



Budget and Economic Update

CompetePA

March 11, 2021

The Big Picture

A sizable budget surplus this year and next, then deficits

- A FY 19-20 + FY 20-21 surplus even without latest federal stimulus (ARP)
- Massive federal stimulus temporarily fills underlying structural deficit
- IFO estimates at ~\$2.5 billion | consensus it is significant
- Significant monies now available for certain spending priorities next year

Labor market down, but nearly all other economic indicators strong

- Down 472k jobs in December from prior year
- IFO projects six years needed to return to pre-pandemic level

Minimum wage, PIT changes and combined reporting/rate reduction

- Minimum wage impact looks very different now than 2019
- Combined reporting vs rate reduction: what is the trade off?

General Fund Financial Statement (Jan 2021)

| | 19-20 | 20-21 | 21-22 | 22-23 | 23-24 | 24-25 | 25-26 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Beginning Balance | \$30 | -\$2,734 | -- | -- | -- | -- | -- |
| Current Year Revenues | 32,276 | 38,437 | \$36,675 | \$37,851 | \$39,352 | \$40,828 | \$42,321 |
| Less Refunds | <u>-1,150</u> | <u>-1,300</u> | <u>-1,326</u> | <u>-1,353</u> | <u>-1,380</u> | <u>-1,407</u> | <u>-1,435</u> |
| Net Revenues | 31,126 | 37,137 | 35,349 | 36,498 | 37,972 | 39,421 | 40,885 |
| State Expenditures | -34,090 | -33,141 | -37,975 | -39,223 | -40,586 | -41,877 | -42,971 |
| Current Year Balance | -2,934 | 1,263 | -2,626 | -2,725 | -2,613 | -2,455 | -2,086 |
| Plus Prior Year Lapses | <u>200</u> | <u>219</u> | <u>125</u> | <u>125</u> | <u>125</u> | <u>125</u> | <u>125</u> |
| Prelim Ending Balance | -2,734 | 1,481 | -2,501 | -2,600 | -2,488 | -2,330 | -1,961 |

Note: Millions of dollars. **Excludes \$900 million in supplemental appropriations for FY 20-21 requested in Executive Budget. For FY 21-22, excludes enhanced FMAP (\$2.4 billion) and new American Rescue Plan stimulus.** Prior year lapses include transfers to Budget Stabilization Reserve Fund. Source: IFO Economic and Budget Outlook, FY 20-21 to 25-26 (Jan 2021).

PA Macroeconomic Indicators for 2020 Q4

PA Economic Negatives

| | |
|------------------------|----------|
| Payroll Jobs | -460,000 |
| Labor Force | -231,000 |
| Small Business Revenue | -28% |

Notes

no near term recovery
reasons unclear
no recovery in 2021 Q1

PA Economic Positives

| | |
|-----------------------|--------|
| Cash Income (CY 2020) | +8.3% |
| Home Values | +10.8% |
| Sales Tax Revenues | +5.4% |
| Credit Card Debt | -11.6% |
| S&P 500 Index | +12.4% |

highest since 1998
highest since 2005
online sales tax doubles
70% of impact payments
saved or pay down debt

New Round of Federal Stimulus

| | CARES | CAA | ARP | Notes |
|--|-------------|-------------|-------------|-------------------------------|
| Payments to Individuals | | | | |
| State Unemployment Compensation | \$5.2 | \$1.6 | -- | CAA is full year amount |
| Federal Pandemic Unemploy Comp (FPUC) | 16.2 | 3.4 | \$4.5 | extended to Sept |
| Pandemic Unemployment Assistance (PUA) | 7.0 | 1.1 | 1.3 | |
| Other Federal Assistance | 3.3 | 0.9 | 1.4 | |
| SNAP Benefits | 0.9 | 0.6 | 0.3 | extended to Sept |
| Economic Impact Payments | 11.0 | 6.3 | 14.3 | ARP at \$1,400 per |
| Child Tax Credit Awards | <u>0.0</u> | <u>0.0</u> | <u>3.6</u> | spread through year |
| Total | 43.6 | 13.9 | 25.4 | |
| Other Federal Programs | | | | |
| Paycheck Protection Program (PPP) | \$20.7 | \$11.2 | \$0.3 | |
| Direct State Support | 6.1 | 4.6 | 18.1 | \$7.3b General Aid |
| Direct Local Support | 2.5 | 0.8 | 9.1 | \$6.1b General Aid |
| Other Support | <u>4.7</u> | <u>0.8</u> | <u>3.5</u> | hospital, college, restaurant |
| Total | 34.0 | 17.4 | 31.0 | |

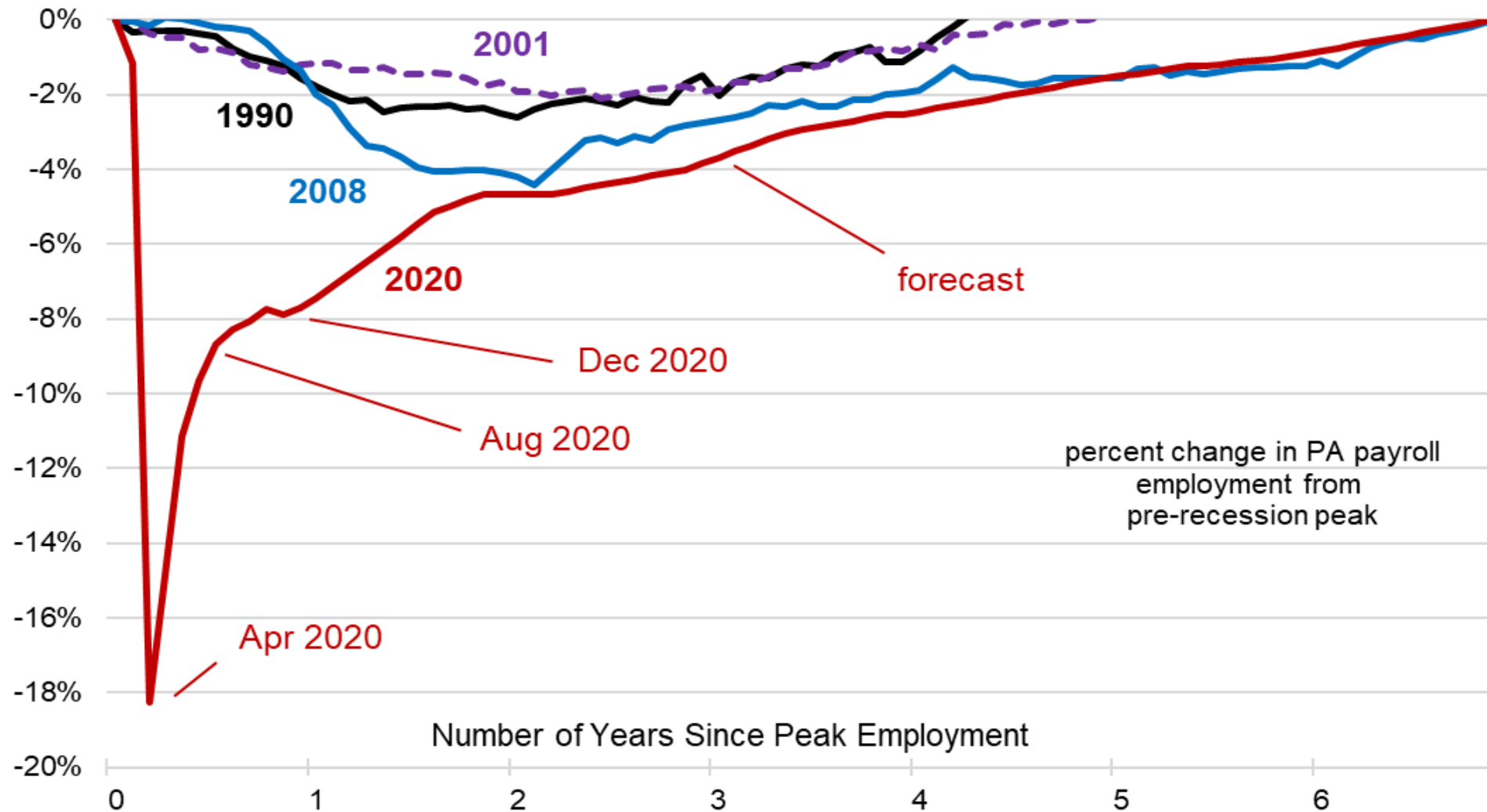
Note: Figures in dollar billions. CAA is Consolidated Appropriations Act of 2020. ARP is American Rescue Plan of 2021. ARP monies must be spent on costs incurred prior to Dec 2024 and cannot be used to reduce taxes or make pension contributions.

PA Payroll Jobs: Change from Prior Year

| | Number Change (000s) | | Percent Change | |
|--------------------------------------|----------------------|-------------|----------------|---------------|
| | Apr | Dec | Apr | Dec |
| Total Payroll Employment | -1,062 | -472 | -17.5% | -7.7% |
| Construction | -104 | -5 | -40.1% | -2.1% |
| Manufacturing | -77 | -35 | -13.3% | -6.0% |
| Retail and Wholesale Trade | -155 | -48 | -18.9% | -5.7% |
| Transport and Warehouse | -27 | 4 | -9.1% | 1.3% |
| Financial and Real Estate | -3 | -1 | -0.9% | -0.2% |
| Professional and Technical | -21 | -13 | -5.8% | -3.6% |
| Admin and Waste Management | -53 | -26 | -16.8% | -8.0% |
| Education (excludes local SD) | -42 | -50 | -16.1% | -19.9% |
| Healthcare-Social Assistance | -120 | -39 | -11.4% | -3.6% |
| Arts-Entertainment | -58 | -27 | -60.9% | -29.9% |
| Accommodation-Food Service | -280 | -140 | -58.6% | -29.5% |
| Other Services | -86 | -38 | -32.8% | -14.5% |
| All Government | -17 | -32 | -2.3% | -4.4% |
| All Other | -21 | -24 | -8.2% | -9.3% |

Note: Data are not seasonally adjusted. Figures for December are preliminary. YOY is year-over-year. **Excludes self-employed.**
Source: U.S. Bureau of Labor Statistics, CES State and Metro Area Employment.

IFO Forecast: 6 Years Needed for Full PA Jobs Recovery



Reasons Why Lost Jobs Will Not Return Soon

Labor productivity (output per hour) surged in 2020

- Automation | release less productive employees | working more

Dramatic shift in consumer spending patterns

- Online sales tax collections double | shift to larger firms with online presence
- For example: retail clothing store employment still down by ~50%
- Investment in the home: gyms, meal preparation, entertainment, remodels

Remote working is here to stay

- Impacts restaurants, dry cleaners, formal/business casual clothing sales
- Gasoline consumption down 10% for FY 2020-21

Businesses tighten belts

- Operations and procurement | travel and meals/entertainment | leased space

State and Local Tax Burden: Rates and Ranks

| Corporate Income | | | Personal Income | | | Sales and Use | | |
|------------------|-----------|-------------|-----------------|-----------|-------------|---------------|-----------|-------------|
| | Rank | ATR | | Rank | ATR | | Rank | ATR |
| DE | 1 | 3.62% | NY | 1 | 5.10% | OH | 17 | 2.80% |
| NY | 4 | 0.83 | MD | 3 | 4.17 | NY | 22 | 2.56 |
| NJ | 6 | 0.73 | DE | 7 | 3.40 | NC | 28 | 2.42 |
| PA | 12 | 0.47 | VA | 12 | 3.07 | WV | 30 | 2.33 |
| MD | 22 | 0.38 | WV | 14 | 2.88 | MI | 37 | 1.99 |
| NC | 27 | 0.35 | NC | 15 | 2.78 | NJ | 38 | 1.97 |
| WV | 33 | 0.27 | OH | 18 | 2.65 | PA | 39 | 1.94 |
| MI | 38 | 0.24 | NJ | 19 | 2.63 | VA | 42 | 1.57 |
| VA | 42 | 0.20 | PA | 20 | 2.62 | MD | 43 | 1.48 |
| OH | 46 | 0.10 | MI | 31 | 2.20 | DE | 48 | 0.11 |
| USw | | 0.40 | USw | | 2.48 | USw | | 2.53 |
| USuw | | 0.44 | USuw | | 2.24 | USuw | | 2.46 |

Note: Average Tax Rate (ATR) is the ratio of the state-local tax revenue to modified state personal income. USw is weighted average. USuw is unweighted average (each state has same weight). Total Taxes excludes any severance tax or impact fee.

Source: *State and Local Tax Revenues: A 50 State Comparison*, IFO (November 2020).

State and Local Tax Burden: Rates and Ranks

| | Property | | Liquor, Tobacco, Game | | | Total Taxes | | |
|-----------|-----------|-------------|-----------------------|----------|-------------|-------------|-----------|--------------|
| | Rank | ATR | Rank | ATR | Rank | ATR | | |
| NJ | 3 | 4.96% | WV | 1 | 1.02% | NY | 1 | 14.86% |
| NY | 6 | 4.42 | DE | 4 | 0.72 | NJ | 7 | 11.65 |
| MI | 20 | 3.01 | MD | 5 | 0.66 | DE | 8 | 11.57 |
| VA | 21 | 2.98 | PA | 6 | 0.66 | MD | 10 | 11.20 |
| PA | 25 | 2.82 | NC | 10 | 0.51 | WV | 11 | 11.10 |
| OH | 26 | 2.79 | MI | 13 | 0.48 | PA | 21 | 10.24 |
| MD | 27 | 2.76 | OH | 15 | 0.45 | OH | 25 | 9.91 |
| WV | 36 | 2.35 | NY | 27 | 0.36 | VA | 29 | 9.50 |
| NC | 41 | 2.16 | NJ | 28 | 0.36 | NC | 31 | 9.48 |
| DE | 47 | 1.75 | VA | 38 | 0.26 | MI | 32 | 9.25 |
| USw | | 3.05 | USw | | 0.35 | USw | | 10.20 |
| USuw | | 2.98 | USuw | | 0.40 | USuw | | 9.95 |

Note: Average Tax Rate (ATR) is the ratio of the state-local tax revenue to modified state personal income. USw is weighted average. USuw is unweighted average (each state has same weight). Total Taxes excludes any severance tax or impact fee.

Source: *State and Local Tax Revenues: A 50 State Comparison*, IFO (November 2020).

Minimum Wage Impact: 2019 vs 2022

| Non-Tipped Workers | Number of Payroll Employees (000s) | | |
|--|------------------------------------|--------------|-------------|
| | 2019 | 2022 | Change |
| \$7.25 to \$7.99 | 78 | nominal | -78 |
| \$8.00 to \$9.99 | 428 | 310 | -119 |
| \$10.00 to \$10.99 | 260 | 250 | -11 |
| \$11.00 to \$11.99 | 278 | 205 | -72 |
| \$12.00 to \$14.99 | 764 | 696 | -68 |
| \$15.00 or more | <u>3,916</u> | <u>4,065</u> | <u>149</u> |
| TOTAL | 5,725 | 5,526 | -198 |
| Directly Affected by \$12 Minimum Wage | 1,044 | 765 | -279 |
| Directly Affected by \$15 Minimum Wage | 1,808 | 1,461 | -347 |
| Total Tipped Workers | 177 | 147 | -30 |

Note: Excludes self-employed. Source: Occupational Employment Statistics (OES), 2019.

Combined Reporting and Rate Reduction: Net Tax Cut

| | 20-21 | 21-22 | 22-23 | 23-24 | 24-25 |
|--------------------|--------------|---------------|---------------|---------------|-----------------|
| Combined Reporting | \$66 | \$324 | \$432 | \$411 | \$417 |
| Rate Reduction | <u>-\$75</u> | <u>-\$336</u> | <u>-\$651</u> | <u>-\$945</u> | <u>-\$1,205</u> |
| Total | -\$9 | -\$12 | -\$219 | -\$534 | -\$787 |

Notes

Rate reduction phased in to 5.99% over 5 years

27 states use Combined Reporting

2 of them have an NOL cap (CT at 50%, NH at \$10m)

IFO projects Combined Reporting expands tax base by 12%

DOR projects it is 29%; 5% of firms pay entire increase

Note: Figures in dollar millions.

Source: Independent Fiscal Office, Analysis of Revenue Proposals (April 2020).