

PENNSYLVANIA
Budget and Policy Center

Local Revenue Outlook

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PAPERS Fall Workshop

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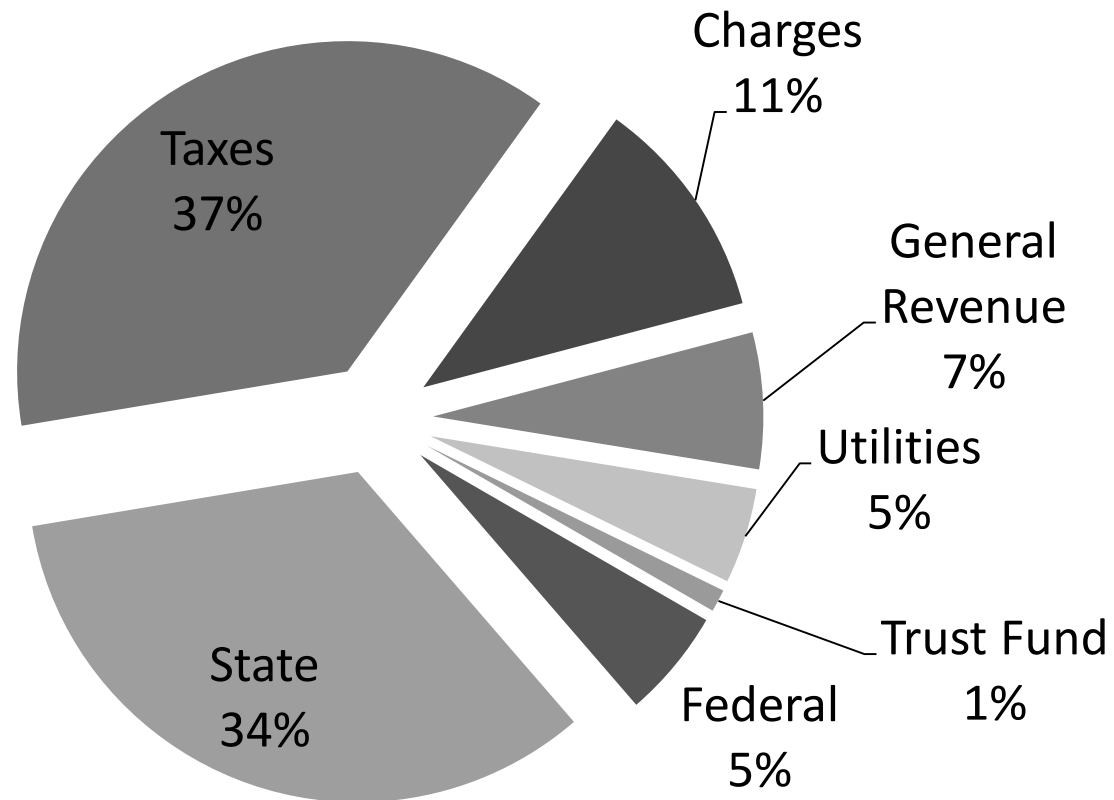
Where we are

- Great Recession caused huge losses of tax revenue for state governments
- State revenues beginning to rebound, but still below pre-recessionary levels
- Economic recovery stalled
- “Solutions” to state fiscal woes lead to new issues for many local governments
- Local governments also seeing a lagged impact of recession on revenue

The issues

- Not a lot of local data
- Data is often not current (2008 is most recent from Census, 2009 from DCED – and not complete)
- Conditions vary from location to location
- Pennsylvania different from the US in several important ways
- Impact of recessions vary based on causes

In Pennsylvania, State Revenue Almost as Important as Local Taxes for Local Governments (including Schools)

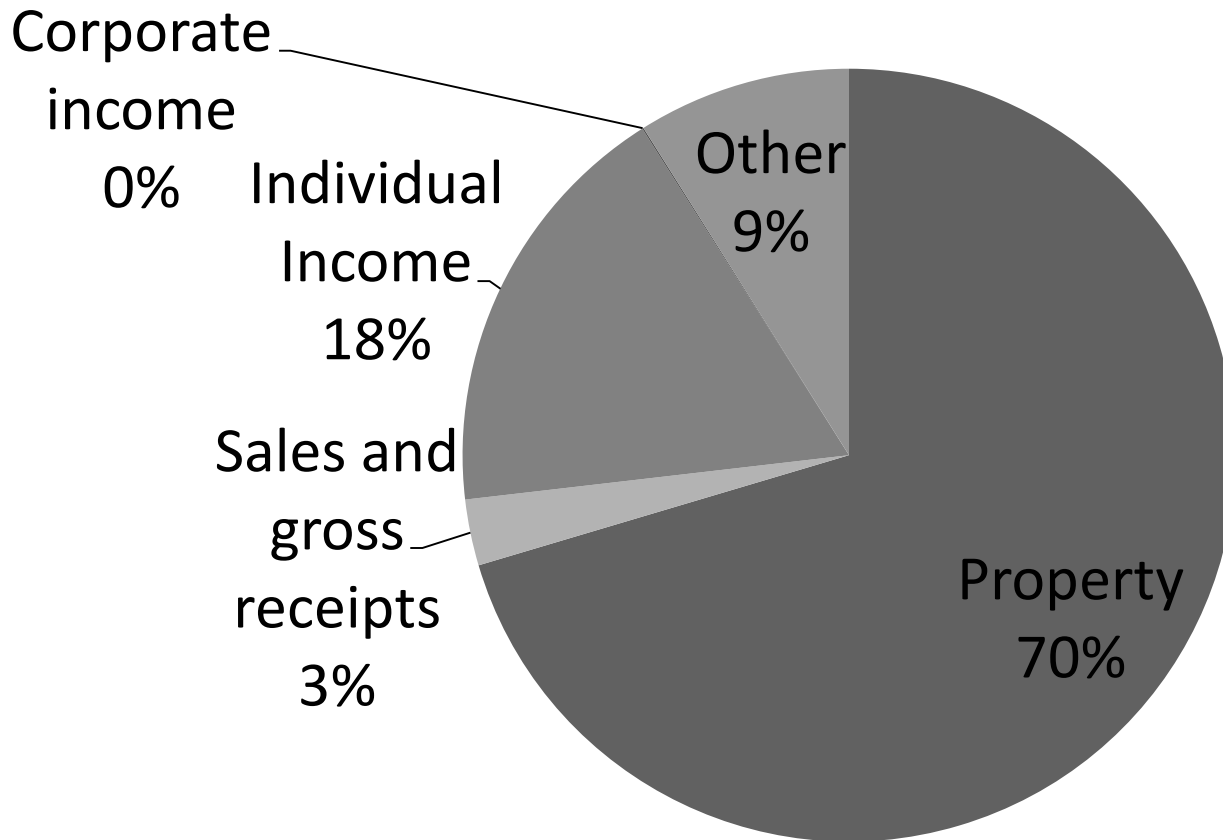


US Census Bureau, *2008 State & Local Government Finance*

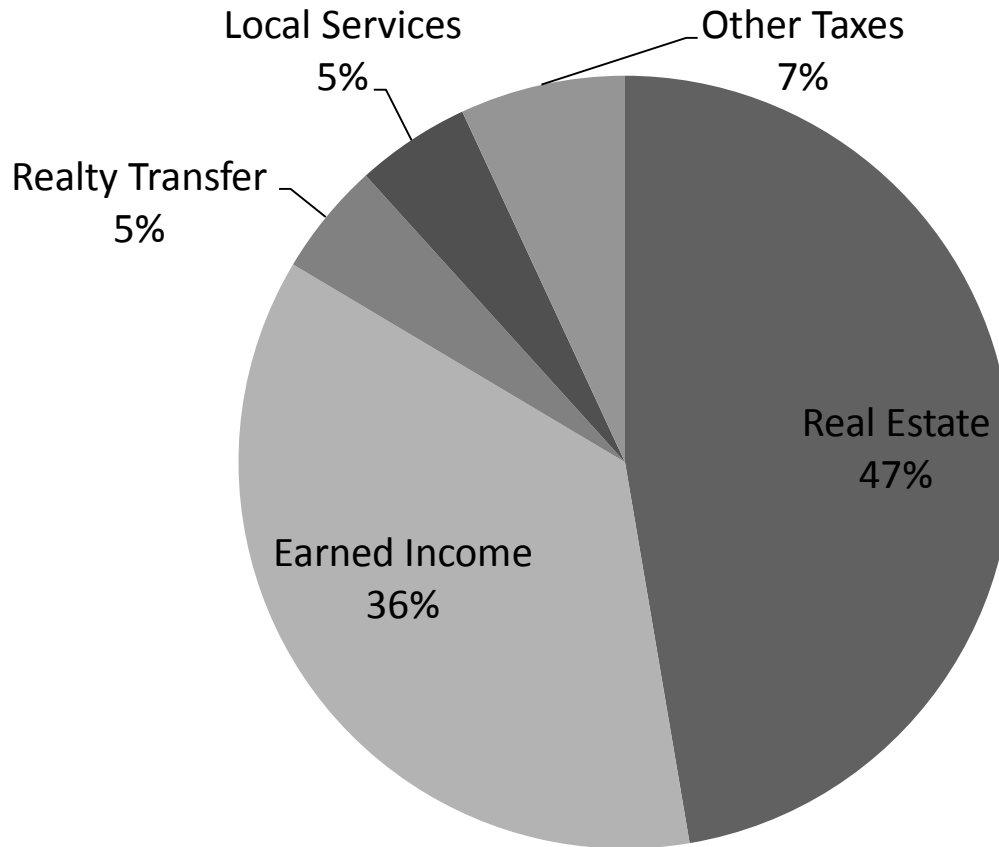
Enacted state budget reduces funds for local governments

- Schools, in particular, losing state revenue. Reduction of ~\$1 billion in school aid in 2011-12.
- Aid based largely on need, so neediest areas seeing the largest reductions (generally).
- Districts will consider property tax increases to offset portion of cuts (if allowed).
- Health care cuts likely to reduce state funding for county social services.

PA Local (including schools) Taxes by Source, 2008



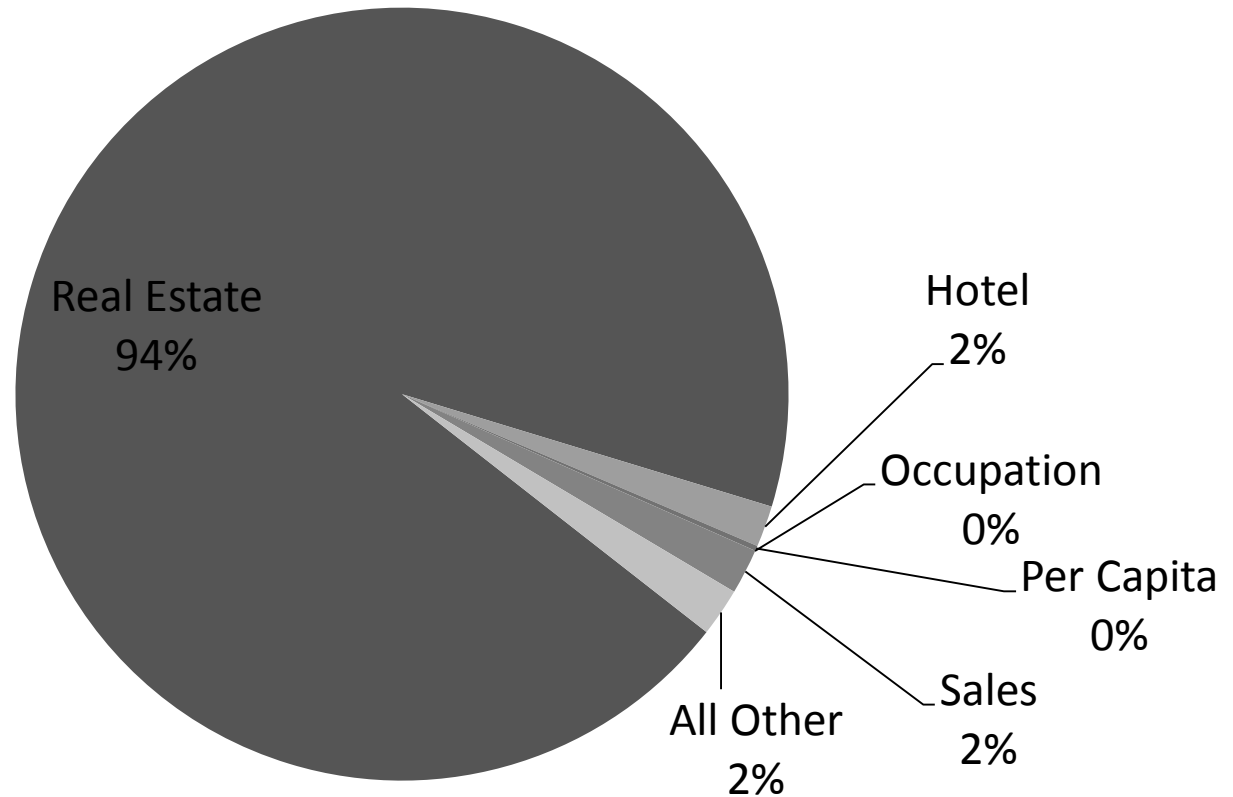
Municipal Tax Sources 2009*



* - Figures do not include Philadelphia or Pittsburgh

Pennsylvania Department of Community and Economic Development, Bureau of Municipal Statistics

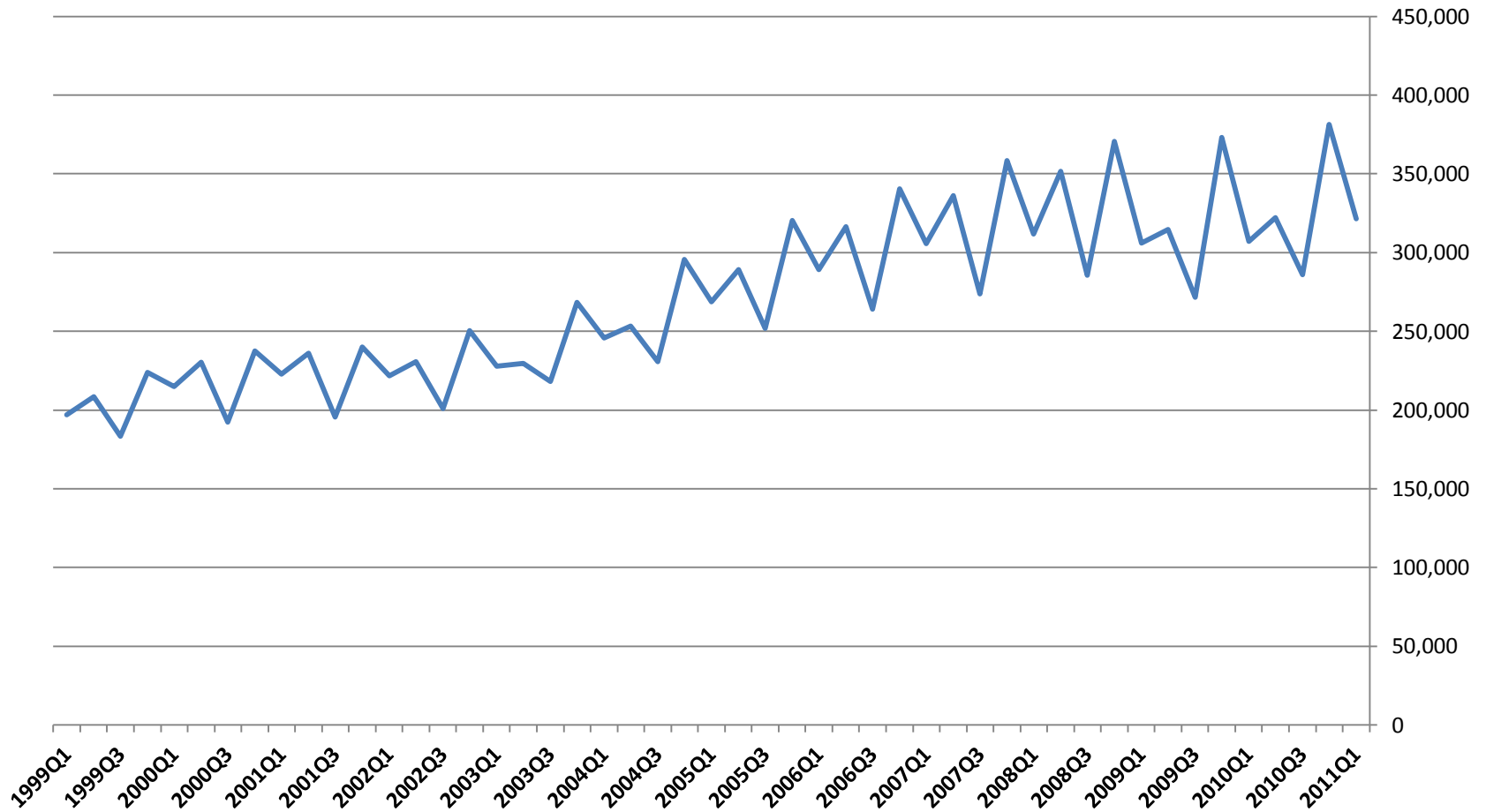
County Tax Sources 2009**



** - Data for eight counties missing

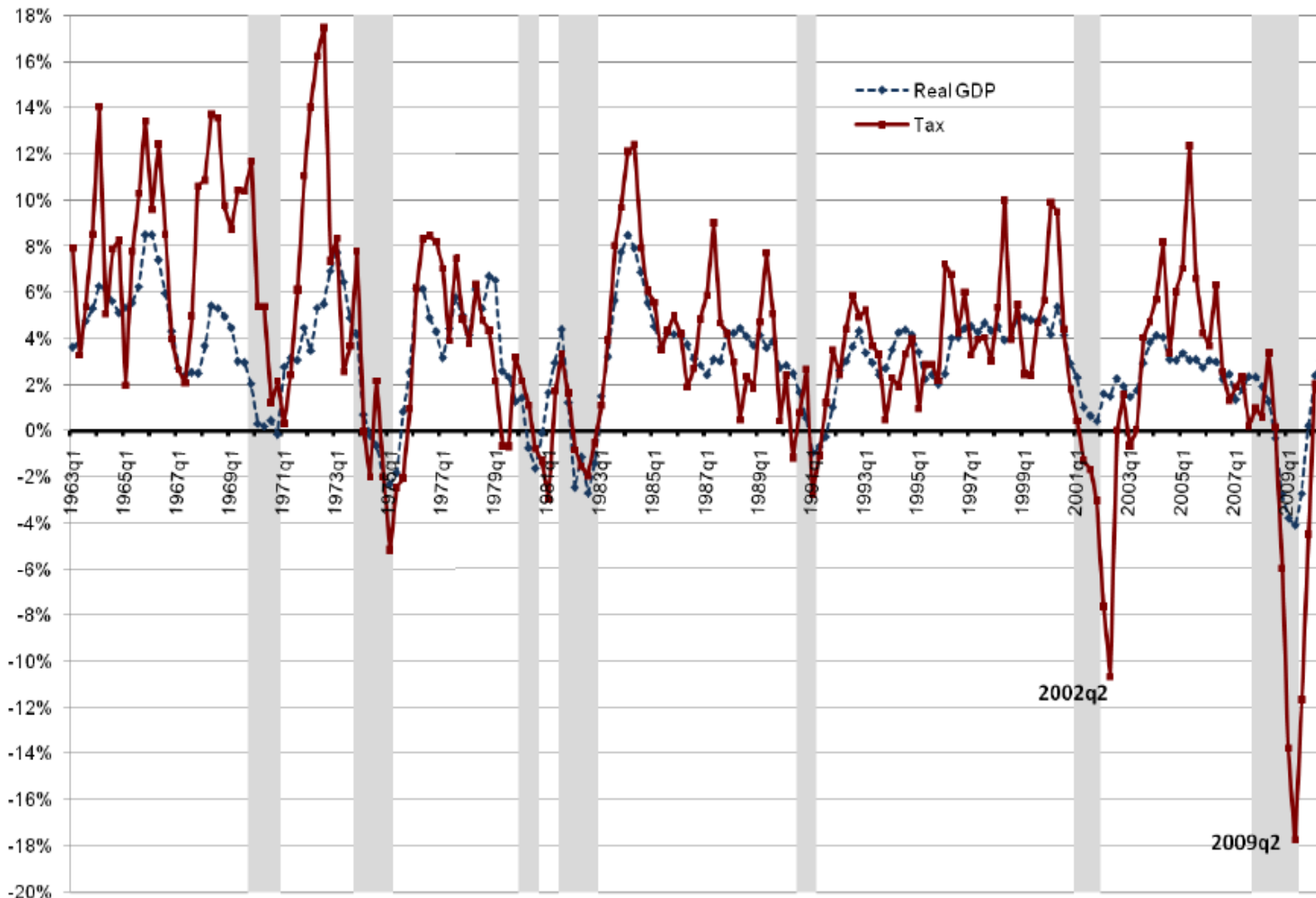
Pennsylvania Department of Community and Economic Development, Bureau of Municipal Statistics

State and Local Tax Revenues are Getting More Volatile



U.S. Census, Quarterly Summary of State and Local Tax Revenues, July 2011

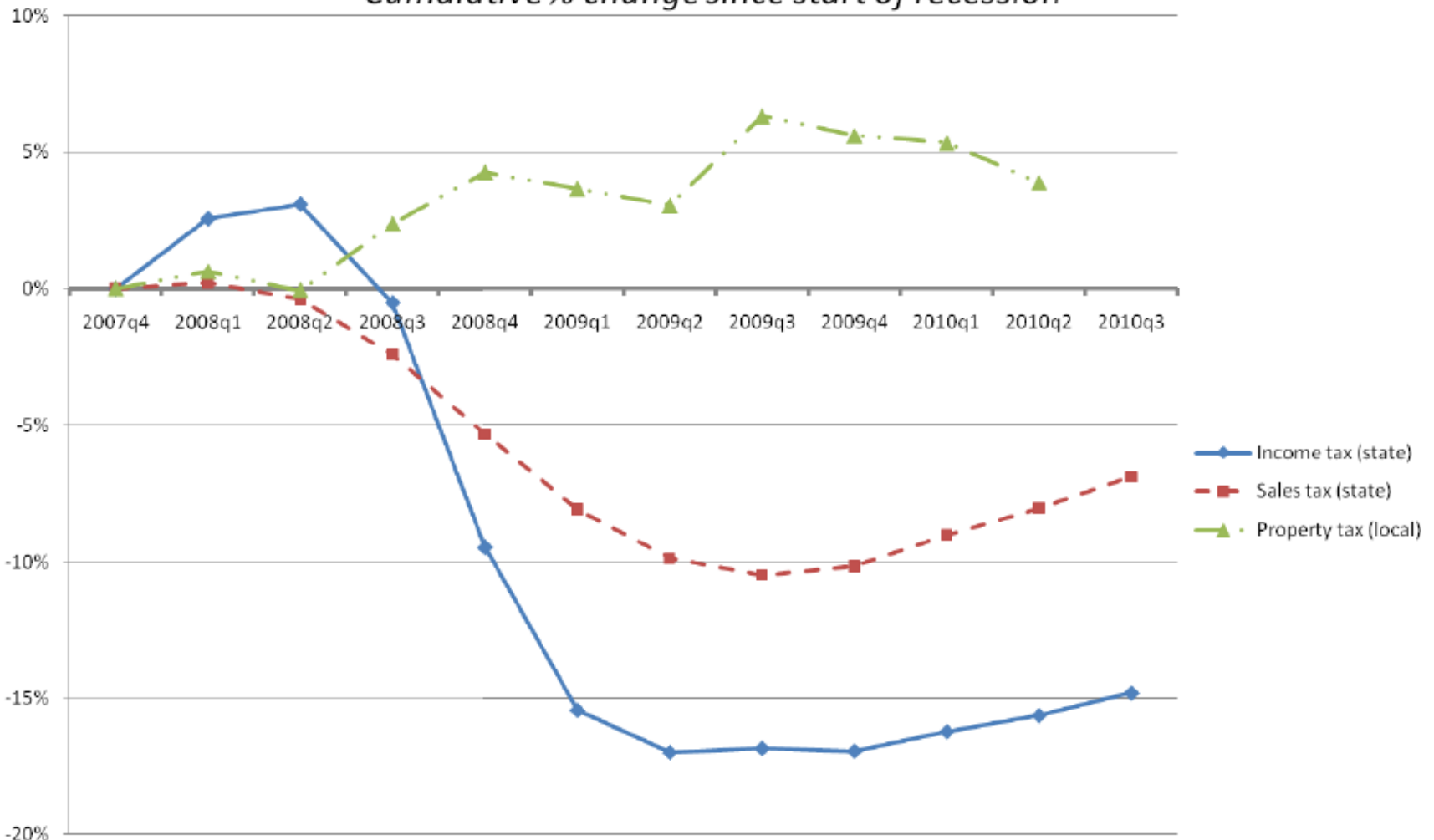
Real state government taxes and real GDP - % change vs. year ago -



Sources: Taxes: Census Bureau with Rockefeller Institute adjustment for 2010q2. Real GDP, and GDP price index: Bureau of Economic Analysis
Notes: (1) Tax revenue adjusted for inflation using GDP price index; (2) No legislative adjustments; (3) Recession periods are shaded.

Trends in tax revenue by source, adjusted for inflation

Cumulative % change since start of recession



Notes: (1) Tax revenue adjusted for inflation with GDP price index; (2) Property tax adjusted by Rockefeller Institute for Census Bureau change in survey methods; (3) Tax revenue smoothed using local regression; (4) No adjustments for legislative changes.

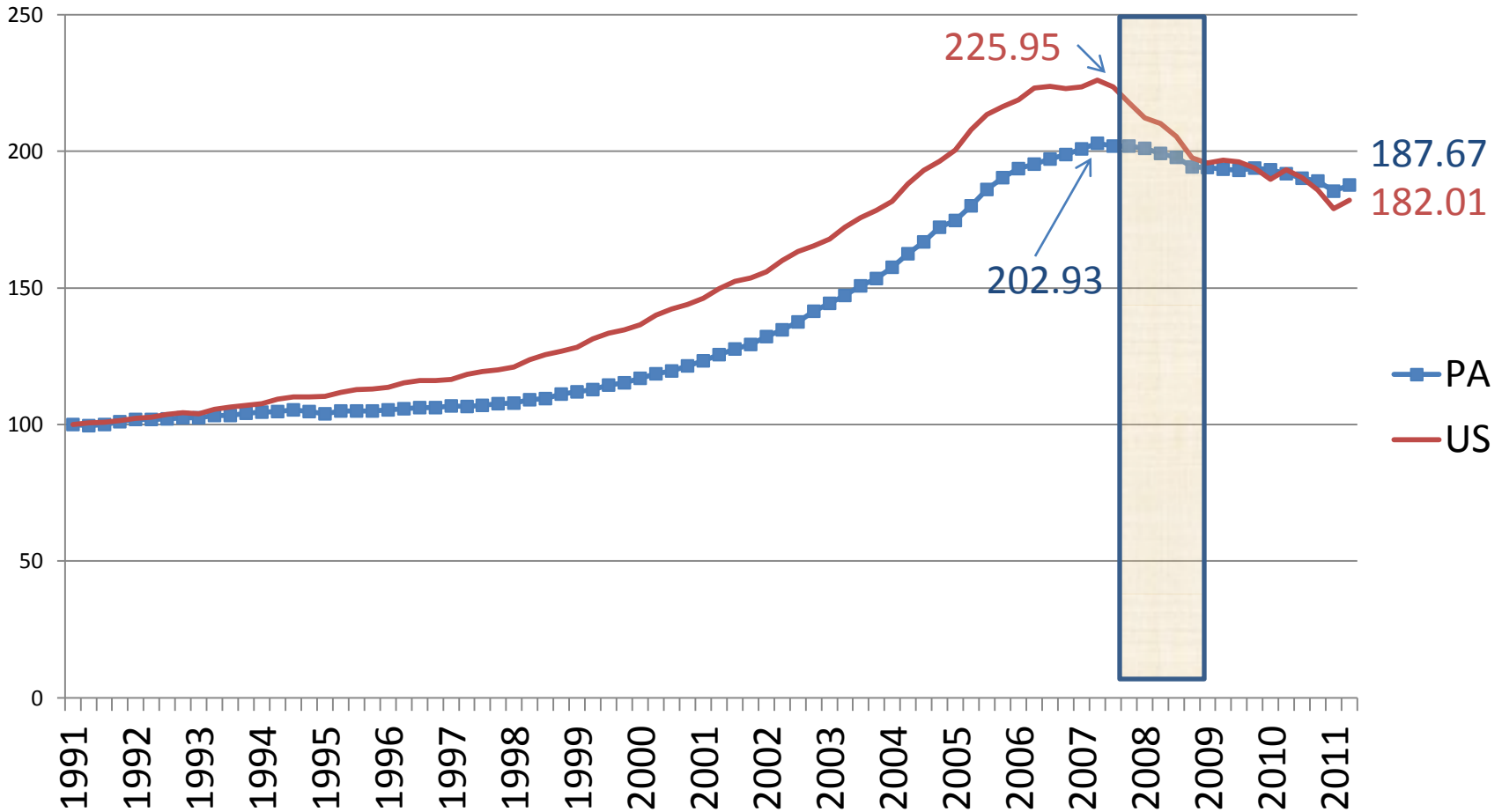
Sources: Tax data: Census Bureau for history; Rockefeller Institute 2010q3. GDP price index: Bureau of Economic Analysis

How bad was Recession in PA?

- Housing bubble
- Unemployment

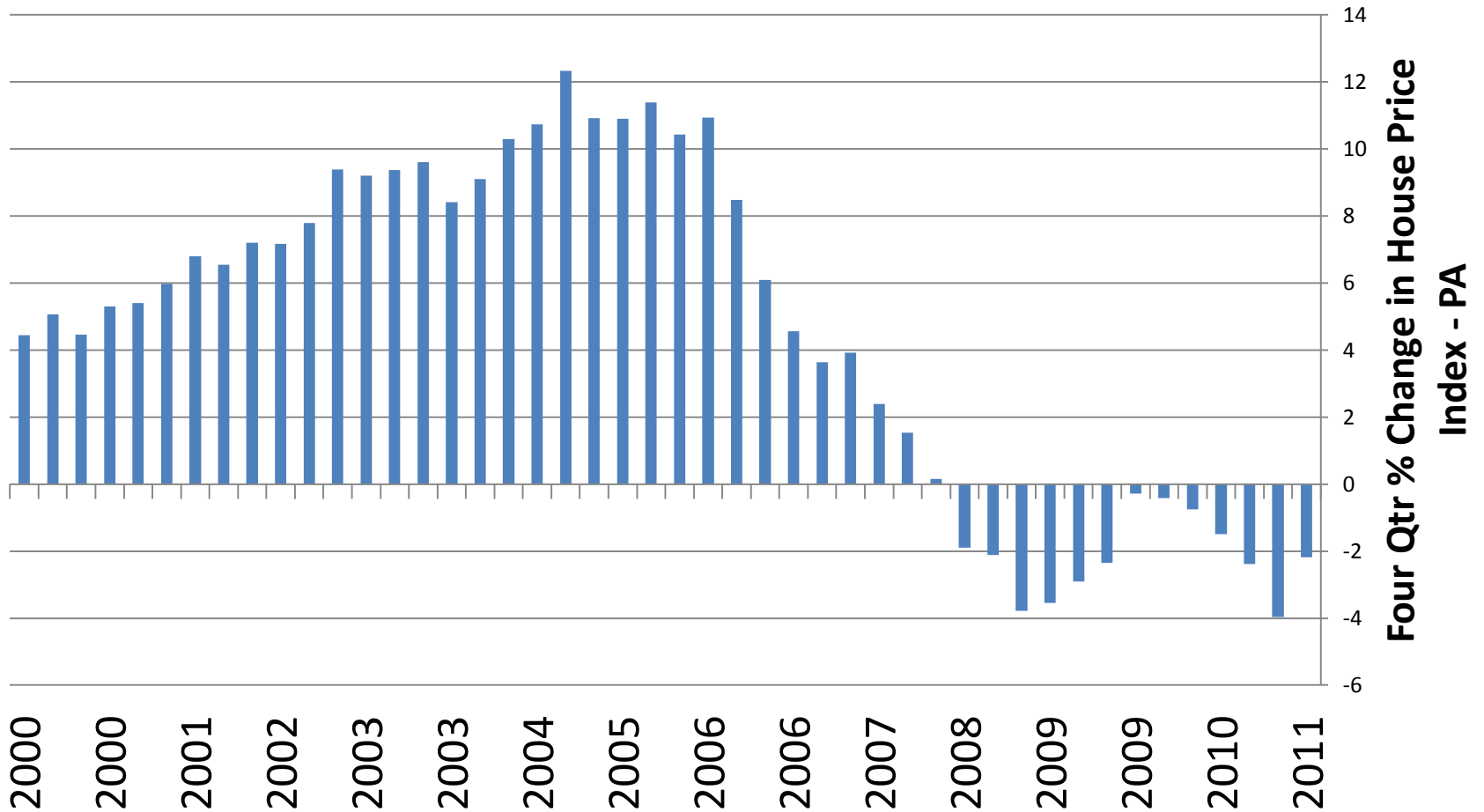
Not as severe in Pennsylvania as in other parts of the US

Housing bubble less severe in PA



Federal Housing Finance Agency, Purchase Only Index (seasonally adjusted)

PA House prices still falling

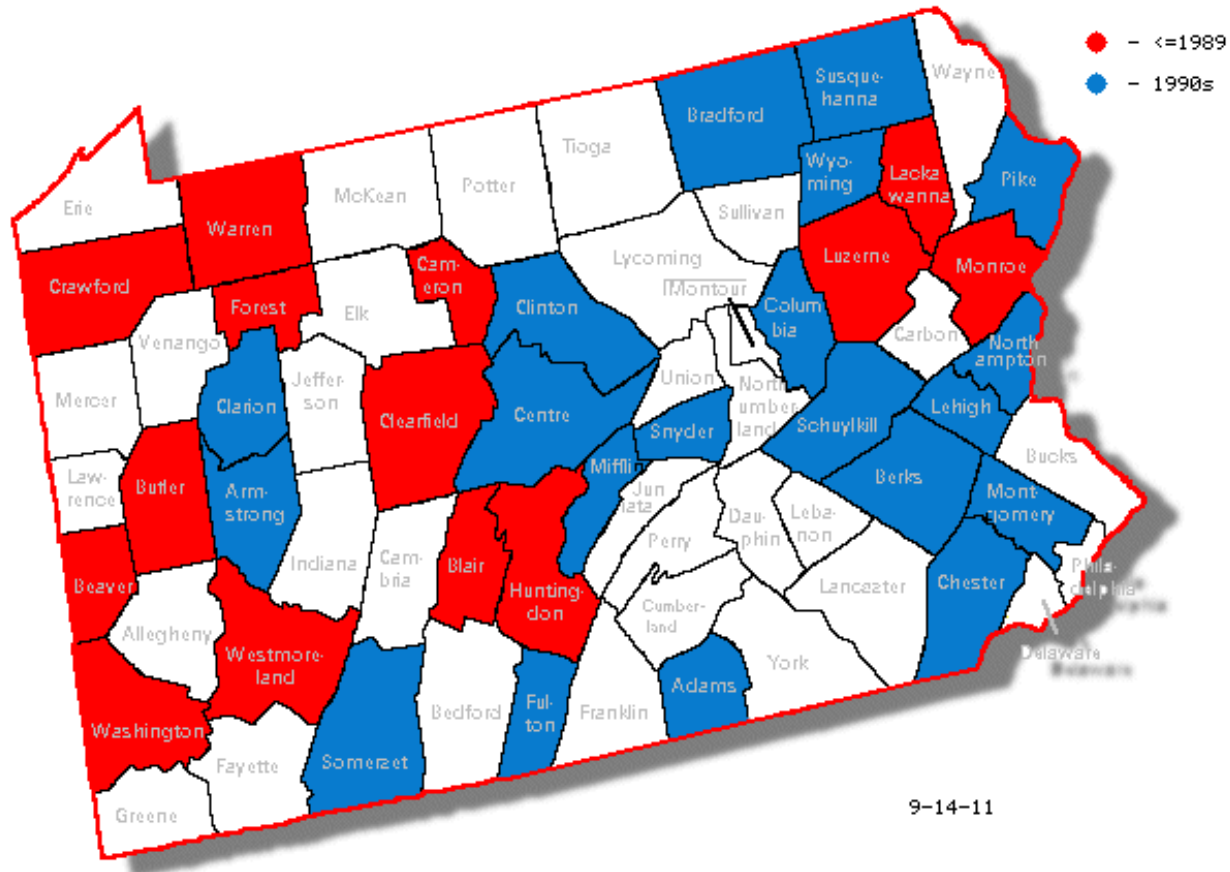


Federal Housing Finance Agency, Purchase Only Index (seasonally adjusted)

Property taxes

- Tends to be a lag between changes in property values and property tax collections. (Three years according to 2011 study by Lincoln Institute on Land Policy (Chernick, et al.))
- **Same study predicted inflation adjusted decline in property tax receipts of 3.2% between Fiscal year's 2008 and 2012 for 109 cities across the nation.**

Patchwork of Reassessments



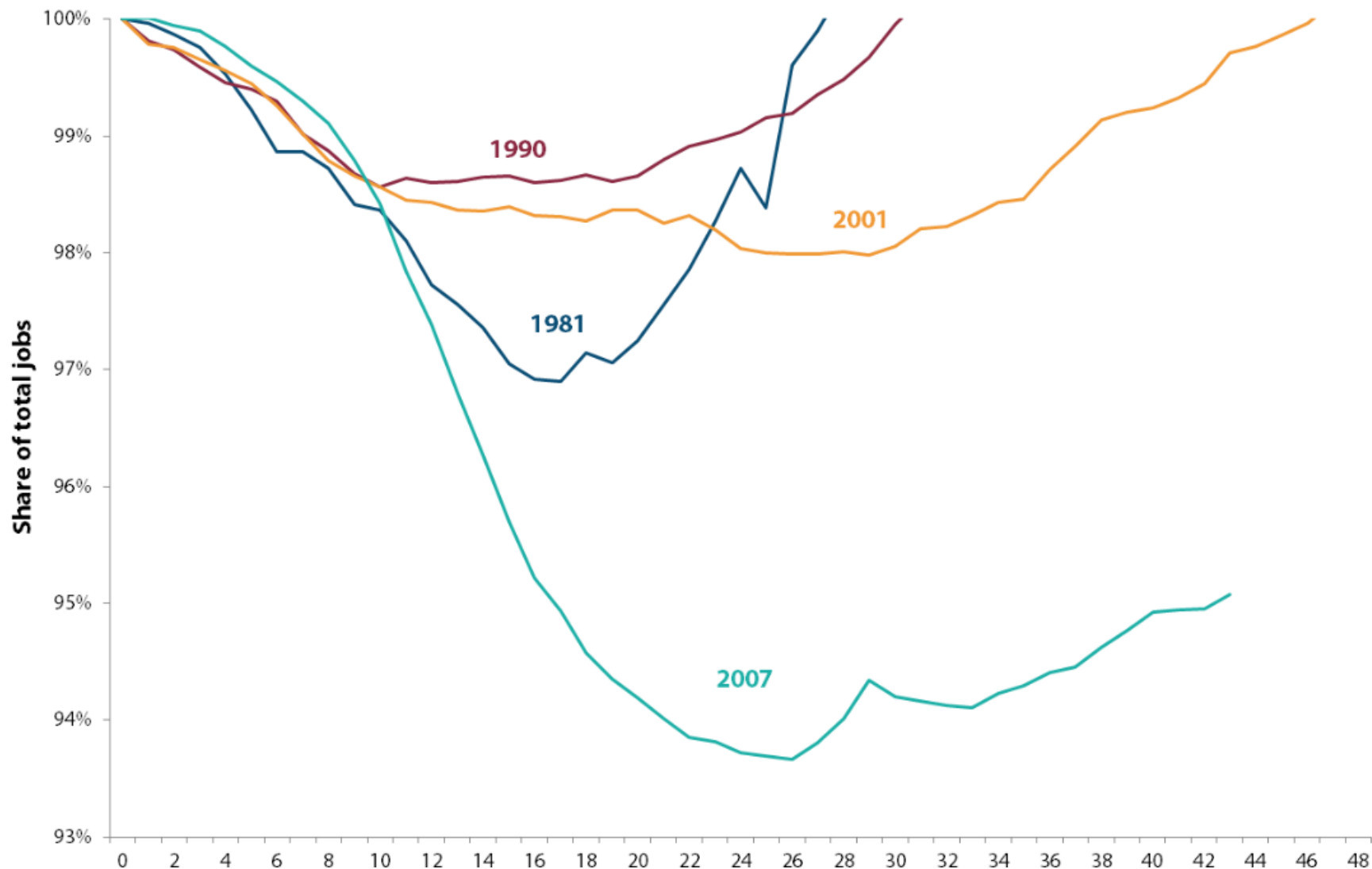
9-14-11

Reassessment dates from Pennsylvania State Tax Equalization Board (STEB)

What does this all mean for property tax collections?

- Without current reassessment values, not clear what the impact of falling house prices would have on property tax collections;
- Seems likely that areas with older assessments won't be as affected as those with more market-based values;
- Tax base likely to be slow to grow due to uncertainty in economy and overstock of properties, so won't see big increases as in the boom.

The Worst Recession: Indexed job losses in prior four recessions



Job growth since recession better in PA than in most neighboring states

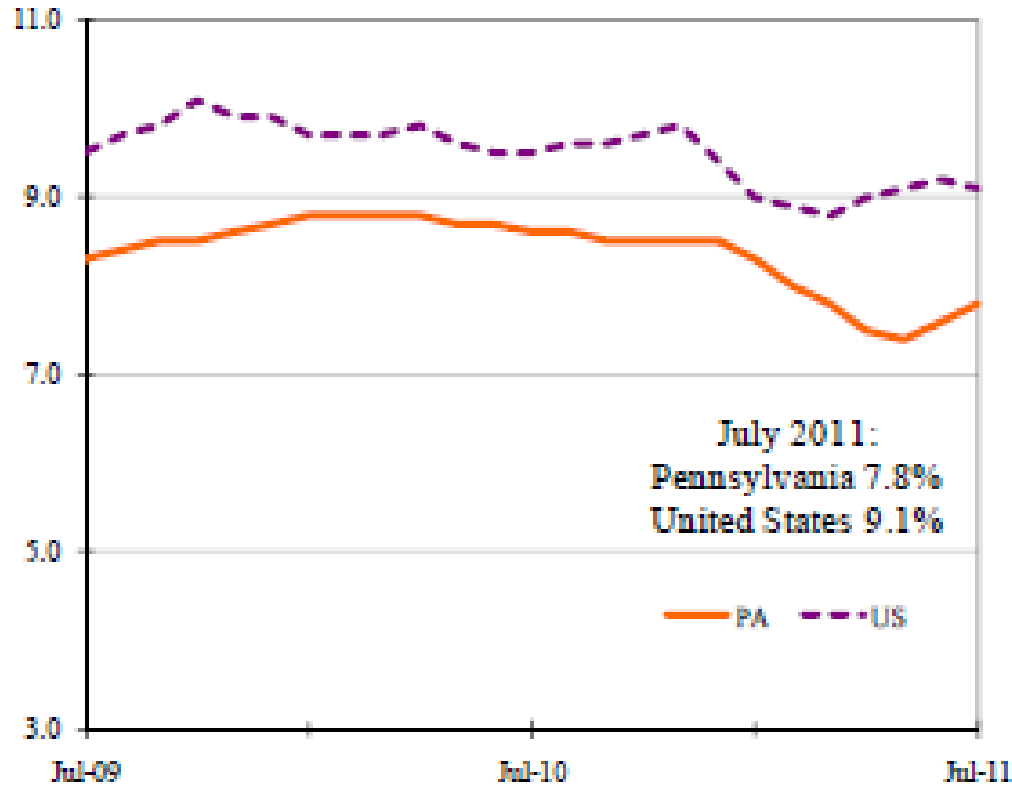
June 2009 to June 2011, Seasonally Adjusted

State	Employment (1000s)		Change	Rank of Change	Percent Change	Rank of Percent
	Jun-09	Jun-11				
Pennsylvania	5,600	5,677	77,200	4	1.4%	10
Ohio	5,051	5,106	54,700	6	1.1%	14
New York	8,532	8,623	90,900	2	1.1%	15
West Virginia	749	752	3,700	27	0.5%	26
Maryland	2,526	2,510	-16,000	43	-0.6%	39
New Jersey	3,891	3,864	-27,400	46	-0.7%	41
Delaware	416	412	-4,300	38	-1.0%	45

Source. Keystone Research Center analysis of Current Employment Statistics

Pennsylvania's unemployment rate has been consistently lower than the national average through recession

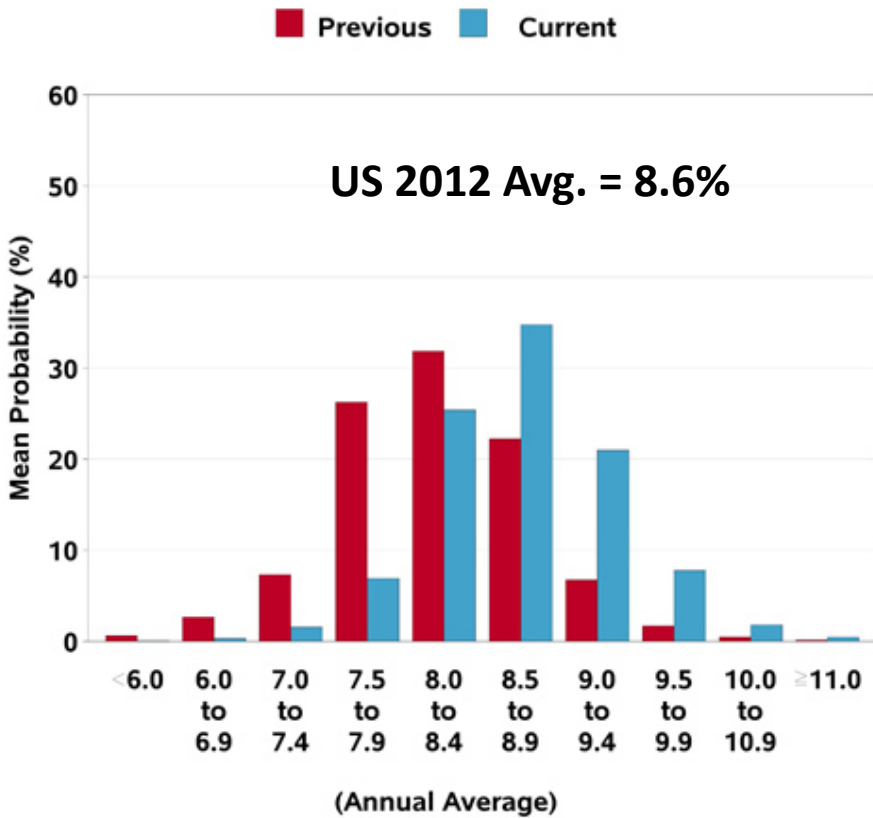
Unemployment Rate Chart



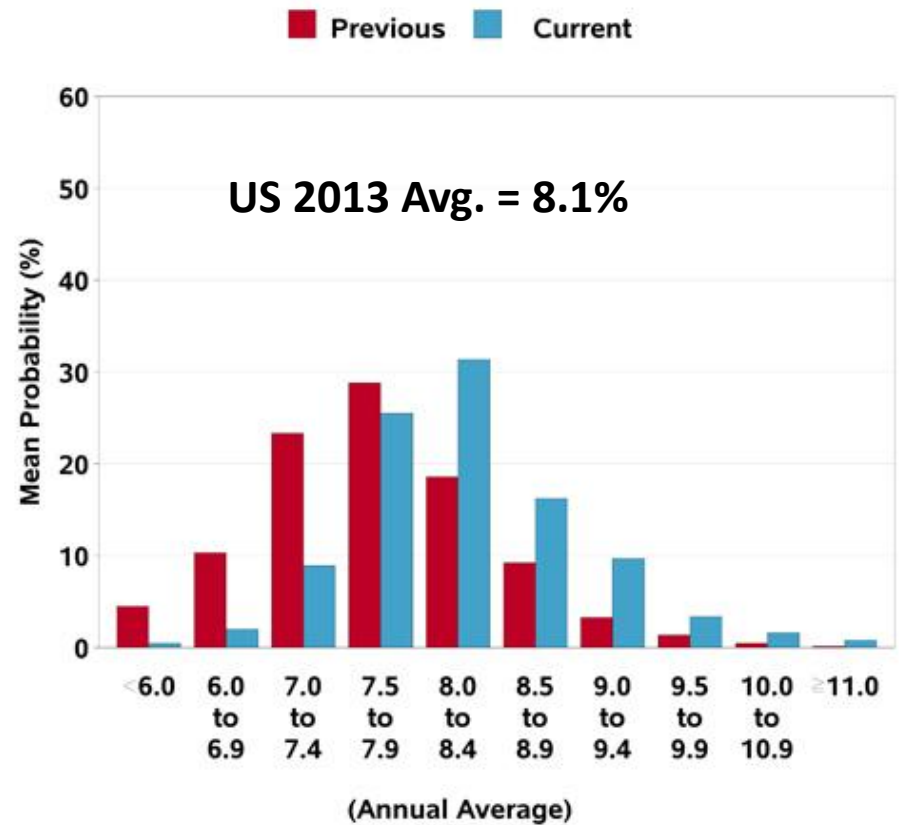
Pennsylvania Department of Labor and Industry, *Pennsylvania Fast Facts: August 2011 Edition*

Economists less hopeful on jobs

Mean Probabilities for Unemployment Rate in 2012



Mean Probabilities for Unemployment Rate in 2013



Federal Reserve Bank of Philadelphia – “Third Quarter 2011 Survey of Professional Forecasters,” Aug 2011

Global Insight projecting similar figures

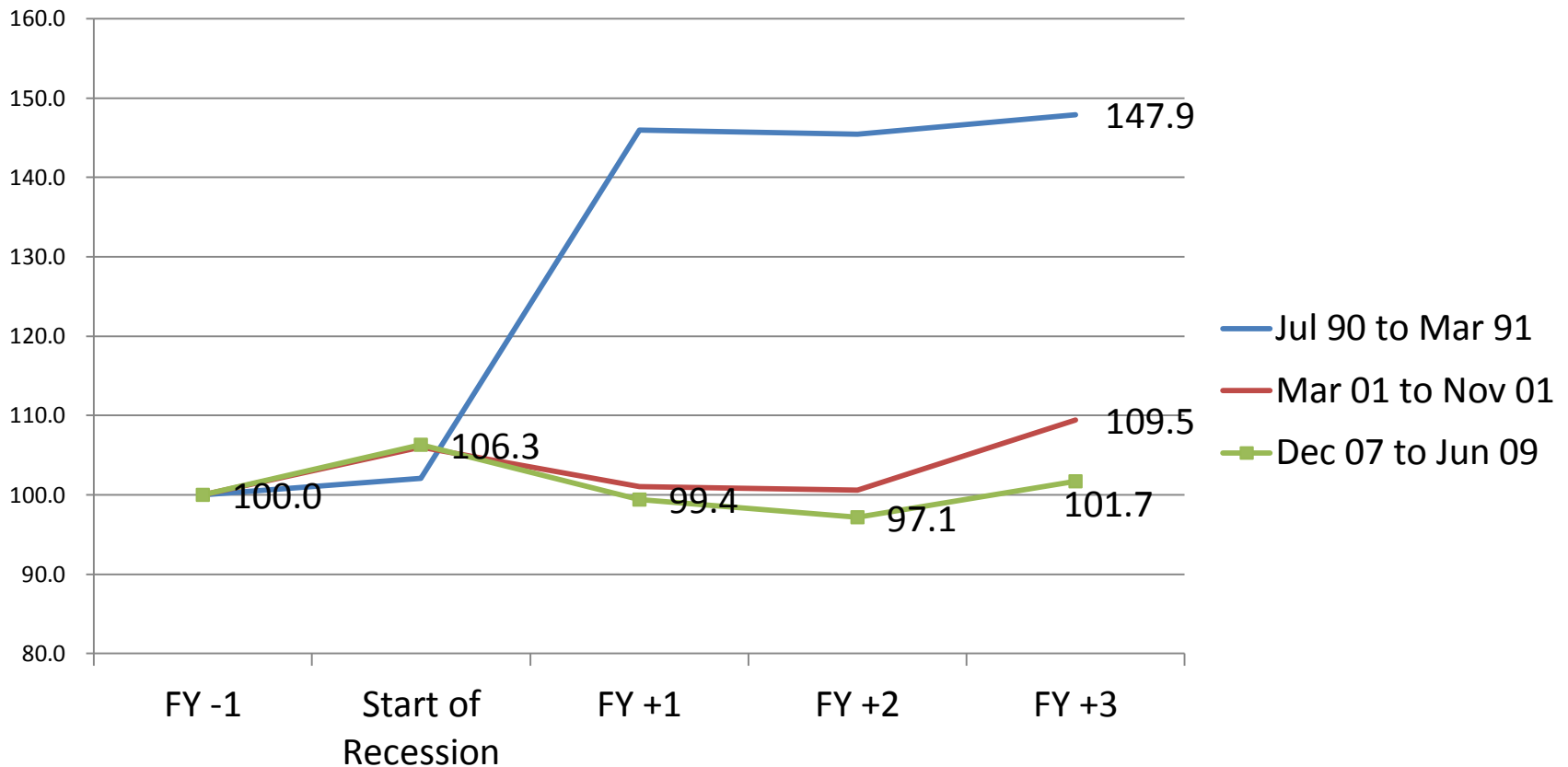
	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
PA	7.5%	7.4%	7.3%	7.3%	7.2%
US	9.2%	9.2%	9.1%	9.0%	9.0%

- Global Insight estimates PA unemployment rates will drop to pre-recession level of 4.5% (2007 Q4) in 12 years.
- US unemployment rates not forecasted to drop to pre-recession level of 5% in next 10 years.

As reported in August 2011 issue of PA Department of Labor & Industry's *Pennsylvania Fast Facts*.

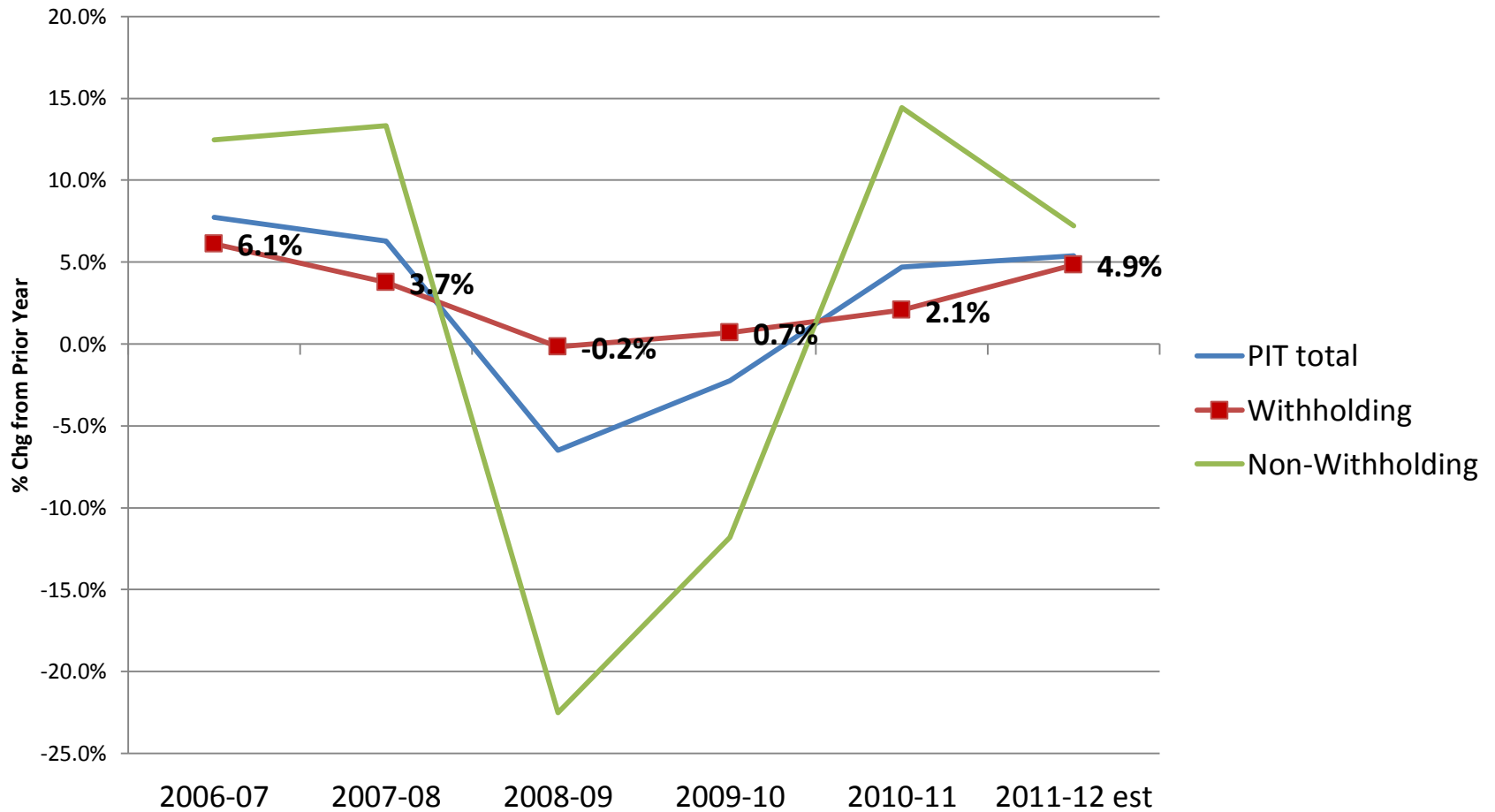
State income tax collections just getting back to pre-recession levels

Personal Income Tax indexed to FY prior to recession



Pennsylvania Budget and Policy Center calculations using PA Department of Revenue tax collections data

Modest Personal Income Tax growth projected for 2011-12



Pennsylvania Budget and Policy Center calculations using Pennsylvania Department of Revenue collections and projection data

What should we expect in the near term?

- Most local governments have “earned income” taxes, not personal income taxes as levied by the state, so wage growth (more similar to withheld tax collections at the state level) is most important measure.
- State projecting 4.9% increase in withheld income tax in 2011-12.
- Uncertain economy problematic.

On the Horizon

- Additional financial help from the state not likely;
- Limited toolbox for local governments in terms of taxes;
- May see mandate relief, but with strings;
- Marcellus Shale fee may help some communities, but unclear if it will offset costs;
- Federal assistance to curb job losses at local government level a possibility, but politics makes enactment difficult.

Thanks for your time!

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