

Report: State budget crunch possible

Group says reliance on energy revenue could put services at risk

By Barry Massey
The Associated Press

New Mexico could be headed for tighter budgetary times after several years of high-flying revenues and hefty spending increases for state programs and services, a social advocacy group says in a new report.

New Mexico Voices for Children contends the state may face a revenue squeeze because of tax cuts during Gov. Bill Richardson's administration and a greater reliance on volatile energy revenues for financing government.

"If current revenue projections are accurate, tax growth will be barely sufficient to maintain current service levels, and increases will be out of the question," concluded the report, released Friday.

Revenues are estimated to grow about 3 percent in the 2009 budget year, which starts in July 2008. That would be about \$180 million higher than revenue collections in the upcoming fiscal year, according to the most recent revenue forecast.

Updated revenue projections will be pro-

vided to legislators this fall, and in recent years revised revenue estimates often have ended up boosting the amount of money available to pay for schools and general government operations.

According to the report, "New Mexico's population is expected to grow about 1.1 percent annually, and the rate of inflation should be about 3 percent. Growth in revenues of at least 4 percent will be required in order to maintain state support of education and health care at current levels."

The Legislature had a record-setting amount of revenue available when it assembled the budget during this year's 60-day session.

State spending will increase about \$537 million, or 10.5 percent, in the upcoming fiscal year, which starts July 1, under the budget approved by lawmakers and signed by Richardson.

The report suggests New Mexico won't be able to continue that level of growth and warns that the state's financial foundation is at greater risk because unstable sources of revenue pay for a larger share of government.

Personal income taxes — considered a stable revenue source — were cut in 2003 and will cost the state about \$400 million in reduced revenues when fully implemented next year. Rising oil and natural gas prices

also played a role by boosting the severance tax revenues collected by the state.

"The structure of state general fund revenues has tilted toward revenues from oil and natural gas over the past five years, and this has increased the level of risk to the stability of general fund revenues," said the report.

Energy-related revenue accounted for slightly more than 20 percent of the state's general budget account in the fiscal year that ended in June 2006. That's projected to dip to about 18 percent in the 2008 budget year, but energy-related revenue was less than 10 percent of the state's general fund in the 1999 budget year.

Tom Clifford, chief economist for the Taxation and Revenue Department, took issue with parts of the report, contending the state's financial outlook remains solid despite an anticipated decline in oil and gas revenues.

Economic growth, he said, is expected to provide broad-based revenue improvements.

"In defense of all of these policies, we've had outstanding revenue and appropriation growth despite this personal income tax reduction," said Clifford.

Report: State could face leaner budgets

— By Barry Massey —
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On the Net:

New Mexico Voices for Children:
www.nmvoices.org/fiscalpolicyproject.htm

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