ALLEGHENY INSTITUTE FOR PUBLIC POLICY

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The coronavirus' economic impact on Allegheny County's revenue

Summary: The economy of Allegheny County has been savaged by the coronavirus and the governor's business-closing orders. This *Policy Brief* provides an estimate of the county's lost revenue compared to budgeted amounts over the period mid-March through May.

News on the economy and employment has been dreadful over the last two months. The mandatory lockdowns and the designation of many sectors as non-essential have produced a massive surge in unemployment claims since the middle of March. As of May 11, cumulative new claims filed by Pennsylvanians since March 15 had rocketed past 1.8 million. And while the huge initial surge during the first three weeks of the lockdown has subsided somewhat, new claims are still averaging over 6,000-plus per day.

Even as the worst effects of the closing orders have ended and the restrictions are beginning to be lifted, the economic hit in the state and Allegheny County from mid-March through May is of a magnitude unlike any decline ever seen in such a short period. For April, the Pennsylvania Department of Revenue is reporting a 50-percent drop in general revenue compared to April 2019 with enormous declines in virtually every major revenue category.

At 1.8 million, unemployment claims represent 29 percent of the number of Pennsylvanians employed at the beginning of March. That does not necessarily translate to a 29 percent unemployment rate but it does suggest a very large double-digit rate in April with a further increase in May, despite the beginning of the governor's easing of the shutdown order.

By June the new claims should diminish further as people return to work, albeit slowly. Unfortunately, a secondary upward push could emerge as businesses faced with a long period of weak orders lay off workers. That unfortunate phenomenon has begun to appear in national reporting. Balance sheets and income statements for many companies are going to look weak for quite some time.

Nationally, April’s unemployment rate, as reported on May 8, stood at 14.7 percent with 22 million fewer people as working; 6.4 million had left the labor force and stopped looking for work. It is a possible portent of what will be seen in Pennsylvania’s April numbers when they are reported.

Note that Penn State University analysts examined the governor’s industry-closing rules to identify essential businesses percentages by county. Allegheny County’s share of businesses that are classified as essential was placed at 49.7 percent. Employment shares tend to be somewhat higher than the businesses’ share. Then, too, there are businesses identified as able to receive exceptions. Allegheny County likely has a higher percentage of health- and education-related jobs than the state as a whole that are deemed essential, although social assistance, elective surgery and elective dental were not deemed essential.

Many “nonessential businesses” had people working from home. Fast-food restaurants and carryout business at full-service restaurants managed to keep workers on the payroll. But with half of retail shut down, including the large automotive dealer component, sales tax revenue has been hard hit.

Then, too, virtually all entertainment, recreation and accommodation activity has stopped. Much of the manufacturing sector was closed down as well. Air transportation is a mere trickle compared to year ago levels with its attendant impact on related services. Near-empty parking lots in downtown Pittsburgh on workdays and a large decline in public transit use are stark indications of how the virus closing orders have affected the region, particularly Allegheny County.

The following analysis provides an estimate of the impacts of the economic slowdown on Allegheny County revenues in the 11-week period from mid-March through May. This will be followed by thoughts on how the economy and revenues will fare in the next few months.

Allegheny County’s 2020 operating budget revenue is $950.1 million based on the controller’s OpenGov database. This does not include tax refunds or payments in lieu of taxes. Property taxes, budgeted to raise $382.4 million, represent 40 percent of the operating budget’s total revenue. In response to the coronavirus, the county extended the discount and gross due dates for 2020 property taxes.

The county receives 25 percent of the 1 percent Regional Asset District (RAD) piggyback sales tax, budgeted at $52.9 million this year. The RAD receives 50 percent for distribution to regional assets. Municipalities receive 25 percent. RAD’s collections for March were down $2.12 million compared to last March. Its monthly budget report noted “RAD expects revenue to continue to decline in the coming months, due to the COVID-19 shutdown,” a forecast that will affect the other half of the distribution.

The county had expected to receive $6.3 million from the hotel tax for collecting the tax and for county spending once all required distributions of the tax have been made. The 7 percent tax pays for debt on the convention center, tourism promotion activities and operations at the convention center. It was projected to bring in $36.8 billion in 2020, an amount that will certainly decline with the decrease in travel and tourism.

The levies on alcohol and vehicle rentals provide the local match for state revenue for the Port Authority. In 2020, the 7 percent alcohol tax is budgeted to raise $45.1 million; the $2 per daily vehicle-rental tax, $7.8 million. With restaurants and bars closed, offering only limited delivery and takeout, the alcohol tax will be affected. A decrease to travel and home sales likely is affecting the rental of passenger cars and moving vehicles. In recent years, the county fund that holds the revenues for these taxes ran a surplus. That might have to be utilized this year.

Beyond those major taxes the county had budgeted revenues to include $3.5 million in license and permit revenue; $162 million from charges for services and facilities; $54.6 million in federal revenue and $183.6 million in state revenue.

The county was scheduled to receive a 2 percent share of gross terminal revenues from the Rivers Casino. The casino is closed, which will affect the county's share, budgeted at $5.9 million.

Much the same as the Institute's estimate for the City of Pittsburgh (*Policy Brief Vol. 20, No. 14*), a revenue shortfall for the county based on 2020 budgeted revenues has been estimated. This estimate covers the 11-week period from March 15 to May 31. Our forecast shows the percentage of the budget amount for the period that would be collected, and the difference from the budgeted amount (*see table below for details*).

In most years the county has over 90 percent of the property tax revenue in its coffers by the end of May. If 2020 were typical, that would mean $361.2 million of the budgeted $382.4 million would be collected by the end of this month. However, due to the economy and the adjustment to the collection period, we estimate that 80 percent of this typical amount—or $289.4 million—will be collected by the end of May. The shortfall between these amounts results in an estimated shortfall of $71.8 million.

Other major taxes have a lag between the period in which they are incurred and when they are remitted to the county. For example, sales and use taxes reported for a respective month are based on sales from two months prior; taxes on alcohol, vehicle rentals and hotel stays are for one month prior. So, it is quite possible that the true impact of the economic slowdown for April and May will not be seen in the revenue collections until June or July.

For non-property tax revenues, the Institute estimates the percentage collection for revenues could range from 0 to 100 percent. In total, revenues are forecast to fall $64.6 million short of the $120.1 million expected amount. Hotel tax collections, the gaming host fee and miscellaneous revenue could be considered total losses during this time frame.

Moreover, this 11 week shortfall of $136.5 million in revenues amounts to 14 percent of 2020's budgeted revenues.

Like the City of Pittsburgh, Allegheny County's Home Rule Charter requires adopted operating and capital budgets to be balanced and amendments after adoption to maintain balance. Unlike the city, Allegheny County, due to its population exceeding 500,000, will receive federal money from the CARES Act for expenditures related to the coronavirus. Exactly how much of this money the county will receive and when are not yet known.

Beyond May, the effect of the coronavirus on county revenues, including non-taxes that the county collects for park shelters, swimming pools, golf, etc., will still be felt. There is money from the state and from RAD for county parks that could be affected as those revenue streams decline. The county may not see much from the hotel tax once the mandated distributions from the tax are made and all recipients of the 1 percent sales tax may see reductions.

Even as the governor's restrictions on the economy are gradually lifted, it could be several weeks or even months before the economy returns to its pre-virus level. Therefore, the county's revenues will likely remain below its budgeted levels for some time to come. At the same time, however, it is likely that the shortfalls in percentage terms will not be as large as those that occurred in the March through May period.

The county did not increase property taxes for 2020. With the exception of the alcoholic beverage tax, other tax rates are at state-prescribed maximums and cannot increase without action by the General Assembly.

It may be prudent at this point to consider furloughs of non-essential personnel. In addition, it might be necessary to tap into any fund balances that are available to meet expenditures, especially if the revenue shortfalls continue for several more months.

Allegheny Institute Estimate of County Revenue

Tax/Non-Tax	2020 budget	March 15 to May 31 collection based on previous performance, YTD	March 15 to May 31 institute Projected Revenue, YTD			Estimated Shortfall from Expected
Property	$382,420,360	$361,259,063	$289,364,025			$71,895,038
Tax/Non-Tax	**2020 budget**	**Average Weekly Budgeted Revenue**	**Expected Revenue March 15 to May 31**	**Institute Estimated % that Could be Collected**	**Institute Estimated Collection**	**Estimated Shortfall from Expected**
Sales and Use	$52,980,000	$1,018,846	$11,207,308	30	$3,362,192	$7,845,115
Vehicle Rental	$7,757,100	$149,175	$1,640,925	10	$164,093	$1,476,833
Alcoholic Beverage	$45,057,000	$866,481	$9,531,288	5	$476,564	$9,054,724
Hotel/Motel	$6,299,750	$121,149	$1,332,639	0	$0	$1,332,639
Gaming Host Fee	$5,900,000	$113,462	$1,248,077	0	$0	$1,248,077
Licenses and Permits	$3,542,118	$68,118	$749,294	50	$374,647	$374,647
Fines and Forfeitures	$4,105,500	$78,952	$868,471	20	$173,694	$694,777
Interest	$4,339,202	$83,446	$917,908	100	$917,908	$0
Miscellaneous	$5,743,798	$110,458	$1,215,034	0	$0	$1,215,034
Local Govt. Revenue	$22,073,780	$424,496	$4,669,453	30	$1,400,836	$3,268,617
Charges for Serv/Fac	$162,661,553	$3,128,107	$34,409,175	50	$17,204,587	$17,204,587
Federal Revenue	$54,657,068	$1,051,097	$11,562,072	60	$6,937,243	$4,624,829
State Revenue	$183,637,076	$3,531,482	$38,846,305	60	$23,307,783	$15,538,522
Other Financing/Bond	$8,948,230	$172,081	$1,892,895	60	$1,135,737	$757,158
Sub-Total	*$567,702,175*	*$10,917,350*	*$120,090,845*		*$55,455,285*	*$64,635,560*
Total	$950,122,535		$409,454,870			$136,530,598

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