DATE: March 14, 2022

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

Gross Receipts Tax

Attached please find the monthly dashboard for the February GRT distribution. The February gross receipts tax distribution (December business activity), again, exceeds the projection for the month. This positive trend began before the pandemic and has continued despite dire earlier predictions. Chart 1 of the dashboard reflects revenue levels that are well above the City’s very conservative budget estimates which are based on the most pessimistic economic forecast. However, in general, the City has seen business activity growth across sectors.

Chart 2 reflects month by month changes in each fiscal year 2020, 2021 and 2022. The month of February is typically a rather high month because it reflects the Holiday shopping seasons. This fiscal year is no exception and in fact, reflects the highest month on record for retail GRT as well as overall GRT. Chart 2 also illustrates the impacts of adjustments made by TRD that skew the year-over-year comparisons. 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 2021, the City again received a positive adjustment to the food hold harmless distribution which led to a positive adjustment of approximately $100 thousand.

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: $564 thousand higher than February 2021, and $691 thousand higher than August 2021 (the last month before actual internet sales were distributed).

GRT revenue for February was $5,205,857 for the General Fund. This is $1.3 million above the $3,855,990 revised projected for the month in the FY22 budget and $5.0 million year-to-date based on the revised estimates. Compared to FY21 actuals, there is a positive variance year-over-year of $6.7 million or 24.8 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 February distribution for compensating tax was $33 thousand for the General Fund. This is a new source of revenue for FY22.

GRT trends for each major industry are shown in chart 4 of the Dashboard on the last page of this report. In January, all industry sectors show positive growth compared to the same period in FY 2021. This includes “other” industries at 85.9 percent, finance, insurance and real estate at 53.7 percent, professional, education and other services at 24.4 percent, health care and social assistance at 19.7, accommodation and food services at 17.4 percent, utilities, transportation and warehousing at 13.7...
percent, manufacturing at 13.3 percent, and information and cultural industries at 7.2 percent. As mentioned above, retail continues to show growth in business activity and experienced year over year growth of 32.7 percent. The medical hold harmless distribution now shows an increase year-over-year of 29.9 percent, while the food hold harmless distribution declined 10.3 percent from February 2021. The key sector of construction continues to report very solid growth of 22.6 percent compared to FY21 as development continues throughout the City.

**Labor Market Indicators**

New Mexico’s seasonally adjusted unemployment rate was 5.9 percent in January, unchanged from the rate in December and down from 7.4 percent in January 2021. The national unemployment rate in January was 4.0 percent up from 3.9 percent in December and down from 6.4 percent for this period last year.

Labor market data for January has not yet been released by the Department of Workforce Solutions. Information should be released by March 31, 2022 and will be found at the link below:

Y-T-D February is $5.0 million or 17.6% above the FY22 revised estimate and $9.1 million or 37.4% above the FY22 original estimate.