Could Work From Home Have Significant Fiscal Implications for Local Government?

Presentation to NCSL Roundtable on Evaluating Economic Development Tax Incentives
Denver, CO
October 24, 2023
Today’s Presentation

How to prepare for a Zoom meeting

- WFH prevalence.
- Indicators of WFH.
- Fiscal impacts of WFH.
- Economic impacts of WFH.
Projections of WFH Prevalence

  • Classify WFH feasibility based on work activities of occupations.
  • ~31% - 43% of U.S. workers can work remotely at least part-time without loss of productivity.

• WFH prevalence depends on type of occupation or industry.
  • Impact on cities depends on industry mix.
  • Could have significant distributional or equity implications.
Why WFH Will Persist

• Barrero, et al. (2021)
• Reasons
  • Better-than-expected WFH experiences during the pandemic.
  • New investments in physical and human capital to enable WFH.
  • Greatly diminished stigma associated with WFH.
  • Pandemic-driven surge in technological innovations supporting WFH.
WFH Survey Findings

Work Locations for Remote-Capable Jobs
Over half of remote-capable employees expect and prefer hybrid work.

Number of Days Worked On-Site by Hybrid Employees
The number of days worked on-site largely varies.

% Selected

GALLUP
Indirect Indicators of WFH

<table>
<thead>
<tr>
<th>Downtown Cell Phone Usage</th>
<th>Downtown Office Vacancy Rates</th>
<th>Public Transit Ridership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Down</strong></td>
<td><strong>Up</strong></td>
<td><strong>Down</strong></td>
</tr>
<tr>
<td>Still below pre-pandemic levels. Apr/Jun 2019-2023 comparison shows usage at 75% of pre-pandemic levels for 55 major U.S. cities</td>
<td>Still higher than pre-pandemic levels. Vacancy growth in downtowns and suburbs; still lower vacancy rates in suburbs. Leasing activity low; subleasing activity high.</td>
<td>Still 30% below pre-pandemic levels as of May 2023. Stronger recovery in bus vs. rail ridership.</td>
</tr>
</tbody>
</table>
Local Fiscal/Economic Implications

Property Tax

• Tax base decline or slower growth
  • Dependent on industry mix
  • Commercial office center vacancies & price mark downs
  • Retail declines & price mark downs

• Tax burden shifts
  • Shift from commercial office to other property classes

• Nominal tax rate increases
  • Impact on economic development
  • Impact on distribution of tax burden

• Other
  • TIF impacts
  • Conversions
Local Fiscal/Economic Implications

Sales Tax

- Commuter spending
  - Decline in spending and tax revenue
  - Net impact of fewer commuters out
- Suburban impact
  - Suburbs lose commuters in
  - Changing consumer behavior
- Burden shifts
  - Shift from suburban commuters to city residents
- Tax rate increases
  - Does base mobility increase?
Local Fiscal/Economic Implications

Income Tax

• Dependent on community’s industry mix
• Source-based vs. residence-based tax
  • Source-based may be a bigger issue
  • Simple change work location – office to home
  • Change in residential location from city to suburb or exurb.
• Smaller community impact
  • Large employer, smaller community, source-based tax
Local Fiscal/Economic Implications

Transit Fares

- Service reductions
  - Demand impacts
- Fare increases
  - Demand impacts
- Other revenue sources
  - Regional taxes
  - State funding
Thank You.

Jim Landers, PhD
Associate Professor of Practice in Public Affairs
Enarson Fellow
Director of Graduate/Professional Studies
landers.1@osu.edu
614-292-2158
References


References


References


Fiscal and Economic Impacts of Remote Work and Incentives

ELLEN HARPEL

ROUNDTABLE ON EVALUATING ECONOMIC DEVELOPMENT TAX INCENTIVES

DENVER, CO
OCTOBER 2023
Rise of incentive programs to attract remote workers
Studies found largely positive impacts in Tulsa and Vermont

Remote worker incentive programs have been effective in attracting new people and generating economic gains.

Long-term effects are still to be determined, but early signs are positive:
- 74% of Vermont remote worker grant survey respondents own their own residence
- Retention rates were 87.5% in Tulsa and 97% in Vermont

Analyses indicate that worker-focused incentive programs provide a strong return on investment:
- Outsized economic impact stems from the highly-educated, high earning nature of remote workers
- Relatively low cost of most remote worker incentives
Additional economic issues arise beyond program impact

Remote work has different effects on people, businesses and places

- Significant direct benefits for remote workers and their families
  - But primarily for more experienced, college educated workers
  - Individual characteristics rather than regional characteristics are the best predictors of remote work*
- Net effect for businesses is not yet clear because of countervailing implications for innovation and productivity
- Central business districts face challenges as work disperses

Remote work incentives are most effective when part of a more comprehensive strategy

- Housing, childcare, recreational and cultural amenities, broadband
- Welcoming attitude and creating meaningful community connections

* New Geography of Remote Work, OECD
The landscape of remote worker incentives is changing

Appears to be slowing growth and churn in incentive programs for remote workers

- Same number of communities offering remote work incentives in 2023 as in 2021*
- Some of the early programs – Vermont, Savannah, Hawaii, NW Arkansas – are no longer active
- Others such as Tulsa, West Virginia, Topeka, Paducah, Shoals (AL) are still running their programs

Cities have begun offering incentives to lure businesses and workers back to the office

* makemymove.com and Stateline 2021
A group from the Great Lakes Metro Chambers Coalition recently met with elected officials in Washington, D.C., lobbying for incentives for businesses that make commitments to U.S. downtowns. (WSJ 10/2/23)
Issues for Evaluations

1. Is the program connected to an economic development strategy?
2. Does the evaluation need to consider effects for different geographies?
3. How can point-in-time evaluations incorporate broader economic or policy implications?
   ◦ How to evaluate incentives that are meant to address an ongoing, changing economic challenge? (remote work, housing, workforce development)
   ◦ How to evaluate incentives that function best as part of broader system? (individual relocations, entrepreneurship)
Connect

Ellen Harpel
Founder, Smart Incentives
571/212.3397

ellen@smartincentives.org
http://www.smartincentives.org/
https://www.linkedin.com/in/ellenharpel/