Quarterly Economic Summary

Valencia County

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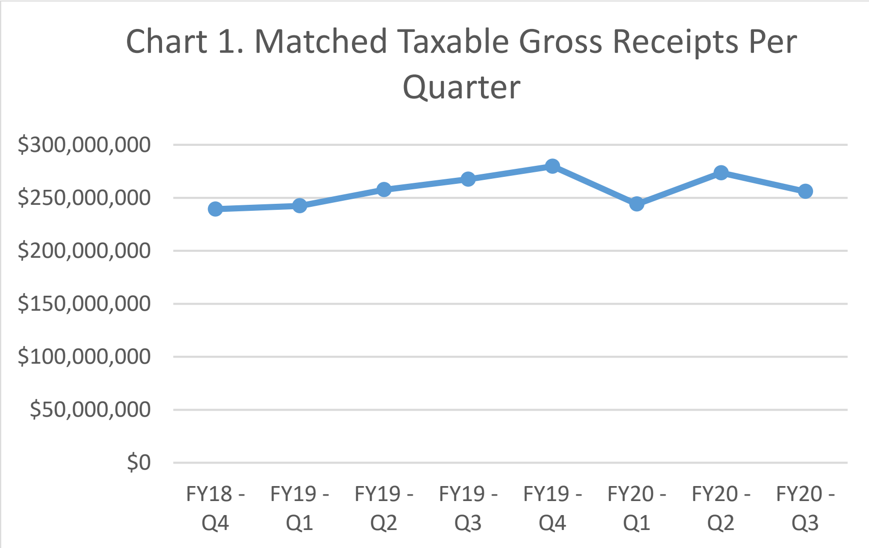

Due to the necessity of the statewide business closure, which went into effect on March 24th, and the health and economic effects COVID-19 had since early March, matched taxable gross receipts and revenue collections may have declined in the third quarter of FY20. Most of the gross receipts tax decline is due to COVID-19 and the loss in business revenue, but potential delays in taxpayer reporting may add to the level of decline seen in the quarter. It is anticipated that the next quarter will have greater declines.

Valencia County's matched taxable gross receipts (MTGR) decreased from Q2 to Q3 of FY20, by $17.5M after a substantial increase in Q2 from Q1, as seen in Chart 1. The construction industry remains the largest industry by MTGR with retail trade continuing as second largest for the second consecutive quarter. Q3 FY20 saw a 4% year over year decrease from Q3 of FY19, equal to $11.5M. The largest decrease stems from the construction industry, with a $26.2M decrease.

Matched Taxable Gross Receipts (MTGR) is the best tax data available to show underlying economic activity. It matches a tax payment with reported receipts for each taxpayer, by industry.

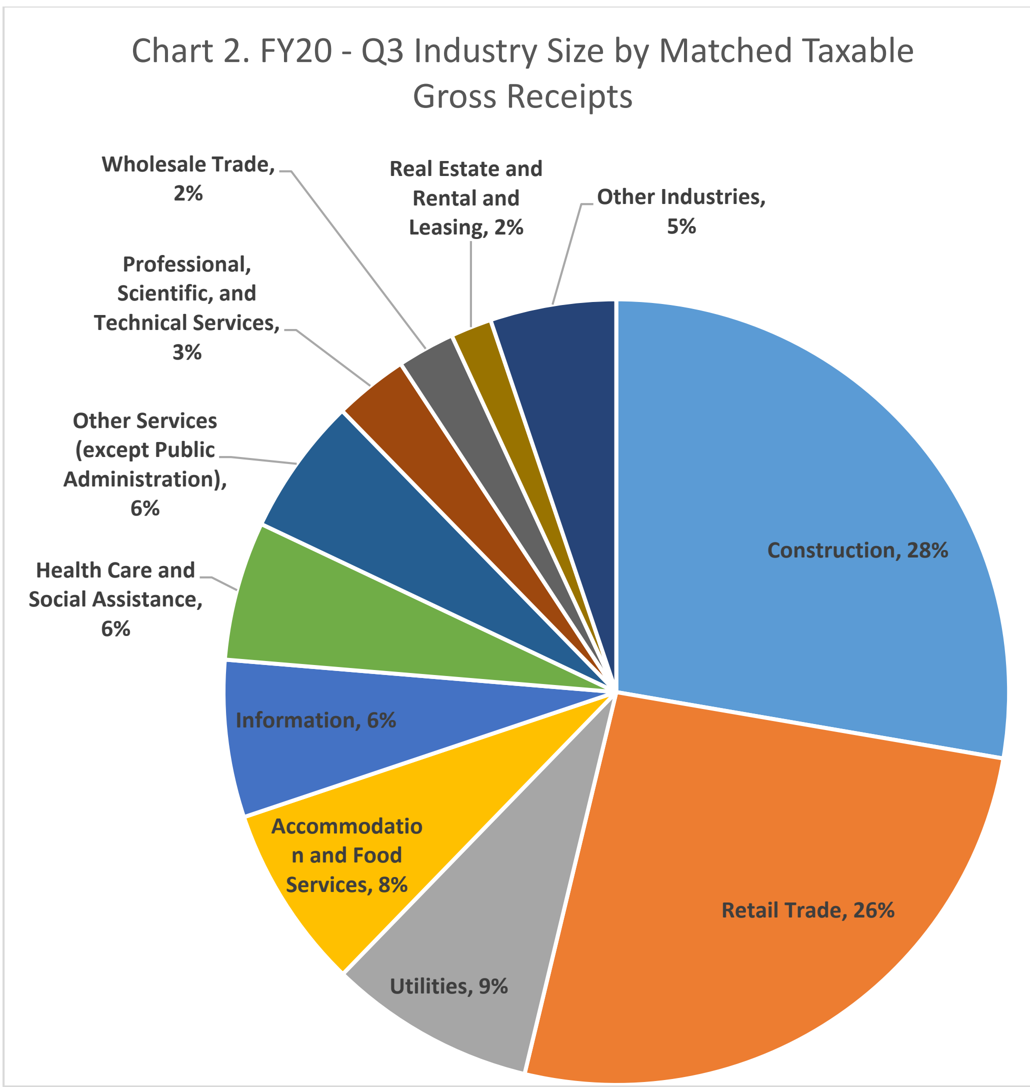

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Table 1. Matched Taxable Gross Receipts by Industry

Industries	FY19 - Q3	FY20 - Q3	Growth	Year over year Change
Accommodation and Food Services	$ 20,089,613	$ 19,423,217	$ (666,396)	-3%
Administrative/Support & Waste Management/Remediation	$ 2,404,525	$ 2,962,026	$ 557,501	23%
Agriculture, Forestry, Fishing, and Hunting	$ 285,586	$ 377,699	$ 92,113	32%
Arts, Entertainment, and Recreation	$ 559,839	$ 536,240	$ (23,598)	-4%
Construction	$ 97,101,924	$ 70,911,420	$ (26,190,504)	-27%
Educational Services	$ 180,461	$ 290,552	$ 110,091	61%
Finance and Insurance	$ 676,011	$ 753,784	$ 77,773	12%
Health Care and Social Assistance	$ 12,524,873	$ 14,632,034	$ 2,107,161	17%
Information	$ 16,174,956	$ 16,573,449	$ 398,493	2%
Management of Companies and Enterprises	$ -	$ -	$ -	N/A
Manufacturing	$ 3,473,635	$ 3,989,035	$ 515,400	15%
Mining, Quarrying, and Oil and Gas Extraction	$ 26,192	$ -	$ (26,192)	-100%
Other Services (except Public Administration)	$ 13,549,681	$ 14,507,387	$ 957,706	7%
Professional, Scientific, and Technical Services	$ 5,650,643	$ 7,797,810	$ 2,147,167	38%
Public Administration	$ -	$ -	$ -	N/A
Real Estate and Rental and Leasing	$ 4,421,674	$ 4,333,371	$ (88,303)	-2%
Retail Trade	$ 63,676,543	$ 66,672,087	$ 2,995,544	5%
Transportation and Warehousing	$ 2,488,981	$ 2,522,213	$ 33,232	1%
Unclassified Establishments	$ 1,144,168	$ 1,846,864	$ 702,696	61%
Utilities	$ 18,562,602	$ 21,767,701	$ 3,205,099	17%
Wholesale Trade	$ 4,497,339	$ 6,061,611	$ 1,564,271	35%
All Industries	**$ 267,489,245**	**$ 255,958,499**	**$ (11,530,746)**	**-4%**

Accommodations and food services experienced the second largest year over year (YOY) decline of $666K, totaling $19.4M in Q3 FY20 and the lowest the industry has seen since FY18. Gross receipts tax (GRT) revenue collections declined by 5% or $203K from Q2 to Q3 of FY20, as seen in Chart 4. Collections had a 1%, $27K, YOY decrease in Q3, comparing FY19 and FY20.

HB6, passed in 2019, made widespread tax changes within New Mexico. One notable change is the conversion to destination-based sourcing that will begin after a two-year delay. During this delay, local governments will receive a distribution that is a portion of $2M each month. The portion distributed will be based on what the population of each county is to the total population of all counties, as per the most recent decennial census.

Chart 3. Annual Total GRT Revenue Collections

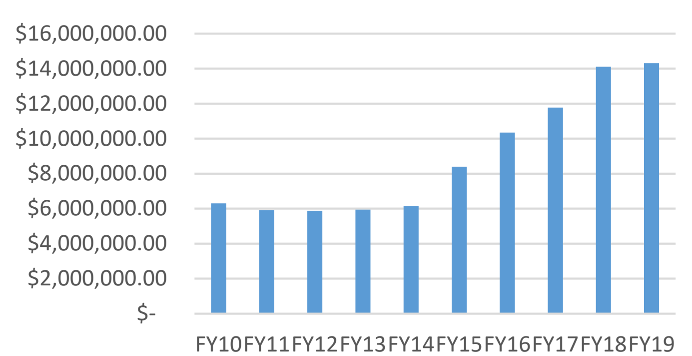
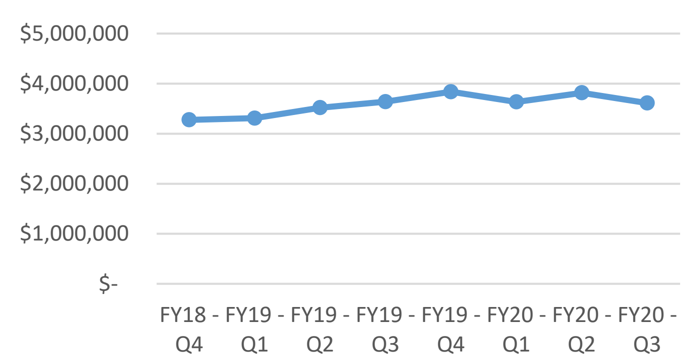


Chart 4. Quarterly GRT Revenue Collections



SOURCES: NEW MEXICO TAXATION AND REVENUE DEPT, NEW MEXICO DEPTARTMENT OF WORKFORCE SOLUTIONS, U.S. BUREAU OF LABOR AND STATISTICS, U.S. BUREAU OF ECONOMIC ANALYSIS AND EDD CALCULATIONS

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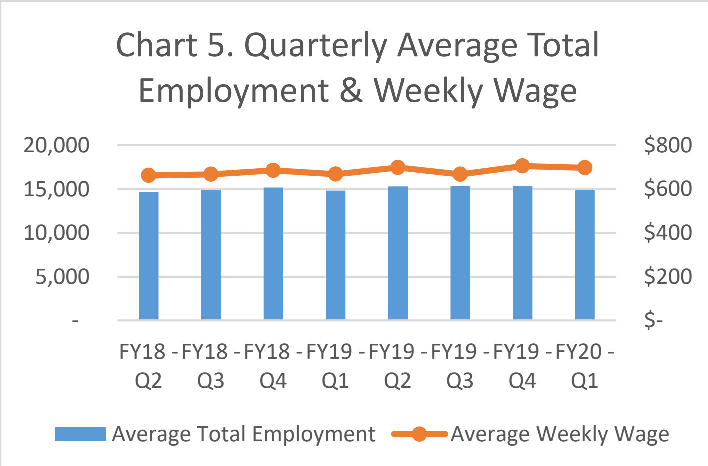
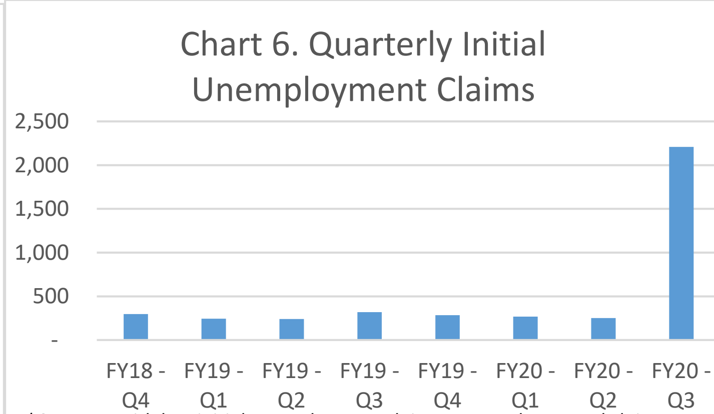
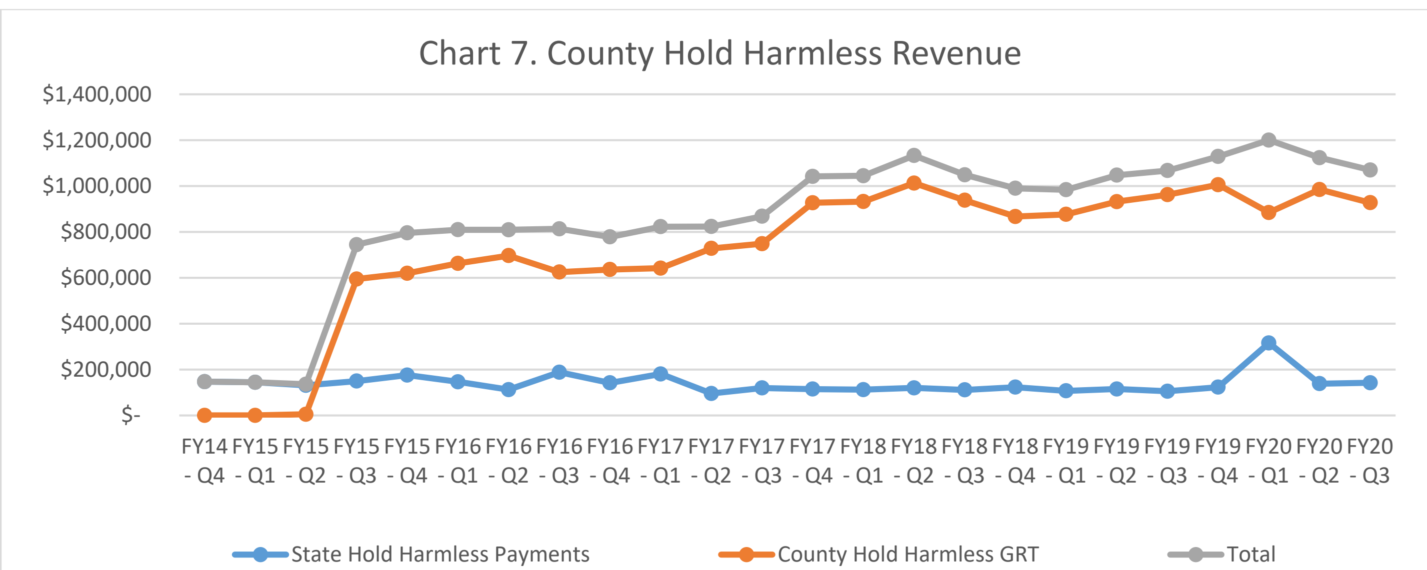




**Quarters with low initial unemployment claim amounts have total claims withheld to avoid disclosure of confidential information.*

The state makes "hold harmless" payments to local governments equal to the tax revenue that would have been generated if the state had not enacted deductions for food and healthcare practitioner services. These payments will be gradually phased out by 2029, but local governments were able to enact up to three 1/8% GRT increments to offset this loss. These GRT increments were repealed and consolidated in 2019 with a number of other restricted local options under the unrestricted countywide local option with an increased rate cap.

A significant unexplained increase in **Initial Unemployment Claims** can be an early indicator of an incoming economic downturn. Explained increases commonly include seasonal job fluctuations, government shutdowns resulting in mass employee furloughs and the closing of a major regional facility. The major uptick in the initial unemployment claims is directly tied to the COVID-19 outbreak and the subsequent closure of "non-essential" businesses. These businesses tend to be a major component of the workforce. As the stay at home order stays in effect, it is likely that the initial unemployment claims will continue to increase as the economy shifts to handle the unprecedented changes.



* Total may overlap state hold harmless payments

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