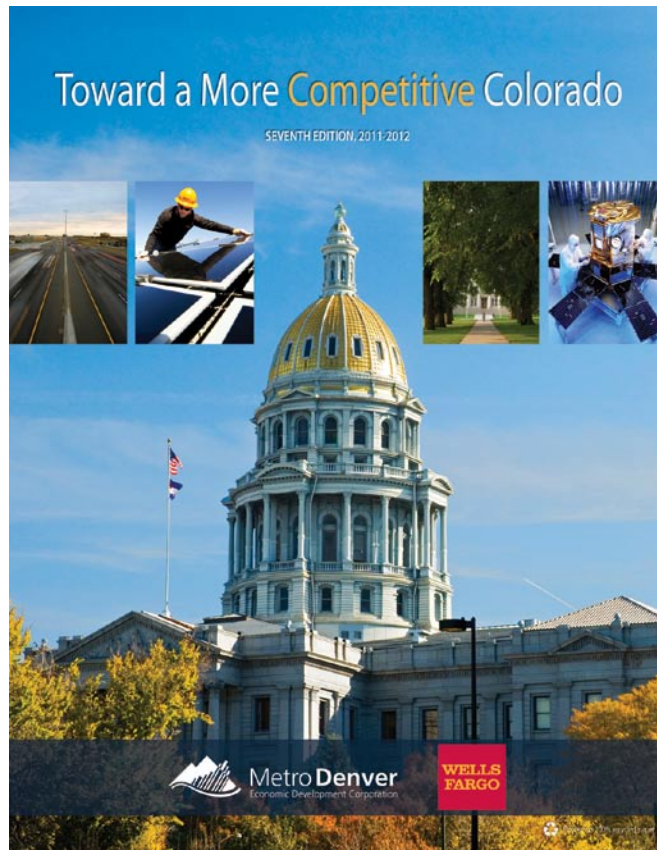


“As the global recession continues, the economic strategies of our competitor states for new jobs and investment have changed dramatically.”



Toward a More Competitive Colorado Executive Summary on Competitiveness

The Metro Denver Economic Development Corporation (Metro Denver EDC) presents the seventh edition of its *Toward a More Competitive Colorado (TMCC)* report. This seminal analysis is designed to inform the public, policy makers, and our citizens of Colorado’s competitive position related to economic vitality and industry growth compared to the other 49 states.

The seventh edition of TMCC reflects the substantial restructuring affecting Colorado and the national economies. As the global recession continues, the economic strategies of our competitor states for new jobs and investment have changed dramatically. Some states have balanced precarious budgets with new taxes on corporations; others have chosen to “kick the budget down the road;” while others, like Colorado, have undertaken deep budget cuts.

Many states have increased cash incentives to lure companies, eschewing income tax credits and other reductions in tax liability. As more and more companies experience annual losses, tax credits have increasingly lost their appeal as usable incentives. Incentives that seemed to place Colorado on an equal footing just three years ago have been overwhelmed by cash-only incentives offered by job hungry states. While many of these recent actions are not reflected in this report, please note that the new world of incentives is changing Colorado’s competitive position daily.

As noted last year, Colorado moved from a middle-level tax state to a low-level tax state. Tax investments by voters are made at the local level (seventh highest), while the state’s coffers continue to survive on meager revenues (10th lowest in per capita tax revenue). This imbalance between state and local government revenue reflects the decentralized tax system prevalent in the West—a common desire to keep taxing decisions at the local level.



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For a state to have greater capacity to advance its economy, this tax dumbbell must be more balanced. The fundamental pillars of a state’s economy are education, infrastructure, and healthcare. A decentralized tax and revenue system makes it more difficult to reposition a state’s economy during a recession, since these pillars are typically the responsibility of state governments.

Colorado’s tax climate has:

- Among the lowest income tax rates of any state with a corporate income tax.
- The lowest sales tax of states that assess a state sales tax.
- The third-lowest residential property tax (in the state’s largest city).

Investments in K-12 education have shifted from local governments to Colorado’s beleaguered state General Fund. Recent data from the Colorado Department of Revenue indicate that since 1987, \$17 billion in residential property taxes—destined for K-12 spending—have been shifted to the state’s General Fund. Adopted in 1982, the Gallagher Amendment has contributed to a structural budget deficit that will only erode our ability to fund both K-12 and higher education. While higher education has borne the brunt of budget cuts, permanent cuts in income tax, residential property taxes, and sales taxes—in response to taxpayers’ votes—have reduced funding across the board for key infrastructure such as roads. This reduced funding is easily observed in many graphs in this year’s edition of TMCC.

Colorado’s Strengths

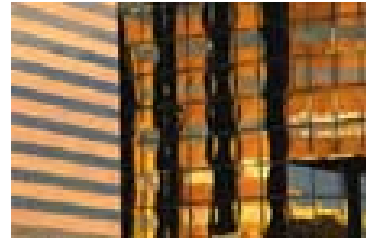
There is one area in this year’s report where Colorado has nothing but good news, innovation. In every category examined, Colorado posts rankings above a majority of other states. In most areas, Colorado ranks in the top five or 10. Evidence of Colorado’s economic resilience can be found not just in the usual measures such as “State Innovation Index” (eighth), but in less obvious places such as “Proprietors as Percentage of Total Employment” (fourth). In the past decade, more than 130,000 jobs were created by proprietors, which tends to occur during every recession. The high ranking, coupled with more obvious measures, “Number of New Companies per 1,000 Employees” (fourth) and “Venture Capital Investments per \$1,000 of State GDP” (third), position Colorado directly on the path to economic recovery faster than other states.

Colorado has also maintained its highly educated workforce, ranking second behind Massachusetts for residents with a bachelor’s degree or higher. The state attracts some of the brightest minds in the world for jobs in our high-tech industries. Colorado has made great strides in growing its innovation industry clusters over the years, particularly in aerospace, energy, and bioscience. Without expansion in these industries over the past three years, the state’s economy would be in much worse shape.

For example, cleantech employment grew nearly seven percent annually for the past five years, ranking Colorado ninth overall since 2000. In fact, the state ranks first for “Solar Jobs Per Capita.” Changes in public policy—particularly the 30 percent Renewable Energy Standard (RES) that requires publicly regulated utilities to provide 30 percent of power from renewable sources—created a boom in employment and technological advances in Colorado. Today, Colorado ranks eighth for its electrical generation from renewables. The state’s position in “Total Wind Energy Net Generation” has jumped from 50th in 2000 to 11th in 2010, and Colorado ranks fourth in “Total Solar Energy Installed Capacity.”

Over the past two decades, Colorado has achieved great accomplishments as a state and is now seen as a global economic contender with a promising future. Compared to many other state economies, Colorado’s is more diverse and more predictable than others, especially the Western states. Such predictability and relative political peace will make Colorado a haven for additional investments in the coming years. This position was achieved by a common vision, strong leadership, and the political and civic will to make Colorado a great place to live along with a diversified economy.

- Colorado's state GDP per employee still ranks in the top 15 of all states, but the ranking has declined steadily since 2000.
- Per capita personal income ranks 14th, but had been as high as sixth in 2001.
- Sixth best for economic outlook.
- Colorado maintains its key rankings in innovation measures: third highest for Small Business Innovation Research grants; R&D spending at academic institutions (12th); patents granted (11th); high-tech employment (third); high-tech wage (seventh); and initial public offerings (fifth).
- A new measure this year helps track the state's competitive position in aerospace. Colorado ranks fourth among the 50 states for "NASA Prime Contract Awards."
- Colorado continues to post high population growth rates—ranking as the fourth-fastest growing state in the country in 2009 and 2010.
- The state maintains high rankings for fourth grade reading proficiency and continues to rank first for highest ACT and SAT scores.
- Colorado has the nation's lowest obesity rate, however, growing childhood obesity rates is a concern.



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Colorado's Challenges

This year, the Metro Denver EDC repeats its concern in areas of chronically disappointing and troubling competitive positions that are not improving. But given the challenges of the current economy, Colorado's ability to maintain most of its favorable rankings over last year is positive.

This edition of TMCC includes several new data points. One poignantly portrays the challenges faced by rural communities in their efforts to create new jobs. While the Gallagher Amendment increased the property tax burden four-fold on commercial properties since its inception in 1982, its impact on commercial and industrial enterprises in rural areas of the state has been even more dramatic. While Colorado ranks 19th highest in property taxes on industrial properties in urban areas, it ranks seventh highest for the same tax level in rural areas.

Rural development is the most challenging type of economic development. Difficulties include: distance from markets, labor flight, limited roadway and air systems, lower per capita incomes, and aging populations. Colorado's tax system and its constitutional mandates only compound the problems of our rural residents as they strive to keep their communities strong.

The state remains challenged in a number of ways. No areas that required additional public funding have improved since the first TMCC report published seven years ago. But more disturbing are losses in competitive position where public funding is not an aspect:

- Commodity and manufacturing export dollars per capita dropped another place this year—with Colorado now ranking third lowest in the country. The decline in our manufacturing sector—especially high-tech manufacturing—has taken a toll on the state's export position. While Colorado's rank dropped again this year, data comparing it to the percentage contribution to state GDP from manufacturing has increased from its all-time low a few years ago.
- The percentage of family income needed to pay for a public four-year college education increased from 19.5 percent in 2000 to 30.3 percent in 2008.
- Colorado posts unfavorable rankings in K-12 education: Pre-K resources (fifth lowest); K-12 expenditures (22nd lowest); and student/teacher ratio (10th highest).
- Colorado's rank in the percent of "Public School Eighth Graders Proficient or Better in Reading" has dropped from 12th in 2003 to 26th in 2009.
- As for higher education, Colorado continues to rank 48th in public support per full-time student and 48th in public support per capita.
- Colorado's ranking in federal highway funding per capita remained at 43rd or 44th from 2006 to 2010. Transportation funding represented just 5.7 percent of the state's budget in 2011, up from 5.3 percent last year. Transportation funding represented 12.7 percent of the total budget 30 years ago.
- Colorado's highway performance ranking improved from 45th in 2003 to 34th in 2008, but the state's rank was even higher in 2005 (29th) and 2006 (31st).



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Following seven years of examining Colorado’s competitive position, we find ourselves with an economy that can only be compared to the Great Depression. Many states face impending default. Others are trying to recreate their economies while struggling to pay burgeoning public retirement programs and massive deficits.

Colorado appears to be exiting the recession ahead of much of the nation, due to a highly diverse economy, a strong entrepreneurial climate, and prudent taxation and spending. Colorado’s tax rates are highly competitive. Its regulatory climate is moderate. Per capita income in the state is enviable.

The up side is that recessions result in companies and governments repositioning themselves in the marketplace. This usually means a reallocation of resources and a focus on new markets or products. While economic downturns are painful, they do serve a vital purpose: to create greater efficiencies and returns. Structural failings in companies (outdated pension plans, rapidly declining revenues, etc.) make repositioning extremely difficult. The same applies to challenges faced by state and local governments. Colorado’s constitution has provisions that ensure certain parts of the state budget will be funded regardless of economic circumstances. The Gallagher Amendment, TABOR, and Amendment 23 are the most troublesome. Working together, these three constitutional amendments make it very challenging for Colorado to reposition itself in the global market and take full advantage of its huge economic potential.

What remains is the question of political will; the will to confront the structural deficit that, if unattended, inevitably will squeeze out all funding for innovation and research and development at our state universities and drive the cost of a college education to such heights that our innovation economy will be compromised due to a lack of talent. If a successful compromise can be reached to resolve this Gordian Knot during the state’s exit from this recession, Colorado will grow as a center of commerce with a robust future. If the issue is delayed, Colorado can expect declining personal incomes, less capital formation for new enterprises, and a decline in job creation.

Colorado has a way of finding its way through these types of challenges. We remain optimistic that we will do it again.

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