

New Mexico's reserves among lowest in the nation

Written by By Matthew Reichbach NM Political Report
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New Mexico's savings keeps dropping —and now the state has one of the smallest cushions of any state in the nation. Even now, those reserves are still well below pre-recession levels.

If no new money were coming in and the state government could rely only on those reserves, there would only be enough cash to run the state for 8.4 days. That's according to The Pew Charitable Trusts and its analysis of states' fiscal health.

In Fiscal Year 2016, the amount of money New Mexico held back and put into savings—to pay for unexpected expenses or shore up the budget when revenues dip—was at its lowest level since 2000, according to Pew. That year, the fund was at \$146 million. But the numbers have gotten even worse. The preliminary numbers for Fiscal Year 2017 show that New Mexico is \$67 million in the red.

Jon Moody, a research officer at the Pew Charitable Trusts, told *NM Political Report* the most important issue isn't necessarily the amount a state has in reserve, but how much officials are relying on that money for funding operations.

The fact that New Mexico had to rely on those funds two years in a row merits close attention.

"This is the state trying to figure out what it really needs," Moody said. "Trying to make sure the revenues and expenditures are in balance and trying to deal with some economic downturn."

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He noted that states that rely heavily on oil and gas revenues often have the highest tax volatility, although that's not always the case. California also ranks high, for example, but for a different reason. That state taxes income on capital gains, which are subject to the stock market and other economic forces. Alaska has a very high amount of money in reserves, enough to run its operations for 477.8 days.

State Senate Finance Committee Chairman John Arthur Smith, D-Deming, agreed that the energy industry's volatility means New Mexico needs larger reserves than many states. New Mexico's legislators depend on oil and gas revenues to balance the budget, and for the state's reserves.

Smith said New Mexico's reserves are low right now because the bottom fell out of oil prices recently, just a few years after natural gas prices plummeted. The boom and bust continues today: natural gas hasn't recovered, and while the price of oil has increased, it's nowhere near peak levels. And experts don't expect for oil prices to be near the peaks of over \$100 per barrel anytime soon.

Smith also noted that New Mexico took a recommendation from Pew and created a rainy day fund during this year's special legislative session. Now, when oil and gas revenues reach a certain level, the excess money goes into that fund.

That fund expands the existing tax stabilization fund. Any annual revenue the state collects from oil and gas taxes that are over the five-year average of those revenues goes into the reserve instead of the state's general fund, which is used to pay salaries, run state buildings and pay for programs.

Smith described the rainy day fund as a way to stop the "hills and valleys" in revenue.

"It's better late than never, but it would have been nice to have it ten years ago," Smith said. A legislative analysis showed if the same legislation were enacted in 2007, \$365 million would have flowed into the rainy day fund.

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The median amount of time states could run on reserves was barely 19 days in Fiscal Year 2016, according to the analysis. Nine states, including New Mexico, had to tap those reserves in FY 2016; that number increased to 16, again including New Mexico, in FY 2017.

Still, despite the current reserve situation, New Mexico was better off than Nevada and New Jersey. Both states had no money left in their savings accounts. And Pennsylvania could not fund operations for even one-tenth of a day with its reserves.

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