

“If Colorado hopes to continue its position as a state for innovation, opportunity, and investment, significant changes in public policy and a new vision of prosperity must be embraced within the state.”



Toward a More Competitive Colorado Executive Summary on Competitiveness

The Metro Denver Economic Development Corporation (Metro Denver EDC) first published *Toward a More Competitive Colorado (TMCC)* in 2005 to be an annual measurement of the state’s competitive position among other states in key indicators related to economic vitality and growth.

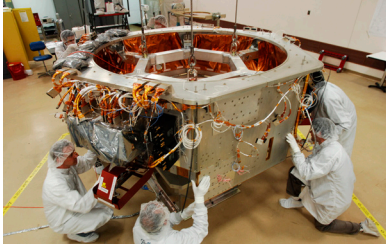
In the sixth edition of TMCC, we can report that Colorado continues its trend toward becoming a weaker competitor for new jobs and investment. In many respects, the state continues to live off the investments it made in the past.

Colorado has moved from a “middle-level” tax state to a “low-level” tax state. Tax increases by voters have been approved at the local level (eighth-highest local tax revenue per capita) while the state’s coffers continue to further deplete (10th-lowest state tax revenue per capita).

Colorado’s tax climate has:

- among the lowest corporate income tax rate of any state that has an income tax;
- the lowest sales tax rate of any state that assesses a sales tax and;
- the second-lowest residential property tax rate in the country (in the state’s largest city).

Colorado voters have created an economy focused on the communities in which they live. Funds have been devoted to “place-making”—developing amenities like bike trails, parks, open space, the arts, community centers, and residential services. This focus supersedes; however, supporting what we consider to be the building blocks or pillars of the economy: an educated workforce; a safe, multimodal transportation system; and quality, affordable healthcare. In some instances where state dollars have dwindled, local governments use their own revenues to pay for services that the state government once provided; local maintenance of state highways within city limits is one example.



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Over the years, voters have increasingly chosen to shift the cost of K-12 education from local property taxes to a beleaguered state General Fund. Higher education has borne the brunt of budget cuts driven by constitutional mandates protecting K-12 funding and increased Medicaid case loads. In response to taxpayers’ outcries and real or threatened ballot initiatives, permanent cuts in income tax, residential property taxes, and sales taxes have reduced the quality and productivity of our transportation systems at the state, county, and local level—especially our roads.

Local taxes do not fund interstate highway repair or build research universities. The state’s budget is the appropriate place for funding these pillars of the economy. What we have observed over the past 11 years of data is that the decisions of Colorado voters have given them exactly the government they voted for, with tax revenues focused locally and state revenues kept limited. This is compounded by the addition of previously local expenditures being shifted to the state’s General Fund. The result, we conclude, is something they may not have wanted—an increasingly “mediocre” competitive position.

What has become obvious in our ongoing analysis is the need for a comprehensive review of state and local tax/fiscal policy. Under the aegis of the University of Denver, this examination—the Colorado Economic Futures Panel—is presently underway. We applaud this long-needed investigation.

While local taxes for local amenities are a laudable use of revenues, we must realize that the longer-term, strategic expenditures for state infrastructure, strong research universities, and well-educated workers cannot be passed over by citizens. Living in a nice house that cannot be maintained due to the loss of jobs and incomes is a strategy for only one thing—decline.

While TMCC’s findings this year are disappointing and troubling, let us not lose sight of the state’s continuing strengths. Colorado continues to be a center of innovation—with a highly educated workforce that attracts some of the world’s brightest minds. We have made great strides in growing our innovation clusters over the years, particularly in aerospace, energy, and bioscience. Without job growth in these clusters over the past three years, our economy would be in much worse condition.

We live in a world of tough competitors, including other states and countries. Many of Colorado’s competitors are far more focused on what we call “purposeful economic development.” Countries such as China are acquiring major stakes in rare minerals and playing an increasingly prominent role in the purchase of oil reserves in places such as Canada. Other countries have made giant leaps in the number of scientists, engineers, and mathematicians they train for entry into the workforce. For these competitors, the future is now. The steps they are taking to improve their economies should not be lost on any of us. We will either rise to this challenge or fall even further behind in our attempts.

In 1986, the Director of Corporate Real Estate for Hughes Aircraft, Sam Hunter, said, “We see Metro Denver as a district town—a place where we need a presence but would not consider for a major investment. Colorado has such great potential. Yet it seems that every time you climb to the peak of greatness, you fall back. For you to be viewed as a strong competitor, you must demonstrate that you can accomplish great things.”

Over the past two decades Colorado has achieved great things as a state. We are now seen as a global competitor with a promising future. The state achieved this perch with a common vision, strong leadership, and the political and civic will to make Colorado a great place to live with a great economy to match. But, we must be vigilant in working to maintain and improve this position.

Colorado's Strengths:

- Colorado's state GDP per employee still ranks in the top 15 among the 50 states, but our ranking has declined steadily since 2000.
- Per capita personal income ranks 15th but had been as high as No. 6 in 2001.
- Colorado ranks second-best in the country for economic outlook.
- Colorado continues to post high population growth rates—4th highest in 2009—despite a challenging employment situation.
- Colorado sustains its key rankings in innovation measures, including: venture capital (No. 3), Small Business Innovation Research (SBIR) grants (No. 2), patents granted (No. 10), high-tech employment (No. 3), high-tech wages (No. 6), and R&D spending at academic institutions (No. 17).
- The state maintains high rankings for 4th grade proficient or better in reading (No. 6); while 8th grade reading proficiency has slipped to a position (No. 26) that we now consider a challenge.
- Colorado students rank well in Advanced Placement testing (No. 12) and post the country's highest ranking for ACT and SAT scores per 1,000 students.
- Colorado's cleantech industry is advancing, ranking No. 14 in 2008 for percentage of electricity generated from renewable sources (up from No. 21 in 2007) and eighth-highest when considering non-hydro sources.
- In 2000, only 11 states reported energy generated from wind. In 2009 that number jumped to 35 states, with Colorado ranking seventh. The state ranks sixth out of 27 states with quantifiable solar operations.
- New indicators included in this edition are two measures in which Colorado exhibits a dominant position: "Clean Energy Employment per 1,000 Workers" (No. 6) and "Clean Energy Job Growth" (No. 9).
- Colorado has the nation's lowest obesity rate and ranks No. 2 for fewest retail drug prescriptions filled.
- Colorado ranked third-lowest for its expenditures on state welfare programs.

While Colorado still has much to celebrate as an innovation economy, we see little improvement from last year's analysis in any of the areas we classified as "Strengths." In fact, we saw a drop in 28 of 67 categories where we had strengths. We had 17 categories in the "Challenges" section continue to drop. In other words, we are still strong, but getting weaker year by year.

Colorado's Challenges:

- Export dollars per capita dropped another place this year with Colorado ranking fourth-lowest in country. The decline in our manufacturing sector—especially high-tech manufacturing—continues to impact the state's export position.
- Colorado struggles in a variety of K-12 education measures: Pre-K resources (third lowest), K-12 expenditures (22nd lowest), and student/teacher ratio (10th highest). Average teacher salaries dropped to 27th lowest (down from No. 24 during 2005-2008).
- Colorado's ranking in the percent of "Public School Eighth Graders Proficient or Better in Reading" has dropped from No. 12 in 2003 to No. 26 in 2009 and is now classified as a challenge.
- Colorado is one of eight states to have eight percent of its "Teens Not in School and Not High School Graduates"—only seven states have higher percentages.
- As for higher education, Colorado continues to rank near the bottom of all states, ranking 48th in both public support per full-time student and public support per capita.
- Colorado's high school graduates entered in-state colleges and universities at lower rates than students in more than half of the U.S. states, with the state's ranking dropping from 29th in 2006 to 32nd in 2008.
- Colorado's ranking for federal highway funding per capita remained at No. 44 for the 2006 through 2009 period. Transportation funding represented just 5.3 percent of the state's budget in 2010, whereas transportation funding represented 12.7 percent of the total budget 30 years ago.



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- Colorado’s highway performance ranking has improved from No. 45 in 2003 to No. 33 in 2007, but the state’s ranking had been even higher in 2005 (No. 29) and 2006 (No. 31).

What is perhaps most alarming; however, is that in the midst of these continuing declines and increasingly ominous signs that Colorado has been unable to make corrections in its competitive challenges, the state faces another set of ballot initiatives that will drive the state into a second recession. Amendments 60 and 61 along with Proposition 101, if passed, are projected to cost the state over 70,000 jobs, half of which are in the private sector. Classroom sizes—already among the highest in the nation—will assuredly increase. Funds that will be eliminated from road construction will push Colorado’s roads into even worse repair. Personal income will drop.

At the end of this six-year analysis of Colorado’s competitive position, we can only echo our findings from last year. If Colorado hopes to continue its position as a state for innovation, opportunity, and investment, significant changes in public policy and a new vision of prosperity must be embraced within the state. Without such decisions we will drift into a policy that will leave us as a state with great potential, but unable or unwilling to achieve great things.

For additional information, contact 303.620.8039, info@metrodenver.org, or www.metrodenver.org



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