



LFC Newsletter

A publication of the Legislative Finance Committee

Representative Nathan Small, Chairman
Senator George Muñoz, Vice Chairman
Charles Sallee, Director

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From the Chairman **Steady Hands**

In late February, U.S. and Israeli attacks on Iran triggered the off-and-on closure of the Strait of Hormuz, the pass-through point for nearly a fifth of the world's crude oil trade, leading to higher oil prices.

While higher oil prices mean higher revenues in an oil producing state like New Mexico, we know that overall, higher prices mean higher costs at a time when it's already difficult for many New Mexico families to stay afloat.

The cost of everything is up, but especially gas, groceries, utilities, health insurance, and anything made from plastic or put on a truck. Farmers are facing sharply higher fertilizer and fuel prices. And while New Mexicans might be able to delay getting a new car or taking a vacation, they can't skip buying groceries and paying the electric bill.

Inflation is running at 3.3 percent, a two-year high primarily driven by higher energy costs, and some forecasters say it will be 4 percent by the end of the year, increasing the risk of a recession. If a recession hits, it will be even harder for New Mexico families.

Growing economic uncertainty, rising inflation, and the risk of recession weigh most heavily on those least able to absorb them. Fortunately, the Legislature had the foresight during the recent years of financial strength to take steps that will allow us to maintain the critical services that New Mexicans need, even in the face of an economic downturn.

Additionally, there are some welcome signs of progress in our state's economy. One recent study found that outdoor recreation contributed \$3.6 billion and 31,000 jobs to New Mexico's economy in 2024, while another showed that creative industries contributed over \$1 billion to the city of Albuquerque's economy the same year.

These bright spots are promising, but amid so much uncertainty at a national and global scale, we must keep steady hands on the wheel. As global events continue to whip energy markets back and forth, we must remain focused on using today's gains to build stability, protect families, and prepare for tomorrow.

Representative Nathan Small
Chairman

High Disconnected Youth Rates Cost State Hundreds of Millions

About 32 thousand youth in New Mexico are neither working nor in school, costing the state an estimated \$623 million a year, LFC staff report.

In the report scheduled to be presented to committee members at 10:30 a.m. April 27 during the first meeting of the interim, evaluators report that New Mexico has higher rates of 16- to 24-year-olds who are "disconnected"—not in school, working, or in training—than the national average.

Reconnecting 3,200 more youth to school or jobs would put New Mexico at the national average.

Each disconnected young person costs the state more than \$19 thousand annually in lost tax revenue, and disconnected youth are more likely to earn less over their lifetimes, collectively earning up to \$1.2 billion less a year, the report says.

Disconnected youth are also more likely to be involved in crime, face behavioral health challenges, and have poorer health.

The report finds disconnection is more common among those in rural areas, those with prior involvement

in the child welfare or criminal justice systems, and those with housing instability.

Using five-year averages, the report finds the disconnection rate is highest among non-Hispanic Native Americans, with almost 30 percent not working, in training, or in school. The 16.4 percent disconnection rate for Hispanic youth is the same as the average for the state but higher than the national Hispanic rate. A slightly higher share of young women are disconnected than young men, which might be related to caregiving responsibilities, the report suggests.

Evaluators report existing programs for connecting youth with jobs or training are not well coordinated and do not target youth who have already disconnected.

The report recommends that school districts create a system for referring dropouts to support programs, that employment programs for young workers target disconnected youth, and that the governor create a cross-agency coordinating body focused on disconnected youth.

Solvency Playbook Under Development

New Mexico is in the top five of states for revenue volatility, largely because of its reliance on the oil and gas industry, but LFC staff are working on a solvency playbook to prepare for potential downturns.

Staff are scheduled to present the initial framework for managing fiscal stress to the committee at 9:30 a.m. on April 27.

Staff reported in mid-February that FY26 revenues were tracking behind projections at a rate that could have meant the state would run out of cash on hand.

However, stronger oil prices, related to the U.S. war with Iran, and stronger, unanticipated revenue collections have offset the decline, making solvency steps likely unnecessary this year.

Staff note the solvency plan is a national best practice for fiscal management and should be created before the state is under financial duress.

The framework outlines steps based on degree of disruption to state services and the severity or duration of an economic downturn.

Initial steps are focused on using existing resources to cover a temporary gap between revenue and spending, such as tapping liquid reserves and idle accounts and adjusting cash flow. However, staff note the use of reserves is a temporary fix and not a long-term solution.

If the gap is expected to be larger or the downturn expected to last longer, staff recommend launching tax reforms and reforms to funds earmarked for a specific purpose. Because implementation of reforms takes time, the playbook suggests acting before reserves are exhausted.

Deeper and longer-lasting economic issues could trigger agency budget cuts, emergency staff reductions, and the elimination of some staff benefits and service.

Some Budget Sectors See Hefty Budget Increases

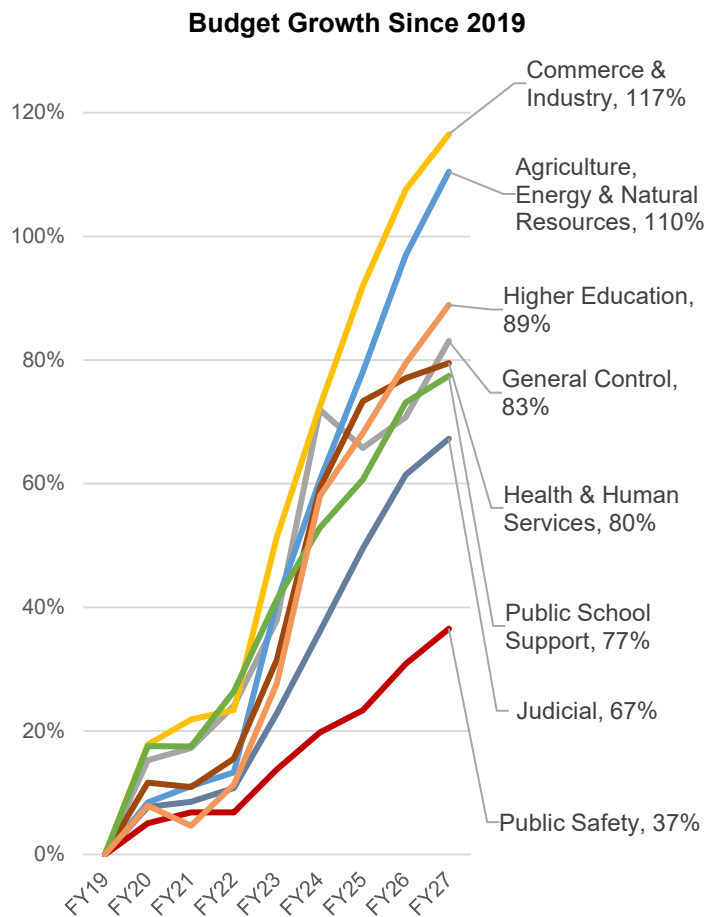
Ongoing spending on state operations has grown overall by 76.2 percent since FY19, or about 10 percent a year on average, but some agency groups have seen bigger increases than others.

The commerce and industry sector, which includes the Economic Development and Tourism departments along with occupational licensing boards and utility and insurance regulatory agencies, has seen the biggest percentage increase at 117 percent, although that category of agencies only makes up 1 percent of the budget and a large increase has limited impact overall.

Public schools and higher education, which make up more than half the budget, saw increases of 77 percent and 89 percent, respectively.

The public safety agencies, including the Public Safety and Corrections departments, saw the smallest increase, an average under 5 percent per year due to lower incarceration costs.

An LFC review of the budget adopted during the 2026 legislative session and other session action is available online at https://www.nmlegis.gov/Entity/LFC/Session_Publications.



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Editor - Helen Gaussoin

Questions, comments: 505-986-4550

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On the Table

Childcare Likely Over Budget

The Childcare Assistance Program will likely overspend revenues in FY26 by tens of millions of dollars if no cost containment or budget adjustments are put into place, LFC analysis suggests. LFC, Department of Finance and Administration, and Early Childhood Education and Care Department staff will continue to meet on the issue.

About Half of Regents Positions Vacant

Half of the some 37 regent positions at New Mexico colleges and universities will be vacant in January 2027, just as a new governor takes office. Currently, the governor appoints new regents with state Senate approval, but voters will be asked in November if they want to amend the state constitution to create a nominating committee for regent appointments. If adopted, the governor would select a regent from the candidates. Even if voters approve the constitutional amendment in November, the Legislature must adopt legislation creating the committees, which might delay the appointment of new regents.

NM Kinders Comparable with Nation

Data from the performance of 19 thousand New Mexico kindergartners on New Mexico's newly implemented early development instrument shows the New Mexico students perform similarly to a national sample, according to a University of California Los Angeles study of the new tool. Slightly under half of the New Mexico kindergartners met expectations across all five domains, although 70 percent were on track in at least one area. The study also found significantly poorer outcomes for students living in higher inequity neighborhoods.

Risk Advisory Warns of Overspending

LFC and the State Auditor have issued a joint risk advisory reminding agencies they are legally required to spend within their appropriations or face heightened oversight or criminal liability. In recent fiscal years, state agencies have requested large amounts—\$230 million during the 2026 legislative session—to cover budget shortfalls. While deficits can be caused by unpredictable circumstances, many result from unfunded pay raises and hiring or failing to reduce spending when federal funds or other revenues fall short.

CYFD Risk Payments Fall Short of Costs

Year-to-date settlements from the Risk Management Division of the General Services Department show the agency has spent \$17.9 million on settlements for the Children, Youth and Families Department, not including other costs associated with defending the agency and for payments to the court-appointed "co-neutrals" in the *Kevin S.* foster care lawsuit settlement. For FY26, CYFD's total liability insurance premium is \$5.6 million, or likely less than a quarter of total expenses. In FY27, that will rise to \$9.7 million and CYFD will take over co-neutrals payments. If settlements continue at the current rate, CYFD will likely face another significant rate increase in FY28.

Transitions

LFC has hired two new analysts. Isabella Storms will take over the general government block that includes the Department of Finance and Administration and the Secretary of State. A recent University of New Mexico graduate with a degree in economics and political science, Storms previously worked for the state House Taxation and Revenue Committee and previously served as a congressional intern. Ella Hatfield is joining the capital outlay team. Also a former congressional intern, she has a masters' degree in political science from the University of New Mexico and recently served as a policy analyst for the state Senate Conservation and Finance committees.

Kelly Klundt, LFC deputy director for administration, has been asked by the Department of Finance and Administration to serve on the statewide Budget Council. The council is intended to bring together individuals with strong understanding of budgeting to discuss modernization, common challenges, and shared priorities.