



**COLORADO ENTERPRISE ZONES
ANNUAL REPORT
2003**

*Office of Economic Development and International Trade
Department of Local Affairs
March 2003*

2003 Colorado Enterprise Zone Annual Report

The following information on changes in economic conditions in enterprise zone areas and on enterprise zone tax credit activity represents the annual report to the General Assembly summarizing the status of enterprise zones, as required by 39-30-103, C.R.S. Additional detail is available on request from the Economic Development Commission staff, and will also be available on the Office of Economic Development and International Trade website, www.state.co.us/oed.

Background - Enterprise Zone Designation Process

The Colorado Urban and Rural Enterprise Zone statute, 39-30 C.R.S., provides for one or more local governments to propose areas for designation as an enterprise zone. It sets forth three criteria to measure economic distress in order for an area to qualify for enterprise zone designation:

- Unemployment rate greater than 25 percent above the state average; or
- Per capita income less than 75 percent of the state average; or
- Population growth less than 25 percent of the state average.

In addition, the total population residing within an enterprise zone boundary cannot exceed 80,000 persons (100,000 for rural enterprise zones).

The Colorado Economic Development Commission ("EDC") has the authority to designate and terminate areas as enterprise zones (this authority rested with the executive director of the Department of Local Affairs prior to 1996). The statute originally allowed up to 8 areas to be designated as enterprise zones. The General Assembly amended the Act in subsequent years to increase that number to the current 16. In 1997, following amendments to the Act which gave the EDC power to terminate zone areas, the EDC reviewed available data on economic conditions in EZ areas, and terminated those areas which it determined no longer met the distress criteria. These terminations took effect July 1, 1998.

In 2002, in light of the downturn in the state's economy, the General Assembly amended the Enterprise Zone Act (HB 02-1399) to repeal the previous requirement that the EDC review all enterprise zone areas within 12 months of the publication of socio-economic data from the 2000 U.S. Census. The EDC continues to have discretionary authority to designate and terminate zone areas.

Changes in Zone Economic Conditions

- Based on data from the Colorado Department of Labor & Employment, Colorado's economy lost about 3,400 jobs from calendar year 2000 to 2001. In rural enterprise zone counties, 3,100 jobs were lost in 2000 and 1,000 more in 2001. Urban zone counties were still gaining about 9,800 jobs in 2000, but lost 5,100 in 2001. Between 1990 and 2000, 46 percent of state job growth was in enterprise zone counties, compared to 13 percent of the state job growth in the same counties prior to the zone program, between 1980 and 1985. Between 1990 and 2000, 14 percent of state job growth was in rural enterprise zones, compared with a loss of jobs in the rural counties during the early 1980s. (Note: Enterprise zones in urban counties only cover parts of the county, but data are available only at the county level.)
- Unemployment in zone counties averaged 5.4 percent in 2002 (preliminary), up from 3.8 percent in 2001, and in rural enterprise zones, the preliminary 2002 unemployment rate averaged 4.5 percent, up from 3.9 percent in 2001. The state's preliminary 2002 rate was

5.3 percent, up from 3.7 percent in 2001. This narrowing of the gap between the state average and zone counties reflected the greater severity of the economic downturn in technology-focused counties, including non-zone counties. Although these rates are all significantly higher than their historic low point in 2000, they are still well below the unemployment rates experienced when the enterprise zone program began in 1986 (7.4 percent statewide and 10.4 percent in rural EZ's).

- Since 1990, rural enterprise zones in eastern and southern Colorado have started to regain population, although at slower growth rates than the state average. These areas were losing population during the 1980s.

As with any public economic policy, it is not possible to measure definitively the impact of a single program such as enterprise zones as compared with other economic factors.

Statistics for Companies Claiming Enterprise Zone Tax Credits

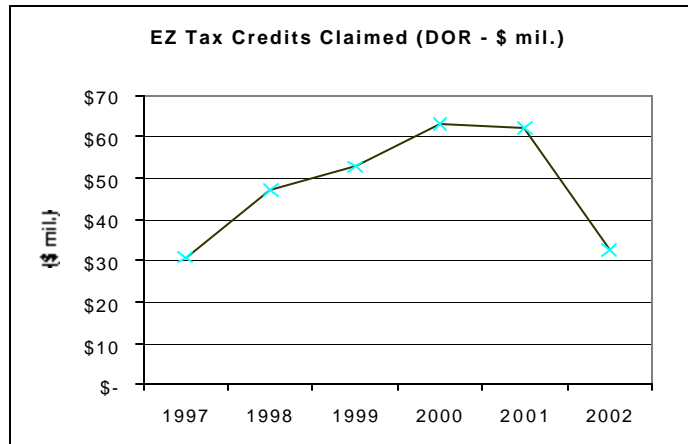
The Enterprise Zone statute specifies that a variety of statistics for companies claiming Colorado enterprise zone income tax credits are to be reported by local enterprise zone administrators and summarized in this Annual Report. Statistics for companies claiming enterprise zone tax credits are collected by enterprise zone administrators from the "Certification of Qualified Enterprise Zone Business" forms which taxpayers claiming enterprise zone credits must attach to their Colorado income tax returns. In addition to verifying the taxpayer's location within an enterprise zone, these forms collect information on the potential amount of EZ tax credits for which the taxpayer qualifies, as well as the additional information required by the statute.

- The number of businesses certifying potential enterprise zone tax credits in FY 2002 was 5,452, an increase of 6 percent from 2001.
- Businesses certifying zone tax credits created over 8,600 new jobs in 2002, a decline of about 60 percent from 2001. This was the smallest figure since 1992. They also retained 138,000 jobs. These figures are the combined result of businesses that gained jobs, those that lost jobs over the year, and those whose employment remained the same.
- Businesses certifying zone tax credits invested over \$1.4 billion in new equipment used in enterprise zone businesses during FY 2002, down 19 percent from 2001.
- Over 8,000 taxpayers contributed \$14.7 million to enterprise zone economic development and homeless assistance projects in FY 2002, resulting in over \$3.2 million in potential tax credits. This was a 60 percent decrease from FY 2001 and a 72 percent decrease from the peak year of 1998, as the reductions in this credit from 50% to 25% enacted by the General Assembly in 1996 have taken effect.

Credits Claimed vs. Credits Certified. Total EZ tax credits claimed with the Department of Revenue in FY 2002 were \$32 million, down 48 percent from the level of FY 2001 and 2000. Of this total, \$18 million were claimed by corporate taxpayers, and \$14 million by non-corporate (individual contribution credits, plus sole proprietor, partnership and other non-corporate business credits). This dramatic decline reflected the economic downturn in the state, with its accompanying decline in business investment and job creation, as well as the decline in taxable business income. In addition, the amount of credits for contributions to enterprise zone projects (a large part of non-corporate credits) continued to decline as the legislated reduction in the credit rate from 50 percent to 25 percent was completely phased in.

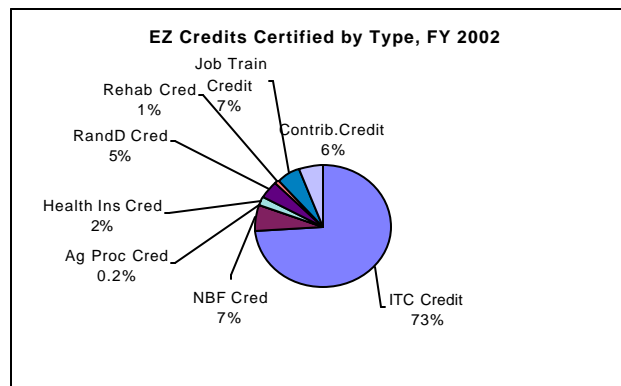
The total credit amounts reported on the Certification forms and compiled for this report typically exceed the total amount of EZ tax credits actually claimed and reported by the Department of Revenue as reductions in each year's tax liability. The amounts "certified" represent *potential* credits for which the taxpayer has qualified by virtue of undertaking the activities specified in the enterprise zone statute -- making qualified investments, creating new jobs in new or expanded business facilities, investing in qualified job training, increasing research and experimental expenditures, or rehabilitating qualifying vacant buildings in an enterprise zone.

The amounts "claimed" with the Department of Revenue, on the other hand, are limited by each taxpayer's Colorado income tax liability each year. Potential credits earned in excess of the current year's tax liability may be carried forward to future tax years for a period specified by statute. Nevertheless, potential credits of taxpayers who do not earn sufficient taxable income, or who cease business during the carry-forward period, will be permanently lost. In addition, there may be differences in timing between the EZ certification reports and the filing of tax returns reported by DOR due to the timing of tax filing. (See Tables 1 and 2 at end of this section for more detail.)



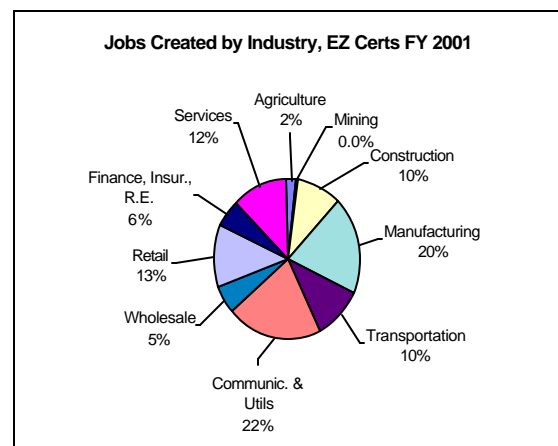
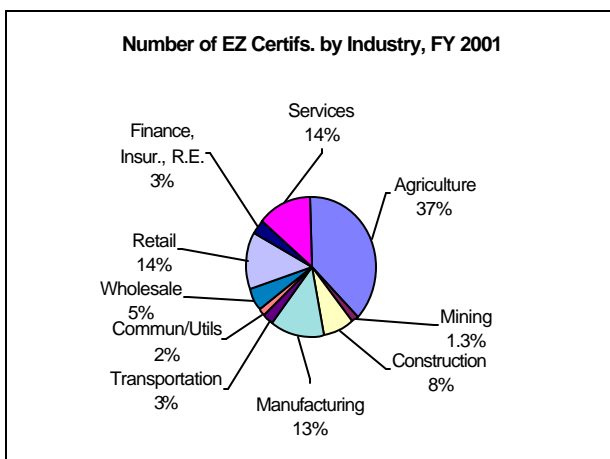
Credits by Type

- Approximately 73 percent of the estimated dollar value of credits certified was for the enterprise zone investment tax credit. Approximately 6 percent was for the EZ job training tax credit, 9 percent was for the three new jobs tax credits, 6 percent for enterprise zone project contribution tax credits, and the balance for vacant building rehabilitation and increased research and development expenditure credits. Specifically, the following amounts of tax credits were certified for each of the available EZ tax credits, based on the qualifying investment, job creation, and other activities specified for each credit:



- 3 percent Investment Tax Credit: \$41.6 million certified, based on \$1.386 billion in qualifying capital investment in 5,148 zone businesses.
- \$500 New Business Facility Jobs Credit: \$4.1 million, based on 8,230 qualifying new business facility jobs in 669 businesses. (Note: the 8,600 new jobs cited above includes jobs created by businesses that did not qualify under the New Business Facility criteria.)
- \$500 Ag Processing New Job Credit: \$85,000, 16 certifications.
- \$200, two-year Health Insurance-covered New Job Credit: \$963,000, 304 certifications.
- 10 percent Job Training Program Investment Credit: \$3.2 million, based on \$32 million of investment in programs to provide job training for 25,600 zone employees by 300 certifiers.
- 3 percent Credit for Increased Research & Development Expenditures: \$2.8 million, claimed by 41 taxpayers certifying \$198 million in qualifying R&D expenditures.
- 25 percent Credit for Qualified Expenses of Rehabilitating Older Vacant Buildings: \$502,000, based on \$2 million in qualifying expenses for rehabilitating 28 buildings.
- 25 percent Credit for Contributions to designated Enterprise Zone Projects: \$3.2 million, based on 8,050 contributions totaling \$14.7 million.

- By industry, the largest number of EZ certifications was filed by farms and ranches — about half of all certifications in the rural zones. However, the largest groups in terms of job creation and dollars of credits certified were manufacturing, followed by services and communications/utilities. For certifications filed in FY 2002, the percentage of credits claimed by communications/utilities taxpayers declined significantly, and the share of job creation increased in manufacturing and services but declined in construction and transportation, as compared with the 2001 data shown below.



- New jobs and capital investment created by businesses claiming enterprise zone credits will result in several different types of increased tax revenues:

- Personal income and sales taxes paid by new employees of enterprise zone businesses.
 - State sales and use taxes on taxable non-manufacturing equipment purchased by enterprise zone businesses would amount to approximately \$27 million in FY 2002.
 - New investment by enterprise zone businesses added \$1.4 billion of personal property to the local tax base, increasing local property tax capacity and reducing the burden on the state school finance act correspondingly.
- In addition, new economic activity adds revenues from increased corporate taxes, as well as increased local property and sales taxes.
 - Job growth in rural areas that had previously been losing population, as well as private contributions to enterprise zone projects encouraged by the enterprise zone tax credit, help preserve vital community infrastructure such as schools and health care facilities.

Other Information

- In FY 2002, 617 employees were reported as transferred to a zone facility from another location in the state. This represented 0.3% of the total employees of zone certifiers at the end of the year.

Average Annual Compensation by Employment Category

The enterprise zone statute requires enterprise zone certifiers to report the annual average compensation of the jobs created or retained within the zone, categorized by full time permanent, part time, temporary, and contract jobs. The following table summarizes this data for FY 2002:

Type of Employees:	Full-time	Part-time	Temporary	Contract
Avg. Annual Compensation	\$29,963	\$8,454	\$8,549	\$24,358
Total Number Employees for whom comp. reported	130,673	20,535	14,722	2,982
Avg. Number Employees Reported	38	12	55	20
Number of Certifications Reporting Employees & Comp. in Category	3,426	1,676	269	147

Compensation reported by enterprise zone certifiers is generally close to average earnings for all companies in the same county. Average full-time compensation was virtually unchanged from FY 2001.

Table 1, EZ Tax Credits Certified by Zone, Fiscal Year 2002

Zone	Total # Certs	\$ ITC	\$ NBF	\$ Ag Proc	\$ Hlth Ins	\$ Train	\$ R and D	\$ Rehab	Total Bus	\$ Contribution Credit	Total Credits
RURAL											
East Central	808	\$1,679,640	\$23,040		\$1,600	\$3,000		\$814	\$1,708,094	\$4,094	\$1,712,188
Mesa County	88	\$762,383	\$50,030		\$9,767	\$38,457	\$1,767	\$37,143	\$899,547	\$81,230	\$980,777
Northeast	982	\$4,100,834	\$14,042	\$5,000	\$18,400	\$71,569	\$11,110	\$21,730	\$4,242,685	\$64,628	\$4,307,313
Northwest	248	\$1,272,051	\$30,474		\$6,160	\$4,681	\$0		\$1,313,366	\$111,306	\$1,424,672
Region 10	330	\$2,373,761	\$72,130		\$13,498	\$2,008	\$1,691	\$119,408	\$2,582,496	\$91,667	\$2,674,163
San Luis Valley	398	\$1,271,221	\$20,497	\$0	\$6,917	\$2,869		\$1,445	\$1,302,949	\$141,548	\$1,444,498
South Central	76	\$2,849,994	\$49,750		\$10,200	\$8,016	\$0		\$2,917,960		\$2,917,960
Southeast	320	\$775,867	\$3,833	\$1,125	\$1,000	\$2,091			\$783,916	\$10,375	\$794,291
Southwest	297	\$1,007,335	\$98,495		\$10,200	\$98,601		\$86,321	\$1,300,952	\$120,381	\$1,421,333
Upper Ark	179	\$428,964	\$58,251		\$4,700	\$19,814			\$511,729	\$85,710	\$597,439
Subtotal	3,726	\$16,522,051	\$420,542	\$6,125	\$82,442	\$251,106	\$14,568	\$266,861	\$17,563,695	\$710,939	\$18,274,634
% of total:	68.3	39.7%	10.2%	7.2%	8.6%	7.8%	0.5%	53.1%	32.9	21.8%	21.8%
URBAN											
Adams County	147	\$1,217,702	\$391,616	\$56,125	\$86,084	\$548,081	\$14,108		\$2,313,716	\$133,013	\$2,446,729
Arapahoe County	123	\$489,339	\$140,502		\$35,083	\$41,186	\$96,887	\$0	\$802,997	\$2,228	\$805,224
Denver	600	\$8,508,781	\$991,886	\$11,177	\$177,390	\$720,933	\$72,776	\$196,718	\$10,679,661	\$1,677,234	\$12,356,894
El Paso County	380	\$8,364,715	\$1,336,005		\$363,851	\$665,781	\$2,586,296	\$38,873	\$13,355,521	\$216,012	\$13,571,533
Greeley/Weld County	91	\$2,383,761	\$98,255		\$19,307	\$237,116	\$10,421		\$2,748,860	\$129,207	\$2,878,067
Jefferson County	204	\$2,332,970	\$341,900		\$112,228	\$641,446	\$0	\$0	\$3,428,544	\$136,032	\$3,564,575
Larimer County	92	\$393,811	\$79,500	\$11,955	\$11,760	\$4,421	\$3,277		\$504,724	\$178,311	\$683,035
Pueblo	89	\$1,374,087	\$317,166	\$0	\$75,300	\$128,040	\$37,240	\$0	\$1,931,833	\$81,258	\$2,013,091
Subtotal	1,726	\$25,065,166	\$3,696,829	\$79,257	\$881,003	\$2,987,004	\$2,821,005	\$235,591	\$35,765,854	\$2,553,294	\$38,319,149
% of total:	31.7	60.3%	89.8%	92.8%	91.4%	92.2%	99.5%	46.9%	67.1	78.2%	78.2%
Year Total	5,452	\$41,587,217	\$4,117,371	\$85,382	\$963,444	\$3,238,110	\$2,835,573	\$502,452	\$53,329,549	\$3,264,233	\$56,593,782
Credits by Type as percent of:											
% of total business credit		78.0%	7.7%	0.2%	1.8%	6.1%	5.3%	0.9%	100.0%		
% of total credit		73.5%	7.3%	0.2%	1.7%	5.7%	5.0%	0.9%	94.2%	5.8%	100.0%

Table 2, Total Enterprise Zone Tax Credits "Certified" by EZ's and "Claimed" with DOR, FY 1998 - FY 2002

(\$ mil.)	Claimed with Department of Revenue							Certified by EZ Adminis- trator	DOR as % Certif.
	Fiscal Year	Total	Total Corpo- rate	Corp. ITC	Corp. NBF Jobs	Corp. Contribs	Corp. Other		
1998	\$47.1	\$29.0	\$22.9	\$2.4	\$1.8	\$1.9	\$18.1	\$82.9	57%
1999	52.6	32.9	24.6	4.1	1.7	2.5	19.8	73.1	72%
2000	63.0	43.7	27.5	3.9	1.8	10.6	19.2	78.8	80%
2001	62.1	44.2	34.4	5.0	1.2	3.6	17.9	69.4	89%
2002	32.4	18.6	12.3	3.4	0.9	1.9	13.8	56.6	57%

* Business credits for proprietors and partnerships, and individual EZ contribution credits.