DATE: May 23, 2022

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

FROM: Carole Jaramillo, Director of Financial Services

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

Gross Receipts Tax

Attached please find the monthly dashboard for the May GRT distribution. The May gross receipts tax distribution (March 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 were based on the most pessimistic economic forecast and continues to be well above the mid-year revised budget also. Chart 1 also shows the anticipated monthly fluctuations in GRT which follow roughly the same pattern year after year. Because of the predictability of these fluctuations, we are able to estimate our GRT revenue for any given month of the fiscal year which is reflected in Chart 1 as well. In general, the City continues to see growth across all industry sectors.

GRT revenue for May was $4,860,714 for the General Fund. This is $1.0 million above the $3,813,145 revised projection for the month in the FY22 budget and $8.0 million year-to-date above the revised estimates. Compared to FY21 actuals, there is a positive variance year-over-year of $9.5 million or 25.4 percent for the General Fund. In addition to gross receipts tax impacts, legislative changes have resulted in receipt of compensating tax. The May distribution for compensating tax was $106 thousand for the General Fund. This is a new source of revenue for FY22 not originally budgeted.

Chart 2 reflects month by month changes in each fiscal year 2020, 2021 and 2022. Chart 2 further 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: $376 thousand higher than May 2021, and $473 thousand higher than August 2021 (the last month before actual internet sales were distributed).

GRT trends for each major industry are shown in chart 4 of the Dashboard on the last page of this report. In May, all industry sectors show positive growth compared to the same period in FY 2021. This includes “other” industries at 99.6 percent, finance, insurance and real estate at 48.4 percent, health care and social assistance at 33.5 percent, professional, education and other services at 32.0
percent, accommodation and food services at 19.3 percent, manufacturing at 16.7 percent, information and cultural industries at 16.5 percent, and utilities, transportation and warehousing at 12.7 percent. As mentioned above, retail continues to show growth in business activity and experienced year over year growth of 33.3 percent. The medical hold harmless distribution shows an increase year-over-year of 16.2 percent, while the food hold harmless distribution declined 11.1 percent from May 2021. The key sector of construction continues to report very solid growth of 19.0 percent compared to FY21 as development continues throughout the City.

**Labor Market Indicators**

New Mexico’s seasonally adjusted unemployment rate was 5.3 percent in April, unchanged from March and down from 7.3 percent in April 2021. The national unemployment rate in April was 3.6 percent, unchanged from March and down from 6.0 percent for this period last year.

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

https://www.dws.state.nm.us/en-us/Researchers/Publications/Economic-News
Rio Rancho Gross Receipts Tax Dashboard

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

Y-T-D May is $8.0 million or 20.7% above the FY22 revised estimate and $13.6 million or 41.0% above the FY22 Original estimate.

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

5/23/2022