NORTHERN ARIZONA UNIVERSITY
The W. A. Franke College of Business

Business Incentives in the Four Corners States:
Models for Rural Arizona

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Executive Summary

Arizona, Colorado, New Mexico, and Utah are all experiencing positive economic growth. However, this growth has been largely concentrated in urban areas. To help rural Arizona improve its ability to expand and attract businesses, policy makers would be wise to analyze the successful business attraction methods used by other governments and organizations.

State incentives are varied. Enterprise Zone programs existing in Arizona, Utah, and Colorado open up economically depressed areas for a number of tax credits, tax reductions, and rebates. By reducing the cost of doing business, these programs encourage economic activity.

By aggressively pursuing target industries, states can encourage jobs that will be economically viable well into the future. New Mexico's efforts at courting certain industries are well-documented, and have proven to be effective in recent years.

All four states recognize the financial advantages of hosting the motion picture industry. Although New Mexico has received abundant publicity in recent years for its efforts, the other states also offer attractive incentives for film productions.

In recognition of the importance of a skilled workforce, training programs abound. These are generally in the form of generous reimbursements, by the state, of costs associated with training new or incumbent workers. Arizona and New Mexico add minimum salary requirements to the qualifications for these reimbursement programs.

High wages are also a requirement for a number of other incentives. These include Utah's and Arizona's Enterprise Zone programs. The stand-out incentive for higher wages is Colorado's Job Creation Performance Incentive Fund, which provides financial incentives based on the creation of new jobs. This program offers defined cash incentives that are worth gradually more with the increase in wages.

Regional and local incentives tend to be more customized and provide the immediate needs of fledgling businesses. Examples of successful programs in southeast Utah and Mesa County in Colorado may serve as models for rural Arizona. The strengths of both areas rely on the business incubator center model. Business incubator centers are generally funded by a mix of grants and private donations. They provide a variety of services such as assistance with debt and equity financing, business development counseling, and temporary facilities. Businesses started under the tutelage of incubators have remarkably high success rates compared to small businesses in general.

Business Incentives in the Four Corners States: Models for Rural Arizona

The economies of Arizona and its Four Corners neighbors are growing at a remarkable pace. The Bureau of Economic Analysis' assessment of gross domestic product (GDP) growth from 2005-2006 places the economies of Arizona, Colorado, New Mexico, and Utah in the highest quintile in terms of economic growth. During that time, growth rates were as follows:

- Utah – 7.2%
- Arizona – 6.8%
- New Mexico – 6.2%
- Colorado – 4.9%[1]

By comparison, the national average during the same time was 3.4%. As these impressive figures attest, the economies of Arizona and its neighbors are bringing prosperity to the region. The full map including GDP growth of all 50 states is located in Appendix A.

The spoils of growth, however, are not necessarily spread evenly among all communities in these states. Population centers such as Phoenix, Tucson, Albuquerque, Denver, and Salt Lake City have workforce, infrastructure, financial resources, and other advantages that draw the bulk of the companies responsible for the commendable growth rates. The rural areas of these states are somewhat left behind in the rush to business prosperity. To combat this problem, states, counties, cities, and private groups have established a number of incentives designed to funnel a portion of the flow of business into rural areas.

Incentive programs appear in a variety of forms. On a large scale, state governments attempt to stimulate higher wages, new job creation, workforce competence, and the development of target industries. They do so by a variety of methods including reducing the costs of state-run facilities and reducing state taxes.

Smaller-scale efforts by local governments and private interests seek to support business start-up and expansion through loans, counseling, facility-sharing, networking, and other strategies. The Four Corners region offers examples of success through differing approaches.

State Incentives

State incentive programs attract businesses using a variety of methods. Many are intended to attract new businesses to the state, but provide additional benefits for those willing to expand into rural areas. Earning these incentives – which range from tax breaks to cash disbursements – is generally dependent on the creation of new jobs. In return for these investments, states reap higher employment, increased tax revenues, and future opportunities. Dozens of programs are currently in operation and a select few will be mentioned below.

Enterprise Zones

Enterprise Zone programs are a common way for states to promote rural job growth. These state-run programs generally define areas of high unemployment, low wages, geographical isolation, or high poverty, as Enterprise Zones. Areas fitting within the required parameters are usually required to apply for Enterprise Zone designation. Once Enterprise Zones have been established, businesses expanding in or relocating to those areas become eligible for a variety of state incentives. The scope of these programs varies from state to state; Arizona, Colorado, and Utah have Enterprise Zone programs, and New Mexico conducts a program of a similar nature.

Arizona

The Arizona Enterprise Zone program offers two main incentives: Arizona income tax credits and property tax reductions. Currently, there are 26 Enterprise Zones in Arizona. Arizona Enterprise Zones must have experienced two consecutive years of unemployment at 150% of the average statewide rate, or a poverty rate of 150% of the state average. An applicant area must be at least ¼ square mile in size and have a population of at least 1,000. In order to apply for this designation, the city or county governments that contain the qualifying area must form an Enterprise Zone Commission. This commission will submit the application and manage the zone during the tenure of its designation.

The state income tax credit applies to non-retail, for-profit businesses that create quality new jobs. Quality jobs are full-time and permanent, are filled at least 90 days during the tax year, pay at least the average county wage, and contribute at least 50% of the cost of employee health insurance. The tax credit can be claimed for up to 200 employees over three years. The first year, 25% of the wages paid can be claimed, for a maximum $500 tax credit per employee. The second year, 33% of the wages can be claimed, up to $1,000, and the third year, 50% of the wages can be claimed, up to $1,500. Over three consecutive years, employers may claim a total of $3,000 in tax credits per employee.

If the job is in an agricultural processing field, a credit of $500 is available.

Utah

Utah offers a variety of tax credits for businesses expanding into Enterprise Zones. Enterprise Zones in Utah must be counties with populations of 50,000 or less, cities with populations of 10,000 or less, or tribes. All expanding or relocating businesses, except construction, retail, and public utilities, may be eligible for the following tax credits:

- A $750 tax credit for each new, full-time position filled for at least six months during the tax year.
- An additional $500 tax credit if the new position pays at least 125% of the county average monthly wage for the respective industry.
- An additional $750 tax credit if the new position is in a business that adds value to agricultural commodities through manufacturing or processing.
- An additional $200 tax credit, for two consecutive years, for each new employee insured under an employer-sponsored health insurance program, if the employer pays at least 50% of the premium.
- A tax credit of 50% of the value of a cash contribution, not to exceed $100,000, to a 501(c)(3) private, nonprofit corporation engaged primarily in community and economic development, and is accredited by the Utah Rural Development Council.
- A tax credit of 25% of the first $200,000 spent on rehabilitating a building located within an Enterprise Zone which has been vacant for at least two years.
- An annual investment tax credit of 10% of the first $250,000 in investment and 5% of the next $1,000,000 qualifying investment in plant, equipment, or other depreciable property.[2]

Colorado

Colorado offers ten tax credits to qualifying businesses expanding into its Enterprise Zones. Colorado Enterprise Zones must have above average unemployment rates, low per capita incomes, and/or a population base of less than 80,000. The following tax credits are available:

- The Investment Tax Credit is worth 3% of the purchase price of equipment used exclusively in an Enterprise Zone.
- The Job Tax Credit is a $500 tax credit for each new employee hired in a newly created job.
- The Agricultural Processing Double Job Tax Credit offers an additional $500 tax credit per new employee in a newly created job if it is in a business that adds value to agricultural products through manufacturing or processing.
- The Job Tax Credit for Employer Health Insurance is a $200 tax credit for new employees in new jobs that include a health insurance plan among their benefits.
- The R&D Tax Credit is equal to 3% of the increase in yearly R&D expenses
- The Credit to Rehabilitate Vacant Buildings is 25% of the cost of renovating buildings that are at least 20 years old; worth up to $50,000.
- The Job Training Credit is 10% of the costs of certain job training programs.

Additionally, Colorado Enterprise Zones offer exemptions from sales and use taxes on manufacturing and mining equipment when the equipment is used solely in an Enterprise Zone.

Local government tax incentives are also available. Individual cities, counties, and special districts may negotiate these incentives. They include a cash payment equal to the increase in property tax liability required after construction of a new facility. Also available is a refund of local sales taxes paid on heavy equipment, machinery, and related tools and supplies used in Enterprise Zones.

Colorado's Enterprise Zone program was established in 1986. In 2003, additional credits were established to encourage job growth in Enhanced Rural Enterprise Zones (EREZs), portions of regular enterprise zones that may have further need for aid. To qualify as an EREZ, an area within an Enterprise Zone must fit two of the following five criteria:

- County unemployment 50% greater than the state average
- County per capita income less than 75% of the state average
- County population growth rate less than 25% of the state average
- County population less than 5,000
- Assessed value of non-residential properties ranks in the lower half of all counties

Areas that are considered EREZs are eligible for a number of enhanced benefits. The first is an income tax credit of $2,000 per new employee. If the job is in an agricultural processing field, a credit of $500 is available. These credits can be carried forward seven years, as opposed to five years in regular Enterprise Zones.

New Mexico

While not referred to as an Enterprise Zone Program, New Mexico's Rural Job Tax Credit can be claimed whenever a company creates a new job in rural areas of the state. The credit is worth 6.25 percent of the first $16,000 in wages paid for employees working new jobs. These jobs must be full-time and may be claimed for four years.

Evaluation

The effectiveness of Enterprise Zones has been debated for decades. Regardless of their long-term effects, the best approaches are those that will ultimately lead to new job creation. This means either providing needed resources to businesses that intend to start or expand locally, or offering a superior incentive package to a business assessing considering multiple comparable locations.

- Colorado's Enhanced Rural Enterprise Zone program is perhaps the best example of specifically targeting rural areas. In addition to offering the most generous package in terms of total financial reimbursement (up to $3,700 per employee), the EREZ program is only available in sparsely-populated rural areas. Offering larger incentives gives these small areas a much-needed advantage. For example, a regular Enterprise Zone located in an urban area will have the advantage of proximity to transportation infrastructure and a larger workforce. Special incentives are needed in order for rural areas to compete.

- The incremental nature of the incentives offered by Colorado and Utah are also important. A new or expanding business can earn a portion of the offered incentives if it cannot meet all the requirements. Thus, a business startup that cannot afford to initially offer health insurance coverage to its employees can still receive tax breaks.

- Tax credits for the remodel of old buildings are an excellent idea for a state with limited developable land.

- Tax credits for health insurance benefits will ultimately improve quality of life and lead to a healthier, more productive workforce.

- Research and development incentives and job training incentives, such as those offered by Utah and Colorado, will encourage the development of a stronger workforce and more adaptable industries.

- Incentives for county-specific wage rates, such as Utah's $500 tax credit available for jobs paying 125% of the county average, help to give a competitive edge to smaller rural areas.

Targeting Specific Industries

Some states look to specific industries as vehicles for continuing their strong business growth. These industries promise to be viable well into the future and often provide high-paying jobs.

New Mexico
New Mexico uses tax credits and deductions to court a variety of industries. Gross receipts tax deductions are roughly equal to a sales tax exemption, with the exception that they are owed by the seller, rather than the buyer. Tax credits can be claimed against state income taxes. The industries targeted with these incentives are aviation and aerospace, energy, technology and electronics, manufacturing, digital business and media, and operations centers.

Aviation and Aerospace

The aviation and aerospace industries bring strong revenue streams into a state. They tend to pay high wages and require massive spending. They also promise to be viable well into the future. New Mexico offers the following gross receipts tax deductions:

- *The Aircraft Manufacturing Tax Deduction* is applied to the sale of aircraft by the manufacturer.
- *The Aircraft Refurbishing and Remodeling Tax Deduction* is applied to the refurbishing, remodeling, and modifying of aircraft weighing over 10,000 pounds.
- *The Aerospace Research and Development Tax Deduction* is applied to any research and development that takes place in New Mexico for the benefit of the U.S. Air Force.
- *The Space Operation Deduction* is applied to the launch, operation, and recovery of space vehicles or payloads. It also applies to the preparation of payloads and the operation of spaceports.

Energy

New Mexico's clean and renewable energy tax credits and tax deductions encourage the production and sales of alternative energy. A variety of incentives encourage the use of renewable energy, but the incentives to create new businesses are as follows:

- *The Renewable Energy Production Tax Credit* can be claimed against corporate income tax at a rate of one cent per kilowatt-hour for the first 400,000 megawatt-hours a facility produces in a taxable year.
- *The Wind Energy Equipment Gross Receipts Tax Deduction* is applied to the sale of wind turbines and other qualifying items used in wind energy production to a state or federal government entity.
- *The Biomass-Related Equipment Compensating Tax Deduction* can be claimed against equipment used in biomass energy production.

Technology and Electronics

Tax credits and deductions are used to create jobs in the high-paying fields of technology and electronics.

- *The Technology Jobs Tax Credit*, in rural areas, is worth up to 8% of qualified research expenditures. An additional 8% tax credit can be claimed if the base payroll expenses increase by $75,000 for every $10,000,000 claimed as a qualified expenditure.
- *The Research and Development Gross Receipts Tax Deduction* is applied to research and development services sold to other states.
- *The Research and Development Small Business Tax Credit* is offered to qualifying small businesses. It is equal to the sum of the company's gross

receipts, compensation, and withholding taxes, providing that at least 20% of its annual expenses are for research and development.

- *Rural Software and Website Gross Receipts Tax Deduction* is applied to software and web development by rural companies.

Manufacturing

The incentives for manufacturing include a tax credit and corporate tax benefit.

- *The Manufacturing Investment Tax Credit* is a 5% tax credit available on the cost of qualified manufacturing equipment
- *The Double-Weighted Sales Factor Option for Corporate Income Tax* is *a*vailable for manufacturing companies that export products outside New Mexico. It is a favorable way of calculating income tax liability.

Other

New Mexico's successful motion picture incentive program is discussed in detail below. The state also offers deductions and exemptions for operating businesses such as web site hosting and telemarketing companies that create revenue from out of state. Small distilleries and wineries, along with microbreweries, receive significant reductions in per-gallon and per-liter taxes. Numerous gross receipts tax reductions are associated with agriculture.

Colorado

Colorado, too, is eager to improve its growing reputation as a business-friendly state. Tax credits and refunds are used to draw such high-tech industries as aerospace and bioscience.

Aerospace

The state of Colorado is already home to 100 companies associated with the research, development, and production of aerospace technology. It has the second highest concentration of aerospace employment in the U.S. The industry provides an estimated 130,000 direct jobs to Coloradans, and generates over $4 billion per year in revenue. In recognition of this economic contribution, the Colorado Office of Economic Development and International Trade (COEDIT) provides technical assistance, counseling, advanced training programs, and financial assistance to aerospace companies. Companies can also receive help in site selection, economic research, and various other needs.[3]

Bioscience

Bioscience companies employ nearly 16,000 Coloradans and generate $416 million in taxes. The average salary in this field is $63,000. In order to support this important industry, the COEDIT offers financial programs and technical assistance. It helps companies find building sites, obtain market information, establish supply sources, create business plans, and meet other needs.[4]

Colorado's Enterprise Zone program encourages industries which process agricultural products. New jobs that do so earn a $500 tax credit. The credit can be as high as $1,000 if the job is located in an Enhanced Rural Enterprise Zone.

Utah

Utah's industry incentives focus on aerospace, life sciences, software development and information technology, outdoor recreation products, and film. With the exception of film, these industries are drawn to Utah's urban counties by Utah's Industrial Assistance Fund.[5]

As already discussed, Utah's Enterprise Zone program offers a $750 tax credit for new jobs within a business that processes agricultural commodities. This credit is available only within Enterprise Zones.

Arizona

Retail sales and installation of solar energy devices are exempt from sales tax in Arizona. This exemption applies to wind power generating items as well. The absence of a sales tax decreases the cost to the end user, which should increase demand.[6]

Research and development is also encouraged in Arizona through state incentives. An income tax credit may be claimed based on qualifying research and development expenses. This credit is worth up to 20% of qualifying expenses up to $2.5 million, and 11% for qualifying expenses over $2.5 million. Proposed legislation would raise those credits to 24% for up to $2.5 million, and 15% for expenses over $2.5 million. These new credits would equal those offered by California, thus increasing Arizona's competitive position.[7]

Arizona also encourages manufacturers or commercial printers in Enterprise Zones through its property tax reductions. The reductions are limited to small businesses and those owned by women and minorities.

Evaluation

Since these states are all engaged in attracting technology-based industries, their incentive programs are more likely to emphasize highly-industrialized urban areas, equipped with the infrastructure necessary to support such businesses. Rural areas are hard-pressed to compete. In order to bring specific industries into them, they need to work in conjunction with other incentives.
From a rural perspective, the specific industry incentives that work best are those that give preference to rural areas. Therefore the best practices are most likely to be found among the states' Enterprise Zone programs.

- Colorado and Utah both offer Enterprise Zone tax breaks for the manufacture and processing of agricultural products. These incentives are industry-specific and work in conjunction with the strengths of rural areas.

- New Mexico's approach has proven quite effective by offering a well-defined series of tax breaks. When applied specifically to rural industries, as New Mexico has done with wineries, these incentives will encourage rural business development.

- Arizona has effectively reduced the cost of manufacturing and printing in small and rural areas with its property tax reduction.

Motion Picture Industry Incentives

Motion picture and television production is becoming a very profitable industry in the southwestern states. Natural landscapes are plentiful, and production costs (including wages) tend to be lower than Hollywood.

Arizona
Arizona uses tax exemptions and tax credits to attract film producers. Eligible companies pay no transaction privilege tax on such purchases as machinery, equipment, and other tangible personal property; job printing, embossing, engraving, and copying; leased or rented lodging space; sales of catered food, drink, and condiments; and construction contracts for buildings and other structures. They are also exempt from use taxes on machinery, equipment, and other tangible personal property. Additionally, a company may claim an income tax credit of up to 20% of its investment in eligible Arizona production costs.[8]

Colorado
Colorado's film incentive program was signed into law in June of 2006. Under this law, qualifying companies will receive a 10% cash rebate on their in-state expenses. This rebate is capped at $500,000. The state requires at least 75% of the crew of these productions to be Colorado residents.[9]

New Mexico
New Mexico in particular has courted the industry quite aggressively. Its incentives include a 25% tax rebate on all state-taxable production expenditures. Additionally, the state provides a sales tax exemption that can be used for a variety of costs related to the production of films. Only one of the tax incentives may be applied to an individual expenditure. New Mexico will also award an interest-free loan of up to $15 million per film project. Subsidies for crew training expenses are also offered. Up to 50% of wages paid for on-the-job training of New Mexico residents can be reimbursed.[10]

Utah
The three film production incentives offered by the state of Utah include a cash rebate, a sales tax exemption, and a transient room tax rebate. Utah offers a 10% rebate on production expenditures made in the state. If filming takes place

in rural Utah, the rebate can be as much as 12%. The cap on this rebate is $500,000. The sales tax exemption applies to film, television and video productions' purchases of machinery and equipment. The final incentive is a rebate of Utah's Transient Room Tax when an accommodation is occupied for 30 consecutive days. This exemption is worth up to 3% of the cost of the accommodations.[11]

Evaluation
Best practices concerning motion picture incentives can be readily observed in the effort put forth in New Mexico. The 25% rebate of all direct, state-taxable production expenditures is more attractive than rebates offered by neighboring states. For the benefit of state residents, New Mexico mandates at least 60% local hiring and funds 50% of crew training expenses. New Mexico's standout offering, the interest-free $15 million loan, gives the state an edge that others cannot match. The loans had a cap of $7.5 million from the program's inception in 2002, until 2005, when the maximum was doubled. The state offers them interest-free, and in exchange takes a portion of the films' net profits, which can range from 2.5% to 25%. Between July, 2002, and August, 2007, 20 loans totaled nearly $200 million and lead to $167 million of in-state spending[12].

Table 1 lists the number of films and major television programs filmed in the state since 2000. The dramatic increase of recent years suggests that state efforts are working

Table 1

Year	Films and Major TV
2007	30
2006	20
2005	24
2004	16
2003	16
2002	8
2001	6
2000	7

(source: http://nmfilm.com/filming/filmography)[13]

A press release from the New Mexico Film Commission, dated September 11, 2007, credits the 80 film and television projects shot in the state since the beginning of 2003 with adding $1.2 billion to the New Mexico Economy.[14] According to the Economic Research and Analysis Bureau, employment in the motion picture and sound recording industries will increase 28% between 2006 and 2008.

Job Training

State governments recognize that an educated and skilled workforce leads to higher wages and a more attractive pool of workers. Offering reimbursements and financial aid for workforce training is a common way to improve the quality of available workers and thus attract and retain businesses.

Arizona
Arizona's Job Training Program offers funds for training both new and current employees. Total amounts can be between $2,000 and $8,000 per employee, depending on the location of the business and the number of workers it employs. For new workers, the Job Training Program pays up to 75% of training costs. For current employees, it pays up to 50% of the costs.

In order for a company to qualify for training funds, its wages must meet certain minimums. In all counties other than Pima and Maricopa, the minimum required annual wage is $18,423. In Pima County qualifying positions must pay between $23,625 and $33,750 per year, depending on variables such as number of employees and enterprise zone status. Annual wages in Maricopa County, based on the same variables, must be between $27,781 and $39,687.

The program is funded through the Job Training Tax, which is assessed at $7 per employee per year. Companies who pay this tax are eligible for the assistance, as are non-profit, tax-exempt rural companies that can prove that a shortage of trained workers exists in their area.[15]

In FY 2006, 11,678 people received training through the Job Training Program. Nearly 28% of them were in rural areas, and 39% were newly-hired. Over $14 million was distributed through job training grants. The average wage for new hires in this program was $37,000, and the average grant for them was $2,046.

Colorado
The Colorado First Customized Job Training Program will reimburse training costs of certain full-time, newly-created jobs that pay more than minimum wage. These grants will reimburse up to 60% of training costs and $800 per job. These jobs must bring money into the state.

This program is designed to decrease the number of people on public assistance. The tax dollars returned by the newly created jobs more than cover the cost of the program. Community colleges and vocational schools must provide the training. The funding may be used to cover the wages and expenses of instructors, curriculum development, instructional materials, and consumable training supplies.[16]

New Mexico

New Mexico's Job Training Incentive Program provides reimbursements of wages and other costs of training. Wage reimbursements are equal to 50% of wages, capped at 1040 hours, in areas with populations of over 40,000. In rural areas and on tribal lands, the reimbursement is between 60% and 65% of wages. Also provided is a 50% reimbursement of travel and per diem costs. Any instructional costs provided by New Mexico community colleges and universities are reimbursed completely.[17]

Eligible businesses must create new jobs or relocate to New Mexico. They must either be manufacturers, service exporters (making over 50% of their income from out of state export), or warehouse and distribution companies making over 50% of income out of state. Trained employees must be granted full time, permanent work upon completion/certification. They must also have lived in New Mexico for at least one year prior to the training.

Utah

Utah's Custom Fit Training Incentives provides employee training through Utah College of Applied Technology Centers, state colleges and universities. Companies participating in the program will receive up to $500 per training employee, capped at a total of $100,000.

Also, the Short Term Intensive Training Program is available to companies that hire third party trainers. State funds may cover all but $1 per employee for training under this program.

Evaluation

The 2006 data suggest that Arizona's Job Training Program is widely used and benefits rural companies. Over 11,000 Arizonans were trained with the help of this program, afterward earning a salary of over $46,000. The program is well-funded through its own tax, and it is available to a variety of companies. It covers a generous amount of training costs and requires that a minimum wage be paid to recipients.

High Wages

Government efforts can, through incentives, raise the wage levels in certain communities. Many programs, including those already mentioned, require qualifying companies to pay high wages. Other efforts consist of grants awarded for the creation of new jobs that pay targeted wages. Because wages are naturally higher among some populations, required pay levels vary across each state. High-wage programs are implemented in each of the four states.

New Mexico

New Mexico offers tax credits for new jobs that pay high wages. In rural areas, the job must pay at least $28,000; in areas with populations of over 40,000, jobs must pay $40,000. The available credit is equal to 10% of wages and benefits paid, up to $12,000 per new job. To be eligible, each company must also make over 50% of its income from out of state sales. The credit can be claimed for four years.

Utah

Within Utah, a number of incentives are tied to high wages. Among the state's many Enterprise Zone tax credits is a $500 credit if the new position pays at least 125% of the average industry wage in the county.

Utah's Industrial Assistance Fund (IAF) provides grants for jobs that pay high wages. In rural areas, the IAF is available to companies that pay at least 100% of the median wage in the county. The grants are typically between $1,000 and $3,000 per job for a length of three years.[18]

Arizona

Arizona's Enterprise Zone tax credits are dependent upon wages above the median county rates.

The Arizona Job Training Program requires that qualifying jobs pay an average annual wage rate, based on county population. Rural county jobs must pay at least $18,423. In Maricopa and Pima Counties, the wage is higher, and varies according to number of employees.

Colorado

The Colorado Job Creation Performance Incentive Fund (PIF) provides financial incentives based on new job creation. Companies new to Colorado, and existing companies that hire new employees, are eligible for this incentive. The state designates $3 million annually for this program. The amount of the incentive is based on how much the wages of the new hires are paid in excess of the average county wage. Table 1 illustrates the various incentives available and the wages required to qualify for each.

Table 1 – Colorado's PIF Fund Grants

Average Wage Rate % of County Average	$ Incentive/Net New Job
<110%	$0
110-114	$1,000
115-119	$1,250
>119	$1,500

The Enhanced Incentive Program (EIP) is similar to the PIF and is designed to increase high-paying jobs by increasing incentives. To qualify for the EIP, employers must qualify for the PIF. It also encourages rural job creation by offering larger and more easily attainable incentives in such areas. Table 2 shows the incentives offered under the EIP and the required wage rates of each.

Table 2 – Colorado's EIP Fund Grants

% Average Annual Wage	Rural	Urban
125%	$2,500	
135%	$2,750	
150%	$3,000	$2,000
160%		$2,250
175%		$2,500

Other Colorado programs, such as Colorado First Grants, are awarded based on minimum hourly wages. These training grants are only awarded to companies that meet a sustainable wage threshold. In urban areas, employers must pay an average wage of at least $8.50 per hour; average wages in rural areas must be at least $7.00 per hour.

Evaluation

Colorado's attempts at creating higher wages in rural jobs are a step beyond its neighbors' programs. Payouts of specific amounts based on wages in excess of county averages are sure to entice new businesses. Basing the incentives on county averages, rather than set salary levels (as in Arizona and New Mexico), allows counties with fewer fiscal resources more opportunity to benefit. An incremental reward system favoring rural areas provides greater incentives for higher pay, yet still rewards companies unable to pay the highest wages. The specific amounts offered by Colorado will also create more certainty than the offerings of Utah's Industrial Assistance Fund.

Smaller-Scale Incentives

The incentives described above are, for the most part, monetary. They provide direct financial assistance, offer tax relief, or supplement service costs in an attempt to influence companies' relocation or expansion decisions. States also provide programs and facilities specifically designed to aid smaller businesses with design and startup. Small, local businesses can benefit from advice and guidance. They often need help attaining the loans, technical aid, and resources that they will need to launch and to survive. In some cases, the states operate these programs; often, they simply increase awareness of services provided by other entities and coordinate useful information. Several examples in each state follow.

Colorado

The Colorado Business Resource Guide is an 80-page downloadable document that covers essential topics in small business start-up. It is currently produced through a public-private partnership and is considered one of the most successful guides of its kind. More than 200,000 copies have been distributed since 1998.

Colorado's Leading Edge Entrepreneurial Training Program is an intensive 10-14 week business training program. These programs are offered primarily through the Colorado Small Business Development Center (SBDC) network and encourage each business to obtain follow-up counseling and assistance from their local center after completion of the formal training. It typically involves 35 hours of training, focusing on the areas of marketing and finance. The primary goal of the Leading Edge program is to help existing businesses write comprehensive business plans. Over 3,000 businesses have benefited from this program since 1989.

New Mexico

New Mexico uses a progressive initiative called the Home Field Advantage, where leaders from the Economic Development Department work hand-in-hand with New Mexico companies, educating them about tax incentives and job-training reimbursements. Understanding these and other programs helps businesses save money, hire new employees, and increase their activities.

The New Mexico Economic Development Department's Office of International Trade helps manufacturers gain a foothold in international markets. It has established trade offices in Asia and the Middle East and helps generate trade leads, locate importers, and establish distribution networks around the world.

Utah

Utah operates a website replete with links to a variety of resource. Among these are quick links for financing, government and business requirements, counseling and resources, training and events, statistical information, human resource assistance, rural resources, business forms, and business directories.

Additionally, Utah's One Stop Online Business Registration System offers a chance for businesses to register with the Utah State Tax Commission, the Utah Department of Commerce, the Utah Labor Commission, the Utah Department of Workforce Services, and the Utah Department of Environmental Quality, all with the completion of one application.

Arizona

Arizona has an Apprenticeship Program that combines on-the-job training with classroom instruction that meets the demands of employers. Arizona Workforce Connection is a statewide system of development partners that provide free services to employers who seek access to skilled new hires or existing worker training resources. Finally, Arizona's Small Business Advocate develops and implements recommendations addressing fundamental issues of concern to small businesses statewide.

Local incentives are sometimes negotiated by Arizona cities and towns. These programs vary by location; local Chambers of local Chambers of Commerce are willing to share information on them. An example is in Prescott, where the city is willing to assist in infrastructure costs, providing that the business pays the costs back over time. Recent infrastructure improvements worth $5 million were completed by the city, in order for a Lowe's Home Improvement Store to open. These improvements were planned for the future, but both the city and the business will benefit from their early implementation.

Case Studies

Business incubators and assistance centers exist in help small businesses in a variety of ways using public and private resources. They are generally created to serve geographically specific areas. Two excellent examples are located in Colorado's Mesa County and Utah's Carbon County.

Grand Junction and Mesa County

Grand Junction, Colorado, with a population of 45,000, provides a model of how local and county efforts can create a strong business environment.[19] Grand Junction's Business Incubator Center (BIC) provides resources for new and expanding businesses in a variety of forms.[20] It is a member of the National Business Incubation Association (NBIA), which has member centers across the country. Members of the NBIA have aided in the creation of over 500,000 jobs since 1980. Business incubators provide management guidance, technical assistance, and consulting for new and growing companies. They typically offer shared facilities and training and aim to create financially independent companies.

<u>Business Incubator Center Campus</u>
The campus of the BIC in Grand Junction is home to rental facilities for new and expanding businesses. Young companies can take advantage of shared facilities along with the other benefits of the BIC. Space on campus is affordable and may be leased for up to five years. Resident businesses share office space, equipment, and services. They also benefit from the chance to network with other residents, and from a variety of luncheons, classes and discussions. Examples of classes recently offered on campus are:

- How to Start a Business
- How to Start a Food Related Business
- Understanding Bookkeeping & Financial Statements
- Taxes and the Small Business Owner

- Credit Repair Workshop
- Doing Business with the Government

Small Business Development Center

The Small Business Development Center (SBDC) is also located on the BIC Campus. The SBDC is part of a federal program and provides small businesses with no-cost counseling and low-cost training programs. It disseminates information and resources from federal, state, and local governments. Through the SBDC clients gain a stronger understanding of regulatory, management, financial, and market research information. SBDC services are available in rural communities throughout the Four Corners states.

The Revolving Loan Fund of Mesa County

Initially funded by government grants and private donations, the Revolving Loan Fund of Mesa County has loaned over $5 million to 100 businesses since 1986. Ninety-five percent of these businesses are still in operation. The loans are between $8,000 and $300,000 with terms of three to seven years. Interest rates range from prime to prime + 4%. Acceptable uses of these loans are:

- Equipment Purchase
- Working Capital
- Building Improvements
- Inventory
- Real Estate
- Financing

Another loan fund, the Peterson Fund, provides small loans to small businesses in Mesa County whose owners are low to moderate income earners. The loans range from $1,500 to $5,000 and are intended for startup or expansion. They must be repaid in one to three years at the prime interest rate. Initial funding for the Peterson Fund came from a private donation. Companies denied funding through conventional means are encouraged to apply for these loans.

Carbon County and Southeastern Utah

Carbon County is the 14th most populated among Utah's 29 counties. The county is home to less than 20,000 people, and Price, the largest city and county seat, has a population of just over 8,000. Using incentives from government agencies, as well as the concentrated efforts of local organizations, Carbon County has established itself as an example of how to successfully nurture rural business growth.

The Southeastern Utah Association of Local Governments

The bulk of Carbon County's business incentives lie within assistance programs administered through the Southeastern Utah Association of Local Governments (SEUALG). The SEUALG is made up of the governments of Carbon, Emery, Grand, and San Juan Counties in order to provide a variety of programs and services to citizens and businesses. Although most of these programs and statistics are distributed among four counties, their combined population was only 53,139 by 2004 census estimates.[21]

Business and Technical Assistance Center

The Business and Technical Assistance Center (BTAC) in Price provides a variety of business incubation resources. Within the BTAC participants benefit from a professional work environment, notary public services, on-site seminars and workshops, staff assistance personnel, mail services, individual business counseling, meeting and conference facilities, office equipment, telephones, and voicemail.

In FY 2004, 11 small businesses operated from the BTAC. Seven additional businesses operate elsewhere but still use the facilities and offerings of the BTAC. Many of these businesses would have been unable to operate without the aid of the BTAC.[22]

The Procurement and Technical Assistance Center

The purpose of the Procurement and Technical Assistance Center (PTAC) is to aid businesses throughout Utah in finding and winning government contracts. On a daily basis, the PTAC searches for federal, state, and local government contracting opportunities for its clients. It cross-references the nature of a contract with the skills of local businesses and informs any eligible company of the opportunity.[23]

The PTAC also conducts classes to inform clients of the correct way to bid on such contracts. It offers aid in filling out any paperwork, submitting bids, and meeting deadlines. In FY 2003, 120 businesses in SEUALG's territory used the services of the PTAC. Of these, 46 won contracts worth approximately $9.6 million. Between 1996 and 2004, a total of 187 contracts have been awarded to companies using the PTAC. The total value of those contracts has been just short of $54 million.[24]

Revolving Loan Fund Program

The Revolving Loan Fund (RLF) Program offers two types of loans to help new and expanding firms. The program's Seed Capital Loans provide up to $10,000 for business start-up expenses. The terms of these loans are generally up to five years and the interest rates are competitive.

Gap Financing Loans tend to be larger and are meant to supplement other sources of financing. These loans are generally for 30% of the cost of a stated project, up to a total of $80,000. The money provides leverage for a business to take on a much larger loan from a commercial lender. They are usually provided on 5 year terms at a rate of up to 4 points below prime, but no lower than 4%. To qualify, firms must have already been denied bank funding. They must also create one new job for every $15,000 borrowed.

In FY 2004, the RLF program issued three loans totaling $174,000. This helped to produce 19 new jobs, and leveraged private loans of $1,469,000. In FY 2003, the RLF issued 4 loans for a total of $1,137,997, which leveraged $4,029,801 in private financing and produced 62 new jobs.

The Southeastern Utah Small Business Incentive Fund

A unique approach to encouraging business development can be seen in the form of the Southeastern Utah Small Business Incentive Fund (SEUSBIF), which was in operation between October of 2001 and September of 2003. The SEUSBIF provided startup funds and support to low-income individuals who wished to launch private businesses. Funding is currently being sought for re-instatement of the program, due to its apparent success.

A $790,000 federal Temporary Assistance to Needy Families (TANF) grant was used to operate the SEUSBIF. Recipients had household incomes at or below 200 percent of poverty level and at least one dependent child. After undergoing an SBDC-administered course on writing business plans, they developed and submitted ideas to a funding committee. Approved plans received funding of $1,000 to $10,000 for start-up. The SBDC monitored each business for 120 days, after which time they were requested to report back occasionally.

During 23 months of operation, SEUSBIF funds were used to develop 79 small businesses leading to the creation of 192 jobs. The direct investments totaling $694,000 were used to leverage $1,924,000 in additional loans to the businesses. One year after the program had expired, 66 businesses (84%) were still in operations, 47 (71%) of whom were planning to expand within a year. In the past 7 months, these 66 firms had reported total sales of $3,217,000.[25]

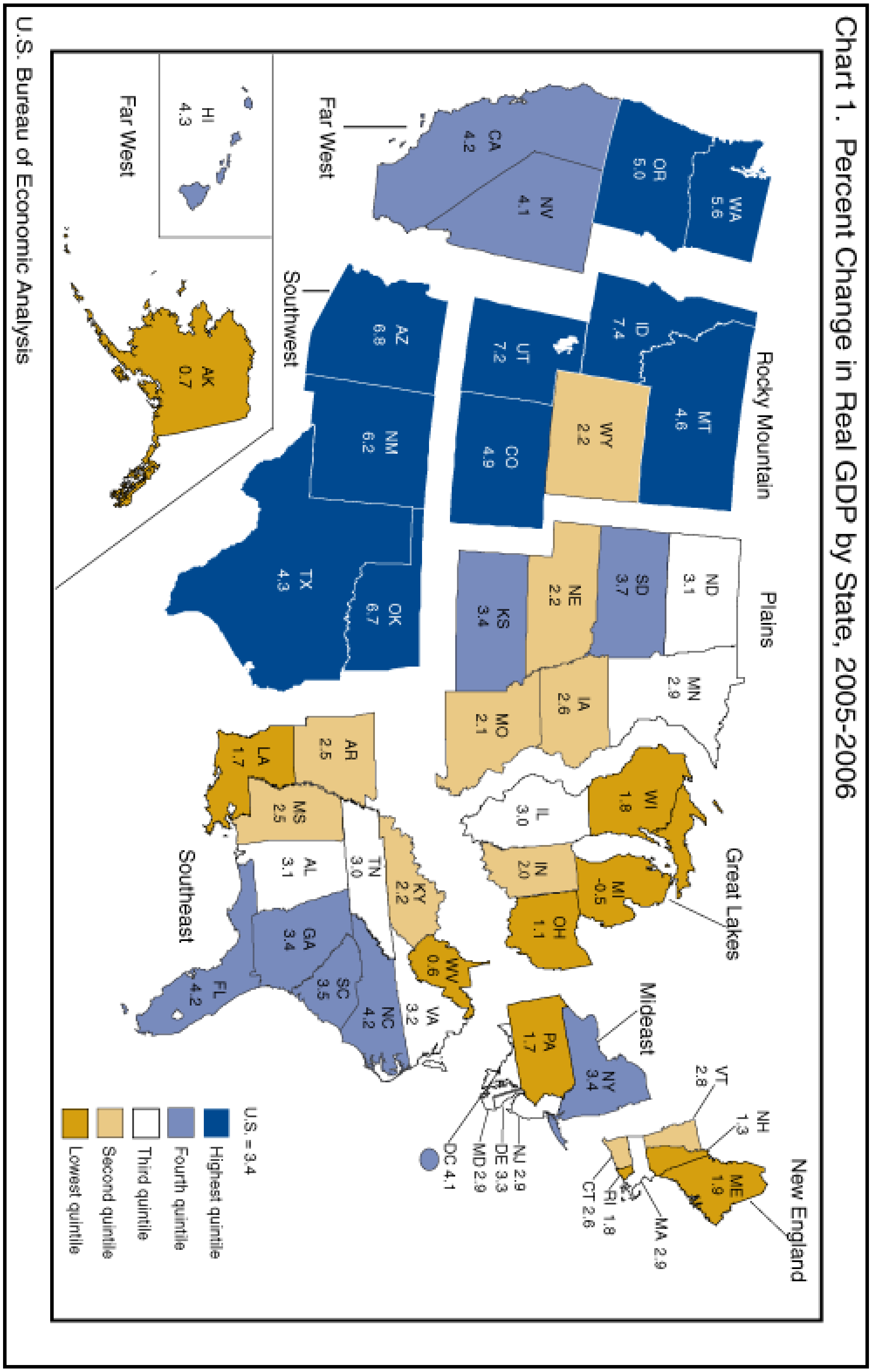
A report from the Office of the Legislative Auditor General of the State of Utah[26] in June of 2006 assessed the effectiveness of the SEUSBIF program. It concluded that increased business spending in local economies through purchases and the creation of new jobs exceeded the cost of the program by over $800,000. This equals a return of roughly 100%.

The jobs created by this program tended to pay wages far below the county average. However, it was determined that most of the new businesses occupied niche markets, and therefore did not replace better-paying jobs. Thus, although the jobs themselves paid low wages, they provided positive economic benefits.

Conclusion

Business incentives exist in a multitude of forms and take a variety of approaches. The Four Corners region provides examples from a diverse variety of governments and populations. Colorado's Job Creation Performance Incentive Fund seeks to increase the number of jobs as well as the wage rates in certain areas. Southeastern Utah's Small Business Incentive Fund encourages the creation of new jobs, but the jobs created generally pay less than the county average. Enterprise Zone programs aim to help bring new jobs to poorer areas, while industry-specific incentives make no economic distinction and thus benefit urban areas. In their efforts to improve rural Arizona's business climate, policymakers are well-advised to decide what outcomes are important and consider the benchmarks established by our neighboring states.

Appendix A



(Reprinted from the U.S. Bureau of Economic Analysis website.)

Appendix B

State	Enterprise Zone Programs
Arizona	• Up to $3,000 per employee in tax credits for quality new job creation • 5% property tax assessment ratio on certain properties owned by woman-owned, minority-owned, or small businesses creating quality new jobs • Property tax benefit applies to manufacturers and commercial printers
Colorado	• Tax credit of 3% of price of equipment used locally • $500 tax credit per new, full-time job • $500 tax credit per new job in agricultural manufacturing or processing • $200 tax credit per new job with health insurance among benefits • Tax Credit of 3% of increase in yearly R & D expenses • Tax Credit of 25% of renovation costs on buildings over 20 years old • Tax Credit of 10% of certain job training costs • Enhanced rural enterprise zones for enhanced benefits o $2,000 tax credit per new , full-time job o $500 tax credit per new job in agricultural manufacturing or processing
New Mexico	• Not specifically referred to as an Enterprise Zone program, the Rural Job Tax Credit is worth up to $1,000 for every job created in a rural area
Utah	• $750 tax credit per new, full-time job • $500 tax credit per new job paying 125% of industry average wage • $750 tax credit per new job in agricultural manufacturing or processing • $200 tax credit per new job with employer-sponsored health insurance • Tax credit of 50% of cash contributions toward rural economic development • Tax credit of 25% of money spent to rehabilitate a vacant building • Tax credit of 10% of investment in depreciable property

Appendix C

State	Specific Industries	Motion Picture Incentives
Arizona	• Solar Energy & Wind Power Devices • Research & Development	• Transaction privilege tax waiver • 20% income tax credit on in-state production costs
Colorado	• Aerospace • Bioscience	• 10% cash rebate on in-state expenses • Capped at $500,000
New Mexico	• Aviation & Aerospace • Energy • Technology & Electronics • Manufacturing • Others	• 25% tax rebate on production expenses • $15 million interest-free loan • 50% of crew training expenses
Utah	• Aerospace • Life Sciences • Software Development • Information Technology • Outdoor Recreation Products	• 10-12% tax rebate on production expenditures • Capped at $500,000 • Sales tax exemption on machinery and equipment • Transient room tax rebate

Appendix D

State	Training Incentives
Arizona	**Arizona's Job Training Program** • Between $2,000 and $8,000 per employee for training • Up to 75% of cost to train new employees • Up to 50% of costs to train current employees • Qualifying wage in rural counties is $18,423
Colorado	**Colorado First Customized Job Training Program** • Pays up to 60% of cost to train employees in newly-created jobs • Up to $800 per new job • Qualifying jobs must pay $7 per hour in rural areas
New Mexico	**New Mexico's Job Training Incentive Program** • 60-65% wage reimbursements of rural employees • 50% reimbursement of per diem and travel costs • 100% reimbursement of instruction costs from New Mexico colleges • Qualifying companies must create new, full-time jobs in New Mexico, and make over 50% of income from out-of-state sales
Utah	**Utah's Custom Fit Training Incentives** • Up to $500 per training employee • Training takes place at colleges and universities **Utah's Short Term Intensive Training Program** • Covers all but $1 per employee during training • Qualifying companies must hire third-party trainers

Appendix E

<table>
<tr><th>State</th><th>High-Wage Incentives</th></tr>
<tr><td>Arizona</td><td>Enterprise Zone incentives are dependent on exceeding median county wages
The Arizona Job Training Program applies to rural jobs that pay wages of at least $18,423.</td></tr>
<tr><td>Colorado</td><td>The Job Creation Performance Incentive Fund provides financial incentives based on the wages paid for newly created jobs
<table>
<tr><th>New Wage as a Percent of County Average Wages</th><th>Incentive/Net New Jobs</th></tr>
<tr><td><110%</td><td>$0</td></tr>
<tr><td>110-114%</td><td>$1,000</td></tr>
<tr><td>115-119%</td><td>$1,250</td></tr>
<tr><td>>119%</td><td>$1,500</td></tr>
</table>
The Enhanced Incentive Program offers financial incentives for jobs paying over 125% of the county average wage, with increased rural incentives
<table>
<tr><th rowspan="2">New Wage as a Percent of County Average Wage</th><th colspan="2">Incentives/Net New Jobs</th></tr>
<tr><th>Rural</th><th>Urban</th></tr>
<tr><td>125%</td><td>$2,500</td><td></td></tr>
<tr><td>135%</td><td>$2,750</td><td></td></tr>
<tr><td>150%</td><td>$3,000</td><td>$2,000</td></tr>
<tr><td>160%</td><td></td><td>$2,250</td></tr>
<tr><td>175%</td><td></td><td>$2,500</td></tr>
</table></td></tr>
<tr><td>New Mexico</td><td>A tax credit of 10% of wages paid, up to $12,000, for each newly-created rural job paying at least $28,000 annually
Companies must make 50% of revenue from out-of-state</td></tr>
<tr><td>Utah</td><td>Enterprise Zone tax credit of $500 for new jobs paying 125% of average industry wage
Industrial Assistance fund provides grants, typically between $1,000 and $3,000, to newly-created jobs that pay 100% of the median county wage</td></tr>
</table>

Endnotes

[1]From the Bureau of Economic Analysis of the U.S. Department of Commerce

[2] From the Economic Development Corporation of Utah's Business Incentives Publication

[3]From Colorado's official state web portal

[4] From Colorado's official state web portal

[5]The State of Utah, Governor's Office of Economic Development

[6] Arizona Solar Center's Website

[7] Arizona Chamber of Commerce and Industry Policy Brief

[8] From the Arizona Department of Commerce

[9] From the Advance Colorado Website's Film Incentive Page

[10] From the New Mexico Film Commission's Web Page

[11] From the Utah Film Commission's Web Page

[12] http://www.sic.state.nm.us/PDF%20files/NM%20Film%20Investment%20Program%20-%206-30-07%20-%20Final.pdf

[13] (source: http://nmfilm.com/filming/filmography)[13]

[14]

http://www.nmfilm.com/article.php?id=1280&title=Governor+Bill+Richardson+Announces+Hamlet+II+to+be+Filmed+in+New+Mexico

[15] Arizona Department of Commerce Job Fact Sheet

[16] From Red Rocks Community College Website

[17] From the New Mexico Economic Development Department

[18] The Economic Development Corporation of Utah

[19] U.S. Census Bureau, Population Division, estimated population of 45,299 in 2006

[20] From the Website of the Grand Junction Business Incubator

[21] Estimate from the U.S. Census Bureau

[22] From SEUALG's Annual Report

[23] From the PTAC website

[24] From SEUALG's Annual Report

[25] Rural Community Economic Development Project Update, from the University of Montana Rural Institute

[26] From the Office of Legislative Auditor General of the State of Utah