DATE: December 28, 2021

TO: Mayor Greggory 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: December Gross Receipts Tax (GRT) and Recent Labor Market Indicators

Gross Receipts Tax

Attached please find the monthly dashboard for the December GRT distribution. The December gross receipts tax distribution (October 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 reflects revenue levels that are well above the City’s very conservative budget estimates. In general, the City has seen business activity growth in all but one business sector, information and cultural industries. As a reminder, in Chart 1 of the dashboard, the month by month budget estimates were revised in October 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 and is based on a 5-year average.

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 of $160,669.53 per month. 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: $438 thousand higher than December 2020 and $350 thousand higher than August 2021 (the last month before actual internet sales were distributed).

GRT revenue for December was $4,068,408 for the General Fund. This is $1.3 million above the $2,787,703 projected for the month in the FY22 budget and $5.9 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 $3.8 million or 18.9 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 December distribution for compensating tax was $45 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 December, most industry sectors show positive growth compared to the same period in FY 2021. This includes “other” industries at 66.0 percent, finance, insurance and real estate at 61.3 percent, professional, education and other services at 19.2 percent, manufacturing at 18.5 percent, accommodation and food services at 15.5 percent, utilities, transportation and warehousing at 13.6 percent, and health care and social assistance at 13.3 percent. As mentioned above, retail continues to show growth in business activity and experienced year over year growth of 25.6 percent. The only sector showing negative growth was information and cultural industries which remains hard hit at -6.6 percent. The medical hold harmless distribution is fairly level year-over-year showing -1.6 percent growth while the food hold harmless distribution declined 22.3 percent from December 2020. The key sector of construction continues to report very solid growth of 19.1 percent compared to FY21 as development continues throughout the City.

**Labor Market Indicators**

New Mexico’s seasonally adjusted unemployment rate was 6.2 percent in November, down from 6.5 percent in October and down from 8.5 percent from the previous year. Nationally the unemployment rate was 4.2 for the month of November, down from 4.6 percent in October and down from 6.7 percent in November 2020. The full report can be found at the link below:

[https://www.dws.state.nm.us/Portals/0/DM/LMI/pr-pdf-1121.pdf](https://www.dws.state.nm.us/Portals/0/DM/LMI/pr-pdf-1121.pdf)

Employment data for November has not yet been released by the Department of Workforce Solutions. Information should be released by December 30, 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

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

Y-T-D December is $5.9 million or 32.4% above the FY22 estimate (Note: Monthly budgeted amounts were reallocated in October to reflect updated trend analysis. Annual budget did not change.)