provide important sources of revenue. 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), leasing property, performing services, and from research and development services performed outside the state on a product that 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. There are over 50 specified exemptions and deductions from gross receipts taxation; nevertheless, the general presumption is that all receipts of an entity engaging in business are subject to gross receipts tax.

The gross receipts and compensating taxes are the largest single source of General Fund revenue. The gross receipts tax is also a primary source of revenue for cities and counties. The gross receipts 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 percent is allowed for municipal 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 4.31 percent of the value of jet fuel sales, are deposited in the General Fund. In terms of the compensating tax, after distributions of 10 percent to the small cities assistance fund and 10 percent to the small counties assistance fund, the remaining receipts from the 5 percent compensating tax are deposited in the General Fund.

In FY 2003, total distributions to the General Fund from gross receipts and compensating taxes grew by 4.9 percent over the previous fiscal year to $1.38 billion. These combined revenues represented 34.8 percent of total General Fund revenue.

**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.

The 2003 Legislature approved and the Governor signed a tax package that will reduce the top marginal tax rate over five years. By 2007, the top marginal tax rate will be reduced from the CY 2002 rate of 8.2 percent of taxable income over 100,000 for joint filers ($65,000 for single filers) to 4.9 percent of taxable income over $24,000 ($16,000 for single filers).

In FY 2003, the General Fund received $923.1 million of recurring revenue from net personal income tax. Personal income tax collections for FY 2003 contracted by 10.0 percent—prior to adjustment for the Cerro Grande extension. When adjusted for Cerro Grande, personal income tax collections were essentially flat. The personal income tax represented approximately 23.7 percent of total General Fund receipts in FY 2003.

**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 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 FY 2003, net receipts received by the General Fund from corporate income tax were $101.7 million, representing a decline of 28.2 percent. The corporate income tax represents 2.6 percent of total General Fund revenue.

**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 $229.6 million in FY 2003. Other General Fund taxes on natural resources production amounted to $38.8 million. Together, mineral production taxes contributed approximately 6.8 percent of total General Fund revenue in FY 2003.

**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 and collects the State's share of administrative costs. The State receives payments on a monthly basis and makes the deposits to the General Fund. In FY 2003, an estimated $268.4 million, about 6.9 percent of General Fund receipts, was derived from Federal mineral leases.

***State Lands.*** The State Land Office manages lands acquired by the State. All income from state lands is dedicated to specific educational purposes and institutions. Oil and gas production 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. FY 2003 receipts were $15.2 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 and public institutions benefiting from "State lands."

**State Land Grant Permanent Fund and Severance Tax Permanent Fund**

The 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 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, with the public schools receiving the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the 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, 2003, the market value of the Land Grant Permanent Fund was $6.808 billion, an increase of approximately 1.7 percent over the previous 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. 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, 2003 was $3.323 billion, an approximate decrease of 2.4 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 are now based on a total return basis rather than an income distribution method. The objective of the 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 at a rate equal to inflation. The formula was derived based on 50-year historic trends. The distribution formula was implemented in FY 2001 for the Land Grant Permanent Fund and in FY 2002 for the Severance Tax Permanent Fund.

In October 2003, the electorate approved a constitutional amendment increasing the rate of distribution from the Land Grant Permanent Fund from 4.7 percent to 5.0 percent of the average five-year market value of the fund beginning in FY 2004. Additional distributions from the fund, dedicated to education reform, will be made in fiscal years 2005 to 2016:

an additional 0.8 percent will be distributed in fiscal years 2005 through 2012, and an additional 0.5 percent will be distributed in fiscal years 2013 through 2016.

**Investment Income**
Statute specifies that 82.8 percent of investment income from the Land Grant Investment Pool is dedicated to public schools. In FY 2003, $275.7 million of Land Grant Permanent Fund distributions were transferred to the General Fund for public school purposes. $159.2 million of income was distributed from the Severance Tax Permanent Fund, all of which was deposited in the General Fund. In FY 2002, Treasurer's cash balances produced $55.9 million of investment income, which was credited to the General Fund. Total FY 2003 interest and investment income credited to the General Fund was $478.6 million, representing 12.3 percent of total General Fund receipts.

## PROPERTY VALUATION AND TAXATION

Property Tax Year ("PTY") is September 1 to August 31. A revaluation 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 revaluation 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 2000 Legislature passed and the Governor signed legislation limiting the increase in the value of residential property for property valuation purposes. Laws of 2000, Chapter 21, provides for a freezing of values for single-family dwellings occupied by certain low-income owners 65 years of age or older. Laws of 2000, Chapter 10, 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%. Sales assessment ratios are computed annually by TRD and measure a county's assessment valuations against current sales information. Counties that have at least an 85% 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% (and 6.1% over the value two years ago). If a property is situated in a county that is not current and correct, the law limits the annual increase to 5%. In addition, in such a non-current and correct county, the law limits the aggregate annual increases for all properties (excluding net new properties added to the tax rolls) in that county to 3%. 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.

**TABLE 17**
**Final Net Taxable Valuations**
**(in thousands)**

| PTY | Residential | Non-residential | Oil & Gas | Copper | Net Taxable Value |
|---|---|---|---|---|---|
| 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 | 14,660,993 | 9,311,907 | 1,852,447 | 192,897 | 26,018,245 |
| 2000 | 15,311,042 | 9,946,121 | 2,166,427 | 160,906 | 27,584,497 |
| 2001 | 16,336,147 | 10,209,818 | 4,238,592 | 117,376 | 30,901,933 |
| 2002 | 17,133,856 | 10,336,906 | 3,024,570 | - | 30,495,332 |
| 2003* | 18,322,361 | 10,796,652 | 3,024,570 | 66,614 | 32,210,197 |

* 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% and 4.0%, respectively), 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 FY 2000 and reflect an average sales price of $22.07 per barrel for oil and $2.46 per thousand cubic feet (mcf) for natural gas. The effective rates presented in Table 18 shows taxes paid as a percentage of gross sales value before subtracting allowable deductions.

**TABLE 18**
**Effective Tax Rates**

| | Crude Oil | | Natural Gas | |
|---|---|---|---|---|
| **Type of Tax** | **Ad Valorem** | **Per Barrel** | **Ad Valorem** | **Per mcf** |
| School Tax | 2.79% | $0.62 | 3.15% | $0.078 |
| Oil and Gas Severance Tax | 3.23 | 0.72 | 2.89 | 0.071 |
| Conservation Tax | 0.17 | 0.04 | 0.24 | 0.006 |
| Ad Valorem Production | 0.99 | 0.22 | 0.85 | 0.021 |
| Ad Valorem Production Equipment | 0.30 | 0.03 | 0.25 | 0.030 |
| Total | 7.48% | $1.63 | 7.38% | $0.206 |

**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 are shown in Table 19:

**TABLE 19**
**Tax Burden**

| Type of Tax | Effective Rate | Amount |
|---|---|---|
| Severance Tax & Surtax | $1.063 per ton | $26,570,656 |
| Resources Excise Tax | 0.152 per ton | 3,799,163 |
| Gross Receipts Tax | 0.969 per ton | 24,219,661 |
| Property Tax | 0.278 per ton | 6,939,804 |
| Conservation Tax | 0.038 per ton | 961,050 |
| Total | $2.500 per ton | $62,490,334 |

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 FY 2000, which was approximately $20.20.

| | |
|---|---|
| Excluding Gross Receipts Tax | $1.53/$20.20 = 7.6% |
| Including Gross Receipts Tax | $2.50/$20.20 = 12.4% |