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The Economic Impact on Santa Barbara County from the Construction and Operation of the new County Jail

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September 10, 2012

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Introduction

What will the economic impact be from the construction and operation of a new \$95.2 million, 376 beds, Type II, County Jail near the city of Santa Maria in the county of Santa Barbara? Ground-breaking is scheduled to begin in March 2015, with construction taking place through March of 2018. Full occupancy of the facility is targeted for May of 2018 (Figure 1).

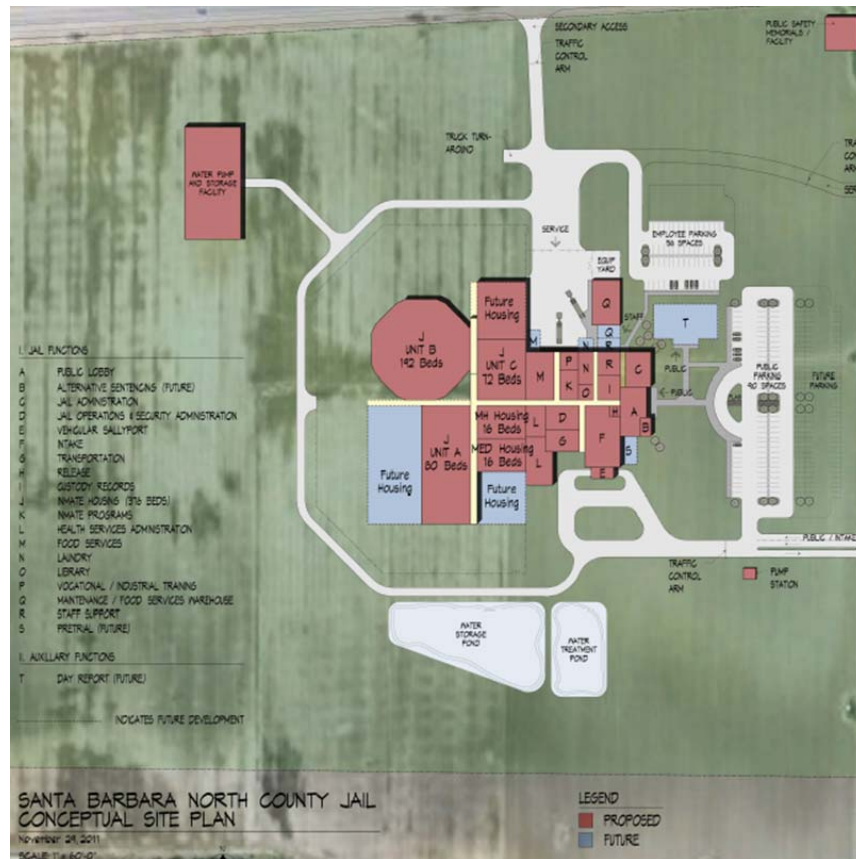


Figure 1: The Santa Barbara County Jail Project

Our estimate has two parts. The first estimates the impact of construction jobs and businesses generated for all sectors--direct, indirect, and induced as defined below in the section on how we did the calculations--which will be involved in the building and furnishing of the jail. This estimate includes jobs providing construction services such as permitting, financial transactions, etc. Total state and local sales and income taxes are also estimated.

The second part of the study estimates the economic benefits which the county will accrue from staffing the jail, including contractors, and the cost of purchasing various services such as sewer fees, water fees, telephone and natural gas costs, foods and materials. All indirect benefits are folded in such as those

involved in building new housing for staff (funded by local contractors), and increases in local store capacities as they provide materials and services. Local and state sales, property and income taxes are also estimated.

Summary of Findings

The economic impact study, conducted by Time Structures, Inc. on March 19, 2012, shows that the construction and operation of a new county jail will have a positive economic impact on the County of Santa Barbara and surrounding jurisdictions. Construction alone will produce economically significant benefits because good-paying full and part-time construction jobs will be generated in each of the building years. Jail operations will generate new full and part-time positions and opportunities for sub-contractors. Economic benefits and tax revenues will accrue to various municipal jurisdictions depending on contractor location, employee residence, and sources for materials, goods and services. Some portion of the revenues from county businesses will also enter the local economy after invoices are paid for construction and operations. These revenue sources will be assured because, consistent with contracting requirements, the Sheriff would like to employ construction and jail operation workers from within the county. Contracting with local companies that can meet requirements for providing materials and services would provide further benefits to the local economy.

Estimates of the Direct Economic Impacts

Total construction and operations impacts for all sectors involved directly, indirectly or induced from building or operating the new Santa Barbara County Jail are summarized in Table 1 below. On examination we see:

- Between 359 and 407.4 new full or part-time jobs each year from 2015 to 2017.
- \$78.2 Million in total additional income for workers from construction and operation over the four years from 2015 to 2018.
- \$171.1 Million in additional business revenues from construction and operations over the first four years from 2015 to 2018.

Table 1: Impacts on Employment, Labor Income, and Gross Business Revenues in Santa Barbara County from Building the New Jail (2015 to 2019 in 2011 dollars)

Impact Type	Year	Employment	Labor Income*	Business Revenue*
Construction	1 (2015)	407.4 Jobs	\$21,561,018.91	\$57,148,556.36
Construction	2 (2016)	359.0 Jobs	\$20,434,552.41	\$50,048,266.13
Construction	3 (2017)	378.8 Jobs	\$21,237,687.81	\$51,900,830.24
Operations**	4 (2018)	198.2 Jobs	\$14,957,876.97	\$12,016,455.04
Annual Operations**	Nth (2019-)	198.2 Jobs	\$14,957,876.97	\$12,016,455.04
Total Construction and First Year Operations Impact	1-4 (2015-2018)	PY 1,343.3	\$78,191,136.10	\$171,114,107.77

* All revenue is in 2011 dollars

**Services and Supplies included in the operating costs are reasonably proportioned between: internet, data processing/hosting, insurance, facilities support, waste management, services to building, food, health and personal care, clothing, appliances, along with other miscellaneous retail spending.

Breakdown for Construction Phase

Construction phase employment gains in all related sectors are estimated for each year (Table 1):

- 407.4 full and part-time jobs in 2015;
- 359.0 new full and part-time jobs in 2016;
- 378.8 new full and part-time jobs in 2017.
- Total construction phase new part-person years (not total full time jobs since the number of jobs during the construction phase stay about the same from year-to-year) in all related sectors is 1,145.1.

Labor income gains or what ends up in the pocket of workers generated in the construction phase in all related sectors is estimated to be (Table 1):

- \$21.6 Million in 2015;
- \$20.4 Million in 2016; and
- \$21.2 Million in 2017.
- Total construction phase income for all sectors is \$63.2 Million.

Business revenue or sales generated in the construction phase in all related sectors (Table 1):

- \$57.2 Million in 2015;
- \$50.1 Million in 2016; and
- \$51.9 Million in 2017.
- Total business revenue generated by the construction phase is \$159.1 Million.

Breakdown for Operations Phase for 2018 and Annual Operations for 2019

Operations employment including all new jail employment and indirect and induced employment (Table 1):

- 198.2 in 2018 and an additional 198.2 in 2019 for a total of 396.4 new jobs by 2020

Labor income during operations, including all new jail employment and indirect and induced (Table 1):

- \$15.0 Million in 2018 and an additional \$15.0 Million in 2019 for a total operations income of \$30.0 Million by 2020.

Business income during operations (Table 1):

- \$12.0 Million in 2018 and an additional \$12.0 Million in 2019 creating a total business operations income of \$24.0 Million before 2020.

Total Direct Local and State Sales Tax

Direct local and state sales taxes will be generated from sales within Santa Barbara County (see Table 2).

To estimate direct state and local sales tax, the total cost of the project was equally distributed over the 3 year construction period, with retail furnishing and operations for year four considered separately. This allows sales tax calculation for each project phase.

Next, the 37 percent of construction project costs subject sales tax was calculated. This was used to estimate the amount of local tax revenue that will be generated based on Santa Barbara's current sale

tax rate of 7.3%. Unfortunately, we don't know how much of the taxable sales will actually occur locally so two categories are provided (50 percent and 100 percent) to give more validity to our estimate. Total state sales tax revenues remain the same.

Table 2: Direct State and Santa Barbara County Sales Tax Revenues (2011 dollars)

Activity	% Subject to Sales Tax*	Total Spending	Total Sales Tax Revenue	Total Local Sales Tax Revenue (Direct)		Total State Sales Tax Revenue
				50% Local Sales	100% Local Sales	
Construction	37%	\$29,990,000	\$804,482	\$55,482	\$110,963	\$693,519
Construction	37%	\$29,990,000	\$804,482	\$55,482	\$110,963	\$693,519
Construction	37%	\$29,990,000	\$804,482	\$55,482	\$110,963	\$693,519
Retail Furnishings	100%	\$2,600,000	\$188,500	\$13,000	\$26,000	\$162,500
Total Construction Year 3			\$992,982	\$68,482	\$136,963	\$856,019
Operation Years 4-	100%	\$6,272,878	\$454,784	\$31,364	\$62,729	\$392,055

* Direct sales tax revenues as a percentage of direct construction costs (37%) were calculated from data from Reed Construction at <http://www.reedconstructiondata.com/building-types/prisons/california/> and, from IMPLAN, the ratio of labor income to total construction cost.

Local direct sales taxes are summarized thusly (Table 2):

- Local construction taxes will range from \$55 Thousand to \$110 Thousand in each of three years.
- Local taxes on furnishings will range from \$13 thousand to \$26 Thousand.
- Local taxes on operations in 2019 will range from \$31 Thousand to \$62 Thousand.

State sales tax revenues are estimated at \$694 Thousand for each year of construction, and \$163 Thousand from retail furnishings.

Estimates of Indirect Economic Impacts

Indirect local and state sales taxes are not generated in the county. Personal income tax and corporate taxes are state taxes and don't stay in the county.

Table 3 catalogs taxes that will be indirectly generated from construction (2015 to 2017) and operations for 2018 to 2019. It shows:

- \$290.5 Thousand in local sales taxes.
- \$1.8 Million in state sales taxes.
- \$1.9 Million in personal state income taxes.
- \$627 Thousand in state corporate taxes.

The margin of Table 3 shows that -- from 2015 to 2018 -- \$4.6 Million tax dollars will be generated from combined state and local tax sources, both direct and indirect, and combining state and local levels.

Table 3: Indirect Taxes from State and Local Sales, Personal Income and Corporate Revenues in Santa Barbara County (2015 to 2019 in 2011 dollars)

Impact Type	Year	Local Sales Tax (Indirect)	State Sales Tax (Indirect)	State Income Tax (Indirect Personal)	State Corporate Tax (Indirect)	Total State and Local Tax Revenue*
Construction	1 (2015)	\$97,350	\$608,438	\$517,351	\$240,731	\$1,463,870
Construction	2 (2016)	\$64,887	\$405,544	\$490,280	\$152,039	\$1,112,750
Construction	3 (2017)	\$78,278	\$489,239	\$509,363	\$163,059	\$1,239,939
Operations**	4 (2018)	\$50,007	\$312,544	\$354,026	\$72,072	\$788,649
Annual Operations**	Nth (2019-)	\$50,007	\$312,544	\$354,026	\$72,072	\$788,649
Total Construction and First Year Operations Impact	1-4 (2015-2018)	\$290,522	\$1,815,765	\$1,871,020	\$627,901	\$4,605,208

* Total tax revenue is understated because this analysis does not include property taxes. The model does not differentiate between direct and indirect property taxes and the proposed facility would not be subject to this tax. Also, The IMPLAN model does not estimate direct sales tax revenue, therefore, it is not included in this table, but estimated in the following table.

Breakdown for Construction Phase

The construction phase will generate indirect taxes from local and state sales, personal income, and corporations:

- \$1.5 Million in 2015
- \$1.1 Million in 2016
- \$1.2 Million in 2017

Breakdown for Operations Phase for 2018 and Annual Operations for 2019

Operations will generate indirect taxes from local and state sales, personal income, and corporations:

- \$788.6 Thousand in 2018
- \$788.6 Thousand in 2019.

How Time Structures Made the Economic Impact Calculations

The Santa Barbara County Sheriff’s Department provided the necessary cost and expenditure data to make the calculations. This data is available upon request from Time Structures, Inc.

Building a jail involves many sectors of the local, state, and sometimes national economies. For example, carpenters use materials or install windows or cell doors created or prefabricated away from the construction site. Meals consumed onsite involve processing and selling agricultural products. Financial, government, and health care services are also necessary. All of these sectors are interconnected in complex ways making the measure of the economic impacts of construction difficult.

We decreased uncertainty by combining basic economic calculations with a computerized model developed by IMPLAN to trace these relationships and to make the estimates reported here.

IMPLAN is a computer model that uses “multipliers” developed by U.S. Bureau of Economic Analysis. It shows how much one unit of project expenditure from one of the sectors involved in building the jail proportionally influences the creation of jobs, incomes, taxes and other factors in related sectors of the economy. These effects may be direct, indirect, and induced. Direct effects are the result of direct spending such as paying a carpenter on site. Indirect effects result from spending by the carpenter to buy a tool or something to eat. Induced effects occur when the business that made the food bought by the carpenter buys the ingredients or pays the cook who makes it. None of these expenditures would have occurred without the jail being built in the first place. In all cases, earnings from direct, indirect, and induced effects may be used to pay a mortgage or rent, pay taxes, buy a car, purchase food, entertainment, etc. In summary, the IMPLAN model looks at all of the direct, indirect, and induced activities to estimate overall economic impacts. (Note that it is not necessary to subtract out overhead, purchase of property, bond payments, etc., since all of these factors are involved in any construction project and are included.)