

# Federal Spending in Colorado: Lessons from the Budget Control Act of 2011

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REDI Report – May 2023

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- This report highlights the relative importance of federal procurement spending in the private sector across different regions of Colorado.
- Several Colorado counties receive a significant amount (over \$3,000 per capita a year) of federal spending.
- The reduction in federal spending from the Budget Control Act of 2011 led to a decline of approximately 10,000 jobs and an increase in unemployment and demands on the social safety net.

In recent years, the political debate has escalated on the appropriate level of federal spending and growing federal deficits. It climaxed in early-to-mid 2011 with a showdown over raising the debt ceiling limit. To avoid a default on U.S. government debt, Congress and the Obama Administration agreed to and signed into law the Budget Control Act of 2011 (BCA).

The U.S. government is projected to hit the current debt ceiling in June of 2023. The current predicament with raising the debt ceiling has a strong parallel to the showdown in 2011. Most notably, much of the discussion on deficit reduction is on cutting (or capping) federal discretionary spending. Discretionary spending is money approved by Congress in the normal appropriations process and ranges from spending on the military to health care and the National Parks Service.<sup>1</sup> In this report, we'll look at federal procurement contracts to private-sector firms in Colorado and the impact from the caps on discretionary spending due to the BCA starting in 2011. This provides a lens for how similar legislation could impact Coloradans.

Private sector firms in almost every county in Colorado have won contracts from the federal government in recent years. Figure 1 shows that the spending is concentrated in the Front Range with modest levels of awards per capita on the Western Slope. The heaviest spending in the state is in El Paso County, home to a significant presence in the defense industry, as well as a broader set of firms in professional, scientific and technical services in Denver and Boulder metro areas.

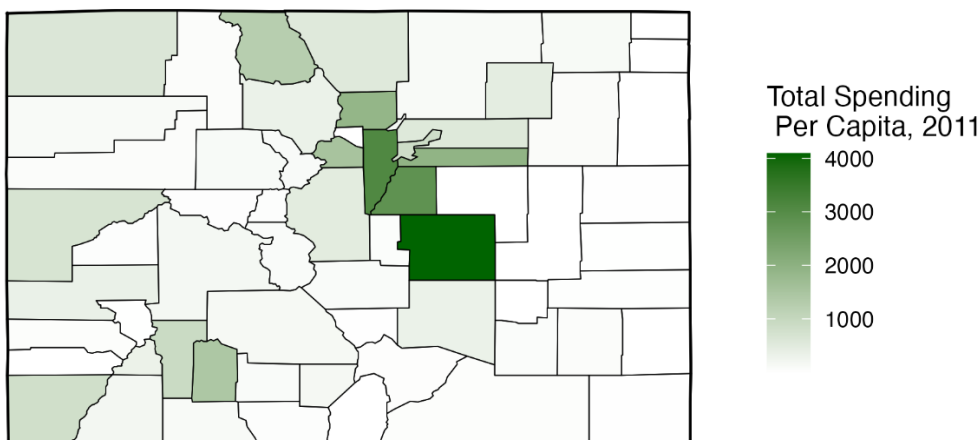


Figure 1: Distribution of Procurement Spending by County, 2011. Data: Federal Procurement Spending Database

<sup>1</sup> In comparison, non-discretionary spending includes Social Security, Medicare and Medicaid.

The BCA of 2011 raised the debt ceiling by \$900 billion, but was coupled with \$917 billion in cuts over the subsequent 10 years<sup>2</sup>. These cuts impacted many Colorado firms. Figure 2 shows the changes in contracts per capita for counties in the state. While firms often try to court government contracts to bolster their business, nonetheless, it creates challenges when those contracts dry up. The spending cuts in the mid-2010s give us a case study on the economic impacts to Coloradans from a reduction in government contracts and provide insights into how Colorado might be impacted by future cuts or caps to discretionary federal spending.

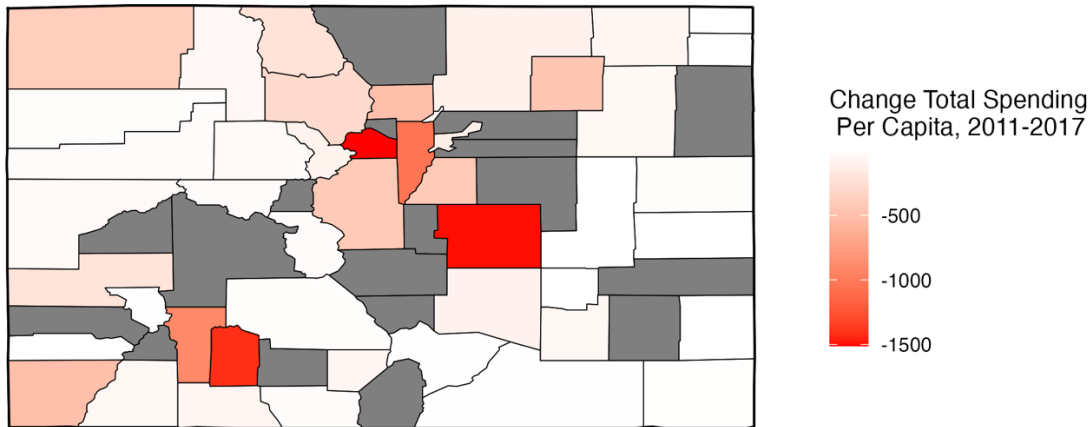


Figure 2: Cuts in Procurement Spending by County, 2011-2017. Data: Federal Procurement Spending Database  
 Note: Areas shaded in gray saw slight increases in federal procurement in this time period.

The reduction in spending primarily impacted the demand for the goods and services, and subsequently the labor market. Table 1 shows that almost 10,000 jobs were lost in the most affected areas in Colorado with over half of that centered in the Boulder and Colorado Springs MSAs. This translated to 6,000 more Coloradans unemployed. Due to the employment losses there was substantial increases in demand for social safety net programs like the Supplemental Nutrition Assistance Program (SNAP). It is helpful to view a prospective disruption in the context of current economic conditions. While in early 2023 the labor market has remained strong, nonetheless, elevated interest rates coupled with a decrease in federal spending could lead to a contraction.

Table 1. Estimated Economic Impact on Colorado from the Budget Control Act of 2011

	Jobs	Unemployed	SNAP increase
Boulder MSA	-1,284	567	1,487
Colorado Springs MSA	-3,847	1,997	3,462
Colorado	-9,902	5,968	6,173

Estimated economic impact using the methodology from Komarek, Timothy M., Kyle Butts, and Gary A. Wagner. "Government Contracting, Labor Intensity, and the Local Effects of Fiscal Consolidation: Evidence from the Budget Control Act of 2011." *Journal of Urban Economics* 132 (2022). SNAP stands for Supplemental Nutrition Assistance Program.

<sup>2</sup> Subsequent legislation in the form of the American Taxpayer Relief Act of 2012, and the Bipartisan Budget Acts of 2013/2015 dampened the size of the spending cuts in the Budget Control Act of 2011.