



Tax Reform Task Force Focuses on Services Sector

"The services component of the United States economy has been for years the fastest growing sector of the economy and is projected to be so for the foreseeable future. Yet, this fast growing segment of our economy is not subject to the state sales tax to the same extent as is the goods sector, which is growing as a slower rate. This increases the pressure to maintain or even increase other sources of revenue for government, such as income taxes" (Report of the Legislative and Citizen Task Force on Tax Reform 4/2002).

This finding of the Task Force on Tax Reform is probably one of the most fundamental, yet overlooked, premises of the group's report. As Oklahoma's economy has grown more similar to the overall economy of the United States the services sector of the economy has become more important. By the year 2005 general and financial services in Oklahoma will produce an economic output worth more than \$20 billion per year and surpass manufacturing as the leading component of gross state product. Nationally services will account for more than 18% of all economic output by 2005.

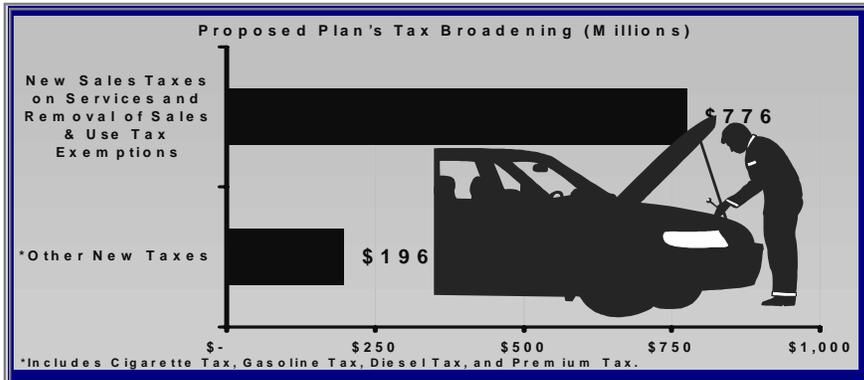
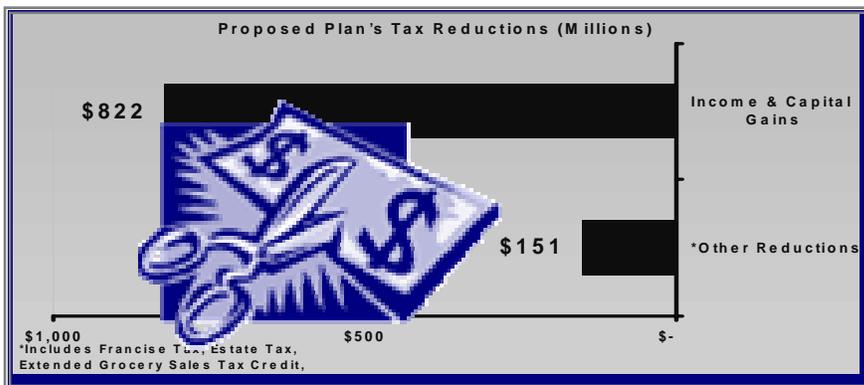
As the members of the Task Force found, services are a diverse and growing part of the Oklahoma economy. Services consist of everything

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OKLAHOMA STATE SENATE
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The Phenomenon of High Technology Clusters & Economic Development



Chapter Four: Boise, Idaho: A Silicon Valley Satellite

The success of the high-tech industry in Boise, Idaho cannot be attributed to a single factor. An array of empirical and anecdotal benefits explains the recent surge in the high-tech industry. Looking at the per capita personal income, median household income, and public policy initiatives aimed at technology growth independently; nothing appears unique to Boise. But combined with a young workforce, below average cost of living, high quality of life, and regional proximity to major high-tech cities, Boise has become a relocation and entrepreneurial haven.

Boise, unlike Huntsville and Colorado Springs, is not as reliant on federal government programs, and its diversity among the private sector leads the local economy. High-tech industry in Boise grew tremendously in the last 20 years. According to the Milken Institute, the "contribution of the high-tech sector to the local economy jumped from 12 to 43 percent and high-tech jobs increased from 1,900 in 1987 to 3,500 in 1998." The Milken Institute also reported that Boise ranked fourth in the nation in high-tech job growth between 1990 and 1996. Other evidence of the technological boom includes: the increased employment in electronic

components from 3,900 in 1990 to 10,200 in 1999, and electronic components employment is nine times more concentrated in Boise than in the U.S. as a whole. Boise continued its rise to high-tech prominence, ranking third among all metros in the country for growth in high-tech output from 1990-1998.

While Huntsville and Colorado Springs rely on the federal government to manufacture a highly skilled workforce, Boise benefits from a demand for high-tech products and its proximity to technology giants San Jose, Portland, and Seattle. The demand stems from an already healthy economy that provides a diversity of products and services in the Boise area. Boise is the only U.S. metropolitan area with less than one million in population that serves as the headquarters for several major international companies. While not high-tech, the largely agricultural and ag-value added companies such as, Albertson's Inc.,

J.R. Simplot Co., and the Boise Cascade Corporation, demand high-tech products, services, and a workforce educated in technology. A corporate leadership concentration such as this contributes to the city's nationwide ranking of sixth in corporate headquarters per capita.

Boise, serving as a regional corporate leader, medical center, retail center, and political center, creates a significant level of demand for technologically advanced goods and services. The fact that the cost of doing business is below the national average has helped Boise entice major technology firms, such as Hewlett-Packard, to locate within the area. This induced demand has not, however, created a shortage in the labor pool of engineers and other such professionals in the region.

As the high-tech industry grew in Boise, so did native entrepreneurial spirit. Local up-starts include the now successful Micron Technologies. The CEO of Micron Technologies, Joseph Daltoso, sees great benefits

associated with being a high-tech firm outside of Silicon Valley, "When you are out here, away from the major technology hubs, you don't have negativity constantly wearing on you. You're not under the constant din of 'that's not the prevailing thought today' or 'that's not the prevailing way to do business.'"

With the ability to take advantage of their geographic proximity to Silicon Valley Seattle, Portland, etc., as well as the freedom from the ideological constraints Daltoso spoke of, Boise has been able to attract a qualified workforce—one that finds this environment appealing. This contributes to the view of Gary Mahn, Director of the Idaho Department of Commerce, that "the major factor behind our growth is the quality of talent we've been able to attract and retain." Not only is Boise attractive to talent outside of its MSA and its state lines but cooperation with the higher education community is steadily contributing to the highly skilled workforce that high-tech firms require throughout the state.

Idaho's higher education system maximizes the effects of a booming labor force. The benefits of this system include a relatively young population and labor force. Boise's center of education, government, and business attracts, educates, trains, and employs these

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young workers from across the state.

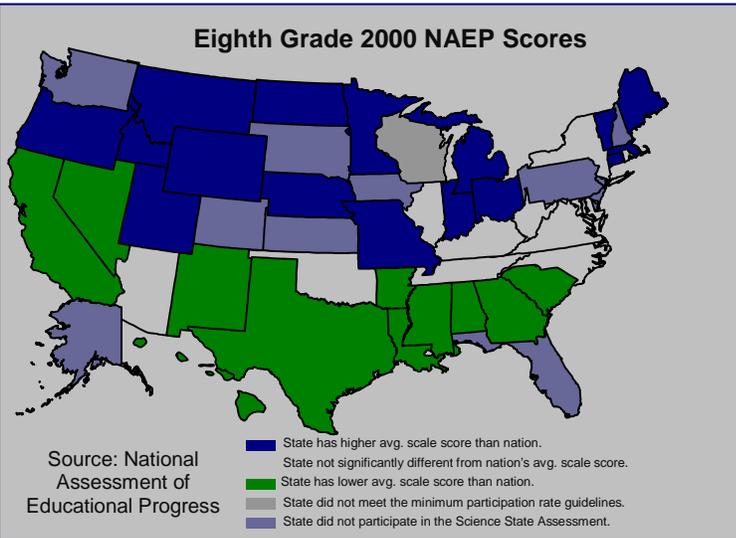
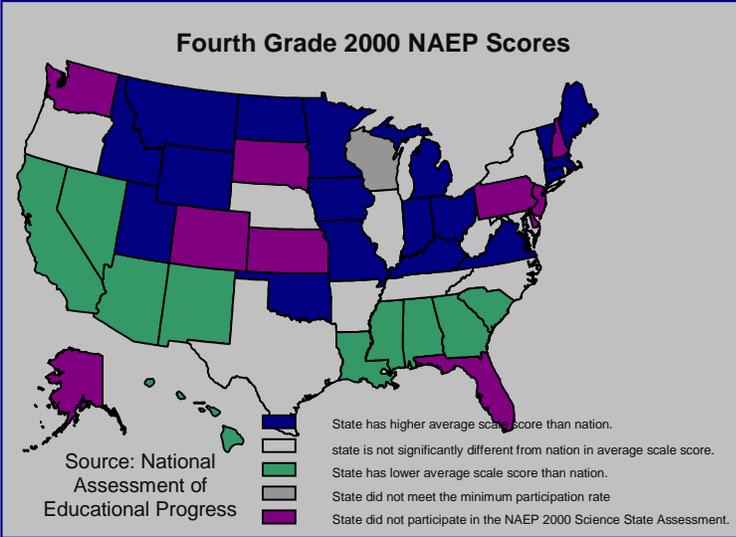
Further examples of the efforts of Idaho's higher education system are evidenced by programs such as those offered at the University of Idaho in Boise, which offers an integrated business curriculum in cooperation with Micron Technologies and other local corporations. This university also offers a Management Information Systems program that is tailored specifically to the needs of one of the city's founding tech leaders, Hewlett-Packard. In this program, students combine their formal education with hands-on experience making valuable career connections in the process.

Boise is evolving from an

cess cannot be artificially replicated. Attributes such as the city's geographic location and the age of their population are features which other cities are highly unlikely to be able to duplicate. However, factors such as a city's cost of living, cost of doing business, ability to incorporate its higher education system to meet the needs of local private sector companies, as well as striving for industrial diversity are attainable goals for cities seeking growth in the technology industry. Further, we should become aware of the idea that the success enjoyed in Boise might, in part, be attributable to the search for entrepreneurial freedom beyond cities known to have a significant and established

high-tech presence. *EM*

Oklahoma's Fourth Grade Students Perform Well, & Eighth Graders Hold Their Own, According to the Latest NAEP Assessment



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industrial mix that was once dominated by agriculture into a center of high-tech entrepreneurship. This evolution offers hope to similar cities across the country seeking to cultivate their own high-tech industries. However, many of the factors leading to Boise's suc-

OKC's Ranking Improves from 30th in 2001 to 4th in 2002!

Expansion Management Magazine ranks Oklahoma City Fourth in its 2002 issue of, "America's Hottest Cities for Manufacturing Expansions and Relocations"

Homeland Security in the Sooner State: Recommendations Related to the Economy and Well Beyond

The Joint Homeland Security Task Force was established by the Senate President Pro Tempore, Stratton Taylor, and the Speaker of the House of Representatives, Larry Adair. This Task Force was charged with examining and recommending the specific changes in state law and/or appropriations, to ensure that Oklahoma would be a viable candidate for countering terrorism, so that decision makers and citizens would be fully aware of the current state of our state with respect to this issue.

The Task Force was composed of a bipartisan membership, with equal representation from the Senate and the House, and also included a host of experts on this subject matter from individuals outside the Legislature. These members met in a series of meetings—held in both Oklahoma City and Tulsa—the outcome of their work can be summed-up in the report's eleven significant recommendations contained in this article. While not specifically focused on protection of the economy, many of the task forces' recommendations relate directly to commerce. Cyberterrorism, open records issues, agribusiness, and food safety issues are the most prominent commercial concerns.

RECOMMENDATION #1: Vest responsibility for coordinating Oklahoma's homeland security in one cabinet-level official;

RECOMMENDATION #2: Amend the Criminal Code to include, among others, crimes of terrorism, financial support to terrorist groups, terrorist threats and false terrorist threats;

RECOMMENDATION #3: Enhance the State's intelligence collection capabilities and devote resources to the currently existing joint task force on terrorism that unites state and federal law enforcement officials in Oklahoma who collect information about terrorist networks operating in this region;

RECOMMENDATION #4: Fund the Digital Driver License Initiative and make the necessary legislative changes to require nationality information obtained in the Oklahoma Driver License application process be made readily available to law enforcement;

RECOMMENDATION #5: Oklahoma should evaluate and consider legislation granting emergency health powers to the Governor and public health authorities in the event of a terrorist act or public health crisis to protect

the health, safety and well-being of the citizens of Oklahoma;

RECOMMENDATION #6: Institutions of higher education and entities providing vocational training related to potentially dangerous activities should conduct risk management surveys and take measures to enhance security;

RECOMMENDATION #7: Minor modifications should be made to the Open Records Act and the Open Meetings Act to exempt official materials related to intelligence about terrorist activities, assessments of vulnerability, and counter-terror measures that could educate terrorists about targets to strike;

RECOMMENDATION #8: Develop and fund a rational plan to upgrade and integrate communications systems for governmental entities on the front line in responding to public health emergencies, law enforcement incidents and terrorist attacks;

RECOMMENDATION #9: Take steps to dramatically increase security of the State's critical information systems and coordinate with the private sector to ensure preparedness for the threat of cyber terrorism;

RECOMMENDATION #10: Increase security at the Oklahoma State Capitol Building;

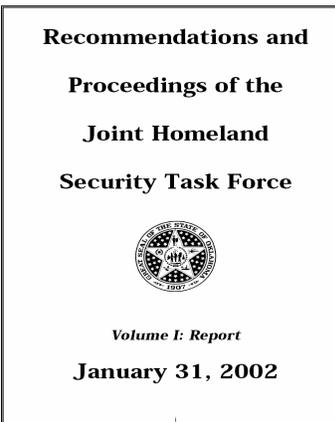
RECOMMENDATION #11: Require periodic assessments of the safety of ranching and agricultural enterprises, and of food process-



ing. Develop plans for remediation in conjunction with the private sector to combat potential attacks on Oklahoma's food production and processing systems and operations. Fund the animal carcass digester project as recommended by the Governor's Advisory Panel and the Joint Legislative Task Force on Food Safety.

In addition to the aforementioned eleven recommendations, the report contains a variety of other specific suggestions and ideas heard or considered by the Task Force. The entire report can be found on the Senate's website:

www.lsb.state.ok.us/senate/welcome.html



In the Next Edition of the *Economic Monitor*

- ◆ Session Wrap-Up
- ◆ The Arts: Related to Economic Development?
- ◆ Technology Clusters Final Installment: Oklahoma City & Tulsa

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from auto repair to body piercing to legal and management services. Some of the very highest paying occupations and many lower paying occupations are encompassed by the services component. What these diverse services have in common is that they are generally not subject to sales taxes.

For this reason the Task Force focused on broadening Oklahoma's sales and use tax base to include many services as the primary way to offset what they perceived as marginally uncompetitive income tax and capital gains tax rates. Basically the task force swapped a reduction of \$822 million in income and capital gains taxes for the imposition of \$776 million in new sales and use taxes on selected service transactions. The \$46 million difference in new service taxes and some additional fuel and cigarette taxes helped further reduce franchise taxes, estate taxes and fund low income tax credits.

Some of the more significant services that the Task Force recommended that sales and use taxes apply to include:

- Construction of new residential structures
- Legal services
- Motion pictures
- Automobile repair
- Commercial sports
- Engineering & architectural services
- Accounting and auditing
- Management and consulting services. *EM*

Tax Task Force Recommends Numerous Changes to the Oklahoma Tax System

The tax task force was created in February of this year by Governor Keating, Senate Pro Tempore Stratton Taylor and House Speaker Larry Adair. Each appointed 1/3 of the 30 member task force. The Task Force was charged with developing a tax proposal that would be fair to all, stimulate economic growth and be revenue neutral. Co-chairmen of the task force were Don Davis, President of Cameron University and Howard Barnett, Chief of Staff to Governor Frank Keating.

Key Elements of the Plan:

- ▶ **4.5% flat income tax to replace the current two method graduated income tax. Method One, the most commonly used method, has a top marginal rate of 7%, and Method Two has a top marginal rate of 10%. The plan would shift the starting point for income tax calculations from the federal adjusted gross income to federal taxable income;**
- ▶ **The Task Force plan also advocates a separate capital gains tax rate of 2.35%. Currently capital gains are taxed at the same rate as any other income;**
- ▶ **Implementation of the federal "Pickup Tax" on estates which would, under current federal law, include the eventual phasing out of the tax entirely by 2010;**
- ▶ **Elimination of the current corporate income tax and revision of the corporate franchise tax to include a net earnings provisions similar to that of the Texas Corporate Franchise Tax;**
- ▶ **A significant broadening of the current sales tax system to include many services in order to replace the revenue lost from the above changes;**
- ▶ **Increase tax on cigarettes from \$.23 to \$.60 per package;**
- ▶ **Increase gas and diesel tax from \$.14 and \$.17 per gallon, respectively, to \$.18 per gallon, and earmark the additional revenue for debt reduction on high-way bonds, with the earmarking to continue after debt payoff to fund new high-way construction and maintenance.**

Breaking News! Oklahoma PCPI Growth Outpaces Nation

Oklahoma moved up two spots from 42nd to 40th in the nation in per capita personal income, according to the latest release from the Bureau of Economic Analysis. When the PCPI is adjusted for cost of living, Oklahoma now ranks 37th in the nation. More impressively, these numbers reveal that Oklahoma had the third fastest growing PCPI, from 2000 to 2001, with a growth rate of 4.8%. The news was not so pleasant for our neighbor to the south. Texas' PCPI growth of 2.6% underperformed the nation's 2.7% growth rate. New Mexico and Wyoming are the only states that grew faster than Oklahoma, with rates of 5.6% and 5.2% respectively.

U.S. Inflation Rate and Oklahoma Unemployment Rate Static

The U.S. Gross Domestic Product rose a modest ½ percent from its level at the same time the previous year, and slightly less than that from the previous quarter's level. Couple that with a mere one percent increase in the Consumer Price Index, and it becomes quite clear that the nation's economy is barely holding its own. A selected group of Oklahoma's indicators, however, continue to outpace the nation. For instance, the state's labor force participants increased by nearly three percent from the previous year, and that growth continues as evidenced by the nearly ½ percent increase over the

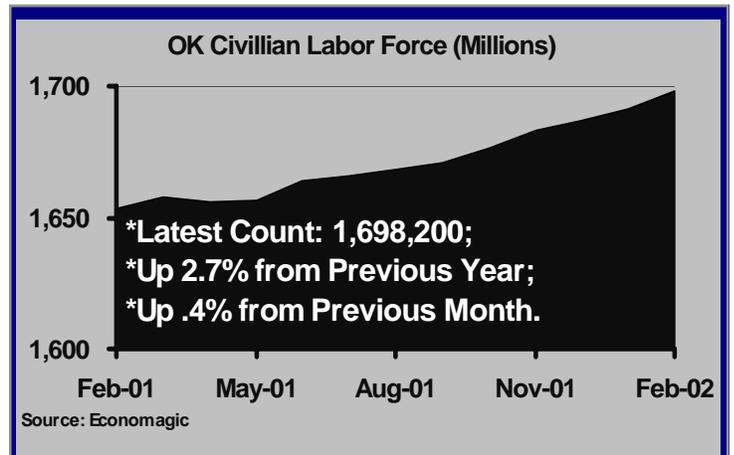
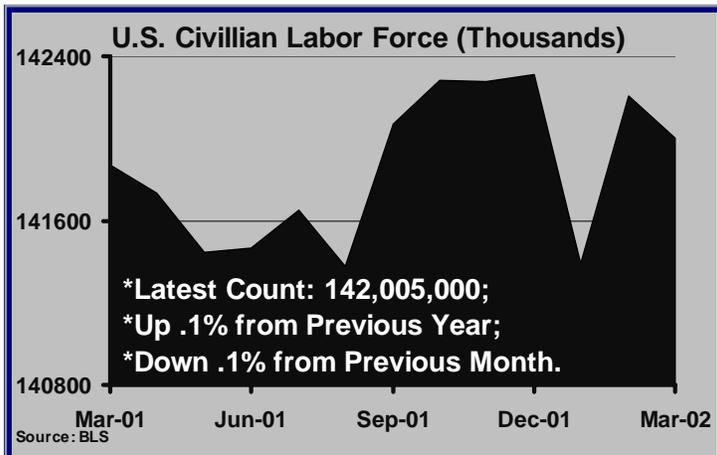
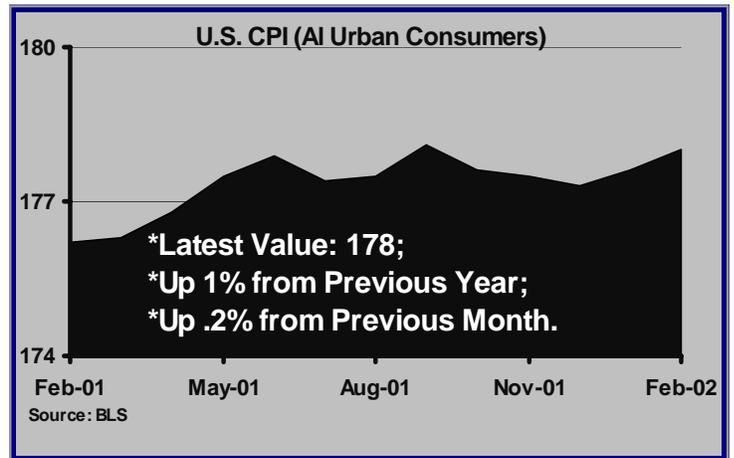
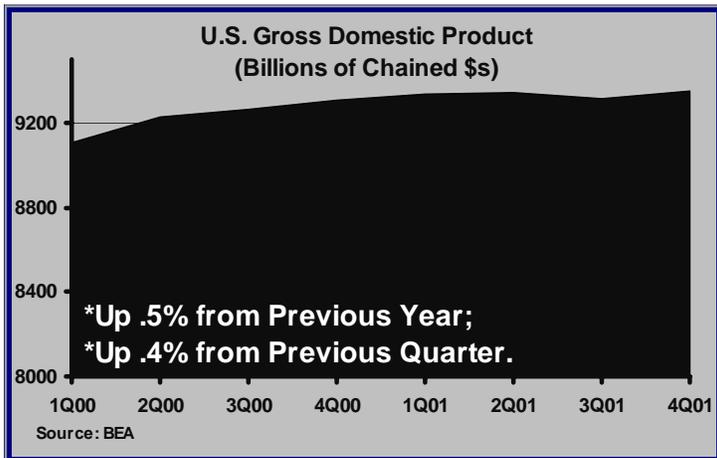
last month. Another robust statistic is our unemployment rate compared to the nation; Oklahoma's rate is a full 1.5 percentage points below the U.S. While that rate is slightly higher than it was at the same time last year, it has remained unchanged from the previous month's measure.

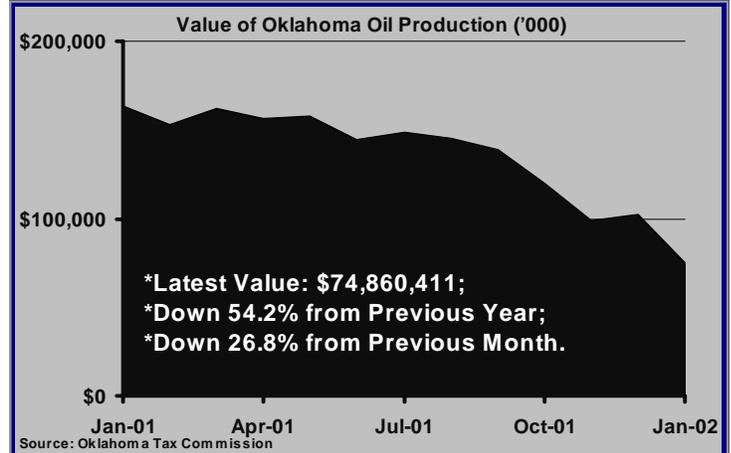
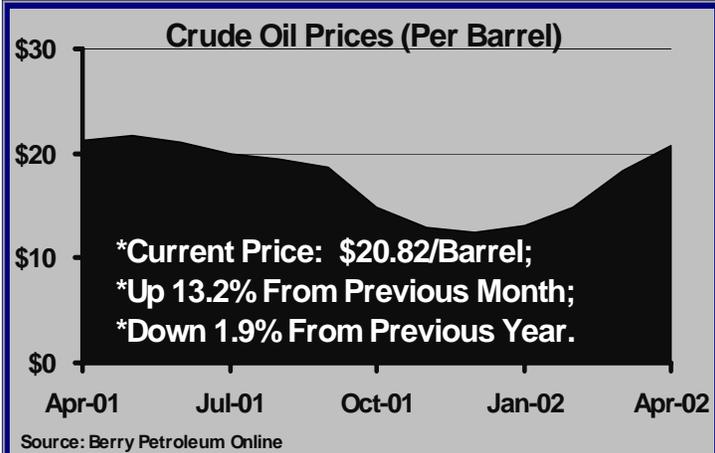
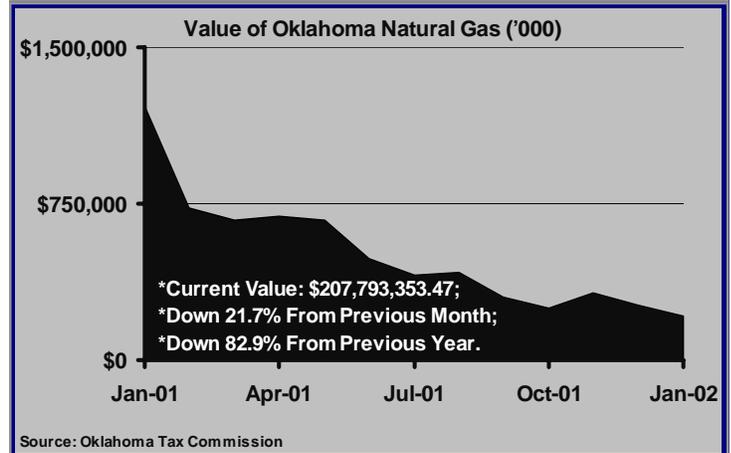
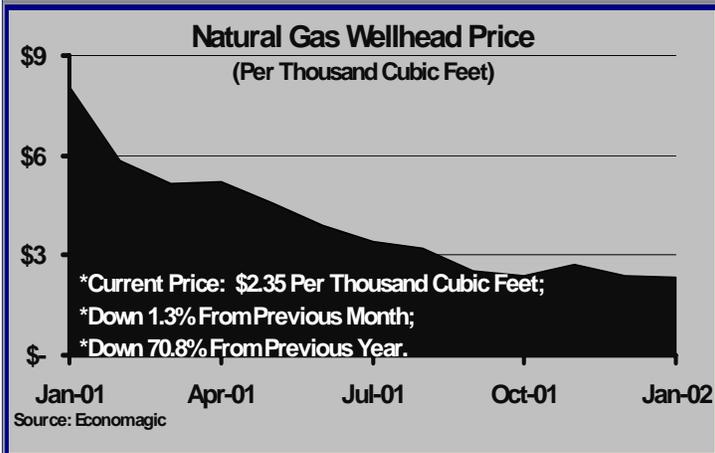
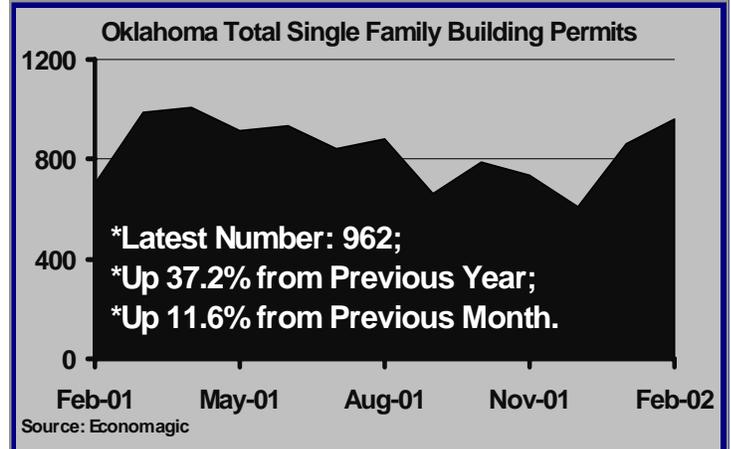
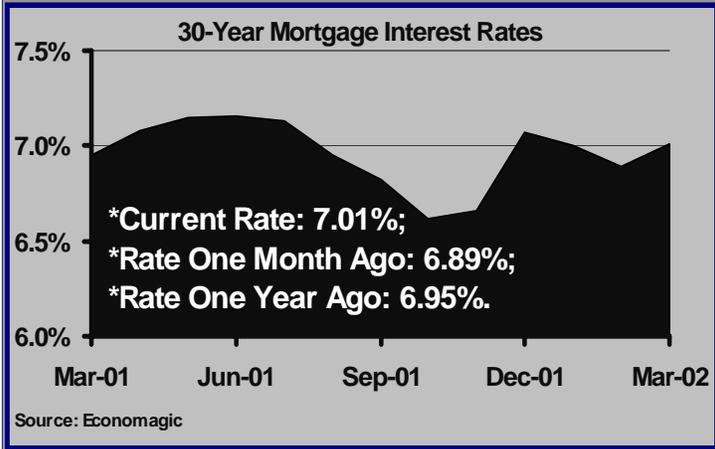
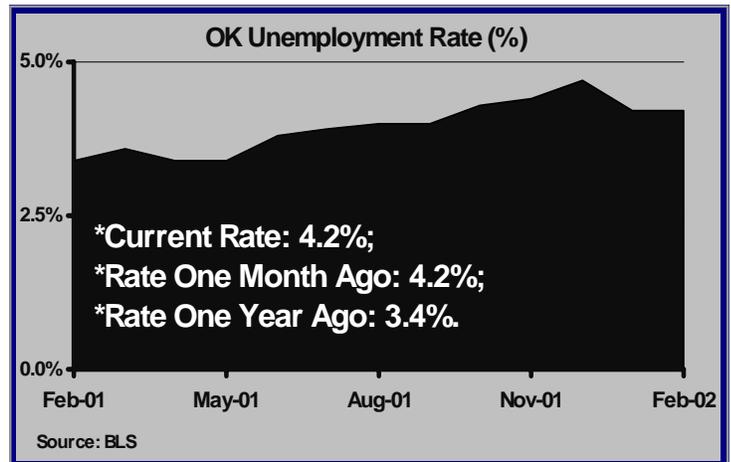
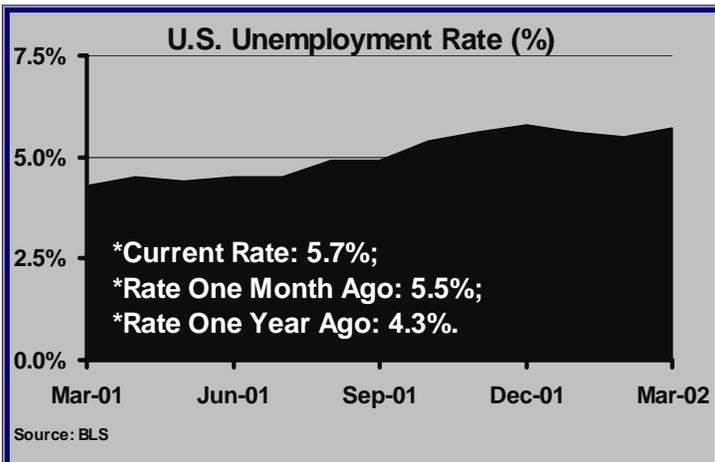
The average 30-year mortgage interest rate has hovered around the seven percent rate since December 2000. This modest rate has no doubt contributed to the significant increase in the number of single family building permits issued in Oklahoma over the past year. This measure has increased

11.6 percent from January to February of this year, and 37.2 percent February 2001 to February 2002.

Oklahoma's spike in natural gas values last year seems to have subsided. In fact, those values are 82.9 percent below their January 2001 rate. The State's oil production has also encountered some volatility, though not nearly as much as the natural gas industry has experienced. Since last year, oil values have decreased 54.2 percent, and 26.8 percent since last month. The current price per barrel is slightly below \$21.00. *EM*

Economic Indicator Updates: Oklahoma & the Nation





Budget Picture Wobbly

While Oklahoma often does not track national economic cycles, the current national recession did not spare Oklahoma's economy. We are experiencing a budget shortfall in the current fiscal year of approximately 2.1% below last year's levels. This shortfall is projected to increase in Fiscal Year '03 to approximately \$350 million. Even as Oklahoma deals with a budget shortfall, ours pales in comparison to the plights of many other states in the nation. Tennessee's budget shortfall is expected to be above \$750 million in FY'03 and Washington state is dealing with a budget shortfall in excess of \$1 billion for next fiscal year.

In early April, House and Senate leadership announced a budget agreement which would protect public education and a variety of health care programs

from the budget axe, in addition to funding an increase in health benefits for teachers and education support personnel. Under the agreement put forth by legislative leadership, the three branches of public education, along with the Health Care Authority, the Department of Mental Health, the Department of Human Service, the Department of Veterans Affairs, the School for Science and Math, and the Schools for the Deaf and the Blind would be funded at the same level as the adjusted budgets for the current fiscal year. The agreement would also raise the percentage school districts fund health insurance for teachers and support personnel from 50 and 90 percent to 75 and 100 percent respectively. In order to offset the projected revenue shortfalls, the bulk of state agencies would be cut 5 percent from their FY 2002 levels. The state rainy day fund would

be accessed to help balance the state budget.

The spreadsheet below shows the current state of the General Revenue Fund as of April 2002. Gross production taxes again took a major hit coming in at 45% of FY'01 levels and 46% of estimates. Motor Vehicle taxes were also lower than both last year's figures and the estimate. While Individual Income taxes did come in slightly above last years receipts they did fall to 98% of the estimated receipts. The Tax Commission has estimated that the bulk of this is related to more people getting their refunds sooner than in previous years. With only three months of collections left for this fiscal year, total revenues are coming in 9 percentage points less than estimated. *EM*

General Revenue Fund, as of April 2002
Comparison with OSF Estimate and Prior Year Collections (\$ Millions)

Revenue Source	Column 1	Column 2	Col 2 / Col 1	Column 3	Col 2 / Col 3
	Actual Collections			Estimated Collections	
	FY-01 Y-T-D	FY-02 Y-T-D	FY-02 as % of FY-01	FY-02 Y-T-D	FY-02 as % of Estimate
TAXES:					
Income					
Individual	\$1,340.0	\$1,358.2	101%	\$1,381.3	98%
Corporate	\$84.4	\$97.7	116%	\$96.1	102%
Gross Production, Gas	\$369.8	\$166.1	45%	\$364.7	46%
Sales	\$904.8	\$935.7	103%	\$944.1	99%
Use	\$62.1	\$55.0	89%	\$70.7	78%
Motor Vehicle	\$187.9	\$175.0	93%	\$201.7	87%
Insurance Premium	\$31.8	\$30.7	97%	\$28.4	108%
Franchise	\$36.9	\$38.7	105%	\$39.2	99%
Inheritance/Estate	\$65.1	\$63.5	98%	\$65.3	97%
Cigarette	\$20.8	\$18.9	91%	\$22.2	85%
Beverage	\$17.2	\$17.8	103%	\$17.9	99%
Alcoholic Beverage	\$11.6	\$11.7	101%	\$11.1	105%
Mixed Beverage	\$11.8	\$13.1	111%	\$11.5	114%
Pari-Mutuel	\$2.7	\$2.2	81%	\$2.7	81%
Other	\$53.1	\$49.7	94%	\$50.9	98%
Subtotal: Taxes	\$3,200.0	\$3,034.0	95%	\$3,307.8	92%
Licences, Permits, & Fees	\$34.6	\$30.4	88%	\$33.1	92%
Income From Money/Property	\$98.3	\$63.5	65%	\$77.9	82%
Other Income	\$17.4	\$14.8	85%	\$16.9	88%
		\$2,863.4			
Continuing Collections	\$3,350.3	\$3,142.7	94%	\$3,435.7	91%
Transfers & Lapses	\$0.5	\$1.2	-	\$1.6	-
Total Revenues	\$3,350.8	\$3,143.9	94%	\$3,437.3	91%