



**REPORT OF
THE
STATE AUDITOR**

Department of Local Affairs

**Review of the Enterprise Zone Program
Annual Report
August 2001**

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August 23, 2001

Members of the Legislative Audit Committee:

This report contains the results of the review of the *Enterprise Zone Program Annual Report 2001*. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. In addition, this audit was conducted pursuant to Section 39-30-103 (4), C.R.S., which directs the State Auditor to review the enterprise zone report prepared by the Department of Local Affairs and to report the findings of the review to the General Assembly and to the Governor, every two years, beginning no later than September 1, 2001.

This report presents our findings, and recommendations, and the responses of the Department of Local Affairs.

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STATE OF COLORADO
OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

J. DAVID BARBA, CPA
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Department of Local Affairs
Review of the Enterprise Zone Program Annual Report
Report Summary

Every year, the Executive Director of DOLA is statutorily required to submit a report to the General Assembly that summarizes documentation submitted by the individual enterprise zones concerning the economic conditions in the zones and efforts to achieve economic development objectives. By statute, the State Auditor is to submit a report to the General Assembly and to the Governor that reviews the Department's report. The State Auditor's report is to be submitted no later than September 1, 2001, and every two years thereafter. Our current audit is in response to this statutory requirement.

Statutes require the Executive Director of the Department of Local Affairs to submit a report that summarizes annual zone documentation. The documentation submitted by the zones to the Department is to include documentation of efforts to improve conditions in the zones, the results of those efforts, and specific, verifiable data that can be used to measure whether the zones have achieved their economic development objectives. In addition, zones are to provide statistical information about various economic indicators such as the number of jobs created in the zone and the standard industrial classification code (SIC) of each company reporting on the creation of jobs in the zone.

Our review of the Department's *Enterprise Zone Program Annual Report 2001* (the Report) found that the Report generally satisfies statutory requirements regarding the reporting of specific zone statistics such as number of jobs created and retained. However, the Report is less thorough with regard to its presentation of documentation related to the zones' efforts to improve conditions in the zones, the results of those efforts, and the achievement of measurable, verifiable economic development objectives. We also found that the contents of the Department's Annual Report have improved since we first began our Enterprise Zone Program reviews. For example, the information reported by the zones and compiled by the Department is much more consistent and complete than was the case in the past. Despite these improvements, more work is needed to ensure the Report's usefulness as a tool for monitoring, evaluating, and reporting on the Program. In addition, we found that the Department needs to comply with statutes and ensure that the individual zones adopt economic development objectives with outcomes that can be measured with specific, verifiable data.

We make two recommendations to the Department of Local Affairs for improving its annual Enterprise Zone Program Report which are presented in the Recommendation Locator on the following page and in the body of the report. The Department partially agrees with both of the recommendations.

For further information on this report, contact the Office of the State Auditor at (303) 866-2051.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	13	<p>The Department of Local Affairs should improve the usefulness of its annual report on the Enterprise Zone Program by:</p> <ul style="list-style-type: none">a. Fulfilling statutory requirements related to the summarization of individual zone documentation on efforts to improve conditions in areas designated as enterprise zones and the results of those efforts.b. Ensuring greater uniformity and consistency in the ways in which zones present their statutorily required information.c. Ensuring that documentation can be used to measure and verify conditions in the zones.d. Providing analysis that can be used to determine if the enterprise zones or portions thereof are achieving their specific economic development objectives.	Department of Local Affairs	Partially Agree	May 2002

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
2	21	<p>The Department should ensure that enterprise zones develop, implement, and measure economic development objectives and outcomes in keeping with statutory requirements by:</p> <ul style="list-style-type: none"> a. Assisting in the development of objectives through training and workshops. b. Providing adequate and timely feedback to the zones on the status of their objectives and the measurement of outcomes. c. Reviewing documentation provided by the zones on their efforts to improve economic conditions and the results of those efforts. d. Ensuring that the zones' annual reports contain all of the statutorily required data and documentation. 	Department of Local Affairs	Partially Agree	May 2002

Review of the Enterprise Zone Program Annual Report

Purpose and Scope

Section 39-30-103, C.R.S., requires the State Auditor to conduct the following audits of the Enterprise Zone (EZ) Program:

- **Two-year review.** Every year, the Executive Director of the Department of Local Affairs (DOLA or the Department) is to submit a report to the General Assembly that summarizes documentation provided by the individual enterprise zones concerning their efforts to achieve their respective economic development objectives. No later than September 1, 2001, and every two years thereafter, the State Auditor is to submit a report to the General Assembly and the Governor that reviews the Department's report. Our current audit is in response to this statutory requirement.
- **Five-year audit.** This audit differs from the two-year review in that it evaluates the overall implementation of the program and its effect on the employment, unemployment rate, investment, overall growth rate, economic diversity, and per capita income in each enterprise zone or county containing an enterprise zone. The audit also evaluates the effectiveness of each enterprise zone in achieving its measurable objectives. The State Auditor is to report to the Governor and the General Assembly no less than once every five years. Our last audit of this nature was released in February 1998. Therefore, the next five-year audit must be completed by February 2003.
- **Termination plan review.** By statute, the Department of Local Affairs is to prepare a plan for termination of all or portions of zones within 12 months after the release of socioeconomic data from the U.S. Census, and every five years thereafter. The State Auditor is to review this plan and provide comments and suggestions to the General Assembly within 60 days after its receipt. According to the Department and the U.S. Census Bureau's latest release schedule, these data are scheduled to be released between June and September 2002. By statute, our review should then be completed within approximately 14 months of the 2002 Census Bureau release date.

It is important to emphasize that the purpose of the current review was not to audit the statewide Enterprise Zone Program or the programs in the individual zones. Rather, our statutory charge was to review the Department of Local Affairs' annual enterprise zone report and to communicate our findings to the General Assembly and the Governor. Because the statutes outline specific data to be collected and compiled by the Department in its annual report, we used the statutes as the basis for our review. That is, we reviewed the contents of the Department's *Enterprise Zone Program Annual Report 2001* (*Annual Report 2001* or the Report) to determine whether it contains the information specified in statute. In addition, to provide assurances about other associated data collection and reporting requirements and processes, we reviewed the information each zone submitted to the Department for use in preparing its annual report. Our findings and recommendations, therefore, relate only to compliance with statutory reporting requirements and the adequacy of existing data collection and documentation efforts.

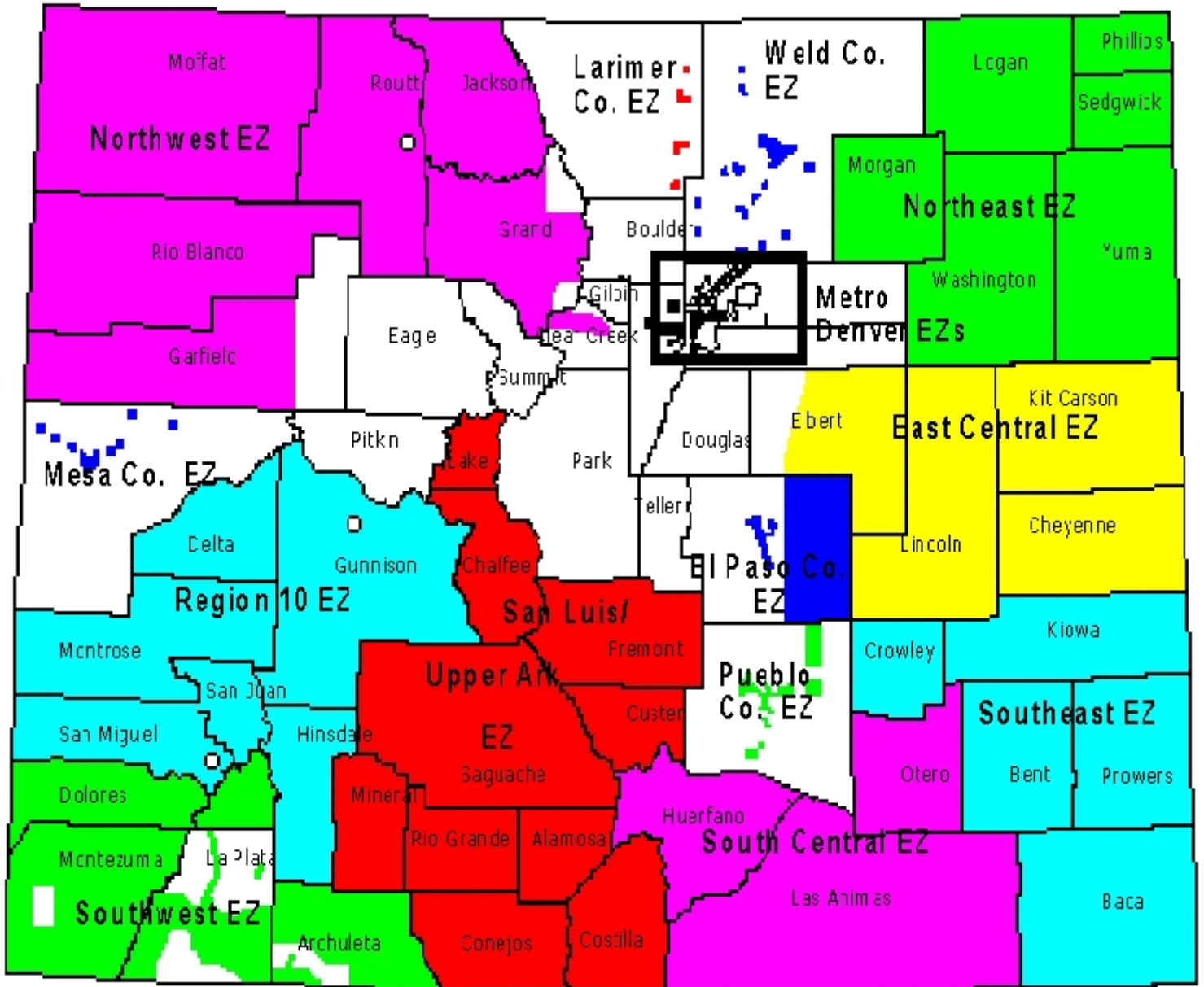
Background on the Enterprise Zone Program

The General Assembly created Colorado's Enterprise Zone Program in 1986 “to provide incentives for private enterprise to expand and for new businesses to locate in economically depressed areas and provide more job opportunities for residents of such areas.” By statute, the number of zones is limited to 16. Any municipality, county, or group of contiguous municipalities may propose an area of the municipality, county, or group of municipalities or counties as an enterprise zone. As the colored portions of the map on the following page illustrate, the existing zones encompass about 70 percent of the State's land area. According to statute, to be designated a zone, an area must have a population of less than 80,000 and meet one of the following criteria:

- An unemployment rate at least 25 percent above the state average.
- A population growth rate less than 25 percent of the state average.
- A per capita income less than 75 percent of the state average.

One-half (eight) of the existing zones were designated in 1986—the year the program began. The remaining eight zones were designated between 1987 and 1993.

Colorado Enterprise Zones



Enterprise Zone Tax Incentives

The Program's incentives consist of six different tax credits and one sales and use tax exemption, which are available to corporations, business partnerships, and individuals located within a zone. Some local governments also offer incentives to businesses located within a zone. Eligible Enterprise Zone tax credits are:

- **Investment Tax Credit.** A three percent credit for qualifying equipment investments used exclusively in an enterprise zone. The investment tax credit continues to be the most widely used of the enterprise zone tax credits.
- **Job Training Credit.** This credit is ten percent of the amount of investment and expenses for qualified job training programs for employees in the zones.
- **Research & Development Credit.** A three percent tax credit for any taxpayer increasing zone research and development expenses in an enterprise zone.
- **Rehabilitation of Vacant Buildings Credit.** Any taxpayer who makes qualified expenditures to rehabilitate an older, unoccupied building in an enterprise zone is eligible for a credit of 25 percent of the qualified rehabilitation expenses.
- **Contributions to Zone Projects Credits.** This is a credit of 25 percent of the monetary or in-kind taxpayer contribution to approved nonprofit or local government projects for the purpose of implementing the EZ economic development plan.
- **New Business Facility Employee Credits.** For each new employee added by a new or qualifying expanded business facility in an enterprise zone, a \$500 credit is available. Additional credits are allowed for new employees covered by employer-sponsored health insurance (\$200 per new employee for the first two tax years following the date of qualification) and for businesses that manufacture products from agricultural commodities (an additional \$500 per employee).

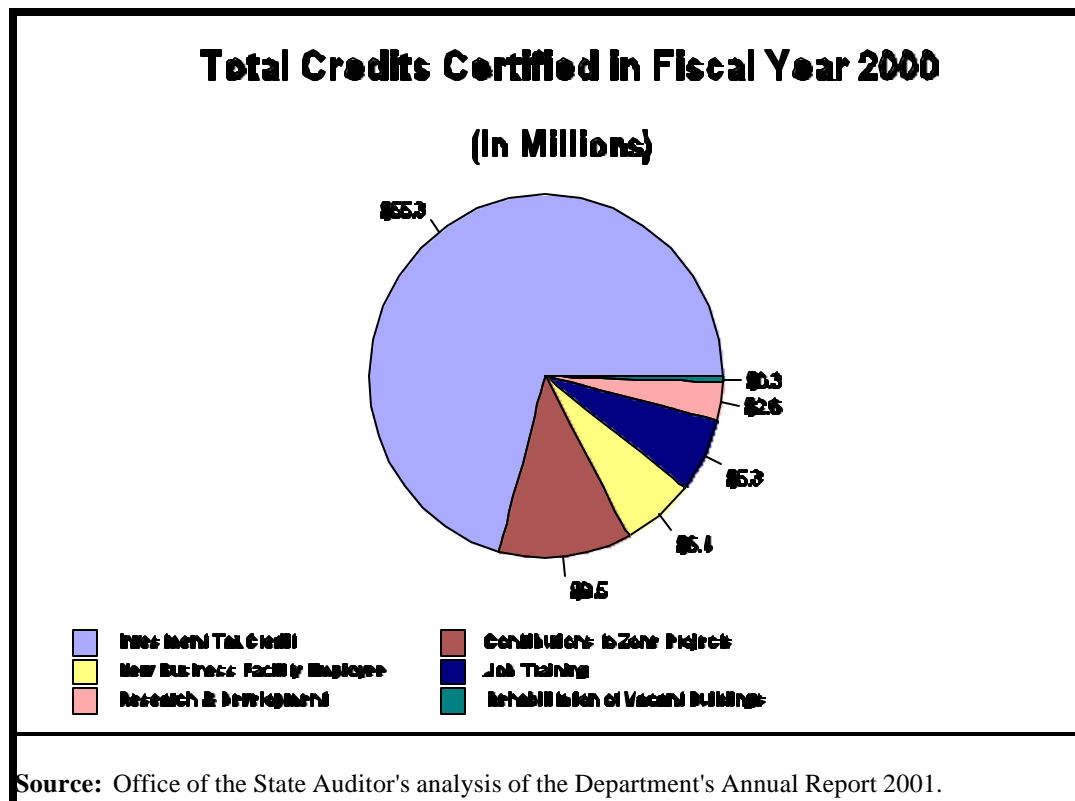
Two ways to measure the impact of the Enterprise Zone credits are:

- **Credits Certified.** To receive an Enterprise Zone tax credit, individuals, business partnerships, and corporations must apply for and receive certification from the local zone administrator. The certification allows a

business to use a credit to offset state tax liabilities. The amount of credits certified represents the potential amount of credits that may be claimed if all certificates issued are actually claimed on tax returns. For Fiscal Year 2000 the potential cost of For Fiscal Year 2000 the potential cost of certificates issued was about \$79 million.

- Credits Claimed.** Not all credits certified are actually claimed on state tax forms because participants do not always follow through and take the credits or there is insufficient tax liability in the current year. Therefore, the value of the credits claimed typically will be less than the value of the credits certified. Credits not taken in the current year may be carried forward and used in subsequent years. Tax credits claimed can be described as the actual "cost" to the State in lost tax revenue. The value of total credits claimed for Fiscal Year 2000 was about \$61 million.

As the following exhibit shows, the Investment Tax Credit is the most frequently certified credit. In Fiscal Year 2000 the value of the investment tax credits certified represented almost 70 percent (\$55.3 million) of the total \$79.4 million in credits certified.



Recent Legislative Changes

Since our last audit in 1998 the General Assembly passed several bills that affect the Enterprise Zone Program. Three of these are:

- **Senate Bill 98-154** (Sections 39-22-121 and 39-30-103.5, C.R.S.) removed the child care credit from the Enterprise Zone Program's "Contributions to Zone Projects" credit and replaced it a statewide credit available to taxpayers anywhere in Colorado.
- **Senate Bill 99-033** (Sections 39-30-103 and 39-30-103.5, C.R.S.) was significant in that it required enterprise zones to adopt economic development objectives with outcomes that are both measurable and verifiable. The Bill also expanded reporting requirements by the Department of Local Affairs and the zones, and expanded review requirements of the State Auditor. Our current review is a result of this legislation.
- **Senate Bill 00-219** (Sections 39-30-103 and 39-30-103.5, C.R.S.) consolidated economic development functions within the Governor's Office of Economic Development. The bill transferred responsibility for some EZ functions from the Department of Local Affairs to the Colorado Economic Development Commission. These include responsibility for approving all programs, projects, and organizations to which taxpayers may contribute toward implementing the economic development plan of the zone and for releasing information concerning the source and amount of contributions, and credits allowed for contributions.

Department of Local Affairs' Annual Zone Report

By statute, the Executive Director of the Department of Local Affairs is to:

...require the zone administrators for each zone to submit annual documentation of efforts to improve conditions in areas designated as enterprise zones and the results of those efforts. Such annual documentation shall include specific, verifiable data that can be used to measure whether the zone has achieved the specific economic development objectives for the zone that have measurable outcomes. In order for the Executive Director to determine if the enterprise zones or portions thereof are achieving the specific economic development objectives...annual documentation shall include, but need not be limited to, the most recent statistics available for companies claiming enterprise zone credits...

The statistics that companies claiming credits are to report include: average number of jobs created and retained in the zone; the number of employees from outside the zone transferred to a facility within the zone; information on tax credits; and to the extent possible, statistics on any change in the zone's unemployment rate, per capita income, or population. By statute, the Executive Director of DOLA is to submit an annual report to the General Assembly "summarizing the annual documentation submitted by the zone administrators."

The Department's Report Generally Satisfies Statutory Requirements

As stated previously, statute mandates that the State Auditor submit a report to the Governor and the General Assembly that reviews the Department's annual zone report. We reviewed the Department's annual report to determine whether it contains the information required in statute. Specifically, statutes require the Executive Director of the Department of Local Affairs to submit a report that summarizes annual zone documentation. The documentation submitted by the zones to the Department is to include documentation of efforts to improve conditions in the zones; the results of those efforts; and specific, verifiable data that can be used to measure whether the zones have achieved their economic development objectives. In addition, zones are to provide statistical information about various economic indicators such as the number of jobs created in the zone and the standard industrial classification code (SIC) of each company reporting on the creation of jobs in the zone.

Our review of the Department's *Enterprise Zone Program Annual Report 2001* found that the Report generally satisfies statutory requirements regarding the reporting of specific zone statistics such as number of jobs created and retained in each zone. However, the Report is less thorough with regard to its presentation of documentation related to the zones' efforts to improve conditions in the zones; the results of those efforts; and the achievement of measurable, verifiable economic development objectives. We also found that the contents of the Department's Annual Report have improved since we first began our Enterprise Zone Program reviews. For example, the information reported by the zones and compiled by the Department is much more consistent and complete than was the case in the past. Despite these improvements, more work is needed to ensure the Report's usefulness as a tool for monitoring, evaluating, and reporting on the Program. As we describe later in this section, the compilation of data without meaningful interpretation and analysis limits the usefulness of the Report.

The following are two areas for improvement we identified in the *Enterprise Zone Program Annual Report 2001*:

- **Statutorily required summary information on the status of the zones' economic development objectives is lacking.** As previously stated, statutes require the Executive Director of the Department of Local Affairs to summarize documentation provided by the zone administrators. The current Report contains insufficient summary information on zones' documented efforts to achieve their respective economic development objectives. Rather, the Report includes the individual zone reports in their entirety. In addition, there is no uniformity or consistency in the reports of the individual zones that would expedite comparisons or summarization. The Department's *Annual Report 2001* does not contain any summary analysis to indicate whether zones are achieving their economic objectives, the impact of EZ efforts on the economic conditions in the zones, or future efforts on the part of the zones. Moreover, there is no indication that the Department reviewed the zones' documentation to ensure that it satisfies statutory mandates for measurable and verifiable data. Not including summary information makes it difficult and time-consuming for users of the Report to locate critical information and to answer basic questions about the status of conditions in the zones.
- **Meaningful data analysis is lacking.** Statutes do not explicitly require the Department to analyze the data and documentation provided by the zones. However, the statutes (Section 39-30-103(4)(b), C.R.S.) do indicate that the Executive Director of the Department is to determine if the enterprise zones or portions thereof are achieving their specific economic development objectives. To accomplish this, the Department must interpret and analyze the documentation submitted by the zones. Currently this is not done. For example, the Department reports the amount of tax credits businesses received for hiring employees for new business facilities, but there is no context provided such as comparisons with prior years. The same is true for data presented on per capita income, unemployment rates, and population growth. Consequently, the information presented in the report is relatively useless for determining whether changes have occurred in the zones.

The Usefulness of the Report Should Be Improved

In its current form the Department's *Enterprise Zone Program Annual Report 2001* is primarily a compilation of one year's statistical data on various economic indicators in the zones. As such, it does little to advance understanding of the Program or to provide answers to commonly-asked questions about the impacts of the Program in the zones. This is the first Department report since statutory changes were made in

1999 requiring additional information be compiled and reported. We believe that improvements in the Report are needed to address statutory intent that the Report be a meaningful tool in understanding and evaluating the Program's impacts. To do this, the Department first needs to provide the summary zone data specified in the statutes. This could mean reporting, in a summary fashion, on the status of each zone and of all of the zones in achieving their economic development objectives. Second, the Department should interpret the meaning and significance of the data provided by the zone administrators and report changes since the last report. This would include providing feedback to zones about goals and objectives and evaluating the validity of the documentation submitted by zones.

Additional analysis could include assessments of which tax credits are being targeted to potential employers, investors, and contributors, or which credits are used most often and the effects they are having on economic conditions in the zones. Information obtained from this type of analysis could be used to determine if the existing tax credits are actually remedying problems or if legislative, or other, changes are needed. Trend analysis; comparisons with national statistics; and other assessments of the use of tax credits, the changes in economic indicators, and efforts undertaken to achieve zone objectives should be incorporated into the Report's findings. In this way, the intent of the legislative changes to enhance measurement of the Program's effects would more likely be realized.

Recommendation No. 1:

The Department of Local Affairs should improve the usefulness of its annual report on the Enterprise Zone Program by:

- a. Fulfilling statutory requirements related to the summarization of individual zone documentation on efforts to improve conditions in areas designated as enterprise zones and the results of those efforts.
- b. Ensuring greater uniformity and consistency in the ways in which zones present their statutorily required information.
- c. Ensuring that documentation can be used to measure and verify conditions in the zones.
- d. Providing analysis that can be used to determine if the enterprise zones or portions thereof are achieving their specific economic development objectives.

Department of Local Affairs Response:

Partially agree.

- a. The Department believes that the main thrust of the statutory requirement to summarize documentation submitted by zone administrators is for the department to summarize the large volume of statistical data on tax credit certifications reported by the zone administrators into state-level totals. Part I of the Annual Report does this.

Local enterprise zones are independent, local government-sponsored entities. We believe the intent of the General Assembly in requiring local zones to develop specific economic development objectives was to recognize the diversity of economic conditions and development needs around the state, and to let the zones speak for themselves in reporting on these local objectives. The department's report summarizes these local reports by compiling them into a single document, along with the summary of the tax credit and economic statistics.

To the extent feasible, given the variations among zones, in future annual reports the department will provide additional summary information and analysis describing the content of the zones' documentation on the status of their local objectives and efforts to attain them.

- b. The Department will hold one or more training workshops with local enterprise zone administrators prior to their submission of 2002 annual reports. One outcome of this will be to identify a framework for the zones' required reports on their local objectives and efforts to attain them.
 - c. In addition to a standard report framework, the Department will provide feedback to the zones on their reports in order to ensure that their objectives are measurable and verifiable, to the extent feasible within available time frames.
 - d. The Department will provide additional trend analysis and comparisons in future annual reports, as suggested by the Audit Review.
-

Documentation Submitted by the Zones Is Incomplete

At the time of our 1998 audit we found it difficult to measure or evaluate the impact of the Enterprise Zone Program due to systemic weaknesses related to the Program's goals, structure, oversight, and accountability. Following our audit the General Assembly passed Senate Bill 99-033 requiring the enterprise zones to not only provide economic development objectives but also to require that the objectives have outcomes that could be measured and verified. The legislation also requires the zones to report on their efforts (and the results of those efforts) to improve economic conditions.

To determine if the zones developed objectives that meet the new statutory criteria, we evaluated the objectives identified by the 16 zones in the data that each submitted to the Department. It is important to reiterate that we did not audit each zone's Enterprise Zone program or the appropriateness of individual goals and objectives. Rather, we reviewed the Department's *Annual Report 2001* and the documentation submitted by the zones to determine whether it contained the information (i.e., measurable and verifiable objectives and documentation of efforts to improve conditions, etc.) specified in statute. The following is our assessment of the zones annual documentation as submitted to the Department.

- **Documented Objectives.** All but one zone submitted specific economic development objectives.
- **Measurable and Verifiable Objectives.** About 81 percent (13 of 16) of the zones reported objectives that were measurable and 75 percent presented objectives that were verifiable. To be measurable, the objectives should have outcomes that can be quantified. To be verifiable, data need to exist to support the outcomes.
- **Status of Objectives.** Most of the zones—81 percent—reported on the current status of their objectives. That is, 13 of 16 zones reported on the extent to which their objectives have been achieved.
- **Efforts to Achieve Objectives and Results of Efforts.** Only four zones (25 percent) documented the actual efforts or steps taken to achieve their respective economic development objectives and/or to improve economic conditions.

Two zone administrators indicated to us that although they may not have reported all of the required data to the Department, they do have this information. We understand this may be the case in some zones. However, our statutory charge is to review the Department's *Annual Report 2001*. The Department's statutory charge is to ensure the required documentation is submitted by the zones and summarized in the *Annual Report 2001*. At present, this is not being done in all cases.

Economic Development Objectives Need Further Work

Although all but one of the zones presented objectives that met the reporting requirements, a majority did not report efforts to improve economic conditions such as identifying plans for achieving the objectives and the results of those plans. In addition, we found other problems with the goals and objectives of the individual zones:

- **Objectives did not address the identified economic weaknesses or are not tailored to meet each zone's specific needs.** In a number of cases, we found that the zones' objectives do not directly address the economic conditions. For example, one zone identified problems with its dependence upon the agricultural and energy businesses for economic stability. Also mentioned was that retail service jobs tend to make up a majority of new jobs, and according to the zone, these jobs pay the lowest in wages and are the first to be eliminated in a recessionary economy. The zone's economic development objectives, however, do not address these problems. Rather, one of the zone's primary goals is to increase the overall labor force in the region. Increasing the size of the labor force will not necessarily resolve issues of low wages, job losses during recession, or dependence upon particular industries. If, as the zone indicates, agriculture and energy are the base economy of the area, and the price for these products has the potential to slow or stop economic growth, the zone should identify objectives that directly address these inherent problems.

In another case, we found that overall zone objectives may not be suitable for subzones. For example, one zone set the same objectives for each of its "subzones." One of the subzones had some positive results, but the other was unable to meet any of the objectives. From comments in the latter subzone's report, it appears that the objectives may not be suitable or achievable. This is an instance where the zone administrator and the Department should work

more closely with each of the subzones to develop goals and objectives that reflect each area's specific economic development needs.

- **Data upon which to measure or verify accomplishment of objectives are lacking.** For example, one zone identified several objectives, such as "retain and expand primary job opportunities" or "increase wages." However, no information was presented to explain how the zone planned to accomplish or measure these objectives. In addition, the zone stated that its strategies for economic development were the implementation of the tax credits. However, no data were provided to demonstrate the link between the use of the credits and achievement of the objectives.
- **Current measures or benchmarks are lacking.** In some cases, zones have established future dates at which time they expect to meet their goals and objectives. Yet, they provide no current measures or benchmarks against which outcomes can be compared.
- **Status of goals for improving the economy is not indicated.** One zone was unable to provide the status of 6 of its 11 goals. One of the goals is to have positive job creation in excess of a 10 percent increase during a five-year period. The zone stated that it has been unable to document any substantial job increases.
- **It was not possible to determine if information was reported for the county or the zone.** In several cases, we were unable to determine whether the information reported was for the county or for the zone. Typically, this occurs when the entire county is not in the zone. Various municipalities or other geographical parts of the county may be included in the zone area, but not the county in its entirety. By contrast, data used to measure the status of the goals and objectives often represent the entire county and not just the affected zone areas.
- **Reporting of objectives was inadequate.** A majority of the zones—12 of 16—did not provide information that could be used to determine the efforts made to improve economic conditions and the results of those efforts. For example, objectives did not contain information on how each objective was going to be accomplished. As a result, an assessment cannot be made whether the zone had a method for achieving the objectives and whether that method is working.

Some Zones Had Well-Documented Objectives and Outcomes

Some zones had objectives with outcomes that were measurable and verifiable which could be used to determine if the objectives had been met. For example, Greeley/Weld County's Zone report contained well-defined objectives with measurable and verifiable outcomes. One of Greeley/Weld's objectives is to realize increased capital investment within the zone annually, through at least 10 percent of the new countywide, primary sector capital investment being made within the zone boundaries. In its update, Greeley/Weld explained that it worked with 10 new and existing companies that invested or announced plans to invest a total of \$86 million into Greeley/Weld County. The results of those efforts were that 6 of the 10 projects by these companies located within the zone and resulted in investments of \$58 million. The Greeley/Weld report also included support documentation and tables of information on the areas specifically within the zone.

The Department Needs to Comply With Statutes and Ensure that Outcomes Can Be Determined

According to Department staff, they did not understand it to be the Department's responsibility to ensure the zones' compliance with reporting requirements on local zone objectives. We also found that the Department did not review the objectives from the 16 zones and provide feedback or recommend changes. Department staff stated that they believe the individual zones are in the best position to identify their zones' goals and objectives. We share the Department's belief that the individual zone administrators are likely to be the most knowledgeable about their zone conditions and communities. However, we also believe it is the Department's statutory responsibility to ensure that zone objectives are measurable, verifiable, and adequate to address the problems within the zones. Specifically, Section 39-30-103 (4)(b), C.R.S., states that the Executive Director of the Department of Local Affairs **shall** (emphasis added) work with the zone administrators to ensure that the area has specific economic development objectives with outcomes that can be measured with specific, verifiable data.

Some zones may not have the personal or technical resources to fully satisfy the requirements to develop, document, and measure efforts and outcomes. In these instances we believe the Department to be a crucial resource. This would include providing timely feedback and assistance to each zone. The Department could also survey the zones to determine their particular needs and hold workshops to combine

resources and ideas with other zones and, possibly, develop a database of contacts and information relevant to the zones.

A Framework Is Necessary for Developing Realistic and Sound Economic Objectives

We reviewed national data on enterprise zones and other economic development programs to analyze what others are doing to develop economic objectives. We found several examples of comprehensive strategic plans that contained well-defined goals, work steps, and measurement criteria. As the example on the following page demonstrates, not only are goals identified but steps for accomplishing goals are provided by listing the objectives, strategies, and benchmarks by which achievement of the goal would be determined. This method clearly identifies the critical steps necessary for developing sound goals and objectives and establishing the links to measuring each success. We believe the Department should work with the enterprise zones to structure their own goals and objectives using a similar format.

Model Enterprise Zone Economic Development Objectives

T Mission To improve economic conditions in the enterprise zone for the purpose of providing a prosperous and stable economy.

T Goal The zone's high unemployment rate will be reduced by ____ percent, to that of the state's average through a comprehensive program of economic development that includes business expansion, recruitment, entrepreneurship, and workforce preparation.

T Objectives

1. Work with existing and potential business and industry to expand employment opportunities within the zone.
2. Develop and/or expand transportation opportunities to assist low- to moderate-income residents to become self-sufficient.

T Strategies/Action Plans

Objective 1

1. Establish a Counseling Business Operational Center to identify potential businesses, develop training programs, assist with obtaining financing, and provide information on tax credits.
2. Develop an interactive Web page that will provide information through data query to companies seeking to relocate or expand.
3. Encourage the development of niche businesses including Internet marketing, cottage industries, value-added industries, home-based businesses, etc.

Objective 2

1. Develop a transportation strategic plan to provide access to all enterprise zone residents.
2. Support the development of a river/truck/rail terminal facility in the zone by conducting a feasibility study and developing preliminary and final designs.

T Benchmarks/Output Measures

1. Three industrial sites will be developed and available for new or expanding business and industry by the end of 2002.
2. Seventy-five percent of existing business and industry within the zone will participate in the Business and Industry Retention Survey.
3. The number of new businesses and industries will grow by a minimum of ____ percent annually.
4. Thirty additional jobs for low- to moderate-income (e.g., Welfare to Work) residents will be available.
5. The number of new businesses will increase by ____ annually.
6. The number of employment opportunities in transportation services will increase by ____ over the next ____ years.

Source: Office of the State Auditor's analysis of other states' enterprise and empowerment zones' methods for preparing strategic plans.

Recommendation No. 2:

The Department should ensure that enterprise zones develop, implement, and measure economic development objectives and outcomes in keeping with statutory requirements by:

- a. Assisting in the development of objectives through training and workshops.
- b. Providing adequate and timely feedback to the zones on the status of their objectives and the measurement of outcomes.
- c. Reviewing documentation provided by the zones on their efforts to improve economic conditions and the results of those efforts.
- d. Ensuring that the zones' annual reports contain all of the statutorily required data and documentation.

Department of Local Affairs Response:

Partially agree. The Department will hold one or more training workshops with local enterprise zone administrators prior to their submission of 2002 annual reports. One outcome of this will be to identify a framework for the zones' required reports on their local objectives and efforts to attain them. In addition to a standard report framework, the department will provide feedback to the zones on their reports in order to ensure that their objectives are measurable and verifiable, to the extent feasible within available time frames.

We believe that the local zone administrators desire to make their annual reports as complete and understandable as possible. However, the department believes that the legislature intended this to be primarily a local program, with the state role being that of a facilitator and aggregator of information, not as a program regulator. Therefore, while we will provide as much assistance as resources allow to help zones write reports that contain all of the statutorily required data and documentation, we cannot "ensure" that this will happen in all cases.

Distribution

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