

MEMORANDUM

TO: Mayor and Members of City Council

FROM: Frank W. Bruno, City Manager
Liz Hanson, Business Liaison

DATE: April 8, 2008

SUBJECT: Study Session – April 22, 2008
Economic Vitality: Return on Investment Analysis of the 2007 Business Incentives Flexible Rebate Program

I. PURPOSE

The intent of this portion of the April 22 study session is to review a return on investment analysis of the 2007 flexible rebates, part of the Economic Vitality (EV) Program's pilot business incentives. The city's EV Program is a public-private collaboration to build the long-term sustainability of the community. As stated in the adopted 2003 EV Policy Statement (see Attachment C), "it is the Policy of the City of Boulder to encourage economic vitality and the contributions economic health makes to the overall quality of life of its citizens." Economic vitality in Boulder includes efforts in:

- business assistance;
- business retention and expansion;
- redevelopment program;
- partnerships and sponsorships; and a
- business incentives program.

In October 2006, City Council approved the first business incentives as a pilot program for 2007. This program allocated \$850,000 of the overall EV Program reserves for the following 2007 pilot programs: \$500,000 for flexible rebates; \$300,000 for an owner-occupied loan pool; and \$50,000 for employee training assistance. A fourth program, Parks and Recreation Employee Discount Program, required no EV funding.

In October 2007, when City Council was considering approval of 2008 business incentives, EV staff indicated that an analysis of the 2007 pilot program would be conducted in January 2008 and that a report would be sent to council in a Weekly Information Packet. When this report was

being prepared, the city manager, along with the finance director and EV staff, determined that the item would be reviewed more appropriately as a budget item, since funding for the EV Program will terminate at the end of 2008 unless included in the 2009 budget. City Council will be making two budget decisions for 2009 related to economic vitality – ongoing funding for the EV Program (staff, sponsorships, etc.) and funding for a business incentives program.

An analysis of the 2007 pilot program – Boulder’s first year with a flexible rebate program – is an important factor for City Council’s consideration of future funding of business incentives. As part of a 2008 contract for services with the EV Program (in particular, economic metrics and program measurement and analysis), the Boulder Economic Council (BEC) conducted a study to analyze the outcome of the 2007 flexible rebate program. This study included an assessment of the "return on investment" of the \$500,000 in total rebates awarded to seven primary employers and contribution of these employers to the economic, social and economic sustainability goals of Boulder. The BEC report (see Attachment B) includes the following findings about the seven rebate recipients:

- The business incentive program was a key factor in the companies’ decisions to stay and/or expand in Boulder.
- These companies will contribute \$7.1 million into the Boulder economy over the next three years, or an average of \$14.63 for each \$1 the city invested in tax and fee rebates.
- More than \$3 million and significant volunteer hours are flowing into Boulder’s non-profit organizations through these businesses and their employees.

II. QUESTIONS FOR COUNCIL

1. **Does City Council find that the 2007 business incentive flexible rebate program meets the adopted 2003 EV Policy and the program goals as stated when the program was adopted in September 2006?**
 2. **What additional information does City Council need regarding the EV program or the business incentives program for 2009 budget decisions?**
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III. BACKGROUND

ECONOMIC VITALITY PROGRAM AND FUNDING

As part of the 2003 budget, city EV efforts were funded by using a portion of the resources available from the \$2.9 million Boulder Urban Renewal Authority (BURA) bond reserve fund that came back to the city when the BURA bonds were paid off. A base budget of \$250,000 per year for five years was set for the EV account (with carry over of unused funds each year) beginning in 2003 and continuing until the end of 2007. As part of the 2008 budget approved in

October 2007, City Council authorized use of the remaining available funds in the EV reserves to continue the program for 2008. The urban redevelopment portion of the account began in 2004 and continues until the end of 2008. Both the EV and urban redevelopment programs will not continue past December 31, 2008 unless City Council authorizes funding for these programs as part of the 2009 budget.

The EV Program has evolved from an account with funds for economic development related needs to an active and visible city program with staff providing services. The program enabled Boulder to join other Front Range communities that are actively engaged in economic vitality efforts. An overview and history of the EV Program can be found in the August 14, 2007 study session materials at the following link: www.bouldercolorado.gov then click on “Council General Info and Agendas” then “Study Sessions/2007 Study Sessions/August 14, 2007.”

Proactive city efforts include a business retention and expansion program, a program of "industry clusters" (e.g. Naturally Boulder, Active Living and Green Tech/Building), business community outreach, development and redevelopment assistance, special projects such as the Depot relocation, and “troubleshooting” assistance with city-related issues. EV Program sponsorships have provided funding to organizations such as the Boulder Innovation Center (Boulder's business incubator), the Boulder Independent Business Alliance (BIBA), Naturally Boulder, the Small Business Development Center, and the Boulder International Film Festival.

One of the primary goals of the EV work program is the retention and expansion of existing Boulder businesses. Many business assistance efforts, the redevelopment program, and the business incentive pilot program all work toward supporting our local businesses, helping them do business in Boulder, and assisting them to relocate and/or expand within Boulder when their company's growth demands it.

2007 BUSINESS INCENTIVE PILOT PROGRAM

On September 5, 2006, City Council approved a pilot program of business incentives aimed primarily at encouraging the growth and retention of homegrown companies in Boulder. The incentives encourage primary employers to invest in Boulder by upgrading their facilities, equipment or the skills of their people. Primary employers, as defined in the ordinance, come from a variety of sectors including manufacturing, natural products, software, advertising, consulting and many others. *The key characteristic of a primary employer is that at least 75 percent of revenues are derived from outside Boulder County.* They can be large companies with many employees or small firms with just two staff members.

The 2007 pilot program allocated \$850,000 of the overall EV Program reserves (i.e. remaining from the original \$2.9 million) for the following 2007 pilot programs: \$500,000 for flexible rebates; \$300,000 for an owner-occupied loan pool; and \$50,000 for employee training assistance. A fourth program, which provides discounts to employees of Boulder businesses on passes at city Parks and Recreation facilities, required no EV funding. The first loan from the loan pool was granted to WishGarden Herbs in December 2007.

2007 PILOT PROGRAM GOALS

Three primary goals were identified for the 2007 pilot program at the time of City Council approval on September 5, 2006:

1. Show that Boulder is open for business and is *not* anti-business.
2. Support primary employers.
3. Retain homegrown companies.

2007 FLEXIBLE REBATE PROGRAM

Under this program, the city manager along with senior EV staff has the authority to negotiate a specific incentive package to meet a company's specific needs. This program is reserved for high impact primary employers. In September 2006, EV staff estimated that the 2007 pilot flexible rebate program likely would be used no more than six to eight times. In 2007, eight applications were received and seven applicants were awarded rebates of city taxes and fees totaling the \$500,000 budget for this program. One application did not include the required information about the rebate request and the company likely will reapply in 2008.

This program covers a wide range of fees and taxes charged by the city including:

- equipment and construction use taxes;
- permit fees;
- plant investment fees; and
- development excise taxes and development review fees.

The employer is not eligible for a rebate until it has made its investment and paid the applicable taxes or fees to the city. Companies may apply for a rebate approval in advance, indicating estimated taxes and fees. The negotiated rebates are funded by the EV budget and have no impact on the general fund or any earmarked funds. In addition, the pilot program ordinance included guidelines to ensure that 2007 rebate recipients are contributing to a socially sustainable community. Companies had to demonstrate compliance with *three out of five* of the following:

- Offering health insurance to all full-time employees. At a minimum, this should include catastrophic and major medical coverage.
- Promoting a diverse workforce through either hiring practices or diversity training.
- Supporting the local non-profit sector financially or with staff volunteer time.
- Paying average wages above the Colorado average of \$51,022.
- Providing dependent care assistance to employees at the rate of at least \$50 per month

Attachment A includes lists of the Boulder companies that were the recipients of the 2007 flexible rebate and employee training assistance programs, including the amount approved and their current status.

2008 BUSINESS INCENTIVE PROGRAM

Funding for the 2008 flexible rebate program is anticipated to be \$363,000 - approximately \$240,000 from carry-over funds from EV reserves and approximately \$123,000 in additional funds anticipated from the 2008 approved budget. The owner-occupied loan pool continues through 2008, using the balance of the funds deposited in 2007 (balance of \$300,000 EV funds and \$400,000 bank funds plus accrued interest). The employee training assistance program was not continued past the 2007 pilot due to lower than expected interest, limited 2008 funding availability, and perceived higher impact from flexible rebates.

As of the date of this memorandum, no 2008 flexible rebate applications have been filed. EV staff is currently working with two primary employers – one small business and one medium sized company – to complete their applications. Also, EV staff has spoken with several companies that appear to meet eligibility requirements and have expressed interest in applying for the 2008 program. Prospective 2008 applicants generally are smaller companies than the 2007 applicants and represent a wide range of industries, including high technology and “green” technology businesses.

ANALYSIS:

BOULDER ECONOMIC COUNCIL REPORT – 2007 FLEXIBLE REBATE PROGRAM

As part of a 2008 contract for services with the EV Program (in particular, program measurement and analysis), the BEC conducted a study to analyze the outcome of the 2007 flexible rebate program (see Attachment B). This study included an assessment of the return on investment of the \$500,000 in total rebates awarded to seven primary employers and the contribution of these employers to the economic, social and environmental sustainability goals of Boulder. This study focused on the 2007 flexible rebate program because 1) it was the pilot incentive program with the largest budget, 2) the employee training assistance program was not continued into 2008 and, 3) an understanding of the return on investment from flexible rebates will be critical to a City Council decision about 2009 business incentives. Staff analysis of other incentive programs such as the Owner-occupied Loan Pool or the Parks and Recreation Employee Discount Program can be prepared if requested by council. Staff anticipates a 2008 mid-year review of the Owner-occupied Loan Pool to evaluate the effectiveness of this pilot program.

CITY STAFF ANALYSIS AND BEC ANALYSIS METHODOLOGY

During the 2007 review of flexible rebate applications, city staff used an economic analysis tool to assess whether the value of the requested rebate for each application would be exceeded by the economic value of the company to the city of Boulder. In other words, does the amount of sales and use taxes and development-related fees (building permit, development review, and plant investment fees and development excise taxes) paid by a company exceed the amount of the requested rebate? Also, EV staff worked with Finance Director Bob Eichem and Finance Department staff to develop a conservative approach to assess economic impact. A very low “jobs multiplier” of 1.5 was used to analyze incremental or “spin-off” jobs created by company jobs. Also, a three-year window (2007 – 2009) was used, based on the three-year timeframe of the flexible rebate agreement required by the city for each recipient (a commitment that each company would maintain a Boulder business presence for a minimum of three years). Capital

and facility improvement costs and employment figures provided by the applicants were used in the analyses.

The BEC's analysis goes a step further than the city's economic analyses performed during the application reviews. While the city's test was done to confirm that a rebate value would be exceeded by a company's economic impact, the BEC's analysis took the broader look at what overall economic impact to Boulder was created by the company. The BEC used specific jobs multipliers based on industry codes, as described in the report. Also, the BEC obtained updated company information in January and February 2008 (e.g. employment numbers, salary amounts, final construction costs) and included this updated data in their analysis. Staff finds that the BEC analysis, which is also based on conservative assumptions, uses an appropriate methodology to assess economic impacts of the rebate recipient companies.

FINANCIAL ANALYSIS – RETURN ON INVESTMENT

The BEC analysis indicates that for every dollar invested in tax and fee rebates, the city will receive a return of \$14.63. Using this rate of return, the \$500,000 in rebates approved for 2007 translates to a return of \$7,315,000 over a three year period (based the rebate agreements' timeframe). This is consistent with the city's understanding of the significant tax contributions of these seven companies. Companies were requesting a rebate of only a portion of the taxes and fees paid to the city, as documented in receipts provided by the companies and city records of tax payments.

Understanding the rebates' return on investment must include an acknowledgment of the costs associated with these companies doing business in Boulder. While these costs are difficult to quantify, they include the transportation and environmental impacts created by these companies' employees – and their spin-off or incremental employment that is necessary to serve the business' needs. For example, many employees commute by car to and from Boulder, adding traffic to local and regional roads and negatively affecting air quality and energy consumption.

THE SEVEN 2007 REBATE RECIPIENTS AND PROGRAM GOALS

The BEC study "tells the story" of the seven recipients of 2007 flexible rebates. Staff's experience from working with these companies during 2007 indicated that the companies that received a rebate fulfilled the stated goals of the pilot rebate program (as recommended by the city manager and approved by City Council in September 2006). Here are some examples:

1. **Show that Boulder is open for business and is *not* anti-business.**
 - Rebate recipient companies have reported to city staff and the BEC that the incentive program had an impact on their decisions to choose new locations or to expand in Boulder rather than another community in Colorado or elsewhere. In some cases, the incentive rebates offset increased costs of renovations/expansions in the city.
 - Incentives positively influenced businesses' perception of doing business in Boulder according the feedback directly received by the EV Program and the BEC and as indicated Ray Wilson's 2007 study.
 - In many cases, the incentive program motivated companies to contact EV staff. Even in situations where these companies were not eligible for or did not apply for

incentives, the contact with these companies led to important business retention discussions that may not otherwise have occurred.

- **From Crispin Porter + Bogusky:** *“More than just the financial impact, it was also an important gesture from the city emphasizing that strong, growing businesses belong in the Boulder community. Thank you.” – John Broe, Director of Partnership Development, CP+B*
- **From Solekai Systems:** *“We at Solekai are extremely excited to take advantage of the city's incentive program. Solekai is a quality of life company that lives or dies by its ability to recruit top performers. We weighed a lot of options about where to locate our business when it was time to grow, trying to balance the unparalleled downtown Boulder experience against the costs. It was hard for our home office in San Diego to understand, and the incentive program was definitely a factor in our decision to stay downtown.” – Ken Furie, General Manager, Solekai Systems*

2. Support primary employers.

- All seven companies meet the city’s definition of “primary employer,” which requires that qualified companies derive at least 75% of their revenue outside of Boulder County.
 - The seven primary employers vary in size: one employs under 50 (Solekai Systems); two have between 50 and 100 employees (OZ Architecture and Mountain Sports Media; two employ between 100 and 500 (LeftHand Networks and Crispin Porter + Bogusky); and two are among the city’s largest employers with over 1000 employees (Ball Aerospace and IBM).
 - After reviewing the flexible rebate applications, staff learned more about the variety of ways that these seven primary employers contribute to the “economic engine” of Boulder. Examples include the draw of IBM’s new green data center for visits by clients; Mountain Sports Media’s seasonal employment of an additional 50 employees; new CP+B employees in Gunbarrel that visit the neighborhood stores and restaurants; shopping and dining visits in downtown Boulder by Solekai Systems employees and their visitors; new Twenty Ninth Street shoppers and restaurant visitors from OZ Architecture staff; and the broad support of non-profit and local arts and culture organizations, as discussed in the BEC report.
- **From IBM:** *“Selecting the Boulder site for data center expansion reinforces IBM's commitment to Boulder and the state of Colorado. Given our geographic location, existing infrastructure reliability history, suitable available building space, highly skilled support teams, and the fact Boulder is already home to one of the corporation's premier data centers, this announcement just reaffirms IBM's view of Boulder as one its key strategic locations.” – Larry Longseth, Senior State and Location Executive, IBM Boulder*

- **From LeftHand Networks:** *"We're thrilled to be approved for participation in this program and pleased to be staying in Boulder as it is the "silicon valley" of storage, which aligns nicely with our business. City staff was helpful and responsive throughout the application process."* – John Hillyard, Chief Financial Officer, LeftHand Networks

3. **Retain homegrown companies.**

- All seven companies are existing Boulder businesses. In other words, the program was used by the city for business retention and expansion rather than business attraction. Several out-of-state companies reviewed the incentive program as part of their consideration of Boulder as a new business location; however, these companies did not apply.
- LeftHand Networks, Mountain Sports Media, and Solekai Systems were seriously considering moving to new locations out of Boulder at the time of discussions with city staff or applications for the flexible rebate program.
- Three of the rebate recipients have had a long term Boulder presence. Ball Aerospace has been in Boulder since 1956. IBM has been in Boulder as a major employer since 1965. OZ Architecture was formed through the merger of two firms, one of which has done business in Boulder since 1969.

- **From Mountain Sports Media:** *"Being a native of Boulder (and I never left), I'm obviously as proud of my home town as I am our company. I couldn't be happier about the excitement and hard work Boulder provided to keep us here. We couldn't imagine a better home or a better partnership than the city of Boulder. We are truly grateful."* – Doug Powell, General Manager, Mountain Sports Media

- **From OZ Architecture:** *"I think it is great for companies like ours that have grown up in Boulder. This kind of consideration from the city helps us continue to make business decisions for our company without having to worry about moving out of Boulder."* – Kelly Davis, Managing Partner, OZ Architecture

- **From Ball Aerospace:** *"Boulder has been home to Ball Aerospace since its inception in 1956. Over those 51 years, our technology and people have helped fuel the economic engine of the city and the region. We value greatly our strong relationships here in the community and hope that the advanced aerospace science and engineering work that we do here excites the people of Boulder as much as it inspires us. We thank the city of Boulder for helping one of its home-grown success stories continue to grow and thrive."* – David L. Taylor, President and CEO, Ball Aerospace & Technologies Corp.

BUSINESS INCENTIVES – A BUSINESS RETENTION TOOL

As noted above, the EV, urban redevelopment, and business incentive programs will not continue past December 31, 2008 unless City Council authorizes funding for these programs as part of the 2009 budget. Since September 2006, business incentives have been an effective business retention tool. The existence of the incentive program often will result in a company

contacting EV staff for information about doing business in Boulder. This communication can lead to opportunities to learn about a company's needs, concerns, or pending expansion or move. Along with the other EV programs that support Boulder businesses (general assistance, business outreach, development assistance, and redevelopment programs), business incentives have the ability to enhance city sales and use tax revenues from both primary and secondary employers and local shopping.

In the 2007 Community Survey, 74 percent of respondents thought that "providing assistance to businesses to keep them in Boulder" was "very" or "somewhat important." This response was higher than in previous surveys.

When the first pilot program was adopted by City Council in September 2006, Boulder was the only city in the Front Range without some type of business incentives. If a business incentives program is not adopted for 2009, Boulder would again be the only municipality without business incentives. This would be a competitive disadvantage even if compared to a Boulder incentive program with a financial commitment less than its neighbors and even if the program is predominantly used for business retention rather than attraction. Neighboring communities to Boulder have offered incentives to Boulder businesses to induce them to move. In other words, it is not necessarily the dollar amount of the incentives offered that is key, but the messages that an incentive program send - *Boulder supports its local businesses, Boulder wants to invest in businesses that are investing in Boulder, and Boulder wants to make it easier to do business.*

It is inevitable that some primary employers will leave Boulder. It is also true that newly-vacant office or manufacturing space may make way for another Boulder business to expand or a new primary employer to move into Boulder. However, additional assessments over the last few years (e.g. RRC and Ray Wilson studies, as summarized in the BEC report) have shown us that many primary employers – particularly those that pay high wages, contribute to the social and environmental sustainability of the community, and whose industry is complementary to the Boulder business community – are worth our efforts to show them that they are valued and needed for Boulder's economic health.

COMMUNITY SUSTAINABILITY BENEFITS

- **Economic:** Business retention efforts and business incentives encourage existing primary employers to remain in Boulder and invest in facilities and equipment. These businesses produce city revenues such as ongoing sales and use taxes and property taxes as well as "spin-off" city tax revenues resulting from hotel, restaurant, retail and catering purchases and "spin-off" jobs that result from primary employers (e.g. consultants, contractors, business and professional services, retail, and service providers).
- **Environmental:** Encouraging primary employers to remain and expand in the city of Boulder will keep these employers closer to transit service and bicycle routes and will also result in shorter commuter distances by many employees. IBM's new green, energy efficient data center, LEED Silver certification being pursued by OZ Architecture, Ball Aerospace's participation in Climate Leaders, and Mountain Sports Media's and Solekai System's Eco Pass programs are all examples of positive environmental initiatives by 2007 rebate

recipients. The community sustainability guidelines for the 2008 flexible rebate program ensure that recipient companies employ progressive business practices by addressing:

- energy use;
 - recycling programs; and
 - alternative transportation.
- **Social:** A healthy and diverse economy will allow the city of Boulder to generate tax revenues sufficient to fund the community's social safety net. Business incentives encourage a strong economy. All of the companies receiving 2007 flexible rebates make contributions of funding and volunteer time to local non-profit agencies. In addition, the 2007 and 2008 flexible rebate programs incorporate guidelines that encourage companies to employ progressive business practices related to:
 - a minimum average wage;
 - health insurance;
 - diverse workforce;
 - support for non-profit agencies; and
 - dependent care assistance.

IV. ISSUES

1. Does City Council find that the 2007 business incentive flexible rebate program meets the adopted 2003 EV Policy and the program goals as stated when the program was adopted in September 2006?

In October 2003, City Council adopted an EV policy. This policy statement, in Attachment C, includes a statement of guiding principles, a list of economic and business policies, as well as a list of actions and strategies that will be used to implement the policies. Included are lists of planned EV staff hirings, strategies and tools, and community partners. Principles, strategies and tools from the 2003 policy that are related to business incentives are:

Principle:

- Development of a focused economic vitality program to encourage business retention, expansion and entrepreneurial activities as well as the creation and maintenance of a positive climate for retail and primary business. The program needs to reflect that Boulder is “open for business,” engaged, and committed to efficiency and timeliness.

Strategies and Tools:

7. The City will assist in the retention and expansion of existing businesses as well the targeted recruitment of additional businesses that make sense for Boulder.

19. The City will consider without limitation, the use of tools such as a Business Use Tax Rebate to promote corporate reinvestment in the community.

At the time of City Council approval of the 2007 business incentives pilot program on September 5, 2006, three primary goals were identified for the 2007 pilot program.

1. Show that Boulder is open for business and is *not* anti-business.
2. Support primary employers.
3. Retain homegrown companies.

Staff's analysis of how the implementation of the 2007 flexible rebates met these goals is above.

2. What additional information does City Council need regarding the EV Program or the business incentives program for 2009 budget decisions?

Staff believes that the analysis of the 2007 incentives program is the beginning of an ongoing conversation during the 2009 budget process about the future of the EV Program. City Council will be requested to make two budget decisions for 2009 related to economic vitality – funding for the EV Program (primarily staff as well as sponsorships) and funding for a business incentives program. The EV Program has been funded from the BURA bond reserves from 2003 through 2008 (including a one year “extension” of the five-year program by City Council in its adoption of the 2008 budget). For the program to continue past December 31, 2008, City Council will need to approve funding in the 2009 budget and as part of a decision about permanent funding for the program. Staff sees this funding in two categories:

EV Program –

- Staff (Redevelopment Director, Business Liaison, half-time temporary EV Intern from CU)
- Contract with BEC, sponsorships (e.g. Boulder Innovation Center, Small Business Development Center, Boulder Independent Business Alliance, Naturally Boulder)
- Staff support (training, memberships, equipment, etc.)

Business Incentives - May include flexible rebates, loan pool, employee training assistance, or other incentive tools. May focus on primary employers and/or address other business categories.

Identifying additional information that City Council requires to consider these funding options will allow staff to prepare budget materials for upcoming study sessions.

V. NEXT STEPS

As part of the 2009 budget process, City Council will determine future funding for EV and redevelopment programs as well as a business incentives program. Accumulated data from 2007 and 2008 incentive programs and the BEC analysis of the 2007 flexible rebate program will be important in assessing the benefits of a Boulder business incentives program and for City Council direction on developing a 2009 program. In addition, a performance review of the EV Program will be conducted this year, the results of which will be presented to City Council as part of the 2009 budget process.

ATTACHMENTS:

- A** - 2007 Business Incentives Program Recipients – Flexible Rebate and Employee Training Assistance Programs
- B** - Boulder Economic Council Report to the City of Boulder: 2007 Business Incentives Program – Flexible Rebate Return Analysis
Dated April 8, 2008
- C** - City of Boulder Economic Vitality Policy
Dated October 21, 2003