October 2015

Business Incentives and Economic Development Expenditures: An Overview of Colorado's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the C2ER State Business Incentives Database, which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the C2ER State Economic Development Expenditures Database, a compilation of economic development expenditure budget data from every state.

This report builds on that work by taking a deeper look at Colorado's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness. In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Colorado.

In Fiscal year (FY) 2013, the most recent year spending data are available for all program types, the state spent \$111 million on economic development program expenditures and \$400 million on economic development tax expenditures.[1]

The Center for Regional Economic Competiveness (CREC) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

[1] Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

Overview of Business Incentives

Colorado has a relatively low number of incentive programs, with a total of 27 active programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.[2]

Figure 1: Colorado State Business Incentives by Agency, 2014

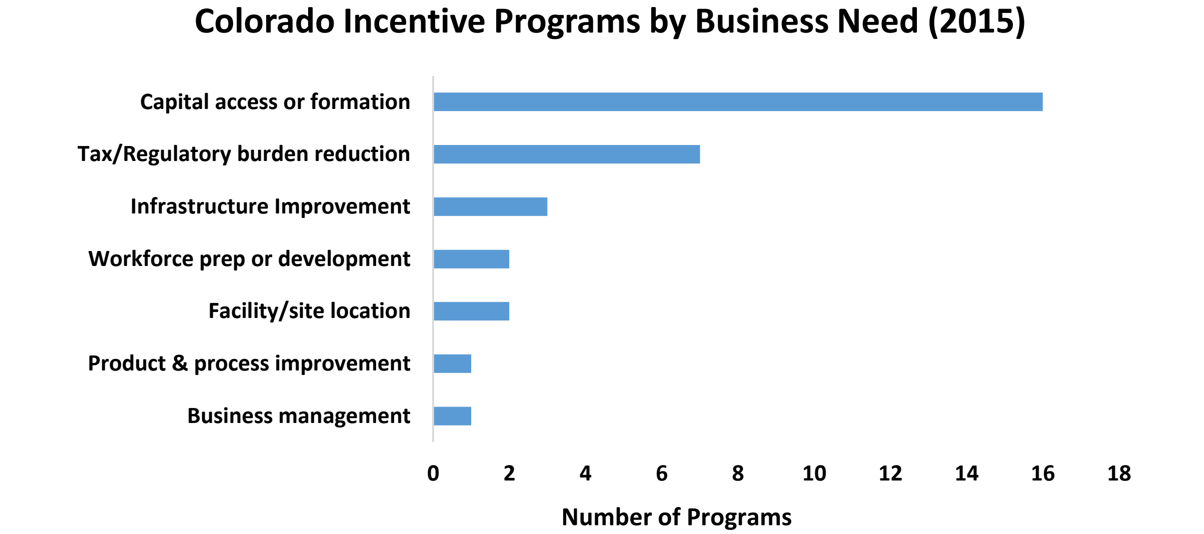
State Agency	Number of Programs
Colorado Office of Economic Development and International Trade	15
Colorado Housing and Finance Authority	5
Colorado Department of Revenue	4
Colorado Department of Labor and Employment	1
Colorado Department of Local Affairs	1
High Country Venture, LLC	1

Source: C2ER State Business Incentives Database

In Colorado, the responsibility for administering these incentive programs is spread across six different state agencies. The primary agencies responsible for administering incentive programs are the Colorado Office of Economic Development and International Trade (OEDIT), Department of Revenue, and Colorado Housing and Finance Authority (See Figure 1.)

[2] The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Colorado. For a current list of incentive programs as defined by the state, please see the Colorado Office of Economic Development and International trade website.

Figure 2: Incentive Programs by Business Need**

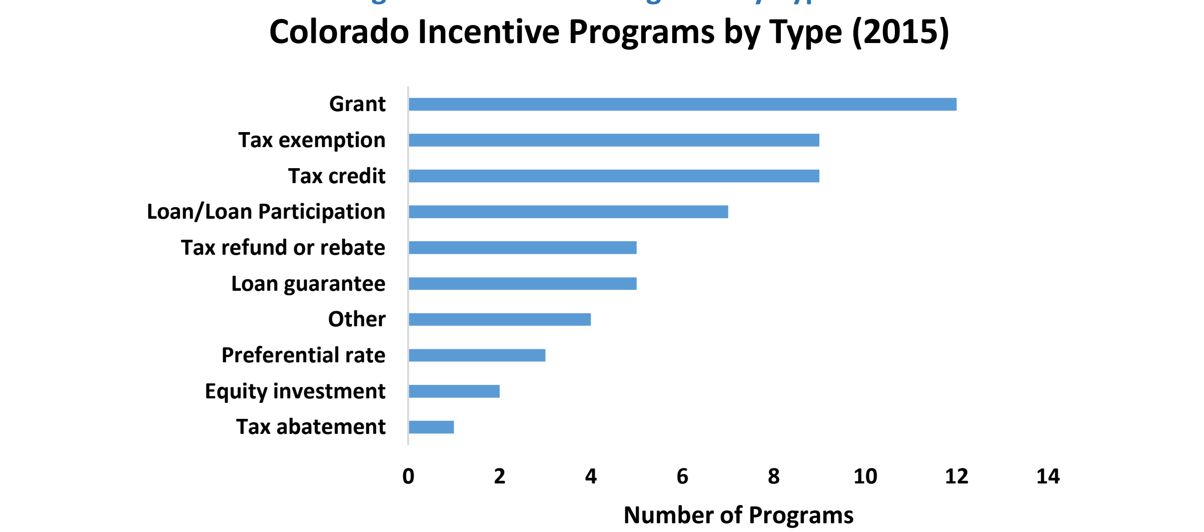


Source: C2ER State Business Incentives Database

*** Note: Programs may appear more than once if they are intended to fulfill multiple business needs.*

The Department of Revenue exclusively administers tax incentives (primarily exemptions and tax credits), while OEDIT and other state agencies administer a mix of tax (primarily credits) and non-tax programs.

Figure 3: Incentive Programs by Type**



Source: C2ER State Business Incentives Database

*** Note: Programs may appear more than once if they provide multiple incentive types.*

Over the past few years, the state has created a number of new tax, direct business financing, and indirect business financing incentives, with no major emphasis on any incentive category. Almost half (48 percent) of Colorado's active incentive programs offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. Around a third of Colorado's incentive programs provide direct business financing (30 Percent), while about 20 percent offer indirect business financing. (See Figure 2.)

State Economic Development Expenditures Function Areas

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

Programs launched in earlier decades emphasized business operational support, such as developing workforce, technology, and products. The emphasis of the state's current portfolio of incentives is on tax burden reduction and capital access or formation, with a smaller number of programs addressing business operations improvements and workforce development. Compared to other states, Colorado's program portfolio places a strong emphasis on providing businesses with facility and site location and product and process improvement. (See Figure 3.)

There has been a recent trend in the state toward the development of capital access programs, such as the Colorado Capital Access Program (2011) and Cash Collateral Support (2011), and developing programs to benefit specific industry sectors in the state, such as aerospace, renewable energy, life sciences, and advanced manufacturing.

Economic Development Program Expenditures

Examining Colorado's budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.[3]

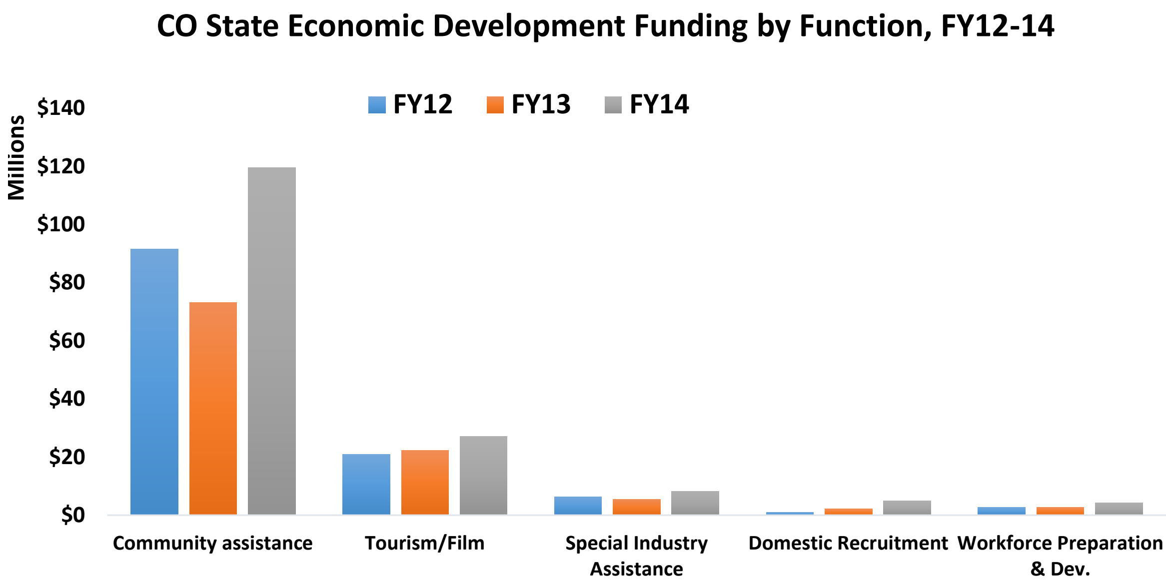
According to Colorado's FY 2015-16 Executive Branch Budget Requests, which detail actual FY 2013 spending, the state spent $111 million[4] on economic development in FY 2013. This level of spending represents an average of $635 per business, which is considerably lower than the median average of $789 per business spent in other states for that fiscal year.

[3] See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf
[4] This total excludes all federal and local economic development expenditures.

The majority of Colorado's economic development expenditures (68%) went to the Department of Local Affairs due to the large amount of funding for community development projects. The Office of the Governor received a quarter of the total funding, to be spent mainly through the Office of Economic Development and International Trade. The remaining funding was appropriated for agricultural development programs at the Department of Agriculture.

In comparison to economic development expenditures nationally, in FY 2013 Colorado spent a greater proportion of its budget (relative to other states) on programs related to community assistance and international trade, and a lower share on programs related to business finance, business assistance technology transfer, tourism and film, workforce preparation, and special industry assistance.

Figure 2: State Economic Development Funding by Function



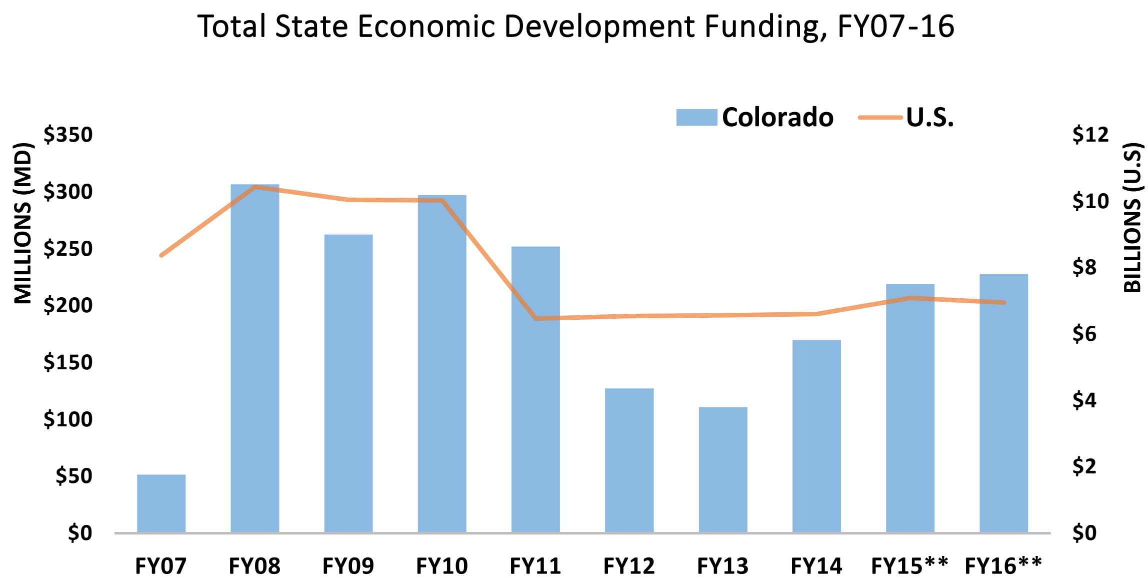
Source: C2ER State Economic Development Expenditures Database
*** Note: All years depict actual spending.*

Between FY 2007 and FY 2008, economic development spending increased in Colorado from $51 million to $307 million. This very large increase was due to the start of the Department of Local Affair's Local Government Mineral and Energy Impact Grants program, which provides planning and infrastructure development funding to localities that were socially and/or economically impacted by the development, processing, or energy conversion of minerals and mineral fuels. Funding for this program was greatly decreased after FY2011, causing a large overall decrease in state economic development program expenditures in FY 2012. Funding for the New Jobs Incentives Cash Fund was also eliminated during this fiscal year.

Economic development expenditures rose again in FY 2014 after hitting another low point of $111 million in FY 2013. In FY2014 there were large spending increases for community assistance, economic incentives and marketing by the Colorado General Assembly's Economic Development Commission. Economic development expenditures are projected to continue increasing in upcoming fiscal years, with

$219 million appropriated for FY 2015 and $228 million in proposed spending for FY 2016. The largest funding increases in these fiscal years are projected to be for business assistance, business finance and international trade, with funding increases for Small Business Development Centers, Leading Edge Program Grants, and Global Business Development. (See Figure 5.)

Figure 3: Total State Economic Development Funding



Source: C2ER State Economic Development Expenditures Database
*** Note: FY15 represents appropriated spending and FY16 represents proposed spending. All other years depict actual spending.*

Economic Development Tax Expenditures

Tax expenditures can be defined as *"*revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures."[5] *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The Colorado Tax Profile and Expenditure Reports for FY 2014, published by the Colorado Department of Revenue, was used for the analysis in this section. Data was collected by reviewing and recording all line items in the report related to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. For a large number of tax incentives, only FY 2011 revenue impact data was available, so that fiscal year was included as a proxy for FY 2013 totals. In other cases, the tax incentive is listed as having no tax expenditures for that year because the data was not available, not reported to maintain confidentiality, or available but aggregated within the total for another credit.

[5] *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm

In FY 2013, the state of Colorado's economic development tax expenditures totaled approximately $400 million, which was significantly greater than the $111 million Colorado invested in economic development program expenditures for that fiscal year. Colorado administered its tax expenditures related to economic development primarily through the Department of Revenue, although for some incentives, state agencies like OEDIT were involved in marketing the incentives and evaluating applicants for discretionary tax incentives.

For FY 2013, approximately 99 percent of Colorado's economic development tax expenditures were for sales and use tax exemptions, while the remainder went to income tax credits, which includes both corporate and individual income taxes. However, almost all of the economic development income tax credits listed in the report were not included in these totals because they were aggregated under the Colorado minimum tax credit, rather than broken out by the expenditures for each credit. If the aggregate total of $180 million listed for the Colorado minimum tax credit had been included, Colorado's economic development tax expenditures for FY 2013 would be much higher (around $580 million).

The primary economic development functional goals of these tax expenditures were to encourage community assistance, domestic recruitment, special industry assistance, technology transfer, and workforce preparation and development. The majority of Colorado's economic development tax expenditures went towards special industry assistance (99 percent) and community assistance (1 percent). Colorado used tax incentives to assist many different industries in the state, with almost two thirds of line items going toward specific industries. The primary industries that received tax assistance in FY 2013 were agriculture (80 percent) and manufacturing (19 percent).

Although not included here as economic development tax expenditures, the state offers oil and gas producers a number of credits, deductions, and exemptions to its severance tax. Colorado's severance tax was created in 1977 in order to recapture portions of the state's "wealth endowment" that were lost due to the excavation and extraction of nonrenewable resources. Revenue from the tax is used to offset the cost of mitigating negative impacts from nonrenewable energy production, partially through the previously mentioned Local Government Mineral and Energy Impact Grants program. Severance tax exemptions have resulted in Colorado having a lower effective tax rate on oil and gas production than all of its neighboring states.[6] This has led to recent proposed legislation to raise the current effective tax rate in order to capture more tax revenue from the state's current energy production boom.[7]

Analysis of Available Outcome Data

OEDIT has produced an Annual Report for the agency since 2012, as well as a variety of reports for its individual agencies and programs. The Annual Report provides information on a range of program impacts, varying by program. These metrics include: number of projects, value/number of awards, jobs created, average wages, amount of increased state revenue, capital formation, number of clients, consulting hours, and names of recipients/project descriptions.

[6] Colorado Fiscal Institute. "Colorado State Tax Basics 2015". Accessed at: http://www.coloradofiscal.org/wp-content/uploads/2015/01/Colorado-State-Tax-Basics-2015.pdf

[7] The Denver Post Editorial Board. "Time to de-Bruce Colorado severance taxes?" The Denver Post (March 29, 2015). Accessed at: http://www.denverpost.com/editorials/ci_27801148/time-de-bruce-colorado-severance-taxes

In addition to the Annual Report, OEDIT produces a Performance Plan, most recently updated on June 25, 2015. The Performance Plan includes the agency mission, strategies, and goals, as well as the mission, strategic objectives and programs for each agency division. For each division, the plan lists several key performance indicators and measures for evaluating the division's progress in achieving its stated strategic objectives. The plan indicates whether each targeted measure has been achieved, as well as details on how the division has achieved its targets.

During the 2012 legislative session, the General Assembly passed House Bill 12-1241, which created the Enterprise Zone Review Task Force. The 15-member Enterprise Zone Review Task Force was charged with reviewing Enterprise Zone designation criteria, the tax credits provided by the program and their effectiveness, as well as other issues the taskforce finds necessary. The taskforce was required to report its progress, findings, and recommendations to the House and Senate Finance Committees, the House Economic and Business Development Committee, and the Senate Business, Labor, and Technology Committee of references by November 1, 2013.

Additionally, beginning January 1, 2016, the bill requires the executive director of OEDIT to review Enterprise Zone designations at least once every five years to determine if their boundaries meet at least one of the three statutory criteria for determining economic distress. Except in periods of high unemployment, the bill authorizes the director of OEDIT and the commission to modify existing enterprise zone designations based on the results of the five-year review. Recommendations must be reported to the Legislative Audit Committee in conjunction with the annual report.

As of January 1, 2012, Colorado became one of a handful of states that requires any bills that create new tax expenditures or extend expiring tax expenditures to include a legislative declaration stating the intended purpose of the tax expenditure.[8]

Conclusion

Colorado currently offers a modest number of business incentives, with a strong focus on community assistance and developing targeted state industries. The state's economic development program expenditures and tax expenditures are similarly relatively low, with most going to towards community assistance, tourism, international trade promotion, and the development of industries like agriculture, energy production, agriculture, manufacturing, renewable energy, aerospace, and biotechnology.

Colorado has made some recent progress in tracking and evaluating the outcomes and impacts of its economic development programs and incentives, including the OEDIT Annual Report and the innovative OEDIT Performance Plan. These initiatives and the creation of the Enterprise Zone Review Task Force may signal that the state is moving towards more intensive evaluation of its individuals programs and agency activities in the future.

[8] Colorado Revised Statutes § Title 39, Article 21, Section 304

Appendix A: Full List of Colorado State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
Work Opportunity Tax Credit	Colorado Department of Labor and Employment	Tax credit	Tax/Regulatory burden reduction
Manufacturing Revenue Bonds	Colorado Department of Local Affairs	Tax exemption	Tax/Regulatory burden reduction
Farm Equipment Sales Tax Exemption	Colorado Department of Revenue	Tax exemption	Product & process improvement
Sales Tax Exemption on Manufacturing Equipment	Colorado Department of Revenue	Tax exemption	Product & process improvement
Child Care Facilities Investment Credit	Colorado Department of Revenue	Tax credit	Tax/Regulatory burden reduction
Sales Tax Exemption on Components for Production of Energy from Renewable Energy Sources	Colorado Department of Revenue	Tax exemption	Tax/Regulatory burden reduction; Tech & product development
Colorado Credit Reserve Programs	Colorado Housing and Finance Authority	Collateral Support	Capital access or formation
Colorado Brownfields Revolving Loan Fund	Colorado Housing and Finance Authority	Grant; Loan guarantee; Preferential rate	Facility/site location
Cash Collateral Support (CCS)	Colorado Housing and Finance Authority	Collateral Support	Capital access or formation
Colorado Capital Access Program	Colorado Housing and Finance Authority	Loan/Loan Participation	Capital access or formation
Commercial Real Estate Loans	Colorado Housing and Finance Authority	Loan/Loan Participation	Capital access or formation; Facility/site location
Certified Capital Companies Program	Colorado Office of Economic Development and International Trade	Loan/Loan Participation	Capital access or formation
Colorado FIRST and Existing Industry Customized Training Programs	Colorado Office of Economic Development and International Trade	Grant	Workforce prep or development
Enterprise Zone Tax Credit	Colorado Office of Economic Development and International Trade	Tax credit	Capital access or formation
Infrastructure Assistance Program	Colorado Office of Economic Development and International Trade	Grant	Facility/site location
Bioscience Discovery Evaluation Grant Program	Colorado Office of Economic Development and International Trade	Grant	Tech & product development; Capital access or formation

Colorado Aircraft Manufacturer New Employee Tax Credit	Colorado Office of Economic Development and International Trade	Tax credit	Facility/site location
Biotechnology Sales and Use Tax Refund	Colorado Office of Economic Development and International Trade	Tax refund or rebate	Business management; Product & process improvement; Tax/Regulatory burden reduction
Job Growth Incentive Tax Credit	Colorado Office of Economic Development and International Trade	Tax credit	Tax/Regulatory burden reduction
Strategic Cash Fund Incentive	Colorado Office of Economic Development and International Trade	Grant	Workforce prep or development
Advanced Industries Accelerator Programs	Colorado Office of Economic Development and International Trade	Equity investment; Grant	Business management; Capital access or formation
Film Incentive Program	Colorado Office of Economic Development and International Trade	Tax refund or rebate	Tech & product development
Aviation Development Zone Tax Credit	Colorado Office of Economic Development and International Trade	Tax credit	Capital access or formation
Advanced Industry Investment Tax Credit	Colorado Office of Economic Development and International Trade	Tax credit	Capital access or formation
Rural Economic Development Initiative (REDI) Grant Program	Colorado Office of Economic Development and International Trade	Grant	Infrastructure Improvement; Facility/site location; Workforce prep or development
Commercial Historic Preservation Tax Credit	Colorado Office of Economic Development and International Trade	Tax credit	Tax/Regulatory burden reduction; Facility/site location
Colorado Fund 1	High Country Venture, LLC	Equity investment	Capital access or formation

Appendix B: CO Economic Development Program Expenditures (2013)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	$703,960
Business Assistance	Small business dev. (e.g., SBDCs)	$227,747
Business Finance	Grants to businesses	$51,024
Community assistance	Grants to local/regional dev. orgs.	$73,118,012
Domestic Recruitment/Out-of-State	Other Domestic Recruitment/Out-of-State	$2,092,280
International Trade and Investment	Other International Trade and Investment	$1,846,853
Program Support	Economic research	$8,689
Program Support	Other Program Support	$2,274,805
Special Industry Assistance	Agriculture/agribusiness	$742,442
Special Industry Assistance	Biotechnology/life sciences	$3,598,173
Special Industry Assistance	Other Special Industry Assistance	$1,183,953
Tourism/Film	Film Promotion	$639,240
Tourism/Film	Major events/festivals	$7,519,741
Tourism/Film	Other Tourism/Film	$500,000
Tourism/Film	Tourism promotion (exc. Advertising)	$13,633,496
Workforce Preparation & Dev.	Customized training	$2,725,022
Grand Total		**$110,865,437**

Appendix C: CO Economic Development Tax Expenditures (2013)

Description	Total Funds
Adjuvants, bull semen, and agricultural compounds	$1,806,000
Aircraft manufacturer new employee credit*†	$0
Alternative fuel refueling facility credit*†	$0
Alternative fuel vehicle credit*†	$0
Biotechnology equipment	$433,000
Certain livestock	$241,525,000
Commercial vehicle enterprise zone investment tax credit*†	$0
Components used in the production of electricity from a renewable energy source^	$0
Contaminated land redevelopment credit*†	$0
Contribution to enterprise zone administrator credit*†	$0
Dairy equipment	$76,000
Employer child care facility investment credit*†	$0
Energy used for industrial, manufacturing, and similar purposes	$17,266,000
Enhanced rural enterprise zone agricultural employee processing credit*†	$0
Enhanced rural enterprise zone new business facility employee credit*†	$0
Enterprise zone agricultural employee processing credit*†	$0
Enterprise zone employee health insurance credit*†	$0
Enterprise zone investment tax credit*†	$0
Enterprise zone job training credit*†	$0
Enterprise zone new business facility employee credit*†	$0
Enterprise zone research and experimental credit*†	$0
Enterprise zone vacant commercial building rehabilitation credit*†	$0
Enterprise zone manufacturing machinery*	$0
Farm auction close-out sales^	$0
Farm equipment	$6,130,000
Farm parts used in the repair or maintenance of farm equipment*	$0
Feed for livestock, seeds, and orchard trees	$64,272,000
Fish for stocking	$34,000
Historic property preservation credit†	$418,000
Innovation investment tax credit*†	$0
Job growth incentive tax credit*†	$0
Machinery or machine tools used in manufacturing process	$55,267,000
Machinery that comprises a cleanroom	$0
New investment tax credit*†	$0
Old investment tax credit*†	$0
Pesticides	$3,041,000

Refundable alternative fuel vehicle credit†	$4,866,000
Rural technology enterprise zone credit*†	$0
Special fuel for farm vehicles	$3,611,000
Straw for livestock and poultry bedding*	$0
GRAND TOTAL	**$398,745,000**

* Amount combined with another exemption or credit
† FY 2011 data used as proxy for FY 2013, as only FY 2011 data available
^ Data not available