



Consumers pay millions in sales tax at border towns. Northwestern NM reaps greatest benefits.

Navajo Nation DED Support Services reviews 2011 GT & TPT collected at border towns around Navajo.

Introduction

In numerous policy discussions on the Navajo Nation, one question that often comes up: How much do consumers pay in sales tax at border towns located around the Navajo Nation?

The answer to the question is basically analyzing all tax data for the selected towns and cities for a specific year. The more difficult question is how much of this is paid by Navajo consumers. This is difficult to find because there has been no direct measurement of how many Navajo consumers pay sales tax at selected border towns. That is, there has been no survey assessing such an inquiry or otherwise. Despite this challenge, one can still use anecdotal data and information to draw inferences from sales tax paid collectively at selected border towns.

The Division of Economic Development Support Services has explored this situation. Based on research, interviews, and analysis, the results are provided herein.

In March 2012, contacts with New Mexico and Arizona officials were made to obtain 2011 tax data. Respective websites were also used to extract tax data and information. Only those prominent towns or cities that border Navajo Nation were reviewed. Interviews were also conducted with McKinley County, NM Department of Finance and AZ Department of Tax Revenues.

Highlights

- In 2011, about \$219,109,163 of sales tax were collected by New Mexico and Arizona from selected border towns located on the fringes outside of the Navajo Nation!¹
- Farmington, NM collected a gigantic amount of \$133 M in sales taxes in 2011.
- Gallup, NM followed next with a collection of over \$48 M, yet that amount is only 36% of Farmington's collection.
- The selected Arizona cities and towns bordering the Navajo Nation collectively amassed a total of only about \$37.3 M in 2011.

¹ Source: Gross Receipts Tax data was obtained from New Mexico Department of Revenues (03/2012). Transaction Privilege Tax data was obtained from Arizona Department of Tax Revenues (04/2012).

- Farmington and Gallup, NM together collected over \$181.8 M in sales taxes.

Sales Tax

There are different ways that states across this country collect sales tax imposed upon products or services procured. There are usually other additional taxes collected as tax revenues for states. The Navajo Nation is not any different. Currently, there is a 4% sales tax imposed on products and services procured on the Navajo Nation.

In New Mexico, Gross Receipts Tax (GT) is imposed on taxable gross receipts (GR) as sales tax. For example, in 2011, there was a Gross Receipts total of \$3,047,696,578 for Farmington, NM. Of this amount, \$1,870,162,475 was taxable resulting in sales tax revenues of \$133,098,048. States that collect taxes using GT usually hold the businesses accountable for collecting the taxes.

Some states use Transaction Privilege Tax (TPT) as a form of sales tax such as Arizona. For instance, in 2011, Page, Arizona collected \$6,902,409 in TPT. States that collect taxes using TPT usually hold the consumers accountable for paying the taxes, yet almost always the businesses collect the taxes as a courtesy to the state.²

Sales Tax Collection Comparison

If one reviews the sales tax collected from selected municipalities around the Navajo Nation, one can see there are two big generator cities in northwestern New Mexico and a few minor generator cities in northeastern Arizona. Figure 1 displays the taxes collected at selected locations, which included Farmington and Gallup in New Mexico as well as Holbrook, Winslow, Flagstaff, and Page in Arizona.

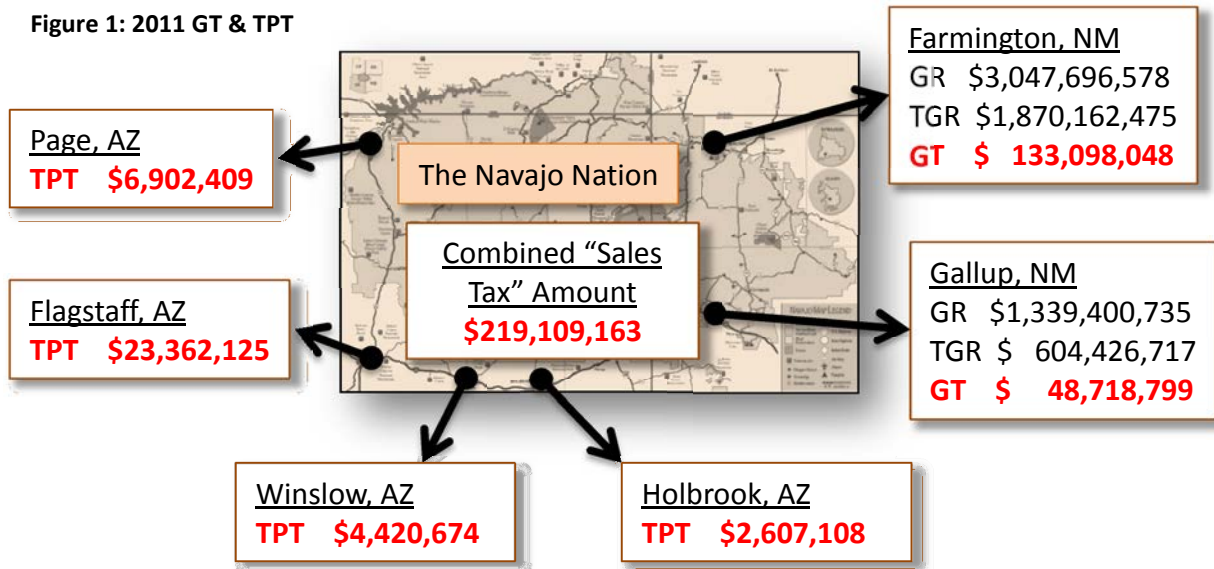
Farmington, NM collects an enormous amount of sales tax for procured products and services. Farmington has a population of about 45,877, similar in size to Roswell, NM with a population of 48,366.³ Farmington and Roswell enjoy diversified business dynamics, from retail to agriculture to energy development. Similarly, both cities enjoy an influx of shoppers from out of town.

² Interview, Elaine Smith, AZ Depart. of Tax Revenues, 03/21/12.

³ 2010 US Census Bureau (within city boundaries).

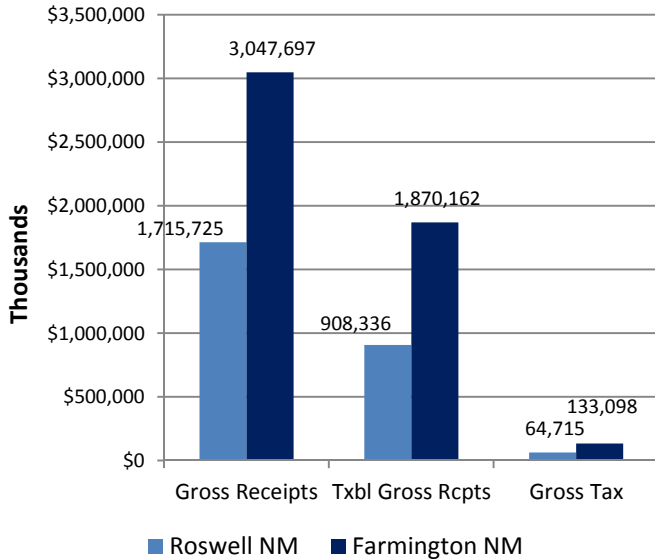
Navajo Economic Data Bulletin 002-0512

Figure 1: 2011 GT & TPT



Yet the economics of the two cities are very different! Farmington had an extremely vibrant gross receipts business activity of about \$3.04 B in 2011.

Figure 2: Farmington v. Roswell - 2011 GR (000)



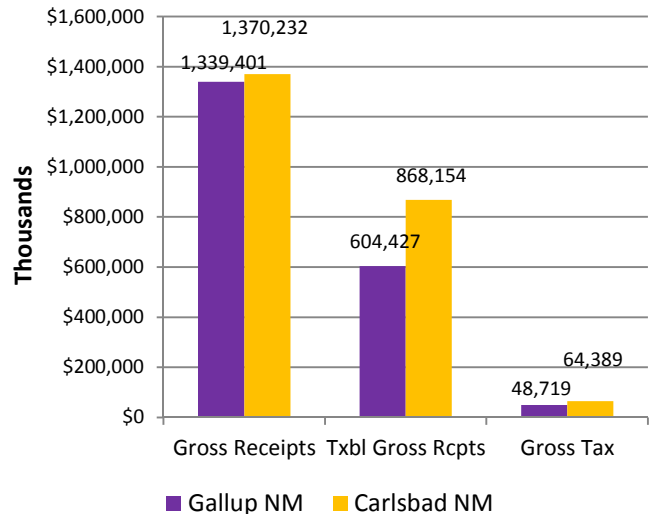
Roswell had gross receipts business activity of \$1.72 B, about 56% of Farmington's GR (See Figure 2).

In a similar comparison, Gallup, NM with a population of 21,678 is about the size of Carlsbad, NM which has a population of 26,138.⁴ Both cities enjoy commerce from retail, tourism, and major highway markets (See Figure 3).

⁴ 2010 US Census Bureau (within city boundaries).

In 2011, both cities had similar economic data: gross receipts activity of about \$1 B. Carlsbad had a higher gross tax. Gallup had medical and food deduction of about \$118 M compared to Carlsbad at about \$82 M, which resulted in less taxable gross receipts for Gallup.

Figure 3: Gallup v. Carlsbad - 2011 GR (000)



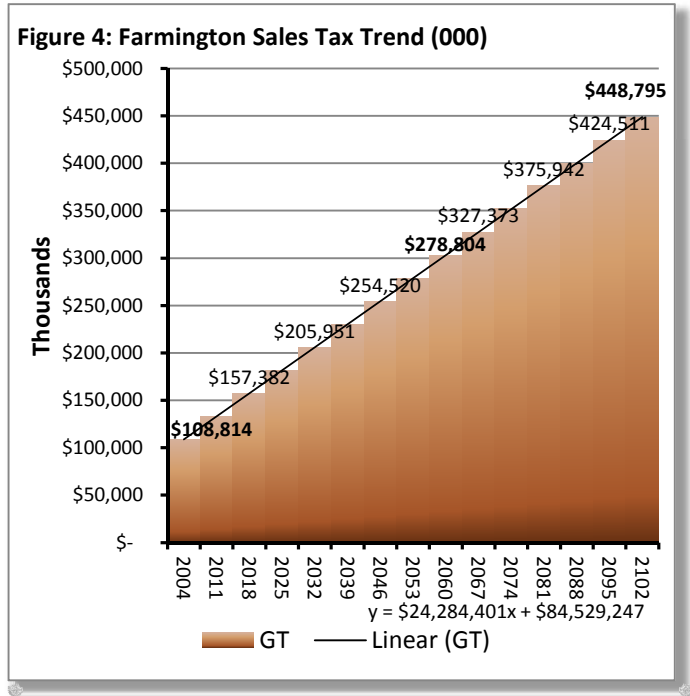
Sales Tax Trends

A cursory review of sales tax collection trending at both Farmington and Gallup, NM reveals phenomenal upward trends. If projected out several years, the collection is going to be astronomical for both cities.



The idealistic trend line projections are provided only to encourage discussion on sales tax impact.

For Farmington, NM, sales tax collection per year went from \$108.8 M in 2004 to \$133.1 M in 2011 (See Figure 4). That's an increase of 18.3% in only 7 years! Projected out, the sales tax collection will approach a



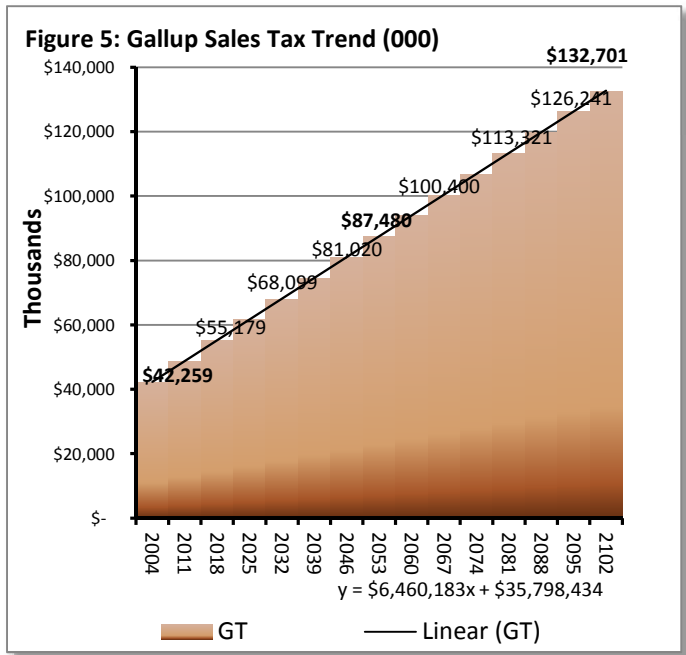
whopping \$278.8 M in 2053.

For Gallup, NM, sales tax collection per year went from \$42.2 M in 2004 to \$48.7 M in 2011 (See Figure 5). That's an increase of 13.3% in 7 years. Projected out, the sales tax collection will approach a remarkable \$87.5M in 2053. Although not as dramatic as the projected tax collection for Farmington, Gallup will probably continue to increase tax collection at a significant rate.

Tax Revenues Distribution

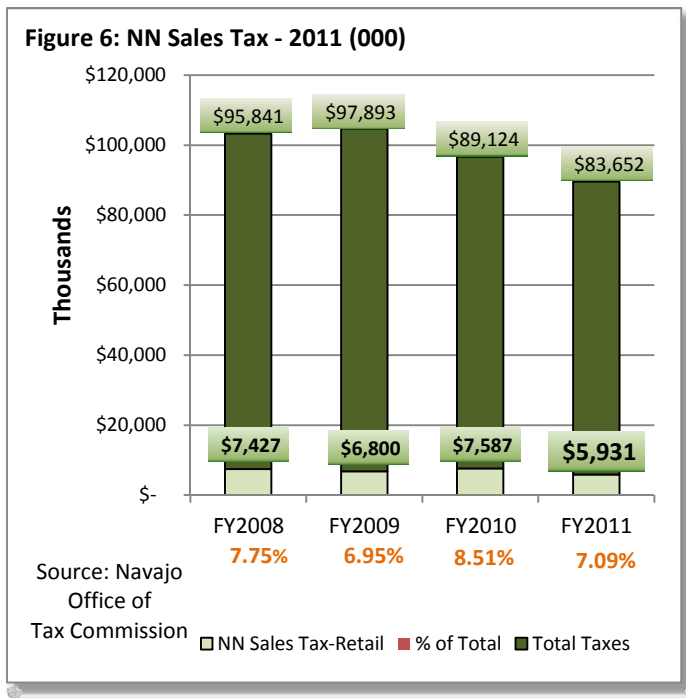
Many states have tax revenue sharing laws and regulations as a way to assist local communities using these funds for services, economic development, or public safety. State laws mandate different tax revenue sharing schemes.

For Arizona, a tiered tax revenue sharing scheme is used to assist towns, counties, and cities to address public services like many states. However, there is also an Arizona law that prohibits the state from redistributing tax revenues to communities located on Native American reservations or tribal lands.



Navajo Nation Sales Tax

What is the situation with Navajo Nation sales tax? How much is collected through the 4% sales taxes paid on sales made on the Navajo Nation? According to Office of Navajo Tax Commission, the total sales tax collected in 2011 was \$5,930,616 (See Figure 6).



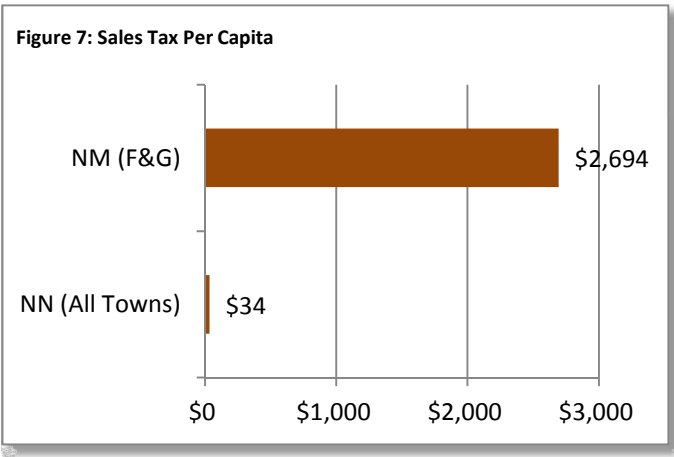
Looking at Navajo Nation sales tax collection over about a decade, there was an increase from 2001 to 2009, then declined to 2011. There was \$38.1 million of retail sales tax revenues in FY2001 to a high of \$97.9

Navajo Economic Data Bulletin 002-0512

million in FY2009, then declined to \$83.7 million in FY2011 (See Figure 6).

Per Capita "Sales Tax"

In 2011, the Navajo Nation collected sales tax of about \$5.9 M from businesses (See Figure 6) compared to New Mexico which collected about \$182 M from Gallup and Farmington businesses. Using an estimated population of 173,000, the Navajo Nation had a Sales Tax Per Capita of \$34 compared to New Mexico's Sales Tax Per Capita of \$2,694 (from Gallup and Farmington gross receipts). Put differently, New Mexico collected sales tax from only 2 cities about 79 times⁵ that of the Navajo Nation collecting from all towns (See Figure 7).



Consumer Survey

Reviewing original survey data obtained from Navajo consumers in January 2012⁶, many of the surveyed consumers had indicated they shopped off Navajoland, and consequently, paid sales tax. About 800 Navajo consumers from the 110 chapters participated.

They indicated they shopped at border towns for food and clothes, especially at Farmington and Gallup, NM. Asked where they shopped for food, over 60% of them indicated they shopped at groceries stores located only off the Navajo Nation such as Walmart, Safeway, Albertson's, Fry's, or Sam's Club. About 21% of the consumers indicated they had shopped at

⁵ $2,694/34 = 79$

⁶ "Shopping Preference of Navajo Consumers," Navajo Economic Data Bulletin 001-0212, Navajo Nation Division of Economic Development, January 2012.

grocery stores located on the Navajo Nation such as trading posts, Basha's, or Local Store. Data on purchases of clothes suggested no trends.

Northwest NM County Data

Looking at county data, there is significant economic activity for both McKinley County and San Juan County. For McKinley County in 2011, the gross tax collected was \$82,255,303 (See Figure 8). Gallup was 59% of McKinley County GT. For San Juan County in 2011, the gross tax collected was \$247,305,266 (See

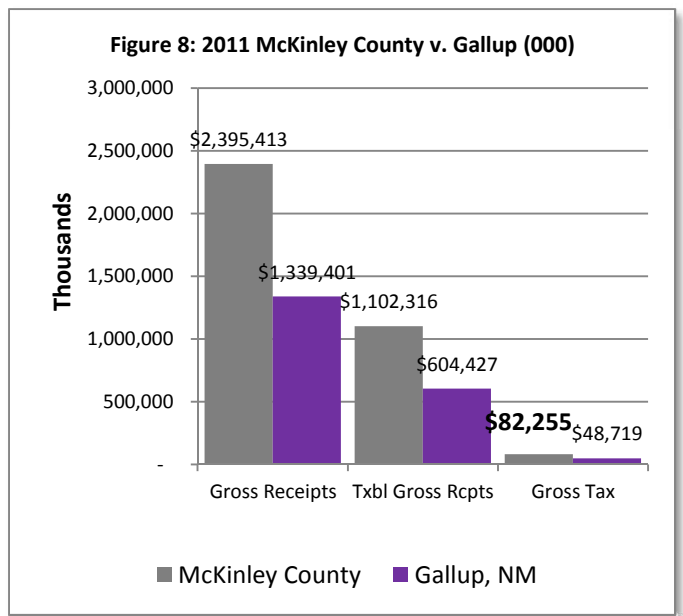
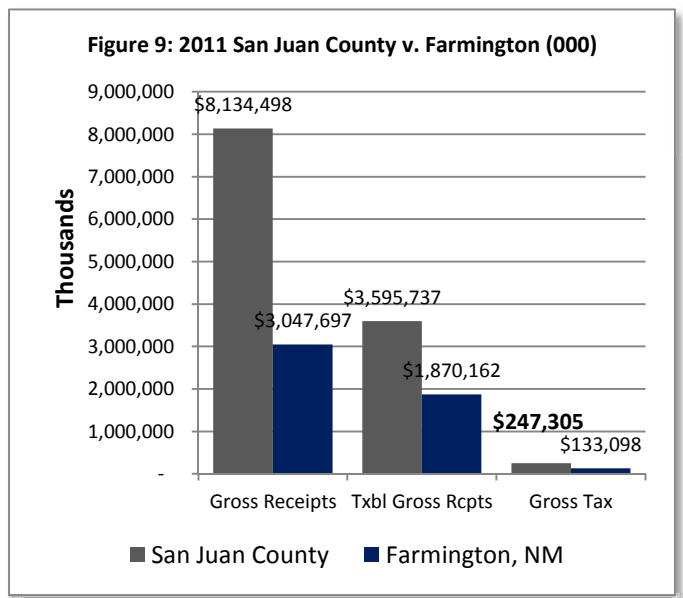


Figure 9). Farmington was 54% of San Juan County GT.



Policy Implications

Sophisticated Navajo Tax Policy

Based on changing economics on and near the Navajo Nation, policymakers should consider debating and adopting a more comprehensive, fair tax policy. For instance, a tax policy should not be changed only in reaction to current populist ideas or a “crisis.”

Navajo Nation should consider establishing progressive tax policy in assessing tax valuations and executing fair taxes in commerce, business-to-business, government enterprising, individual income tax, and other means of tax revenues.

Business Friendly Tax Incentives

Businesses located on the Navajo Nation confront substantial challenges. The Navajo Nation should encourage aggressive development of entrepreneurship and small businesses to spur growth, commerce, and generation of appropriate tax revenues.

The Navajo Nation should consider establishing Navajo business tax credits for businesses located on Navajo tribal lands. As well, businesses that offer services or products to Navajo chapters should be encouraged with business-friendly tax benefits.

Coordination Policy

The Navajo Nation economic landscape is dotted with numerous key players which each has a certain mission in achieving goals and objectives in a specific industry. For instance, the latest Navajo Nation enterprise, Navajo Gaming, has implemented its strategies to establish the Navajo Nation as a prominent player in the gaming industry. The enterprise has built several casinos which created or established jobs, contracts, and revenues.

Still there is a critical need for key players of economic development on the Navajo Nation to coordinate, plan, and collaborate on economic initiatives, projects, and joint ventures. If a mandated coordination policy was implemented, better communication, collaboration, and execution could be achieved for the Navajo Nation.

General Conclusions

- Disproportionately, Navajo Consumers migrate from Navajo Nation communities located in Arizona to either Farmington or Gallup, NM to purchase food, clothes, ranch feed & supply, and services. Collectively with Navajo Nation-based businesses and central government, these consumers spend enormous amounts of funds for products and services, as well as paying sales tax that eventually end up at coffers of neighboring state governments as tax revenues.
- There is substantial money being transacted at border towns around the Navajo Nation. If even 10% of the sales tax was “captured,” the Navajo Nation could benefit from tax revenues estimated in the millions (i.e., \$20 M) per year.
- There is currently no sustaining economic policy that “captures” the substantial money being transacted at border towns. An aggressive economic policy, coupled with a progressive tax policy, would offer opportunities for the nation.
- The enormity of the sales tax collection from border towns around the Navajo Nation behooves all tribal divisions, offices, and programs to reassess their activities to support collective goals and objectives that result in economic growth and development ON the Navajo Nation.
- Burdensome program requirements that stifle economic ideas, initiatives, and projects should be eliminated or severely abridged so that economic policy of growth and development is realized. Those programs that continue such economic obstacles should be assessed for accountability and viability.
- Funding through the annual Navajo Nation budget appropriations process should be rigorously reassessed so that enough funding is allocated for formidable economic development and strategy.
- Understanding data and statistics on economics of the Navajo Nation provides the impetus for making informed economic decisions and policies. Use of data for making decisions must be institutionalized.
- Leadership that understands and appreciates the use of data and statistics for key decisions is critical for establishing a sustainable economy of the Navajo Nation.
- Technical capacity of personnel must be elevated at key Navajo Nation entities (i.e., divisions, offices, enterprises) so that sound, realistic economic, tax, and operational policies are realized!

Economic Data and Tools

This Economic Data Bulletin was completed under the auspices of Division Director Albert Damon, Jr. and Chief Financial Officer Raymond Nopah. Lester Tsosie, MPA, MBA authored this Economic Data Bulletin. More bulletins on financial, operational, managerial, and strategic development will be published.

