Fiscal Year 2007 - 2008
City of Rio Rancho
Retail Leakage Report

Prepared for:

George W. Bootes III, CEcD
Office of the City Manager
City of Rio Rancho, New Mexico

Prepared by:

Ken Schaefer

Grubb & Ellis|New Mexico
2424 Louisiana Blvd NE, Suite 300
Albuquerque, New Mexico 87110
505.883.7676
505.923.3812 FAX

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Executive Summary

Based on fiscal year 2007/2008 retail gross receipts data, the total retail spending in State of New Mexico was $13,353 per capita. During this period the City of Rio Rancho’s per capita retail spending was $6,410 or 58.4 percent of the state’s per capita retail spending level. This means that 41.6 percent of retail spending is being leaked or spent outside of the City of Rio Rancho. The amount of retail gross receipts leaked improved by almost 700 basis points compared to fiscal year 2005/2006. During fiscal year 2005/2006 the retail leakage was 48.5 percent.

In dollar terms, the 48.5 percent leakage of total retail gross receipts equates to $422.2 million being spent outside of Rio Rancho on an annual basis. The taxable portion of fiscal year 2007/2008 retail gross receipts was 48.1 percent of the total. Applying this to the $422.2 million leakage equates to $203.3 million of taxable retail gross receipts. The City of Rio Rancho retains 2.8777 percent from the gross receipts tax collected. By multiplying the 2.877 percent times the $203.3 million of taxable retail gross receipts leaked out of Rio Rancho means that up to $5.85 million of retail gross receipts revenue was lost by the city in fiscal year 2007/2008. For FY 2005 – 2006 the amount of gross receipts lost by the City of Rio Rancho was $6.01 million dollars.

This study broke out the retail gross receipts using the North American Industry Classification System (NAICS) which allows measurement by type of retailer. Only two types of retailers had spending levels that were greater than the State of New Mexico per capita spending levels. These were Pet & Pet Supply Stores at 132 percent and Pharmacies at 124 percent. Groceries stores and Electronic Shopping/Mail Order were at 86 percent and 72 percent, respectively. The new Super Wal-Mart in Bernalillo is likely responsible for decreasing the fiscal year 2005-2006 per capita spending level from 101 percent to 86 percent in fiscal year 2007/2008.

The root cause of Rio Rancho’s retail leakage is a lack of retailers located in the City of Rio Rancho. A symptom of this problem is the on-going retail leakage itself. One of the biggest reasons Rio Rancho is not attracting more retailers is the close proximity of Cottonwood Mall in Albuquerque. Cottonwood Mall is less than one mile from the southeast border of Rio Rancho. Generally speaking, most national retailers will not locate stores within five miles of existing locations.

Based on the national average of 40 feet of retail space per capita, the city of Rio Rancho could theoretically support 1.27 million square feet of additional retail space. Rio Rancho had 1.63 million square feet of retail space, or 21 square feet per capita. This is 19 square feet less than the national average of 40. Multiplying the 19 square feet times Rio Rancho’s population of 75,978 equates to 1.4 million square feet that could be added to equal the national average amount of space. The challenge is dealing with the existing four million square feet of total retail space in the Cottonwood Mall submarket which includes a majority of Rio Rancho in its trade area.
Recommendations:

The following strategies and tactics should be considered to help reduce the overall retail leakage:

1. Increase public awareness of Rio Rancho’s retail leakage problem
   a. Implement a public relations campaign
   b. Get media coverage
2. Increase commercial brokers awareness of the Gross Receipts Infrastructure Program (GRIP) available to developers
   a. Create an electronic GRIP brochure that commercial brokers can email to retailers and developers
3. Analyze the retail gross receipts collected from online and mail order entities (454110 - ELECTRONIC SHOPPING & MAIL ORDER HOUSES)
   a. Determine if residents are being forced to order from online or mail order formats because no locations are available in Rio Rancho.
4. Finalize City Centre Master Plans and associated retail land uses
   a. Allocate enough retail land uses to accommodate at least 40 square feet of retail space per person
5. Develop and implement comprehensive Retail Development Strategy
Background:

In 2002, Rio Rancho’s retail gross receipts were first studied to quantify the total amount of retail dollars being spent or leaked outside of the City of Rio Rancho for fiscal year 2000/2001. This study provided baseline data to measure any improvement or degradation of retail gross receipts leaked out of the City of Rio Rancho. The retail gross receipts data follows the State of New Mexico’s fiscal year which runs from July 1st to June 30th. For this study, the dates were from July 1, 2007 to June 30, 2008.

The initial fiscal year 2000/2001 baseline retail leakage study found that 49.6 percent of potential retail sales were being leaked out of the City of Rio Rancho. Three additional follow up studies were done on alternating years.
Methodology:

In order to measure if retail spending is being leaked out of the city of Rio Rancho, an analysis of FY 2007–2008 retail gross receipts was done. FY 2007-2008 data for municipalities in the State of New Mexico is from July 1, 2007 to June 30, 2008. To calculate if a retail spending leakage exists, State of New Mexico per capita retail spending was compared to the per capita retail spending for the city of Rio Rancho. A retail leakage occurs when the State of New Mexico per capita spending is greater than that of the City of Rio Rancho. Population estimates from the U.S. Census Bureau were used as of July 2007. For Rio Rancho the population was 75,978 residents and the State of New Mexico’s was 1,928,384 residents.

The State of New Mexico Tax and Revenue Department publishes Report 80. This report breaks out gross receipts tax data broken out by the North American Industry Classification System (NAICS) on a monthly accrual basis. Report 80 is available for both the entire state and by municipalities or cities in New Mexico. The most recent NAICS report for New Mexico, which includes Rio Rancho, was produced for the state’s fiscal year ending June 2008. For this study the following table shows which specific reports were acquired from New Mexico Taxation and Revenue Department.

<table>
<thead>
<tr>
<th>Location Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>29-524</td>
<td>City of Rio Rancho</td>
</tr>
<tr>
<td>02-647</td>
<td>City of Rio Rancho in Bernalillo County</td>
</tr>
<tr>
<td>NM</td>
<td>State of New Mexico</td>
</tr>
</tbody>
</table>

The city of Rio Rancho receives gross receipt taxes from two municipalities: the City of Rio Rancho (29-524) itself and the portion of the city (02-647) that is literally located on the Sandoval and Bernalillo County borders. For this study, these two locations (29-524 & 02-647) were combined and looked at in aggregate.

By applying the per capita spending amounts for the State of New Mexico to Rio Rancho’s population, retail leakages can be determined for each NAICS retail category.

When reviewing gross receipt taxes collected by individual NAICS categories, the state of NM Taxation and Revenue Department will not report on categories for retailers in which there are only one or two retailers reporting. This provides confidentiality of sales data to the retailers. These are represented by asterisks (*) in the reporting data. The sales for these retailers are reported in the “Unallocated” category.
On a per capita basis the City of Rio Rancho is currently generating less than 50 percent of total retail sales or gross receipts compared to the City of Albuquerque. Albuquerque’s per capita spending is likely higher than the statewide average since it is a retail shopping destination for many surrounding communities that have a small amount of retail options. Albuquerque also benefits from increased retail spending as a result of conventions and the annual International Balloon Festival.
Since fiscal year 2003/2004 the level of retail leakage has declined on a biennial basis. For fiscal year 2007/2008, the City of Rio Rancho has the least amount of retail leakage ever measured at 41.6 percent. The improvements may be attributable to the new Super Wal-Mart at Southern and Unser and the new Lowe’s Home Improvement Warehouse in Loma Colorado.
Any retail category over 100 percent means the City of Rio Rancho is capturing more than the expected level. Only two retail categories meet this criteria, pet stores and pharmacies. Every other category is experiencing a leakage of spending.
The City of Rio Rancho had 21 square feet of retail space per person as of the second quarter of 2008. This is approximately 19 square feet less than the national average of 40 square feet per person. Multiplying the 19 square feet times Rio Rancho’s population of 75,978 equates to 1.4 million square feet that could be added to equal the national average amount of space per person.

The challenge is dealing with the existing four million square feet of total retail space in the Cottonwood Mall submarket.
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Sales Caputured</th>
<th>Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul-07</td>
<td>454,311</td>
<td>0</td>
</tr>
<tr>
<td>Aug-07</td>
<td>454,310</td>
<td>(365,711)</td>
</tr>
<tr>
<td>Sep-07</td>
<td>454,210</td>
<td>5,476</td>
</tr>
<tr>
<td>Oct-07</td>
<td>18,076</td>
<td>4,462</td>
</tr>
<tr>
<td>Nov-07</td>
<td>12,363</td>
<td>2,235</td>
</tr>
<tr>
<td>Dec-07</td>
<td>10,654</td>
<td>5,283</td>
</tr>
<tr>
<td>Jan-08</td>
<td>17,402</td>
<td>14,222</td>
</tr>
<tr>
<td>Feb-08</td>
<td>286,633</td>
<td>284,040</td>
</tr>
<tr>
<td>Mar-08</td>
<td>124,060</td>
<td>117,491</td>
</tr>
<tr>
<td>Apr-08</td>
<td>694,848</td>
<td>677,284</td>
</tr>
<tr>
<td>May-08</td>
<td>1,723,122</td>
<td>1,699,748</td>
</tr>
<tr>
<td>Jun-08</td>
<td>783,124</td>
<td>1,077,538</td>
</tr>
<tr>
<td>Total</td>
<td>4,536,310</td>
<td>-</td>
</tr>
</tbody>
</table>

**State of New Mexico Taxation & Revenue Department**

**Report 80**

**FY 2007/2008 Combined Rio Rancho Municipalities**

**Rio Rancho Population - July 2007:** 75,978

**Fiscal Year 2007/2008**

**Reported Retail Gross Receipts Data**

**Rio Rancho Sales Tax per Person:** 58.4% (422,237.12)

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