

Delivery alert until NaN

State permanent funds hit record high

By Kevin Robinson-Avila / Journal Staff Writer

Friday, August 11th, 2017 at 11:45pm



Pumpjacks work in a field near Lovington in 2015. A moderate rebound in oil prices over the last year accounts for the lion's share of new money flowing into the state's permanent funds. (Charlie Riedel/Associated Press)

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The New Mexico State Investment Council reported a \$2.1 billion boost in the state's permanent funds for the fiscal year that ended June 30, driving the total value of the funds to a record \$22.3 billion.

That, in turn, means an extra \$61 million in new money will flow into the state budget for FY 2018, now underway.

"This is welcome news for New Mexico taxpayers," Gov. Susana Martinez said in a prepared statement. "... Results like these should further encourage us to keep doing all we can to protect these funds for future generations of New Mexicans."

The Land Grant Permanent Fund and the Severance Tax Permanent Fund, which together account for about 95 percent of New Mexico's permanent funds, both showed substantial growth in FY 2017, fueled by a bullish stock market and improvement in oil prices since last year.

Those funds earn income from leases, royalties and taxes on oil and gas production in New Mexico, and from other activities on state lands. The SIC also invests that money in stocks, bonds and other things to further grow the funds.

Overall, the state's permanent funds jumped by more than 10 percent last fiscal year, from \$20.19 billion at the end of FY 2016 to \$22.33 billion as of June 30.

That includes \$1.68 billion in new money for the land grant fund, driving its total value to a record \$16.27 billion. The severance tax fund grew by about 8 percent to \$4.91 billion.

Money from those funds accounts for about 15 percent of the state's annual budget. Every year, the land grant fund pays out 5 percent of its average value over the last five years, and the severance tax fund 4.7 percent, into the state's general fund to help finance public schools, universities, specialty schools and other state institutions.

Thanks to FY 2017's robust performance, the funds will pay out a record \$903 million to the general fund in FY 2018, up from \$842.5 million last year, said SIC spokesman Charlie Wollmann.

"That's \$61 million in new money available for lawmakers this year," Wollmann said. "Annual payments out of the permanent funds saves the average New Mexico household more than \$1,100 each year. Without those payments, our taxes would be much higher, and our schools would be in worse shape."

While most of the new money will shore up education-related budgets, enough will go to the general fund to improve cash reserves beyond the 2.8 percent the Legislature had projected for this year, said Senate Finance Committee Chair John Arthur Smith.

"The new money will add about 1 percent in reserves that we weren't counting on," Smith said. "That's cash in the bank."

A moderate rebound in oil prices over the last year accounts for the lion's share of new money flowing into the permanent funds.

Oil prices crashed in 2014, pulling the price per barrel down from about \$100 before the bust to below \$30 by early 2016. That thrust the state budget into crisis for the past three years as new oil drilling nearly screeched to a halt in the Permian Basin in southeastern New Mexico.

But the price has since climbed back to the \$50-per-barrel range, encouraging a new surge in Permian operations that's significantly boosting the permanent funds.

Monthly earnings from oil- and gas-related activity peaked at about \$74 million in October 2014, and then plummeted downward to a low of just \$21 million by May 2016, Wollmann said. But earnings began climbing again in June of last year, more than doubling to \$45 million by last March.

That's still well below pre-bust levels, but it's brought welcome relief to the permanent funds.

"Production is up in the Southeast," Wollmann said. "We haven't seen a full resurgence in revenue because oil and gas prices have only moderately rebounded, but the volume of oil coming out of the ground remains consistently high."

At the same time, stock markets are performing particularly well, contributing to robust returns from SIC investments. The Standard and Poor's 500 stock market index is up more than 11.5 percent over the last 12 months.

The SIC reported 12.9 percent net investment returns for FY 2017, nearly double its 7 percent annual investment target.

The SIC has also boosted performance through aggressive efforts to diversify its investment portfolio in the last seven years since the recession. The council lowered its holdings in public equities from 62 percent of total investments before to 45 percent now, redirecting much of it toward income-producing assets such as timber, infrastructure and energy.

"A lot of the gains this past year were driven by the stock market, but we've also benefitted from strong performance in real estate assets," Wollmann said.

Perhaps more important, investment diversification will help buffer the permanent funds from inevitable downturns on the stock markets in the future.

"We've worked to reduce volatility in the portfolio," Wollmann said. "Diversification allows us to still benefit when the stock market is strong, but also to protect the portfolio when it's weak. We're now well diversified and prepared for those ups and downs."

Contact the writer.

