



STATE OF OREGON

INTEROFFICE MEMO

TO: Governor Atiyeh
Robert W. Smith
Jon Yunker

FROM: Chang M. Sohn, State Economist
Ronald A. Oliveira, Senior Economist

SUBJECT: Revision of July 2 Unitary Tax Impact Memo

DATE: July 9, 1984

Enclosed is a revised copy of our July 2 memo. We have clarified the expected impact on property tax revenues. Due to the six percent growth limitation, total property tax revenues for a specific community may not increase as much as we previously indicated. However, existing property taxpayers would benefit by a reduction in their property tax bill.

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STATE OF OREGON

INTEROFFICE MEMO

TO: Governor Atiyeh
Robert W. Smith
Jon Yunker

AMS

DATE: July 9, 1984 (Revised)

FROM: Chang M. Sohr
Ronald A. Oliveira

CS

RAO

SUBJECT: Possible Employment Gains Resulting from the Governor's Unitary Tax Plan

Utilizing the Oregon econometric model to simulate the impact on total nonfarm employment of 1,000 new jobs in the most likely industries such as "high tech" manufacturing, other durable manufacturing, or nondurable manufacturing, we have estimated the expected employment impacts resulting from a large employment shift in selected sectors. We have assumed that the start-up of a new firm or industry could be approximated by an increase of a 1,000 jobs starting in the third quarter of 1985. These 1,000 new jobs are then expected to induce employment gains in other parts of Oregon's economy via what economists call the multiplier process.

Based upon our analysis, if 1,000 new jobs were added to "high tech" manufacturing in 1985:3, total nonagricultural employment would increase by 1,200, 1,900, and 2,000 jobs in 1985:3, 1986:3, and 1987:3 respectively. This implies that the employment multiplier effect of "high tech" manufacturing is slightly over 2.0. Our analysis of non-high-tech manufacturing and food processing industries suggests that the employment multiplier effect would be similar in size as for high-tech manufacturing industries. The following table compares the simulated impact of 1,000 new jobs in each area with the employment levels forecasted in the June 1984 forecast report.

	<u>1985:3</u>	<u>1986:3</u>	<u>1987:3</u>
Total Nonfarm Employment June 1984 Forecast	1022.8	1041.3	1067.4
<u>Simulation of "High Tech" Impact</u>			
Nonfarm Employment Simulation	1024.0	1043.2	1069.4
Increase over June forecast	1.2	1.9	2.0
<u>Simulation of "Other Durable" Impact</u>			
Nonfarm Employment Simulation	1024.0	1043.2	1069.4
Increase over June forecast	1.2	1.9	2.0
<u>Simulation of "Food Products" Impact</u>			
Nonfarm Employment Simulation	1024.0	1043.2	1069.4
Increase over June forecast	1.3	1.9	2.0



Our analysis utilizing the Oregon econometric model tends to agree, in general, with published employment multipliers for Oregon. An employment multiplier indicates the total number of jobs (directly and indirectly) generated by one new job in a particular industry. In the following table, we have listed some of the multipliers published for Oregon:

<u>Selected Industries</u> <u>Industries</u>	<u>IMPLAN</u> <u>Employment</u> <u>Multiplier*</u>	<u>BEA</u> <u>Input - Output</u> <u>Multiplier**</u>
Food Processing	4.1	2.26 - 2.93
Alum. Mfg.	3.6	1.87 - 2.72
Fabricated Metals	2.2	1.88 - 2.98
Electrical Equipment	2.1	1.91 - 2.70
Instruments	2.2	2.02 - 2.52
Transportation, Communication, and Utility	2.1	2.14 - 2.46
Finance, Insurance, and Real Estate	2.6	1.84 - 2.19
Trade	1.7	2.48 - 2.86
Services	1.8	2.51 - 2.92
Government	1.9	--

*Oregon employment multipliers obtained from U.S. Forest IMPLAN input-output impact analysis system (based upon 1977 U.S. input-output model).

**Average of gross output multipliers (not exactly employment multipliers) for Portland and Eugene. Obtained from Industry-Specific Gross Output Multipliers for BEA Economic Areas, Bureau of Economic Analysis, U.S. Department of Commerce, January 1977.

In addition to the above induced employment impacts, other economic benefits may result from a new manufacturing firm locating in Oregon. These benefits would include increased personal income tax revenues and a shift in property tax burdens. Due to the six percent growth limitation, total property tax revenues would not increase but the property tax payments for existing firms and residents should decrease by the amount of new tax assessed to the new firm.

There would also be a temporary economic stimulus resulting from increased construction activity and from increased housing demand. We would also expect an improvement in the diversification of Oregon's economy (assuming the new firms are not in lumber and wood products manufacturing). Eventually, there would also be an increase in corporate income tax revenues as the new firms mature. Initially, one could expect a slight increase in corporate income tax revenues resulting from the induced activity in existing firms.

We would also like to point out that the revenue loss from dropping the unitary tax would be approximately \$20 million per year. In order to replace this revenue decrease with an increase in personal income tax revenue, there would need to be an increase of 20,000 jobs in total. Thus, the "new" firms would need to directly add 10,000 jobs.

The following table summarizes our preliminary expectations with respect to revenue impacts. Column one of the table lists four possible scenarios of a new firm or firms locating in Oregon and shows the assumed level of new jobs for this firm and the assumed level of property investment.

New Firm Scenarios New jobs/ Property Investment	<u>Generated Revenue (millions of dollars)</u>				
	<u>Personal Income Tax*</u>	<u>Corporate Income Tax**</u>	<u>Other Taxes & fees***</u>	<u>Total Revenue Impact</u>	<u>Property Tax****</u>
1,000/\$50 mil.	\$ 2	\$.15	.1	\$ 2.25	\$ 1
5,000/\$200 mil.	\$10	\$.75	.2	\$10.95	\$ 4
10,000/\$500 mil.	\$20	\$1.5	.3	\$21.80	\$10
20,000/\$1,000 mil.	\$40	\$3.0	.5	\$43.50	\$20

*Assuming employment multiplier of 2.0 and \$1,000 personal income tax per job.

**Employment generated in other firms is assumed to indicate \$150/job of corporate income tax.

***Miscellaneous fees and licenses.

****Assuming property tax rate of \$20 per \$1,000 of assessed value. As noted earlier, this would be a shift in the revenue burden and not an increase in total property tax revenues.

We have also learned from Ray Broughton (First-Interstate Bank, Portland) that a private Unitary Tax Study Committee has been formed. This committee has been organized by industry representatives and has invited Chang to meet with them on July 6.

The Unitary Tax Study Committee members are as follows:

John Gray	Co-Chairman, President, Tektronics
Randy Miller	Co-Chairman, President, Moore Co.
Robert Ames	President, First Interstate Bank of Oregon
Malcom Russ	Executive Vice President, Wacker Siltronic Corp.
Dick Armstrong	Executive Director, Portland Chamber of Commerce
Glen Ulmer	Arthur Anderson and Co.
Larry Wolfard	Vice President, Pacific Northwest Bell