



## Permanent Funds

**New Mexico’s two permanent funds—one created at statehood and one created during an oil boom in the 1970s—were both established to ensure the state benefits from oil, natural gas and other nonrenewable resources beyond the life of the resource. Percentages of the total value of the funds are used for state expenses, with distributions from one earmarked for specific beneficiaries and those from the other allocated to the general fund.**

### Land Grant Permanent Fund

Established in 1912 when New Mexico became a state, the land grant permanent fund is one of the largest government-owned investment funds in the country. The State Land Office deposits one-time revenue from the management of [state trust land](#) into the fund and the State Investment Council manages its investment. Although contributions vary, with amounts particularly sensitive to the health of the oil and gas industry, the State Land Office deposited an average of about \$650 million a year between 2011 and 2020. Total value of the fund at the end of 2022 was \$24.9 billion. Oil and gas revenues make up about 90 percent of the contributions to the fund.

Each parcel of trust land, and the revenue generated from it, is designated to a specific beneficiary among 21 universities, hospitals, and other public institutions. About 85 percent of the distributions are allocated to the general fund and earmarked for “common (public) schools.” Distributions other than those designated for public schools are allocated directly to the beneficiaries.

Originally all investment earnings were distributed to the beneficiaries, but voters have amended the state constitution several times and distributions to public schools are now an amount equal to 6.25 percent of the five-year average value of the portion of the fund designated for public schools. Distributions to other beneficiaries are an amount equal to 5 percent of the five-year average value of the remainder of the fund.

### Severance Tax Permanent Fund

Established in 1973, the severance tax permanent fund is the depository for severance taxes not being used to repay capital outlay project bonds. Severance taxes are assessed on the value of oil and natural gas “severed” from all land in New Mexico. Like with the land grant permanent fund, investment of the fund is managed by the State Investment Council. Unlike the land grant fund, all distributions—4.7

percent of the five-year average of annual value—are allocated to the general fund and not earmarked.

Because severance tax revenue is first, and primarily, obligated to the repayment of bonds, very little is left for deposit into the permanent fund during those years when the state uses most or all of its bonding capacity. While the historical average for the deposit into the permanent fund is about \$50 million a year, deposits were \$29 million 2020. Nevertheless, through the deposit of investment earnings and because of distribution limits approved by voters in 1996, the fund has grown an average of 4.3 percent a year over the past three years. Total value of the fund at the end of 2022 was \$6.6 billion.

In 2023, lawmakers capped the amount of oil- and gas-related revenues reaching the general fund from the oil and gas emergency school tax and federal mineral leasing payments, the two largest sources of oil and gas revenues. Revenues collected above the cap but below the amount distributed to the early childhood education and care fund will be distributed to the severance tax permanent fund beginning in FY25.

### Fund Sustainability

While the funds were established to create a permanent benefit from exhaustible resources, the size of the endowments often attracts proposals to increase distributions. However, increasing the share of the funds that can be spent may reduce distributions in the long run.

#### For More Information:

- The current values of the two funds are included in the LFC’s investment performance quarterly reports, available at [https://www.nmlegis.gov/Entity/LFC/Revenue\\_Economic\\_Reports\\_and\\_Tax\\_Policy](https://www.nmlegis.gov/Entity/LFC/Revenue_Economic_Reports_and_Tax_Policy)
- The permanent funds are two of the four state investment funds. See the *Finance Facts* on “Investment Funds” at [https://www.nmlegis.gov/Entity/LFC/Documents/Finance\\_Facts/finance%20facts%20investments.pdf](https://www.nmlegis.gov/Entity/LFC/Documents/Finance_Facts/finance%20facts%20investments.pdf)
- To learn more about the land grant permanent fund and the state land trust, see the *Finance Facts* on “State Land Trust” at [https://www.nmlegis.gov/Entity/LFC/Documents/Finance\\_Facts/finance%20facts%20state%20trust%20land.pdf](https://www.nmlegis.gov/Entity/LFC/Documents/Finance_Facts/finance%20facts%20state%20trust%20land.pdf)