Attachment A

Colorado
Legislative
Council
Staff

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MEMORANDUM

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January 7, 2008

TO: Interested Persons

FROM: Todd Herreid, Chief Economist, 303-866-2633

SUBJECT: Jobs Related to Infrastructure Investment

The following memorandum estimates the number of jobs generated from a billion dollar infrastructure investment in Colorado and the tax revenue implications for the General Fund. The estimates assume that the new investment spending would not have otherwise occurred as some other type of government spending. In other words, it is not displacing other forms of government spending. To the degree this spending supplants other government expenditures, the economic and tax revenue impacts would be smaller than projected.

Based on employment multipliers developed by the Bureau of Economic Analysis (BEA), a million dollar increase in construction spending would generate approximately 19.7 new jobs across various industries, such as construction, manufacturing, retail trade, health services, and professional and business services. A billion dollar investment would therefore create about 19,700 new jobs on a one-time basis, including direct, indirect, and induced job gains. These jobs would disappear upon the completion of the projects.

The state's unemployment rate would be temporarily reduced as a result of the new investment spending. The unemployment rate is currently projected to reach 6.3 percent in 2009 and 5.7 percent in 2010. However, the precise decrease in the unemployment rate would depend on the timing of when jobs are created, whether workers in Colorado or outside the state fill the jobs, and the degree to which individuals outside the existing work force enter the labor market.

Considering the impact of a billion dollar investment on General Fund tax revenue, it is estimated that these construction projects would increase income and sales tax revenue to the General Fund by a total of $32.8 million, which would be received over a number of years. Based on earnings data from BEA, an average annual wage of $42,000 was assumed for the new jobs. Since the state's effective income tax rate is 3.0 percent after consideration of tax deductions, exemptions, and credits, 19,700 new jobs would generate $24.8 million in one-time income tax revenue during the construction phase of the project. If the investment began in March 2009, a portion of the additional income tax revenue would be captured in FY 2008-09. However, it is expected that most of the gains would be received in FY 2009-10 and FY 2010-11.

Regarding sales tax revenue impacts, the Department of Revenue reports that households earning between $40,000 and $50,000 spend about one-third of their income on goods and services subject to the state sales tax. The new jobs would therefore generate $8.0 million in one-time sales tax revenue. In FY 2008-09, a portion of this revenue could be received, but it is anticipated that most of the sales tax gains would be generated in FY 2009-10 and FY 2010-11.