

Schedule 13
Funding Request for the 2014-15 Budget Cycle

Department: Office of Economic Development and International Trade
 Request Title: Economic Development Commission - General Economic Incentives and Marketing
 Priority Number: R-1

Dept. Approval by: K. W. [Signature]
 Date: 10/24/13

OSPB Approval by: [Signature]
 Date: 10/29/13

- Decision Item FY 2014-15
- Base Reduction Item FY 2014-15
- Supplemental FY 2013-14
- Budget Amendment FY 2014-15

Line Item Information		FY 2013-14		FY 2014-15		FY 2015-16
		1	2	3	4	5
	Fund	Appropriation FY 2013-14	Supplemental Request FY 2013-14	Base Request FY 2014-15	Funding Change Request FY 2014-15	Continuation Amount FY 2015-16
Total of All Line Items	Total	5,222,795	-	2,092,280	2,986,236	2,986,236
	FTE	4.0	-	4.0	-	-
	GF	5,144,279	-	2,013,764	2,986,236	2,986,236
	GFE	-	-	-	-	-
	CF	78,516	-	78,516	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
Economic Development Commission- General Economic Incentives & Marketing	Total	5,222,795	-	2,092,280	2,986,236	2,986,236
	FTE	4.0	-	4.0	-	-
	GF	5,144,279	-	2,013,764	2,986,236	2,986,236
	GFE	-	-	-	-	-
	CF	78,516	-	78,516	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Letternote Text Revision Required? Yes: No: If yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and COFRS Fund Number: Colorado Innovation Investment Tax Credit Cash Fund 24P

Reappropriated Funds Source, by Department and Line Item Name:

Approval by OIT? Yes: No: Not Required:

Schedule 13s from Affected Departments:

Other Information:



COLORADO

Office of Economic Development
and International Trade

Priority: R-1
General Economic Incentives and Marketing
FY 2014-15 Change Request

Cost and FTE

- The Office of Economic Development and International Trade (OEDIT) requests a \$2,986,236 General Fund increase for FY 2014-15 and beyond to support the Economic Development Commission Strategic Fund Cash Incentive program; the program helps create new jobs in Colorado. The General Assembly approved a one-time appropriation for FY 2013-14. This request will allow the program to maintain approximately the same level of funding as FY 2013-14.

Current Program

- The Economic Development Commission – General Economic and Incentives Marketing line item was appropriated \$5.2 million for FY 2013-14. Approximately 74% of this funding is used as a cash incentive for companies expanding or relocating to Colorado which creates jobs for the state's economy.
- Companies must create and keep new jobs for a minimum of one year and at a salary of 110% above the average county wage before the incentive is paid. The balance of the funding is used for strategic marketing initiatives that enhance economic development in Colorado, such as the Icelandair Marketing Initiative fund that helped bring Icelandair to Denver and expand DIA's international exposure with direct flights to and from Reykjavik in Iceland.

Problem or Opportunity

- The opportunity is to make funding available that can be used to provide performance-based job creation incentives to businesses, thus making Colorado more competitive in attracting businesses to the state. Since 2007, performance-based Job Creation incentives supported 8,057 jobs for 32 companies with an average incentive per job of \$2,113 and an average annual wage of \$57,166.

Consequences of Problem

- There is intense competition among states to retain and attract expanding and relocating companies. Colorado has modest amounts of cash incentives compared to many competing states such as Texas and Arizona, which have more than \$30,000,000 per year in job creation incentives.

Proposed Solution

- The proposed solution is for the State to maintain a total of approximately \$5.0 million General Fund ongoing in continued base level funding available annually to the EDC to support Colorado's efforts to compete with other states and countries for job creation opportunities.

FY 2014-15 CHANGE REQUEST

Priority: R-1 Economic Development Commission – General Economic Incentives and Marketing Request Detail

Problem or Opportunity:

There is intense competition among states to attract and retain expanding and relocating companies. Cash incentives have emerged as a means of making states more attractive in competitive, multi-state business location scenarios, and to support key economic development partners around states in job creation efforts. The Texas Enterprise Fund and Arizona Quality Jobs Tax Credit Program are two leading examples of economic development programs that invest more than \$30 million a year in job creation. Both programs establish various requirements for the grants and tax credits, including the number of jobs created, salary levels, and level of capital investments. Comparatively, Colorado has modest amounts of cash incentives compared to many competing states. For a more thorough list of competing programs please see Exhibit C in the Appendix.

Colorado has developed its own cash incentive program under the Economic Development Commission Strategic Fund Cash Incentive Program. In FY 2013-14, the General Assembly approved a funding request of \$2,915,515 General Fund. The Office of Economic Development and International Trade (OEDIT) requests \$2,986,236 for FY 2014-15 in order to maintain approximately the same level of incentives for FY 2014-15 and beyond. Without this funding, Colorado will lack the cash incentives that helps compete in a competitive environment.

Colorado's Strategic Fund Cash Incentive Program operates to make funding available for performance-based job creation incentives to businesses, thus making Colorado more competitive in attracting businesses to the state.

OEDIT staff work with businesses looking to expand or relocate from other states and countries to Colorado. In order to respond to the businesses' site selection requirements, OEDIT staff work with the Economic Development Commission (EDC) to develop and present competitive proposals to businesses for their consideration. These proposals may include potential sites, available labor force, infrastructure information, transportation options, state and local incentives, and other information requested by businesses.

The EDC has a successful history of competitive proposal packaging, having attracted a number of companies and high-paying jobs to Colorado in a short time. In FY 2012-13 the EDC approved incentives for companies that will create 1,474 new jobs at a weighted average wage rate of \$74,222 and a projected \$719,613,000 in capital expenditures. This information comes from strategic grant applications when citing relocation and expansion plans within Colorado. For these projects, the EDC has earmarked incentives of \$5,534,235 pending final site selection decisions. (Exhibit B)

Since 2007, performance-based Job Creation incentives supported 8,057 jobs for 32 companies with an average incentive per job of \$2,113 and an average annual wage of \$57,166 (Exhibit A). These data points

come from an audit OEDIT conducted of all the job creation strategic fund projects, which focused on fiscal year numbers and updated the analysis through year-end FY 2012-13.

Proposed Solution:

OEDIT requests \$2,986,236 General Fund for FY 2014-15 and beyond in order for the State to support Colorado's efforts to compete with other states and countries for job creation opportunities. The amount requested will enable OEDIT to maintain a total of approximately \$5.0 million General Fund ongoing in continued base level funding available annually to the EDC.

Although the EDC's request is half that of comparative states on the lower end of the funding scale, such as Virginia, this funding will increase Colorado's chances in competing for more job creating projects. Exhibit C, attached, offers examples of funding levels that other states have available and utilize to compete for such job-creating opportunities.

Anticipated Outcomes:

The Department projects 74% of the \$2,986,236, i.e. \$2,209,815, will be used for the creation of 1,049 new jobs in Colorado (historical average of \$2,113 incentive per job) (Exhibit A). From the FY 2012-13 pipeline detailed in Exhibit B, projected jobs will have a weighted average annual wage of \$74,222. OSPB calculations for this wage level project roughly \$2,650 in incremental individual income and sales tax revenue to the state annually per job. This estimate would be new or additional tax revenue, assuming it is a new job and new wages being paid in the state that were not in the state before. Furthermore, risk to the State is reduced because funds would only be disbursed after jobs are maintained for a year through the performance based structure. Additionally, incremental tax revenue would carry on for years to come for all jobs held longer than a year. Finally, the additional funding could also spur capital expenditures of approximately \$719,600,000 (Projected Capex - Exhibit B) that have a positive exponential effect on the economy.

The balance of the funding request, \$776,421, will be used for strategic initiatives that enhance economic development in Colorado and are approved by the Economic Development Commission. Please see the Assumptions and Calculations section below for detail on previous strategic initiatives and benefits.

The EDC's contract procedures and performance-based incentive contracts serve to guarantee anticipated job creation is consistent with the actual incentives disbursed to businesses. Businesses must create a specified number of net new full-time jobs paying a minimum stated average wage rate and maintained for at least one year in Colorado before receiving incentives.

Assumptions and Calculations:

The Department based job creation projections on actual results of EDC activities since 2007. For summarized information on EDC activities, please refer to Exhibits A and B.

Over the past six years the EDC approved \$22,940,365 in total funding. Of this total, EDC committed \$17,025,219, or 74%, to job creation projects that will produce 8,057 new jobs. The remaining 26% was

used for marketing and special projects highlighted in Exhibits A and B. One significant component of these special projects is the Enterprise Zone (EZ) Marketing and Administration support that took up 5% of total funds. These funds enabled the locally based zone administrators to raise awareness of opportunities and administer the 14 major regions in Colorado. Another example of job creation projects is the investment in multiple incubators, accelerators and innospheres—such as the Craig-Moffat and Roaring Fork virtual incubators—that support statewide entrepreneurs with education and training, access to capital and economic development. A further example is the Icelandair Marketing Initiative fund that helped bring Icelandair to Denver and expand DIA's international exposure with direct flights to and from Reykjavik in Iceland. Initially, five flights per week were offered but within four months of launch these flights were extended to seven days a week. The Department expects the EDC will spend approximately 74% or \$2,216,239 of the requested \$2,986,236 on job creation incentives. This will result in 1,049 new jobs at a cost of \$2,113 per job. Refer to Exhibit A for additional detail on the above calculations.

**EXHIBIT A – STRATEGIC FUND ACTIVITY FY 08 - 13 and
NEW JOBS CREATED CALCULATION**

EDC Strategic Fund Projects: FY's 08 - 13 Summaries & Total						
FY	Type	# Jobs	Incentive	AAW *	Projects	% Incentive
07-08	Job Creation	414	\$ 1,242,000	\$ 42,797	2	45%
	Strategic Initiative **		\$ 1,158,040			42%
	PTAC		\$ -			0%
	EZ Marketing		\$ 375,000			14%
	Totals	414	\$ 2,775,040		2	100%
08-09	Job Creation	500	\$ 1,000,000	\$ 75,245	1	53%
	Strategic Initiative **		\$ 515,000			27%
	PTAC		\$ -			0%
	EZ Marketing		\$ 375,000			20%
	Totals	500	\$ 1,890,000		1	100%
09-10	Job Creation	1,854	\$ 3,792,009	\$ 55,415	7	75%
	Strategic Initiative **		\$ 664,700			13%
	PTAC		\$ 217,517			4%
	EZ Marketing		\$ 362,500			7%
	Totals	1,854	\$ 5,036,726		7	100%
10-11	Job Creation	1,775	\$ 1,125,000	\$ 37,014	2	56%
	Strategic Initiative		\$ 528,713			26%
	PTAC		\$ 372,393			18%
	Totals	1,775	\$ 2,026,106		2	100%
	11-12	Job Creation	2,040	\$ 4,331,975	\$ 62,452	11
Strategic Initiative			\$ 450,000			9%
PTAC			\$ 223,000			4%
Totals		2,040	\$ 5,004,975		11	100%
12-13		Job Creation	1,474	\$ 5,534,235	\$ 74,222	9
	Strategic Initiative		\$ 386,783			6%
	PTAC		\$ 165,000			3%
	Local EZ Admin		\$ 121,500			2%
	Totals	1,474	\$ 6,207,518		9	100%
TOTAL	Job Creation	8,057	\$ 17,025,219	\$ 57,166	32	74%
	Strategic Initiative		\$ 3,703,236			16%
	PTAC		\$ 977,910			4%
	EZ Mktg / Admin		\$ 1,234,000			5%
	Totals	8,057	\$ 22,940,365		32	100%

Average Incentive p/ Job \$ 2,113 (B)

* Weighted Average Annual Wage

** Strategic Initiative data supported by previous ED Program reports

New Jobs Created	
General Funds Increase	\$ 2,986,236
% of Incentive for Job Creation	74% (From reference A above)
Job Creation Incentives	\$ 2,216,239
Cost per Job Created	\$ 2,113 (From reference B above)
Number of New Jobs Created	1,049

Descriptions

Strategic Initiative: Unique marketing and administrative support funds to implement the Colorado Blueprint on the three-dimensional alignment of state, regions and key industries critical for sustainable job growth.

PTAC: Procurement Technical Assistance Centers helping Colorado companies obtain federal, state and local government contracts thus generating jobs and tax revenue.

EZ Mktg / Admin: Supports Enterprise Zone marketing and operating efforts across the 14 major regions in Colorado.

EXHIBIT B – STRATEGIC FUND FY 2013 DETAILS

EDC Strategic Fund Projects: FY 2013 Details

Job Creation					
Company	Incentive	Jobs	WAAW*	% of County**	Capex Forecast***
Project 5323	\$ 78,000	26	\$ 53,326	110%	\$ 1,000,000
Project Costner	\$ 50,000	25	\$ 60,000	98%	\$ 267,000,000
Project Whisper	\$ 1,250,000	250	\$ 51,000	143%	\$ 24,000,000
TerumoBCT	\$ 1,250,000	250	\$ 69,056	140%	\$ 44,525,000
Niagara Bottling	\$ 38,000	38	\$ 44,559	106%	\$ 30,000,000
SW Windpower	\$ 260,000	52	\$ 97,946	158%	\$ 228,000
WHPacific (Project Glacier)	\$ 241,349	56	\$ 92,500	207%	\$ 560,000
On Deck Capital (Project 5285)	\$ 500,000	200	\$ 63,228	106%	\$ 2,300,000
Project Heat (Level 3)	\$ 1,866,886	577	\$ 89,931	141%	\$ 350,000,000
Job Creation Total (SF)	\$ 5,534,235	1,474	\$ 74,222		\$ 719,613,000 (E)

89%

* Weighted Average Annual Wage

** Projected Weighted Average Annual Wage vs. Average Annual Wage reference per respective county location (Quarterly Census of Employment and Wages)

*** Gathered by companies in their strategic fund application to support relocation and expansion plans

Strategic Initiative	Incentive	
Business Retention Expansion Program	\$ 31,783	
Denver Metro Chamber	\$ 100,000	
REMI Model	\$ 30,000	
Colorado Advanced Manufacturing (CAMA)	\$ 50,000	
Colorado Space Marketing 2012-2013	\$ 100,000	
Telluride Venture Accelerator	\$ 75,000	
Strategic Initiative Total	\$ 386,783	6%

PTAC *	\$ 165,000	3%
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* PTAC in final year of EDC funding

Local EZ Admin Grant	\$ 121,500	2%
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TOTAL STRATEGIC FUND FY 2013	\$ 6,207,518	100.0%
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Projected Capex***	
FY Capex Forecast	\$ 719,613,000 (From reference E above)

*** Gathered by companies in their strategic fund application to support relocation and expansion plans

EXHIBIT C – EXAMPLES OF INCENTIVES IN OTHER STATES*

At least 30 states have some form of discretionary economic development funds available in addition to other incentives offered. A number of states have either enacted new funds or increased existing funds. The following table summarizes some notable incentives in states that Colorado typically competes with for job-creating opportunities:

State	Fund	Appropriation	Comments
Texas	Texas Enterprise Fund	\$30.3 million in FY 2010	"Deal-closing" cash grant program.
Arizona	Quality Jobs Tax Credit Program	\$30 million in FY 2011	Will put AZ in top third of states with "closing funds"
North Carolina	One North Carolina Fund	\$4.2 million in FY 2010	
Virginia	Virginia Economic Development Incentive Grant	\$10 million in FY 2011	Cash grant program for corporate headquarters
Florida	Quick Action Closing Fund	\$31.5 million in FY 2012	Cash grants to major relocation projects
New York	Exelsior Jobs Program	\$30 million in FY 2011	
Georgia	OneGeorgia Fund Program	\$29.2 million in FY 2010	Grants and loans for relocation projects

Source: <http://www.goodjobsfirst.org>

Similar to Colorado, most of the above incentives are performance-based commitments requiring contracts with businesses with typical criteria being substantial job creation at relatively high wage levels, significant capital investment, quality of project, strategic importance, competitiveness with other states and similar factors. Most also require a local match (from cities/counties where the project is located).

* *These numbers are updated figures versus last year's request based on August, 2013 data availability.*