DATE: March 29, 2022

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

FROM: Carole Jaramillo, Director of Financial Services

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

Gross Receipts Tax

Attached please find the monthly dashboard for the March GRT distribution. The March gross receipts tax distribution (January business activity), exceeds the revised 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 original budget estimates which are based on the most pessimistic economic forecast. Revenue also continues to be well above the mid-year revised budget. In general, the City continues to see growth across all industry sectors.

Chart 2 reflects month by month changes in each fiscal year 2020, 2021 and 2022. The month of March typically declines from the prior month which reflects the Holiday shopping seasons. This fiscal year is no exception with the pattern clearly visible on the chart. 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 2021 (July 2021 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: $238 thousand higher than March 2021, and $144 thousand higher than August 2021 (the last month before actual internet sales were distributed).

GRT revenue for March was $4,280,000 for the General Fund. This is $1.0 million above the $3,256,169 revised projection for the month in the FY22 budget and $6.1 million year-to-date based on the revised estimates. Compared to FY21 actuals, there is a positive variance year-over-year of $7.6 million or 25.3 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 $27 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 March, all industry sectors show positive growth compared to the same period in FY 2021. This includes “other” industries at 90.1 percent, finance, insurance and real estate at 52.4 percent,
health care and social assistance at 32.9 percent, professional, education and other services at 26.8 percent, accommodation and food services at 17.0 percent, manufacturing at 12.9 percent, utilities, transportation and warehousing at 11.6 percent, and information and cultural industries at 11.6 percent. As mentioned above, retail continues to show growth in business activity and experienced year over year growth of 31.7 percent. The medical hold harmless distribution now shows an increase year-over-year of 23.6 percent, while the food hold harmless distribution declined 11.3 percent from March 2021. The key sector of construction continues to report very solid growth of 21.8 percent compared to FY21 as development continues throughout the City.

**Labor Market Indicators**

New Mexico’s seasonally adjusted unemployment rate was 5.6 percent in February, down from 5.9 percent in January and down from 7.3 percent in February 2021. The national unemployment rate in February was 3.8 percent down from 4.0 percent in January and down from 6.2 percent for this period last year.

Labor market data for February has not yet been released by the Department of Workforce Solutions. Once released, the information will be found at the link below:

Y-T-D February is $6.1 million or 19.0% above the FY22 revised estimate and $10.6 million or 39.1% above the FY22 Original estimate.

% Change FY22 YTD compared to FY21 YTD

1. Finance, Insurance & Real Estate: 32.9%
2. Health Care & Social Assistance: 31.7%
3. Retail Trade: 26.8%
4. Info. & Cultural Ind.: 23.6%
5. Construction: 21.8%
6. Accommodation & Food Services: 17.0%
7. Food Distribution: 12.9%
8. Manufacturing: 11.6%
9. Utilities, Transp. & Warehousing: 11.6%
10. Other: 11.3%

Chart 1: Gross Receipts Tax Monthly Revenue
General Fund FY22 Original Budget and Revised 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 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

3/29/2022