

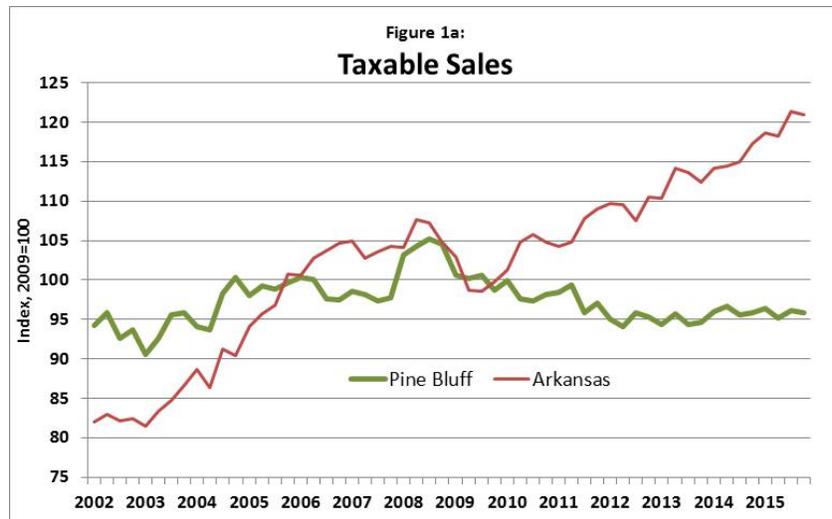


Some Considerations Regarding the Pine Bluff Tax Base

Like most municipalities in Arkansas, the City of Pine Bluff derives a large share of its revenue from local sales tax receipts (65%), with other contributions from Franchise taxes (11%) and Property Taxes (8%). The remaining revenue is derived state turnback (6%), and from other miscellaneous fees and taxes.¹ The most significant proximate determinant of the city’s tax base is therefore the volume of taxable sales that takes place within the city. Because a portion of the sales tax revenues received by the city represent a share of Jefferson County sales tax receipts, the taxable sales base of the county matters as well.

Taxable Sales:

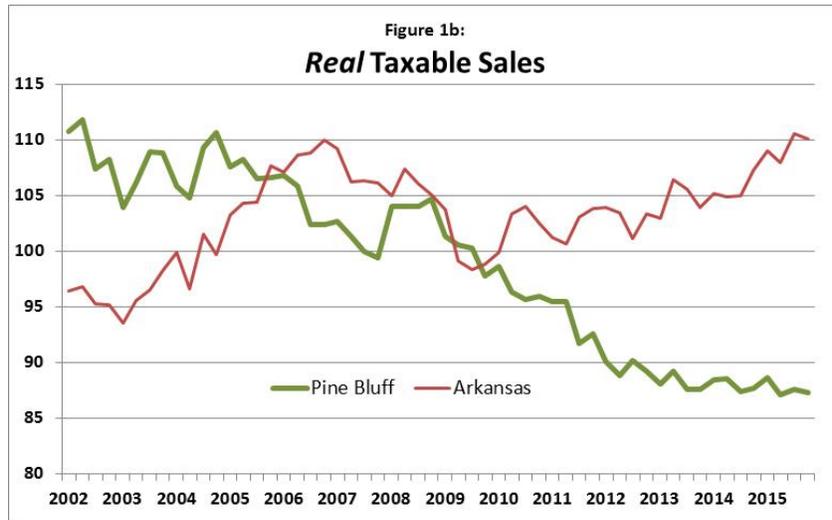
Quarterly data on taxable sales for the City of Pine Bluff are illustrated in Figure 1a (with statewide taxable sales shown for comparison).² Over the period examined, taxable sales for Pine Bluff clearly follow a slower growth path than the statewide aggregate. From 2002:Q1 through 2008:Q4, taxable sales expanded by 10.9%, compared to 27.8% for the state of Arkansas (a portion of the increase represents an explicit expansion of the state’s sales tax base implemented in 2008). From 2009:Q1 through the end of 2015, Pine Bluff taxable sales *declined* by 4.6% while statewide taxable sales rose 17.5%. As a result, taxable sales in the City of Pine Bluff rose, on net, only 1.7% over the 14 year sample. Statewide taxable sales rose 47.4% over the same period.



¹ Source: City of Pine Bluff 2015 budget.

² Source: Arkansas Department of Finance and Administration. Taxable sales are derived from information on sales tax receipts and tax rates. After adjusting the receipts for changes in tax rates, the data are seasonally adjusted to remove recurring periodic components.

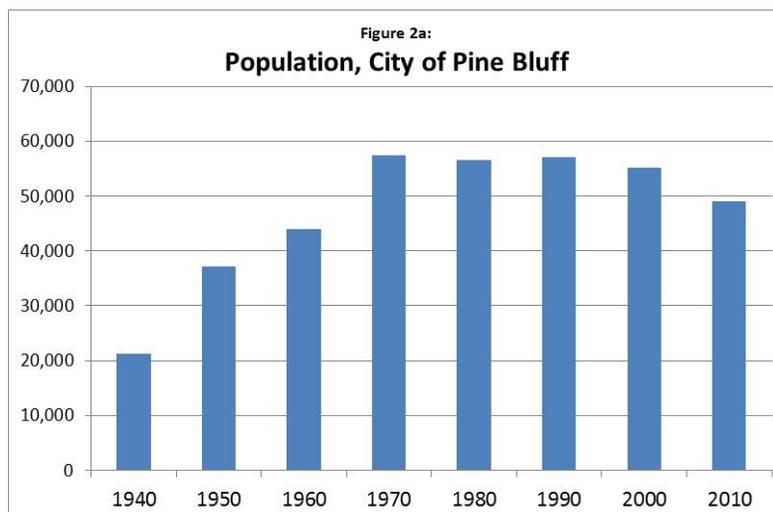
The trends shown in Figure 1a represent total dollar amounts, so the increases shown over time overstate the purchasing power of implied tax revenues for one important reason: inflation. Over the 14 year period, prices rose by a total of 29.1%, reducing the real value of the dollar-denominated tax revenues. Figure 1b illustrates inflation adjusted “real” taxable sales. When it comes to resources available to pay for the cost of maintaining city services, it is this real inflation-adjusted measure that is relevant.



After adjustment for inflation, the real value of tax revenue has taken a long time to recover to pre-recession levels in the statewide data—but it has recovered. In contrast, real taxable sales in Pine Bluff have followed a negative growth trend. From 2002 through 2015, Arkansas real taxable sales increased by 14.2% (an average annual growth rate of +1.0%). Meanwhile, real taxable sales in Pine Bluff *declined* by 21.1% (an average annual growth rate of -1.7%).

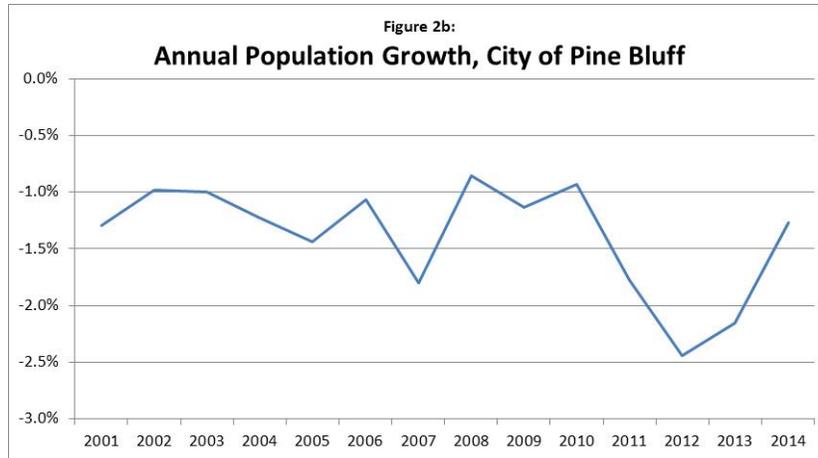
Population:

The deterioration in the sales tax base of Pine Bluff is associated with a general decline in economic activity. One clear measure of a long-term downward trend in Pine Bluff’s economic is population growth. Population can be both an indicator and a cause of long-term economic contraction. Absence of economic opportunity can drive residents to seek employment opportunities elsewhere; and the contraction in population base detracts from economic activity and reduces both job availability and the tax base to fund municipal services—making the city a less attractive place to live. Figure 2a shows the longer-term patterns in population growth for the City of Pine Bluff.³

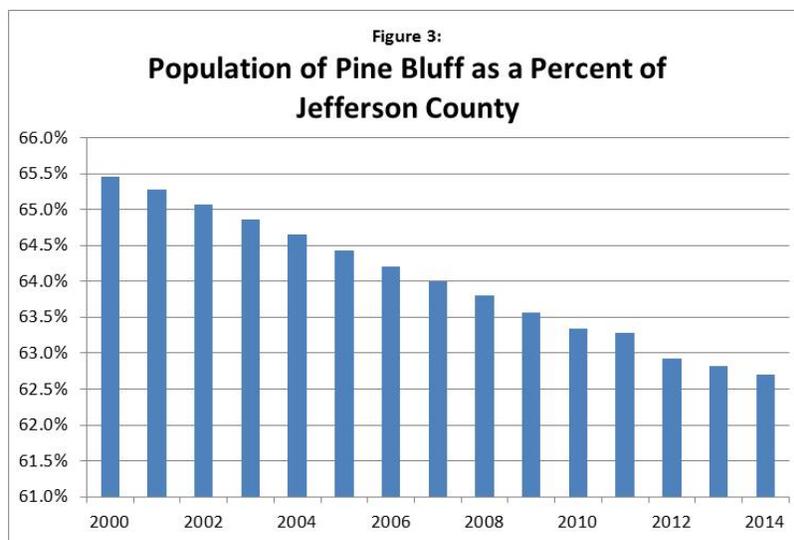


³ Source: U.S. Census Bureau.

The population has been declining since at least the 1990 Census. From 1990 to 2010, the city’s population fell from 57,100 to 49,083, representing a 14% contraction. Figure 2b shows that the annual population growth rate since 2001 has been consistently negative, averaging -1.4% per year, with 2012 and 2013 being



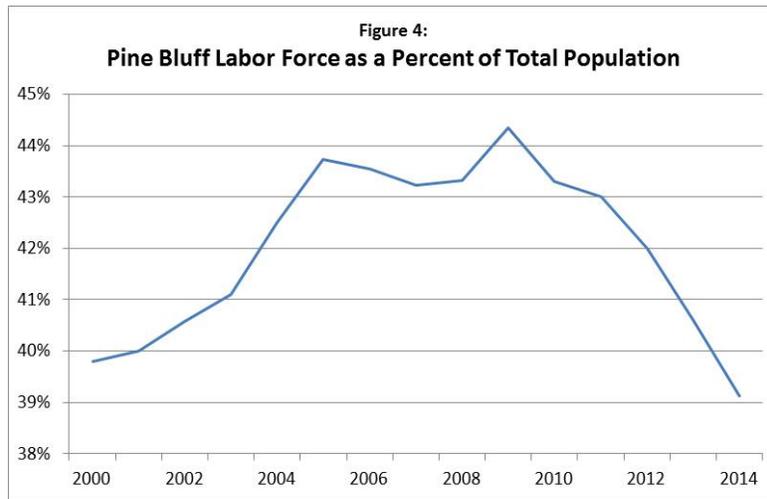
Another factor relating population growth to the tax base is the size of Pine Bluff’s population relative to Jefferson County. Because a share of the county sales tax revenue is shared with municipalities—determined by a formula that uses population shares—the general shrinkage of the population of Pine Bluff relative to Jefferson County as a whole will, over time, erode the share of county sales tax revenues transferred to the city. Figure 3 shows that this trend is also downward, the Pine Bluff’s population share dropping from over 65% in 2000 to less than 63% in 2014.



Labor Force Participation:

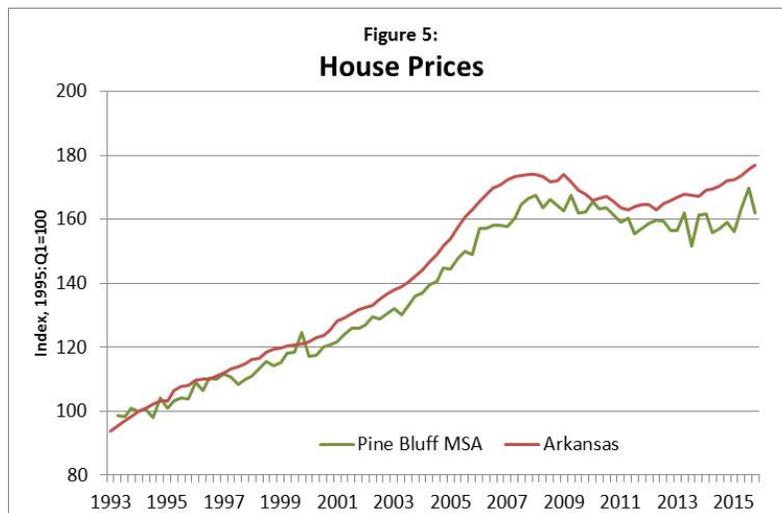
A recent decline in labor force participation is another factor exacerbating the erosion of Pine Bluff’s tax base. In part, the decline in the labor force is a related to the population decline already discussed. An aging population is also a factor—declining labor force participation rates have characterized state and national trends over the past several years (especially since the 2008-09 recession). Regardless of the root cause, the smaller is the income-earning segment of the population, the lower will be consumer spending and hence, sales tax revenue. As shown in Figure 4, labor force participation has been declining in Pine Bluff since at least 2010.⁴

⁴ Sources: U.S. Bureau of Labor Statistics, U.S. Census Bureau. NOTE: The percentages presented in Figure 4 do not correspond exactly to the measures of labor force participation constructed by the Bureau of Labor Statistics. The BLS measures use Civilian Noninstitutional Population as the denominator, rather than total population.



Real Estate Values:

The factors considered above are significant for evaluating the sales tax base. Another important revenue source for the City of Pine Bluff is property tax collections. Although income and population growth also affect real estate values, it is worthwhile to consider the impact of property values on tax receipts. To the extent that house prices are rising, a fixed property tax rate can generate higher city revenues over time. However, if prices are stagnant or falling, property tax receipts are also likely to be stagnant, or even declining in real (inflation-adjusted) terms. Figure 5 shows indexes of house prices for the Pine Bluff metropolitan area, along with a comparable measure for Arkansas.⁵ Prices were generally rising over time until around 2006. The nationwide real estate “bubble” had a relatively small impact on Arkansas house prices, but even less so for Pine Bluff. As a result, the more recent appreciation in house prices nationwide as markets recover have also been more muted for Arkansas and Pine Bluff than for other parts of the country. Although it is difficult to predict or extrapolate future trends, recent data suggest a slow rate of appreciation in Pine Bluff house prices (likely to be lower than the rate of inflation over time).



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⁵ Sources: Federal Housing Finance Agency and author’s calculations.