



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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20-17 Colorado Springs Airport Commercial Aeronautical Zone Impact

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Purpose

The purpose of this audit will be to assess the impact of designating an area near the airport as an Aeronautical Zone with some tax advantages for investors. The precise name of the zone is the Commercial Aeronautical Zone (CAZ).

Highlights

Based on our review, we conclude economic activity at the Airport has increased since the CAZ was created in 2014. One recommendation and one opportunity were identified. See page 2 for details.

The CAZ includes two separate tax advantages for investors, a Sales and Use Tax exemption and an economic development incentive for business within the CAZ.

The Sales and Use Tax exemptions were originally established by City Ordinance 14-22 in April of 2014, various amendments have been made since. As defined by City Ordinance, Sales and Use Taxes of the City of Colorado Springs were exempted for businesses specifically engaged in a variety of aeronautical activities. During 2019, qualifying sales and purchases were \$9,136,367 and \$146,651,978 respectively.

Additionally, Ordinance 15-46 established economic development incentives for businesses within the CAZ boundary. Per City Code section 2.12.104, up to 50% of City Sales and Use Taxes on construction materials may be refunded. The Economic Development Agreements (EDA)s have resulted in Sales and Use Tax abatements of \$36,720 to three businesses within the CAZ from 2016-2018. These businesses in turn invested \$25.9M in new business facilities and created more than 60 jobs that otherwise may have not occurred without the EDA. The audit found the Colorado Springs Airport could improve their monitoring and management of EDA contracts with third parties to ensure compliance but found a majority of the contract terms were met as intended.

We would like to thank the Colorado Springs Airport, Sales Tax department, and City Finance staff for their assistance during this audit.

Management Response

Management was in agreement with our recommendation. See page 2 for details.

Recommendation

We recommend the City continue to ensure CAZ exemption sales tax returns are completed annually to allow management to gauge the economic impact of granting exemptions.

Opportunity for Improvement

For future EDAs, agreement language should specify performance metrics, reporting periods and roles to ensure results are reported and monitored. For existing EDAs, we recommend the Airport proactively request information from EDA holders and report results to improve transparency.

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20-17 COLORADO SPRINGS AIRPORT COMMERCIAL AERONAUTICAL ZONE IMPACT

Observation

The exemption application for CAZ indicates the City Sales Tax office will mail a form out to exemption holders to report their annual exempted sales. For 2014-2018, the Sales Tax Office did not mail the forms to CAZ exemption holders, therefore no sales tax reports were provided. Forms were mailed and reports were received for 2019. Per the exemption application, City Sales Tax should have mailed forms to request sales data each year. Exemption holders should have provided sales data by completing and returning the forms. Because returns were not collected for each year of the CAZ, the City does not have historic information to help gauge the economic impact of the exemptions.

Recommendation

We recommend the City continue to ensure CAZ exemption sales tax returns are completed annually to allow management to gauge the economic impact of granting exemptions.

Management Response

Management agrees with the recommendation and will continue the process that was implemented in 2019 to annually request of the CAZ exemption holders their annual exempted sales. The reporting period will align with other annual sales tax reports.

Opportunity for Improvement

Commercial Aeronautical Zone (CAZ) Economic Development Agreements (EDA)s did not include language to require reporting and monitoring of results. Of the three EDAs in place at the time of the audit, only one documented that it accomplished its stated goals for new jobs and construction.

- Total new jobs were anticipated to be 40 for all three agreements. One EDA documented 60 jobs being created. However, documentation did not exist for job growth results from the other two EDA holders.
- Total anticipated construction was \$28.5M, the actual amount reported and used for incentive payments was \$25.9M. Processes for reporting and payment of incentives for Sales and Use Tax on construction materials were completed accurately and timely.

EDAs should include performance metrics, reporting periods and roles for monitoring outcomes. Through effective monitoring and reporting of outcomes transparency is improved.

Recommendation

For future EDAs, agreement language should specify performance metrics, reporting periods and roles to ensure results are reported and monitored. For existing EDAs, we recommend the Airport proactively request information from EDA holders and report results to improve transparency.

Management Response

All future EDAs will include a contract clause that obligates the beneficiary to provide the Airport Properties Division (in addition to the Sales Tax Office) with a yearly report identifying: (i) compliance with any job creation and maintenance requirement during the calendar year, including supporting documentation, and (ii) the total construction materials used in the establishment of the new business facility constructed on the Airport and all supporting documentation.

The airport will reach out to the beneficiary of the one current existing EDA and request that they provide a report to the airport in accordance with the above requirements. The airport will additionally include new reporting requirements stating the above any new EDA that may be developed from this point forward.