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FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Muñoz	**ORIGINAL DATE**	2/17/25
SHORT TITLE	Defining State Reserves	**BILL NUMBER**	Senate Bill 227
		ANALYST	Gray/Torres

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	No fiscal impact	No fiscal impact	No fiscal impact	No fiscal impact		

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Agency Analysis Received From
New Mexico Attorney General (NMAG)
Department of Finance and Administration (DFA)

Sources of Information

LFC Files

SUMMARY

Synopsis of Senate Bill 227

Senate Bill 227 (SB227) defines which state funds should be considered reserve funds. Currently, state statute does not centrally define which funds are reserves and instead defines reserves through a decentralized patchwork in each separate fund statute. SB227 adds the government results and opportunity expendable trust as a reserve fund in FY26 and beyond while providing a central definition of reserve fund in statute.

SB227 defines state reserves as the following funds:

- Appropriation contingency fund,
- General fund operating reserve,
- Government results and opportunity expendable trust,
- State-support reserve fund, and
- Tax stabilization reserve.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted.

FISCAL IMPLICATIONS

By practice, each of the funds the bill includes in the definition of reserves are currently invested very conservatively to reflect their reserve status. Accordingly, there will be no change in how they are invested and there will be no revenue impact.

Under current law, the state will only count the government results and opportunity expendable trust as a reserve fund for one year (FY25). SB227 would include the fund permanently in the calculation of reserves, adding at least $500 million, if not more, to the reserve calculation in FY26, depending on the final revenues and spending adopted during the 2025 and 2026 legislative sessions. This would boost the bottom-line reserve percentage by at least five percent.

SIGNIFICANT ISSUES

The New Mexico Constitution mandates a balanced budget, requiring the state to maintain general fund reserves to offset potential shortfalls in revenue or unexpected expenditure increases. These reserves serve as a safeguard to ensure fiscal stability and continuity of government operations.

Best practices outlined by the Pew Charitable Trusts and the Volcker Alliance recommend that reserve funds be highly liquid and subject to controlled obligations to ensure their effectiveness in mitigating fiscal risk. Most of the funds designated as reserves in this bill meet these criteria. However, the government results and opportunity expendable trust makes annual distributions equal to 25 percent of the balance of the fund for programmatic uses and appropriations, likely more than $125 million a year. Because this fund experiences large inflows and outflows, the balance could fluctuate substantially, leading to volatility in the state's reported reserves. This variability may create the appearance of financial instability, potentially affecting the state’s creditworthiness as perceived by bond rating agencies, bond buyers, and the public. Given the unpredictability of fund balances and the absence of restrictions ensuring their availability solely for reserve purposes, these funds do not align with national best practices for state reserve management.

The Department of Finance and Administration adds:

> Strong reserves are essential to the state’s credit standing, particularly given its weaker demographic metrics—such as income levels, population growth, and poverty rates—compared to peer states, as assessed by bond rating agencies. Additionally, the state’s reliance on historically volatile oil and gas revenues underscores the importance of maintaining robust reserves. In recent years, the state has aimed for a 30% reserve level. Reducing reserves significantly below this target, especially when revenues are at historic highs, could be viewed negatively by rating analysts.

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