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Solving N.M.'s Budget Woes

Lawmakers will have to look at cutting spending, raising taxes

By Barry Massey

Associated Press

SANTA FE — Lawmakers and the governor must make politically difficult decisions of whether to cut spending or raise taxes — or a bit of both — as they consider how to solve New Mexico's budget problems in the coming legislative session.

A new study by New Mexico Voices for Children, an Albuquerque social advocacy group, suggests that lawmakers should focus more on taxes and less on cutting spending, particularly programs like Medicaid and education. Medicaid provides health care for the poor and uninsured children.

Revenues are projected to fall \$454 million short of covering spending in the current budget year because of the slumping economy and lower-than-anticipated energy prices. Closing that budget gap will be a top item of business when the Legislature convenes on Jan. 20 for a 60-day session. The state, unlike the federal government, must balance its budget and can't run a deficit.

Lawmakers and the governor have several options for resolving the budget shortfall: cutting expenditures, tapping into the state's cash reserves and finding new revenues, which can mean imposing higher rates or eliminating tax breaks for businesses and individuals.

However, New Mexico's fiscal problems won't end by balancing this year's budget. The revenue outlook remains bleak for several years.

In the 2008 budget year, which ended in June, the state collected about \$6 billion in revenues in its main budget account. Revenues will drop below that this year and aren't projected to climb back above \$6 billion until the 2012 fiscal year, according to the latest revenue forecast.

"We have a couple of bad fiscal years before we see the light at the end of the tunnel," says Gerry Bradley, research director for New Mexico Voices for Children and author of the group's latest study.

"Cutting services during an economic downturn means cutting safety net programs at precisely the time when the need for them increases," according to the study.

Bradley suggests that lawmakers tap into the reserves and look for ways to generate more revenues. Among the option he advocates is rolling back at least some of the personal income tax cuts enacted in 2003, which are costing the state about \$400 million a year in reduced revenues.

"Increasing taxes on high income taxpayers is better for the economy than cutting expenditures on education and health care," says Bradley. "Increasing those taxes is less harmful than cutting expenditures because the high end taxpayers will tend to consume more in out-of-state goods and services and they also will save more. Both of those things subtract from the impact of increasing taxes at the high end. It's just better economics to do that."

Bradley says another option is to revamp the corporate income tax system to require so-called combined reporting by corporations. That approach is intended to stop large corporations from shifting part of their income to out-of-state subsidiaries. State Sen.-elect Peter Wirth, a Santa Fe Democrat, has sponsored combined reporting legislation in recent years but the proposal has ran into opposition from business interests.

Typically, any talk of tax increases sends lawmakers scurrying for cover because any vote for higher taxes is likely to be used against them in their next election. But 2009 could be different.

Voters might be more forgiving when the choice is between cutting money for public schools or health care versus higher taxes on businesses or upper income taxpayers.

And the political landscape will be different in 2009. The Legislature has new members and the state will likely have a new governor.

Gov. Bill Richardson championed the 2003 personal income tax cuts, which were phased in over several years and lowered the top marginal rate. But it appears Richardson won't be around to defend the tax cuts for all of this year's legislative session. The governor has been appointed commerce secretary by President-elect Barack Obama. Richardson says he'll step down as governor after his nomination is confirmed by the U.S. Senate. Lt. Gov. Diane Denish will become governor when Richardson resigns.

How to deal with the state's budget woes this year and beyond will become one of the first challenges for a Denish administration.

Tax increases part of budget debate

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Analysis

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Editor's Note: Barry Massey has covered state government and politics in New Mexico for The Associated Press since 1993.

**2009 LEGISLATIVE
SESSION**

Taxes at center of budget debate

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