

Rural Jump-Start Tax Expenditures



OFFICE OF THE STATE AUDITOR
C O L O R A D O

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The Rural Jump-Start Program (Program) is a business incentive program originally established in 2016 to attract new businesses to rural, economically distressed counties known as Rural Jump-Start Zones (RJS Zones). The Program provides tax benefits to qualifying new businesses and qualifying New Hires that locate in Rural Jump Start Zones, including:

- A business income tax credit equivalent to 100 percent of businesses' tax liability (New Business Credit),
- A state sales and use tax refund on business purchases of goods used inside the RJS Zone (Sales Tax Refund),
- An income tax credit for RJS employees paid above the average county wage equivalent to 100 percent of the employees' tax liability (New Hire Credit),
- The full elimination of local property taxes on business tangible personal property, and
- Grant funding to qualifying businesses to cover operating expenses and new hire wages, available from Fiscal Year 2022 to 2025.

According to statute and committee legislative testimony, the Program's purpose is to attract new businesses to economically-distressed rural areas in the state to create or retain higher-paying jobs, spur economic growth, and address the still significant contraction of these local economies.

In general, the Program is meeting its purpose as it has attracted some new businesses and higher-paying jobs to some RJS Zones. However, the tax expenditures associated with the Program are largely underutilized and are not effective at retaining businesses in RJS Zones or creating higher-paying jobs. Additionally, businesses that have sustained jobs have mainly been concentrated in the most populous RJS Zones, while other economically distressed areas continue to struggle to attract and retain businesses.

- From the start of the Program in 2016, through June 2024, 32 of the 42 counties that met the statutory definition of "distressed" had formed a RJS Zone; during that time only 16 of those RJS Zones had a participating new business. As of June 2024, there were 28 participating businesses in 13 RJS Zones.
- A total of 56 businesses were approved to participate in the Program from 2016 to June 2024, however most businesses did not claim the New Business Credit, and it appears that none of the businesses claimed the Sales Tax Refund. Many businesses did not generate income to be able to use the New Business Credit, and the RJS Tax Expenditures do not appear to be support the long-term retention of most participating businesses. Of the 56 approved businesses, only 7 have completed at least one full, 4-year term and met the Program requirements, and 25 companies were approved but failed to meet Program requirements, closed, or left the Program. A total of 24 are active and still in their first 4-year term with the Program.
- The RJS Program assisted in the creation of a total of 836 new jobs in RJS Zones between 2017 and 2023, an average of about 119 jobs per year, generally concentrated in Mesa and Delta counties. However, with some businesses closing, experiencing turnover, or leaving the Program, only 374 of the 836 total jobs continued to be supported by the Program at the end of 2023. Additionally, wages for the majority of new jobs created did not exceed the county average wage, and for those jobs that did exceed county average wages such that the employees were eligible for the New Hire Credit, less than half of the eligible employees claimed the credit.

Policy Considerations

- The General Assembly may want to assess whether the New Business Income Tax Credit is sufficiently meeting the General Assembly's expectations for the Rural Jump-Start Program even though it is currently providing a limited benefit to taxpayers.
- The General Assembly could consider eliminating the New Business Sales and Use Tax Refund since it is not being used.
- The General Assembly could consider eliminating the New Hire Credit, since it does not seem to be incentivizing businesses to create many new, higher-paying jobs or helping to retain employees.

New Business Tax Credit			New Hire Tax Credit	New Business Sales and Use Tax Refund
Tax Type:	Corporate/Individual Income	Individual Income	Sales and use	
Expenditure Type:	Credit	Credit	Refund	
Statutory Citation:	Section 39-30.5-105(1) C.R.S.	Section 39-30.5-105(2) C.R.S.	Section 39-30.5-105(3) C.R.S.	
Year Enacted:	2015	2015	2015	
Repeal/Expiration Date:	January 1, 2031	January 1, 2031	January 1, 2031	
Revenue Impact:	\$184,825 (2022)		\$0 (2021)	
Purposes given in statute or enacting legislation? Yes				

Rural Jump-Start Tax Expenditures

Background

The Rural Jump-Start Program (Program) was established in 2016 to attract new businesses to rural, economically distressed counties designated as Rural Jump-Start Zones (RJS Zones).

The Program provides tax benefits to qualifying new businesses and qualifying employees that locate in RJS Zones and, since 2021, has provided grant funding to qualifying businesses to assist with operating expenses and employee wages.

According to statute, the Program’s purpose is to “create or retain jobs in order to help address the still significant contraction of local economies in certain areas of the state” and “...by attracting businesses that are completely new to Colorado, economic growth will occur in distressed counties without negatively impacting other areas of the state.” [Section 39-30.5-102(2)(b) and (3), C.R.S.]

The Office of Economic Development and International Trade (OEDIT) and the Economic Development Commission (Commission) jointly administer the Program. Under statute, the Commission determines the rural counties in Colorado that are “distressed” and therefore, can apply for RJS Zone designation based on statutory criteria (see Technical Note). A distressed county must partner with a local “sponsoring entity,” which must be either a designated state institution of higher education (DIHE) or an approved economic development organization (EDO), to apply to the Commission to become a designated RJS Zone. Municipalities located within a RJS Zone (i.e., participating county) may choose to participate in the Program, but they are not automatically eligible just because they are located in a RJS Zone. As part of the Zone formation process, counties and municipalities that participate in the Program must agree to either eliminate the business personal property tax (e.g., local taxes on the value of business equipment, machinery, security systems, furnishings) for all participating Rural Jump-Start businesses, or agree to eliminate the tax for specific participating businesses (i.e., on a case-by-case basis). Counties and municipalities participating in the Program have the option to provide additional incentives to approved businesses, such as local sales tax exemptions. Once the Commission approves the county and participating municipalities as a RJS Zone, new businesses within the RJS Zone are eligible to apply for the Program.

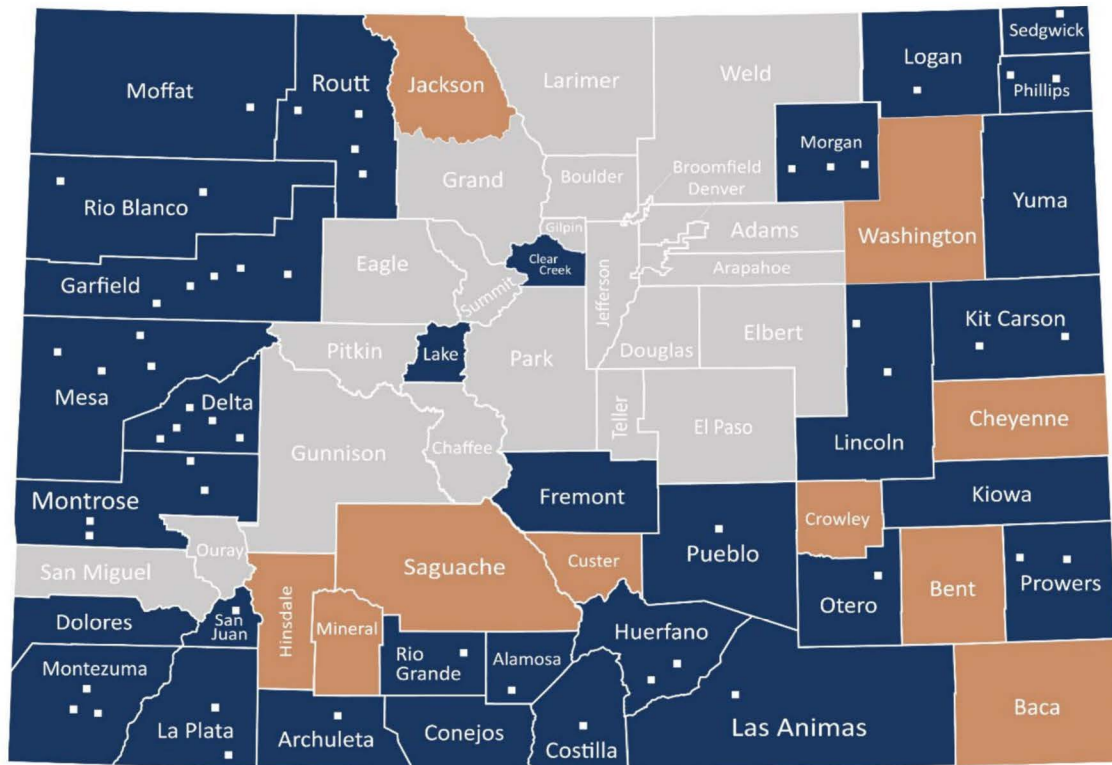
Technical Note:

According to statute, a county is considered “distressed” if it has a population of less than 250,000 and reflects specified indicators of economic distress, such as per capita income substantially below the statewide average, unemployment levels during the last 5 years that are substantially above the statewide average, a net loss of people of workforce age during the last 5 years, or failure to recover from a loss of workforce over the last 10 years [Section 39-30.5-103(4), C.R.S.].

As of June 2024, 42 of Colorado’s 64 counties (66 percent) have been designated as “distressed” and 32 have formed RJS Zones. Within the RJS Zone counties, 53 municipalities are participating in the Program. Exhibit 1 shows the current counties that are designated as “distressed,” the counties that are approved RJS Zones, and the municipalities in the RJS Zones that are participating.

Exhibit 1

Designated Rural Jump-Start Counties and Participating Municipalities¹ as of June 2024



■ RJS Zones

■ Economically-distressed rural counties that have not formed RJS Zones

County	Municipality	County	Municipality
Alamosa	Alamosa	Mesa	De Beque
Archuleta	Pagosa Springs		Fruita
Clear Creek			Grand Junction
Conejos			Palisade
Costilla	San Luis	Moffat	Craig
Delta	Delta	Montezuma	Cortez
	Cedaredge		Dolores
	Hotchkiss		Mancos
	Orchard City	Montrose	Montrose
	Paonia		Naturita
Dolores			Nucla
Fremont			Olathe
Garfield	New Castle	Morgan	Brush
	Glenwood Springs		Fort Morgan
	Parachute		Wiggins
	Rifle	Otero	La Junta
	Silt	Phillips	Haxtun
Huerfano	La Veta		Holyoke
	Walsenburg	Prowers	Granada
Kiowa			Lamar
Kit Carson	Burlington	Pueblo	Pueblo
	Vona	Rio Blanco	Meeker
Lake			Rangely
Las Animas	Trinidad	Rio Grande	Monte Vista
La Plata	Durango	Routt	Hayden
	Ignacio		Oak Creek
Lincoln	Hugo		Steamboat Springs
	Limon		Yampa
Logan	Sterling	San Juan	Silverton
		Sedgwick	Julesburg
		Yuma	

Source: Office of the State Auditor analysis of designated Rural Jump-Start Zones from the Office of Economic Development and International Trade.

¹A dash indicates a county without a participating municipality.

To qualify for program benefits, a “new business” must apply to a sponsoring entity (i.e., a DIHE or EDO) to participate in the Program. If the sponsoring entity agrees to work with the business, the new business then submits a Program application and a memorandum of understanding with the sponsoring entity to the Commission for approval. For the purposes of the Program, statute outlines that at a minimum a new business “is not operating in the state at the time it submits its application...to participate in the [Program],” [39-30.5-103(7)(a), C.R.S.]. OEDIT's program guidelines outline that the business must be:

- A startup not yet operating;
- A business based outside of Colorado, not currently operating in Colorado;
- A new joint venture between companies; or
- A newly created division of a company. The company may or may not be operating in Colorado at the time it creates the division.

To qualify for the Program, a business must also add to the local economic base and export goods and services outside of the RJS Zone (i.e., it must sell goods and services outside of the zone, thereby bringing additional dollars into the local economy); cannot be moving existing jobs in the State into the RJS Zone; and cannot be substantially similar in operation to or directly compete with the core function of a business operating in the same, or an adjacent, economically-distressed county, even if that county is not a designated RJS Zone.

Once a business has been approved for the Program and is participating, it must do the following to remain in the Program:

- Employ a minimum number of individuals who work full-time; are employed with the business for at least 6 months; work in the RJS Zone at least 80 percent of the time; and have annual wages that meet or exceed the average wages for the county. These individuals are defined as “New Hires” and businesses are required to employ at least one New Hire by the end of the business’s first year in the Program.

New Hires —If the business is located in a county with a population of at least 100,000 people, the business must employ at least three New Hires by the end of its second year, and at least five New Hires by the end of its third year. If the business is located in a county with a population of less than 100,000 people, it must employ at least two New Hires by the end of its second year, and at least three New Hires by the end of its third year.

- Submit an annual report to the Commission by the last day of February of the current year that provides required information about the prior year’s business operations and eligible New Hires.

The Program has three state-level tax expenditures, which are the focus of this evaluation, referred to collectively in this report as the RJS Tax Expenditures. Qualifying businesses can claim the New Business Income Tax Credit and New Businesses Sales and Use Tax Refund, while qualifying New Hires are eligible to claim the New Hire Income Tax Credit. Each of the RJS Tax Expenditures is available for 4 consecutive tax years and taxpayers can receive an additional 4-year extension with Commission approval (i.e., a business can participate in the Program for eight years total).

1. **New Business Income Tax Credit (New Business Credit):** Participating businesses receive an income tax credit equal to 100 percent of their annual state income tax liabilities for business activities that occur in the RJS Zone. New businesses benefit directly from this credit with their employees and the local

communities where the new businesses locate possibly receiving an indirect benefit to the extent that the credit encourages businesses to create new jobs and increase economic activity within the area they locate.

2. **New Business Sales and Use Tax Refund (Sales Tax Refund):** Participating businesses can apply for a refund of all state sales and use taxes paid on purchases of goods that are used solely within the RJS Zone. Participating businesses benefit directly from this credit, along with their employees, the local communities where the businesses locate, and vendors possibly receiving an indirect benefit to the extent that the refund encourages businesses to create new jobs, increase economic activity in RJS Zones, and make additional purchases.
3. **New Hire Income Tax Credit (New Hire Credit):** Qualifying New Hires are eligible for an income tax credit equal to 100 percent of the New Hires' annual income tax liability on wages earned from the participating businesses. New Hire employees, which may include the owners of the business, are the direct beneficiaries of this credit with the new businesses being indirect beneficiaries to the extent that the credit helps attract and retain employees. There is a cap of 200 credit certificates that OEDIT can issue to New Hires employed by all new businesses in each RJS Zone per year, although starting in 2024 the Commission has the discretionary authority to increase this to 600 credit certificates per year.

In addition to the RJS Tax Expenditures, participating businesses are also eligible for Program grant funding; OEDIT was appropriated \$3 million for Program grants for Fiscal Years 2022 through 2025. Specifically, new businesses can be awarded:

- **Working Capital Grants** for establishing operations in a RJS Zone. OEDIT awards grants of up to 25 percent of the business's documented operating expenses. Businesses can receive a maximum of \$20,000 in grants, unless they are operating in a "tier one transition community," (see technical note) in which case businesses are eligible for \$40,000 in grant funding.
- **New Hire Grants** for each new employee who qualifies as a New Hire (i.e., works in the RJS Zone at least 80 percent of the time, has been employed by the business in the RJS Zone for at least 6-months, is employed full-time, and is paid an annual salary above the county average wage). OEDIT awards grants based on the number of New Hires a business reports for the year. Businesses can receive a maximum of \$2,500 in grants per New Hire, unless they are operating in a "tier one transition community," in which case businesses are eligible for \$5,000 per New Hire. In contrast to the New Hire Credit, which directly benefits the newly hired employee, the New Hire Grants directly benefit the business. A business can receive the grant for any individual, qualified New Hire; there is no hiring threshold that must be met, as is the case for the business to qualify for the New Business Credit.

Technical Note:

Statute defines "Tier One Transition Communities" as communities that have been determined to be experiencing significant economic disruptions due to the contraction of the coal power industry [Section 39-30.5-103(12), C.R.S.].

Participating businesses can receive Working Capital Grant funds as soon as they submit proof of expenses to OEDIT; however, in order to receive New Hire Grants, or any of the RJS Tax Expenditures, businesses must wait until February of the following year, when they submit their annual report to the Commission confirming they have met Program requirements documenting business operations, including the number of employees hired and their wages. OEDIT staff and the Commission then review the report to determine whether the business qualifies for Program benefits. Upon approval by the Commission, OEDIT then issues credit

certificates to the business and any qualified New Hires. OEDIT provides the Department of Revenue (Department) with an electronic report of each new business that has been approved for credits for the preceding calendar year. Taxpayers must fill out a Rural Jump-Start Zone Credit Schedule to determine the amount of income tax credits they can claim and attach the credit certificates when they file their tax returns with the Department. To receive the Sales Tax Refund, participating businesses must submit directly to the Department proof of sales and use tax paid and a refund form.

The Office of the State Auditor (OSA) last conducted an evaluation of the RJS Tax Expenditures in 2019 and published the evaluation in 2020. We concluded that the expenditures were likely meeting their purpose to some extent, although their impact on distressed counties in the State was limited. At the time, only Mesa County had any businesses approved and operating in the Program, which limited its impact on distressed counties statewide. Since then, the General Assembly has made several significant changes to the Program with the goal of expanding participation. These changes include the addition of the business grants, the addition of an FTE for OEDIT to manage the Program and conduct outreach, and changes to allow businesses to participate in the Program if they do not compete with another local business or a business in an adjacent, distressed county, regardless of whether the adjacent county is a designated RJS Zone (prior to the changes, businesses had to show that they would not compete with an established business *anywhere* within Colorado).

Additionally, during the 2024 Legislative Session, the RJS Tax Expenditures' expiration dates were extended from the end of Tax Year 2025 to the end of Tax Year 2030, the Program grants were extended through the end of Fiscal Year 2025, and the General Assembly reduced the number of qualified New Hires a business must employ from five to three if they are operating in a county with a population under 100,000 people; of the counties participating in the Program as of June 2024, all of them except Mesa and Pueblo had a population under 100,000 people. Based on interviews with OEDIT staff, the requirement of five New Hires was a significant challenge for new businesses operating in more rural areas. This report does not include an evaluation of the impact of these changes, as they occurred during our evaluation of the RJS Tax Expenditures and not enough time has passed to assess their effects.

Rural Economic Challenges and Other Programs in the State

According to the Economic Innovation Group, a bipartisan economic development policy organization, rural areas lag behind non-rural areas on nearly every measure of economic well-being from poverty rates to labor force participation. In general, many rural areas have been experiencing population decline following the Great Recession due to a natural decrease in population (fewer births and more deaths), as well as greater rates of out-migration compared to in-migration. Technological automation has also reduced employment in agricultural, manufacturing, and mining industries, which have long been more prevalent in rural economies. A shrinking labor pool is less attractive to outside firms scouting locations, and shrinking job opportunities can drive more out-migration of rural workers. One strategy to counter this cycle is to focus, as the Program does, on developing entrepreneurship and startups in these locations. According to the Federal Reserve, entrepreneurship, or the rate of self-employed business proprietors, is highest in the most remote rural communities.

New businesses and startups are generally associated with regional economic growth and significant levels of job creation relative to other businesses. However, rural areas pose a number of challenges for new businesses and startups, such as difficulty accessing funds and business services, both of which are generally concentrated in urban centers; higher costs for transportation and communication; and insufficient workforce in terms of numbers and/or skill or education level of potential employees. Rural areas also experience difficulty in

developing innovative and specialized businesses, which are more likely to yield economic growth.

Entrepreneurs tend to start new businesses in their current location and within industries in which they already have experience. Therefore, rural entrepreneurs are more likely to create businesses in industries that already have a presence in the local economy, which are in turn less likely to be high-growth, innovation-oriented industries and are more likely to serve local needs rather than exporting goods or services outside of the area.

Another type of “new business” the Program attempts to incentivize to locate in RJS Zones are existing, larger businesses that are opening a new division or relocating to Colorado. According to OEDIT, while these businesses represent a smaller number of the businesses participating in the Program, they have had an outsized impact on job creation and tax expenditures claimed.

OEDIT reports that the Rural Jump-Start Program is one of several programs providing financial assistance and business development tools to address the contraction of the state’s rural economies, which is a perennial challenge that has no easy solutions. In addition to the Program, Colorado also has many other programs intended to incentivize economic activity and growth in rural, economically distressed communities, including:

- The Enterprise Zone Program, which is a geographically-targeted set of state income and sales tax incentives administered by OEDIT that is available to businesses located in areas of the state that are experiencing economic difficulties. The total amount of Enterprise Zone credits certified in Fiscal Year 2023 was \$148 million, though it is likely that some of the credits certified will not be used.
- The Strategic Cash Fund Incentive, another OEDIT-administered program that provides cash incentives to businesses for the expansion or relocation of projects for which Colorado is in competition with at least one other state, and the company has received a commitment of local government funding that matches any requested state government incentives. Cash payments are made over five years to companies that create and maintain new permanent jobs in Colorado. The total amount provided to businesses in Fiscal Year 2024 was \$6 million.
- The Job Growth Incentive Tax Credit, an OEDIT administered program that allows qualified businesses in Colorado to claim an income tax credit if they choose to locate in Colorado over another state or country and create net new full-time jobs paying above the county average wage. The total amount of Job Growth Incentive credits certified in Fiscal Year 2024 was \$39 million, though it is likely that some of the credits certified will not be used.
- Coal Transition Community Grants, administered by OEDIT and the Office of Just Transition within the Colorado Department of Labor and Employment, which are used to support long-term transition strategies in communities historically reliant on the coal industry, but facing a loss of coal industry operations. Between January 2023 and June 30, 2024, OEDIT awarded four of these grants totaling \$1.3 million to Colorado businesses.
- The Rural Economic Development Initiative, administered by the Department of Local Affairs, which provides a variety of grants intended to help rural communities diversify their economy. For the purposes of the program, a rural community is defined as a county with a population of less than 50,000 or a municipality with a population of less than 25,000. Since 2021, the program has provided about \$7.1 million in grants for projects in rural counties; \$5.9 million of which went to 20 counties that are also RJS Zones.

- Federal Opportunity Zones, which support development in economically distressed areas of the country by providing federal capital gains tax deferral and exemptions to taxpayers who invest in Qualified Opportunity Funds.
- Local government economic development programs, which vary by local jurisdiction and can include property tax abatements for specific businesses, sales tax exemptions, loan and bond programs to provide up-front funding for businesses and/or development projects, and local economic development agencies that can provide financing, grants, and education and assistance for businesses.
- The Colorado Small Business Development Center Network, which provides free consultation and free, or low-cost training programs for businesses.

Under Section 39-30.5-105(4), C.R.S., businesses that claim the Program's benefits cannot claim any other tax incentives provided under Title 39, C.R.S., that the business would be eligible for due to establishing the new business in the State. For example, a business could not claim RJS Tax Expenditures and also Colorado's Enterprise Zone New Employee Credits or Job Growth Tax Credits. Businesses that receive benefits from the RJS Program may claim tax credits for programs that do not incentivize establishing a new business and hiring new employees. For example, a business receiving benefits from the Program could also claim the Enterprise Zone Investment Tax Credit, the Historic Preservation Tax Credit, or the Advanced Industry Accelerator Grant.

Performance Measures

Starting in 2020, the General Assembly required OEDIT to produce an annual report on the Program that includes the metrics below, indicating that it intended for this information to assist the OSA when evaluating the RJS Tax Expenditures:

- The number of approved RJS Zones.
- The distribution of new businesses across RJS Zones.
- The number of RJS Zones that have graduated from the Program (i.e., the county no longer meets the definition of "distressed"), including a comparison of such numbers before and after the Program's renewal in 2020.
- The type and active/inactive status of each approved new business, including whether the business is in an advanced industry (i.e., advanced manufacturing; aerospace; bioscience; electronics; energy and natural resources; infrastructure engineering; and information technology [Section 24-48.5-117(2)(a), C.R.S.]), and a comparison of the number of approved and active new businesses over time.
- Evidence of any ancillary economic development occurring in any RJS Zone as a result of the Program.
- The number of individuals hired by a new business that do not meet the New Hire definition.

We have incorporated these OEDIT-reported metrics, when available and appropriate, into our review of the RJS Tax Expenditures using the following performance measures:

- To what extent have the RJS Tax Expenditures helped attract and retain new businesses in active RJS Zones?
- To what extent have the RJS Tax Expenditures encouraged job growth and contributed to the creation of higher-paying jobs in RJS Zones?

Evaluation Results

Attracting and Retaining New Businesses

The RJS Tax Expenditures have helped attract some new businesses to locate in RJS Zones, but the expenditures have not provided a significant financial benefit to help retain the businesses.

Between 2016, when the Program started, and June 2024, a total of 56 businesses have qualified to participate in the Program. Based on our discussions with stakeholders and surveys of business participants, it appears that the RJS Tax Expenditures likely had a positive influence on some of the participating businesses' decisions to locate in RJS Zones. Specifically, we surveyed participating businesses and 5 of the 8 respondents to our survey rated the New Business Credit and the Sales Tax Refund as "highly influential" in their decision to locate in a RJS Zone, and 4 of 8 said the same of the New Hire Credit. However, all eight respondents reported that other factors, such as affordable housing, cost of doing business, quality of life, geographic location, or infrastructure quality, were most important in determining their business location. Additionally, while the availability of the RJS Tax Expenditures may have been an important consideration for many qualifying businesses, it is likely that some of them would have located in RJS Zones regardless of the Program's tax benefits. Numerous reviews of state job creation tax incentives, including tax credits, by academics, think tanks, and state legislative fiscal offices have concluded that incentives can have some effect in shaping business location decisions, but in many cases, businesses would choose to locate in a state regardless of the incentive.

Most businesses and employees are not claiming the tax expenditures, and for those that have, the expenditures provide a relatively small amount of financial support. Based on Department individual tax return data, which is only available in even numbered years for Tax Years 2016, 2018, and 2020—we found that less than 15 percent of participating businesses claimed the New Business Credit. Due to taxpayer confidentiality requirements, we cannot disclose the exact number or dollar amount of New Business Credits that were claimed. It is likely that many participating businesses did not claim the credit because they did not have any tax liability to offset with a credit, which is common among new businesses because they are often not profitable in their initial years. However, the majority of businesses that responded to a survey question regarding the New Business Income Tax Credit indicated that they had not yet used the credit but planned on using it in future years when they have an income tax liability, so is possible that the number of businesses that claim the New Business Credit will increase if some startup businesses begin to become profitable in future years and OEDIT conducts additional education and outreach, attracting more businesses to the Program.

We also found that no businesses claimed the Sales Tax Refund despite some likely having made purchases of supplies and equipment that would have qualified, since any purchase directly used by a qualifying business in the RJS Zone is eligible. We do not know why businesses are not claiming the refund, but it might be that some businesses are not aware of it, or that some purchases, such as machinery and wholesale transactions, are already exempt from sales tax under other tax expenditure provisions. It could also be that, in particular for

smaller purchases, the administrative cost of filing the required forms and documentation with the Department to claim the Sales Tax Refund outweighs the financial benefit the businesses would receive from the refund, which is equivalent to 2.9 percent of the eligible purchases. However, if businesses make more significant purchases in the future, they might choose to claim the refund since the financial benefit would be greater.

Finally, we found that few employees of the participating businesses claimed the New Hire Credit. For Tax Years 2018 and 2020—the most recent years with available taxpayer and OEDIT data—out of 10 businesses with New Hires, only four had employees that claimed the credit, and less than half of the New Hires that were eligible for the credit claimed it. In Tax Year 2021, the Commission approved over \$300,600 in New Hire Credits, but Department data for 2021, which aggregates the amount claimed for both the New Businesses and New Hire Tax Credits, showed that taxpayers claimed only \$136,000 for both credits combined, indicating that many eligible taxpayers continued to not claim the New Hire Credit.

This lack of use could be driven by a lack of awareness. Only 3 of the 6 businesses that responded the survey questions regarding the New Hire Credit reported that employees were made aware of this benefit before they were hired. Therefore, many employees may not be aware of the credit and may not use the credits available to them. Additionally, based on feedback from OEDIT, RJS business participants, and the Department, as well as our own review of claims for the credit, a significant number of the taxpayers have experienced some kind of difficulty in claiming the New Hire Credit, typically due to missing credit certificates or forms or miscalculating the credit amount. Currently, the Department uses one form for both the New Business Credit and New Hire Credit, which may create confusion for taxpayers. Both the Department and OEDIT noted that they are working on these administrative and awareness issues. Specifically, the Department has revised the instructions for the credit form starting in Tax Year 2024 to help alleviate confusion in the future, and, since 2023 the Department and OEDIT have provided specific training to participating businesses and employees on claiming the credit.

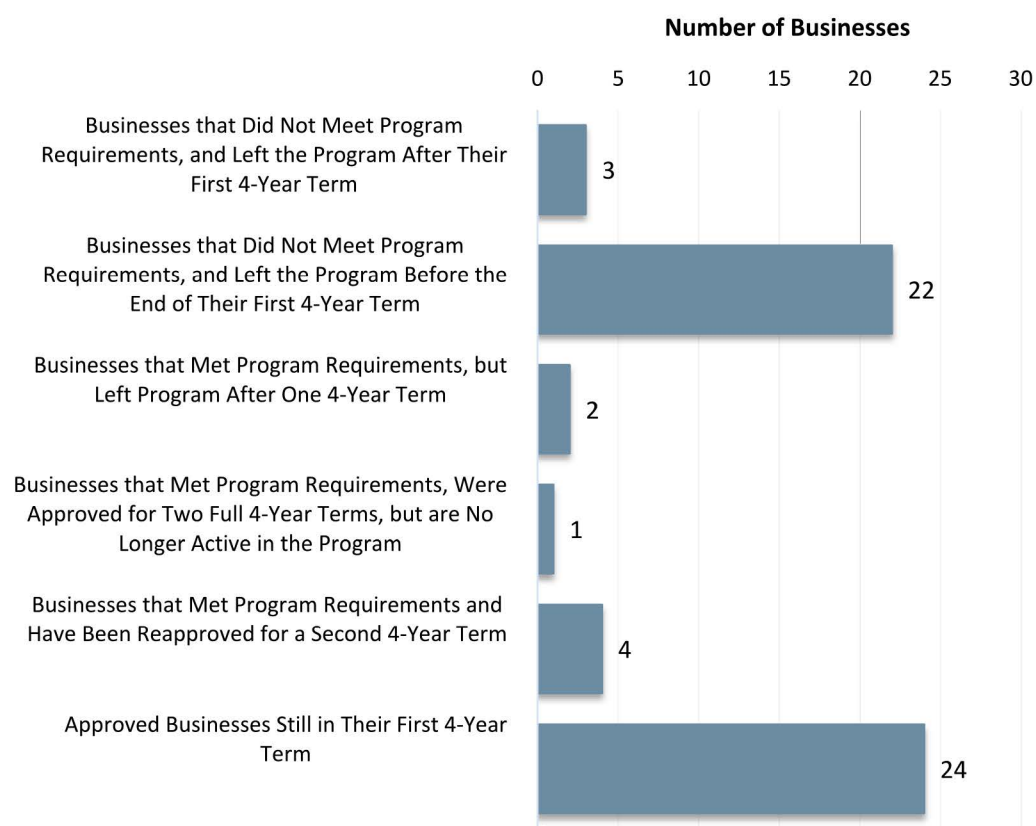
Due in part to the challenges associated with claiming them, the RJS Tax Expenditures typically have not provided a significant financial benefit to participating businesses and their employees, and the RJS Tax Expenditures have not likely supported and helped retain businesses that participate in the Program.

For most Program participants, especially newer businesses, the Program grants have provided more financial support than the RJS Tax Expenditures in recent years. We found that between 2016 and 2022—the most recent tax year available of aggregated data—taxpayers claimed about \$537,600 in New Business and New Hire Credits combined; while we cannot report on the specific number of businesses and amount of credits claimed due to taxpayer confidentiality requirements, less than 15 percent of the participating businesses between Tax Years 2016 and 2020 claimed the New Business credit. Additionally, no businesses claimed the Sales Tax Refund. In contrast, OEDIT has awarded \$1.6 million in Program grants to 35 participating businesses between Fiscal Years 2022 and 2024. Of the \$1.6 million in grants awarded, as of December 2024, \$646,300 has been paid out to 28 businesses. In addition to providing a larger benefit, access to capital through grants is typically more valuable to new businesses than tax credits because they are provided up front, instead of after businesses file their tax returns, and provide a more certain benefit because they are not dependent on businesses having a tax liability.

Most businesses do not graduate from the Program. Ideally, new businesses will not just locate to RJS Zones, but grow and maintain a presence there even after they are no longer eligible to participate in the

Program. However, we found that a significant number of businesses that start the Program do not stay in the Program because they either fail to meet the hiring requirements or go out of business. As of June 2024, of the 56 businesses that had been approved for the Program, 25 (45 percent) were removed from the Program either because they did not meet Program requirements (e.g., meeting New Hire requirements or submitting annual documentation) or the business closed; 22 of these businesses left the Program before the end of their first 4-year term. This is a higher rate of business attrition than retained businesses; only 7 businesses (12.5 percent) had completed a full 4-year term meeting the New Hire requirements. Of these 7 businesses, 5 were re-approved for a second 4-year term, and 4 are still active in the Program. The remaining 24 businesses (43 percent) were still in their first term, with only 1 having met or exceeded the requirement to have 5 New Hires. Exhibit 2 shows the business outcomes for the 56 approved businesses, as of June 2024.

Exhibit 2
Rural Jump-Start Program Businesses Outcomes for All Approved Businesses Between 2016 and June 2024



Source: Office of the State Auditor analysis of Office of Economic Development and International Trade’s Rural Jump-Start Program business data for 2016 through June 2024.

The Program’s participating new businesses made up a relatively small share of new businesses in the participating counties and are concentrated in the larger counties. Exhibit 3 shows the number of new businesses approved for the Rural Jump-Start Program as a percentage of the net new businesses established in each county from 2016 through 2022, which is the most recent Bureau of Labor Statistics data available.

Exhibit 3**Rural Jump-Start Program Businesses Approved as a Percentage of Total New Businesses Reported in Counties with Rural Jump-Start Participation¹, 2016 to 2022**

RJS County	Total RJS Program Businesses Approved	Total New Businesses in RJS Zone	RJS Program Businesses as a Percent of New Businesses in RJS Zone ²
Archuleta	1	146	Less than 1%
Delta	4	127	3 %
Garfield	1	479	Less than 1%
Huerfano	1	23	4%
Logan	1	22	5%
Mesa	26	861	3%
Montrose	2	352	Less than 1%
Routt	5	402	1%
San Juan	1	15	7%
Sedgwick	1	9	11%

Source: Office of the State Auditor analysis of Office of Economic Development and International Trade data and data from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages for 2016 through 2022.

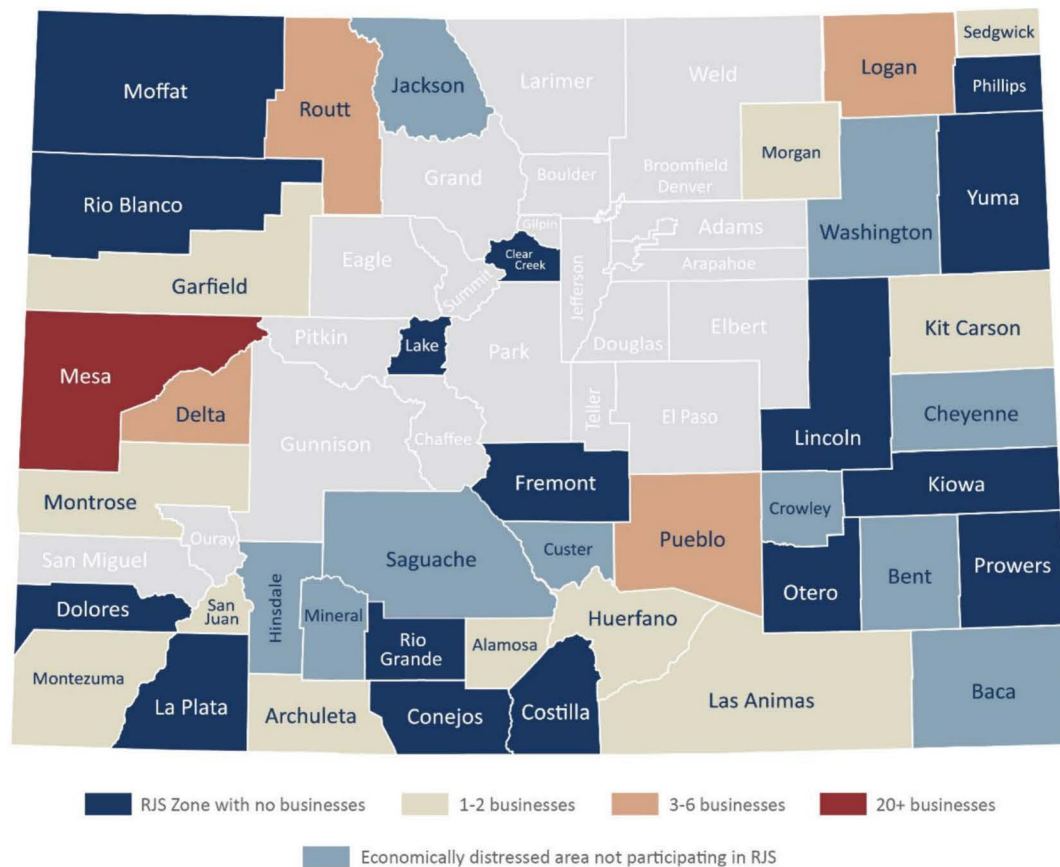
¹ RJS Zone approved counties with no approved or participating RJS businesses during the time period are not included in this table.

² Percentages in column have been rounded to the nearest whole number.

In addition, although more counties have participating businesses than when we last evaluated the Program for 2016 to 2018 (at which time only Mesa County had participating businesses), the Program's businesses are concentrated in a few counties that have relatively larger populations and host a few larger participating businesses. From the Program's start in 2016 through June 2024, a total of 56 businesses were approved to participate in 16 of the 32 counties designated as RJS Zones (i.e., half of the RJS Zones never had an approved business), and half of the approved businesses were in Mesa County. Exhibit 4 shows the concentration of businesses formed in each county during this period.

Exhibit 4

Concentration of Approved Rural Jump-Start Businesses in Participating Counties 2016 to June 2024



Source: Office of the State Auditor analysis of Office of Economic Development and International Trade's Rural Jump-Start Program business data for 2016 through June 2024.

Of all the rural, economically-distressed counties that are eligible to participate in the Program, Mesa County has the second largest population, with about 160,000 residents in 2023 and the largest number of businesses with paid employees, with about 5,500 in 2022. In contrast, during the same years, the average population in all other counties in the Program was about 22,300 residents, with an average of 776 businesses with paid employees. This concentration of workforce and suppliers is a primary reason why Mesa County continues to account for most of the Program's activity.

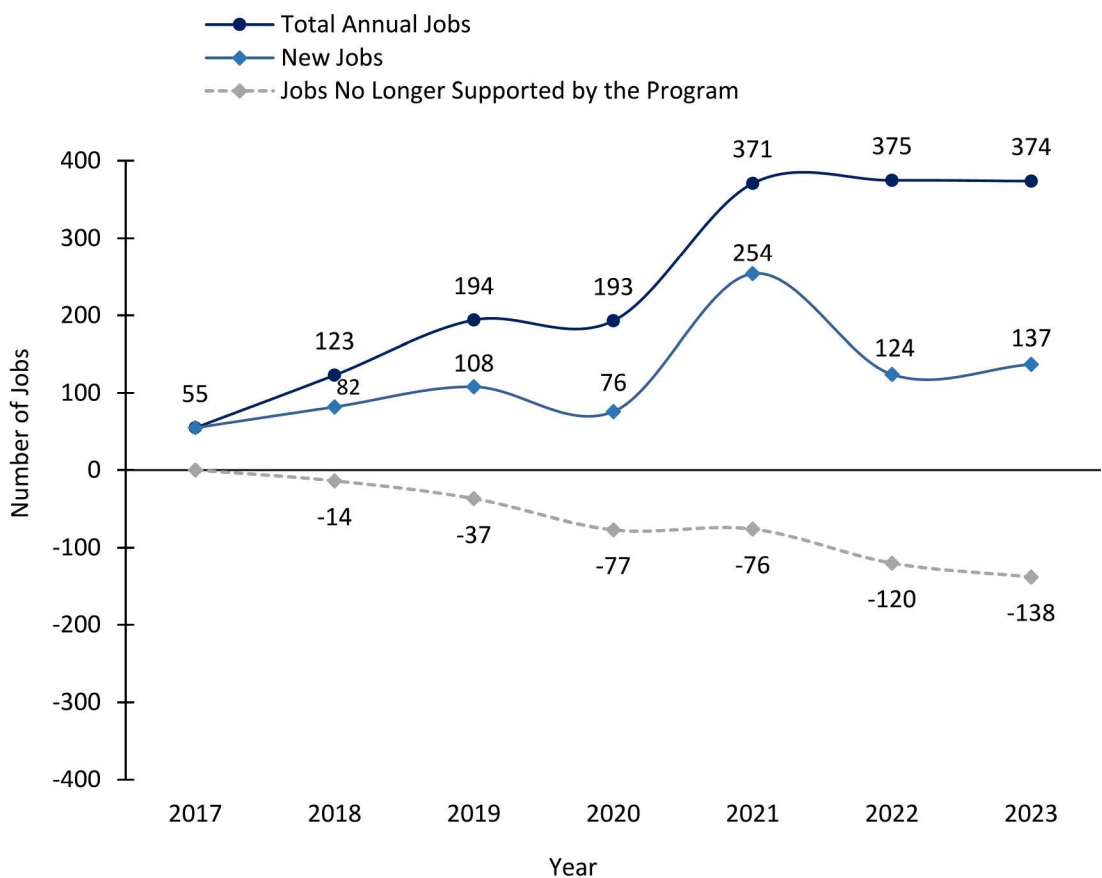
Incentive evaluations from other states with similar programs have also found that the program benefits tend to concentrate in larger, more populous parts of those states. For example, an evaluation of Kansas's PEAK Program, which allows non-metro employers who create five new jobs over a 2-year period to retain 95 percent of the state payroll withholding tax on jobs that pay at least the county median wage, found that the program likely yields positive total returns, but was not well-targeted towards rural areas and primarily benefited more populous areas of the state. Similarly, a review of Oklahoma's Quality Jobs Program, which provides quarterly cash rebates of up to 5 percent of newly created taxable payroll for certain export businesses, found that the program was a net fiscal benefit to the state (i.e., generated more revenue compared to the total cost) but noted that participants were concentrated in Oklahoma and Tulsa counties, the two most populous counties in the state. Finally, for Nebraska's Advantage Rural Development Program, which provides refundable tax incentives

for business investment projects within rural counties, a review showed that only 1 percent of projects that received incentives fell within rural areas that were also economically-distressed.

Attracting and Retaining New Jobs

The RJS Tax Expenditures have had a relatively small impact on job growth and higher-paying jobs in RJS Zones. Overall, we found that while participating businesses created new jobs each year, many of the jobs were not retained, which reduced total job growth associated with the Program. Specifically, based on OEDIT data, between 2017 and 2023, Program businesses created a total of 836 new jobs, or roughly 119 jobs per year. However, in each year some jobs were no longer supported by the Program. For example, in 2023, while businesses added 137 new jobs, 138 jobs from 2022 were no longer supported by the Program. Therefore, the change in total jobs between 2022 and 2023 stayed relatively flat with a total of 375 jobs supported in 2022 and 374 in 2023. Exhibit 5 shows the new jobs each year along with the change in jobs from the prior year to show the cumulative total job growth associated with the Program.

Exhibit 5
Rural Jump-Start Zone Employment between 2017 and 2023, Including Increases from New Jobs and Decreases from Jobs No Longer Supported by the Program



Source: Office of the State Auditor analysis of Office of Economic Development and International Trade’s Rural Jump-Start Program employment data for 2017 through 2023.

While we could not determine the exact reasons for the reduction in jobs supported by the Program (i.e., whether employees left voluntarily, the companies downsized or closed, or the jobs were temporary), the number of jobs not retained was disproportionately affected by turnover at a handful of relatively larger employers. For businesses that left the Program entirely, it is possible these jobs still exist, but these businesses are not required to report this information to OEDIT. Nevertheless, it appears that for many of the jobs, the RJS Tax Expenditures did not create stable, long-term employment. Additionally, it is likely that businesses would have created at least a portion of the jobs associated with the Program regardless of the RJS Tax Expenditures. As discussed, although the stakeholders and businesses we contacted indicated that the tax expenditures were influential when deciding where to locate, they also indicated that other factors were more important and most participating businesses and employees ultimately have not used the available tax expenditures.

In addition, similar to new businesses, the Program's new jobs are largely concentrated in two larger counties with nearly 90 percent of all jobs being in Mesa or Delta County. Exhibit 6 shows the new jobs created each year for every county that created at least one job between 2017 and 2023.

Exhibit 6
Rural Jump-Start Program New Jobs Per County, 2017 to 2023

County	2017	2018	2019	2020	2021	2022	2023	Percent of Total New Jobs ²
Archuleta	0	0	0	0	1	0	0	Less than 1%
Delta ¹	0	0	0	24	36	20	19	12%
Garfield	0	0	0	0	14	20	0	4%
Kit Carson	0	0	0	0	0	0	1	Less than 1%
Las Animas	0	0	0	0	0	0	4	Less than 1%
Mesa ¹	55	82	108	42	185	68	96	76%
Montrose	0	0	0	10	18	4	1	4%
Routt	0	0	0	0	0	9	9	2%
San Juan	0	0	0	0	0	2	5	Less than 1%
Sedgwick	0	0	0	0	0	1	2	Less than 1%

Source: Office of the State Auditor analysis of Office of Economic Development and International Trade's Rural Jump-Start Program employment data for 2017 through 2023.

¹ A few large employers participating in the Program created most of the jobs in Delta and Mesa counties.

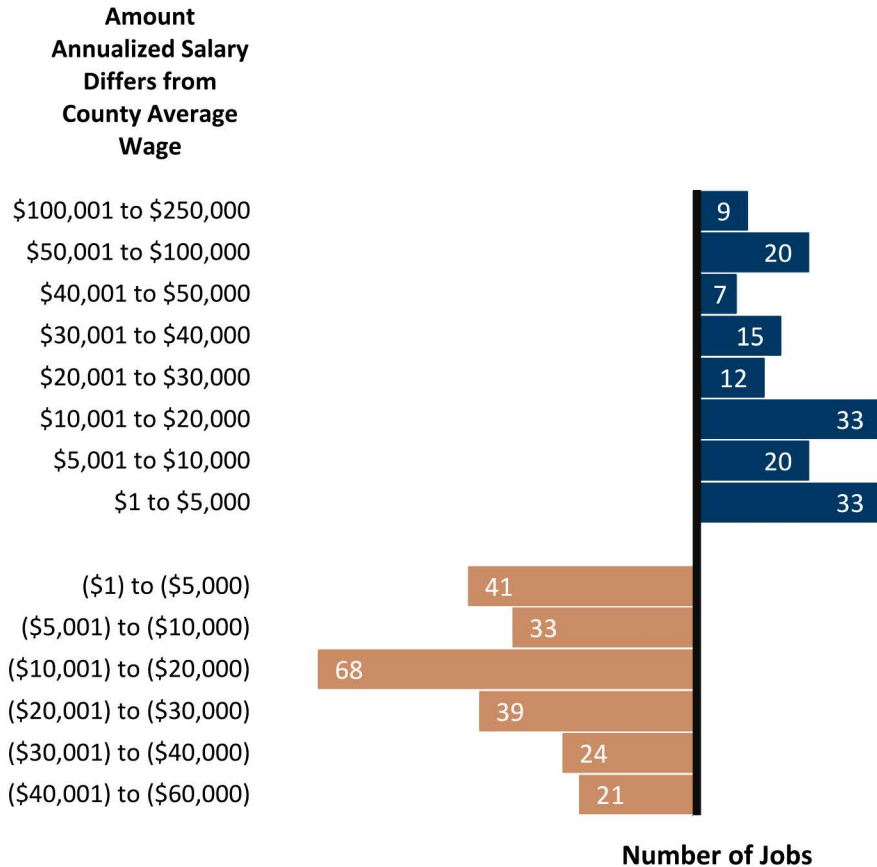
² Percentages in table have been rounded.

The Program does not appear to create many higher paying jobs. Although businesses must create a minimum number of jobs that pay above the county average wage in order to participate in the Program (i.e., one job in the first year, three jobs in the second year, five jobs in the third year), and employees paid at higher wages are eligible for the New Hire Credit, neither the requirement nor the tax credit appear to have a significant impact on employee wages. Specifically, we found that in Calendar Year 2023, only about 40 percent of the new jobs created by participating businesses paid above the county average wage and the average salary for all jobs was 3 percent above county average wages. We also found that over the last 4 years, the average qualifying New Hire's annual salary exceeded the county average wage by roughly \$30,000. This suggests that for many qualifying employees, their higher compensation was most likely determined by higher market rates for their positions rather than by their employer increasing their compensation in order for them to qualify for the New Hire Credit, since employers that are motivated to pay increased salaries in order to meet Program requirements would be able to do so by paying only slightly above the county average wage. Additionally, because the Program's tax benefits are underutilized, it appears that the RJS Tax Expenditures likely have only a marginal impact on businesses' decisions as to how much to pay employees. Further, because the New Hire Credit financially benefits the employee who claims the credit, not the business that creates the job, it is less likely to incentivize employers to pay employees more.

In addition, the New Hire Grants, which provide businesses \$2,500 per employee paid above the county average wage after 6 months of employment, could provide some additional incentive to pay above county average wages. However, similar to the RJS Tax Expenditures, the Program grants are relatively small compared to businesses' salary costs and so their impact on salaries is likely marginal. For example, a typical business can receive \$2,500 to \$5,000 in grants and become eligible for the New Business Credit by hiring an employee above the county average wage; therefore, they could have an incentive to increase pay to a similar degree for a job that would otherwise have wages just below the county average wage. Exhibit 7 shows the distribution of Program jobs' wages in Calendar Year 2023 based on how they compare to county average wages. As shown, only 33 of the 375 jobs (9 percent) had salaries between \$0 and \$5,000 above the county average wage. Although we could not determine the extent to which the salaries for these jobs were influenced by the Program, we considered the jobs in this range the most likely to have been influenced because if employers paid outside of this range, the cost of doing so would typically exceed Program benefits. On the other hand, 41 jobs were created with wages between \$1 and \$5,000 below county average wages, which may indicate that the Program provides very little incentive for some businesses to increase wages, since they could have potentially qualified for additional Program benefits with a relatively small increase in wages for these jobs.

Exhibit 7

Rural Jump-Start Program Jobs and Distribution of Annualized Wages in Relation to the County Average Wage for 2023



Source: Office of the State Auditor analysis of Office of Economic Development and International Trade's Rural Jump-Start Program employment data for 2023.

In some instances, we noted that even though OEDIT notifies businesses of increases in county average wages annually, some employees' wages did not keep pace with the increases and therefore they became ineligible for the New Hire Credit.

It is possible that some of the General Assembly's recent changes will help increase the number of businesses that participate in the Program, especially in rural, more-distressed areas, in future years. Specifically, in 2024, the General Assembly reduced the number of qualified New Hires a business must employ from 5 to 3 if they are operating in a county with a population under 100,000, which was true of all counties in the Program except for Mesa and Pueblo, according to the most recent Census Bureau data. Based on interviews with OEDIT staff, the five New Hire requirement was a significant challenge for new businesses operating in more rural areas, so this change could also increase the number of businesses able to participate in the Program in those counties. However, because this change happened recently, data on its impact will not be available for several more years.

In addition, in 2024, the General Assembly increased OEDIT's appropriation for Program administrative costs from \$100,000 to \$300,000. Based on conversations with OEDIT, it is likely that this will benefit outreach efforts and could lead to greater uptake of Program benefits in the future. Smart Incentives, an organization that serves economic development organizations and develops best practices, has noted: "Economic development programs can suffer from an 'if you build it, they will come' mentality. Initiatives may be crafted, funded, and set up within state or local government but lack the resources to promote the programs to intended beneficiaries." Greater outreach might help increase the number of businesses that are aware of the Program; since our last evaluation of the RJS Tax Expenditures in 2020, OEDIT staff dedicated specifically to the RJS Program have marketed the Program and worked on outreach to eligible counties and businesses, and the number of participating counties and businesses has increased.

Policy Considerations

The General Assembly may want to assess whether the New Business Income Tax Credit is sufficiently meeting the General Assembly's expectations for the Rural Jump-Start Program even though it is currently providing a limited benefit to taxpayers. As discussed, we found that the New Business Credit is providing a relatively small amount of support to businesses and has likely not provided a large enough benefit overall to have a significant impact on attracting new businesses and jobs within RJS Zones. While confidentiality requirements limit the information we can provide, based on our review of Department data for Tax Years 2016, 2018, and 2020, less than 15 percent of participating businesses claimed the New Business Credit. Further in Tax Year 2022, taxpayers only claimed about \$184,825 in RJS Tax Expenditures, but this amount includes both the New Business Credit and New Hire Credit. Therefore, the New Business Credit has had a minimal revenue impact to the State. The credit's limited use is likely due to many participating new businesses being start-ups, which often do not generate much profit in their early years and, therefore, have limited tax liability to offset with a credit. Based on our review of literature evaluating state business incentive programs, making incentive payments up front can be more impactful because new businesses tend to need additional funding the most during their earliest stages. For this reason, the Program's New Business Grants, which totaled about \$1.6 million in awards to participating businesses, may provide a more significant benefit than the New Business Credit. However, the grant program is set to expire June 30, 2025. The General Assembly may want to consider whether the New Business Credit on its own provides a sufficient benefit to attract and retain new businesses in RJS Zones.

Despite the low use of the New Business Credit, we did find some evidence that the credit was advancing the purpose of the Program. Specifically, businesses we surveyed and stakeholders indicated that the credit was a significant factor in attracting businesses to RJS Zones, even if they did not ultimately use the tax benefits. Additionally, participation in the Program has increased since our last evaluation from eight businesses approved for the Program in one county at the end of 2018, to 28 businesses participating in the Program in 13 counties as of June 2024. While most of these businesses have not used the New Business Credit, it is possible that with more participating businesses the use of the credit could increase in the future if participating and recently approved businesses become more profitable and begin claiming the credit. OEDIT staff suggested that the New Business Credit serves as more of a long-term benefit that businesses can use after several years in the Program when they are more firmly established. Also, as discussed, in 2024, the General Assembly made changes to the Program designed to increase participation and improve outreach, so it is possible that these changes will increase credit use in future years, but it is too soon to evaluate whether this has occurred as these changes had not yet taken effect at the time of our evaluation.

The General Assembly could consider eliminating the New Business Sales Tax Refund since it is not being used. While we assume that businesses have made at least some purchases that are eligible for the refund and most businesses that completed our survey were aware of it, the Department reports that no business has submitted a claim for a refund since it became available in 2016. Although we could not determine why businesses have not used the refund, it is possible that some purchases that would qualify for the refund are already exempt from sales tax under other tax expenditure provisions, such as the Manufacturing Machinery and Wholesale Exemptions. Additionally, because the exemption provides a benefit equivalent to 2.9 percent of the purchase price, it may not be significant enough for businesses to submit the required paperwork to the Department, especially for smaller purchases. However, some businesses might use the refund if they make larger purchases that justify the administrative cost and several businesses reported to us that they do plan to use it in the future. Further, OEDIT staff reported that even if businesses do not end up using the Program's tax expenditures, the ability to point to them as potential benefits can still be helpful in attracting businesses to join the Program.

The General Assembly could consider eliminating the New Hire Credit, since it does not seem to be incentivizing businesses to create many new, higher-paying jobs or helping to retain employees. The OSA's 2020 evaluation determined that the New Hire Credit was likely not encouraging participating businesses to increase compensation for their employees, as most employees hired did not qualify for the credit, and those who did, tended to be compensated well above the county average wage. The situation has not changed significantly since. As discussed, less than half of eligible employees claimed the credit in 2018 and 2020. Additionally, while the credit could potentially encourage employers to increase salaries for jobs that would otherwise pay just below the county average in order to qualify, the employees who were eligible for the credit were, on average, paid about \$30,000 more than the county average, which suggests there are other factors besides the tax credit that are driving the salaries of these employees. Finally, businesses do not receive a direct benefit from the New Hire Credit, which is claimed by their employees to offset their personal income tax liability. This could be why some of the participating businesses we surveyed indicated that they had not informed employees about the availability of the credit, which likely limits its effectiveness as an incentive to attract and retain new employees.

The Program's New Hire Grants, which, unlike the credit, directly benefit the businesses, are potentially a more significant factor in businesses' decisions to create higher-paying jobs. However, they are a one-time \$2,500 benefit, so the grants likely do not incentivize businesses to continue to pay the employee an above-average wage beyond helping the business meet the minimum program requirement of having five New Hires. The grants also are more likely to have a marginal impact on salaries for jobs that would otherwise pay just below the county average wage.

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