THE CITY OF BOULDER & BOULDER ECONOMIC COUNCIL

BUSINESS ASSISTANCE PROGRAMS

COMMON PRACTICES AND RECCOMENDED BUSINESS INCENTIVE PROGRAMS FOR THE CITY OF BOULDER

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INTRODUCTION

A vigorous and strong economy is contingent upon a strong business atmosphere and policies that are conducive to innovation, entrepreneurship, and development. Though this is a common school of thought, a standard procedure for procuring and preserving this desired environment has yet to be determined. In this regard, more municipalities are adopting a plethora of Direct Business Assistance (DBA) tools (I.e. financial incentives) in an effort to preserve and strengthen their local economies, with each achieving varying levels of success. There is a multitude of incentives available for a municipality's use, as each attempt to satisfy different goals, be it business recruitment, redevelopment, and/or retention. Undoubtedly, the initial step in determining the merits of the available incentive programs is to determine if a municipality is in need of financial incentives given their current economic conditions and/or constraints. Such is the case in the City of Boulder, where one can make a solid case for the importance of incentives to ensure the long-term strength of the city's economy and ultimate ability to serve its residents.

The City of Boulder has existed as an economically strong city on the Front Range, serving as the central retail and business outlet for the US-36 corridor. However, with increased redevelopment surrounding the City in communities like Broomfield, Longmont, Louisville, and Lafayette, it is vital that the City continue its efforts to ensure this standing. The city sustained several consecutive fiscal year losses in terms of sales tax revenue, primarily attributed to the strengths of neighboring retail outlets, for instance the FlatIron Crossing Retail District, which pulled in $15.6 million in 2002 (a 15% increase from the preceding year[1]). This was compounded with the departure of several businesses from Boulder into neighboring cities, taking with them several hundred employees and indirect revenue to the City. Several of Boulder's most well-known and longest tenants chose to relocate to nearby Industrial parks, like Interlocken Park, where offers of high quality modern space, for equal or lower lease rates, potential for expansion, and occasional financial incentives, helped to seal the deal.

Leopard Communications left Boulder in January 2005, with an estimated 85 employees and $10 million in annual revenues

White Wave Foods left Boulder after their consolidation with Dean Foods, leaving the company's worth at an estimated $1.2 Billion[2].

1 "Boulder suffers worst tax loss". Boulder Weekly http://www.boulderweekly.com/archive/022703/incaseyoumissedit.html

2 "White Wave announces Executive Team and Finds Home in Broomfield, Colorado". Investor.com http://www.investors.com/breakingnews.asp?journalid=25060763

Given these events and the economic record of the City during the past few years, it would be beneficial to the City and the Boulder community to evaluate what role incentives would play and which, if any, would fit the unique aspects of the Boulder economy. By analyzing our peer cities and evaluating the merits of potential incentive programs, the City can proceed to make an informative and educated decision, and thus ensuring Boulder's standing as a hub for entrepreneurship, creativity, and efficient economy activity.

HISTORY

When evaluating the different methods that a given community can employ to fuel this desired atmosphere, it is vital to analyze the common practices of your determined peers, both locally and nationally. Given the rise in retail supply surrounding Boulder, coupled with the increased expansion and construction of commercial real estate in nearby cities, the City of Boulder has been placed in a precarious situation. As it stands, Boulder is the lone city on the Front Range, offering no direct financial incentives to businesses. Louisville, Longmont, Broomfield and Westminster have begun adopting common incentive policies, and it is likely that their efforts will continue to expand in the future. Thus the City of Boulder must look at these different programs and determine if they are truly appropriate for Boulder.

Former City Economic Vitality Director Mike Stumpf proceeded along these lines, constructing a comparison study of business incentive programs in an aim to analyze the current programs Boulder has in place and the programs of our competitors (in accordance with the City of Boulder Economic Vitality Work Plan). The study (Appendix A) compared Boulder with eleven cities of comparable population size (four of them located in Colorado), and tested forty-five different business incentive programs. These programs were divided into three categories: Tax Programs, Direct Business Assistance (DBA), and Technical/Regulatory Assistance.

The study, though very comprehensive, did not focus on any particular component of business incentive policy, something deemed essential if we are to debate and evaluate the merits of a specific given program. In addition there was much analysis on Boulder's national peers, rather than our local competitors. Though a national perspective is necessary, we must also be cognizant that it is typically our Front Range competitors that we are competing with, as we are all digging from the same well per se, in terms of potential businesses, developers, and residents.

With direction from the City Manager it was determined that a new study should be initiated. This study would focus on traditional financial incentives and would use local peer cities for the subsequent analysis. The details of this study and its work phases are explained in the following section.

OVERVIEW

The study was initiated in late June, with the goal of completing the study and presenting the results no later than late August. Several different offices were used for the subsequent research, including the Office of Economic Development and International Trade for the State of Colorado, Colorado Department of Revenue, and assistance from the City of Boulder Planning Department and Finance

Office. In addition, an independent consultant was contracted to initiate and complete the study. Below is a brief description of the project scope and timeline.

Project Scope:

1. Identify and confirm financial incentives offered by other regional cities. These cities are to include Longmont, Broomfield, Westminster, Louisville and Lafayette. These incentives are to include state EDC matching funds which can double the impact of some incentives. In addition, present pros & cons of each general incentive type.
2. Evaluate the cost of doing business in Boulder relative to competing cities in the region
3. Research and/or interview several companies that have left Boulder, recently located within Boulder, or are considering moving to Boulder to better understand the factors influencing their decisions.

Action steps

- Competitive cities' incentives
  - List and explain incentives used by neighboring cities
  - Update the info including the EDC marching funds program
- Cost of doing business in Boulder
  - Comparative economic data on cost of doing business in Boulder and neighboring cities.
    - Real estate prices; lease rates
    - Permits, taxes, use fees, other fees, etc
  - Representative example of company's financial analysis
- Real world decisions
  - Research companies that have recently chosen to remain in or leave Boulder.
  - Interview the leaders of several companies that have recently or are in the process of evaluating Boulder.
  - Identify and summarize the factors influencing their decisions.
- Report the findings

Direct Business Assistance

OVERVIEW, BREAKDOWN, STRENGHTS & WEAKNESSES

OVERVIEW

There are hundreds of incentives, both financial and non-financial, that cities across the United States use as direct business assistance, to both attract businesses, and retain them, within their city limits. However there are several specific financial incentives which have become increasingly popular, particularly among our Front Range competitors. As stated earlier, it is more relevant to analyze the actions of our local peers, as many of our national peers operate under completely different guidelines and/or constraints (for instance the City of Portland does not grant any property tax incentives/rebates, as the State of Oregon is the sole collector of any personal property tax). Below is a list and brief breakdown of each incentive:

Sales and Use Tax Exemptions/Rebates: There are a number of ways in which a use or sales tax rebate/exemption can be applied, and it varies greatly from city to city. Though several cities employ the incentive tool, there is often no codified standard application procedure. Typically the exemptions or rebates apply to manufacturing machinery, equipment, and research and development, though there are exceptions. In addition, the qualification for the incentives differs in each city, with items like job creation or the design of innovative products as common examples.

Permit Fee Reductions or Waivers: In instances where a company already residing within a given city wishes to expand, they may be able to receive potential permit fee reductions and waivers, which would apply to different construction and building costs charged by the city. To our knowledge, the city of Longmont is the only city formally utilizing this program, providing fee waivers of up to 30% for companies who meet their stated criteria.

Property Tax Abatement: Colorado HB 02-1399, or the Colorado Urban and Rural Enterprise Zone Act, allows all municipalities to grant property tax rebates of up to 50% for qualifying businesses. However, because Colorado counties collect property taxes, most municipalities are unable to offer this incentive, (Denver has, as it is both the city and county of Denver). There has been discussion in regards to local neighboring cities using this incentive by providing the portion of property tax that they collect from the county as a direct refund to qualifying businesses, but it has not been substantiated at this point.

Tax Increment Financing (TIF): Tax Increment Financing has become more popular, as cities begin to offer them in hopes of future sales-tax revenue to be generated from the proposed redevelopment. Using future property tax revenues, this form of public underwriting has become a large business incentive, but has also received some scrutiny from the communities in which they're used.

Non-Financial Incentives: Many cities have come to the conclusion that diversity within their offered incentives is a necessity, and as such, non-financial incentives have been a suitable response. These incentives can vary from city to city, including all of the following: Free or discounted training/education for employees, direct business liaison from city, bus passes, and many others.

Sales and Use Tax Exemptions/Rebates:

Strengths

- Useful for both retention and recruitment of businesses
- Flexibility
  - Specific business activities can be targeted
  - Timeframe and duration can be limited
  - Rebate rates can be flexible
- Easily communicated – responds to "perceptions"
- In concept, matches neighboring cities' programs
- Funded by portion of unbudgeted city revenues

Weaknesses

- Consensus on what activity or which companies are eligible may be difficult
- Potential for it to become burdensomely complicated
- Impact on administrative systems and oversight unknown

Permit Fee Reductions or Waivers:

Strengths

- Flexibility
  - Specific activities can be rewarded
    - Activities that reduce cost to city to offset loss revenues
  - Reduction rates can be flexible
- May encourage property improvements
- Easily communicated – responds to "perceptions"
- In concept, matches neighboring cities' programs

Weaknesses

- Direct reduction in revenues to city
- Only benefits actual movement or improvement activities
- May only be indirect value to business
- Impact on administrative systems and oversight unknown

Personal Property Tax Abatement:

Strengths

- Useful for both retention and recruitment of businesses
- Flexibility
  - Specific business activities can be targeted

    - Timeframe and duration can be limited
    - Abatement rates can be flexible
- Easily communicated – responds to "perceptions"
- In concept, matches neighboring cities' programs

Weaknesses

- Direct reduction in revenues to city
- Consensus on which personal property is eligible may be difficult
- Potential for it to become burdensomely complicated
- Impact on administrative systems and oversight unknown

Property Tax Abatement:

Strengths

- Innovative approach, generally not used by non county entities
- May encourage property improvements

Weaknesses

- Direct reduction in revenues to city
- Administrative approach uncertain
- Indirect benefit to businesses that are leasing

Tax Increment Financing (TIF):

Strengths

- Good for large scale, predictable revenue projects
- Revenue neutral or positive via offset short term costs by long term revenues

Weaknesses

- Approval process necessarily complex and time consuming
- Not effective or efficient for smaller projects

Non-Financial Incentives:

Strengths

- Highly flexible – limited by imagination
- Can mirror fiscal, social, environmental objectives of the city
- May be compatible with other programs already in place in city
- Can be managed to no or little direct fiscal on city

Weaknesses

- Impact on administrative systems and oversight unknown

Business Incentive Comparison

BOULDER AND OUR FRONT RANGE COMPETITORS

Cities	Sales/Use Tax Exemptions or Rebates	Property Tax Abatement	Permit-Fee Reductions or Waivers
Boulder	Does Not Exist	Does Not Exist	Does Not Exist[3]
Broomfield	Yes, But Not Published	No, But Possible	Yes, But Not Published
Denver	Rebates of local taxes w/ payments based on \$500-\$1,000 per job for each new job created and/or 1% the amount of investment in a new Denver project (if you create >100 jobs)[4]	Rebates of local taxes w/ payments based on \$500-\$1,000 per job for each new job created and/or 1% the amount of investment in a new Denver project (if you create >100 jobs)[2]	Does Not Exist
Fort Collins	"Purchasers of qualifying manufacturing equipment used in Ft. Collins can apply for a refund of use tax"-limitations apply towards rate of equipment bought-\$2,400,000 Cap"	Does Not Exist	Does Not Exist

Longmont[5]	"Sales/use tax exemption for manufacturing machinery equipment. Purchases of machinery and machine tools used "exclusively" in the manufacturing process with separate item cost over $1,000 are exempt from taxation (unlimited term exemption). Also, Machinery and machine tools, research and development equipment used by an industry new to the City for initial consecutive 2 years of operation are exempt (from use/sales tax). After 2 year period, new manufacturer is required to conform to rules for existing manufacturers."	Does Not Exist	"Upon meeting specific criteria, primary employers may qualify for a fee waiver of up to 30% on new construction and tenant improvement in the City of Longmont. Criteria include job creation, hiring of local residents, diversification of local economic base, compliance with Longmont Area Comprehensive Plan goals, and higher wages."
Louisville	Currently considering	Currently considering	Currently considering
Westminster[6]	The city customizes each BAP to the specific company and/or situation, as a percentage of new revenue created by the relocation or expansion of the company, in the form of: -Construction Use Tax Rebates -Rebates on furniture, fixtures and equipment -Sales Tax Rebates	Does Not Exist	The city customizes each BAP to the specific company and/or situation, as a percentage of new revenue created by the relocation or expansion of the company, in the form of: -Permit Fee Rebates

Do Incentives Matter?

SUMMARY OF COMPANY INTERVIEW FINDINGS

PURPOSE

Though evaluating the fiscal impact of given incentives could be ascertained from both municipalities and the State Department of Revenue, there still remained an element of the discussion that could not be quantified. To truly determine the effectiveness of different incentives, a surveying process was initiated. This procedure would assist us in determining what factors are important to decision makers when moving to and from Boulder. Below are several key components of the studies methodology:

- Companies – Over 30 companies were studied or researched, with over 20 of these including personal interviews with business leaders, typically the CEO or President.

- Company Profile-
  - Companies that have recently moved from Boulder
  - Companies that have recently moved within Boulder
  - Companies that are/have recently considered moving to Boulder
- Sectors-
  - Light and moderate manufacturing
  - Food and beverage production
  - Professional Services
  - Technology
- Some Companies Interviewed and Researched-

  -@Last Software
  -Carrier Access
  -Abo's Pizza
  -Celestial Seasonings

-Dean Foods
-HTH Wind Energy
-Leopard's Communications
-Safe Systems
-Sambazon
-Scarpa
-Hart Wood
-Intermountain Color
-Rudi's Organic Bakery
-Sirna Therapeutics
-Third Street Chai
-Webroot Software

- Confidentiality- Recognizing that some of the information requested is considered strategically, operationally, and/or competitively sensitive, confidentiality was extended to all participants during the interviews.

- "Interested Parties"- Additionally, more than 15 "Interested Parties" were interviewed. This included members of EVAB and others in the business, gov. and university communities.

- Interviews- Generally the interview questions touched on the following areas: Company's current situation and facility needs, local/state gov. support, available local employee pool, financial analysis, market or customers, University of Colorado, quality of life, cost of living, school systems, and transportation.

SUMMARY FINDINGS

Below is a list of the summary findings from the interviews described above:

1. Attention and assistance by the city is important factor in these companies' location decisions
2. "Valued" assistance takes varied forms defined by each company's situation and needs.
3. "Value" of financial incentives:
    - Important and influential factor along with others that collectively "tip the scale"
    - Communicates a highly valued supportive attitude toward business
    - No company's decision to locate or relocate was based solely upon financial incentives.
4. Most frequently noted and favored financial incentives included:
    - Use & sales tax rebates
    - Personal property tax reductions or rebates
    - Permit and planning fee waivers, rebates
5. Noted non-direct financial incentives
    - Process improvement in planning, permitting and regulation.
    - Transportation cost support (eco pass)
    - Training and educational resources
    - Outreach program that keeps business involved in local government issues
6. Larger more sophisticated companies often perform some financial analysis
7. Smaller less sophisticated companies primarily consider lease rates and available space.
8. Perception is that city of Boulder is not business friendly, often hostile.
9. Recent pro business activities are noticed and cautiously encouraging.

10. Municipal processes related to planning, permitting, and regulation are viewed as highly inefficient and very costly (time more than money) obstacles to doing business in Boulder.
11. The "cost of doing business" in Boulder is difficult to quantify for these businesses. It is believed to be at a premium. However, it is generally felt that while the cost is at a premium, it is not prohibitively expensive.
12. The "value of doing business" in Boulder is equally difficult to quantify and is specific to each company's situation.
13. Companies leave or do not locate in Boulder for a host of reasons including:
    - **Primary**
        - Lack of available space that meets the quality needs of these companies
        - Available comparably priced higher quality space in surrounding area
        - Premium cost of doing business in Boulder (more so for incoming businesses than for home grown companies)
        - Lack of interest by, connection to, or support from the city of Boulder
    - **Secondary**
        - Competing incentives by neighboring cities
        - "Ease of doing business" with neighboring cities
        - Inefficient, cumbersome, arbitrary and costly city planning, permitting, regulatory processes
        - Lack of available skilled labor pool (for both low wage and some highly technical labor)
        - Cost of living – housing cost most often cited
        - Infrastructure restrictions (transportation access/egress)
        - Unfriendly political environment
        - Lack of key industry "critical mass" (specific to some industries – examples are biotech and security software)
14. Some confirmed incentives received by companies in neighboring cities
    - **Company "A" received:**
        - Streamlined permitting process
        - Permit waivers
        - Two year sales tax reduction of 50%
        - Rebated personal property tax for first two years
        - Direct contact from three different city leaders

THE COST OF DOING BUSINESS

A common sentiment expressed throughout the interviews held was the perception that the City of Boulder is 'more expensive' for someone to do business. Though ambiguous, there are several fees and processes we can utilize to determine if this is truly the case, or if perception has managed to become reality.

One example is the sales and use-taxes that businesses must pay to the City of Boulder. These tax rates are not substantially higher then local peer cities (and in fact they are lower in some), however many of these municipalities offer rebates and waivers for these taxes, essentially decreasing a companies tax burden on an annual basis. In Boulder, Manufacturers, R & D corporations, and technology firms paid a total of $6,447,397 in use taxes for FY 2004, over 60% of the City's use tax revenues. These businesses would qualify for differing types of rebates and waivers throughout the Front Range, and would certainly receive some type of direct financial assistance from the Cities of Louisville, Longmont, Broomfield, and Westminster, if they resided within these municipalities.

TRISH PLANNING INFO---

Policy Recommendations?

ANALYSIS AND RECCOMENDATIONS

ANALYSIS OF SUMMARY FINDINGS

To effectively develop an economic development program that includes retaining and attracting the right businesses, the city of Boulder may consider pursuing the following five initiatives:

1. Identify the "right" businesses. While outside the scope of this work, it is evident the city's effectiveness in retaining and attracting business would benefit from defining and identifying what types of businesses are considered to be most desired prime long-term participants in the local economy.
2. Design and adopt a highly flexible set of financial incentives that are designed specifically to encourage targeted company types to remain in or relocate to Boulder. Components could include:
   i. Sales & use tax rebates, narrowly designed. For example to include only R&D, knowledge equipment (computers) and innovative product development.
   ii. Personal property tax limited time reductions, rebates, deferments.
3. Dramatically improve planning and permitting processes. Benchmark best in class (or at the least neighboring cities) in these activities and strive to match their performance.
   i. Streamline the process, simplify the regulations, and appropriately train, resource and empower staff
   ii. Adopt an optional planning and permitting process for complex projects, with dedicated resources, funded entirely by applicants' premium fees and remove them from the general queue

iii. Permit waivers in limited circumstances where city costs can be reduced

4. Encourage and enable high ranking city officials to regularly connect with key businesses in the city and reach out to desired targeted companies that are considering relocating to Boulder.
5. Communicate these efforts to targeted companies with the message that for the right businesses – Boulder is open for business!

Bonus Initiative – Identify and take action on a plan that encourages landlord improvements of distressed properties. Again, outside the scope of this project, it is evident that Boulder is significantly disadvantaged relative to its neighbors by a vast inventory of dated and sub class "A" space. While charming to a point, this situation may eventually lead to diminishing the value of the "Boulder" brand.

CONCLUDING REMARKS