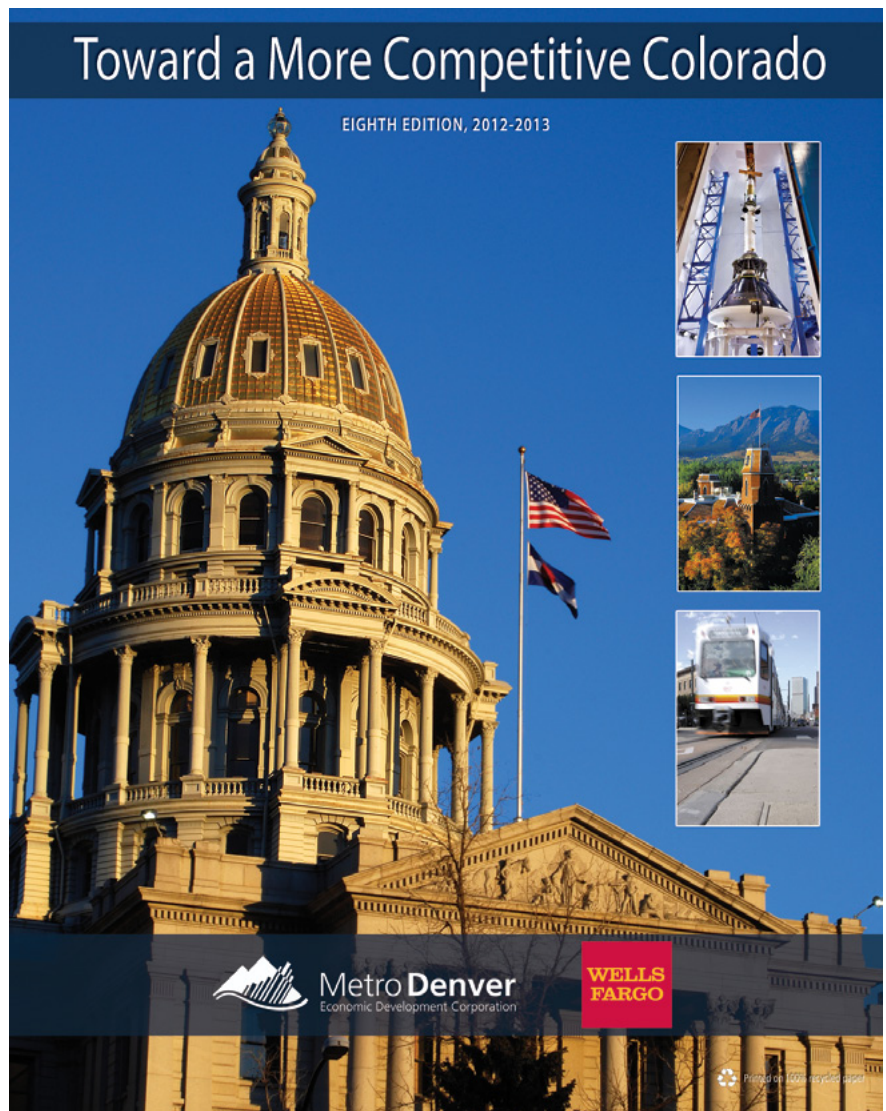


"...it is apparent that as Colorado exits the Great Recession, a number of public policy decisions made during this difficult time are paying dividends for Colorado's economy and its citizens."



Toward a More Competitive Colorado Executive Summary on Competitiveness

We are pleased to present the eighth edition of *Toward a More Competitive Colorado (TMCC)*. The Metro Denver Economic Development Corporation (Metro Denver EDC) has been tracking Colorado's competitive position in a host of economic metrics since 2005, examining key indicators related to the state's economic health.

The Metro Denver EDC has now tracked these important indicators through two recessions, a tech expansion, and an energy and housing boom. Our data base is extensive, containing both rankings and raw data. *TMCC* is a reliable source for those interested in understanding the measurements used by companies assessing states and metro areas for new or expanded operations. The annual report provides an easily understood snapshot of more than 100 different measures of Colorado's competitiveness against the other states.

While the *TMCC* charts often contain only three years of measures, data is available back to the year 2000. We chose 2000 as the base year for *TMCC* comparisons because it was the best economic year in Colorado's history. To determine if Colorado is making gains in its competitiveness, it is valuable to compare our rankings today against the best year economically.



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For the past 25 years, the Metro Denver EDC and its predecessor organizations have sought to diversify the economy of Metro Denver and Colorado. Since the oil shale bust of the 1980s, elected officials and the business community have worked diligently to put an end to our historical boom-and-bust cycles. While we have made consistent progress in diversifying our state's economy over the past three decades, data from TMCC now appear to bear that out. Our volatility in both job growth swings and population migration has lessened, particularly since 2007. This leveling is a good sign that diversification is proceeding, but also that Colorado and Metro Denver will be less vulnerable to future economic swings.

Changes in Taxes and New Measurements of Tax Competitiveness

We added additional measures in this report to reflect increased interest in tax burdens in Colorado and to set a baseline for future reporting on this issue. In previous years, we reported several comparative studies on tax competitiveness. In 2011, we added three additional comparisons of property tax impacts on commercial buildings and industrial buildings in the 50 states.

These new measures reflect the increasing financial impacts of the Gallagher Amendment on business when it comes to taxes on commercial and industrial buildings. Today, the average Colorado homeowner pays approximately 1 percent of market value in property taxes. This ranking keeps Colorado among the second- or third-lowest states for residential property tax and is an aspect that we tout when competing with states that profess to have no income taxes, but have residential property taxes among the highest in the nation.

The new measures show not only the high property taxes paid in Colorado by business, but the even higher property taxes that are placed on commercial and industrial buildings in Colorado's rural communities. Rural development is the most difficult economic development, regardless of county. A property tax policy, underpinned by the Gallagher Amendment, discourages job creation in urban areas, but even more so in rural areas of Colorado.

Overall, Colorado's ranking for tax burden has drifted into the middle spot among the states. Its distribution and impact on specific areas of the economy have remained unchanged since 2000. The state's revenues, due to a flat gas tax based on cents/gallon, a flat income tax, and a flat sales tax (both which have been cut over the past 20 years), have been lower per capita in recent years. With lower state revenue growth, Colorado's local governments have taken increasingly larger roles in providing programs and services formerly provided by the state. This local burden has been offset by increased local government revenues, primarily funded by new or expanded taxes. The state is now one of the highest in the country for local government revenue per capita.

Since 1987, the Gallagher Amendment has transferred what would have been a \$17 billion local property taxes onto the state's General Fund. During that same time period, Colorado's two primary sources of revenue—income and sales tax—were cut from 5 percent to 4.63 percent and from 3 percent to 2.9 percent, respectively.

This increased spending burden, coupled with lower revenues, has resulted in reduced spending throughout the budget. This decrease is most noticeable in higher education where Colorado continues to dominate the bottom of rankings in per pupil spending.

Declines in Higher Education Affordability

Since its inception, *TMCC* has warned of the challenges faced by declining funding for higher education. Tuition costs continue to rise as an offset to declining state support. While Colorado's tuition costs for in-state students are still competitive, the decline of Colorado high school graduates who attend a state college or university suggests that both tuition costs and recruitment efforts are focused heavily on out-of-state students who pay higher rates.

Continuing to rely on tuition increases and out-of-state students to cover shortfalls in state support is an unsustainable financial model. The lack of direction, either to increase support for higher education or to privatize greater portions of the state's public higher education, creates an impression that, as one site selection consultant told us, "...you apparently desire to systematically disassemble your higher education system."

With Colorado facing its own fiscal challenges to fund basic government services, the future of higher education requires attention and a consensus on direction.

Healthcare Costs

It is mystifying that Colorado, one of the healthiest states in the nation, has the ninth-highest cost for an inpatient hospital stay. There seems to be no easily discernible relationship between healthcare costs and the overall healthiness of citizens in any state.

K-12 Education

This year's *TMCC* reports overall improvement in K-12 competitiveness rankings. Proficiency in reading by fourth-grade students ranks in the top 10 nationally, a full 16 places above Utah, Colorado's second-closest regional competitor in economic development.

Another pleasant surprise is eighth-grade reading scores, which jumped from 17th best in 2007 to eighth-best in 2011. High school graduation rates also improved from 27th in 2000 to 18th in this latest study. These improving measures are encouraging for both our children and for Colorado's future economy.

Colorado's Innovation Economy

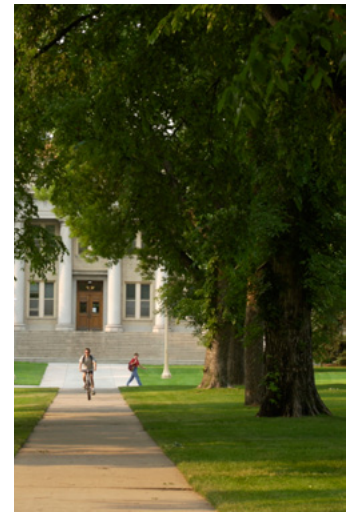
Since the Metro Denver EDC first released *TMCC*, innovation has been consistently highlighted as one of Colorado's key strengths. The recent announcement of the U.S. Patent and Trademark Office selecting Metro Denver for a satellite office further reinforces Colorado's undeniable role as an innovation hub.

Innovation is an area where Colorado consistently outranks its competitors. Texas ranks highly for venture capital, initial public offerings, and NASA prime contract awards, but it ranks poorly in new business creation, SBIR research grants, and research and development (R&D) as a percentage of state GDP. New Mexico exhibits similar inconsistencies, ranking favorably in SBIR research grants per worker, R&D as a percent of state GDP, high-tech employment concentration, and other areas, but ranking poorly in entrepreneurial activity, initial public offerings, and patents. Recent leadership by Colorado Gov. John Hickenlooper to create the Colorado Innovation Network (COIN) is a positive sign that efforts continue to maintain and expand our state's well-deserved reputation as an innovation center.

In an era of scarcity, where public policy choices are few and difficult, it is apparent that as Colorado exits the Great Recession, a number of public policy decisions made during this difficult time are paying dividends for Colorado's economy and its citizens.

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

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