



**COLORADO ENTERPRISE ZONES
ANNUAL REPORT
2004**

*Governor's Office of Economic Development and International Trade
and
Department of Local Affairs
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2004 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.colorado.gov/oed.

Overview

Colorado's enterprise zone program, created in 1986, is a key economic and community development tool for lagging areas in the state, both rural and urban. Between 5,000 and 6,000 businesses use one or more of the enterprise zone tax credits each year, and 8,000-10,000 taxpayers contribute to non-profit local development projects in the zones each year. Over the last five years, businesses using the enterprise zone tax credits have invested over \$11 billion in equipment to expand and modernize zone businesses, and have created over 49,000 jobs. Over 200 approved EZ non-profit projects have received over \$105 million in contributions. Enterprise zone tax credit activity reported in fiscal year 2003 reflected the continuing softness in the overall state economy, with tax credit certifiers reporting a net decline in employment for the first time, despite a large increase in the amount of new investment reported during the year. The number of contributors and amount of contributions recovered somewhat from the lower levels reported in 2002.

"The Colorado enterprise zone credits have been very much utilized for our business expansion over the past years. In fact, the credits were an important part of our decision making to expand the facility."

-- Excel Corporation, Fort Morgan

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

- Employment. Based on data from the Colorado Department of Labor & Employment, Colorado's economy gained about 4,000 jobs from calendar year 2000 to 2001, and gained another 7,000 of those in 2002. In rural enterprise zone counties, 3,000 jobs were gained in 2001 and 10,000 more in 2002. Urban zone counties, on the other hand, lost about 10,000 jobs in 2001, and lost 6,000 more in 2002.

Between 1987, when the enterprise zone program began, and 1995, employment in rural enterprise zones grew faster than the state average, with the result that 18 percent of the 434,000 state job growth was in rural enterprise zone counties, compared to a loss of jobs in the same counties prior to the zone program, between 1980 and 1986. Between 1995 and 2000, job growth accelerated in the non-enterprise zone counties, and EZ's share declined. This trend reversed during the economic downturn following 2000, with job losses concentrated in the urban areas. (Note: Enterprise zones in urban counties only cover parts of each county, but data are available only at the county level.)

- Unemployment in zone counties averaged 5.8 percent in 2002, up from 3.7 percent in 2001. In rural enterprise zones, the 2002 unemployment rate averaged 4.8 percent, up from 3.8 percent in 2001. The state's 2002 rate was 5.7 percent, up from 3.7 percent in 2001. This represents the first time that the unemployment rate in rural EZ counties has been less than the state average. 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).
- Population. Since 1990, rural enterprise zones in eastern and southern Colorado have gained population, although at slower growth rates than the state average. These areas were losing population during the 1980s.
- Income. As per capita income for the state as a whole has grown by 112 percent over the past 15 years, enterprise zone per capita incomes overall have kept pace, growing 110 percent from 1986 to 2001. However, this figure is biased by the inclusion of some urban counties with high per capita incomes outside of their small enterprise zone areas. In rural enterprise zone counties, average per capita income grew 95 percent over the same 15 year period, resulting in a further decline in their per capita income compared to the state average, to 71 percent (as compared with 77 percent in 1986). In 2001, rural EZ counties' per capita income grew 2.7 percent, faster than the state average 1.2 percent.

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 best thing about this company's location is that it is in an enterprise zone. The tax credit provides a valuable incentive for continuous investment in the production equipment, which keeps our company competitive."

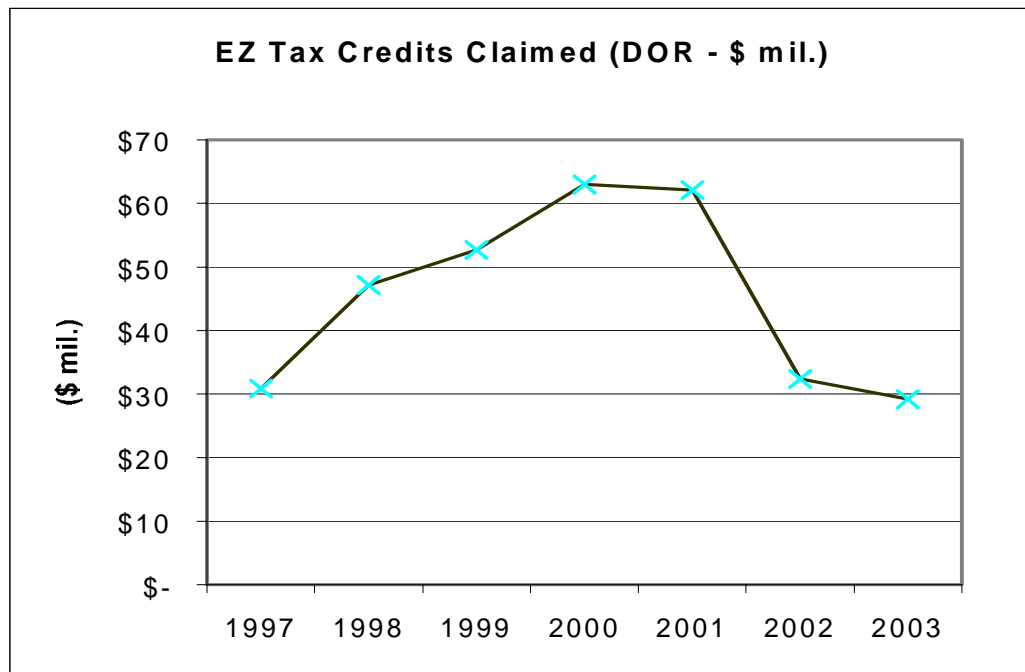
-- Bookcliff Manufacturing, Inc., Grand Junction

- The number of businesses certifying potential enterprise zone tax credits in FY 2003 was 5,080, an increase of 1 percent from 2002.
- Businesses certifying zone tax credits reported a decline in employment of 2,600 jobs in 2003, compared with an increase of 8,700 jobs in 2002. This was the first time since the enterprise zone program began that EZ credit certifiers reported a net decrease in employment over the course of the year. Nevertheless, 25 percent of the certifiers reported an increase in employment over the year. The combined result of businesses that gained jobs, those that lost jobs over the year, and those whose employment remained the same was that these businesses retained 137,000 jobs. ("Jobs retained" is defined as employment at the beginning of the year for those certifiers with employment growth, plus employment at the end of the year for those reporting no employment growth.)
- Businesses certifying zone tax credits invested \$2.4 billion in new equipment used in enterprise zone businesses during FY 2003, up 74 percent from 2002. This was the largest capital investment reported since the beginning of the program, reflecting the certification during this year of very large investments made during 2000 and 2001 by technology and natural resource firms.
- Over 9,000 taxpayers contributed \$18.4 million to enterprise zone economic and community development projects in FY 2003, resulting in over \$4.1 million in potential tax credits. This was a 26 percent increase from FY 2002, but still a 65 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 2003 were \$29 million, down 10 percent from the level of FY 2002 and 53 percent from 2001. Of this total, \$18 million were claimed by corporate taxpayers, and \$11 million by non-corporate (individual contribution credits, plus sole proprietor, partnership and other non-corporate business credits). This decline reflected the continued economic downturn in the state, with its accompanying decline in taxable business income. The large capital investments certified during this year were not reflected in the DOR data, widening the gap between potential credits certified and actual credits claimed. This was probably because of tax liability limitations or timing differences in filing tax returns.

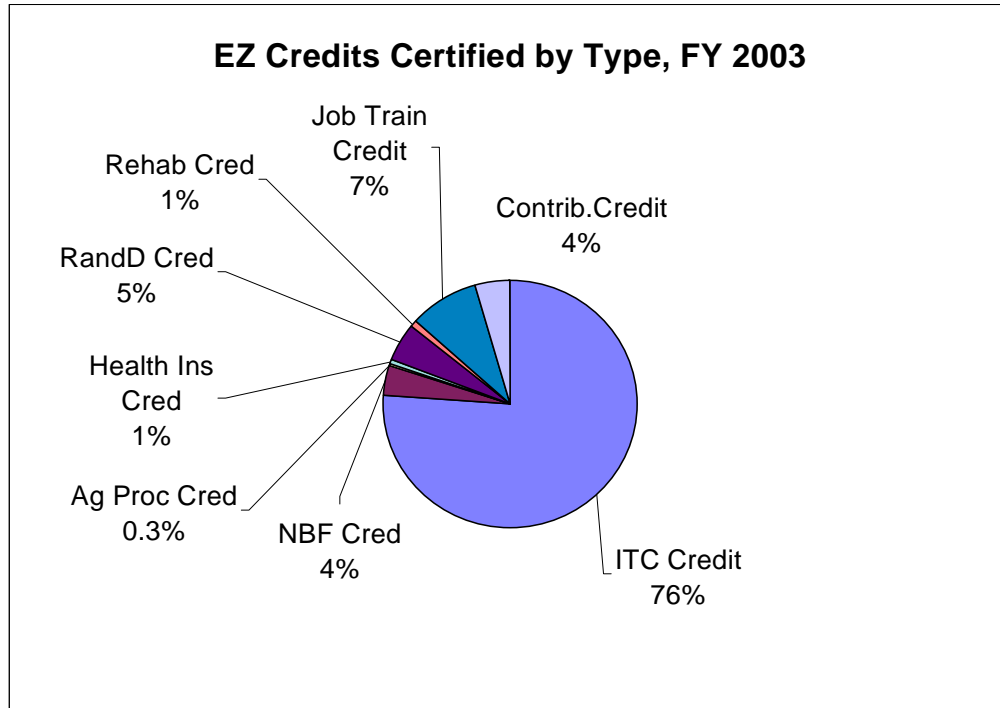
The total credit amounts reported on the Certification forms and compiled for this report typically exceed the total amount of EZ tax credits actually claimed and reported by the Department of Revenue as reductions in each year's tax liability. The amounts "certified" represent *potential* credits for 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.)



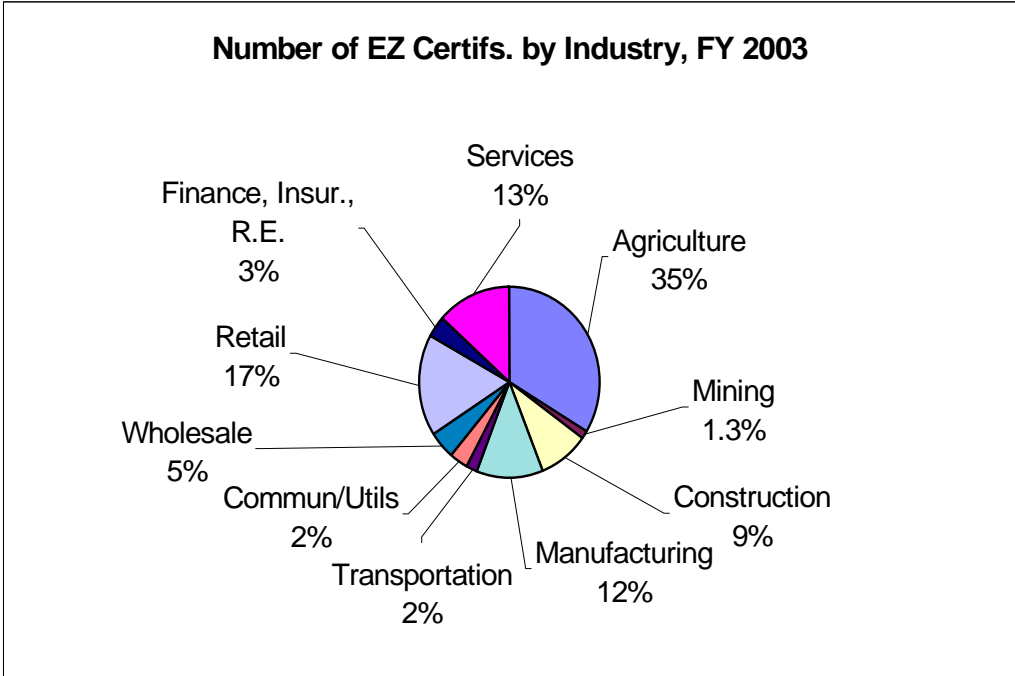
Credits by Type

- Approximately 76 percent of the estimated dollar value of credits certified was for the enterprise zone investment tax credit. Approximately 9 percent was for the EZ job training tax credit, 5 percent was for the three new jobs tax credits, 4 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, or other activities specified for each credit:



- 3 percent Investment Tax Credit: \$70.5 million certified, based on \$2.372 billion in qualifying capital investment by 4,778 zone certifiers.
 - \$500 New Business Facility Jobs Credit: \$3.7 million, based on 9,827 qualifying new business facility jobs in 684 businesses. (Note: the net decline in jobs cited above includes businesses claiming the ITC that did not qualify under the New Business Facility criteria.)
 - \$500 Ag Processing New Job Credit: \$317,000, 14 certifications.
 - \$200, two-year Health Insurance-covered New Job Credit: \$546,000, 260 certifications.
 - 10 percent Job Training Program Investment Credit: \$8.2 million, based on \$82 million of investment in programs to provide job training for 33,000 zone employees by 327 certifiers.
 - 3 percent Credit for Increased Research & Development Expenditures: \$4.6 million, claimed by 52 taxpayers certifying \$331 million in qualifying R&D expenditures.
 - 25 percent Credit for Qualified Expenses of Rehabilitating Older Vacant Buildings: \$734,000, based on \$6.4 million in qualifying expenses for rehabilitating 27 buildings.
 - 25 percent Credit for Contributions to designated Enterprise Zone Projects: \$4.1 million, based on 9,300 contributions totaling \$18.4 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 communications/utilities. For certifications filed in FY 2003, the percentage of credits claimed by manufacturing increased substantially, and transportation/communications/utilities certification returned to near 2001 levels, after a drop in 2002. The net job losses

reported this year were concentrated in manufacturing and transportation/communications, reflecting the state's economy as a whole. Trade and services certifiers reported continued net job growth.



- 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 \$40 million in FY 2003.
 - New investment by enterprise zone businesses added \$2.4 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 2003, 775 employees were reported as transferred to a zone facility from another location in the state. This represented 0.5% 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 2003:

Type of Employees:	Full-time	Part-time	Temporary	Contract
Avg. Annual Compensation	\$32,417	\$9,331	\$9,591	\$24,859
Total Number Employees for whom comp. reported	130,319	30,651	7,363	1,730
Avg. Number Employees Reported	41	19	26	12
Number of Certifications Reporting Employees & Comp. in Category	3,193	1,596	282	140

Compensation reported by enterprise zone certifiers is generally close to average earnings for all companies in the same county. Average full-time compensation increased 6 percent from FY 2002.

Table 1, EZ Tax Credits Certified by Zone, Fiscal Year 2003

Zone	Total # Certs	\$ ITC	\$ NBF	\$ Ag Proc	\$ Hlth Ins	\$ Train	\$ R and D	\$ Rehab	Total Bus	\$ Contribution Credit	Total Credits
RURAL											
East Central	341	\$894,909	\$55,688		\$38,400				\$988,997	\$7,963	\$996,960
Mesa County	84	\$823,302	\$151,160		\$3,517	\$22,626	\$3,355	\$43,921	\$1,047,881	\$201,265	\$1,249,146
Northeast	870	\$2,689,570	\$110,515	\$5,500	\$18,956	\$27,323	\$2,724	\$3,974	\$2,858,563	\$104,823	\$2,963,386
Northwest	227	\$7,460,929	\$106,335		\$26,000	\$95,188	\$154,353	\$3,382	\$7,846,188	\$319,000	\$8,165,187
Region 10	300	\$1,340,099	\$101,473	\$1,000	\$8,350		\$149	\$50,000	\$1,501,071	\$35,420	\$1,536,491
San Luis Valley	419	\$1,934,504	\$38,604		\$2,109	\$390			\$1,975,607	\$176,653	\$2,152,260
South Central	117	\$3,065,878	\$42,000		\$21,783	\$65,856	\$848		\$3,196,365		\$3,196,365
Southeast	241	\$574,777							\$574,777	\$7,475	\$582,252
Southwest	276	\$777,942	\$117,526		\$8,650	\$67,934			\$972,051	\$186,848	\$1,158,899
Upper Ark	184	\$647,760	\$50,634		\$2,400			\$53,299	\$754,093	\$75,988	\$830,080
Subtotal	3,059	\$20,209,670	\$773,935	\$6,500	\$130,165	\$279,317	\$161,429	\$154,576	\$21,715,592	\$1,115,434	\$22,831,026
% of total:	60.2	28.7%	20.7%	2.1%	23.9%	3.4%	3.5%	21.0%	24.5	27.2%	27.2%
URBAN											
Adams County	319	\$3,655,777	\$167,907		\$69,915	\$322,968	\$25,994	\$103,585	\$4,346,146	\$316,697	\$4,662,844
Arapahoe County	140	\$712,501	\$103,059		\$13,398	\$88,731	\$183,908	\$8,981	\$1,110,577	\$2,960	\$1,113,538
Denver	752	\$15,214,710	\$913,520	\$28,500	\$170,089	\$6,224,528	\$51,321	\$300,586	\$22,903,254	\$1,810,138	\$24,713,392
El Paso County	384	\$22,046,954	\$664,053		\$46,054	\$578,637	\$2,499,950	\$74,386	\$25,910,034	\$231,336	\$26,141,370
Greeley/Weld County	83	\$2,495,179	\$351,107	\$278,500	\$7,800	\$95,195	\$5,990	\$42,245	\$3,276,017	\$111,228	\$3,387,244
Jefferson County	143	\$3,198,734	\$227,310		\$42,894	\$516,068	\$1,694,179		\$5,679,185	\$237,341	\$5,916,527
Larimer County	86	\$1,682,217	\$432,294	\$3,003	\$12,216	\$31,058	\$332		\$2,161,120	\$207,032	\$2,368,152
Pueblo	114	\$1,280,702	\$100,446		\$53,100	\$67,095	\$4,661	\$50,000	\$1,556,004	\$74,694	\$1,630,698
Subtotal	2,021	\$50,286,773	\$2,959,696	\$310,003	\$415,466	\$7,924,281	\$4,466,335	\$579,783	\$66,942,337	\$2,991,428	\$69,933,765
% of total:	39.8	71.3%	79.3%	97.9%	76.1%	96.6%	96.5%	79.0%	75.5	72.8%	72.8%
Year Total	5,080	\$70,496,443	\$3,733,631	\$316,503	\$545,631	\$8,203,598	\$4,627,764	\$734,360	\$88,657,929	\$4,106,861	\$92,764,790
Credits by Type as percent of:											
% of total business credit		79.5%	4.2%	0.4%	0.6%	9.3%	5.2%	0.8%	100.0%		
% of total credit		76.0%	4.0%	0.3%	0.6%	8.8%	5.0%	0.8%	95.6%	4.4%	100.0%

Table 2, Total Enterprise Zone Tax Credits "Certified" by EZ's and "Claimed" with DOR, FY 1999 - FY 2003

(\$ mil.)	Claimed with Department of Revenue							Certified by EZ Administrator	DOR as % Certif.
	Fiscal Year	Total	Total Corporate	Corp. ITC	Corp. NBF Jobs	Corp. Contribs	Corp. Other		
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%
2003	29.2	17.9	13.5	2.3	0.4	1.7	11.3	70.5	41%

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

Table 3, Summary of EZ Indicators and Tax Credits Certified by Fiscal Year

Year	# Certifications	New Jobs	Capital Investment	\$ Investment Credit	\$ New Jobs Hlth Ins/Ag	\$ Training Credit	\$ R and D Credit	\$ Rehab Credit	Total Bus. Credits	# Contribs	\$ Contrib Credit	TOTAL CREDITS
1999	5,374	16,322	\$2,301,674,465	\$51,900,525	\$6,450,275	\$1,366,839	\$1,329,135	\$669,406	\$61,716,179	10,263	\$9,926,394	\$71,642,573
2000	6,000	12,671	\$2,338,230,433	\$55,022,507	\$6,370,251	\$5,317,362	\$2,612,868	\$255,300	\$69,578,289	10,074	\$9,029,129	\$78,607,418
2001	5,141	14,552	\$2,178,327,963	\$46,892,986	\$5,958,052	\$5,021,235	\$2,591,679	\$392,571	\$60,856,524	9,752	\$7,886,558	\$68,743,082
2002	5,038	8,734	\$1,899,480,853	\$40,137,597	\$5,157,390	\$3,235,110	\$2,911,107	\$502,452	\$51,943,657	8,110	\$3,263,865	\$55,207,521
2003	5,080	-2,597	\$2,955,962,433	\$70,496,443	\$4,595,764	\$8,203,598	\$4,627,764	\$734,360	\$88,657,929	9,312	\$4,106,861	\$92,764,790
Total	26,633	49,682	\$11,673,676,148	\$264,450,059	\$28,531,733	\$23,144,144	\$14,072,553	\$2,554,088	\$332,752,578	47,511	\$34,212,807	\$366,965,385

Source: Local enterprise zone administrators' reports to Colo. Department of Local Affairs

Data reflect potential credits based on taxpayer certifications compiled by local enterprise zone administrators, and will generally exceed actual tax credits claimed with Department of Revenue for the same year due to differences in timing, credit amounts earned which exceed tax liability, and other differences.