

STATE OF NEW MEXICO  
SANTA FE COUNTY  
FIRST JUDICIAL DISTRICT

STATE OF NEW MEXICO, *ex rel.*  
HECTOR H. BALDERAS, ATTORNEY GENERAL  
OF THE STATE OF NEW MEXICO,

Plaintiff,

Case No. D-101-CV-1997-01235

v.

PHILIP MORRIS, USA, INC. *et al.*,

Defendants.

**AFFIDAVIT OF PATRICIA A. LUNDSTROM**

STATE OF NEW MEXICO   )  
                                  )  
COUNTY OF SANTA FE   )

1. My name is Patricia A. Lundstrom. I am over the age of 18 and otherwise competent to make this affidavit. This affidavit is based on my personal knowledge, and is true and accurate to the best of my knowledge under penalty of perjury.

2. I am a New Mexico State Representative representing House District 9. I have served in the New Mexico State Legislature since 2001.

3. I am presently the chair of the House Appropriations and Finance Committee. The Committee is aware of this court's order dated September 27, 2016, vacating an award issued by a panel of arbitrators as it had been applied to the State of New Mexico. I understand that as a result of the court's order, the State of New Mexico is entitled to receive a substantial additional payment from the Defendants, the cigarette manufacturers who are parties to the Master Settlement Agreement. I also understand that the preliminary calculation for that

additional payment is approximately \$14.5 million.

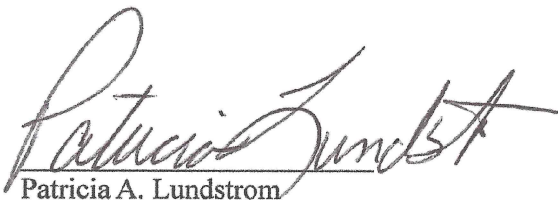
4. It has come to my and the Committee's attention that within the past two weeks, the Defendants have requested permission to post bonds instead of making the additional payments required to compensate New Mexico. This would have a significant and detrimental impact on the State's general fund reserves and could negatively impact New Mexico's bond ratings.

5. New Mexico's economy and the State's finances were substantially affected by plunging oil and gas prices during 2015 and 2016, requiring the state to enact legislative solvency measures in the 2016 and 2017 regular legislative sessions and in a special legislative session in 2016. Despite significant measures taken to reduce appropriations, sweep fund balances held by various agencies, and pass revenue increases, the State is projected to end its 2017 fiscal year, ending June 30, 2017, with its lowest general fund reserve level in more than 15 years.

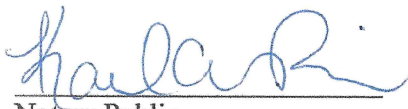
6. Historically, New Mexico has maintained reserves near or above 10 percent of recurring appropriations in most years. In the last 15 years, ending reserves only fell below the 5 percent level once, in fiscal year 2016, as the state felt the impact of substantial revenue losses related to the oil and gas industry and indirect and induced economic impacts. Projected reserve levels ending June 30, 2017 fell into negative territory, requiring legislative actions to reduce budgets by \$150 million and to increase revenues by more than \$400 million for the fiscal year. Despite these actions, projected ending reserve levels, including the estimated \$14.5 million due New Mexico as a result of the implementation of the court's Order, remain precariously low at \$95.2 million, or 1.6 percent of recurring appropriations.

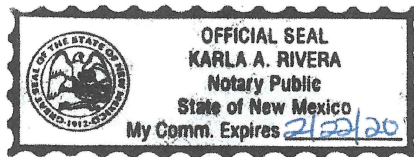
7. Delayed receipt of the additional payment that New Mexico is entitled to receive

by virtue of the implementation of the court's Order would further reduce projected fiscal year 2017 ending reserves to \$80.7 million, or 1.3 percent of appropriations. Due to the recent significant volatility in New Mexico's revenues and uncertainty regarding economic conditions, 1.3 percent reserves is an extremely slim margin. If economic conditions worsen or actions by the federal government reduce or delay revenues to the state coffers, the State of New Mexico could end the fiscal year with negative reserves, which would violate the New Mexico Constitution and could require extreme measures to avoid this result, potentially including a shutdown of essential state government services.

  
Patricia A. Lundstrom

Subscribed and sworn to before me this 22nd day of March, 2017:

  
Notary Public



My commission expires: 2/22/20