



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, and state support reserve fund.

Operating Reserve

The operating reserve, similar to a checking account, is the first resource budget managers look to if general fund revenues are short. Revenue left in the general fund—the state’s primary fund for paying ongoing expenses—is transferred to the operating reserve at the end of the budget year and becomes available for covering authorized spending in following years. The Legislature sets a limit on how much the governor can draw from the operating reserve above appropriated levels in the General Appropriation Act.

The operating reserve is intended to backfill general fund revenues only during temporary downturns. Although bond rating agencies look at state reserves as an indicator of a state’s financial health, the operating reserve is not intended to cover structural deficits. The fund has been used as emergency funding when a governor declares an emergency but this is not authorized in statute.

Once the operating reserve fund hits 8 percent of the prior budget year’s recurring appropriations, the excess must be transferred to the government results and opportunity expendable trust, which can be used for short-term projects, or for revenue shortfalls, if authorized by the Legislature.

Appropriation Contingency and State Support Funds

Both the state support fund and the appropriation contingency fund are small and have little impact on total reserves.

The appropriation contingency fund is mostly used to set aside money for emergencies and disasters and 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 the governor can authorize a draw on the fund through an emergency declaration.

The state support fund was created as a reserve for public school funds. On the first day of each fiscal year, any bal-

ance 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.

Tax Stabilization Reserve

The tax stabilization reserve, often called the state’s “rainy day fund,” receives excess funds from the oil and gas emergency school tax under certain conditions and is similar to an emergencies savings account. Money in the tax stabilization reserve may only be appropriated by a two-thirds majority vote of the House and Senate or with a simple majority vote if a governor declares that an appropriation is necessary for the public welfare. Money in the fund is invested by the State Investment Council and returns are used to grow the fund.

Money moves to the tax stabilization reserve from the oil and gas emergency school tax, a tax on the value of oil and gas that generates revenue for the general fund, if (1) annual revenue from the tax exceeds the five-year average income, and (2) total general fund reserves are less than 25 percent of ongoing spending. When total reserves are over 25 percent, the excess of the five-year average is deposited into the early childhood trust fund. This allows the state to capture wind-fall revenue from the oil and gas industry, smoothing out the dramatic ups and down of that volatile revenue source.

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 nmlegis.gov/econ
- 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.