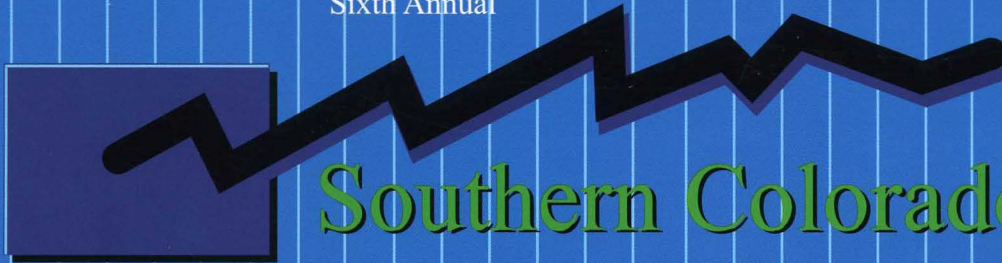


2002 - 2003

Sixth Annual



Southern Colorado Economic Forum

October 16, 2002

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



University of Colorado
at Colorado Springs



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*Founding
Partner
of the Forum*

Welcome From the Chancellor

The University of Colorado at Colorado Springs is pleased to join with its business partners to present the sixth annual Southern Colorado Economic Forum. This program provides a look at the economy and quality of life in the region during the past year and provides a 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 Fred Crowley and Tom Zwirlein of the College 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.

Additionally, I want to thank our business community sponsors: First Business Brokers, LTD., Fittje Brothers Printing, La Plata Investments, LLC., ADD STAFF, Inc., BiggsKofford Certified Public Accountants, Skotty Consulting Group, Inc., Van Gilder Insurance Corporation, Colorado Springs Utilities, Colorado Classics Furniture & Design, Ent Federal Credit Union, Front Range Solutions, Inc., The Gazette, and The Mail Room, Inc. 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.

Pamela Shockley, 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 sixth 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. These presentations assume a special role, given the economic challenges faced by Colorado in this past year.

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 sixth annual Southern Colorado Economic Forum. We look forward to serving as a primary business resource to your company over the coming months.

Joseph C. Rallo, Dean, College of Business and Administration

First Business Brokers, LTD.

Founding Partner of the 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 businesses. 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.

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The 2002 - 2003 Southern Colorado Economic Forum

Introduction

This marks the sixth 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 the region. The objective of the Forum is to provide timely, accurate, and useful economic and quality of life information focused on the Pikes Peak Region. This information and our analysis can be used by businesses as they form 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 concentrate 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. The information is used to develop estimates of economic activity for the remainder of the year as well as forecasts for next year.

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, congestion, open space, education, health and the like.

The information is gathered to 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.'

The indicators are used to help assess our progress by measuring changes over time. No single indicator 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 remained soft this year. Layoffs in the high technology sector continued and now the concern is that these layoffs are affecting many sectors that support the primary sectors. A number of businesses report reduced activity in their places of business. Even though we had anticipated a rebound by now, the stock market remains anemic. Unfortunately, the accounting fraud and scandals uncovered this year at many large corporations kept the market down. Weakness in the stock market, accounting irregularities, the continuing war on terrorism, and a sluggish economy have all lowered consumer confidence. The FED has responded by lowering

interest rates 12 times since the beginning of the economic downturn. The historically low interest rates have helped support the residential construction market. However, many economists around the country fear that a double dip recession may still occur.

The Colorado and southern Colorado economy have been affected by the national economic weakness and the drop in the stock market. The layoffs in high technology that began last year in El Paso County have continued this year. Total layoffs since January 2001 are now estimated to be in the neighborhood of 7,500 workers. Although the bulk of these lost jobs did occur in the technology sector, the impact is being felt in other sectors. A number of eating and dining, retail, and other support services are reporting a decrease in business activity. These businesses, in turn, are reacting by reducing employees and payrolls. There are likely to be more layoff announcements before the local economy reaches the bottom and begins to improve.

The drought and early season wildfires also contributed to a decline in the economy. The tourism industry was optimistic that this was going to be a better year than last. Unfortunately, the national coverage of the Hayman and



Garden of the Gods

other Colorado fires dashed any hopes of a robust rebound in tourism.

One of the few encouraging pieces of news is the decision to locate the Northern Command in Colorado Springs. This should bring approximately 500 new jobs to the area starting later this year.

Employment/Unemployment

Job growth in Colorado was .7 percent in 2001 after growing 3.9 percent in 2000. El Paso County wage and salary employment grew by 1.0 percent in 2001 to 240,094 after growing 3.4 percent in 2000. At the end of 2001, the unemployment rate in Colorado and Colorado Springs MSA stood at 3.7 and 4.4 percent respectively. Both rates were up a full percent over year earlier figures. Currently, the unemployment rate in Colorado is 5.0 percent and 5.7 percent in the Colorado Springs MSA.

The El Paso County labor force has expanded about 2 percent this year. Preliminary July figures from the Colorado Department of Labor put the labor force at 274,000. Last year's July labor force figure was 266,378. Employment for July 2002 was estimated at 257,224, or a 1.29 percent increase over the year earlier figure of 253,956. More than 7,500 layoffs have been announced in the area since January 2001 and this has dramatically slowed employment growth. We expect another round of layoffs to occur in the technology sector later in the year which will put upward pressure on the unemployment rate. Some growth in employment appears to be occurring in selected services such as health care; finance, insurance, and real estate; and local government, especially local education. The manufacturing; construction; retail trade; wholesale trade; and transportation, communications, and utilities sectors are all experiencing employment declines due to the slow economy.

Given the expectation of more layoffs and the continued weakness in the technology sector, we expect non-agricultural employment to decline slightly in El Paso County this year.

Wages and Income

Average wages in El Paso County increased 4.1 percent to \$34,391 in 2001 after increasing 7.7 percent in

2000. Average wages in Colorado were up 2.1 percent in 2001 to \$37,960 after an increase of 8.7 percent in 2000. The gap between average El Paso County wages and average Colorado wages decreased in 2001 to \$3,569.

This year it is difficult to make comparisons between employment and wages by industry sector because of the reclassification of this data from SIC to NAICS classification. We discuss this issue later in our report.

Personal income and per capita personal income are expected to increase 2.0 percent this year. Personal income increases will remain modest due to smaller gains in wages, higher unemployment, lower interest rates, and the continued weakness in the stock market.

The Military

The total impact of the military was estimated at \$2.64 billion in 2001 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 43,571 in 2001, an increase of 1,680 employees over 2000. Total military employment has shown a slight and stable upward trend since 1989. There are now 8,358 non-appropriated fund workers on the four military facilities; Fort Carson, Peterson, Schriever and the United States Air Force Academy. This is approximately a fourfold increase since 1989. Over the same period, both military in-service and federal civilian worker employment roles were reduced approximately 12 percent. Under a base case scenario, we expect the military presence to continue to grow along with the overall economy. The military would continue to have a stabilizing effect on the local economy. However, this could be disrupted if the United States becomes involved in a prolonged military operation against terrorists or deploys large numbers of special-forces in its efforts against terrorists. The arrival of Northern Command in 2003 will offset the loss of positions being redeployed to Omaha from Peterson/Norad. A slight increase in employment is expected. The military presence has, and will continue to be an important stabilizing economic sector, which helps offset some of the employment volatility in other local economic sectors.

Drought and Fires in Colorado

The last significant drought in Colorado was in 1977. The Colorado Office of State Planning and Budgeting estimated the impact on the ski industry and agriculture industries at that time. Ski lift ticket sales decreased 40 percent. Employment decreased 15 percent. Revenue loss to the resort communities was approximately \$77 million. Airlines lost \$15 million in revenue. Retail sales declined \$7 million. Restaurant and hotel visits declined 29 percent. In today's dollars, the financial losses would be estimated at \$292 million for the 2002-2003 season. During the 1977 drought, cattle and calf inventories in Colorado actually increased 5 percent. Income from crops declined 2.8 percent in 1977.

Our economy is notably different in 2002 than it was in 1977. Noteworthy differences exist between the 2002 and the 1977 droughts. Our economy is struggling to free itself from the recent recession. Airline traffic is down approximately 8.5 percent since 9/11. Wild fires ravaged well over five hundred thousand acres this year. The national exposure to the early season fires caused many tourists to cancel reservations and plans to visit Colorado this summer. Additionally, ranchers are struggling with low prices for cattle, high cost for feed, and as a result, have not been profitable for several years.

Real growth in Gross Domestic Product was strong in the years around 1977; 5.57 percent in 1976, 4.64 percent in 1977 and 5.51 percent in 1978. Real growth in Gross Domestic Product in 2000 was 3.75 percent and 0.25 percent in 2001. Real GDP is expected to be about 2.3 percent in 2002 and 3.0 percent in 2003. Today's economy is noticeably weaker than in 1977 and is in danger of slipping into a double dip recession. The national economy has struggled ever since 9/11. Employment growth has slowed, inventories have accumulated, and the stock market is down. The local economy has not been immune to these changes. The drought, wild fires, fewer tourists, and layoffs in the technology sector all contributed to a much weaker local economy than many expected to materialize this year.

Agriculture has also changed a great deal in 25 years. Agriculture's participation in federal assistance programs, and its use of crop-futures have a large and non-quantifiable impact on the industry at this time. Agriculture in El Paso County has not reported positive income since 1993. Total farm labor and proprietor's income has been

negative from 1994 through 2000. A total cumulative loss of \$9,935,000 has been reported among ranchers in the county since 1994. Livestock ranchers have decreased their livestock inventory by \$900,000 since 1997. The Office of State Planning and Budgeting report steer and heifer prices are down almost 3% for the year and calf prices are down 15%. Feed prices, especially hay, have gone up. Livestock ranchers cannot afford to feed their animals nor can they afford to sell them.



Pike National Forest after the Hayman fire, summer 2002

The tourism industry had anticipated a strong rebound this summer from a year earlier when gasoline prices skyrocketed early in the season and put a damper on summer travel. This year, the early season wild fires thwarted the rebound. Most of the local attractions reported slower sales for the summer. Hotel bookings were down, and eating and drinking establishments reported mediocre sales. This has contributed to slower city sales tax collections. The full economic impact of the drought and fires will not be known for years to come.

The drought and fires will contribute to the failure of marginally profitable firms in tourism and agriculture. Local establishments that cater to these industries will continue to suffer for some time. Unprofitable agriculture operations will fail or be consolidated with others.

Currently, it is estimated the Colorado Springs reservoirs are at approximately 30% of capacity. The reservoirs are normally at 70% of capacity this time of

year. Despite mandatory restrictions on water usage, we have not met targeted usage goals. Approximately 25% of this year's snowmelt will go directly into the ground to replenish lost moisture. The balance will head to the reservoirs, but it has been estimated that a normal amount of snowfall this winter will leave us with the same water levels this time next year. The scenario will be noticeably worse if the winter snowpack is below normal in 2002-2003.

Despite having legal access to sufficient quantities of water for growth to 2040 or 2050, Colorado Springs Utilities is having difficulty delivering the water to our community. At the current rate of consumption and a return to normal supply, it is estimated Colorado Springs has sufficient water capacity to accommodate growth for five years. If water supply, capacity, delivery and consumption are not brought into equilibrium soon, our community will not be able to grow. Quality of life will be threatened. Existing and future employment could suffer. Water issues need to be solved.

Housing Construction and Commercial Activity

The local housing industry was bolstered by extremely attractive mortgage rates for the last ten months. Residential builders were quick to construct entry-level housing units that many households were previously unable to afford. We expect a total of 4,500 single family and townhome units to be built this year. Multi-family units are expected to bring total new residential housing construction to 5,700 units in 2002. This would be a 19.8% decline in total housing compared 2001. Last year we projected a 20% decline in housing so the activity this year is in line with our projections.

During 2001 and 2002, thousands of high-paying jobs were lost in manufacturing and technology slowing the market for high-end housing in the region. Employment gains have not materialized. Net in-migration has slowed substantially. Vacancy rates in apartment units are estimated to be around 7-9 percent. Vacancy rates in some areas of the northeast and northwest sides of Colorado Springs are estimated to be as high as 14 percent. Rents have declined approximately 4.5 percent from a year ago.

In August, the Forum estimated a population increase of approximately 24,600 people would be required in the

next 18 months if the current surplus of housing stock were to be absorbed, allowing new construction in 2003 to equal that of 2002. Ten thousand new jobs across all income spectrums would have to be created in order to absorb the influx of new people to keep housing construction at these levels. Unfortunately, large numbers of high paying jobs are not expected next year. The high-end housing market will continue to be slow. The low-end housing market will slow in 2003 with the expected increase in mortgage rates. Households will move into apartment units rather than new homes which are beyond their financial means. Apartment vacancy rates are expected to drop in 2003 to 6 percent. Rents are expected to increase by 3 percent. Sales of existing homes should be brisk in the lower to mid-priced range. High-end existing homes are expected to sell slowly and at discounted prices.

We are estimating 3,750 single-family and townhome units will be built in 2003. Not all areas of new housing activity will be slow. Based on the Forum's Housing Amenity Price Index (HAPI), we expect a number of hot beds of activity in 2002 will remain relatively strong during 2003. Specifically, these include 80132 (Monument), 80831 (Falcon), 80917 (Carefree), 80918 (Austin Bluffs/Woodmen), 80920 (Briargate), 80921 (Gleneagle) and 80922 (Powers/Constitution/Woodmen). The above areas are not expected to be immune to construction conditions next year but should be less sensitive to anticipated changes than other areas.

All indicators point to little activity in commercial real estate. Palmer McAllister reports a June 2002 office vacancy rate of 12.1 percent compared to 8.5 percent in 2001. The increase is due to some new construction, conversions of industrial space into office space and the identification of an additional 328,000 square feet of existing space not previously tracked by Palmer McAllister. Year to date, office space absorption is a negative 59,242 square feet. Average rents are \$12.29. The asking rate for class "A" space is now \$13.41 per square foot.

Industrial vacancy rates are now 9.4 percent. Absorption is negative 400,457 square feet. Rents average \$8.25 per square foot. Two new facilities will add 106,000 square feet to the total available industrial space. Industrial space vacancy may increase if additional layoff announcements come from our manufacturing base.

The pace of commercial building activity has slowed again this year. Through August, the value of new commercial building construction is \$136.9 million. This is a 13.9% drop from \$159.3 million last year. Commercial construction is not expected to exceed \$200 million in 2002. A small increase of 8% is expected in 2003.

Retail and Wholesale Trade

Retail sales were up 2.37 percent in Colorado and 3.97 percent in El Paso County in 2001. County retail sales were \$9.55 billion. Gains were reported in auto dealers, general merchandise, and eating and drinking places. The auto sector was the strongest of the retail trade group in 2001. Retail sales were either stagnant or declined in building materials, food stores, apparel, and furniture and home furnishings.

During 2001, wholesale sales declined 6.2 percent in Colorado. Wholesale sales declined 2.65 percent in El Paso County during 2001 compared to an 11.7 percent gain in 2000. Given the current weakness in our local economy, significant gains in retail and wholesale activity are not expected through the middle of 2003. The declines in retail activity will negatively affect our local governments' abilities to provide essential services during the coming months.

Where is the Southern Colorado economy headed in 2003?

The national slowdown is being felt in Southern Colorado. The economy in Southern Colorado slowed dramatically after 9/11/2001 and hasn't regained much strength since. We continue to see layoffs in the technology sectors and not enough new jobs to replace the ones that have been lost. Most indicators point to a continuing sluggish economy.

The stock market continues to move sideways and shows little sign of recovery. This will keep consumer confidence low. A war with Iraq seems on the horizon and this creates uncertainty in the stock market as well as for individuals. These factors will keep consumers from spending in the near term in shops, restaurants, and the like.

Although the housing market in El Paso County has been strong, it too will weaken as more job losses are announced and as in-migration slows. Even low

interest rates can't prop this segment of our economy up forever. Activity in commercial real estate will remain slow until the economy picks up and the vacant spaces around town can be reabsorbed.

Unemployment is currently at 6.1 percent and should average out at this level for the year. We don't expect much change in the unemployment picture, especially in the first half of 2003, unless there is a large layoff or business closure in the city.

Non-agricultural employment is expected to shrink by .7 percent for all of 2002 and then grow by only .5 percent in 2003. Average salaries will increase only 1.5 percent this year and 2 percent next year because of the loss of many high paying jobs in the community. The combined effect is that total wage and salary income will increase by only .8 percent in 2002 and 2.5 percent in 2003.

Retail trade is forecast to grow at a rate similar to that of statewide projections. The housing market is expected to slow considerably next year. We predict 3,750 single family and townhomes will be constructed in 2003. Our estimate is based on a slow rate of job growth, slowing population growth and in-migration, and expected increases in mortgage rates. Non-residential construction, which shows a great deal of year-to-year volatility, is forecast to decline 11 percent in 2002 and then increase in 2003.

Estimates and forecasts for national, state, and El Paso County economic indicators are provided in the table on the following page. The national and state estimates and forecasts are from the Colorado Economic Perspective, prepared by the Office of State Planning and Budgeting, June 2002. The El Paso County estimates and forecasts are from the Southern Colorado Economic Forum.

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 valuable 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 Forum partners: First Business Brokers, LTD., Fittje Brothers Printing Company, La Plata Investments LLC, ADD Staff, Inc., BiggsKofford Certified Public Accountants, Skotty Consulting Group, Inc., Van Gilder Insurance Corporation, Colorado Springs Utilities, Colorado Classic Furniture & Design, Ent Federal Credit Union, Front Range Solutions, Inc., The Gazette, 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.

Thomas J. Zwirlein, Ph.D.
Faculty Director of Connections

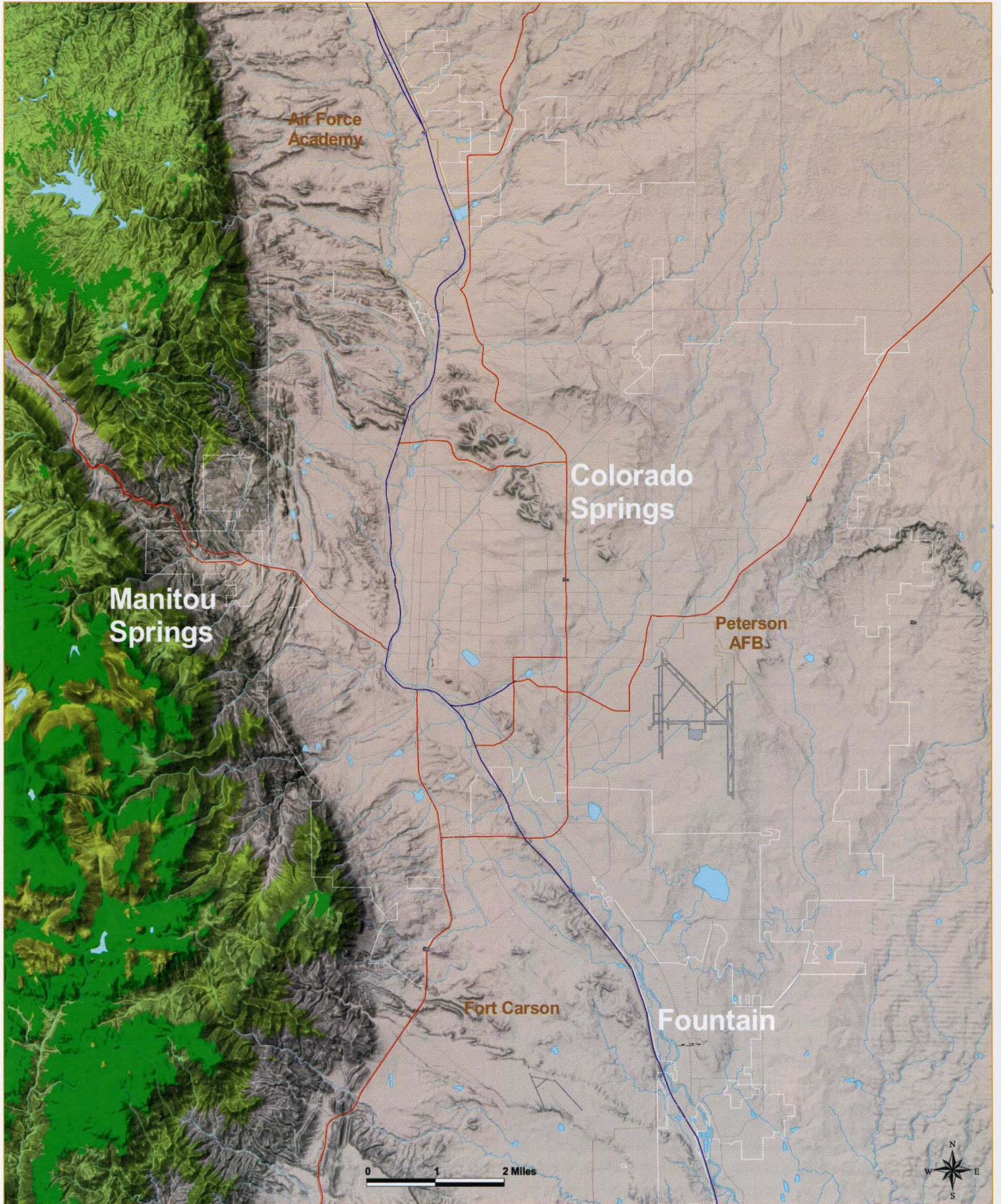
and

Fred Crowley, Ph.D.
Senior Economist for the Southern Colorado Economic Forum
College of Business and Administration and Graduate School of Business Administration
University of Colorado at Colorado Springs

		Estimated and Forecast Percent Change in Key Economic Indicators for the U.S., Colorado and El Paso County								
		United States			Colorado			El Paso County		
		2001	2002	2003	2001	2002	2003	2001	2002	2003
			Estimate	Forecast		Estimate	Forecast		Estimate	Forecast
1	Population	0.9	0.9	0.9	2.2	1.7	1.5	2.6	1.7	1.6
2	Unemployment Rate*	4.8	6.0	5.7	3.7	5.2	4.8	4.4	6.1	6.0
3	Non-Agricultural Employment	.40	-.40	1.9	.90	-.60	1.8	1.0	-.70	.50
4	Total Wage and Salaries				3.6	.90	3.8	5.1	.80	2.5
5	Average Wage and Salaries				2.1	1.5	2.0	4.1	1.5	2.0
6	Consumer Price Index (CPI)	2.8	1.7	2.6	4.7	3.0	3.2			
7	Personal Income	4.9	3.3	5.9	3.8	2.3	3.8	3.0	2.0	3.0
8	Per Capita Personal Income	3.9	2.4	5.0	.60	2.2	4.5	.50	2.0	3.6
9	Retail Trade				1.9	1.6	3.9	3.5	1.5	3.5
10	Housing Permits	2.1	-.30	-1.8	.80	-21.5	-9.2	5.5	-13.2	-16.7
11	Non-Residential Construction				-.40	-12.0	-9.7	-40.8	-10.6	8.0

Sources: Colorado Office of State Budgeting and Planning, June 2002 Revenue Forecast, and the Southern Colorado Economic Forum

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



WHY IS THIS IMPORTANT?

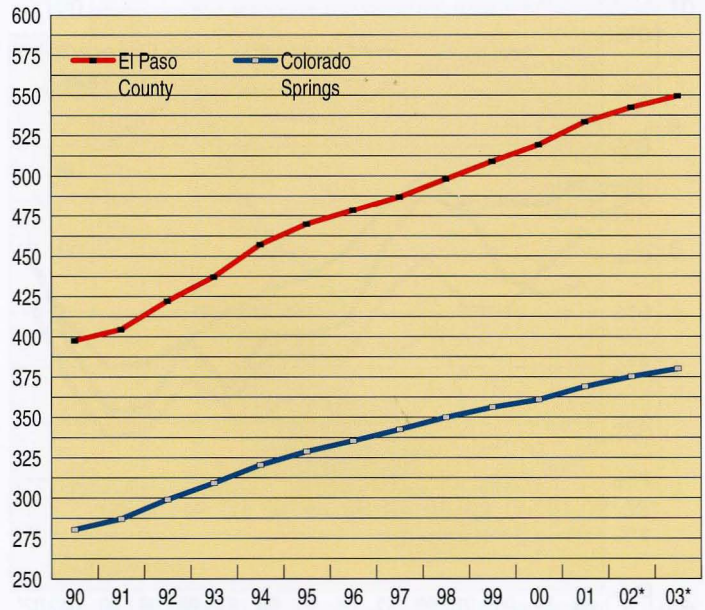
Population growth is important because it influences the labor market and the health of the economy in general. Understanding population trends helps city and county officials, builders, retail establishments and others plan for growth. Estimates are used for planning and evaluation, state revenue sharing, and distribution of projects and money by public and private agencies.

HOW ARE WE DOING?

Colorado's population continues to increase at a steady pace. From 1990 to the 2000 census, Colorado's population grew at an annual average rate of 3.0 percent. El Paso County's population grew at an average annual rate of 3.2 percent over the same period. The Colorado Division of Local Governments puts the 2001 El Paso County population at 533,428. The 2001 Colorado Springs population estimate is 368,980. Current projections suggest population growth is slowing. Forecasts for 2002 and 2003 put the population at 542,383 and 549,456 in El Paso County respectively.

The strong state economy, growing key industries, economic development efforts, quality of life, natural beauty of the state, and an educated work force all contributed to the population increases realized in the 1990's. The recent recession, elimination of jobs, and the reluctance of people to relocate because of the potential for more terrorist attacks all contribute to slower population growth.

Colorado Springs and El Paso County Population (000s)



* Values are forecasts in 2002 and 2003. Sources: U. S. Census; Colorado Department of Local Affairs; and Colorado Springs Utilities

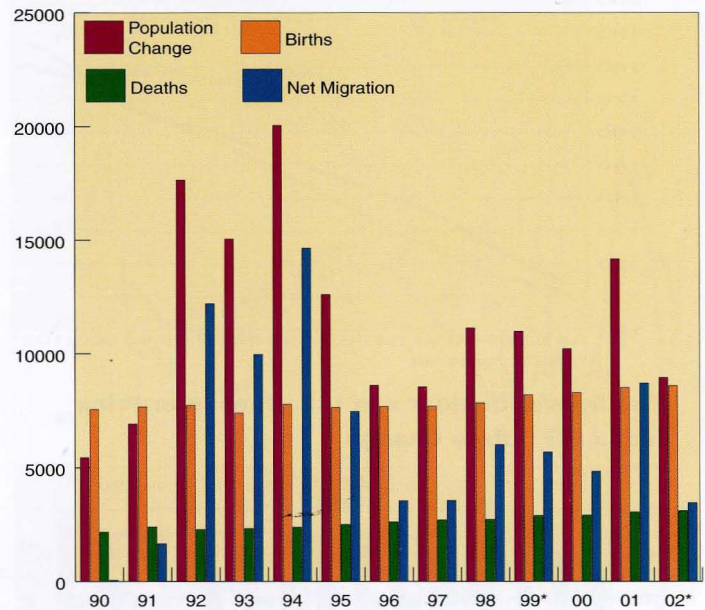
WHY IS THIS IMPORTANT?

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 their impact on the economy.

HOW ARE WE DOING?

The trend in 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 2001 which shows a blip due to the substantial increase in the population estimate. We expect these trends to remain relatively stable over the next few years as long as there are no major positive or negative surprises in the employment picture. A sudden jump in inflation, a significant reduction by one or more of our major employers, or other unpleasant surprises could affect these trends.

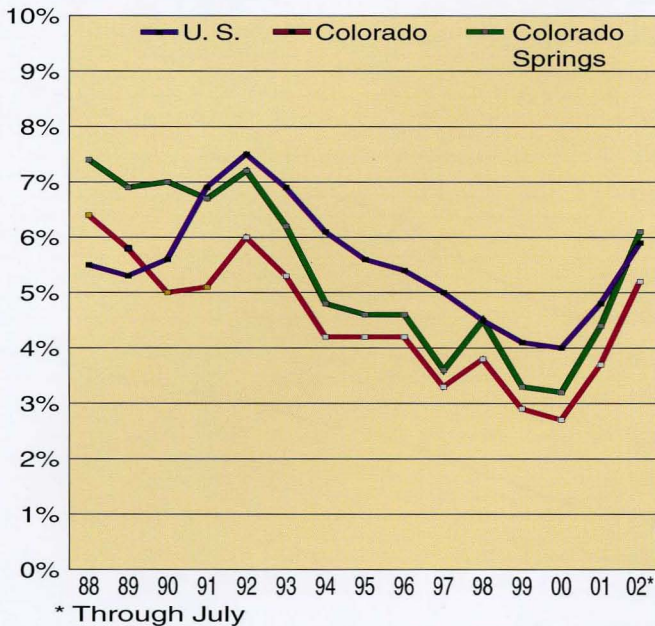
Births, Deaths, and Migration in El Paso County



* SCEF forecasts for 2002.

Sources: Colorado Department of Local Affairs; Colorado Department of Public Health and Environment, Health Statistics and Vital Records

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



* Through July 2002
 Source: U.S. Department of Labor; Colorado Department of Labor and Employment

WHY IS THIS IMPORTANT?

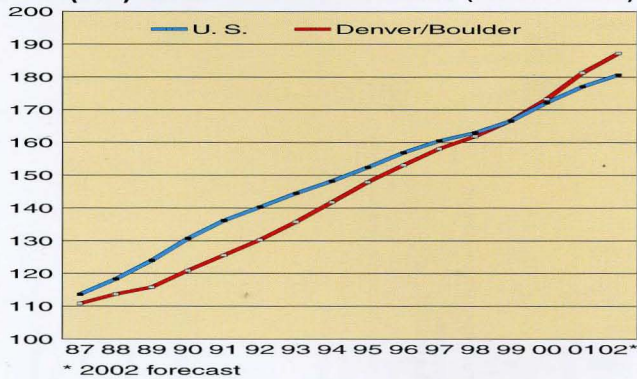
The unemployment rate is the percentage of the work force without jobs. There will always be some unemployment due to seasonal factors, workers between jobs, recent graduates looking for work, and others. Comparisons with the state and national unemployment rate provide information regarding how well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

HOW ARE WE DOING?

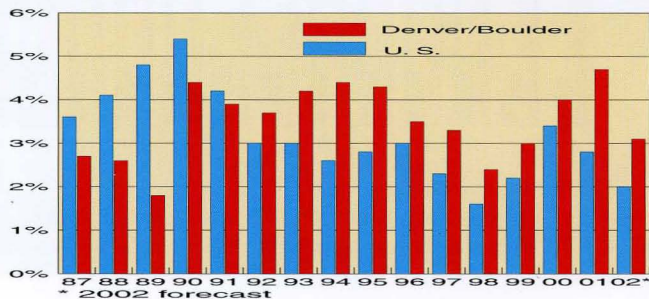
In 2000, unemployment figures reached 30 year lows. Since that time, unemployment increased in the U.S., Colorado, and El Paso County. The continued economic slowdown inched the unemployment rate up all through 2001. Colorado's unemployment rate continues to rise and currently stands at 5.2 percent. The Colorado Springs MSA unemployment rate as of August stood at 5.7 percent, up from 4.4 percent at the end of 2001.

Much of the slowdown in the economy and employment is attributed to the technology sector which laid off employees throughout 2001. This key sector has remained weak and is now affecting employment in other sectors that support it. The anemic national economy has dramatically affected Colorado and the Colorado Springs labor force. Preliminary figures from the Colorado Department of Labor and Employment estimate the Colorado Springs labor force grew by 2.86 percent from July 2001 to July 2002. Over the same period, employment grew by only 1.29 percent.

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



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



* Forecast for 2002
 Source: U.S. Department of Labor, Bureau of Statistics

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 4.7 percent in 2001 after rising 4.0 percent in 2000. The U.S. urban CPI rose 2.8 percent in 2001 after increasing 3.4 percent in 2000. The Denver/Boulder CPI is up 1.82 percent over the first six months of 2002 while the U.S. rate is up only 1.02 percent.

The Office of State Planning and Budgeting expects consumer prices in Colorado to rise 3.0 percent for all of 2002 and then to gradually rise to 3.7 by 2006 as the state economy improves. We expect 2002 to be slightly higher at 3.1 percent given the first half of the year figures for inflation in the Denver/Boulder area. The Office of Planning and Budgeting forecasts U.S. inflation for 2002 to be 1.7 percent. Our forecast is slightly higher at 2 percent for all of 2002.

WHY IS THIS IMPORTANT?

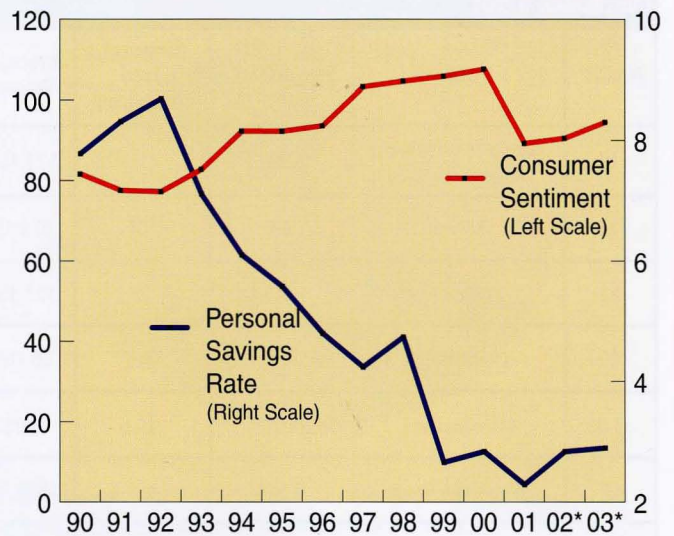
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of the consumer's confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer Sentiment measures confidence using 1996 as the base year (1996=100). The personal savings rate is an indication of the consumer's confidence in the current economy and a proxy for consumption capacity in the future.

HOW ARE WE DOING?

Consumer Sentiment peaked in December 2000 and then trended downward through April 2001. Consumer Sentiment recovered through August 2001. Events of September 11 undermined the recovery until December 2001. A strong up-trend in 2002 peaked in May. Since then, it appears consumer sentiment has been shaken by uncertainty in the stock market, declining pension values and a general lack of confidence in financial reporting practices. Consumer sentiment is expected to increase, although weakly, for the next nine to twelve months.

Personal savings trended down since 1992 and echoed rising consumer sentiment and spending in the economy. The 2001 recession and event of 9/11 caused consumers to reduce consumption and increase saving. Savings have increased slightly in recent months, reflecting the uncertainty about financial markets. Personal savings are expected to be in the 2.5-3.0 percent range for 2003. Increased personal savings builds capacity for future consumption. Higher savings in the short-run lead to business reductions in inventory and a slowing of the immediate economy.

Consumer Sentiment and Personal Savings Rate



* SCEF forecasts

Sources: University of Michigan and Federal Reserve Bank of St. Louis

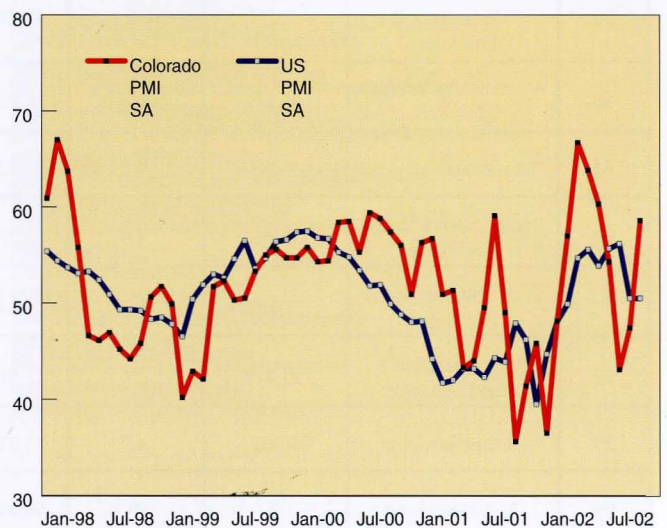
WHY IS THIS IMPORTANT?

The Purchasing Managers Index (PMI) is a leading economic indicator. PMI measures the expectations in business activity of raw materials, employment, pricing and finished goods for the next 12 months among purchasing managers in the manufacturing sector. Values greater than 50 are considered bullish. Values below 50 are considered bearish.

HOW ARE WE DOING?

Seasonally adjusted values for the national PMI and the Colorado PMI pointed to a declining manufacturing sector in late 1999 to early 2000. The Colorado PMI clearly lagged the national trend. Both were showing signs of recovery by early 2001 until 9/11. Since 9/11, the Colorado PMI has demonstrated great volatility and has move upward along the national PMI. Before too much strength is attached to a PMI value, one needs to consider it is a relative number. A PMI of 55 means 55% of the purchasing managers, on average, expect things to improve. It does not indicate how much of an improvement is expected. Given the near stagnant movement in GDP for the second quarter of 2002, and the weak national PMI values, strong purchasing manager activity is not expected for the balance of 2002 or early 2003. PMI activity below 50 to slightly above 50 is very likely in Colorado.

Purchasing Mangers Index



Source: Institute of Supply Management and Creighton University

El Paso County Average Annual Employment and Wages by NAICS Classification in 2001

NAICS ¹	Title	Employment	Percent of Total Employment	Average Wages
11	Agriculture, Forestry, Fishing, Hunting	262	.1	\$21,458
21	Mining	95	.04	67,619
22	Utilities ²	515	.2	122,132
23	Construction	15,745	6.6	36,785
31-33	Manufacturing	25,209	10.5	48,085
42	Wholesale Trade	6,348	2.6	41,816
44-45	Retail Trade	27,890	11.6	23,044
48-49	Transportation & Warehousing	3,483	1.5	28,924
51	Information	14,205	5.9	45,830
52	Finance & Insurance	11,279	4.7	40,616
53	Real Estate, Rental & Leasing	4,059	1.7	25,557
54	Professional & Technical Services	17,714	7.4	60,050
55	Management of Companies & Enterprises	1,071	.5	58,386
56	Administrative & Waste Services	15,902	6.6	25,292
61	Educational Services	2,970	1.2	27,359
62	Health Care & Social Assistance	18,881	7.9	32,972
71	Arts, Entertainment & Recreation	3,649	1.5	20,949
72	Accommodation & Food Services	22,919	9.6	12,519
81	Other Services	9,952	4.2	25,616
99	Non-classifiable	2	0	55,940
	Government	37,949	15.8	34,739
	Total All Industries	240,094		34,391

¹ - For information on NAICS see www.census.gov/epcd/www/naics.html
² - Does not include Colorado Springs Utilities
 Source: Colorado Department of Labor ES202

WHY IS THIS IMPORTANT?

This year the Department of Labor began reporting employment and wage data using the North American Industrial Classification System (NAICS). This system differs dramatically from the SIC codes of the past. For comparison purposes we include last year's employment "pie" for El Paso County in the chart further on in this booklet. The table shows the industry classification using NAICS. We use a table so our readers have a clear picture of the numbers in each NAICS industry classification. These figures establish our base for comparisons in future years.

"NAICS groups the economy into 20 broad sectors, up from the 10 divisions of the SIC system. Many of the new sectors reflect recognizable parts of SIC divisions, such as the Utilities and Transportation sectors, broken out from the SIC division Transportation, Communication, and Utilities. Similarly, the SIC division for Services Industries has been subdivided to form several new sectors with longer names. Professional, Scientific and Technical Services; Management, Support, Waste Management, and Remediation Services; Education Services; Health and Social Assistance; Arts, Entertainment, and Recreation; and Other Services except Public Administration.

Other sectors represent combinations of pieces from more than one SIC division. The new Information sector includes major components from Transportation, Communications, and Utilities (broadcasting and telecommunications), Manufacturing (publishing) and Services Industries (software publishing, data processing, information services, motion picture and sound recording). The Accommodation and Food services sector puts together hotels and other lodging places from Service Industries and eating and drinking places from Retail Trade." (source: www.census.gov/epcd/www/naicsur.html)

The reader can see that past information using the SIC system is not comparable to the NAICS system. This obviously presents a dilemma for economists and analysts interested in tracking trends in employment and wages by industry over time.

HOW ARE WE DOING?

Total wage and salary employment reached 240,094 in El Paso County in 2001 which was up 1 percent from a year earlier. The growth rate is only moderately higher than the .7 percent growth rate realized statewide in 2001. Government comprises our largest employment sector followed by retail trade; manufacturing; accommodation and food services; health care and social assistance; professional and technical services; administrative and waste services; and construction under the NAICS system. The percent breakdown in total employment by sector is provided in the table.

Average annual wages for all industries in El Paso County were \$34,391 in 2001, which is a healthy gain of 4.1 percent over the year earlier average for the county. Average wages in sectors with employment of at least 1,000 workers are highest in professional and technical services; management of companies and enterprises; manufacturing; information; wholesale trade; and finance and insurance.

WHY IS THIS IMPORTANT? (Historical SIC Classification)

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. (Note: This is historical data classified by SIC and the final year this chart will be published).

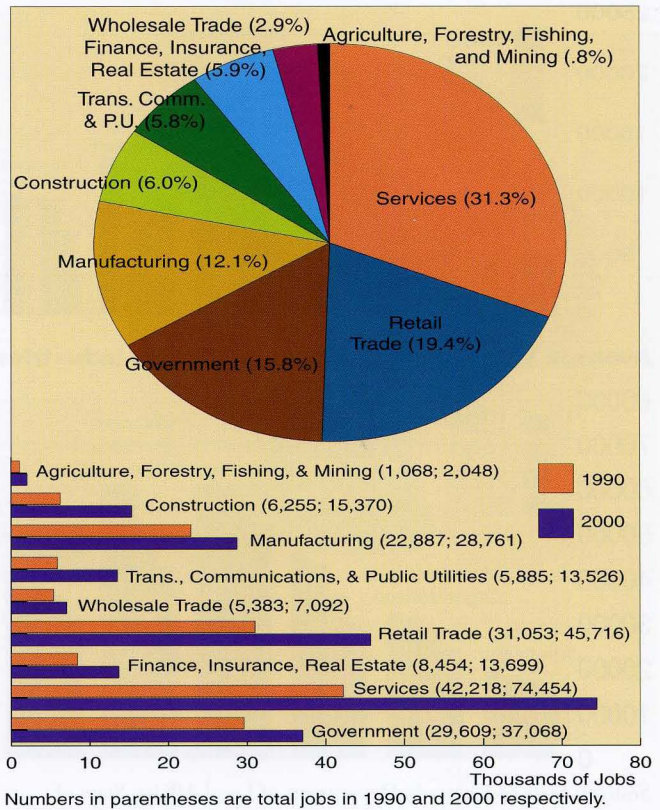
HOW ARE WE DOING?

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 led the growth over the last decade.

Although the number of manufacturing jobs grew by more than 1,000 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? (Historical SIC Classification)

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. (Note: This is historical data classified by SIC and the final year this chart will be published).

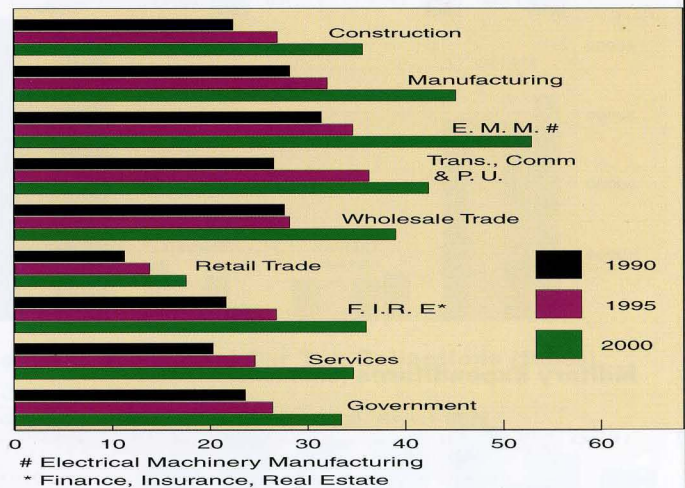
HOW ARE WE DOING?

Average annual wages for all industries in El Paso County were \$33,039 in 2000, which represent 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 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%).

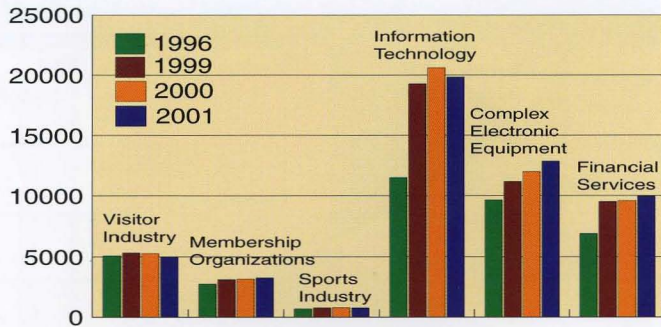
Wages in Colorado as a whole average \$37,166 or 8.7 percent higher than 1999. The average wage gap between El Paso County and the state as a whole grew again in 2000 to \$4,127. In 1999 the wage gap was \$3,513 and in 1998 the gap was \$2,844.

Average Annual Wages in El Paso County in 2000 by Sector (\$000)

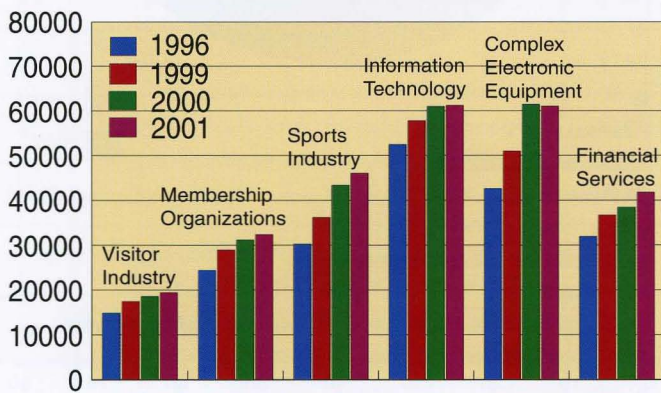


Source: Colorado Department of Labor

Number of Employees in Cluster Industries



Average Wages of Employees in Cluster Industries



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

WHY IS THIS IMPORTANT?

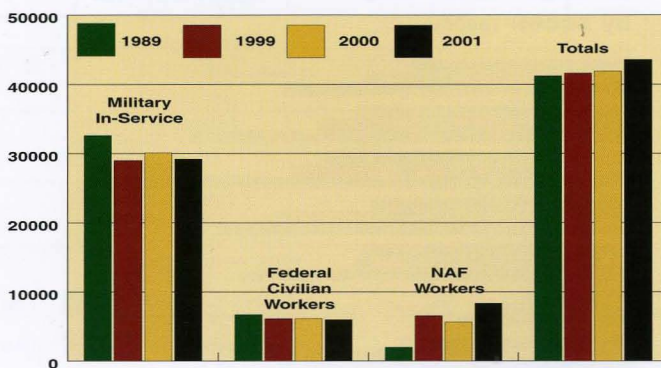
The Economic Development Corporation has identified key industry clusters as targets for economic development. The clusters group industries that complement each other and generate income and wealth for the community by exporting goods and services out of the region. Employment, growth and wages derived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

HOW ARE WE DOING?

In 2001, these clusters accounted for approximately 21.5 percent of the wage and salary labor force in El Paso County. Employment in the clusters is estimated at 51,616 in 2001. This figure was up less than 0.5 percent from 2000. The clusters account for 32 percent of the total ES202 wages and salaries in the county. Roughly 63 percent or 32,667 jobs in the clusters are in the high paying information technology and complex electronic equipment industries. These two clusters have been particularly hard-hit by the economic slowdown over the last 18 months and are expected to show employment declines in 2002.

Weighted average wages in the cluster industries grew 1.9 percent to \$51,325 in 2001 over year earlier figures. In comparison, average wages for all industries in El Paso County were \$34,391 in 2001. Average wages in information technology were \$61,188. Average wages reached \$61,009 in complex electronic equipment, \$41,793 in financial services, and \$46,014 in the sports industry.

Military Employment in El Paso County



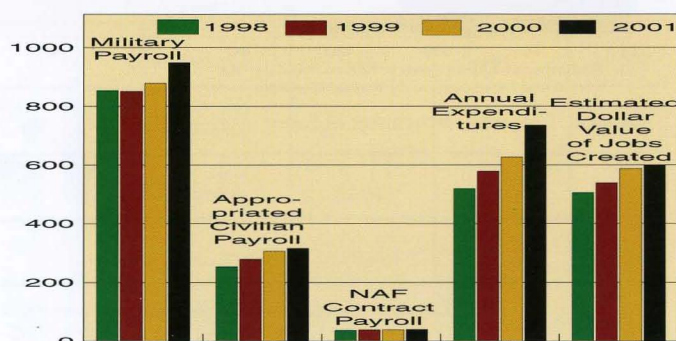
WHY IS THIS IMPORTANT?

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 grew from 41,891 in 2000 to 43,571 in 2001, a 4 percent increase. We expect modest increases in total military employment over the next several years due to the arrival of the Northern Command. Although military figures are not included in Department of Labor wages and salary figures, total military employment represents approximately 18 percent of El Paso County employment. In 1990, it was 24.1 percent. While still very important, the military impact on the economy has declined over time as other economic sectors have increased in employment and importance. Still, the military presence does provide an important and valuable stabilizing effect on the economy during slowdowns such as the one El Paso County is currently experiencing.

Military Expenditures (\$millions)



Source: Various Military Establishments; EDC

Payroll to military and civilian employees topped \$1.3 billion in 2001, up 6.7 percent from 2000. Annual expenditures by the military establishment in Colorado Springs was \$736.1 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 \$599 million in 2001. Thus, the total estimated impact of the military in El Paso County including salary and wages was \$2.64 billion in 2001.

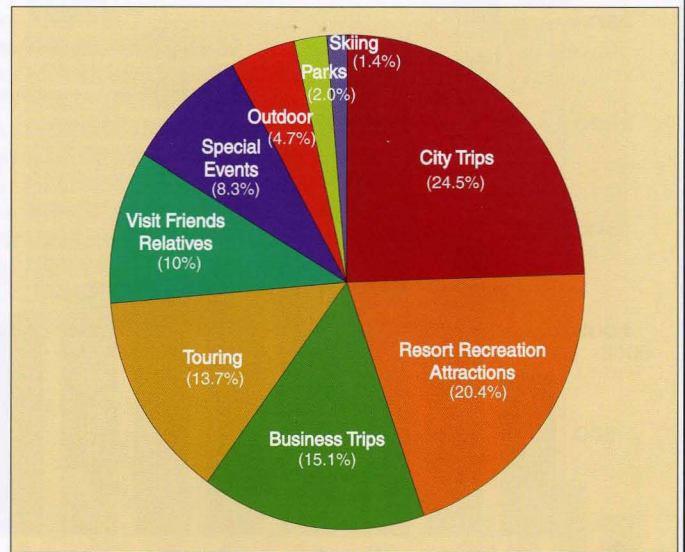
WHY IS THIS IMPORTANT?

Tourism is one of our basic industries. The tourism industry brings outside dollars into the community and creates jobs for local residents. In turn, local residents working in this industry spend money in other economic sectors such as housing, retail, health, education, transportation, and utilities. Thus, jobs created from outside dollars support and stimulate other sectors of our economy.

HOW ARE WE DOING?

The Center for Business and Economic Forecasting, Inc. estimated that there were a total of 212,222 jobs created by the tourism industry in Colorado in 1999. Estimates put the number of tourism related jobs at 15,916 in Colorado Springs in 1999. The breakdown of these jobs by activity is provided in the graph. City trips include visits to cities for shopping, to attend events, visit museums and attractions, etc. Special events include privately and publicly sponsored events such as college games and rodeos. Visit friends and relatives (VFR) includes visits to family and friends. Parks, outdoor, and touring all relate to activities on public lands such as our local parks and trips through areas of scenic beauty. Resorts and attractions include activities such as golf, swimming, and commercial attractions.

Tourism in Colorado Springs in 1999



Source: Center for Business and Economic Forecasting, Inc.

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?

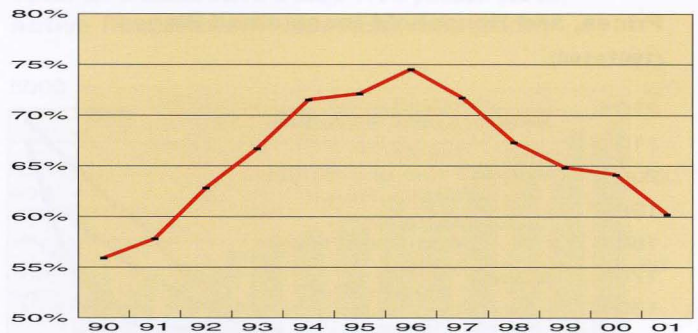
The Colorado Springs Convention and Visitors Bureau reports that there are approximately 13,000 hotel and motel rooms available in Colorado Springs. This is a 53 percent increase in the room inventory since 1995. Many of the new rooms are in economy-priced facilities in the \$60 to \$70 range.

The rapid growth in the room supply has affected occupancy rates which have been on the decline since 1996. Average annual hotel occupancy rates decreased in 2001 to 60.2 percent after holding steady at about 64 percent over the previous two years.

The tourism sector is down again in 2002. Last year, high gasoline prices early in the season put a damper on travel and vacation plans. This year worries over the drought and the many Colorado fires kept tourists away. Owners of many Colorado Springs tourism attractions will want to put 2002 behind them.

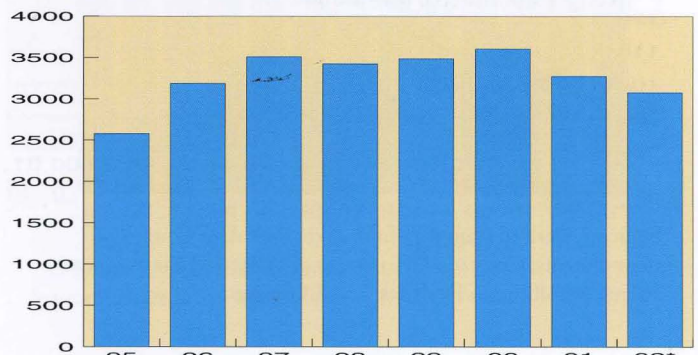
Lodger and auto rental tax collections were down 6 percent in 2001 and are likely to decrease another 6 percent this year.

Hotel Occupancy Rates



Source: Pikes Peak Convention and Visitors Bureau

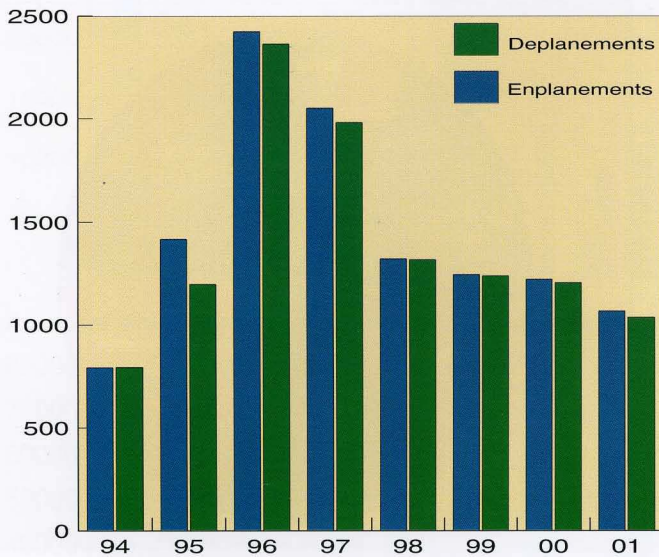
Lodgers and Rental Car Tax Collections (\$000s)



* SCEF forecast

Source: City of Colorado Springs, Sales Tax Division

Colorado Springs Airport Activity (000s)



Source: Colorado Springs Airport

WHY IS THIS IMPORTANT?

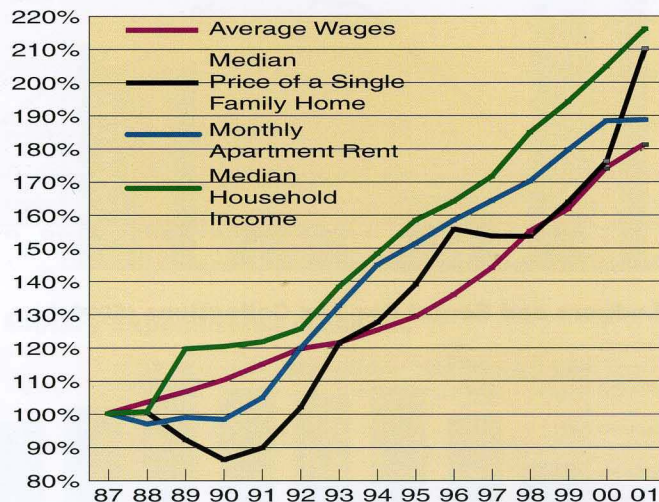
Air service contributes to both the quality of everyday life and the economic prosperity of southern Colorado. Air service has a profound impact on the local economy, particularly air-dependent high tech industries. Companies need nonstop service in order to maximize productivity and minimize travel 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 was greatly impacted by the events of September 11 like most airports across the country. Enplanements and deplanements declined more than 12 percent in 2001. Enplanements in 2001 totaled 1,065,854 while deplanements totaled 1,034,980. Total enplanements and deplanements are now down 56 percent from the all time high reached in 1996 when Western Pacific operated out of Colorado Springs. Enplanements through July are down 3 percent at 633,155. Aircraft departures are actually up almost 12 percent through July 2002. However, the number of enplanements per departure stands at 60 this year down from 69 a year ago. Cargo landed weight is up 13.8 percent through July at 115,712,300 pounds.

The top carriers and their market share figures in 2002 are: American (27%), United/United Express (26%), and Delta/Delta Connection (18%). Continental/Continental Express (7%), America West/ AW Express (8%), Northwest (6%), Champion, Mesa, Great Plains, and now bankrupt Vanguard claim the remaining market share.

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 wage indexes rose a healthy 5.5 and 4.0 percent respectively in 2001. Over the same time period the median home price index rose 19.3 percent while the monthly apartment rent index rose only .1 percent.

The household income index remains above both the rental and median home price indexes. The median price of a single family home stood at \$145,000 in December 2000. The median price increased to \$173,000 by December 2001. This year, median home prices are increasing more slowly reaching \$175,025 in August. Household income has kept up with home price increases since 1987 but the gap as shown in the chart closed in 2001.

The other comparison is between wages and rents. Wages are arguably more closely related to apartment rents since wages are more likely to be used to pay monthly rent. The wage index is tracking along with the rent index thanks to some healthy wage gains over the past several years. The gap between these two indexes closed somewhat this year due to the moderate increase in apartment rents.

WHY IS THIS IMPORTANT?

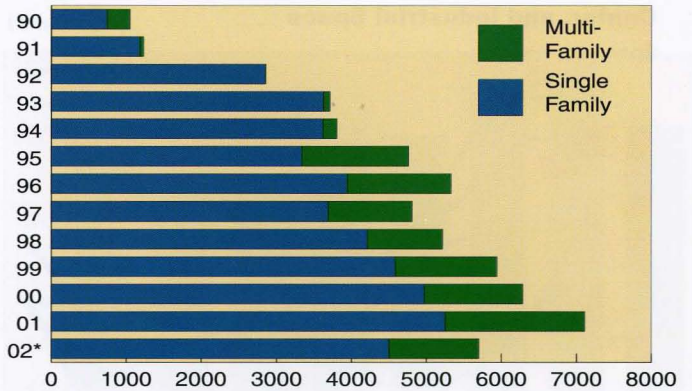
Growing communities like Colorado Springs continually add to the housing stock in order to meet the needs of new residents. The El Paso County population is expected to continue to grow. Adequate and affordable housing must be available to accommodate the growth.

HOW ARE WE DOING?

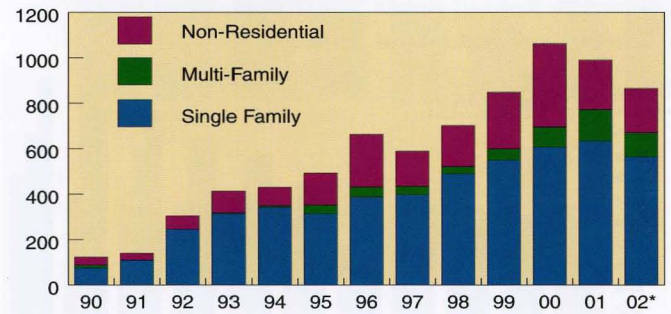
2001 was a record setting year for the residential construction industry. 5,252 single family and townhomes were constructed. Another 1,859 multi-family units were constructed. Last year we forecast the market would slow this year and it has. Through August of this year, 3,591 single family and townhomes have been built. We forecast that 4,500 single family units will be built this year. A total of 1,042 multi-family units have been constructed so far this year. By the end of the year, we forecast that number will grow to approximately 1,200 units. Provided our forecasts are accurate, this is a drop of nearly 20 percent from last year's record pace in residential construction activity. Next year is likely to be another down year.

The value of non-residential construction reached \$217.5 million in 2001, a drop of 40.8 percent from the \$367.5 million in 2000. The pace of non-residential construction has slowed even more this year and stands at \$136.8 million through August. The only real strength is in retail buildings. We forecast non-residential construction will reach \$194.5 million for all of 2002, for a decline of 10.5 percent. Next year there should be a slight rebound in total non-residential construction to \$210 million.

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.

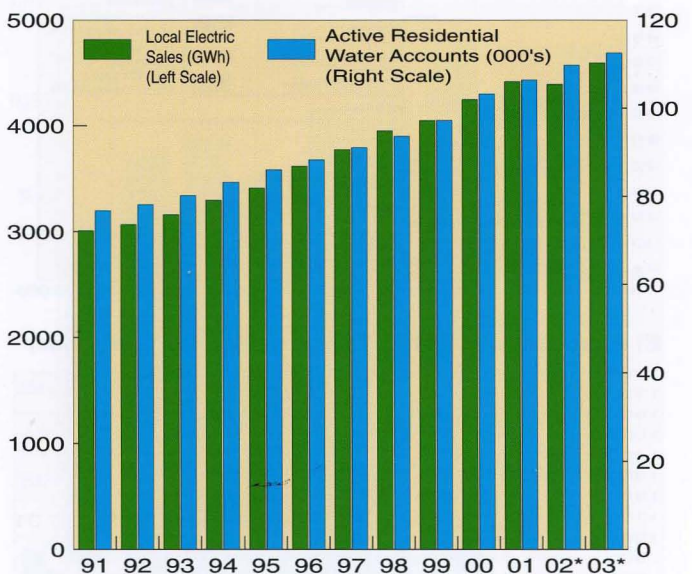
HOW ARE WE DOING?

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 3.3 percent per year over the last ten years, which closely mirrors the average annual growth rate of 2.75 percent in owner and renter occupied housing units.

Electric sales have grown an average of 3.5 percent per year since 1991 which broadly reflects the economic expansion in the county. Electric sales grew 4.0 percent in 2001 after growing 4.9 percent in 2000. Colorado Springs Utilities forecasts a slight decline in electric sales this year due to a slower economy and moderate temperatures last winter.

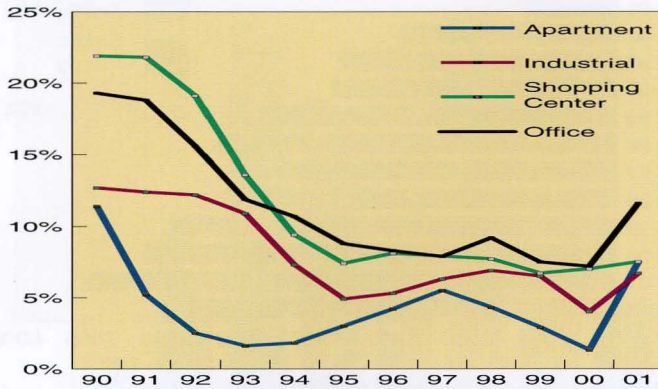
Colorado Springs Utilities is currently struggling with the drought. Mandatory water restrictions were imposed this summer to reduce water consumption. Long-term plans call for an expansion of Pueblo Reservoir and a new pipeline to ship water to Colorado Springs. Numerous regulatory and legal challenges must be overcome before this becomes a reality. If we see another dry winter, water will become an even larger issue next summer.

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

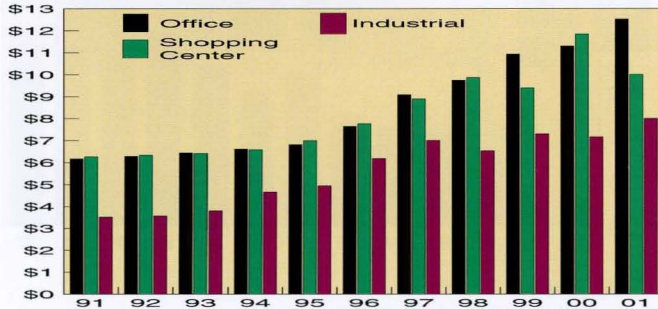


* Colorado Springs Utilities forecasts
Source: Colorado Springs Utilities

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?

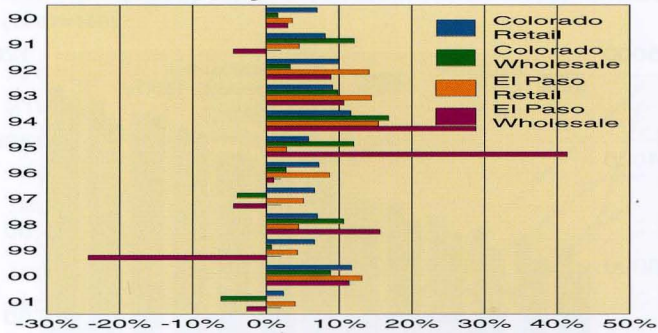
Vacancy rates are a leading indicator of economic activity. Declining vacancy rates put upward pressure on lease rates. Low vacancy rates reduce location choices for businesses. The availability of adequate and affordable commercial space allows existing companies to expand and helps attract new companies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

HOW ARE WE DOING?

Office, shopping center, and industrial vacancy rates all increased through 2001 standing at 11.6 percent, 7.5 percent, and 6.7 percent by the end of the year. By the end of the second quarter, vacancy rates had inched up further to 12.1 percent for office, 7.6 percent for shopping space, and 9.0 percent for industrial. In spite of the higher vacancy rates, Palmer McAllister reported triple net lease rates at the end of the second quarter 2002 were holding relatively steady at \$12.29 per square foot for office space, \$9.00 to \$13.00 for shopping center space, and \$8.25 for industrial space. Office and industrial activity has been slow for most of this year while shopping center activity remains more active.

Palmer McAllister reports that leasing activity in the office market reached 125,707 square feet through the second quarter of 2002 but absorption was negative at -59,242 square feet. Industrial leasing activity reached 206,711 square feet through June but absorption was also negative at -400,457. In retail, 62,685 feet were leased through the second quarter while absorption was 71,322.

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



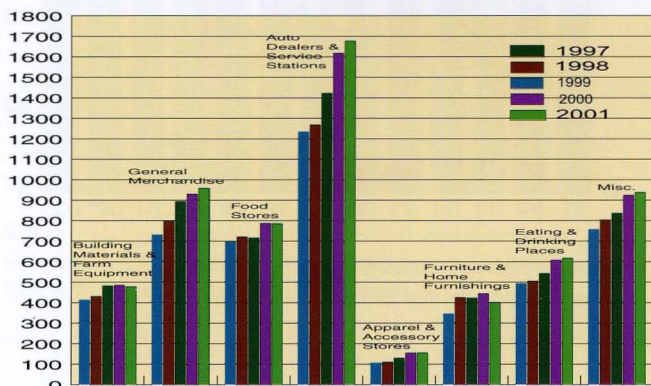
WHY IS THIS IMPORTANT?

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 3.97 percent in 2001 compared to 13.1 percent in 2000. This compares favorably to the 2.4 percent growth rate in Colorado. Auto dealers, general merchandise, and eating and drinking establishments posted modest increases. Building materials, furniture and home furnishings, food stores, and apparel and accessory store sales were stagnant or declined. Wholesale sales declined in El Paso County 2.65 percent in 2001 after increasing 11.4 percent a year earlier. The most recent figures from the Department of Revenue indicate first-half 2002 retail sales were up 2.3 percent in the county over the year earlier figures. Colorado retail sales are off 1.7 percent in the first half of this year. El Paso County wholesale sales are down 1.1 percent in the first half of 2002 while Colorado wholesale sales are off 15 percent. Consumer confidence will play a big role in determining whether retail sales increases will continue.

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



Source: Colorado Department of Revenue: Office of Tax Analysis

Leasing activity in the retail shopping market is softer this year compared to prior years. Palmer McAllister reports leasing activity of 62,685 sq. ft. in the second quarter this year with absorption of 71,322 sq. ft. This is half of the activity reported during the second quarter last year. The retail vacancy rate stood at 7.4 percent at the end of the second quarter which is exactly the same as last year. Retail vacancy rates run from 1.0% in the central business district to 15.0% in the southeastern sections of the city. Construction is now under way for new Target and Wal-Mart super centers along Powers Blvd. A Galyans sporting store recently opened at First and Main.

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 law enforcement, 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.

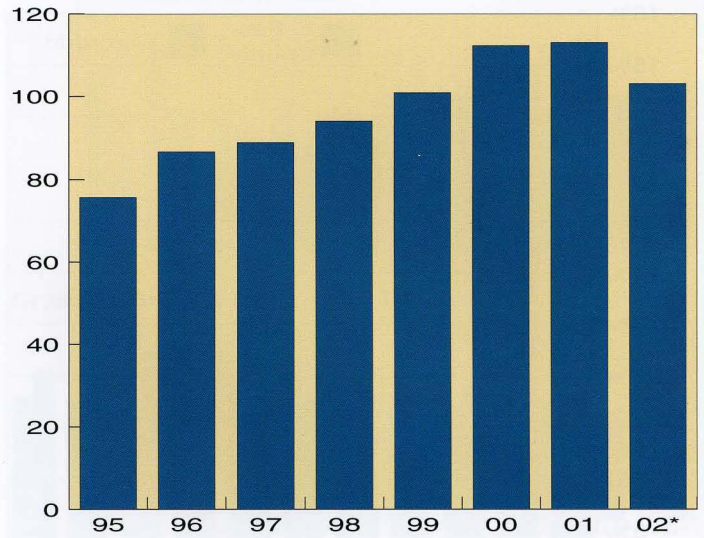
HOW ARE WE DOING?

City sales and use tax collections were just over \$113 million in 2001, up less than 1.0 percent from the previous year. Through August of 2002, combined sales and use tax collections are down 6.83 percent from year earlier figures. Separately, sales tax collections are down 4.2 percent while use tax collections are off 26.9 percent.

Through August 2002, sales tax collections from sales to business are down 31.4 percent from year earlier figures. Collections from utilities are down 11.8 percent and grocery store tax collections are off 11.8 percent. Not surprisingly, sales tax revenues are also down for hotels/motels by (-9.2%) and building materials (-5.0%).

We estimate that sales and use tax collections could drop 8 to 9 percent this year to \$103 million. Loss of this important source of city revenue will put extreme pressure on the budget. Police and fire protection, street repairs, park maintenance and other municipal services will all suffer.

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.

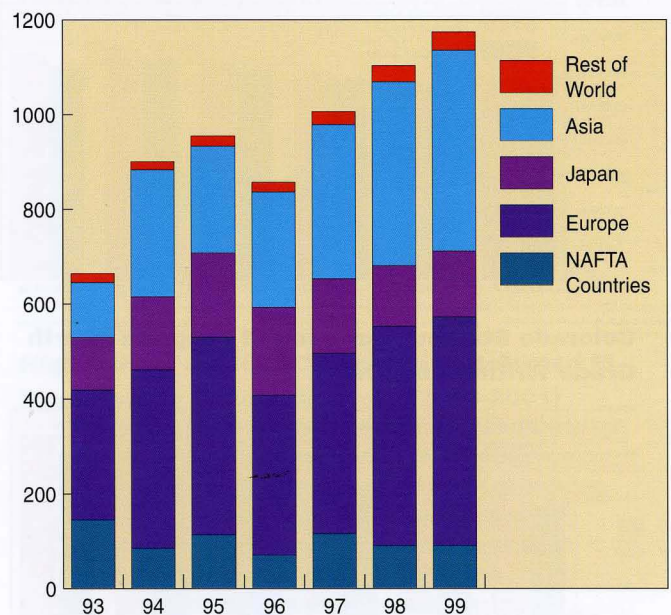
HOW ARE WE DOING?

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.

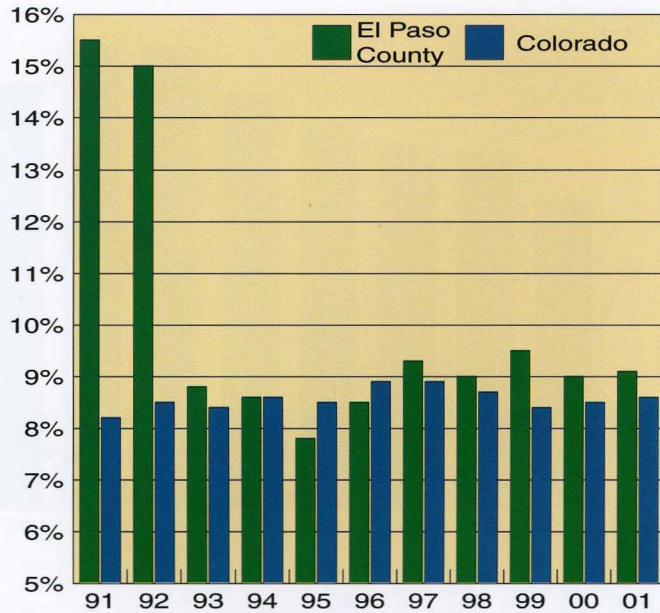
China continues to grow as an important trading partner for Colorado Springs exporters. In 1993, exports to China amounted to \$419,000. In 1999, exports to China were \$51,774,000, a 12,254 percent increase.

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



Source: Exporter Location Series, Census Bureau; Prepared by the 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

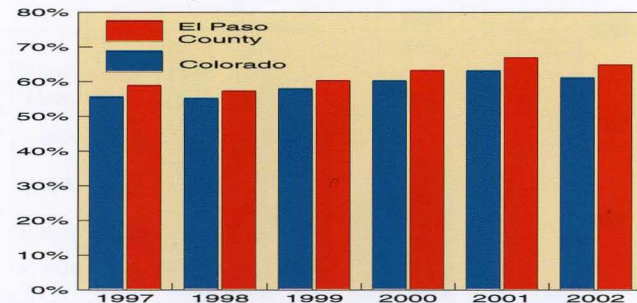
WHY IS THIS IMPORTANT?

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 practice proper nutrition and have access to and are encouraged to receive prenatal care.

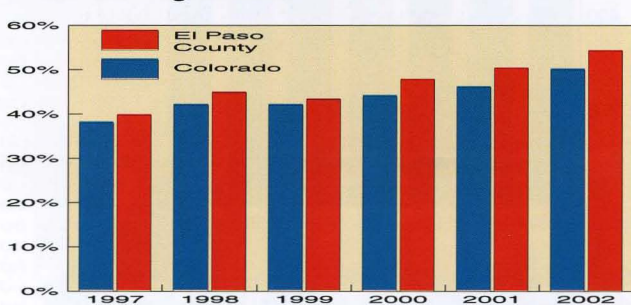
HOW ARE WE DOING?

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 to 15 percent level in the early 1990s to the 9 to 10 percent level since 1993. Currently, the low weight birth rate stands at 9.1 percent in El Paso County and 8.6 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 Colorado students 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. In 2000 and again in 2001, cut points were adjusted for several of the tests to "improve consistency of expectations for student performance across grades within content area" (Colorado Department of Education, CSAP web-site). Results from six CSAP's given to Colorado fourth graders indicate that 44 to 54 percent of El Paso County students are proficient or above in writing and 59 to 65 percent of students are considered at or above proficiency in reading. The good news is that scores are improving over time. Tracking students over time indicates that by the time the 1999 fourth graders in El Paso County reached seventh grade in 2002, 64 percent were proficient in reading and 56 percent were proficient in writing.

WHY IS THIS IMPORTANT?

A skilled work force is essential for an economy to be competitive in world markets. Completion of high school is the minimal requirement to obtain 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.

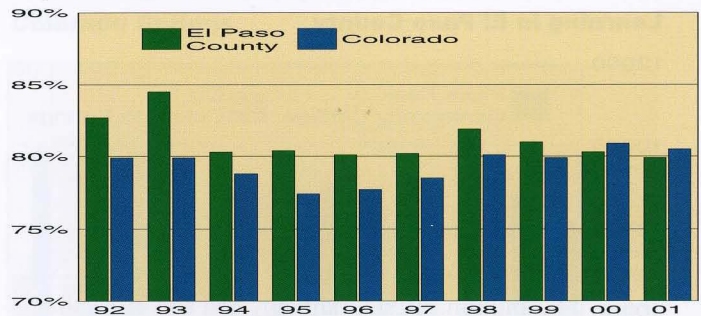
In a global economy, a multicultural, skilled work force is a requirement for success. Providing a quality education to all ethnic groups is important to our economic well-being. Reducing the dropout rate for all ethnic groups is one measure of success.

HOW ARE WE DOING?

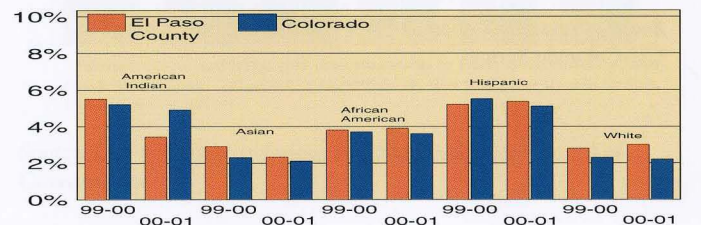
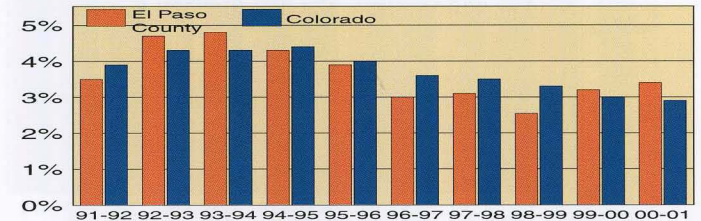
The Colorado Department of Education has a target high school graduation rate of 90 percent. Graduation rates in El Paso County were higher than in Colorado as a whole throughout the 1990s but remained below the target rate. The county high school graduation rate dipped slightly below the Colorado average in 2000 and again in 2001. For the past eight years the graduation rate in El Paso County has remained around 80%.

Dropout rates for all students had been falling since the 1993-94 school year. However, after dipping to 2.54 percent in 1998-99, the overall dropout rate in El Paso County increased in both 1999-00 and 2000-01 and now stands at 3.4 percent. In contrast, the Colorado dropout rate continues to decline and now stands at 2.9 percent. Dropout rates for American Indians declined in 2000-01 while they increased for all other ethnicities.

High School Graduation Rates



Grade 7 through 12 Dropout Rates



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

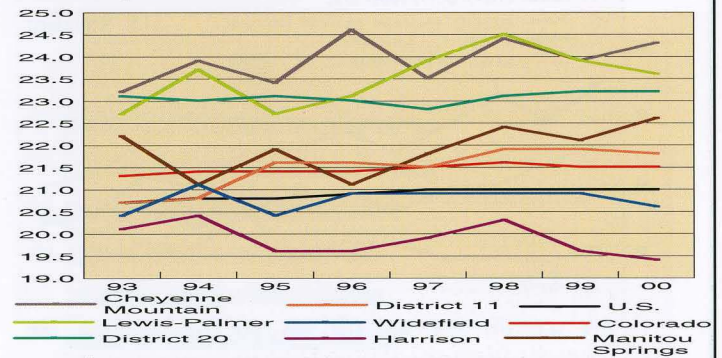
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates 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?

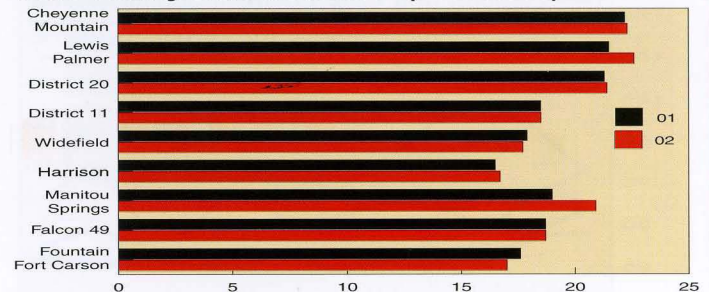
In past years, the ACT was taken only by Colorado high school juniors and seniors planning to pursue a college education. Two years ago, Colorado enacted legislation requiring that all high school juniors take the ACT. As a result, past ACT scores (top chart) and U.S. averages are not comparable to ACT scores for the El Paso County high school juniors reported in the lower chart. The average scores for the high school juniors are approximately 2.0 points below the college bound test takers in prior years.

The junior ACT scores held steady or improved in most school districts in 2002. The most improved school districts were Manitou Springs (1.8 point increase) and Lewis Palmer (1 point increase). Fountain/Fort Carson scores decreased 0.5 points. It is important to note that 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.

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

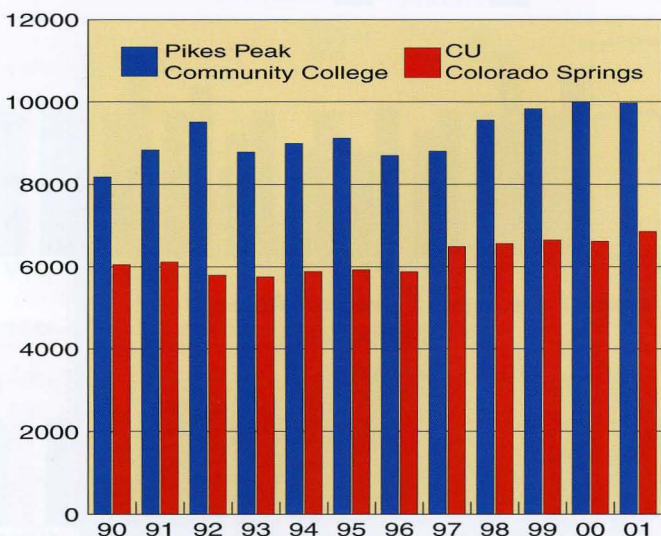


High School Junior ACT Scores in Selected El Paso County School Districts (2000-2001)



Sources: 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 Pikes Peak Community College and CU-Colorado Springs

WHY IS THIS IMPORTANT?

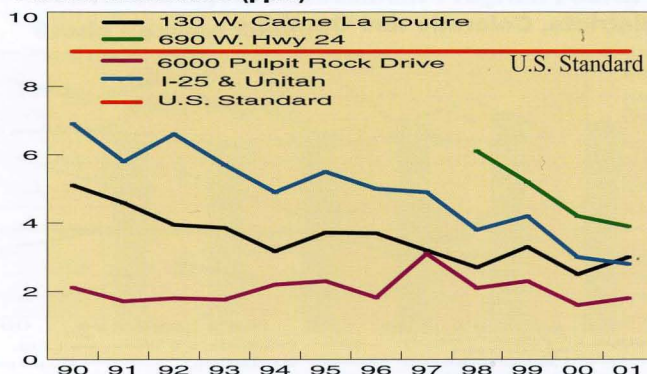
With a population over one-half million and an increasing demand for skilled labor, El Paso County needs quality public higher education institutions capable of meeting community needs. A well-trained and educated workforce is essential for economic growth. Enrollments are an indicator of the future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

HOW ARE WE DOING?

At CU-Colorado Springs, enrollments surpassed 6,800 in 2001-2002. Although census enrollment data for fall 2002 is unavailable, full-time equivalent enrollment is up 12 percent from year earlier figures. The campus reopened the newly renovated Main Hall in April 2002. This building serves as an administration and student success complex. The University Foundation completed the acquisition of "Cragwood" on the corner of Union and Austin Bluffs. This building will house Beth El School of Nursing, Mechanical Engineering, and Theatreworks. Work on Cragmor Hall was stopped in midstream due to state budget shortfalls. Plans have been halted on the Engineering and Applied Sciences expansion, renovation of the College of Business facilities in Dwire Hall, and plans for a new Science Building.

Pikes Peak Community College enrollments reached 9,972 students in 2001-2002. PPCC full-time equivalent enrollments are also up by 12 percent this year. General fund budget recisions at both institutions in each of the past two years hampers the ability of each to grow responsibly to meet the educational needs of the community.

Carbon Monoxide (ppm)



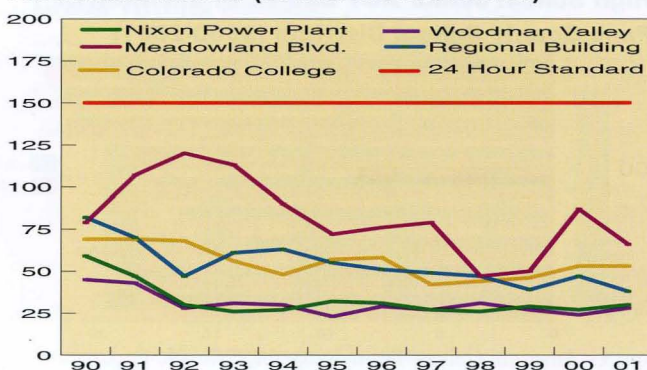
WHY IS THIS IMPORTANT?

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 of and opportunity to enjoy 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?

The Pikes Peak region has remained well below the U.S. standard for CO emissions since 1989. A recently completed survey by the Pikes Peak Area Council of Governments finds that 65 percent of the responding public rate air quality as good. Another 31 percent rate it as fair. However, 68 percent believe air quality will be worse in five years. Respondents in the survey reported that diesel and gasoline vehicles were the major sources of air pollution.

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 has remained well below the U.S. standard for the past decade.

WHY IS THIS IMPORTANT?

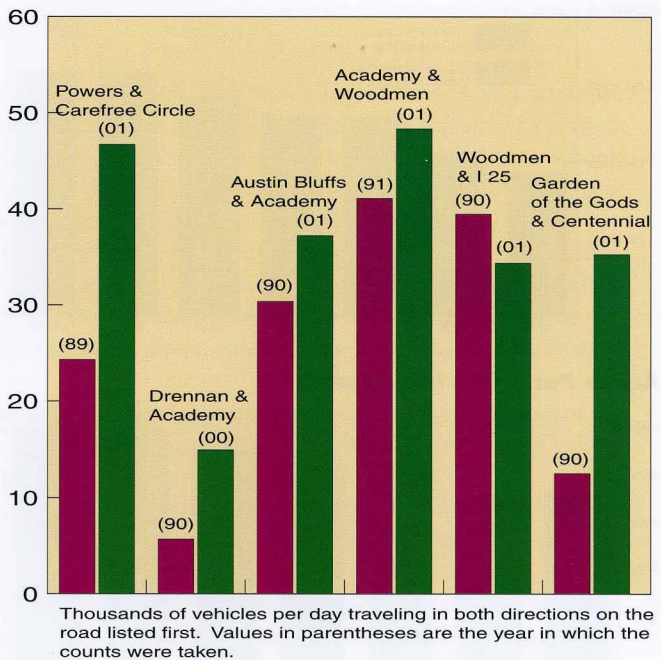
As the city grows, increased traffic leads to congestion, longer travel times, and more pollution. Roadway improvements will not necessarily improve the situation. Communities interested in quality of life and mobility will seek out other alternatives to relieve traffic congestion. These may include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

HOW ARE WE DOING?

Traffic flows 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 congested during the day leading to delays, accidents, pollution, and an overall decrease in the quality of life.

The backlog of surface street repair and improvement is worsened by a restricted city budget. This situation will be exacerbated this year if sales tax collections remain down. The I-25 road improvements continue, but it will be years before this project is completed. Community leaders have made some decisions on improving congestion based on the recently completed East-West mobility study. However, the length of time between a set of recommendations and implementation of plans appears a long way off due to a multitude of factors including neighborhood resistance, declines in city revenues, and the need for voter approval on bond funding for a number of projects. The state still envisions Powers Boulevard as the next freeway through the city. We question the wisdom of this plan and suggest that the eastern freeway should be located farther east where there is more room to build.

Traffic Flows Near Major Intersections in Colorado Springs



Source: City of Colorado Springs and Pikes Peak Area Council of Governments

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 the business climate as well as individual perceptions of the quality of life in the community.

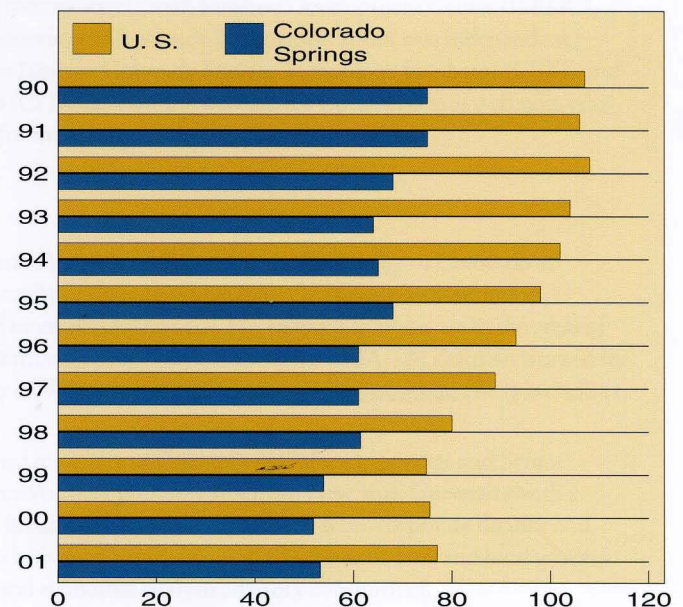
HOW ARE WE DOING?

Index crime in Colorado Springs increased 4.2 percent in 2001. Overall, the city remains well below the U. S. average for cities of its size. Violent crimes (murder, rape, robbery, and aggravated assault) also increased in 2001 from 4.8 to 5.2 violent crimes per 1,000 population. The violent crime rate remains below national levels for cities with populations between 250,000 - 499,999. Murders and burglary decreased in 2001. Rape, robbery, aggravated assault, larceny, and motor vehicle theft increased for 2001.

There were a total of 19,475 index crimes reported in 2001. The majority of the index crimes reported involve larceny/theft (68%), followed by burglary (16%), motor vehicle theft (7%), aggravated assault (6%), robbery (2.5%), forcible rape (1.3%), and homicide (.1%).

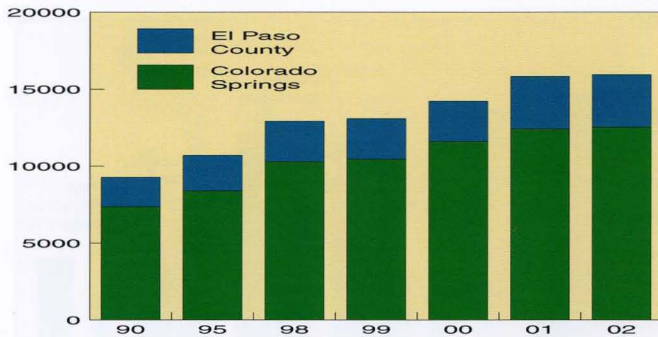
Calls for police service which provides a good measure of work load increased 1.3 percent this year to 189,829. Colorado Springs has 1.6 officers per 1,000 citizens compared to the national average of 2.5 for cities our size.

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

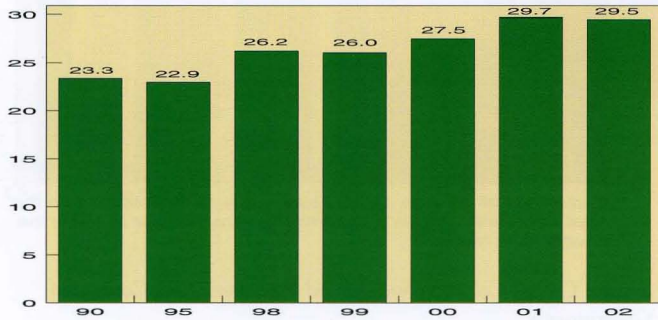


Sources: Colorado Springs Police Department; FBI

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 29.5 acres per 1,000 residents in 2002. Over the past year, the city and county combined added close to 1,600 acres to its stock of park land, open spaces, and trails.

Since the 0.1 percent Trails, Open Space, Parks sales tax was passed and implemented four years ago, the City of Colorado Springs has collected more than \$25.9 million or roughly \$5 million per year for trail construction, park construction, and open space acquisition. These funds have been leveraged with private donations and grants from other agencies to preserve additional open space.

The city hopes to have the TOPS sales tax extended until 2023 if approved on the April 2003 ballot. 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.

**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 was ranked in the top 25 nationally by US News and World Report in 2001. 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. 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 and doctoral qualified 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.

Connections at the College of Business and Administration

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 that the College and University offer to our regional partners. Once you enter the Connections portal you may navigate through the specialized Centers of the College of Business, seeking information about Extended Studies opportunities, or contact a variety of other offices including: Small Business Development Center (SBDC), International Small Business Development Center (ISBDC), 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: Colorado Springs Technology Incubator (CSTI) and Colorado Institute for Technology Transfer and Implementation (CITTI). Visit the web site for Connections at web.uccs.edu/business/ and click on Community Outreach, or call 262-3433 for more information.

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