



Commonwealth of Pennsylvania

ECONOMIC & BUDGET UPDATE

Education Policy and Leadership Center

March 4, 2022

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?

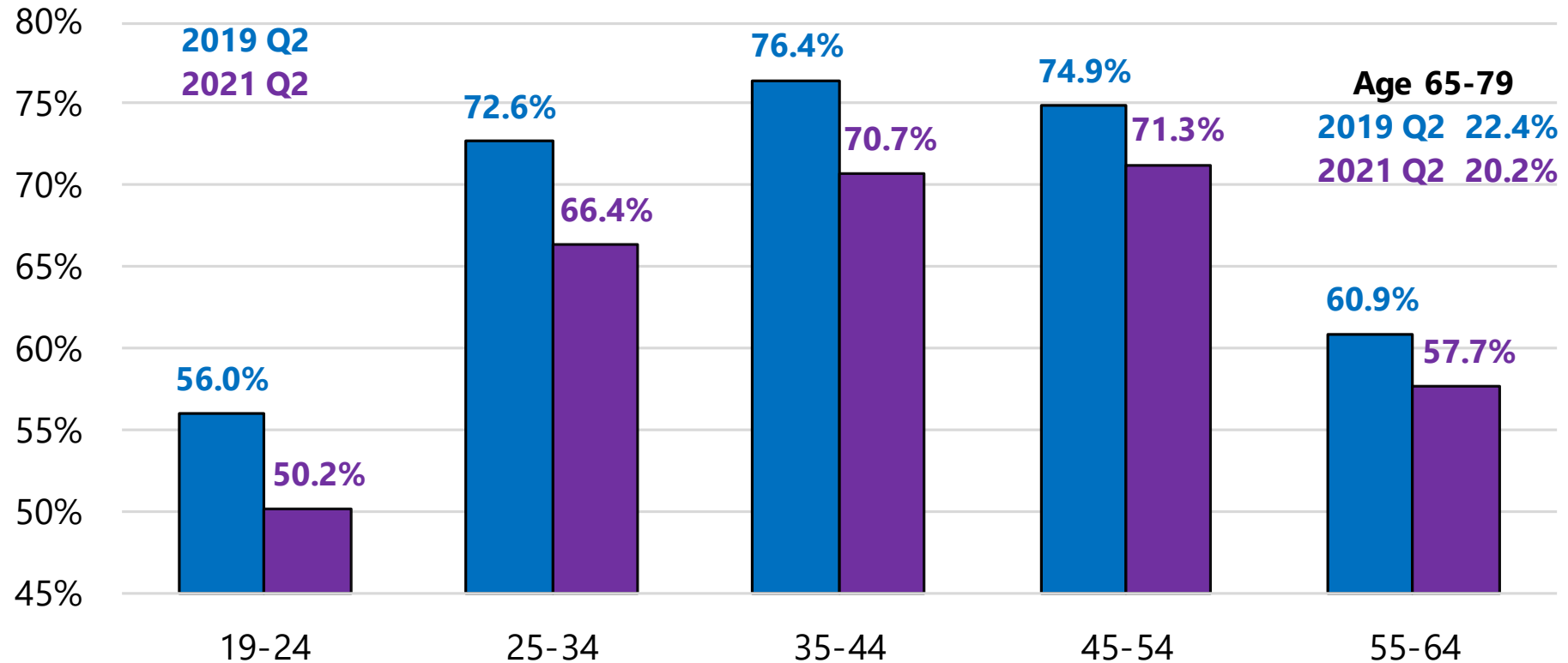
Pennsylvania Demographics - Decennial Census Update

Age Cohort	Number (000s)			Change (000s)		Avg. Ann. Growth	
	2010	2020	2030	10-20	20-30	10-20	20-30
0 to 19	3,173	3,005	2,879	-168	-126	-0.5%	-0.4%
20 to 64	7,566	7,506	7,188	-60	-318	-0.1%	-0.4%
65 to 79	1,343	1,862	2,200	520	338	3.3%	1.7%
80+	<u>620</u>	<u>629</u>	<u>823</u>	<u>9</u>	<u>194</u>	<u>0.1%</u>	<u>2.7%</u>
Total	12,701	13,003	13,090	301	87	0.2%	0.1%

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

All Age Groups Working Less

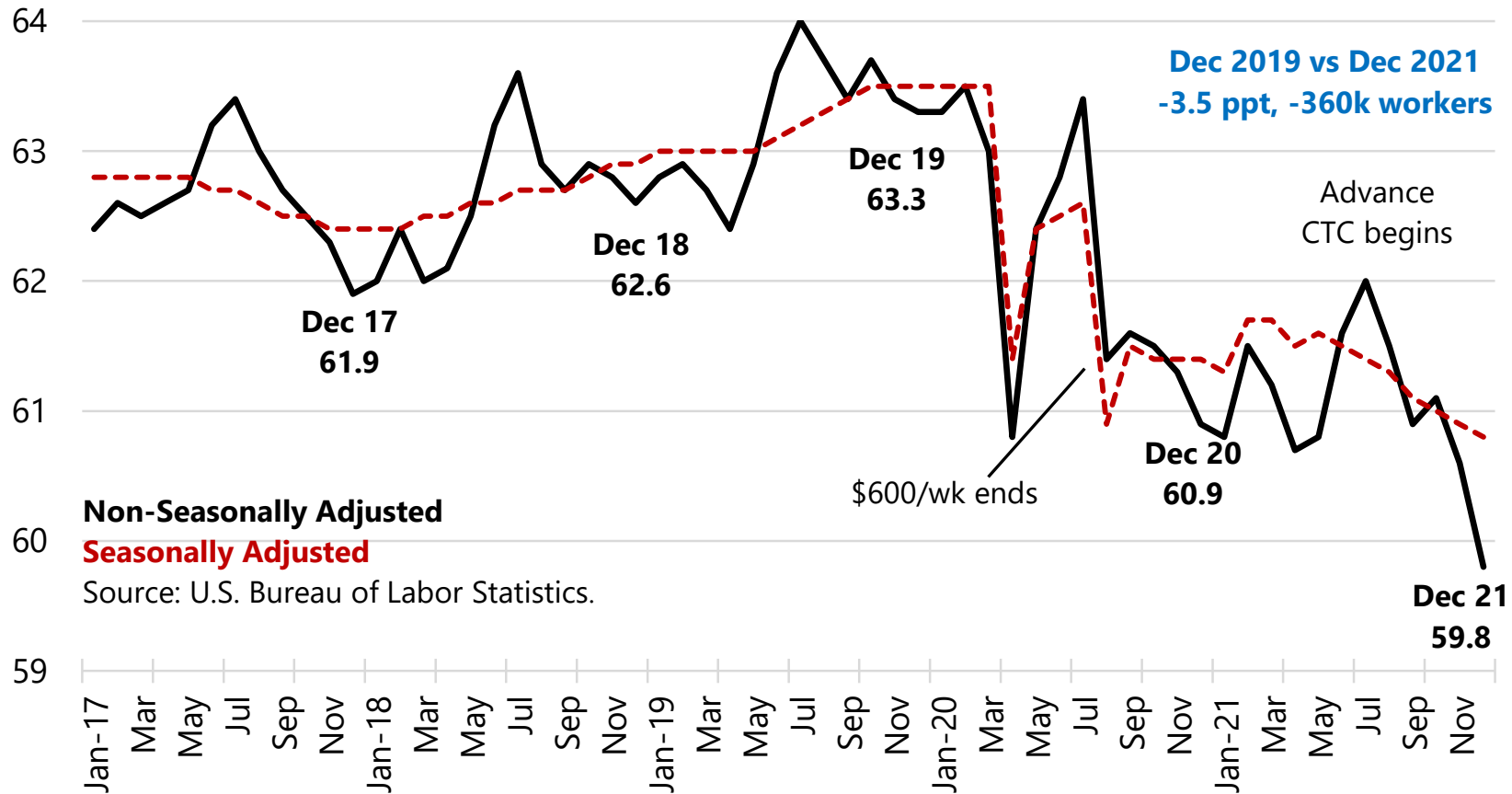
PA Employment / Population Ratio by Age Group



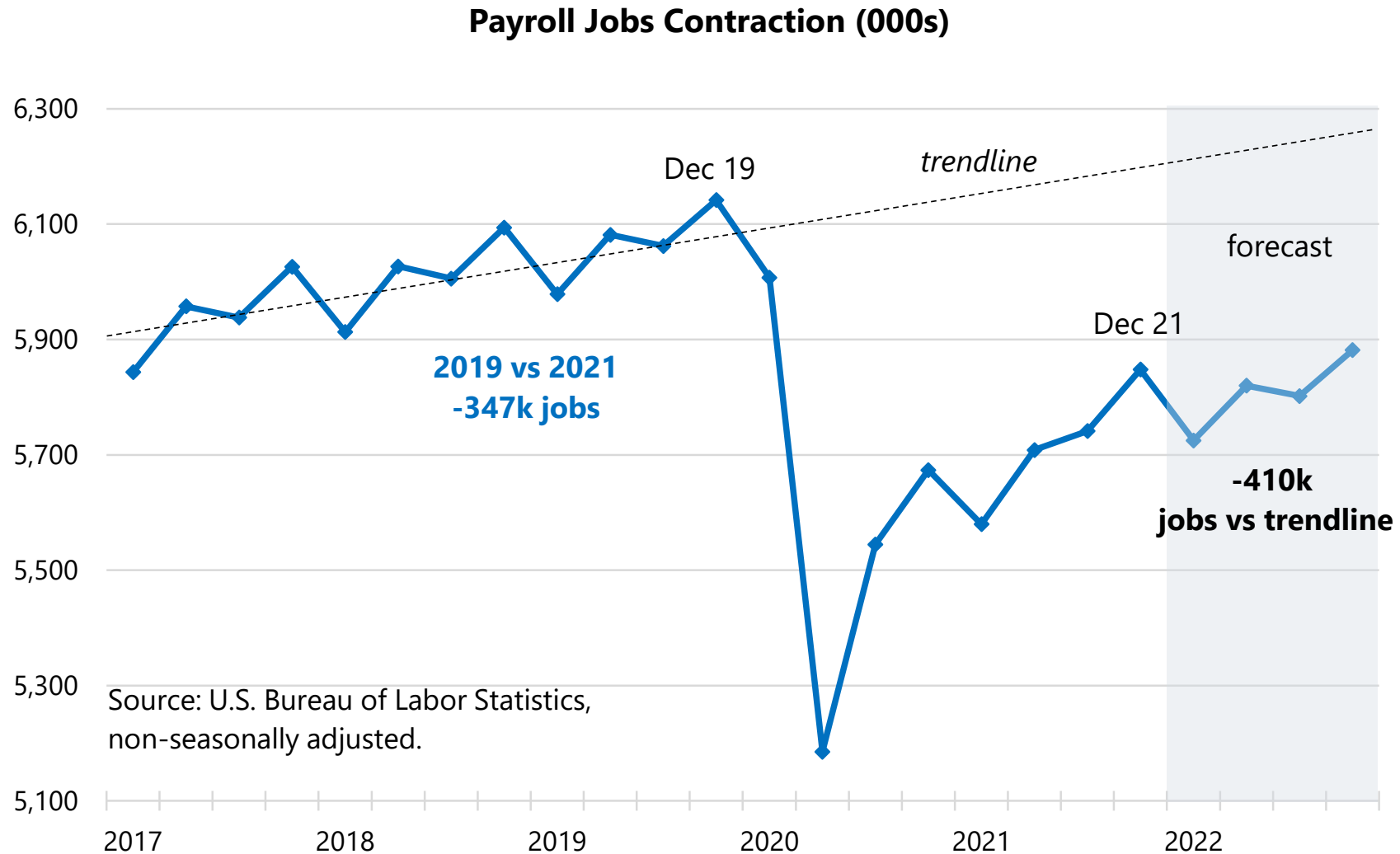
Source: Quarterly Workforce Indicators, U.S. Census Bureau.

PA Labor Force Participation Rates

PA Labor Force Participation Rate Lowest Since 1984



Payroll Jobs Contract



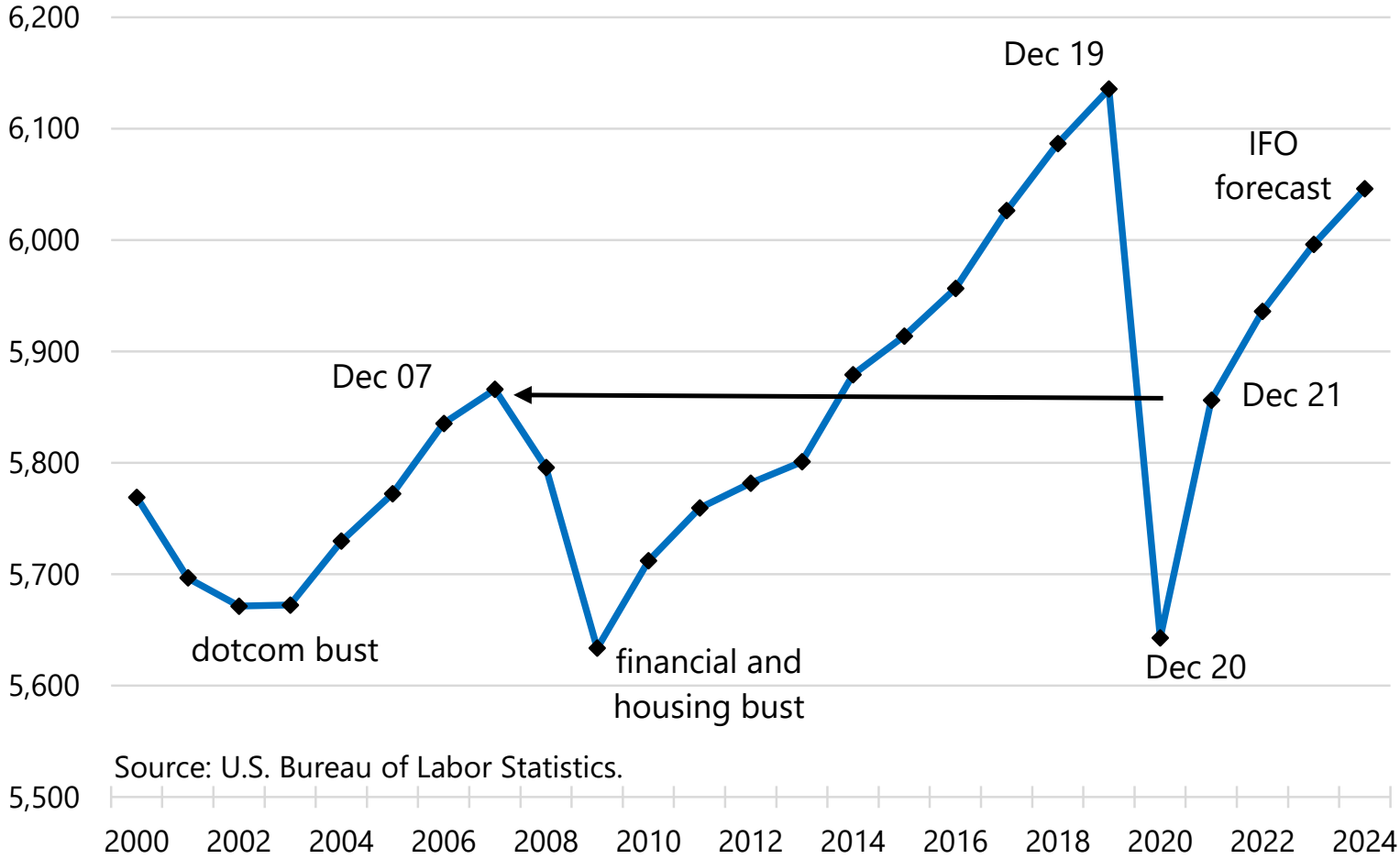
Pennsylvania Economic Forecast: COVID Bubble

	Pre-COVID		COVID Bubble			Reversion	
	2018	2019	2020	2021	2022	2023	2024
Real GDP	1.4%	1.7%	-4.5%	4.4%	2.3%	2.1%	2.1%
Wages and Salaries	4.3%	4.4%	-0.3%	7.7%	5.1%	4.4%	4.0%
Philadelphia CPI-U	1.3%	2.0%	0.9%	4.3%	3.9%	2.4%	2.3%
Payroll Job Gains (000s)	69	56	-463	115	80	65	59
Stimulus (\$ billions)	---	---	\$64	\$54	\$2	---	---

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

PA Payroll Employment

Payroll Employment Levels Revert to 2007

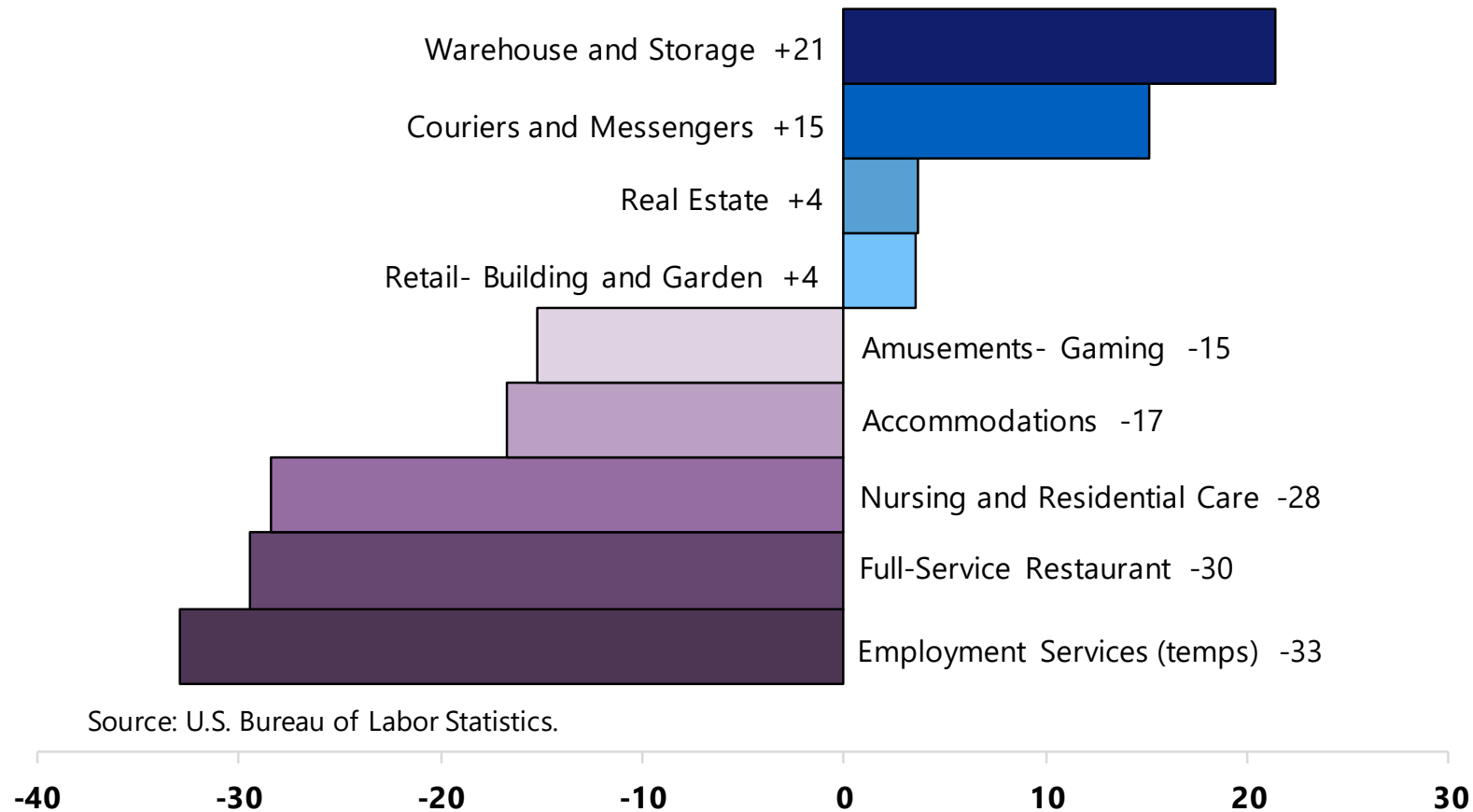


Source: U.S. Bureau of Labor Statistics.

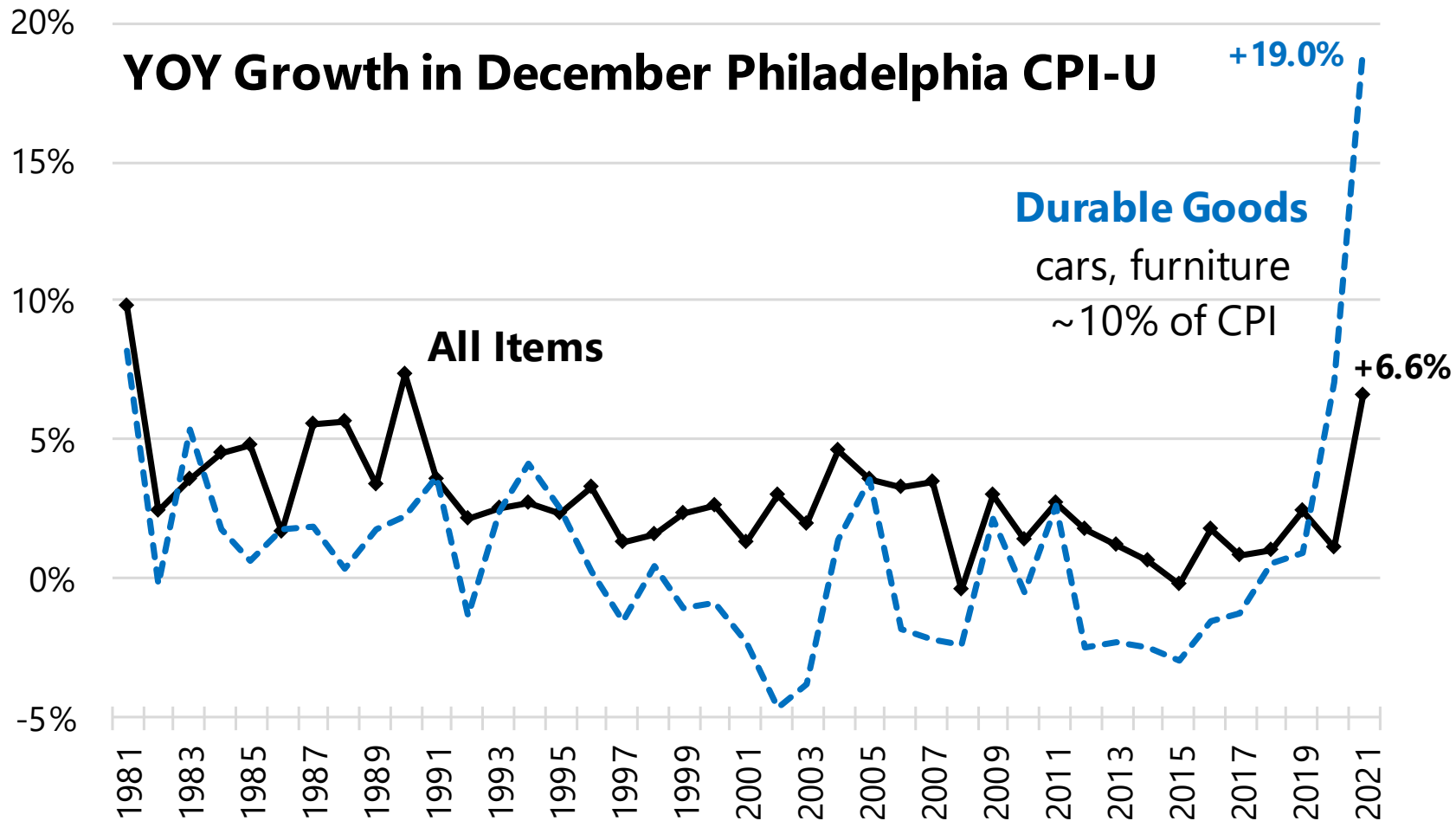
Permanent Job Loss, But Some Subsectors Gain

Industry Subsectors Affected by COVID (Jobs in 000s)

Dec 2021 vs Dec 2019



Recent Rapid Acceleration of Inflation



Very High (Dec 21)

- Used Cars +38.1%
- Gasoline +37.4%
- Energy +25.1%
- New Cars +22.4%

Relatively Low (Dec 21)

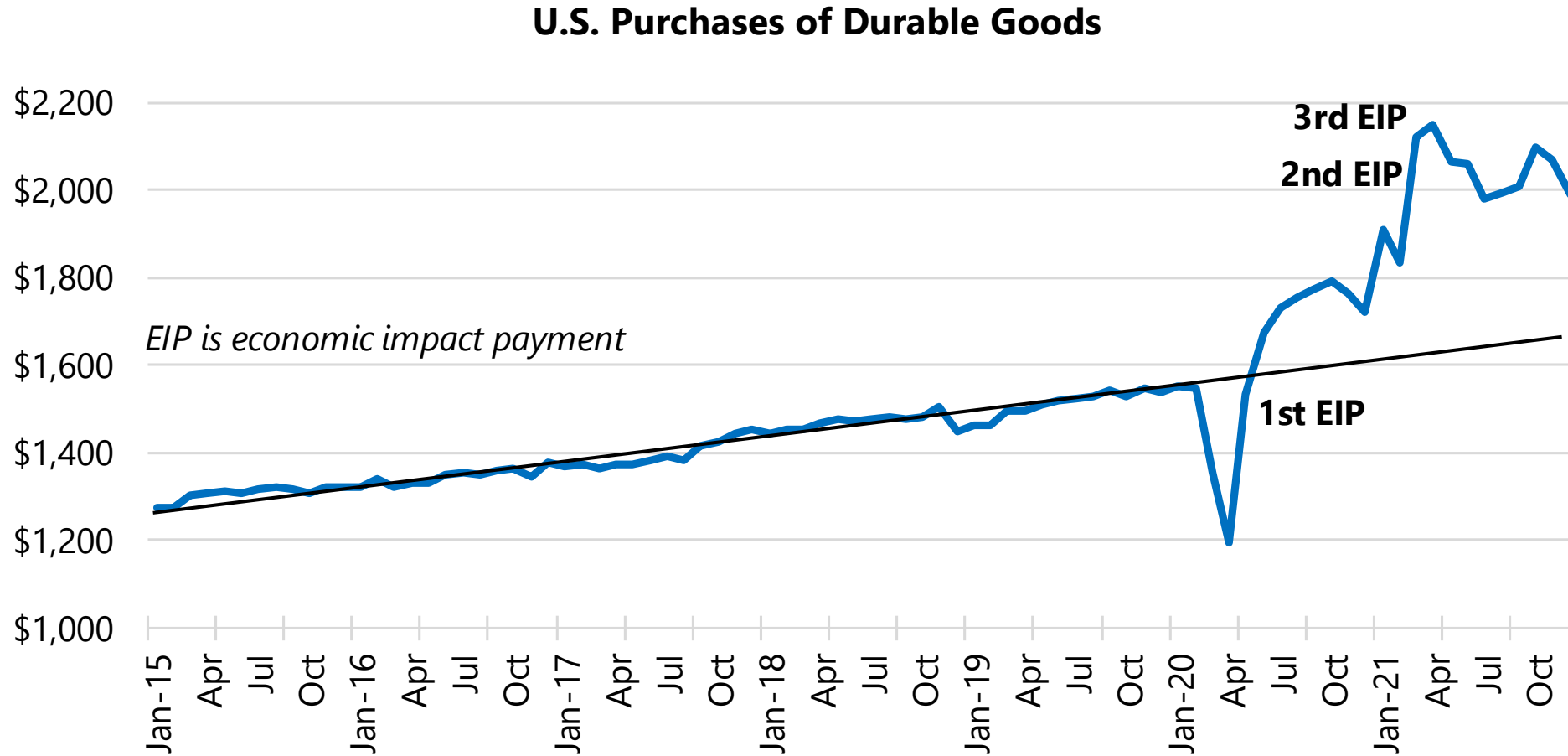
- Education-Comm +1.9%
- Medical Care +3.3%
- Shelter +4.3%

Philadelphia Metro Inflation Accelerates

	CPI-U Weight	Year-Over-Year Growth		
		Feb 21	Jun 21	Dec 21
All Items CPI-U	100.0%	1.0%	4.9%	6.6%
Food and Beverage	14.8	1.2	0.9	4.0
Housing - Shelter	33.0	0.0	1.2	4.3
Transportation	14.4	0.0	18.9	21.0
New Vehicles	3.1	2.7	18.7	22.4
Gasoline	2.6	9.6	40.0	37.4
Medical Care	8.7	4.0	2.8	3.3
All Items Less Energy	94.0%	0.8%	3.9%	5.4%
All Items Less Shelter	67.0	1.4	6.7	7.2

Note: CPI-U weight is relative importance of sub-index. Some series are omitted so weights do not sum to 100%.
Source: U.S. Bureau of Labor Statistics.

U.S. Durable Goods Purchases Still Very High



Note: Billions of dollars. Nominal dollars.

Source: U.S. Bureau of Economic Analysis, Table 2.8.5.

Federal and State Pandemic Relief Programs

	CY 2020	CY 2021	CY 2022	Total
Payments to Individuals and Businesses				
State Unemployment Compensation	\$5.2	\$0.8	\$0.0	\$6.0
Fed. Pandemic Unemployment Comp (FPUC)	16.2	8.8	0.0	25.0
Pandemic Unemployment Assistance (PUA)	7.0	4.1	0.0	11.2
LWA and UC Extensions	3.1	3.2	0.0	6.3
SNAP Benefits	0.9	1.8	1.0	3.7
Economic Impact Payments	11.0	21.0	0.2	32.2
New Child Tax Credit Awards	--	3.4	0.1	3.5
Rental and Homeowner Assistance	--	1.8	0.0	1.8
Paycheck Protection Program (PPP)	<u>20.7</u>	<u>10.0</u>	<u>0.0</u>	<u>30.7</u>
Total	64.2	54.9	1.3	120.4
Other Federal Programs				
Direct State Support	5.9	20.2	0.1	26.1
Direct Local Support	2.6	8.1	0.0	10.7
Other Support	<u>6.8</u>	<u>3.0</u>	<u>0.0</u>	<u>9.8</u>
Total	15.2	31.3	0.1	46.5

Note: Figures in dollar billions.

Active COVID Relief Programs (PA Data)

Student Loan Repayments

Student Loan Debt (federal)	~\$70 billion
Number Borrowers	1.83 million
Average Payment	\$350 /month
Monthly Amount	\$640 million
Share That Defer	80%
Monthly Payment Deferred	\$510 million
Monthly Sales Tax Impact	~\$10 million

Moratorium extended to May 1, 2022

SNAP Benefits

Max benefit, family of 4 = \$835 /month

FFY 2019 1.63 million, \$2.5 billion

FFY 2020 1.79 million, \$3.3 billion

FFY 2021 1.79 million, \$5.2 billion

Current extension to March 2022

Emergency Rental Assistance

Sept to Nov 2021 \$72 million/month

Assume relief runs through Sept 2022

General Fund Financial Statement

	19-20	20-21	21-22	22-23
Beginning Balance (adj.)	\$30	-\$2,715	--	--
Current Year Revenues	32,276	40,392	\$45,322	\$43,319
Less Refunds	<u>-1,150</u>	<u>-1,262</u>	<u>-1,325</u>	<u>-1,300</u>
Net Revenues	31,126	36,414	43,997	42,019
State Expenditures	-34,090	-34,013	-37,478	-41,320
Current Year Balance	-2,934	2,402	6,519	699
Plus Prior Year Lapses	<u>200</u>	<u>2,622</u>	<u>264</u>	<u>110</u>
Prelim Ending Balance	-2,734	--	6,783	809

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 on Adjustments
	Amount	Growth	
General Fund	\$28,583	12.3%	
Corporate Net Income	2,618	27.3	due date shift
Sales - Non-Motor	7,990	13.4	due date shift
Sales - Motor Vehicle	1,159	-0.4	
PIT – Withholding	7,746	10.1	extra deposit + transfer
PIT – Other	1,905	23.2	due date shift
Inheritance	1,005	35.9	delayed receipts
All Tobacco	743	-1.4	
Realty Transfer	549	33.0	
All Other	4,868	3.6	fed funds/transfer

Note: Dollars in millions. Revenues through February 2022. PIT is personal income tax. Adjusted growth rate controls for due date shifts, one-time transfers and extra deposit day for withholding.

Initial Revenue Estimate for FY 2022-23

	Revised 2021-22	Initial 2022-23	Dollar Change	Percent Change	Adjusted Growth or Notes
General Fund	\$45,322	\$43,319	-\$2,003	-4.4%	-0.8%
Corporate Net Income	4,866	4,654	-212	-4.4	no stimulus, wages
Sales - Non-Motor	11,668	11,300	-368	-3.2	no stimulus
Sales - Motor Vehicle	1,802	1,281	-521	-28.9	new transfer
PIT - Withholding	11,790	12,355	565	4.8	
PIT - Other	4,501	4,698	197	4.4	
Inheritance	1,516	1,462	-54	-3.6	
All Tobacco	1,040	1,015	-24	-2.4	
Realty Transfer	770	786	16	2.1	
All Other	7,370	5,768	-1,602	-21.7	0.9%

Note: Dollars in millions. PIT is personal income tax. Adjusted growth rate controls for a \$2.19 billion one-time transfer.

Expenditure Outlook: Strong Growth for FY 2022-23

		Base Yr			
	21-22	22-23	Growth	26-27	Avg Ann Growth
Education	\$15.03	\$15.60	3.8%	\$17.06	2.3%
Human Services	15.06	17.94	19.1%	20.85	3.8%
Criminal Justice	2.67	2.80	4.7%	2.97	1.5%
Treasury	1.17	1.26	7.1%	1.50	4.5%
All Other	<u>3.55</u>	<u>3.73</u>	<u>5.2%</u>	<u>4.16</u>	<u>2.8%</u>
Total General Fund	37.48	41.32	10.3%	46.53	3.0%

Note: Billions of dollars.

One Time Measures Boost Revenues, Reduce Expenditures

	FY 20-21	FY 21-22	Notes
Federal/Special Fund Transfers	\$372	\$3,841	\$2.19 billion in FY 22-23?
Rainy day fund	\$100		
Revenue shifts	\$1,938		delayed due dates
CARES Act	\$1,545		used for DHS, PSP, DCJ, DOH
Enhanced FMAP	\$2,070	\$2,200	assumed to end 2022 Q2
DHS cost shifts	\$555		managed care, county child welfare
REHP reduction	~\$90	~\$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	26-27
All Medical Assistance	\$329	\$1,255	\$222	\$262	\$306	\$331
Long-Term Living	763	946	201	239	278	302
Intellectual Disability	124	376	82	84	86	89
Basic and Special Education	330	233	191	194	198	203
PSERS Contribution	32	200	78	65	74	71
State Correctional Institutions	1,255	126	43	33	44	51
PSP (includes MLF Shift)	253	67	43	31	38	42
General Obligation Debt	-16	81	67	33	96	39
All Other	<u>395</u>	<u>558</u>	<u>268</u>	<u>258</u>	<u>302</u>	<u>272</u>
Total Annual Change	3,465	3,842	1,193	1,199	1,423	1,399

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

Executive Budget: Revenue Shifts, Education Funding

General Fund Revenue Proposals

- (\$79 million) – CNIT rate reduction phase-in | Broaden base
- \$75 million – Minimum wage increase
- \$134 million – Keep table games tax revenue in the General Fund

General Fund Education Funding Proposals

- \$1.55 billion – Basic Education (\$1.25 billion) | Level Up (\$300 million)
- Special Education (\$200 million) | Early Childhood Education (\$70 million)
- Higher Education (\$125 million)

State and Local Tax Burden Ratios

	PA	U.S. Avg	Difference
Personal Income	2.62%	2.22%	+0.40%
Sales-Use	1.93%	2.44%	-0.51%
All Property	2.87%	3.06%	-0.19%
Gaming-Liquor-Tobacco	0.65%	0.39%	+0.26%
All Other	<u>2.21%</u>	<u>1.85%</u>	<u>+0.36%</u>
Total Taxes	10.28%	9.96%	+0.32%

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.

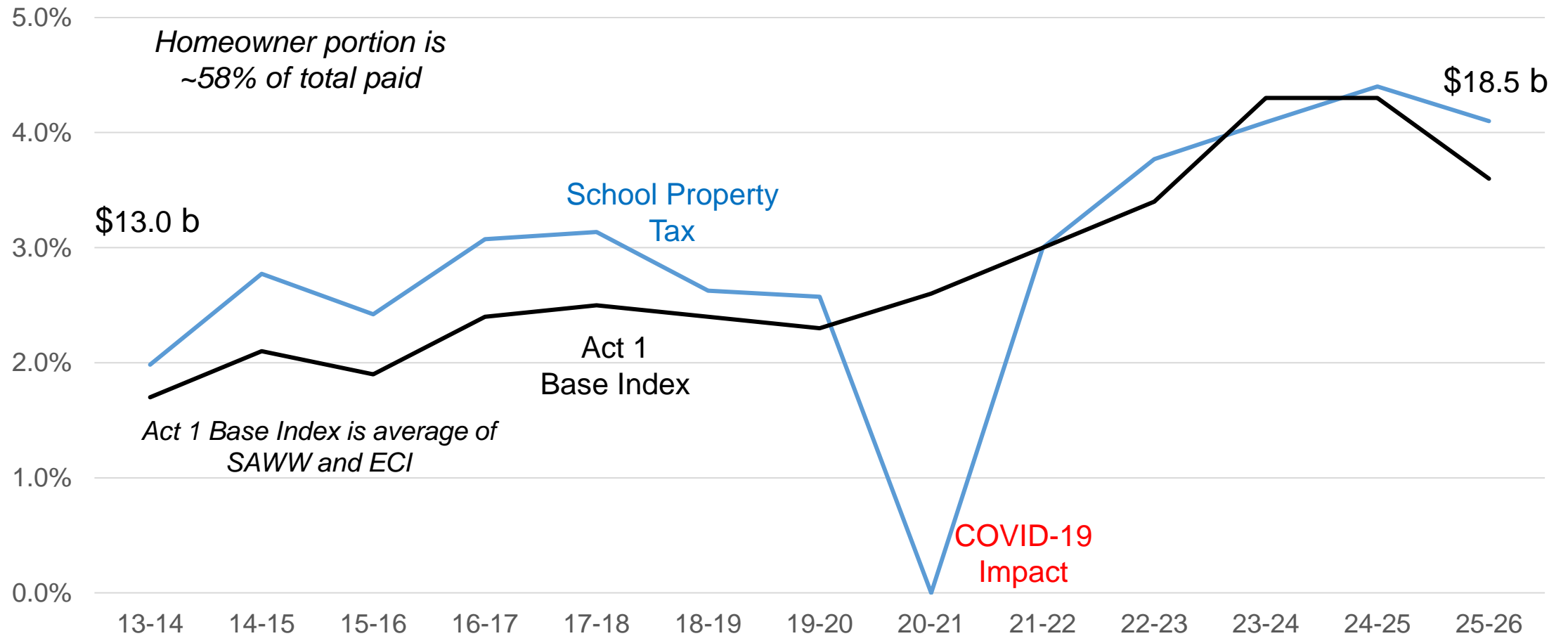
Source: State and Local Tax Revenues: A 50 State Comparison (January 2022).

State and Local Tax Burden Rankings

	NY	NJ	MD	OH	PA	VA
Personal Income	1	20	3	17	19	12
Sales-Use	19	39	43	17	40	42
All Property	5	3	32	28	26	20
Total Taxes	1	6	10	26	20	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 (January 2022).

Growth Rate of School Property Taxes



Note: Includes Current and Interim, Act 1 Allocations and delinquent taxes.

Source: School District Property Tax Forecast, IFO (November 2021).

School District Revenues: FY 2019-20

Source	Amount	Percent
Property Tax	\$14,276	43.2%
Earned Income	\$1,673	5.1%
Other Local Sources	\$2,464	7.5%
Act 1 Allocations (slots)	\$534	1.6%
State (excludes Act 1)	\$11,604	35.1%
Federal	\$950	2.9%
Other (debt related)	<u>\$1,513</u>	<u>4.6%</u>
Total	\$33,014	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

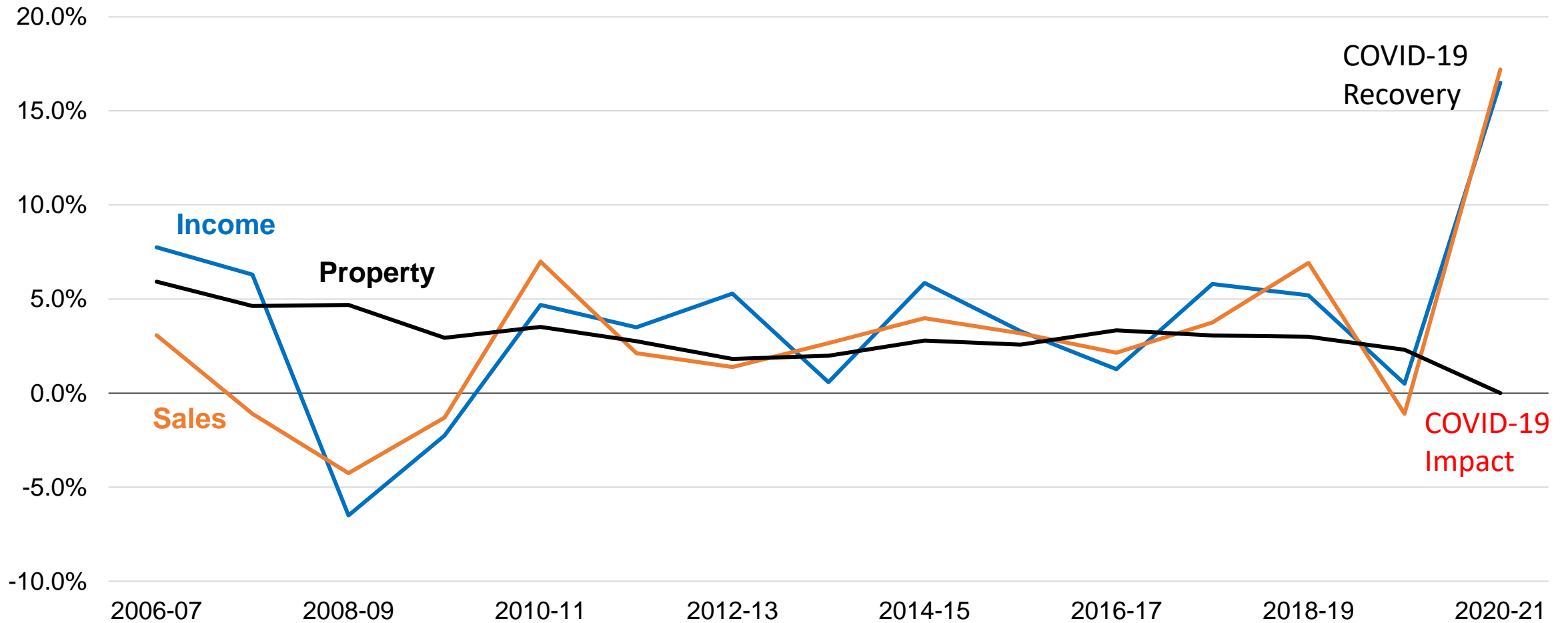
Personal income tax: raise rate (3.07%) and/or expand base

- Replace homeowner school property tax: ~+1.9 ppts
- An increase of 1.0 ppt generates ~+\$5.0 billion
- Tax retirement income: ~+\$900 million (excludes Social Security)
- PA one of only 3 states that does not tax private and public pensions

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

- Replace homeowner school property tax: ~+4.6 ppts
- An increase of 1.0 ppt generates ~+\$2.2 billion
- Tax groceries and/or clothing
- 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. Property tax figures for FY 2020-21 are estimated by the IFO. Income and sales tax figures for FY 2020-21 are actuals 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, revenue increases to fund education initiatives and long-term tax cuts

- Federal ARP funds and other COVID relief create large ending balance for FY 2021-22 (\$6.8 billion)
- Minimum wage (\$75 million)
- CNIT proposal (-\$79 million)

Various long-term demographic concerns

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

Questions

Presentation posted on the IFO website

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

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Independent Fiscal Office
Rachel Carson State Office Building
400 Market Street
Harrisburg, PA 17105
(717) 230-8293