

## Planning a More Diversified Economy

By Senator Pete Campos

Before the past legislative session began, I wrote an article suggesting that our main focus as a legislature should be on restoring hope for all New Mexicans by developing a responsible budget, reforming our capital outlay system and addressing compliance with the federal REAL ID Act of 2005, among other things. As with all legislative sessions, the mindset going in tends to shift a bit before it's all said and done, and so while I still remain focused on restoring hope, I have a better sense now of just how to do it.

As with any 30-day session, the legislature's primary goal in 2016 was to develop a balanced budget. It is always a challenging task, but especially so in 2016. Just a few months before the session convened, state economists estimated that we'd have more than \$230 million in additional state revenue compared to the current year's appropriations. That estimate dropped to just \$30 million early in the session, and by the time we adjourned, the estimate was a negative \$95 million, and many expect that it will fall further.

Declining oil and natural gas prices are the main reason for declining state revenue. That in turn has led to fewer jobs and consumer spending in New Mexico's oil patch, which, combined with our already worst-in-the-nation unemployment rate, has led to less revenue from the gross receipts tax.

In the end, we approved a \$6.2 billion spending plan for the upcoming fiscal year. It's essentially a flat budget, and while it's up a little bit from the budgets we approved during the depths of the recession, it's really no more than what we were spending eight years ago in fiscal year 2009. We balanced the budget, despite a negative revenue estimate, by sweeping funds from other state accounts and giving the governor the authority to trim spending if necessary.

If this is beginning to sound like the opposite of hope, bear with me. For years, public figures have said that the Chinese symbol for crisis actually contains the characters for danger and opportunity. While this is debatable, I like the notion because it provides us with an interesting way to approach potential ways of avoiding future budget shortfalls. Many of us in the legislature have been saying for some time now that New Mexico is far too dependent on oil

and gas prices for revenue, and when those prices plummet, we struggle to be able to fund state government. If we are to get out of this hole and stay out of it, we need to view this as an opportunity to look at diversifying our economy and reforming our tax system.

I believe we can diversify our economy and begin to stabilize state revenues by strengthening our support of the film industry; promoting our natural attractions; cutting red tape and focusing on what works best for small businesses, particularly in rural areas; expanding the clean energy industry; and improving our statewide broadband technology system by shoring up dead spots in rural communities. We should discuss making the best use of our water and strengthening our agricultural industry, too.

It's true that these measures will help us diversify our economy, which should translate to a more stable, predictable budgeting process (at least as far as revenues are concerned). There is an even greater benefit to these measures, though: well-paying jobs. Growing the film and clean energy industries and promoting small businesses will equal more jobs for New Mexicans. Plus, small businesses help make up the fabric of all New Mexico communities, particularly the smaller, rural ones. Helping them grow and be able to hire people has always been a top priority of mine. To me, there is no better source of hope than a job with a decent wage or owning a business that functions as a vital part of the community, both in terms of goods and services and in employment of others.

We also have to reevaluate our tax base by examining exemptions and credits and whether they are functioning as intended. I have served in the legislature for over 25 years, and in that time, I don't think I have ever seen a proposed tax exemption that wasn't sold to the legislature as economic development. We need to take a close look at those exemptions to determine whether they still represent economic development. Tax reform is going to mean some hard choices for the legislature, but this session showed that our dependence on too few sources of revenue can get us into trouble.

As we work to diversify our economy and reform our tax system, we need to remember to proceed cautiously until the changes we make are proven effective. We also need to be careful about just borrowing approaches from other states. We have seen time and again that what works in other states simply doesn't work here in New Mexico. Instead, we need to develop

innovations that are genuinely tailored to meet the needs of New Mexicans. I firmly believe that we have the brain power, experience and ability to develop the kind of innovations we will need to diversify our economy and reform our tax system.

In addition to diversifying our economy and tax reform, we should begin immediately to carefully review our budget. Analysis should be conducted to assess current and trending public needs, like public education and health care. We cannot afford to be caught by surprise and have to scramble to fund something we should have been able to see coming. We should also carefully review budget earmarks and consider getting rid of ones that no longer serve their purpose. Monitoring and reviewing our budget will require significant work. It is critical that we get started as early as possible on this and that we stay committed to it throughout the interim.

I began the 2016 legislative session with a message of hope. I will not give up on that hope, especially now, when there is so much work yet to be done and the vision for our path forward has never been more clear.