



LFC Newsletter

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Representative Nathan Small, Chairman
Senator George Muñoz, Vice Chairman
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From the Chairman

Deliberative Work

After months of chaos, the massive federal spending bill passed by the slimmest of margins and was signed into law. We are digging into the details to understand how it will impact our communities and how we can protect our people from its harms.

We are analyzing the bill timelines, so we can prepare for the impacts that may hurt New Mexicans the worst, first. For example, we are anticipating the loss of hundreds of millions of dollars in the Medicaid program, but many of the federal cost-cutting provisions won't go into effect immediately.

New work requirements, which are tied to burdensome and time consuming paperwork, and frequent re-enrollment requirements, could knock tens of thousands of New Mexicans out of the healthcare program. They fully start in December 2028.

Similarly, healthcare providers that serve Medicaid patients will lose money—and some of our rural hospitals may be forced to close—because of the new federal payments cap, but the cap is being phased in starting in 2027.

In addition, the federal spending plan cuts \$180 billion from the Supplemental Nutrition Assistance Program by requiring states to start paying a share of the benefit costs. Maintaining existing benefits would cost our state about \$173 million, but this change may be delayed.

Right now, we are carefully tracking the changes and thoughtfully considering how we can most effectively respond. That means understanding which lost federal dollars can be replaced with state dollars, where state funds that aren't having their intended impacts can be redirected, and how we protect the critical services New Mexicans depend on.

It is important that we as lawmakers—alongside schools, healthcare providers, and local officials—remember that while these cuts are cause for deep concern, we should not panic. Providers and schools should avoid preemptively cutting budgets or services, just as lawmakers should refrain from rash and rushed decisions.

New Mexico lawmakers have already taken many steps to prepare for federal funding cuts and a potential economic slowdown. For years now, we have maintained significant operating reserves and have steered excess revenue to investment funds. We have created endowments for higher education, natural resources, and healthcare, and pushed for the accountability and results taxpayers deserve. As a result, we are well-positioned to adjust to the federal changes without jumping to reactionary budget decisions.

When the committee meets later this month, we will discuss broad guidelines for how we respond to the federal funding cuts. Amid the ongoing federal chaos, we will remain hard at work so that we can make the right decisions for New Mexico.

Representative Nathan Small
Chairman

Tax Breaks Cost State \$3B but Don't Always Pay Off

The state forgoes more than \$3 billion a year through tax credits, exemptions, deductions, and other tax code preferences intended to encourage certain behaviors or favor certain groups, LFC economists report.

In a June [presentation on tax expenditures](#), staff said the state would collect another estimated \$3.2 billion a year in taxes if the preferences did not exist, including about \$1.3 billion from individuals and families.

Tax breaks for the healthcare industry, the second largest category of tax expenditures, add up to \$962 million a year in forgone state revenue. Tax incentives for economic development are third on the list at \$695 million a year.

Staff indicate the state invests more in economic development through tax expenditures than through direct incentives, like the Local Economic Development Act and the Job Training Incentive Program.

Economic development tax expenditures doubled in FY24, with the largest increases for tax incentives for manufacturers, a \$389 million expense in FY24 that was triple the FY23 cost.

The manufacturers tax incentives make up nearly two-thirds of all economic development tax incentive spending.

In a closer look at the rural job tax credit, the first of a series of short *Tax-E* reports planned for many of the 145 state expenditures, the analysis suggests the credit for businesses that open or expand in rural areas has a return on investment of about 35 percent, meaning the economy grows by 35 cents for every dollar the state loses in tax revenue.

The assessment notes the return on investment of the rural job tax credit has dropped since 2000 because of inflation.

In a *Tax-E* report on the high-wage jobs tax credit, staff estimate the return on investment for the credit for newly created high-wage jobs is 47 percent.

In a brief on the [methodology](#) of the *Tax-E* assessments, LFC economists note New Mexico has not had a system for rigorously reviewing its tax expenditures, even though it has some of the most generous incentives as a share of state revenue in the country.

Faculty Endowment Funds Underused

A \$170 million investment intended to boost the number of nursing, teaching, and social work graduates, mostly by adding college faculty, is falling short, with colleges and universities slow to implement programs, an LFC evaluation shows.

Use and Impact of Endowment Appropriations for Higher Education Nursing, Teacher Education, and Social Work Programs, a program evaluation scheduled to be presented to the committee at 8:30 a.m. July 24, concludes the colleges that received the funds to create faculty endowments are not fully using the investment earnings, delaying the ability to serve students or build the workforce in areas now suffering from worker shortages.

To boost long-term enrollment capacity and graduates in nursing, teaching, and social work, the Legislature appropriated \$170 million between FY23 and FY25 for higher education endowments that would generate interest earnings in

perpetuity to add faculty in those programs, along with supports for students studying social work.

Projections of interest earnings on the endowments indicated the funding was enough to fund about 87 additional faculty annually; however, schools have only supported 52 positions.

Further, while investments earnings have been close to \$11 million, colleges and universities have only spent \$2.5 million on faculty salaries.

The evaluation notes increasing the capacity of college education programs won't immediately impact worker supply but recommends that certain schools move more quickly to deploy the funds and that the Higher Education Department more closely track spending.

New Mexico would need to graduate and retain at least 12.7 thousand nurses, 11 thousand teachers, and 3,000 social workers to address anticipated job openings from 2025 through 2032.

Overdose Deaths Down 26% From 2021 Peak

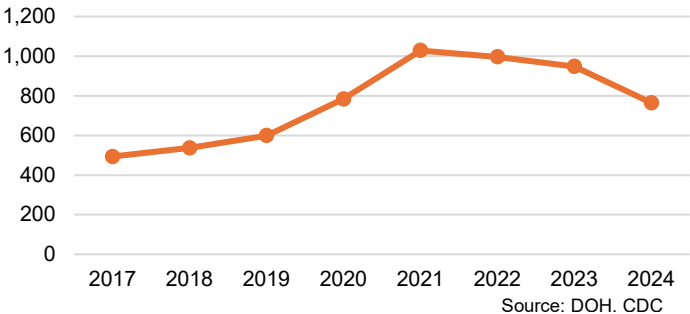
After steep increase in overdose deaths in the United States and New Mexico from 2014 and 2021, state and federal data for 2024 show a clear drop in New Mexico and most states, LFC staff report.

In a program evaluation on medication-assisted treatment for substance use disorder scheduled to be heard 1 p.m. July 23, LFC staff report, based on preliminary data from the Department of Health and federal Centers for Disease Control and Prevention, New Mexico had 765 overdose deaths in the year that ended September 2024, down 26 percent from the 1,029 reported in 2021.

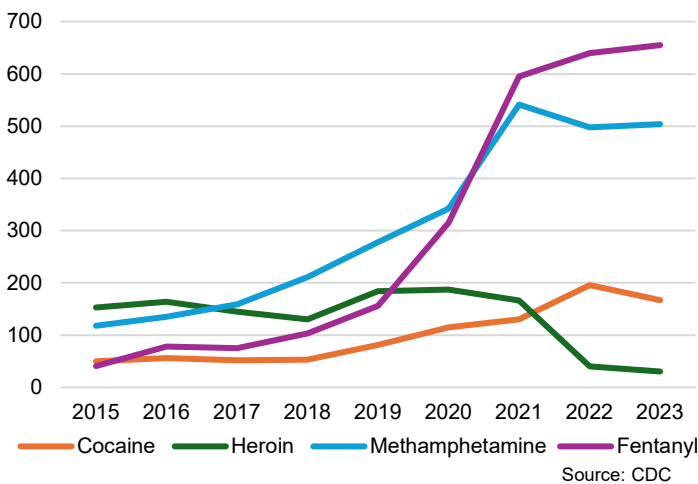
For New Mexico, the increases over the last 10 years have been driven primarily by the rise in fentanyl overdoses, and secondarily by those from methamphetamine, the report says. Similarly, the improvements in the previous two years have been driven by fewer deaths due to fentanyl and methamphetamine.

However, the evaluation notes the decrease in overdose deaths is not evidence that use has also decreased. Instead, clinicians suggest the decline in fatal overdoses is because of an increase in harm reduction efforts, like the wide availability of the overdose-reversal drug Narcan.

New Mexico Overdose Deaths by Year



New Mexico Overdose Deaths by Drug



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On the Table

Libraries Get Telehealth Booths

The University of New Mexico Health Sciences Center has set up free telehealth booths at four community libraries that offer private, soundproof rooms equipped with computers for people to visit with healthcare providers virtually. The telehealth booths are in Aztec, Mescalero, Gallup, and Fort Sumner. An additional five to 10 booths, each funded with \$12 thousand in federal grants, are planned for placement at libraries in rural New Mexico by the end of 2025.

\$5M for Adult Education Frozen

The federal government has frozen \$5 million in Workforce Innovation and Opportunity Act funding for adult education programs in New Mexico. The state was notified of the award amount in early June, and funding was supposed to be distributed July. The funds represent about one-third of the adult education budget and support English literacy initiatives. The funding freeze was announced by the U.S. Department of Education on June 30.

Colleges Get Retention Bonuses

The Higher Education Department has distributed \$4.5 million in Government Results and Opportunity funding to all but one of New Mexico's four-year colleges for improving student retention rates. New Mexico State University's student retention rates fell in each of the four categories measured, making the institution ineligible for funding in FY26. More than half of the funds, \$2.6 million, went to the University of New Mexico. The remaining schools received between \$185 thousand and \$500 thousand.

DFA Reaches \$1.7M Agreement with Courts

The Department of Finance and Administration, in an agreement with the Administrative Office of the Courts, will pay \$1.7 million to court and other judicial employees who were allowed to combine sick and annual leave when claiming payouts for unused leave. In exchange, AOC will revise its paid leave policy to separate the two types of leave and align with state law. Under the agreement, DFA will make its largest payment to the former director of the office, who will receive slightly over \$80 thousand.

Public School Enrollment Continues Decline

The FY26 student count for the public school funding formula dipped to 295.5 thousand students, a decrease of 4,918 students (or 1.6 percent) from the prior year. While the kindergarten cohort grew slightly by 119 students, or 0.5 percent, the overall population decline continues a decades-long trend of shrinking enrollment statewide. The preliminary program unit count, which starts with enrollment but includes multipliers for grade level, special education needs, and other student-specific details, is at 635 thousand, more than 4,000 over the projection used to develop the budget.

Transitions

Carlie Malone, a former LFC analyst, is returning after earning both a law degree and a doctorate in economics from Vanderbilt University. She has practiced law in Washington D.C. and with the New Mexico Attorney General and has served as a law clerk at the U.S. Court of Appeals for the 9th Circuit. Malone will be the analyst for the Children, Youth and Families Department, the Workforce Solutions Department, and several other agencies.

LFC Senior Fiscal Analyst Allegra Hernandez, Ph.D., has received the Rising Star Award for 2025 from the National Academy for State Health Policy, which recognizes those working in state health policy for less than seven years who have demonstrated exceptional leadership, innovation, and commitment to effective state health policy.

LFC Evaluator Sarah Dinces, Ph.D., has joined the National Legislative Program Evaluation Society executive committee.

Albert C.S. Chang is the new director of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department. Chang was the director of the Mining and Minerals Division at EMNRD. Public School Facilities Authority Director Iris Romero has resigned after 18 months.