

ECONOMIC INSIGHTS

The objective of ECONOMIC INSIGHTS is to bridge the gap between the latest economic data and what it means for Delaware businesses.

RE: How Money Walks

WHAT'S HAPPENING?

There are no legal restrictions to households moving between states in America.

During an average year, over 11% of the U.S. population changes their place of residence. Almost 7% of these moves occur within the same county and the other 4% end up at locations in different counties than the one of origin...2.5% to a county in the same state and 1.5% to a completely different state.

The consulting firm, Pelopidas, uses IRS data to track how money walks between states and counties from the relocation of households.

Delaware's counties are in stark contrast.

According to IRS data, between 1992-2015 New Castle County experienced a net loss of \$1.5 billion in adjusted gross income (AGI) from the relocation of households. The counties gaining the most income from New Castle County include: Chester County, PA (\$666 million), Sussex County (\$160 million), Cecil County, MD (\$96 million), and Palm Beach County, FL (\$80 million).

Sussex County, on the other hand, is estimated to have gained \$2.5 billion in AGI between 1992-2015. The counties losing the most net income to Sussex County include: Montgomery County, MD (\$217 million), New Castle County (\$160 million), Anne Arundel County, MD (\$133 million), and Baltimore County, MD (\$115 million).

U.S. Census data shows that between 2010-16 New Castle County had total net domestic out-migration of 5,182, while Sussex County had total net in-migration of 20,098.

WHY IS IT HAPPENING?

Population movement across states and counties is a key indicator of competitiveness. Americans vote with their feet, demonstrating their pleasure or displeasure with job market conditions, taxes, public services and quality of life.

The driving factors behind the shifts in AGI among Delaware's counties are obvious.

Households with adults employed in New Castle County and with school age children, have chosen to relocate to Chester and Cecil counties to escape the Delaware public schools. New Castle County households nearing retirement are relocating to the amenities of Sussex County and Palm Beach, with the added bonus of no personal income tax in Florida.

Sussex County is a prime location for retirees due to its beaches, the absence of a sales tax, lower property taxes, and exemptions on state income taxes for Social Security.

THE IMPLICATIONS FOR BUSINESS?

The losses and gains of AGI evidence two distinct business environments in Delaware.

Businesses in New Castle County have experienced slower growth in residential disposable income and demand, while coastal Sussex County has benefited from a boom.

It is unlikely that the erosion in New Castle County will abate. Both the City of Wilmington and the County governments face serious fiscal deficits. The County has a very restrictive land use code in place. And there are no substantive moves for the restructuring of the current Delaware public education system.

Storm clouds are also on the horizon for coastal Sussex County. Congestion may be reaching levels where it deters future residential development. There are major infrastructure deficiencies. And due to a \$400 million state government deficit for the coming fiscal year, the state may shift more of the costs of services on to the property tax base of all the counties and may begin to take back many of the tax preferences that are attractive to seniors.

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