



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 \$500 million a year between 2007 and 2017. Total value of the fund at the end of 2017 was \$17.3 billion.

Oil and gas revenues – rents, royalties, and bonuses – make up about 90 percent of the contributions to the fund. About 85 percent of the distributions are allocated to the general fund and earmarked for “common (public) schools.” 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. Distributions other than those designated for public schools are allocated directly to the beneficiaries.

Originally investment earnings were distributed to the beneficiaries, but voters in 1996 amended the state constitution to change distributions to an amount equal to 4.7 percent of the five-year average value of the fund. In 2003, voters approved, on a slim margin, another constitutional amendment to raise the distribution to 5 percent. In addition, voters approved temporary additional distributions of 0.8 percent from FY06 to FY12 and 0.5 percent from FY13 to FY16 with the additional revenue earmarked for educational reforms.

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 \$40 million, deposits were \$817,000 in 2015 and \$7.7 million in 2016. Nevertheless, through the deposit of investment earnings and because of distribution limits approved by voters in 1996, the fund has grown an average of 3 percent a year over the past three years. Total value of the fund at the end of 2017 was \$5.1 billion.

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. Without the 2003 changes, the land grant permanent fund would have been \$1.25 billion greater by 2016 and annual distributions about \$60 million higher. Should distributions from the land grant fund increase by 1 percent, the reduced size of the total fund would mean that, in 25 years, the 6 percent of the five-year average of the value of the fund would be less than a 5 percent distribution of the unchanged fund.

For More Information:

- The current values of the two funds are included in the LFC's investment performance quarterly reports, available at www.nmlegis.gov/Entity/LFC/Quarterly_Investment_Reports
- The permanent funds are two of the four state investment funds. See the *Finance Facts* on “Investment Funds” at 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 www.nmlegis.gov/Entity/LFC/Documents/Finance_Facts/finance%20facts%20state%20trust%20land.pdf