INDEPENDENT FISCAL OFFICE

March 31, 2023

The Honorable Scott Martin
Chairman
Senate Appropriations Committee
281 Main Capitol Building
Harrisburg, PA 17120

Dear Chairman Martin:

This letter and attachments respond to requests for additional information raised at the recent budget hearing for the Independent Fiscal Office (IFO).

Senator Santarsiero requested demographic data that shows net migration by county.

The U.S. Census Bureau publishes population estimates for the nation, states, counties and certain metro areas. For each release, the entire time series is updated from the last Decennial Census (April 1, 2020) to July 1 of the latest data year. The 2022 data are the most recent available. Net migration for a county is the difference between in-migration (number of people moving in) and out-migration (number of people moving out) from domestic and international points of origin during the period. Total state net migration was 21,346 from April 2020 through July 2022, including +37,564 through net international migration and -16,218 through net domestic migration. During that time period, 43 counties recorded positive net migration, while 24 counties recorded negative net migration. (See table on next page for county detail.)

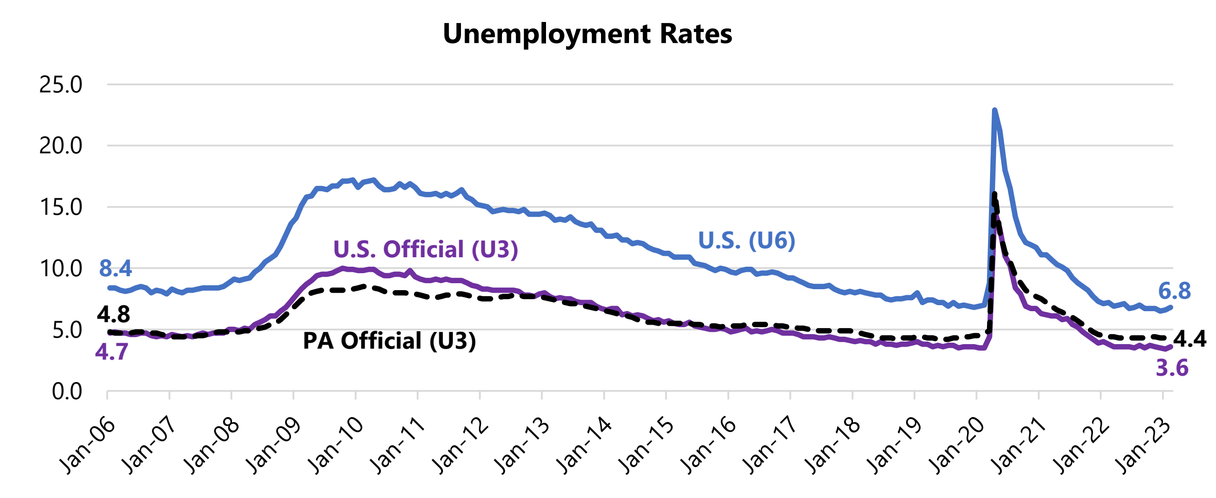
Net Migration by County (April 2020 through July 2022)

County	Net Migration (Number)			County	Net Migration (Number)		
	Int'l.	Dom.	Total		Int'l.	Dom.	Total
Pennsylvania	**37,564**	**-16,218**	**21,346**	Sullivan	0	192	192
Chester	1,549	7,957	9,506	Susquehanna	-1	167	166
Cumberland	629	8,858	9,487	Mifflin	19	134	153
Montgomery	2,507	6,478	8,985	Armstrong	13	116	129
Northampton	794	6,941	7,735	Mercer	18	108	126
York	899	4,504	5,403	Fulton	1	123	124
Butler	137	5,014	5,151	Venango	20	80	100
Luzerne	1,310	2,905	4,215	Lawrence	9	70	79
Washington	133	3,051	3,184	Montour	49	-15	34
Adams	69	2,923	2,992	Potter	3	26	29
Pike	40	2,597	2,637	Cambria	27	-35	-8
Westmoreland	122	2,488	2,610	Cameron	0	-32	-32
Schuylkill	92	2,105	2,197	Snyder	13	-68	-55
Berks	1,549	595	2,144	McKean	31	-107	-76
Bucks	1,250	740	1,990	Juniata	67	-159	-92
Lackawanna	584	1,177	1,761	Elk	-1	-130	-131
Dauphin	1,159	600	1,759	Warren	12	-149	-137
Franklin	303	1,332	1,635	Forest	2	-193	-191
Carbon	28	1,586	1,614	Somerset	5	-244	-239
Lehigh	2,584	-976	1,608	Lycoming	154	-424	-270
Lancaster	1,539	-4	1,535	Blair	69	-348	-279
Lebanon	416	961	1,377	Monroe	188	-474	-286
Columbia	20	849	869	Jefferson	6	-340	-334
Wayne	13	776	789	Northumberland	66	-503	-437
Clinton	13	634	647	Huntingdon	14	-485	-471
Clarion	14	587	601	Beaver	49	-560	-511
Indiana	90	395	485	Crawford	34	-606	-572
Centre	1,169	-703	466	Greene	-7	-861	-868
Perry	14	434	448	Fayette	104	-1,116	-1,012
Tioga	10	388	398	Clearfield	51	-1,564	-1,513
Bedford	12	375	387	Erie	557	-2,378	-1,821
Wyoming	8	273	281	Delaware	2,311	-4,273	-1,962
Union	43	214	257	Allegheny	4,118	-15,917	-11,799
Bradford	48	168	216	Philadelphia	10,416	-52,475	-42,059

Note: Int'l stands for international and dom stands for domestic. Counties ranked by total net migration.
Source: U.S. Census Bureau, Annual and Cumulative Estimates of the Components of Resident Population Change for Counties in Pennsylvania: April 1, 2020 to July 1, 2022.

Senator Dush requested data that compares the U3 and U6 unemployment rates.

The figure below displays the official unemployment rate (also known as the U3 series) and the U6 rate for the U.S. from January 2006 through February 2023. (U6 unemployment rate data are unavailable at the state level.) The U6 rate includes the unemployed (U3) plus those marginally attached to the labor force, discouraged, or working part-time for economic reasons. As illustrated by the graph, the gap between the U3 and the U6 rates widened during the 2008-2009 recession, but steadily declined through the start of the COVID pandemic in early 2020. Recent data show that the gap between the two series has reverted to pre-pandemic levels as plentiful job openings and a tight labor market result in fewer discouraged workers. As requested, the U6 indicator was added to the IFO's *Monthly Economic Update*.



Source: U.S. Bureau of Labor Statistics.

Senator Haywood requested an analysis showing the effect of a regressive tax system on Pennsylvania's workforce.

All of the Commonwealth's border states impose a graduated (i.e., progressive) income tax. The table below displays the effective tax rate for three income groups: (1) $10,000, (2) $30,000 and (3) $50,000 in each border state. The analysis assumes that each taxpayer is single and under age 60. Tax rates are for tax year (TY) 2022. The data illustrate the following points:

- For a taxpayer with annual income of $10,000, Pennsylvania has the highest effective tax rate (3.07%). This taxpayer pays no tax in Ohio and West Virginia.
- For a taxpayer with annual income of $30,000, Maryland has the highest effective tax rate (3.69%). Ohio has the lowest effective tax rate (1.35%), and Pennsylvania is third lowest.
- For a taxpayer with annual income of $50,000, New York has the highest effective tax rate (4.49%). Ohio has the lowest effective tax rate (1.94%), and Pennsylvania is third lowest.

- Based on this example, compared to all border states, Pennsylvania has the least progressive income tax system.

Border State Tax Rate Comparison by Annual Gross Income

State	Rate Type	TY 2022 Effective Tax Rate[1]		
		$10,000	$30,000	$50,000
Pennsylvania	Flat Tax	3.07%	3.07%	3.07%
Maryland	Graduated	1.96%	3.69%	4.12%
New Jersey	Graduated	1.26%	1.46%	2.43%
New York	Graduated	0.81%	3.58%	4.49%
Delaware	Graduated	0.25%	3.30%	4.20%
West Virginia	Graduated	0.00%	3.45%	4.11%
Ohio	Graduated	0.00%	1.35%	1.94%

1 Effective tax rate accounts for standard deductions and exemptions applicable to taxpayers under age 60, filing single with no dependents.

Sources: Various state departments of revenue and taxation.

The labor force participation rate (LFPR) measures the size of the labor force and represents the proportion of those working or seeking work relative to all adults age 16 or older. In January 2023, the LFPR was 61.9% for Pennsylvania, which ranked third among border states. Maryland had the highest LFPR (64.7%), while West Virginia (54.7%) had the lowest. In general, states with older populations tend to have lower LFPRs (e.g., West Virgina and Pennsylvania).

Labor Force Participation Rates by Border State

State	Jan-18	Jan-19	Jan-20	Jan-21	Jan-22	Jan-23
Maryland	67.7%	68.3%	69.3%	65.1%	64.9%	64.7%
New Jersey	62.9%	63.1%	64.5%	62.7%	63.1%	64.3%
Pennsylvania	62.4%	63.1%	63.1%	62.0%	61.4%	61.9%
Ohio	62.6%	63.0%	63.6%	61.4%	61.4%	61.2%
New York	60.5%	60.6%	61.0%	59.0%	60.0%	60.5%
Delaware	62.2%	62.1%	61.1%	61.1%	60.9%	59.8%
West Virginia	53.9%	54.5%	55.1%	53.7%	54.4%	54.7%

Sources: U.S. Bureau of Labor Statistics.

Senator Haywood requested information that documents the number of international immigrants needed to offset Pennsylvania's declining workforce.

The IFO's demographic projections are developed with a cohort-component model in which birth, death and migration rates are projected using data from the U.S. Centers for Disease Control and Prevention (CDC) and the U.S. Census Bureau. Using these projections, Pennsylvania's cumulative population is expected to grow in the near term (1.3% in 2023 and 0.4% in 2024) and decline in the long term (-0.5% through 2030). However, the school-age cohort (age 0 to 19) declines 6.6% from 2022 to 2030 and the working-age cohort (age 20 to 64) declines 4.1% through 2030. To make up for the cumulative decline, the Pennsylvania working-age cohort would need to increase by 128,200 in 2025 and 302,800 by 2030.

Pennsylvania Population

Age	Estimated Population (000s)								
Group	2022	2023	2024	2025	2026	2027	2028	2029	2030
0-19	2,989	2,964	2,939	2,916	2,892	2,865	2,836	2,812	2,790
20-64	7,439	7,395	7,353	7,311	7,269	7,234	7,203	7,168	7,136
65-79	1,950	2,002	2,056	2,108	2,157	2,167	2,184	2,199	2,208
80+	586	605	617	626	636	679	709	737	762
Total	**12,965**	**12,966**	**12,965**	**12,960**	**12,954**	**12,944**	**12,932**	**12,916**	**12,897**

Age	% Change	Cumulative Change from 2022 (000s)							
Group	('22 to '30)	2023	2024	2025	2026	2027	2028	2029	2030
0-19	-6.6%	-25.3	-49.6	-73.1	-97.2	-124.2	-152.8	-177.1	-198.5
20-64	-4.1%	-44.1	-86.0	-128.2	-170.1	-205.5	-236.2	-270.6	-302.8
65-79	13.2%	51.9	105.5	157.4	206.6	217.2	233.6	249.1	258.4
80+	29.8%	18.9	30.5	39.4	49.7	92.4	122.8	150.1	175.1
Total	**-0.5%**	**1.3**	**0.4**	**-4.4**	**-10.9**	**-20.1**	**-32.6**	**-48.6**	**-67.9**

Source: Data from the IFO's "Pennsylvania Demographics Outlook," October 2022.

Senator Street requested how expansion of the Pennsylvania Child and Dependent Care Enhancement Tax Credit could impact economic growth.

The new Pennsylvania child and dependent care enhancement tax credit is equal to 30% of the credit claimed for federal tax purposes. For tax year 2020 (latest published data), 189,500 Pennsylvania filers claimed $101 million of federal tax credits, an average of $534. The maximum federal credit that can be claimed peaks at $1,380 (two or more children only) but then rapidly declines to $1,200 and flatlines at that maximum amount. The credit amount depends on the taxpayer's adjusted gross income (AGI) and number of children receiving care. Taxpayers can claim up to $6,000 of qualifying expenses (two or more children) and the credit rate ranges from 35% (AGI under $15,000) to 20% (AGI greater than $43,000).

A recent report by the Congressional Research Service found that 20% of filers that claimed the federal tax credit reported AGI under $15,000, nearly 40% reported AGI between $15,000 to $50,000, and the remaining 40% reported AGI over $50,000.[1] A simulation by the Tax Policy Center finds that 14% of all federal filers with children use the child and dependent care credit. The Center notes that the credit is used more intensively by middle- and upper-income taxpayers because it is non-refundable and lower-income taxpayers lack sufficient tax liability to claim it. The simulation finds that 20.1% of taxpayers in the fourth income quintile (60% to 80% income group based on expanded cash income) with children claimed the credit and 18.2% in the highest income quintile. By contrast, 8.1% of filers with children in the second income quintile claimed the credit, and only 0.2% in the lowest income quintile.[2]

Studies generally find that federal subsidies (grants and/or tax credits) for childcare expenses have a positive impact on (1) the use of paid childcare and (2) the labor force participation rates of parents, especially women. Some recent findings are as follows:

- A paper published by the W.E. Upjohn Institute for Employment Research found "that a 10 percent increase in child and dependent care tax credit (CDCC) benefits increases annual paid child care participation in that same tax year by 4 to 5 percent among households with children younger than 13 years old…. Also, CDCC benefits increase labor supply among married women with children younger than 13 years old. Increases in labor supply among married mothers with very young children suggest that CDCC benefits may generate long-run earnings gains."[3]

- A recent presentation by the Congressional Budget Office (CBO) notes the following impact on low-income parents from expanded federal subsidies for childcare and universal preschool: "On average, both expanded subsidies for child care and universal preschool would probably increase employment of parents who would be eligible for subsidized child care on the basis of their income under current law."[4]

- A recent study by the Census Bureau found that "there is robust support that CCDF (child care development fund subsidies) receipt increases the probability that working married mothers stay in the labor force."[5]

- A study published by the U.S. Department of Health and Human Services found that "higher CCDF (child care development fund) expenditures increased employment rates of mothers potentially eligible for subsidies. The elasticity of employment with respect to CCDF expenditures is .05 for women with children ages 0 to 12, and .07 for women with children ages 0 to 3. That is, a 10

[1] "Child and Dependent Care Tax Benefits: How They Work and Who Receives Them," Congressional Research Service R44993 (February 2021).
[2] Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).
[3] "The Effects of Child Care Subsidies on Paid Child Care Participation and Labor Market Outcomes: Evidence from the Child and Dependent Care Credit," Gabrielle Pepin W.E. Upjohn Institute for Employment Research (August 2020).
[4] "Economic Effects of Expanding Subsidized Childcare and Providing Universal Preschool," Congressional Budget Office (November 2021).
[5] "Child Care Subsidies and the Labor Force Outcomes for Working Married Mothers," Social, Economic and Housing Statistics Division (SEHSD) Working Paper 2021-14, Survey Improvement Research Branch, U.S. Census Bureau (2021).

> percent increase in expenditures predicts a 0.5 and 0.7 percent increase in employment among potentially eligible women with children ages 0 to 12 and ages 0 to 3, respectively."[6]

In April, the IFO will release an analysis of the revenue proposals included in the 2023-24 Governor's Executive Budget. Responses to questions or requests related to those proposals will be included in that document.

Sincerely,

Matthew J. Knittel
Director, Independent Fiscal Office

[6] "Effects of the CCDF Subsidy Program on the Employment Outcomes of Low Income Mothers," U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (December 2016).