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# New Mexico's Taxpayer Protection Act: One Small Step for Taxpayers?

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## Introduction: Who Speaks for the Taxpayer?

Government spending is out of control in New Mexico. Fueled by a windfall of oil and gas revenue, Governor Richardson has proposed an 11 percent one-year budget increase that even the most optimistic in Santa Fe concede is "unsustainable." With oil and gas prices dropping already, it is only a matter of time before New Mexico faces the music and trims its budget.

Unfortunately, without external limits of some kind, the natural inclination of politicians is to spend whatever the government takes in. After all, the special interests – those who typically receive direct benefits from government spending – have the incentive to hire lobbyists to work the halls of the Roundhouse in search of a bigger piece of the budgetary pie. Worse, with 11 percent spending growth on the table, there is no incentive for politicians to prioritize their spending.

But who stands up for the taxpayer in Santa Fe? The answer is usually nobody. That's not because taxpayers don't care; it is because as a broadly-dispersed interest group the incentives for lobbying are reduced.

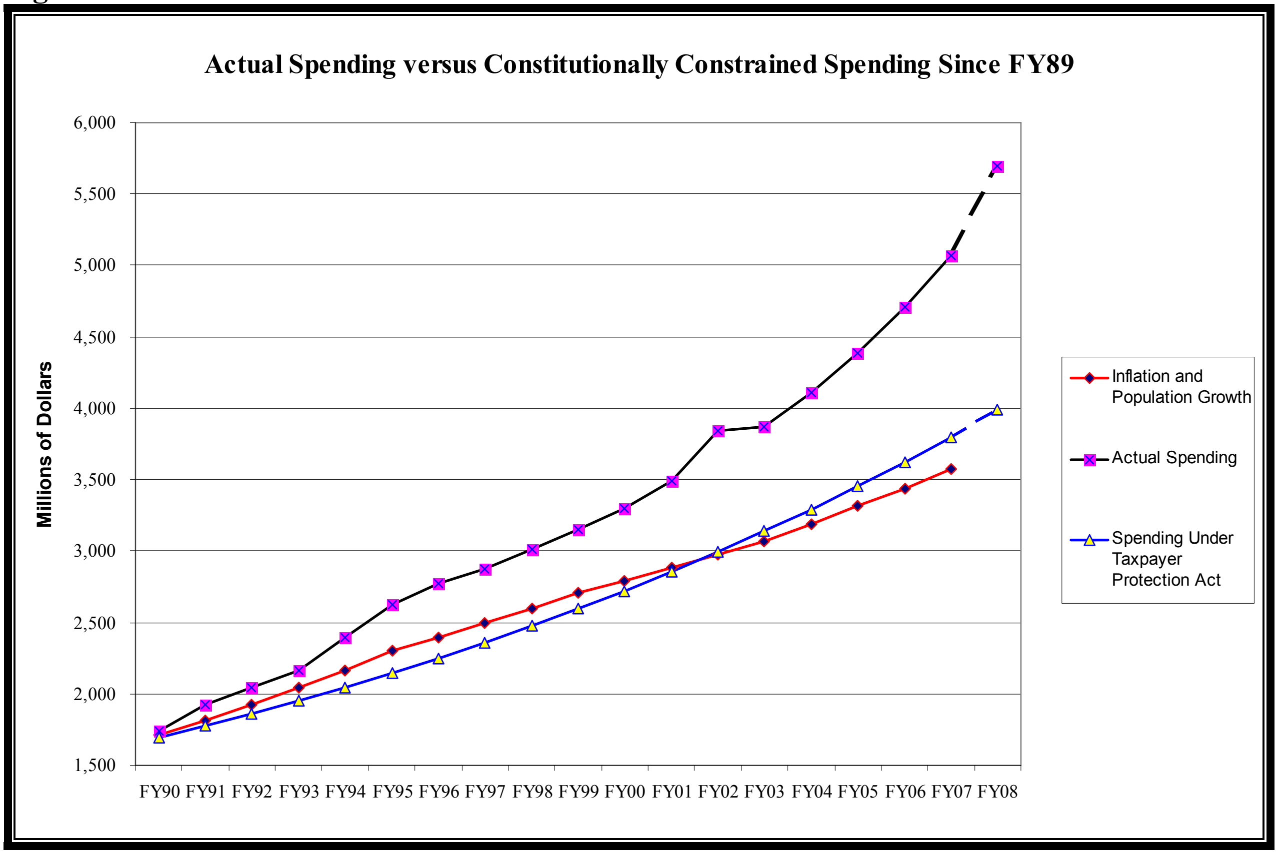
## Spending Solution Needed

So, how do we solve the problem of unchecked government spending? An amendment to the New Mexico Constitution known as the Taxpayer Protection Act was recently introduced by a group of House and Senate Republicans. The Act would amend New Mexico's constitution to limit spending growth to 3.6 percent plus the rate of population growth in the state. In the event of a surplus, 60 percent of the unspent revenue would be deposited in the severance tax permanent fund with the other 40 percent returned to New Mexicans in the form of a rebate.

As illustrated in the chart below, had it been in place between FY 1989 and FY 2007, the Taxpayer Protection Act would have resulted in $520 million being refunded to the taxpayers and an additional $780 million being deposited in the state's permanent fund. General fund spending would be $3.8 billion this year as opposed to nearly $5.1 billion (a number that doesn't even take into account the Governor's proposed $5.7 billion in FY 2008 spending.

Assuming that Richardson's 11 percent spending increase is passed into law, the state will spend $5.7 billion next year as compared to a $4.0 billion general fund budget under the Taxpayer Protection Act. Even more shocking is the fact that by not having spending protections in effect for FY 2008 alone, Richardson will grow government by nearly $444 million over the rate allowed under the Taxpayer Protection Act.

**Figure 1**




Placing limits on spending is a balancing act. On one hand, you don't want government to spend every nickel that comes during good times or else you will have a vicious boom and bust cycle. On the other hand, spending limits should have enough teeth that they actually place real limits on spending growth. Depending on your point of view, Colorado Taxpayers' Bill of Rights is either the gold standard for tax limitation or the poster child of what to avoid. Regardless, it is unlikely that New Mexico will adopt anything as strict as Colorado's limit anytime soon.

Colorado limits spending to the combined effects of inflation and population growth. While the Taxpayer Protection Act also accounts for population, it provides a 3.6 percent rate of increase a more generous than what inflation would have provided in recent years. Since 2000, the annual inflation rate has never exceeded 3.4 percent and it has averaged 2.8 percent. This feature would give New Mexico government more room to grow than Colorado's law allowed. Thus, while the Taxpayer Protection Act would have reduced spending significantly over the last 20 years, the Act would have allowed the state to spend $226 million more than under Colorado's formula.

## Wasted Money

While it may seem to some that New Mexico politicians could never find $1.7 billion in wasteful spending in the current budget without cutting essential programs, the good news is that they don't have to. The Taxpayer Protection Act only applies to future spending and – if enacted – it would allow legislators to prioritize their spending every year rather than forcing them to make significant cuts or allowing them to waste money on unnecessary programs.

That said, over the past few years there are several programs and spending projects that many taxpayers view as unnecessary uses of their money. The Rail Runner is one well-documented project. With a price tag of nearly $400 million, the elimination of this project alone would go a long way in reducing New Mexico's overspending. The New Mexico Spaceport, at a price tag of $100 million is another speculative use of taxpayer money that might have been left out of a more limited budget.

Another spending area that might be trimmed is health care spending. In his FY 2008 budget, Governor Richardson outlined a massive increase in health care spending and he is making no effort to reform this ever-increasing area of the state budget. State Medicaid spending will rise by more than 14 percent if Richardson's FY 2008 budget is approved. This comes on top of a spending increase of 18 percent between FY 05 and FY 06. Even prior to the last two years, in terms budget sector growth, Medicaid had consistently been the fastest growing sector of the budget increasing at a rate of 12 percent annually since FY 1995.[1]

Florida has implemented a plan that gives recipients greater control over their money and therefore incentives to save, while Oklahoma, South Carolina, and Idaho are among the many states considering ways to improve health care at a lower cost to taxpayers.[2] No such efforts have been undertaken in New Mexico.

These are just a few of the many ways in which New Mexico politicians would likely spend more wisely under a system in which they were asked to prioritize. Of course, if they wished, legislators could ignore these suggestions and find plenty of other opportunities for savings. The point is, until legislators impose some type of discipline on themselves, they will spend whatever they have. There is no incentive to do otherwise.

## Conclusion

While future generations will thank us for putting more money away for them and current taxpayers will undoubtedly enjoy receiving tax rebates, by limiting government growth, the Taxpayer Protection Act will shift limited resources out of government and into the private sector, thus spurring long-term economic growth in New Mexico. Moving New Mexicans away from dependency on government may be the single most important benefit of limiting spending.

There are those who may quibble with the particulars of this proposal. Some will say it is too strict and some will say it is too lenient. But, the Taxpayer Protection Act is a good place to start the discussion on spending limits in New Mexico. Hopefully, legislators who are more typically inclined to spend with reckless abandon will give this legislative effort a fair hearing.

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[1] Danice R. Picraux NM State Representative and College of Santa Fe and Gilbert K. St. Clair University of New Mexico, "New Mexico Budget – FY 2006," Center for Public Policy and Administration, http://www.cppa.utah.edu/westernstatesbudgets/WPSA05/NM_05.pdf.

[2] Christie Raniszewski Herrera, "Pressure for Market-Based Medicaid Reform Rises," *Budget & Tax News,* June 1, 2006, http://www.heartland.org/Article.cfm?artId=19069.