



STATE OF OREGON

## LEGISLATIVE REVENUE OFFICE

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**Research Brief**

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### **Estimating Potential Sales Tax Revenue in Curry County**

#### **Introduction**

Curry County's historic dependence on revenue from federal timber lands and the distinct prospect that the federal Secure Rural Schools Act will be extended in a sharply reduced form or not at all this fiscal year leaves county government in an extremely precarious fiscal situation. In response to the potential loss of a major revenue source, county government must balance its budget using a combination of the following options:

- Reduce expenditures on public services and the personnel that provide those services.
- Increase revenue from existing tax bases (mainly property taxes).
- Explore new tax bases for potential revenue.

This brief focuses on the third option. Specifically, the potential revenue that could be raised from a county retail sales tax applied to goods and restaurant meals purchased in the county. Initial revenue estimates from an untapped tax base present a number of difficulties. Out-of-date secondary data must be used as a starting point. At the local level, these data are highly aggregated, making detailed estimates difficult. Finally, there is the prospect of behavioral changes in response to the imposition of a new tax making even accurate detailed existing data suspect for purposes of preparing estimates. These complications have the effect of increasing the uncertainty around the initial revenue estimates from a new tax base, thereby increasing the margin of error for these estimates. It is important to note that these sources of error are in addition to the typical sources associated with projecting revenue from an existing tax. These sources of error largely stem from the uncertainty of forecasting the economy.

Because of the uncertainty around the initial estimates of revenue from a new tax base, it is recommended that county budget officials leave a portion of the estimated revenue in reserve to protect against downside risks in the first 2 years of implementation.

This brief is divided into three sections. The first section outlines the steps used to estimate the potential Curry County sales tax base. The second section attempts to put those estimates in context by comparing the results with sales tax revenue currently raised in Pacific County, Washington. The final section assesses the risks associated with these estimates.

## Estimating the Curry County Tax Base

The starting point for estimating the potential Curry County sales tax base is the U.S. Census Bureau. In addition to its widely known decennial census of the population, the U.S. Census Bureau produces an economic census at 5-year intervals. These data are provided for individual sectors of the economy down to the county level. However, the detail for less populated counties, including Curry County, is limited by federal disclosure laws. The most recent census data available is 2007. The 2012 data are being collected now but will not be available for several years.

The two sectors that comprise the bulk of the sales tax base are the retail trade sector and the service sector. The service sector is limited to food services establishments. The North American Industrial Code (NAICs) for these sectors are # 44 and #45 (retail trade) and #722 (eating and drinking establishments). 2007 data for these sectors are available for Curry County.

The next step is to remove exempt items from the 2007 retail sales data. The components of retail trade that are exempt are motor vehicles, gas stations, health and personal care products and food and beverage stores. These elements are removed from the Curry County data when they are available (not excluded because of disclosure laws). When these data are not available at this level of detail, state proportions are used as an estimate of the size of the exempt sector.

The final step in the initial estimate is to take the 2007 base estimate and bring it forward to the starting point of the new tax—assumed to be January 1, 2013. As part of its forecasting process, the state (through the Oregon Office of Economic Analysis) receives projections on the international, national and state economies from IHS Global Insight Inc. Global Insight provides estimates and projections for retail sales in each state, including Oregon. The growth from 2007 to 2013 is then applied to the 2007 Curry County sales data. As a final step, the growth rate applied to Curry County is reduced to reflect the fact that the county grew at a slower rate than the overall state over the 2007 to 2013 period.

Table 1 lays out the steps taken to derive an initial estimate of the 2013-2015 sales tax base for Curry County.

**Table 1: Calculation of Curry County's Potential Sales Tax Base**

Tax Base Calculation (in millions)	2007	2009	2013	2014	2015
Curry County Retail Sales (in millions)	\$227.0	\$210.0	\$250.5	\$259.5	\$269.3
Curry County Food Service Sales (in millions)	\$27.0	\$25.0	\$29.8	\$30.8	\$32.0
Total Potential Curry County Base (in millions)	\$254	\$235.0	\$280.3	\$290.2	\$301.3
Sales Tax Exemptions (in millions)	\$90.2	\$83.4	\$99.5	\$103.0	\$107.0
<b>Estimated Sales Tax Base (in millions)</b>	<b>\$163.8</b>	<b>\$151.6</b>	<b>\$180.8</b>	<b>\$187.2</b>	<b>\$194.3</b>
<b>Estimated Revenue @ 3% (in millions)*</b>			<b>\$5.42</b>	<b>\$5.61</b>	<b>\$5.83</b>
<i>Retail Sales Growth (From Previous Column)</i>					
Oregon		-7.4%	26.1%	4.6%	4.9%
Curry County		-7.5%	19.3%	3.5%	3.8%
<i>Sales Tax Base as % of Personal Income</i>					
Curry County Estimate	23.3%	20.7%			
Average Sales Tax Base for States that Impose Sales Tax	46.8%	43.1%			

\*Applies to fiscal year.

The economic census estimates that Curry County's retail sales totaled \$227 million in 2007 (NAICs codes 44 and 45). Sales of food services establishments are estimated at \$27 million for 2007 (NAICs code 722). This leaves a potential, no exemptions, tax base of \$254 million for 2007. Exempt items are estimated at \$90.2 million for 2007. The estimated county sales tax base for 2007, derived from subtracting exemptions from the potential base, is equal to \$163.8 million.

The breadth of the sales tax base can be measured by comparing it with total resident personal income. The estimated tax base for Curry County is 23.3% of personal income for 2007. The breadth is influenced by two major factors. The first is the items covered by the tax and the exemptions allowed. The narrower the tax is defined and the more the allowed exemptions, the lower the base will be as a percentage of personal income. A second factor is the amount of taxable purchases made by non-residents. A large amount of purchases by non-residents will increase the percentage of the base relative to personal income. Hawaii, for example, with its tourism dominated economy, has a sales tax base which is greater than 100% of resident personal income. For comparison purposes, Table 1 also includes the average sales tax base as a percent of personal income (46.8%) for all the states that impose a retail sales tax.

The Curry County estimated sales tax base is extended to 2009, based on state data. The 2009 data shows the impact of the Great Recession, which lasted from December 2007 through June of 2009. The county sales tax base declined an estimated 7.5% during this period to \$151.6 million.

The third column in Table 1 extends the estimated county sales tax base into the 2013 calendar year. This estimate is based on statewide retail sales estimates, which are then adjusted downward to reflect lower economic growth in Curry County between 2009 and 2013. The result is an estimated county tax base of \$180.8 million for 2013. This reflects estimated growth of 19.3% between 2009 and 2013, an annual growth rate of 4.5%. This compares with growth of 26.1%, 6.0% annually for the state as a whole.

Tax base growth is then projected into 2014 and 2015. Again, the statewide projection is the basis, with roughly a 1% lower annual growth rate assumed for Curry County. The result is a sales tax base estimate of \$187.2 million in 2015 and \$194.3 million in 2016. This translates into annual growth of 3.5% in 2015 and 3.8% in 2016.

A final adjustment for sales tax revenue estimates is to assume a 6-month collection lag between tax base estimates and actual revenue coming into the county. This means that the tax base estimate for 2013 should be applied to the 2013-14 fiscal year which begins July 1, 2013. The revenue estimate for a 3% sales tax estimate is \$5.4 million for 2013-14 fiscal year, \$5.6 million for 2014-15 fiscal year and \$5.8 million for 2015-16 fiscal year.

## Comparison of Curry and Pacific Counties

In order to provide some context for the Curry County tax base estimates, a comparison with Pacific County, Washington is provided. Pacific County occupies the same relative geographic position as Curry County along the southwest coast. In addition, the population of the two counties is nearly identical. However, there are some important differences that will affect the sales tax base for the 2 counties. First, Curry County's personal income was 13% higher than Pacific County in 2009. This means that Curry County would collect more sales tax revenue on a base that is the same percentage of personal income. Moreover, Curry County, bordering a sales tax state, can be expected to attract more non-resident taxable purchases than can Pacific County which borders a non-sales tax state. These two factors indicate that the Curry County base should be larger than the Pacific County base. However, when comparing actual sales tax base numbers for Pacific County, the existing Washington State tax base is used. Because this base is considerably broader than the proposed Curry County base, it is likely that the breadth of the Pacific County base would more than offset the higher resident personal income in Curry County.

Table 2 shows the details of the comparison between the two counties for 2009. The first four rows of the table come from the Bureau of Economic Analysis. The Pacific County sales tax base numbers come from the Washington Department of Revenue.

Table 2: Comparison of 2009 Data for Curry and Pacific Counties

2009*	Curry County	Pacific County
Total Personal Income (in millions)	\$733.5	\$646.7
Population	21,148	21,272
Total Full-Time & Part-Time Jobs	10,819	9,344
Per Capita Income	\$34,683	\$30,403
Washington Sales Tax Base (in millions)	-----	\$201.6**
Estimated Curry County Sales Tax Base (in millions)	\$151.6	-----
Sales Tax Base as % of Personal Income	20.7%	31.2%

\*Data from Bureau of Economic Analysis, U.S. Department of Commerce

\*\*Washington Department of Revenue

The actual sales tax base for Pacific County in 2009 was \$201.6 million. This compares with the estimated Curry County base of \$151.6 million for 2009. In terms of resident personal income, the Pacific County tax base is 31.2% of income while the estimated Curry County base is 20.7% for 2009.

## Assessing the Risks to the Estimates

As stated in the introduction to this brief, estimating a new tax base necessarily involves considerable uncertainty because of the lack of detailed secondary data and the non-existence of actual tax data. However, going through the detailed estimation process points to plausible areas which may cause the estimates to be too high or too low.

A potential cause of estimates that are too high is the under-estimation of exempt purchases of purchases that are not part of the legal tax base. The lack of detailed retail trade data makes this a distinct possibility. The estimates are based on excluded sectors within the retail trade data such as grocery stores and automobile dealers. However, categories that are included in the estimates are likely to have some portion of sales that are exempt. Another potential source of over-estimation error is the extrapolation from the 2007 Census data up to the 2013 calendar year. The county estimates are based on state level retail sales estimates and projections. While, an attempt was made to adjust the Curry County growth factor down, it is possible that the growth rates were not adjusted down enough leading to an over estimate of the 2013 tax base.

There are also factors which potentially lead to an under-estimate of the county tax base. Most prominent of these is the exclusion from the estimate of other economic sectors which are likely to have some taxable purchases. These sectors were not included because the proportion of their taxable sales is likely to be low and the detailed data to break into fine components of sales is not available. The sectors most likely to generate some taxable sales are wholesale trade and construction. For example, 50% of wholesale trade sales were part of the Washington sales tax base in 2010. Another potential source of downward bias is an under estimate of the actual tax base growth between 2007 and 2013. This would lead to a revenue estimate that was too low in 2013, 2014 and 2015.

This brief does not address the issues of compliance and enforcement of a sales tax at the county level. Compliance and therefore collections are influenced by the credibility of enforcement. In addition, the county's administrative costs of enforcement and collection must be netted against the revenue estimates for budgetary purposes.

Finally, it is important to keep in mind that these risks all pertain to the initial estimate of the county tax base. Going forward, revenue forecasts will always be susceptible to errors caused by economic forecasts that are too high or too low.

In developing these estimates of potential sales tax revenue in Curry County, it is the intent of the Legislative Revenue Office to provide unbiased estimates. This means that it is our opinion that the upside and downside risks roughly offset leading to an estimate that in the middle of a range of plausible outcomes. It is important to recognize that the range of plausible outcomes is greater in the case of estimating revenue from a new tax base. For this reason, we recommend that county policy-makers use considerable caution when developing budgets based on these revenue estimates until this base is established and more predictable.