THE STATE OF NEW MEXICO

CONTINUING DISCLOSURE

ANNUAL FINANCIAL INFORMATION FILING
FISCAL YEAR 2019

NEW MEXICO
STATE BOARD OF FINANCE

January 2020

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THE STATE OF NEW MEXICO CONTINUING DISCLOSURE

ANNUAL FINANCIAL INFORMATION FILING

State Capital Program

State General Fund balances and proceeds from General Obligation Bonds, Senior Severance Tax Bonds, Supplemental Severance Tax Bonds and Transportation Bonds are important sources of capital financing for the State. The following table summarizes the capital funding administered by the State Board of Finance (the "Board") and certain other sources for Fiscal Year 2015 through Fiscal Year 2019.

TABLE 1
Principal Sources of Capital Project Funding
Fiscal Year Ended June 30
(Dollars in millions)

	2015	2016	2017	2018	2019
Proceeds from General Obligation Bonding Program[1]					
General Obligation Bonds	$167.0	$ 0.0	$ 0.0	$174.3	$ 0.0
Subtotal	167.0	0.0	0.0	174.3	0.0
Proceeds from Severance Tax Bonding Program[1]					
Severance Tax Bonds	0.0	293.1	51.0	222.5	0.0
Severance Tax Funding Notes[2]	128.2	8.6	38.5	28.9	77.2
Supplemental Severance Tax Bonds	0.0	81.0	0.0	0.0	0.0
Supplemental Severance Tax Funding Notes[2]	214.5	127.3	120.4	139.2	181.9
Subtotal	342.7	510.0	209.9	390.6	259.1
Proceeds From Other Sources					
State Transportation Bonds	0.0	0.0	0.0	0.0	0.0
Subtotal	0.0	0.0	0.0	0.0	0.0
Total[4]	$509.7	$510.0	$209.9	$565.0	$259.1

[1] Dollar amounts from State Board of Finance funding programs reflect net proceeds available for capital expenditure. Amounts vary annually by legislative action and the timing of bond closings.
[2] The Board issues Senior Funding Notes and Supplemental Funding Notes to fund authorized projects. The notes are sold to the State Treasurer and retired within the same fiscal year.
[3] Totals may not add due to rounding.
Source: New Mexico State Board of Finance and the New Mexico Finance Authority (as issuer of State Transportation Bonds)

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

The New Mexico Finance Authority (the "Finance Authority") was created by the State legislature in 1992 to assist qualified governmental entities in financing capital equipment and infrastructure projects. The Finance Authority is a state instrumentality governed by a board of directors and is not subject to the direct supervision or control of any other board, bureau, department or agency of the State.

General Obligation Bonds

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

1. The State may borrow money not exceeding the sum of two hundred thousand dollars ($200,000) in the aggregate to meet casual deficits or failure in revenue, or for necessary expenses.

2. Other debt may be contracted by or on behalf of the State only when authorized by law for some specified work or object. Such a law takes effect only after being submitted to the qualified electors of the State and having received a majority of all votes cast thereon at a general election. No debt may be created if the total indebtedness of the State, exclusive of the debts of the territory and several counties thereof assumed by the State, would thereby be made to exceed 1% of the assessed valuation of all property subject to taxation in the State, as shown by the last preceding general assessment.

3. The State may contract debts to suppress insurrection and to provide for the public defense.

General obligation bonds for refunding purposes are not subject to approval of the voters.

Outstanding and Additional Parity General Obligation Bonds

The principal amounts of outstanding General Obligation Bonds, as of December 31, 2019, are shown in Table 2.

TABLE 2
Outstanding General Obligation Bonds

Series	Principal Outstanding
Series 2011	$ 4,235,000
Series 2015	93,570,000
Series 2017A	126,345,000
Series 2017B	126,775,000
Series 2019	139,985,000
Total	$490,910,000

Source: New Mexico State Board of Finance

Future debt payments, by Fiscal Year, on General Obligation Bonds outstanding, as of December 31, 2019 are shown in Table 3.

TABLE 3
Future General Obligation Bond Debt Service

Fiscal Year Ended June 30	Principal	Interest	Annual Total
2020	$ 69,210,000	$12,854,288	$ 82,064,288
2021	83,080,000	21,063,400	104,143,400
2022	68,950,000	16,931,000	85,881,000
2023	75,315,000	13,483,500	88,798,500
2024	57,390,000	9,717,750	67,107,750
2025	62,580,000	6,848,250	69,428,250
2026	25,770,000	3,719,250	29,489,250
2027	29,440,000	2,430,750	31,870,750
2028	9,475,000	958,750	10,433,750
2029	9,700,000	485,000	10,185,000
Total [1]	$490,910,000	$88,491,938	$579,401,938

[1] Figures may not add due to rounding.
Source: New Mexico State Board of Finance

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

The following table sets forth the calculation of State general obligation bonding capacity prior to and inclusive of the issuance of the Bonds.

Calculation of 1% Bonding Limitations

Net taxable value as of December 31, 2019	$66,919,237,877
General Obligation Bond limitation at 1% of net taxable value	$669,192,378
Total General Obligation Bonds outstanding	$490,910,000
Ratio of total debt to net taxable value	0.734%

Source: Local Government Division and Fiscal Strategies Group

Underlying General Obligation Bonds

The following table presents information on county, city, local and public school district debt outstanding as of June 30, 2019. The table does not include debt of special districts or community colleges.

Certain Underlying General Obligation Debt

Counties	$320,854,867
Cities	$572,008,555
Schools	$2,198,684,000

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

Severance Tax Bonds

The Severance Tax Bonding Act, Sections 7-27-1 to 7-27-27 NMSA 1978, as amended, permits the Board to issue two categories of bonds for which the money in the Severance Tax Bonding Fund (the "Bonding Fund") is pledged for their retirement. Those bonds are referred to in the Severance Tax Bonding Act as "New Mexico Severance Tax Bonds" and as "New Mexico Supplemental Severance Tax Bonds" but, for clarity, are referred to herein as "Senior Severance Tax Bonds" and "Supplemental Severance Tax Bonds," respectively. Where appropriate, Senior Severance Tax Bonds and Supplemental Severance Tax Bonds are collectively referred to herein as "Severance Tax Bonds."

The Board is prohibited by statute from issuing Senior Severance Tax Bonds and short-term Senior Severance Tax Funding Notes ("Senior Funding Notes") unless the aggregate amount of total Senior Severance Tax Bonds and Senior Funding Notes outstanding, after giving effect to the proposed issuance, can be serviced with not more than 47.6% of the annual deposits into the Bonding Fund, as determined by the lesser of the deposits during the preceding Fiscal Year or the deposits during the current Fiscal Year, as estimated by the Board of Finance Division of the Department of Finance and Administration (the "Division").

The Board is prohibited by statute from issuing Supplemental Severance Tax Bonds with a term that extends beyond the Fiscal Year in which they are issued unless the aggregate amount of Senior Severance Tax Bonds and Supplemental Severance Tax Bonds outstanding, after giving effect to the proposed issuance, can be serviced with not more than 60.1% of the annual deposits into the Bonding Fund, as determined by the lesser of the deposits during the preceding Fiscal Year or the deposits during the current Fiscal Year, as estimated by the Division.

In addition, short-term Supplemental Severance Tax Funding Notes ("Supplemental Funding Notes") may be issued if the debt service on such Supplemental Funding Notes, when added to the debt service previously paid or scheduled to be paid during that Fiscal Year on Senior Severance Tax Bonds, Senior Funding Notes and Supplemental Severance Tax Bonds does not exceed the following percentages of the lesser of the deposits in the Bonding Fund during the preceding Fiscal Year or the deposits into the Bonding Fund during the current Fiscal Year, as estimated by the Division:

(1) For Fiscal Year 2019, 91.0%;
(2) For Fiscal Year 2020, 89.4%;
(3) For Fiscal Year 2021, 87.8%; and
(4) For Fiscal Year 2022 and subsequent Fiscal Years, 86.2%.

The Senior Severance Tax Bonds and Senior Funding Notes fund a wide variety of capital projects, while Supplemental Severance Tax Bonds and Supplemental Funding Notes are earmarked for capital projects for public education. The Board has authority to issue Supplemental Severance Tax Bonds for public school projects in amounts certified to the Board from time to time by the Public School Capital Outlay Council of the State. During Fiscal Years 2018 through 2022, certain public school capital expenditures, including instructional materials and school bus transportation, will be funded via the issuance of Supplemental Severance Tax Bonds as certified by the Public Education Department. The lien of the pledge of such Supplemental Severance Tax Bonds (including Supplemental Funding Notes) is subordinate to any outstanding Senior Severance Tax Bonds.

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

Following the 2019 legislative session, Senate Bill 535 was signed into law. The bill stipulated that the State Board of Finance not issue and sell more than $181.8 million of supplemental severance tax bonds in Fiscal Year 2019. The bill also requires the State Board of Finance, by December 31 of each year for 2019 through 2028 (Fiscal Years 2020 through 2029), to transfer $23.69 million from the severance tax bonding fund to the Severance Tax Permanent Fund. The amount of the Severance Tax Permanent Fund transfer would be considered before determining the bonding capacity. The State Board of Finance may determine that a lesser transfer amount is necessary per Section 7-27-8 NMSA in order to pay debt service obligations.

Outstanding and Additional Senior Severance Tax Bonds

The principal amounts of outstanding Senior Severance Tax Bonds, as of December 31, 2019 are shown in Table 4.

TABLE 4
Outstanding Senior Severance Tax Bonds

Series	Principal Outstanding
Severance Tax Bonds, Series 2010A	$ 16,170,000
Severance Tax Bonds, Series 2011A-1	7,175,000
Severance Tax Bonds, Series 2012A	22,745,000
Severance Tax Bonds, Series 2015A	96,740,000
Severance Tax Bonds, Series 2016A	78,750,000
Severance Tax Bonds, Refunding Series 2016B	169,170,000
Taxable Severance Tax Bonds, Series 2016C	13,125,000
Severance Tax Bonds, Series 2016D	26,725,000
Taxable Severance Tax Bonds, Series 2016E	14,185,000
Severance Tax Bonds, Series 2017A	64,290,000
Severance Tax Bonds, Series 2018A	112,630,000
Total	$621,705,000

Source: New Mexico State Board of Finance

Future payments, by Fiscal Year, on outstanding Senior Severance Tax Bonds, as of December 31, 2019, are shown in Table 5.

TABLE 5
Future Senior Severance Tax Bond Debt Service [(1)]

Fiscal Year Ended June 30	Principal	Interest	Annual Total
2020	--	$ 14,225,124	$ 14,225,124
2021	$109,940,000	26,197,948	136,137,948
2022	101,670,000	21,747,299	123,417,299
2023	97,305,000	17,300,275	114,605,275
2024	89,970,000	12,993,550	102,963,550
2025	74,865,000	9,166,625	84,031,625
2026	59,750,000	5,904,000	65,654,000
2027	43,380,000	3,325,750	46,705,750
2028	29,405,000	1,506,125	30,911,125
2029	15,420,000	385,500	15,805,500
Total	$621,705,000	$112,752,195	$734,457,195

(1) Figures may not add due to rounding.
Source: New Mexico State Board of Finance

Outstanding Supplemental Severance Tax Bonds

The principal amounts of Supplemental Severance Tax Bonds that are outstanding, as of December 31, 2019, are shown in Table 6.

TABLE 6
Outstanding Supplemental Severance Tax Bonds

Series	Outstanding Principal Amount
Supplemental Severance Tax Bonds, Series 2010B	$11,245,000
Supplemental Severance Tax Bonds, Series 2015B	47,295,000
Total	$58,540,000

Source: New Mexico State Board of Finance

The future Fiscal Year debt payments on outstanding Supplemental Severance Tax Bonds, as of December 31, 2019, are shown in Table 7.

TABLE 7
Future Supplemental Severance Tax Bond Debt Service [(1)]

Fiscal Year Ended June 30	Principal	Interest	Annual Total
2020	--	$ 1,407,275	$ 1,407,275
2021	$18,175,000	2,416,400	20,591,400
2022	7,285,000	1,836,125	9,121,125
2023	7,660,000	1,462,500	9,122,500
2024	8,055,000	1,069,625	9,124,625
2025	8,465,000	656,625	9,121,625
2026	8,900,000	222,500	9,122,500
Total	$58,540,000	$9,071,050	$67,611,050

(1) Figures may not add due to rounding.
Source: New Mexico State Board of Finance

Tax Revenue Anticipation Notes

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

Severance Tax Bonding Fund and Debt Service Requirements

Severance tax receipts contributed 96.7% of total revenue to the Bonding Fund in Fiscal Year 2019, with the remainder attributable to interest earnings and reversions. Severance taxes are almost entirely attributable to natural gas, crude oil and coal sales. Natural gas and crude oil together accounted for 99.14% of total Fiscal Year 2019 severance tax receipts as shown in Table 8. This percentage is calculated net of Intergovernmental Tax Credits.

TABLE 8
Severance Tax Bonding Fund
Receipts, Disbursements and Transfers
(Dollars in thousands)

	Fiscal Year Ended June 30 (1)(2)				
	2015	**2016**	**2017**	**2018**	**2019**
Beginning Balance	$ 19,188	$152,086	$160,886	$195,785	$218,476
Receipts:					
Taxes:					
Oil and Gas Severance Tax	474,533	289,063	327,403	447,411	655,934
Other Minerals Severance Taxes	11,506	10,102	8,334	6,926	5,677
Total Severance Taxes (3)	486,039	299,165	335,737	454,337	661,611
Other Income:					
Interest on Investments	5,035	9,292	9,716	10,788	21,110
Other financing sources	8,435	1,483	9,432	5,920	1,168
Total Other Income	13,470	10,775	19,148	16,708	22,278
Total Receipts	499,509	309,940	354,884	471,047	683,889
Disbursements:					
Senior Bond Debt Service	16,795	142,085	141,063	142,160	145,381
Senior Short-term Obligations (4)	128,217	8,615	38,466	28,891	74,837
Supplemental Bond Debt Service	1,507	13,842	19,026	20,474	21,142
Supplemental Short-term Obligations (4)	214,472	127,290	120,443	139,224	181,527
Costs of Issuance and Other Charges	639	841	987	580	659
Total Disbursements	361,630	292,672	319,985	331,330	423,545
Transfers:					
To Severance Tax Permanent Fund	4,980	8,468	--	117,027	245,455
Total Transfers	4,980	8,468	--	117,027	245,455
Ending Balance, June 30	$152,086	$160,886	$195,785	$218,476	$233,364

(1) All receipts, expenditures and balances exclude amounts in rebate accounts retained for potential arbitrage rebates.
(2) Proceeds and expenditures attributable to refunding bonds are excluded from this table because such proceeds and expenditures are reserved for payments on appropriate refunding bonds and are not available for debt service payments on other Severance Tax Bonds.
(3) Reflects severance taxes collected and accrued on a cash basis. Effective July 1, 2017, the State of New Mexico began accounting for such receipts on a modified accrual basis. All severance tax collections in this official statement are shown on a cash basis.
(4)The Board issues short-term Severance Tax Notes and Supplemental Severance Tax Notes to fund authorized projects. The notes are sold to the State Treasurer and retired within the same Fiscal Year.
Source: New Mexico State Board of Finance based on the Statewide Human Resources, Accounting, and Management Reporting System (the "SHARE System")

Crude oil and natural gas prices trended down through the first half of Fiscal Year 2019, however in the latter half of Fiscal Year 2019 prices recovered and have remained stable through Fiscal Year 2020 thus far. This price recovery has increased revenue inflows to the Severance Tax Bonding Fund. As of December 2019, expected gas prices were adjusted down from projections prepared in December 2018, while oil prices were kept nearly unchanged. Production volumes for oil and gas were adjusted down for the immediate fiscal years (2020 through 2024). In response to these changes, severance tax bonding capacity has increased from December 2018 to December 2019. The coverage ratio of debt service is not expected to fall below 2x in any future year due to several mitigating factors, including (1) the legal coverage test, which now limits aggregate long-term bond issuance to an amount so that maximum future debt service in any year can be serviced with no more than the lesser of 47.6% of bonding fund revenue in the prior or current Fiscal Year, (2) the historical practice of the State to limit long-term bond issuance with respect to available capacity under such test and (3) the practice of structuring debt service on a level debt service basis with a maximum maturity of 10 years, such that aggregate debt service declines over time. As a result, most of the impact of higher revenue will be realized in the form of higher amounts available through the State's issuance of very short-term bonds that effectively utilize the revenues on a cash basis.

Table 9 shows projected coverage ratios for outstanding Severance Tax Bonds as of December 31, 2019. The severance tax revenue outlook is prepared by the Department of Finance and Administration (the

"DFA") using analysis by the Consensus Revenue Estimating Group ("CREG"), which includes economists from both the Legislative and Executive branches of New Mexico government, as well as forecasts by the U.S. Energy Information Administration, the IHS Global Insight and Moody's Analytics forecasting services and public information about NYMEX futures contracts. The DFA's December 2019 figures estimated oil prices at $50.00 per barrel for Fiscal Years 2020 through 2024 and $51.00 for Fiscal Years 2025 through 2029. The DFA's December 2019 figures estimated natural gas prices at $2.00 mcf for Fiscal Years 2020 and 2021, $2.15 for Fiscal Years 2022 and 2023 and $2.25 for Fiscal Year 2024 and beyond. Global oil and gas prices continue to experience significant market volatility. Accordingly, revenue projections are subject to continuing review.

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

Fiscal Year Ending June 30	Projected STBF Revenues	Scheduled Senior Debt Service(1)(2)	Projected Senior Debt Service Coverage	Scheduled Supplemental Debt Service(1)(2)	Projected Supplemental Coverage
2020	$523,388,125	$146,969,298	3.62x	$21,413,175	3.16x
2021	559,622,500	136,137,948	4.11x	20,591,400	3.57x
2022	584,410,000	123,417,299	4.74x	9,121,125	4.41x
2023	626,681,875	114,605,275	5.47x	9,122,500	5.07x
2024	672,263,125	102,963,550	6.53x	9,124,625	6.00x
2025	683,813,125	84,031,625	8.14x	9,121,625	7.34x
2026	683,813,125	65,654,000	10.42x	9,122,500	9.14x
2027	683,813,125	46,705,750	14.64x	--	14.64x
2028	683,813,125	30,911,125	22.12x	--	22.12x
2029	707,503,125	15,805,500	44.76x	--	44.76x

(1) Excludes debt service on refunded bonds which will be payable from escrowed securities and severance and supplemental severance tax debt obligations sold to the State Treasurer which are retired within the same Fiscal Year.
(2) Scheduled Senior Debt Service and Scheduled Supplemental Debt Service as of December 31, 2019; all other dollar amounts reflect projections as of December 2019.
Sources: New Mexico State Board of Finance and Fiscal Strategies Group

Investments

Funds on deposit in the Bonding Fund are invested by the State Treasurer at the direction and approval of the Board, pursuant to the State Treasurer's Investment Policy ("Investment Policy"), adopted on December 17, 2019. 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 Tax Code (defined below) and applicable Treasury Department regulations relating to the market price and the existence of an established market.

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

Severance Tax Collections and Reporting

Operators, purchasers and working interest owners are required to submit monthly reports to the Taxation and Revenue Department (the "TRD") showing the total value, volume and kind of products sold from every production unit each month. Taxes must be paid at the same time and are due 55 days after the month of production. Each production report must be accompanied by a company identification number, which facilitates automated processing of return information. Production and associated tax liability are reported by "production unit" and a designation for a well or group of wells that is assigned by the TRD based on the master operation, property name identification and pool. A suffix is added to the production unit number to designate the specific land type and taxing authority, including county, school district and municipality. During calendar year 2019, the TRD received an average of 435 oil and natural gas returns per month containing an average of 93,988 lines of reported tax detail from production units in the State.

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

The State maintains an automated tax database system, which previously had been under the ONGARD (Oil and Natural Gas Administration and Revenue Database) system and now resides in the GenTax system. TRD integrated the collective oil and gas severance taxes (including the natural gas processors tax) into the GenTax system in March 2018. With the inclusion of oil and gas taxes, GenTax now manages 29 tax programs with consistent business processes. Tax returns are pre-screened to ensure quality and completeness before acceptance by TRD, which expedites distributions to correct beneficiaries. Oil and gas taxpayers have increased electronic management of their account activity through the Taxpayer Access Point (TAP), which allows for immediate posting of returns and amendments and report access of how payments are allocated. Some ONGARD functions remain at the State Land Office in the processing of royalty payments due to the State.

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

TABLE 10
New Mexico Oil, Natural Gas and CO_2 Subject to Taxation [(1)]

	Fiscal Years Ended June 30 [(2)]				
	2015	**2016**	**2017**	**2018**	**2019**
Oil					
Sales Volume (million barrels)	142.3	147.1	155.9	205.2	300.6
Value (millions)	\$8,630	\$5,586	\$6,986	\$11,304	\$15,486
Average Price (per barrel)	\$60.64	\$37.97	\$44.80	\$55.09	\$51.51
Natural Gas [(3)]					
Sales Volume (bcf)	1,197	1,182	1,241	1,361	1,562
Value (millions)	\$4,494	\$2,878	\$3,994	\$4,723	\$4,824
Average Price (per mcf)	\$3.76	\$2.43	\$3.22	\$3.47	\$3.08
CO_2					
Sales Volume (bcf)	105.2	95.4	95.2	87.0	85.9
Value (millions)	\$127.9	\$86.2	\$89.2	\$88.8	\$89.9
Average Price (per mcf)	\$1.22	\$0.90	\$0.94	\$1.02	\$1.05

(1) In Fiscal Year 2019, the state saw helium production resumed but production has yet to produce any revenue due to deductions offsetting sales value.
(2) Historical numbers are updated to reflect amended returns.
(3) Fiscal Years 2018 and 2019 natural gas sales volume and average price are estimates based on Fiscal Year 2018 and 2019 tax revenue.
Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (GenTax, sales month basis as of November 2019)

Severance Taxes on Oil, Natural Gas and Carbon Dioxide

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

TABLE 11
History of Severance Tax Rates on Oil, Natural Gas and Carbon Dioxide

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

Source: New Mexico Department of Finance and Administration

Oil and Natural Gas Incentives

Although the State offers reduced severance tax rates for several categories of production, prices are above the threshold level, so none of these incentives are presently applicable. Table 12 summarizes incentive tax rates applying to various categories of production as of Fiscal Year 2019.

TABLE 12
Oil and Natural Gas Tax Incentive Programs

	Incentive Tax Rate	Threshold Price Below Which Incentive Rate Applies	Qualified Production as a Percent of Fiscal Year 2019 Total [(1)]
Production Restoration Project	0.00% [(2)]	$24.00 per barrel[(3)]	0.0% Oil 0.0% Natural Gas
Well workover wells	2.45%	$24.00 per barrel[(3)]	0.0% Oil 0.0% Natural Gas
Stripper wells	1.88%	$ 1.15 per mcf-Gas[(4)] $15.00 per barrel-Oil[(4)]	0.0% Oil 0.0% Natural Gas
	2.81%	$ 1.35 per mcf-Gas[(4)] $18.00 per barrel-Oil[(3)]	0.0% Oil 0.0% Natural Gas
Enhanced oil recovery	1.88%	$28.00 per barrel[(2)]	0.0% Oil

(1) No oil or natural gas volumes are expected to qualify for these incentives during the period because average taxable value exceeds the threshold levels.
(2) The incentive rate applies for 10 years after the restoration project is completed. Each year's production is tested against the threshold price.
(3) Twelve-month average price for West Texas Intermediate crude oil as reported on Oil Postings for last day of each month.
(4) Average annual taxable value of natural gas or oil sold in New Mexico during the preceding calendar year.
Source: Sections 7-29A and 7-29B NMSA 1978

Severance Tax on Indian Land

The State can tax non-Indian oil and natural gas production on tribal land, according to United States Supreme Court precedent in *Cotton Petroleum Company v. State of New Mexico*, 490 U.S. 163, 104 L. Ed. 2d 209, 109 S. Ct. 1968 (1989). The State's authority to impose severance taxes on non-Indian oil and natural gas production on tribal land was upheld by the United States District Court in New Mexico in *Jicarilla Apache Tribe v. New Mexico Taxation and Revenue Department*, No. USDC 87-922. In 2009, the United States District Court for the District of New Mexico held that the State may not impose severance taxes on non-tribal operators extracting oil and natural gas on the tribal land of the Ute Mountain Ute Tribe. *Ute Mountain Ute Tribe v. Homans*, 775 F. Supp. 2d 1259 (D.N.M. 2009) (Parker, J.). The Tenth Circuit Court of Appeals overturned the district court opinion and held that the State severance taxes are not preempted by federal law because, among other things, the State had asserted sufficient justification for imposing the taxes. *Ute Mountain Ute Tribe v. Rodriguez,* 660 F.3d 1177 (10th Cir. 2011). The Ute Mountain Ute Tribe petitioned for an en banc review, which the court denied on September 12, 2011. The United States Supreme Court denied the Ute Mountain Ute Tribe's petition for a writ of certiorari on February 21, 2012. *Ute Mountain Ute Tribe v. Padilla,* 132 S.Ct. 1557 (2012).

Aggregate data reporting accessible on the TRD Taxpayer Access Point ("TAP") website based on oil and gas tax return data indicates that natural gas production and crude oil production on Indian land was approximately 2.5% and 0.8%, respectively, of total statewide production in Fiscal Year 2019. The TRD estimates that oil and natural gas production on Indian land generated $7.4 million in severance tax revenues to the State in the production months corresponding to Fiscal Year 2019. On December 30, 2014, the Navajo

Nation completed the purchase of the Navajo Mine. As a result, there has not been any coal production from the mine reported to the TRD since such purchase. No potash, copper or CO_2 is produced on Indian land.

Section 7-29C-1 NMSA 1978, enacted by the 1995 Legislature, authorized a credit against state production and property taxes for similar taxes imposed by tribal governments. The credit applies to crude oil and natural gas from new wells drilled on or after July 1, 1995 on land within Indian reservation boundaries on March 1, 1995. The amount of the credit is 75% of the lesser of state taxes or tribal taxes imposed. If the applicable tribal taxes were raised after March 1, 1995, then the amount of the State's credit is lowered. The TRD website reports that total credits claimed under this provision were about $1.0 million in Fiscal Year 2019. About $405,000 of these credits were applied against oil and natural gas severance tax liability. The Bonding Fund revenue projection assumes that this amount will grow slowly in the future.

The 2001 Legislature enacted Sections 7-29C-2, 7-9-88.2 and 9-11-12.2 NMSA 1978, which provided a similar 75% intergovernmental tax credit against severance tax and severance surtax on coal mined on the Navajo Nation.

Carbon Dioxide

The Bravo Dome carbon dioxide ("CO_2") field encompasses 1.2 million acres in Harding, Union and Quay Counties in the northeastern area of the State. It contains estimated resources of 16.3 trillion cubic feet ("tcf"), of which 7.0 tcf to 10.6 tcf are considered economically recoverable. Although the State has long produced limited quantities of liquid and solid CO_2 for use in the food and the engineering industries, the main commercial value of CO_2 deposits is derived from the use of the product in its gaseous form in enhanced oil recovery projects in the Permian Basin of Texas and New Mexico. Future sales ultimately will depend on the CO_2 requirements of such projects and on the State's proportion of the market, which is shared with Colorado's Sheep Mountain and Little Sheep Mountain, McElmo Dome and Doe Creek Fields. Sales of CO_2 were approximately 85.9 bcf in Fiscal Year 2019, decreasing from 87.0 bcf in Fiscal Year 2018. The weighted average wellhead price of CO_2 sales for Fiscal Year 2019 was $1.05 per mcf reported at the production facility, an increase of $0.03 from $1.02 per mcf during Fiscal Year 2018. Severance Taxes on CO_2 are levied at the rate of 3.75% of taxable sales value. Weighted average deductions were 35.8% in Fiscal Year 2019.

History of Severance Tax and Severance Tax Surtax on Coal Production

Severance taxes have been levied on coal production in New Mexico since 1937. The severance tax is set at a fixed rate of $0.57 per ton of surface coal and $0.55 per ton of underground coal. By statute, the surtax is calculated each year based on the Producer Price Index for coal and either increases or remains constant from the previous year. In Fiscal Year 2015, the surface-mined surtax rate was $1.28 per short ton and the underground-mined surtax rates was $1.23. These rates have remained unchanged in Fiscal Years 2016 through 2019. In the last five years, all coal mined underground has always met exemptions from the surtax. In the last four years, all surface mined coal has also met exemptions. These exemptions are the result of renegotiations of long term mine-mouth contracts, which, under statute requirements, have resulted in all current coal production being exempt from the surtax.

Table 13 sets forth data on coal production, prices, revenues and average tax rates for the past five fiscal years. The recent decline in sales volume is attributable to the closure at the end of 2017 of two of the four coal-fired units at the San Juan Generating Station. The sale of the Navajo Mine to the tax-exempt Navajo Nation in Fiscal Year 2014 contributed to declines in 2015 over 2014. The decrease of the Intergovernmental Tax Credit for coal to $0 in Fiscal Year 2015 and Fiscal Year 2016 also coincides with the purchase of the Navajo Mine by the Navajo Nation.

As reflected in the table, gross average prices have ranged from a low of $28.54 per ton in Fiscal Year 2017 to a high of $38.13 per ton in Fiscal Year 2015. Output in short tons over the past five years has dropped from 14.0 million in Fiscal Year 2015 to 8.0 million in Fiscal Year 2019. Total coal sales are expected to continue to decline gradually due to increased competition from other electricity sources, environmental concerns and closure of coal-fueled power plants. Sales and tax revenue reflect the drop in production and exemptions from the surtax. In Fiscal Year 2016, all severed coal was exempt from the severance surtax, thus contributing to the 18.4% decline in 2016 tax revenue. In Fiscal Year 2018 tax revenues were $5.3 million, approximately 17% lower than Fiscal Year 2017 as a result of a 17% drop in production despite higher average coal prices. Fiscal Year 2019 tax revenues were $4.5 million, 16% lower than Fiscal Year 2018 due to continued drop in coal production.

TABLE 13
Coal Production, Prices, Revenues and Taxes
Fiscal Years 2015 to 2019 (1)

	2015	2016	2017	2018	2019
Production:					
Total Sales Volume (tons)	14,019,573	12,124,191	11,454,740	9,503,353	7,956,924
Surface Mined Surtax Exempt	7,974,724	6,501,537	5,256,770	5,241,877	5,433,828
Surface Mined Non-Exempt	351,397	--	--	--	--
Underground Mined Surtax Exempt	5,693,451	5,622,653	6,197,970	4,261,476	2,523,096
Prices:					
Weighted Average Price per Ton for All Coal	$38.13	$33.83	$28.54	$35.41	$35.18
Sales Revenue:					
Total Sales Revenue	$534,625,847	$410,140,009	$326,892,275	$336,486,800	$279,912,542
Taxes Collected and Intergovernmental Tax Credits (ITC):					
Gross Severance Tax and Severance Surtax Due	$8,327,076	$6,798,336	$6,405,242	$5,331,682	$4,484,985
Intergovernmental Tax Credit (ITC)	--	--	--	--	--
Net Severance Tax and Severance Surtax Liability (Net of ITC)	$8,327,076	$6,798,336	$6,405,242	$5,331,682	$4,484,985
Effective Taxes (Net of ITC):					
Effective Tax Rate	1.56%	1.66%	1.96%	1.58%	1.60%
Effective Tax per Ton for All Coal (Net of ITC)	$0.59	$0.56	$0.56	$0.56	$0.56

(1) Totals may not sum due to rounding. Historical numbers have been updated to reflect amended returns.
Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the "GenTax System")

Severance Taxes on Other Minerals

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

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

of such reported value as a deduction for expenses of hoisting, loading, crushing, processing and beneficiation.

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

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

TABLE 14
Severance Tax Rates on Other Minerals

Mineral Resources	Fiscal Year 2019 Collections	Fiscal Year 2018 Collections	Tax Rate	Gross Value as Percent of Full Value
Potash	$650,776	$671,187	2.500%	not fixed
Copper	527,841	581,433	0.500	16.67%
Timber, Pumice, Gypsum, Clay, Fluorspar, Other	55,987	53,954	0.125	not fixed
Molybdenum [(1)]	--	--	0.125	50.00
Lead, Zinc	--	--	0.125	16.67
Gold	14,448	23,718	0.200	50.00
Silver	2,057	3,711	0.200	30.00
Uranium	Not detailed	Not detailed	3.500	50.00 [(2)]

(1) In June 2014, Chevron Mining closed its Questa molybdenum mine in Taos County, reducing total molybdenum collections to zero in Fiscal Year 2015 and subsequent years.
(2) Taxable Value as a Percentage of Full Value.
Source: New Mexico Taxation and Revenue Department, Tax Analysis, Research and Statistics Office (the "GenTax System")

Severance tax revenue from copper, which is limited because of the statutorily defined narrow tax base, was $527,841 in Fiscal Year 2019, down from $581,433 in Fiscal Year 2018. The average price of copper was $2.76 per pound in Fiscal Year 2019.

GENERAL INFORMATION CONCERNING THE STATE OF NEW MEXICO

The State, admitted as the forty-seventh state on January 6, 1912, is the fifth largest state, containing approximately 121,593 square miles. The estimated 2018 population of the State was 2,095,428 according to the United States Census Bureau. The State has a semiarid subtropical climate with light precipitation. Its climate is characterized by sunshine and bright skies in both winter and summer. Every part of the State receives no less than 70% sunshine year-round. Humidity ranges from 30% to 60%. Thunderstorms in July and August bring most of the moisture. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The Executive Branch of State government consists of a Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, and Commissioner of Public Lands. These officials are elected to four-year terms beginning January 1 after their election. An elected Executive Branch officer may succeed himself or herself in office once. The primary functions of the Executive Branch are currently carried out by the offices of each elected Executive Branch officeholder, in addition to approximately 22 cabinet departments, each headed by a cabinet secretary appointed by the Governor and approved by the Senate, and approximately 9 cabinet-level agencies. Elections for all statewide offices were held on November 6, 2018.

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

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

The Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected for four-year terms, and members of the House are elected for two-year terms. The Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to 30 calendar days in even-numbered years and 60 calendar days in odd-numbered years. Accordingly in 2019 a 60-day regular session convened on January 15, and in 2020 there will be a 30-day regular session. Special sessions of the Legislature may be convened by the Governor. Extraordinary sessions may be convened by the Legislature under certain limited circumstances. Legislators do not receive any salary but do receive per diem and mileage allowances while in session or performing official State business.

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

Pension and Other Retirement Funds and Benefits

Legislative History. The Legislature enacted the Educational Retirement Act, Section 22-11-1 et seq. NMSA 1978, the Public Employees Retirement Act, Section 10-11-1 et seq. NMSA 1978, and the Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19, NMSA 1978, which created the retirement plans that cover most employees of the State and its political subdivisions. These retirement plans are managed by the Educational Retirement Board ("ERB"), the Public Employees Retirement Association ("PERA") and the New Mexico Retiree Health Care Authority ("NMRHCA") and described below. The Legislature establishes all financing provisions of the plans and the provisions are not subject to negotiation.

Financing provisions include employee and employer contributions, fund investment provisions and benefit provisions. In 1998, the voters amended the State Constitution, adopting Section 22 of Article XX, which states that upon meeting the minimum service requirements of an applicable retirement plan created by law for employees of the State or any of its political subdivisions or institutions, a member of a plan shall acquire a vested property right with due process protections under the applicable provisions of the New Mexico and United States Constitutions. The amendment also stated that nothing in Section 22 shall be construed to prohibit modifications to retirement plans that enhance or preserve their actuarial soundness.

Educational Retirement Board—Historic Financial Information. The ERB had 161,533 members as of June 30, 2019, including active, retired, inactive vested and inactive non-vested members. The market value of Educational Retirement Fund (the "Fund") as of June 30, 2019 was $13.5 billion. The ERB had net investment gains for Fiscal Year 2019 of 7.29%.

In April 2017, following a six-year experience study ending June 30, 2016, the ERB voted to decrease the inflation assumption from 3.00% to 2.50%. This change resulted in the decrease in the assumed rate of return on the pension fund's investments from 7.75% to 7.25%, although the real rate of return remained at 4.75%. The assumed rate of return is composed of the 2.50% assumed inflation rate plus the 4.75% assumed real return. Other changes were made to the ERB's actuarial assumptions in April 2017, including decreasing the payroll growth assumption from 3.50% to 3.00% and decreasing the annual assumed COLA from 2.00% to 1.90%. These assumptions were adopted as of June 30, 2017. The combined effect of changes in actuarial assumptions increases the unfunded accrued actuarial liability ("UAAL") from $7.4 billion as of June 30, 2017, to 7.5 billion as of June 30, 2018, and to $7.9 billion as of June 30, 2019.

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

As of June 30, 2019, the UAAL had an infinite amortization period under closed group projections. This closed group estimate is based on the current members and current elements of the plan design. However, an alternate projection which takes into account future expectations, such as reduced cost of living adjustments, lower cost of benefits for newer members and deferred gains and losses shows a projection of 47 years. This alternate projection is known as the open group projection since it is not just based on current members and current plan design elements.

TABLE 15
Schedule of Statutorily Mandated ERB Contribution Rates

Wage Category	Fiscal Year(s)	Date Range	Member Rate	Employer Rate	Total
$20k or less	2010–2013	07/01/2009–06/30/2013	7.90%	12.40%	20.30%
	2014	07/01/2013–06/30/2014	7.90%	13.15%	21.05%
	2015–2019	07/01/2014–06/30/2019	7.90%	13.90%	21.80%
$24k or less	2020–Future	07/01/2019–Future	7.90%	14.15%	22.05%
Over $20k	2010–2011	07/01/2009–06/30/2011	9.40%	10.90%	20.30%
	2012	07/01/2011–06/30/2012	11.15%	9.15%	20.30%
	2013	07/01/2012–06/30/2013	9.40%	10.90%	20.30%
	2014	07/01/2013–06/30/2014	10.10%	13.15%	23.25%
	2015–2019	07/01/2014–06/30/2019	10.70%	13.90%	24.60%
Over $24k	2020–Future	07/01/2019–Future	10.70%	14.15%	24.85%

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

In 2019 the Legislature passed and the Governor signed legislation amending Section 22-11-21 NMSA 1978 to increase the employer contribution rate to 14.15% and to increase to $24,000 the threshold for higher employee contributions. These changes became effective July 1, 2019.

Certain employees of New Mexico universities and colleges are eligible to elect to participate in the Alternative Retirement Plan (“ARP”), a defined contribution retirement plan available to certain faculty and professional employees. Employees who do not elect to participate in the ARP remain members of the regular defined benefit retirement plan. Each ARP participant contributes to the ARP the same amount which he or she would be required to contribute to the defined benefit plan if he or she were a member of that plan. Colleges and universities, as the employers of ARP participants, contribute the same amount that the employer would be required to contribute to the defined benefit plan if the participant were a member of that plan. However, effective July 1, 2019, 3.25% of the employer statutorily-mandated contribution for ARP participants is provided to the defined benefit plan. Effective July 1, 2019, the employer contribution rate is statutorily set at 14.15%, which means that colleges and universities contribute 10.90% of participating employees’ gross salary to the ARP vendor on behalf of the participant and 3.25% of the employees’ gross salary to the defined benefit plan to offset the effect of having these employees not participate in the defined benefit plan. The colleges and universities are responsible for submitting the balance of the employers’ contribution and the employees’ contribution directly to the ARP vendors on behalf of the participants.

The ERB implemented Governmental Accounting Standards Board (“GASB”) Statement No. 67 requirements with its June 30, 2013 financial statements. GASB Statement No. 67 (“GASB 67”) requires ERB to report net pension liability (“NPL”), which is measured as total pension liability less the amount of the plan’s fiduciary net position. GASB 67 replaced GASB 25, which had required ERB to report the annual required contribution of the employer (“ARC”) and the percentage of the ARC contributed. ERB meets 100% of its statutorily required employer contributions annually. The following table lists the ARC, NPL and the ERB funded ratio, for Fiscal Years 2014 through 2019. The funded condition of the plan is measured by the funded ratio, which is the ratio of the actuarial value of assets to the actuarial accrued liability. The funded ratio decreased slightly from 2018 to 2019. The decrease was primarily due to the investment losses on the smoothed or actuarial value of the assets and demographic losses, primarily related to salary increase experience. The NPL of $7,577,302,491, measured as the total pension liability, less the plan’s fiduciary net position as of June 30, 2019, was calculated based on an expected rate of return on plan investments of

7.25%. The current NPL decreased by 36% compared to the Fiscal Year 2018 NPL of $11,891,330,976. The change for the fiscal year ending June 30, 2019 includes the change in the single discount rate from 5.69% as of June 30, 2018 to 7.25% as of June 30, 2019. The 2018 single discount rate was based on a blend of the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.62%. Based on the assumptions and projection of cash flows, the pension plan's fiduciary net position at June 30, 2019 and future contributions were sufficient to finance all projected future benefit payments of current plan members. As a result, the long-term expected rate of return of 7.25% was used to measure total pension liability as of June 30, 2019 and no blending with the municipal bond rate was needed.

TABLE 16
ERB Funded Ratio

Fiscal Year	Net Pension Liability (GASB 67)	Funded Ratio (GASB 67)	Funded Ratio (Actuarial Valuation)
2014	$ 5,705,730,813	66.54%	63.1%
2015	6,477,266,299	63.97	63.7
2016	7,196,433,561	61.58	64.2
2017	11,113,468,372	52.95	62.9
2018	11,891,330,976	52.17	63.5
2019	7,577,302,491	64.13	62.9

Source: *Educational Retirement Board*

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

ERB pensions are adjusted annually by a COLA beginning on the later of either July 1 of the year in which a member reaches age 65 or July 1 following the year a member retires. Senate Bill 115 (Chapter 61, Laws 2013) reduced the amount of the COLA until ERB is 100% funded. The amount of the adjustment is determined by the change in the Consumer Price Index ("CPI"), the retiree's pension amount and the retiree's service credit. Pensions cannot be decreased if there is a decrease in the CPI.

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

The Public Employees Retirement Association—Historic Financial Information. PERA had 48,730 active members as of June 30, 2019. As of June 30, 2019, the total market value of the PERA Fund was $15.46 billion. The Fiscal Year 2019 PERA total fund investment return was 6.38%.

PERA performs annual actuarial valuations of the retirement Funds it administers. In 2019, PERA actuaries, Cavanaugh Macdonald Consulting, LLC, conducted an experience study for the four-year period ending June 30, 2018, testing actuarial assumptions currently used in its valuations. The PERA Board accepted the actuary's recommended economic assumptions that the assets, benefit values, reserves and computed contribution rates reflect utilization of an inflation rate of 2.5% per annum and, based on the clear trend in lowering return expectations, decreased the real return assumption to 4.75%, reflecting an investment rate of return of 7.25%. The Board also adopted real wage inflation and payroll growth assumptions of 3.0%, each compounded annually, as well as revised retirement assumptions and adoption of the RPH-2014 Blue Collar mortality table.

The assumed investment return is one of the most significant assumptions in the annual actuarial valuation process as it is used to discount the expected benefit payments for all active, inactive and retired members. Minor changes in this assumption can have a major impact on valuation results. The change in the assumed rate of return recommended by the PERA's outside actuaries was made after consultations with the PERA's internal investment staff and its general investment consultant. The decrease in the real return assumption from 5.00% to 4.75% will be used as the discount rate used to measure the total pension liability. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB 67.

PERA member and employer contribution rates are established by State statute. In 2013, the Legislature amended the PERA Act, NMSA 1978 10-11-1 et seq. to increase the employer contribution rate by 0.4% beginning July 1, 2014 and to increase member contribution rates by 1.5% beginning July 1, 2013. Cavanaugh Macdonald Consulting, LLC completed an actuarial valuation of the PERA Fund, Judicial Retirement Fund, Magistrate Fund, Legislative Division and Volunteer Firefighter Fund for the fiscal year ending June 30, 2019. Actuarial information for each fund as of June 30, 2019 is shown in the table below.

TABLE 17
Summary of State Retirement Funds Managed by PERA as of June 30, 2019
(Dollars in thousands)

	PERA[1]	Judicial	Magistrate	VFF	Legislative
Membership	108,233	336	191	9,971	322
Actuarial Information					
Accrued Liability[2]	$22,162,998	$167,199	$58,723	$ 50,519	$ 31,521
Actuarial Value of Assets[3]	$15,500,330	$ 92,081	$31,883	$ 72,011	$ 43,139
Unfunded (Overfunded) Accrued Liability	$ 6,662,668	$ 75,117	$26,841	$(21,492)	$(11,618)
Present Value of Statutory Obligations	$24,952,801	$190,704	$63,898	$ 63,375	$ 34,665

(1) Includes both the state and municipal divisions.
(2) Includes the accrued liability of both the retired and active members.
(3) The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to a 7.25% annual rate of return are smoothed over a four-year period.
Source: *Public Employees Retirement Association*

As of June 30, 2019, PERA has an infinite amortization or funding period, based on the employer and member contribution rates in effect as of July 1, 2018. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-142 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 69.9 % as of June 30, 2019, and the UAAL of the PERA Fund increased $602.1 million to approximately $6.6 billion. The State's portion of the UAAL of the PERA Fund is 56%, or $3.7 billion. Prior to 2013 pension reform, the funded ratio was 65.3%, and the UAAL of the PERA Fund was calculated to be approximately $6.2 billion. Based on the recent experience study for the four-year period ending June 30, 2017, the economic and demographic assumptions were updated for the valuation. The changes in assumptions resulted in an increase of $564.0 million to the PERA fund liabilities and a decrease of 1.95% to the funded ratio. The total actuarial loss due to investment experience of the total PERA fund was $198.9 million and the loss on non-investment experience, which consists primarily of demographics (membership, mortality, retirement) totaled $202.5 million. On a market value basis, PERA's funded ratio is approximately 69.9% as of June 30, 2019. Current 30-year projections indicate the PERA Fund will be 76.1% funded in 2044, assuming all economic and demographic assumptions are met.

In 2019, PERA implemented GASB 67 for the fifth year. PERA will also produce an audited Schedule of Employer Allocations and Pension Amounts in early 2020 to assist its employer participants in implementing GASB 68. GASB 68 requires participating local governments to recognize their pro rata share of net pension liability ("NPL") and other pension elements on the face of their financial statements. The total NPL as of June 30, 2019, for the PERA Fund allocated to its nearly 205 cost sharing employers that participate in the Fund is approximately $6.4 billion.

In 2019, PERA completed the Schedule of Employer Allocations required by GASB 68 and provided local governments with the allocation percentage necessary to derive an employer's proportionate share of the collective NPL as of June 30, 2018. PERA continues to provide outreach and assistance to local governments to ensure local governments continue to receive pertinent allocation information required by GASB 67 and 68.

TABLE 18
Net Pension Liability Table
(GASB 67)

Fund	FY 2015 NPL	FY 2016 NPL	FY 2017 NPL	FY 2018 NPL	FY 2019 NPL
PERA[1]	$4,260,526,331	$6,159,380,375	$5,269,225,395	$6,172,156,478	$6,481,678,418
Judicial	48,049,718	106,623,028	86,674,499	84,479,483	113,675,239
Magistrate	30,348,921	43,480,544	33,402,547	36,997,515	45,633,711
Volunteer Firefighter	(17,625,607)	(12,114,026)	(17,898,023)	(18,484,999)	(19,276,104)

[1] PERA and the Legislative divisions are combined for net pension liability reporting purposes.

The following table lists the funded ratios for each individual PERA fund for Fiscal Years 2015 through 2019.

TABLE 19
Funded Ratio of State Retirement Funds Managed by
the Public Employees Retirement Association

Fiscal Year	PERA	Judicial	Magistrate	VFF	Legislative
2015	74.9%	62.5%	62.4%	140.2%	138.5%
2016	75.3	61.6	61.7	143.4	144.8
2017	74.9	61.7	61.3	146.6	151.4
2018	71.6	56.3	55.6	141.5	137.7
2019	69.9	55.1	54.3	142.5	136.9

Source: Public Employee Retirement Association

Legislative changes enacted during the 2009 through 2016 legislative sessions also amended various provisions of the Public Employees Retirement Act to improve the long-term stability of the fund. House Bill 573 (Chapter 288, Laws 2009) included training requirements for members of the PERA Board. House Bill 854 (Chapter 125, Laws 2009) modified employer and employee contributions to the State's retirement funds for Fiscal Years 2010 and 2011, shifting 1.5% of the annual contribution rate from employers to employees, for those employees with a full-time equivalent salary greater than $20,000. House Bill 628 (Chapter 178, Laws 2011) extended the existing 1.5% shift made in House Bill 854 through Fiscal Year

2013 and shifted an additional 1.75% of the annual contribution rate from employers to employees for Fiscal Year 2012. The additional 1.75% of the annual contribution rate shifted back from the employees to the employers for Fiscal Year 2013. The 1.5% contribution shift from the employers to the employees remained in place through Fiscal Year 2013. House Bill 628 also required an actuarial study by PERA prior to September 20, 2013 to analyze whether contribution rate changes have had an adverse actuarial effect on the retirement systems.

Senate Bill 27 (Chapter 225, Laws 2013) significantly amended the Public Employees' Retirement Act by creating a new tier of reduced benefits for new hires. The law reduced the cost of living adjustments for all current and future retirees; delays the application of cost of living adjustments for certain future retirees; suspends the cost of living adjustments for certain return-to-work retirees; provided for an increase in the statutory employee contribution rate of 1.5% (subject to certain requirements) for employees earning $20,000 or more in annual salary; provided for an increase in the statutory employer contribution of 0.4% beginning in Fiscal Year 2015; increased age and service requirements; lengthened the base average salary calculation amount from three to five years for Tier 2 employees; increased the vesting period for employees from five to eight years for most Tier 2 members; and lowered the annual service credit by 0.5 for most members.

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

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

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

During the 2016 2nd Special Session, the State's distribution to the legislative retirement fund decreased from $200,000 a month to $75,000 a month, thus reducing the annual contribution from $2.4 million to $900,000.

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

During the State of New Mexico (54th Legislature) in 2019, House Bill 501/a was passed that increased employer contribution rates by .25% for PERA affiliated employers, with the exception of the overfunded state police and adult correctional officer plan. The contribution rate increase was effective July 1, 2019.

Executive Order 2019-05, issued in February of 2019, created the PERA Solvency Task Force tasked to prepare and make recommendations to the Office of the Governor to preserve the defined benefit system offered by PERA. The recommendations are to be presented during the 2020 Legislative Session.

New Mexico Retiree Health Care Authority-Historic Financial Information. The NMRHCA was enacted for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service positions in the State and their eligible dependents. NMRHCA offers both pre Medicare and Medicare plans, as well as nonsubsidized dental, vision and life insurance plans to eligible participants. As of July 2019, there were 52,179 participants, 10,916 vested terminated members and 91,082 active members contributing to the program from 300 participating public entities.

NMRHCA, the agency that administers the Retiree Health Care Act, has a revenue base composed of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, subsidies associated with administering a Medicare Part D program, prescription drug rebates and amounts distributed annually from the Taxation Administration Suspense Fund ("TAA Fund"). Employer and employee contribution rates are established in statute as is the amount distributed from the TAA Fund. Respective employer and employee contribution rates are 2% and 1% of the participating employee's salary and 2.5% and 1.25% for employees participating under an enhanced retirement plan (i.e., police officers, firefighters and correctional officers) for Fiscal Years 2019 and 2020.

As of June 30, 2019, NMRHCA reported a projected solvency period through 2044 (period of positive fund balance). This projection compares growth in projected revenues and expenditures from all sources and includes multiple components, including medical and prescription drug costs administrative fees, employee and employer contributions and retiree premiums. The projected solvency date and continued improvements to its timeframe are largely the result of the prudent fiscal management exercised by NMRHCA's Board of Directors. These actions include a series of targeted benefit reductions, increased cost-sharing for plan participants, aggressive procurement practices and value-based purchasing strategies.

In 2019, NMRHCA implemented GASB 74 for the second year. This valuation is based on the benefits administered by the Board, characteristics of plan participants, assets as of June 30, 2019, economic assumptions and other actuarial assumptions. In a change from the requirements contained in GASB 43, funds that are not fully being funded on an actuarial basis are required to go through a crossover test in determining the applicable discount rate on the plans assets.

The discount rate used in the valuation for financial disclosure purposes as of June 30, 2019 is a blend of the assumed investment return (7.25%) and the rate for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher (3.50% as of June 30, 2019). Because NMRHCA does not fully prefund benefits, plan assets are expected to be sufficient to make benefit payments through June 30, 2039. Projected benefit payments are discounted by the plan investment return assumption of 7.25% until June 30, 2039. Benefit payments after June 30, 2039 are then discounted by the municipal bond rate of 3.50%. 4.16% is the blended discount rate reflecting benefits discounted by the plan investment return assumption rate and the municipal bond rate.

The results as of the June 30, 2019 valuation indicate the Total OPEB Liability ("TOL") equals $3.9 billion, offset by the plan's fiduciary net position of $756.7 million resulting in a Net OPEB Liability ("NOL") of $3.2 billion. Projected benefit payments are discounted by the plan investment return assumption of 7.25% until June 30, 2039. Benefit payments after June 30, 2039 are then discounted by the municipal bond rate of 3.50%. 4.16% is the blended discount rate reflecting benefits discounted by the plan investment return assumption rate and the municipal bond rate.

NMRHCA continues to look for additional opportunities to further strengthen the financial standing of the program. In November 2017, the Board of Directors passed a five-year strategic plan to ensure the long-term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and their employers. In addition to increased retiree cost sharing through plan design changes, the solvency plan calls for proportionately higher premiums for retirees who retired younger (decreased premium subsidies to pre-Medicare retirees) or did not work or pay into the system as long. Combined, these actions are expected to further improve the financial condition of the trust fund by increasing revenues and reducing future liabilities.

Previous reporting requirements associated with GASB 43 required NMRHCA to report its Annual Required Contribution ("ARC") and the percentage of the ARC contributed. Beginning June 30, 2017, under GASB 74, the equivalent of the ARC is the Actuarially Determined Contribution ("ADC"). The following table lists the ARC and percentage of the ARC contributed for Fiscal Years 2015 through 2019. Prior to Fiscal Year 2018, the annual required contribution was calculated by the normal cost combined with the amortization of the unfunded liability, using a 5% discount rate. The reporting requirements under GASB 74 allow for a separately defined method of funding basis (transitioned to the funding policy on a percentage of payroll basis) and a change in the discount rate methodology resulting in a reduction in discount rate used to amortize the long-term liabilities (4.16%).

TABLE 20
New Mexico Retiree Health Care Authority
Annual Required Contributions

Fiscal Year	Annual Required Contribution	Percentage Contributed	Actual Amounts Contributed
2015	$292,656,765	53.53%	$156,670,251
2016	303,631,394	52.65	159,862,801
2017	317,546,941	50.19	159,379,195
2018	156,266,741(1)	98.77(1)	154,358,714
2019	159,030,773(1)	100.66(1)	160,077,200

(1) The 2018 and 2019 "required" contribution decrease is primarily due to a change in the method for determining actuarially determined contributions as a percentage of pay versus function of normal cost and liability.
Source: New Mexico Retiree Health Care Authority

Economic and Demographic Characteristics

New Mexico is the 37th largest state by population and the fifth largest in land area. The population of the State as of the time of the 2010 United States Census was 2,059,179. From 2000 to 2010, the State's population grew 13.2 percent, while the national population grew 9.7 percent.

There are four Metropolitan Statistical Areas ("MSAs") in the State. The Albuquerque MSA is composed of Bernalillo, Sandoval, Torrance and Valencia Counties; the Las Cruces MSA is composed of Doña Ana County; the Santa Fe MSA is composed of Santa Fe County; and the Farmington MSA is composed of San Juan County. The following table sets forth information on population growth in New Mexico and the nation.

TABLE 21
Population New Mexico and the United States
2009-2018

	Population[1]		Annual Percentage Change	
Year[2]	**New Mexico**	**United States**	**New Mexico**	**United States**
2009	2,007,315	306,771,529	--	--
2010	2,059,179	308,745,538	2.6%	0.6%
2011	2,080,450	311,556,874	1.0	0.9
2012	2,087,309	313,830,990	0.3	0.7
2013	2,092,273	315,993,715	0.2	0.7
2014	2,089,568	318,301,008	(0.1)	0.7
2015	2,089,291	320,635,163	(0.0)	0.7
2016	2,091,630	322,941,311	0.1	0.7
2017	2,091,784	324,985,539	(0.0)	0.6
2018	2,092,741	326,687,501	0.1	0.5
2019	2,096,829	328,239,523	0.2	0.5

[1] All estimates are subject to change.
[2] As of July 1 (except for 2010 data which is as of April 1). Except for 2010 data, population figures are stated as intercensal estimates. Estimated census figures are not yet available for 2019.
Source: U.S. Census Bureau, Population Division, 2009 released September 2011; 2010-2018 released December 2019 (the most recent information available as of January 13, 2020).

Major industries in the State include oil and natural gas production, tourism and retail, healthcare, government and mining. Major federally funded scientific research facilities in Los Alamos, Albuquerque and White Sands are a notable part of the State's economy. In 2018 (the most recent information available), the largest employment sector in the State was government (comprising approximately 18.4% of the State's workforce), followed, in order, by health care and social assistance; retail trade; accommodation and food services; and professional, scientific and technical services. For the twelve-month period ended December 31, 2018, total average employment in the State increased by 1.6% as compared to the same twelve-month period ending December 31, 2017. The following table sets forth information on employment by industry over the period of 2009 through 2018, the most recent figures available.

TABLE 22

Total New Mexico Full-Time And Part-Time Employment by North American Industry Classification System 2009-2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Growth 2017-2018	Growth 2009-2018
Total employment	1,072,062	1,059,977	1,064,267	1,067,211	1,075,465	1,083,772	1,091,984	1,092,637	1,097,669	1,115,574	1.6%	4.1%
Wage and salary employment	845,420	836,523	836,180	839,254	846,495	852,638	859,962	861,216	862,809	875,574	1.5	3.6
Proprietors employment	226,642	223,454	228,087	227,957	228,970	231,134	232,022	231,421	234,860	240,000	2.2	5.9
Farm proprietors employment	18,270	19,083	20,715	21,328	21,547	21,557	21,579	21,534	21,511	21,243	-1.2	16.3
Nonfarm proprietors employment	208,372	204,371	207,372	206,629	207,423	209,577	210,443	209,887	213,349	218,757	2.5	5.0
Farm employment	25,238	25,631	27,322	28,262	29,208	28,346	29,040	29,884	29,031	28,687	-1.2	13.7
Nonfarm employment	1,046,824	1,034,346	1,036,945	1,038,949	1,046,426	1,055,130	1,062,944	1062,753	1,068,638	1,086,887	1.7	3.8
Private employment	830,703	816,910	823,130	827,038	835,402	845,767	854,456	854,248	862,552	881,228	2.2	6.1
Forestry, fishing and related activities(2)	5,228	5,183	5,221	5,133	5,235	5,674	5,541	5,820	5,989	6,157	2.8	17.8
Mining(3)	24,439	27,064	28,340	34,212	36,857	38,214	36,656	31,809	31,204	34,490	10.5	41.1
Utilities	4,842	4,612	4,540	4,570	4,652	4,591	4,684	4,900	4,623	4,576	-1.0	-5.5
Construction(4)	66,394	61,130	59,142	57,947	59,142	59,584	59,707	60,008	62,061	64,328	3.7	-3.1
Manufacturing	36,548	34,574	35,740	35,749	35,463	34,027	34,157	33,187	32,562	33,596	3.2	-8.1
Durable goods manufacturing(5)	24,461	23,075	23,696	23,201	22,549	21,238	21,188	20,017	19,250	19,767	2.7	-19.2
Nondurable goods manufacturing(6)	12,087	11,499	12,044	12,548	12,914	12,789	12,969	13,170	13,312	13,829	3.9	14.4
Wholesale trade	26,622	26,905	26,490	26,475	26,688	28,854	28,501	25,380	24,989	24,563	-1.7	-7.7
Retail trade(7)	113,509	110,350	111,426	111,840	112,726	113,924	114,887	113,636	111,466	111,663	0.2	-1.6
Transportation and warehousing(8)	24,221	23,437	24,330	25,379	25,502	25,905	27,245	26,673	30,016	32,916	9.7	35.9
Information(9)	17,490	17,130	16,501	16,473	16,059	15,725	15,587	16,001	15,491	15,297	-1.3	-12.5
Finance and insurance(10)	36,290	34,860	35,798	35,347	35,010	34,781	34,461	35,684	35,674	36,018	1.0	-0.7
Real estate and rental and leasing(11)	39,432	39,357	39,637	38,191	38,414	39,111	39,659	39,865	40,497	41,842	3.3	6.1
Professional, scientific and technical services	80,219	78,395	77,519	76,128	75,919	76,116	77,543	77,750	79,918	81,618	2.1	1.7
Management of companies and enterprises	5,566	5,377	5,485	5,435	5,502	5,632	5,875	6,336	6,143	6,488	5.6	16.6
Administrative and waste services(12)	55,688	54,283	54,698	53,429	54,597	54,370	52,996	53,892	56,396	57,515	2.0	3.3
Educational services	16,358	16,812	16,277	16,152	16,426	16,709	16,959	17,013	17,048	17,004	-0.3	3.9
Health care and social assistance(13)	117,842	119,461	121,582	123,225	123,737	124,796	129,722	134,264	134,791	135,667	0.6	15.1
Arts, entertainment and recreation(14)	23,266	23,104	23,132	23,714	23,734	24,227	24,245	24,150	25,154	26,008	3.4	11.8
Accommodation and food services(15)	81,398	81,144	82,292	83,194	85,494	88,297	90,194	92,523	93,512	95,173	1.8	16.9
Other services, except public administration(16)	55,351	53,732	54,980	54,445	54,245	55,230	55,837	55,356	55,018	56,309	2.3	1.7
Government and government enterprises(17)	216,121	217,436	213,815	211,911	210,855	209,659	208,488	208,505	206,086	205,659	-0.2	-4.8

(1) Most recent data available.
(2) The "Forestry, fishing and related activities" category includes: forestry and logging; fishing, hunting and trapping; and support activities for agriculture and forestry.
(3) The "Mining" category includes: oil and gas extraction; mining (except oil and gas); and support activities for mining.
(4) The "Construction" category includes: construction of buildings; heavy and civil engineering construction; and specialty trade contractors.
(5) The "Durable goods manufacturing" category includes: wood product manufacturing; nonmetallic mineral product manufacturing; primary metal manufacturing; fabricated metal product manufacturing; machinery manufacturing; computer and electronic product manufacturing; electrical equipment, appliance, and component manufacturing; motor vehicles, bodies and trailers, and parts manufacturing; other transportation equipment manufacturing; furniture and related product manufacturing; and miscellaneous manufacturing.
(6) The "Nondurable goods manufacturing" category includes: food manufacturing; beverage and tobacco product manufacturing; textile mills; textile product mills; apparel manufacturing; leather and allied product manufacturing; paper manufacturing; printing and related support activities; petroleum and coal products manufacturing; chemical manufacturing; and plastics and rubber products manufacturing.
(7) The "Retail trade" category includes: motor vehicle and parts dealers; furniture and home furnishings stores; electronics and appliance stores; building material and garden equipment and supplies dealers; food and beverage stores; health and personal care stores; gasoline stations; clothing and clothing accessories stores; sporting goods, hobby, musical instrument, and book stores; general merchandise stores; miscellaneous store retailers; and nonstore retailers.
(8) The "Transportation and warehousing" category includes: air transportation; rail transportation; water transportation; truck transportation; transit and ground passenger transportation; pipeline transportation; scenic and sightseeing transportation; support activities for transportation; couriers and messengers; and warehousing and storage.
(9) The "Information" category includes: publishing industries (except Internet); motion picture and sound recording industries; broadcasting (except Internet); Internet publishing and broadcasting; telecommunications; data processing, hosting, and related services; and other information services.
(10) The "Finance and insurance" category includes: monetary authorities-central bank; credit intermediation and related activities; securities, commodity contracts, and other financial investments and related activities; insurance carriers and related activities; and funds, trusts and other financial vehicles.
(11) The "Real estate and rental and leasing" category includes: real estate; rental and leasing services; and lessors of nonfinancial intangible assets (except copyrighted works).
(12) The "Administrative and waste services" category includes: administrative and support services; and waste management and remediation services.
(13) The "Health care and social assistance" category includes: ambulatory health care services; hospitals; nursing and residential care facilities; and social assistance.
(14) The "Arts, entertainment and recreation" category includes: performing arts, spectator sports, and related industries; museums, historical sites, and similar institutions; and amusement, gambling and recreation industries.
(15) The "Accommodation and food services" category includes: accommodation; and food services and drinking places.
(16) The "Other services, except public administration" category includes: repair and maintenance; personal and laundry services; religious, grant making, civic, professional, and similar organizations; and private households.
(17) The "Government and government enterprises" category includes: federal, civilian; military; and state and local governments.
Source: *Regional Economic Information System, Bureau of Economic Analysis, Last Revised: September 2019 (the most recent information available as of December 9, 2019).*

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

TABLE 23
Employment and Labor Force
New Mexico and the United States
2009 – 2019
(numbers in thousands)[(1)]

	Civilian Labor Force		Number of Employed		Unemployment Rate		
Year	New Mexico	United States	New Mexico	United States	New Mexico	United States	N.M. as % of U.S. Rate
2009	940	154,142	869	139,877	7.5%	9.3%	80.6%
2010	936	153,889	860	139,064	8.1	9.6	84.4
2011	930	153,617	860	139,869	7.5	8.9	84.3
2012	928	154,975	862	142,469	7.1	8.1	87.7
2013	924	155,389	860	143,929	6.9	7.4	93.2
2014	932	155,922	870	146,305	6.7	6.2	108.1
2015	934	157,130	873	148,834	6.5	5.3	122.6
2016	936	159,187	874	151,436	6.6	4.9	134.7
2017	936	160,320	881	153,337	5.9	4.4	134.1
2018	940	162,075	894	155,761	4.9	3.9	125.6
2019[(2)]	971	164,386	926	158,945	4.6	3.3	139.4

[(1)] Figures rounded to nearest thousand.
[(2)] Represents the monthly estimate as of January 13, 2020.
Source: U.S. Department of Labor, Bureau of Labor Statistics, Last Revised: United States as of January 13, 2020.

TABLE 24
Personal Income
New Mexico and the United States
2009 – 2018

	Personal Income (Dollars in millions)		Annual Percentage Change	
Year	New Mexico	United States	New Mexico	United States
2009	$66,662	$12,051,307	--	--
2010	69,250	12,541,995	3.9%	4.1%
2011	72,820	13,315,478	5.2	6.2
2012	74,578	13,998,383	2.4	5.1
2013	73,412	14,175,503	(1.6)	1.3
2014	77,722	14,982,715	5.9	5.7
2015	79,973	15,709,242	2.9	4.9
2016	81,252	16,111,636	1.6	2.6
2017	82,733	16,870,106	1.8	4.7
2018	87,189	17,813,035	5.4	5.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. Last Revised: September 24, 2019 (the most recent information available as of December 10, 2019)

TABLE 25
Per Capita Personal Income
New Mexico and the United States
2009 – 2018

Year	New Mexico	Percent Change	United States	Percent Change	New Mexico as a Percent of United States
2009	$32,729	--	$39,284	--	83.3%
2010	33,542	2.5%	40,546	3.2%	82.7
2011	35,003	4.4	42,735	5.4	81.9
2012	35,725	2.1	44,599	4.4	80.1
2013	35,079	(1.8)	44,851	0.6	78.2
2014	37,182	6.0	47,058	4.9	79.0
2015	38,261	2.9	48,978	4.1	78.1
2016	38,825	1.5	49,870	1.8	77.9
2017	39,521	1.8	51,885	4.0	76.2
2018	41,609	5.3	54,446	4.9	76.4

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data. Last Revised September 24, 2019 (the most recent information available as of December 10, 2019)

TABLE 26
2009 – 2018
Wages and Salaries by Industry Sector

NAICS Earnings by Place of Work[1] Applicable to 2009-2018	New Mexico (Dollars in Thousands)		United States (Dollars in Millions)		Cumulative Annual Percent Change 2009 - 2018		Distribution of 2018 Wages & Salaries	
	2018	2009	2018	2009	N.M.	U.S.	N.M.	U.S.
Farm Wage and Salary	$ 276,852	$ 248,439	$ 24,305	$ 21,349	11.4%	13.8%	0.7%	0.3%
Non-farm Wage and Salary	40,273,659	32,992,230	8,855,202	6,220,142	22.1	42.4	99.3	99.7
Private Wage and Salary	29,940,745	23,673,628	7,472,568	5,061,075	26.5	47.6	73.8	84.2
Forestry, Fishing, and other related activities	106,913	59,960	21,159	12,681	78.3	66.9	0.3	0.2
Mining	1,977,026	1,169,385	70,551	54,969	69.1	28.3	4.9	0.8
Utilities	363,766	332,814	62,109	48,795	9.3	27.3	0.9	0.7
Construction	2,431,160	2,051,593	470,445	306,976	18.5	53.3	6.0	5.3
Manufacturing	1,490,121	1,528,550	883,224	660,541	(2.5)	33.7	3.7	9.9
Wholesale Trade	1,195,502	1,070,664	465,602	349,290	11.7	33.3	2.9	5.2
Retail Trade	2,813,211	2,369,949	527,480	393,501	18.7	34.0	6.9	5.9
Transportation and Warehousing	1,176,382	805,623	305,823	192,511	46.0	58.9	2.9	3.4
Information	664,703	645,972	325,108	202,192	2.9	60.8	1.6	3.7
Finance and Insurance	1,572,894	1,145,337	693,160	465,307	37.3	49.0	3.9	7.8
Real Estate and Rental and Leasing	434,789	330,415	137,739	87,576	31.6	57.3	1.1	1.6
Professional, Scientific, and Technical Services	4,730,252	3,803,063	918,011	574,264	24.4	59.9	11.7	10.3
Management of Companies and Enterprises	402,666	307,243	293,551	173,365	31.1	69.3	1.0	3.3
Administrative and Waste Services	1,660,414	1,390,226	389,850	242,361	19.4	60.9	4.1	4.4
Educational Services	352,562	312,619	160,890	113,857	12.8	41.3	0.9	1.8
Health Care and Social Assistance	5,213,076	3,895,047	1,023,014	707,989	33.8	44.5	12.9	11.5
Arts, Entertainment, and Recreation	265,820	188,805	101,777	67,088	40.8	51.7	0.7	1.1
Accommodations and Food Services	1,858,684	1,281,463	345,041	209,163	45.0	65.0	4.6	3.9
Other Services, Except Public Adm	1,230,804	984,900	278,034	198,649	25.0	40.0	3.0	3.1
Government and Government Enterprises	10,332,914	9,318,602	1,382,634	1,159,067	10.9	19.3	25.5	15.6
Total	$40,550,511	$33,240,669	$8,879,507	$6,241,491				

[1] The estimates of wage and salary disbursements for 2009 are based on the 2009 North American Industry Classification System (NAICS), while the 2018 estimates are based on the 2017 NAICS.
[2] All dollar estimates are in current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Last Revised: September 24, 2019 (the most recent information available as of December 10, 2019)

FINANCIAL OVERVIEW

State Auditing and Accounting Systems

The financial affairs of every agency in the State are examined and audited annually by the State Auditor, personnel of the State Auditor's office designated by the State Auditor, or by the independent auditors approved by the State Auditor, as required by Section 12-6-3 NMSA 1978. The audits are conducted in accordance with generally accepted governmental auditing standards. The audit reports include financial statements that are presented in accordance with generally accepted governmental accounting principles. For Fiscal Year 2018, 96% of the reports, covering nearly 100% of the transactional value, received an unmodified opinion.

The state's comprehensive cash reconciliation model, which compares aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office, is a well-established process and has been audited multiple times by independent auditors during the audits of the General Fund, the Department of Finance and Administration ("DFA") and the State of New Mexico's Comprehensive Annual Financial Report ("CAFR"). The reviews have deemed the process to be sound and the DFA fully compliant with the requirements of the monthly process. As of June 30, 2019, resources held in the pool were equivalent to the corresponding business unit claims on those resources.

The CAFR was initially audited in Fiscal Year 2013 (prior CAFRs were only reviewed by an independent auditor). A review of financial statements provides a lower standard of assurance than an audit of financial statements. The Fiscal Year 2018 audited CAFR was the first report since 2013 to not contain a disclaimer of opinion. The report contained three unmodified opinions and seven qualified opinions. This is a significant improvement compared to prior years. Delays in the issuance of the State CAFR have historically been a continuing negative credit factor for the State. Since 2013, the State has made steady progress in reducing the amount of time it takes to issue the CAFR following fiscal year end. As of 2018, the CAFR was published 10 months following fiscal year end, which was the shortest length of time since 2013. In the coming years, the State will continue to work towards improving the quality and timeliness of the CAFR by leveraging increased resources, communication, and outreach and training both at an agency and statewide level.

State Budgetary and Appropriation Process

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

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

Upon passage by the Legislature, the Governor may sign the General Appropriation Act, veto it, veto line items, or veto parts of it. After the Governor has signed the General Appropriation Act, the DFA

Budget Division approves the agency budgets and monitors the expenditure of the funds beginning on July 1, the first day of the fiscal year.

State Treasurer's Office Investment Responsibilities

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

According to the Investment Policy, the State Treasurer's Investment Committee is appointed by the State Treasurer and the Board. The Investment Committee is an advisory committee that reviews investment reporting and any other matters of the State Treasurer's choosing. The Investment Committee shall consist of five (5) voting members: the State Treasurer or designee; a member of the Treasurer's staff upon appointment by the Treasurer or designee; the director of the State Board of Finance or designee; and two members who are participants in the private investment community or have expert knowledge or professional experience in the subject of public finance or public money investing, of which one member will be appointed by the State Treasurer and approved by the State Board of Finance and one member will be appointed by the State Board of Finance and approved by the State Treasurer. The member of the Treasurer's staff shall be selected in a manner consistent with maintaining a separation of responsibilities between the State Treasurer's Office investment managers and the members of the Investment Committee.

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

General Fund

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

The following table lists audited revenues, expenditures and ending fund balances for Fiscal Years 2015 through 2019 and result projections for Fiscal Year 2020.

TABLE 27
GENERAL FUND FINANCIAL SUMMARY FISCAL YEAR 2015 – FISCAL YEAR 2020
(Dollars in thousands)

	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019	Projected* 2020
A. APPROPRIATION ACCOUNT						
Recurring Receipts:						
General and Selective Sales Taxes	$2,695,544	$2,553,767	$2,586,817	$2,978,242	$3,291,012	$3,277,600
Income Taxes	1,594,190	1,445,711	1,450,831	1,625,560	1,694,822	1,720,500
Severance Taxes	427,453	279,751	341,586	493,081	607,017	423,800
License Fees	55,875	54,815	53,339	61,033	59,890	55,100
Investment Income	702,493	770,258	738,654[9]	802,833	86,880	969,700
Rents and Royalties	584,419	437,822	507,182	676,077	1,357,683	820,000
Miscellaneous Receipts	56,153	48,063	36,514	33,187	37,237	76,200
Tribal Revenue Sharing	67,178	64,413	62,717	68,092	78,429	50,200
Reversions/Adjustments	51,455	54,184	366,228	78,357	108,595	40,000
Total Recurring Receipts	**$6,234,759**	**$5,708,783**	**$6,143,868**	**$6,816,462**	**$7,512,452**	**7,433,100**
Total Nonrecurring and Adjustments[1]	**1,100**	**74**	**366,228[10]**	**64,812**	**(99,200)**	**(97,100)**
Total Receipts	**$6,235,859**	**$5,708,858**	**$6,143,868**	**$6,881,274**	**$7,413,252**	**$7,336,000**
Recurring Appropriations:						
Legislative	$ 29,419	$ 26,035	$ 28,826	$ 24,844	$ 30,086	$ 20,275
Judicial	218,643	273,949	271,439	278,048	295,336	307,435
General Control	201,436	135,273	127,675	146,231	217,783	142,696
Commerce and Industry	50,019	53,391	58,549	65,802	52,702	60,691
Agriculture, Energy and Natural Resources	71,920	71,144	72,776	84,422	81,605	73,017
Health, Hospitals and Human Services	1,641,473	1,655,433	1,655,387	1,659,510	1,707,439	1,823,579
Public Safety	393,903	415,656	433,893	441,366	446,078	461,766
Other Education	106,910	112,902	112,447	133,555	102,147	77,636
Higher Education	838,565	843,428	787,740	785,233	803,436	838,322
Public School Support	2,608,378	2,623,316	2,600,677	2,585,824	2,699,006	3,171,732
Recurring Appropriations	6,160,667	6,210,527	6,149,410	6,204,835	6,330,644	6,977,149
Other Recurring Appropriations	-	-	(18,282)[11]	-	-	108,528
Total Recurring Appropriations	**6,160,667**	**6,210,527**	**6,118,027**	**6,204,835**	**6,339,800**	**7,085,677**
Nonrecurring Appropriations[2]	**114,551**	**98,308**	**13,100**	**122,083**	**1,175,200**	**402,200**
Total Appropriations	**$6,275,218**	**$6,308,835**	**$6,131,127**	**$6,326,918**	**$7,515,200**	**$7,497,200**
Transfers from/(to) Other Accounts[3]	-	-	5,500	-		-
TRANSFER FROM/(TO) RESERVE ACCOUNTS	**$ 39,359**	**$ 594,477**	**$ (331,526)**	**$ 554,356**	**$ (394,500)**	**$ (288,100)**

B. OPERATING RESERVE						
Beginning Balance	**$ 274,603**	**$ 319,790**	**$ 2,000**	**$ 322,500**	**$ 485,900**	**$ 485,600**
Revenues/Repayments/Reversions	-	-	(1,300)	(300)	(2,000)	(2,000)
Appropriations:						
Contingencies	100,000	-	-	-	-	-
Restricted Funds	-	36,000	-	-	-	-
Other Appropriations and Adjustments	(454)	(390)	-	-	(60,400)	(171,200)
Total Appropriations[4]	**99,546**	**35,610**	-	-	**(60,400)**	**(171,200)**
Transfers:						
From/(To) General Fund Appropriations Account	(39,359)	(485,425)	321,800	163,700	394,500	288,100
From/(To) Appropriation Contingency Fund	(15,000)	(20,000)	-	-	-	-
From/(To) Tax Stabilization Reserve Fund	-	147,469	-	-	(378,700)	(264,500)
From/(To) Other State Funds	-	4,555	-	-	-	-
Total Transfers	**(54,359)**	**(353,401)**	**321,800**	**163,700**	**15,800**	23,600
Ending Balance[5]	**$ 319,790**	**$ 2,000**	**$ 322,500**	**$ 485,900**	**$ 485,600**	**$ 507,200**
C. STATE SUPPORT RESERVE						
Beginning Balance	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 19,100**
Ending Balance[5]	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 19,100**	**$ 29,100**
D. APPROPRIATION CONTINGENCY FUND						
Beginning Balance, Excluding Education Reform	**$ 18,409**	**$ 28,440**	**$ 34,372**	**$ 25,961**	**$ 12,300**	**$ 11,700**
Receipts:						
Reversions	7,709	2,182	4,564	4,764	14,700	8,000
Transfers From General Fund/Appropriation Contingency Fund	15,000	20,000	-	-	-	-
Expenditures/Appropriations:[6]						
Disasters	(12,625)	(16,250)	(12,975)	(18,465)	(15,300)	(16,000)
Other	(53)	-	-	-	-	-
Ending Balance, Excluding Education Reform	**$ 28,440**	**$ 34,372**	**$ 25,961**	**$ 12,260**	**$ 11,700**	**$ 3,700**
Education Reform:						
Beginning Balance, Education Reform	**$ 3,047**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Expenditures	(3,047)	-	-	-	-	-
Ending Balance, Education Reform	**$ -**	-	-	-	-	-
Ending Balance, Appropriation Contingency Fund	**$ 28,440**	**$ 34,372**	**$ 25,961**	**$ 12,260**	$ 11,700	**$ 3,700**
E. TAX STABILIZATION RESERVE						
Beginning Balance	**$ 147,469**	**$ 147,469**	**$ -**	**$ -**	**$ 526,759**	**$ 1,088,300**
Transfers In	-	-	-	526,759	561,500	517,400
Transfers Out	-	(147,469)	-	-	-	-

Ending Balance[7]	**$ 147,469**	**$ -**	**$ -**	**$ 526,759**	**$ 1,088,300**	**$ 1,605,700**
F. TOBACCO SETTLEMENT PERMANENT FUND RESERVE [8]						
Beginning Balance	**$ 193,461**	**$ 16,362**	**$ 110,357**	**$ 146,819**	**$ 158,676**	**$ 228,600**
Transfers In	35,036	39,552	54,272	33,689	74,200	34,000
Transfers Out	(19,283)	(149,135)	(37,000)	(33,834)	(17,000)	(17,500)
Gains/(Losses)	7,147	3,579	19,190	12,002	12,700	17,000
Ending Balance	**$ 216,362**	**$ 110,357**	**$ 146,819**	**$ 158,676**	**$ 228,600**	**$ 261,000**
G. TAXPAYER DIVIDEND FUND						
Beginning Balance	$ -	$ -	$ -	$ -	$ -	$ -
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Gains/Losses	-	-	-	-	-	-
Ending Balance	$ -	$ -	$ -	$ -	$ -	$ -
H. TOTAL RESERVE BALANCES						
Beginning Balance	**$ 637,989**	**$ 713,060**	**$ 147,729**	**$ 496,298**	**$ 1,184,595**	**$ 1,833,300**
Ending Balance*	**$ 713,060**	**$ 147,729**	**$ 496,298**	**$ 1,184,595**	**$ 1,833,300**	**$ 2,406,700**
Reserves as a Percentage of Current-Year Recurring Appropriations	11.6%	2.4%	8.3%	19.1%	28.9%	34.0%

<u>Notes to General Fund Financial Summary:</u>

***The General Fund Financial Summary reflects the December 2019 consensus revenue estimate. Based on year-to-date FY2019 revenue accruals, FY2019 revenues exceeded FY2018 by roughly 15%. A portion of the revenue strength is expected to be recurring, carrying over to FY2020.**

(1) Appropriation Account, Nonrecurring Revenue:
FY17 includes the following from Laws 2016: $8.0 million in disencumbered balances from prior year General Fund appropriations (Laws 2016, Ch. 12), $3.9 million reversion of unspent balances of prior year taxable bond proceeds (Laws 2016, Ch. 12), $56.2 million in deauthorized and reverted General Fund capital outlay funding (Laws 2016, 2nd Special Session, Ch. 5), and a revenue reduction of $672,000 from the State Lands Maintenance Fund (Laws 2016, Ch. 11).
FY17 includes the following from Laws 2017: $46.1 million reduction in Public School state equalization guarantee distributions as credit for excess FY2016 operational fund cash balances (Laws 2017, Ch. 3), $78.3 million from adopting an insurance premiums revenue recognition process compliant with generally accepted accounting principles and aligning cash receipts to cash disbursements, and an $8.0 million reduction in special appropriations to the Public Education Department (Laws 2017, Ch. 2).
FY18 includes the following from Laws 2017: $10.7 million from adopting an insurance premiums revenue recognition process compliant with generally accepted accounting principles and aligning cash receipts to cash disbursements, $0.8 million from the elimination of a distribution of cigarette tax revenue to the New Mexico Finance Authority, $0.9 million from increases to penalties for Occupational Safety and Health Act violations and the imposition of penalty and interest on tax liability assigned to successors

(2) Appropriation Account, Nonrecurring Appropriations:
FY 15 includes the following appropriations from Laws 2014: $16.6 million from Section 5 of the General Appropriation Act of 2014 (Laws 2014, Ch. 63).
FY15 includes the following appropriations from Laws 2015: $93.7 million from Sections 5 and 6 of the General Appropriation Act of 2015 (Laws 2015, Ch. 101) and $4.3 million from the 2015 1st Special Session (Laws 2015, Ch. 1, Sec. 3).
FY16 includes the following appropriations from Laws 2015: $1.4 million from Section 5 of the General Appropriation Act of 2015 (Laws 2015, Ch. 101) and $30 million for capital outlay projects (Laws 2015, 1st Special Session, Ch. 3).
FY16 includes the following appropriations from Laws 2016: $66.9 million from Sections 5 and 6 of the General Appropriation Act of 2016 (Laws 2016, Ch. 11).
FY17 includes the following appropriations from Laws 2016: $0.4 million from Section 5 of the General Appropriation Act of 2016 (Laws 2016, Ch. 11), $1.0 million to the SBOF to be disbursed to agencies experiencing hardship as a result of special session budget cuts (Laws 2016, 2nd Special Session, Ch. 6), and $1.5 million for child abuse prevention (Laws 2016, 2nd Special Session, Ch. 3).
FY17 includes the following appropriations from Laws 2017: $6.4 million from Sections 5 and 6 of the General Appropriation Act of 2017 (Laws 2017, Ch. 135), $1.7 million in supplemental appropriations to the courts (Laws 2017, Ch. 5), $2.1 million in supplemental general appropriations (Laws 2017, 1st Special Session, Ch. 2).
FY19 includes the following appropriations from Laws 2019: $185.5 million from Sections 5 and 6 of the General Appropriation Act of 2019 (Laws 2018, Ch. 73).

(3) Appropriation Account, Transfers from/(to) Other Accounts:
FY16 includes $5.5 million transfer from the state government unemployment compensation reserve fund.
FY17 includes $44.0 million transfer from other state funds (Laws 2016, Ch. 12), $10 million transfer from the New Mexico Finance Authority (Laws 2016, Ch. 12), $9.1 million transfer of unspent balances of prior year taxable bond proceeds (Laws 2016, Ch. 12), $19.2 million to restore General Fund capital expenditures to be funded through severance tax bond proceeds (Laws 2016, 2nd Special Session, Ch. 5), $28.3 million from the suspension of a distribution of severance tax bond revenue to the severance tax permanent fund (Laws 2016, 2nd Special Session, Ch. 5), $61.2 million transfer from other state funds (Laws 2016, 2nd Special Session, Ch. 4), $15.5 million transfer from the New Mexico Mortgage Finance Authority (Laws 2016, 2nd Special Session, Ch. 4), $16.1 million transfer from the Public Education Department (Laws 2016, 2nd Special Session, Ch. 4), $47.2 million transfer from other state funds (Laws 2017, Ch. 5), an $81.4 million swap of supplemental severance tax funding notes to restore prior year general fund capital expenditures (Laws 2017, 1st Special Session, Ch. 1), and $730,000 transfer from other state funds (Laws 2017, 1st Special Session, Ch. 1).
FY18 includes $8 million transfer from other state funds (Laws 2017, 1st Special Session, Ch. 1).

(4) General Fund Operating Reserve:
FY15 includes $0.5 million for State Board of Finance Emergency Fund appropriation and repayment/reversion, $15 million transfer to the appropriation contingency fund, and release of the $100 million contingent liability established in the Fiscal Year 2012 and Fiscal Year 2014 General Fund financial statements.
FY16 includes $0.4 million for State Board of Finance Emergency Fund appropriation and repayment/reversion, $20 million transfer to the appropriation contingency fund, $147.5 million transfer from the tax stabilization reserve, $4.6 million transfer from other state funds (HB311, Laws 2016), and release of the $36 million restricted fund balance for Special Education Maintenance of Effort funding (HB311, Laws 2016).
FY17 includes $2.0 million for the State Board of Finance Emergency Fund appropriation.
FY18 includes $2.0 million for the State Board of Finance Emergency Fund appropriation.
FY19 includes $2.0 million for the State Board of Finance Emergency Fund appropriation.

(5) Year-ending Balances in the Operating Reserve:
If the ending balance in the General Fund Operating Reserve exceeds 8% of the previous year's recurring appropriations, the excess over 8% is transferred to the Tax Stabilization Reserve.

(6) Appropriation Contingency Fund Appropriations:
FY15 includes the following appropriations/transfers from Laws 2014: $15 million transfer from the operating reserve (Laws 2014, Ch. 63, Sec. 12), $12.6 million for disaster allotments, and $3.1 million for education reform (Laws 2015, Ch. 101, Sec. 5).
FY16 includes the following appropriations/transfers from Laws 2015: $20 million transfer from the operating reserve (Laws 2015, Ch. 101, Sec. 11), and $16.3 million for disaster allotments.
FY17 includes the following appropriations/transfers from Laws 2016: $0.3 million for the relocation of the Bernalillo County child wellness center (Laws 2016, Ch. 11, Sec. 5).

(7) Year-ending Balances in the Tax Stabilization Reserve:
Prior to July 1, 2018, if the ending balance in the Tax Stabilization Reserve exceeds 6% of the previous year's recurring appropriations, the excess over 6% is transferred to the Taxpayer's Dividend Fund.

(8) Tobacco Settlement Permanent Fund Reserve (established by Laws 2003, Chapter 312).
FY15 – 50% of Tobacco Settlement Permanent Fund revenues, or $19.3 million, were transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978.
FY16 – 100% of Tobacco Settlement Permanent Fund revenues, or $39.6 million, were transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978.
$0.5 million was appropriated from the Tobacco Settlement Permanent Fund for Medicaid (Laws 2015, Ch. 101, Sec. 11). $109.1 million was transferred to the Appropriation Account (Laws 2016, 2nd Special Session, Ch. 4).
FY17 – $37 million of Tobacco Settlement Permanent Fund revenues were transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978 and Laws 2016, Ch. 12 and Laws 2017, Ch. 135. The settlement distribution was increased by $17 million over the estimate due to the State's prevailing in a motion filed to vacate the Partial Arbitration Award issued by the 2003 NPM Adjustment Dispute arbitration panel.
FY19 - $38 million of Tobacco Settlement Permanent Fund revenues were transferred to the Tobacco Settlement Program Fund for Medicaid pursuant to Section 6-4-9C NMSA 1978 and Laws 2016, Ch. 12 Laws 2017, Ch. 135., and Laws 2018.

(9) FY17 Investment Income in the recurring revenue includes transfers from the Land Grant Permanent Fund and the Severance Tax Permanent Fund. Also included is the reported loss that is the result of recent changes in unrealized gains and losses (mark-to-market adjustments) related to the investments held in the State General Fund Investment Pool.
(10) FY17 The nonrecurring revenue and adjustments included the standard reversions and the non-recurring reversions from agencies as a result of one time sweeps.
(11) FY17 Other recurring appropriations include audit adjustments due to revenue shortfall.
(12) Beginning in FY19, Oil and Gas School Tax revenue in excess of the five-year average goes to the tax stabilization reserve fund.

Source: DFA Economic Unit and Financial Control Division

Review of Results and Projections in the General Fund

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

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

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

Fiscal Year 2017. Fiscal Year 2017 recurring revenues were $5.9 billion, representing an increase of 3.0% over Fiscal Year 2016. Oil and natural gas related revenue increased from Fiscal Year 2016 levels. New Mexico oil prices averaged $45.00 per barrel in Fiscal Year 2017, while New Mexico natural gas prices averaged $3.26 per mcf. Oil volumes increased by 4.3% in Fiscal Year 2017 and natural gas volumes increased by 5.2%. Non-oil and gas related revenue increased by 0.9%, reflecting an increase of 1.9% in GRT revenue, 4.0% in personal income tax and 9.4% in insurance premiums tax. Corporate income tax revenues were expected to decline by 40.8% over the previous fiscal year.

During the 2016 special legislative session, several bills were enacted to address Fiscal Year 2017 solvency, including authorization to transfer the balance in the Tobacco Settlement Reserve Fund to the appropriation account to cover Fiscal Year 2016 and Fiscal Year 2017 expenditures, $92.8 million in funding sweeps to the General Fund, a $12.5 million appropriation of supplemental severance tax note proceeds for public school capital outlay needs to replace General Fund appropriations, reduced Legislative Retirement Fund distributions, an increased distribution of insurance premiums tax revenue to General Fund and reduction in General Fund distributions to the Retiree Health Care Fund.

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

Revenue measures passed during the 2016 special session included narrowing the eligibility criteria for the health care practitioner GRT deduction and the High Wage Jobs Tax Credit, with an estimated benefit to recurring revenues of $10.2 million. Following the 2016 special legislative session, Fiscal Year 2017 ending reserves were projected to be minus $61.6 million or negative 1.2% of recurring appropriations. During the 2017 regular legislative session, additional action was taken to address Fiscal Year 2017 solvency and increase reserve levels, including generating $78.3 million in non-recurring revenue by aligning the insurance revenue streams with current GAAP standards, $47.2 million of non-recurring revenue through various state fund sweeps and transfers, $46.1 million to the General Fund by reducing the Fiscal Year 2017 State Equalization Guarantee distributions for school districts and charter schools as a credit against Fiscal Year 2016 year-end operational cash balances. Exempting any Fiscal Year 2017 emergency supplemental distributions, each school district's and charter school's credit share was proportional to their Fiscal Year 2016 program cost (or formula funding).

Ongoing funding shortfalls projected in Fiscal Year 2018 and the need to shore up Fiscal Year 2017 reserves led to the call for another special session in May 2017. Solvency measures passed during the 2017 special legislative session include authority to issue $84.1 million of short-term taxable supplemental severance tax notes to restore past General Fund capital allotments. After action in both the regular and special 2017 legislative sessions, Fiscal Year 2017 reserves grew to $505 million, or 8.3% of recurring appropriations.

A combination of economic factors including rising enrollments, a decrease in the federal matching rate for the new adult group (a.k.a. Medicaid expansion), rising drug costs and insufficient legislative appropriations caused the State to experience a funding shortfall in the Medicaid program in Fiscal Years 2016 and 2017. In response to the shortfall, the State implemented a number of cost-reduction measures, including reduced reimbursement rates for health care providers and reduced administrative spending for Medicaid managed care organizations ("MCOs"). The State is also proposing new mandatory payments for some patients. Slightly lower enrollment rates, a delay in the imposition of certain federal fees on insurance companies, including MCOs, and the possibility of additional federal funding for services provided to Native Americans reduced the General Fund shortfall for Fiscal Year 2017. The State also reached a settlement with the Centers for Medicare and Medicaid Services ("CMS") for old claims for federal funding, resulting in the return of $16.8 million to the State.

Fiscal Year 2018. In Fiscal Year 2018, recurring revenues were $6.8 billion, representing an increase of 15.8% over the Fiscal Year 2017 levels. Oil and natural gas related revenue increased by 37.7% over Fiscal Year 2017 levels. New Mexico oil prices averaged $55.05 per barrel, while New Mexico natural gas prices averaged $3.47 per mcf. Oil volumes increased by 31% in Fiscal Year 2018, and natural gas volumes increased by 10%. Non-oil and natural gas related revenue increased by 1.8%, reflecting increases of 18.3% in GRT, 10% personal income tax and a decrease of 21.3% in insurance premiums tax.

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

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

In August of 2017, after issuance of the State of New Mexico Capital Projects General Obligation Bonds, Refunding Series 2017B (the "Series 2017B Bonds"), the State discovered that its State of New Mexico Capital Projects General Obligation Bonds, Series 2015, dated March 25, 2015 (the "Series 2015 Bonds"), which were intended to be refunded with a portion of the proceeds of the Series 2017B Bonds, were not subject to redemption prior to maturity. The State of New Mexico Capital Projects General Obligation Bonds, Series 2013, dated April 23, 2013 (the "Series 2013 Bonds") were refunded with a portion of the proceeds of the Series 2017B Bonds, were paid in full on September 1, 2017 and are no longer outstanding. On August 25, 2017, the Board passed a resolution directing that a portion of the Series 2017B Bond proceeds, which were initially invested in U.S. Government defeasance securities for the intended legal defeasance of the Series 2015 Bonds, be liquidated and the proceeds thereof be reinvested in municipal securities to be held in escrow to achieve a full or partial economic refunding (but not legal defeasance) of the Series 2015 Bonds. Such proceeds have since been reinvested by the State in municipal securities. Accordingly, none of the Series 2015 Bonds have been legally defeased and they remain outstanding, as reflected in TABLE 1.

Fiscal Year 2019. In Fiscal Year 2019, recurring revenues were $8.0 billion, representing an increase of 17.5% over the Fiscal Year 2018. Oil and natural gas related revenues increased by 89.2% over Fiscal Year 2018. In Fiscal Year 2019 New Mexico oil prices averaged $51.80 per barrel, while New Mexico natural gas prices averaged $3.08 per mcf. Oil volumes increased by 45.8% in Fiscal Year 2019, and natural gas volumes increased by 15,7%. Non-oil and natural gas related revenue increased by 11.7%, reflecting increases of 12.3% in GRT, 10.1% personal income tax and 20.5% in insurance premiums tax.

Fiscal Year 2020. In Fiscal Year 2020, overall recurring revenues and oil and natural gas revenue growths must be adjusted for an unprecedented federal mineral lease ("FML") payment in Fiscal Year 2019 of $479 million. The unprecedented FML payment was due to a large federal land lease sale in September of 2018 in Eddy and Lea Counties. This lease sale was in the amount of $972 million, of which nearly half was distributed to New Mexico in November of 2018. According to the December 2019 consensus revenue estimate (and adjusting for the FML payment in Fiscal Year 2019); Fiscal Year 2020 recurring revenues are estimated to be $7.8 billion, representing an increase of 3.5% over Fiscal Year 2019 levels. Oil and natural gas-related revenues are projected to increase by 9.3% over Fiscal Year 2019 levels. In Fiscal Year 2020 New Mexico oil prices are projected to average $52 per barrel, while New Mexico's natural gas prices are expected to average $2.10 per mcf. Oil volumes are projected to increase by 16.5% in Fiscal Year 2020, and natural gas volumes are estimated to increase by 3%. Non-oil and natural gas-related revenue is forecast to increase by 2.5%, reflecting increases of 10% in GRT and declines of 3% in personal income tax and 2.9% in insurance premiums tax.

Education Funding Litigation

In 2014, two different plaintiff groups filed lawsuits in the First Judicial District Court for the State of New Mexico in Santa Fe County, each of which challenged the sufficiency of school funding and the school funding formula, specifically as applied and related to the needs of at-risk students. The two lawsuits were consolidated (*Martinez, et al. v. the State of New Mexico* consolidated with *Yazzie, et al. v. the State of New Mexico,* No. D-101-CV-2014-00793) and proceeded to a bench trial in the summer of 2017.

The Honorable Sarah Singleton presided over the trial and issued a Decision and Order on July 20, 2018. In the Decision and Order, Judge Singleton determined that a Declaratory Judgment would be entered declaring that the State of New Mexico and the New Mexico Public Education Department ("PED") had violated the Education Clause, the Equal Protection Clause and the Due Process Clause of the New Mexico Constitution. Specifically, the Order determined that the rights of at-risk students had been violated by the failure to provide those students with a uniform statewide system of free public schools sufficient for their education. The Court stated that injunctive relief would be granted and required the Legislative and Executive branches of state government to create a funding system that meets state constitutional requirements.

On February 14, 2019, the Court entered a Final Judgment and Order (the "Final Judgment"). The Court concluded that the State violated the Education Clause, the Equal Protection Clause, and the Due Process Clause of the New Mexico Constitution. The Court required the state to take necessary steps to ensure schools have resources, including funding and accountability measures, to give at-risk students an opportunity to obtain a sufficient education. The Court, in its Final Judgment and order, did not direct that a sum certain be spent on education, but instead retained jurisdiction to oversee the State's implementation of the injunctive relief. The parties may file with the Court reports about the State's compliance with the Court's orders. In May 2019, the Court ordered the State to pay the Plaintiffs' costs in both cases for a total amount of $428,962.17, and on September 26, 2019, this matter was reassigned to First Judicial District Court Judge Matthew J. Wilson.

On October 30, 2019, Plaintiffs filed a motion with the First Judicial District Court titled *Motion for Court to Order Defendants to Meet Constitutional Mandate to Ensure All New Mexico Public School Students Have the Opportunity to be College and Career Ready and Supporting Memorandum.* The motion requests, among other things, that Defendants provide a funding scheme that allocates sufficient funding and distributes that funding in a manner that ensures full and uniform implementation of the comprehensive statewide plan approved by the Court. The motion also requests that the Defendants take action by no later than March 15, 2020, to immediately direct resources to the state's public schools to increase opportunities for at-risk students to be college and career ready, and that the comprehensive statewide plan be implemented in accordance with a timetable approved by the Court. Also on October 30, 2019, the Martinez Plaintiffs filed a motion titled *Martinez Plaintiffs' Opposed Motion for Entry of Schedule for Discovery and Enforcement Proceedings* requesting that the Court set a scheduling order for further discovery and for proceedings to enforce the Court's previous order.

The Plaintiffs' motions filed on October 30, 2019, have not yet been heard. Therefore, while it is expected that the Decision and Order will result in a requirement to appropriate and spend millions of additional dollars annually on education, no specific dollar amount can be determined at this time.

Oil and Gas Market Volatility and the General Fund

Crude oil and natural gas prices trended downward through the first half of Fiscal Year 2019, however in the latter half of Fiscal Year 2019 prices recovered and have remained stable through the first half of Fiscal Year 2020. Production growth has continued despite lower average oil prices. This production growth is anticipated to continue for the remainder of Fiscal Year 2020 resulting in increasing revenue inflows to the General Fund. According to CREG, over the course of a Fiscal Year, a $1.00 change in the price of oil generally results in a $20 million direct change in the State's General Fund revenue and a $0.10 change in the price of natural gas generally results in a $14 million direct change in the State's General Fund revenue. The State entered Fiscal Year 2019 with reserves equal to 19.1%, but was able to end the

Fiscal Year with reserves at 28.9%. Fiscal Year 2020 had a General Fund target of 20% and is anticipated to end with 34% reserves. The annual distributions to the State General Fund from the two permanent funds have been increasing significantly in recent years, which helps to offset some of the volatility of revenue from current oil and gas production.

General Fund Taxes and Revenues

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

Gross Receipts and Compensating Taxes

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

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

The gross receipts and compensating taxes are together the single largest source of State General Fund revenue. The gross receipts tax is also a significant source of revenue for cities and counties. The gross receipts tax includes the 5.125% statewide gross receipts tax levy, plus city and county local-option gross receipts taxes. The statewide gross receipts tax rate was increased from 5% to 5.125% effective July 1, 2010 as a result of action taken during the 2010 special legislative session. Receipts from the statewide gross receipts tax levy, less certain disbursements, are deposited in the State General Fund. The disbursements include 1.225% of the taxable gross receipts reported in each incorporated municipality to that municipality. The County Equalization Distribution is made annually from state gross receipts tax revenues; it has averaged $21 million over the past five years. After all other distributions, the General Fund share of gross receipts tax collections was 59% in Fiscal Year 2019 and is expected to be about 60% for subsequent years.

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

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

In Fiscal Year 2018, total distributions to the General Fund from gross receipts and compensating taxes increased by 18% over the previous fiscal year to $2.4 billion, comprising 35% of recurring General Fund revenue.

During the 2019 legislative session, House Bill 6 implemented changes to the GRT. These changes include Hospital Tax Reform and Remote Sellers (effective July 1, 2019), Marketplace Facilitators (effective July 1, 2019 and July 1, 2021), and Tobacco Products (effective July 1, 2019).

Prior to Hospital Tax Reform, there was a discrepancy between for-profit hospitals being taxed and nonprofit and governmental hospitals, which were not being taxed. These hospitals were virtually untaxed at the state level despite more than $5 billion in annual gross receipts. The uneven tax playing field for hospitals interferes with the market, creating economic inefficiencies with strong incentives for hospitals to adopt preferential corporate structures. House Bill 6 mostly corrects this decades-old inequity, subjecting 40 percent of gross receipts of for-profit, nonprofit, and governmental hospitals to the state portion of the GRT and the governmental gross receipts tax (“GGRT”), leaving a 60% deduction (currently in the statute as a 50% deduction for for-profit hospitals). Taxing nonprofit and governmental facilities along with for-profits at nearly identical rates is a key step to applying the tax in a more equitable manner. However, in order to achieve these nearly identical rates, the bill removes the for-profit hospitals from local taxation. In current statute, local GRT increments apply to for-profit hospitals after the 50% deduction is applied, and municipalities also receive the related 1.225% distribution from the state.

This reform measure brings nonprofit hospitals into the state GRT base and governmental hospitals into the GGRT base. It repeals the for-profit hospital tax credit of Section 7-9-96.1 NMSA 1978, helping to better level the playing field for hospitals at the state tax level.

Hospital Tax Reform – State Taxation

	Prior Law			Current Law (Effective July 1, 2019)		
	For-Profit	Nonprofit	Government	For-Profit	Nonprofit	Government
State Tax Rate	5.125% GRT	n/a	n/a	5.125% GRT	5.125% GRT	5.0% GRT
Credits	3.75% to 5%	n/a	n/a	n/a	n/a	n/a
Deductions	50% GRT	n/a	n/a	60% GRT	60% GRT	60% GRT

The Remote Sellers and Marketplace Facilitators component of House Bill 6 taxes remote (internet) sales immediately and then applies local GRT increments and moves to destination-based sourcing (sourcing at the location of the buyer rather than the seller) with a two-year delay (effective July 1, 2019, and July 1, 2021, respectively).

The transition to destination-based sourcing is a significant change to the structure of the GRT and will require much preparation by the TRD and taxpayers. House Bill 6 distributes $24 million annually from the General Fund to local governments in Fiscal Year 2020 to Fiscal Year 2021 until the local increments are applied to remote sales. Once destination-based sourcing takes effect, all sales will have an in-state location, so current GRT transactions coded as out of state will be shifted into counties and municipalities (if inside municipal boundaries).

House Bill 6 increases taxes on cigarettes, taxes e-cigarettes and vaping products such as e-liquids, and reduces taxes on cigars (effective July 1, 2019). The bill changes the cigarette tax to $0.10 per cigarette, reduces the tax on cigars to $0.50 per cigar (instead of the current 45% of wholesale value), and brings e-cigarettes and vaping products into the tobacco products tax base. The tax rate on e-cigarettes and vaping products is 12.5% of the product value.

Lastly, House Bill 6 brings the state compensating tax rates for services and tangible property into alignment and applies local government GRT increments to the compensating tax to equalize the rates (effective July 1, 2021).

Personal Income Tax

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

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

In Fiscal Year 2019, total distributions to the General Fund from personal income tax increased by 10% over the previous Fiscal Year to $1.7 billion and generated 21% of total recurring General Fund revenue.

During the 2019 legislative session, the personal income tax structure was amended with new rates and brackets to take effect on January 21, 2021. Personal income tax rate and bracket changes include bringing the top rate to 5.9% from the current 4.9%. The top rate is imposed on single filers and estates with taxable incomes over $210,000, on married filing jointly and head-of-household filers with taxable incomes over $315,000, and on married individuals filing separately with taxable incomes over $157,500. These changes are contingent on Fiscal Year 2020 General Fund revenues exceeding Fiscal Year 2019 revenues by less than 5% (in alignment with the current December 2019 consensus revenue estimate).

Additionally, personal income tax changes include amending the Working Families Tax Credit, the Capital Gain Deduction and creating a new Dependents Deduction. The Working Families Tax Credit was increased from 10% to 17% of the federal income tax credit (effective for tax years starting on or after January 1, 2019). The Capital Gain Deduction on a percentage basis was reduced from 50% to 40% of the taxpayer's net capital gain income for the taxable year. The Dependents Deduction creates a personal income tax deduction of $4,000 for every dependent beyond the first claimed by a taxpayer (effective for tax years starting on or after January 1, 2019). The 2019 legislative personal income tax changes will be codified under the Income Tax Act, Chapter 7, Article 2 NMSA 1978.

Current State tax rates are set forth below:

If the taxable income is:	**Married Filing Separate:**
Not over $4,000	1.7% of taxable income
$4,001 to $8,000	$68.00 plus 3.2% of excess over $4,000
$8,001 to $12,000	$196.00 plus 4.7% of excess over $8,000
Over $12,000	$384.00 plus 4.9% of excess over $12,000

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

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

Corporate Income Tax

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

Tax rates are established under a graduated table found in Section 7-2A-5 NMSA 1978. For tax year 2019, tax rates were 4.8% on the first $500,000 or less of taxable income and 5.9% on income in excess of $500,000. For the 2019 Fiscal Year, General Fund distributions from corporate income taxes totaled $24 million after refunds and $150 million of film credits. This is a decrease of 82% from the prior fiscal year, mostly due to an additional payment of $100 million against unpaid film credit obligations in

Fiscal Year 2019. Net corporate income tax distributions are equivalent to 0.3% of recurring General Fund revenue.

In recent years, a number of credits administered through the corporate income tax system have been enacted. These include: the film production credit, enacted as Section 7-2F-1 NMSA 1978; the real property tax credit, enacted as Section 7-2-18.10 NMSA 1978; the rural jobs tax credit, enacted as Section 7-2E-1.1 NMSA 1978; the biodiesel production and sale credit, enacted as Section 7-2-18.21 NMSA 1978; the sustainable building tax credit, enacted as Section 7-2-18.19 NMSA 1978; and the renewable energy production tax credit, enacted as Section 7-2A-19 NMSA 1978. The 2011 Legislature placed a cap of $50 million per year on the film production tax credit and added a deferred payment process for larger productions. The film credit cap has been reached each year since the $50 million cap was imposed. The estimated unpaid film tax credit obligation as of June 30, 2019, was $44.6 million.

In the 2013 legislative session, House Bill 641 (Chapter 160) was enacted, which reduced the State corporate income tax rate over several years to a maximum marginal rate of 5.9% for taxable years beginning on or after January 1, 2018. The legislation also allows manufacturers in the State to use sales as a single factor in calculating income tax liability. The legislation also requires certain corporate taxpayers to adhere to mandatory combined reporting of unitary corporations for tax purposes. During the 2014 legislative session, Senate Bill 106 (Chapter 53) was enacted extending the net operating loss carryforward to 20 years from 5 years in prior law.

During the 2019 legislative session, Senate Bill 2 was enacted to amend the Film Production Tax Credit Act to pay off the film credit backlog up to set amounts (up to an additional $195 million by the end of Fiscal Year 2020 plus up to an additional $30 million contingent on Fiscal Year 2019 revenues exceeding the forecast), change the annual $50 million "rolling" cash cap to a $110 million cash cap, implement a $100 million "hard" cap for liabilities in excess of the cash cap, and carve out credit payments made to production companies (referred to as "New Mexico film partners") who purchase or sign a 10-year lease for a qualified production facility from both the cash cap and the liability cap. Legislation prior to January 2019 is detailed in the paragraphs above. In Fiscal Years 2019 and early 2020, $129 million of the one-time additional allocations was used to remove the remaining unpaid liability. Under this modified film credit program, TRD expects the total yearly refunds to grow to the $110 million cash cap, plus $45 million for film partners within a few years.

Additionally, Senate Bill 2 added a requirement that the Economic Development Department (EDD) shall certify a film production company's budget in a pre-production meeting. To implement the $100 million hard liability cap, if the total expected claims authorized for payment (minus those to film partners) for any fiscal year would exceed $100 million beyond the $110 million yearly cash cap in any fiscal year, EDD is prohibited from certifying the production company's budget. The bill eliminates the tiered system of payouts for mid-size and large productions over two to three years. It also adds another 5% increase to the credit value for expenditures made on location more than 60 miles outside of Bernalillo and Santa Fe counties. This credit increase is "stackable" with either of the two existing possible 5% increases for filming in a qualified production facility or filming a television pilot or series (those two increases are currently mutually exclusive and remain so in the bill). This results in a maximum possible credit rebate value of 35% of qualified expenditures. Additionally, if, in fiscal years 2020 through 2022 the aggregate amount of claims authorized for payment is less than $110,000,000, excluding claims by a New Mexico film partner, then the difference in that fiscal year or $20,000,000, whichever is less, will be added to the aggregate amount of claims that may be authorized for payment in the immediately following fiscal year.

The bill clarifies certain definitions that were open to interpretation and has more clearly included television series in the definition of film. It repeals the non-resident crew exception limits for below-the-line crew (off-camera positions providing technical assistance during physical production) and replaces that provision with a 15% credit for nonresidents, provided it does not exceed 15% of a production's New Mexico below-the-line budget. This provision can increase to 20% of the New Mexico below-the line budget if sufficient and qualified below-the-line New Mexico residents are not available. A significant number of structural changes to qualifications and reporting requirements for the industry have been revised.

The effective date of virtually all provisions of Senate Bill 2 is July 1, 2019, but the provisions of the bill apply to film production companies that commence principal photography on or after July 1, 2019. Existing statutes that are left in place for film production companies that commenced principal photography prior to July 1, 2019, that would conflict with these new provisions are clarified to not apply to these new productions. Additionally, the provision, which provides an extra $100 million film credit payment in Fiscal Year 2019, took effect in mid-June, 2019.

Lastly, House Bill 6, also adopted during the 2019 legislative session, requires combined reporting for corporate entities. More than half the states that impose a corporate income tax require combined reporting, and the Multistate Tax Commission recently testified before an interim committee that this is one of the most important steps New Mexico can take to update and reform its tax code. One of the principal purposes for enacting combined reporting is to protect state revenues against income-shifting. There are generally two ways to prevent income-shifting: (1) required combined reporting, which eliminates the intercompany transactions that permit the shift; or (2) "add back" statutes, which require separate entity filers to "add back" to their income certain intercompany payments. The change to combined reporting is likely to have a long-term positive impact.

Mineral Production Taxes

Mineral production taxes (Resources Excise Tax, Natural Gas Processors Tax, Oil and Gas Conservation Tax and Oil and Gas Emergency School Tax) are levied on producers and others on the value of severed minerals and material resources from within the State and these taxes are disbursed to the General Fund. The Oil and Gas Emergency School Tax is imposed for the privilege of engaging in the business of severing oil, natural gas, liquid hydrocarbons and CO_2 from the soil of the State. The Oil and Gas Emergency School Tax is imposed at a rate of 3.15% of taxable value of oil and 4% of taxable value for natural gas. Taxable value reflects gross sales value less deductions for royalties paid to government entities and for certain processing and transportation expenses. The same definition of taxable value is used for calculation of oil and gas severance tax liability.

In Fiscal Year 2019, aggregate revenue from the Oil and Gas Emergency School Tax receipts totaled $555 million. Of the total, $373 million was distributed to the General Fund and $183 million was distributed to the Tax Stabilization Reserve, the first such transfer under new law. Fiscal Year 2019 receipts increased by 23% from the prior Fiscal Year. Other General Fund taxes on natural resource production totaled $52 million. For Fiscal Year 2019, these mineral production taxes contributed 5% of recurring General Fund revenue.

Recent Local Law Developments Regarding Oil and Gas

Several local governments in the State have proposed or adopted laws that could have the effect of limiting natural resource extraction in those jurisdictions. No local government in which a significant extraction of natural resources occurs has enacted laws limiting natural resource extraction.

In 2008, Santa Fe County amended its land development code to address oil and gas exploration, drilling, production, transportation, abandonment and remediation. The provisions of this code, while restrictive, do not ban exploration activities and to date have not been challenged by lawsuit. In April 2013, Mora County, a county in the north central section of the State enacted a Community Water Rights and Local Self Government Ordinance, which, among other things, states: "It shall be unlawful for any corporation to engage in the extraction of oil, natural gas or other hydrocarbons within Mora County." Several lawsuits were filed challenging the validity of this Ordinance. In January 2015, a federal district court declared the Mora County ordinance invalid based on several grounds, including violation of the Supremacy Clause and the First Amendment of the U.S. Constitution and preemption by New Mexico oil and gas regulatory statutes. *SWEPI, LP v. Mora County*, 81 F. Supp. 3d 1075 (D.N.M. Jan. 19, 2015). In March 2015, the Mora County Commission voted to repeal the ordinance. Legislation heavily regulating oil and gas development was adopted in November 2014 in San Miguel County, also in the north central section of the State. Legislation banning hydraulic fracturing was adopted by the city council of Las Vegas, a municipality in San Miguel County, but was not signed and is not enforced by its mayor. Historically, there has been little or no oil and gas production in Santa Fe, Mora or San Miguel Counties.

To date, the proposal and enactment of local laws has not had a material effect on the amount of severance tax revenues collected by the State. While future actions by local governments relating to natural resource extraction is not predictable, litigation challenging any restrictive local enactments would be a likely consequence of such actions.

Royalties, Rents and Bonuses

Federal Lands. Under terms of the 1920 Federal Mineral Leasing Act, the State receives 50% of all income generated from leasing federal lands located in the State for mineral production. Principal sources of income are royalty payments on oil and natural gas production. Additional income is derived from bonus payments for oil and natural gas leases and royalty payments on production of coal, potash and other minerals. The U.S. Office of Natural Resources Revenue, part of the former Minerals Management Service, collects federal mineral lease income and deducts 2% from the State's share for administrative costs. The State receives payments on a monthly basis and makes deposits to the General Fund. In Fiscal Year 2019, total distributions to the General Fund from federal mineral leases totaled $1.15 billion. This equals 14.3% of recurring General Fund receipts for the fiscal year.

Federal Fiscal Year 2009 appropriations bills implemented a 2% administrative fee cut from the federal royalty payments to states. This 2% fee was extended each federal Fiscal Year since 2009 and extended for 10 years in the 2013 Bipartisan Budget Act. Approximately $11.1 million was deducted in Fiscal Year 2015, $8.0 million was deducted in Fiscal Year 2016, $8.9 million was deducted in Fiscal Year 2017, $11.6 million was deducted in Fiscal Year 2018 and $22.9 million was deducted in Fiscal Year 2019.

State Trust Lands. The Commissioner of Public Lands and the State Land Office manage lands acquired by the State under the federal Fergusson Act and the Enabling Act for New Mexico enacted prior to statehood, as well as under the State Constitution. All income from State trust lands is dedicated to specific institutions; each section of State trust land has a specific named beneficiary institution. As with federal lands, the oil and natural gas industry is the principal source of revenue from State trust lands. Bonus income is also collected in the form of cash payments as a result of competitive bidding for State leases. Rentals and bonus income are distributed to the respective beneficiary institutions. The largest beneficiary group is the State's public school system. Mineral production from State trust lands also generates royalty income, which is deposited in the State Land Grant Permanent Fund ("LGPF"). Royalties are imposed on most mineral production values at the rate of 12.5%, although there is a provision for rates of up to 20% for new leases on developed acreage. LGPF beneficiaries and "State lands" beneficiaries are the same institutions and public schools. In Fiscal Year 2019, distributions to the General Fund from the State Land Office totaled $132 million, which equated to 1.4% of recurring General Fund receipts for the Fiscal Year.

Severance Tax Permanent Fund and the Land Grant Permanent Fund

The Severance Tax Permanent Fund ("STPF") was established in the State Treasury in 1973 to receive the residual revenues from the Bonding Fund and serve as an endowment for the State. In 1976, the electorate approved a constitutional amendment giving the STPF constitutional status. In 1982, the electorate approved a second constitutional amendment that removed the discretionary power of the Legislature to appropriate funds from the corpus of the STPF, thereby creating a permanent endowment fund. Distributions from investments of the STPF, however, may be appropriated by the Legislature in the same manner as other general revenues are appropriated. Severance tax receipts have been the primary source of funding for the STPF. The State Investment Council ("SIC") invests the corpus and non-appropriated income of the STPF. The market value of the STPF as of June 30, 2019 was approximately $5.61 billion, an overall asset increase of approximately 3.6% from the prior fiscal year. Investment performance for the one year period ending June 30, 2019 was 5.37% net of fees and -0.58% below the fund policy index. Funds on deposit in the STPF are not pledged to and may not be used to pay any bonds. As noted above, during the 2016 Special Legislative Session, Senate Bill 8 allowed the one-time transfer of excess severance tax revenue to the General Fund rather than the STPF. This transfer, known as the super sweep, totaled $28,279,400.

The LGPF is designed solely to benefit the public educational system of the State and other specified institutions. The origins of the LGPF are found in the federal Fergusson Act of 1898, which granted two sections of land in every township for the benefit of the public schools in the territories of New Mexico. Also under this Act, specific acreage was granted to individual education, medical and penal institutions in the territory. The initial grant totaled in excess of 5.5 million acres. In 1910, the Enabling Act granted additional lands to various beneficiaries in New Mexico, including the public schools, which received the largest share. This brought the total lands placed in trust for the common school system and other beneficiaries to over 13 million acres. Over the years, some land has been sold (and the proceeds used to increase the corpus of the LGPF), so the current total is 9.0 million surface acres and 13.4 million subsurface acres.

Pursuant to NMSA 1978, Section 19-1-1 (1912), the State Land Office is charged with the custody and disposition of the land granted to the State. The Commissioner of Public Lands sells or leases these properties in accordance with the provisions of the appropriate statutes. The SIC invests the corpus and income of the LGPF. As of June 30, 2019, the market value of the LGPF was approximately $19.33 billion, an asset increase of approximately 5.0% over the prior fiscal year. Investment performance for the year ended June 30, 2019 was 5.72% net of fees and -0.16% below the LGPF's policy index, underperforming its annual target rate of return of 7.0%. The corpus of the LGPF is constitutionally protected from appropriation and LGPF assets are not pledged to and may not be used to pay debt. The LGPF is also protected by the Federal Enabling Act of 1910.

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

In September 2003, the State electorate approved a constitutional amendment increasing the rate of annual distribution from the LGPF from the previous 4.7%, to a new base distribution of 5.0 % of the LGPF's five-year average market value, beginning in Fiscal Year 2005. Certain additional distributions were made to implement and maintain educational reforms as provided by law. An additional 0.8% was distributed in Fiscal Years 2005 through 2012, and an additional 0.5% was distributed in Fiscal Years 2013 through 2016. In Fiscal Year 2017 distributions returned to the base rate of 5.0% and have subsequently remained at the constitutionally established rate of 5.0%.

In May 2009 an investigation by the New York Attorney General into placement fees paid in relation to investments made by New York pension funds, led to an indictment of an investment advisor to that fund as well as New Mexico SIC and ERB. The investment advisor later pled guilty to a fraud charge relating to investments made by the New York retirement fund. In connection with that plea, the investment advisor stated that from 2004 to 2009 his business had acted as an advisor to the SIC and the ERB and that, contrary to his fiduciary responsibilities to the SIC and ERB, he ensured recommendations of certain proposed investments pushed on him by politically connected individuals or their associates who stood to benefit financially or politically from the investments, and that the investments were not necessarily in the best interests of the State. No criminal charges were filed by state or federal investigators in New Mexico. In May 2011, the SIC filed recovery lawsuits against more than a dozen placement agents, the former State Investment Officer and other individuals alleging they improperly benefited from pay-to-play and kickback schemes involving SIC investments. Settlements of more than $51 million have been recovered or placed in escrow pending final approval by the courts, for ultimate return to the permanent funds. In Fiscal Year 2019, the SIC settled its outstanding civil litigation with the remaining defendants, and is in the process of finalizing the recoveries with the various courts and trustees involved across New Mexico and other jurisdictions.

In response to these and other events and the negative returns suffered by the State's various investment funds during the market turmoil associated with the downturn in the nation's economy in 2008 and 2009, the Board and the Legislative Council Service ("LCS") co-sponsored an Independent Fiduciary and Operational Review of State Investment Policies, Procedures and Practices prepared by EnnisKnupp (the "Review"). The scope of the work of this Review included, among other things, review and recommendations for appropriate governance and organizational structure and investment best practices for the SIC, PERA and ERB. The findings and recommendations of the Review were reported to the Board at a meeting on January 13, 2010. In order to address certain recommendations of the Review, during the 2010 legislative session the Legislature, among other things, modified the composition of the SIC, clarified the authority of the SIC and the State Investment Officer, provided for the appointment of the State Investment Officer by the SIC and changed the method of appointment of public members of the SIC. Removal of individual investment authorization powers by the Investment Officer alone and addition of Council Investment, Audit and Governance Committees have greatly improved Council practices and governance procedures. To date, the Investment Council has adopted or accomplished 78 of the 82 recommendations made by EnnisKnupp in their 2010 Operational Review, with the remainder either being deemed unworkable or still being contemplated for partial adoption in the future.

Investment Income

Investment earnings credited to the General Fund are from three primary sources: the LGPF, the STPF and cash balances invested by the State Treasurer. A percentage of market value from the LGPF is distributed among the beneficiary institutions and public schools. The allocation received by the public schools, which was approximately 85.6% in Fiscal Year 2019, is deposited in the General Fund. For the 2020 Fiscal Year, $671 million of LGPF distributions were transferred to the General Fund for public school purposes. Also in Fiscal Year 2019, the State distributed $225 million of income from the STPF, all of which was deposited in the General Fund. In the 2019 Fiscal Year, the Treasurer's cash balances produced approximately $86.6 million in net distribution to the General Fund after adjustments to reflect mark-to-market and payment to the self-earnings account. Total investment income credited to the General Fund was $982.6 million. This is 12.4% of recurring General Fund receipts.

Ratings

The State's General Obligation Bonds, Severance Tax Bonds (the "Senior Bonds") and Supplemental Severance Tax Bonds (the "Supplemental Bonds") are rated by Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings ("S&P"). Moody's rates the State General Obligation Bonds Aa2, the Senior Bonds Aa2 and the Supplemental Bonds Aa3, each with a stable outlook. S&P rates the General Obligation Bonds AA, the Senior Bonds AA- and the Supplemental Bonds A+, each with a stable outlook.

Such ratings reflect only the views of the respective organizations. An explanation of the significance of each rating may be obtained from the rating agency furnishing such rating. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of either rating can be expected to have an adverse effect on the market price of the bonds.

PROPERTY VALUATION AND TAXATION

Property Tax System

With certain limited exceptions, real and personal property owned by individuals or corporations is subject to ad valorem taxation (i.e., taxation as a fraction of value rather than on a per unit basis) in the State. County assessors are responsible for appraising most of New Mexico's residential and non-residential property. The Appraisal Bureau in the Property Tax Division (the "PTD") of the New Mexico Taxation and Revenue Department (the "TRD") provides technical assistance to county assessors, helps them implement the Property Tax Code (Articles 35 through 38 of Chapter 7 NMSA 1978) and funds and chairs the County Valuation Protest Boards (7-38-25 NMSA 1978).

The State Assessed Property Bureau in PTD of the TRD, commonly known as the Central Assessment Bureau, is responsible for assessing certain types of property that are not assessed by the counties because assessing the property is exceptionally technical or because the assets or property extend across county boundaries. Assessments undertaken by the Central Assessment Bureau are performed on the following businesses pursuant to 7-36-2 NMSA 1978:

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

Property valuations are established as of January 1 of each year (except for certain livestock). Centrally assessed property is verified and certified to local assessors who combine the values with all locally assessed property values. The totals are reported to the Central Assessment Bureau, and the DFA and certified for budgetary use.

For state and locally assessed properties (except Copper Ad Valorem at 7-39-9 NMSA 1978) county treasurers are required to mail tax bills for the current tax year no later than November 1. The 2019 Legislature (House Bill 407) added a new section to the Administration and Enforcement of Property Taxes Act that delays the mailing of property tax bills in counties for which a property tax levy is on the 2019 or 2021 ballots until no later than November 24. Twelve of the thirty-three counties requested and received extensions from PTD to mail the first installment of property tax bills and the due date of the first installment into December of 2019.

Property taxes are due in two equal installments on November 10 and April 10, unless there was a proposed property tax levy on the ballot in 2019, in which case, the first installment is due December 6.

Taxes become delinquent on December 10 (or January 6 in the event of a proposed tax levy) and May 10 following the two respective due dates. Twelve counties received extensions to mail the property tax bills and extensions of the due dates of the first installment, into December 2019. Actual dates vary per each county's request. Civil penalties and interest are imposed on delinquent taxes. County treasurers are responsible for collecting property taxes and distributing them to governmental entities that receive them. Major property tax recipients include counties, municipalities, and school districts.

In Property Tax Year 2018, 4.5% of property tax collections statewide (including oil and gas production and equipment tax) were distributed to the State for payment of principal and interest on general obligation bonds.

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

Except for property that is subject to the special methods of valuation statutes administered by the Central Assessment Bureau, the assessed value of property is maintained at current and correct values in accordance with the Property Tax Code with the residential value limits in 7-36-21.2 NMSA 1978. Assessed value is determined by the sales of comparable property subject to certain limitations. Income or cost valuation methods also are used when appropriate. Residential properties are eligible for a $2,000 head of family exemption. A $4,000 veteran exemption may be applied against residential and certain nonresidential property. Veterans that are 100% disabled are exempt from property taxes. Honorably discharged members of the armed services are eligible for the veteran exemptions. Taxable value is one-third of assessed value, as required by Section 1 of Article VIII of the New Mexico Constitution. Net taxable value, against which mill rates are imposed, consists of taxable value less exemptions. Maximum property tax rates for operations for various types of local governments are imposed by the Constitution of the State and by governing statutes. See "Property Tax Limitations," below. Different tax rates typically apply to residential and non-residential properties in the same tax jurisdiction due to the state's "yield control" statute (Section 7-37-7.1 NMSA 1978).

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

Property Tax Valuation Limitations

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

Section 7-36-21.3 NMSA 1978 provides that valuations for single-family dwellings occupied by certain low-income owners 65 years of age or older, or disabled are frozen. The income threshold is $35,000 for the 2020 tax year and will be indexed for inflation each year. Another law, Section 7-36-21.2 NMSA 1978, provides that residential property shall be valued at its current and correct value in accordance with the provisions of the Property Tax Code, provided that for the year 2001 and subsequent tax years, the value of a property in any tax year shall not exceed 103% of the value in the previous year. Implementation of this section required a median assessment ratio of 85%. Sales assessment ratios are computed annually by the TRD and measure a county's assessment valuations against current sale data. The 3% increase is only applied to counties that are not at current and correct. 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.

Since 2004 the Property Tax Code has required the disclosure only to the County Assessor of sale prices and other items of value upon the sale of residential real property. This amendment has allowed assessors to value residential properties at current and correct and monitor assessment levels.

Since 2008 county assessors are required to consider in determining the market value of residential housing any decrease in value that would be realized by an owner in the sale of the property because of the effects of any affordable housing subsidy, covenant or encumbrance under a federal, state or local housing program that restricts the future use or resale value of the property or otherwise prohibits the owner from fully benefiting from any enhanced value of the property. This amendment has not had a material impact on the assessed value of residential properties.

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

In March 2012, in *Zhao v. Montoya,* 2012-NMCA-056, the New Mexico Court of Appeals reversed the district courts and held that the change-of-ownership exception to the valuation cap on residential property values until a change of ownership occurs does not violate the New Mexico Constitution. In June 2014, in *Zhao v. Montoya,* 2014-NMSC-025, the New Mexico Supreme Court affirmed in part and reversed in part the Court of Appeals' decision. The New Mexico Supreme Court agreed that the change-of-ownership exception to the valuation cap for residential properties is constitutional, but on different grounds than the Court of Appeals, which had based its holding on the classification of the new property owners as falling within the constitutionally permissible owner-occupant class, but not until their purchases of the properties are complete. The New Mexico Supreme Court instead held that the change-of-ownership exception to the valuation cap is constitutional because it focuses on the nature of the property, when it was acquired, and not on the classification of the taxpayer.

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

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

TABLE 28
Final Net Taxable Valuations
(Dollars in thousands)

Property Tax Year	Residential	Non-Residential	Oil and Gas	Copper	Net Taxable Value
2010	$29,845,647	$16,513,415	$4,556,355	$125,538	$51,040,955
2011	30,265,867	16,594,029	5,868,724	117,476	52,846,098
2012	30,794,394	16,639,038	6,938,090	119,440	54,490,962
2013	31,320,905	16,824,354	6,431,256	149,491	54,726,006
2014	31,678,950	17,161,038	7,710,780	184,736	56,735,505
2015	32,396,576	17,720,157	8,463,290	211,459	58,791,482
2016	33,533,677	18,181,319	4,982,793	224,778	56,922,567
2017	34,767,934	18,104,473	4,359,518	219,831	57,451,756
2018	35,934,821	18,266,388	6,338,179	219,831	57,451,756
2019	37,417,925	19,224,494	10,099,051	177,768	66,919,238

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

Property Tax Mill Levy Limitations

Section 2 of Article VIII of the New Mexico Constitution states:

Taxes levied upon real or personal property for state revenue shall not exceed four mills annually on each dollar of the assessed valuation thereof except for the support of the educational, penal and charitable institutions of the state, payment of the state debt and interest thereon; and the total annual tax levy upon such property for all state purposes exclusive of necessary levies for the state debt shall not exceed ten mills; provided, however, that taxes levied upon real or personal tangible property for all purposes, except special levies on specific classes of property and except necessary levies for public debt shall not exceed twenty mills annually on each dollar of the assessed valuation thereof, but laws may be passed authorizing additional taxes to be levied outside of such limitation when approved by at least a majority of the qualified electors of the taxing district who paid a property tax therein during the preceding year voting on such proposition.

Currently the State imposes no levy of property taxes except for the payment of State debt.

Statutes establish maximum property tax rates for operating purposes for cities, counties and school districts. The DFA is permitted by statute to set a rate at less than the maximum rate in any tax year. These maximum property tax rates for operating purposes are set forth below.

Maximum Operating Mill Levy Rates

Counties	11.85
Cities	7.65
Schools	0.50
Maximum combined statutory rate	20.00

Source: Section 7-37-7(B) NMSA 1978

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

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

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

Production and Property Taxes on Oil and Natural Gas

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

Current effective production tax rates expressed on ad valorem and unit bases are shown below. The rates were based on data from Fiscal Year 2019 and reflect an average sales price of $51.51 per barrel for oil and $3.09 per thousand cubic feet (mcf) for natural gas. The gross rates presented in the table below show taxes paid as a percentage of gross sales value before subtracting allowable deductions and tax credits. The gross tax per unit is also based on gross sales value. The net tax per unit, however, is also based on taxable value before subtracting allowable deductions and tax credits.

TABLE 29
Effective Tax Rates Applicable for Fiscal Year 2019[1]

Type of Tax	Crude Oil Ad Valorem	Crude Oil Per Barrel	Natural Gas Ad Valorem	Natural Gas Per mcf
Price				
Oil and Gas School Tax	2.77%	$1.42	2.82%	$0.09
Oil and Gas Severance Tax	3.29	1.70	2.64	0.08
Oil and Gas Conservation Tax (General Fund only)	0.17	0.09	0.13	0.00
Natural Gas Processors Tax	n/a	n/a	0.31	0.01
Oil and Gas Production ad valorem Tax	1.11	0.57	0.90	0.03
Oil and Gas Production Equipment ad valorem Tax	0.11	0.06	0.16	0.00
Total	7.45%	$3.84	6.96%	$0.21
Subtotal: State Tax Only (excludes ad valorem taxes)	6.22%	$3.21	5.59%	$0.17

[1] Excludes deductions and tax credits.
Source: New Mexico Taxation and Revenue Department

Production, Sales and Property Taxes on Coal

State production and property taxes on coal totaled approximately $9.7 million in Fiscal Year 2019, down from approximately $11.3 million in Fiscal Year 2018. Coal production also decreased from approximately 9.5 million tons in Fiscal Year 2018 to 8.0 million tons in Fiscal Year 2019. The average effective tax per ton decreased from approximately $1.19 in Fiscal Year 2018 to approximately $1.15 for Fiscal Year 2019. With total sales revenue of approximately $280 million in Fiscal Year 2019, the average effective tax was 3.53% of total sales revenue. This does not include the gross receipts tax. The average burden of production, property and gross receipts taxes on a ton of coal produced and sold during Fiscal Year 2019 is shown in the following table.

TABLE 30
Tax Burden on Coal for Fiscal Year 2019 (1)

Type of Tax	Tax per Ton	Effective Tax Rate	Taxes Collected
Severance Tax and Surtax (Net of ITC)	$0.56	1.60%	$ 4,484,985
Resource Excise Tax	0.18	0.73	1,864,645
Conservation Tax	0.05	0.19	472,329
Total Production Taxes	0.79	2.52	6,821,960
Property Tax (2)	0.36	1.01	2,831,810
Gross Receipts Tax	1.18	3.36	9,405,305
Total Production and Non-Production Taxes	$2.16	6.89%	$ 19,059,075
Price per Ton			$35.18
Total Production (Short Tons)			7,956,924
Total Value			$279,912,542

(1) The figures reported in this table come from TRD's GenTax System. These figures differ from actual distributions made by the TRD's Financial Services Bureau, as the distributions include penalties, interest, and other modifications such as previously unallocated or unidentified receipts. Total production is based on volumes reported on severance tax returns, which differ from the volumes reported on resource excise tax returns.

(2) Property tax year began September 1, 2018.

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

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

In addition to production taxes, gross receipts tax is imposed on coal produced and sold within the State. During 2018, the most recent year for which data is available (Source: U.S. Energy Information Administration), 67.3% of all coal produced in the State was supplied to electric power plants in New Mexico. In Fiscal Year 2019, 51.3% of all coal produced in New Mexico was subject to gross receipts tax. The combined state and local tax rate for Fiscal Year 2019 was 7.06% of taxable gross receipts.

ADDITIONAL INFORMATION

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