

# RURAL JUMP-START TAX EXPENDITURES



JANUARY 2020  
2020-TE2

## EVALUATION SUMMARY

THIS EVALUATION WILL BE INCLUDED IN COMPILATION REPORT SEPTEMBER 2020

	RURAL JUMP-START NEW BUSINESS INCOME TAX CREDIT	RURAL JUMP-START NEW BUSINESS SALES TAX REFUND	RURAL JUMP-START NEW HIRE INCOME TAX CREDIT
YEAR ENACTED	2015	2015	2015
REPEAL/EXPIRATION DATE	January 1, 2021	January 1, 2021	January 1, 2021
REVENUE IMPACT (TAX YEAR 2018)	\$24,197	\$8,813	\$28,947
NUMBER OF TAXPAYERS	Could not determine.	Could not determine.	22
AVERAGE ANNUAL TAXPAYER BENEFIT	\$1,394	\$810	\$2,520
IS IT MEETING ITS PURPOSE?	Yes, to a limited extent.	Yes, to a limited extent.	Yes, to a limited extent.

### WHAT DO THESE TAX EXPENDITURES DO?

The Rural Jump-Start Zone Program provides the following tax benefits to qualifying new businesses located in rural, economically distressed counties that have established rural jump start zones:

- The Rural Jump-Start New Business Income Tax Credit provides new businesses with a credit equal to 100 percent of their annual income tax liability on business activities that occur in the rural jump-start zone.
- The Rural Jump-Start Sales Tax Refund provides a refund of all Colorado state sales and use taxes collected on the businesses' purchases of tangible

personal property used solely within the rural jump-start zone.

In addition, full-time employees of participating businesses that make at least the average county wage are eligible for the Rural Jump-Start New Hire Income Tax Credit, equal to 100 percent of these new hires' annual income tax liabilities.

### WHAT IS THE PURPOSE OF THESE TAX EXPENDITURES?

According to statute, the purpose of the Rural Jump-Start Zone Program is to encourage economic growth in Colorado's rural, economically distressed counties.

**WHAT DID THE EVALUATION FIND?**

We determined that the Rural Jump-Start Program is meeting its purpose to a limited extent. Specifically, participating businesses have created new jobs and some businesses and stakeholders reported that the Program influenced the businesses' decision to locate in a rural jump-start zone. However, we found that the Program has only been used in one county (Mesa), and most of the jobs created came from businesses that would likely have located in the county regardless of the Program. Further, the average wages at participating businesses have been below the county average.

**WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?**

If the General Assembly chooses to extend the Program for future years, it may want to consider adjusting the Program's parameters, such as the statutory requirements for participating businesses, in order to make the Program more useful for rural communities.

# RURAL JUMP-START TAX EXPENDITURES

## EVALUATION RESULTS

### WHAT ARE THESE TAX EXPENDITURES?

This evaluation covers three tax expenditures available through the Rural Jump-Start Zone Program (Program). The Program, which was established by Senate Bill 15-282 and became available to taxpayers beginning in Tax Year 2016, allows businesses that meet certain requirements and are located in economically distressed rural areas of the state designated as a “rural jump-start zone” to claim the following tax expenditures:

- **RURAL JUMP-START NEW BUSINESS INCOME TAX CREDIT** (New Business Credit) [Section 39-30.5-105(1), C.R.S.]. The New Business Credit allows eligible new businesses to receive a credit equal to 100 percent of their annual Colorado state income tax liability for those business activities that occur in the rural jump-start zone.
- **RURAL JUMP-START NEW BUSINESS SALES TAX REFUND** (New Business Sales Tax Refund) [Section 39-30.5-105(3), C.R.S.]. The New Business Sales Tax Refund allows eligible new businesses to apply for a refund of all sales and use taxes paid by the businesses on goods that are used solely within the rural jump-start zone.

In addition, eligible new hires of the new businesses receive the following tax expenditure for the period of time beginning after the new hires’ first 6 months of employment and ending with the date of employment separation or the end of the businesses’ benefits period:

- **RURAL JUMP-START NEW HIRE INCOME TAX CREDIT** (New Hire Credit) [Section 39-30.5-105(2), C.R.S.]. The New Hire Credit provides eligible new hires with wages above the county average who are employed at an eligible new business with a credit equal to 100 percent of the new hires’ annual income tax liability.

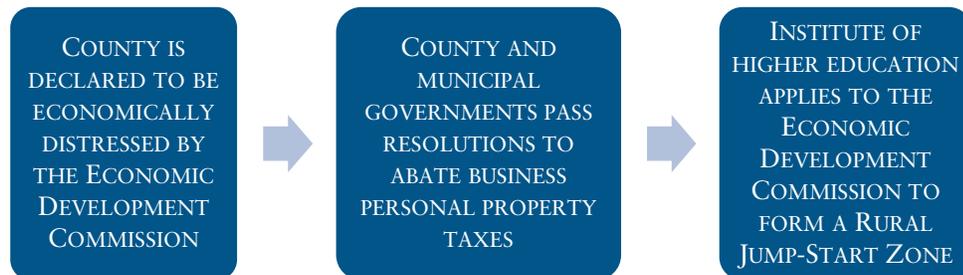
Each of these tax expenditures is available for a minimum of 4 tax years once the business is approved to participate in the Program, and businesses may apply for an extension to their benefits period of up to 4 additional tax years. The tax expenditures are the sole direct benefit of the Program, as provided in statute. The Program is set to expire January 1, 2021, if no legislative action is taken to extend it.

The Program is administered jointly by the Office of Economic Development and International Trade (OEDIT) and the Economic Development Commission (Commission), a statutorily created commission that is responsible for overseeing economic development programs within the state. Final approval of Program rules and participation rests with the Commission.

## RURAL JUMP-START PROGRAM REQUIREMENTS

EXHIBIT 1.1 provides a summary of the steps required to form a rural jump-start zone, which statute requires before businesses located in the zone may apply to participate in the Program.

### EXHIBIT 1.1. PROCESS OF FORMING A RURAL JUMP-START ZONE



SOURCE: Office of the State Auditor review of Colorado Revised Statutes.

**DESIGNATION OF ECONOMICALLY DISTRESSED COUNTIES:** Per statute [Section 39-30.5-103(9), C.R.S.], the counties that are eligible to become rural jump-start zones are those designated as “economically distressed” by the Commission. This designation is conferred on counties according to a combination of eligibility benchmarks determined, in part, by statute and, in part, by Program guidelines set by the Commission. In order to receive the designation, counties must:

- 1 Have a population of less than 250,000 (which indicates that they are rural) *and*
- 2 Meet at least three of the following economic indicator criteria:
  - a. Per capita income is at least 20 percent below the state average.
  - b. County-wide personal income is at least 20 percent below the state average.
  - c. Average unemployment level over the last 5 years is at least 20 percent above the state average over the same period of time.
  - d. Net loss of people of workforce age.
  - e. Percentage of pupils eligible for free school lunch is higher than the state average.
  - f. County is approved as an enterprise zone by the Commission and further designated as an Enhanced Rural Enterprise Zone by OEDIT staff, which means the rural county is experiencing substantial economic difficulties, as measured by unemployment rate, population growth, per capita income, and/or the total assessed value of all nonresidential property in the county.
  - g. County is not included in a metropolitan statistical area, defined by the U.S. Census Bureau to be an area consisting of a large population center and its surrounding communities.

The Commission uses these criteria annually to provide an updated list of the rural counties that it considers to be economically distressed.

**FORMATION OF RURAL JUMP-START ZONES:** Once a county has been designated as economically distressed, it is eligible to become a rural jump-start zone, the formation of which is ultimately approved by the Commission.

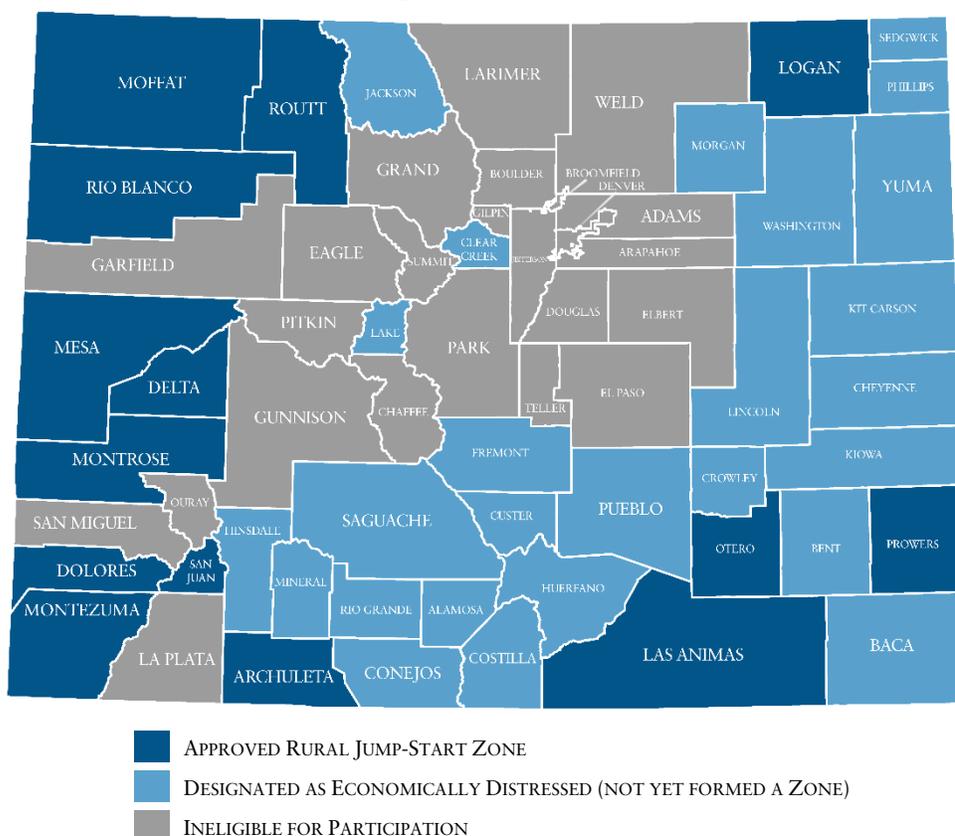
The first step in this process requires the economically distressed county, and any municipalities within the county that will participate in the

Program, to adopt resolutions that exempt, refund, or otherwise remove new businesses' liability for county and municipal business personal property tax. Businesses looking to participate in the Program must be located either in a municipality that has passed the resolution or in the unincorporated areas of the county. Optionally, the county or municipality may also adopt additional resolutions that further reduce or eliminate other local taxes imposed on participating businesses.

Secondly, a designated institute of higher education (DIHE) must submit an application for the formation of a rural jump-start zone to the Commission. In addition to applying for zone formation, the DIHE's role within the Program is to accept and do a preliminary review of businesses' applications for participation; establish a long-standing, mutually beneficial relationship with participating businesses; and serve as the point of contact for participating businesses. The DIHE must be a state institution that either has a campus in the county or includes the county in its service area (defined by the Colorado Commission on Higher Education) in order to apply. The application must include a document outlining the DIHE's strategy for the zone (e.g., markets and industries targeted, tactics used to achieve goal) and show that the DIHE meets Program requirements.

Once a rural jump-start zone has been approved by the Commission, its status as a rural jump-start zone remains until the county is no longer considered to be economically distressed. EXHIBIT 1.2 provides a map of counties that are economically distressed and have formed a rural jump-start zone, those that are economically distressed but have not formed a zone, and those that are not economically distressed and are therefore ineligible to form a zone.

## EXHIBIT 1.2. RURAL JUMP-START ZONES AS OF 2019



SOURCE: Office of the State Auditor review of program documents provided by the Office of Economic Development and International Trade.

**NEW BUSINESSES' REQUIREMENTS FOR PROGRAM PARTICIPATION.** New businesses that seek to participate in the Program and benefit from its related tax expenditures must send an application to the participating DIHE and OEDIT staff and show that they meet the following requirements, as established in statute [Sections 39-30.5-103(7) and 104(6)(a), C.R.S.] and OEDIT's 2019 Program Manual, at the time of application:

- 1 *Not operating in the state.* This requirement allows for a variety of business formats, such as a startup not yet operating or a business based outside of Colorado and not currently operating in the state at the time of application.
- 2 *Not moving existing jobs.* The new business must create all new jobs rather than simply moving jobs from elsewhere in the state.

- 3 *Five new hires.* The new business must hire at least five new employees over the course of its participation in the Program that meet the Program's requirements for new employees that are eligible to receive the New Hire Credit. These requirements include that the new employees be full-time and their wages are above the county average.
- 4 *No direct competition.* The new business must not be substantially similar in operation to, or directly compete with, the core function of a business that is currently operating anywhere in Colorado at the time of application.
- 5 *Add to economic base and export goods.* The new business must add to the economic base of the zone by exporting goods and/or services outside the zone, so as to bring in new income from outside of the distressed county.
- 6 *Locate in the zone.* The new business must be located in the rural jump-start zone.
- 7 *DIHE relationship and mission alignment.* The new business must demonstrate that it has a relationship with one of the rural jump-start zone's DIHEs, and that this relationship will result in positive benefits to the community and local economy.
- 8 *Adherence to business plan.* The new business must submit a business plan with its application to the Program and must not deviate substantially from this plan in order to continue to receive the Program's benefits.

Once the application has been submitted, the DIHE to which the new business applied first reviews the application for approval. Approved applications are sent to OEDIT staff, who also review the application to ensure that all requirements for new businesses have been met and to assess whether the applicant's business plan is likely to achieve success. After OEDIT staff approve the application, it is forwarded to the Commission for final review and approval.

The Commission's approval allows the business to claim the Program's

tax expenditures. However, the new business is required to file an annual report with OEDIT staff that confirms the business' continuing eligibility for the Program and its adherence to the business plan submitted with the application. OEDIT staff provide participating businesses and their employees eligible for the New Hire Credit with certificates that allow them to claim the Program's tax expenditures when filing tax returns with the Department of Revenue.

**NEW HIRES' REQUIREMENTS TO RECEIVE PROGRAM BENEFITS.** Businesses must employ a certain number of new hires per year that meet the requirements for the New Hire Credit in order for the business to be eligible for the Program's business tax expenditures. The business may employ both eligible and non-eligible employees, but only those employees who meet the requirements for new hires are eligible to claim the New Hire Credit and will count towards the business' hiring requirements.

Employees of businesses approved to participate in the Program must meet the following key requirements before OEDIT staff accept them as new hires eligible for the New Hire Credit and the Commission authorizes the issuance of credits to them:

- 1 *Six months of employment.* The new hire must have worked for the new business for at least 6 months in the rural jump-start zone before they can receive the credit.
- 2 *Full-time employment.* The new hire's position must either be a full-time, wage-paying job or equivalent to a full-time, wage-paying job that requires at least 35 hours per week.
- 3 *Compensation above county average.* The new hire's salary or compensation must be equal to or greater than the county's average annual wage.
- 4 *Colorado residency.* The new hire must be a Colorado resident, but need not live in the rural jump-start zone in which their employer is located.

- 5 *Federal employee status.* The new hire must be legally permitted to work in the United States under federal law and receive a federal W-2 form from the business.

The number of employees of eligible businesses that may claim the New Hire Credit is limited to 200 per rural jump-start zone, although this cap can be increased to 300 at the discretion of the Commission. If there are more employees who qualify than there are allotted New Hire Credits available under this cap, OEDIT staff will determine which of these employees receive the New Hire Credit based on their dates of hire.

### CLAIMING THE RURAL JUMP-START TAX EXPENDITURES

The process for claiming each of the tax expenditures available to new businesses or new hires under the Program is slightly different:

- **NEW BUSINESS CREDIT.** Since this credit is only available for income derived from activities within the rural jump-start zone, the business must apportion its income between any income derived from operations outside the zone and income derived from inside the zone. The business must also report annually to OEDIT staff showing that it has met Program requirements. After OEDIT staff have reviewed and the Commission has approved the new business' annual report, OEDIT staff issue a tax credit certificate to the new business that confirms that the business is eligible for the credit. For pass-through entities, OEDIT staff issue credit certificates to each of the new business' partners, shareholders, or other constituent entities. The Department of Revenue then requires taxpayers to submit a copy of the credit certificate and Form DR 0113, the Rural Jump-Start Zone Credit Schedule, along with their income tax return in order to claim the credit, which is equivalent to the business' income tax liability for the tax year.
- **RURAL JUMP-START NEW BUSINESS SALES TAX REFUND.** The new business must pay sales tax on the initial purchase of tangible personal property that is used exclusively within the zone. It must later apply to the Department of Revenue for a refund of the sales

tax paid on these items by submitting Form DR 0137B, Claim for Refund of Tax Paid to Vendors. The Department of Revenue verifies that the business is eligible before issuing the requested refund.

- **RURAL JUMP-START NEW HIRE INCOME TAX CREDIT.** Eligible new hires still have normal state income tax withholding deducted from their paychecks. OEDIT staff review annual reports submitted by eligible businesses to confirm their employees' eligibility and issue tax credit certificates (which are only valid for one tax year) to the new business for each eligible employee, which the business then distributes. Each employee must then claim the New Hire Credit when filing their individual income tax returns. The Department of Revenue requires taxpayers to submit a copy of the credit certificate and Form DR 0113, the Rural Jump-Start Zone Credit Schedule, in order to confirm the taxpayers' eligibility.

Statute [Section 39-30.5-105(4), C.R.S.] also specifies that a business that claims any of the tax expenditures that are available through the Program may not claim any other state tax incentives for which it is eligible due to establishing the new business in Colorado, including tax incentives that are available as a result of employing new hires.

#### WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURES?

Statute does not explicitly identify the intended beneficiaries of the Program tax expenditures. Based on the statutory language of the tax expenditures, we inferred that the intended beneficiaries of the Program are new businesses that locate in Colorado's rural, economically distressed counties and the Coloradans that enter their employ. In addition, because the purpose of the Program is to improve economic conditions in counties approved as rural jump-start zones, we inferred that residents of these counties were intended to be indirect beneficiaries.

As of May 2019, there were 14 Colorado counties that had been designated by the Commission as economically distressed and approved

as rural jump-start zones for the Program. EXHIBIT 1.2 provides information on Colorado’s economically distressed counties and rural jump-start zones, as compared to the state as a whole.

EXHIBIT 1.2. COMPARISON OF RURAL JUMP-START ZONES AND ECONOMICALLY DISTRESSED COUNTIES WITH COLORADO AS A WHOLE			
	RURAL JUMP-START ZONES	ECONOMICALLY DISTRESSED COUNTIES <sup>1</sup>	COLORADO
Number of counties	14	46	64
Percentage of Colorado’s land area (2010)	30.3%	77.9%	100%
Percentage of Colorado’s population (2018)	6.7%	15.5%	100%
Average annual wages per employee (2018)	\$40,732	\$40,955	\$59,305
Percentage increase in average annual wages per employee (2014 to 2018)	6.0%	8.4%	11.7%
Percentage increase in number of business establishments (2014 to 2018)	8.1%	9.5%	14.5%
Unemployment rate (2018)	3.9%	3.8%	3.3%

SOURCE: Office of the State Auditor analysis of Quarterly Census of Employment and Wages data and Local Area Unemployment Statistics from the U.S. Bureau of Labor Statistics and Census Bureau Quick Facts data and Population Estimates Program data from the U.S. Census Bureau.

<sup>1</sup> Includes all 14 Rural Jump-Start Zones, which are all economically distressed counties.

According to academic studies we reviewed, agriculture and rural manufacturing served a more significant role in America’s rural areas in the past. However, the extent to which these sectors have contributed to rural economies has been in decline for decades, and rural areas have not been able to find replacements for this income. Furthermore, rural areas have generally not yet recovered from the recent Great Recession. For example, the Economic Innovation Group’s 2018 Distressed Communities Index found that although the total number of Americans living in economically depressed zip codes (not just rural) has decreased since the Great Recession, the number of Americans living in rural economically depressed zip codes has actually increased.

Academic research we reviewed also demonstrated that new businesses and startups are generally associated with regional economic growth and with significant levels of job creation relative to other businesses.

However, rural areas pose a number of challenges with respect to the successful development of new businesses and startups, such as difficulty accessing funds and business services, both of which are generally concentrated in urban centers; higher costs for transportation and communication; and insufficient workforce in terms of numbers and/or skill or education level. Rural areas also experience difficulty in developing innovative and specialized businesses, which are more likely to yield economic growth. Entrepreneurs tend to start new businesses in their current location and within industries in which they already have experience. Therefore, rural entrepreneurs are more likely to create businesses in industries that already have a presence in the local economy, which are in turn less likely to be high-growth, innovation-oriented industries and are more likely to serve local needs rather than looking beyond.

#### WHAT IS THE PURPOSE OF THESE TAX EXPENDITURES?

According to statute and the legislative declaration from Senate Bill 15-282, the purpose of the Program and its associated tax expenditures is to encourage economic growth in Colorado's rural, economically distressed counties. Specifically, statute suggests that the Program, including the tax expenditures, will help stimulate growth in the rural jump-start zones by: (1) attracting businesses that are completely new to Colorado, (2) creating new jobs, and (3) increasing the number of higher-paying jobs.

#### ARE THE TAX EXPENDITURES MEETING THEIR PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

We found that the Program, and its associated tax expenditures, is likely meeting its purpose to some extent, although the impact on economically distressed counties in the state is limited. Specifically, the Program's use has been concentrated entirely within Mesa County, with all participating businesses that have qualified for Program benefits located within the county. Therefore, most counties have not seen any impact from the Program. Because of its limited utilization, we focused our analysis on Mesa County.

Statute does not provide quantifiable performance measures for the Program and its tax expenditures. Therefore, we created and applied the following performance measures to determine the extent to which the Program and its related tax expenditures are meeting their purposes:

**PERFORMANCE MEASURE #1:** *To what extent has the Program attracted new businesses to locate in the Mesa County Rural Jump-Start Zone?*

**RESULT:** Between Calendar Years 2016 through 2018, a total of 13 businesses were approved for the Program in Mesa County. However, only eight of these businesses have begun operations and met the requirements to remain in the Program, with the Commission removing the other five after they did not establish operations in the state as planned, moved out of state, or did not meet Program requirements. In comparison, according to the U.S. Census Bureau's Quarterly Census of Employment and Wages, a total of 223 net new businesses were established in Mesa County during Calendar Years 2016 through 2018. Thus, the eight businesses currently participating in the Program represent 3.6 percent of the net new businesses in the county. EXHIBIT 1.3 provides further details on new businesses in the county by calendar year.

**EXHIBIT 1.3. PERCENTAGE OF NEW BUSINESSES IN MESA COUNTY PARTICIPATING IN THE RURAL JUMP-START PROGRAM**

CALENDAR YEAR	NUMBER OF NEW BUSINESSES APPROVED FOR RURAL JUMP-START <sup>1</sup>	NUMBER OF NET NEW BUSINESSES ESTABLISHED IN MESA COUNTY	PERCENTAGE OF NEW BUSINESSES PARTICIPATING IN RURAL JUMP-START
2016	2	25	8.0%
2017	4	109	3.7%
2018	2	89	2.2%
<b>TOTAL</b>	<b>8</b>	<b>223</b>	<b>3.6%</b>

SOURCE: Office of the State Auditor analysis of Office of Economic Development and International Trade data and data from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages.

<sup>1</sup> Includes only those Mesa County businesses that were approved for the Program in Calendar Year 2016 through 2018 and are currently participating in the Program.

Of the eight businesses that are currently participating in the Program and were established in Mesa County during Calendar Years 2016 through 2018, it is likely that some of these businesses would have located in Mesa County regardless of the Program. Based on our

discussions with stakeholders, including four of the eight businesses, it appears that the Program likely had a positive influence on some of the participating businesses' decisions to locate in Mesa County, but it was likely one factor among many. As a result, the Program's overall impact has been relatively modest.

None of the four participating businesses that we consulted reported that the Program was the single deciding factor in their decision to locate in Mesa County, although two listed it as a strong influencing factor among others, such as:

- 1 The availability of funding (e.g., grants, venture capital, other government programs) and the locations of key investors.
- 2 The availability of suitably trained workforce, sometimes correlated with proximity to an institute of higher education offering educational programs that complement the business' operations.
- 3 The cost of leasing or owning real property for the business, as well as the suitability of the real property for the business' operational needs.
- 4 The current locations of individuals involved with the company.
- 5 The presence of industries needed to support the business' operations.
- 6 Quality of life, including cost of living and ease of commute.

A local economic development group that has assisted most of the rural jump-start zone businesses said that the Program is typically enough to convince approved businesses to settle in Grand Junction. Notably, at least two of the businesses approved for the Program relocated to Mesa County from out-of-state. According to representatives of these businesses, one of the two had preexisting business ties to the Mesa County area, and the combination of the Program and Colorado's grant programs influenced the company to locate their main business operations in Mesa County rather than out-of-state. The other was

looking to relocate from their previous location and had been considering the Grand Junction area before finding out about the Program. This business ranked the Program among the top factors that influenced their decision to locate there. The local economic development group also reported that those companies that are not approved for the Program typically go to Denver or settle out of state instead.

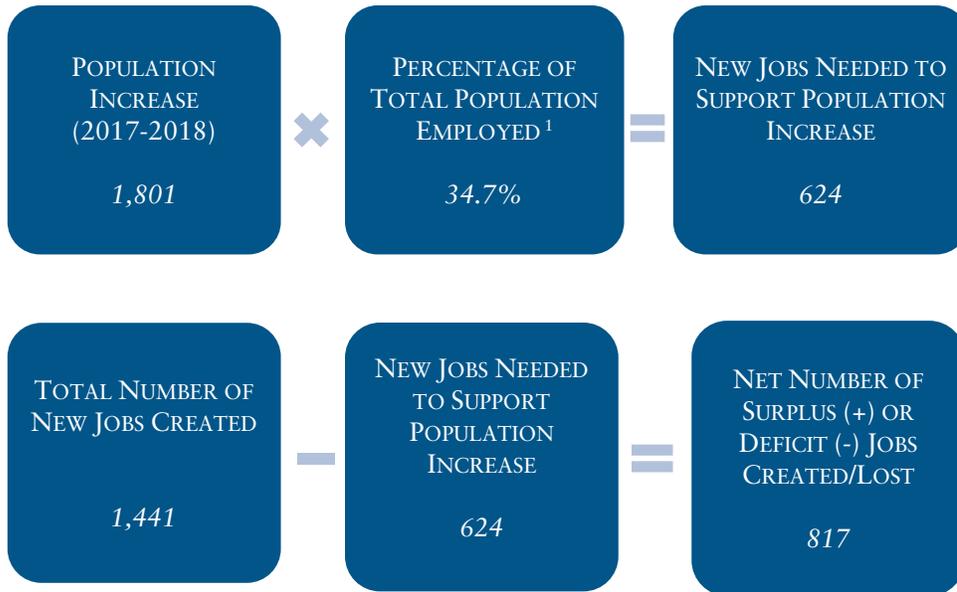
Conversely, the other two participating businesses indicated to us that the Program was not a significant deciding factor for their location decision and that they would have located in Mesa County irrespective of the Program.

**PERFORMANCE MEASURE #2:** *To what extent has the Program had an impact on job growth in the Mesa County Rural Jump-Start Zone?*

**RESULT:** Although the businesses participating in the Program have increased employment in Mesa County, the Program has had a relatively small impact on overall job growth in the county. Information we received from participating businesses indicates that a substantial proportion of these jobs would have been created regardless of the Program.

We found that the eight new businesses participating in the Program employed a total of 108 employees at the end of Calendar Year 2018, 87 of whom were Mesa County residents, including full-time, part-time, and temporary employees. To quantify the extent to which participating businesses may have provided employment to Mesa County's residents, we compared the net number of surplus new jobs in the county with the number of new jobs provided by rural jump-start zone businesses during Calendar Years 2016 through 2018. We defined "net number of surplus new jobs" as the number of jobs created in Mesa County in addition to those needed to support the annual population increase. This serves as a better point of comparison than the raw number of jobs created per year, because it places the number of jobs added by businesses participating in the Program in the context of the local economy's relative expansion or contraction in the given calendar year. EXHIBIT 1.4 shows how we calculated the net number of surplus new jobs created in Calendar Year 2018 in Mesa County.

#### EXHIBIT 1.4. CALENDAR YEAR 2018 CALCULATION OF NET NUMBER OF SURPLUS NEW JOBS IN MESA COUNTY



SOURCE: Office of the State Auditor analysis of data from the U.S. Census Bureau's Quarterly Census of Employment and Wages (QCEW) and Population Estimates Program (PEP).

<sup>1</sup> Calculated using the QCEW's estimates of annual average employment in Mesa County and the PEP's estimates of Mesa County's population.

We analyzed the employee data provided by participating businesses to OEDIT to determine the number of jobs created by Program businesses. To determine the Program's impact on Mesa County's permanent employment, we counted only those employees who started their position at the company during the given calendar year and who worked for the company for at least 6 months prior to the end of Calendar Year 2018. As shown in EXHIBIT 1.5, the number of new permanent jobs provided by Program businesses in Calendar Years 2016 through 2018 was relatively small compared with the total number of surplus jobs created or lost in Mesa County during this time. Stakeholders reported that some employees have moved to Mesa County in order to accept employment with these businesses; therefore, some of the jobs created did not employ preexisting residents, but rather new additions to the population.

**EXHIBIT 1.5. COMPARISON OF SURPLUS NEW JOBS IN MESA COUNTY WITH JOBS CREATED BY RURAL JUMP-START ZONE PROGRAM BUSINESSES IN MESA COUNTY CALENDAR YEARS 2016 THROUGH 2018**

	2016	2017	2018
Number of Surplus New Jobs in Mesa County <sup>1</sup>	-884	970	817
New Permanent Mesa County Resident Jobs at Program Businesses <sup>2</sup>	14	16	25

SOURCE: Office of the State Auditor analysis of Office of Economic Development and International Trade data and data from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages.

<sup>1</sup> The negative number of surplus new jobs created in 2016 indicates that there were not enough new jobs created in Mesa County to support the influx of population in the County in that calendar year.

<sup>2</sup> Includes only those employees who began work during the calendar year and worked for the business for at least 6 months. The data for 2018 does not include some jobs that could potentially be permanent, because this would require data for 2019 to analyze fully.

We lacked the data required to quantify the extent to which Program businesses employed preexisting residents, as opposed to new residents who moved to the area in order to accept employment with the given business. However, based on stakeholder feedback, it is likely that some of the jobs provided by Program businesses were filled by preexisting Mesa County residents.

In addition, businesses employing 67 of the 87 employees (77 percent) working at participating Program businesses at the end of Calendar Year 2018 reported to us that they would have located in Mesa County even if the Program were not in place. Therefore, it appears that most of the employment growth from the participating businesses was not caused by the Program and would have occurred even if it were not in place.

**PERFORMANCE MEASURE #3:** *To what extent has the Program created higher-paying jobs in the Mesa County Rural Jump-Start Zone?*

**RESULT:** We determined that the Program has not created higher than average paying jobs in Mesa County. Specifically, the average annual wages paid to employees of participating businesses in Mesa County were less than the county average annual wage in Calendar Years 2016 through 2018. In addition, less than 20 percent of the Mesa County residents that were employed by participating businesses were paid at least the Mesa County average annual wage. Furthermore, since the

Program jobs represent a very small percentage of Mesa County’s total jobs (about 0.2 percent in Calendar Year 2018), it is unlikely that the compensation provided for these jobs would have a discernable effect on the county average wage.

EXHIBIT 1.6 provides further details on employee wages for participating businesses. Due to lack of available data on hours worked, neither the annual wages reported for Program employees nor the average annual wages for Mesa County are adjusted based on the number of hours worked, so these wages do not reflect the annualized salary that would be paid to a full-time individual working a standard 40-hour week. The wages of Program employees also likely include the wages of temporary and part-time workers, some of whom businesses reported are college students, but we were unable to quantify the impact of these phenomena. Therefore, it is likely that the wages paid to full-time and permanent employees of Program businesses are higher than those reported here.

**EXHIBIT 1.6. RURAL JUMP-START ZONE PROGRAM  
EMPLOYEES RESIDING IN MESA COUNTY AND AVERAGE  
MESA COUNTY ANNUAL WAGE INFORMATION  
CALENDAR YEARS 2016 TO 2018<sup>1</sup>**

	2016	2017	2018
Total number of Program Mesa County employees employed during the calendar year	29	50	115
Total number of Program Mesa County employees paid at least the Mesa County average annual wage	5	8	14
Percentage of Program Mesa County employees paid at least the Mesa County average annual wage	17%	16%	12%
Average Mesa County annual wages per employee	\$39,515	\$41,426	\$43,325
Average annual wages per employee at Program businesses	\$32,535	\$29,332	\$34,111

SOURCE: Office of the State Auditor analysis of Office of Economic Development and International Trade data and data from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages.

<sup>1</sup> Annual wages reflect employees’ total wages for the year and are not adjusted based on the number of hours worked.

To remain eligible for the Program and continue to benefit from the New Business Credit and the New Business Sales Tax Refund, participating businesses must hire at least five employees who qualify for the New Hire Credit. As addressed previously, not all employees are eligible for the Credit. Among other things, eligible new hires must receive compensation greater than or equal to the average county wage to receive the New Hire

Credit. Our analysis indicates that these requirements have not likely encouraged participating businesses to increase compensation for their employees in most cases. If businesses had increased the compensation for employees so that the employees would be paid enough to qualify for the New Hire Credit, as opposed to setting wages based on the market rate for the position, these eligible new hires would likely have been paid only slightly above the Mesa County average, since the sole purpose of the increase in pay would be to exceed the county average benchmark. However, based on our review of OEDIT data, most employees that made more than the County average wage were compensated substantially higher than the County average. This, and the fact that the average annual wage for new hires who qualify for the New Hire Credit is also substantially higher than the County's average annual wage (\$66,543 versus \$43,325 in Calendar Year 2018), suggests that few eligible new hires experienced an increase in their compensation to ensure their eligibility for the New Hire Credit, but tended to be in positions within the businesses that already provide higher compensation due to a higher market rate for their positions. However, the requirement to hire at least five employees above the average county wage may still serve the purpose of limiting the types of businesses that can participate in the Program to those that create at least some higher paying jobs.

In addition, Program businesses employ some individuals who do not live in Colorado. On average, Colorado employees of all Program businesses (not just those located in Mesa County) were paid \$35,900 in Calendar Year 2018, while nonresident employees were paid \$53,211 during the same year, or about 48 percent more than the Colorado employees. As with the calculations above, these numbers do not account for differences in number of hours worked. Nonresident employees also represent a significant portion of Program employees, with between 13 and 32 percent of those employed at Program businesses residing outside of the state, depending on the calendar year. Nonresident employees are not eligible for the New Hire Credit and therefore, do not directly benefit from the Program. However, the difference in average compensation between Colorado residents and employees residing outside the state is notable, since the purpose of the

Program is to revitalize economically distressed areas of Colorado, not to support higher-paid employment in other states.

### WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURES?

We estimate that the Program had a direct revenue impact for Tax Year 2018 of about \$143,000. Although the Department of Revenue was able to provide data regarding actual claim amounts resulting from the Program's tax expenditures, because the Program is new, the available data was not recent enough for us to assess accurately the revenue impact of the tax expenditures through the end of Tax Year 2018. Therefore, we used participating businesses' self-reported estimates of amounts eligible to be claimed that they submitted in their annual reports to OEDIT to quantify the potential revenue impact. In total, based on the businesses' reports, they and their employees were eligible for a total of \$61,957 in credits and/or refunds for all three tax expenditures in Tax Year 2018. In addition, the General Assembly has appropriated \$80,983 for the 1.0 FTE that OEDIT requires in order to administer the Program for each fiscal year during which the Program has been active. EXHIBIT 1.7 provides additional detail on the estimated revenue impact of the Program and its tax expenditures for Tax Years 2016 through 2018.

EXHIBIT 1.7. ESTIMATED REVENUE IMPACT AND DIRECT PROGRAM COSTS (TAX YEARS 2016-2018)				
	2016	2017	2018	TOTAL
New Business Income Tax Credit	\$2,280	\$0	\$24,197	\$26,477
New Business Sales Tax Refund	\$3,775	\$2,800	\$8,813	\$15,388
New Hire Income Tax Credit <sup>1</sup>	\$4,377	\$15,344	\$28,947	\$48,668
Total Tax Expenditure Revenue Impact	\$10,432	\$18,144	\$61,957	\$90,533
OEDIT Staff Costs <sup>2</sup>	\$80,983	\$80,983	\$80,983	\$242,949
<b>TOTAL</b>	<b>\$91,415</b>	<b>\$99,127</b>	<b>\$142,940</b>	<b>\$333,482</b>

SOURCE: Office of the State Auditor analysis of Office of Economic Development and International Trade data.

<sup>1</sup> These amounts were calculated based on W-2 wage data for employees, as reported by Rural Jump-Start Zone businesses and assuming they took the federal standard deduction and took the personal exemption when it was available in Tax Years 2016 and 2017.

<sup>2</sup> Staff costs for the Office of Economic Development and International Trade are appropriated from the General Fund on a fiscal year basis. For purposes of these calculations, we annualized these amounts under the assumption that they would be distributed evenly throughout each calendar year.

As shown, the revenue impact has grown each year since the Program became available. The overall revenue impact will likely continue to increase for Tax Years 2019 and 2020, due to increased maturity (e.g., increased business income, more employees, and/or more purchases of taxable goods) in businesses that have been approved to participate, as well as a potential increase in the number of businesses participating.

In addition to the impact to state revenue, the Program also reduces local government revenue because in order to form a Rural Jump-Start Zone, local governments must forgo business personal property taxes for the participating businesses and may offer additional tax incentives.

Although we have presented the direct revenue impact of the Program, we were unable to determine its net revenue impact, which would include both revenue costs and gains, because we did not have information necessary to determine what participating businesses' decisions would have been if the Program was not in place. Specifically, it is possible that some of the businesses participating in the Program and receiving credits would have either been established out-of-state or would have not been viable in any location in the absence of the Program. The tax expenditures taken by these businesses do not represent a net revenue loss to the State, since if not for the Program, they would not have generated any economic activity or tax liability in the state. Further, these businesses (and their employees) may generate additional revenue for the State that it otherwise would not have received in the form of income tax, sales tax, and other Colorado taxes to which the businesses may be subject after their benefits period has ended.

Stakeholders also reported a number of nonfinancial benefits resulting from the Program. Mesa County businesses, as well as a DIHE and a local economic development group, described a beneficial and symbiotic relationship between certain participating businesses and the university. For example, three businesses reported that they hire university students as interns, provide jobs for some graduating students, and/or teach classes at the university. One business also reported that students from the DIHE benefit from real-world experience in their chosen fields via internships. The DIHE has also

modified at least one program in response to feedback from Program businesses that have hired some of the Program's graduating students. According to the DIHE, by incorporating additional instruction in areas recommended by the business, the Program is now better designed to set students up for success with respect to careers in corresponding fields. Finally, one business reported that the successful relationship between the business and the DIHE has resulted in more optimistic attitudes among both students and faculty regarding local career prospects in the field.

Local economic development groups also reported that the Program provides significant benefits with respect to their efforts to improve the local economy. According to these groups, it is difficult to attract businesses that pay higher wages to rural areas, partly because a lot of businesses believe that they need to locate in a larger city in order to access the workforce, services, and infrastructure needed to be successful. One economic development group noted that Mesa County's primary economic growth opportunities are in the manufacturing and technology industries. Of the eight businesses participating in the Program, four are in specialized manufacturing and four are in the software industry. Furthermore, since it is difficult to attract businesses to rural communities, local economic development groups were in consensus that "every tool in the toolbox" that can help them to support economic development in their area is important and necessary. A local economic development group also reported that the Program can serve as an important selling point to investors for participating businesses, which helps these businesses to access the capital necessary to get their operations up and running.

#### WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURES HAVE ON BENEFICIARIES?

Eliminating the Program would potentially increase the tax liability of businesses that would otherwise have participated in the Program in the future and their employees who would have otherwise qualified for the New Hire Credit. However, if the Program is allowed to expire on January 1, 2021, as is currently laid out in statute [Section 39-30.5-

104(7)(a), C.R.S.], the businesses that have been approved to participate in the Program will continue to benefit from the Program's tax expenditures until each business' benefits period has expired.

To estimate the additional costs that would be incurred by businesses that would not be able to participate if the Program were eliminated, we estimated the average tax benefits to businesses currently participating in the Program. To do so, we used the estimated amounts of businesses' benefits from the New Business Income Tax Credit, the New Business Sales Tax Refund, and local government incentives, as reported by participating businesses on their annual reports to OEDIT. Using these figures, we estimated that additional businesses that would have participated in the Program if it had been renewed would incur an additional \$2,203 in average annual costs during the first 3 tax years after establishment if the Program expires. EXHIBIT 1.8 breaks down these costs in detail.

EXHIBIT 1.8. AVERAGE ESTIMATED <sup>1</sup> TAX BENEFITS TO PARTICIPATING BUSINESSES BY PROGRAM PARTICIPATION YEAR				
	YEAR ESTABLISHED AND APPROVED FOR PROGRAM	FIRST FULL CALENDAR YEAR	SECOND FULL CALENDAR YEAR	AVERAGE ANNUAL BENEFIT
New Business Income Tax Credit (State)	\$228	\$2,811	\$2,262	\$1,394
New Business Sales Tax Refund (State)	\$428	\$636	\$3,329	\$810
Local Government Incentives <sup>2</sup>	\$426	\$5,227	\$500	\$2,203
Total Benefit (State and Local)	\$1,082	\$8,674	\$6,091	\$4,406
Total Benefit (State Only)	\$656	\$3,447	\$5,591	\$2,203

SOURCE: Office of the State Auditor analysis of data provided in OEDIT's annual reports to the Legislature.

<sup>1</sup> These figures are based on participating businesses' self-reported estimates of the tax benefit for which they will be eligible. Actual amounts are unknown until the business files tax returns with the Department of Revenue.

<sup>2</sup> Local government incentives include the abatement of county and municipal business personal property taxes, as required by statute, and may also include additional incentives at the discretion of the county and municipality.

Based on the current estimated average benefit, we also estimate that the average additional annual income tax liability for individuals who would have otherwise been eligible for the New Hire Credit would be \$2,520 for each full year that they would have been eligible. This

estimate is based on the amounts reported by businesses for their employees' 2018 annual wages and was calculated after applying the federal standard deduction amount for Tax Year 2018.

In addition to the direct monetary costs to beneficiaries, there may be additional indirect financial effects if the Program expires. Participating businesses reported that the Program's tax expenditures have allowed them to expand their operations more quickly and/or hire more employees than they would have been able to otherwise. Therefore, the growth rate and job creation rate of businesses that would have participated in the Program may be negatively affected. Furthermore, to the extent that the Program influences businesses' decisions to either locate in Colorado's distressed counties or to start operations at all, some businesses that would have established in distressed counties as a result of the Program's benefits may not do so in the event of the Program's expiration.

#### ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

According to a 2012 report published by The Pew Charitable Trusts, every state uses tax incentives with the goal of encouraging economic growth. In 2017, Upjohn Institute found that job creation tax credits and property tax abatements made up over 70 percent of the total cost of these business incentives in 2015. However, based on our review of other states' tax incentive programs, it appears that very few state programs completely waive income taxes for new businesses as is the case for the Program.

We identified one other state program that provides similarly comprehensive tax expenditures: START-UP NY, a New York program that became available in 2014. To receive program benefits, businesses must establish in an approved tax-free zone, as well as (1) be a new company in New York or an expansion of a preexisting company and (2) align with or support the academic mission of an institute of higher education. The program provides a complete abatement of a number of state and local taxes to participating businesses, including business income tax; sales and use tax; and real estate and property tax, for 10

consecutive tax years. Employees of these businesses also receive an individual income tax credit up to 100 percent of their state income tax liability for this same period. START-UP NY also included funds for a marketing campaign, with \$45 million spent on marketing during the program's first year of operation. According to a 2016 report published by Empire State Development, the program's administering agency, 212 businesses had been approved to participate in the program by the end of 2016 and had committed to creating a total of 4,403 jobs during their first 5 years in the program.

A number of other states offer less robust tax incentives to new businesses that establish in certain approved areas of the state. For example, Pennsylvania's Keystone Innovation Zone Tax Credit Program provides a tax credit for 50 percent of the increase in participating new businesses' gross revenues from the previous tax year in designated areas around institutes of higher education.

We also identified several programs in the states adjacent to Colorado that are designed to spur economic development in distressed areas, summarized in EXHIBIT 1.9.

EXHIBIT 1.9. SUMMARY OF SIMILAR PROGRAMS IN ADJACENT STATES		
STATE	PROGRAM	DESCRIPTION
Arizona	Quality Jobs Tax Credit	Provides a \$3,000 income or premium tax credit per year of continuous employment (up to 3 years) for each net new position created that pays at least the county median wage. Eligible rural businesses must create five net new jobs and meet minimum capital investment requirements.
Kansas	Promoting Employment Across Kansas	Qualified companies can retain 95 percent of the state payroll withholding tax on those jobs that pay at least the county median wage. Companies in a non-metropolitan county must create five new jobs over a 2-year period to be eligible. The program's benefits are available for up to 10 years.
Nebraska	Enterprise Zones	Businesses located in Nebraska's Enterprise Zones, which are designated areas of the state experiencing economic distress, are given preference in several Nebraska programs, including: <ul style="list-style-type: none"> <li>▪ Customized Job Training. Provides grants for jobs created or worker trainings at export businesses.</li> <li>▪ Seed Investment Program. Provides investment funds to high-growth, early-stage companies for purposes of commercializing a product or process.</li> </ul>
New Mexico	Job Training Incentive Program (JTIP)	Provides reimbursements for expenses related to training employees in newly created jobs to eligible companies. Reimbursement percentages range from 65 percent in rural locations up to 75 percent for economically distressed locations.
Oklahoma	Quality Jobs Program	Provides quarterly cash rebates of up to 5 percent of newly created taxable payroll for certain export businesses. Companies located in small communities must create at least five new jobs to be eligible. The rebates are available for 7 years.
Utah	Enterprise Zone Job Creation Tax Credit	Businesses located in Enterprise Zones, which are rural areas of the state that have been targeted for economic development, are eligible for the Job Creation Tax Credit. This credit provides a \$750 income tax credit for each new full-time position, with an additional \$500 credit for positions that pay at least 125 percent of the county average wage.
Wyoming	Workforce Development Training Fund	Provides grants to Wyoming businesses for purposes of training existing or new employees. The funding limit per eligible trainee is \$1,000, but is increased to \$1,500 for businesses in certain industries.

SOURCE: Office of the State Auditor compilation of information available on other states' official websites.

### ARE THERE TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE IN THE STATE?

We identified the following programs that encourage economic development in Colorado, some of which focus their efforts on more distressed areas of the state:

**COLORADO ENTERPRISE ZONES CREDITS [Title 39, Article 30, C.R.S.].** Colorado's enterprise zones and enhanced rural enterprise zones are

areas of the state that are experiencing economic difficulties as measured by unemployment rate, population growth, and/or per capita income. A variety of tax expenditures are available to businesses that are located in enterprise zones, including credits for hiring new employees, making investments, and establishing job training programs. In 2018, all 46 of the counties that were determined to be economically distressed under the Program were either partially or fully contained in an enterprise zone, and 32 of these counties were in an enhanced rural enterprise zone. These tax expenditures likely do not provide an overlapping benefit with the Program to participating businesses because the Program eliminates all tax liability for state sales and income taxes, so only refundable tax expenditures would be applicable to businesses. Of the enterprise zone's tax expenditures, only the Renewable Energy Credit is refundable in most circumstances. Additionally, statute [Section 39-30.5-105(4), C.R.S.] does not allow businesses that take the Program tax expenditures to take other state tax incentives that are provided only to new businesses.

**COLORADO STRATEGIC FUND.** The Colorado Strategic Fund, administered by OEDIT, provides cash incentives to qualified businesses located in Colorado based on net new full-time jobs created above the county average annual wage. Eligibility is determined based on factors such as fund matching commitments from local governments; the potential for economic "spinoff" benefits, such as expansion initiatives or attracting suppliers; and interstate competitive factors. The amount of cash incentive provided by the Colorado Strategic Fund depends on whether the business is located in an enterprise zone and the degree to which the average annual wage of the business' net new jobs exceeds the county average wage, ranging from \$2,500 to \$5,000 per net new job. Businesses participating in the Program may be eligible to apply for cash incentives via the Colorado Strategic Fund. However, OEDIT reported that there are no businesses currently participating in the Program that have benefitted from the Colorado Strategic Fund.

**COLORADO RURAL ECONOMIC DEVELOPMENT INITIATIVE.** The Colorado Rural Economic Development Initiative, administered by the

Department of Local Affairs, provides a variety of grants intended to help rural communities diversify their economy. Types of grants available through the initiative include:

- Local government economic planning grants, such as for engineering plans and studies on land use feasibility or marketing.
- Infrastructure grants, such as for facility expansion, business incubators, and industrial park infrastructure.
- Grants that support the development of rural entrepreneurial ecosystems (e.g., community, economic, or workforce development), such as innovation centers, co-working spaces, and business expansion.

**FEDERAL OPPORTUNITY ZONES.** These zones were added to the United States Tax Code with the 2017 Tax Cuts and Jobs Act in order to support economic development in distressed areas of the country. Taxpayers investing in a Qualified Opportunity Fund, the investment vehicle through which funds are made available for economic development in distressed areas, are eligible for a deferral of federal capital gains taxes on the investment. Of Colorado's 1,249 census tracts, 126 have been approved as designated Federal Opportunity Zones and 63 of these are located in economically distressed rural counties eligible for the Program.

**LOCAL PROGRAMS.** County and municipal governments have implemented a variety of strategies to attract businesses and/or address issues related to economic distress. There are also a number of other local entities that contribute to local economic development. Businesses participating in the Program may be able to benefit from some of these local efforts, which include:

- **PROPERTY TAX ABATEMENTS.** Economic development groups reported that local governments in their areas may offer an abatement of property taxes to specific businesses.
- **LOAN AND BOND PROGRAMS.** These programs provide up-front

funding for businesses and/or economic development projects. They may be administered by a local entity or may be a joint effort with the State or federal government.

- **LOCAL ECONOMIC DEVELOPMENT AGENCIES.** These groups support economic development in their area. Those that we identified as being involved with the Program are generally nonprofits. Often, they serve as the first point of contact for businesses looking to locate in the area.
- **COLORADO SMALL BUSINESS DEVELOPMENT CENTER NETWORK (Network).** This Network provides free consultation and low-cost training programs for Colorado's businesses. The Network has locations around Colorado and provides a combination of federal, state, and local information and resources, along with Colorado's education system and the private sector.

#### WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURES?

We did not identify any data constraints during our evaluation of the Program.

#### WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

**IF THE GENERAL ASSEMBLY CHOOSES TO EXTEND THE PROGRAM, IT MAY WANT TO REVIEW THE EFFECTIVENESS OF THE CURRENT PROGRAM STRUCTURE AND REQUIREMENTS.** As discussed in this evaluation, the Program has had only a limited economic impact. Specifically, only eight new businesses had begun operations and were meeting Program requirements at the end of 2018, and these businesses employed 108 individuals at the end of 2018, 93 of whom are Colorado residents and 17 of whom are eligible for the New Hire Credit, meaning that their compensation is at least equal to the county average wage in the county where the business is located, among a few other requirements.

In addition, based on our discussions with stakeholders, two of the participating businesses (which employ 69 percent of the 108 total

individuals employed by participating businesses) would have been established in the same location regardless of the Program, so the true impact is likely substantially less than that provided by the total number of businesses participating. Furthermore, the Program's utilization is concentrated in one county (Mesa), where all eight of the participating businesses that had started operations by the end of 2018 are located.

However, the Program has only been available since 2016 and may grow to have a more significant impact in future years. In addition, two of the four participating businesses we contacted reported that the Program was a significant factor in their decision to locate in a Rural Jump-Start Zone. Furthermore, stakeholders reported that the Program provides important benefits. For example, a local economic development organization reported that the Program has helped it attract new businesses, and a participating university reported that the Program has helped it to form relationships with businesses that have improved its programs for students.

We identified the following factors that likely reduce the number of businesses that have participated in the Program and its economic impact:

- **THE NON-COMPETITION REQUIREMENT.** Section 39-30.5-103(7)(d), C.R.S., mandates that any participating business be “not substantially similar in operation to and...not directly compete with the core function of a business that is operating in the state.” OEDIT program administrators reported that this requirement is the main reason for the Program's relatively low utilization, because most new businesses are not eligible for the Program solely due to the non-competition requirement. According to our review of academic research, rural start-ups generally serve the local population and tend to be both similar to and in competition with other local businesses.
- **THE PROGRAM'S GEOGRAPHIC SPREAD AND THE ECONOMIC CHALLENGES OF SMALL RURAL COMMUNITIES.** The Program may be less useful for supporting economic development in small rural communities than in rural communities with more substantial populations, as indicated by the Program's current participation

patterns and stakeholder feedback. Of the 25 municipalities that have passed resolutions as required to participate in the Program, only one municipality has businesses that are participating—Grand Junction (population 63,374). Notably, Grand Junction is the most populous municipality participating in the Program. Local economic development groups informed us that small towns generally lack the amenities that make communities more attractive to export businesses, such as resources, infrastructure, business services, appropriate buildings and sites, and a sufficient and/or skilled workforce. Participating businesses reported some of these items as important factors with respect to their decisions on where to locate. In addition, stakeholders commented on the lack of state funding for administering and marketing the Program to potential businesses at the local level. Larger communities and their DIHEs are more likely to have the surplus resources needed to support the Program, and local economic developers and DIHEs reported that smaller communities struggle to implement the Program successfully using their existing resources.

- **NEW HIRE CREDIT'S IMPACT ON WAGES.** Finally, we determined that the requirement that businesses hire at least five employees eligible for the New Hire Credit, which in turn requires that the employees receive compensation greater than or equal to the average county wage, does not likely encourage participating businesses to increase compensation for their employees. Most employees hired by participating businesses do not qualify for the credit and those that do, tend to be compensated well above the county average wage. This suggests that qualifying employees' compensation is more likely to be determined by higher market rates for their positions than by the business increasing their compensation in order for them to qualify for the New Hire Credit. Stakeholder feedback also indicated that the requirement did not generally motivate businesses to increase compensation for their employees. However, this requirement may limit the businesses that participate in the Program to those likely to offer some higher paying jobs.

Although addressing each of these issues could increase participation in the Program, doing so would likely increase the revenue impact to the State and we lacked data necessary to quantify this.