

January 26, 2026

MEMORANDUM

TO: Representative Nathan Small, Chair, House Appropriations and Finance Committee
Senator George Muñoz, Chair, Senate Finance Committee,
Dan Schlegel, Chief of Staff, Office of the Governor

FROM: Staff Economists of the Department of Finance and Administration, Legislative Finance Committee, Taxation and Revenue Department, and Department of Transportation

THROUGH: Secretary Wayne Propst, Department of Finance and Administration
Secretary Stephanie Schardin Clarke, Taxation and Revenue Department
Director Charles Sallee, Legislative Finance Committee

SUBJECT: Consensus Revenue Estimating Group – 2026 Mid-Session Review of Revenues

Prior to the mid-point of each legislative session, the Consensus Revenue Estimating Group (CREG) meets to review updated economic indicators and the most recent tax receipt data to determine whether the consensus revenue estimate warrants updating. This memorandum summarizes the work and conclusions of the CREG, comprised of economists from the Legislative Finance Committee (LFC), the Department of Finance and Administration (DFA), the Taxation and Revenue Department (TRD), and the Department of Transportation (DOT).

After reviewing all economic data and revenue information available since the December 2025 forecast, the CREG reached consensus to make no changes to the revenue estimate at mid-session. This determination reflects data limitations rather than reduced uncertainty in the outlook. Revenue volatility remains elevated, and significant risks to the forecast persist, particularly in corporate income tax collections.

December 2025 Consensus General Fund, Recurring Revenue Outlook (in millions)

<u>FY25</u>	<u>FY26</u>	<u>FY27</u>
\$13,595.7	\$13,383.1	\$13,913.2

Under the December estimate, recurring revenues decline 1.6% in FY26 before rebounding modestly in FY27. “Total new money” for FY27—defined as recurring revenues less prior-year total appropriations—is estimated at \$105.7 million.

To assess whether revisions were warranted, the CREG reviewed updated collections for gross receipts and compensating taxes, personal and corporate income taxes, severance taxes, and energy markets data. The group also reviewed two additional months of receipts data and updated national and state economic indicators, including gross domestic product, inflation, commodity prices, drilling activity, wages, employment, personal income, and federal interest rate expectations.

Macroeconomic forecasts from S&P Global and Moody’s Analytics show limited changes since December, with continued expectations of slower growth, moderating labor markets, and lower oil and natural gas prices.

Most revenue sources reviewed remain broadly consistent with the December forecast. Gross receipts tax collections are tracking near forecast, though year-to-date growth continues to slow. Personal income tax collections remain supported by withholding but face emerging risks from weakening labor markets and federal

tax changes. Severance tax and royalty revenues reflect lower prices but are partially insulated from near-term declines by statutory distribution mechanisms.

Corporate income tax collections represent the largest unresolved risk to the forecast. Estimated payments declined sharply in the first quarter of FY26 and preliminary indicators suggest the potential for further substantial deterioration. Under adverse scenarios, corporate income tax receipts could fall several hundred million dollars below forecast and, in extreme cases, become net negative. However, the next comprehensive quarterly filing data will not be available until February 11 or later and therefore could not be incorporated into the mid-session review. In the absence of this critical information, the CREG determined that revising the forecast at this time would be premature.

For these reasons, the CREG concluded the December 2025 consensus forecast remains the most appropriate baseline for budget planning at mid-session. The decision not to update the estimate reflects limited data availability rather than reduced uncertainty. Material revisions may be necessary once additional corporate income tax and national economic data become available later in the fiscal year.

Despite the unchanged estimate, various risks to the forecast remain— both on the upside and downside.

Oil and Natural Gas Variance. The state’s considerable dependence on oil- and gas-related revenues means the forecast is sensitive to changes in commodity prices and produced volumes that directly or indirectly affect revenues from severance taxes, federal royalty payments, gross receipts tax, personal income tax, and corporate income tax. This adds significant uncertainty to the revenue forecast. Regarding prices, a \$1 change in the annual average price of New Mexico’s oil has about a \$57 million impact on the severance tax and royalties, and a 10-cent change in the annual average prices of New Mexico’s natural gas has about a \$29.1 million impact. Ongoing instability in several major oil-producing regions, evolving sanctions regimes, and uncertainty surrounding international production agreements could disrupt global supply and prices or prompt abrupt changes in output. Oil and gas prices are inherently volatile and difficult to predict as is estimating production, which heavily depends on prices.

Recession Risks. Major forecasting agencies continue to have positive U.S. growth projections for 2026. However, the U.S. economy could fall into a recession and experience a slower recovery due to broadening conflicts globally, shocks to labor supply and demand, the threat of global trade wars hampering economic growth, sustained high inflation, slowing consumer spending, decreased trade activity at national ports, and defaults in commercial lending. Otherwise, tightening employment conditions, tightening monetary policy, and inflation remain significant risks that could significantly hamper economic recovery.

Federal Policy Risks. Federal fiscal and regulatory policy remains an important and evolving source of uncertainty for the state revenue outlook. Volatility in federal government spending, including the timing and scale of appropriations and the potential for prolonged government shutdowns, could affect federal employment, contracting activity, and transfer payments in New Mexico. Uncertainty surrounding future tariff policy and the possibility of retaliatory trade actions continue to pose risks. Shifts in federal immigration enforcement policy may affect labor supply and wage growth in key industries. In addition, changes in federal interest-rate policy and the timing of Federal Reserve actions could affect investment earnings and overall economic growth. The December 2025 forecast incorporates the estimated revenue impacts of federal tax changes enacted under H.R. 1; however, substantial uncertainty remains regarding the magnitude and timing of those effects. Business tax provisions could produce larger-than-expected reductions in corporate and pass-through income. In addition, interactions between H.R. 1 provisions and state healthcare policy could have significant impacts on insurance premium tax collections.

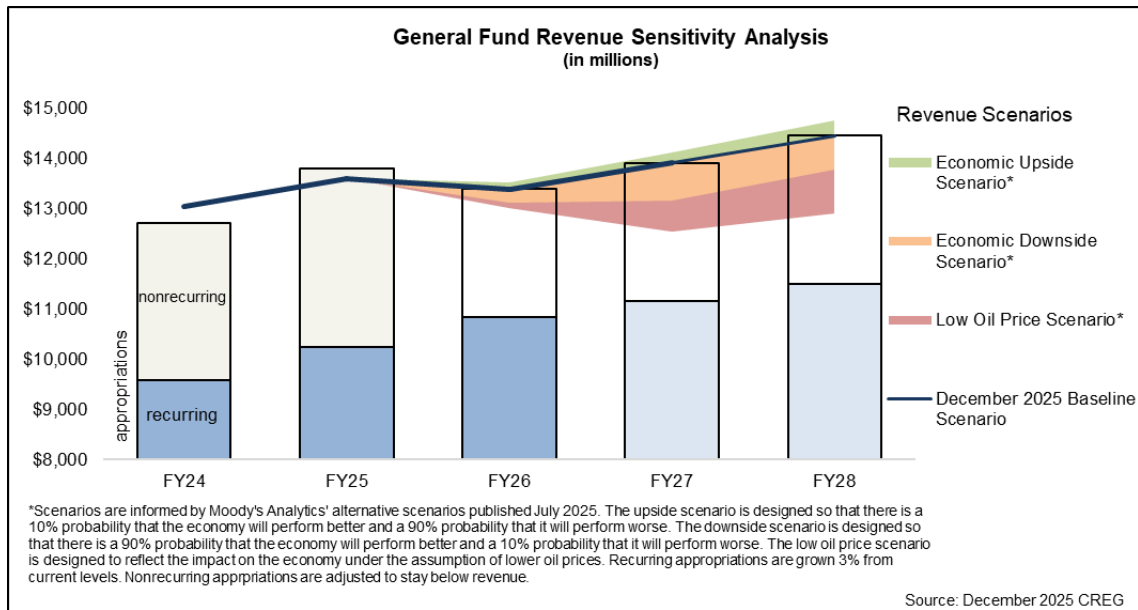
Other Significant Risks. Additional forecast risks include potential for uncapped growth in film tax credit payments due to New Mexico film partners, taxpayer amendments, state and federal regulatory changes that

could affect oil and gas revenues, outstanding tax protest claims at TRD that could result in large general fund losses if decided in favor of the taxpayer.

Because the revenue estimates are a baseline forecast, they are not intended to account for the various forecast risks. Instead, policymakers can prepare for risks by maintaining appropriate general fund reserve levels. To inform policymakers, the CREG produces stress tests which help to gauge the appropriate general fund reserve level.

Stress-Testing. The CREG reviewed changes in underlying assumptions in the December 2025 estimate to determine the sensitivity of select revenues – including severance taxes, federal mineral leasing payments, personal income taxes, and gross receipts taxes – based on three scenarios: (1) low oil price and low production, (2) moderate recession, and (3) stronger near-term economic growth. While the revenue estimates cannot account for all forecast risks, policymakers can prepare for these risks by maintaining appropriate general fund reserve levels.

On the upside, the cumulative effect of the stronger near-term growth scenario on the general fund for FY26 through FY28 is an additional \$651 million above the current estimate. Conversely, the cumulative effect of the low oil prices scenario on the general fund for FY26 through FY28 is \$3.3 billion below the current estimate, and the effect of the moderate recession scenario for the same period is \$1.7 billion.



Scenario	S8: Low Oil Price			S3: Economic Downside			S1: Economic Upside		
	FY26	FY27	FY28	FY26	FY27	FY28	FY26	FY27	FY28
1 Severance Taxes to GF	-\$28	-\$322	-\$258	-\$16	-\$37	-\$27	\$2	\$7	\$5
2 Federal Mineral Leasing to GF	\$0	-\$270	-\$276	\$0	\$0	\$0	\$0	\$0	\$0
3 Gross Receipts Taxes	-\$210	-\$532	-\$691	-\$145	-\$459	-\$442	\$17	\$131	\$198
4 Corporate Income Taxes	-\$50	-\$103	-\$126	-\$29	-\$119	-\$104	\$103	\$23	\$40
5 Personal Income Taxes	-\$84	-\$151	-\$202	-\$70	-\$136	-\$102	\$20	\$48	\$56
6									
7 General Fund Difference from Baseline	-\$372	-\$1,377	-\$1,553	-\$261	-\$751	-\$675	\$143	\$209	\$299
8 General Fund Percent of Total Impact	23%	42%	41%	24%	31%	35%	66%	38%	55%
9									
10 Severance Taxes to TSR or ECE	-\$122	-\$85	-\$216	-\$122	-\$85	-\$216	\$39	\$135	\$56
11 Severance Taxes to STPF	-\$506	-\$709	-\$723	-\$192	-\$632	-\$320	1	\$9	\$37
12 Federal Mineral Leasing to ECE	-\$203	-\$51	-\$143	-\$203	-\$51	-\$143	\$34	\$194	\$103
13 Federal Mineral Leasing to STPF	-\$411	-\$1,083	-\$1,187	-\$315	-\$874	-\$593	\$0	\$7	\$47
14 TSR/ECE Transfers Diff. from Baseline	-\$1,242	-\$1,928	-\$2,269	-\$831	-\$1,642	-\$1,273	\$74	\$345	\$244
15 TSR/ECE/STPF Transfers Percent of Total Impact	77%	58%	59%	76%	69%	65%	34%	62%	45%
16 Total Difference from Baseline	-\$1,614	-\$3,305	-\$3,822	-\$1,092	-\$2,394	-\$1,948	\$216	\$554	\$543

Note: in millions