NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

General Fund Reserves Overview

Presentation to the Investments and Pensions Oversight Committee

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Reserves are a critical element of the budget and state fiscal health.

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

Reserve funds, permanent funds, and other investment funds have different purposes, objectives, and strategies.

Reserve Funds

- Used for short-term downturns
- Provided unrestricted liquidity for appropriators
- Not revenue generating
- Required for constitutional balanced budget requirement
- Investment strategy: stability

Reserve funds include:
Tax Stabilization Reserve
Operating Reserve

Permanent Funds

- Used for long-term revenue stabilization
- Revenue generating through annual distributions
- Constitutionally created and protected
- Investment strategy: growth

Permanent funds include:
Land Grant Permanent Fund
Severance Tax Permanent Fund

Other Investment Funds

- Used for short- and long-term budget issues
- Statutory provisions may provide for revenue generation or not
- Investment strategy: mixed

Other investment funds include:
Early Childhood Trust Fund, Higher Education Trust Fund, Capital Development Reserve, Tobacco Settlement, Conservation Legacy, Water Trust Fund, Opioid Settlement, Behavioral Health, Medicaid, Rural Libraries, Workforce Development

National fiscal organizations offer reserve funds best practices.

Volker Alliance Reserve Funds Best Practice Indicators

Positive Reserve or General Fund Balance
Particularly in economic downturns, raising taxes or cutting programs can be politically and economically perilous. One alternative is to fill the gap temporarily with money retained in a general fund balance or rainy-day fund. Doing so might allow a state to avoid even less sustainable one-time solutions.

Reserve Funds Disbursement Policy
Without a clear policy governing the use of reserves, they can turn into slush funds to be spent at legislators' whim. States should have policies governing when and how reserves can be tapped for natural disasters and when the economy slumps, tax revenues drop, and rising unemployment creates higher demand for state services.

Reserve Funds Replenishment Policy
If rainy day funds are used to help deal with emergencies, unexpected expenses, or revenue shortfalls, states need to follow guidelines to ensure that the cash is replaced. Without replenishment policies, states risk facing the next economic downturn with minimal financial cushion to help sustain operations.

Reserves Tied to Revenue Volatility
States with less volatile revenues can sensibly establish smaller reserves than those in which revenue fluctuations are more frequent and more dramatic.

General Fund Financial Summary
2026 Session - Post-Veto
RESERVE DETAIL
(millions of dollars)

April 7, 2026
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	Estimate FY2025	Estimate FY2026	Estimate FY2027
OPERATING RESERVE			
Beginning Balance	$ 606.6	$ 246.5	$ 154.3
BOF Emergency Appropriations/Reversions	$ (4.0)	$ (4.0)	$ (4.0)
Transfers from (to) Appropriation Account	$ (161.6)	$ (115.2)	$ 139.0
Transfers to Tax Stabilization Reserve or Gov. Results and Opportunity Fund	$ -	$ -	$ -
Disaster Allotments	$ (194.4)	$ (200.0)	$ (155.0)
Transfers from tax stabilization reserve to restore balance to 1 percent	$ -	$ -	$ 3.9
Appropriations - 2025 2nd Special Session	$ -	$ (25.5)	$ -
Reversions in from HSD, DOH, HCA - 2025 2nd Special Session	$ -	$ 162.5	$ -
Transfer from (to) ACF/Other Appropriations	$ -	$ 90.0	$ -
Audit and Pre-Audit Adjustments	$ (0.1)	$ -	$ -
Ending Balance	$ 246.5	$ 154.3	$ 138.2
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	$ 9.1	$ 68.4	$ 31.1
Disaster Allotments	$ (65.7)	$ (42.3)	$ -
Transfers In/(Out)	$ 150.0	$ 5.0	$ -
Appropriations In/(Out)	$ (25.0)	$ -	$ -
Ending Balance	$ 68.4	$ 31.1	$ 31.1
STATE SUPPORT FUND			
Beginning Balance	$ 0.4	$ 0.4	$ 0.4
Revenues	$ 40.0	$ -	$ -
Appropriations	$ (40.0)	$ -	$ -
Ending Balance	$ 0.4	$ 0.4	$ 0.4
GOVERNMENT RESULTS AND OPPORTUNITY EXPENDABLE TRUST (GRO)			
Beginning Balance	$ 512.2	$ 530.8	$ -
Revenues/Gains	$ 7.7	$ 10.6	$ -
Transfers from the Operating Reserve	$ -	$ -	$ -
Appropriations to (from) the GRO	$ -	$ 265.3	$ -
Reversions	$ 10.9		
Expenditures	$ -	$ (132.7)	$ -
Ending Balance	$ 530.8	$ 674.0	$ -
BEHAVIORAL HEALTH TRUST FUND			
Beginning Balance		$ -	$ 166.2
Revenues/Gains		$ 66.2	$ 51.4
Appropriations to (from) BHTF		$ 100.0	$ 50.0
Distributions		$ -	$ (5.2)
Ending Balance		$ 166.2	$ 262.4
TAX STABILIZATION RESERVE (RAINY DAY FUND)			
Beginning Balance	$ 2,179.0	$ 2,335.3	$ 2,428.7
Revenues from Excess Oil and Gas Emergency School Tax	$ 436.2	$ 61.0	$ 42.7
Gains(Losses)	$ 156.3	$ 93.4	$ 97.2
Transfers In (From Operating Reserve)	$ -	$ -	$ -
Transfer Out to Operating Reserve	$ -	$ -	$ (3.9)
Transfer Out to Early Childhood Trust Fund	$ (436.2)	$ (61.0)	$ (42.7)
Ending Balance	$ 2,335.3	$ 2,428.7	$ 2,521.9
Percent of Recurring Appropriations	*22.8%*	*22.4%*	*22.6%*
TOTAL GENERAL FUND ENDING BALANCES	**$ 3,181.4**	**$ 3,454.7**	**$ 2,954.1**
Percent of Recurring Appropriations	*31.1%*	*31.9%*	*26.5%*

* Note: totals may not foot due to rounding

Source: LFC post-session review
Available at: https://www.nmlegis.gov/Entity/LFC/Session_Publications

The Tax Stabilization Reserve operates as the state's emergency savings account and is the state's main source of liquidity in a revenue downturn.

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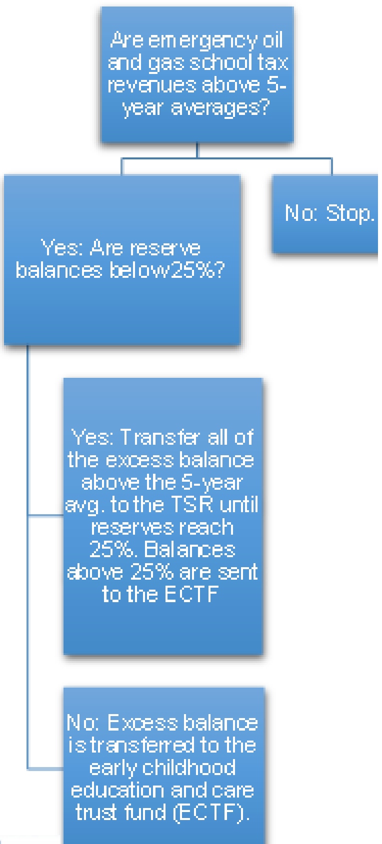
Tax Stabilization Reserve-
Funding Mechanisms and Decision Tree

Tax Stabilization Reserve Fund (Rainy Day Fund or TSR) Decision Tree



Source: LFC

- 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.

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

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Transfers from (to) Appropriation Account	$	(161.6)	$	(115.2)	$	139.0
Transfers to Tax Stabilization Reserve or Gov. Results and Opportunity Fund	$	-	$	-	$	-
Disaster Allotments	$	(194.4)	$	(200.0)	$	(155.0)
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Reversions in from HSD, DOH, HCA - 2025 2nd Special Session	$	-	$	162.5	$	-
Transfer from (to) ACF/Other Appropriations	$	-	$	90.0	$	-
Audit and Pre-Audit Adjustments	$	(0.1)	$	-	$	-
Ending Balance	$	246.5	$	154.3	$	138.2

Source: LFC post-session review
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The Appropriation Contingency Fund (ACF) and State Support Fund are ancillary reserve funds.

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Transfers In/(Out)	$	150.0	$	5.0	$	-
Appropriations In/(Out)	$	(25.0)	$	-	$	-
Ending Balance	$	68.4	$	31.1	$	31.1
STATE SUPPORT FUND						
Beginning Balance	$	0.4	$	0.4	$	0.4
Revenues	$	40.0	$	-	$	-
Appropriations	$	(40.0)	$	-	$	-
Ending Balance	$	0.4	$	0.4	$	0.4

Source: LFC post-session review
Available at: https://www.nmlegis.gov/Entity/LFC/Session_Publications

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

- 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.

The Behavioral Health Trust Fund (BHTF) and Government Recurring Opportunity Fund (GRO) are temporary reserves because they are restricted assets.

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Appropriations to (from) the GRO	$ -	$ 265.3	$ -
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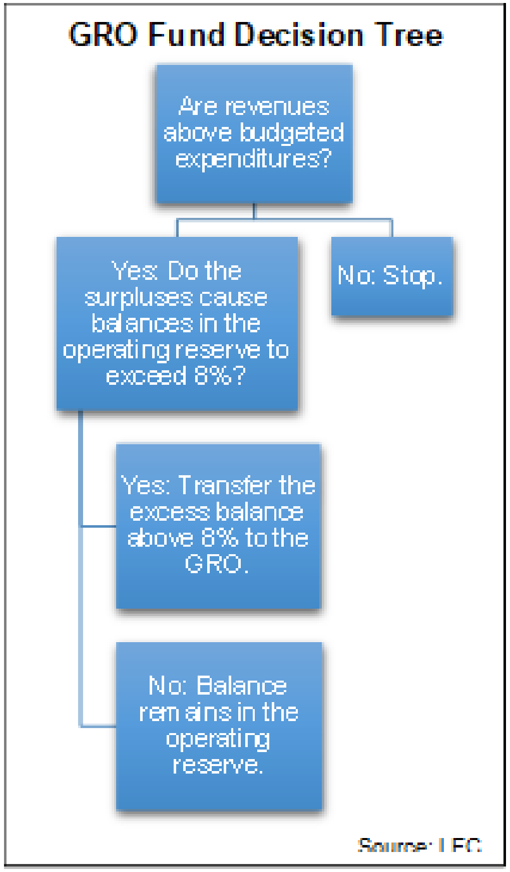
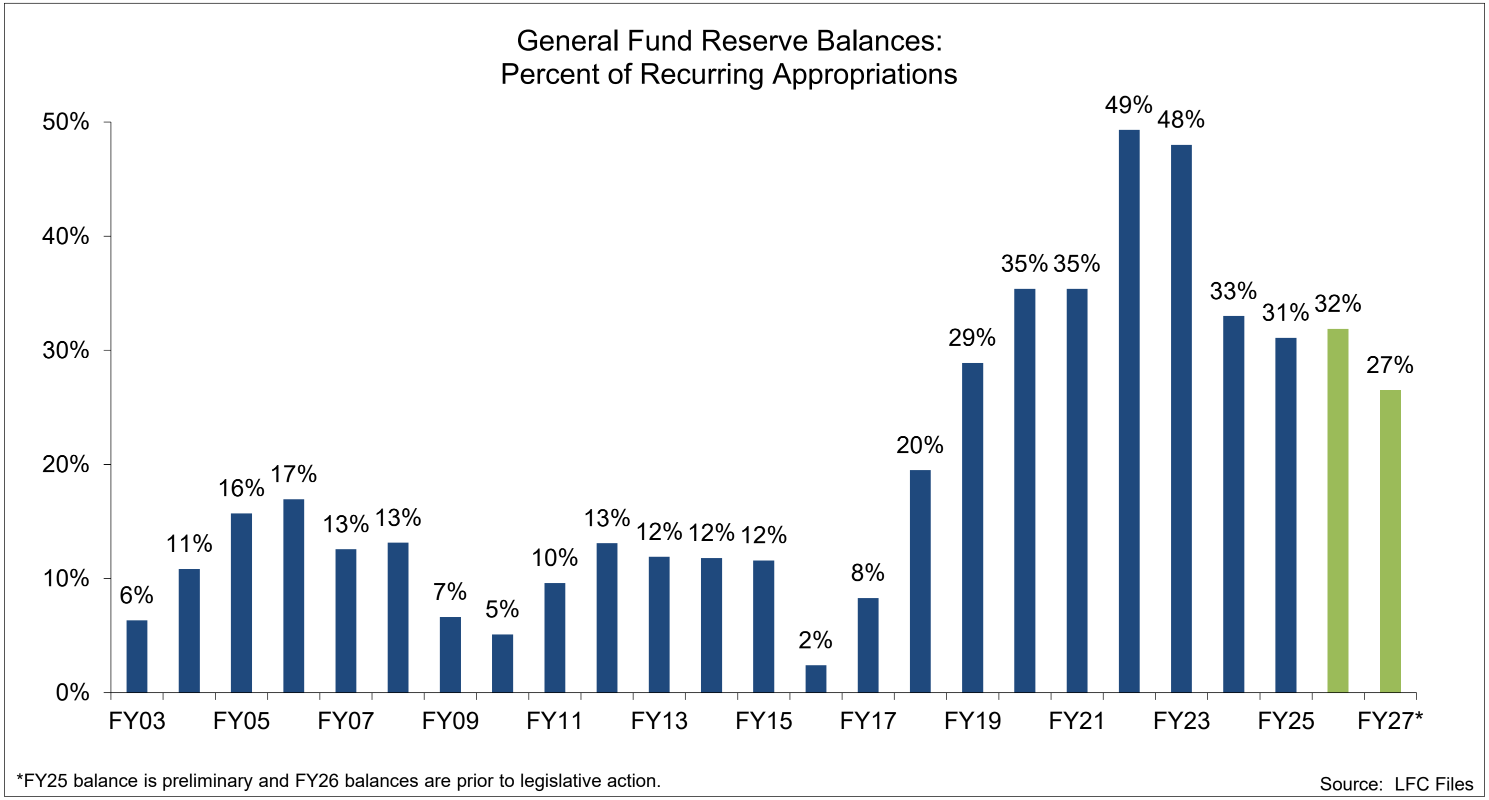
The Behavioral Health Trust Fund was added as a reserve for FY26 and FY27. The Government Recurring Opportunity (GRO) fund will not be counted in reserves starting in FY27.

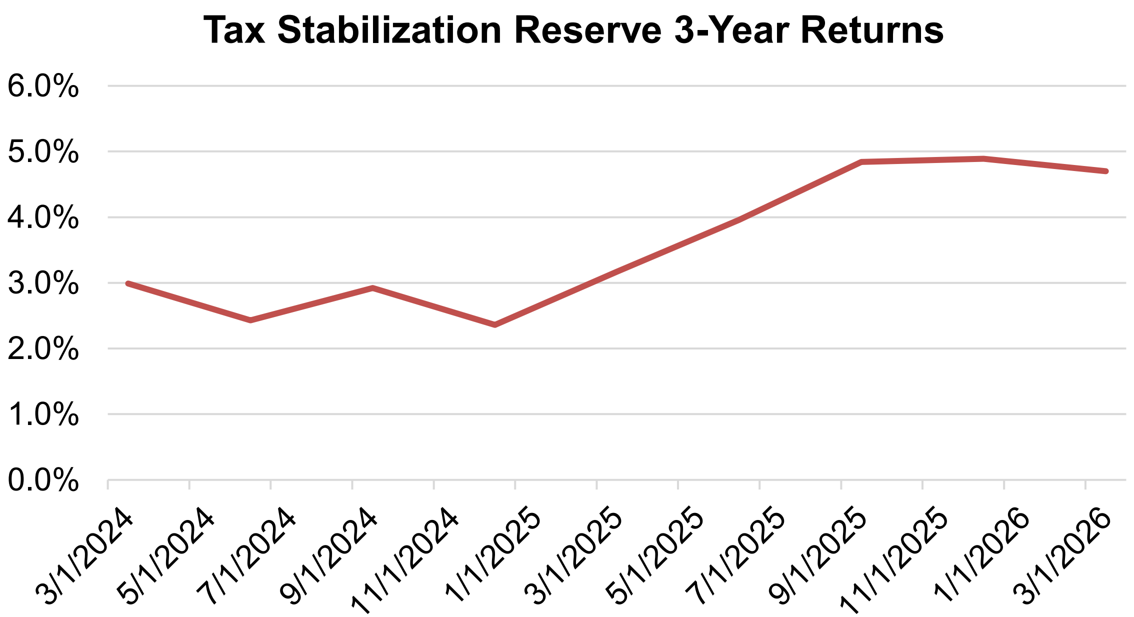
- The GRO was created so surpluses could be used over several years and as an opportunity for unproven pilot programs receive funds and demonstrate effectiveness.
  - The GRO earns revenue from excess balances in general fund operating reserve. And each year, 25 percent is available for appropriation.
- The Behavioral Health Trust Fund was created to provide permanent support for behavioral health services.
  - The BHTF earns a temporary share of severance tax revenue that would otherwise go to the early childhood trust fund.



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

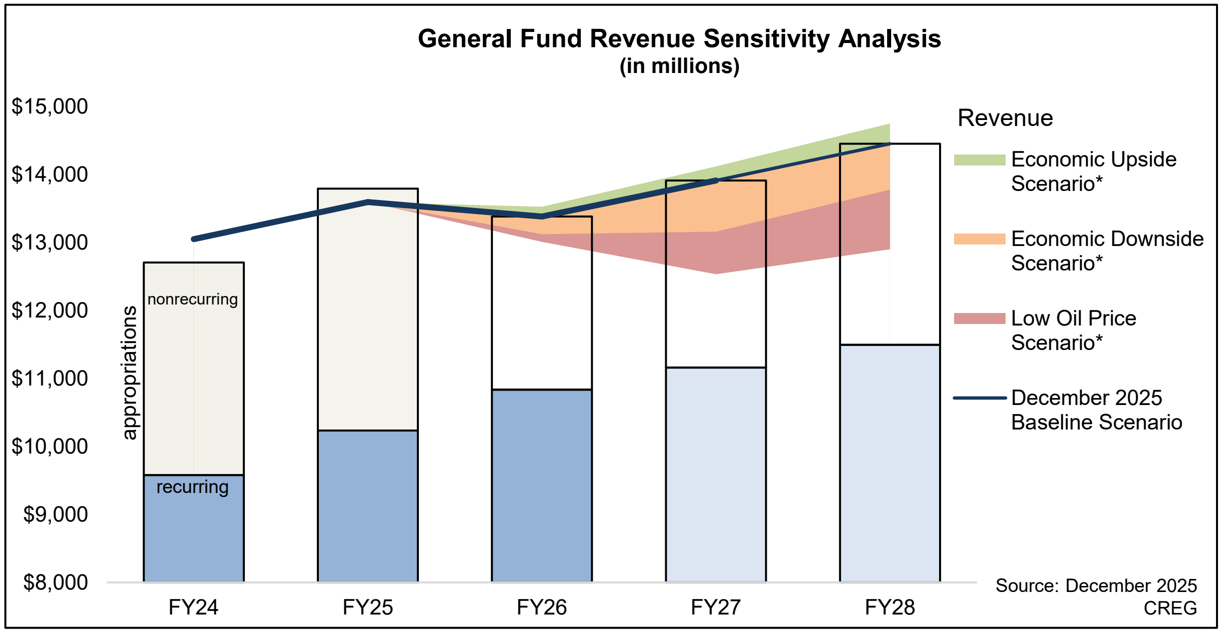


SIC investment returns are improving for TSR.



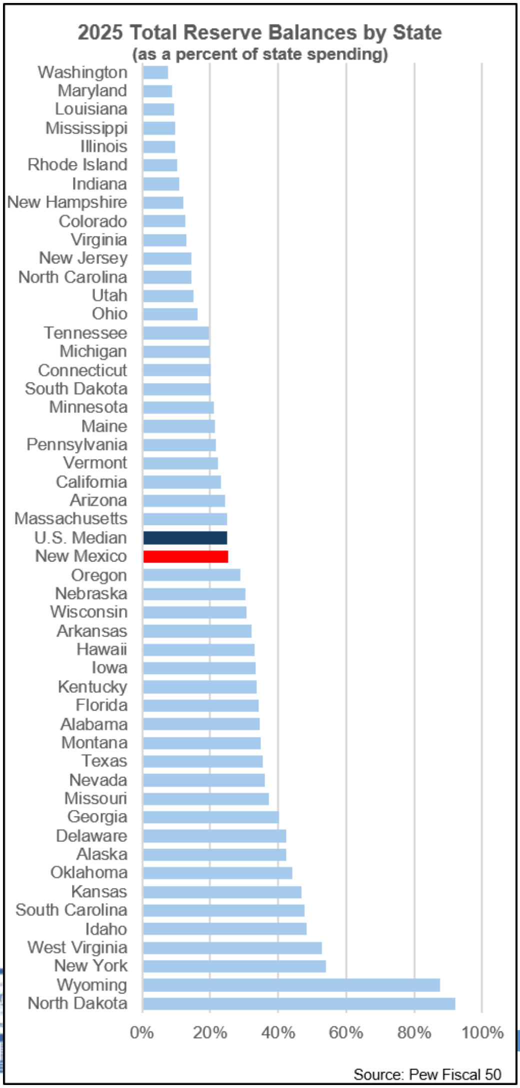
Source: SIC

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



- New Mexico's revenues are the 3rd 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.

General fund reserve policy includes a variety of levers, tradeoffs, and considerations.



- Level of reserves
- Defining and choosing reserve funds
- Balance between returns and liquidity
- Stabilization triggers
- Access and restrictions
- Caps and floors

Questions?

THANK YOU!

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