

Construction & State Revenues

Presented to
Washington State Debt Commission

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Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Outline

- Impact of construction on revenue
 - Share of GF-S revenue from construction
 - I/O Model impacts of construction spending
 - Direct and indirect revenue from highway spending
- Outlook for non-residential construction
- Non-building construction contracts
- Debt finance vs. revenue finance
- Questions?

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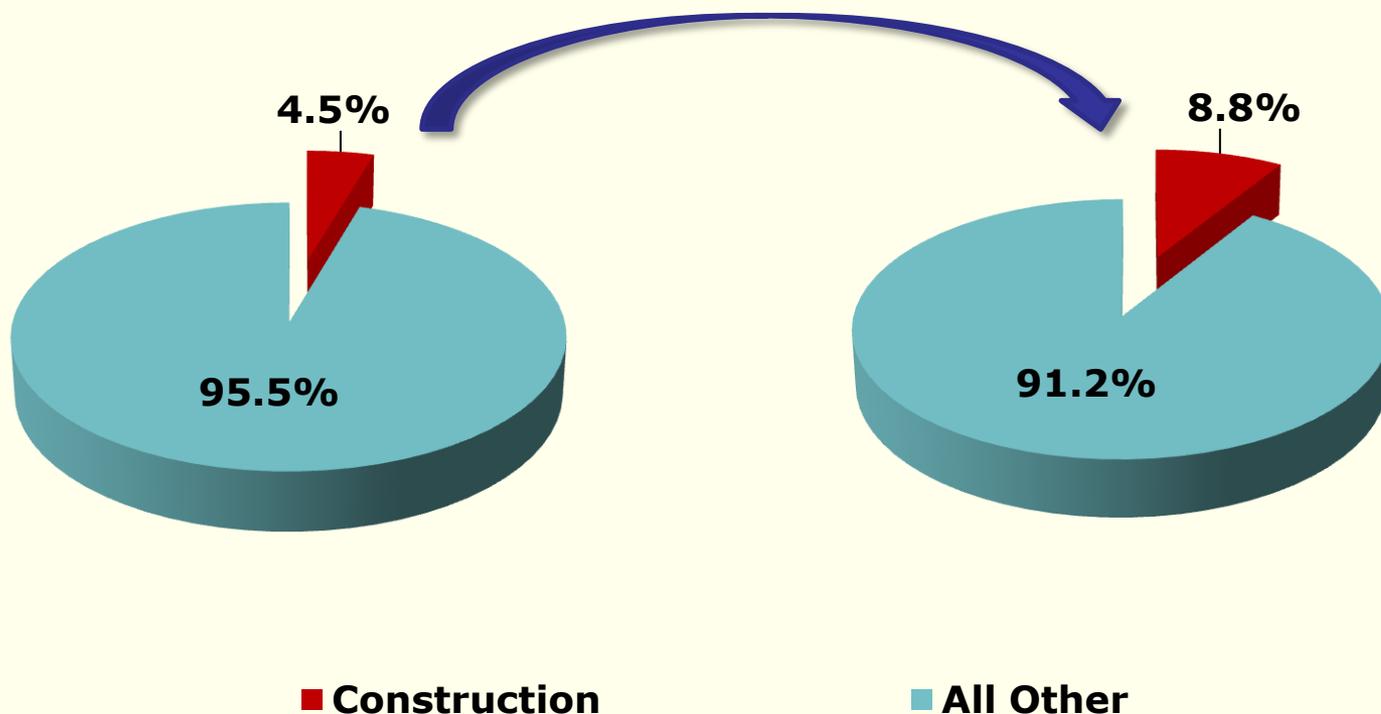
Construction contributes more to the GF-S than to State Product

1997 – 2004
Average

Excludes
bubble
years

Gross State Product

General Fund Revenue

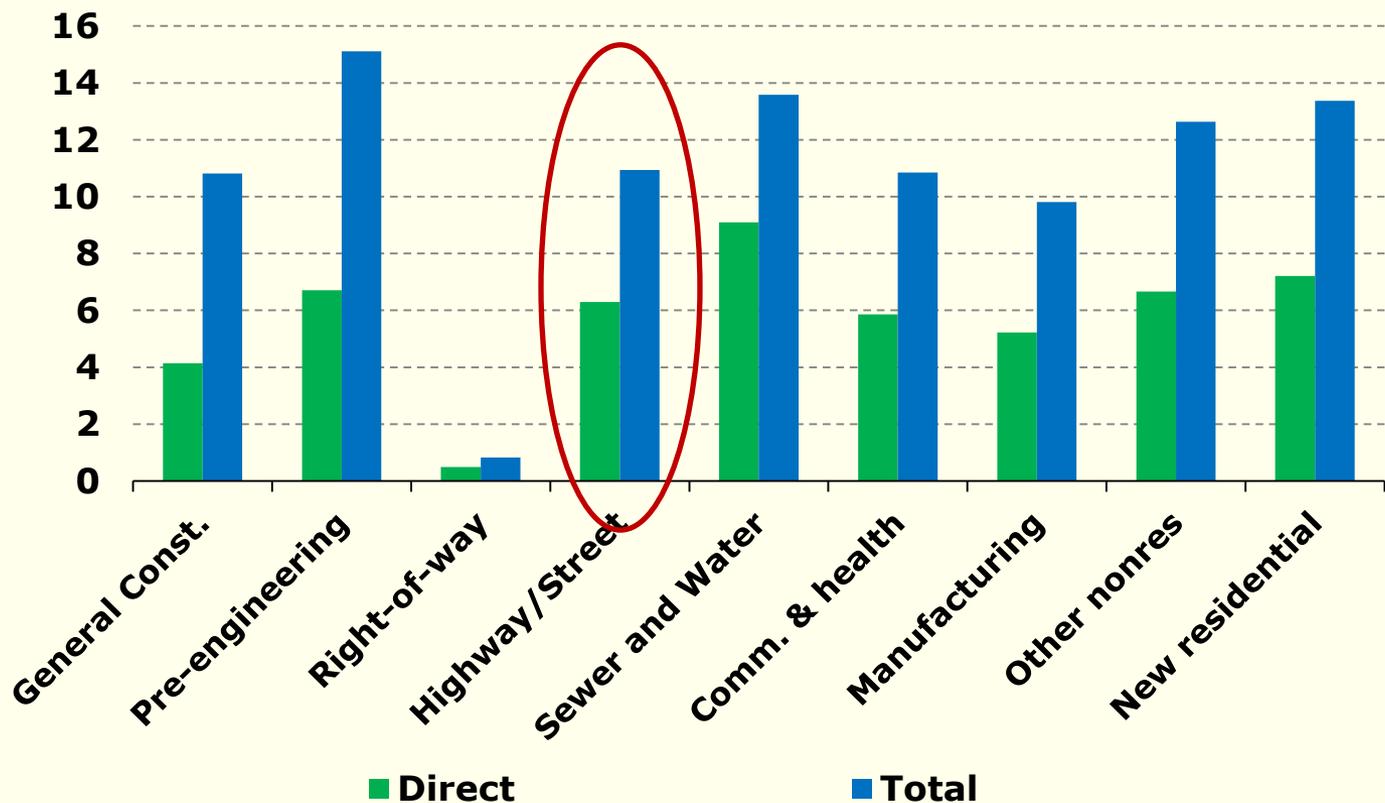


Source: Bureau of Economic Analysis, ERFC



Estimated I/O Model Impact

Infrastructure Jobs Per \$1 Million



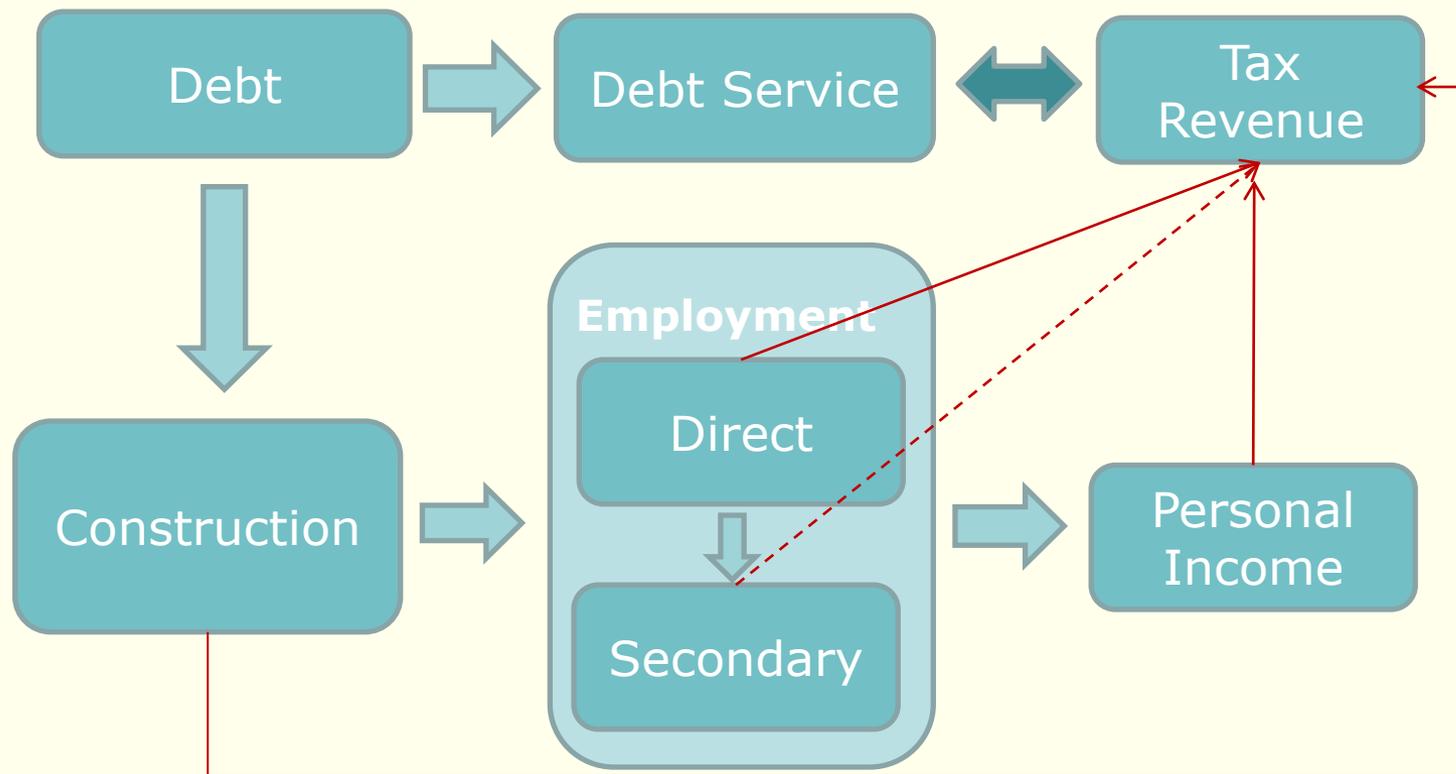
Source: IHS Global Insight, OFM, ERFC



\$1 million spent on highway construction will generate \$88,000 in tax revenues

\$66 million within one year

\$22 million more over time



Source: ERFC

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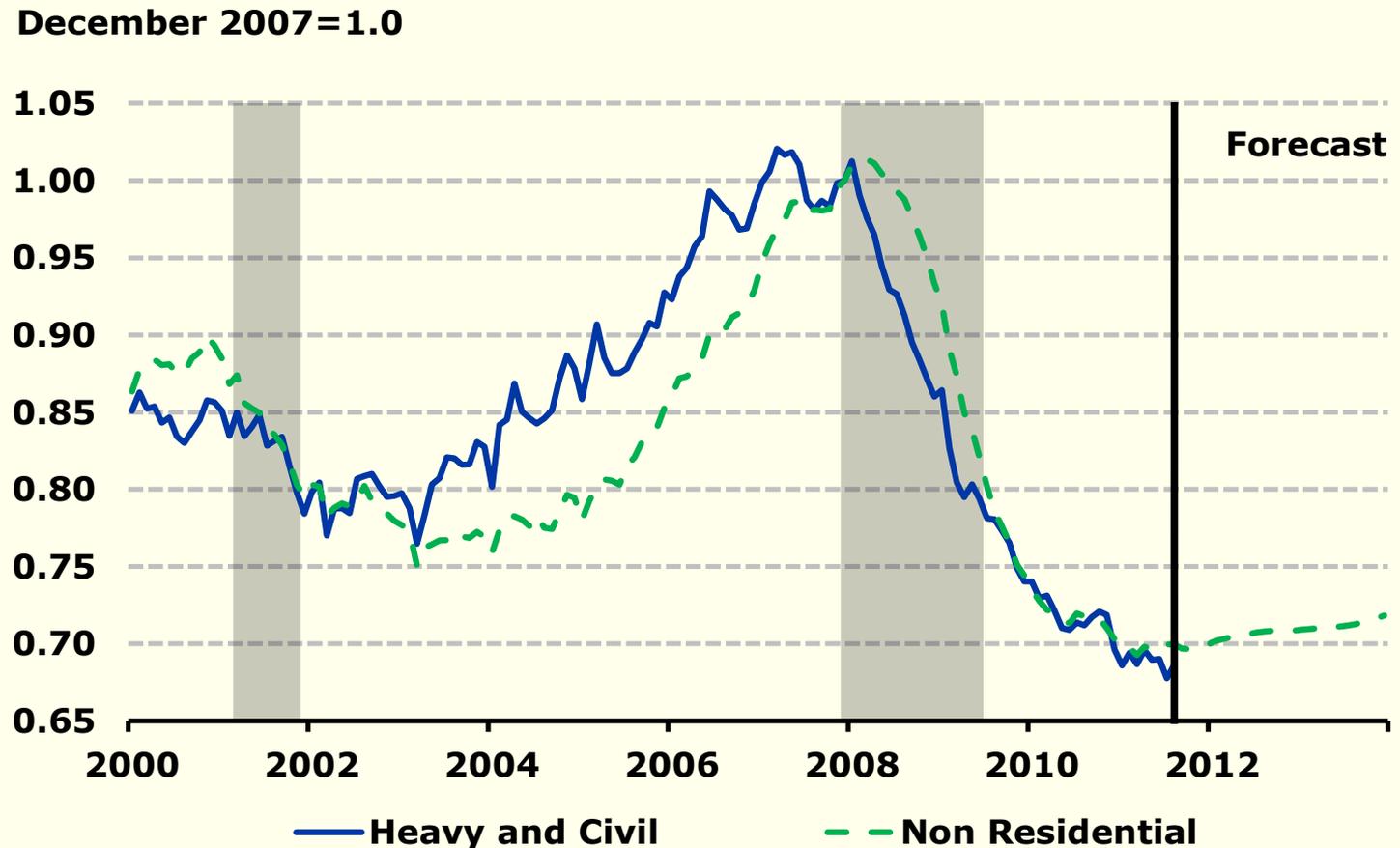


Employment in non-residential construction is expected to recover slowly

Heavy and civil engineering employment accounts for 22% of non-residential employment

Heavy and civil engineering employment is down 33% since the peak in 2007

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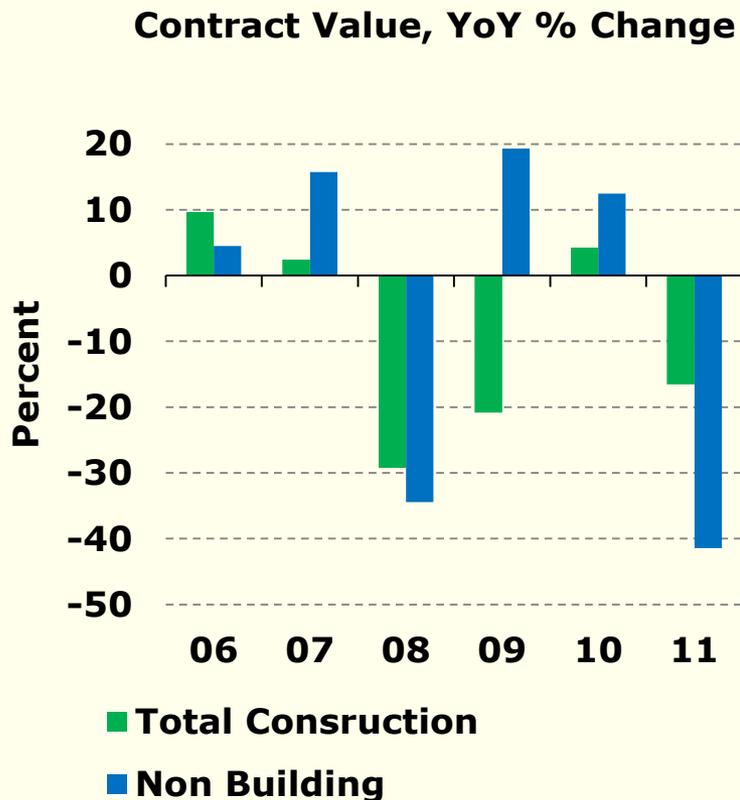
Source: ERFC September 2011 forecast; actual through August 2011



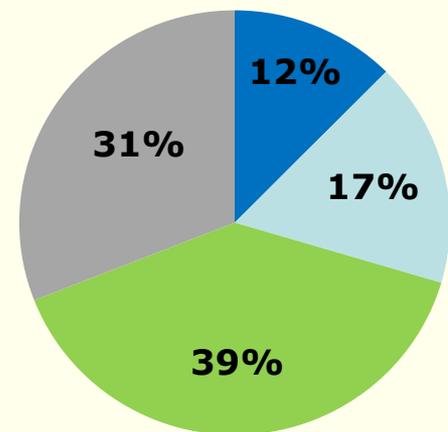
Contracts for non-building construction have plummeted

Contracts for non-building construction have accounted for 31% of total construction by value over the past three years.

Historically, the percentage has been 21%



Non-Building Construction



- Sewerage & Waste Disposal
- Elec. Power & Heating Sys.
- Streets, Highways & Bridges
- Other

Source: McGraw-Hill Construction, ERFC; data through August 2011

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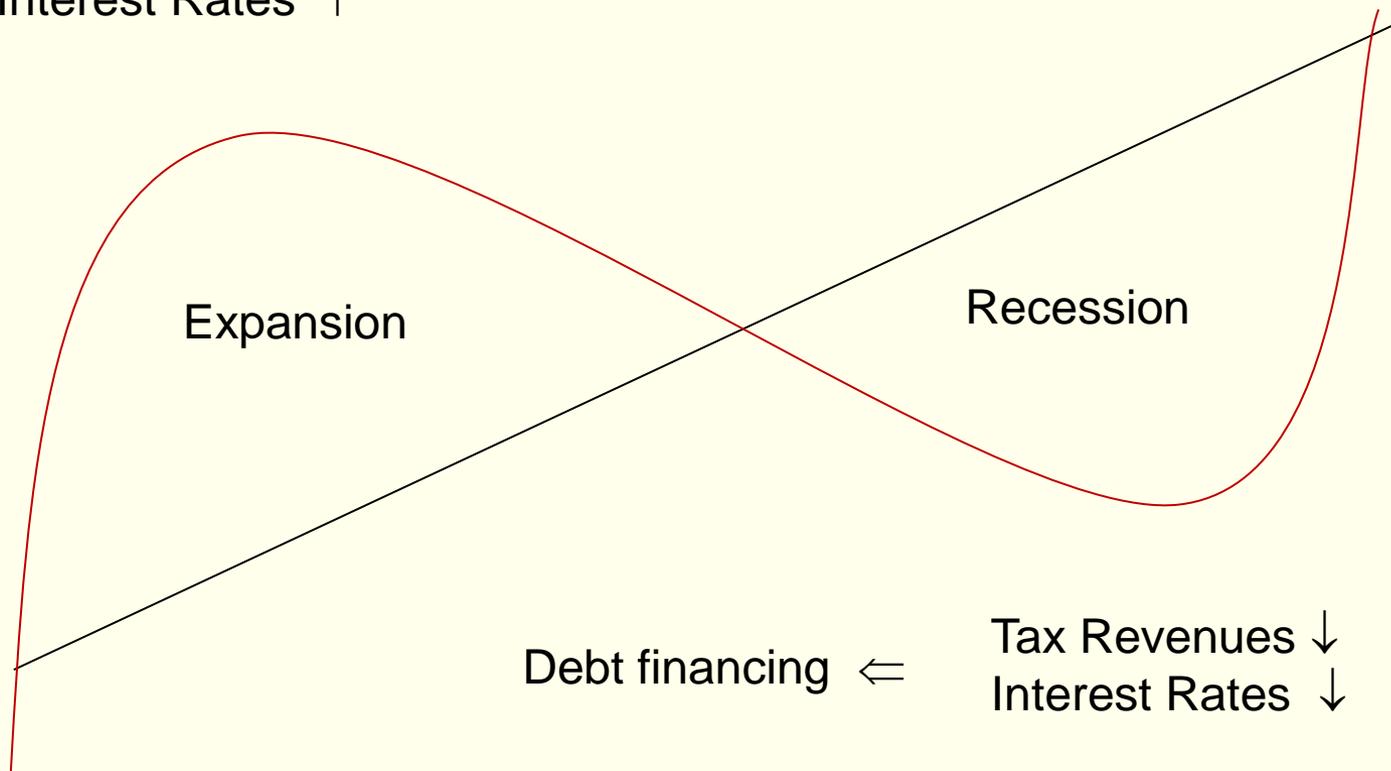
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Business cycle implications

Debt should be counter-cyclical

Tax Revenues ↑
Interest Rates ↑ ⇒ Tax financing



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Questions



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