OFFICE OF THE GOVERNOR
FY 2012-13 JOINT BUDGET COMMITTEE HEARING AGENDA

Thursday, December 8, 2011
9:00 am–12:00 pm

9:00-9:15 INTRODUCTIONS AND OPENING COMMENTS

9:15-10:10 PERFORMANCE-BASED GOALS AND BUDGET REQUEST

1. Please describe the process the department used to develop its strategic plan.

We appreciate the Committee and JBC staff acknowledging the uniqueness of the Governor's Office. While we are not exactly like other State Departments, we are all very committed to using measurement as we work to improve the efficiency, effectiveness, and elegance of State programs. As my original letter mentioned, the Governor's Office has five workgroups convened by the Governor and Chief of Staff. These workgroups, comprised of Cabinet members and senior staff, are ***Budget and Efficiency, Health, Water, Education, and Economic Development****.*

Henry Sobanet leads the Budget and Efficiency Workgroup. Sue Birch leads the Health Workgroup. John Stulp leads the Water Workgroup. Lt. Governor Joseph Garcia leads the Education Workgroup. Ken Lund leads the Economic Development Workgroup. We have been using these workgroups since the Governor's Inauguration which started with the first of our retreat meetings. We follow up with each other at the retreats every six months. The retreats have grown from where we developed the details of the overall strategic plan of the Administration to the reporting mechanism for the large effort of all State Departments. Between the retreats, these workgroups are responsible for continuing the work on the list of priorities under each workgroup's purview and detail the specific goals and objectives that will be used to determine progress and success. We hold semimonthly meetings with the Cabinet and their workgroups.

For important policy questions, workgroups also present items for the entire Cabinet to elicit feedback and garner consensus on items that may cut across or impact other departments. These Cabinet meetings are held semimonthly. That means the Administration has weekly meetings to stay updated and report on the strategic plans for the departments. In addition to this meeting schedule, each Cabinet member has a performance plan with the Chief of Staff that is focused on the annual progress of their Department strategic plan. So for the day-to-day decisions, this Administration has continuous contact on the strategic planning of the State.

What the Committee was presented was a sample of the measures that are being used across all departments as they fit under the respective workgroup. Based on the Committee's conversation last week, you were correct that these measures were meant to convey that the Governor's Office would be "echoing" the work of the strategic plans for the Departments.

2. What output metrics are going to be measured for the Lean Process to show if the effort is effective?

   The goal of the Lean Program is to introduce a systematic approach within each Department to continuously improve the State's delivery of services following the principles of the Lean management system. The ultimate output of the Lean Program will be maximization of customer value and minimization of waste. By implementing the Lean management system within each Department, State government will constantly perfect their processes to improve service to the customer – Colorado citizens.

   As applicable, each project within the Lean Program will measure three outputs to demonstrate effectiveness. These outputs include cost savings, cost avoidance, and time savings. Depending on the project, the implementation of the Lean management system may improve one or all of these output metrics. Relying on these three output metrics will demonstrate benefits to the State that ultimately improve the experience of the customer.

   Beyond the three metrics described above, each project will track measurable output metrics that are specific to those projects and processes. Departments will identify these metrics on a project-by-project basis through the implementation of the Lean management system. These metrics will help Departments continuously track the effectiveness of the process long after Lean implementation is complete. It is likely Departments will eventually use metrics derived from the Lean Program as performance measures that drive their overall strategies

3. For the five priority objectives submitted by the Office of the Governor, will departments measure these metrics individually? Will there be fusion metrics at the Governor's level? Please explain the process and responsibilities of the Office of the Governor and the departments.

   Yes, Departments will continue to present their strategic plans that have been developed under the direction of the Governor's Office. The process listed in the first question will be what the office uses to monitor and report out on these metrics.

4. For the five priority objectives submitted by the Office of the Governor, what value is the Office of the Governor adding to the process of setting metrics and measuring performance?

The Governor's Office is using these metrics as performance data for each department executive director and ensuring collaboration and coordination across all State Departments.

5. Why is energy not included as one of the Office of the Governor's five priority objectives?

   First, in the Governor's November 1st budget letter to this committee, the Governor listed five key priorities that frame the FY 2012-13 State budget: Protect the Vulnerable, Economic Development, Education Reform, Modernizing Government, and Long-term Budget Planning. Part of the economic development priority included the budget item requesting the $3.1 million to fund the Governor's Energy Office with Limited Gaming funds. This request was proposed to be allocated from Gaming based on the history of the funds being used for this function. For that reason, we did not cover the strategic plan because we felt that would be presumptive of the legislative action needed for continuing the Office. Our office thought it was appropriate to have the conversation based on the budget action first. Second, the five priorities listed in the Governor's Office section of the strategic plan are the workgroups described in question 1.

6. In reference to the economic development priority, why was the metric of job growth compared to national, regional, and competitive state chosen rather than a metric of number of jobs compared to January 2008?

   This metric was listed as a sample of the metrics the Office of Economic Development and International Trade uses as part of their comprehensive planning document the Colorado Blueprint.

7. In reference to the economic development priority, what is the Office of the Governor's plan for growing the number of jobs to the January 2008 level?

   Payroll and Employment numbers vary among sources; however, the Office of State Planning and Budget's most recent projections estimated that the State of Colorado would have 2,247,700 in wage and salary jobs by the end of 2012 as compared to 2,350,300 for 2008, an approximate net decrease of 102,600 wage and salary jobs. Economy.com projects that Colorado's wage and salary jobs will grow by 33,500 jobs by the end of 2012 (as compared to OSPB's most recent estimate of an increase of 9,900). Economy.com's projections, if realized, will move Colorado 1/3 of the way towards recapturing the 102,600 jobs lost in this significant recession by the end of 2012. Economic development efforts will continue through 2012 and thereafter with this goal at the forefront.

   As noted previously, this nationwide, regional and competitive comparison represents one metric being tracked and reviewed. The plan for growing the number of jobs includes:

   - *Restructuring economic development activities toward regional and industry-relationship driven strategies.*
   - *Assigning/hiring personnel with expertise in specific industry clusters critical to Colorado's economic growth and recovery to work closely with such industries to identify recruitment and expansion growth opportunities and to generate activity in job*

creation and investment across the state.

- *Assigning/hiring personnel with expertise in client relationship management to work with the existing business community to identify recruitment and expansion growth opportunities in order to ensure that Colorado continues to be a competitive location and to align the growth plans of such businesses with appropriate Colorado programs to encourage such businesses to remain and expand in Colorado rather than relocating to competing states and global locations.*
- *Horizontally integrating all local, state and federal resources as necessary to be effective and efficient in the provision of services and to align such resources with the state's strategy for recruiting and growing businesses.*
- *Reviewing regulations and policies to assure that they are effective, fair, and streamlined where appropriate. This effort will cut across state agencies and require partnerships with all state agencies to identify their role in economic development and the business climate of Colorado.*
- *Continuing to allocate funding to assure that Colorado can provide a level of incentives that, along with the state's superior business climate and competitive tax structure, will allow the state to compete with other states and/or countries vying for the same projects.*

8. In reference to the economic development priority, why was a metric chosen that is just one number rather than a metric (or series of metrics) that are more closely aligned with the activities of the Office of Economic Development and International Trade?

   This metric was listed as a sample of the metrics the Office of Economic Development and International Trade uses as part of their comprehensive planning document the Colorado Blueprint.

9. Why is energy not included as one of the Office of the Governor's five priority objectives?

   Please see the answer to question 5.

10. In reference to the economic development priority, why was the metric of job growth compared to national, regional, and competitive state chosen rather than a metric of number of jobs compared to January 2008?

    This metric was listed as a sample of the metrics the Office of Economic Development and International Trade uses as part of their comprehensive planning document the Colorado Blueprint.

11. In reference to the economic development priority, what is the Office of the Governor's plan for growing the number of jobs to the January 2008 level?

    As detailed in the Colorado Blueprint, the Office of Economic Development and International Trade will use the bottom-up approached developed in conjunction with so many business stakeholders during the first months of the Administration. Please see question 7 for additional information.

12. In reference to the economic development priority, why was a metric chosen that is just one number rather than a metric (or series of metrics) that are more closely aligned with the activities of the Office of Economic Development and International Trade?

This metric was listed as a sample of the metrics the Office of Economic Development and International Trade uses as part of their comprehensive planning document the Colorado Blueprint.

10:10-10:40 Governor's Energy Office FY 2012-13 Funding Request

13. Please provide an update on the status of Legislative Audit Committee and federal audits in regard to the expenditures of moneys received by the Governor's Energy Office from the American Recovery and Reinvestment Act of 2009 (ARRA).

ARRA Audits to date:
Government Accountability Audit September 2010

Review of the state's use of Recovery Act funds and its experience reporting Recovery Act expenditures and results to federal agencies under Office of Management and Budget (OMB) guidance. Review of the State Energy Program (SEP) and the Energy Efficiency and Conservation Block Grant (EECBG) program, both managed by the Department of Energy (DOE).

Findings: no issues

Department of Energy Office of Inspector General -EECBG program February 2011

The purpose of this audit is to identify program fraud, waste, or abuse and provide performance feedback of the Department of Energy's program management.

Findings: Draft report expected in 2011.

Weatherization Assistance Program Performance Audit by the Office of the State Auditor, October 2010

Review the State's administration of the Weatherization Program for compliance with federal and state laws, regulations, and federal grant requirements, including those requirements set forth by the federal Single Audit Act.

Findings: Ten recommendations agreed to and addressed by GEO. A follow-up audit, performed by contractor, KPMG, is underway. Audit finding readout is scheduled for December 7.

Scheduled
SEP ARRA Audit. GEO's SEP ARRA program expenditures for FY11 exceeded $27mm, which triggered an automatic state audit. KPMG is conducting this audit and is

scheduled for completion by the end of the calendar year.

Legislative Audit Committee

GEO requested an audit from the Office of the State Auditor (OSA). The purpose of this audit is to 1.) identify recommendations for potential improvements in the fiscal management of taxpayer funds and 2.) provide transparency on how the funds provided the office were managed.

A request was also made by a Member of the General Assembly, thus the OSA will treat it as a Member request. OSA will provide the request, along with the request from Rep. Acree, in the December packet for the Legislative Audit Committee members. At the December hearing (the 12th and 13th), OSA will ask for approval for 8 hours of research time for staff to research the topics and develop some objectives for the audit. This will be presented to the LAC at the January 17th hearing. If approved, the audit can begin once OSA has a team to staff it.

Department of Energy (DOE) Monitoring Visits

In addition to audits, DOE conducts regular, on-site monitoring visits. Generally, grants are monitored annually. For ARRA grants, DOE increased the frequency of monitoring visits to quarterly for SEP and Weatherization. The last DOE monitoring visits took place in September 2011.

14. Please provide an overview of the Governor's Energy Office strategic plan associated with the FY 2012-13 funding request.

Through energy efficiency, clean, and renewable energy resources, GEO promotes sustainable economic development in Colorado by advancing the state's energy market and industry to create jobs, increase energy security, lower long-term consumer costs, and protect our environment. Between 2009 and 2011, the GEO became a clearinghouse for energy information and services to help Colorado's citizens, businesses and public sector achieve energy sustainability. The American Recovery and Reinvestment Act (ARRA) provided funding for these programs.

All ARRA funds will be expended before the end of FY12, and the Recharge Colorado program and GEO's Colorado Carbon Fund will be moved outside of state government where they will be administered by the private sector. With the completion of ARRA and reduction in programs, GEO staff count will be reduced from 47 in FY09 to 32 in FY13. Historically, the Petroleum Violation Escrow (PVE) account, annual federal grants, Limited Gaming funds, and most recently, the ARRA have funded the office. As the balance of the PVE account nears zero, and the ARRA funds close in April of 2012, the GEO had planned to fund the office with Limited Gaming transfers to the Clean Energy Fund (CEF) established in §24-75-1201 C.R.S. However, in 2011 the JBC passed on to the full legislature SB11-159, which among other things stripped GEO of this funding source. GEO is seeking FY13 Cash Funds of approximately $3mm to achieve the following:

- *Facilitate the development of a balanced energy portfolio in the electric power sector*

- *Diversify Colorado's transportation fuels portfolio*
- *Unlock the potential of energy efficiency in the residential, commercial, and agricultural sectors*
- *Boost the innovation ecosystem*
- *Promote transmission development for internal and external electricity markets*
- *Support the Office of Economic Development and International Trade's business development efforts*
- *Provide policy direction at the legislature and the Public Utilities Commission*
- *Create public sector resource efficiency – internal to GEO, greening state government, and energy performance contracting*

15. Please explain why the Governor's Energy Office opted to request funding from limited gaming tax revenue rather than General Fund in its FY 2012-13 budget request. *[Lambert]* Did the Office explore severance tax revenue as a potential funding source for the FY 2012-13 budget request?

    Again, this was done based on historical context. GEO has used funding in the Clean Energy Fund, which until 2011 was funded by a statutory transfer from limited gaming.

16. Please explain the relationship between the Colorado Renewable Energy Collaboratory and the proposed economic development through innovation in the energy market initiative proposed by the Governor's Energy Office for funding in FY 2012-13.

    We are enthusiastic about the Collaboratory as a key part of the energy innovation ecosystem. The Collaboratory is a research partnership among the National Renewable Energy Laboratory and Colorado's premier research universities—Colorado State University, the University of Colorado at Boulder, and the Colorado School of Mines. The Collaboratory works to:

    - *Create and speed the commercialization of renewable energy technologies, energy management systems, and energy efficiency*
    - *Support economic growth in Colorado and the nation with renewable energy industries*
    - *Educate our nation's finest energy researchers, technicians, and workforce*

    Our role at GEO is larger, as we are interested not just efficiency and renewables, but also other energy technologies, or in just research, but in development, deployment, and commercialization. GEO works collaboratively with the Collaboratory as well as industry groups, economic development councils, small business development centers, workforce development centers, and state agencies to develop an energy market ecosystem to attract, grow, and retain all types of energy businesses.

17. How many jobs does the Governor's Energy Office estimate will be generated as a result of its FY 2012-13 budget request?

We have focused our time on the preparation of the budget request, and will be prepared to share the jobs projection at a later date. The activities included in GEO's request for funding will spur private-sector job creation through the promotion of energy efficiency, which drives property owners to make investments in their homes, businesses, and facilities. This market demand provides new construction, retrofit engineering, and design-related activity in the market. Moreover, GEO's energy policy and market development work have positioned Colorado as a national leader in energy innovation, drawing companies to the state and providing opportunities for entrepreneurs to embark on start-up ventures.

10:40-10:50 Economic Development Commission FY 2012-13 Funding Request

18. Please describe the expenditures made by the Economic Development Commission from moneys received from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

Following is a list of the expenditures and commitments from the federal Jobs and Growth Tax Relief Reconciliation Act. This funding has been used to support job creation incentive projects, Colorado marketing activities, non-profit operations with economic development objectives, job training for Colorado residents, community assessments, and industry studies.

Economic Development Commission Federal Funds Reconciliation

10/31/11

Federal Revenue (Jobs & Growth Tax Relief Reconciliation Act of 2003):				$13,000,000
Less funds transferred to Governor's Office:				
	CO Benefits Software		$308,000	
	FY11 Technical Correction		$14,789	
				($322,789)
Net Federal Revenue				$12,677,211
Projects Approved and Expensed from Federal Funds:				
	Film Commission		$ 93,951	
	Community Assessment		$ 162,146	
	Quovadx		$ 58,495	
	CFC Ops		$ 168,548	
	ACC		$ 840,487	
	Express Scripts		$ 595,242	
	Henderson Project		$ 40,000	
	Colorado Prospects		$ 320,858	
	IBM		$ 200,000	
	Aerospace Incubator		$ 150,000	
	Vestas Job Training		$ 928,000	
	Colorado Drug & Device		$ 199,025	
	EDC Marketing		$ 133,498	
	Space Foundation		$ 350,000	
	CREED		$ 615,000	
Total Expenses				$ (4,855,250)
Federal Revenue Less Expenses				$7,821,961
Committed Funds [1]				
		Schedule A	$ (2,689,257)	
		Schedule B	$ (2,538,000)	
		Schedule C	$ (2,537,500)	
Less committed funds				**$ (7,764,757)**
Available for Future Commitments				**$57,204**

[1] ***Detail of Committed Funds***

	Schedule A [a]	**Schedule B [b]**	**Schedule C [c]**	**Total**
Arrow Electronics	$ 1,097,500			$ 1,097,500
OEDIT Marketing	$ 92,665			$ 92,665
Community Assesment Program	$ 39,333			$ 39,333
Scottrade	$ 259,759			$ 259,759
Corinthian College	$ 1,200,000			$ 1,200,000
SMA		$ 1,000,000		$ 1,000,000
Prime Star		$ 168,000		$ 168,000
JBS		$ 1,000,000		$ 1,000,000
Coleman		$ 370,000		$ 370,000
Imagine			$ 1,400,000	$ 1,400,000
RCI			$ 200,000	$ 200,000
Schoolhouse			$ 937,500	$ 937,500
				$ -
Total	$ 2,689,257	$ 2,538,000	$ 2,537,500	$ 7,764,757

[a] ***Schedule A:*** *Remaining encumbrances*

[b] ***Schedule B:*** *Final project approved by EDC, contract pending*

[c] ***Schedule C:*** *Introduced to EDC and preliminary approval obtained. Confidential projects until announced.*

19. Please describe the level of discretionary, job creation incentive funds available to states in the same region as Colorado.

A brief summary of certain discretionary, job creation incentive funds and other competitive programs available in states in the same region as Colorado include:

- ***Arizona*** *– Enacted in 2011, a Competitiveness Package proves the most sweeping economic development legislation seen in decades. Some of its features include: a $25 million deal closing fund, income tax credits up to $9,000 for each new job under a Quality Jobs Program; reimbursable job training grants up to $1.5 million; a 34% R&D tax credit, and a staged reduction in corporate income taxes to result in a decrease from the current 6.97% to 4.9% for tax years beginning January 1, 2017. This package appears to supplement rather than replace existing AZ economic development programs. All pre-existing programs are still active and in effect.*
- ***Nevada*** *– Nevada's economic development efforts are primarily through low taxes, including no corporate income tax or personal income tax. Nevada also provides tax abatement and credit programs to offset taxes.*
- ***Kansas*** *– Enacted in 2009 and amended subsequently in 2010 and 1011 to broaden the eligibility criteria to increase the number of businesses eligible to apply, the Promoting Employment Across Kansas (PEAK) Act is intended to encourage economic development in Kansas by incenting businesses to relocate, locate or expand business operations and jobs in Kansas. The Secretary of Commerce has discretion to approve applications of qualified businesses and determine the benefit period. During the benefit period, participating PEAK businesses may retain 95 percent (95%) of the payroll withholding tax of PEAK-Eligible employees/jobs that pay at or above the county median wage where the operations and jobs will be located. Depending on the number of PEAK jobs/employees to be hired in Kansas and their wage levels, the Secretary can approve benefit periods for up to 10 years.*

  Effective January 1, 2012, existing Kansas businesses that are expanding and creating new jobs will be eligible to receive incentives if approved by the Secretary. Such incentives are capped at $4.8 million in State Fiscal Year (SFY) 2012 and $6.0 million in each succeeding SFY. Commencing January 1, 2013 and ending December 31, 2014, the Secretary also has discretion to utilize the PEAK program to retain jobs/employees of a qualified existing Kansas company. Benefits for retaining existing jobs are capped at $1.2 million in SFY 2013, $2.4 million in SFY 2014 and $1.2 million in SFY 2015.

  In addition, Kansas has a standard array of other economic development incentives and programs such as solar & wind bond financing, the Kansas Bioscience Authority, a 10%

investment tax credit for qualifying capital investments, various tax credits and exemptions, customized job training, and Enterprise Zones.

- ***New Mexico –*** *With a high-wage jobs tax credit***,** *businesses may take a credit equal to ten percent of the combined value of salaries and benefits for each new job paying a minimum of $28,000 per year in areas with populations less than 40,000 persons. Businesses located in larger areas must pay salaries of $40,000 to receive the credit. Qualified employers may take the credit for up to four years and any excess credit will be refunded to the business. The credit shall not exceed $12,000 per year per job. The credit is applied against the businesses' tax liability, including the state portion of gross receipts tax, compensating tax and withholding tax.*

  In addition, New Mexico also has a standard array of other economic development incentives and programs such as Enterprise Zone credits, various tax credits and abatements, customized job training programs, etc.

- ***Texas – T****he Texas Enterprise Fund (TEF) was created in 2003 as a response to the limited number of state-level tools available for economic development, infrastructure development, community development, job training programs, and business incentives. Given the scope of the fund's uses, the principal objectives of this fund are as follows:*
  - *Job Creation – A major criterion used in determining fund recipients is the number/type of jobs to be created by the applicant. Inherent in this selection are the wages paid to the jobs that will be created.*
  - *"Deal Closer" – Before a TEF application is considered for funding, local grants and incentives should have been offered to the TEF applicant. The deal-closing nature of the fund is to provide an incentive for the applicant seriously consider coming to, or expanding their operations in Texas as opposed to moving to another state or nation.*

  State appropriations to the Texas Enterprise Fund totaled $225.3 Million for the 2008-09 biennium and $67.6 Million for the 2010-11 biennium.

- ***Utah –*** *Financial incentives are provided by the Utah Governor's Office of Economic Development for business relocation and expansion. These incentives are provided to businesses that create new, high-paying jobs that help improve the standard of living, diversify the state economy, increase the tax base, attract and retain top-level management, and encourage graduates of in-state universities to remain in Utah.*

  Incentives may be offered as either grants or tax credits. The incentive amount and duration is decided by the Governor's Office of Economic Development Board and the Executive Director based on statutory guidelines and evaluation criteria, which includes the financial strength and historical stability of the company, the number and salary of jobs created, the amount of new state tax revenue, long-term capital investment, competition with other locations, and whether the business is in a targeted industry. All state incentives are awarded on a post-performance basis.

Additionally, Utah has:

- *Economic Development Tax Increment Financing which offers a post-performance refundable tax credits for up to 30% of new state tax revenues (includes state, corporate, sales and withholding taxes) over the life of the project which is typically 5-10 years.*
- ***An Industrial Assistance Fund (IAF)** which offers a post-performance grant for the creation of high-paying jobs in the state. A business must create at least 50 new jobs, pay at least 125% of an urban county average wage or 100% of a rural county average wage, demonstrate company stability and profitability, secure a commitment from a local community to provide a local incentive, demonstrate competition with other locations, and enter into an incentive agreement that specifies performance milestones.*

- ***Idaho** – Idaho has a modest deal closing fund. The Idaho Legislature has approved the state's $1 million closing fund for another year (2011). This fund provides the Director of the state's Department of Commerce and Labor with discretionary funds that can be used to close deals with prospective businesses.*

20. Please describe the industries and types of jobs that the Economic Development Commission would target with the funds sought in the FY 2012-13 budget request. Please include the median (rather than the average) wage of the targeted positions.

As described in the Colorado Blueprint, the Office of Economic Development and International Trade (OEDIT) is developing a focused strategy to drive job growth in key industry clusters. The deadline to identify the industry clusters is 12/31/11. However, as a preliminary matter, OEDIT expects the state's efforts to focus on eleven industries including Bioscience, Aerospace, Energy & Natural Resources, Agriculture, Financial Institutions, Information, Defense & Homeland Security, Electronics, Health & Wellness, Creative Industries, and Tourism & Recreation as well as four key areas of competitiveness which include Infrastructure Engineering and Development, Manufacturing, Technology, and Transportation and Logistics. Regional planning, as well as county by county plans, may inform other investments on a case by case basis.

Median (rather than average) wages are not available on a projected basis. However, the following tables provide actual median wages of Economic Development Commission performance-based incentives (which varies by county along with the county's average rate).

EDC 2010 Annual Report

List of Grants

Job Creation Projects	# Jobs	Annual Average Wage	Annual Average Wage % of County	Annual Median Wage	Annual Median Wage % of County	$ Incentive	Forecasted CapEX
Arrow Electronics	439	$ 84,086	158%	$ 81,895	154%	$ 1,097,000	$ 1,400,000
Baird	14	$ 128,964	307%	$ 171,779	409%	$ 14,000	$ 858,495
Scottrade	285	$ 52,500	113%	$ 52,500	113%	$ 259,759	$ 34,000,000
Space Foundation	70	$ 90,284	219%	$ 77,700	188%	$ 350,000	$ 1,000,000
Spirae	30	$ 93,833	234%	$ 90,000	224%	$ 150,000	$ 100,000
Leprino	400	$ 44,950	116%	$ 40,485	104%	$ 1,200,000	$ 425,000,000
Total Job Creation Projects	**1,238**	**$ 65,264**	**142%**	**$ 62,724**	**137%**	**$ 3,070,759**	**$ 462,358,495**
$/Job	$ 2,480						

EDC 2011 Project To Date

List of Grants

Job Creation Projects	# Jobs	Annual Average Wage	Annual Average Wage % of County	Annual Median Wage	Annual Median Wage % of County	$ Incentive	Forecasted CapEX
Parelli	25	$ 37,180	130%	$ 31,200	109%	$ 125,000	$ 500,000
SMA	500	$ 30,749	55%	$ 22,880	41%	$ 1,000,000	$ 35,000,000
Vestas	1750	$ 37,131	101%	$ 34,500	93%	$ 1,000,000	$ 618,000,000
Siemens Energy	60	$ 98,553	188%	$ 100,000	191%	$ 250,000	$ 5,641,000
PrimeStar Solar	84	$ 72,012	149%	$ 79,000	163%	$ 168,000	$ 23,100,000
Total Job Creation Projects	**2,419**	**$ 38,547**	**93%**	**$ 35,234**	**100%**	**$ 2,543,000**	**$ 682,241,000**
$/Job	$ 1,051						

Please note that these tables do not include funds, earmarked for confidential prospects totaling $5,356,000, that are projected to create 2,898 net new jobs in Colorado with an average wage rate of $58,263. The median wage will be calculated when actual jobs are created and funds are disbursed and will be reported to the Legislature in the Economic Development Commission's Annual Report.

21. In regard to companies previously engaged by the Economic Development Commission, what economic benefit did the state receive from providing incentives for jobs? Has the benefit been maintained over time?

Included, as part of the Economic Development Commission's review of an application requesting job creation incentives, is an economic impact model (Colorado Insight Model). Total projected economic impact is based on the project itself plus indirect/induced impacts using Bureau of Economic Analysis Regional Impact Multiplier system (RIMS) multipliers. Projected economic impacts for recent projects include:

Project/Company	*Total Economic Impact*
Charles Schwab	*$157.3 Million (over 5 yrs)*
Corinthian Colleges, Inc	*216.7 Million (5 yrs)*
Dot Hill Systems	*$442 Million (5 yrs.)*
Arrow Electronics	*$1.8 Billion (5 yrs)*
Robert Baird & Company	*$29.2 Million (5 yrs)*
Scottrade	*$238.2 Million (5 yrs)*
Space Foundation	*$265 Million (5 yrs)*

Spirae	*$27.3 Million (5 yrs)*
Leprino	*$14.7 Billion (10 yrs.)**
Parelli	*$113.2 Million (10 yrs)*
SMA Solar	*$291 Million (5 yrs)*
Vestas (multiple projects)	*$1.3 Billion (5 yrs)*
Siemens Energy	*$36 Million (5 yrs)*
PrimeStar Solar	*$76 Million (5 yrs)*

*The magnitude of the Leprino project is very high because of a 10-year model run, the amount of investment, a new facility and equipment, and since the economic multiplier for agriculture is very high. Most of the raw materials for this company (milk) come from within the local region which results in an even higher economic impact.

As reflected in the Department's request submitted for additional funding for the Economic Development Commission, the State of Colorado does not disburse incentive funds until the business has created the required net new jobs and met other requirements. With such performance-based incentive funding, the State receives a payback of its investment (incentive funds provided) in slightly over one year.

With the significant level of capital expenditures demonstrated by many of the assisted businesses, there is a stronger likelihood that such businesses will remain in Colorado for the long-term and continue to provide additional benefits beyond the State's one year payback period—which is consistent with the State's actual experience.

22. How can the Economic Development Commission and the Office of Economic Development and International Trade ensure the Joint Budget Committee that the funds requested in FY 2012-13 will provide long-term economic benefit to the state?

    As noted above, the State's actual experience reflects that overall the assisted businesses provide long-term economic benefit to the state. OEDIT's new strategies, including for cluster industries and for small, mid- and large-cap companies, will provide the State with the necessary coordinated infrastructure to ensure that the State is performing at an extremely high and pro-active level to retain the businesses in Colorado, attract additional expansions and new businesses, and for the State to receive long-term economic benefits.

23. Please describe the economic impact to the state of the enterprise zone program. Please include the number of jobs created, average annual wage of jobs created, and the cost to the State per job.

    The economic impact to the state from the enterprise zone (EZ) program, includes the following:

- ***Cost to the State per job*** - *The EZ program currently offers 9 income tax credits targeted to specific activities, with the most significant tax credit providing incentive for investment in personal property and not for job creation. The basic job creation tax credit is $500 per net new job created, reflects the cost to the state per job created for job creating activities and does not change. This basic credit amount can be increased if an* *entity is located in an Enhanced Rural EZ and performs agricultural processing; however, only a small percent of the state income tax credits earned are in these categories.*

If a methodology was selected to determine the state's cost per job by using all tax credits earned in a calendar year (CY) and including all 9 of the income tax credits mentioned above instead of only the job creation incentive tax credits, then the state's average cost per job would be reported as $8,643 from 2000-2010, excluding two significantly abnormal years (2002 and 2010) that did not follow this general trend. In 2002 and 2010, the nation as a whole and Colorado suffered significant job decreases as a result of a recessionary economic climate and were not representative of the overall historical program results.

- ***Number of jobs created*** *- The number of net new jobs created per year on average as reported by EZ businesses is 6,837 jobs, with specific annual net new job creation numbers reported as follows:*

CY	Businesses	Total Jobs
2000	5,505	13,178
2001	5,378	17,057
2002	5,145	-5,061
2003	5,064	3,725
2004	4,661	4,011
2005	5,181	6,422
2006	5,185	8,852
2007	4,949	8,871
2008	5,465	8,087
2009	5,234	8,817
2010	4,873	1,253

- ***Average annual wage of jobs created*** *- Average annual compensation information, as reported by EZ businesses in fiscal year 2010, is provided below and is delineated by full-time, part-time, temporary and contract positions. Wages in the Agricultural sector are reported separately, because such wages reported are often net of business expenses and are affected by other unique business circumstances. It should be noted that tax credit incentives are not provided for compensation levels.*

Type of Employee:	Full-time	Part-time	Temporary	Contract
Avg. Annual Compensation (excluding Ag)	$41,089	$13,185	$11,841	$25,294
# Employees for whom comp. reported	108,521	33,145	2,176	728
Avg. Annual Compensation (Ag)	$27,752	$8,629	$5,006	$19,139
# Employees for whom comp. reported	1,459	1,020	133	74

- ***Other significant impacts include****:*
    - *95% of the EZ land area is in rural areas made up largely of vacant land with only 5% of the EZ land area in urban areas.*
    - *Approximately 2.8% of businesses, which is 4,873 businesses out of 171,673 businesses statewide during calendar year 2010, in Colorado are located in an EZ area which qualified for this designation based on economic distress criteria.*
    - *The overall size of the land designated as an EZ area is largely unchanged since the early ‘90s.*
    - *99% of EZ certifications are obtained by small businesses (as defined by SBA size criteria) and 87% have less than 50 employees.*
    - *On average 5,100 businesses earn EZ tax credits each year.*
    - *The Agricultural industry is the largest industry earning EZ tax credits at 31%.*

24. Please describe the economic impact to the state that the Colorado Venture Capital Authority has achieved in investing $50 million in premium tax credits, which were subsequently sold to insurance companies.

The following information was provided by the Venture Capital Authority, which is a political subdivision of the state and is independent from the Department:

The Venture Capital Authority (VCA) was created by the Colorado Legislature with the goal of increasing the amount of seed and early-stage venture capital funds available to small businesses throughout Colorado. The VCA’s goal is to create new business opportunities within the state, promote job growth, and to stimulate economic activity.

Beginning in 2005, the VCA entered into limited partnership agreements with High Country Venture, LLC, (HCV) a Colorado-based venture capital investment manager. The VCA and HCV have formed two funds for the purpose of investing proceeds provided to the VCA through the sale of $50 million in insurance premium tax credits made available by the State of Colorado. The sale of those tax credits, which were auctioned in a competitive bidding process, will ultimately result in approximately $42 million in proceeds being made available for investment. Those proceeds, along with interest and anticipated returns on invested capital, will allow the VCA to contribute approximately $47 million to the funds as follows:

- *$21.7 million committed to Colorado Fund I formed in 2005; and*
- *$25.3 million committed to Colorado Fund II formed in 2010.*

The VCA retains all funds until the investment manager identifies an attractive investment opportunity that meets the criteria set forth under statute.

Performance Metrics:

- *The success of the VCA Program will be judged on three performance metrics:*

  - *Job creation – as measured by both direct and indirect jobs;*
  - *Economic impact – includes co-investments drawn from out-of-state sources; and*
  - *The return of invested capital sufficient to allow the Fund to invest in perpetuity.*
- *The investment manager will periodically report the Funds' progress toward achieving these goals, with the understanding that the full affect of the investments may not be known for 10-15 years following investment in the first fund.*
- *Since inception in 2005, Colorado Fund I and Colorado Fund II have invested:*
  - *$25.9 million in Colorado companies;*
  - *Of that amount $23.2 million was provided by the VCA and $2.7 million was provided by the investment manager and/or affiliated entities;*
  - *4 of the companies funded are located in designated rural areas;*
  - *5 of the companies funded are located in designated distressed urban areas; and*
  - *Investments have been made in the biotechnology, medical device, information technology, and clean technology industries.*
- *In addition to the $25.9 million, HCV has been instrumental in attracting additional investments as follows:*
  - *$75 million has been invested in the companies by other Colorado investors;*
  - *$100 million has been invested in the companies by out-of-state venture capital firms; and*
  - *resulting in a combined total of more than $175 million in additional funding for new Colorado companies.*
- *The companies that are currently funded by HCV include:*

COMPANY	*INDUSTRY*	*LOCATION*
Oberon FMR	*Clean Tech*	*Idaho Springs (Rural)*
Taligen Therapeutics	*Biotechnology*	*Aurora (Distressed Urban)*
LogRhythm	*Information Technology*	*Boulder*
Lijit	*Information Technology*	*Louisville*
EnVysion	*Information Technology*	*Boulder*
Aftama/Digabit	*Information Technology*	*Grand Junction (Rural)*
Theratogs	*Medical Device*	*Telluride (Rural)*
Grogger/Kapost	*Information Technology*	*Boulder*
DCS Surgical	*Medical Device*	*Aurora (Distressed Urban)*
Endoshape	*Medical Device*	*Aurora (Distressed Urban)*
Surefire	*Medical Device*	*Westminster*
Clarimedix	*Medical Device*	*Aurora (Distressed Urban)*
Full Contact	*Information Technology*	*Denver*
MosaicBiosciences	*Biotechnology*	*Aurora (Distressed Urban)*
Aktivax	*Medical Device*	*Black Hawk (Rural)*

Intangible Benefits:

- *HCV has become a valuable resource to the State in its efforts to foster investment in seed and early-stage local companies.*

- *HCV has become one of the primary resources that early-stage entrepreneurs in Colorado look to for advice and funding. To date, HCV has reviewed over 787 business plans.*
- *HCV regularly assists Colorado entrepreneurs in fine-tuning their business models and networking with the venture capital community.*
- *HCV is one of the only venture funds in Colorado that invests in seed and early-stage companies in the Life Science industry, and has also focused on opportunities in the Clean Tech space.*
- *It is anticipated that the investments from the two funds will contribute over $180 million to Colorado's economy through the attraction of out of state investment dollars and in-state economic activity.*

<u>Investment Manager's Estimates of Past and Future Economic Impact</u>:
- *Colorado Fund I and II portfolio companies have created approximately 480 direct jobs to date, which using standard estimates for indirect job creation of 1:1, would translate into the creation of 960 direct and indirect jobs.*
- *Approximately 83% of the direct jobs pay a salary of $60,000 or greater.*
- *Over the life of the program, investment would allow for:*
  - ➢ *Funding of as many as 25 new companies in high-growth industries; and*
  - ➢ *Assisting in revitalizing the Colorado venture capital ecosystem, which is suffering from a lack of seed and early-stage capital.*

10:50-11:10 Performance-based Film Incentives FY 2012-13 Funding Request

25. Please describe the expenditures made by the State for performance-based film incentives in the last few fiscal years. Please include relevant economic measures in the response. What do we have to show for the money we have already spent on this program?

A detailed list of projects, commitments, and expenditures made from the existing performance-based film incentive appropriation was included in the Department's $3,000,000 funding request submitted. To summarize, the list contains 20 productions with an actual and/or projected Colorado spend of $9,807,846. With this spend level, the 20 productions will result in the creation of 188 jobs per the Leeds Study (see attached PDF file). The attached Leeds Study is a new study just completed in October 2011 and is not the same study mentioned during the Department Briefing. This new study concludes that each $1 million spent on production (spend) in Colorado will result in $1.93 million in economic benefit and create 20 jobs.

The current performance-based film incentive program has pretty much attracted only small productions with a median of $325,000 in spending, and these almost universally tend to be Colorado based, and include reality television, commercials, documentaries and very small features. While these productions are important, the overall impact to Colorado may not be as significant since out-of-state productions also require hotel *rooms, car rentals, restaurant expenditures, etc. The reason the current incentive funding program has almost $1 million remaining is that the program is not competitive with what is being offered by neighboring states – the current incentive structure is not as attractive. If Colorado wishes to be competitive with other states, a change in the incentive program is needed as proposed (please see CU Leeds School of Business Study attached).*

26. Please describe how the Office of Film, Television, and Media arrived at the forecasted job creation and economic measures of an increased performance-based film incentive program included in the FY 2012-13 budget request.

    The forecasted job creation and economic measures are based upon the new Leeds study referred to above. The statement that the requested funding "will generate $30 million in new production expenditures and 600 jobs" is taken somewhat out of context since it assumes that Colorado will attract out-of-state productions with the current incentive structure – which Colorado has not been able to do. It would be true that the existing incentive program would generate this type of expenditures/jobs if in fact production companies were interested in spending $30 million in production at the current 10% incentive rate -- which has simply not proven to be the case. There are currently no local companies contemplating productions of any scale, and out-of-state independent producers who make movies in the $5-12 million range have proven to not be interested in Colorado's meager incentive.

    The Office of Film, Television, and Media's proposal is to increase the incentive to 20% and couple that with an innovative senior gap loan program (see below). In fact, the $3 million if funded and when added to the approximately $1 million that is currently available in the existing incentive program, with a 20% incentive can fuel over $30 million in movie production since not all of the out of state companies' expenses will qualify as Colorado spend. In a specific example provided in the new Leeds Study, it is based upon an actual film shot in New Mexico with 58% of the budget would qualify as "local spend". Each film shot in Colorado will vary in terms of the local spend. But if 2/3 of a film's budget were to qualify as local spend, $30 million in movie production would result in a spend of $20 million in Colorado and would exhaust Colorado's incentive funds. This specific example would result in $38.6 million in economic benefit and create 400 jobs according to the analysis completed by Leeds. For varying Colorado spend levels, this analysis is relevant and can be used to calculate the benefits to Colorado.

27. At a time when many states are decreasing expenditures on film-based incentives, why is the Colorado Office of Film, Television, and Media requesting additional funding?

First of all, the Office of Film, Television, and Media (OFTM) is requesting additional funding in conjunction with significant changes to the program: an increase of the incentive rebate to 20% and a Senior Gap Loan Guarantee program. The Senior Gap Loan Guarantee program will collect an upfront fee from the production and it is projected that it will make money for the state. The requested $3 million funding is only necessary if these changes are approved by the Legislature. The JBC's Staff Analyst is correct in stating that Colorado has not been competitive in attracting out of state productions with the current program structure, and that is because the current incentive is too small to be attractive, and too small to effectively monetize to help fund moderately budgeted films ($5-12 million). Colorado has a new Director of OFTM who has extensive experience in film finance and production, and the OFTM has devised a plan that has been vetted with major Los Angeles based film financiers/bankers/lawyers, and all agree that this will be very attractive and more than level the playing field with neighboring states which offer greater rebates (which cost those states more money), but do not offer a Loan Guarantee Program.

The fact is that the number of states eliminating or decreasing funding is not much higher than the number of states increasing or beginning new programs. Recently, the Tax Foundation sent comments and links to news articles with a message that raised questions about a number of states. Arizona, Idaho, Iowa, Kansas New Jersey, and Washington State have all eliminated or are not funding their programs. Although the Tax Foundation has pointed out that Arkansas and Maine have appropriated no new funds, their incentive programs are anemic and attracting few or no takers. So, odds are they require no new funding. The Tax Foundation states that Alaska may not renew their program, but it in fact is fully funded, with few takers (it is very expensive to work there), that "Connecticut has reduced the generosity of its program" but the fact is it still stands at 30% and their "reduction" was to cap talent spend eligible for incentives at $20 million. Despite being mentioned among states considering paring back or eliminating, Georgia, Missouri, Rhode Island and Hawaii are still up and running. Two major production states did cap their rebates: New Mexico at $50 million per year and Michigan at $25 million per year which is many times the sum the OFTM is requesting. California, Minnesota, Nevada, Pennsylvania, Utah, Virginia and Wyoming have all started programs or made existing programs more generous.

11:10-11:30 Staff Recommendation for Health Information Technology Funding

28. Has the Governor's Office of Information Technology studied the military model for fusing information from health centers on a regional basis?

OIT has been in close coordination with the Colorado Regional Health Information Organization (CORHIO), Colorado's "State Designated Entity" for standing up a state-based Health Information Exchange funded through the ARRA HITECH grant program. Coordinated efforts include working with federal partners such as the U.S. Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS), Office of the National Coordinator for Health Information Technology (ONC), Indian Health

Service (HIS), Substance Abuse and Mental Health Services Administration (SAMHSA), and Centers for Disease Control and Prevention (CDC); the National Governors Association (NGA) Center for Best Practices; the Association of Health Research and Quality (AHRQ); and the National Association of State Health Policy (NASHP). OIT is engaged in state and regional partnerships pursuing numerous HIT initiatives and policy decisions that seek out best practices and lessons learned as we continue state and national efforts to implement an interoperable, safe and secure, exchange network for patient health information that will improve quality and reduce costs. This is similar to what the U.S. Department of Veterans Affairs has successfully done for veterans – a model at which OIT has closely looked.

Although we have not extensively examined other military models for health information exchange, we intend to explore this further as we always seek to learn from successful initiatives.

29. Does a greater need exist for the coordination of health information technology at a State level than exists for the coordination of information technology for other program areas?

    Health IT and Health Care Reform are highly complex and extensive in scale and scope. There are numerous initiatives spanning state, regional, and national efforts; at least seven separate state departments are responsible for or impacted by HIT projects; public and private stakeholder groups; and multiple funding sources from federal grant programs under the ARRA HITECH Act and the Affordable Care Act, as well as local, state, and private foundation grant awards. This, coupled with aggressive implementation timelines, increases the need for a high-level, dedicated resource -- with in-depth expertise in health care, technology, business process, and policy making -- setting strategy, aligning activities, and positioning Colorado for success in this critical area.

30. Does the Governor's Office of Information Technology believe that the role of State-wide health information technology coordination could be performed by a general information technology analyst or does it require a director-level individual?

    A director-level position would be more appropriate given the complex nature of the health care initiatives and technology involved. To be successful, this individual would need to have expertise in health care, technology, privacy, business process and strategy development, and policy making – a skill set that is more specialized and extensive than that of a general information technology analyst.

    However, the Governor's Office of Information Technology has not requested state funds for this position. Currently, OIT is evaluating potential alternative funding sources that could be utilized in the future.

31. Is it feasible to fund the Statewide Health Information Technology Director position with federal monies associated with the implementation of federal health care reform?

It is unclear if federal health care reform monies will be available for this purpose. There are many current HIT-related initiatives extending beyond the health insurance exchange (like the State Health Information Exchange, the All Payer Claims Database, and the Master Provider Directory) that will need to be sustained long-term. As a result, OIT is currently evaluating potential funding sources.

32. How would staff's proposed funding for a Statewide Health Information Technology Director position differ from the services already provided by the Governor's Office of Information Technology to support health programs?

The Federal Affordable Care and ARRA HITECH Acts have created an onslaught of new, complex, cross-agency programs and initiatives with multiple interdependencies and technology interoperability requirements that did not exist before. There is a need for OIT to not only manage the technology within agencies to support existing health programs but also to now provide leadership and develop strategy on how to implement broader HIT goals on a statewide level. Consequently, OIT is currently examining possible funding sources that may be available for this position to meet these important goals.

11:30-11:50 Miscellaneous Governor's Office of Information Technology Questions

33. Please describe the Governor's Office of Information Technology's plan for replacing or upgrading the Colorado Financial Reporting System (COFRS). Please include time-frame of system implementation, anticipated upfront and ongoing expenses (personal services, operating expenses, and maintenance costs), and the technology approach (e.g. managed service).

After consideration of all aspects of the current and future technological and business needs associated with the state's financial reporting system (COFRS) OIT, OSPB, and the Office of the State Controller have determined that the most effective solution is a managed solution hosted by a third party vendor in collaboration with state resources. This solution provides significant benefits making it the optimal alternative.

- *The vendor hosted solution mitigates risk associated with the lack of state technical resources to support the system. The fact that the vendor would work with existing state personnel to design and implement the new system and would continue to host and support the system on an ongoing basis, provides the proper balance between the state's business and process needs and the technical activities required to operate, maintain and manage the system.*
- *OIT staff would continue to provide level 1 and level 2 support to end users; however, the vendor would provide level 3 support on a 24/7/365 basis.*

- *COFRS currently includes a significant amount of custom interfaces that have been developed for multiple departments over the years that are associated with varying levels of grant reporting, accounts receivable processing, and serving other disparate and department-specific reporting needs. Costs for the recommended solution include the conversion of approximately 100 such current interfaces with COFRS in order to maintain process and data integrity for state departments and agencies using COFRS in this fashion.*
- *The necessary disaster recovery capabilities with the appropriate level of data recovery standards were built into the cost estimates. This is a critical aspect of any system or application of this scope, but is even more of a high profile concern when dealing with a vendor managed or hosted solution.*
- *OIT will leverage the economies of scale offered by utilizing a managed services provider. System and software updates and upgrades will occur in a predicable fashion as part of total project costs and will not need to be separately appropriated and funded in future years.*
- *A managed solution will also serve to reduce the time necessary to implement the desired solution, which provides the best opportunity to mitigate the significant risks associated with potential failure of the current system under the status quo.*

Project Cost Estimates

The total COFRS modernization solution, including costs to maintain the current COFRS system for two years, is estimated to cost approximately $9.5 million per year for two years, with costs ranging from $8.9 million to $9.3 million for an additional seven years. Adjusting for amounts already appropriated to support the existing system, the need for new appropriations will be approximately $8.6 million in years 1 and 2, with costs ranging from $8.4 million to $8.7 million for an additional eight years. Over a 10 year period, as summarized in the attached total cost worksheet, the State would pay a total of approximately $92.0 million over the life of the system for the design, build, and maintenance of a modernized COFRS system.

Personal Services Expenses

The staffing requirements for the first 26 months include 5.25 FTE specifically for the development and implementation stages (including project managers, business analysts, and a part-time security analyst), and 3.0 FTE that will be required from the inception of the project and will continue on an ongoing basis (a trainer that will be responsible for all end user training and two financial analysts/controllers located in the Office of the State Controller organizationally who will be responsible for providing direction to the project to ensure standardized business processes in compliance with State statute, federal accounting standards and fiscal rules).

In total, new personal services costs for the project management and implementation of an upgraded COFRS system will be $797,795 in FY 2012-13, annualizing to $803,060 in FY 2013-14. To provide some context to the requested FTE, COFRS had a project team of 100 when the system was initially implemented in the early 1990's.

One-Time and Ongoing Operating Expenses

- *In total, new operating expenses related to FTE will be $23,295 in FY 2012-13, annualizing to $12,225 for FY 2013-14.*
- *Based on initial conversations with the vendor community, OIT estimates that the annual charge for the design, maintenance, and support of a modernized COFRS system will be $6,790,000 each year over ten years. In addition, software maintenance costs are projected at $915,700 initially, escalating by 5.0 percent each year. In total, payments to a vendor for a COFRS upgrade are estimated to be $7,705,700.*
- *A third-party review to independently validate and verify project deliverables would cost $200,000, split evenly over the first two years of the project.*
- *Total operating costs as described above are estimated at $7,828,995*

34. Please describe what hardware/software systems, if any, executive branch agencies are purchasing independently of the Governor's Office of Information Technology? If agencies are making such purchases, explain what is being done (or is planned to be done) by the Governor's Office of Information Technology to coordinate the purchases?

Departments have, and will continue to receive, the direct appropriations that are used to provide IT support, technology, and resources. Some uncoordinated purchases do occur; however, OIT does not support siloed purchases of systems and applications that are not financially sustainable and that are not in alignment with the state's IT strategy.

In order to mitigate this concern, in the current environment, departments are required to seek OIT approval for IT purchases in excess of $10,000. This allows OIT to review individual IT procurements to ensure alignment with state standards and policies, to validate financial and strategic aspects of the request, and to identify opportunities to leverage existing state assets and resources for the benefit of multiple departments. Further, OIT has been able to negotiate several enterprise-level software licensing and maintenance contracts that all departments have been able to benefit from, operationally and financially.

With regard to planning, OIT works with departments to develop annual department information technology plans (DITPs) and IT work plans that further delineate existing commitments of IT resources and other planned and/or proposed projects. These efforts are supplemented through other key OIT governance and oversight roles, including the Executive Governance Committees (EGCs), which collectively give OIT maximum opportunity to positively impact the delivery of technology resources to all branches of government, while supporting the mission of government agencies and delivery of services to citizens.

These processes have resulted in opportunities for cost savings and cost avoidance in the past three fiscal years, but are expected to yield even greater benefits as a result of the consolidated IT purchasing to be performed by OIT in FY 2012-13 (IT Storefront).

11:50-12:00 B. OTHER QUESTIONS COMMON TO ALL DEPARTMENTS

35. Please explain why the department has audit recommendations that have not been fully implemented after extended periods of time. What are the obstacles the department has faced in implementing recommendations? How does it plan to address outstanding audit findings? If applicable, please focus on those financial audit findings classified as "material weakness" or "significant deficiency".

    The Office of the State Auditor's presentation to the JBC on November 9, 2011, identified four audit recommendations for OIT that had not been fully implemented. At this time, three of the four recommendations are fully implemented. The remaining recommendation related to network security (recommendation 4a) is partly implemented; however, full remediation is still in process as a result of necessary coordination between multiple state departments and agencies. Other audit issues are detailed in question 13.

36. How does the Department define FTE? Is the Department using more FTE than are appropriated to the Department in the Long Bill and Special Bills? How many vacant FTE does the Department have for FY 2009-10 and FY 2010-11?

    OSPB and DPA are working with all departments to provide quarterly reports on FTE usage to the JBC. These reports will ensure that all departments are employing the same definition of FTE. This definition comprises a backward-looking assessment of total hours worked by department employees to determine the total full-time equivalent staffing over a specific period. We intend for these reports to provide the JBC with a more clear linkage between employee head-count and FTE consumption. As it concerns FTE usage in excess of Long Bill 'authorizations,' departments will continue to manage hiring practices in order to provide the most efficient and effective service to Colorado's citizens within the appropriations given by the General Assembly.

    In FY 2009-10 the entire Office of the Governor was appropriated 376.6 FTE and used 333.2 FTE. In FY 2010-11 the Office of the Governor was appropriated 1,046.0 FTE and used 991.5 FTE.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. What is the Department's entire Information Technology (IT) budget for FY 2011-12 and FY 2012-13? Does the Office of Information Technology (OIT) manage the Department's entire IT budget? If not, what IT activities is the Department managing separate from OIT and what percentage is that of the entire IT budget for the Department for FY 2011-12 and FY 2012-13? Of the IT activities the Department still manages outside of OIT, what could be moved to OIT?

In FY 2011-12 the Governor's Office was appropriated $129,523 that was spent on IT related services provided by OIT. For FY 2012-13, the amount increases to $2,265,446. These are adjustments that OIT has made to the Governor's Office allocation of services provided throughout the state. OIT makes adjustments to its allocations to capture prior year utilization. In addition to these amounts, over the last two years the Governor's Office has spent an average of approximately $210,000 on smaller IT related operating expenditures such as personal computers and data processing supplies. There is 1.0 FTE within the Governor's Energy Office who performs IT related activities. This FTE was not captured with the original OIT consolidation and could be transferred.

2. What hardware/software systems, if any, is the Department purchasing independently of the Office of Information Technology (OIT)? If the Department is making such purchases, explain why these purchases are being made outside of OIT?

   The Office of the Governor coordinates its IT purchases directly with OIT.

3. Did the Governor's Energy Office have flexibility in how it spent American Recovery and Reinvestment Act of 2009 (ARRA) monies? Did the Governor's Energy Office follow dictates of federal statutes in creating and implementing ARRA-funded programs or did it have flexibility to use it however the moneys as it saw fit?

   The general ARRA provisions affecting all of the grants referenced below is a nine-page document of terms and conditions including requirements of the Buy American Act, the Davis Bacon Act (prevailing wage), national historic preservation requirements, monthly reporting and monitoring requirements, and a prohibition that funds may not be used for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool, among others.

ARRA Grant	***Restrictions for Use***
Low-income Weatherization Assistance Program and Training $80,484,823 March 2009 – 2012	*Prescriptive, based on rules promulgated by the U.S. Department of Energy's (DOE) Weatherization Assistance Program. Rules limit who can receive assistance and the type of assistance available.*
State Energy Program $49,222,000 April 2009 – 2012	*DOE provides grants and technical assistance to states to promote energy conservation and reduce the growth of energy demand in ways that are consistent with national energy goals. GEO had flexibility within the spirit of the program to develop a plan to adopt renewable energy and energy efficiency technologies and implement programs to improve energy sustainability.*
Energy Efficiency and Conservation	*activities to achieve the purposes of the program, including-- (1) development and implementation of an energy efficiency and*

Block Grant *$9,593,500* *September 2009 – 2012*	*conservation strategy* *(2) retaining technical consultant services to assist the eligible entity in the development of such a strategy,* *(3) conducting residential and commercial building energy audits;* *(4) establishment of financial incentive programs for energy efficiency improvements;* *(5) the provision of grants to nonprofit organizations and governmental agencies for the purpose of performing energy efficiency retrofits;* *(6) development and implementation of energy efficiency and conservation programs for buildings and facilities within the jurisdiction of the eligible entity,* *(7) development and implementation of programs to conserve energy used in transportation,* *(8) development and implementation of building codes and inspection services to promote building energy efficiency;* *(9) application and implementation of energy distribution technologies that significantly increase energy efficiency,* *(10) activities to increase participation and efficiency rates for material conservation programs, including source reduction, recycling, and recycled content procurement programs that lead to increases in energy efficiency;* *(11) the purchase and implementation of technologies to reduce, capture, and, to the maximum extent practicable, use methane and other greenhouse gases generated by landfills or similar sources;* *(12) replacement of traffic signals and street lighting with energy efficient lighting technologies,* *(13) development, implementation, and installation on or in any government building of the eligible entity of onsite renewable energy technology that generates electricity from renewable resources,* *(14) any other appropriate activity, as determined by the Secretary, in consultation with--* *(A) the Administrator of the Environmental Protection Agency;* *(B) the Secretary of Transportation; and* *(C) the Secretary of Housing and Urban Development*
State Energy Efficient Appliance Rebate Program	*Prescriptive, to be used to provide incentives to consumers who purchased ENERGY STAR approved by the DOE.*

COLORADO FILM INCENTIVES

Economic and Fiscal Impact Analysis of Actual Film Budget Scenario on Colorado

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October 2011

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Executive Summary

Not Forgotten was filmed in the state of New Mexico in 2008. With a budget of $10,057,959, this is considered a medium-budget film. New Mexico was selected as the film location by and large due to the 25% film incentives offered on local spending. Had this movie been filmed in Colorado, the state would have reaped $11.2 million in economic benefits, including 120 jobs, and $5.7 million in wages. In a 20% tax credit environment, the net cost to the state would be $365,668 after new tax revenues and fees, or $3,037 per job. This cost per job does not take into account the savings to the state by reducing unemployment.

In addition to ratcheting up incentives to increase the appeal to film makers, the Colorado Office of Film, Television and Media is proposing a senior loan guarantee program, financed by banks, in which the state will take an upfront 5% facility fee, paid by the production company, in exchange for the guarantee. This will secure an additional $100,000 for the state, which will reduce the state's exposure on the tax credit or rebate.

This study analyzed the "what if" scenario of filming *Not Forgotten* in Colorado in 2010. Examining the film's financial statements, it is estimated that $5,825,383 of the film's $10,057,959 budget would have been directly spent in Colorado on payroll and spending. While many of the expenditures spent on making a film occur directly within the film industry, spending also occurs on construction, hotels, restaurants, transportation, and other critical goods and services needed during production.

Colorado's film incentives are structured to lure medium-sized films to the state; however, at 10%, the state's incentives have proven under-sellable due to a lack of competitiveness with other states nationally. In fact, in FY2010-FY2011, only $98,000 of the available $1.4 million in tax credits was claimed by two in-state companies.

Given the competitive national film incentive landscape, productions can shift to states with attractive incentives. This is appealing for Colorado, especially during this recession, because direct spending on incentives yields nearly immediate returns at a time when Colorado's unemployment rate is at 8.5%, well above the natural rate.

At more than 900 employees in 2010, the film industry remains small in Colorado. Data show that film production and post-production wages averaged $57,998, or 21.2% higher than the state average for all industries. However, this industry continues to shed jobs as production moves elsewhere around the country. Colorado's film industry has declined every year since 2006.

PROJECT PURPOSE

The Business Research Division at the Leeds School of Business was asked by the Colorado Office of Film, Television & Media to conduct a study examining the economic and fiscal analysis of *Not Forgotten*, a movie filmed in New Mexico and released in 2009. The analysis provides a "what if" look at the economic and fiscal impacts to Colorado as if the scenes were shot today in Colorado rather than New Mexico. These calculations are based on the film's financial statements and examine local versus nonlocal employment. Additionally, this study looks at the additional fiscal impacts based on forthcoming proposed incentives in Colorado. Ultimately, this report presents a realistic picture of the influences, costs, and benefits of film incentives because it analyzes actual expenses incurred during filming.

METHODOLOGY

Rather than conducting a complete industry analysis, this study examines the actual budget and spend for the film *Not Forgotten*, which was filmed in New Mexico in 2008, and models the economic and fiscal impacts had it been filmed in Colorado today. The film's producer provided budget reports, which included above-the-line and below-the-line expenditures, with 239 account numbers and descriptions detailing spending. Additional spreadsheets were supplied with New Mexico vendor and labor spend, with names, descriptions, invoices, and check numbers. Spreadsheet data were reconciled with the detailed budget to check accuracy.

Examining the spending descriptions, expenditures were categorized by North American Industry Classification (NAICS) codes. Naturally, most spending resided in the film industry, but some expenditures were parsed to other industries, including construction, retail trade, accommodation and food services, rental and leasing, and others.

To estimate the economic impacts on output, employment, and wages, the total spend by industry was then entered into the input-output modeling tool IMPLAN, with customized data files specific to Colorado. Impacts are expressed as direct, indirect, and induced, together representing the "multiplier" effect.

In addition to the economic benefits, fiscal benefits were estimated in relation to filming in Colorado. When estimating fiscal benefits the primary focus is on the sales, income, and property taxes because these sources form the bulk of discretionary spending derived from the film industry (other industries, such as oil and gas, add additional funding, for example severance taxes). Other public revenues are considered to directly offset user costs, or are derived from nonrelated functions (e.g., investment dividends).

This report offers an economic analysis of one movie with a $10,057,959 budget—*Not Forgotten.* Colorado's incentives are structured to attract medium-size film budgets, such as this roughly $10 million film. Given the static nature of I-O analysis, results from this study may be scaled to illustrate the impacts varying levels of film production (e.g., $20 million, $30 million, $40 million in production). This study does not examine the additional long-term growth of post-production or permanent film-related infrastructure. Ultimately, it is important to recognize the presence of either net benefits or net costs of the program.

DATA AND ASSUMPTIONS

The BRD acquired the actual budget and spend for the film *Not Forgotten*, which was filmed in New Mexico in 2008. The above-the-line and below-the-line expenditures were listed in the budget by account number and description, detailing $10,057,959 in spending. Additional spreadsheets were supplied with actual vendor and labor spend in New Mexico.

Vendor data detailed $2,658,646 in spending related to the production of *Not Forgotten* in New Mexico and $2,054,929 related to New Mexico resident payroll (Table 1). Examining the spending descriptions, expenditures were categorized by North American Industry Classification (NAICS) codes. Naturally, most spending occurred in the film industry, but expenditures were also parsed to other industries, including construction, retail trade, accommodation and food services, rental and leasing, and others.

TABLE 1: *NOT FORGOTTEN* SPENDING IN NEW MEXICO, ESTIMATED BY INDUSTRY

NAICS	Industry	Payroll	Vendor	New Mexico
23	Construction	$246,910	$59,963	$306,873
44	Retail Trade	$231	$57,338	$57,569
48	Transportation	$357,950	$71,061	$429,011
52	Finance and Insurance	$0	$84,600	$84,600
72	Accommodation and Food Services	$30,312	$423,764	$454,076
81	Other Services	$26,714	$7,892	$34,606
92	Public Administration	$0	$240	$240
481	Air Trans	$1,050	$41,188	$42,238
512	Film	$1,345,941	$1,236,356	$2,582,297
532	Rental and Leasing	$45,171	$627,465	$672,636
541	Marketing	$0	$16,755	$16,755
561	Security	$650	$32,024	$32,674
-	**Total**	**$2,054,929**	**$2,658,646**	**$4,713,575**

Spend on vendors in Colorado were expected to be similar to that in New Mexico—$2,658,646. Colorado film incentives allow for resident and nonresident labor to be counted toward incentives, as long as payroll taxes are withheld and paid on in-state earnings. Therefore, qualifying Colorado payroll would be higher than in New Mexico, at $3,166,737. Total Colorado spending was estimated at $5,825,383, or 57.9% of the total film budget. Nearly 54.4% of this is on payroll and 45.6% on purchases.

Currently in Colorado, 10% of in-state qualified spending may be eligible film tax incentives. Assuming that 100% of this detailed Colorado spend is all eligible, according to current regulations, the state would pay $582,538 in incentives for the $5,825,383 in direct economic activity. If incentives were increased to 20%, the state would essentially be doubling the investment to $1,165,077 in incentives.

TABLE 2: *NOT FORGOTTEN* SPENDING IN COLORADO, ESTIMATED BY INDUSTRY

NAICS	Industry	Payroll	Vendor	Colorado
23	Construction	$246,910	$59,163	$306,073
44	Retail Trade	$231	$57,001	$57,233
48	Transportation	$357,950	$71,061	$429,011
52	Finance and Insurance	$0	$84,600	$84,600
72	Accommodation and Food Services	$30,312	$423,764	$454,076
81	Other Services	$26,714	$7,892	$34,606
92	Public Administration	$0	$240	$240
481	Air Trans	$1,050	$41,188	$42,238
512	Film	$2,457,748	$1,237,650	$3,695,398
532	Rental and Leasing	$45,171	$627,308	$672,479
541	Marketing	$0	$16,755	$16,755
561	Security	$650	$32,024	$32,674
-	**Total**	**$3,166,737**	**$2,658,646**	**$5,825,383**

INDUSTRY SNAPSHOT

- In 2010, film production and post-production wages averaged $57,998, or 21.2% higher than the state average for all industries.[1]
- The average wage for all industries was $47,864 (Source: Colorado Department of Labor and Employment, Quarterly Census of Employment and Wages, http://lmigateway.coworkforce.com).
- Film employment in 2010 totaled 906, with employment decreases recorded every year since 2006.
- Industry employment lost 372 jobs, or 29%, from 2007 to 2010.
- Film industry relies on numerous other industries for goods and services during production, including construction, accommodation and food services, professional and business services, transportation, and finance.
- Industry is a primary employer—importing investment and exporting films for national and global consumption.

[1]Includes NAICS 51211- Motion Picture and Video Production, 51212- Motion Picture and Video Distribution, and 51219- Postproduction Services and Other Motion Picture and Video Industries.

TABLE 3: COLORADO FILM EMPLOYMENT AND WAGES

Year	Employment	Percentage Change	Total Wages	Percentage Change	Average Wages	Percentage Change
2010	906	-2.8%	$52,550,697	0.9%	$57,998	3.8%
2009	932	-3.2%	$52,105,476	-0.3%	$55,892	3.0%
2008	963	-24.6%	$52,257,785	-18.5%	$54,280	8.1%
2007	1,278	-	$64,145,909	-	$50,209	-

TABLE 4: COLORADO TOTAL EMPLOYMENT AND WAGES

Year	Employment	Percentage Change	Total Wages	Percentage Change	Average Wages	Percentage Change
2010	2,177,005	-1.1%	$104,206,994,391	1.0%	$47,867	2.1%
2009	2,201,365	-4.7%	$103,158,636,961	-4.2%	$46,861	0.5%
2008	2,310,868	0.8%	$107,718,558,578	3.5%	$46,614	2.7%
2007	2,292,649	-	$104,077,021,914	-	$45,396	-

ECONOMIC IMPACT

Filming *Not Forgotten* in Colorado in 2010 would have yielded direct, indirect, and induced economic benefits totaling $11.2 million and more than 120 employees.

TABLE 5: *NOT FORGOTTEN* SPENDING IN COLORADO, ESTIMATED BY INDUSTRY

Impact Type	Employment	Labor Income	Output
Direct Effect	79.2	$3,777,509	$5,785,821
Indirect Effect	13.3	$702,546	$1,899,354
Induced Effect	27.9	$1,171,335	$3,466,659
Total Effect	**120.4**	**$5,651,390**	**$11,151,833**

The film industry, like all industries, relies on goods and services from a broad supply chain. In the case of film, the supplier industries range from bankers, construction workers, and electricians, to hotels and caterers. Film, however, does provide unique economic contributions that are characteristic of industries like manufacturing, tourism, and mining—as an exporting industry (selling products nationally or globally), it attracts outside dollars to finance investment and hiring.

The potential for economic activity driven by film incentives depends on the ability to sell film incentives to interested producers. The competitive national (and global) landscape for film incentives means that merely offering incentives does not guarantee film activity.

Given a finite pool of funding (e.g., $20 million), Colorado would surely be better off if producers would engage at incentive levels of 10%, rather than 20% tax credits, as it would gain twice the economic benefit per dollar of incentive spending. However, when New Mexico offers 25% film incentives, Louisiana offers up to 35% incentives, and Michigan offers 42% incentives, Colorado's 10% incentives become a difficult sell. To illustrate, only $98,000 of the available $1.4 million in tax credits were claimed by two in-state companies in

FY2010-FY2011 at the 10% rate. This $98,000 in activity implicitly contributed $1.67 million in economic activity to the state, but the state only was able to sell 7% of these incentives.

Output

Direct, indirect, and induced economic activity attributable to filming *Not Forgotten* in Colorado would have topped $11.2 million in 2010 (Table 6). Of this, $5.8 million is direct, budgeted spending on film crews, set construction, airfare, ground transportation, retail purchases, hotels, and food. The construction and the accommodation and food services industries—both reeling from the recession—together account for more than $1 million in economic benefits.

TABLE 6: OUTPUT, AGGREGATED BY INDUSTRY

NAICS and Description	Direct	Indirect	Induced	Total
11 Ag, Forestry, Fish & Hunting	$0	$3,548	$17,552	$21,101
21 Mining	$0	$4,908	$4,093	$9,001
22 Utilities	$0	$29,395	$66,365	$95,760
23 Construction	$306,073	$5,975	$8,653	$320,701
31-33 Manufacturing	$0	$61,001	$138,002	$199,000
42 Wholesale Trade	$0	$83,184	$166,939	$250,124
44-45 Retail trade	$17,671	$15,642	$351,603	$384,918
48-49 Transportation & Warehousing	$471,249	$75,411	$76,749	$623,408
51 Information	$3,695,398	$349,985	$167,790	$4,213,173
52 Finance & insurance	$84,600	$228,804	$522,262	$835,666
53 Real estate & rental	$672,479	$284,036	$778,245	$1,734,758
54 Professional- scientific & tech svcs	$16,755	$358,675	$139,669	$515,099
55 Management of companies	$0	$83,935	$31,950	$115,885
56 Administrative & waste services	$32,674	$104,759	$57,802	$195,235
61 Educational svcs	$0	$176	$22,003	$22,179
62 Health & social services	$0	$78	$387,616	$387,694
71 Arts- entertainment & recreation	$0	$78,058	$61,758	$139,816
72 Accommodation & food services	$454,076	$37,944	$198,580	$690,601
81 Other services	$34,606	$38,825	$162,999	$236,430
92 Government & non NAICs	$240	$51,168	$99,258	$150,667
Total	**$5,785,821**	**$1,899,354**	**$3,466,659**	**$11,151,833**

Employment

Total employment related to filming would have totaled 120 jobs (Table 7). Most of these would have been film jobs, but many others would have been in transportation and warehousing, and accommodation and food services. This activity would have accounted for nearly 80 direct jobs related to film crews, set construction, airfare, ground transportation, retail purchases, hotels, and food.

TABLE 7: EMPLOYMENT, AGGREGATED BY INDUSTRY

NAICS and Description	Direct	Indirect	Induced	Total
11 Ag, Forestry, Fish & Hunting	0	0	0.1	0.1
21 Mining	0	0	0	0
22 Utilities	0	0	0.1	0.1
23 Construction	5.5	0	0.1	5.6
31-33 Manufacturing	0	0.1	0.1	0.2
42 Wholesale Trade	0	0.4	0.8	1.2
44-45 Retail trade	0.3	0.2	6.2	6.7
48-49 Transportation & Warehousing	17.2	0.6	0.5	18.3
51 Information	45	2	0.3	47.3
52 Finance & insurance	0.4	0.9	2.4	3.8
53 Real estate & rental	3	1.1	2.8	6.7
54 Professional- scientific & tech svcs	0.1	2.8	1.1	4.1
55 Management of companies	0	0.4	0.1	0.5
56 Administrative & waste services	0.5	1.5	0.8	2.8
61 Educational svcs	0	0	0.4	0.4
62 Health & social services	0	0	4.2	4.2
71 Arts- entertainment & recreation	0	1.4	0.9	2.5
72 Accommodation & food services	6.8	0.6	3.1	10.5
81 Other services	0.4	0.5	2.2	3.2
92 Government & non NAICs	0	0.6	1.1	1.7
Total	**79.2**	**13.3**	**27.9**	**120.4**

Income

Direct, indirect, and induced wage impacts totaled $5.7 million and accounted for half of the economic contributions (Table 9). The greatest wage impact is on the film industry (information sector 51), followed by transportation, construction, rental and leasing, and professional services.

TABLE 8: WAGES, AGGREGATED BY INDUSTRY

NAICS and Description	Direct	Indirect	Induced	Total
11 Ag, Forestry, Fish & Hunting	$0	$617	$2,289	$2,906
21 Mining	$0	$1,109	$941	$2,050
22 Utilities	$0	$4,931	$11,133	$16,064
23 Construction	$336,965	$2,368	$3,430	$342,764
31-33 Manufacturing	$0	$12,304	$19,829	$32,133
42 Wholesale Trade	$0	$32,971	$66,168	$99,139
44-45 Retail trade	$9,394	$8,378	$185,964	$203,735
48-49 Transportation & Warehousing	$470,797	$29,147	$27,673	$527,616
51 Information	$2,498,946	$106,943	$49,032	$2,654,921
52 Finance & insurance	$23,379	$62,383	$144,870	$230,632
53 Real estate & rental	$229,554	$25,888	$50,316	$305,759
54 Professional- scientific & tech svcs	$9,614	$205,810	$80,144	$295,568
55 Management of companies	$0	$46,300	$17,624	$63,924
56 Administrative & waste services	$16,332	$52,002	$28,664	$96,999
61 Educational svcs	$0	$88	$10,959	$11,046
62 Health & social services	$0	$42	$209,901	$209,943
71 Arts- entertainment & recreation	$0	$37,708	$26,392	$64,099
72 Accommodation & food services	$164,346	$14,031	$73,891	$252,268
81 Other services	$18,002	$19,870	$85,421	$123,294
92 Government & non NAICs	$180	$38,377	$74,444	$113,002
Total	**$3,777,509**	**$702,546**	**$1,171,335**	**$5,651,390**

FISCAL IMPACTS

With 20% incentives, the cost of incentives for the production of *Not Forgotten* would have totaled $1,165,077 in 2010 ($5,825,383 in Colorado eligible spend multiplied by the 20% tax credit). Direct, indirect, and induced income, property, and sales taxes related to the $5.8 million Colorado spending are estimated at $698,829. Fees associated with the guarantee program are estimated at $100,580. Therefore, total public revenue is estimated at $799,408.

Income Taxes

Corporate and individual income taxes related to the film are estimated at $142,282. Any income earned in Colorado is subject to Colorado income taxes, regardless of one's residence. The $3.8 million in total direct income has an associated net effective tax rate of 2.3%, accounting for $86,883 in direct income taxes. Total employee income taxes (direct, indirect, and induced) totaled $129,982. Estimates from IMPLAN on corporate profits taxes totaled $12,300.

Property Taxes

Corporate and individual property taxes related to *Not Forgotten* would have totaled $297,363 in 2010. In Colorado, 74.8% of homes are single-family units and 25.2% multi-family units. The American Community Survey for 2006-2009 indicates the Colorado median owner-occupied unit value was $234,100, while median monthly rent was $835. With the average mill levies for counties, cities, school districts, and special districts at 20.602, 6.46, 44.53, and 2.73, respectively in 2010, property taxes associated with the 84% of direct employees who are residents totaled $74,812. Total property taxes (direct, indirect, and induced) were estimated at $121,142. Corporate property taxes were estimated using IMPLAN, totaling $176,221.

Sales Taxes

Corporate and individual sales taxes were estimated at $259,184 for direct, indirect, and induced activities related to the film.

While all eligible payroll would be taxable income under Colorado law, it is estimated that 84% of the direct payroll eligible for incentives would be to Colorado residents, and therefore, 16% of income would be considered leakage to other states.

According to the 2008-2009 Consumer Expenditure Survey for metropolitan areas in western states, it is calculated that 25.4% of consumers' disposable income (20.7% of gross income) is spent on taxable goods and services in Colorado. Since 84% of film income would have been paid to Colorado residents, it is assumed that only 84% of payroll would have been eligible as employee expenditures on Colorado taxable goods and services. Under this assumption, direct sales tax revenue and total sales taxes (direct, indirect, and induced) would have totaled $50,648 and $82,582, respectively. Corporate spending would have totaled more than $176,600.

TABLE 9: ESTIMATED FISCAL IMPACTS

	A	B
2	**Output**	2010
3	*Not Forgotten* Colorado Spend	5,825,383
4	Direct Output	5,785,821
5	Additional Output (Multiplier on New Spending)	5,366,013
6	**Total Output (Direct and Indirect)**	**11,151,834**
7	**Operations**	2010
8	State Income Taxes	12,300
9	State Sales Taxes	66,419
10	County Sales Taxes	14,429
11	City Sales Taxes	79,784
12	Special District Sales Taxes	15,970
13	County Property Taxes	49,399
14	City Property Taxes	20,035
15	School District Property Taxes	99,051
16	Special District Property Taxes	7,736
17	Proposed 20% Loan Guarantee Program, 5% Fee	100,580
18	**Direct Employment**	2010
19	*Not Forgotten* Direct Employment	79
20	Average Earnings	47,696
21	Total Earnings	3,777,509
22	State Direct Income Taxes	86,883
23	State Sales Taxes on Taxable Purchases	19,048
24	County Sales Taxes on Taxable Purchases	4,138
25	City Sales Tax on Taxable Purchases	22,881
26	Special District Sales Tax on Taxable Purchases	4,580
27	County Property Taxes	20,972
28	City Property Taxes	8,505
29	School District Property Taxes	42,050
30	Special District Property Taxes	3,284
31	**Indirect Employment**	2010
32	*Not Forgotten* Indirect Employment	41
33	Average Indirect Earnings	45,483
34	Total Indirect Earnings	1,873,881
35	State Direct Income Taxes	43,099
36	State Sales Taxes on Taxable Purchases	11,249
37	County Sales Taxes on Taxable Purchases	4,396
38	City Sales Tax on Taxable Purchases	13,585
39	Special District Sales Tax on Taxable Purchases	2,705
40	County Property Taxes	12,987
41	City Property Taxes	5,267
42	School District Property Taxes	26,041
43	Special District Property Taxes	2,034
44	**Total Taxes**	2010
45	Total Direct Taxes	577,465
46	Total Indirect Taxes	121,364
47	Total Taxes Collected	698,829
48	Proposed 20% Loan Guarantee Program, 5% Fee	100,580
49	**Total Public Revenue**	**799,408**
50	**Cost of 20% Tax Incentives**	**(1,165,077)**
51	**Net Cost of Incentive Program**	**(365,668)**

CONCLUSION

Analyzing the theoretical filming of *Not Forgotten* in Colorado in 2010 uniquely illustrates the economic contributions and fiscal impacts based on the analysis of a real film budget. From an examination of the film's financial statements, it is estimated that $5,825,383 of the film's $10,057,959 budget would have been spent directly in Colorado on payroll, goods, and services. While much of the expenditures related to film production are spent directly within the film industry, spending also occurs on construction, hotels, restaurants, transportation, and other critical goods and services needed during production.

It is estimated that the direct spending of $5.8 million in Colorado would result in economic benefits of $11.2 million in 2010 due to spending in other industries and payroll impacts. This would also account for 120 jobs and $5.7 million in earnings. These quantifiable rewards positively impact GDP, employment, wages, and taxes, and also contribute to the economic and cultural diversity of the state.

Given the transitory nature of film production nationally, the industry is able to react quickly and shift production in order to capture incentives. Incentive spending by the State of Colorado offers immediate benefits by incentivizing producers to shift production to Colorado.

Further analysis should be done on the benefits of reduced unemployment related to increased film production, as well as the benefits associated with providing state-backing of film financing.

Exhibit A
COFRS Modernization Total Cost Worksheet

Personal Services Appropriation												**$ -**
Project manager - 2 FTE GP IV	Concentration on Business Requirements	$ 180,355	$ 181,667	$ 32,938	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 394,960
Project Assistant - GP II	Overall support of project	$ 66,581	$ 67,056	$ 14,442	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 148,079
Business Analysis - 2 FTE ITP IV	Validation of all Business Requirements	$ 216,513	$ 218,100	$ 216,570	$ 216,570	$ 216,570	$ 216,570	$ 216,570	$ 216,570	$ 216,570	$ 216,570	$ 2,167,173
Trainer - CSC II - ongoing permanent	Training to business users	$ 73,541	$ 73,541	$ 73,015	$ 73,015	$ 73,015	$ 73,015	$ 73,015	$ 73,015	$ 73,015	$ 73,015	$ 731,202
Financial Analysis - 2 FTE Controller II	Standardized Business Processes	$ 235,864	$ 237,599	$ 237,599	$ 237,599	$ 237,599	$ 237,599	$ 237,599	$ 237,599	$ 237,599	$ 237,599	$ 2,374,255
Security Analyst - .25 FTE ITP IV	Security design, review, & implementation	$ 24,941	$ 25,097	$ 7,860	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 57,898
Subtotal Personal Services		**$ 797,795**	**$ 803,060**	**$ 582,424**	**$ 527,184**	**$ 527,184**	**$ 527,184**	**$ 527,184**	**$ 527,184**	**$ 527,184**	**$ 527,184**	**$ 5,873,567**
												$ -
Operating Appropriation												$ -
Operating Costs	Computers, travel, operating supplies	$ 23,295	$ 12,225	$ 12,225	$ 1,450	$ 1,450	$ 1,450	$ 1,450	$ 1,450	$ 1,450	$ 1,450	$ 57,895
Hosting and Support	Vendor development, hosting, and support	$ 6,790,000	$ 6,790,000	$ 6,790,000	$ 6,790,000	$ 6,790,000	$ 6,790,000	$ 6,790,000	$ 6,790,000	$ 6,790,000	$ 6,790,000	$ 67,900,000
Independent Validation and Verification	Third party review of project deliverables	$ 100,000	$ 100,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 200,000
Software Maintenance (5% escalation)	Annual software maintenance	$ 915,700	$ 961,485	$ 1,009,559	$ 1,060,037	$ 1,113,039	$ 1,168,691	$ 1,227,126	$ 1,288,482	$ 1,352,906	$ 1,420,551	$ 11,517,576
Subtotal Operating		**$ 7,828,995**	**$ 7,863,710**	**$ 7,811,784**	**$ 7,851,487**	**$ 7,904,489**	**$ 7,960,141**	**$ 8,018,576**	**$ 8,079,932**	**$ 8,144,356**	**$ 8,212,001**	**$ 79,675,471**
												$ -
Total New Operating Request		**$ 8,626,790**	**$ 8,666,770**	**$ 8,394,208**	**$ 8,378,671**	**$ 8,431,673**	**$ 8,487,325**	**$ 8,545,760**	**$ 8,607,116**	**$ 8,671,540**	**$ 8,739,185**	**$ 85,549,038**
				-3.1449%	-0.1851%	0.6326%	0.6600%	0.6885%				$ (0)
Existing System Cost Currently Budgeted	Existing costs to run COFRS											$ -
Personnel	Staff support costs	$ 700,245	$ 700,245	$ 421,332	$ 421,332	$ 421,332	$ 421,332	$ 421,332	$ 421,332	$ 421,332	$ 421,332	$ 4,771,146
Operating	Mainframe support costs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Overhead	Overhead charges	$ 214,525	$ 220,961	$ 132,950	$ 132,950	$ 132,950	$ 132,950	$ 132,950	$ 132,950	$ 132,950	$ 132,950	$ 1,499,089
Total Costs to Run Existing System		**$ 914,770**	**$ 921,206**	**$ 554,282**	**$ 554,282**	**$ 554,282**	**$ 554,282**	**$ 554,282**	**$ 554,282**	**$ 554,282**	**$ 554,282**	**$ 6,270,235**
												$ -
Total Cost of System Over Useful Life												$ -
Operating Request - New Budget Request		$ 8,626,790	$ 8,666,770	$ 8,394,208	$ 8,378,671	$ 8,431,673	$ 8,487,325	$ 8,545,760	$ 8,607,116	$ 8,671,540	$ 8,739,185	$ 85,549,038
Existing System Costs Currently Budgeted		$ 914,770	$ 921,206	$ 554,282	$ 554,282	$ 554,282	$ 554,282	$ 554,282	$ 554,282	$ 554,282	$ 554,282	$ 6,270,235
Total Cost of System Over 10 Years		**$ 9,541,560**	**$ 9,587,976**	**$ 8,948,490**	**$ 8,932,953**	**$ 8,985,955**	**$ 9,041,607**	**$ 9,100,042**	**$ 9,161,398**	**$ 9,225,822**	**$ 9,293,467**	**$ 91,819,273**

Project Phases

Phase I — Discovery, architecture and planning

Phase II — Design, configuration, integration, creation and testing

Phase III — Implementation

Phase IV — Post-implementation

Phase V — Extension, retirement or replacement