



# General Fund Reserves Overview

Presentation to the Investments and Pensions  
Oversight Committee

Ismael Torres, Chief Economist, LFC

July 30, 2024

## Reserves are critical for supporting the state.

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- Primary purpose is to backfill general fund revenues during downturns.
- Also acts as an overflow for nonrecurring revenues and catches surpluses.
- Bond rating agencies look at state reserves as an indicator of a state's financial health.
- Not intended to make up long-term, or multi-year structural deficits.



**General Fund Financial Summary  
2024 Special Legislative Session**

**RESERVE DETAIL**

(millions of dollars)

July 25, 2024  
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	Estimate FY2023	Estimate FY2024	Estimate FY2025
<b>OPERATING RESERVE</b>			
Beginning Balance	\$ 565.8	\$ 596.6	\$ 173.1
Transfers from tax stabilization reserve to restore balance to 1 percent <sup>3</sup>	\$ -	\$ -	\$ -
BOF Emergency Appropriations/Reversions	\$ (2.5)	\$ (4.0)	\$ (4.0)
Transfers from (to) Appropriation Account	\$ 829.0	\$ (331.6)	\$ 120.1
Transfers to Tax Stabilization Reserve	\$ (723.9)	\$ -	\$ -
Disaster Allotments <sup>1</sup>	\$ (71.9)	\$ (37.9)	\$ (1.8)
Transfer from (to) ACF/Other Appropriations	\$ -	\$ (50.0)	\$ -
Revenues and Reversions	\$ -	\$ -	\$ -
Transfers from tax stabilization reserve	\$ -	\$ -	\$ -
<b>Ending Balance</b>	<b>\$ 596.6</b>	<b>\$ 173.1</b>	<b>\$ 287.4</b>
<b>APPROPRIATION CONTINGENCY FUND</b>			
Beginning Balance	\$ 460.7	\$ 54.5	\$ (0.0)
Disaster Allotments <sup>5</sup>	\$ (12.8)	\$ (54.8)	\$ (16.0)
ARPA Appropriation from 2021 Second Special Session, 2024 Regular Session)	\$ -	\$ 2.6	\$ -
Other ARPA Appropriations (including 2022, 2023, 2024 Regular Sessions)	\$ (395.0)	\$ (57.1)	\$ -
Transfers In	\$ -	\$ 50.0	\$ -
Revenue and Reversions	\$ 1.6	\$ 4.8	\$ 8.0
Audit and Pre-Audit Adjustments	\$ -	\$ -	\$ -
<b>Ending Balance</b>	<b>\$ 54.5</b>	<b>\$ (0.0)</b>	<b>\$ (8.0)</b>
<b>STATE SUPPORT FUND</b>			
Beginning Balance	\$ 49.5	\$ 10.4	\$ 10.4
Revenues	\$ -	\$ -	\$ -
Appropriations to State Support Reserve Fund	\$ -	\$ -	\$ -
Impact Aid Liability FY20	\$ (39.1)	\$ -	\$ -
Impact Aid Liability FY21	\$ -	\$ -	\$ -
Audit Adjustments	\$ -	\$ -	\$ -
<b>Ending Balance</b>	<b>\$ 10.4</b>	<b>\$ 10.4</b>	<b>\$ 10.4</b>
<b>GOVERNMENT RESULTS AND OPPORTUNITY EXPENDABLE TRUST (GRO)</b>			
Beginning Balance			\$ 512.2
Revenues			\$ -
Appropriations to the Government Accountability Expendable Trust			\$ -
Expenditures			\$ -
Audit Adjustments			\$ -
<b>Ending Balance</b>			<b>\$ 512.2</b>
<b>TOBACCO SETTLEMENT PERMANENT FUND (TSPF)<sup>2</sup></b>			
Beginning Balance	\$ 300.2	\$ 330.8	
Transfers In	\$ 23.6	\$ 27.4	
Appropriation to Tobacco Settlement Program Fund	\$ (11.5)	\$ (13.7)	
Gains(Losses)	\$ 18.5	\$ 18.2	
Additional Transfers from (to) TSPF	\$ -	\$ -	
<b>Ending Balance</b>	<b>\$ 330.8</b>	<b>\$ 362.7</b>	
<b>TAX STABILIZATION RESERVE (RAINY DAY FUND)</b>			
Beginning Balance	\$ 2,303.4	\$ 3,050.5	\$ 2,213.5
Revenues from Excess Oil and Gas Emergency School Tax	\$ 1,149.8	\$ 672.4	\$ 428.1
Gains(Losses)	\$ 23.3	\$ 122.0	\$ 88.5
Transfers In (From Operating Reserve)	\$ 723.9	\$ -	\$ -
Transfer Out to Operating Reserve <sup>3</sup>	\$ -	\$ -	\$ -
Transfer Out to Higher Education Endowment Fund	\$ -	\$ (959.0)	\$ -
Transfer Out to Early Childhood Trust Fund <sup>4</sup>	\$ (1,149.8)	\$ (672.4)	\$ (428.1)
<b>Ending Balance</b>	<b>\$ 3,050.5</b>	<b>\$ 2,213.5</b>	<b>\$ 2,302.1</b>
<i>Percent of Recurring Appropriations</i>	<i>36.2%</i>	<i>23.1%</i>	<i>22.5%</i>
<b>TOTAL GENERAL FUND ENDING BALANCES</b>	<b>\$ 4,042.8</b>	<b>\$ 2,759.7</b>	<b>\$ 3,104.1</b>
<i>Percent of Recurring Appropriations</i>	<i>48.0%</i>	<i>28.8%</i>	<i>30.4%</i>

General fund reserves are necessary because of the constitutional requirement for a balanced budget.



**General Fund Financial Summary  
2024 Special Legislative Session**

**RESERVE DETAIL**

(millions of dollars)

July 25, 2024  
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<b>OPERATING RESERVE</b>			
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Transfers from tax stabilization reserve to restore balance to 1 percent <sup>3</sup>	\$ -	\$ -	\$ -
BOF Emergency Appropriations/Reversions	\$ (2.5)	\$ (4.0)	\$ (4.0)
Transfers from (to) Appropriation Account	\$ 829.0	\$ (331.6)	\$ 120.1
Transfers to Tax Stabilization Reserve	\$ (723.9)	\$ -	\$ -
Disaster Allotments <sup>1</sup>	\$ (71.9)	\$ (37.9)	\$ (1.8)
Transfer from (to) ACF/Other Appropriations	\$ -	\$ (50.0)	\$ -
Revenues and Reversions	\$ -	\$ -	\$ -
Transfers from tax stabilization reserve	\$ -	\$ -	\$ -
<b>Ending Balance</b>	<b>\$ 596.6</b>	<b>\$ 173.1</b>	<b>\$ 287.1</b>
<b>APPROPRIATION CONTINGENCY FUND</b>			
Beginning Balance	\$ 168.7	\$ 54.5	\$ (0.0)
Disaster Allotments <sup>5</sup>	\$ (12.8)	\$ (54.8)	\$ (16.0)
ARPA Appropriation from 2021 Second Special Session, 2024 Regular Session)	\$ -	\$ 2.6	\$ -
Other ARPA Appropriations (including 2022, 2023, 2024 Regular Sessions)	\$ (395.0)	\$ (57.1)	\$ -
Transfers In	\$ -	\$ 50.0	\$ -
Revenue and Reversions	\$ 1.6	\$ 4.8	\$ 8.0
Audit and Pre-Audit Adjustments	\$ -	\$ -	\$ -
<b>Ending Balance</b>	<b>\$ 54.5</b>	<b>\$ (0.0)</b>	<b>\$ (8.0)</b>
<b>STATE SUPPORT FUND</b>			
Beginning Balance	\$ 49.5	\$ 10.4	\$ 10.4
Revenues	\$ -	\$ -	\$ -
Appropriations to State Support Reserve Fund	\$ -	\$ -	\$ -
Impact Aid Liability FY20	\$ (39.1)	\$ -	\$ -
Impact Aid Liability FY21	\$ -	\$ -	\$ -
Audit Adjustments	\$ -	\$ -	\$ -
<b>Ending Balance</b>	<b>\$ 10.4</b>	<b>\$ 10.4</b>	<b>\$ 10.4</b>
<b>GOVERNMENT RESULTS AND OPPORTUNITY EXPENDABLE TRUST (GRO)</b>			
Beginning Balance			\$ 512.2
Revenues			\$ -
Appropriations to the Government Accountability Expendable Trust			\$ -
Expenditures			\$ -
Audit Adjustments			\$ -
<b>Ending Balance</b>			<b>\$ 512.2</b>
<b>TOBACCO SETTLEMENT PERMANENT FUND (TSPF) <sup>2</sup></b>			
Beginning Balance	\$ 300.2	\$ 330.8	
Transfers In	\$ 23.6	\$ 27.4	
Appropriation to Tobacco Settlement Program Fund	\$ (11.5)	\$ (13.7)	
Gains(Losses)	\$ 18.5	\$ 18.2	
Additional Transfers from (to) TSPF	\$ -	\$ -	
<b>Ending Balance</b>	<b>\$ 330.8</b>	<b>\$ 362.7</b>	
<b>TAX STABILIZATION RESERVE (RAINY DAY FUND)</b>			
Beginning Balance	\$ 2,303.4	\$ 3,050.5	\$ 2,213.5
Revenues from Excess Oil and Gas Emergency School Tax	\$ 1,149.8	\$ 672.4	\$ 428.1
Gains(Losses)	\$ 23.3	\$ 122.0	\$ 88.5
Transfers In (From Operating Reserve)	\$ 723.9	\$ -	\$ -
Transfer Out to Operating Reserve <sup>3</sup>	\$ -	\$ -	\$ -
Transfer Out to Higher Education Endowment Fund	\$ -	\$ (959.0)	\$ -
Transfer Out to Early Childhood Trust Fund <sup>4</sup>	\$ (1,149.8)	\$ (672.4)	\$ (428.1)
<b>Ending Balance</b>	<b>\$ 3,050.5</b>	<b>\$ 2,213.5</b>	<b>\$ 2,302.1</b>
<i>Percent of Recurring Appropriations</i>	<i>36.2%</i>	<i>23.1%</i>	<i>22.5%</i>
<b>TOTAL GENERAL FUND ENDING BALANCES</b>	<b>\$ 4,042.8</b>	<b>\$ 2,759.7</b>	<b>\$ 3,104.1</b>
<i>Percent of Recurring Appropriations</i>	<i>48.0%</i>	<i>28.8%</i>	<i>30.4%</i>

The operating reserve is the first line of defense and most comparable to a checking account.



The operating reserve is the state's primary reserve. This can be called upon quickly and is often used for nonrecurring spending.

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- Primary purpose is to backfill general fund revenues during temporary downturns.
  - Not intended to make up long-term, or multi-year structural deficits.
- Also acts as an overflow for nonrecurring revenues and catches surpluses.
- Bond rating agencies look at state reserves as an indicator of a state's financial health.
- Capped at 8 percent, statutorily. Excess funds flow into the Government Results and Opportunity Fund (GRO).



**General Fund Financial Summary  
2024 Special Legislative Session**

**RESERVE DETAIL**

(millions of dollars)

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BOF Emergency Appropriations/Reversions	\$ (2.5)	\$ (4.0)	\$ (4.0)
Transfers from (to) Appropriation Account	\$ 829.0	\$ (331.6)	\$ 120.1
Transfers to Tax Stabilization Reserve	\$ (723.9)	\$ -	\$ -
Disaster Allotments <sup>1</sup>	\$ (71.9)	\$ (37.9)	\$ (1.8)
Transfer from (to) ACF/Other Appropriations	\$ -	\$ (50.0)	\$ -
Revenues and Reversions	\$ -	\$ -	\$ -
Transfers from tax stabilization reserve	\$ -	\$ -	\$ -
<b>Ending Balance</b>	<b>\$ 596.6</b>	<b>\$ 573.1</b>	<b>\$ 287.4</b>
<b>APPROPRIATION CONTINGENCY FUND</b>			
Beginning Balance	\$ 460.7	\$ 54.5	\$ (8.0)
Disaster Allotments <sup>5</sup>	\$ (12.8)	\$ (54.8)	\$ (16.0)
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The Appropriation Contingency Fund (ACF) and State Support Fund are ancillary reserve funds.



## With small balances, the Appropriation Contingency Fund and State Support Fund have little to no impact on reserves.

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- The State Support Fund was created as a reserve for public school funds.
  - Balances over \$1 million in the public school district general obligation bonds loan fund are transferred here.
  - Balances are used to augment public schools' appropriations.
- The Appropriation Contingency Fund was created for disasters, emergencies, and other temporary holdings like one-time federal revenues.
  - The Legislature authorizes funds into and out of the fund.
  - The fund is also used by the Governor for emergency declaration spending.



**General Fund Financial Summary  
2024 Special Legislative Session**

**RESERVE DETAIL**

(millions of dollars)

July 25, 2024  
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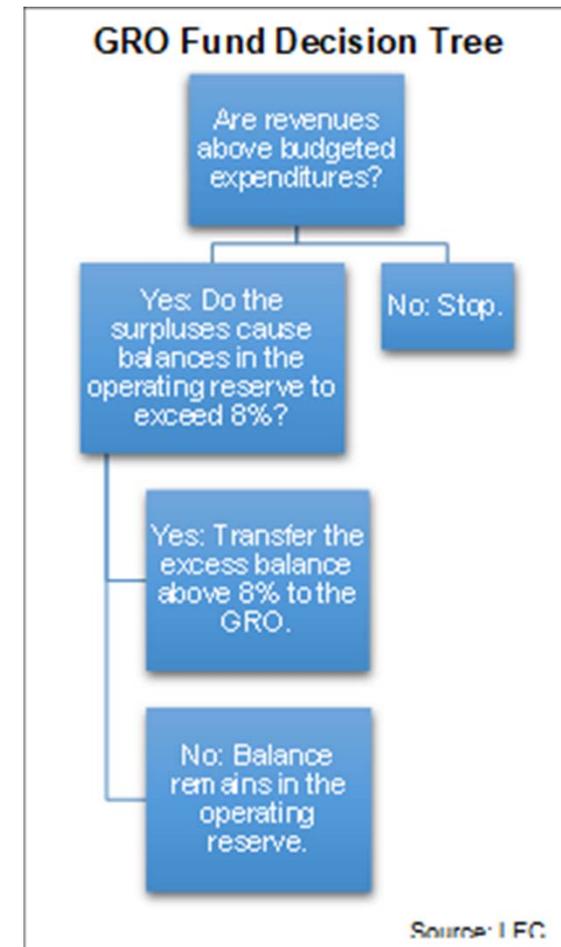
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The Tobacco Settlement Permanent fund and the Government Recurring Opportunity (GRO) fund are no longer counted in reserves starting in FY26.



# The Tobacco Settlement Permanent Fund (TSPF) and Government Recurring Opportunity Fund (GRO) are not true reserves in purpose.

- The TSPF was created to invest payments to New Mexico from tobacco companies under the master settlement agreement of 1998 and provide long-term revenues to health programming.
  - The TSPF is invested by the State Investment Council with earnings deposited in the TSPF.
- The GRO was created so one-time surpluses could be used over several years and as an opportunity for unproven pilot programs receive funds and demonstrate effectiveness.
  - The GRO earns revenue from excess balances in general fund operating reserve. And each year, 25 percent is available for appropriation.



General Fund Financial Summary  
2024 Special Legislative Session

RESERVE DETAIL

(millions of dollars)

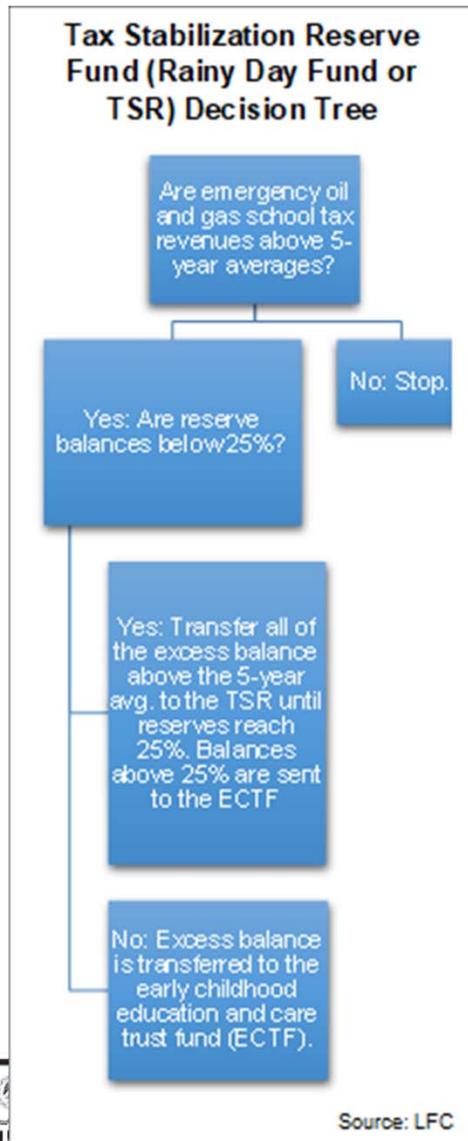
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<b>STATE SUPPORT FUND</b>			
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Transfer Out to Early Childhood Trust Fund <sup>4</sup>	\$ (1,149.8)	\$ (672.4)	\$ (428.1)
Ending Balance	\$ 3,050.5	\$ 2,213.5	\$ 2,303.4
Percent of Recurring Appropriations	36.2%	23.1%	22.5%
<b>TOTAL GENERAL FUND ENDING BALANCES</b>	<b>\$ 4,042.8</b>	<b>\$ 2,759.7</b>	<b>\$ 3,104.1</b>
Percent of Recurring Appropriations	48.0%	28.6%	30.4%

The Tax Stabilization Reserve operates as the state's "rainy day fund" and is most like an emergencies savings account.

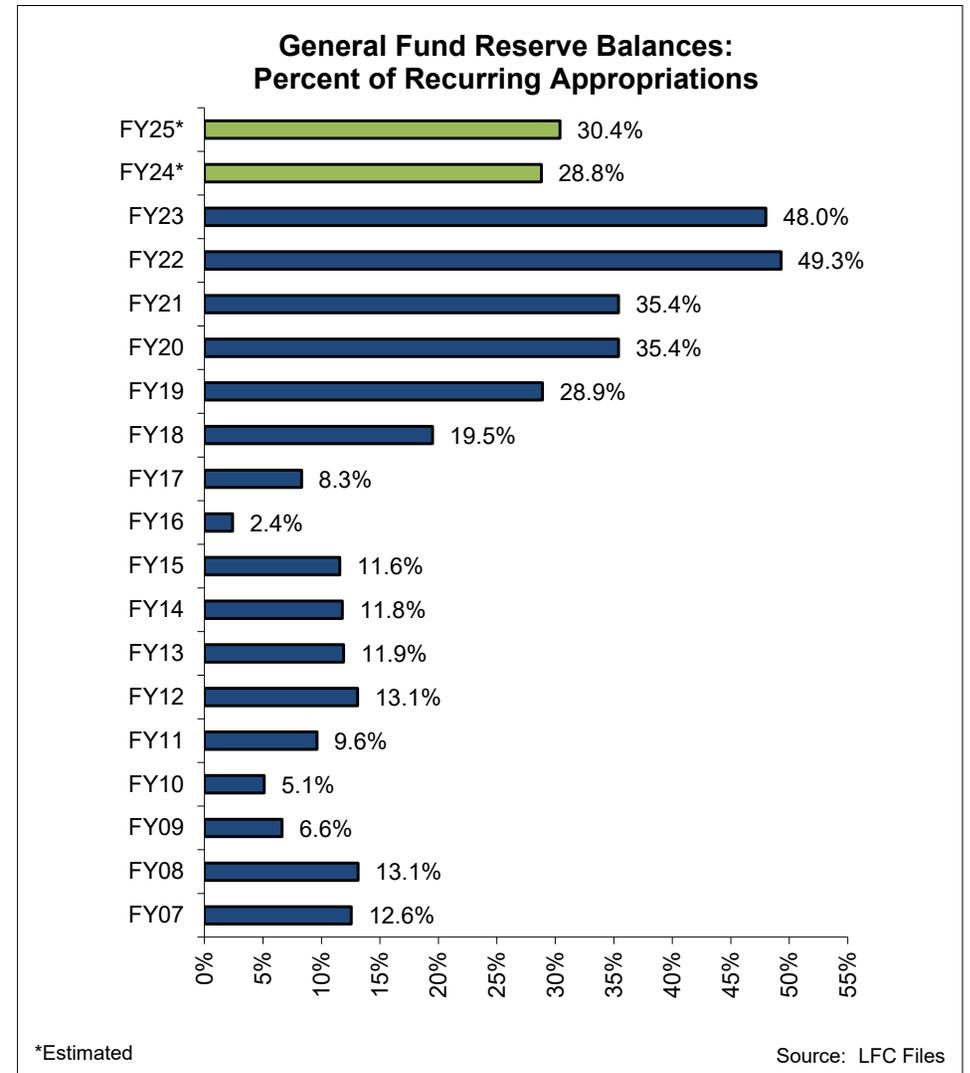
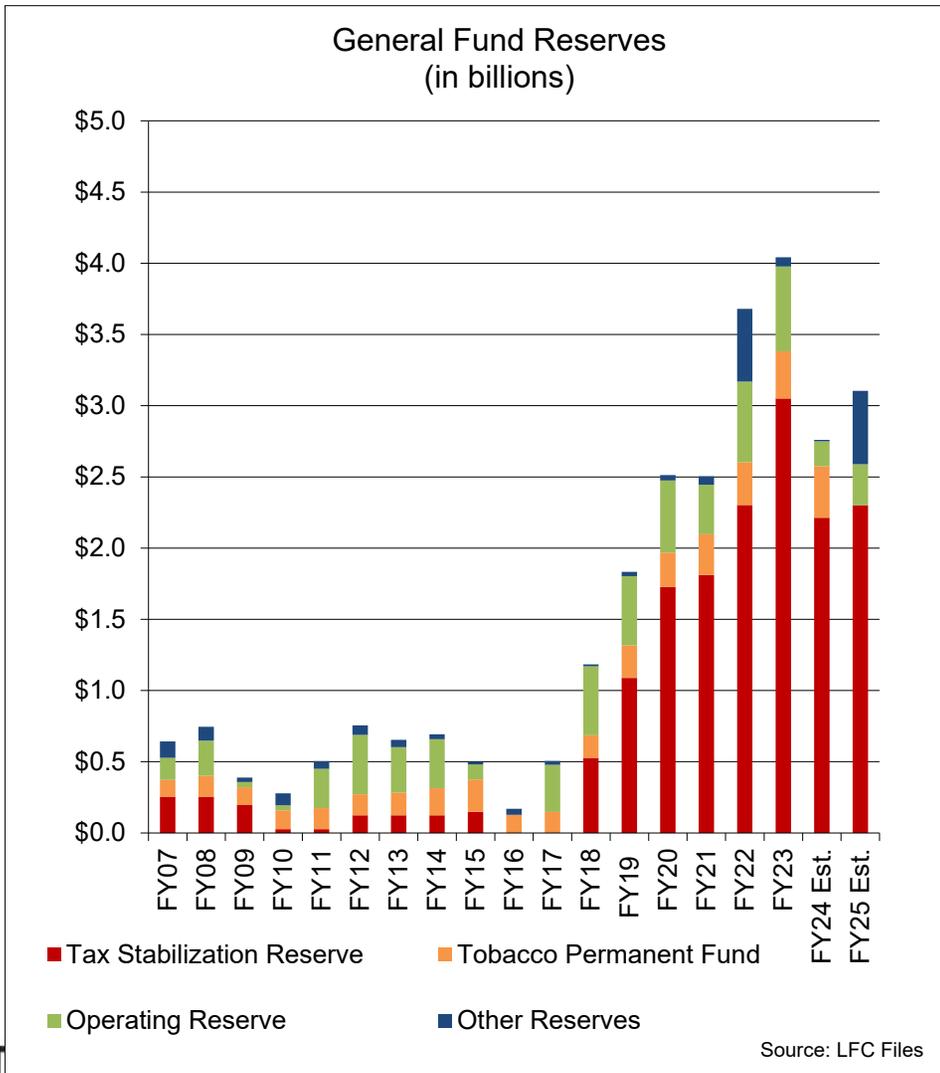


# Tax Stabilization Reserve- Funding Mechanisms and Decision Tree

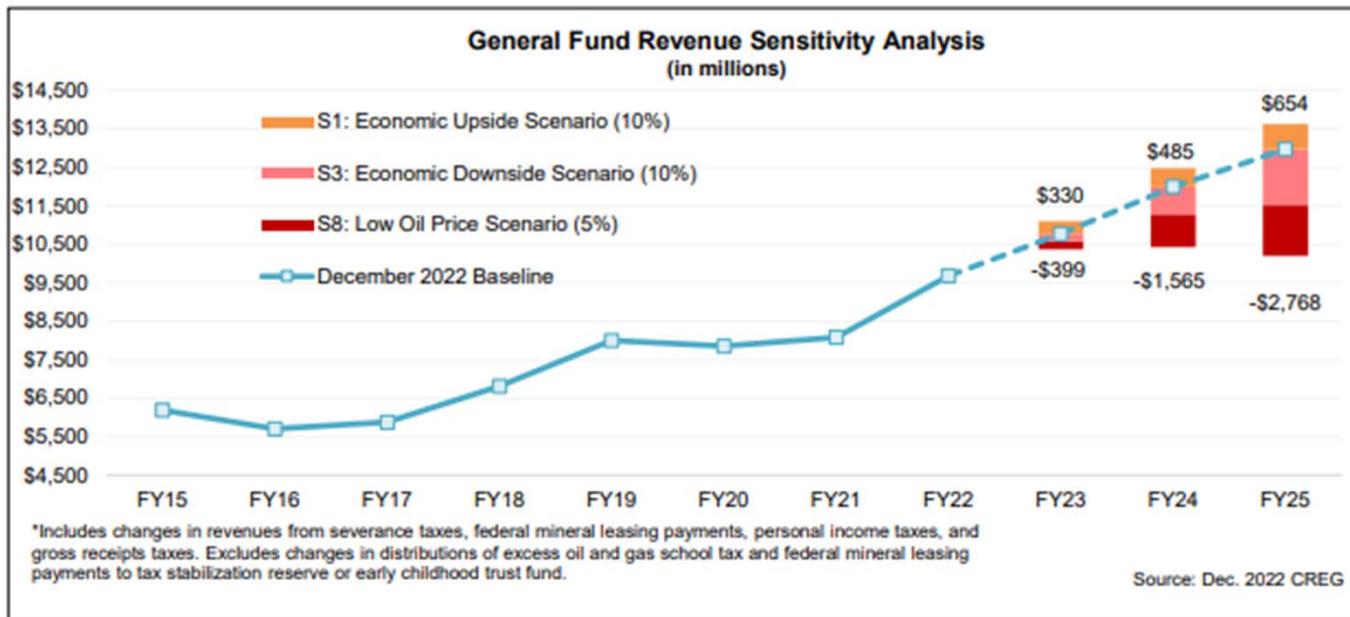


- Funds are deposited into the tax stabilization reserve from the oil and gas emergency tax if (a) annual revenue exceeds the five-year average AND (b) total reserves are LESS than 25% of the recurring budget.
- Money in the tax stabilization reserve may only be appropriated if (1) the governor declares it necessary because of a shortfall and the House and Senate approve it with a simple majority vote, or (2) two-thirds vote of both the House and Senate.
- The fund grows with oil and gas transfers and investment earnings.

# Reserves have grown, though higher balances are needed for larger budgets and increasingly volatile revenues.



# New Mexico's revenue volatility and reliance on oil and gas revenues informs the need for reserves.



- New Mexico's revenues are the 6<sup>th</sup> most volatile in the nation.
- Stress-testing of the general fund revenues informs reserve needs.
- Other national best practice guidelines for the average state recommend three-months revenues for a baseline reserve target.

Scenario	S8: Low Oil Price			S3: Economic Downside			S1: Economic Upside		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Severance Taxes to GF	-\$38	-\$432	-\$817	-\$15	-\$76	-\$370	\$4	\$16	\$34
Federal Mineral Leasing to GF	\$0	-\$212	-\$732	\$0	-\$84	-\$316	\$0	\$10	\$66
Gross Receipts Taxes	-\$285	-\$726	-\$969	-\$140	-\$358	-\$542	\$312	\$428	\$502
Personal Income Taxes	-\$76	-\$195	-\$249	-\$51	-\$196	-\$222	\$14	\$31	\$52
<b>General Fund Difference from Baseline</b>	<b>-\$399</b>	<b>-\$1,565</b>	<b>-\$2,768</b>	<b>-\$206</b>	<b>-\$714</b>	<b>-\$1,451</b>	<b>\$330</b>	<b>\$485</b>	<b>\$654</b>
<i>General Fund Percent of Total Impact</i>	22%	47%	72%	25%	36%	57%	76%	59%	53%
Severance Taxes to TSR or ECE	-\$601	-\$747	-\$474	-\$195	-\$577	-\$474	\$55	\$62	\$154
Federal Mineral Leasing to ECE	-\$779	-\$1,041	-\$603	-\$419	-\$673	-\$603	\$50	\$269	\$432
<b>TSR/ECE Transfers Diff. from Baseline</b>	<b>-\$1,380</b>	<b>-\$1,788</b>	<b>-\$1,077</b>	<b>-\$613</b>	<b>-\$1,250</b>	<b>-\$1,077</b>	<b>\$105</b>	<b>\$331</b>	<b>\$586</b>
<i>TSR/ECE Transfers Percent of Total Impact</i>	78%	53%	28%	75%	64%	43%	24%	41%	47%
<b>Total Difference from Baseline</b>	<b>-\$1,779</b>	<b>-\$3,353</b>	<b>-\$3,844</b>	<b>-\$819</b>	<b>-\$1,965</b>	<b>-\$2,528</b>	<b>\$435</b>	<b>\$816</b>	<b>\$1,240</b>

Note: in millions

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# Investing the Reserve Funds



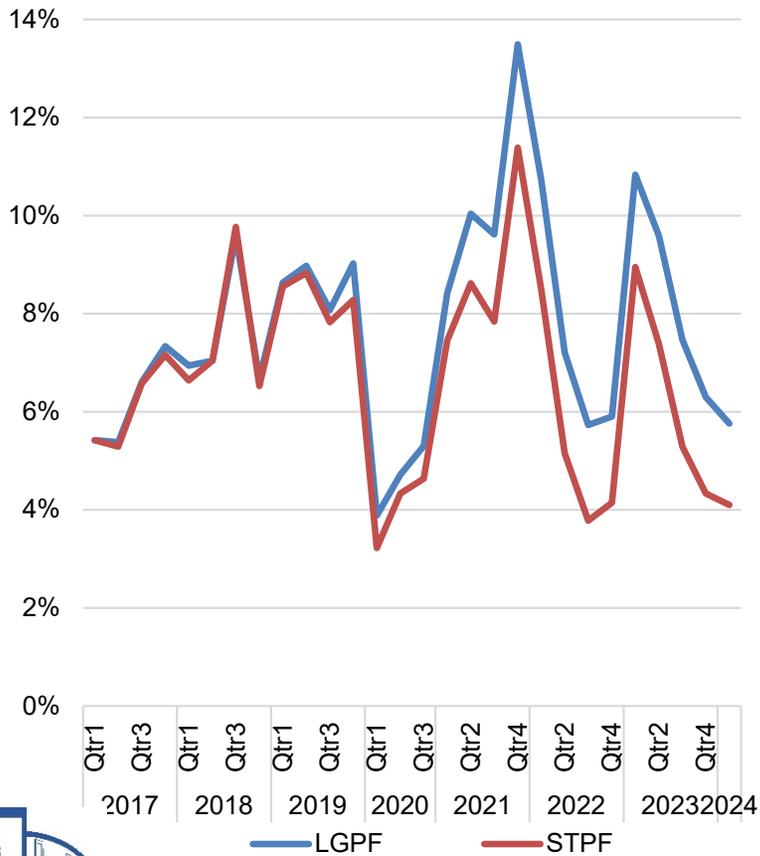
## Reserves, permanent funds, and endowments.

	Long-term or Short-term Solution	Generate Revenue to Support Mission	Distribution Mechanism	Duration
Reserves	Short-Term	No	Nonrecurring appropriation	One to three years
Permanent Funds	Long-term	Yes	A percentage of the balance below its return target	Infinite – perpetual benefits
Endowments	Short-, medium-, or long-term	Maybe	A percentage of the balance which may be above or below return target	Sometimes perpetual, often insolvent or expiring
Trust Funds	Short-, medium-, or long-term	Maybe	A percentage of the balance which may be above or below return target	Sometimes perpetual, often insolvent or expiring



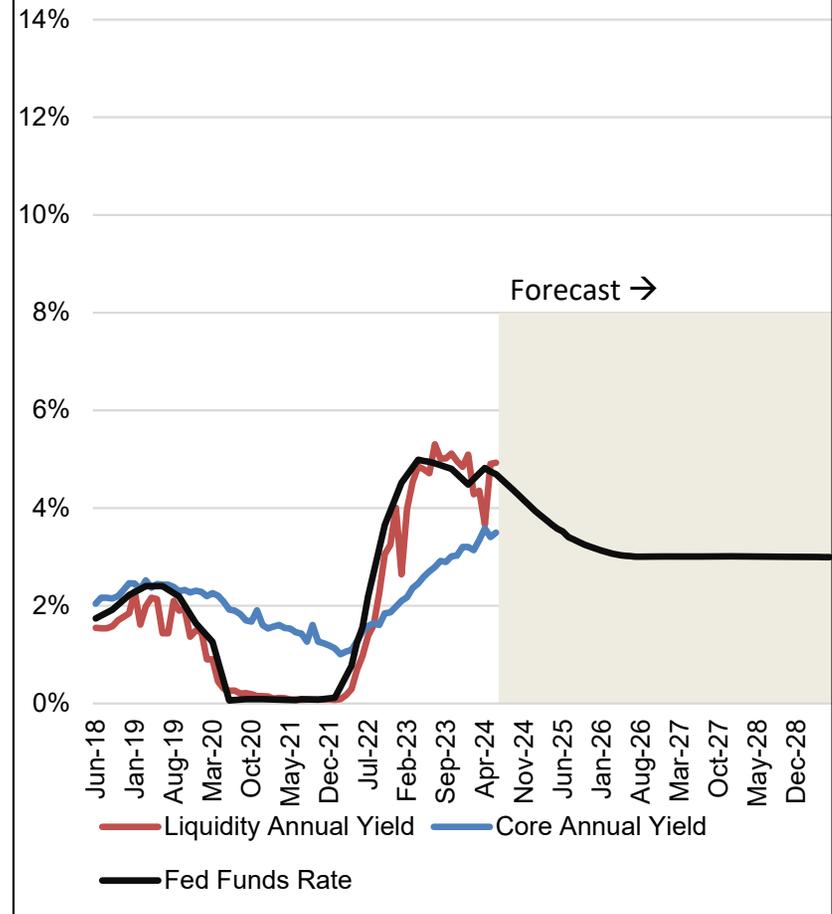
# Returns for different funds vary based on how they are used and should be considered when creating funds.

**Permanent Fund Historical 3-Year Annualized Returns**

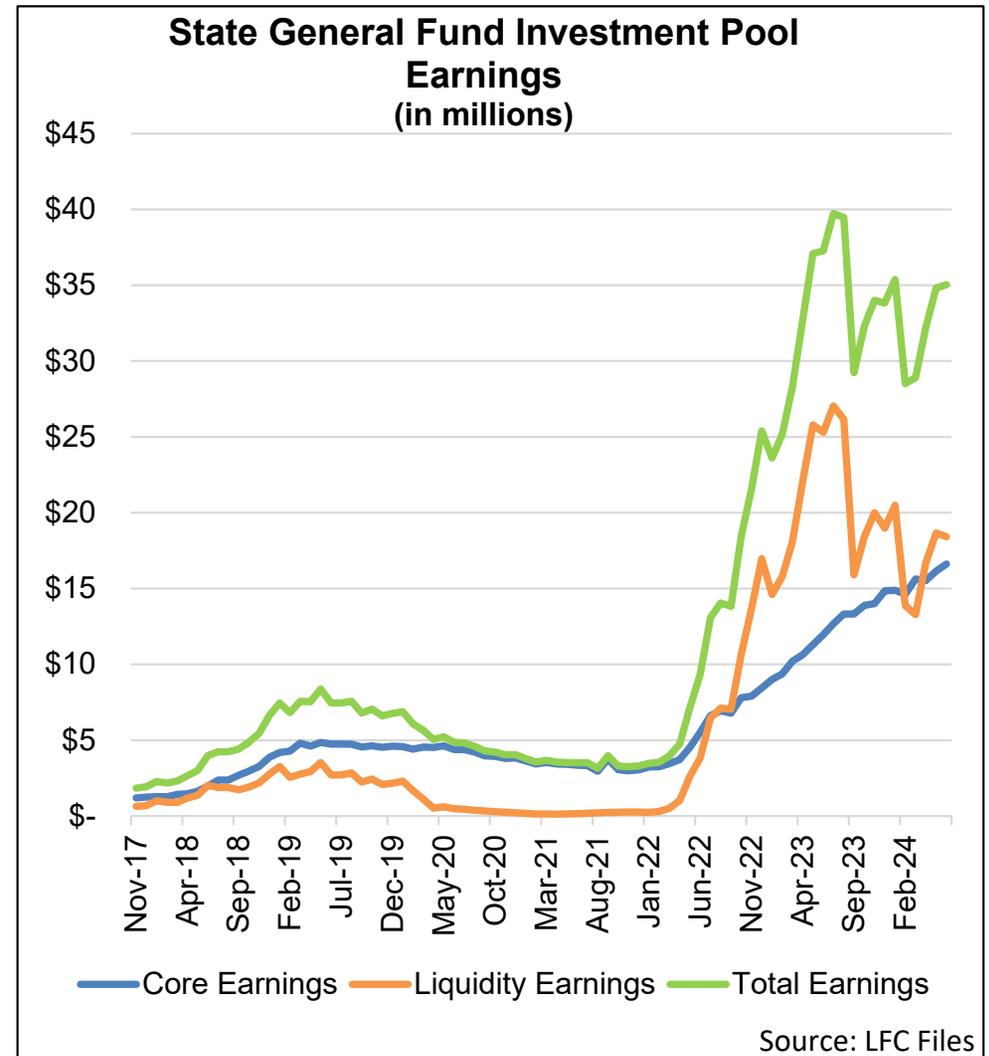
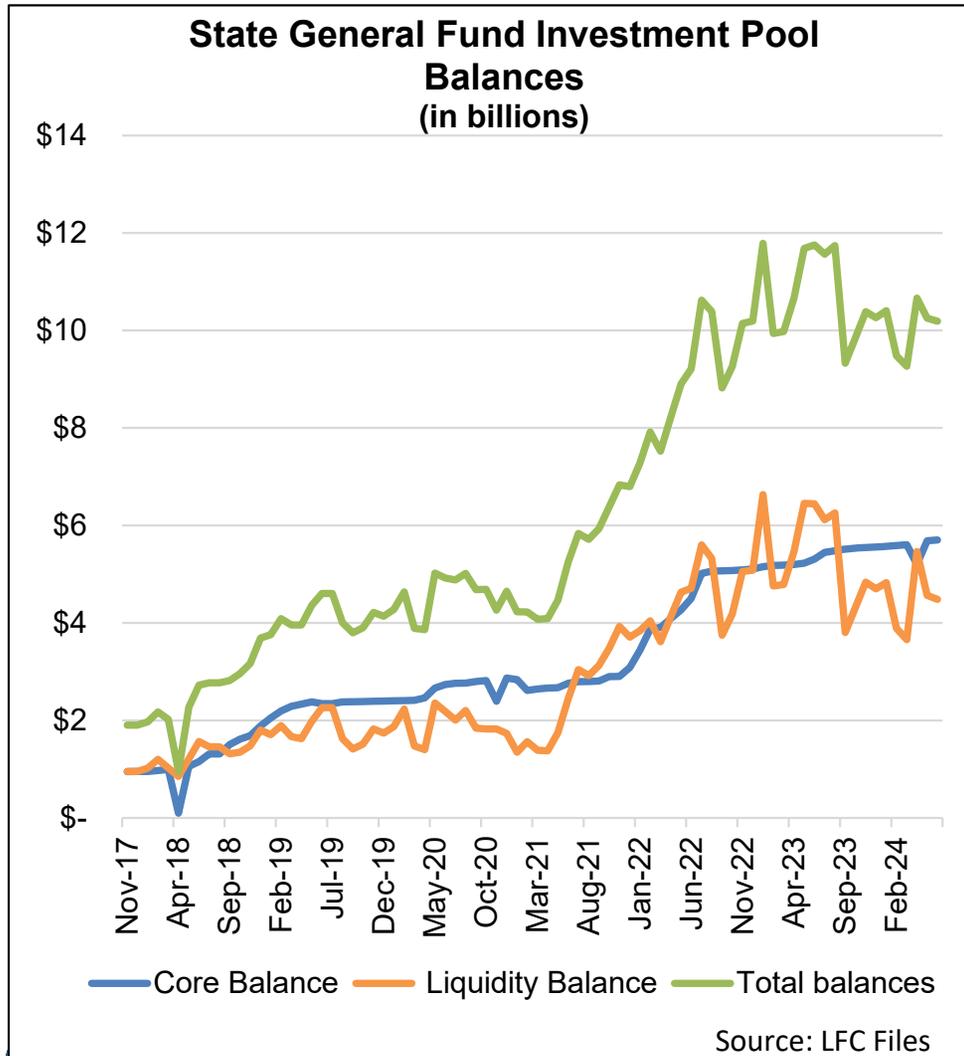


Source: SIC

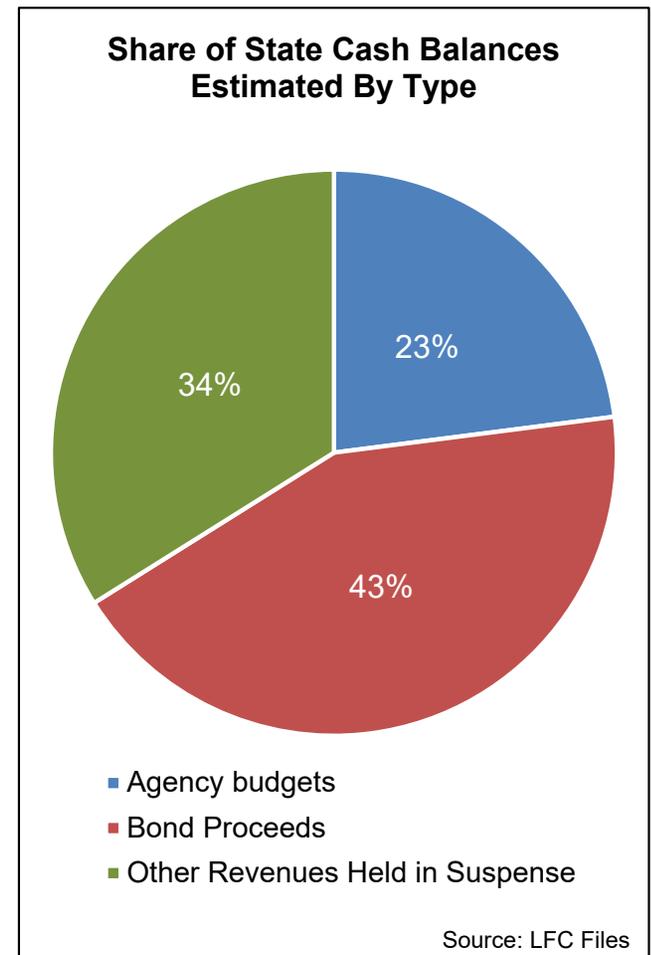
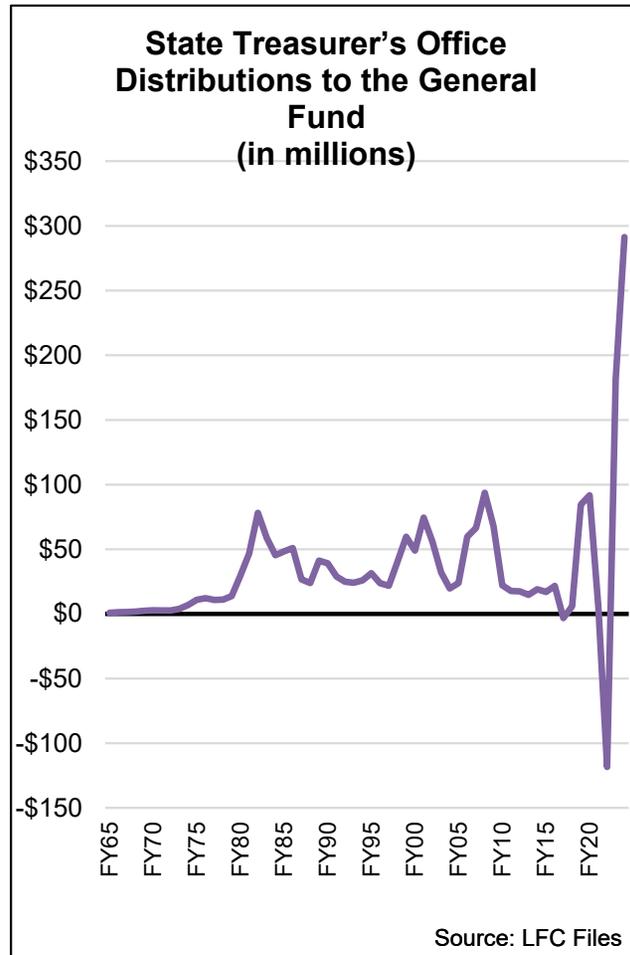
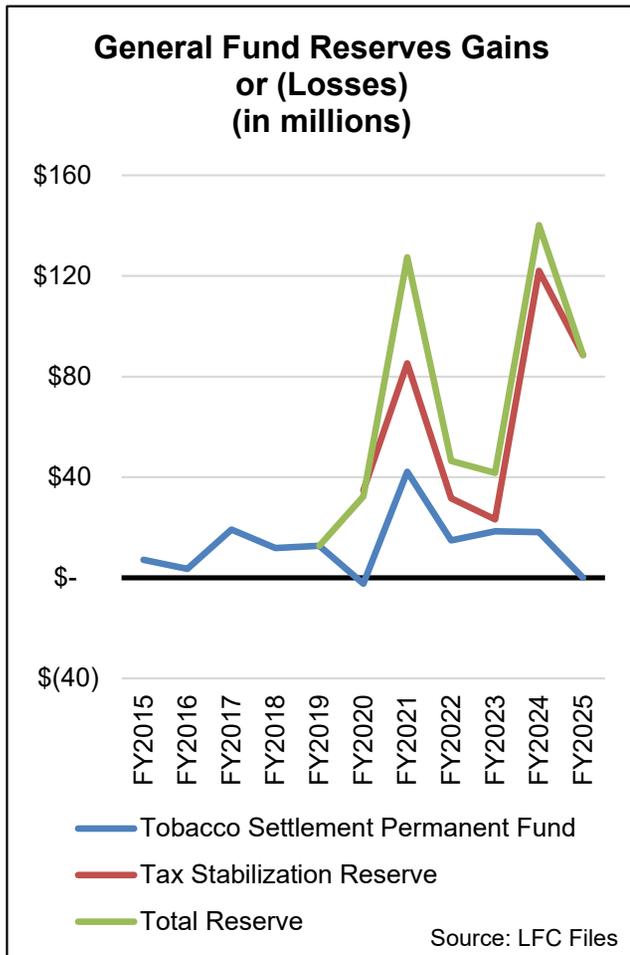
**State General Fund Investment Pool (SGFIP) Returns vs Federal Funds Rate**



Reserves are invested in the state general fund investment pool (SGFIP), which earn higher returns with higher interest rates and balances.



Some reserve funds grow from their own investment earnings. Other reserve funds contribute to general fund earnings, though most general fund earnings are from other sources.



# Thank you!

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For more information or questions:

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