DATE: October 26, 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: October Gross Receipts Tax (GRT) and Recent Labor Market Indicators

Gross Receipts Tax

Attached please find the monthly dashboard for the October GRT distribution. The October gross receipts tax distribution (August business activity) exceeds the projection for the month continuing the positive variance trend that has been present for more than 24 months. Chart 1 of the dashboard indicates revenue levels that continue to reflect strong business activity as the COVID-19 restrictions were lifted as compared to budget. In general, the City has seen business activity growth in all but one business sector, information and cultural industries. Please note that in Chart 1 of the dashboard, the month by month budget estimates were revised to reflect an updated five-year trend analysis however the overall budget did not change. The monthly budget represents the percentage of the total GRT collected in any given month. The trend of the monthly percentages has shifted over time. The new trend analysis resulted in a higher positive variance year-to-date than under the old trend analysis.

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 year over year.

Beginning in September (July business activity), the Taxation and Revenue Department ceased making population-based distributions of internet sales tax. Gross receipts tax distributions now reflect actual internet sales activity. Internet sales are not separated from other activity within impacted sectors thus, we can only estimate their impact. We can see an obvious increase in the retail sector which continues to increase: $468 thousand higher than October 2021 and $349 thousand higher than August 2021 (the last month before actual internet sales were distributed). Retail, again, reported the highest GRT since we began tracking it.

GRT revenue for September was $4,149,521 for the General Fund. This is $1.1 million above the $3,007,785 projected for the month in the FY22 budget and $3.4 million year-to-date based on the updated month-by-month trend analysis mentioned above. Again, the overall budget for the year did not change. Compared to FY21 actuals, there is a positive variance year-to-date of $2.0 million or 14.7 percent for the General Fund. In addition to gross receipts tax impacts, the legislative changes noted above have also resulted in receipt of compensating tax. The October distribution for compensating tax was $28 thousand for the General Fund. This is a new source of revenue and was
not budgeted in FY22. The Finance Department will track this source of revenue and include it, as appropriate, in future budget estimates.

GRT trends for each major industry are shown in chart 4 of the Dashboard on the next page. In October, most industry sectors show positive growth compared to the same period in FY 2021. This includes “other” industries at 48.9 percent, finance, insurance and real estate at 46.0 percent, manufacturing at 15.9 percent, utilities, transportation and warehousing at 14.0 percent, health care and social assistance at 13.7 percent, accommodation and food services at 13.5 percent, and professional, education and other services at 13.2 percent. As mentioned above, retail had another excellent month and experienced year over year growth of 17.7 percent. The only sector showing negative growth was information and cultural industries which remains very hard hit at -22.7 percent. The medical hold harmless distribution has decreased 1.3 percent year-over-year while the food hold harmless distribution declined 21.5 percent from October 2021. The key sector of construction continues to report very solid growth of 14.8 percent compared to FY21 as development continues throughout the City.

**Labor Market Indicators**

New Mexico’s seasonally adjusted unemployment rate was 6.9 percent in September, down from 7.2 percent in August and down from 8.6 percent from the previous year. Nationally the unemployment rate was 4.8 for the month of September, down from 5.2 percent in August and down from 7.8 percent in September 2020. The full report can be found at the link below:

[https://www.dws.state.nm.us/Portals/0/DM/LMI/pr-pdf-0921.pdf](https://www.dws.state.nm.us/Portals/0/DM/LMI/pr-pdf-0921.pdf)

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

Rio Rancho Gross Receipts Tax Dashboard

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

Y-T-D October is $3.4 million or 27.4% above the FY22 estimate
(Note: Monthly budgeted amounts were reallocated to reflect updated trend analysis.
Annual budget did not change.)

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

Chart 3: Gross Receipts Tax Year-to-Date Revenue
General Fund Current Year vs. Prior Years

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

10/20/2021