

REPORT HIGHLIGHTS



REGIONAL TOURISM ACT
PERFORMANCE AUDIT, OCTOBER 2017

COLORADO GOVERNOR'S OFFICE OF
ECONOMIC DEVELOPMENT AND INTERNATIONAL TRADE

CONCERN

The Colorado Governor's Office of Economic Development and International Trade (OEDIT) lacks internal controls to provide assurance that the objective of the Regional Tourism Act (RTA) program is being met and that approved projects are adequately monitored. Additionally, the unique provisions of the RTA law, as interpreted by OEDIT and the Economic Development Commission (Commission) may not provide adequate protection of the State's interests.

KEY FINDINGS

- OEDIT and the Commission could not demonstrate that they ensured only projects meeting all statutory criteria and likely to promote achievement of RTA legislative intent were approved. We found:
 - ▶ For seven project applications, an independent third-party analyst concluded that the project did not meet the statutory criterion that in the absence of RTA financing, the project is not reasonably expected to be developed within the foreseeable future. Three of these projects were approved, however, OEDIT and the Commission could not demonstrate how they addressed the analysts' concerns.
 - ▶ For all nine applications, the applicant's incremental state sales tax revenue calculations for the project were higher than the third-party analyst's calculation, by 28 to 94 percent. Of the five approved projects, four were awarded higher amounts than the independent analysts' calculations. OEDIT and the Commission cannot demonstrate how they determined that the higher calculations should be used as the basis for RTA awards.
- OEDIT and the Commission are not holding project entities accountable for fulfilling all statutory and project resolution requirements. We found 11 of 57 required reports were not submitted, and OEDIT could not provide sufficient evidence that 32 of 64 required meetings were held. We also found that OEDIT does not have evidence that some projects are meeting specific requirements, and has not issued any deficiency notices to projects or otherwise enforced terms and conditions. As such, OEDIT's monitoring efforts do not appear to serve as a meaningful mechanism for holding project entities accountable for adhering to project conditions of approval.

BACKGROUND

- The RTA was established in 2009 to provide financing incentives for developing large-scale tourism projects expected to generate new tax revenue from out-of-state tourists. The RTA is unique in that it provides "tax increment financing" to projects; no other state-level program uses this type of financing method.
- OEDIT administers the RTA program. The Commission within OEDIT determines which projects it will approve for RTA financing.
- Between 2012 and 2015, local governments submitted nine applications; of these, five projects were approved for RTA awards totaling \$445 million over the next several decades. Statutes require that the final two projects be approved prior to January 1, 2016. No further projects may be approved.
- As of July 2017, \$11.3 million in state sales tax revenue has been distributed to three of the approved projects. RTA projects are estimated to become operational and begin generating revenue in 2018, 2019 (two projects), 2020, and 2025.

KEY RECOMMENDATIONS

- In the event the General Assembly allows additional applications for RTA financing through statutory revisions, OEDIT and the Commission should implement written policies and establish processes for managing project applications, including establishing internal controls to demonstrate each application meets statutory requirements.
- OEDIT should work with the Commission to implement written policies and procedures regarding ongoing monitoring of approved projects, including guidance on what monitoring activities should include, what actions to take when problems arise, and what should be documented.