STATE OF COLORADO

OFFICE OF STATE PLANNING AND BUDGETING
111 State Capitol Building
Denver, Colorado 80203
(303) 866-3317

John W. Hickenlooper
Governor

Henry Sobanet
Director

FY 2012-13

Comeback Requests for Executive Branch Agencies

March 26, 2012

Office of State Planning and Budgeting
FY 2012-13 Comeback Requests

Department:	Office of the Governor
Title:	R-1 Economic Development Commission General Fund Increase

	FY 2012-13 Base Request	Request	JBC Action	Comeback Request	Difference Between Action and Comeback Request
Total	$1,092,280	$5,750,000	$0	$5,750,000	$5,750,000
FTE	4.0	0.9	0.0	0.9	0.9
GF	$1,013,764	$5,750,000	$0	$5,750,000	$5,750,000
CF	$78,516	$0	$0	$0	$0

Summary of Initial Request:

The Office of the Governor submitted a decision item for FY 2012-13 for an increased General Fund appropriation of $5,750,000 for the Economic Development Commission (EDC) in the Office of Economic Development and International Trade (OEDIT). The EDC would primarily use the funding to provide incentives to businesses looking to expand in or relocate to Colorado.

Committee Action:

The Joint Budget Committee (JBC) denied the Department's request.

OSPB Comeback:

The Office of State Planning and Budgeting (OSPB) requests that the JBC approve this decision item to help support Colorado's economic recovery. Specifically, this request will:

- Create new jobs for Colorado
- Generate significant tax revenue for the state, paying for itself in a little over a year
- Enable Colorado to compete with other states offering significant incentives
- Prevent Colorado from turning away businesses asking for incentives

Creating Jobs for Coloradans
As of January 2012, Colorado's unemployment rate stood at 7.8%. Additionally, broader unemployment measures suggest a dimmer outlook. For example, as noted in OSPB's March 2012 forecast, the underemployment rate stood at 15.4% in January 2012. This measure includes workers who would like to work but have temporarily stopped seeking employment and those that want full-time employment but have to settle on a part-time job due to the lack of other opportunities. The underemployment rate shows that there aren't enough jobs for Coloradans.

The EDC has a proven track record in creating sustainable, high paying jobs with incentive funding. For example, in 2010 the EDC provided Arrow Electronics with a $1.1 million incentive to create over 400 jobs at an average wage rate of about $84,000. Based on actual performance of the EDC incentive program over the past four years, the Governor's Office estimates that an additional $5.75 million could create over 2,300 net new jobs in Colorado. Further, the Governor's Office estimates an average wage rate of about $53,500.

Bolstering State Revenue
With new jobs comes new tax revenue for the state. Additional tax revenue will come in the form of income taxes, sales tax, motor fuel taxes, and others. The Governor's Office estimates that the additional $5.75 million could generate $4.9 million annually in direct tax revenue. In a little over a year, the state will have generated a full return on the initial $5.75 million investment.

Competing with Other States
Colorado is not the only state offering incentives to businesses. At least 30 states have some form of discretionary economic development fund available. Colorado typically competes with Texas, Arizona, North Carolina, Virginia, Florida, New York, and Georgia for job-creating opportunities. Relative to most of these states, Colorado's incentive funding falls short by anywhere from $5 to $20 million. In the case of Texas, which had $47.7 million at its disposal in FY 2011, Colorado's funding falls short by over $40 million. Without the additional $5.75 million, Colorado will not be able to compete with other states for businesses seeking incentives. In doing so, Colorado will lose job-creating opportunities to these states.

Sending the Right Message to Businesses
As stated above, businesses have approached the OEDIT to specifically inquire about available incentive funding. Further, past recipients of Colorado's incentives have testified that it was a critical factor in their decision to expand or relocate. In a letter to the OEDIT dated October 19, 2011, Arrow Electronics' Vice President of Corporate Communications stated:

> "Had Arrow not been granted the incentives provided from the Colorado Economic Development Commission, the company would not have selected Colorado for its new headquarters."

As businesses make decisions on where to relocate or expand, incentive funding has increasingly become an important factor. This, combined with intense competition from other states, highlights the need for the additional $5.75 million.

Office of State Planning and Budgeting
FY 2012-13 Comeback Requests

Department:	Office of the Governor
Title:	R-2 Global Business Development Initiative

	FY 2012-13 Base Request	Request	JBC Action	Comeback Request	Difference Between Action and Comeback Request
Total	$2,021,935	$250,000	$0	$250,000	$250,000
FTE	17.6	2.8	0.0	2.8	2.8
GF	$1,443,848	$250,000	$0	$250,000	$250,000
CF	$219,950	$0	$0	$0	$0
FF	$358,137	$0	$0	$0	$0

Summary of Initial Request:

The Office of the Governor submitted a decision item for FY 2012-13 for an increased General Fund appropriation of $250,000 and 2.8 FTE for Global Business Development in the Office of Economic Development and International Trade (OEDIT). The OEDIT will use the funds to retain businesses in Colorado that are part of targeted cluster industries.

Committee Action:

The Joint Budget Committee (JBC) denied the Department's request.

During figure setting for the Office of the Governor, JBC staff identified three bills in the legislative process that seek to accomplish the initiatives set forth in this decision item: S.B. 12-005, S.B. 12-144, and H.B. 12-1154. JBC staff also noted that the fiscal notes for all three bills indicate that approximately one-third of the total of this decision item will be used to support each of the bills. Therefore, staff recommended the JBC deny the decision item and instead let the bills proceed through the legislative process on their merits and obtain an appropriation clause accordingly. The JBC voted to approve staff's recommendation.

OSPB Comeback:

The Office of State Planning and Budgeting (OSPB) continues to support the initiatives proposed within this decision item. The initiatives proposed by the bills noted above mirror the key objectives of this request: to grow key industries located in the state, develop a business retention and expansion program, and establish a partnership with regional economic development stakeholders. Combined, these bills will improve Colorado's business climate and further support Colorado's economic recovery.

OSPB understands the JBC's decision to deny the decision item itself. However, OSPB requests that instead, the JBC set aside sufficient General Fund during budget balancing to allow for the aforementioned bills to receive the necessary appropriations. This will allow the bills to proceed through the legislative process, with full hearings in their committees of reference, on their own merits.