

Economic Outlook And Property Tax Update



Pennsylvania Association of School Business Officials
November 16, 2021

Two Parts

Overview of IFO Five-Year Economic and Budget Outlook

- Will workers return?
- Does inflation decelerate?
- Do budget surpluses last?

Property Tax Update

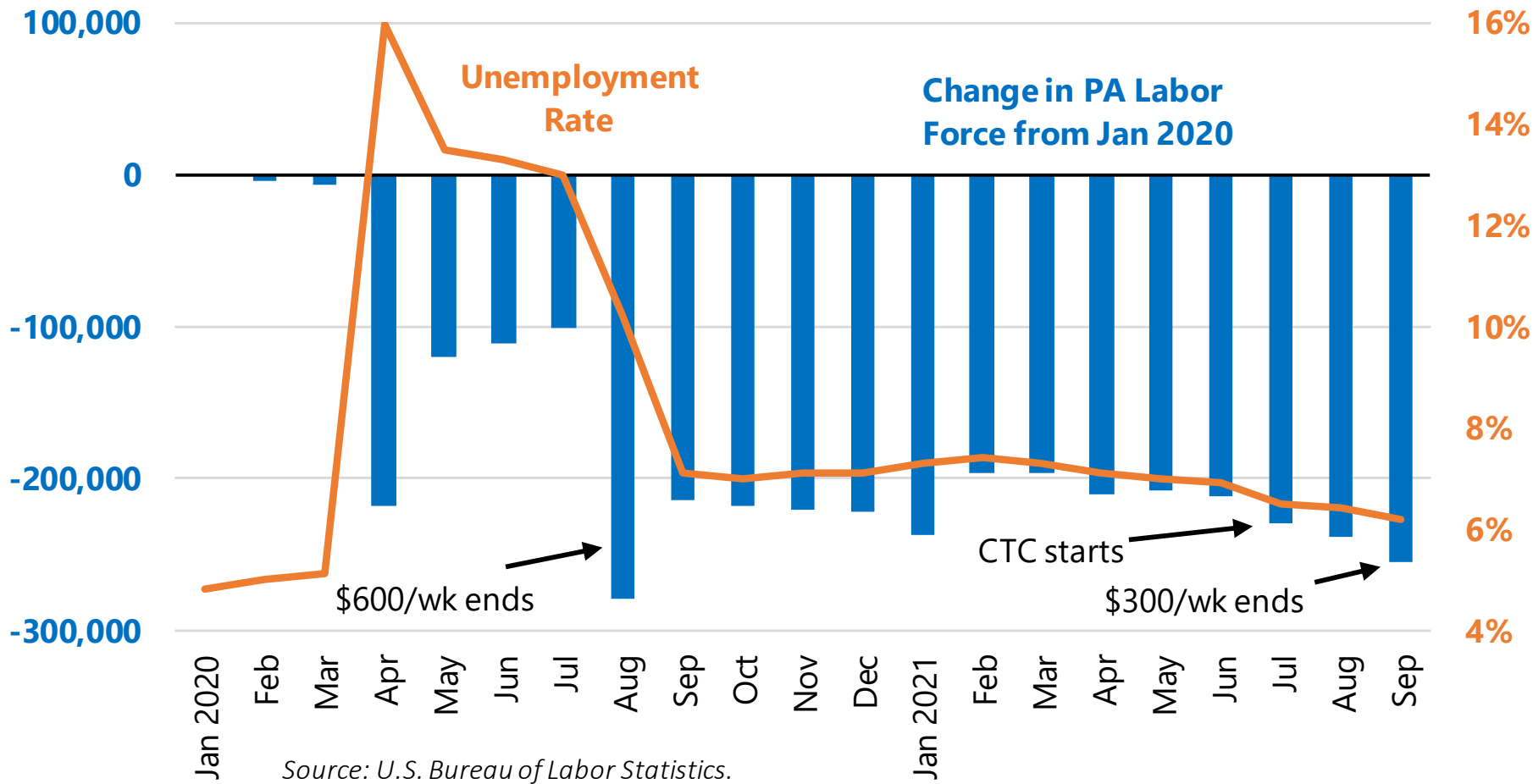
- No look at COVID-19 impact on SD collections yet
- Some data suggest decline not as bad as anticipated | stimulus
- SAWW at record high | elevated by 2021 wage growth

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.

PA Labor Force Contraction Continues

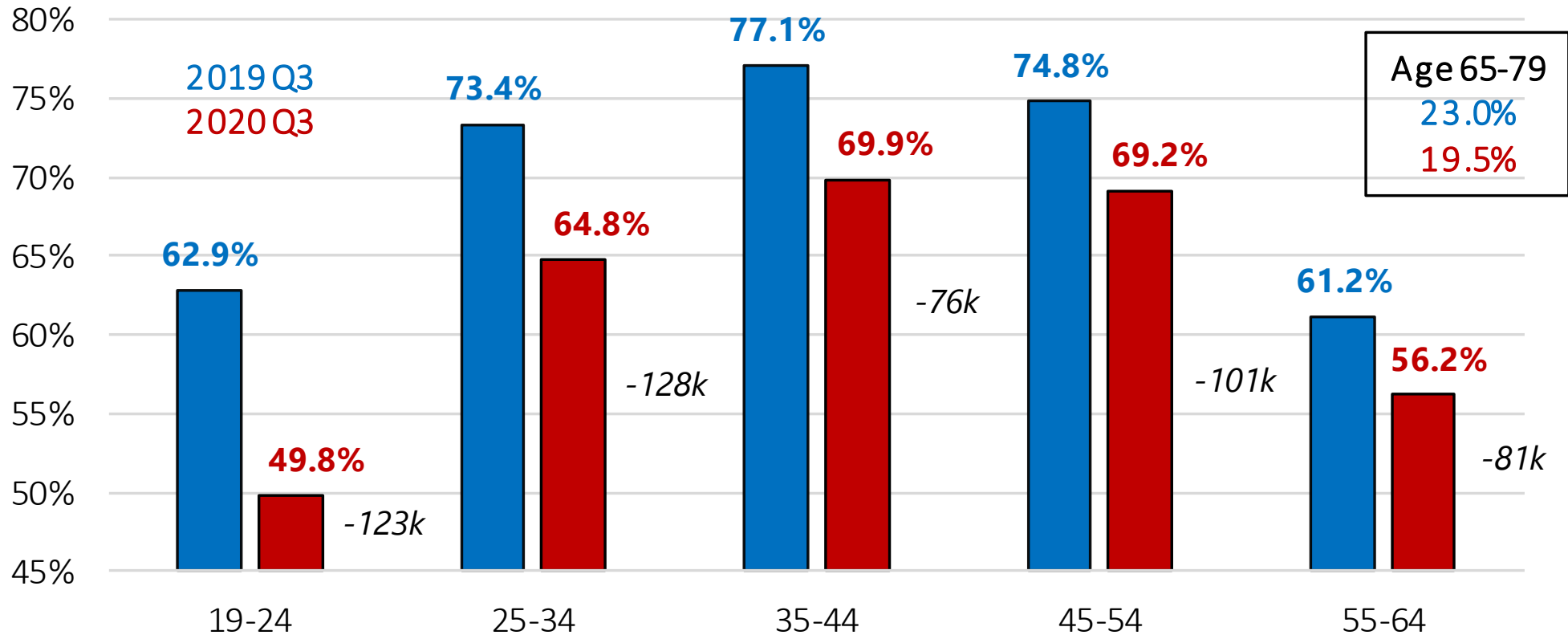


Labor Force =
Employed + Unemployed

- Labor Force Contraction
- Federal programs
 - Childcare
 - Eldercare
 - Home schooling
 - COVID concerns
 - Savings cushion
 - Lifestyle change
 - Early retirements

Who Stopped Working? Not Just the Elderly

PA Employment / Population Ratio by Age Group



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

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%	5.2%	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.

Pennsylvania Payroll Employment Still Lags

	Number (000s)		2-Year Change	
	Sept 2019	Sept 2021	Number	Percent
Payroll Employment	6,096	5,767	-329	-5.4%
Construction	273	254	-19	-6.9%
Manufacturing	572	550	-22	-3.9%
Retail and Wholesale Trade	817	784	-32	-3.9%
Transportation and Warehouse	303	314	10	3.4%
Professional and Technical	360	367	8	2.1%
Admin and Waste Management	326	280	-46	-14.2%
Healthcare and Social Assistance	1,061	1,016	-45	-4.2%
Arts and Entertainment	106	84	-22	-20.8%
Accommodation and Food Service	479	403	-76	-15.9%
Other Services	261	238	-24	-9.0%
All Government (includes local SDs)	716	680	-36	-5.0%
All Other	822	797	-25	-3.0%

Note: Data are not seasonally adjusted. Figures for September 2021 are preliminary. **Excludes self-employed.**
Source: U.S. Bureau of Labor Statistics, State and Metro Area Employment.

General Fund Financial Statement

	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Beginning Balance	-\$2,715	\$0	--	--	--	--	--
Current Year Revenues	40,392	44,173	\$42,875	\$41,847	\$43,144	\$44,587	\$46,107
Less Refunds	<u>-1,262</u>	<u>-1,325</u>	<u>-1,300</u>	<u>-1,325</u>	<u>-1,350</u>	<u>-1,375</u>	<u>-1,400</u>
Net Revenues	39,130	42,848	41,575	40,522	41,794	43,212	44,707
State Expenditures	-34,013	-38,589	-41,320	-42,513	-43,878	-45,135	-46,534
Current Year Balance	2,402	4,259	255	-1,991	-2,083	-1,923	-1,828
Reduced Spending	0	763	0	0	0	0	0
Plus Prior Year Lapses	<u>-2,402</u>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>
Prelim Ending Balance	0	5,132	365	-1,881	-1,973	-1,813	-1,718

Note: Millions of dollars. Prior year lapses include transfers to the Budget Stabilization Reserve Fund.

Property Tax Updates

Updated forecast published on November 8th, accounts for:

- FY 2019-20 current-interim collections published by PDE in April.
- Revised FY 2020-21 estimate assumes current-year collections are flat.
- FY 2021-22 millage rates published by PDE.
- Current wage projections by the IFO utilized in Five-Year Outlook.

New projection is \$330 million higher in FY 25-26 than February

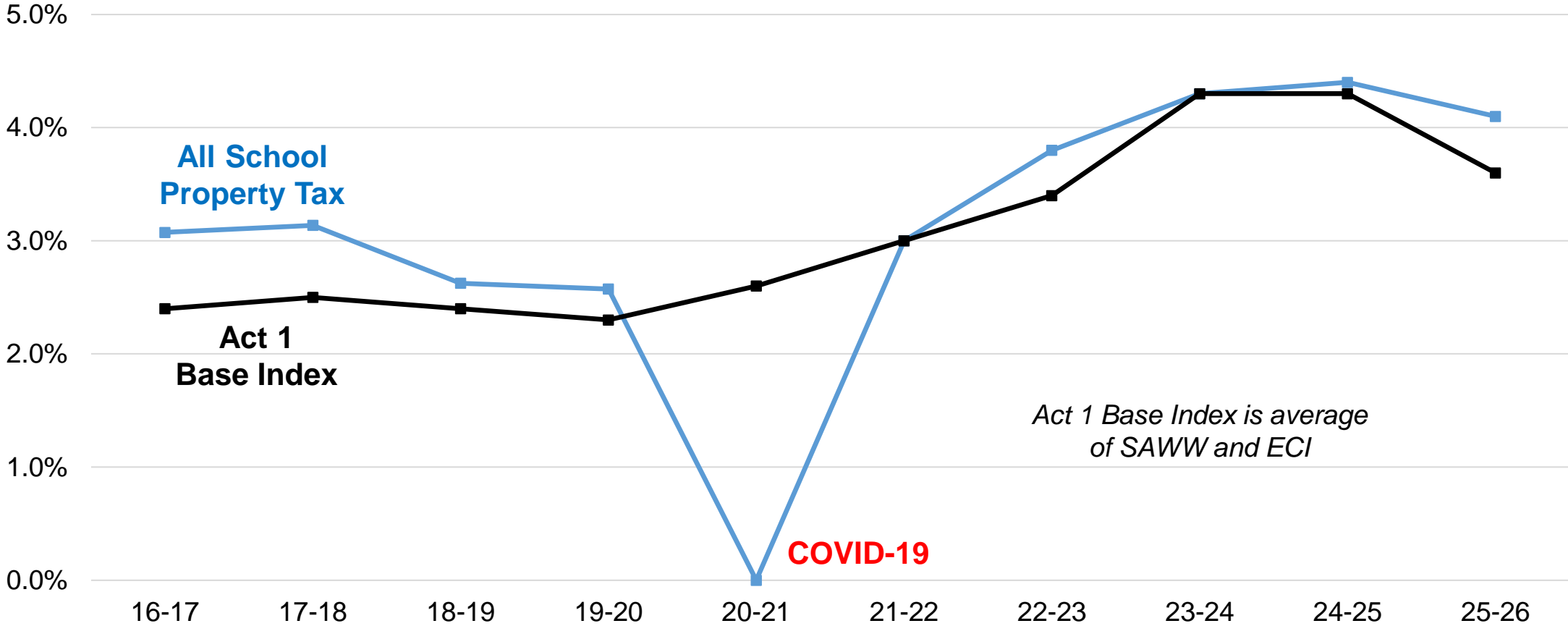
- Due to 20-21 revision and significant increase in projected Act 1 index.
- Projected SAWW at highest levels of Act 1 time period.

School District Property Tax Forecast

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Current-Year	\$14,276	\$14,280	\$14,630	\$15,215	\$15,875	\$16,605	\$17,305
Act 1 Allocations ¹	534	535	535	535	535	535	535
Delinquent ²	<u>506</u>	<u>500</u>	<u>610</u>	<u>620</u>	<u>630</u>	<u>650</u>	<u>680</u>
Total	\$15,316	\$15,315	\$15,775	\$16,370	\$17,040	\$17,790	\$18,520

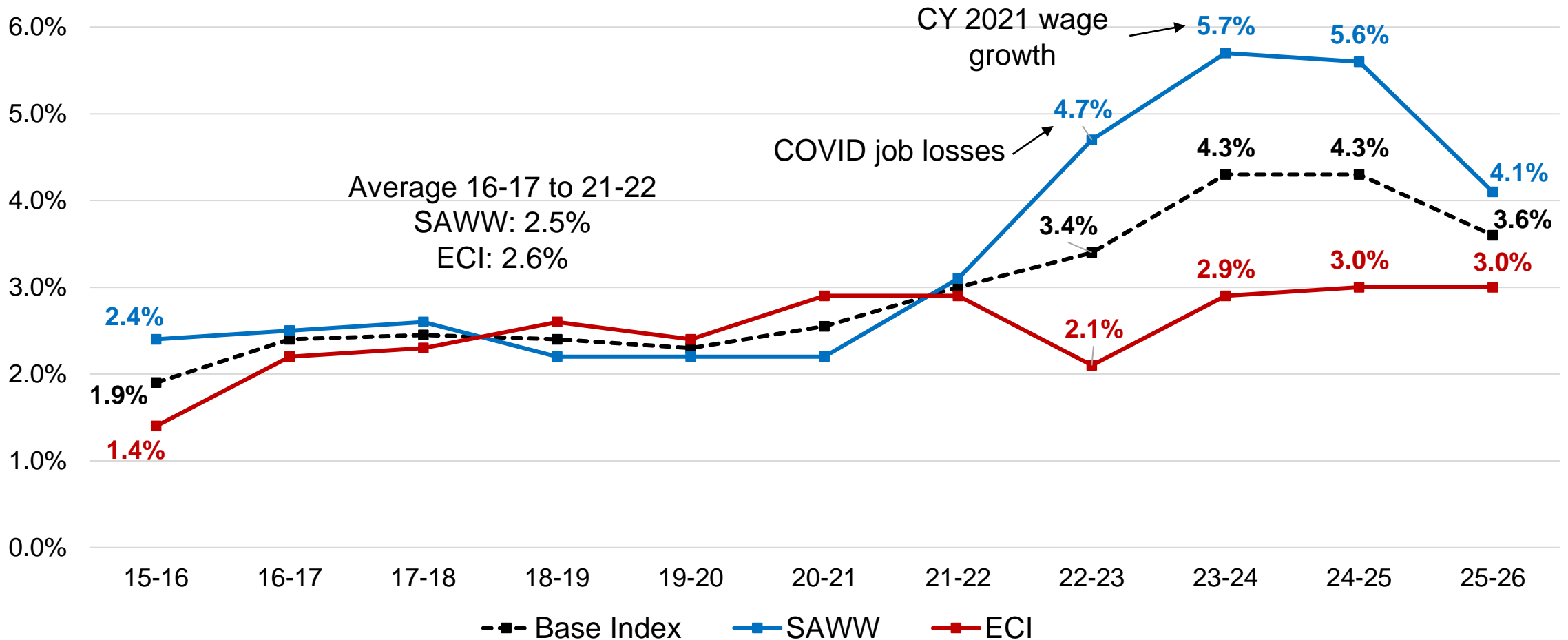
Note: Millions of dollars.
 1 Actuals through FY 2021-22. Estimated at \$535 million thereafter.
 2 Reported by PDE for FY 2019-20. Estimated by IFO thereafter.

School District Property Tax Growth Rates



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

Act 1 Index Components: Actual and Forecast



Sources: Index and components through 22-23 published by PDE. For later years, SAWW is projected by the IFO and ECI is projected by IHS Markit with minor adjustments by the IFO.

Outlook - Uncertainty and Risks Unusually High

Significant economic risks

- Workers eventually return
- No wage-price spiral that further broadens inflation
- No major stock or housing market correction

Significant Policy Risks

- Stimulus impact lingers, but how much longer?
- Some remains | child tax credit and SNAP

Property Taxes

- First look at COVID-19 impact on current-interim collections in April.
- Act 1 Index elevated through at least 25-26. Wages revert in CY 2023.

Presentation is Posted to IFO Website

Questions?

Submit to contact@ifo.state.pa.us