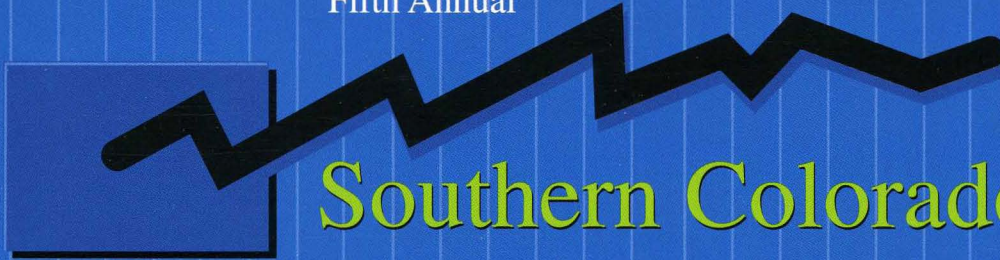


2001 - 2002

Fifth Annual



Southern Colorado Economic Forum

October 17, 2001

College of Business and Administration
University of Colorado at Colorado Springs
Colorado Springs, Colorado 80933-7150



University of Colorado
at Colorado Springs



First
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Welcome From the Chancellor

The University of Colorado at Colorado Springs is pleased to join with our business partners to present the fifth annual Southern Colorado Economic Forum. This program provides a look at the economy and quality of life in the region over the past year and an opportunity to peek at our community's future. Projections on employment and other economic and quality of life indicators presented at this forum are based on an in-depth analysis of data collected from a variety of sources. With this information, we hope to provide insight to policy makers and to aid them in making informed decisions about our region. We also hope to provide a realistic economic forecast for the coming year.

We are fortunate to have many committed individuals involved in this project. I wish to thank Jeff Ferguson and Tom Zwirlein, professors of business, for their data analysis and its presentation in this report. I also wish to thank our panel of experts for their contributions as well as those of Joseph C. Rallo, Dean, College of Business and his dedicated staff for putting together this excellent program.

I would also like to thank our business community sponsors: First Business Brokers, Ltd., Vista Bank, Fittje Brothers Printing, La Plata Investments, LLC., Biggs Kofford, ADD STAFF, Inc., Van Gilder Insurance Corporation, The Mail Room, Inc., and the Antlers Adam's Mark Hotel. We are grateful for the support we receive from the Economic Development Corporation, the Chamber, and the City of Colorado Springs.

Thank you for coming to the Southern Colorado Economic Forum. We wish you a productive and successful 2002!

Linda Bunnell Shade, Chancellor, University of Colorado at Colorado Springs

Welcome From the Dean of the College of Business and Administration and the Graduate School of Business Administration

The Southern Colorado Economic Forum has become the pre-eminent forum in the region to anticipate and explain the dynamics of our business and commercial economy. The fifth annual forum continues this tradition by gathering, analyzing, and explaining a complex set of indicators designed to guide your business decisions in the next year. The panel discussion further illuminates underlying economic trends of critical importance to the region.

The forum is a critical component of the College of Business in its goal to become a primary resource to meet the varied business related needs of our community. As the leading public university in southern Colorado, we have a special mandate to provide leading edge academic resources to our partners in the region. Our newly created business center, Connections, will enable you to access the varied resources of the college and university via the web, by phone, or in person.

Welcome to the fifth annual Southern Colorado Economic Forum and we look forward to serving as a primary business resource to your company over the coming months.

Joseph C. Rallo, Dean

First Business Brokers, LTD.

Founding Partner of the Fifth Annual Southern Colorado Economic Forum
Ron Chernak, President (719) 635-9000

First Business Brokers, Ltd., is a firm that deals exclusively with the sale of privately-owned companies. Established in 1982 by Ronald V. Chernak, JD, CPA, FCBI, the firm is one of Colorado's largest and most successful brokerage companies representing privately-owned businesses. First Business Brokers, Ltd., has completed over 700 business sales covering a wide variety of industries.

First Business Brokers, Ltd., assists with the complex legal, accounting, and negotiation issues involved with the sale of a business. The firm complements comprehensive professional services with an acute awareness of current market conditions to assist clients in making easier, more informed, and financially stronger transactions. The firm's strength lies in its professional approach and customized strategy to each and every business transfer. A successful transaction requires the input of skilled professionals who are experienced in, and sensitive to, the process of effectively bringing the buyer and seller together. First Business Brokers, Ltd., understands what building the business has meant to the seller and what opportunity, through acquisition, is perceived by the buyer.

First Business Brokers, Ltd., offers professional assistance at every phase of the business sale transaction including: valuations, preparation of a detailed business presentation package, development of a sound marketing strategy, pre-screening of potential purchasers, negotiating the structure of the transactions, and interfacing with accountants, attorneys and bankers during the closing process.

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The 2001 - 2002 Southern Colorado Economic Forum

Introduction

This marks the fifth year for the Southern Colorado Economic Forum. Our goal since inception has been to provide business in El Paso County with information to assess local economic conditions in Southern Colorado. The objective of the Forum is to provide timely, accurate, and useful information focused on the Pikes Peak Region that can be used by businesses to make better and more informed decisions regarding their future business plans. The information provided by the Forum serves as a community progress report: identifying areas where we excel, as well as areas where we face challenges.

We analyze both primary and secondary information to assess the overall health of the region. In order to learn about local business concerns and issues we conduct a business climate survey with the Chamber of Commerce. This year the survey was mailed to over 3,100 members of the Colorado Springs Chamber of Commerce and the Greater Colorado Springs Economic Development Corporation to ascertain the major issues facing business including a variety of factors that positively or negatively impact business. We also ask questions about current year operations and business expectations for the coming year. This information helps us to assess the overall business climate and areas where civic leaders can work to improve the overall business and quality of life climate in Southern Colorado.

The secondary economic data concentrates on labor market information, retail and wholesale trade, construction and commercial real estate activity, military employment and expenditures, exports, tourism, sales and use taxes, utility activity, and others. In addition, we examine a number of quality of life and education indicators for El Paso County to ascertain community progress in dealing with issues such as the impact of growth and how well the educational needs of the community are being met.

From this information, we develop a set of economic and quality of life indicators for El Paso County. The indicators provide a picture of the economy and the quality of life in the area and help to answer the questions of 'how are we doing' and 'where are we going' in the future.

The indicators are used to help assess our progress by measuring changes over time. No single indicators can provide a complete picture of the economy, the quality of life, or the educational status of our citizenry. Examined collectively, economic and quality of life indicators provide a picture of the health of the region, the welfare and educational attainment of the citizens who live and work here, and the progress of business and organizations who operate here.

The Southern Colorado Economy

The Southern Colorado economy softened considerably this year after enjoying eleven years of expansion. This year's slowdown in the high technology sector, the fall in the stock market, weak consumer confidence, and weakness abroad have all taken their toll on the national economy. The FED has lowered the interest rates eight times this year in an attempt to reverse the slowdown and keep the national economy from falling into a recession.

The recent attacks on the World Trade Center and the Pentagon have greatly increased uncertainty in the national economy and the stock market. As of this writing, the stock market is open again and, as expected, volatility is high. In the first day of trading after the terrorist attack, the Dow Jones dropped more than 5 percent in one day. It remains to be seen what the markets will do over the remainder of the year.

Although the Colorado and Southern Colorado economy have been somewhat insulated from the national economic weakness, there are several economic sectors that are feeling the effects of the slowdown. In particular, high technology firms in El Paso County have been hit hard. As of the end of August, between 3,700 and 3,800 layoffs have been announced in the county, most in the high technology sector. The full impact of these announcements will be felt as the year winds down and more of the layoffs take effect.

If the nation goes to war, the local economy will certainly feel the effects. Local troops will be deployed and this could have an impact on local area consumption and buying behavior. The retail sector could feel the effects of any large scale troop deployments. At the same time, military expenditures will increase and some military contractors will see an increase in employment as they ramp up their operations.

Employment/Unemployment

Job growth in Colorado was 3.9 percent in 2000. At the same time, El Paso County wage and salary employment grew by 3.4 percent. At the end of 2000, the unemployment rate in Colorado and Colorado Springs MSA stood at 2.7 and 3.3 percent respectively. The employment situation has changed in 2001. The July 2001 unemployment rate in Colorado stood at 3.5 percent and in Colorado Springs it climbed to 4.4 percent. June 2000 to June 2001 job growth has slowed to an anemic 1.4 percent in El Paso County. The 3,800 announced lay-offs have contributed to the slowdown. The unemployment rate could continue to increase over the remainder of the year as the announced layoffs turn into lost jobs.

The slowdown in job growth and creation appears to be widespread. The only real bright spots in year-to-year job growth appear to be in the construction industry and in local government that includes local education jobs. Given the slowness in the technology sector, we expect overall job growth to be in the range of 1 to 2 percent for the full year in 2001.

There are a number of reasons why 2002 holds more promise but also more downside risk. First, the interest rate cuts by the FED should begin to have an impact on the economy early next year. Second, business inventories are being adjusted to the current economic situation. The sell-off of inventories has put a drag on the economy and has slowed GDP and job growth. Exacerbating the situation is all the used technology and telecommunications equipment on the market from numerous dot com failures. When inventories are reduced to sustainable levels business layoffs should decrease, business should stabilize, and some rehiring should begin. Third, as the layoffs diminish and new hiring announcements occur, consumer confidence will increase. Fourth, the federal tax rebates may help to spur a small consumption bubble. Fifth, the stock market which has been in the doldrums will revive as businesses work off inventories, take some final earnings hits, and clean up their balance sheets and income statements. A more buoyant stock market will positively affect consumer confidence. A potential sixth reason for optimism in the technology sector is Windows XP. The minimum requirement for this new Microsoft operating system is a 233 megahertz Pentium with 128 megabytes of ram

and 1.5 gigabytes of hard disk space for installation. Normally, these minimum requirements greatly underestimate the real computer power necessary to maintain performance. Many businesses with older equipment that adopt the new operating system will need upgrades that could help revive the PC hardware market.

Wages and Income

Average wages in El Paso County increased 7.7 percent in 2000 to \$33,039 after increasing 4.3% in 1999. Healthy increases were reported in manufacturing (up 13.3 percent) and especially the manufacture of electrical machinery where average wages increased from \$42,410 in 1999 to \$52,898 in 2000; a 24.7 percent increase. Instrument manufacturer wages increased 11.5 percent to \$61,512, non-electrical machinery manufacture wages increased 14.5 percent to \$57,374 and fabricated metals average wages increased 8.2 percent to \$33,976. Business services recorded healthy wage gains of 14.3 percent to \$41,455. Construction wages increased 8.7 percent to \$35,655. Last year's tight labor market, a strong commercial, residential, and public works construction industry, and the Intel start-up help to explain these strong wage gains.

Most other economic sectors reported more modest wage gains, in the 4 to 5 percent range. Wages in the telecommunications, communications, and public utilities sector went down for the second year in a row. The drop is concentrated in the communications sector where average wages declined by 3.1 percent to \$48,994. This is most likely explained by a change in the mix of workers in this sector.

Average wages in Colorado were up 8.7 percent in Colorado in 2000 to \$37,166. This means the gap between El Paso County wages and average Colorado wages grew in 2000 to \$4,127. This wage gap was \$3,513 in 1999.

With inflation at 4 percent for 2000 and average nominal wage gains at 7.7 percent, the average worker in the county received a 3.7 real wage increase. With this gain, El Paso County real wages (indexed to 1987) have increased 10.4 percent since 1990. Real wage gains are important because they improve real household income and living standards.

The Pikes Peak Area Council of Governments estimated that median household income in El Paso County grew by 4.5 percent in 2000 to \$48,185. Per capita personal income in Colorado grew by 4.5 percent to \$32,949 in 2000. Using the Colorado growth rate of 4.5 percent gives us a 2000 estimate of \$28,617 for El Paso County per capita personal income.

The Military

The total impact of the military was estimated at \$2.44 billion in 2000 from wages, annual expenditures, and the estimated value of jobs created by the military presence. Military employment including military in-service, federal civilian workers, and non-appropriated workers reached 41,891 in 2000, an increase of 300 employees over 1999. Total military employment has remained very stable since 1991. Non-appropriated fund contract civilian and private business employees have grown 156 percent over the past ten years. Over the same period, military in-service and federal civilian worker employment roles grew about 5 percent. Under a base case scenario, we expect the military presence to continue to grow along with the overall economy. If this scenario plays out, the military will continue to have a stabilizing effect on the local economy. However, this base case scenario could be disrupted if the United States becomes involved in a prolonged military operation against terrorists. If this becomes a reality, it is difficult at this time to predict the economic impact on the local area economy.

Housing Construction and Commercial Activity

The housing industry remains one of the strongest sectors of the Southern Colorado economy. Through August of 2001, 3,980 single-family and townhome building permits have been pulled. This represents a 20 percent increase over last year's healthy pace. Many economists in the area are having difficulty explaining the robust figures in light of the economic slowdown and anemic job growth this year. On the other hand, lower mortgage rates may be a driving force which is encouraging individuals and families to move into a new home. Finally, there are a number of sectors that are expanding while the tech sector flounders. For example, local school districts have added hundreds of new teachers this year in order to meet increased enrollments and attempt to lower class size. Many of these new teachers are relocating to the area, need

places to live, and are probably taking advantage of low mortgage rates to buy new homes.

How long can the housing market continue this record pace? This year we are estimating that 5,200 single family and townhouses will be built in the county. This is about 4 percent ahead of last year's pace. We are estimating that 1,340 multi-family units will be completed in 2001, which is 2.3 percent ahead of last year. The number of housing starts next year will depend in large part on the economy. As of this writing, there is a strong sentiment that events of September 11, 2001 may cause sufficient economic disruption to finally push the national economy into a recession. If this does indeed happen there is little reason to expect that El Paso County would be immune. A sluggish economy or recession will hit home construction.

All indicators point to a slower commercial market. The office vacancy rate for existing office space has risen throughout the year according to Palmer McAllister. The current office vacancy rate is 8.5 percent. More than 500,000 square feet of office space has been added this year while absorption so far this year is reported at 304,000 square feet.

Industrial vacancy rates are up to 5.4 percent on existing space from 4.0 percent a year earlier. Leasing activity has slowed and absorption is negative at -163,000 sq. ft. due to a number of large buildings being vacated.

The pace of commercial building has slowed significantly this year. The value of commercial building activity through August is \$159.3 million. The value last year at the same time was \$217.7 million. This is a decline of 26.8 percent over the 2000 figures. Commercial construction may only reach \$200 to 225 million this year.

Retail and Wholesale Trade

Retail sales were up 11.7 percent in Colorado and 13.1 percent in El Paso County in 2000. County retail sales were \$9.19 billion. Apparel and accessory stores recorded a 20.5 percent gain. Auto dealers and service stations continued the strong showing recording a 13.8 percent sales gain. Eating and drinking establishments recorded a 12.2 percent

increase while sales at food stores were up 10 percent. Retail sales were up 8 percent in El Paso County through June 2001 from year earlier figures. Consumer confidence will be important in determining whether retail sales will hold up for the remainder of the year.

Employment in the retail sector increased 2.4 percent in 2000. Building materials recorded a 7.5 percent gain and auto dealers and service station employment was up 6.0 percent.

Wholesale sales were up 11.7 percent in Colorado and 11.4 percent in El Paso County in 2000. The El Paso County increase comes after falling 24.3 percent in 1999. The wholesale sector has shown more volatility in El Paso County than in Colorado over the last decade. Employment in durable goods increased 8.8 percent while non-durable goods employment increased 1.7 percent.

Shopping center vacancy is currently 7.4 percent, which is down from 8.8 percent a year earlier. Palmer McAllister reports the overall weighted average asking lease rate decreased by \$1.94 in the second quarter to \$9.92 due to a lack of quality leasing space. Leasing activity reached 146,000 in 2001 with absorption at 162,000. Next year should be another bustling year along Powers Boulevard. Wal-Mart is investigating space near Palmer Park and Powers while Target expects to develop a super Target near North Carefree and Powers. The state better hurry or there will be no room for a freeway. At the same time, there are a number of big box retail buildings, which remain vacant or soon will be vacant in sections of the city. These include Home Base, Best, Jumbo Sports, Hugh M. Woods, Albertson's (on Austin Bluffs), Rite Aid, and Montgomery Ward's.

Business Survey Results

Each year, we survey businesses and organizations in Southern Colorado in order to gain some insight into the minds of business leaders in the community. The major findings of this survey are provided near the end of this report. This section summarizes some of the findings.

First, business optimism dropped this year. Sixty-five percent of the companies responding to our survey indicate that performance in 2001 is as projected or

better. Last year this figure was 83 percent for the year 2000. Business sentiment for next year is also somewhat guarded. Sixty-eight percent of the respondents indicated they expect next year will be better or much better than this year. Last year 82 percent of businesses expected that 2001 will be better than 2000.

Business operations are being positively impacted by a number of workforce, external, internal and governmental factors. Quality of life was noted as the most positive impact factor for business. Other important factors included automation and computerization changes, technology changes, local amenities, ability to offer competitive prices, availability of workers with a strong work ethic, quality of higher education, and local/state economic conditions. The availability of workers with a strong work ethic moved from a negative factor (from past years' surveys) to a positive factor this year.

Cost factors emerged this year as big negative factors impacting business. Health insurance costs, energy costs, living costs, government mandated benefits, and other utility costs were listed as negative factors impacting business. National economic conditions moved from a positive to a negative factor in this year's survey. City/county infrastructure was also listed as a negative impact factor.

Business development areas are crucial to success in our global economy. Local area businesses will continue to emphasize their delivery methods and marketing using e-commerce and the Internet. They also will revise and add to current product and service offerings. Workforce development, upgrades to information systems, and cost reduction are other areas where business will concentrate.

Where is the Southern Colorado economy headed in 2002?

The national slowdown is being felt in Southern Colorado. We have seen the economy slow dramatically in 2001 following the general slowdown in the national and state economy.

Unemployment is currently at 4.4 percent and is forecast to increase to 5.4 percent in 2002. The continued weakness in high technology, in particular in chip manufacturing, combined with an expected

slowdown in both residential and commercial construction will filter into some of the secondary sectors causing the unemployment rate to increase by a full point.

Non-agricultural employment is expected to grow 2.5 percent in 2002 as long as there are no unexpected surprises and mass layoffs by a key employer. Average salaries will increase at a rate slightly ahead of the Denver/Boulder CPI. The combined effect is that total wage and salary income will increase by 6.3 percent.

Personal income is expected to grow by 6.5 percent, a rate only slightly below the rate of growth for Colorado. Per capita personal income is expected to grow by 3.6 percent, which is .6 percent below the Colorado growth rate.

Retail trade is forecast to grow at a rate similar to statewide projections. The housing market is expected to slow considerably next year. We predict 4,200 single family and townhomes will be constructed in 2002. Our estimate is based on a slow rate of job growth, population growth of approximately 10,000, and an average household size of 2.5. Non-residential construction, which shows a great deal of year-to-year volatility is forecast to decline 11 percent in 2001.

Estimates and forecasts for national, state, and El Paso County economic indicators are provided in the table. The national and state estimates and forecasts are from the Colorado Economic Perspective, prepared by the Office of State Planning and Budgeting, June 20, 2001. The El Paso County estimates and forecasts are CU-Colorado Springs, College of Business, Southern Colorado Economic Forum estimates.

Acknowledgments

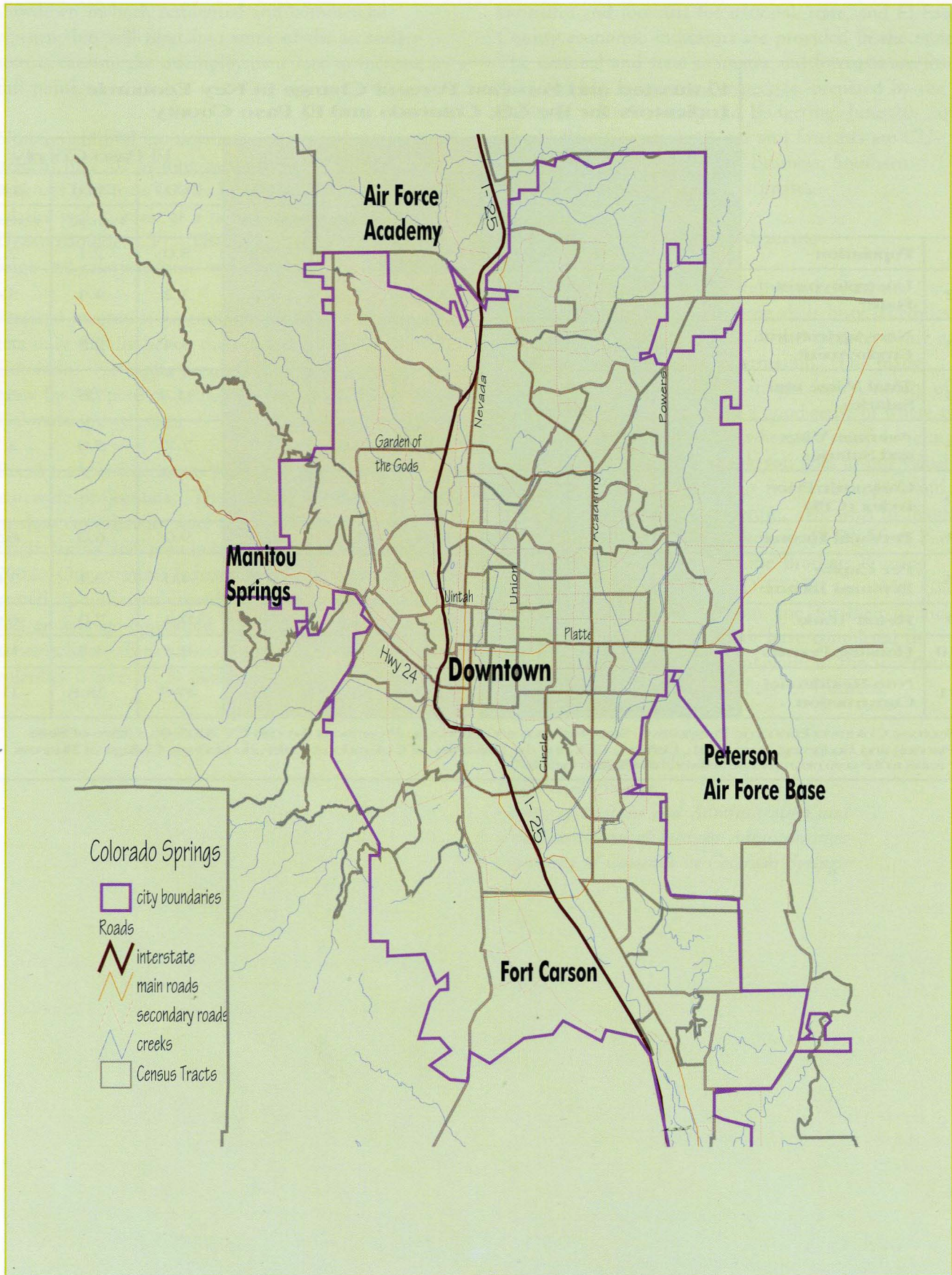
We wish to thank all of the individuals from the community who took time from their busy schedules to talk with us about conditions in the local economy and for providing us with the information. The many discussions provided valuable insight into a variety of economic sectors and gave us a good sense of where the local economy is headed and where we stand in terms of quality of life. A special thank you goes to our valuable partners who provide generous financial support and guidance in producing the Forum. We wish to thank our partners: First Business Brokers, LTD., Vista Bank, La Plata Investments LLC, Fittje Brothers Printing Company, BiggsKofford, ADD STAFF, Inc., Van Gilder Insurance, and The Mail Room, Inc. for their financial support. Finally, we could not have completed the Forum and arranged this event without the superlative and dedicated staff in the College of Business.

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University of Colorado at Colorado Springs*

		Estimated and Forecast Percent Change in Key Economic Indicators for the US, Colorado and El Paso County								
		United States			Colorado			El Paso County		
		2000	2001	2002	2000	2001	2002	2000	2001	2002
			Estimate	Forecast		Estimate	Forecast		Estimate	Forecast
1	Population	3.2	0.9	0.9	6.0	2.3	2.3	3.0	2.1	2.1
2	Unemployment Rate*	4.0	4.7	5.6	2.7	3.0	3.2	3.2	4.4	5.4
3	Non-Agricultural Employment	2.0	.7	.6	3.9	3.5	3.4	3.4	2.5	2.5
4	Total Wage and Salaries				13.2	8.3	6.9	11.4	7.6	6.3
5	Average Wage and Salaries				8.9	4.6	3.5	7.7	5.0	3.7
6	Consumer Price Index (CPI)	3.4	3.3	2.0	4.0	3.8	3.4			
7	Personal Income	6.3	4.6	4.3	10.8	7.1	6.6	9.0	6.0	6.5
8	Per Capita Personal Income	3.0	3.7	3.4	4.5	4.1	4.2	4.0	3.1	3.6
9	Retail Trade				11.5	7.2	6.6	9.4	7.0	6.6
10	Housing Permits	-4.2	-4.7	-4.2	9.0	-5.6	-4.0	8.5	4.5	-19.0
11	Non-Residential Construction				-12.4	-2.7	-2.6	47.5	-38.8	-11.0

Sources: Colorado Economic Perspective, State Revenue and Economic Projections through FY 2005-06, Office of State Planning and Budgeting, June 2001, Denver, CO, and the University of Colorado at Colorado Springs, College of Business.

* refers to the unemployment rate and not the change in the rate



WHY IS THIS IMPORTANT?

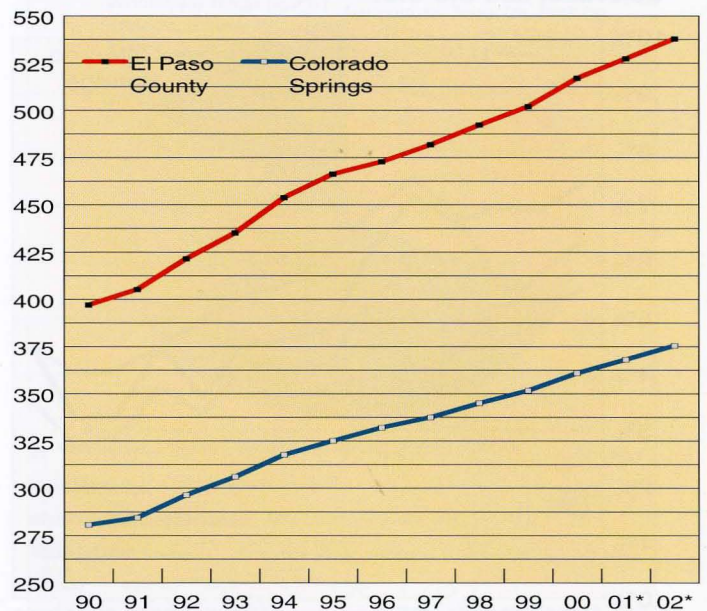
Population growth is important because it influences the labor market and the health of the economy in general. Understanding population trends helps city and county officials, builders, retail establishments and others plan for growth.

HOW ARE WE DOING?

Colorado's population continues to increase at a steady pace. The 2000 census provided confirmation of what many demographic experts had long suspected; El Paso County's population throughout the 1990s was underestimated. The 2000 census puts El Paso County population at 516,929. The 2000 census reported the Colorado Springs population at 360,890. Current projections put population growth at approximately 2.0 percent over the next several years.

The strong state economy throughout the 1990s, growing key industries, economic development efforts, quality of life, natural beauty of the state, and an educated workforce, all play a role in population increase over the last decade. Colorado Springs is the second largest city in the state and its continued growth has put severe pressure on city and county infrastructure.

Colorado Springs and El Paso County Population (000s)



* 2001 through 2002 are Southern Colorado Economic Forum (SCEF) forecasts. Sources: U. S. Census, Colorado Department of Labor: State Demography Section and Colorado Springs Utilities

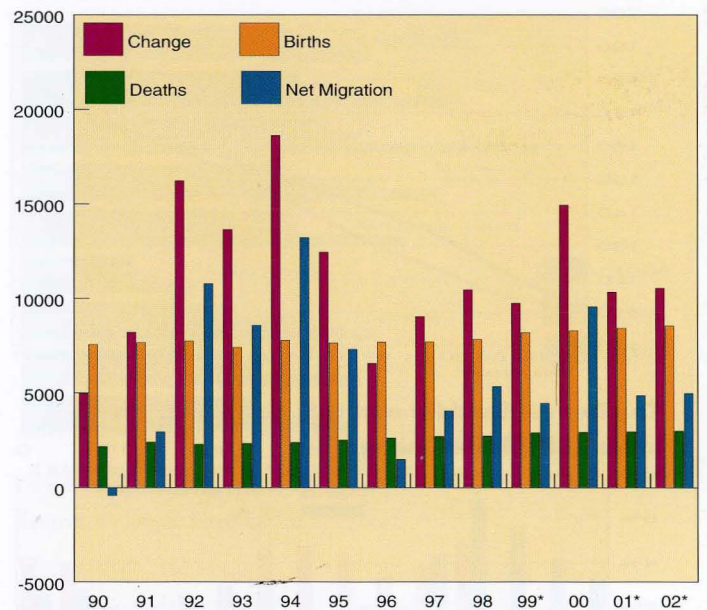
WHY IS THIS IMPORTANT?

Births, deaths, and migration combine to produce the changes in population. Identifying trends in these indicators helps project future changes in the county's population and impact on the economy.

HOW ARE WE DOING?

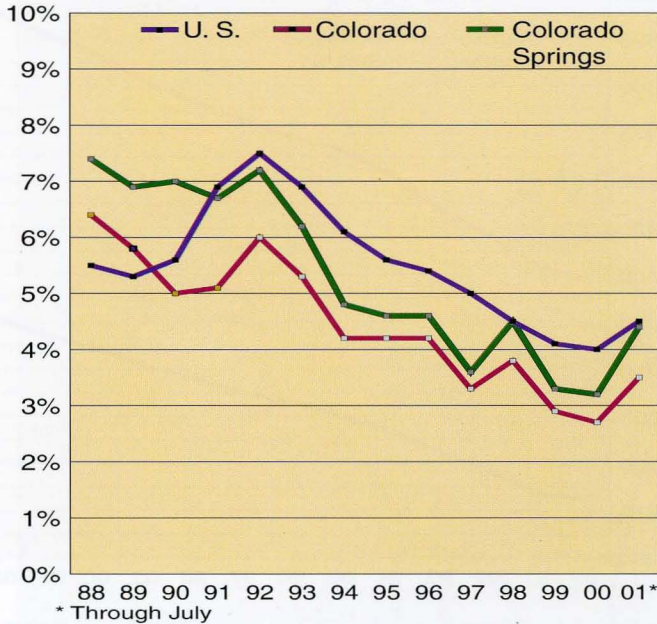
The number of resident births and deaths has remained relatively stable over the past ten years. Total in-migration into the county represents about 50 percent of the change in population since 1990. Net in-migration has remained relatively stable over the past several years with the exception of 2000 which shows a blip due to a revision in the numbers resulting from the 2000 census count. We expect these trends to remain relatively stable over the next several years as long as there are no major positive or negative surprises in the employment picture. A sudden jump in inflation, a significant slowdown in the semiconductor industry, layoffs at one of our large employers or other unpleasant surprises could affect these trends.

Births, Deaths, and Migration in El Paso County



* 2001 and 2002 are SCEF forecasts. Sources: Colorado Department of Labor: State Demography Section; Colorado Department of Public Health and Environment, Health Statistics and Vital Records

The Unemployment Rate in El Paso County, Colorado, and the U.S.



Source: Colorado Department of Labor

WHY IS THIS IMPORTANT?

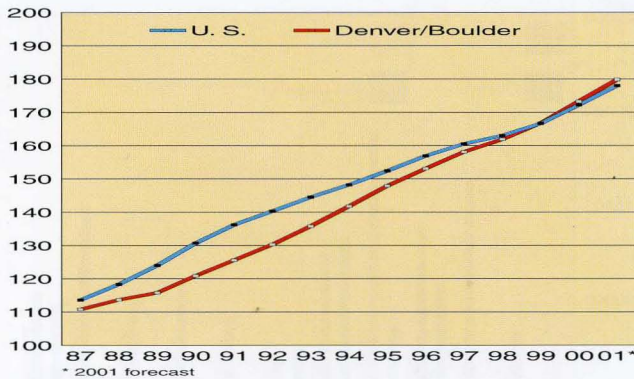
The unemployment rate is the percentage of the work force without a job. There will always be some unemployment due to seasonal factors, workers between jobs, recent graduates looking for work, and others. Comparisons with the state and national unemployment rate provide information regarding how well the region is doing in providing jobs for the workforce.

HOW ARE WE DOING?

In 2000 the U.S. unemployment rate dropped to a 30 year low and stood at 4.0 percent at the end of the year. The economic slowdown in the U.S. had inched the unemployment rate up to 4.5 percent by June of this year. Colorado's unemployment rate stood at 2.7 at the end of 2000 but had also increased to 3.50 percent in July. The Colorado Springs MSA unemployment rate is currently 4.4 percent; up from 3.30 percent at the end of 2000.

Much of the slowdown in the economy and employment is attributed to the technology sector which has been losing employment throughout 2001 and shows little sign of strengthening any time soon. The anemic national economy is now affecting both Colorado and Colorado Springs. Most industries in the region are showing relatively flat June 2000 to June 2001 employment growth figures. Selected service, local government, and local education appear to be the only sectors where employment is growing this year.

The Denver/Boulder and U.S. Consumer Price Index (CPI) for all Urban Consumers (1982-1984=100)



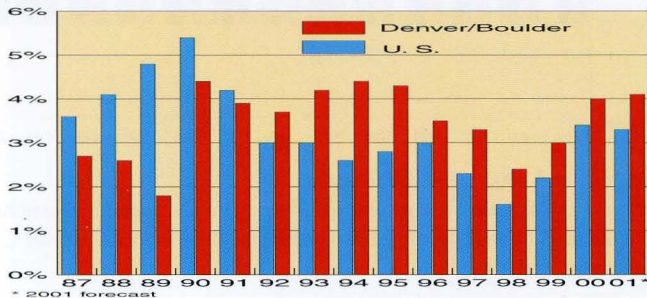
WHY IS THIS IMPORTANT?

The consumer price index (CPI) measures the average price change (inflation) for a basket of goods and services selected by the U.S. Department of Labor, Bureau of Statistics. The CPI measures the period-to-period loss of purchasing power of a dollar caused by rising prices. The CPI is often used to compute real wages, income, and wealth to determine whether consumer purchasing power and household wealth are increasing, decreasing, or remaining constant.

HOW ARE WE DOING?

We report the Denver/Boulder CPI since the Bureau of Labor Statistics does not compile an index for Colorado Springs. The Denver/Boulder CPI rose 4.0 percent in 2000 after rising 3.0 percent in 1999. The U.S. urban CPI rose 3.4 percent in 2000 after increasing 2.7 percent in 1999. The Denver/Boulder CPI is up 3.2 percent over the first six months of 2001 while the U.S. rate is up only 1.9 percent. The surprising item leading the Denver/Boulder CPI so far this year is apparel which shot up 9.7 percent in the first half of the year. Additionally, housing increased 4.5 percent, and food and beverage and medical care both increased 3.3 percent in the first half of the year.

The Denver/Boulder and U.S. Consumer Price Index (CPI) Rate Change



Source: U.S. Department of Labor, Bureau of Statistics

The Office of State Planning and Budgeting expects consumer prices in Colorado to rise 3.8 percent in 2000 and 3.4 percent in 2002. We expect the 2001 estimate will be low given the first half figures and the continued uncertainty over energy costs. The Denver/Boulder CPI could easily hit 4.1 percent in 2001 if energy prices rise towards the end of the year.

WHY IS THIS IMPORTANT?

The size and mix of jobs is an important indicator of the quality and sustainability of the economy during both good times and bad. During good economic times we expect the economy to grow, to expand, and to change the mix through the addition of higher quality job opportunities. A diversified economy is better able to withstand the economic downturns.

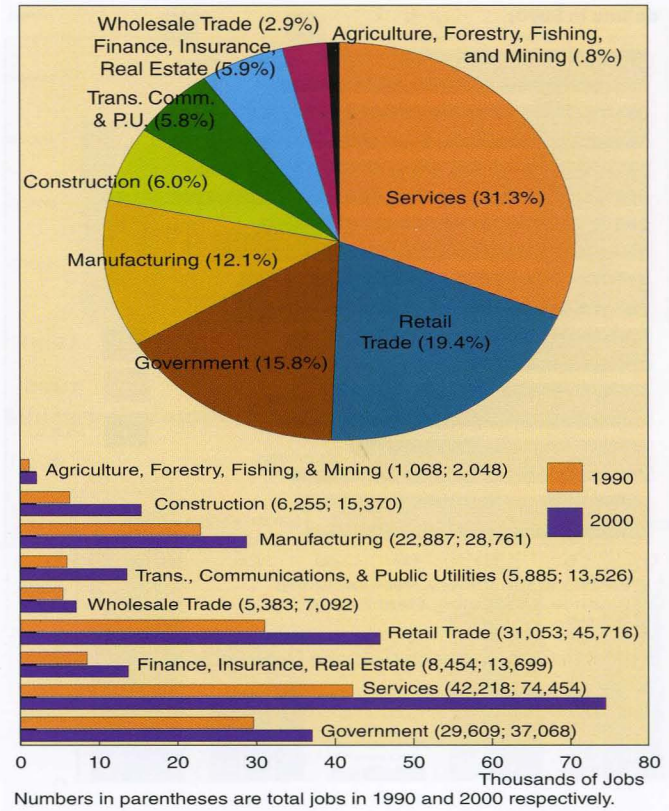
HOW ARE WE DOING?

Average annual employment in El Paso County reached 237,734 in 2000 for a 3.43 percent increase over 1999 levels. This was almost a full percent lower growth than the prior year and in line with our last report which predicted local economic growth to slow. The Colorado Department of Labor and Employment reported county employment at 256,000 in June on a non-seasonally adjusted basis. This is an increase of only 1.2 percent over year earlier figures. The local employment picture has been weak for most of 2001 with over 3,500-3,700 layoffs already announced this year.

Between 1990 and 2000, a total of 84,922 jobs were created in El Paso County, an increase of 55.5 percent. Construction; transportation, communications, and public utilities; services; and finance, insurance and real estate have lead the growth over the last decade.

Although manufacturing jobs grew by more than 1,000 jobs in 2000 due in large part to Intel, we can expect a reversal in this figure in 2001. Many of the large layoffs announced so far this year have been in the high technology and manufacturing sectors.

Employment in 2000 by Sector



Source: Colorado Department of Labor

WHY IS THIS IMPORTANT?

Wages are an indicator of the wealth-generating capacity of the community. Higher wages and salaries in basic industries help create other jobs through the multiplier effect and add to the tax base. High wage jobs help to attract and keep qualified, well-trained employees.

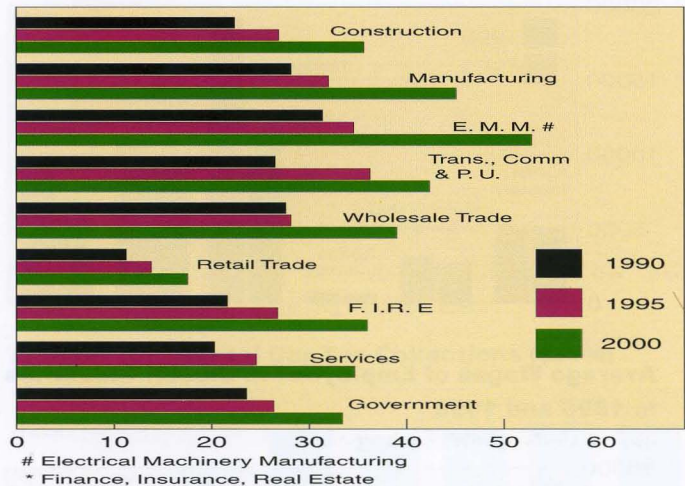
HOW ARE WE DOING?

Average annual wages for all industries in El Paso County were \$33,039 in 2000, which represents a healthy increase of 7.70 percent over the year earlier figure. Wage growth has averaged 6.16 percent annually over the last five years. These increases can be attributed both to the recent tight labor markets, as well as to the increase in the number of high paying jobs brought into the county over the last decade.

Many sectors benefitted from the strong wage gains. Gains were particularly strong in overall manufacturing (13.3%), nonelectrical manufacturing (14.9%), electrical machinery manufacturing (24.7%), instruments manufacturing (11.5%), and business services (14.3%).

Wages in Colorado as a whole averaged \$37,166 or 8.7 percent higher than 1999. The average wage gap between El Paso County and the state as a whole grew again in 2000 to \$4,127. In 1999 the wage gap was \$3,513 and in 1998 the gap was \$2,844.

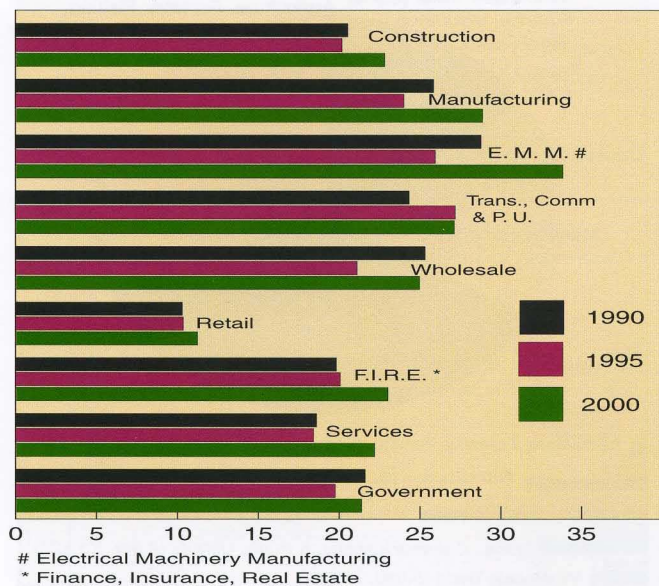
Average Annual Wages in El Paso County by Sector (\$000)



Source: Colorado Department of Labor

Real Wages in El Paso County by Sector (1987

dollars in \$000)



Source: Derived series from Colorado Department of Labor Data

WHY IS THIS IMPORTANT?

Real wages and real wage growth indicate how well employees fare against inflation. Job creation serves as an indicator of the quantity of jobs in the economy while real wages and real wage growth are indicators of job quality.

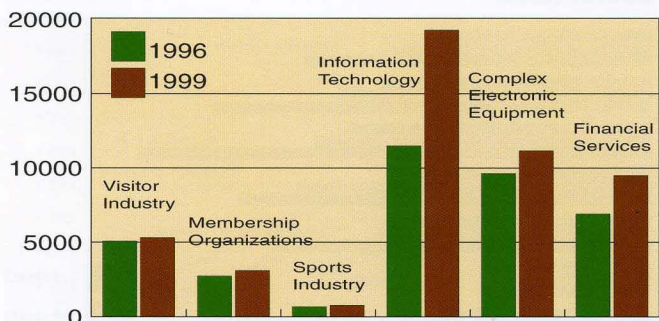
HOW ARE WE DOING?

Helped by another year of modest inflation, tight labor markets, and healthy wage gains, average real wages (in 1987 constant dollars) increased in 2000 by 3.60 percent to \$21,136. Statewide, real wages increased to \$23,738 in 2000 for a 4.57 percent increase.

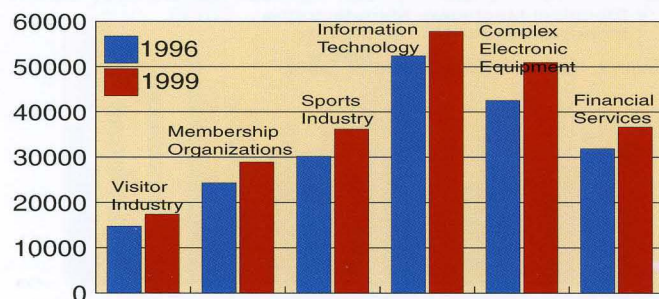
Since 1990, real wages have increased 10.4 percent in El Paso County compared to a 6.2 percent increase in Colorado. Some of the sub-sectors showing the strongest real wage growth over the last decade include: business services (70.9%); instrument manufacturing (32.9%); real estate (28%); fabricated metal manufacturing (18.5%); electrical machinery manufacturing (17.6%); communications (16.6%); membership organizations (13.1%); and auto dealers and service stations (12.7%).

Not all industries and sub-sectors benefitted from real wage growth. From 1990 to 2000 real wages declined in wholesale trade (-1.4%); printing and publishing (-1.4%); government (-1.1%); general merchandise (-.9%); and health services (-.6%).

Number of Employees in Cluster Industries in 1996 and 1999



Average Wages of Employees in Cluster Industries in 1996 and 1999



Sources: State of Colorado Department of Local Affairs; State of Colorado Division of Local Government; SCEF estimates

WHY IS THIS IMPORTANT?

The Economic Development Corporation has identified key industry clusters as targets for economic development. The clusters group industries complement each other and generate income and wealth for the community by exporting out of the region. Employment, growth and the wages derived from these industries help to support induced sectors of the economy such as services, retail, and construction.

HOW ARE WE DOING?

In 1999, these clusters accounted for approximately 21 percent of the wage and salary labor force in El Paso County. Employment in the clusters was estimated at 49,113 in 1999, the most recent year for which cluster data is available. This is an increase in cluster employment of 11.9 percent over 1998. Nearly 62 percent or 30,443 jobs in the clusters are in the high paying information technology and complex electronic equipment industries. Most of the employment growth took place in high wage clusters. However, these strong numbers are expected to moderate due to the current slump in the technology sector.

Weighted average wages in the cluster industries grew a whopping 19 percent to \$43,679 in 1999 over year earlier figures. In comparison, average wages for all industries in El Paso County were \$30,676 in 1999. Average wages in information technology were \$57,782. Average wages reached \$50,952 in complex electronic equipment, \$36,662 in financial services, and \$36,185 in the sports industry, which are all above average wages for the county.

WHY IS THIS IMPORTANT?

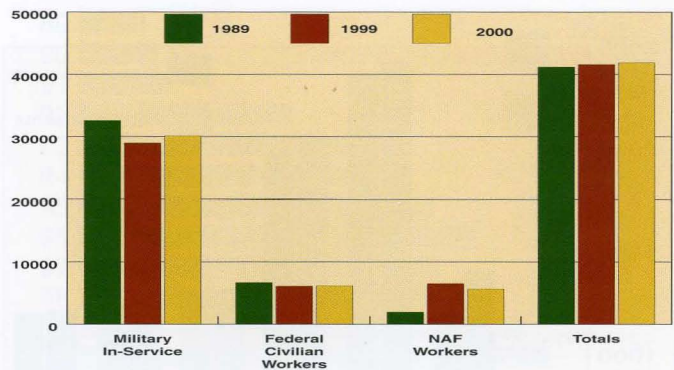
The Military has been an important contributor to the economy since World War II. Even though the economy has diversified dramatically in the past decade, the military sector remains an important piece of the regional economy.

HOW ARE WE DOING?

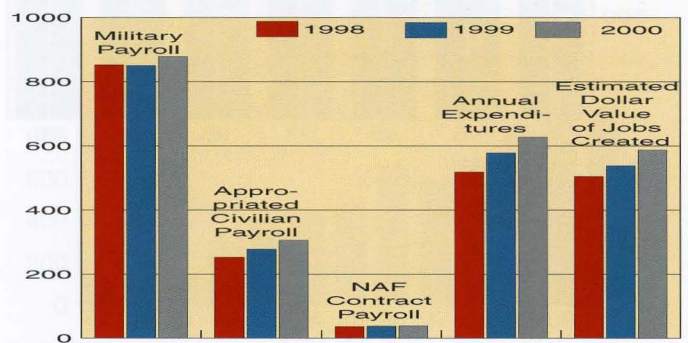
Active duty and civilian employment at military establishments showed a slight increase from 41,589 in 1999 to 41,891 in 2000. We expect a small increase in total military employment over the next several years due to planned increases at Schriever and Peterson AFBs. The 2000 military employment would represent 17.6 percent of El Paso County wage and salary employment if it were included in these figures. In 1990, this ratio was 24.1 percent. While still very important, the military impact on the economy has steadily declined over time. The military presence does provide an important buffer for the economy during slowdowns such as El Paso County is currently experiencing.

Payroll to military and civilian employees topped \$1.2 billion in 2000. Annual expenditures by the military establishment in Colorado Springs was \$627.1 million. The individual military installations use a number of multipliers to estimate that the dollar value of indirect jobs created by the military presence in Colorado Springs was \$587.4 million in 2000. Thus, the total estimated impact of the military in El Paso County including salary and wages was \$2.44 billion in 2000.

Military Employment in El Paso County



Military Expenditures (\$millions)



Source: Pikes Peak Area Council of Governments

WHY IS THIS IMPORTANT?

The hotel occupancy rate is a general indicator of the health of tourism. Changes in these rates can potentially signal changes in the popularity of Colorado Springs as a tourism destination. The lodger's and auto rental tax is an additional indicator of tourism activity.

HOW ARE WE DOING?

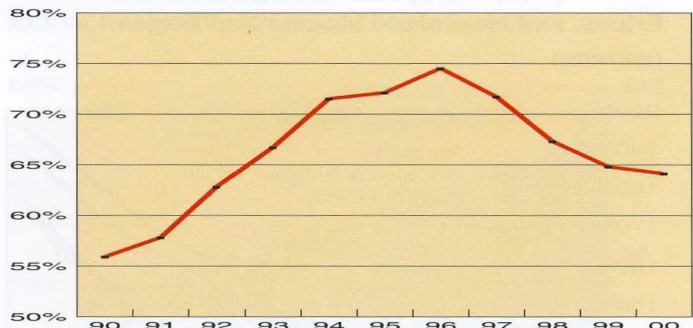
The Colorado Springs Convention and Visitors Bureau reports that there are approximately 13,000 hotel and motel rooms available in Colorado Springs. This is a 53 percent increase in the room inventory since 1995. Many of the new rooms are in economy-priced facilities in the \$60 to \$70 range.

The rapid growth in the room supply has obviously affected occupancy rates which have been on the decline since 1996. Hotel occupancy rates have held steady over the last two years averaging about 64 percent on an annual average basis.

The tourism sector is off in 2001. High gasoline prices early in the season put a damper on travel and vacation plans. Tourists either curtailed travel plans this summer or decided to stay at home altogether. Thus, 2001 will not go on record as a particularly good season for this important sector of our economy.

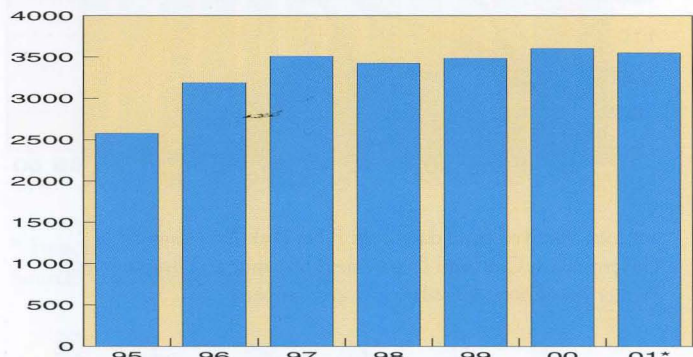
Lodger and auto rental tax collections were up 3.4 percent in 2000 but are down 1.35 percent through August of this year. We forecast a slight decline in lodger's and auto rental tax collections this year.

Hotel Occupancy Rates



Source: Pikes Peak Convention and Visitors Bureau

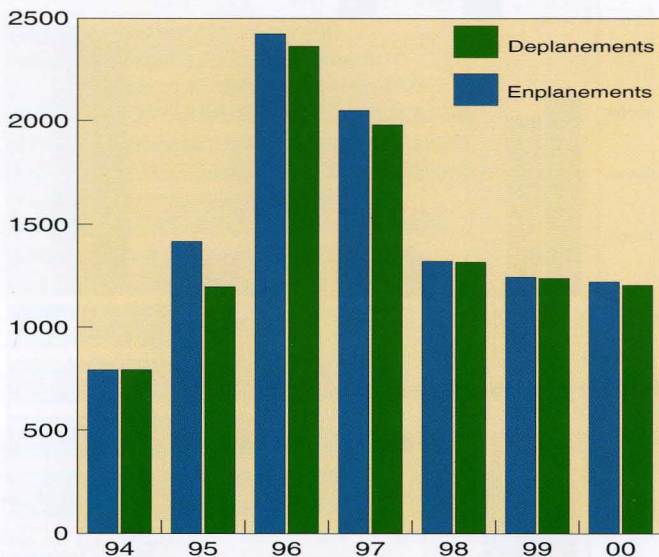
Lodgers and Rental Car Tax Collections (\$000s)



* Through July

Source: City of Colorado Springs, Sales Tax Division

Colorado Springs Airport Activity (000s)



Source: Colorado Springs Airport

WHY IS THIS IMPORTANT?

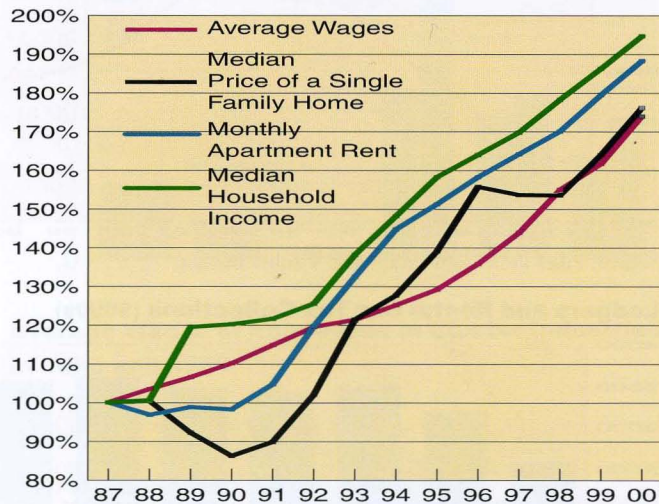
Air service contributes to both the quality of everyday life and the economic prosperity of Southern Colorado. Air service has a profound impact on the local economy, particularly air-dependent high tech industries. Companies need nonstop service in order to maximize productivity and minimize travel time. Company location and expansion decisions are impacted by local air service. The travel and tourism industry is heavily dependent on quality air service.

HOW ARE WE DOING?

The Colorado Springs Airport continues to be a second important gateway to Colorado serving the state for both passengers and cargo. Enplanements and deplanements declined again in 2000 by approximately 2 percent. Enplanements in 2000 totaled 1,220,366 while deplanements totaled 1,204,335. Total enplanements and deplanements are now down 49 percent from the high reached in 1996 when Western Pacific operated out of Colorado Springs.

In our annual survey of businesses, we asked respondents how satisfied they are with the air service. Only 30 percent reported satisfaction with local service. It should be pointed out that some of the dissatisfaction must be attributed to the dismal service from the airlines flying into Colorado Springs and not specific airport operations and activities. Of the businesses that responded to the survey, 23 percent said they use the Colorado Springs airport exclusively while 14 percent responded that none of their travel is out of Colorado Springs.

Index of Apartment Rents, Single-Family Home Prices, and Household Income and Wages (1987=100)



Sources: Derived from data from Pikes Peak Area Council of Governments; Colorado Department of Labor and Employment; Palmer McAllister, A Frederick Ross Company

WHY IS THIS IMPORTANT?

Affordable housing is important for both the economic viability of the community and the maintenance of a high quality of life. Families and workers who find housing unaffordable may be forced into longer commutes from outside the area which leads to increased traffic congestion, the need for more roads, and a reduction in worker productivity. If the workforce is mobile, high-cost housing will drive workers away from the region.

HOW ARE WE DOING?

The median household income and wages indices rose a very healthy 4.5 and 7.7 percent respectively in 2000. Over the same time period the median home price index rose 7.4 percent while the monthly apartment rent index rose 4.9.

The household income index remains above both the rental and median home price indices. Median household income and single family home prices are moving up in lock step. This implies household income is keeping up with home prices in the region which have increased dramatically in recent years. The other comparison is between wages and rents. Wages are arguably more relevant to apartment rents since wages are more likely to be used to pay the rent. The wage index is now tracking along with the rent index thanks to some healthy wage gains over the past several years.

We must caution the reader, however, that while these graphs may apply to the average wage earner and household, there is a very real concern in the community, that the stock of affordable housing for low income families and wage earners is not keeping up with the need for such housing.

WHY IS THIS IMPORTANT?

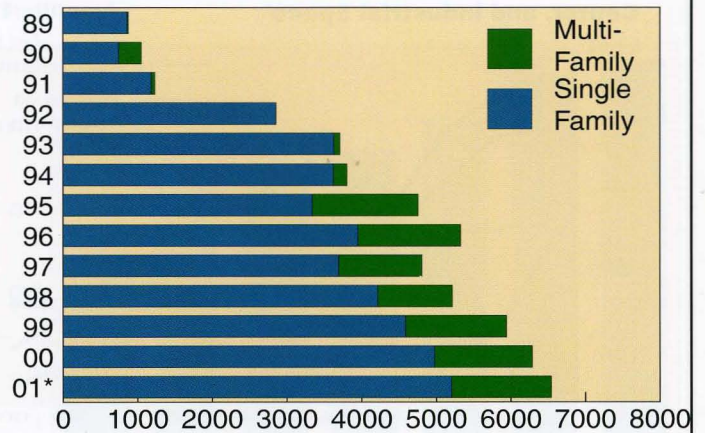
Growing communities like Colorado Springs continually add to the housing stock in order to meet the needs of new residents. The El Paso County population is expected to grow by 10,000 to 12,000 residents in each of the next several years. Adequate housing must be available to accommodate the growth.

HOW ARE WE DOING?

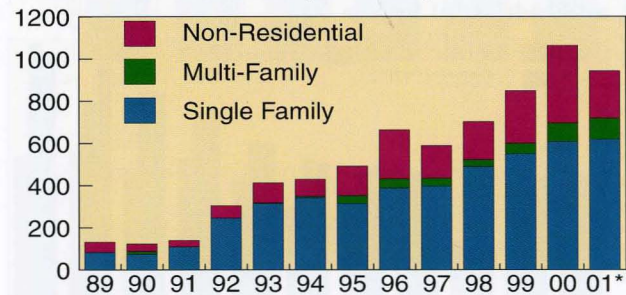
The residential construction industry remains surprisingly healthy in spite of more than 3,700 announced layoffs this year. A total of 4,976 single family and townhome building permits were issued in 2000. This represents an 8.5% increase over 1999. Through August of this year, 3,980 single-family and townhome permits have been issued which is 20.5 percent higher than year earlier figures. A total of 1,346 multi-family dwelling unit permits were issued in 2000. Through August, 1,131 multi-family permits have been issued. This year will be another banner year in residential construction with an estimated 5,200 single family and townhomes constructed. However, we expect the pace of construction to slow in 2002 as some of the announced layoffs take place and local economic growth slows.

The value of non-residential construction reached \$367.5 million in 2000 driven by office, bank and professional buildings; manufacturing facilities; and retail stores. The pace of non-residential construction has slowed this year. The value of non-residential construction through August stood at \$159.3 million which is off the pace of a year earlier by 26.7 percent.

Residential Building Permits (Dwelling Units)



Value of Construction (\$ millions)



* - SCEF forecast
Source: Pikes Peak Regional Building

WHY IS THIS IMPORTANT?

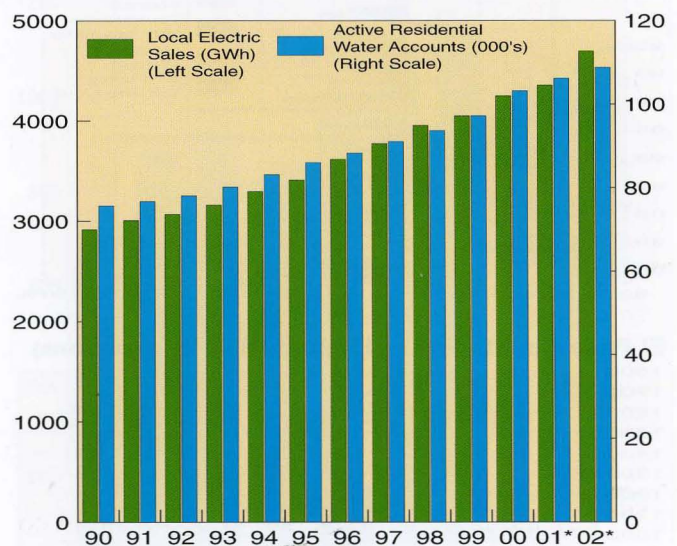
Local electric sales and residential water accounts are good indicators of growth and economic activity. Active residential water accounts correlate with residential construction and housing market activity. Changes in electric sales on system capture both residential and commercial activity.

HOW ARE WE DOING?

Both electric sales on system and active residential water accounts continue to rise and are reflective of the population growth and the overall economy in the region. Residential water accounts have increased on average 2.65% per year over the last ten years which mirrors the average annual growth rate of 2.75% in owner and renter occupied housing units.

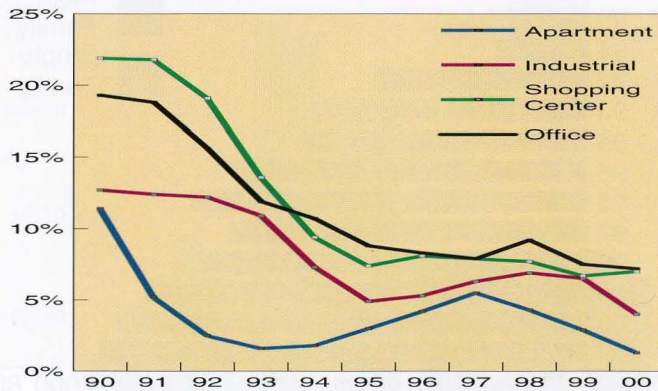
Electric sales have grown an average of 3.8 percent per year since 1990 which broadly reflects the economic expansion in the county. Electric sales grew 4.9 percent between 1999 and 2000. Higher energy prices combined with a slower economy are expected to slow the growth to 2.5 percent for 2001. Colorado Springs Utilities continues to improve and enhance the electric and water infrastructure to meet current and future needs by expanding electric generation and water capacity.

**Total Local Electric Sales on System (GWh)
Active Residential Water Accounts (000's)**

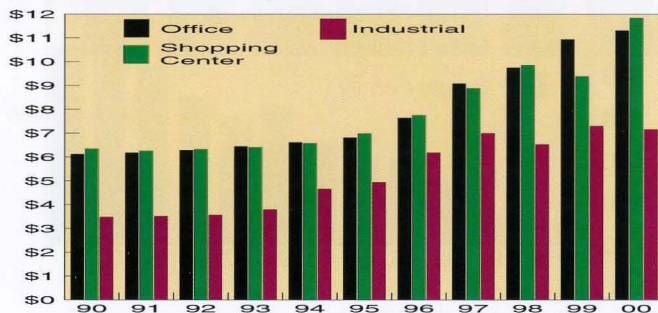


* Forecasts
Source: Colorado Springs Utilities

Average Vacancy Rates for Office, Shopping Center, and Industrial Space



Average Asking Rents For Office, Shopping Center, and Industrial Space



Source: Palmer McAllister, A Frederick Ross Company

WHY IS THIS IMPORTANT?

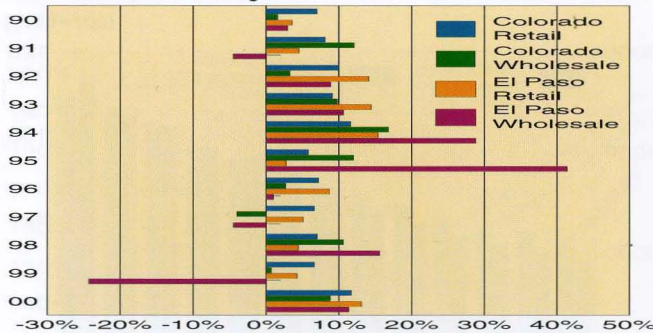
Vacancy rates are a leading indicator of economic activity. Declining vacancy rates put upward pressure on lease rates. Low vacancy rates reduce location choices for businesses. The availability of adequate and affordable commercial space allows existing companies to expand and helps attract new companies to the area.

HOW ARE WE DOING?

Office, shopping center, and industrial vacancy rates were down in 2000; (7.2%, 7.2%, and 4.0% respectively). The tight market pushed lease rates to historic highs. Palmer McAllister reported triple net lease rates at the end of 2000 were \$11.31 per square foot for office space, \$11.84 for shopping center space, and \$7.16 per square foot for industrial space. Office and industrial activity has slowed in 2001 while shopping center activity remains active. More than 500,000 square feet of office space has been added to the existing stock so far this year. The current citywide office asking rent is \$12.66 NNN. Industrial asking rents vary from \$9.50 to \$12.50 NNN for R&D flexible office space while warehouse rents range from \$5.50 to \$8.50 NNN. Shopping center asking rents were down in the second quarter to \$9.92 per square foot. Vacancy rates at the end of the second quarter 2001 for office, shopping center, and industrial space stood at 8.5%, 7.4%, and 6.2% respectively.

Palmer McAllister reports that leasing activity in the office market reached 250,000 square feet through June 2001. Industrial leasing activity reached 167,000 square feet through June while leasing activity in the shopping center market stood at 146,000 square feet.

Growth in Retail and Wholesale Sales in Colorado and El Paso County



WHY IS THIS IMPORTANT?

Consumer spending is estimated to generate 65 percent of the total economy. Thus, growth in retail and wholesale sales are an important indicator of the strength of the local economy.

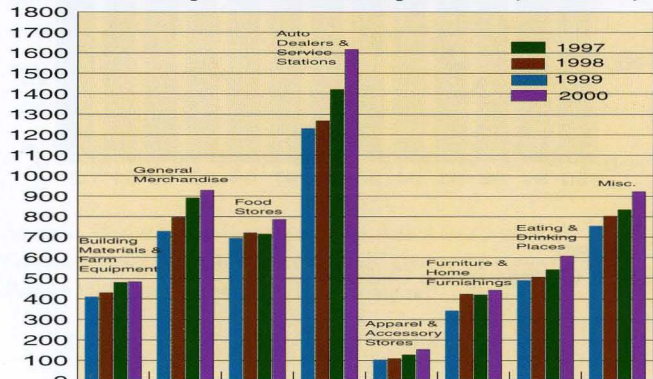
HOW ARE WE DOING?

Retail sales in El Paso County grew 13.1 percent in 2000 compared to a 11.7 percent growth rate overall in Colorado. Strong sales increases were reported in almost all retail trade sectors with the exception of building materials and farm equipment where sales were stagnant. Wholesale sales continue a roller-coaster ride in El Paso County. After declining 24.3 percent in 1999, wholesale sales increased 11.4 percent last year. The most recent figures from the Department of Revenue indicate January through March 2001 quarter-to-quarter retail sales were up 13 percent over the year earlier figures. Consumer confidence will play a big role in determining whether the strong retail sales increases will continue.

Employment in the retail sector grew 2.4 percent in 2000, while the wholesale sector grew 6.1 percent.

Leasing activity in the retail shopping market remains strong. Palmer McAllister reports leasing activity of 146,000 square feet through the second quarter of 2001 with absorption of 162,000 square feet. The retail vacancy rate stood at 7.4 percent at the end of the second quarter. Retail vacancy rates run from 1.0% in the central business district to 15.0% in the southeastern sections of the city. Leasing and absorption activity is the greatest in the northeast and eastern sections of the city. Next year it is expected that Target and Wal-Mart will begin construction along Powers Boulevard.

El Paso County Retail Trade by Sector (\$ millions)



Source: Colorado Department of Revenue: Office of Tax Analysis

WHY IS THIS IMPORTANT?

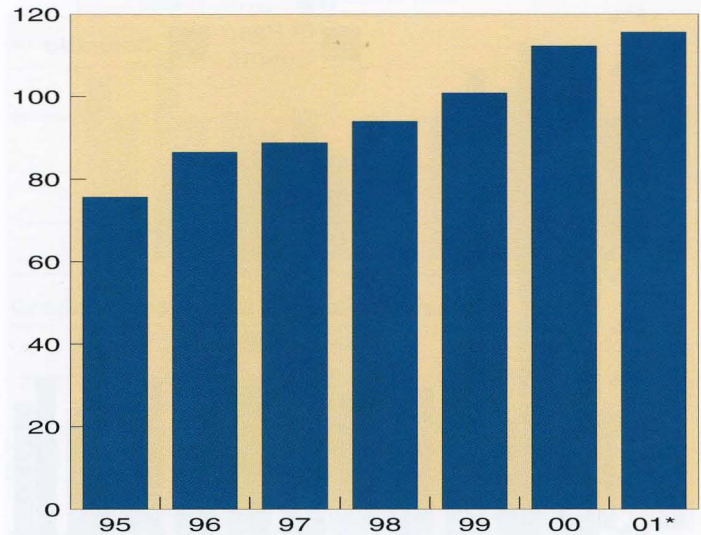
City sales and use tax revenue is used for municipal operations by the City of Colorado Springs for such purposes as police, fire protection, street repair and park maintenance. It is critical that these revenues increase along with community growth and needs in order for the city to provide necessary services.

HOW ARE WE DOING?

City sales and use tax collections were over \$112.2 million in 2000, up 11.3 percent from the previous year. Through August of 2001, sales and tax collections are up 5.51 percent from year earlier figures. Much of the gain this year is led by utilities (up 36.0%), clothing stores (up 6.3%), restaurants (up 4.8%), and building materials (up 3.8%). Sales tax collections through August were down for sales to business (-6.2%), hotels and motels (-2.5%), and auto repair and leasing establishments (-1.5%). Auto dealer sales tax collections are up only 1.04% through August 2001 after a strong showing in 2000. Use tax collections are up 17.7% compared to year earlier figures.

We estimate that sales and use tax collections will grow approximately 3 percent for the full year 2001. This slower rate of growth will put increased pressure on the city to fund police and fire protection, street repairs, park maintenance and other municipal services.

Colorado Springs Sales and Use Tax Collections (\$millions)



* SCEF forecast

Source: City of Colorado Springs Finance Department, Sales Tax Division

WHY IS THIS IMPORTANT?

One indicator of the region's global competitiveness is the ability to export goods and services. A high level of export activity translates into more jobs and wealth for the region. Colorado Springs must continue to develop export activity as it grows to ensure that it will be a global player.

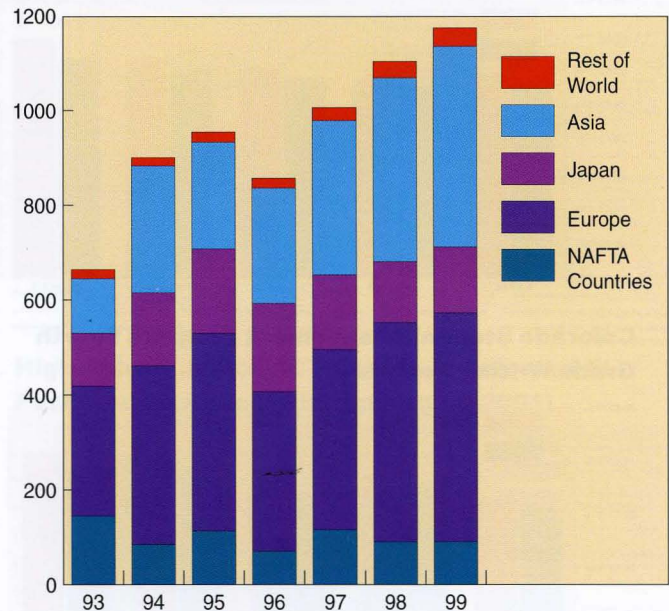
HOW ARE WE DOING?

Colorado exported over \$11.17 billion worth of goods in 1999 and \$12.27 billion in 2000; a 9.8 percent increase. Colorado ranked sixteenth out of the 50 states in the value of merchandise exports in 2000. Manufactured exports are dominated by high tech commercial industrial machinery and computer equipment.

Colorado Springs merchandise exports of goods and services topped \$1.17 billion in 1999, the most recent year of data availability. As the graph shows, Asia (including Japan) is the largest export destination for Colorado Springs exports followed by Europe. Colorado Springs exported \$90 million to NAFTA countries in 1999. Exports to Mexico have increased while exports to Canada have decreased. Between 1998 and 1999 exports increased 6.4 percent overall, 4.3 percent to Europe, 9.1 percent to Asia (excluding Japan), 8.6 to Japan, and 16.5 percent to Mexico. The strong dollar appears to be curtailing some export activity especially to Europe and Canada.

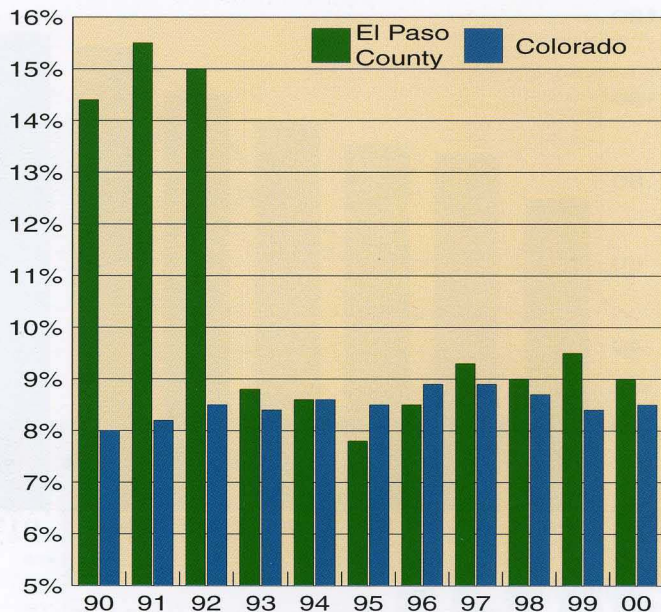
China continues to grow as an important trading partner for Colorado Springs exporters. In 1993, exports to China amounted to \$419,000. In 1999, exports to China were 51,774,000, a 12,254 percent increase.

Colorado Springs Merchandise Exports to Selected Areas (\$ millions)



Source: Exporter Location Series, Census Bureau; Prepared by: International Trade Administration, U.S. Department of Commerce

Low Weight Birth Rate in Colorado and El Paso County (less than 2500 grams)



Source: Colorado Department of Public Health and Environment, Health Statistics and Vital Records

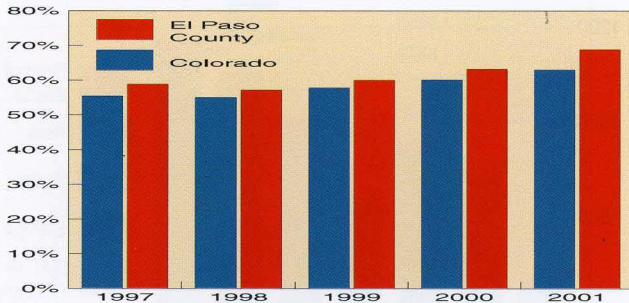
WHY IS THIS IMPORTANT?

The proportion of low weight birth children is a predictor of future costs of both health care and special education. Proper nutrition and prenatal care can reduce the incidence of low weight births. A healthy community will help ensure that mothers of all backgrounds have access to, and are encouraged to receive prenatal care and practice proper nutrition.

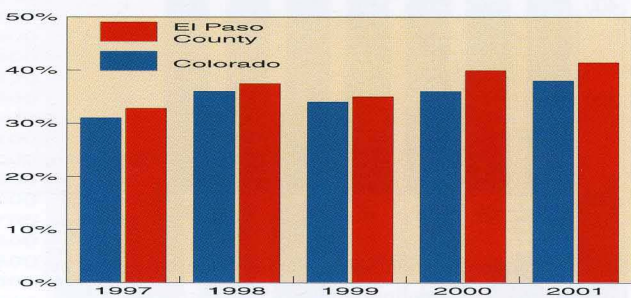
HOW ARE WE DOING?

Colorado and El Paso County have a high proportion of low weight births. El Paso County has made substantial improvements in the last decade to reduce the low weight birth rate. Low weight births have dramatically decreased from the 14-15 percent level in the early 1990s to the 9-10 percent level since 1993. Currently, the low birth weight rate stands at 9.0 percent in El Paso County and 8.5 percent in the state. Current low weight birth rate figures remain above the 5 percent target set by the U.S. Public Health Service.

Colorado Student Assessment Program Fourth Grade Reading Results



Colorado Student Assessment Program Fourth Grade Writing Results



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

Beginning in 1995, the State of Colorado adopted content standards in the areas of reading, writing, mathematics, science, social studies, foreign languages, visual arts, physical education and music. Content standards define *what students should know and be able to do* at various levels in the schooling process. The Colorado Student Assessment Program (CSAP) is administered to give parents, the public, and educators a uniform source of information on how proficient students in Colorado are at meeting the standards. These scores provide a benchmark for assessing the educational progress of our children.

HOW ARE WE DOING?

All fourth grade students in the state of Colorado were given the first CSAP reading and writing assessment in the spring of 1997. CSAP is designed to measure how close students are to the targets of *what they should know and be able to do* by the time they reach a given grade, giving a performance level score for each student. Results from five administrations of CSAP given to Colorado fourth graders indicate that only 33 to 41 percent of El Paso County students are proficient or above in writing and 57 to 67 percent of students are considered at or above proficiency in reading. The good news is that scores are improving over time. The bad news is that many districts in the county have a long way to go before being satisfied with CSAP scores. Tracking students over time indicates that by the time the 1998 fourth graders in El Paso County reached seventh grade in 2001, 66 percent were proficient in reading and 44 percent were proficient in writing.

WHY IS THIS IMPORTANT?

A skilled work force is essential for a competitive economy in world markets. Completion of high school is the minimal requirement to obtaining needed skills in the 21st century. High school graduation and dropout rates are indicators of possible future societal costs from underemployment or unemployment and low earning potential.

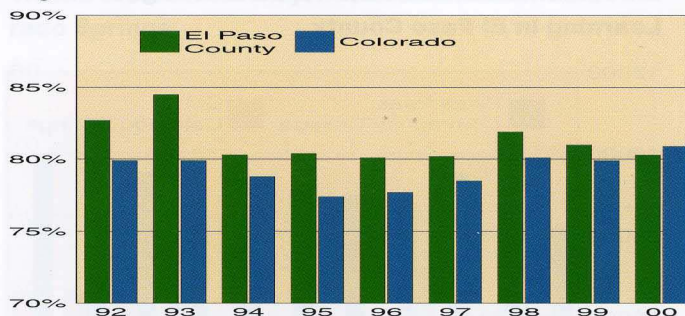
In a global economy, a multicultural, skilled workforce is a requirement for success. Providing a quality education to all ethnic groups is important to our economic well-being. Reducing the dropout rate for all ethnic groups is one measure of success.

HOW ARE WE DOING?

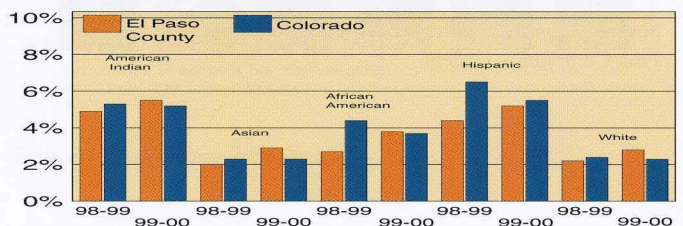
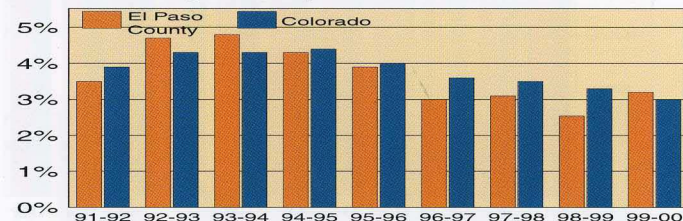
The Colorado Department of Education has a target high school graduation rate of 90 percent. Graduation rates in El Paso County were higher than the rest of Colorado throughout the 1990s but remained below the target rate. The county high school graduation rate dipped slightly below the Colorado average in 2000. For the past seven years the graduation rate in El Paso County has remained around 80%.

Dropout rates for all students had been falling since the '93-'94 school year. However, after dipping to 2.54 percent in 1998-99, the overall dropout rate in El Paso County increased to 3.20 percent in 1999-00 while the overall Colorado rate stood at 3.00 percent. Dropout rates for all ethnicities increased in El Paso County in 1999-00. The dropout rate is lowest among whites and Asians in El Paso County and Colorado. Dropout rates for American Indians and Hispanics hit 5 percent in El Paso County in 1999-00.

High School Graduation Rates



Grade 7 through 12 Dropout Rates



Source: Colorado Department of Education

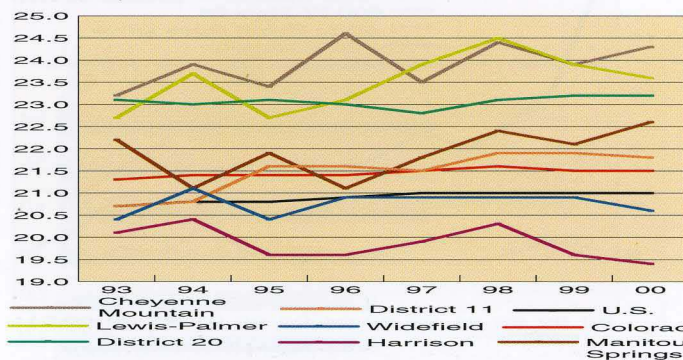
WHY IS THIS IMPORTANT?

Academic performance of high school students is an important indicator of the knowledge base of the workforce of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates will do in their first year of college. The test reflects the cultural and sociological differences in society, making it more representative for all ethnic groups taking the test.

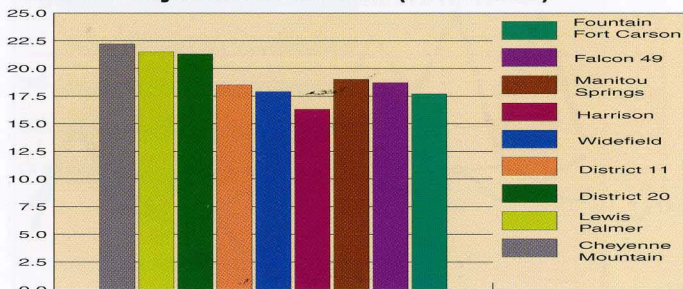
HOW ARE WE DOING?

In past years, the ACT was taken only by Colorado high school juniors and seniors planning to pursue a college education. Last year, Colorado enacted legislation requiring that all high school juniors take the ACT. As a result, past ACT scores (top chart) and U.S. averages are not comparable to ACT scores for the El Paso County high school juniors reported in the lower chart. The most we can say is that average scores for the high school juniors are approximately 2.0 points below the college bound test takers in prior years. We are at a loss to explain why the State would require this test be administered to all juniors in high school. Clearly, there are juniors who are not college eligible, have not done adequate high school preparatory work to take the exam, and have no interest in the results of the exam. Further, the state creates a systematic downward bias in the ACT results by recording a zero for any high school junior who does not take the exam. The end result is that one important piece of educational attainment used to compare Colorado graduating seniors to the rest of the nation is lost.

ACT Scores in Selected El Paso County School Districts, Colorado and the U.S.

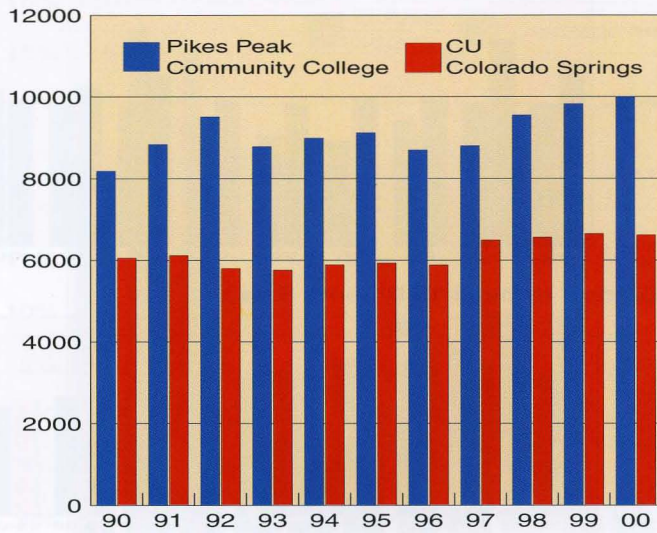


High School Junior ACT Scores in Selected El Paso County School Districts (2000-2001)



Sources: The Colorado Springs Gazette; American College Testing program; Colorado Department of Education; local school districts

Enrollments at Public Institutions of Higher Learning in El Paso County



Sources: Registrars' offices at CU-Colorado Springs and Pikes Peak Community College

WHY IS THIS IMPORTANT?

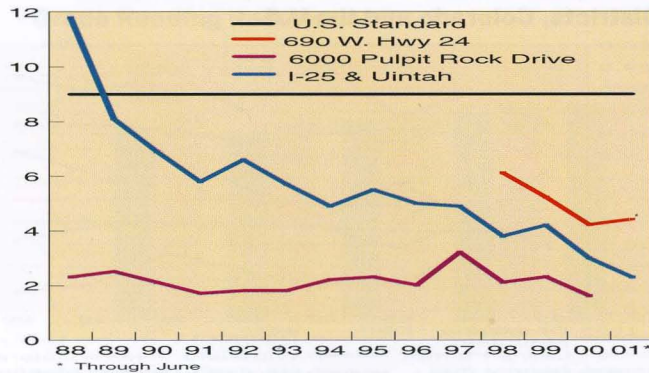
With a population over one-half million and an increasing demand for skilled labor, El Paso County needs quality public higher education institutions capable of meeting community needs. A well-trained and educated workforce is essential for economic growth. Enrollments are an indicator of the future supply of qualified workers and how well the region is preparing individuals for a growing and competitive workforce.

HOW ARE WE DOING?

At CU-Colorado Springs, enrollments surpassed 6,600 in 2000-2001 and the university expects an increase in the range of 3 to 4 percent in fall 2001. The campus completed the El Pomar center and student center renovations in 2001. The El Pomar center boasts some of the latest technology in the CU system. The addition of this space to the Kraemer Family Library increases the available student seating capacity from 300 to 1,200. Main Hall is currently being completely renovated and when it reopens will house campus administrative and student services. Plans continue to progress on the Engineering and Applied Sciences building expansion and renovation of the College of Business facilities in Dwire Hall.

Pikes Peak Community College enrollments reached 9,997 students in 2000-2001. Construction is currently underway on a new office building on the Centennial Campus. In our survey of businesses, 40 percent responded that the quality of higher education programs in the area has a positive impact on their operations.

Carbon Monoxide (ppm)



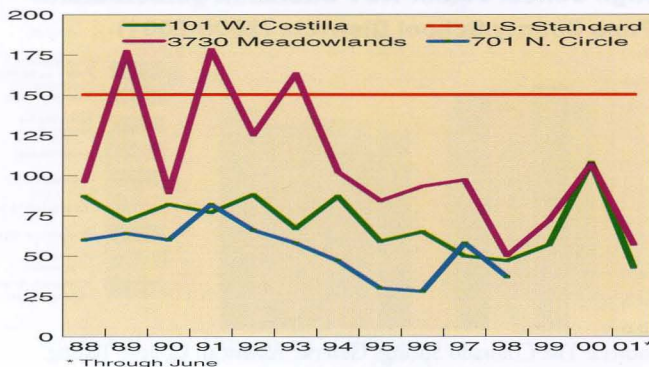
WHY IS IT IMPORTANT?

Air quality is fundamental to community health, the environment, and our economy. There is growing concern over the interdependence between the health of the environment and our economy. A key selling point of our area is the quality and opportunity for outdoor activities. Many people move west to escape the "smokestack" industrial areas back east. While there is no overall index of environmental health, carbon monoxide and particulate concentrations provide an indication of air quality.

HOW ARE WE DOING?

Carbon monoxide is an odorless, colorless gas formed when carbon fuels do not burn completely. Vehicle exhaust contributes most of the carbon monoxide in the air. Typically, CO concentrations are highest during cold weather when inversions can trap pollutants low to the ground. The Pikes Peak region has remained well below the U.S. standard for CO since 1989.

Particulate Matter (10 microns and smaller)



Source: Colorado Department of Public Health and Environment and Pikes Peak Area Council of Governments

Particulate matter (PM) includes both solid particles and liquid droplets found in the air. Particles less than 10 micrometers in diameter can pose the greatest health concerns when inhaled because they accumulate in the respiratory system. Particulate matter spiked somewhat in 2000 but remained below the U.S. standard. So far this year particulate matter has remained near the lows enjoyed over the past few years.

WHY IS THIS IMPORTANT?

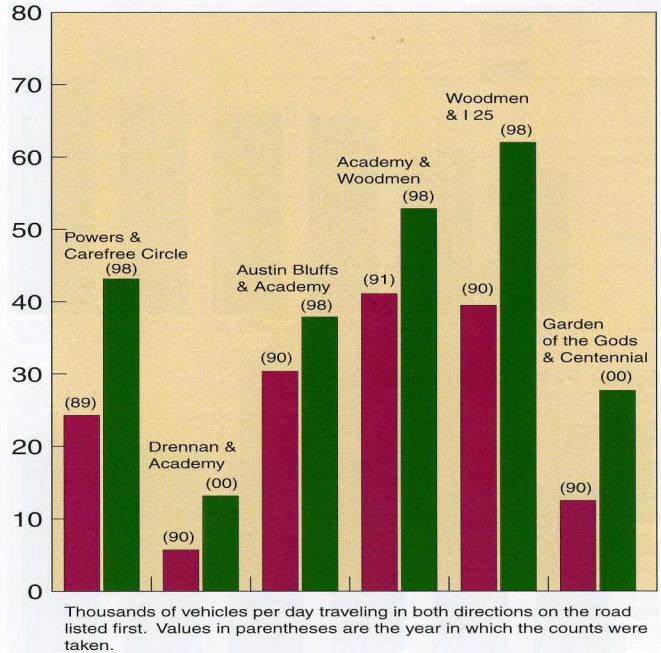
As the city grows, increased traffic leads to congestion, longer travel times, and more pollution. Roadway improvements will not necessarily improve the situation. Communities interested in quality of life and mobility will seek out other alternatives to relieve traffic congestion. These may include better public transit, building housing and offices near each other, and improving the walking and biking infrastructure.

HOW ARE WE DOING?

Traffic flows in many parts of the city have increased tremendously over the past decade. Traffic along the interstate now surpasses 90,000 to 100,000 vehicles per day in many parts of Colorado Springs. Many intersections on surface streets are increasingly congested during the day, leading to delays, accidents, pollution, and an overall decrease in quality of life.

The backlog of surface street repair and improvement is worsened by a restricted city budget. The I-25 road improvements continue, but it will be years before this project is completed. Community leaders await the final report on the east-west mobility study. City Council should act on the recommendations without delay once the study is completed. The state envisions Powers Boulevard as the next freeway through the city. However, some transportation experts question the wisdom of this plan and suggest that the eastern freeway should be located east of Powers where there is still room to build.

Traffic Flows Near Major Intersections in Colorado Springs



Source: City of Colorado Springs

WHY IS THIS IMPORTANT?

Index crimes are serious crimes (murder, forcible rape, robbery, aggravated assault, burglary, larceny, theft and motor vehicle theft). Violent crimes result in the loss of life and property. Fighting crime is expensive and uses valuable community resources. Crime affects an individual's perception of the quality of life in the community as well as the business climate.

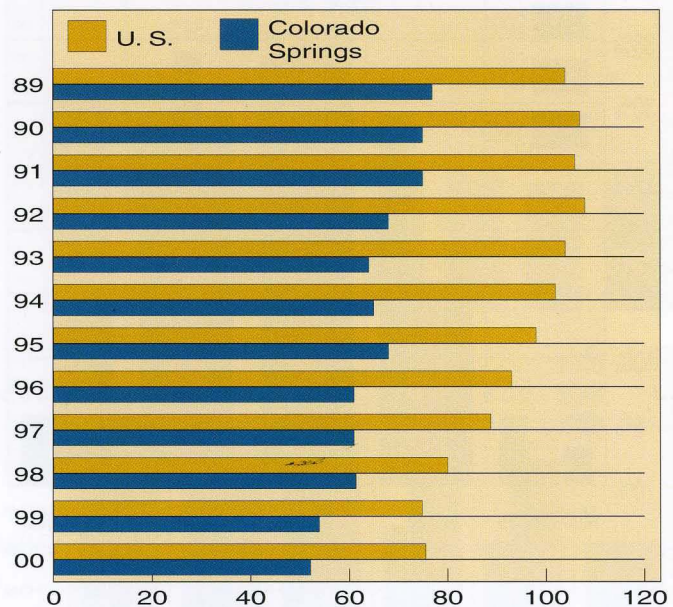
HOW ARE WE DOING?

Index crime in Colorado Springs declined 1.36 percent in 2000. Overall, the city remains well below the U. S. average for cities of its size. Violent crimes (murder, rape, robbery, and aggravated assault) decreased in 2000 after increasing in Colorado Springs for the past several years. The violent crime rate remains below national levels for cities with populations between 250,000 - 499,999. Murders decreased 40 percent in 2000 from the 1999 figures. Robbery was down 17 percent while aggravated assaults were down 10 percent.

There were a total of 18,684 index crimes reported in 2000. The majority of the index crimes reported involve larceny/theft (68%), followed by burglary (17%), motor vehicle theft (6%), aggravated assault (7%), robbery (2%), forcible rape (1.3%), and homicide (.1%).

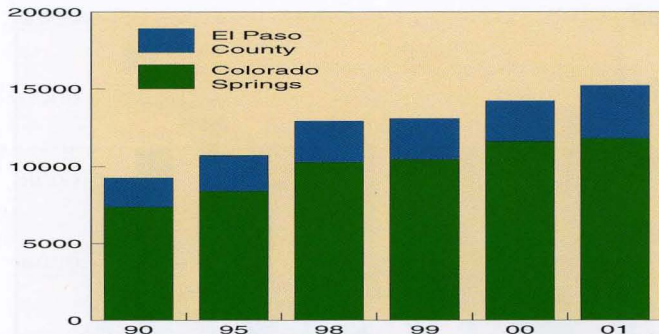
Larceny, the most prevalent nonviolent crime decreased 2.55 percent, while burglaries increased 5.5 percent, and motor vehicle thefts increased 12 percent.

U.S. and Colorado Springs Crime Index (Index per 1,000 inhabitants)

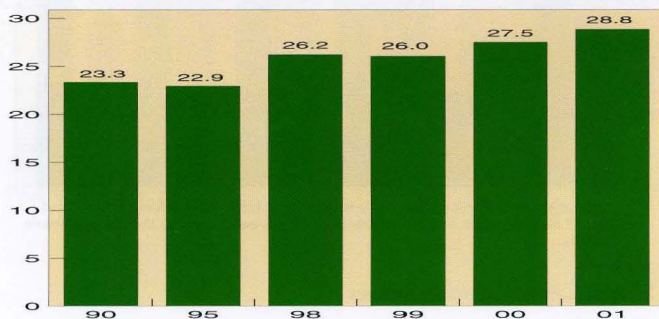


Sources: Colorado Springs Police Department; FBI

Parks and Open Space in Colorado Springs and El Paso County (Acres)



Acres Per 1,000 Inhabitants



Sources: City of Colorado Springs and El Paso County Parks Departments

WHY IS THIS IMPORTANT?

Open space, trails, and park land provide important areas for recreation and leisure activity, support natural habitat, and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and other open space available for public use.

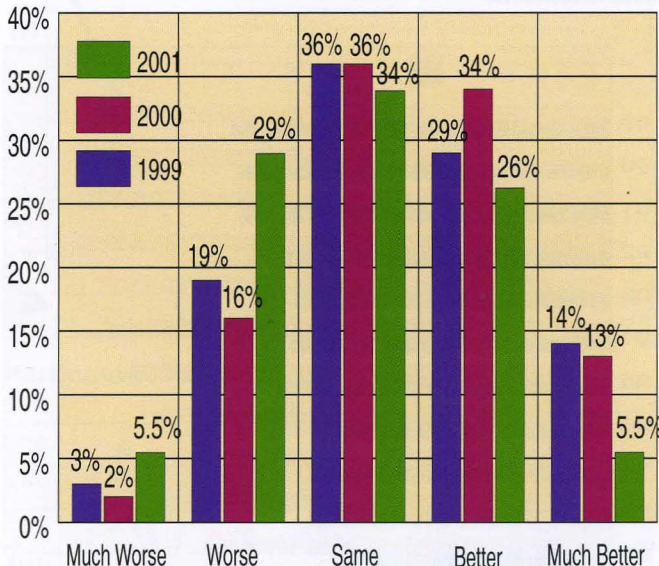
HOW ARE WE DOING?

The Pikes Peak region is blessed with beautiful views and natural scenic areas. The city and county combined manage over 15,000 acres of open space and park land or 28.8 acres per 1,000 residents in 2001. Over the past year the county added close to 800 acres to its stock of park land and open spaces. The City of Colorado Springs added over 200 acres over the last year.

Since the .1% Trails, Open Space, Parks sales tax was passed and implemented four years ago, the City of Colorado Springs has collected more than \$17.6 million for trail construction, park construction, and the acquisition of open space. These funds have been leveraged with private donations and grants from other agencies to preserve additional open space.

The efforts to add and develop public space and facilities are important since quality of life and amenities such as parks and open space are important positive factors affecting business in the region as reported below.

Business Performance Compared to Projections



HOW DID WE COLLECT THE DATA?

A survey packet was mailed to 3,100 local business leaders. Each person received a cover letter explaining the importance of the study, a postage-paid return envelope, and a questionnaire. Out of the total mailing, 185 questionnaires were returned in time to be included in our analysis. Twenty-eight percent of the surveys were from businesses with 50 or more employees. The returned surveys are representative of the mix of business in El Paso County.

HOW ARE WE DOING?

One purpose of the survey was to gauge the level of local business optimism in the economy. We asked respondents to tell us how their business is doing compared to projections at the beginning of the year. The results are shown in the graph at the left. Thirty-one percent responded that their business is performing better or much better than projected at the beginning of the year. This is down from last year when fifty-three percent of businesses reported performance was better or much better than projected. This result is likely explained by the national economic slowdown and local layoffs which have hit the technology sector this year. Much of the slowdown was most likely not incorporated into beginning of year projections.

WHY IS THIS IMPORTANT?

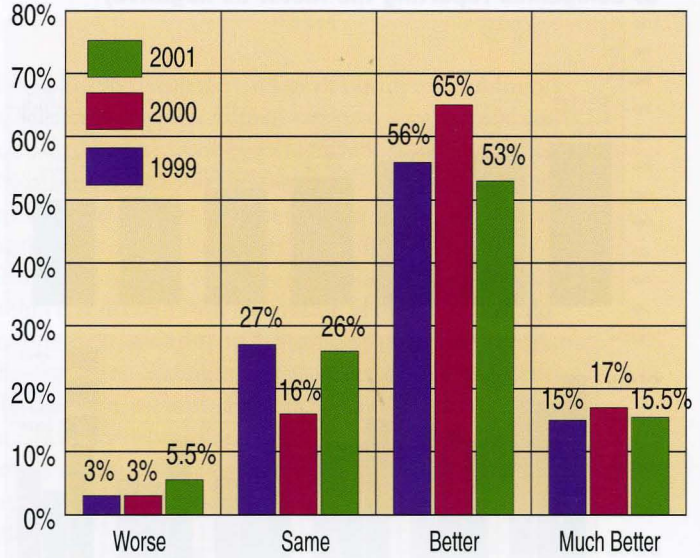
We ask businesses how they expect to perform over the next 12 to 18 months. This survey question is important because it gives some perspective on whether business is optimistic or pessimistic about the prospects for their business and the economy when looking forward to the next year.

HOW ARE WE DOING?

Business optimism and expected performance for next year has dropped along with actual performance for the current year. Last year business optimism was very high after coming off an incredible year in 2000. At that time, 82 percent expected business performance over the ensuing 12 to 18 months to be "better" or "much better" than in 2000. This year, some of the optimism has faded. Sixty-eight percent of the respondents from this year's survey expect business performance to be "better" or "much better" over the next 12 to 18 months. The overall business sentiment appears to be back to where it was a few years ago (see graph on right).

Expected hiring patterns for the coming year are more modest. On average, business expects to increase full-time employment about 15.5%. Last year, the prediction was a 17.5% increase in regular full-time employees. Twenty-seven percent of the respondents have no hiring plans for 2002.

Expected Business Performance Next Year Compared with This Year's Performance



WHY IS THIS IMPORTANT?

We ask a series of questions in order to identify issues that positively or negatively affect business. Identifying these factors can help business and government to assess areas of strength and weakness in the local economy, the business environment, and the community.

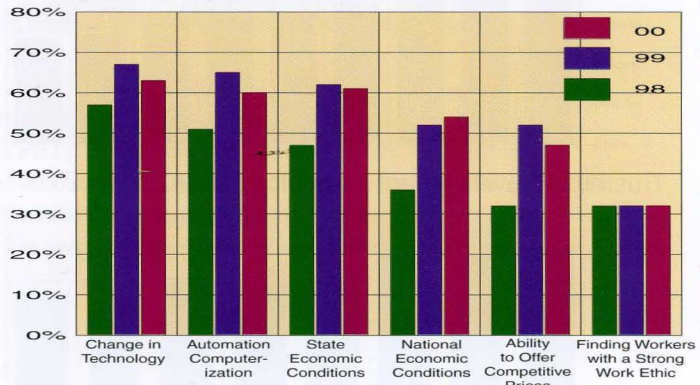
HOW ARE WE DOING?

The positive factors impacting operations for this year are reported in the top graph on the right. For comparison purposes, the positive impact factors for the past three years are reported in the lower graph.

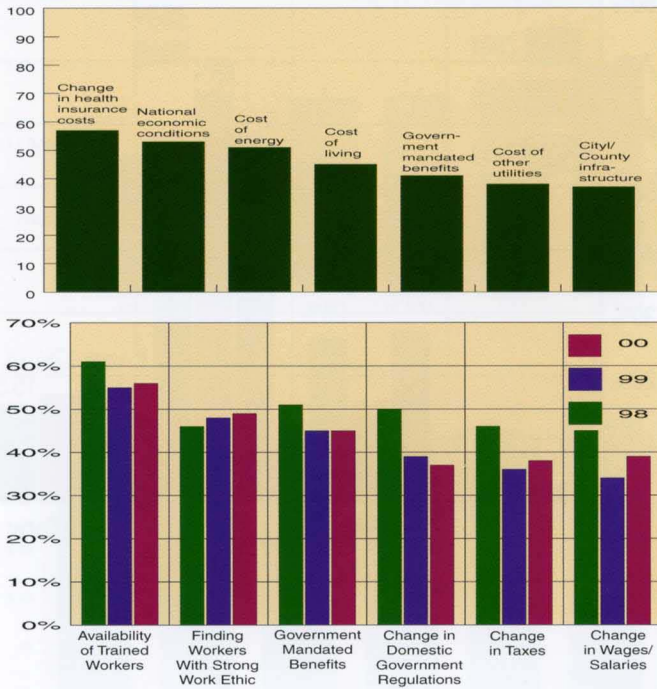
This year we added a number of quality of life questions to the survey to find whether these positively or negatively impact business. Quality of life shot to the top as an important positive factor. Amenities such as open space, parks, libraries and the like are another important positive impact factor.

Businesses continue to report that change in technology, automation/computerization, state economic conditions, and the ability to offer competitive prices will have a positive impact on operations over the next 18 months. Quality higher education programs are another important positive factor. The layoffs which have occurred this year are the most likely explanation for seeing the availability of workers with a strong work ethic moving up in the ranking.

Survey Results: Factors That Have a Positive Impact on Operations (Values represent the percent of companies reporting the factor as positive)



Survey Results: Factors That Have a Negative Impact on Operations (Values represent the percent of companies reporting the factor as negative)



WHY IS THIS IMPORTANT?

We ask a series of questions in order to identify issues that positively or negatively affect business. Identifying the negative impact factors can help business and government to assess areas of weakness in the local economy, the business environment, and the community.

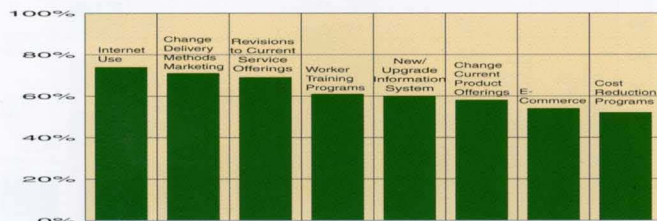
HOW ARE WE DOING?

The negative factors impacting operations for this year are reported in the top graph on the left. For comparison purposes, the negative impact factors for the past three years are reported in the lower graph.

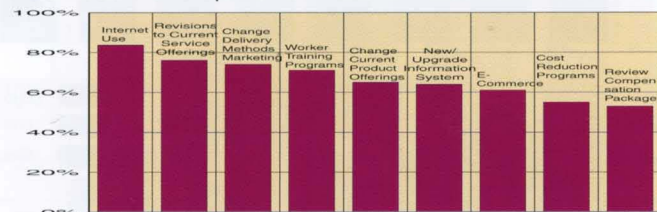
Costs of doing business are the most significant negative factors impacting business this year. Rising health insurance was reported by 57 percent of the respondents as negatively impacting their organizations. Other significant cost factors include energy (51%), living costs (45%), government mandated benefits (41%), and other utilities (38%). Businesses normally attempt to reduce various costs during a business slowdown in order to avoid layoffs. Unfortunately, these businesses are finding it difficult to put a lid on some of the rising costs.

National economic conditions swung from a positive to a negative factor in the latest survey. The city/county infrastructure made the list as a significant negative factor. The last point is that two negative factors reported in past surveys; the availability of trained workers and finding workers with a strong work ethic have moved off this year's list of the most significant negative factors.

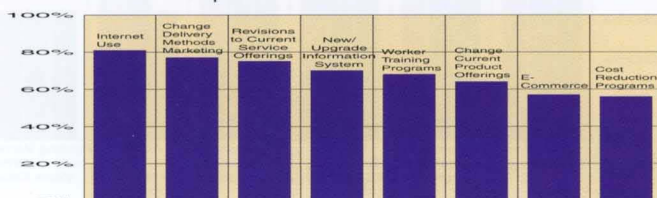
Survey Results: Key Business Development Areas For the Next 18 Months (Values represent the percent of companies reporting the development area. Lower graphs report prior years for comparison)



Business Development Areas for 2000-2001



Business Development Areas for 1999-2000



WHY IS THIS IMPORTANT?

Business development is key to a company's long-run survival. Companies that adapt to current business and economic conditions place them in a better position to grow and thrive.

HOW ARE WE DOING?

The final charts show business development areas for the coming year. Again for comparison purposes, we include the key business development areas from the prior two surveys.

Companies remain focused on a set of activities similar to last year. Internet use, changing delivery methods/marketing, service offering, worker training, product offerings, upgrades to information systems, E-commerce, and cost reduction programs remain important development areas.

**CU-Colorado Springs College of Business and Administration
and the Graduate School of Business Administration**

Contact: College of Business and Administration (719) 262-3408

The University of Colorado at Colorado Springs was established in 1965, with the College of Business and Administration being formed at that time. The College awards the Bachelor of Science in Business Administration degree and a Masters of Business Administration (MBA) degree. All degree programs are accredited by The Association to Advance Collegiate Schools of Business (AACSB International), placing the College in the top 28% of business schools nationally. CU-Colorado Springs is the only BS and MBA program in the Pikes Peak Region that has earned this recognition. Indeed our Distance MBA has been ranked in the top 20 nationally by Forbes magazine. CU-Colorado Springs has excellent partnerships with the business community. Partnerships with Oracle and Cisco resulted in the creation of two new state-of-the-art labs for our students this past year. The ability to infuse current business practice into the classroom is consistent with the mission of the CU-Colorado Springs campus within the CU system, while also insuring a direct, continuing relationship with business partners in the region.

The faculty is internationally-acclaimed with doctoral qualifications from leading institutions such as the Universities of Arizona, Colorado, Minnesota, Oregon, Texas and Washington. The classroom experience is enriched by their efforts in leading-edge research, academic publishing, community involvement, and industry consulting.

Professors at the College of Business and Administration provide intense, effective teaching, focused on understanding the fundamentals of business solutions. Technology might change but the principles of good business practice are constant, so our business graduates learn how to adapt and grow with the marketplace.

The College of Business and Administration trains students for a competitive edge in diverse career fields such as banking, advertising, accounting, information systems, marketing, financial services, computer technology, manufacturing and many more exciting fields.

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Contact: CU-Colorado Springs College of Business and Administration (719) 262-3433

Connections is a new resource designed to help you navigate through the varied resources which the College and University offer to our regional partners. Once you enter the Connections portal you may navigate through the specialized Centers of the Colleges of Business and Engineering, seeking information about Extended Studies opportunities, or contact a variety of other offices including: The Small Business Development Center (SBDC), The International Small Business Development Center (ISBDC), The Center for Creativity and Entrepreneurship, and the Southern Colorado Economic Forum. In addition, Connections will provide information about two independent centers with close links to the University of Colorado at Colorado Springs: The Colorado Springs Technology Incubator (CSTI) and The Colorado Institute for Technology Transfer and Implementation (CITTI). Visit the web site for Connections at web.uccs.edu/business/pagecommoutreach.htm and click on Connections, or call 262-3433 for more information.

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