House Committee on Rural Communities, Land Use and Water

HB 3457

TFO supports the principle that the state should invest in economic development for Oregon's rural counties. We also support the principle that state investments should produce a reasonable return on the investment. Unfortunately this bill fails the second test. Here's why.

The bill starts with a simple and reasonable idea: let's use state funds to subsidize job creation in rural Oregon. Instead of pursuing that idea in a direct way, by funding it from the General Fund or another Fund that would be included in the State budget, the authors chose to fund it outside the budget, by granting a tax credit. Not just a little tax credit, a very large credit, up to $2 million for a single employer.

Here's how it works. If an employer hires 5 people, pays them at least the median income for the county where they work, and keeps them on the payroll for 12 continuous months, the employer is eligible for a tax credit worth up to $2 million. If this bill offered the employer a direct subsidy covering half the annual wages of all 5 employees, it would cost the state far less than $2 million. Here are the numbers.

The current Blue Book estimates that Oregon's median wage is around $15/ hour (see attached). If we assume that the median wage of the employer's rural county is 10% less than the State median wage, that would be $13.50/hour. Assuming each employee was paid for 40 hrs/week for 52 weeks, the total wages for the 5 would be $140,400. ($28,080 per year x 5= $140,400). A 50% subsidy would be $70,200. That would be a saving of $1,929,800 over the maximum tax credit. That's a saving of 96.5%. If the direct subsidy were 100% of wage costs, it would still save $1,859,600. That's 93%. If direct wage subsidies would save that much in state revenue, why would one consider a tax credit like this?

Someone might object that most employers wouldn't apply for the maximum tax credit. But the BETC program shows that investors are willing to game a tax credit scheme to maximize their credits, even by abusing the rules. For the sake of argument, let's see what happens to the numbers if the average tax credit claimed were only $1 million. A direct subsidy of 50% would still save 93% and a direct subsidy of 100% would still save 86%.

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We read the bills and follow the money