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March 4, 2026

MEMORANDUM

To: Representative Nathan Small, Chair, Legislative Finance Committee
Senator George Munoz, Vice Chair, Legislative Finance Committee

From: Charles Sallee, Director 

Subject: Activity Report for Week Ending February 27, 2026

Oil and Gas

- As of February 20th, 2026, New Mexico rigs are sitting at 101, up from their lows in the 90s a few months ago and but down from 105 a year ago. The Permian basin as a whole is still down 65 rigs from a year ago, at 239 rigs.
- According to Enverus Intelligence Research, rising water production is becoming a growing cost driver in the Permian, particularly in the New Mexico Delaware Basin. Wells now produce 2–8 barrels of water per barrel of oil, and with saltwater disposal costs around \$0.60–\$1.00 per barrel, even a modest increase in water intensity can add millions in annual operating costs. In New Mexico's Delaware Basin, the water-to-oil ratio (WOR) for horizontal wells has climbed for every barrel of oil from ~2.5 bbls in 2016 to ~3.0 bbls in 2025, a 20 percent increase, reflecting a structural shift as horizontal development and lower intervals expand. Disposal constraints are tightening across New Mexico and Texas, pushing operators toward mitigation strategies such as development in less water-intensive zones and expanded recycling. Enverus estimates that about 20 percent of frac fluid used in the Delaware Basin is now recycled produced water, with activity concentrated in high-WOR counties like Eddy County, NM. For New Mexico, rising water intensity could increase production costs, potentially affecting drilling economics and future severance tax revenues if operators adjust capital allocation or margins tighten.

U.S. Economy

- Real gross domestic product (GDP) increased at an annual rate of 1.4 percent in the fourth quarter of 2025, according to the U.S. Bureau of Economic Analysis. This was 0.5 percentage points below the S&P Global's estimate. Net exports, government spending, and consumer spending contributed less than the national forecaster's expectations.

State Revenue

- Revenue for FY26 is currently tracking \$379.2 million, 2.8 percent, below FY25 when projected through the end of the fiscal year and including some preliminary revenue through December. While the latest revenue forecast expects sluggish revenues through the end of the year, all revenues are tracking \$166.6 million, or 1.2 percent, below the latest forecast, driven by a slowdown in income taxes, some of which

were expected due to the rollout of tax cuts passed in the federal HR1. Corporate income tax collections through December are negative \$0.5 million.

- Matched taxable gross receipts (MTGR), a measure of taxable spending in the state, were up 5.8 percent for FY26 through December compared with the same period last year. Construction had the largest growth, up 10.6 percent, or \$720 million, driven by Dona Ana, Eddy, Valencia, McKinley, and Santa Fe counties. Dona Ana's construction spending is up 54 percent, driving 36 percent of statewide growth in the sector, largely due to groundbreaking of Project Jupiter. Valencia County's construction, up 62 percent likely because of Pacific Fusion, drove an additional 25 percent of overall statewide construction growth, and Eddy County driving 22 percent of statewide growth. While the mining sector is up 2.3 percent overall, county data reveals that year-over-year, the industry is up 6.8 percent in Eddy County but down 4.7 percent in Lea.

New Mexico Finance Authority

- The New Mexico Finance Authority (NMFA) Board approved a \$12.9 million public project revolving fund loan to the City of Alamogordo to build a multi-use indoor aquatic center. The city will support the loan, which carries a 25-year term and 4.93 percent interest rate, with a 0.125 percent municipal infrastructure gross receipts tax.
- The NMFA Board approved two loans from the child care facility revolving loan fund. A \$364 thousand loan with a 21-year term and 2 percent interest rate will support the expansion of the Bubble Dreams Learning Center in Chaparral, increasing its capacity by up to 63 slots. A \$525 thousand loan with a 21-year term and 2 percent interest rate will support the renovation and expansion of Fundamentals Child Development Center in Farmington to, increasing licensed capacity by up to 30 slots.

Higher Education

- Western New Mexico University will select the next president during the March 17 Board of Regents meeting. WNMU released the names of the top 5 finalists including: Jose E. Coll, current provost and VP for academic affairs at Western Oregon University; Cameron Braxton Wesson, current provost and vice president for academic affairs at La Salle University; Carlos Rey Romero, Associate Vice President at New Mexico Tech; Sharon Jones, vice chancellor for academic affairs at UW Bothell; and Mario Martinez, provost and VP for academic affairs at Fort Lewis College.
- The Independent Community Colleges report providing workforce training or apprenticeships/internships to 2,700 students in the first half of FY26. The programs report that employment rates for participants increased from 68 percent upon program enrollment to 84 percent at program completion.

Early Childhood

- Projections for the Early Childhood Education and Care Department childcare assistance program show the department will likely overspend the program's revenues in FY26 by an estimated \$60 million if no cost containment efforts are put in to place before the end of the year.
- The federal Maternal, Infant, and Early Childhood Home Visiting (MIECHV) program was reauthorized, through the Jackie Walorski Maternal and Child Home Visiting Reauthorization Act, increases federal funding and introduces new matching incentives for voluntary, evidence-based home visiting services through fiscal year 2027. For New Mexico, this reauthorization has led to a steady increase in total federal funding, rising from approximately \$4.48 million in FY 2024 to \$5.01 million in FY 2025. New Mexico successfully requested 100 percent of its available federal matching funds in both years. The program continues to support families with young children in New Mexico by targeting communities at higher risk for poor maternal and child health outcomes.

Health Care Authority

- Median operating profit in New Mexico's hospitals increased by 119 percent between 2022 and 2024 with profits on a per patient discharge basis increasing from \$1,427 to \$3,122 during the period. However, there were significant disparities in hospital profitability in 2024 with hospitals like Covenant Health in Hobbs operating at a loss of about \$3,251 per patient discharge and other hospitals such as Carlsbad Medical Center operating at a profit of \$5,426 per patient discharge. Of the seven New Mexico hospitals operating at a loss in 2024, four are government operated, two are nonprofit, and one is for-profit. Additionally, five of the hospitals operating at a loss are small hospitals with bed capacity not exceeding 25.
- According to KFF, a national health policy research organization, hospital spending accounted for 40 percent of the growth in national health spending between 2022 and 2024. Likewise, hospital spending accounted for 4.7 percent of gross domestic product (GDP) in 2005 and grew to 5.6 percent of GDP in 2024 with the Centers for Medicare and Medicaid Services projecting hospital spending to increase to 6.4 percent of GDP by 2033.

State Facility Census

- DOH has significantly increased its patient census at its state-run facilities, which have historically struggled to maintain stable occupancy levels. As of the end of February, the combined census across all facilities was 74.5 percent, with DOH on track to meet its targeted performance of 80 percent occupancy for the fiscal year. Of note, the medical detox facility Turquoise Lodge Hospital has a current census of 67.5 percent, or 27 patients, compared to fewer than 10 patients at the start of the fiscal year. Despite increases in facility census, DOH experienced decreases in realized third-party revenue from Medicaid and Medicare.

Child Welfare

- The Children, Youth and Families Department (CYFD) monthly data report through the end of January 2026 demonstrates continued difficulty with improving performance across a number of metrics related to child welfare and caseworker retention. At the end of January, the state reported a total of 652 relative foster homes and 458 non-relative foster homes, a total of 1,110 homes representing a modest increase from a total of 1,054 a year ago. Maltreatment in foster care rose to 19.8 reported cases per 1,000 children in care, up from 11 reported cases per 1,000 children in care a year ago. Meanwhile, repeat maltreatment remained close to 16 percent, well above national averages. With regard to caseworker retention, CYFD reported that turnover for key Protective Services field positions, although down slightly from rates in the last six months, remained over 50 percent. Caseloads for key field positions remained above recommended levels for both investigative and permanency planning workers.

New Mexico Economic Development

- The state spent \$520 million on economic development tax expenditures in FY25, 3.8 percent of general fund revenues. Had the Legislature appropriated funding instead of spending it through the tax code, economic development incentives would be one of the largest state agencies. The three large incentives for the manufacturing industry remain the most costly, totally \$388 million in FY25, up from \$125 million in FY23.
- The state distributed \$55.7 million in film tax credit refunds in January, by far the largest single month distribution recorded since monthly data was available. Total credits were \$86.6 million through the fiscal year, over 2.5 times larger than FY25 expenditures, which were unexpectedly small. Consensus revenue forecasts expect film credit expenditures of \$181 million in FY26.
- Film activity remains muted. Total projects through November were 74, down from 84 at the same point in FY25. Through the first six months of 2025, film industry employment averaged 1.4 thousand, down from 3.1 thousand over the same period in 2024.

Pension Contributions

- The share of contributions required to fund benefits for the Public Employees Retirement Association were among the lowest in the nation in FY24, according to recent research published by the National Association of State Retirement Administrators. That research shows New Mexico's PERA contributions were 78 percent of the "actuarially determined contribution," or the amount the plan would need to the benefits earned in that year plus the amount needed to amortize the plan's unfunded liability over a 25-year period. Of the 103 plans covered by the NASRA report, PERA's contributions were lower than all but three, the Illinois Teachers plan and two legacy plans (closed to new members) from Washington State. While, on average, other plans have increased their contributions since FY15—from 91.2 percent to 102 percent, PERA has fallen back, from 80.9 percent to 78 percent. New Mexico's ERB contributions 105.2 percent of the actuarially determined contribution, in line with the nationwide average.

Judiciary

- The Eleventh Judicial District Attorney, Division II resigned effective Wednesday, February 25th. District Attorney Bernadine Martin reached a settlement with the Attorney General's office days before the Supreme Court trial for her removal was set to take place. The governor will now appoint a new district attorney to fill the vacancy until the next general election.
- The Supreme Court removed McKinley County Magistrate Judge Brent Detsoi from the bench on February 25th for violations of the Judicial Code of Conduct. Detsoi was permanently barred from holding judicial offices in the state. The governor will now appoint a new magistrate judge to fill the vacancy until the next general election.