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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/4/22

SPONSOR Hemphill/ Stewart LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Limit Certain State Fund Transfers SB 135

ANALYST Torres

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24	FY25	FY26		
\$0 - \$484,300.0	\$0 - \$960	\$0 - \$970	\$0 - \$970.0	\$0 - \$975.0	Recurring	Operating Reserve*
(\$0 - \$484,300.0)	(\$0 - \$17,300.0)	(\$0 - \$18,000.0)	(\$0 - \$18,650.0)	(\$0 - \$19,300.0)	Recurring	Tax Stabilization Reserve*

Parenthesis ( ) indicate revenue decreases

\*If the Legislature appropriates greater than or equal to \$484.3 million from the operating reserve in FY22, the revenue impact will be zero. The maximum impact is only possible if the Legislature spends no nonrecurring appropriations from the operating reserve in FY22. Currently, House Bill 2 would result in SB135's revenue impact equaling zero. See *Fiscal Implications*.

Responses Received From  
State Investment Council (SIC)  
Department of Finance and Administration (DFA)

### SUMMARY

#### Synopsis of Bill

Senate Bill 135 (SB 135) changes transfers from the operating reserve to the tax stabilization reserve. Under current statute, the operating reserve is effectively capped at 8 percent of recurring general fund appropriations for the prior fiscal year. Funds in excess of the 8 percent are transferred to the tax stabilization reserve. SB135 removes the cap and only distributes revenues in excess of 8 percent when the tax stabilization reserve is less than 20 percent of prior year recurring general fund appropriations.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

### FISCAL IMPLICATIONS

According to the December 2021 consensus revenue estimate, \$484.3 million was expected to be transferred from the operating reserve to the tax stabilization reserve (TSR) in FY22, if no additional appropriations were made in the current fiscal year. Because the TSR is already over 20 percent of recurring appropriations, this bill would allow the operating reserve to keep the \$484.3 million, which would reduce the TSR by the same amount and an estimated \$17.4 million in investment returns, each year.

However, the LFC budget recommendation and the current version of house bill 2 appropriate nonrecurring funds in FY22 from the operating reserve which would prevent the fund from reaching the 8 percent cap. Should those appropriations become law, there will be no fiscal impact of this bill, given the last consensus revenue forecast.

SB135 would not change the overall general fund reserves as both the operating reserve and the TSR are part of the accounts that make up total reserves. However, the change will allow the Legislature to set reserve levels more easily as appropriations and accumulations of funds in the operating reserve are more flexible.

If SB135 reduces total revenues to the TSR in favor of the operating reserve, there would be an opportunity cost in lost investment revenue. The TSR is invested by the State Investment Council and returned 3.59 percent in the year ending November 30, 2021. The operating reserve is managed by the State Treasurer and is much more liquid, returning 0.2 percent in the year ending October 31, 2021. The fiscal impact reflected on the table on page 1 assume these returns.

## **SIGNIFICANT ISSUES**

SB135 will slow the growth of the less accessible TSR fund and allow more funds to accumulate in the operating reserve which is more readily available for one-time spending by the Legislature. Unlike the operating reserve, the TSR does not have a cap or limit in terms of how much funds the account may hold. The TSR could continue to grow from distributions on excess of the five-year average of emergency oil and gas school tax revenue and investment returns. Both the operating reserve and the TSR require legislative approval to be accessed. However, there are distinctions between how current law determines each account can be accessed.

- Operating reserve: Revenues in excess of appropriations at the end of the fiscal year are transferred to the operating reserve. If revenues come up short, the governor may transfer money from the operating reserve to cover authorized expenses with the Board of Finance approval. The amount the governor can transfer is capped by the Legislature each year in the General Appropriation Act. The Legislature may appropriate from the operating reserve for nonrecurring uses by a simple majority vote.
- TSR: 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 of both the House and Senate vote for it.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Related to house bill 2. Depending on the spending approved in the General Appropriations Act, this bill may or may not have an impact on transfers to/from the operating reserve.

IT/al/acv