



PERSPECTIVE

Telework and Local Taxes

A Tenuous Relationship

BY JUSTIN MARLOWE



It's often said that pandemics don't start trends but rather that they accelerate the trends that were already in motion. Telecommuting is an excellent example. Work from home was slowly on the rise before the pandemic, but since COVID-19, it's become the default mode for many workers. A recent report from the Rockefeller Institute of Government—led by my colleague Liz Farmer—makes this point well. It shows that as of August 2022, nearly 30 percent of households in the largest U.S. cities have an individual working from home. For households earning \$100,000 a year or more, it was more than half.

It's clear that telework, temporarily borne out of necessity during the pandemic, is now a permanent component of the U.S. labor force.

This could mean many things for state and local finance. It's easy to speculate that as a result of telework, many well-paid professionals who used to commute to central cities are no longer a reliable source of sales taxes, income taxes, transit farebox revenues, and other revenues that follow traditional downtown economic activity. That's a major challenge for state and local fiscal policy going forward. But at the same time, telework might keep sales and income tax revenues closer to home as workers stay closer to home. We won't know for sure until those data arrive throughout the next several months.

What is clear is that investors appear to have already taken stock of these trends. The message they're sending is worth hearing.

Decades of work to build strong finance sectors might now give way to very different thinking about what constitutes a fiscally healthy downtown core.

It's always a challenge to measure investors' views on specific municipalities. Municipal bonds don't trade enough to produce the kind of strong signal sent by stock prices, U.S. Treasury yields, or other traditional market indicators. But fortunately, some new data tools can help the United States bridge that gap. A bond index developed and recently launched by the Center for Municipal Finance at the University of Chicago—known as the CMF Muni index—tracks the prices and yields of general obligation bonds from the largest U.S. cities, counties, and school districts (see munifinance.uchicago.edu).

The Index goes up when investors are willing to pay higher prices for an issuer's bonds, and vice versa. In other words, it's a real-time indicator of investor sentiment toward particular jurisdictions.

Values across the CMF index have fallen precipitously. From October 2021 to October 2022 the index overall declined more than 50 percent. That reflects the brutal market conditions in the first half of 2022, when municipal bond investors suffered some of their largest losses in decades. It follows that the index values today reveal how quickly a jurisdiction's bond prices are recovering from that major market downturn.

As a benchmark indicator, consider that today, most of the 33 cities and 14 counties included in the index see their bonds trading at around 65 percent of their market prices when the index was launched in 2018. A few, however, have lagged far behind their peers and see their prices today at less than 50

percent of 2018. They include the cities of Boston, Charlotte, Houston, Memphis, New York City, Phoenix, San Antonio, and San Francisco. They also include the counties of Fairfax (greater Washington, D.C.), King (greater Seattle), and Mecklenburg (greater Charlotte). Investors seem much more cautious about these jurisdictions' bonds compared to other localities.


What do those lagging jurisdictions have in common? Not much at first glance. They vary a lot on population, credit ratings, location, socioeconomics, and other factors that traditionally matter to investors.

But when we pair these index values with data on work from home, we see a clear pattern. First, consider the geography of work from home. The best available data, as mentioned earlier, focuses on the largest metro areas. From those data we see that two of the nine cities where muni investors are most cautious—Boston and San Francisco—both have more than 40 percent of workers across their regions currently teleworking. That also applies to Fairfax and King counties, whose respective regions see more than 45 percent of workers report some telecommuting. Those are among the top five highest concentrations of work from home in the United States.

Investors are also cautious about cities and counties that share another trait: lots of workers in finance. Finance has long been a sought-after anchor industry for traditional central cities, and finance workers have paid an outsized share of sales, income, and other local taxes.

But in a post-pandemic world, finance jobs are also some of the most amenable to telework. That's why it's no surprise that the localities recently in doubt among investors also have some of the highest concentrations of finance workers anywhere in the United States. In Houston, Phoenix, and San Antonio, for instance, you're more than one and a half times more likely to encounter people working in finance compared to the rest of the United States, according to 2018 data from the U.S. Bureau of Labor Statistics. In Charlotte, San Francisco, and Mecklenburg County, you're at least two and a half times more likely to encounter someone in portfolio management. Memphis is an investment banking hub, with more than twice the number of workers in that industry compared to the country as a whole.

To a degree we also see the opposite. Perhaps surprisingly, the three cities with the strongest recent performance—as indicated by bond prices now at more than 85 percent of their 2018 levels—are Chicago, Dallas, and Wichita. All three underperformed at times before and during the pandemic but have seen a big recent surge in positive investor sentiment. What do all three have in common? Broadly diversified economies with strong emphasis on manufacturing, and far fewer jobs that can shift easily to telework.

Work from home in the post-pandemic world will be a challenge and an opportunity for local fiscal policymakers. Decades of work to build strong finance sectors might now give way to very different thinking about what constitutes a fiscally healthy downtown core. This early data gives us a sneak peek at things to come. 

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¹ <https://rockinst.org/blog/covid-19-and-working-from-home-give-cities-a-chance-to-redefine-who-uses-downtowns>