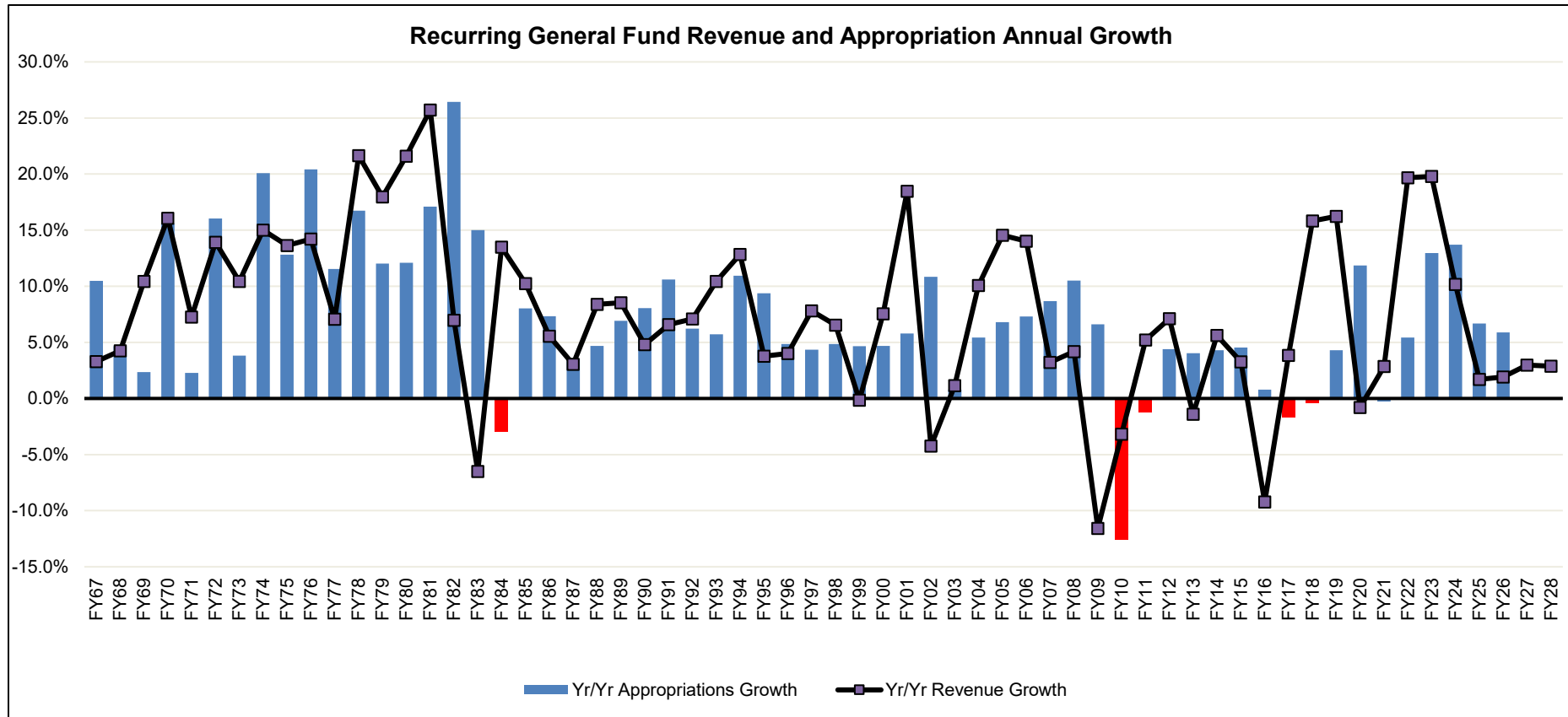# Economic & Revenue Update
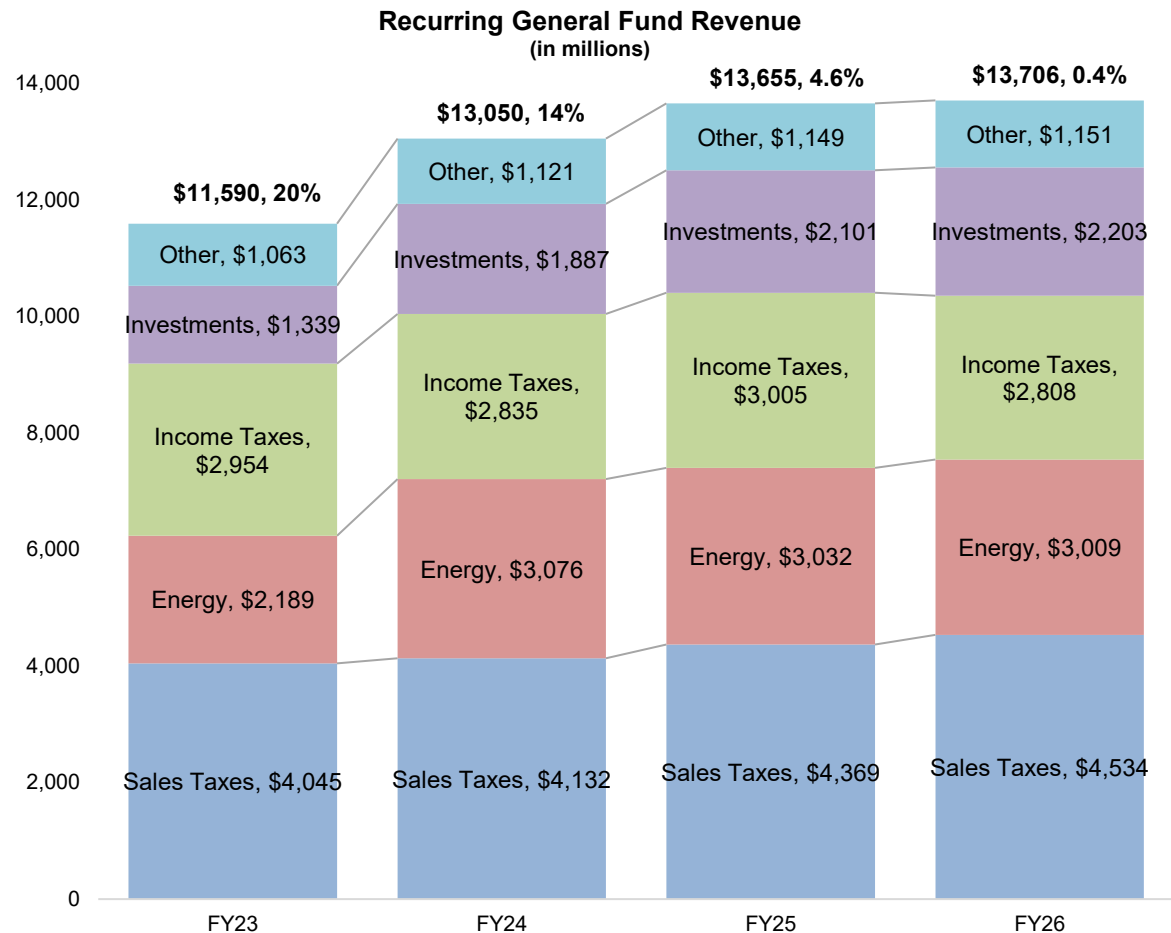
Charles Sallee, Director, LFC

December 2, 2025

Significant volatility in revenues hampers consistent investments, challenging the state's ability to plan and execute stable budgeting.

Recurring General Fund Revenue and Appropriation Annual Growth

Legend: Yr/Yr Appropriations Growth — Yr/Yr Revenue Growth

Oil production and wage growth led to record-high revenue forecasts, but revenues are slowing significantly.
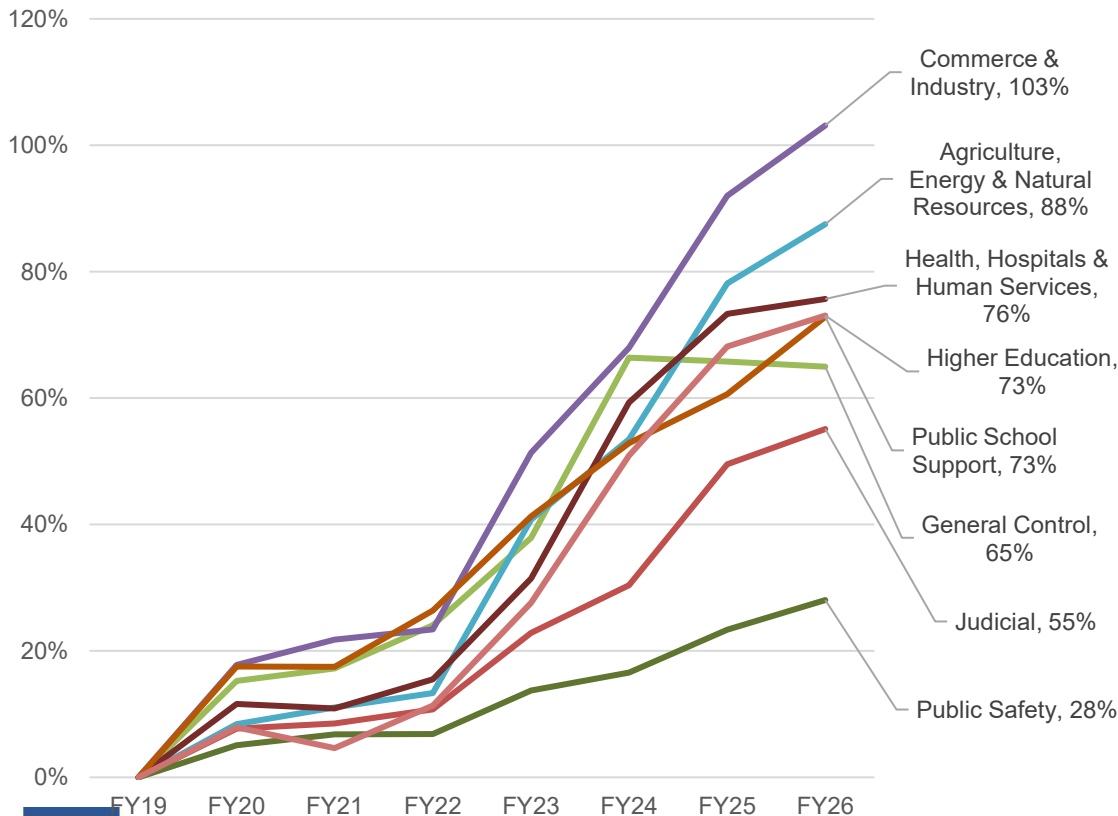
- Oil and gas revenues accounted for 38% of projected general fund increases in FY23 and 71% in FY24. They are flat in FY25 and FY26.

- Investment income and GRT revenue is projected to drive revenue growth in the future.

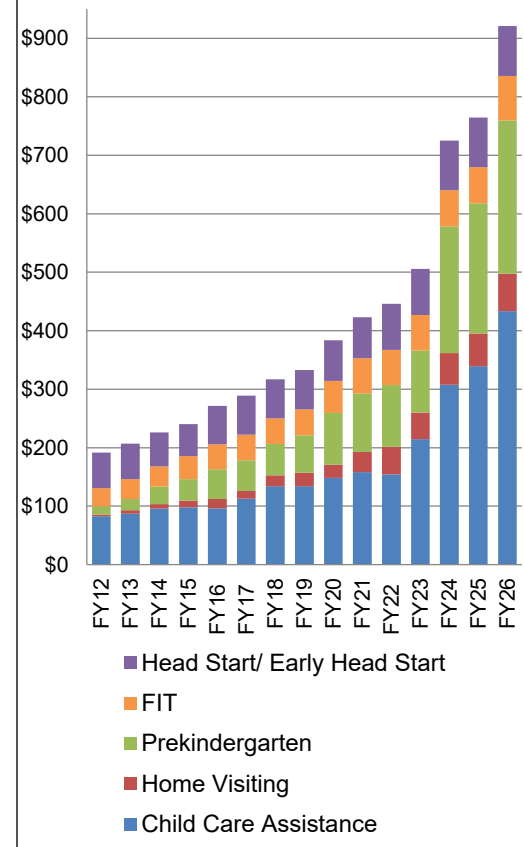- FY25 ending reserve balance of $3.5 billion, or 33.9 percent.

Recurring General Fund Revenue
(in millions)

	FY23	FY24	FY25	FY26
Total	$11,590, 20%	$13,050, 14%	$13,655, 4.6%	$13,706, 0.4%
Other	Other, $1,063	Other, $1,121	Other, $1,149	Other, $1,151
Investments	Investments, $1,339	Investments, $1,887	Investments, $2,101	Investments, $2,203
Income Taxes	Income Taxes, $2,954	Income Taxes, $2,835	Income Taxes, $3,005	Income Taxes, $2,808
Energy	Energy, $2,189	Energy, $3,076	Energy, $3,032	Energy, $3,009
Sales Taxes	Sales Taxes, $4,045	Sales Taxes, $4,132	Sales Taxes, $4,369	Sales Taxes, $4,534

For example, the Legislature made significant investments in education, childcare, healthcare, workforce, and public safety.


Budget Growth Since FY2019

Commerce & Industry, 103%
Agriculture, Energy & Natural Resources, 88%
Health, Hospitals & Human Services, 76%
Higher Education, 73%
Public School Support, 73%
General Control, 65%
Judicial, 55%
Public Safety, 28%

Recurring
Early Childhood Funding History
FY12-FY26
(in millions)

- Head Start/ Early Head Start
- FIT
- Prekindergarten
- Home Visiting
- Child Care Assistance

Tax changes passed in the last seven legislative sessions will reduce recurring revenues by over $1 billion by FY26.

Tax and Revenue Changes by Fiscal Year
(in millions)
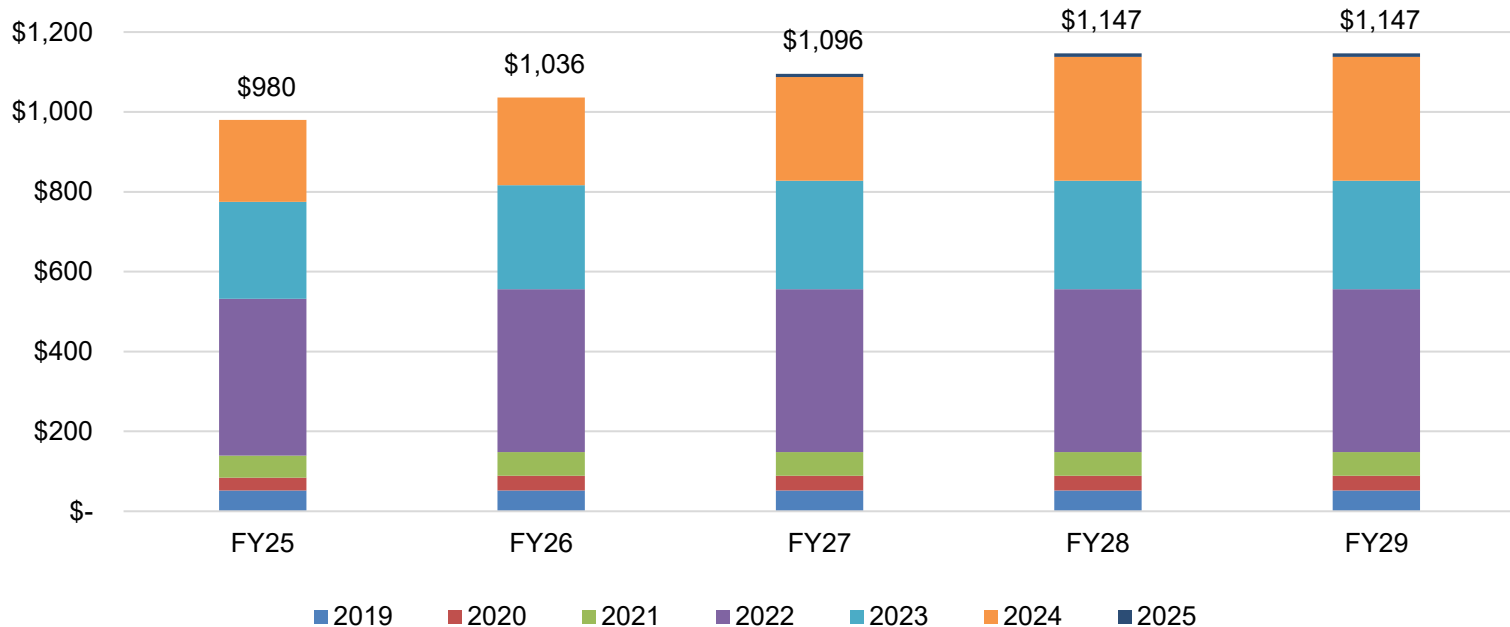
Note: Does not include OGAS revenue distribution changes

Source: LFC Files

Near term investments need to "make it count" for long term sustainability of government finances

- Foster economic growth to beat current expectations. Investments today need to result in transformational impacts on revenues tomorrow.

- Resist spending all recurring revenues on recurring uses, now and in the future.

- Invest short-term, peak production revenues for future use. E.g., endowments and trust funds.

- Extend five-year average protections on oil and gas related-revenues to delay declines.

- Use short-term, peak production revenues for nonrecurring uses.

Indicators are slowing.

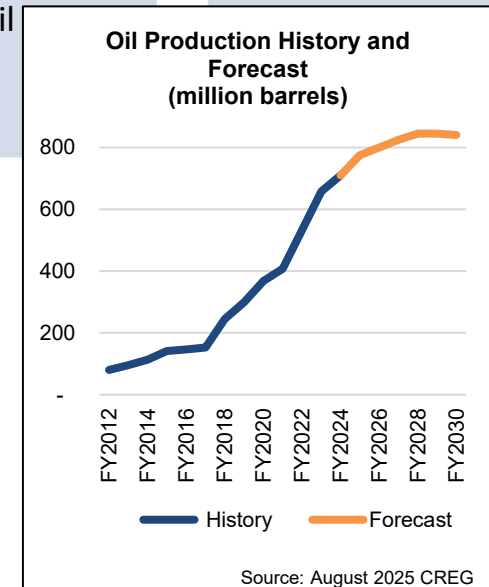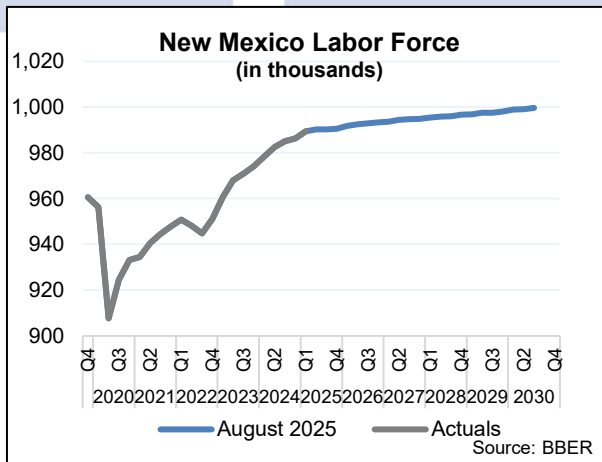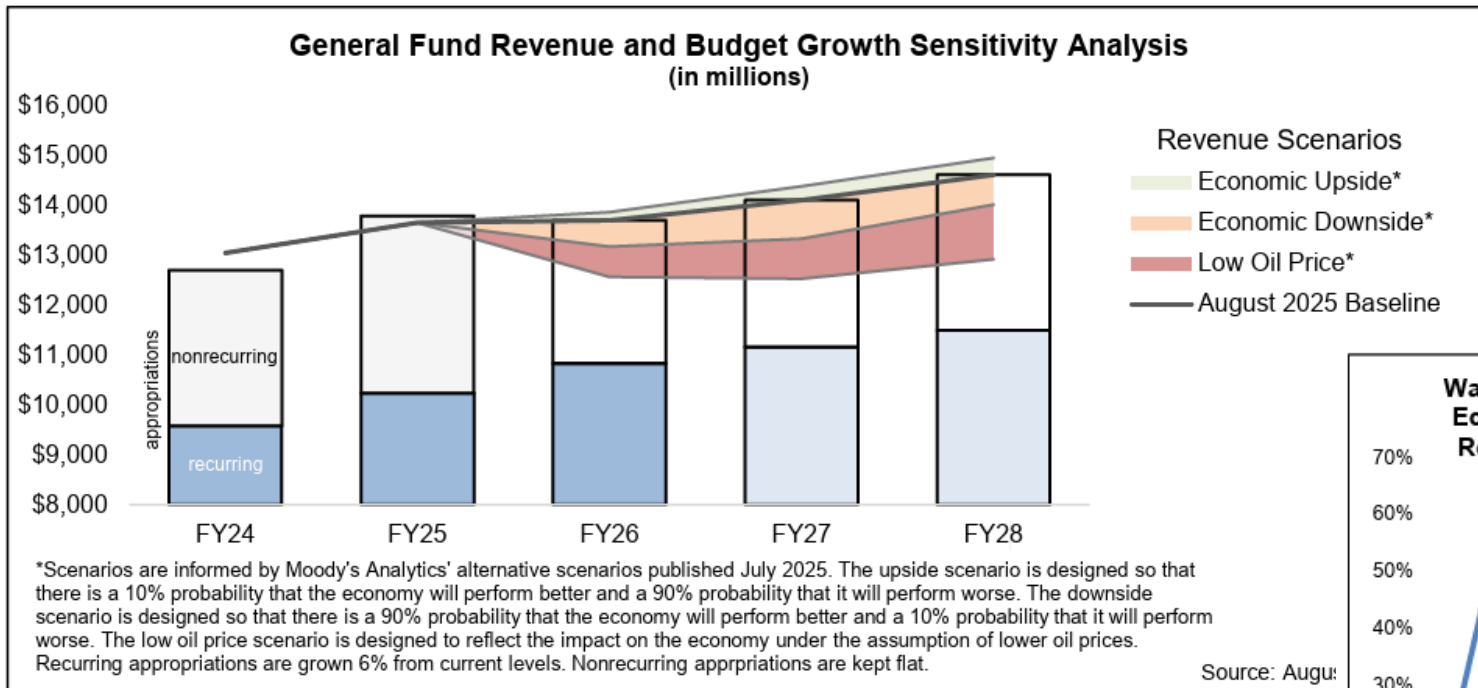| Labor Market	Consumer Spending/Construction and Housing	Business Inventories, Profits and Formations	Oil and Gas
• Unemployment Rate • Job Growth • Labor Force Participation • Employment-to-Population Ratio • Job Openings, Hires, Quits and Layoffs • Ratio of Job Vacancies to Unemployment • Initial Unemployment Insurance Claims	• Advance Retail and Food Services Sales • Quarterly Selected Services Revenue • New Single-Family Houses Sold • Housing Starts • Retail Vacancy Rates • Homeownership Rate • Construction Spending	• Business Applications • Retailer Quarterly Profits • Manufacturing Quarterly Profits • Business Inventories • Wholesale Inventories • Advance Wholesale Inventories • Advance Retail Inventories	• Price of Oil • Price of Natural Gas • Number of Wells Drilled • OPEC Actions • Decreased Travel (lower demand) • Global Conflict

New Mexico Labor Force
(in thousands)

Legend: August 2025, Actuals

Source: BBER

Oil Production History and Forecast
(million barrels)

Legend: History, Forecast

Source: August 2025 CREG

Recession Risk to the Budget

General Fund Revenue and Budget Growth Sensitivity Analysis
(in millions)

Revenue Scenarios
- Economic Upside*
- Economic Downside*
- Low Oil Price*
- August 2025 Baseline

*Scenarios are informed by Moody's Analytics' alternative scenarios published July 2025. The upside scenario is designed so that there is a 10% probability that the economy will perform better and a 90% probability that it will perform worse. The downside scenario is designed so that there is a 90% probability that the economy will perform better and a 10% probability that it will perform worse. The low oil price scenario is designed to reflect the impact on the economy under the assumption of lower oil prices. Recurring appropriations are grown 6% from current levels. Nonrecurring apprpriations are kept flat.

Source: Augus

Wall Street Journal Economic Survey Recession Risk

Source: Wall Street Journal

- The CREG economic downside scenario presents a 3.8% revenue loss in FY26, a 5.5% revenue loss in FY27, and 4.1% revenue loss in FY27.
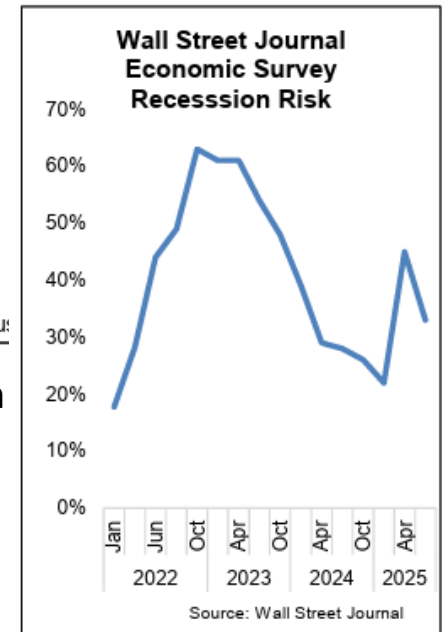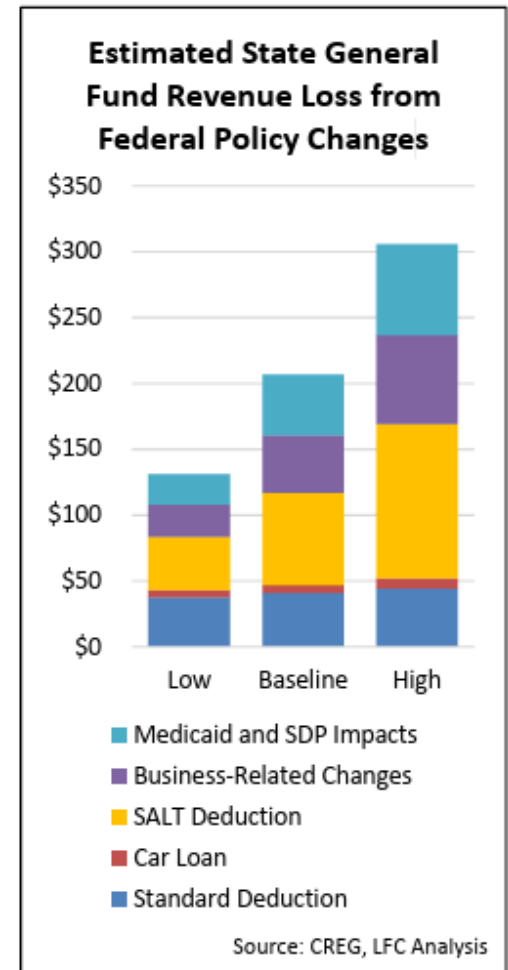
# Federal action can jeopardize our revenues and put pressure on spending

LFC Analysis of CBO Estimates for Impact of 2025 Budget Reconciliation Bill (millions)												
	Actual - 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2034
Medicaid - Federal	$7,416.0	$7,872.0	$8,340.0	$8,856.0	$9,204.0	$9,636.0	$10,044.0	$10,452.0	$10,920.0	$11,376.0	$11,832.0	$105,948.0
Baseline Growth Rate		6%	6%	6%	4%	5%	4%	4%	4%	4%	4%	
Medicaid Changes From Baseline		($10.0)	($261.8)	($651.0)	($877.4)	($1,276.4)	($1,524.9)	($1,754.6)	($1,878.2)	($2,042.1)	($2,234.9)	($12,511.3)
Percent Change from Baseline		0%	-3%	-7%	-10%	-13%	-15%	-17%	-17%	-18%	-19%	-12%
Rural Healthcare Initiative*			$100.0	$100.0	$100.0	$100.0	$100.0					$ 500
New Baseline		$7,862.0	$8,178.2	$8,305.0	$8,426.6	$8,459.6	$8,619.1	$8,697.4	$9,041.8	$9,333.9	$9,597.1	$86,520.7
Percent Change YOY New Baseline			4%	2%	1%	0%	2%	1%	4%	3%	3%	

Source: CBO,FFIS *LFC timing and yearly outlay estimates based on FFIS

Estimated State General Fund Revenue Loss from Federal Policy Changes

Legend:
- Medicaid and SDP Impacts
- Business-Related Changes
- SALT Deduction
- Car Loan
- Standard Deduction

Source: CREG, LFC Analysis

While energy analytics firms expect NM oil production to continue growing for the next few years, production is currently expected to peak in the 2030s.

**Rystad Energy – New Mexico Long-Term Oil Production Outlook**
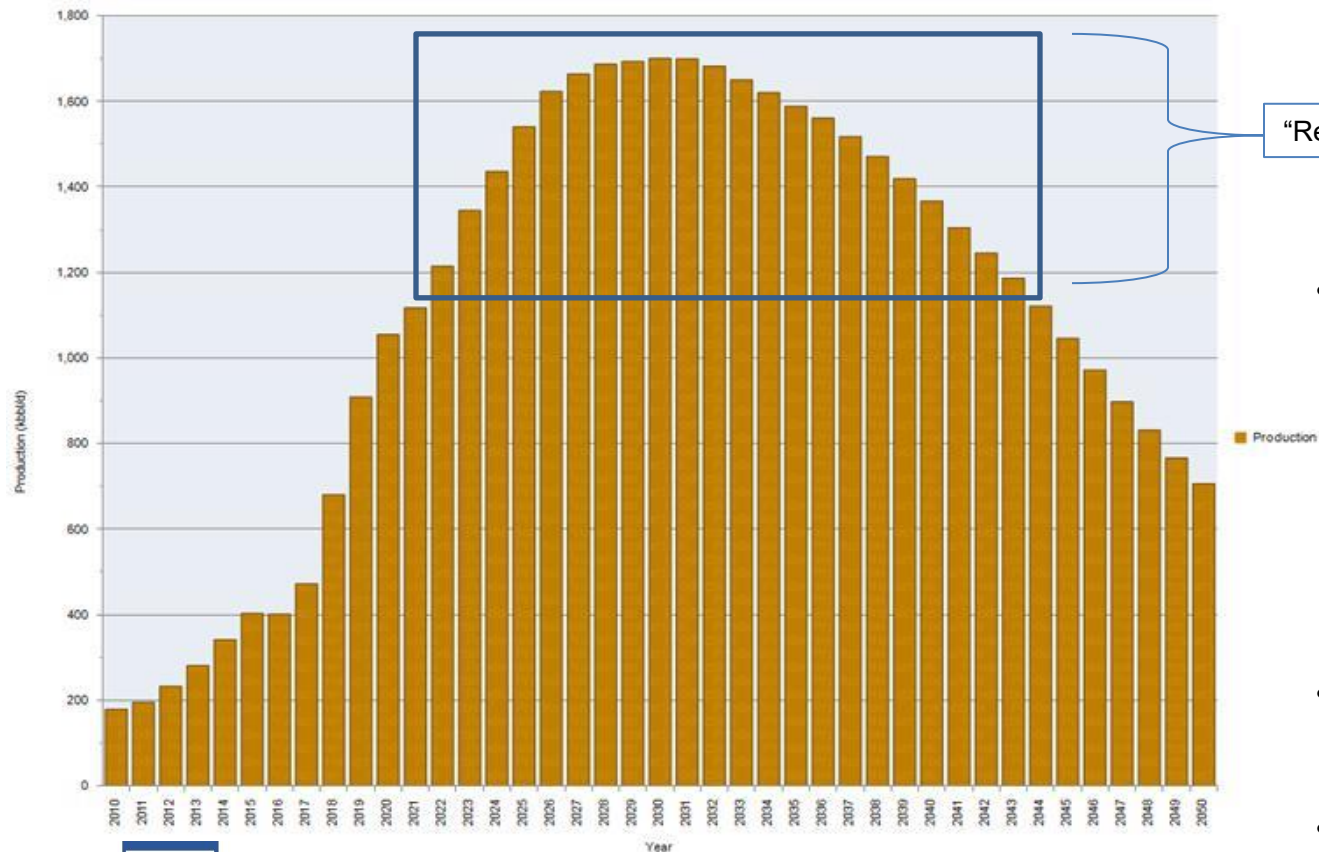
"Recurring" or "nonrecurring"?

Source: Rystad Energy LICube PreRelease, version 2021-02-09

- The state will face tough choices in deciding how to treat general fund revenue growth from oil and gas revenues moving forward, particularly when growing recurring budgets

- Focus on diversifying and stabilizing state revenues

- Some analysts are predicting the Permian peak as early as this year

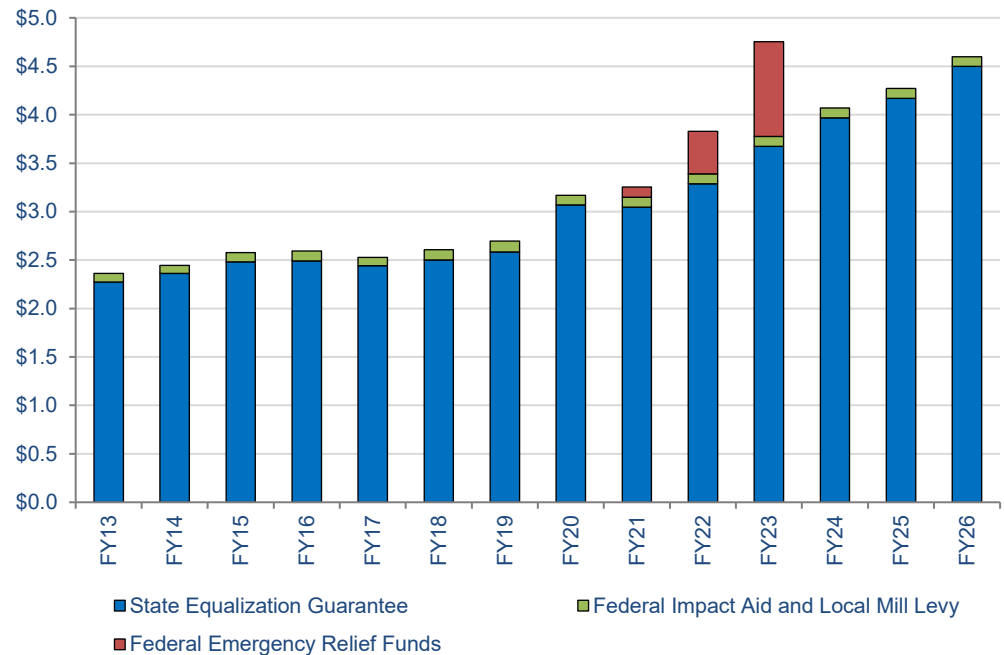# The state's budget needs are expected to grow, so balancing near-term and long-term needs is constant.
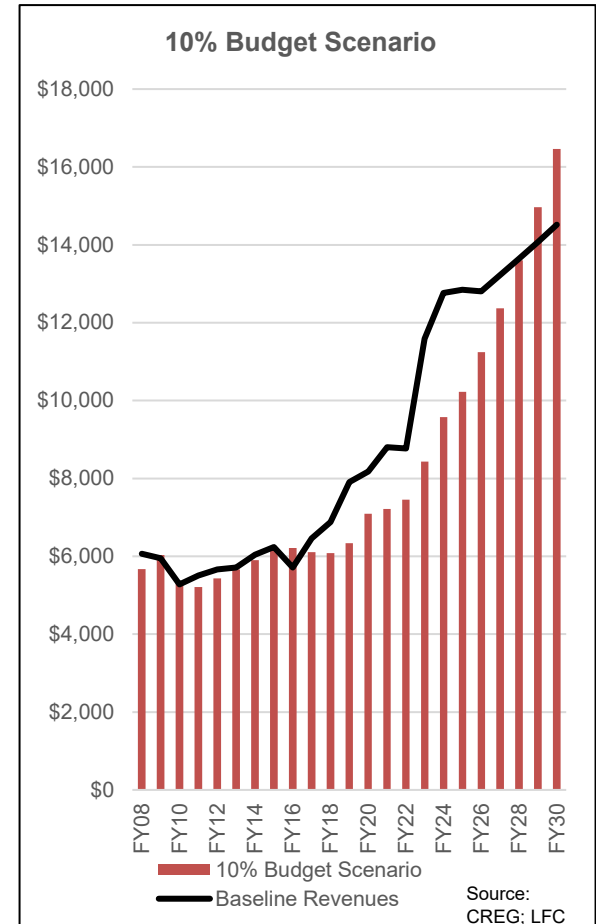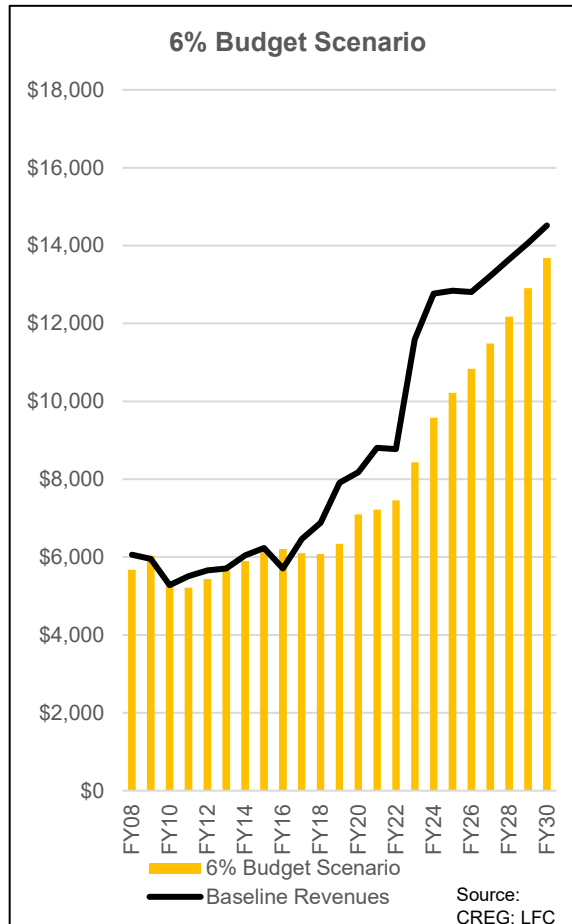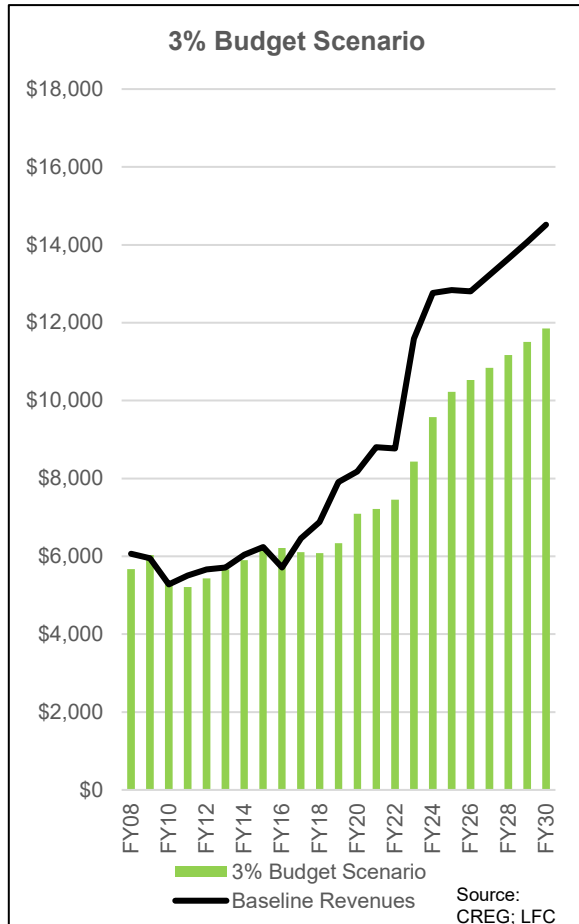
HB 2: Public Schools Overview

- Public schools represent about 44% of general fund appropriations

- Recurring appropriations have increased 70% between FY19 and FY26, or $2 billion

Operational Funding for Public Schools
(in billions)

■ State Equalization Guarantee   ■ Federal Impact Aid and Local Mill Levy

■ Federal Emergency Relief Funds

Source: LFC Files

Martinez-Yazzie vs. State of New Mexico

In 2014, plaintiffs alleged New Mexico was not meeting constitutional obligations to provide sufficient funding and programming for at-risk public school students.

In 2019, the District Court ruled that:
- **Inputs** (funding/programming) are inadequate,
- **Outputs** (student outcomes) are "dismal," therefore
- **Funding and Oversight** are insufficient and should be enhanced.

In 2020, the court also noted the lack of access to Internet, devices, and IT support during school closures caused substantial harm to at-risk students.

In 2024, the court order a remedial action plan from PED, which must be submitted by November.

Key Findings

Achievement Gaps between at-risk students and their peers in test scores, graduation rates, and college remediation rates.

Lack of Funds for programs and resources that can close the achievement gap, such as high quality teachers, appropriate curricula, and extended learning time programs.

Lack of Oversight by the Public Education Department to ensure schools spent funds on evidence-based programs for at-risk students.

New Mexico National Test Performance

- National (NAEP) reading and math scores in New Mexico have remained relatively flat since 1992.
- Small year-to-year changes have occurred, but no consistent upward or downward trend has emerged.
- New Mexico continues to score below the national average in both subjects and grade levels.

National Assessment of Educational Progress Reading Scale Scores
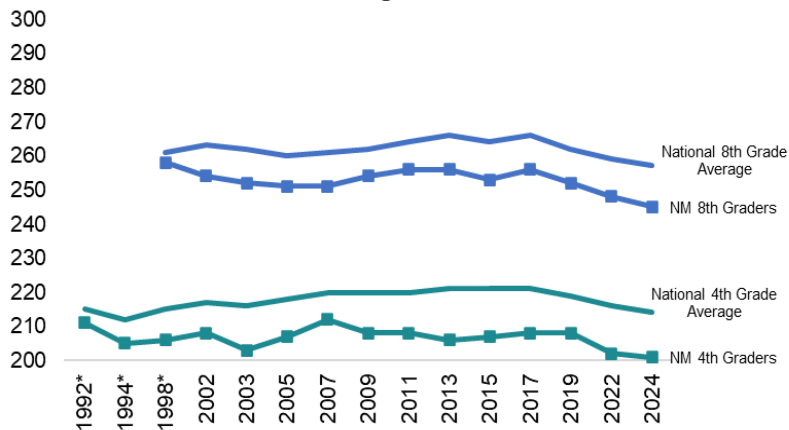
*No accomodations allowed during this test year
Source: U.S. Department of Education, NAEP

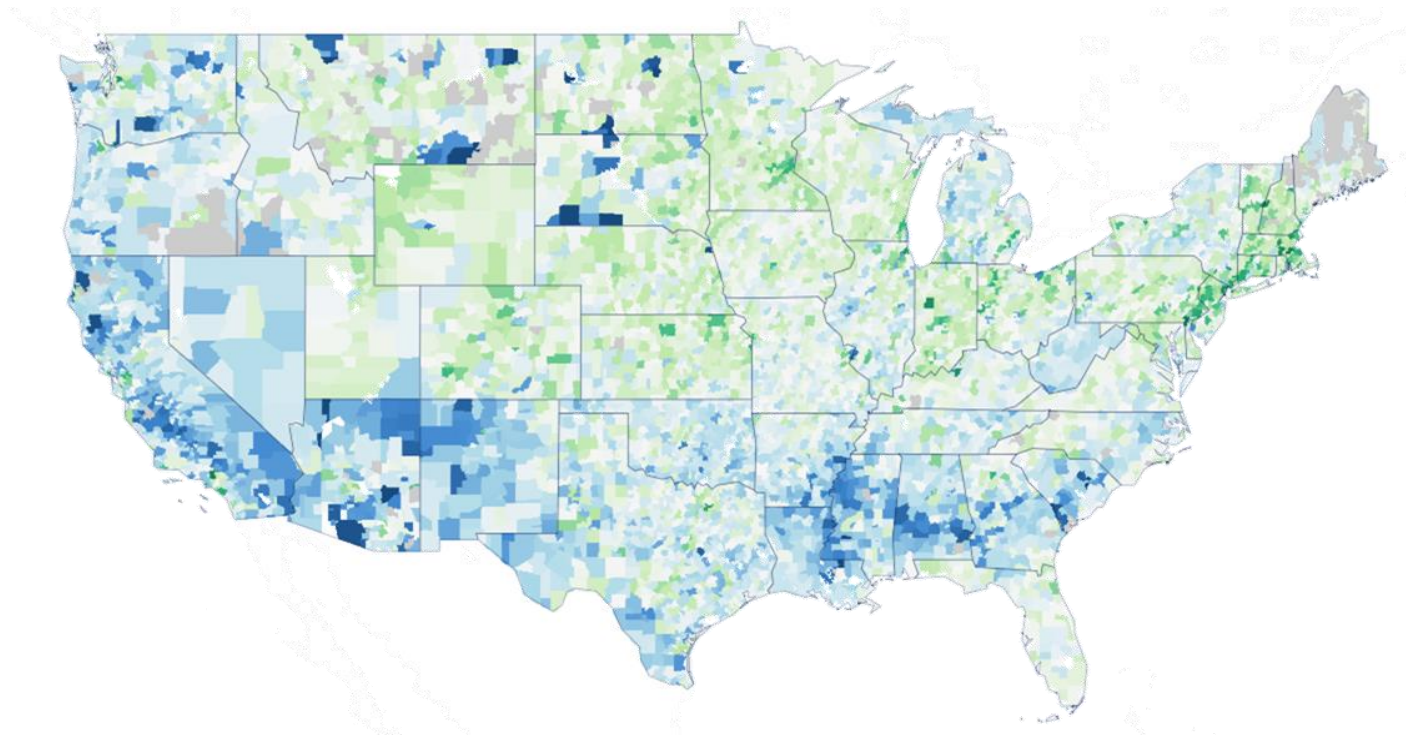**National Assessment of Educational Progress Math Scale Scores**
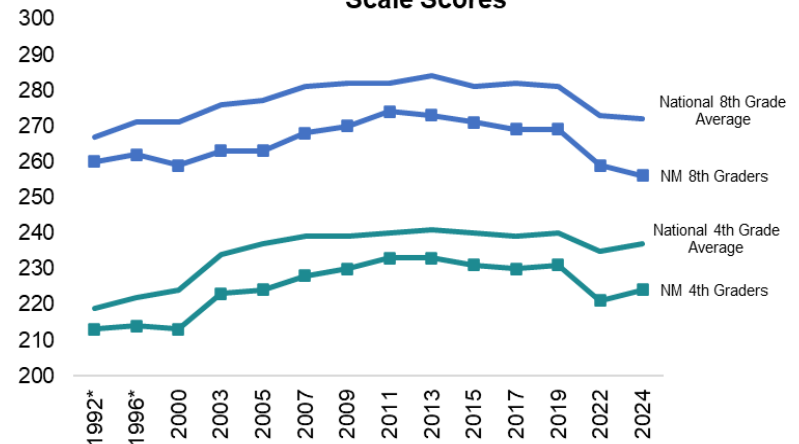
*No accomodations allowed during this test year
Source: U.S. Department of Education, NAEP

National Student Average Test Scores
Grades 3-8, 2009-2018 (Green = Positive, Blue = Negative)

Average Test Scores By School District
in grade levels, relative to the U.S. average   -3.5   U.S. average   3.5

Colors show students' scores, in grade levels, relative to the national average (grades 3-8, 2009-2018).
Source: The Educational Opportunity Project at Stanford University

National Student Learning Rates
Grades 3-8, 2009-2018 (Green = Positive, Blue = Negative)

Learning Rates By School District
amount learned per grade, relative to
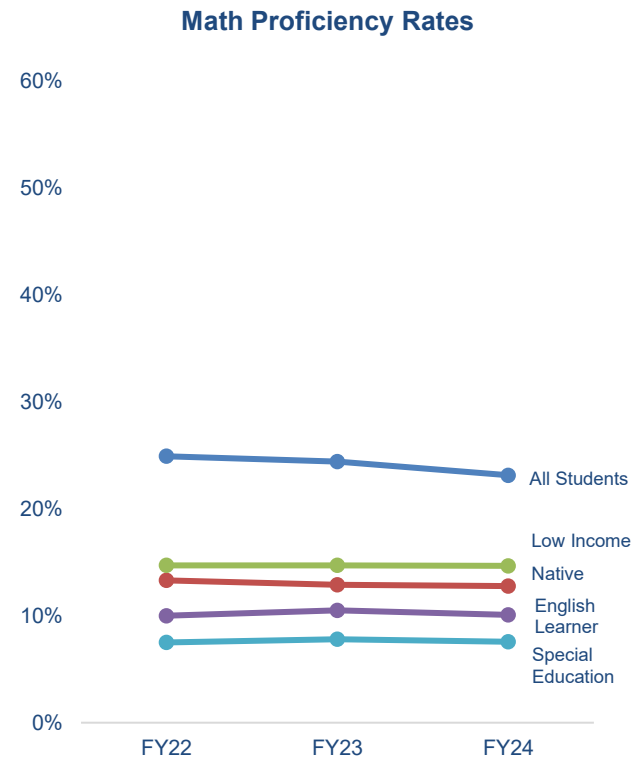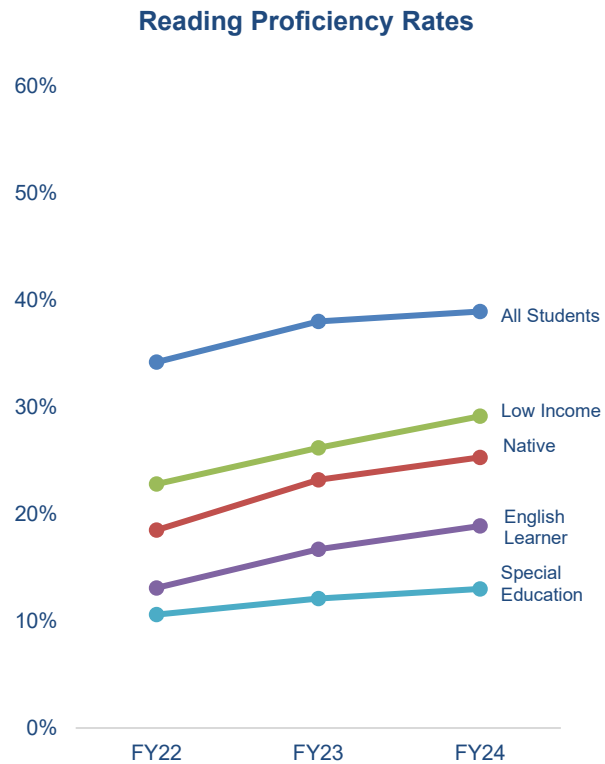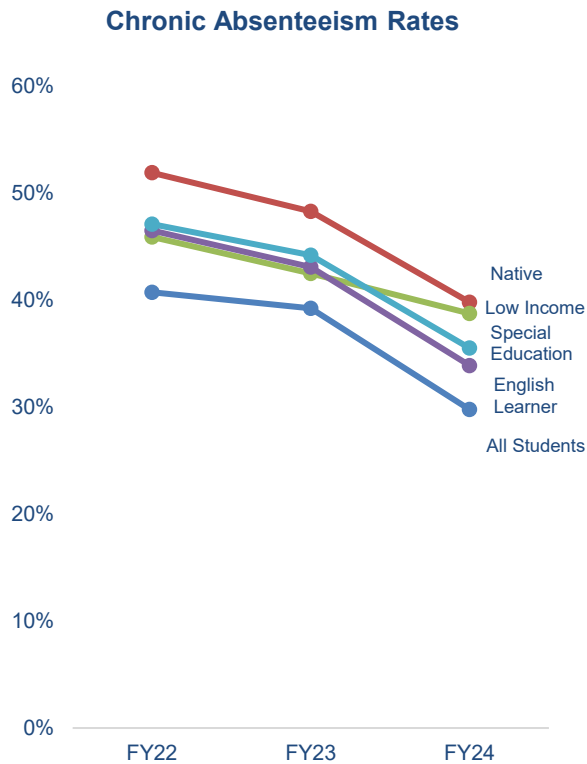U.S. average

-50%   U.S. average   50%
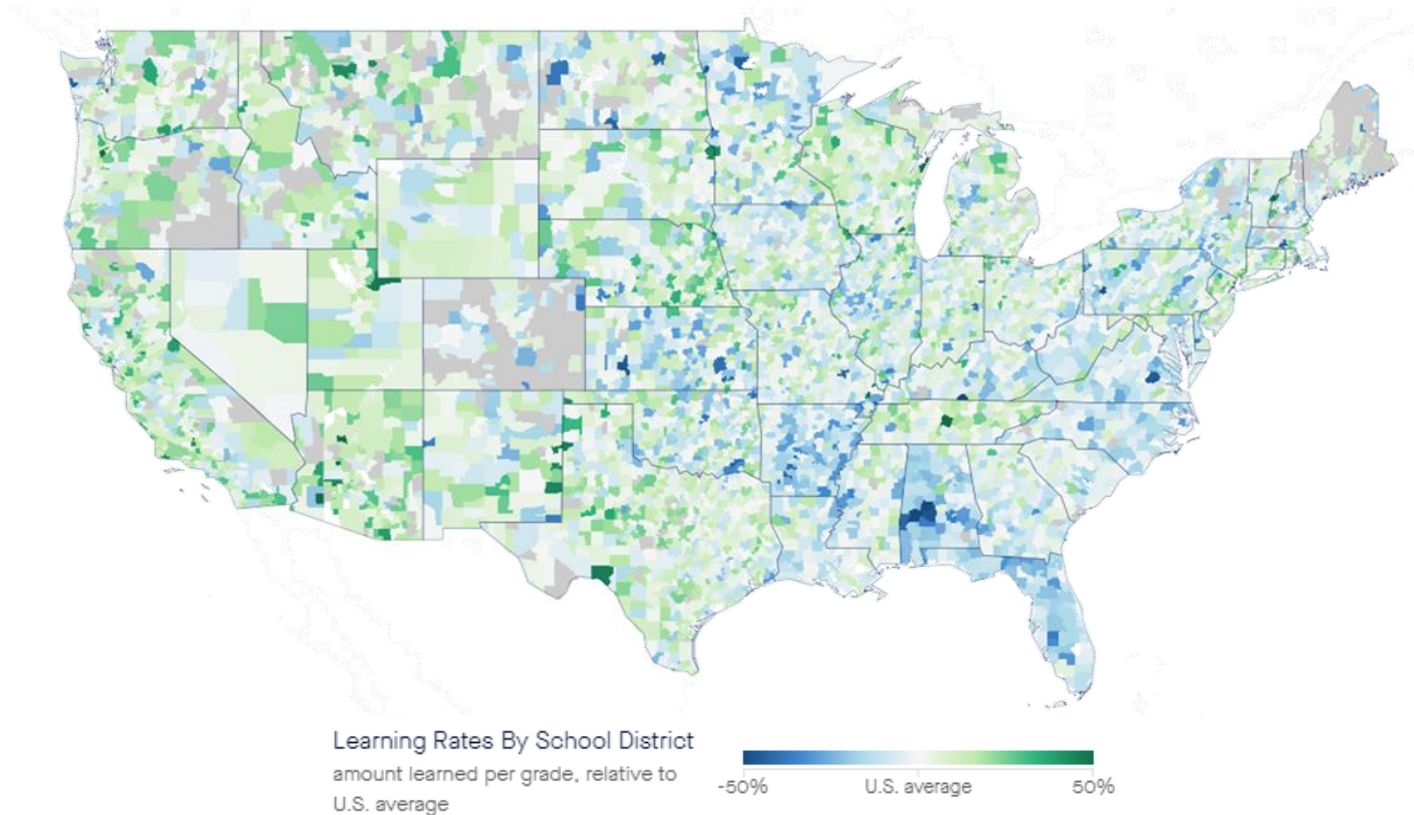
Colors show how much students learn each year relative to the national average (grades 3-8, 2009-2018).
Source: The Educational Opportunity Project at Stanford University

State Tests Show Gaps Remain Post Pandemic

Chronic Absenteeism Rates

Native
Low Income
Special Education
English Learner
All Students

Reading Proficiency Rates

All Students
Low Income
Native
English Learner
Special Education

Math Proficiency Rates

All Students
Low Income
Native
English Learner
Special Education

Source: NM-MSSA, PED

Reading gaps persist over time
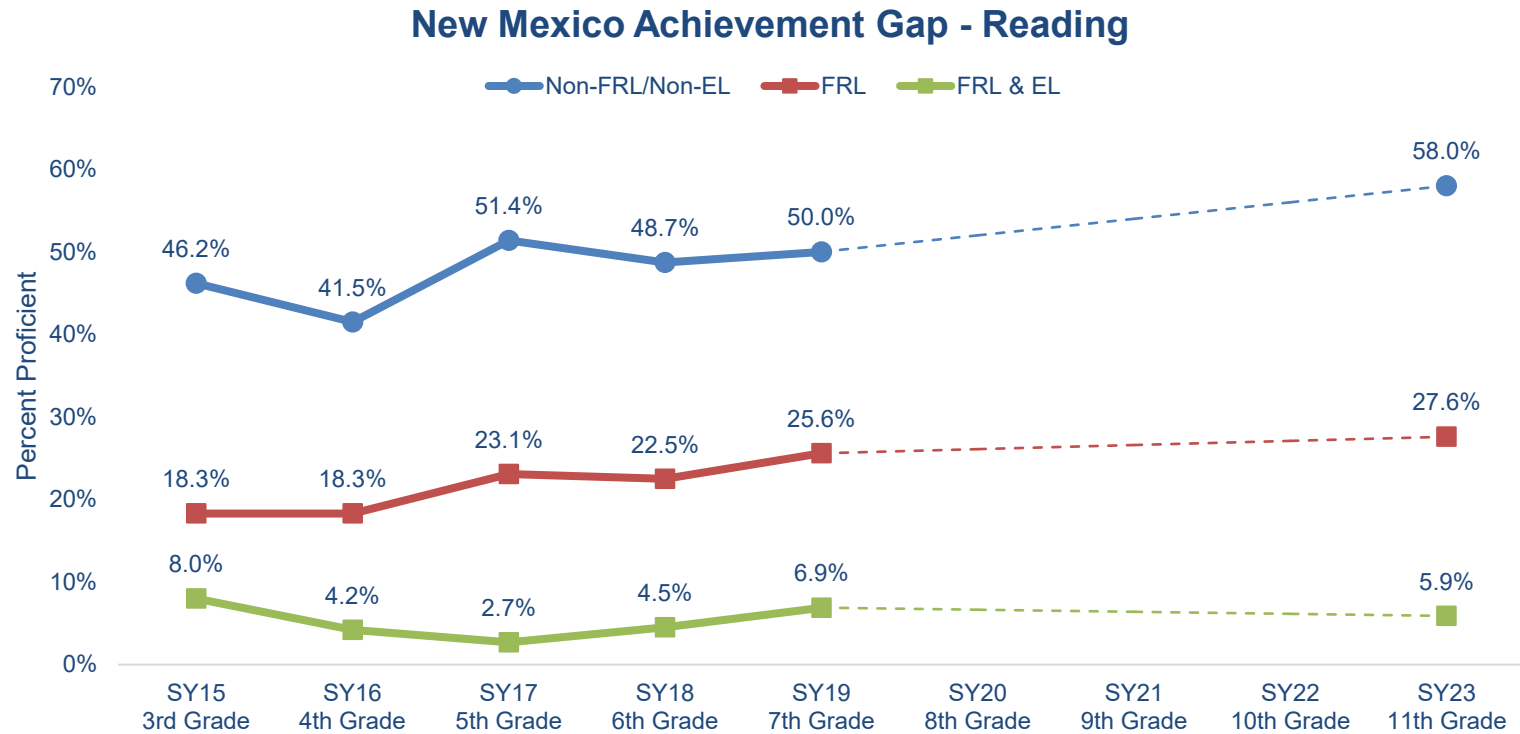
New Mexico Achievement Gap - Reading
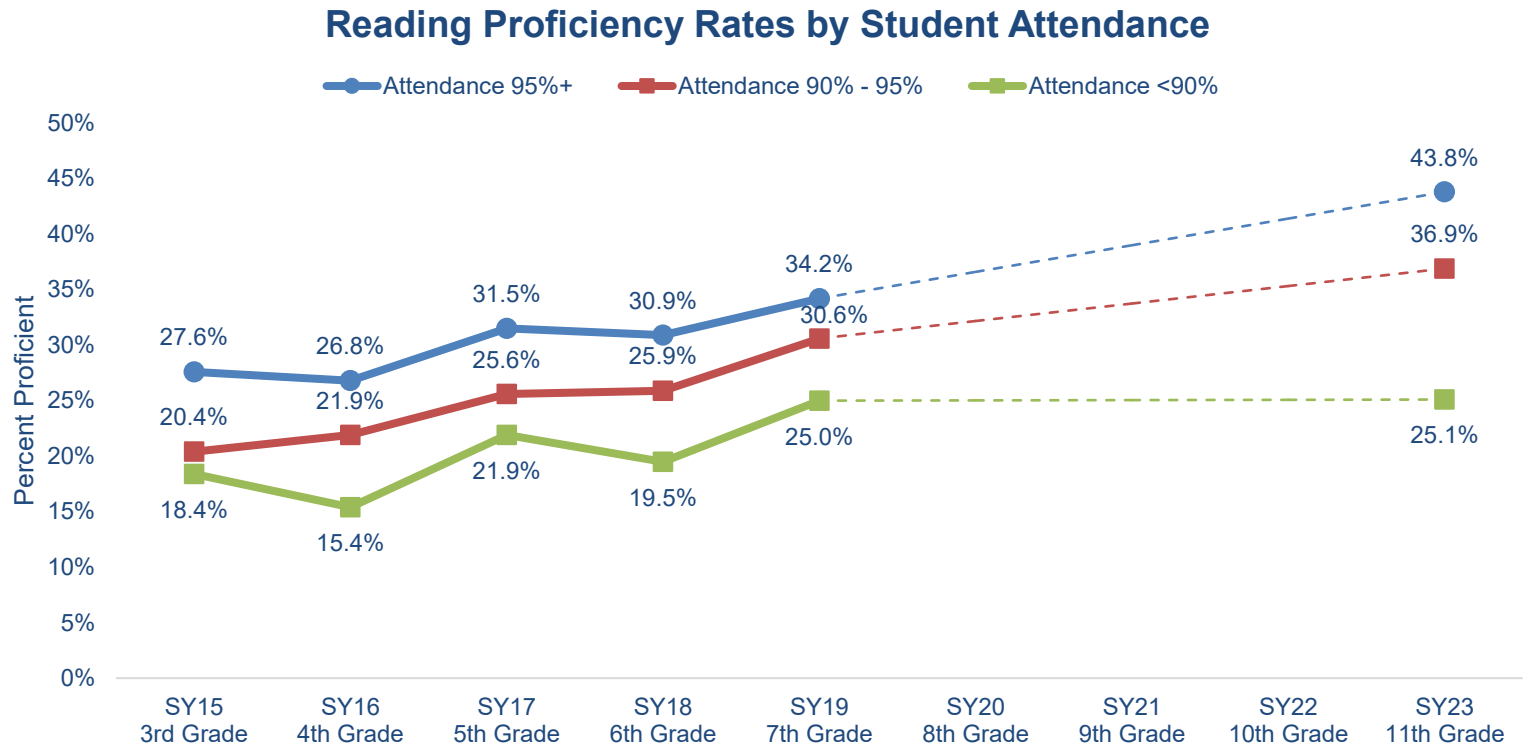
Note. Students not tested statewide in SY20 and SY21. 10th graders not tested in SY22.
Source: LFC analysis of PED data

Attendance is associated with proficiency rates

Reading Proficiency Rates by Student Attendance

Legend: Attendance 95%+ (blue) — Attendance 90% - 95% (red) — Attendance <90% (green)

Y-axis: Percent Proficient (0% to 50%)

X-axis categories:
- SY15 3rd Grade
- SY16 4th Grade
- SY17 5th Grade
- SY18 6th Grade
- SY19 7th Grade
- SY20 8th Grade
- SY21 9th Grade
- SY22 10th Grade
- SY23 11th Grade

Attendance 95%+: 27.6%, 26.8%, 31.5%, 30.9%, 34.2%, 43.8%

Attendance 90% - 95%: 20.4%, 21.9%, 25.6%, 25.9%, 30.6%, 36.9%

Attendance <90%: 18.4%, 15.4%, 21.9%, 19.5%, 25.0%, 25.1%

Note. Students not tested statewide in SY20 and SY21. 10th graders not tested in SY22.
Source: LFC analysis of PED data

High school graduation rates are higher but so are college remediation rates

Graduation Rate Improvement: Class of 2024 graduation rate increased to 78 percent, reaching a 15-year high.

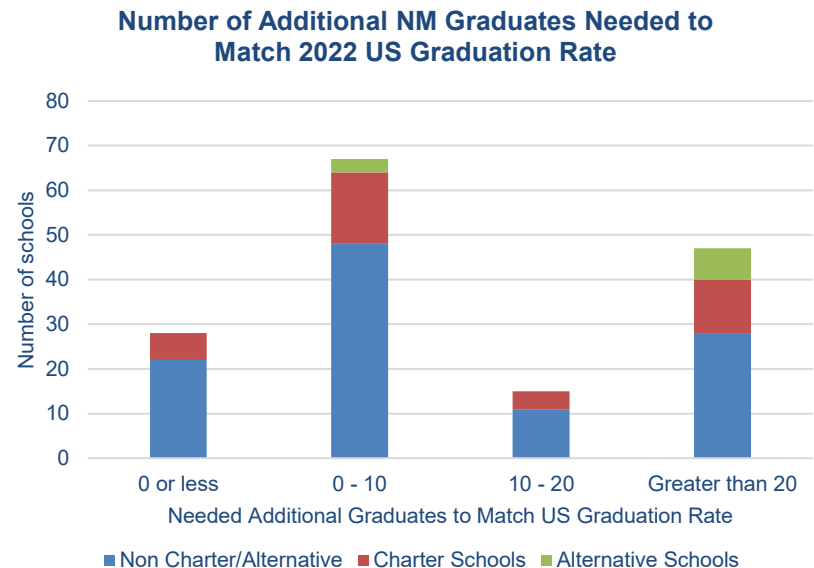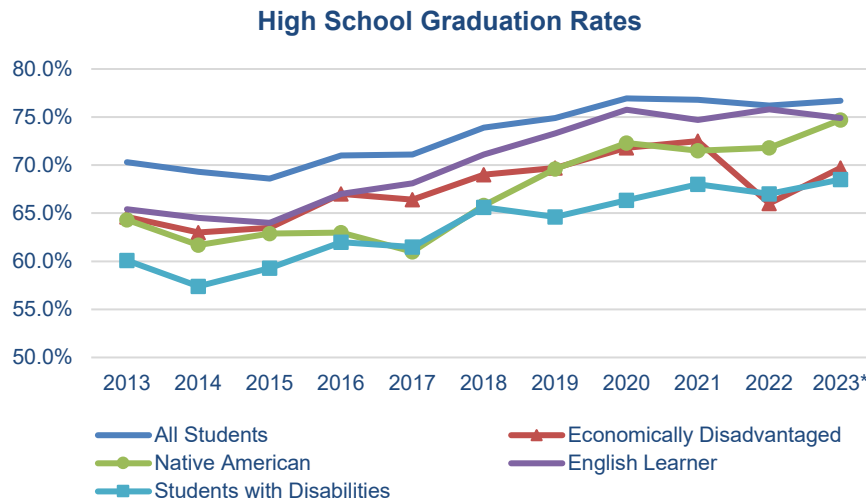**College Readiness:** Gaps remain between graduation rates and academic proficiency:
- SAT reading proficiency at 41 percent
- SAT math proficiency at 19 percent

College Remediation: College remediation rates declined between 2015 and 2020 but have increased again after Covid-19. Nationally, remediation is one of the strongest predictors of college dropout.

2024 Graduation Rates and SAT Proficiencies

Graduation Rate · Reading Proficiency · Math proficiency

High School Graduation and College Readiness

High School Graduation
College Remediation

Source: PED
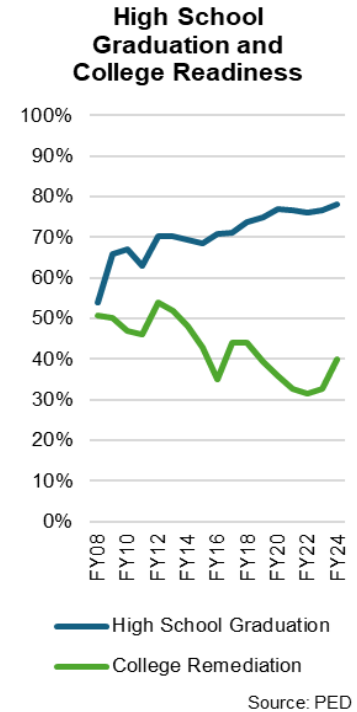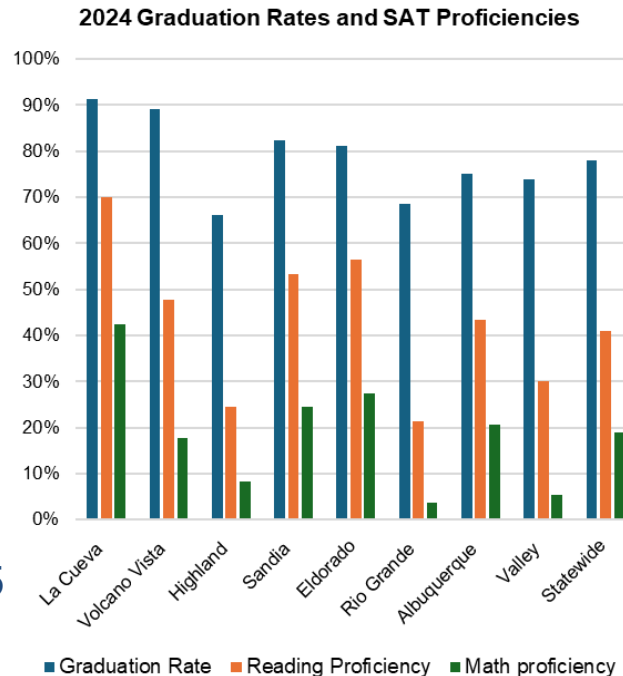
"What if" scenarios help break down performance challenges into manageable amounts

- **What if New Mexico were to achieve the national average for…**
  - High school graduation?
    - 2,200 more students would need to graduate on time. Totals would be 40-50 students for larger high schools and much less for smaller high schools.
  - Graduation with a bachelor's degree (in 6 years)?
    - Less than 1,000 students spread across multiple institutions.

High School Graduation Rates

Legend:
- All Students
- Native American
- Students with Disabilities
- Economically Disadvantaged
- English Learner

Number of Additional NM Graduates Needed to Match 2022 US Graduation Rate

Y-axis: Number of schools
X-axis: Needed Additional Graduates to Match US Graduation Rate

Legend:
- Non Charter/Alternative
- Charter Schools
- Alternative Schools

Closing Thoughts

- New Mexico has booming revenues, ongoing education litigation, growing early childhood systems, and large Medicaid costs

- New Mexico is expected to see lower energy revenues in the next few decades, which must be offset by other revenues sources to address any potential growth in expenditures

- New Mexico needs to strategically target funding to what works best, ensure effective implementation, and monitor spending and changes in outcomes

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QUESTIONS?