September, 2004

Business Retention Study

Phase I
Executive Summary

DENVER
THE MILE HIGH CITY

Prepared by:
City and County of Denver
Office of Economic Development
201 W. Colfax Avenue, Dept. 208
Denver, CO 80202
(720) 913-1640

EXECUTIVE SUMMARY

In 2003, Mayor John Hickenlooper set a goal of creating 25,000 new jobs in the city over a four year period. For this to happen, the metro Denver economy will need to function efficiently, making it easy for businesses to start, grow and create jobs.

To examine where Denver's economy needs to improve and the role the City and County of Denver can take in that improvement, the Denver Office of Economic Development analyzed secondary data and contacted over 350 Denver businesses in interviews and focus groups. This research aimed to solicit candid opinions and constructive ideas about Denver as a place to do business. The results of that research identified many strengths, as well as needed improvements in the city's business climate, infrastructure and city service delivery.

Many of the necessary components are in place for businesses to thrive in the Denver economy. From industry to industry, assessments of the health of the local economy were generally positive. However, steps can be taken to improve the fundamentals of the local economy, and consequently the ease with which businesses grow and create jobs.

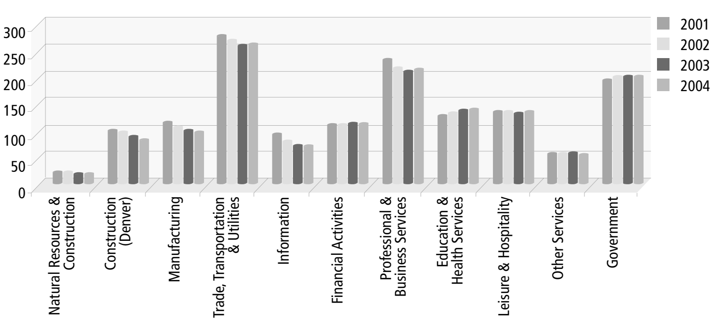
BUSINESS CLIMATE

"Denver's a great place to do business"
—Survey Participant

Metro Denver lost over 50,000 jobs in the past two years.
Source: Colorado Department of Labor and Employment

When talking to Denver business people about doing business in Denver, the tension between stagnation and optomism emerges again and again. Denver is seen as a place where the fundamentals of doing business are strong, where there are few barriers and where significant opportunity is available. However, the optimism of that assessment is tempered by the reality that only two industries in metro Denver grew from 2001 to 2004, financial services and educational and health services.

Exhibit ES-1.
June Employment Averages (2001 to 2004)



Source: Colorado Department of Labor and Employment

While much of the declining employment can be attributed to national economic cycles, there are steps that can be taken to bolster Denver against those cycles and ensure that it is not hit as hard during the next downturn. Denver's economy has changed in recent decades from one dependent on cyclical industries like resource extraction to one that is increasingly diversified. In 2003, the diversification of the Denver economy exceeded the national average. However, certain industries do make up a substantial share of the Denver economy, including government, health care, financial services, information and professional and technical services. Moreover, particular industry clusters have been identified as the key drivers of the local economy: aerospace, air transportation, beverage production, broadcasting and telecommunications, computer storage and peripherals, energy, finance, life sciences and software. In all of these industries, Denver's employment concentrations exceed the levels seen nationwide. The health of these and other growing industries will drive the health of the local economy in years to come.

Exhibit ES-2.
Key Metro Denver Industry Clusters

Cluster	Employment	Average Annual Growth (1998 to 2003)
Life Sciences	93,300	1%
Broadcasting and Telecommunications	56,300	8%
Software	34,700	8%
Energy	34,000	2%
Finance	16,800	5%
Computer Storage	16,100	-4%
Air Transportation	15,000	2%
Aerospace	13,200	3%
Beverage Production	7,000	-1%

Source: Metro Denver Economic Development Corporation

In examining the local business climate, business people from key industries, as well as business people who had worked with the city in the past, identified three key improvements that would enhance its attractiveness:

- **Entrepreneurial culture:** Denver's entrepreneurial culture is seen as lacking, particularly when compared to hotspots like Austin, Seattle or Silicon Valley. This shortcoming manifests itself in difficulties assembling teams of accountants, attorneys and consultants; limitations of technology transfer from local universities and a lack of a culture that celebrates entrepreneurs.

- **"Anchor tenants":** Part of the volatility of the local business climate is perceived as being due to a lack of large, headquarters companies that spin off business to small firms. Compounding this issue, the "anchor tenants" that are here are not seen as participating in a meaningful way in the local economy, from purchasing from local suppliers to spinning off start-up companies.

- **Networking:** Finally, Denver is seen as a difficult place to network, with many voluntary organizations but no central place to find mentors, meet potential partners or form teams of service providers.

Key business climate findings.

- *The fundamentals of the local economy are strong, with only transportation and taxation rated below average;*
- *The local entrepreneurial culture needs improvement, particularly the connections between local universities and the local economy, as well as the ease with which teams of attorneys, accountants, consultants and others are assembled.*
- *Networking in Denver is difficult, with access to top officials at key companies much more difficult than in other areas; and*
- *Denver business people believe that the city needs both additional "anchor tenants" and improved engagement in the local community and economy by existing headquarters companies.*

INFRASTRUCTURE AND CAPITAL

As in the case of the business climate, an examination of the infrastructure and capital available for new businesses reveals both strengths and targeted weaknesses. While some strengths are unquestioned, such as the local workforce, there are weaknesses that need to be addressed in the areas of capital formation and education.

Access to capital. Capital formation is critical for the success of growing businesses, but it is a murky subject for many business owners. Access to capital is seen by many business owners as a barrier to their success, as they cannot find sufficient funding to grow their businesses to a reasonable size. Venture capital and angel financing are difficult to access, particularly for first time entrepreneurs without relationships with existing firms. While entrepreneurs struggle to find financing, venture and angel financing sources struggle to find good business deals.

For more traditional businesses, bank financing is the appropriate route to find capital. However, banks are seen as unduly risk averse, partially due to the acquisition of local banks by non-local firms that do not have a stake in the metro economy. Government lending through the SBA is in danger of being cut significantly, and knowledge about non-traditional lending sources (the city's revolving loan fund, or private micro-loans) is minimal. Some organizations strive to fill these gaps, including the Colorado Enterprise Fund, Micro-Business Development Corporation and the City and County of Denver's Revolving Loan Fund. However, their success is limited by finite resources and sparse knowledge of their availability.

From a number of perspectives, raising capital to start or grow a business is difficult, inefficient and limited in Colorado. Entrepreneurs report being urged to move to Atlanta, Boston, Silicon Valley or other locations where significant capital is available. However, the business people interviewed in this study saw access to capital as an opportunity for public and private action. As one person noted, *"we need to think about capital formation in the same way we think about education and transportation."*

Workforce. Unlike capital, the Denver workforce is seen as a nearly unmitigated positive. Along a number of rankings, business people consistently identify the workforce as high performing. In the current employment environment, businesses are able to find the workforce they need, adding to their satisfaction. While some of this will certainly change as the employment market tightens, the local workforce is a key asset for long-term regional growth.

Education. While the current workforce is an asset for the local economy, there are concerns about the way in which the local education system is preparing the future workforce. Colorado has one of the best educated populations in the country, but it is seen as lagging in education of its children. Most business people interviewed believe that Denver Public Schools does a poor job of educating its students. One person noted that when he moved to Denver last year, his realtor told him, "you don't want to locate in Denver County for the schools." Said another participant, "I've lived here for 32 years and I've never heard anything particularly positive about Denver Public Schools."

In terms of higher education, opinions were mixed. While some people felt that "universities and colleges in the area certainly provide good graduates for us," others were concerned about recent cuts in higher education funding. A number of people lay the blame at the feet of TABOR, which they saw as a key barrier in maintaining the state's competitiveness. Strong universities were seen as a key factor in enhancing the business climate, and it was noted that they have been fundamental assets to other strong growth areas such as Boston and North Carolina.

Other infrastructure. The infrastructure topics that most concern Denver business people are capital, workforce and education, but a number of other infrastructure components need to be addressed or maintained for the economy to function efficiently.

- Housing costs in metro Denver increased by 11 percent per year from 1990 to 2000, making it increasingly difficult for employees to afford a home. As of 2002, the Colorado Division of Housing found that the state ranked "third nationwide in home price increases" and "in the top ten least affordable states for rental housing."[1]
- The transportation network is generally strong, although there are concerns about traffic, particularly related to T-Rex. Continued investment in the transportation infrastructure is seen by business people as critical to growth, including funding of the proposed FasTracks plan.

[1] *U.S. Bank Community Update, Summer 2002.*

- The telecommunications infrastructure is very strong, with no one even commenting on it unless specifically asked. As it should be, the telecommunications industry is of sufficient quality that it is transparent to most Denver businesses.

- The availability of water raises concerns for the long-term growth of the region, with questions about how much growth can be sustained in the Front Range.

- The quality and availability of power was a concern to a few people, with some discussions about power outages, inconsistent power and insufficient emphasis on renewable energy.

Infrastructure key findings.

- *Capital is difficult to access in metro Denver, ranging from bank loans to angel investors to venture financing. Some business people called on the city to take a pro-active role in improving the capital formation climate, looking at it as basic infrastructure.*

- *Denver has a high quality workforce that meets the needs of local businesses. The presence of a talented workforce will help drive business growth in the near future.*

- *While the current workforce is well prepared, the education system needs to improve. Denver Public Schools receives poor to moderate ratings. As a state, Colorado does not send its students to college at the rates seen in comparable states. Higher education is seen as relatively high quality, but there are significant concerns about funding cuts. Trends in the education system pose one of the most significant threats to the health of the metro economy.*

- *The transportation system has benefited from historical investments and performs relatively well. While there are some concerns about congestion, T-Rex receives praise and FasTracks receives significant support. If the metro area continues its historical pattern of investing in transportation, the network will continue to serve as an asset.*

CITY SERVICES

When they think of the city or local government at all, which is rarely, most business people believe it does an average or above average job. In many cases, it took prompting to solicit comments about the city, as it is seen as largely peripheral to the activities of many businesses. When asked to rank specific services on a scale of one to five (with one being low and five being high), five services ranked below average:

- K-12 public schools;
- Regulatory enforcement (including business licensing);
- Workforce preparation;
- Permitting and development review; and
- City tax collection and payment processes

Three services achieved a ranking higher than four: fire protection, ambulance/paramedic services and water quality. Remarkably, only one person ranked fire protection less than a three and only two had a similar ranking for ambulance/paramedic service.

Exhibit ES-5
Assessment of City Services and Public Schools (1 = low, 5 = high).

Service	Mean
Ambulance/Paramedic Service	4.34
Fire Protection	4.11
Water Quality	4.05
Stormwater Management	3.59
Police Protection	3.57
Public Transportation	3.52
Other City Services	3.38
Community Planning	3.32
Property Tax Assessment	3.13
Non-School Youth Programs	3.12
Traffic Control	3.09
Schools (K-12)	2.91
Regulatory Enforcement	2.82
Workforce Preparation	2.69
Permitting and Development Review	2.59
City Tax Collection/Payment	2.28

While most city services ranked average or above average, four particular themes emerged for potential improvement to enhance the ease with which businesses work with the city.

- **Internal city communication.** Whether in permitting and development review, excise and licensing or taxation, there was a concern that that "there isn't the connection sometimes between all these different agencies, (…) you go into a black hole sometimes." The consistent message was that "there is no common voice" in dealing with the city.

- **Permitting and development review.** Another commonly noted item was the permitting and development review process. Businesses have concerns about the length of the process, consistency between permitting and inspections, consistency between inspectors, the customer orientation of some staff and the ability to know everything that will be required up front.

- **Tax administration.** While fewer business people cited tax administration than the previous issues, those businesses that had experienced an audit had consistently negative comments about the process. Concerns were raised about the length of the audit process, the cost/benefit of the process for the city and the accuracy of findings. One individual reported an audit where the city initially claimed over $1 million in back taxes. After spending $150,000 fighting the bill, the company reduced the claim to $40,000. In other cases, businesses claimed that auditors were collecting taxes on consulting services, development and maintenance services, internet sales and other non-taxable transactions, decreasing the competitiveness of businesses who had been audited in comparison to their peers. The need for auditing is understood, and some auditors were praised for their helpfulness, but concerns about the fairness and efficiency of the process could stifle local growth.

- **Taxation.** No one likes taxes, so concerns about taxation are expected. However, a few themes emerged from these concerns: (1) the occupational privilege tax is seen as an annoyance and an unfair burden on employees who do not live in Denver, (2) the local sales tax system, with varying rates in each jurisdiction, is complex and difficult to decipher for small businesses, and (3) the personal property and use taxes limit growth of equipment intensive businesses, such as manufacturing, bio-science and others.

- **Business assistance.** In addition to standard city services, businesses who had participated in the City's Small and Disadvantaged Business Enterprise or Revolving Loan Fund programs commented on their effectiveness. Both received above average ratings, although there were some concerns about the amount of paperwork, length of the processes and customer orientation of some staff.

CITY SERVICES KEY FINDINGS

- *Most business people do not think of the city frequently. This is not seen as a bad thing, with business people wanting to engage with the city only when necessary, and to do so in a manner that is efficient, transparent and quick.*

- *General assessment of city services is good, with nearly every service seen as average to above average.*

- *The City's internal communication needs improvement. When working through city processes, many business people feel as if they are being sent from one department to another without any clear idea of the overall process or of each department's responsibilities.*

- *The permitting and development review processes receive consistently negative feedback. Complaints include lack of consistency among inspectors and between inspectors and permitting, a long process, some personnel who are difficult to work with and processes that put the burden on the applicant to facilitate internal city communication.*

- *Tax audits were described by a limited number of business people as painful and excessively expensive. While most businesses had not experienced an audit, the majority of those that had been audited had negative comments about the process.*

- *The level of taxation is generally seen as no more than slightly burdensome, with many people describing it as fair. However, concerns were raised about the head tax, use tax and personal property tax, with each of these levies seen as putting a potentially unnecessary burden on businesses.*

RECOMMENDATIONS

A number of recommendations emerge from these findings. These recommendations will both shape the work plan of the business development division of the Office of Economic Development and be passed on to other departments and agencies for their consideration and action. Key recommendations include:

- **Recommendation 1. Create a Business Assistance Center and Concierge Service to help businesses navigate the city.** A clear finding of this research is that the City needs to focus on enhancing its service delivery, but these improvements will take time. Even when they are completed, the city will remain a large, complex organization that will require some knowledge to navigate. As a result, a Business Assistance Center should be established to assist businesses in working with the City. To maximize its value, this office could serve as a centralized business/ government support center, with representatives (or information) from the state and federal governments as well. In addition to helping businesses navigate city services, staff could help register with Secretary of State's office, apply for a federal tax identification number and locate governmental and quasi-governmental business assistance resources.

- **Recommendation 2. Focus on fundamental city services.** When asked about the role the City should play in promoting economic development and creating jobs, the most consistent theme was that it should focus on its core services first. To do this, the City will need to direct attention to the identified areas of improvement, including general communication, permitting and development review, tax administration and taxation.

- **Recommendation 3. Examine revisions to the occupational privilege tax.** The city's occupational privilege tax is generally seen as a nuisance. Revisions to the tax could include exempting new businesses, or exempting businesses under a certain size. Alternatively, it was suggested that the revenue raised by the occupational privilege tax could be dedicated to particular activities, including summer jobs for Denver's youth, business excise and licensing or similar services.

- **Recommendation 4. Enhance the education system.** The city has only an indirect role in education. However, through partnerships and advocacy, it can positively impact the local education system. To ensure this positive impact, it should explore a partnership with the state to develop a student loan program for Denver Public School students using the city's private activity bond allocation. Other activities could include advocating for improvements to local education, from the proposed Denver Public Schools pay for performance compensation plan to maintaining or increasing higher education funding by the state.

- **Recommendation 5. Enhance access to capital.** Access to capital was consistently identified as a barrier to business growth in Denver. To address this shortcoming, the city should take a series of actions, including business assistance regarding access to capital through the Business Solution Center, creating a Community Development Bank, marketing existing programs like the City's Revolving Loan Fund and recruiting non-local venture capital firms to open offices in Denver. To further inform these steps, the city is undertaking a third party study to assess access to capital and knowledge of existing resources.

- **Recommendation 6. Improve the local business climate.** Both symbolic and substantive actions will enhance the local business climate, as climate has as much to do with perception as reality. City steps can include hosting a business plan competition in partnership with local universities, recruiting headquarters companies in targeted industries, developing strategic partnerships to make the city more amenable to the growth of "anchor tenants," encouraging local large companies to take a substantial role in the economy and having the Mayor host networking events.

- **Recommendation 7. Invest in transportation infrastructure.** The local transportation infrastructure generally receives high rankings, but continued investment is needed. From City investment in its own street network to the Mayor's advocacy for FasTracks, the City needs to take a pro-active role in maintaining and improving the efficiency of the local transportation infrastructure.

These recommendations fit neatly within the Mayor's five goals. Recommendations one through three move the city towards a customer service rating that is the highest in the country, while recommendations four through seven help lay the groundwork for the creation of 25,000 new private sector jobs. Although the majority of these recommendations fit within the Office of Economic Development, a number of City agencies, departments and offices could be impacted. More detailed descriptions of recommendations are found in the full report.

Exhibit ES-6.
Recommendations and Responsible Agencies

Business Assistance Center	
Create Business Assistance Center; Concierge Service	Office of Economic Development; Public Works

Focus on Basic City Services	
Improve permitting/ development review	Community Planning & Development
Examine tax auditing process	Treasury
Develop a single tax bill for businesses	Treasury
Search for communications enhancements	Office of Economic Development

Examine Revisions to the Occupational Privilege Tax	Treasury; Budget and Management

Enhancing Education	
Advocate for K-12 reforms	Mayor
Advocate for higher education initiatives	Mayor
Examine a DPS graduate loan program	Office of Economic Development
Proactively search for future partnering opportunities	Mayor; Office of Economic Development

Capital Formation	
Educate businesses on capital formation	Office of Economic Development
Create a Community Development Bank	Office of Economic Development
Recruit outside venture capital firms	Office of Economic Development
Contract for a 3rd party study of capital availability	Office of Economic Development

Improve the Local Business Climate	
Enhance entrepreneurial growth and opportunities	Office of Economic Development
Recruit selected, targeted "anchor tenants"	Office of Economic Development
Encourage local engagement (buyer/seller)	Office of Economic Development
Develop strategic partnerships to improve the business climate	Mayor; Office of Economic Development, others

Transportation Infrastructure	
Ongoing investment in City infrastructure	Public Works
Advocacy for FasTracks	Mayor
Search for opportunities for innovative investments	Public Works