



Commonwealth of Pennsylvania

ECONOMIC & BUDGET UPDATE

Education Policy and Leadership Center

February 19, 2021

Background: Independent Fiscal Office

IFO begins operations September 2011

Nearly all states have a fiscal office

- But they are housed within the state legislature | PA is unique
- All have a governing board composed of legislators
- Bi-partisan vs non-partisan

Duties span a wide range of issues:

- Revenue estimates (how much revenues are available?)
- Performance based budgeting | Tax credit reviews
- Special Studies: property tax reform, natural gas, minimum wage

Today's Presentation: Three Parts

State demographics, economy and COVID impacts

- A contracting labor force
- COVID job losses and partial recovery | some permanent job loss
- Federal COVID relief spurs income growth, revenues, expenditure offsets

State budget

- What are the revenue trends?
- What is the longer-term outlook?

Some miscellaneous budget topics

- Property tax: replace with income and sales tax?
- Tax burden rankings: how does PA compare to border states?

Pennsylvania Demographics

Age Cohort	Number (000s)				Change (000s)			Avg. Annual Growth		
	2015	2020	2025	2030	15-20	20-25	25-30	15-20	20-25	25-30
0 to 19	3,040	2,956	2,867	2,768	-83	-89	-99	-0.6%	-0.6%	-0.7%
20 to 64	7,568	7,389	7,137	6,933	-179	-252	-204	-0.5%	-0.7%	-0.6%
65 to 79	1,561	1,834	2,080	2,140	272	246	61	3.3%	2.6%	0.6%
80+	<u>616</u>	<u>623</u>	<u>684</u>	<u>827</u>	<u>7</u>	<u>61</u>	<u>142</u>	<u>0.2%</u>	<u>1.9%</u>	<u>3.9%</u>
Total	12,785	12,802	12,768	12,668	17	-34	-101	0.0%	-0.1%	-0.2%

Note: Forecasts do not include impact from COVID-19.

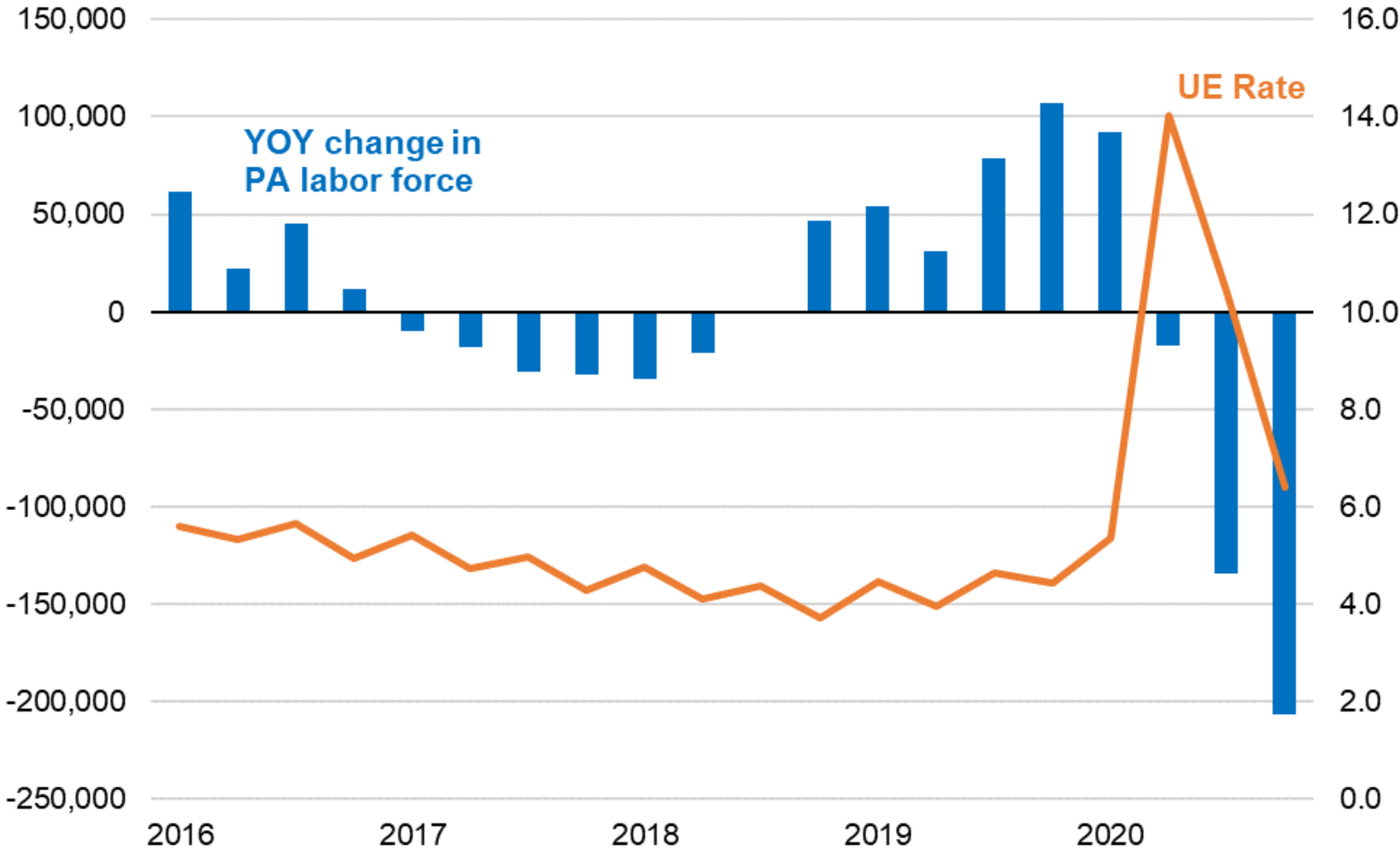
Source: U.S. Census Bureau. Forecast by IFO.

More Residents Working Offsets Demographics

Age Group	Share Employed		Change
	2010	2019	
19 to 24	51.8%	57.7%	+5.8%
25 to 34	70.0%	73.1%	+3.1%
35 to 44	70.0%	76.6%	+6.6%
45 to 54	68.2%	74.6%	+6.4%
55 to 64	54.9%	60.8%	+5.9%
65 to 79	18.8%	22.5%	+3.7%
ALL	57.2%	60.4%	+3.1%

Note: Excludes jobs held by residents under age 19. Shares are number working in age group divided by number of residents in age group. Figures are lower than labor force participation rates reported by the US Bureau of Labor Statistics.
Source: U.S. Census Bureau QWI Explorer.

Recent Exodus From PA Labor Force



PA Economic Growth Rates

	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP	2.4%	-4.3%	3.5%	2.8%	2.4%	2.1%	2.0%	1.9%
Wages and Salaries	4.3%	-1.2%	4.8%	4.4%	4.3%	4.2%	4.1%	4.0%
Philadelphia CPI-U	2.0%	0.9%	1.6%	2.1%	2.2%	2.2%	2.2%	2.2%
Payroll Job Gains (000s)	54	-446	120	100	80	59	54	48

Note: Payroll Job Gains exclude self-employed.
 Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics. Forecast by IFO.

Recent PA Economic Growth Rates or Change

	2019	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Real GDP	2.4%	-5.8%	-34.0%	35.5%	5.0%
Personal Income	3.6%	2.5%	13.1%	9.6%	--
Wages and Salaries	4.3%	3.3%	-6.6%	-2.6%	0.6%
Unemployment Rate (level)	4.4%	5.4%	14.0%	10.4%	6.6%
Change Payroll Jobs (000s)	54	28	-849	-504	-460
Change Labor Force (000s)	68	92	-17	-134	-206
U.S. Labor Productivity	1.7%	0.9%	2.9%	4.2%	2.5%

Note: Real GDP is quarterly annualized growth rate. Data for CY 2020 and 2020 Q4 are estimates by IFO. Change in Payroll Jobs and Labor Force is change from prior year. Labor market data are not seasonally adjusted. U.S. Labor Productivity is for All Nonfarm Businesses and is a year-over-year rate. State productivity data not published.
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics.

Payroll Jobs Recover Quickly, But Then Decelerate

	YOY Number Change (000s)			YOY Percent Change		
	Apr	Aug	Dec	Apr	Aug	Dec
Total Employment	-1,062	-502	-472	-17.5%	-8.3%	-7.7%
Construction	-104	-16	-5	-40.1%	-6.0%	-2.1%
Manufacturing	-77	-39	-35	-13.3%	-6.7%	-6.0%
Retail and Wholesale Trade	-155	-72	-48	-18.9%	-8.7%	-5.7%
Transport and Warehouse	-27	-22	4	-9.1%	-7.5%	1.3%
Financial and Real Estate	-3	0	-1	-0.9%	0.0%	-0.2%
Professional and Technical	-21	-18	-13	-5.8%	-5.0%	-3.6%
Admin and Waste Management	-53	-34	-26	-16.8%	10.7%	-8.0%
Education (excludes local SD)	-42	-12	-50	-16.1%	-5.9%	-19.9%
Healthcare-Social Assistance	-120	-50	-39	-11.4%	-4.7%	-3.6%
Arts-Entertainment	-58	-32	-27	-60.9%	-25.5%	-29.9%
Accommodation-Food Service	-280	-140	-140	-58.6%	-28.6%	-29.5%
Other Services	-86	-36	-38	-32.8%	-13.4%	-14.5%
All Government	-17	-7	-32	-2.3%	-1.0%	-4.4%
All Other	-21	-23	-24	-8.2%	-9.2%	-9.3%

Note: Data are not seasonally adjusted. Figures for December are preliminary. YOY is year-over-year. **Excludes self-employed.**

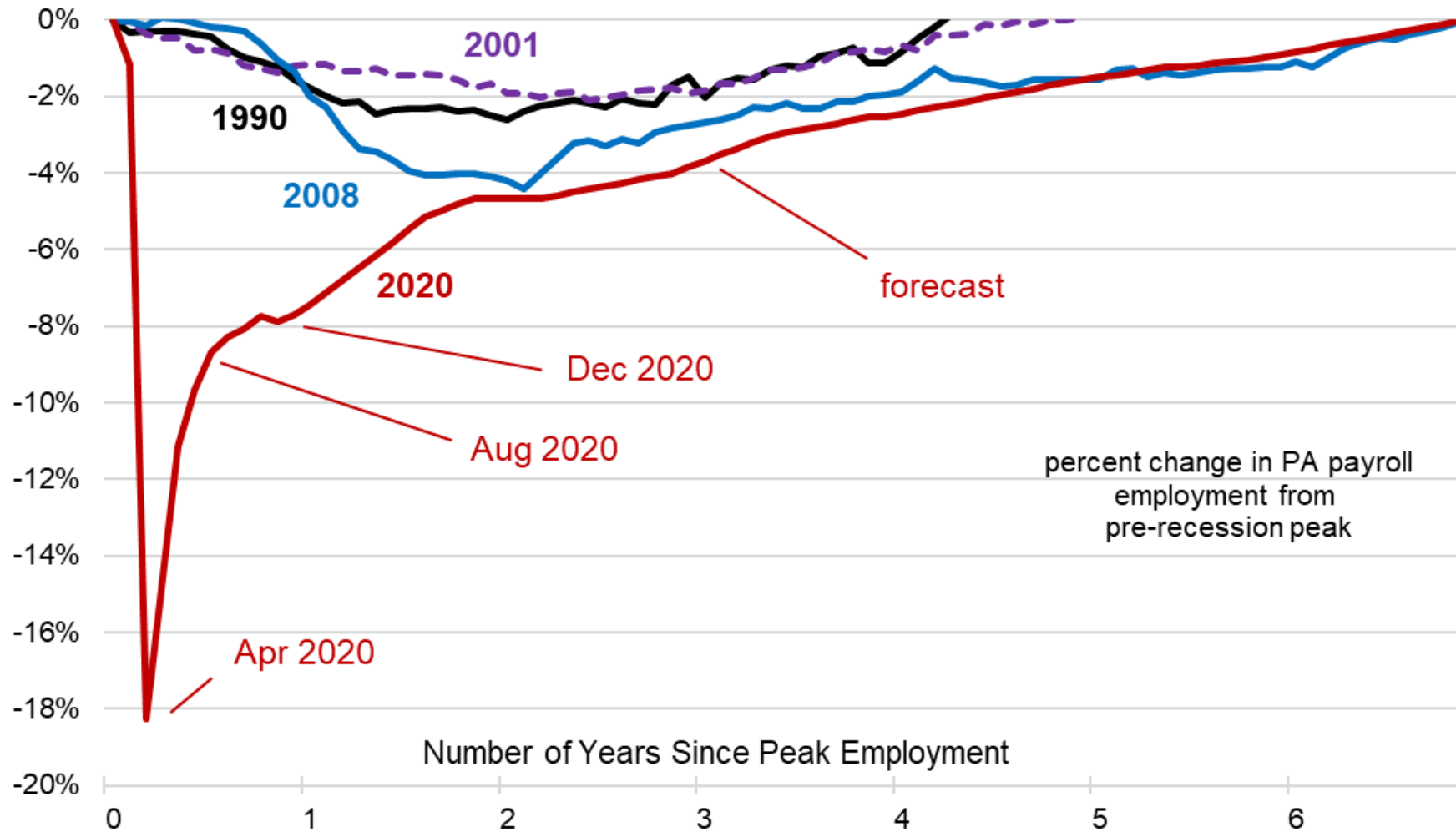
Source: U.S. Bureau of Labor Statistics, CES State and Metro Area Employment.

Permanent Job Loss, But Some Subsectors Gain

	Number (000s)		Change	
	Dec 2019	Dec 2020	Number	Percent
Education				
Colleges, Universities and Professional	170	130	-40	-23.4%
Local School Districts	282	265	-17	-6.1%
State Education (state system, related)	60	52	-8	-13.9%
Private Schools (elementary, secondary)	48	48	0	-0.8%
Significant Contraction				
Full-Service Restaurant	194	124	-70	-35.9%
Limited-Service Restaurant	162	136	-27	-16.4%
Accommodation	58	35	-23	-39.9%
Clothing and Accessory – Retail	46	24	-22	-47.4%
Personal Care-Dry Cleaning	71	50	-21	-30.0%
Amusements – Gaming	62	48	-14	-22.0%
Nursing and Residential Care	202	189	-13	-6.4%
Air Transportation	13	8	-6	-41.0%
Expansion				
Courier and Messengers	49	59	10	20.1%
Building and Garden – Retail	43	49	5	12.3%
Real Estate	45	48	3	6.6%

Source: U.S. Bureau of Labor Statistics, CES State and Metro Area Employment.

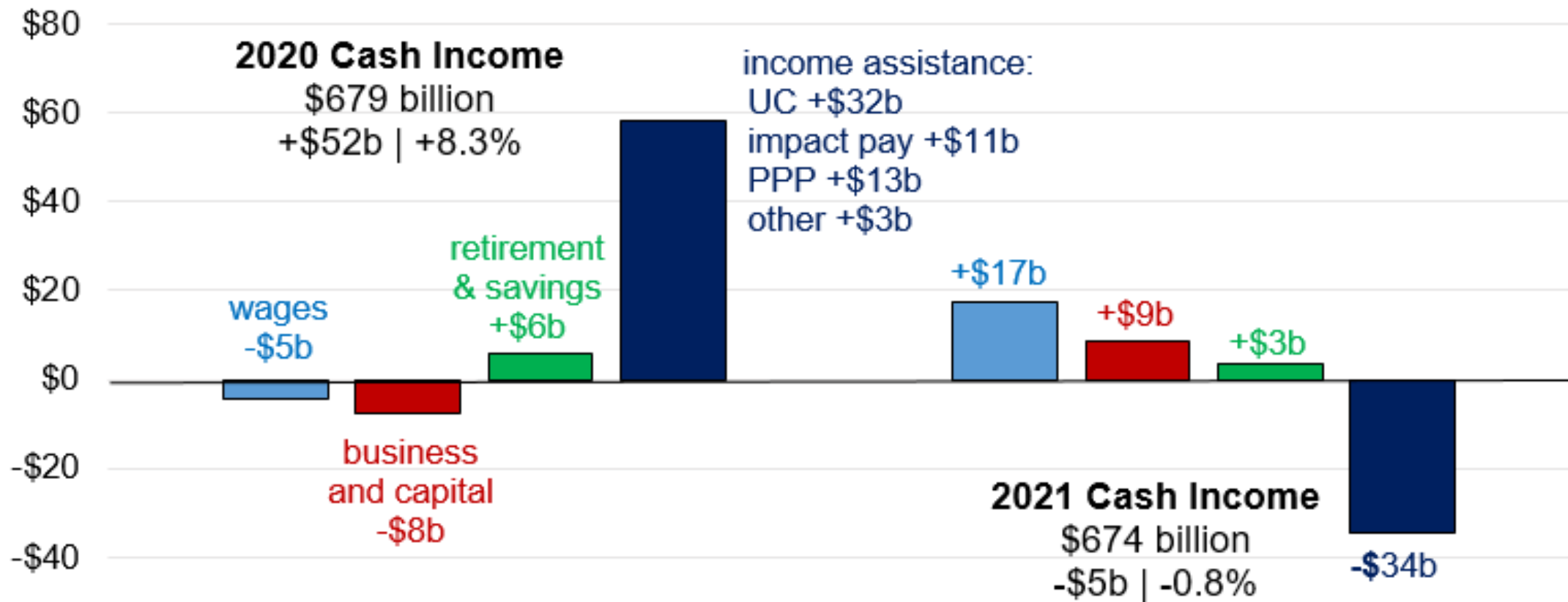
Years Needed for Full PA Jobs Recovery



Actual and Projected Federal Relief for PA

	2020	2021	Notes
Payments to Individuals			
State Unemployment Comp	\$5.2	\$1.6	CY projections for full year
Federal Pandemic UC (FPUC)	16.2	3.6	CY 20 \$600/week; CY 21 \$300/week
Pandemic Unemploy Assist (PUA)	7.0	1.2	
Other Federal Assistance	3.3	0.8	extended benefit programs, ends in Apr
SNAP Benefits	0.9	0.6	Estimates through June
Economic Impact Payments	<u>11.0</u>	<u>6.3</u>	6.6 million PA recipients
Total	43.6	14.2	
Other Federal Programs			
Paycheck Protect Prog (PPP)	\$20.7	\$11.2	
Direct State Support	5.9	4.6	CY 2021 does not include general aid
Direct Local Support	2.5	0.8	CY 2021 does not include general aid
Other Support	4.7	0.8	includes payments to providers
<p>Note: Figures in dollar billions. The state support amount does not include federal funds associated with the temporary increase in the Federal Medical Assistance Percentage (FMAP) used to reimburse states for Medicaid program costs (effective January 1, 2020 until the termination of the national public health emergency declaration).</p>			

Pennsylvania Cash Income



Lost Economic Growth Drives Larger Structural Deficit

	2019	2020	2021	2022	2023	Notes
Nominal GDP (\$ billion)						
November 2019 forecast	\$823	\$854	\$887	\$923	\$961	no recession
January 2021 forecast	<u>\$809</u>	<u>\$783</u>	<u>\$824</u>	<u>\$865</u>	<u>\$905</u>	COVID-19 recession
Change	-\$14	-\$71	-\$63	-\$58	-\$56	permanent loss to growth
Wages Paid (\$ billion)						
November 2019	\$353	\$395	\$380	\$395	\$410	reduces PIT by ~\$350 million
January 2021	<u>\$354</u>	<u>\$350</u>	<u>\$366</u>	<u>\$382</u>	<u>\$399</u>	reduces SUT by ~\$150 million
Change	\$1	-\$16	-\$13	-\$12	-\$11	
Payroll Jobs (000s)						
November 2019	6,060	6,105	6,151	6,194	6,237	
January 2021	<u>6,054</u>	<u>5,614</u>	<u>5,734</u>	<u>5,834</u>	<u>5,914</u>	
Change	4	-491	-417	-360	-323	

General Fund Financial Statement

	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. Prior year lapses include transfers to the Budget Stabilization Reserve Fund.

FYTD Revenues (Adjusted for Delayed Due Dates)

	Actual Revenues (\$ millions)		Notes
	Amount	Growth	
General Fund	\$21,187	2.5%	
Corporate Net Income	2,284	14.7%	anticipate weak final payments
Sales - Non-Motor	6,414	3.3	strong online growth
Sales - Motor Vehicle	1,047	14.1	pent-up demand
Income – Withholding	6,032	-1.5	
Income – Other	2,453	1.8%	final quarterly payments strong, includes \$100m from PPP
All Tobacco	693	-0.3	
Inheritance	707	-1.5	
Realty Transfer	371	12.4	housing market very strong
All Other	1,186	-1.8	

Note: Millions of dollars. Growth rates adjusted to reverse the shift of revenues to FY 2020-21, as well as the impact of one-time transfers. PIT Quarterly growth rate assumes that \$335 million of payments were shifted to February 2021 due to the COVID-related closure of a payment processing facility.

Revenue Outlook: Weak Growth for FY 2021-22

	Adjusted FY 20-21	Base Yr FY 21-22	Growth	FY 25-26	Avg Ann Growth
Personal Income	\$14.47	\$15.03	3.9%	\$17.87	4.4%
Sales and Use	12.17	12.42	2.1%	13.59	2.3%
Corporate Net Income	3.40	3.25	-4.5%	4.47	8.3%
Inheritance	1.13	1.14	1.1%	1.26	2.4%
Gross Receipts	1.00	1.06	5.8%	1.11	1.1%
Cigarette	0.94	0.86	-7.8%	0.72	-4.4%
All Other	<u>3.39</u>	<u>2.91</u>	<u>-14.3%</u>	<u>3.32</u>	<u>3.4%</u>
Total General Fund	36.50	36.68	0.5%	42.32	3.6%

Note: Billions of dollars. FY 20-21 adjusted for delayed tax payments, an extra withholding day and a one-time transfer to the Property Tax Relief Fund, but includes one-time transfers from special funds.

Expenditure Outlook: Strong Growth for FY 2021-22

	Base Yr			Avg Ann	
	20-21	21-22	Growth	25-26	Growth
Education	\$14.43	\$14.75	2.2%	\$16.52	2.9%
Human Services	12.68	15.68	23.6%	17.95	3.4%
Criminal Justice	1.61	2.69	67.3%	2.98	2.5%
Treasury	1.24	1.28	3.9%	1.51	4.2%
All Other	<u>3.18</u>	<u>3.57</u>	<u>12.1%</u>	<u>4.00</u>	<u>2.9%</u>
Total General Fund	33.14	37.98	14.6%	42.97	3.1%

Note: Billions of dollars.

CARES Act \$1.33 billion
Enhanced FMAP \$2.07 billion
Cost Shifts \$1.06 billion

One Time Measures Boost Revenues, Reduce Expenditures

	FY 20-21	Notes
Special funds transfer	\$431	
Rainy day fund	\$100	
Revenue shifts	\$1,938	delayed due dates
Payment on PPP loans	\$100	affects personal income tax
JUA transfer	\$200	court challenge
CARES Act	\$1,330	used for DHS, PSP, DCJ, DOH
Enhanced FMAP	\$2,070	assumed to end 2021 Q2
DHS cost shifts	\$555	managed care, county child welfare
REHP reduction	~\$90	contributions for retiree healthcare

Note: Millions of dollars.

Primary Cost Drivers: Annual Change in Spending

Program	21-22	22-23	23-24	24-25	25-26
All Medical Assistance	\$2,292	\$357	\$354	\$374	\$361
Intellectual Disability	351	72	73	75	77
County Child Welfare	146	56	44	44	44
Mental Health	55	28	26	26	28
PSERS Contribution	114	164	150	143	169
Basic and Special Education	146	174	174	168	165
PlanCon	0	0	192	0	22
State Correctional Institutions	962	69	43	36	45
PSP MLF Funding Shift	41	40	31	29	33
General Obligation Debt	45	36	65	29	96
All Other	<u>682</u>	<u>250</u>	<u>212</u>	<u>203</u>	<u>220</u>
Total Annual Change	4,835	1,247	1,363	1,126	1,260

Note: Millions of dollars. Excludes \$165 million transfer to Worker's Compensation Fund in FY 24-25.

Executive Budget: New Revenue, Education Funding

General Fund Revenue and Fee Proposals

- \$2.96 billion – PIT rate increase to 4.49% | Expand tax forgiveness
- \$209 million – Combined reporting | CNIT rate reduction phase-in
- \$116 million – Minimum wage increase
- \$168 million – New municipal fee to fund state police services

General Fund Education Funding Proposals

- \$1.6 billion – Basic Education (\$1.35 billion) | Special Education (\$200 million) | Other (\$46 million)

State and Local Tax Burden Ratios

	PA	U.S. Avg	Difference
Personal Income	2.62%	2.24%	+0.38%
Sales-Use	1.94%	2.46%	-0.52%
All Property	2.82%	2.98%	-0.16%
Gaming-Liquor-Tobacco	0.66%	0.40%	+0.26%
All Other	<u>2.20%</u>	<u>1.87%</u>	<u>+0.33%</u>
Total Taxes	10.24%	9.95%	+0.29%

Note: Percentage is the ratio of the state-local revenue to modified state personal income. Figures for U.S. represent an unweighted average across all states (all states have same weight). Excludes any severance tax.

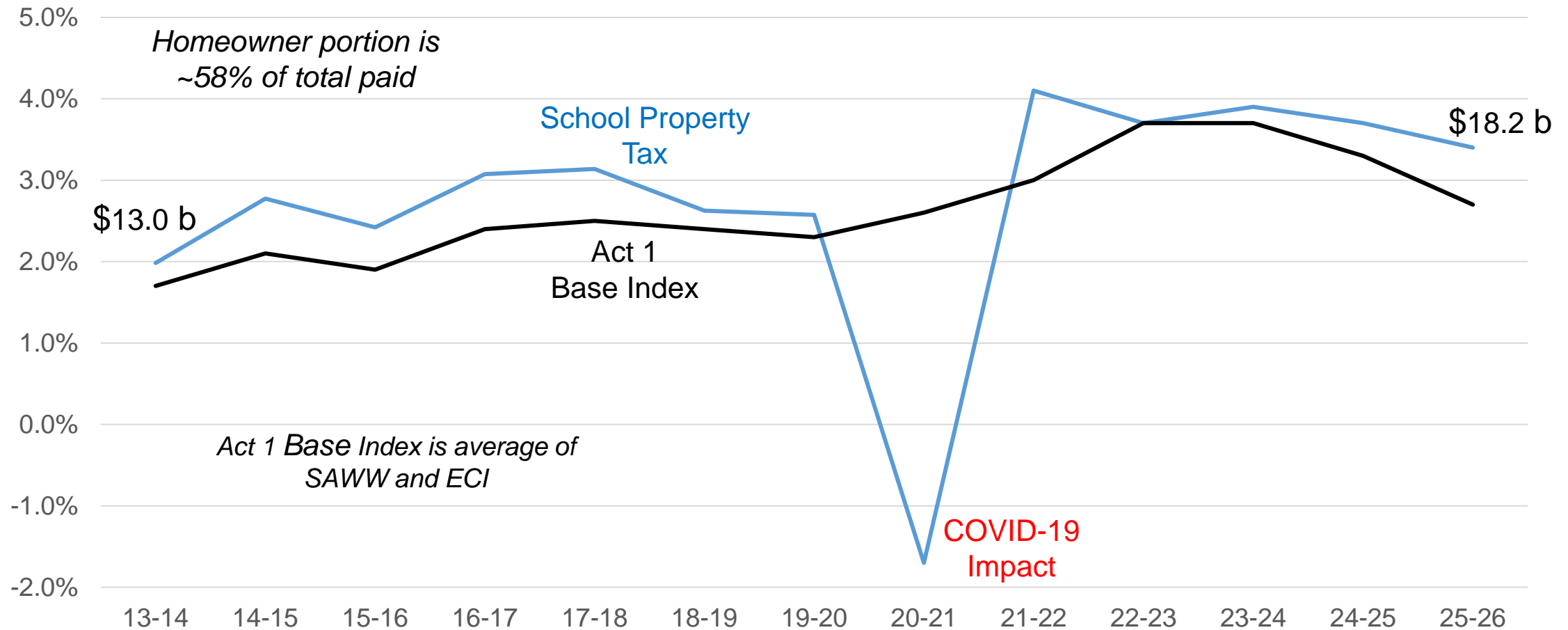
Source: State and Local Tax Revenues: A 50 State Comparison (November 2020).

State and Local Tax Burden Rankings

	NY	NJ	MD	OH	PA	VA
Personal Income	1	19	3	18	20	12
Sales-Use	22	38	43	17	39	42
All Property	6	3	27	26	25	21
Total Taxes	1	7	10	25	21	29

Note: Based on the ratio of state-local tax revenue to modified state personal income. Total Taxes excludes severance taxes.
 Source: State and Local Tax Revenues: A 50 State Comparison (November 2020).

Growth Rate of School Property Taxes



Note: Includes Current and Interim, Act 1 Allocations and delinquent taxes.
 Source: School District Property Tax Forecast, IFO (February 2021).

School District Revenues: FY 2018-19

Source	Amount	Percent
Property Tax	\$13,930	44.3%
Earned Income	\$1,657	5.3%
Other Local Sources	\$2,569	8.2%
Act 1 Allocations (slots)	\$533	1.7%
State (excludes Act 1)	\$11,253	35.8%
Federal	\$926	2.9%
Other (debt related)	<u>\$546</u>	<u>1.7%</u>
Total	\$31,414	100.0%

Note: Millions of dollars.
Source: Pennsylvania Department of Education.

Property Tax by Age and Income

Homeowner Age	Households (000s)	% of PA Income	% of PA Prop. Taxes	Prop. Tax Burden	Avg. SD Prop. Tax
Less than 65	2,347	74.8%	70.3%	3.1%	\$2,555
65 or more	1,168	25.2%	29.7%	3.8%	\$2,170
Household Income					
\$40,000 or less	751	4.6%	14.0%	9.8%	\$1,590
\$40,001 - \$80,000	990	15.8%	22.3%	4.6%	\$1,920
\$80,001 - \$120,000	743	19.5%	20.0%	3.4%	\$2,300
\$120,000 - \$160,000	429	15.8%	14.2%	2.9%	\$2,830
\$160,000 or more	602	44.2%	29.5%	2.2%	\$4,175

Note: Percentages of PA income and property taxes represents that age group's share of statewide household income and property taxes paid. Burden is ratio of property tax to household income. Income excludes any capital gains. SD is school district. Lower bank of figures is for all ages.
Source: U.S. Census Bureau, American Community Survey 2019 1-Year Estimates. Computations by IFO.

Replacing Homeowner School Property Tax

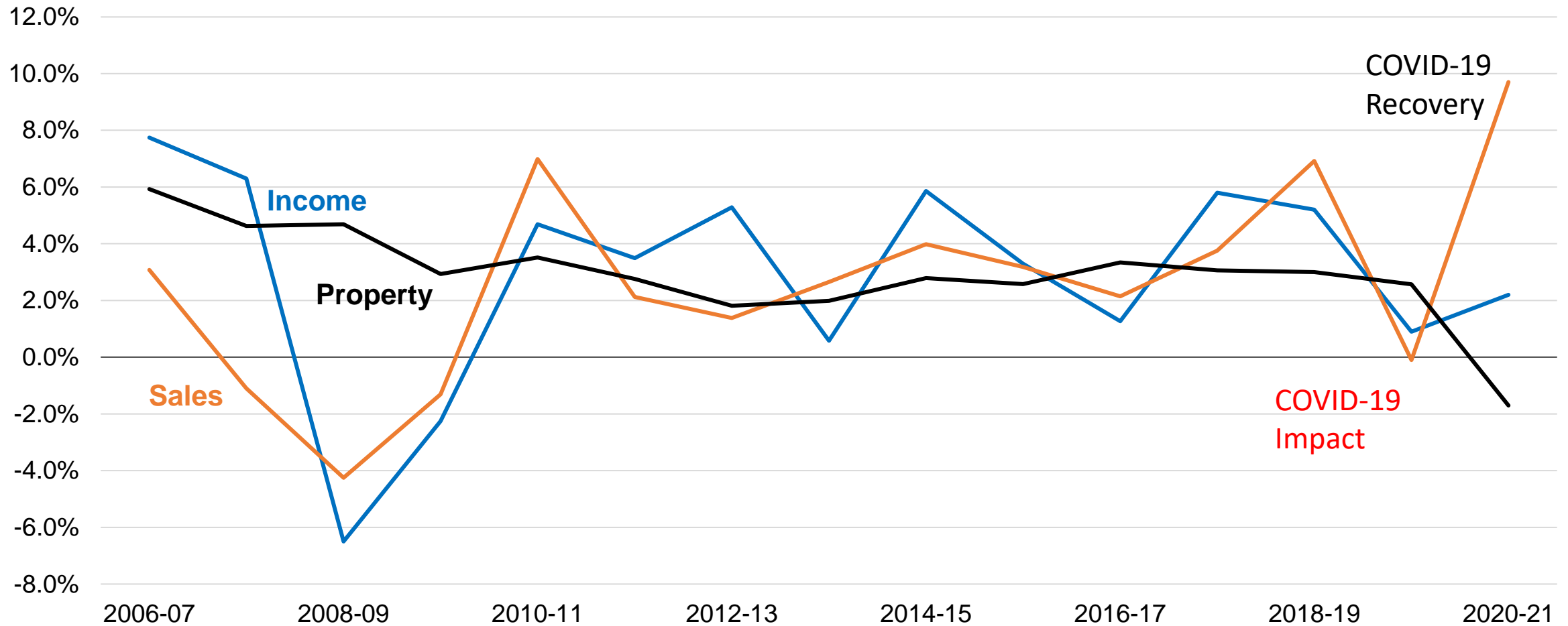
Personal income tax: raise rate (3.07%) and/or expand base

- Replace homeowner school property tax: ~+2.1 ppts
- Note: this excludes renters (but no good data on renter burden)
- Tax retirement income: Social Security, IRAs, pensions
- PA one of only 3 states that does not tax retirement income

Sales tax: raise rate (6.0%) and/or expand base

- Replace homeowner school property tax: ~+4.9 ppts
- Tax groceries: ~+\$1.8 billion (excludes WIC-SNAP purchases)
- Tax clothing: ~+920 million
- Other: basic cable services, non-prescription drugs, amusements

Revenue Growth and Volatility Comparison



Note: Property tax includes current and interim collections and Act 1 allocations, excludes delinquent collections. FY 2020-21 figures are estimates by the IFO adjusted for shifts resulting from delayed due dates, an extra withholding day and one-time transfers.

Wrap Up

Executive Budget relies on temporary funding sources, tax and revenue increases to close gap and fund education initiatives

- Federal COVID relief offsets \$2.37 billion in DHS costs
- Personal Income (\$2.96 billion) | Combined reporting (\$209 million)
- Minimum wage (\$116 million) | State Police Fee (\$168 million)

Various long-term demographic concerns

- Declining birth rates | Contracting labor force
- Rapid growth age 80+ (healthcare costs accelerate)

Additional federal stimulus would impact state budget outlook

- Current proposal includes \$350 billion for state and local fiscal recovery
- Estimated amounts for PA: \$7.3 billion (state) and \$5.8 billion (local)

Questions

Presentation posted on the IFO website

<http://www.ifo.state.pa.us/>

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