DATE: July 20, 2021

TO: Mayor Gregory Hull, Council Members Jim Owen, Jeremy Lenentine, Bob Tyler, Paul Wymer, Karissa Culbreath, and Dan Stoddard

Matt Geisel, City Manager

FROM: Carole Jaramillo, Director of Financial Services

SUBJECT: July Gross Receipts Tax (GRT) and Recent Labor Market Indicators

Gross Receipts Tax

Attached please find the monthly dashboard for the July GRT distribution. The July gross receipts tax distribution (May business activity) exceeds the projection for the month continuing the positive variance trend that was evident throughout FY21. Chart 1 of the dashboard indicates revenue levels that continue to reflect strong business activity despite the COVID-19 restrictions that remained in place in May. In general, the City has seen growth in business activity in the majority of sectors compared to the same time last year.

Chart 2 reflects month by month changes in each fiscal year 2020, 2021 and 2022. An obvious spike occurred in September 2019 (FY20) due to a large back-payment of food hold harmless (approximately $1.75 million), then in February 2021 (FY21) a negative adjustment to the medical hold harmless distribution reduced a positive variance in that distribution by $111 thousand to retroactively correct for certain taxpayer(s) CRS returns dating back to July 2015. In June of this year (FY21), the City again received a positive adjustment to the food hold harmless distribution which led to a positive adjustment of approximately $100 thousand. These random adjustments made by TRD skew the year-over-year comparisons in the impacted months, however, it is clear that the City has seen consistent positive GRT revenue changes from the prior years in fiscal year 2021.

GRT revenue for July was $3,480,740 for the General Fund. This is $253 thousand above the $3,227,867 projected for the month in the FY22 budget. Compared to FY21 actuals, there is a positive variance year-to-date of $180 thousand or 5.5 percent for the General Fund. The internet sales tax distribution is included in that figure as is the portion of the Environmental GRT formerly dedicated to a special revenue fund but is now included in the general fund. The City has/will receive the population-based internet sales distributions in the months of July and August and will begin receiving revenue based on the new destination sourced GRT structure beginning in September, 2021 (July business activity). The impact of the destination sourcing remains to be seen. We anticipate that it will be a benefit to the City, though how much of a benefit is unknown at this time.

The Financial Services Department urges caution with respect to the budget and reserve levels. As the City, state and nation emerge from the pandemic, there remains many questions as to the progression of the recovery as stimulus funds filter through the economy and enhanced unemployment payments expire. The Financial Services Department receives regular updates from BBER which it uses to make revenue estimates. The Department will continue to monitor the data received and will propose budget changes as necessary.

GRT trends for each major industry are shown in chart 4 of the Dashboard on the next page. In July, many industry sectors show positive growth compared to the same period in FY 2021. This includes utilities, transportation and warehousing at 23.2 percent, accommodation and food services at 11.3
percent, finance, insurance and real estate at 9.2 percent, health care and social assistance at 5.2 percent, “other” sectors at 3.9 percent, manufacturing at 2.2 percent, and professional, education and other services at 1.1 percent. Sectors showing negative growth include retail trade at -0.5 percent and information and cultural industries remains the hardest hit at -58.4 percent. Retail trade showed tremendous growth throughout FY21 and may have leveled off. The medical hold harmless has increased 42.9 percent year-over-year while the food hold harmless has declined 13.3 percent from July 2020. The key sector of construction continues to be strong in the first month of FY22, showing solid growth of 13.3 percent compared to FY21 as development continues throughout the City.

**Labor Market Indicators**

New Mexico’s seasonally adjusted unemployment rate was 7.9 percent in June, unchanged from the rate in May and down from 9.8 percent in the previous year. Nationally the unemployment rate was 5.9 for the month of June, up from 5.8 percent in May and down from 11.1 percent in June 2020. The full report can be found at the link below:

[https://www.dws.state.nm.us/Portals/0/DM/LMI/pr-pdf-0621.pdf](https://www.dws.state.nm.us/Portals/0/DM/LMI/pr-pdf-0621.pdf)

Employment data has not yet been released by the Department of Workforce Solutions. Information should be released by July 31, 2021 for June 2021 and will be found at the link below:

Y-T-D July is $253K or 7.8% above the FY22 estimate.

Chart 1: Gross Receipts Tax Monthly Revenue
General Fund FY22 Original Budget vs. Actual

Chart 2: Gross Receipts Tax Monthly Revenue
General Fund Current Year vs. Prior Years

Y-T-D July is $253K or 7.8% above the FY22 estimate.

Chart 4: GRT Distribution by Industry
% Change FY22 YTD compared to FY21 YTD

Chart 5: GRT Distribution by Industry FY22 YTD

Chart 6: Changing Composition of GRT

FY17 FY18 FY19 FY20 FY21 FY22

Construction 21.0% Retail Trade 27.3%
Utilities, Transportation & Warehousing 6.2%
Food Distribution 6.1%
Accommodation & Food Services 9.2%
FIRE, Information, Health Care & Other Services 23.6%
Manufacturing 1.5%
Other 3.8%

Construction 40.5% Retail & Food 34.1%
Utilities, Transportation & Warehousing 31.5%
Food Distribution 16.5%
Accommodation & Food Services 16.5%
FIRE, Information, Health Care & Other Services 11.5%
Manufacturing 11.5%
Other 11.5%