General Fund Reserves

Because the New Mexico Constitution requires a balanced budget, state government maintains general fund reserves to cover any shortfalls if revenues are unexpectedly low or expenses unexpectedly high. They are made up of several distinct accounts: the operating reserve, tax stabilization reserve, appropriation contingency fund, state support reserve fund, and tobacco settlement fund.

Operating Reserve

Unspent revenues left at the end of the fiscal year are transferred to the operating reserve. If revenues come up short, the governor may transfer money from the operating reserve to cover authorized expenses. The amount the governor can transfer is capped by the Legislature each year in the General Appropriation Act. Once the operating reserve fund hits 8 percent of the prior budget year's recurring appropriations, the excess must be transferred to the tax stabilization reserve.

Tax Stabilization Reserve

In addition to transfers of excess operating reserve revenue, the tax stabilization reserve also receives funds from the oil and gas emergency school tax if annual revenue from the tax exceeds the five-year average income and total general fund reserves are less than 25 percent of ongoing spending. (If total reserves are more than 25 percent, the excess of the five-year average is deposited into the early childhood care and education fund.) This allows the state to capture windfall revenue from the oil and gas industry and moderate the volatility of that revenue source. Money in the tax stabilization reserve may only be appropriated by a two-thirds majority vote of the House and Senate after the declaration of the governor that an appropriation is necessary for the public peace, health, and safety.

Appropriation Contingency Fund

The appropriation contingency fund is mostly used to set aside money for circumstances that are possible but not definite, like the end of federal support that might be extended. The Legislature authorizes revenue going in and out of the fund, although a limited amount of the revenue in the fund can also be spent when the governor declares an emergency.

State Support Fund

On the first day of each fiscal year, any balance in the public school district general obligation bonds loan fund over $1 million is transferred to the state support reserve fund and can only be used to augment certain appropriations to the public schools.

Tobacco Settlement Fund

The tobacco settlement permanent fund was created to hold payments to New Mexico from cigarette companies under the master settlement agreement of 1998. Under the enabling legislation, the settlement payments are split, with half going to the permanent fund and half spent directly on health and education programs. However, during economic hard times, the Legislature has temporarily suspended deposits into the permanent fund and put the entire amount into direct spending.

Money in the tobacco settlement permanent fund is invested by the State Investment Council and interest is credited to the fund. The Legislature may authorize spending from the fund for a budget shortfall only after balances in all other reserve accounts have been exhausted.

Revenue left in the general fund at the end of the year goes into the operating reserve.

When operating reserves hit 8 percent of appropriations, the excess is transferred to the tax stabilization reserve.

Oil and gas school tax revenues exceeding the five-year average are transferred to the tax stabilization reserve if total reserves are less than 25 percent of spending. If reserves are over 25 percent, the revenue is transferred to the early childhood fund instead.

For More Information:
•The status of the New Mexico's reserve accounts can be found in the state's general fund financial summary in the consensus revenue forecast here https://www.nmlegis.gov/Entity/LFC/Revenue_Economic_Reports_and_Tax_Policy
•Statutes governing New Mexico's general fund reserves include 6-4-2, 6-4-4, 6-4-9, 7-1-6.61,12-11-24, and 22-8-31 NMSA 1978.