

LFC Newsletter

A publication of the **Legislative Finance Committee**

Representative Nathan Small, Chairman
Senator George Muñoz, Vice Chairman
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Volume 27 Issue 04 October 2026

From the Chairman

Prudent Prosperity

As the committee launches hearings in October for the 2027-2028 budget, two things stand out: The state has a lot of money to spend next year, and long-term growth must be held under 6 percent to stay within revenues.

During the August revenue estimate, the over $900 million in "new money" was attributed to increased investment earnings, increased gross receipts tax revenue, including from large construction projects and drilling activity, and significantly larger corporate income tax remittances.

But these surges are not expected to last, and the crushing energy costs driven by the Iran War should moderate when the conflict concludes. Over the long-term, state revenue growth is expected to level-off; thus, recurring spending must follow suit to be sustainable. The combination of these two elements tells us we must be prudent in growing agency budgets, while continuing to invest in the people of New Mexico.

We have more room—and opportunity—with one-time spending than recurring. Without committing the state to unsustainable spending levels, we can, and should, continue to build on our historic housing investments that have already helped get over 2,000 New Mexicans off the streets, our water conservation and water stewardship efforts, our support for healthcare worker recruitment and retention, our transportation infrastructure improvements, our public land, land health, and outdoor recreation facilities—to name just a few.

These are investments we can afford now that will pay off over time, by making life better for New Mexicans, while also drawing in visitors and new spending. If we spend prudently and invest wisely, we can make the most of these challenging times and prepare for the years ahead.

Representative Nathan Small
Chairman

The committee will be meeting in Santa Fe through the end of the year as it prepares its budget recommendation. The budget recommendation, a three-volume annual report to the full Legislature, covers policy, spending and revenue recommendations for every agency, and supporting data. It is scheduled to be released in January.

IT Overruns Signal Need for Statutory, Oversight Changes

The four largest ongoing IT projects in the state are expected to run almost half a billion dollars over their original budgets, LFC evaluation staff report, but changes in IT spending and project management could lead to lower costs and more successful projects.

In a brief scheduled to be presented to the committee at 8:30 a.m. October 20, staff say state IT purchasing practices are out of sync with best practices, leading to projects that run late and over budget.

Best practices in IT procurement include multiple, smaller contracts in the development of large IT projects to allow for the contractor's work to be assessed at each step, but New Mexico has relied on single complicated contracts for multimillion dollar systems.

Instead of slide shows and other static reports from the vendors, agencies should ask for frequent demonstrations of the systems under development, the brief suggests.

The state's costliest project, the Medicaid management information system replacement, was launched in 2013 with an estimated completion date of 2013 and a total budget of $221 million. The project is now expected to cost $534 million, and while the system is live, it is not fully functional, interfering with Medicaid fraud investigations and budget oversight.

Although not a software system like the other three large IT projects, the statewide digital public safety radio system, started in 2018 with a $150 million budget and an estimated end date of 2024, is now expected to be completed in 2030 and cost $40 million more. The brief notes the state partially used statewide price agreements for the project, which lack details on costs.

The New Mexico Impact Project, a comprehensive child welfare system started in 2017, was initially scheduled to cost $36 million and be complete in 2022 but is now scheduled to close in November 2027 at a cost of $90 million.

A partial launch in August was missing important functions, like a mobile app for case field work.

The fourth costliest project, child support enforcement system modernization, was launched in 2013 and expected to be completed in 2019 for $65.6 million. Costs have been revised down to $63.5 million, but the completion date has been moved to 2029.

School Leadership Turnover High

School leadership is second only to classroom instruction for school-based impact on student learning, but a third of New Mexico public school principals leave their posts every year, and half of superintendents leave within three years, a joint review by LFC and the Legislative Education Study Committee finds.

In the presentation to LFC in September, staff noted New Mexico school districts had, on average, three superintendents in the last 10 years and 28 of the 89 districts saw four or more. About 200 principals out of 660 employed statewide leave every year, with most leaving public schools entirely.

Principals are more likely to leave if they are in low-performing schools or a district with a superintendent change, the staff said.

Staff noted replacing an ineffective principal with one that is more effective can add three months worth of learning in math and reading to an academic year.

Good principals keep and attract good teachers and work with staff to improve student achievement, staff suggested, and create a school climate that improve student attendance.

More experienced principals have higher teacher retention, according to the report, and teachers are more likely to stay if a principal is replaced by an existing assistance principal rather than someone from outside the school.

Pay also has an impact on principal retention, with principals more likely to leave if their pay is only slightly higher than the pay for teachers.

Pay for principals is tied to that of experienced teachers and does not reflect the differences in responsibilities, staff said.

While the Public Education Department offers leadership development programs, the programs have limited slots and are not available to all school leaders who would benefit.

Prison Populations Stabilizing After Drop

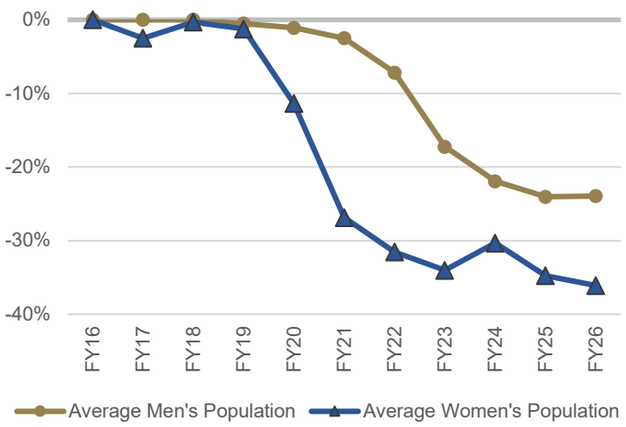
The number of men in New Mexico state prisons in the 2025-2026 fiscal year was down 23 percent from the 2015-2016 peak, from 6,632 to 5,081, LFC data shows. The women's population has also dropped since FY16, from a high of 768 to 491, or 36 percent.

LFC analysis indicates populations are dropping partly because of diversion into supervision outside of prison.

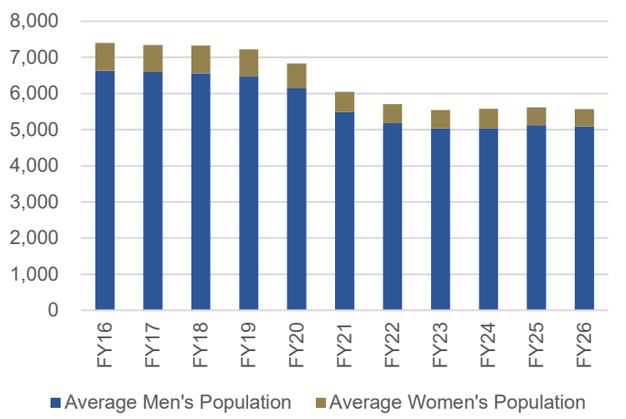
On a national level, which saw incarceration rates peak in 2009, the decline in incarceration levels has been attributed to lower crime rates and an aging population—criminal activity strongly correlates with those between 18 and 29 years old according to the federal Bureau of Justice Statistics.

While down from the FY16 peak, New Mexico prison populations have been relatively stable since FY23, with the total for men and women for each the four years between FY23 and FY26 varying less than 1 percent from the four-year average of 5,578.

Prison Population Change From FY16



Prison Population



Source: Corrections Department, LFC files

LFC Newsletter

2026-2027 Fiscal Year, Month 4

Published monthly in the interim by the Legislative Finance Committee.

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On the Table

NM Income Growth Outpaces Nation

New Mexico per capita income of 6.2 percent in 2025 was second only to Hawaii and outpaced the national rate of 4.5 percent, the U.S. Bureau of Economic Statistics reports. Growth stayed strong in 2026 as well, with New Mexico's rate of 5.9 percent between the first and second quarter the fourth highest among states.

Water Conservation Most Efficient

A study of the volume and cost of efforts to increase water availability found agriculture and municipal conservation measures offered the most potential water at the lowest cost, with agricultural conservation saving 676 thousand acre-feet a year and municipal and industrial conservation saving 196 thousand acre-feet. The report by the Pacific Institute, commissioned by the Thornburg Foundation, concluded the off-site use of produced water from oil production had low potential to save water and would be costly. The report noted the potential of desalinating brackish water could not be determined because of a lack of information.

Meanwhile, the Office of the State Engineer is drilling a deep production well and several monitoring wells into a brackish aquifer near Santa Teresa for research, partly to determine if the water source is connected to the Rio Grande. If not, the water source could be developed without violating conditions of the *Texas v. New Mexico* lawsuit.

Luna College Independence Questioned

A feasibility study on the continued operations of Luna Community College as an independent two-year school recommends LCC transition to a branch campus or a partnership with another higher education institution. The Higher Education Department report also found the rate of students completing degrees at LCC is in the bottom 5 percent of the nation, and enrollment is 10 students or fewer in half of the 42 programs offered.

Student Test Data Shows Performance Gaps

Public Education Department analysis of public school performance data for the 2025-2026 school year shows 31 percentage point difference in reading proficiency rates between economically disadvantaged students and their more affluent peers, an 18 point difference between chronically absent students and higher attending peers, and 16 points between students held back a grade versus their promoted peers.

Locals Slow to Spend Opioid Money

Local governments spent just $9.6 million of $116.7 million in opioid settlement money they received between the 2022-2023 fiscal year and the 2024-2025 fiscal years, the Office of the State Auditor reports, while state agencies spent all but 10 percent of their allocations.

Match Fund Grants Multiply Revenue

Local, state, and tribal governments have used $121 million in grants from the New Mexico match fund to leverage $463 million in federal awards, DFA reports. After deducting the 132 active and contingent grants, $21.5 million remains in the fund.

Quantum Labs Draws Tenants

A state-sponsored shared quantum computing research space—Roadrunner Quantum Lab—has attracted about a dozen tenants, including Sandia and Los Alamos national laboratories. Private industry tenants in the facility launched by the Economic Development Department include Diraq, IonQ, QBoltz, Mesa Quantum, Elevate Quantum, Quantum Machines, QuEra Computing, Photon Queue and Conductor Quantum. Quantum computing research aims to develop high speed machines that can process information at the electrons and photon level.