

SOUTHERN
COLORADO
ECONOMIC
FORUM

TEN YEARS - 1996 - 2006

TENTH ANNUAL 2006-2007

SOUTHERN COLORADO ECONOMIC FORUM



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

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Welcome from the Chancellor

The University of Colorado at Colorado Springs is pleased to join with its business partners to present the tenth 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. The information provided at the forum is intended to provide insight to policy makers and to aid in making informed decisions about our region's future. The Forum provides a realistic and unbiased 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 and Administration for their data analysis and its presentation in this report. I also wish to thank our panel of experts for their contributions.

Additionally, I want to thank our sponsors for their continued support of this important link between university research and our community. Since its inception, UCCS has worked closely to align itself with the priorities of southern Colorado. The Southern Colorado Economic Forum is an example of our commitment to ensuring the future of our region.

Thank you for attending the 2006-2007 Southern Colorado Economic Forum. We wish you a productive and successful 2007.

Pamela Shockley-Zalabak, 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 is the preeminent forum in the region. Now in the tenth year, we continue the tradition of gathering, analyzing and explaining a complex set of indicators designed to guide your business decisions in the next year. The informative panels add to the value by discussing topics of current concern to the local business community.

The College of Business and Administration at UCCS could not accomplish this without the aid of our many business partners. The information content of the analysis has evolved and expanded as a direct result of feedback from the Forum partners. This is continued evidence that the futures of the University and local businesses are intimately intertwined. Our college has a special mandate to provide leading edge academic resources to our partners in the region. Our economic outreach efforts in education are supplemented with relevant research as disseminated through the Forum and our economic updates reported in the QUE.

Welcome to the tenth annual Southern Colorado Economic Forum. We hope you find the forum informative. Please take the time to thank those sponsors who have made this possible, and consider helping us make the Forum even more valuable in the years to come.

Venkat Reddy, Dean, College of Business and Administration

First Business Brokers, LTD.

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, CBI, M&AMI, Fellow of IBBA, the firm is one of Colorado's largest and most successful brokerage companies representing privately-owned businesses. First Business Brokers, Ltd., has completed over 800 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 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 transactions, and interfacing with accountants, attorneys and bankers during the closing process. To complement these activities, the firm provides 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.

Ron Chernak, First Business Brokers, Ltd. and Founding Partner of the Southern Colorado Economic Forum

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The 2006 – 2007 Southern Colorado Economic Forum

Introduction

This marks the tenth year for the Southern Colorado Economic Forum. Our goal remains the same. We provide businesses and other organizations in El Paso County with information to assess economic conditions in the region. The Forum's objective 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 strategic 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, tourism, sales and use taxes, utility activity and other economic information. The data are used to develop estimates of economic activity for the remainder of the year, as well as forecasts for next year. In addition, we examine several 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 attainment 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 region and help 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, quality-of-life, or educational status of our citizenry. Examined collectively, economic and quality-of-life indicators provide a picture of the region's economic health, the welfare and educational attainment of the people who live and work here, and the progress of business and organizations that operate here.

The Southern Colorado Economy

During 2005-2006, the El Paso County economy was influenced strongly by four local and national issues. Deployments from Fort Carson to Iraq, rising inflationary pressures, rising interest rates and an increase in foreclosures have all contributed to volatility in the local housing market.

At any given time, it seems that at least a third of the troops stationed at Fort Carson are deployed overseas. As a result, the boost community leaders from BRAC05 has yet to materialize.

The most recent information suggests we will not see significant troop allocations to Fort Carson until late 2007 to perhaps early 2008. While BRAC05 is expected to save \$44.4 billion in annual recurring costs, the current military commitments around the world appear to be slowing down the rate at which the resources can be realigned. The effect on our community is not so much a negative as it is a short term opportunity cost. The realignment benefits of BRAC05 are going to appear more slowly than first thought.

Inflation began to be felt in April 2004 when the annual rate of inflation, compared to April 2003, hit 2.29 percent. By itself, this is not a significant level. However, it marked the start of an upward trend in the general price level through June 2006. Compared to a year ago, the June 2006 rate of inflation was 4.33 percent. This is the highest level of inflation in the U.S. economy since July 1991.

A significant contributor to inflationary pressures is the rapid rise in prices of basic industrial commodities such as steel, copper, aluminum, cement and other similar items. Most of these increases took place in the last few years. For example, the Colorado Department of Transportation Construction Cost Index Report points out that basic construction costs dropped, on average, 4.5 percent per year from the first quarter of 2001 through the first quarter of 2003. It was at this point the economy began to show strong signs of growth. Construction material shortages began to appear and prices rose rapidly. From the first quarter of 2003 through the first quarter 2006, construction material costs have increased by an average of 23.7 percent per year. Construction materials include earthwork, concrete, asphalt and steel.

Part of the pressure on basic commodity prices came from overseas. The rest of the world saw significant economic growth, especially China. The increased global demand for these basic commodities increased prices materially.

The global demand for energy increased along with the strong demand for basic materials. Cumulative demand has outpaced supply since 2001 by an average of 4.2 million barrels of oil per day. The net effect has been a shortage of oil and a steady increase in its price. The most recent data from the Department of Energy indicates supply will exceed demand over the next few years, alleviating oil price pressures.

The upward inflation trend led the Federal Reserve to initiate a tightening of the money supply and raising interest rates. The Federal Reserve gradually raised its target Fed Funds rate by 0.25 percent in each of 17 consecutive meetings from June 2004 through June 2006. The Fed Funds rate now stands at

5.25 percent. The August 2006 Federal Reserve Open Market Committee meeting resulted in no change in the targeted Fed Funds rate. It announced that inflation appears to be slowing.

Part of the reason inflation appears to be slowing is the effect the Federal Reserve's money tightening policy has had on the economy. By decreasing the money supply, the Federal Reserve has made it a scarce resource. As long as the economy stays strong, the demand to borrow money will remain. The effect of this is interest rates will rise. Some borrowers will choose not to borrow in the face of higher interest rates. When this happens, the economy will begin to slow.

The primary money supply the Federal Reserve manages is M1. M1 is equal to currency in circulation, traveler's checks, demand deposits and other checkable deposits. Coming out of the 2001 recession the Federal Reserve increased real M1, net of inflation, by almost 7 percent from January 2002 to June 2004. By comparison, real M1 decreased approximately 2 percent from early 2004 to June 2006. The effect of this tighter policy has been to raise T-bill interest rates from 0.88 percent in January 2004 to 4.95 percent in July 2006. Virtually all consumer and business interest rates increased during this time period.

Two mortgage types that affect the housing market are fixed rate and adjustable rate mortgages. Once a homeowner has a fixed rate mortgage, the monthly mortgage payment remains constant. Fixed rates mortgages went from a low of approximately 5.25 percent in the spring of 2004 to the 6.75 percent range in August 2006. On a typical \$200,000 mortgage, this is approximately \$2,330 more in annual payments since the spring of 2004. This is a 17 percent higher mortgage payment than under a 5.25 percent mortgage. This might be enough to prevent some prospective home buyers from purchasing a home. Hence, a slow down in the housing and mortgage markets might be expected. In turn, this leads to a slower economy.

The interest rate on an adjustable rate mortgage (ARM) is changed periodically to reflect current interest rates in the market. On a typical 1 year ARM, the process involves adding approximately 2.5 percent to the one year Constant Maturity Index (CMI). On average the CMI was 1.2 percent in 2003. This would have translated to a one year ARM of 3.7 percent. If the anniversary date of the one year ARM was in July, the CMI was 5.2 percent. This would have produced a rate of interest on the existing one year ARM of 7.2 percent. On a \$200,000 interest only mortgage, payments would now be \$15,400 a year compared to \$7,400 a year in 2003. This is an increase in the mortgage payment of \$8,000 a year, or 108 percent in three years.

The latest evidence for El Paso County suggests variable rate mortgages made up approximately 45 percent of all mortgages in the last few years. The significant increase in the one year ARM is pricing some marginally qualified home buyers out of the market. In turn, this has contributed to a slower housing market.

El Paso County is currently seeing the highest number of foreclosures a year since the foreclosure nightmares of the late 1980's. Approximately 2,545 foreclosures are expected in 2006. Eventually, these foreclosed properties enter the resale market. As of August 2006, approximately 200 new foreclosures procedures are occurring each month. This is an abnormal increase in the supply of housing that is competing with new construction and resale of existing housing units. This helps to explain the slow down in new residential construction and the softer resale market in 2006.

For various reasons, the housing market has been under stress for several years. Rising costs in basic materials used to construct a home have pushed up the price of a home. Energy costs to transport materials used in the building process have added to the cost. Mortgage rates have gone up enough to discourage some prospective home buyers from purchasing a home. Significant foreclosure numbers have added to the supply of housing stock. Troops at Fort Carson are reluctant to make a home purchase because they either expect to be deployed or are likely to move to a different post as part of BRAC05. The collective impact has slowed the housing market significantly in 2006.

Employment/Unemployment

The El Paso County employment figures from the Quarterly Census of Employment and Wages, formerly known as ES202, increased by 1.7 percent or 4,087 jobs in 2005. This strong growth followed the more modest growth of 1.2 percent or 3,194 jobs in 2004. This is the second consecutive year of positive job growth for El Paso County after three consecutive years of declines from 2001 to 2003.

The largest employment gains were professional and technical services (1,478 jobs), construction (933 jobs), finance and insurance (673 jobs), health care (605 jobs), administrative and waste services (550 jobs), transportation and wholesale (409 jobs), accommodations (384 jobs) and local government (370 jobs).

Job loss trends that began in 2001 continued in manufacturing and information processing. Manufacturing lost 1,542 jobs at an average wage of \$49,868. Information processing lost 895 jobs at an average annual pay of \$55,068.

Introduction

Unemployment rates continued their downward trend, albeit at a slower rate. The average unemployment rate in El Paso County fell to 5.4 percent in 2005 compared to 5.6 percent in 2004. Unemployment rates are expected to be 5.1 percent in 2006 and 4.9 percent in 2007.

The average unemployment rate in Colorado was 5.0 percent in 2005 versus 5.7 percent in 2004. Unemployment rates in Colorado are expected to be 4.7 percent in 2006 and 4.5 percent in 2007.

Two factors stand out about employment patterns in El Paso County when they are compared to Colorado. First, the labor force and employment growth grew significantly faster for El Paso County. Second, the number of firms in El Paso County also grew at a noticeably faster rate than in Colorado. Most of the new firm growth is in the professional/technical areas. This is a good area to experience growth since professional and technical services tend to be more stable compared to manufacturing and information processing. Moreover, the average wages in this economic sector are quite high.

2004 to 2005 Changes Colorado El Paso County

Labor Force Growth ¹	1.02%	2.42%
Employment Growth ¹	1.61%	3.19%
Unemployment Growth ¹	-10.07%	-8.00%
Unemployment Rate ¹	5.00%	5.60%
Total Wages Growth ²	5.50%	4.37%
Average Wage Growth ²	3.23%	2.56%
Number of Firms ²	3.97%	4.13%

Reductions in the unemployment rate have been occurring systematically since May 2003. Additional gains in employment are expected in El Paso County as the economy continues to strengthen with additional job growth in professional service, health care and defense contracting. Significant gains in construction employment are not expected in 2007. Most large scale commercial and road projects should be completed in 2007. Only a few large projects are anticipated at this time.

On average, the monthly labor force in El Paso County was estimated to be 286,984 in 2005, an increase 8,445 (3%) over the 2004 labor force of 278,539. Total employment based on the Quarterly Census of Employment and Wages (QCEW) averaged 239,786 in 2005, an increase of 4,087 over 2004.

Preliminary June 2006 figures from the Colorado Department of Labor put the El Paso County labor force at 301,015, com-

pared to 290,905 in June 2005. The labor force increase reflects a large increase in the participation rate among those aged 16 plus and a stronger economy with people returning to work.

Wages and Income

The average wage in El Paso County increased in 2005 and stood at \$37,492, an increase of \$936 or 2.6 percent over 2004. This follows a 3.3 percent increase in 2004 and a 2.1 percent increase in 2003. By comparison, the average wage in Colorado was \$41,600 in 2005 compared to \$40,300 in 2004. This is an increase of \$1,300 or 3.13 percent. This is a marked improvement over the 2.1 percent increase in 2003 and 0.9 percent in 2002.

El Paso County remains well below the State average wage. The figures for 2005 indicate the average wage in El Paso County is 9.9 percent below the average wage in Colorado. According to Bankrate, Inc. the cost of living in El Paso County is approximately 5.5 percent lower than Denver. Assigning the State average figures to the Denver market, the data suggests workers in El Paso County have a 4.4 percent lower standard of living than Denver, and the balance of Colorado. Some of this is attributed to the loss of manufacturing and technology jobs over the last five years.

Nineteen of the twenty NAICS two digit classifications had wage increases in 2005. Manufacturing was the only sector that had a decline, a modest -0.52 percent. Significant wage gains were realized in Management of Companies, 13.9 percent; Performing Arts, 11.7 percent; Mining, 9.9 percent; and Information, 8.73 percent.

Retail and Wholesale Trade

Retail trade sales in Colorado were up 8.2 percent in 2005 compared to an 8.4 percent increase in 2004. Adjusting for population growth and inflation, real retail sales grew 4.5 percent in 2005 compared to 7.0 percent in 2004. Retail trade sales in El Paso County increased 6.6 percent in 2005 compared to a much stronger 10.1 percent in 2004. After adjusting for inflation and population growth in El Paso County, real retail trade sales increased 2.0 percent in 2005 compared to 9.1 percent in 2004.

The Forum has repeatedly pointed out that growth in retail activity in El Paso County will follow the growing number of rooftops beyond the Colorado Springs city limits. Evidence supporting this trend began in 2004 and continued in 2005. Colorado Springs' market share of new home construction has been declining steadily from 70-75 percent in the late 1990's to

1 The Household Survey, U.S. Department of Labor.

2 The Employer Survey, U.S. Department of Labor

approximately a 40-45 percent market share of new single family construction in 2005. Retailers have followed the new rooftops to the suburbs. In 2000, 90.2 percent of all retail sales were inside of Colorado Springs. By 2005, the City of Colorado Springs captured 87.9 percent of all retail sales in El Paso County. Alternatively stated, had the City maintained its proportional share of retail sales, it would have had \$272 million more in retail sales in 2005 than were generated within the City limits.

Wholesale trade in Colorado increased 10.8 percent in 2005 compared to 14.4 percent in 2004. Both were very strong years for Colorado. Wholesale trade in El Paso County declined 8.1 percent in 2005 compared to a 21.9 percent gain in 2004. It appears the loss of manufacturing firms in El Paso County had an effect on wholesale trade activity in 2005.

The Forum expected to see a slower local economy in 2005. Retail and wholesale trade activities support the observation that the value of economic output in the local economy did slow down during 2005. Some of the slowness in wholesale is attributed to the loss of over 10,000 jobs that occurred in manufacturing and telecommunications since 2001. The recent slowdown in retail trade is most likely the result of the decline of automobile sales in the face of rising gasoline prices and the near constant deployment of one third to one half of the troops at Fort Carson.

Housing Construction and Commercial Activity

New, single family, detached residential construction continued its record setting trend with 5,314 new building permits taken out in 2005, a 5 percent increase over the 5,060 units permitted in 2004. The average single family permit value set another new record at \$148,996 in 2005, compared to \$141,029 in 2004 and \$132,443 in 2003.

Town home construction also set a record with 931 new permits in 2005. This was up 217 units from the previous record of 714 set in 2004. Permit values for town homes declined by \$6,914 to \$116,922 in 2005, a reversal in the upward trend of recent years. The average town home permit value in 2004 was \$123,836.

Multifamily permit activity declined 27 percent from the levels in 2004 to 527 units. The decline was expected and reflects investor reluctance to get into a market that averaged approximately 11.2% vacancy during 2005. Average rents were also soft at \$603 per month.

Commercial construction in 2005 was boosted by a significant amount of construction at Memorial Hospital. In total,

Memorial Hospital took out building permits for \$126,521,000. This represented 40.9 percent of the \$309,368,000 amount for all commercial permits in 2005. Between 2004 and 2005, Memorial Hospital was responsible for approximately one third of all commercial permits in El Paso County.

This year it appears to be Centura Health's turn to build. As of July 31, 2006, commercial permit activity totaled \$187,224,120. St. Francis Hospital took out \$57,430,080 of this amount or 31 percent.

The University of Colorado at Colorado Springs is undergoing another phase of construction projects that is expected to total approximately \$73,000,000. Dwire Hall is currently undergoing a \$10 million renovation. Ground is being broken for a new, student approved, recreation center. Construction will begin soon on a science/engineering addition. Commercial projects worth an additional \$75,000,000 are expected for the remainder of the year pushing total commercial permit value to an estimated \$337,000,000 in 2006.

Commercial construction is expected to decrease in 2007 for two reasons. First, an anticipated slow down in the economy is expected to decrease commercial construction activity in 2007. Second, construction costs have risen dramatically. Retrofitting of suitable existing structures could reduce new commercial construction. Commercial construction is expected to be \$250,000,000 in 2007.

Central business district (CBD) office vacancies declined to 7.7 percent in 2005 compared to 7.8 percent in 2004. Leasing plus absorption totaled 123,677 square feet, typical of an average year's performance. Class "A" office space vacancies in the central business district declined to 7.9 percent in 2005. Vacancies are down 6.9 points since 2001. Metro office market vacancy rates decreased to 8.7 percent in 2005 from 9.6 percent in 2004.

Despite the general lowering of vacancy rates among all classes of office space, leasing rates declined in 2005 except for the metro market which increased slightly to \$10.29 from \$10.07 in 2004, Triple Net (NNN).³

Industrial vacancies decreased to 8.8 percent in 2005. This is a significant drop from 10.9 percent in 2004. Leasing and absorption totaled almost 2,000,000 square feet. Leasing plus absorption for 2006 should exceed 2,000,000 square feet. Rents remained relatively constant at \$6.80 in 2005 compared to \$6.84 in 2004.

³ Triple Net refers to a lease in which the tenant is responsible for taxes, insurance, utilities and maintenance.

Introduction

As of June 2006, it appears industrial rents have increased materially. Industrial rents are currently averaging \$7.05 per square foot. They are expected to remain strong for the balance of this year and are likely to average about \$7.10 in 2006. At the same time, there are signs of a slowing in business activity. Rents in the beginning of 2007 are expected to stay strong but show signs of weakening toward the end of the year. On average, rents for 2007 are expected to remain comparable to the rents in 2006.

Aggregate shopping center lease rates increased 1.49 percent in 2005 to \$12.96, NNN. Vacancy rates declined again in 2005 to 7.3 percent. Large facilities are either completed or under construction in Monument, Falcon, Fountain and along Powers Boulevard and Woodmen. Despite the extensive commercial construction in these high residential growth corridors, it appears to be marginally capable of keeping up with demand. Leasing plus absorption totaled 1,554,328 in 2005. This is an increase of 811,051 square feet, or a 109 percent increase in activity during 2005.

Shopping center commercial activity in 2006 shows no sign of letting up. Leasing plus absorption should be close to 1,400,000 square feet. Rents are currently running at \$13.14 per square foot, while vacancies declined to 6.9 percent. Commercial activity trends are expected to carry over into the middle of 2007 before they pause with the expected slowing in the economy.

BRAC05 and the Military Community

All indications are that BRAC05 will not have its expected impact on the El Paso County region until 2008 and into 2009. Ongoing deployments of troops and the later than expected arrival of troops from Fort Hood have muted some of the growth that was anticipated in the local economy this year. At any given point, the Forum estimates there are approximately 4,000 troops on deployment, training or leave that would otherwise have been in the community during the last few years.

The Forum conducted an Input/Output analysis to determine the impact of not having 4,000 troops in the community. Selected findings are shown below.

Category	Lost Business
Food Services	\$4,000,000
Vehicle repairs and parts	\$4,000,000
Real estate rentals	\$7,000,000
Sales tax	\$5,000,000
Single Family Housing	\$18,000,000

The aggregate annual income that was not generated in El Paso County was estimated to be \$371,000,000. Approximately 3,222 local resident services jobs were not realized.

The Forum continues to project significant economic benefits to the community when the number of troops at Fort Carson is increased as part of BRAC05. When the full realignments take place, El Paso county should expect to see an annual increase in income of approximately \$1.1 billion. An additional 8,800 local resident service jobs are expected.

The Forum has no additional information about the military to change its original projected economic benefits to the community. The projections reported last year have been reprinted below. Initial announcements indicated the region could expect the following changes to take place as a result of base realignments.

	Military	Civilian	Other	Total
Fort Carson	+11,760	+199	0	+11,959
Peterson AFB	+482	-8	+36	+510
Schriever AFB	+44	+51	0	+95
USAFA	-30	-9	-1	-40
Total	+12,256	+233	+35	+12,524

The figures represent the BRAC05 announcements including the troops previously stationed in South Korea. The positive announcements of last year combine to an increase of 12,524 new military related jobs in the community.

Ongoing activities at Peterson and Schriever indicate approximately 500 more military/civilian positions will be created at these bases. Collectively, the announcements indicate we can expect approximately 13,000 more "military jobs" in El Paso County.

Based on Census 2000 data, we can expect that the 13,000 military related jobs will have the following impact on the El Paso County population.

Military	13,000
Spouses	6,500
Children	15,600
Total population change	35,100

Approximately 50 percent of all Fort Carson troops and families who live off base live in zip codes 80906, 80817 and 80911. Given income levels, land availability and access to the bases, the new troops and their families living off base will tend to live in Fountain (80817), Security/Widefield (80911), Drennan Road corridor (80916), Powers and Marksheffel corridors (80915 and 80922) and Falcon/Peyton (80831).

Introduction

Allowing for an additional 10,000 troops and their dependents arriving at Fort Carson, the Forum's best estimate of the business sectors that can expect the most job creation include:

Business Sector	New Jobs	Total Wages	Average Wages
Food services/restaurants	637	9,406,220	14,766
State & Local Education	311	13,145,486	42,268
State & Local Non-Education	278	12,918,246	46,469
Physician & Dentist offices	278	15,080,135	54,245
Real estate	176	1,659,166	9,427
General merchandise stores	162	3,743,082	23,105
Nonstore retailers	156	865,478	5,548
Nursing & care facilities	155	4,660,263	30,066
Auto repair/maintenance	151	3,818,239	25,286
Wholesale trade	145	7,241,272	49,940
Food/beverage store	136	4,362,327	32,076
Computer programming svcs	126	9,006,198	71,478
Computer systems design svcs	123	7,679,676	62,436
Employment services	121	2,974,917	24,586
Private households	120	514,180	4,285
Social assistance	117	2,473,422	21,140
Motor vehicles & parts	110	5,303,614	48,215
Architects & engineers svcs	107	6,279,927	58,691
Hospitals	107	4,703,947	43,962
Building svcs	104	1,838,342	17,676
Banks & credit unions	98	4,085,650	41,690
Miscellaneous retailers	92	1,257,358	13,667
Child day care services	88	1,169,831	13,294
Clothing stores	74	1,283,232	17,341
Research & development svcs	73	5,794,079	79,371
Total for top 25 sectors	4,045	131,264,288	

The top twenty-five sectors are expected to generate 4,045 jobs from the additional Fort Carson troops and their families. This represents 50 percent of the total 8,055 local resident services jobs that are expected to be created among all business sectors.

Aggregate income is expected to be \$326,456,000 each year in 2006 dollars. The top twenty-five sectors are expected to have an additional annual payroll of \$131,264,288. The top twenty-five employment sectors will provide 40 percent of all new income expected from the increased troop levels.

The types of businesses that are expected to benefit most from the new military arrivals and the probable areas of residences are known with reasonable confidence. Local businesses must determine if they are in the correct location to be able to serve the needs of the soon to arrive military and their families.

While El Paso County did hit the BRAC05 lottery, it will have to wait a little longer to see the benefits of the arrival of the extra troops at Fort Carson, the latest information suggests 2007-2008.

Where is the Southern Colorado Economy Headed in 2006?

The El Paso County economy underwent a structural change in its employment base over the last several years. The Quarterly Census of Employment and Wages (QCEW) reports we have lost 12,077 jobs in manufacturing and telecommunications since 2001. Despite the recovery in the economy since 2001, we have 308 jobs fewer than we did in 2001. Employment in the private sector is down 3,565 since 2001. Public sector employment grew by 3,257 jobs.

The government sector can be a basic industry that provides stable growth to the local economy. TABOR permits this to equal the rate of growth in local property values plus the rate of inflation. However, we are not likely to see significant growth in State Government employment positions. Most of the growth in government employment is coming from the school districts. While teaching jobs are valuable in the community, they are not considered to be basic jobs that generate employment multipliers.

A further examination of the QCEW data indicates there were 1,907 more firms in El Paso County in 2005 than there were in 2004. More importantly, there were 1,429 more small firms in 2005 than in 2004. Small firm growth represented 75 percent of all employer firm growth in 2005. A small firm is defined as a non-government business that has fewer employees than the average number of employees for all private sector businesses in El Paso County. In 2005, the average number of employees in private sector businesses in El Paso County was 12.06.

Employment among small firms grew by 6,743 positions since 2001. By comparison, employment among large firms declined by 10,308 jobs since 2001. The greatest growth among small firms took place among professional and technical services with 466 new firms and 1,503 new positions. The average annual wages among professional services workers is \$65,416. Ambulatory health care demonstrated strong growth during the 2001 to 2005 period with 150 more firms, 1,147 more positions and an average annual income of \$49,088. The real estate sector grew by 264 more firms, 562 more positions and an average annual salary of \$29,588.

It seems clear that El Paso County's employment mix is moving away from large employers and toward smaller firms. Literature on economic base diversification points out this tends to

Introduction

produce a more stable economic base. The weighted average income level among small firm employees was calculated for industries that disclosed the data. Small firm incomes averaged \$44,394 in 2005 compared to \$37,492 among all firms.

Our local economy appears to be heading toward an employment base comprised of more small firms and fewer large firms. Is this a good direction? Economic base diversification literature suggests an economy that has more small firms in its economic base tends to have lower unemployment rates than an economy dominated by a few large employers.

The Forum examined the relationship between El Paso County's degree of economic diversification with Colorado's. Comparisons were made with the number of firms, number of employees and the wages by two digit NAICS code for 2001 through 2005. The principle economic diversification measure used in this analysis was the Herfindahl-Hirschman Index (HHI). HHI has a range of 0 to 100 where 0 represents maximum diversification and 100 represents no diversification in which a single employer is the only source of jobs and income. An HHI value less than 10 is considered to represent good diversification. The results of the comparison are presented below:

Economic Base Component	El Paso County		Colorado	
	2001	2005	2001	2005
Number of Firms	8.87	9.00	8.42	8.48
Number of Employees	8.80	9.02	8.07	8.26
Total Wages	9.58	9.73	8.11	8.16

The HHI calculations indicate that Colorado's economic base is more diversified than El Paso County's. This is expected since the Colorado economy is more than twelve times the size of the El Paso County's. The numbers do indicate that both economies are reasonably well diversified, even after the rebalancing that appears to have occurred since the 2001 recession.

A further test of the movement toward diversification was conducted between Colorado and El Paso County. The ranks for change in the number of firms, employees and wages were calculated for Colorado and El Paso County. The HHI value for these changes was then correlated with HHI values for 2005. This was done separately for Colorado and El Paso County. This provides a relative measure of how the economies are moving towards or away from a diversified economic base. Low correlation values indicate more movement toward a diversified economic base. The results of the analysis are:

	Colorado	El Paso County
Firms	.6968	.1889
Employees	.8088	.6276
Wages	.8847	.6698

In all cases, the correlation coefficient is lower in El Paso County

than in Colorado. This is especially noticeable for the number of firms. Employment base pattern growth in El Paso County appears to be moving towards a more diversified economy than in Colorado.

The results support the projections that the economic base in El Paso County is likely to weather the next economic downturn better than it did in 2001-2003. The local economy is less dependent on a few large employers. The increased share of the economy represented by small firms should lend stability to the economy, especially as these firms mature. The addition of the new troops at Fort Carson in the next 15 to 24 months is also expected to have a stabilizing effect on the economy at a point in time when the statistical likelihood of a national recession becomes a real possibility. Caution should be exercised about having too much of a dependence on the military to help drive our local economy. Economic development policy makers are aware of this and are seeking to attract firms that represent a good cross section of the economy. A new mix of employers further diversifies the economic base and will help to stabilize the economy.

Acknowledgments

A special thank you goes to our valuable partners who provide generous financial support and guidance in producing the Southern Colorado Economic Forum. Many thanks again to our partners.

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This year marks the tenth anniversary of the Southern Colorado Economic Forum. We wish to extend a special thanks this year to Ron Chernak of First Business Brokers, LTD., for ten years of continuous and unwavering support of the Forum, the College of Business and the University.

We also want to thank Fittje Brothers Printing Company, La Plata Investments, LLC, ADD STAFF, Inc., BiggsKofford Certified Public Accountants, Van Gilder Insurance Corporation, Colorado Springs Utilities, Drexel Heritage of Colorado Springs, Ent Federal Credit Union, The Gazette and The Mail Room for five or more years of continued support.

This year also marks the joint effort between the Forum and Holland & Hart's annual Business Symposium. This new partnership could not have been done without the support of Wendy Pifher of Holland & Hart. We look forward to many years of successful collaboration with Holland & Hart. We also wish to thank Jenny Kummer and Bernard Wooten of Holland & Hart for their marketing and web design support.

Finally, thanks to our dedicated Forum research assistants David Banks and Adam Saffer for their efforts in helping us to prepare for this year's Forum. We wish all of our partners and other supporters a successful 2007.

Thomas J. Zwirlein, Ph.D.
Professor of Finance and Faculty Director of the Southern Colorado Economic Forum

Fred Crowley, Ph.D.
Associate Director and Senior Economist for the Southern Colorado Economic Forum

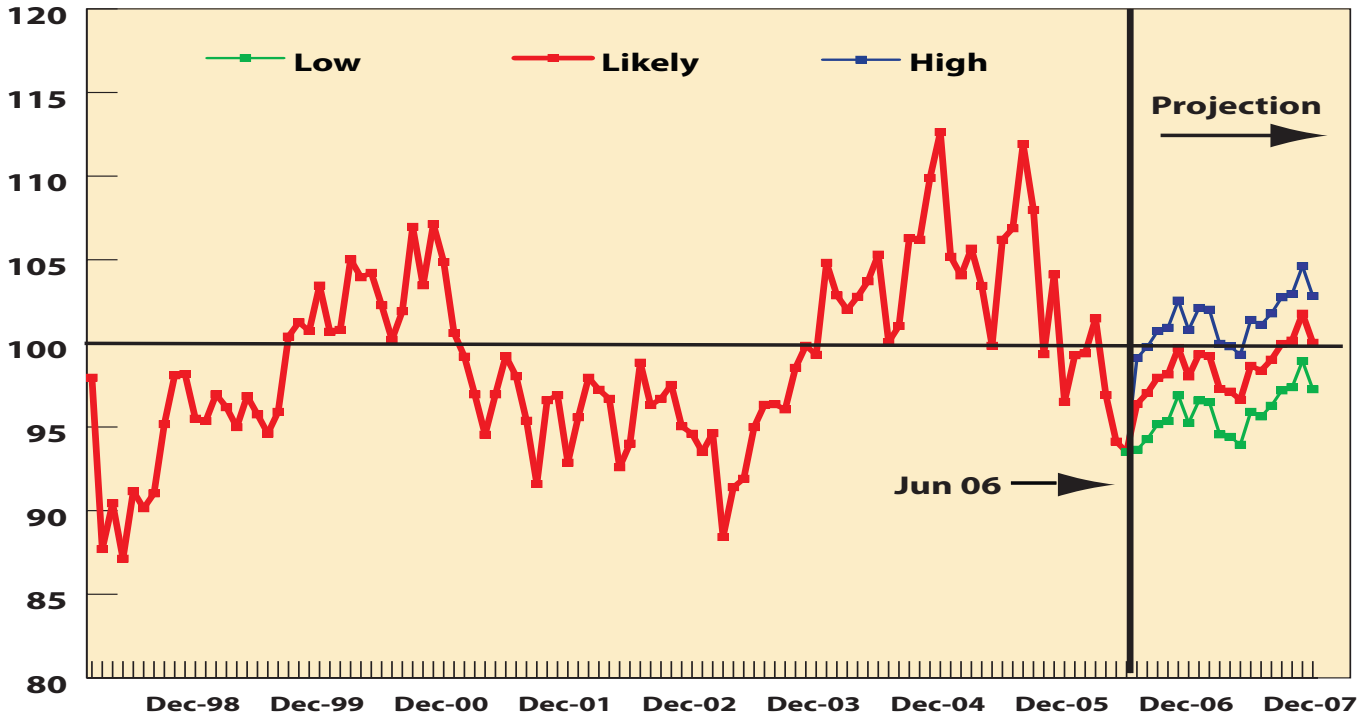
Forecast Summary

		Actual, Estimated and Forecast Percent Change in Key Economic Indicators for the U.S., Colorado and El Paso County								
		United States			Colorado			El Paso County		
		2005	2006	2007	2005	2006	2007	2005	2006	2007
		Actual	Estimate	Forecast	Actual	Estimate	Forecast	Actual	Estimate	Forecast
1	Population	0.9	0.9	0.9	1.4	1.4	1.6	1.9	1.9	1.9
2	Unemployment Rate*	5.1	4.7	4.8	5.0	4.7	4.5	5.4	5.1	4.9
3	GDP/GSP	3.5	3.4	2.8	4.2	5.7	5.1	-	-	-
4	Industrial Production	3.2	4.4	3.5	-	-	-	-	-	-
5	Non-Agricultural Employment	1.5	1.4	1.1	2.1	2.1	2.3	1.7	2.2	1.8
6	Total Wages and Salaries	-	-	-	7.0	6.1	6.2	4.4	5.5	5.1
7	Average Wage and Salaries	-	-	-	5.5	4.0	3.9	2.6	3.2	3.2
8	Consumer Price Index (CPI)	3.4	3.3	2.6	2.1	2.5	2.5	-	-	-
9	Personal Income	5.5	5.8	4.7	6.5	6.3	6.6	5.8	5.6	5.9
10	Per Capita Personal Income	4.5	4.8	3.8	5.1	4.8	4.9	4.6	4.3	4.4
11	Retail Trade	-	-	-	4.9	5.5	5.9	6.2	6.9	6.5
12	Housing Permits	6.3	-4.7	-15.2	-0.2	-3.0	-2.3	8.2	-25.0	-1.1
13	Non-Residential Construction	-	-	-	8.7	9.1	0.8	39.1	-1.4	-21.6

Source: Colorado Office of Budgeting and Planning, June 2006 Revenue Forecast, Federal Reserve Bank of Philadelphia, Bureau of Economic Analysis and the Southern Colorado Economic Forum.

Business Conditions Index

Business Conditions Index: March 2001 = 100 (BCI)



	COS Enplane-ments	El Paso SF & TH Permits	U Of Mich Con Sent	Creighton CO PMI	El Paso Employment Rate	Colorado Springs 2% Sales & Use Tax	El Paso Car Sales	El Paso Fore-closures	El Paso Employed	El Paso Income	BCI
Jan-06	88.69	103.19	97.74	163.61	98.36	102.56	78.18	80.21	105.68	95.16	99.29
Feb-06	90.83	94.48	95.72	168.73	98.73	105.26	86.68	72.92	107.37	96.29	99.40
Mar-06	90.73	91.74	96.09	194.52	98.78	107.62	92.58	72.92	107.78	96.40	101.49
Apr-06	89.70	79.53	96.15	142.47	98.88	105.39	78.23	87.50	108.05	97.01	96.91
May-06	91.22	83.08	90.17	138.95	98.73	106.66	101.24	51.04	108.01	97.90	94.13
Jun-06	90.05	69.55	89.73	141.60	98.71	106.45	87.80	65.63	108.71	97.56	93.51

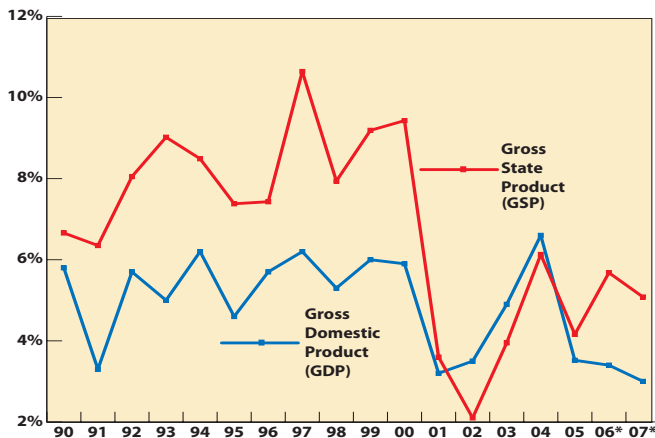
WHY IS THIS IMPORTANT?

An aggregate trend of the local economy is extremely useful in gauging whether the economy is expanding, contracting or remaining stable. Rather than replace individual measures of activity such as housing or retail sales, the aggregate index should be compared to the individual indicators within the index to identify leading, lagging and roughly coincident indicators to facilitate business planning at the local level. The Business Conditions Index (BCI) for El Paso County was developed for this purpose. The BCI and its component indicators are seasonally adjusted so that true trends can be identified as opposed to potential misleading spikes in monthly data.

HOW ARE WE DOING?

The BCI hit a record high of 112.63 in December 2004. Since then, the BCI declined erratically to its level of 93.51 in June 2006. Much of the decline can be attributed to a lack of consumer sentiment, rising interest rates, near record foreclosure levels, declining single family residential permits, slower car sales and concerns over oil prices. The decline in the BCI reflects significant downward pressures on the local economy. Aggregate strengthening in the El Paso County economy is expected towards the end of the year as residential builders complete their inventory adjustments, and future oil price increases are more modest. The BCI is expected to average 98 in 2006 and decline slightly to an average of 97 in 2007. Thus, the BCI will remain below the March 2001 reference period.

Gross Domestic Product (GDP) and Gross State Product (GSP) Growth



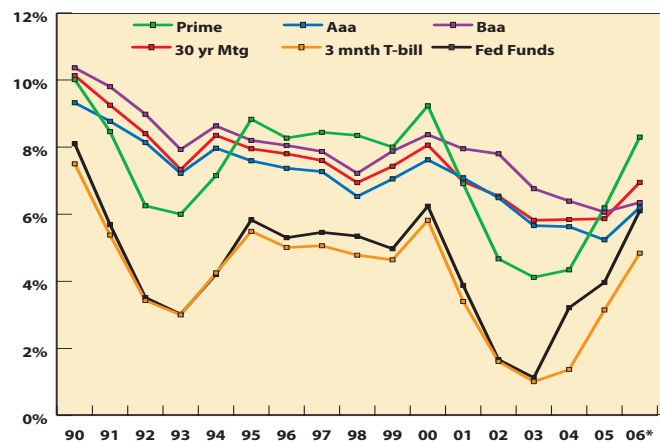
WHY ARE THESE IMPORTANT?

The indicators on this page are predominately state and national in scope. Gross domestic product (GDP) measures the output of goods and services produced by labor and property located in the United States. The Bureau of Economic Analysis also measures gross state product (GSP) which is a state equivalent measure of GDP.

Interest rates represent the cost of financing and the reward on investments. Low interest rates encourage borrowing and discourage investment (unless the investment is associated with borrowing for appreciable assets such as borrowing to purchase a home).

Personal income measures the total income received by individuals, before taxes and not adjusted for inflation. Per capita personal income reflects individual wealth creation and is a good indicator of the area's wealth.

Key Interest Rates

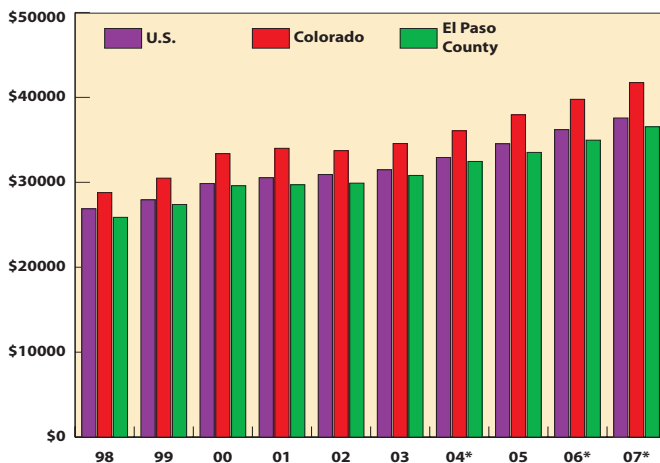


HOW ARE WE DOING?

Real GDP grew a healthy 3.5 percent in 2005. Real GDP grew at an annualized rate of 2.5 percent in the second quarter, after increasing 5.6 percent in the first quarter of 2006. As projected last year, the Colorado GSP grew at a faster rate than the national economy. This also reverses a three year trend, during which, Colorado's GSP grew at a slower rate than the GDP. GSP growth is expected to be approximately 60 percent higher than GDP growth in 2006 and 2007.

Interest rates were driven to historic lows through the middle of 2004 to prime the pump of economic recovery. Along with the low interest rate fueled economy, some hints of inflation began to appear. The combination prompted a Fed policy change to raise interest rates beginning in June 2004. Current indicators suggest that future interest rate increases will only be announced if inflationary pressures exist. Significant interest rate increases are not expected in the near future.

Per Capita Personal Income



Per capita income growth continued its upward trend in the U.S. and Colorado during 2005. Preliminary estimates for 2005 indicate per capita income was \$35,535 for the U.S., a 4.5% increase, and \$37,946 for Colorado, a 5.1% increase.

Projected per capita income for Colorado is expected to rise to \$39,773 in 2006 and \$41,735 in 2007. A historical comparison puts Colorado per capita income at 12.4 percent above the U.S. figure in 2005 compared to being just 8.6 percent higher than U.S. per capita income in 1990. Per capita income in Colorado is growing at a faster rate than it is in the U.S.

El Paso County per capita personal income remains well below both the U.S. and Colorado averages. Per capita income in El Paso County is estimated at \$33,521 in 2005. Per capita income in El Paso County has drifted downward compared to Colorado's figure. In 1990, El Paso County per capita income was 10.7 percent below Colorado's average. By 2005, El Paso County's per capita income was 11.7 percent or \$4,424 below Colorado's. El Paso County appears to be falling further behind Colorado's per capita income figures. Projected per capita income is expected to increase 4.3 percent to \$34,996 in 2006 and 4.4 percent to \$36,634 in 2007.

* Office of State Planning and Budgeting and SCEF forecasts
Sources: Bureau of Economic Analysis, Colorado Economic Perspective, Office of State Planning and Budgeting.

WHY IS THIS IMPORTANT?

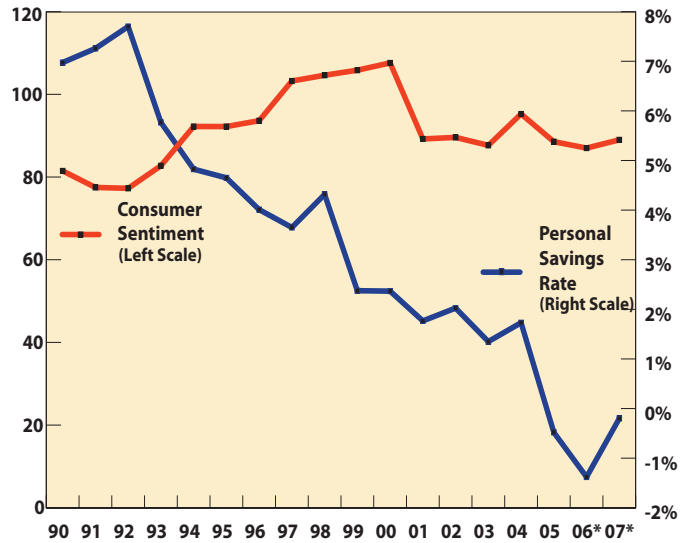
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of the consumer's confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer sentiment measures confidence using 1996-97 as the base year (1996-97=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 and peaked again in May 2002. Consumer sentiment dropped for the next twelve months until May 2003 and then began to recover once again. Consumer sentiment ended at 91.5 in 2005, down from 97.1 in 2004. Rising interest rates and gasoline prices eroded consumer confidence further through July 2006 where it now stands at 84.7. Modest improvements to 87 for all of 2006 and 89 for 2007 are expected as inflation and energy price increases are expected to slow.

Personal savings trended down through 2001, rose during 2002 and then declined again in 2003. The slow economy and lack of consumer confidence normally push people into saving more and consuming less. This has not happened. Personal savings as a percent of disposable income is currently at -1.5 percent. The Forum expects the personal savings rate to edge up by the end of this year to -1.4 percent and -0.2 percent in 2007.

Consumer Sentiment and Personal Savings Rate



* SCEF forecast

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

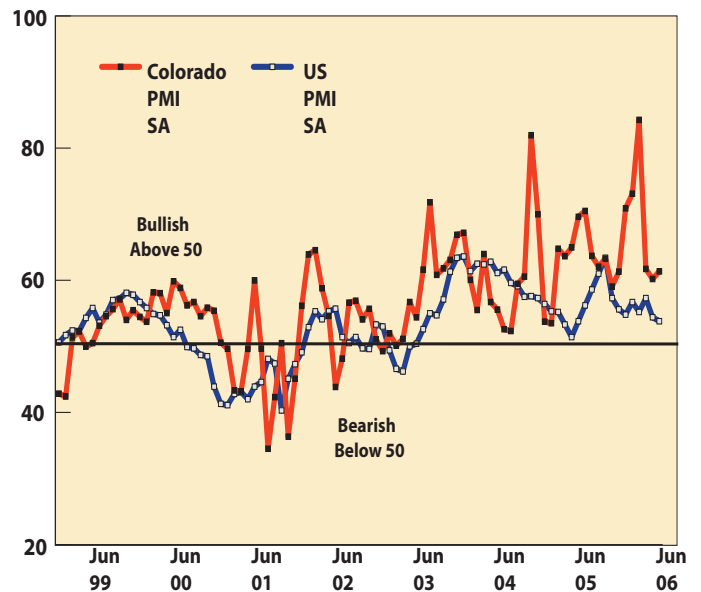
WHY IS THIS IMPORTANT?

The Purchasing Managers Index (PMI) is a leading economic indicator. PMI measures expectations in business activity in raw materials and finished goods, employment and pricing of 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?

Both the Colorado and national PMI have remained in bullish territory since late 2002 and early 2003. The Colorado PMI has demonstrated great volatility over the years and is currently moving up more strongly than the national PMI. Through June 2006, the seasonally adjusted values are 61.4 for Colorado and 53.8 for the U.S.. While both values are considered bullish, both measures have moved sideways to slightly down. This is consistent with the recent expectations of a slowing GDP. The respective U.S. and Colorado PMI's should remain relatively stable in 2007 unless interest rates resume their upward trend to combat inflationary expectations, consumer sentiment drops in 2007, or both.

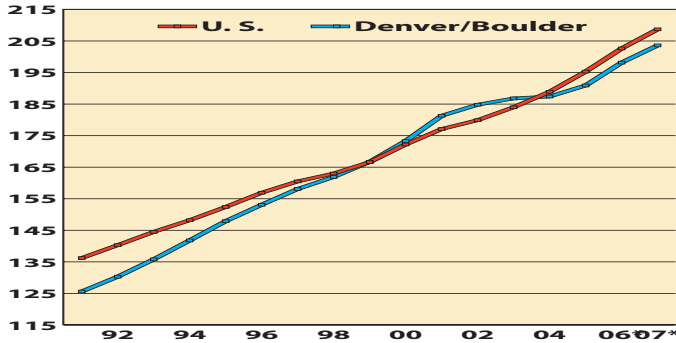
Purchasing Managers Index



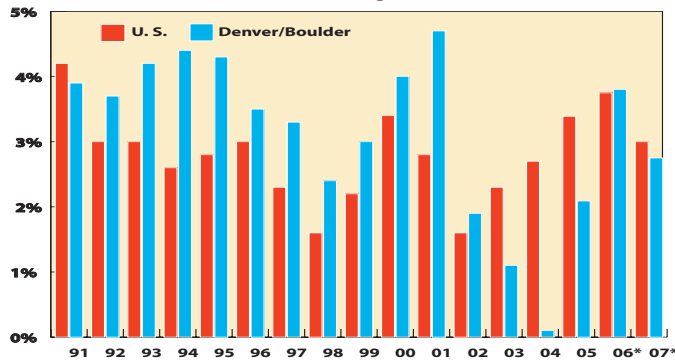
Sources: Institute of Supply Management and Creighton University

CPI and Population

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



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



* SCEF forecast

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

WHY IS THIS IMPORTANT?

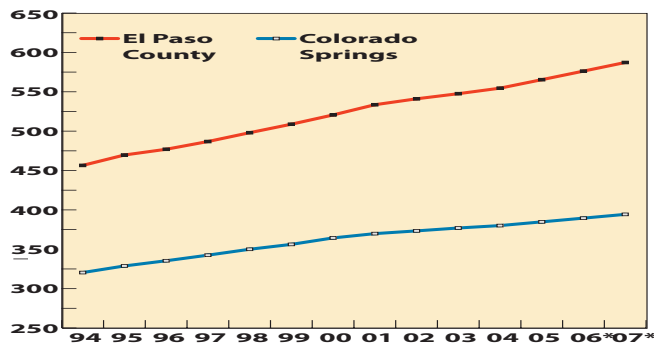
The consumer price index (CPI) measures the average price change (inflation) for a basket of goods and services selected by the U.S. Department of Labor, Bureau of Labor Statistics. The CPI measures the period-to-period loss of purchasing power of a dollar caused by rising prices. The CPI is often used 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?

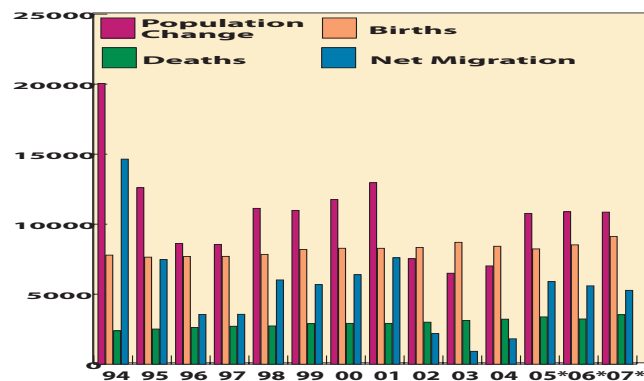
The Denver/Boulder/Greeley CPI rose 2.1 percent in 2005 after rising 0.1 percent in 2004. The U.S. urban CPI rose 3.4 percent in 2005 after increasing 2.7 percent in 2004. Through June 2006, consumer price increases in the Denver/Boulder/Greeley area remain moderate with the exception of energy (up 15.4 percent) and nondurable goods such as clothing (up 11.3 percent). Excluding energy, the Denver CPI rose a more modest 2.8 percent from June 2005 to June 2006. Energy costs are not expected to increase as quickly in 2007. This should contribute to a slowing in the rate of inflation to a projected 2.5 percent in 2007. Medical costs are expected to rise at a 6.0 percent annual rate.

The Office of State Planning and Budgeting (OSPB) expects consumer prices in Colorado to rise 2.5 percent for all of 2006 and 2007, slightly lower than the Forum's estimates. OSPB forecasts U.S. inflation will be 3.0 percent in 2006 and 2.2 percent in 2007. The Forum projects U.S. inflation will be 3.3 and 3.0 percent for 2006 and 2007, respectively.

Colorado Springs and El Paso County Population (000s)



Births, Deaths and Migration in El Paso County



* Colorado Department of Local Affairs and SCEF estimates

Sources: Colorado Department of Local Affairs, Colorado Department of Health and Environment.

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 the future. Population estimates are used for planning and evaluation, state revenue sharing, and distribution of projects and money by public and private agencies.

Population growth comes from the natural increase (births minus deaths) and from net in-migration (or out-migration). The sum of these components is the change 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?

From 1990 to the 2000 census, Colorado's population grew at an average annual 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 Affairs (DOLA) estimates El Paso County's population at 576,240 in 2006. Forum estimates, based on the number of households and average household size, indicate that the county population may be underestimated by 10,000 residents.

The natural increase in the population (births minus deaths) remains relatively stable, growing by roughly 5,500 per year. The in-migration trends are much less stable. In the early to mid-nineties, in-migration accounted for 60-70 percent of the total population change. That percentage is now estimated to be about 50 percent of the annual population change by state demographers. The most recent information indicates the full effect of the new troops at Fort Carson will not be realized until late 2007 into 2008. At that time, the region will see a significant population increase.

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 high quality, well paid job opportunities. A diversified employment base is better able to withstand eventual economic downturns.

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 about how well the region provides jobs for its work force.

HOW ARE WE DOING?

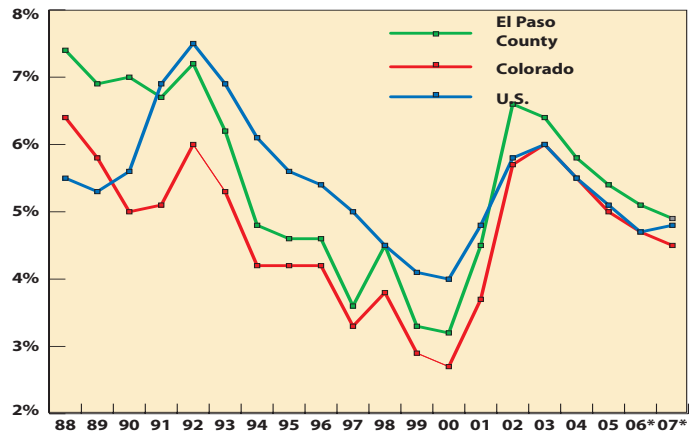
The preliminary June 2006 unemployment rate in El Paso County stood at 5.1 percent. Colorado's unemployment rate is 4.7 percent while the U.S. rate is 4.6 percent. All three rates are approximately 0.5 percent lower than last year at the same time which is evidence of an improved economy. The Colorado Office of Budget and Planning estimates that unemployment will be 4.7 percent in Colorado for all of 2006 and drop to 4.5 percent in 2007. The Forum estimates El Paso County unemployment at 5.1 percent for 2006 and a modest improvement to 4.9 percent for 2007.

The employment picture improved in El Paso County last year. Over the course of 2005, the Colorado Department of Labor reported an increase of 4,087 jobs. Average annual Quarterly Census of Employment Wages (QCEW) employment was 239,786, or 1.7 percent above 2004. This compares favorably to the 1.4 percent job gain in 2004. The June 2006 civilian employment figures, based on the QCEW, are up 2.5 percent compared to year earlier figures. We are seeing gains in professional and business services, local government education, construction, leisure and hospitality. Losses are occurring in information/telecommunications and manufacturing. The mix of job gains suggests future strength with an employment base moving toward smaller firms, especially in the well paid professional technical services sector.

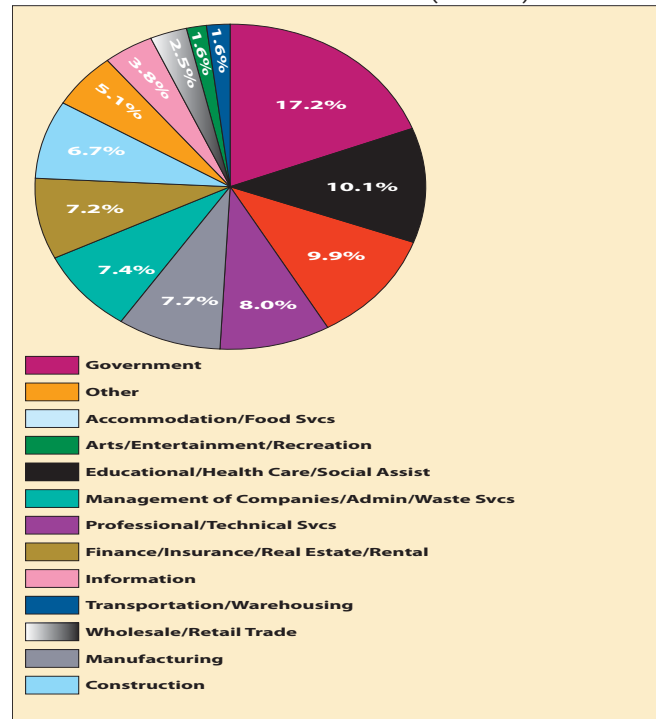
As the employment picture improved, so did wages. Average wages in El Paso County increased 2.6 percent to \$37,492 in 2005. Manufacturing was the only sector that saw an average wage decreases in 2005. Some of the larger average wage gains were in management services (13.9%), utilities (9.9%), information (8.7%), mining (7.6%) and the arts (5.6%).

Average wages increased in all of Colorado by 3.2 percent from \$40,300 in 2004 to \$41,600 in 2005. Comparing Colorado's average wage to El Paso County's, implies a wage gap of \$4,108. As with the last several years, the average wage gap between Colorado and Colorado Springs continued to grow.

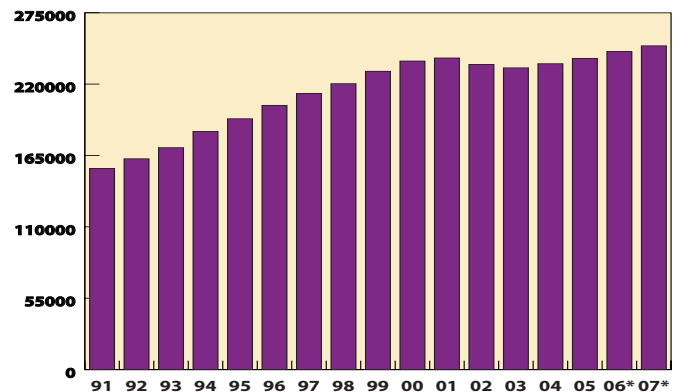
The Unemployment Rate in El Paso County, Colorado, and the U.S.



2005 Employment in El Paso County by North American Industrial Classification (NAICS)



Total QCEW Employment in El Paso County



* Through June 2006 and estimate for 2007

Sources: U.S. Department of Labor; Colorado Department of Labor and Employment

El Paso County Average Annual Employment and Wages by NAICS Classification in 2004 and 2005

NAICS ¹	Industry	2004			2005		
		Employment	Percent of Total Employment	Average Annual Wage	Employment	Percent of Total Employment	Average Annual Wage
11	Agriculture, Forestry, Fishing & Hunting	323	0.1	\$22,100	302	0.1	\$22,308
21	Mining	143	0.1	\$89,232	188	0.1	\$96,044
22	Utilities ²	566	0.2	\$77,480	559	0.2	\$85,176
23	Construction	15,177	6.4	\$38,584	16,110	6.7	\$39,676
31	Manufacturing	19,893	8.4	\$50,128	18,351	7.7	\$49,868
42	Wholesale trade	5,957	2.5	\$46,384	6,086	2.5	\$47,060
44	Retail trade	28,375	12.0	\$24,596	28,507	11.9	\$24,648
48	Transportation & warehousing	3,371	1.4	\$31,512	3,780	1.6	\$32,604
51	Information	9,881	4.2	\$50,648	8,986	3.7	\$55,068
52	Finance & insurance	12,061	5.1	\$42,484	12,734	5.3	\$43,732
53	Real estate, rental & leasing	4,336	1.8	\$27,612	4,538	1.9	\$28,600
54	Professional and technical services	17,739	7.5	\$64,532	19,217	8.0	\$65,416
55	Management of companies and enterprises	899	0.4	\$59,696	851	0.4	\$67,964
56	Administrative and waste services	16,394	7.0	\$28,964	16,944	7.1	\$30,056
61	Educational services	3,419	1.5	\$28,704	3,669	1.5	\$29,744
62	Health care and social assistance	19,881	8.4	\$36,608	20,486	8.5	\$37,648
71	Arts, entertainment & recreation	3,732	1.6	\$16,796	3,797	1.6	\$17,680
72	Accommodation and food services	23,416	9.9	\$13,520	23,790	9.9	\$13,832
81	Other services- except public administration	9,741	4.1	\$30,004	9,677	4.0	\$30,732
99	Non-classifiable	15	0.0	\$23,140	12	0.0	\$24,648
	Government	40,381	17.1	\$39,208	41,206	17.2	\$40,664
	Total of All Industries	235,700	100.0	\$36,556	239,790	100.0	\$37,492

¹For information on NAICS, see www.census.gov/epcd/www/naics.html

²Does not include Colorado Springs Utilities

Source: Colorado Department of Labor ES202

WHY IS THIS IMPORTANT?

Wages and benefits represent a significant cost to any business. These two indicators show the total increase in wages and benefits indexed to 2001 (2001 = 100). Both indexes in this chart are based on national figures.

The Cost of Business Index (COBI) is compiled by the Southern Colorado Economic Forum. This index combines four local factors: 1) average wages, 2) electric prices, 3) rents and 4) property tax levies and a national benefit figure into a geometric index. The index is equally weighted and has a value of 100 in 2001 (2001 = 100). This index captures the average annual increase in the major cost elements of most businesses. The final chart on this page shows the average annual change in the individual items in the cost of business index. Together these indicators provide a relative measure of business costs and cost changes over time.

HOW ARE WE DOING?

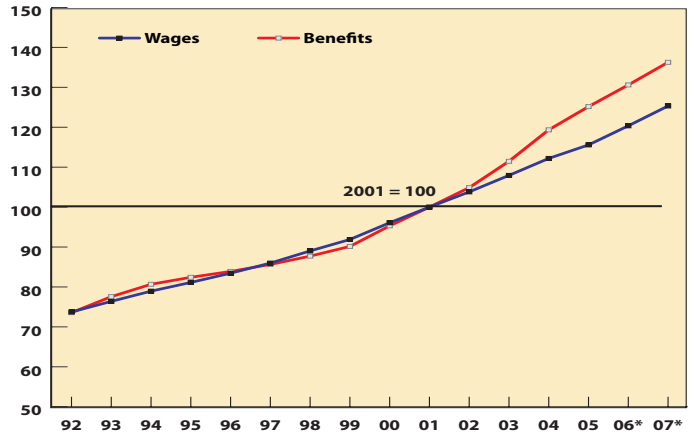
The national wage index (top chart) increased steadily over time and stood at 115.6 by the end of 2005. The national benefit cost index rose more rapidly and stood at 125.2 at the end of 2005. Nationally, wages have increased a modest 3.7 percent since 2001. Benefits have increased 5.7 percent a year since 2001. Wages are expected to increase nationally by 3.2 percent next year while benefit costs will increase 7.1 percent in 2006.

The base year for the COBI is set at 100 in 2001 (2001 = 100). The index stood at 113.6 at the end of 2005 meaning the average cost of business is 13.6 percent higher in 2005 than in 2001. The COBI has increased at a 3.5 percent compound annual rate since 1992. The Forum forecasts that the cost of business index will increase 3.9 percent this year to 118 and 3.8 percent in 2007 to 122.5.

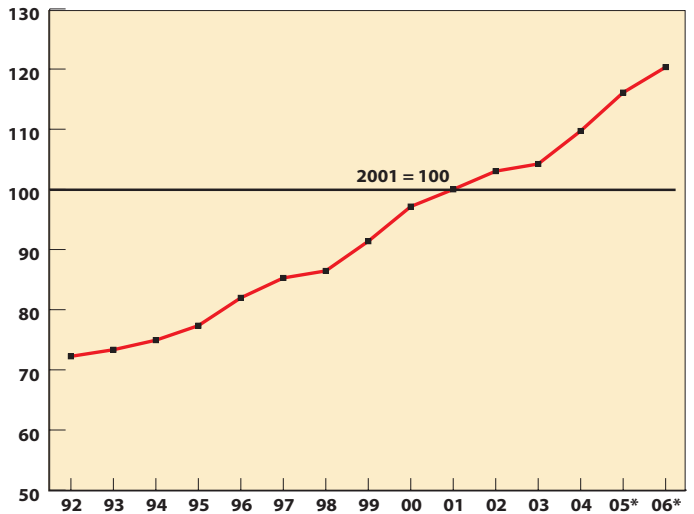
The final chart on this page provides the average annual percentage increase in the individual components in the COBI since 1992 and their respective increases in 2005 compared to 2004. With the exception of property taxes, all costs of business that the Forum monitors were below their historical averages in 2005. The components and their change in cost in 2005 compared to 2004 were: electricity 1.0 percent; wages 3.0 percent; benefits 4.9 percent; property taxes 5.5 percent. Rents decreased -1.5 percent in 2005. The property tax change is based on total property taxes collected. It is not a change for a specific property.

The Forum expects that benefit costs will increase at a higher rate than general inflation. There will also be more pressure on electric rates in the coming years due to higher costs associated with purchasing coal and natural gas. Electric rates are expected to increase 3 to 4 percent in 2006. Rents are expected to increase approximately 1.5 percent in 2006 but will remain below 2001 levels. Given the amount of commercial construction in 2005 and 2006, property taxes are expected to increase by 3 to 4 percent. Benefits will likely go up by close to 5 percent. Wages are not expected to increase much with the softening economy.

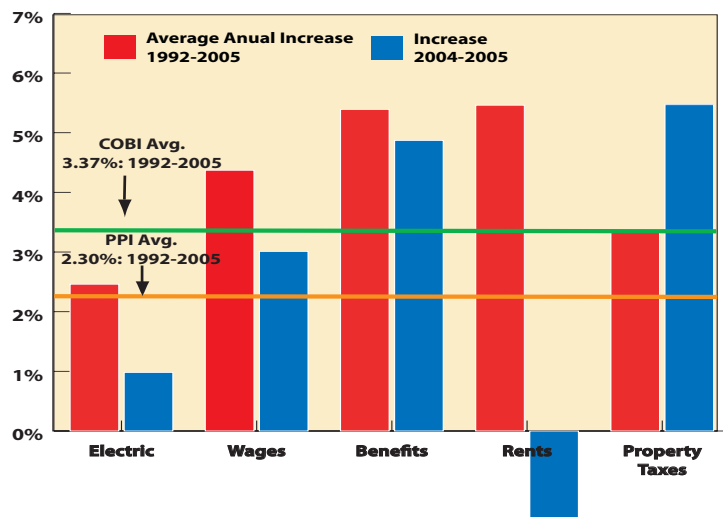
Wage and Benefit Cost Index U.S. Average



Cost of Business Index for El Paso County (2001 = 100)



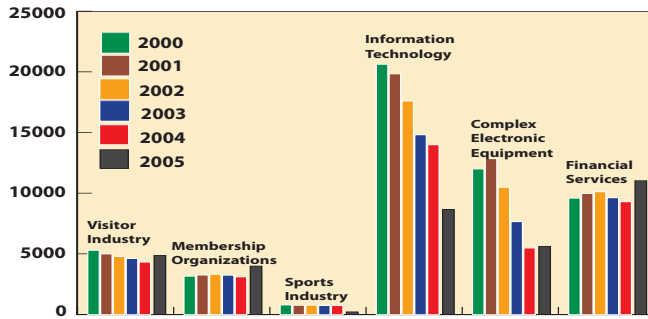
Percent Change in Individual Items in the Cost of Business Index for El Paso County



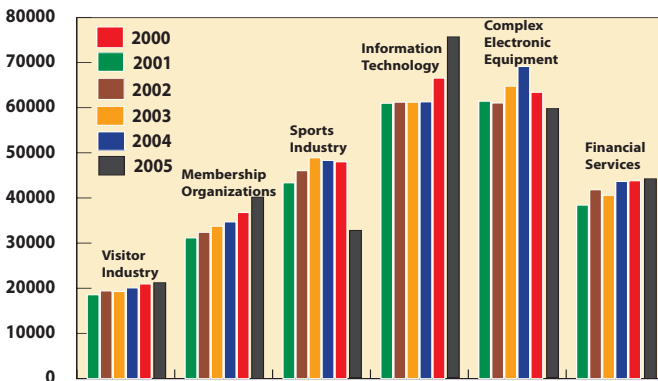
* SCEF forecast
Source: Federal Reserve Bank of St. Louis, SCEF

Key Employers

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?

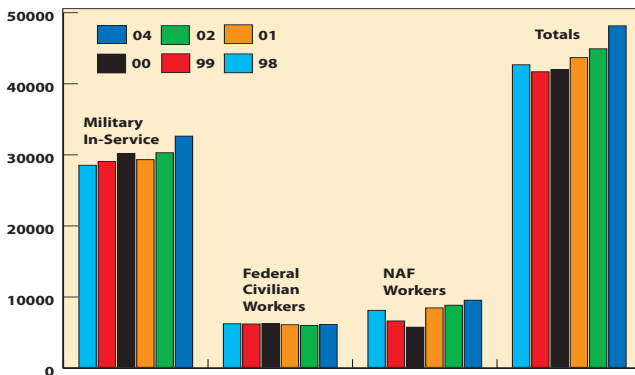
The Economic Development Corporation has identified key industry clusters as targets for economic development. The clusters group industries that complement each other and generate income and wealth for the community by exporting goods and services out of the region. Employment, growth and wages derived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

HOW ARE WE DOING?

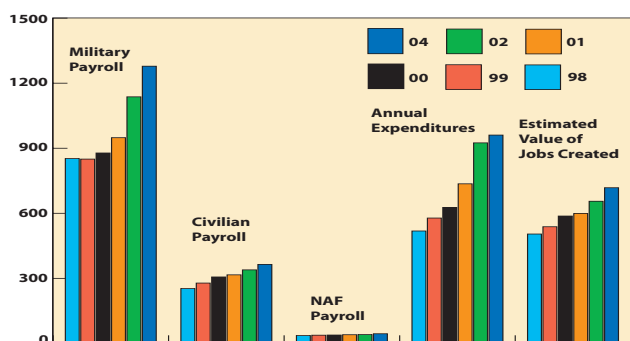
There continues to be a decline in the total number of employees in the cluster industries. In 2005, the clusters accounted for 14.3 percent of the wage and salary employment in El Paso County. This figure is down from 15.7 percent of the wage and salary employment in 2004. The largest losses occurred in information technology (5,341 jobs). This large loss is partially explained by the reclassification of one firm in this cluster. Disclosure restrictions preclude a detailed analysis. The remaining employment changes were not significant. A greater concern is that cluster industry employment declined by 17,313 jobs from 51,616 in 2001 to 34,303 in 2005 (-33.5%).

The clusters account for approximately 19.4 percent of the total QCEW wages and salaries in the county in 2005, down from 22.3 percent of wages in 2004. Weighted average wages in the cluster industries decreased \$1,316 in 2005 to \$52,133. By comparison, average wages for all industries in El Paso County were \$37,492 in 2005. Average wages were \$75,473 for information technology, \$59,590 for complex electronic equipment and \$44,245 in the financial services cluster.

Military Employment in El Paso County



Military Expenditures (\$ millions)



Sources: Various Military Establishments; EDC and Chamber of Commerce

WHY IS THIS IMPORTANT?

The military has been an important contributor to the local economy since World War II. Even though the local economy has diversified 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 44,821 in 2002 to 48,050 in 2004, or 7.2 percent. More troops are on the way. BRAC05 and the redeployment of troops from Korea to Fort Carson is expected to have a positive impact on the economy over the next several years. The series of positive announcements from the military establishment last year will ultimately result in an increase of 12,520 new military related jobs in the community.

Total military employment at the present time represents approximately 20 percent of El Paso County employment. The military's impact on the economy had declined in the late 1990's as other economic sectors increased employment. The expected growth in military employment in the county over the next several years will reverse this trend. This sector will provide a valuable stabilizing effect on the economy.

Payroll to military and civilian employees topped \$1.69 billion in 2004. Annual expenditures by military establishment in Colorado Springs totaled \$960.8 million. The individual military installations use a number of multipliers to estimate the dollar value of indirect jobs created by the military presence in Colorado Springs. This amounted to \$719.1 million in 2004. Thus, the total estimated impact of the military in El Paso County from all sources was \$3.4 billion in 2004.

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 tourism indicator.

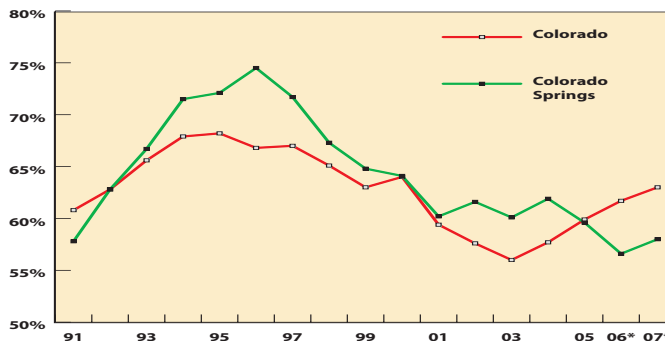
HOW ARE WE DOING?

Each year, about 6 million people visit the Pikes Peak area. These visitors generate over \$1 billion in travel-related revenue. The Colorado Springs Convention and Visitors Bureau reports that there are approximately 14,000 hotel and motel rooms available in Colorado Springs. Single room rates range from \$20 to \$300. Many of the new rooms are in economy-priced facilities in the \$65 to \$80 range.

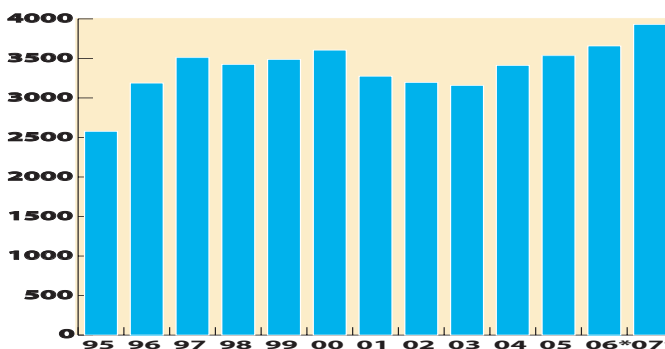
Average annual hotel occupancy rates decreased from 1996 through 2005 because of a decline in the number of visitors and the construction of new hotel/motel rooms through July 2004. As of July 2006, the number of hotel room nights actually decrease by 19,082 or 11.2 percent. In 2005, the average hotel occupancy rate in Colorado Springs was 59.6 percent, compared to 61.9 percent in 2004. The average room rate for Colorado Springs was \$88.34 for level I and \$61.63 for level II rooms, for an increase of approximately 7.4 percent in 2005.

Lodger and auto rental tax (LART) collections were up 3.7 percent in 2005 due to higher room rates and vehicle rental fees. The Forum expects LART collections to be up 3.5 percent in 2006. Statewide tourism advertising may offset slowing economic growth in 2007. LART collections are expected to be up 5 percent in 2007.

Hotel Occupancy Rates



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



* SCEF forecast

Source: Pikes Peak Convention and Visitors Bureau; City of Colorado Springs Finance Department, Sales Tax Division

WHY IS THIS IMPORTANT?

Air service contributes to the quality of life and the economic prosperity of southern Colorado. Air service has a profound impact on the local economy, particularly air-dependent industries. Companies need convenient 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.

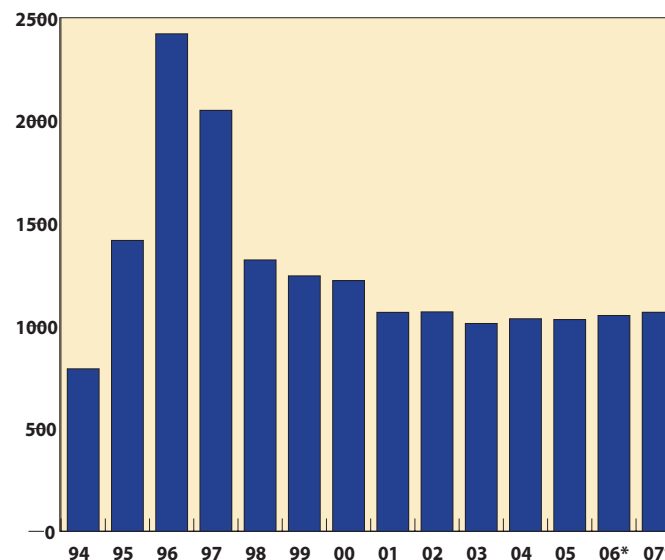
HOW ARE WE DOING?

Enplanement activity at the Colorado Springs Airport was 1,030,833 in 2005, a decline of 0.4 percent from 1,034,747 enplanements in 2004. This was projected to happen last year, given the sharp increase in fuel and the decline in operations at the airport. Through June 2006, enplanements are 501,859 compared to 488,838 enplanements through June 2005, an increase of 2.7 percent. Despite the increase in enplanements through June 2006, enplanement activity at the airport is 15.5 percent below levels in 2000. U.S. enplanement activity is up 3.4 percent since 2000.

The number of passengers per departure has also declined. In 2005, there were an average of 54.2 passengers per departure compared to 69.8 passengers per departure in 2000, a result of the air carriers' use of smaller regional jets.

Despite disappointing statistics about the airport, activity is picking up slowly due to improved business activity and select tourism venues. Fort Carson troops returning from a deployment has also contributed to increased enplanements in 2006. Small enplanement increases of approximately 1.5 to 2 percent are expected in 2006 and 2007, provided competition from DIA does not siphon more passengers from the Colorado Springs market.

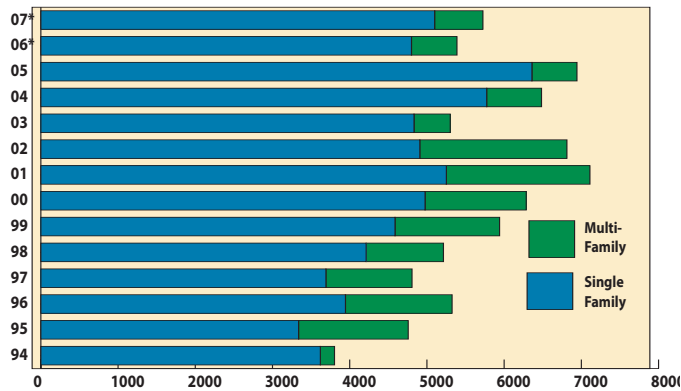
Colorado Springs Airport Enplanements (000s)



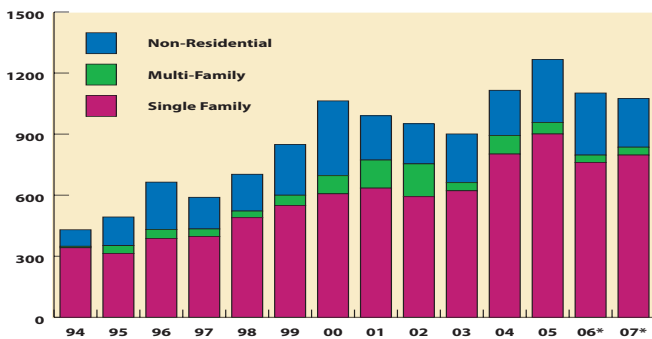
* SCEF forecast

Source: Colorado Springs Airport

Residential Building Permits (Dwelling Units)



Value of Construction (\$ millions)



* SCEF forecast

Source: Pikes Peak Regional Building

WHY IS THIS IMPORTANT?

Growing communities like Colorado Springs continually add to the housing stock in order to meet the needs of new residents. With a desirable location, Colorado Springs and El Paso County will continue to grow. Adequate and affordable housing must be available to accommodate the growth.

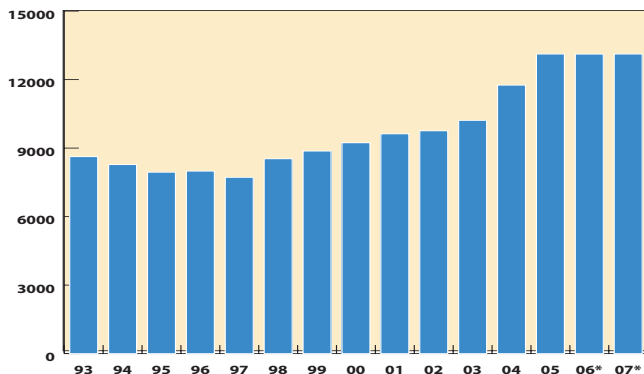
HOW ARE WE DOING?

Due in large part to aggressive interest only and variable rate mortgage programs in 2005, single family and town home construction totaled 6,245 units in 2005 for an 8.2 percent increase over 2004. We underestimated the strength in this market by 115 units in 2005. Multifamily construction was close to expected with 521 new units in 2005, 69 percent of which were co-ops.

Through July 2006, 2,961 single family and town homes were permitted. This is 25.6 percent behind last year's pace. At this rate, the Forum forecasts 4,750 single family units will be built this year. Single family permits are projected to be approximately 4,700 units in 2007. Sustained vacancy rates in the 10 percent range, the lack of Fort Hood's troop realignment under BRAC05 and a slowing economy suggest there will be 300 multifamily units permitted in 2006. The Forum projects 325 new multifamily housing units in 2007.

Due mostly to projects at Memorial Hospital, commercial construction hit \$309.4 million in 2005. Several large projects are underway in 2006. Commercial construction is expected to be \$305 million. The general slowing of the economy, a decline in single family construction and a lack of large public projects on the horizon point to a drop in commercial construction to \$225 million in 2007.

El Paso County Home Sales



WHY IS THIS IMPORTANT?

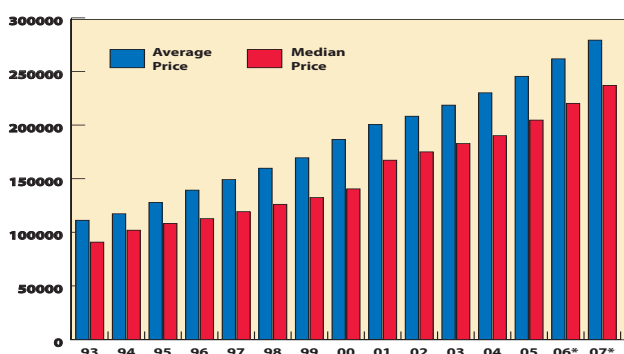
Home sales are an indicator of vitality in the local real estate market. An unusual drop in annual home sales could indicate a problem in one or more economic sectors.

Home values are one of the indicators of the wealth of the community. Home owners want to see an increase in the value of one of largest assets in an individual's portfolio. Home valuations form the basis of local residential property taxes. Property taxes, in turn, are used to support public schools in the area.

HOW ARE WE DOING?

A record 13,118 home sales were reported by the Pikes Peak Association of Realtors in 2005, an 11.6 percent increase over 2004. The residential real estate market is showing signs of weakness. This was expected along with a rise in mortgage rates and a slowing in the economy. At its current trend, home sales will be close to 13,100 in 2006. Similar home sales are expected in 2007.

Mean and Median Price of Homes



From 1993 to 2005, the average yearly price appreciation of a home in the area was 7 percent while the median price appreciated 5.5 percent per year. From July 2005 to July 2006, the price growth was very similar. The average price of a home in the region stood at \$268,289 in July 2006, an increase of 7.1 percent. The median home price in July was \$224,500, a 5.5 percent increase over July 2005.

Currently, the ratio of active homes to sales is approximately 20 percent above the recent historical average for July. If this continues, the price of a home is not expected to increase by more than 3 to 4 percent in the next 12 months.

Source: Pikes Peak Association of Realtors

WHY IS THIS IMPORTANT?

The downside of the housing market is when a foreclosure occurs. Foreclosures are normally used by economists as a lagging indicator, since they tend to peak just about the time an economic recovery occurs.

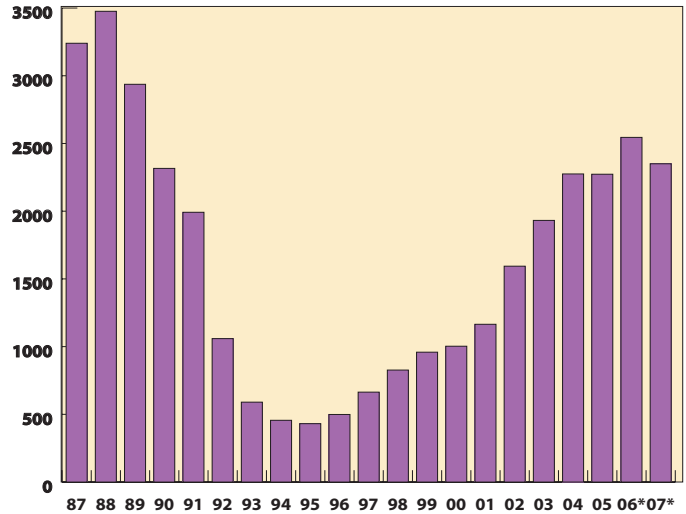
HOW ARE WE DOING?

Foreclosures plateaued at 2,273 in El Paso County in 2005. Regrettably, foreclosures have resumed their upward trend in 2006. The Forum projects there will be 2,545 foreclosures this year. A slight decline to 2,350 is projected for 2007.

Two problems seem to have affected foreclosures. First, T-bill rates have increased from 0.9 percent in 2003 to 4.9 percent in July 2006. Variable rate mortgages are tied to the T-bill rate. Second, energy prices rose significantly. Between these two inelastic consumption items, the Forum estimates it could cost a household on a variable rate mortgage and two cars over \$7,000 more in household operating expenses a year.

Provided interest rates and energy costs have peaked, there should be a decline in the number of foreclosures in 2007. There will be a lagged effect in the rate of decline. The Forum also projects a decline in the use of interest only, variable rate mortgages. Together, these circumstances should contribute to a decline in foreclosures during the next several years.

Foreclosures in El Paso County



SCEF forecast
Source: El Paso County Public Trustee

WHY IS THIS IMPORTANT?

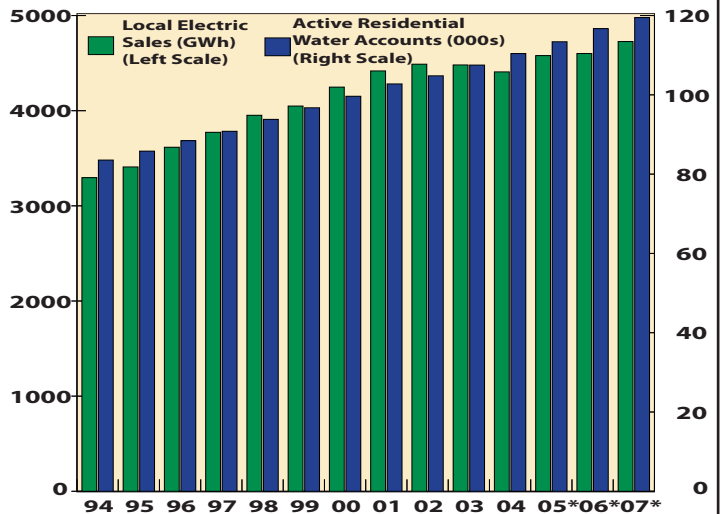
Local electric sales and residential water accounts are good indicators of growth and economic activity. Active residential water accounts correlate with residential construction and housing market activity. Changes in electric sales on system capture both residential and commercial activity.

HOW ARE WE DOING?

From 1992 to 2000, the number of active residential water accounts has increased at an average annual rate of 3.1 percent. This covered a period of rapid economic expansion in Colorado Springs and El Paso County. Since 2000, annual growth in water accounts has slowed to 2.6 percent. This reflects a slowing growth pattern in El Paso County and, more importantly, a declining share of new residential units inside Colorado Springs' City limits. Continued siphoning of residential building to communities surrounding Colorado Springs and the slowing of the economy are expected to produce an average of 2.3 to 2.5 percent growth in active residential water accounts during 2006 and 2007.

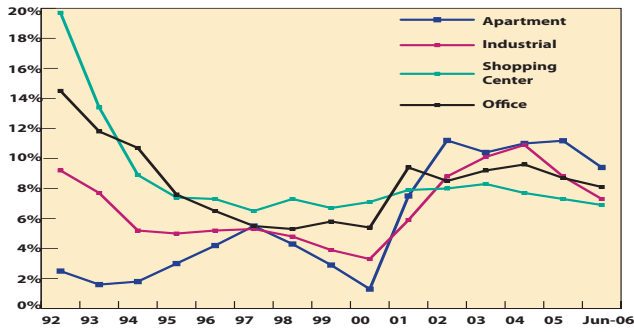
Electric sales grew at an average annual rate of 4.2 percent from 1992 through 2000. Growth slowed materially to 1.5 percent during the recession of 2001 and our recovery through 2005. Electric sales growth is expected to grow at approximately 1.6 percent a year through 2007. Part of the slow down in 2006 is the loss of approximately 100Gwh in electric sales to the City of Fountain this year. If not for this, growth would have been expected to be closer to 3.6 percent a year through 2007.

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



* Colorado Springs Utilities forecast
Source: Colorado Springs Utilities

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



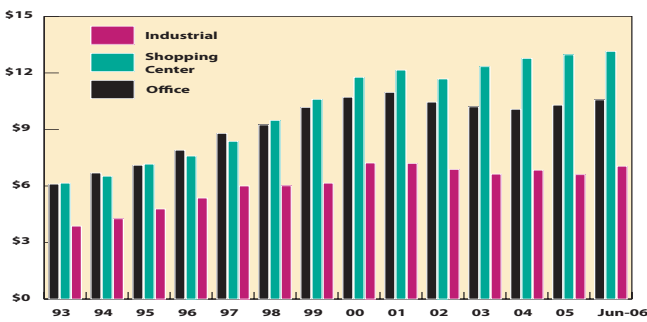
WHY IS THIS IMPORTANT?

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 vacancy rates declined in 2005 and into 2006. The June 2006 office vacancy rate stood at 8.1 percent which compares favorably to the 8.9 percent rate in June 2005. Similarly, the industrial vacancy rate was 7.3 percent in June, 2.3 points lower than June 2005. The shopping center vacancy rate decreased to 6.9 from 8.5 percent in June 2004.

Average Asking Rents For Office, Shopping Center and Industrial Space

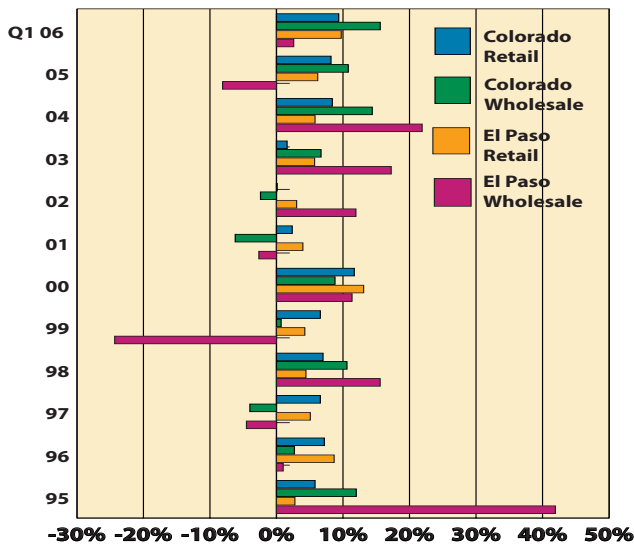


Triple net lease rates in June 2006 for office space was \$10.57 per square foot; \$13.14 for shopping center space; \$7.05 for industrial space.

Turner Commercial Research reported leasing activity in the second quarter of 2006 in the office market reached 505,800 and absorption was 512,469. Industrial leasing activity amounted to 558,259 square feet in the second quarter, with absorption at 619,339. In retail, 301,028 square feet were leased in the second quarter while absorption was 399,843. Turner Commercial Research reports strong commercial market activity in office, industrial and retail space.

Source: Turner Commercial Research: Commercial Availability Report; Doug Carter, LLC.

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



WHY IS THIS IMPORTANT?

Consumer spending is estimated to generate two-thirds 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 6.2 percent to \$11.8 billion in 2005 after growing 5.8 percent in 2004. This is below the 8.2 percent growth rate in Colorado for 2005. First quarter 2006 El Paso County retail sales were \$2.7 billion, or 9.7 percent above the first quarter of 2005. Colorado retail sales were up 9.4 percent for the first quarter of 2006. The slowing economy, frequent deployment of troops from Fort Carson, weak consumer sentiment, sustained high oil prices and negative consumer savings rates are expected to slow retail activity in the latter portion of 2006 and into 2007.

Wholesale sales, which tend to be more volatile than retail sales, declined 8.1 percent in El Paso County in 2005. Colorado wholesale sales grew 10.8 percent in 2005. El Paso County wholesale sales were up 2.6 percent in the first quarter of 2006 over year earlier figures. In contrast, Colorado wholesale sales were up 15.8 percent in the first quarter. Strength in the Colorado wholesale figures were anticipated given the strong Colorado Purchasing Managers Index values reported by Creighton University. A softening in the Index and wholesale activity is expected in light of the slowing economy in 2006 and 2007.

Source: Colorado Department of Revenue, Office of Tax Analysis

Retail Trade and Sales Tax

WHY IS THIS IMPORTANT?

Colorado Springs is a major retail trade hub in southern Colorado. Sales in the retail trade sectors provide information about consumer buying behavior and are good indicators of the health of this important part of the economy.

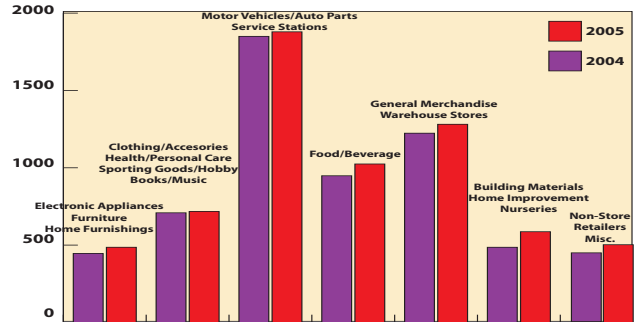
HOW ARE WE DOING?

In 2005, retail trade amounted to \$6.48 billion or 54.8 percent of the total retail sales in the county. The largest portion of retail trade is motor vehicles/auto parts/service stations, which accounted for \$1.849 billion or 29 percent of the total trade in 2005. Rising gas prices and a series of deployments of Fort Carson troops contributed to a decline in the demand for vehicles in 2005.

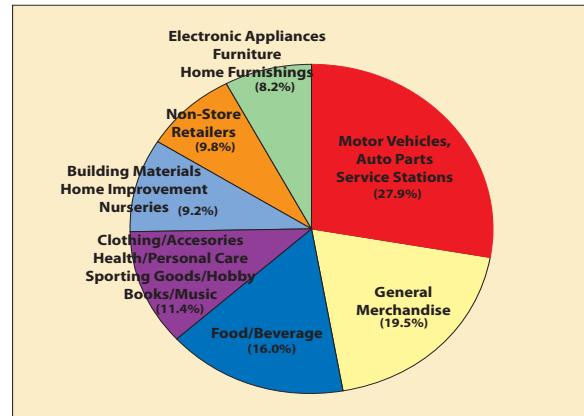
General merchandise/warehouse stores (20.0%), food/beverage establishments (15.8%) and clothing/accessories/sporting goods/hobby/book (11.1%) are other significant contributors to total retail trade sales.

Retail trade was up a moderate 6.9 percent in the first quarter of 2006 compared to the same period a year ago. All sectors were up except for vehicle sales. Vehicle sales are expected to remain weak until the rate of increase in gasoline prices moderate and Fort Carson's troops are deployed less often. An expected slow down in construction will also contribute to a slower retail trade growth of 6.5 percent in 2007.

El Paso County Retail Trade (000's)



El Paso County Retail Trade First Quarter 2006



Source: Colorado Department of Revenue

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.

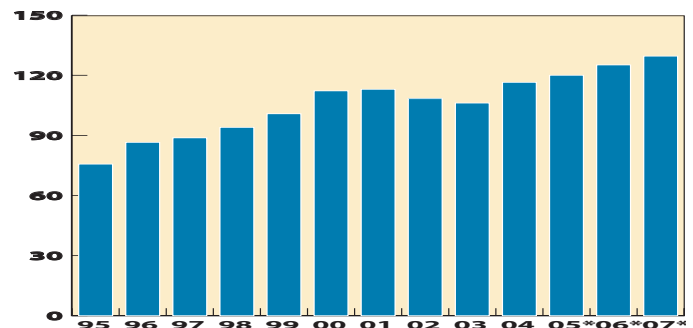
HOW ARE WE DOING?

City sales and use tax collections were \$118.6 million in 2005. This amount was up \$2.2 million or 1.9 percent from the prior year. Through July of 2006, combined sales and use tax collections were up about 8 percent compared to July 2005. Separately, sales tax collections are up about 7.0 percent, while use tax collections are up 20.0 percent.

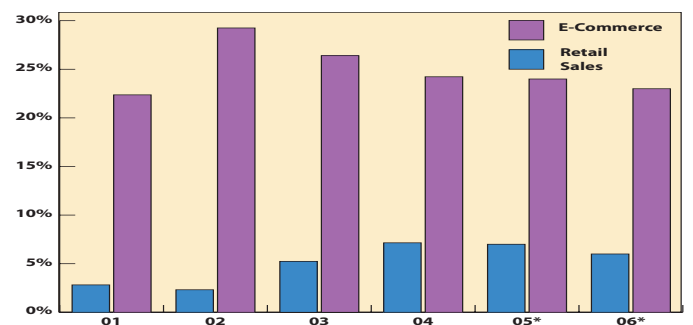
Year to date changes in sales tax revenue is quite good compared to July 2005. Furniture, appliances and electronics are up 12.5 percent. Utilities, miscellaneous retail, hotel/motel, and grocery store collections were up 9.0, 6.3 and 5.3 percent, respectively. Declines through July 2006 were seen in auto repairs and leases (8.24%) and sales to businesses (2.9%). Collections from auto sales are expected to remain low given current gasoline prices. Furniture sales are expected to slow, following decline in housing permits. General sales tax collections are expected to soften as big box stores open in Monument, Falcon, Fountain and Woodland Park in 2006 and 2007. The Forum projects sales and use tax collections will grow 5.5 percent in 2006 and 3.5 percent in 2007.

The final chart to the right shows e-commerce sales and national retail sales growth. This graph and the trend it portrays bears watching, since most sales over the Internet are not taxed.

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



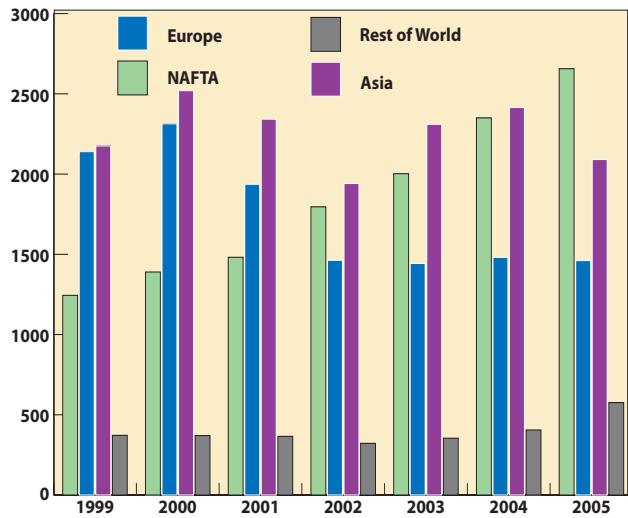
E-Commerce vs. Retail Sales Growth



* SCEF forecast

Sources: City of Colorado Springs Finance Department, Sales Tax Division; U.S. Department of Commerce

Colorado Exports to Selected Destinations (\$ millions)



Source: Office of Trade and Economic Analysis, International Trade Administration

WHY IS THIS IMPORTANT?

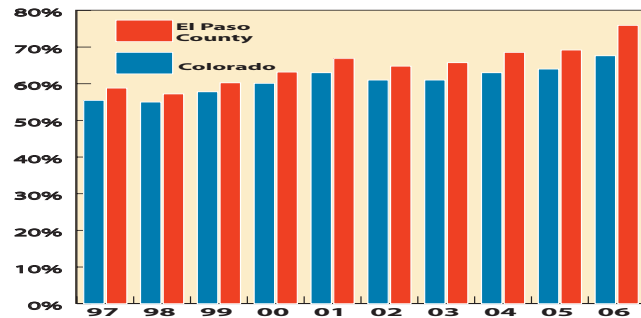
One indicator of the state's competitiveness in a global economy is the ability to export goods and services. A higher level of export activity translates into more jobs in the state and more income and wealth. Colorado and Colorado Springs must continue to grow exports of goods and services in order to compete in a global economy. The International Trade Administration reports exports at the state level.

HOW ARE WE DOING?

The 3.5 percent decline in the dollar and a strong global market combined to boost Colorado world exports to \$6.8 billion in 2005. Canada and Mexico purchased 39.2 percent of Colorado's exports. Asia purchased 30.8 percent of our exports. Europe accounted for 21.5 percent of exports. The rest of the world accounted for the remaining 8.5 percent of Colorado's exports. Given a weaker dollar and a stronger global economy, we expect that export activity will remain robust in 2005 and 2006.

The top four export product categories are computer and electronics (52.3%), chemical manufactures (9.0%), machinery manufactures (8.8%) and processed foods (7.7%). The remaining 22.2 percent of exports include fabricated metals, plastics and rubber, printing, paper, waste scrap, crops, leather, beverages and others.

Colorado Student Assessment Program Fourth Grade Reading Results



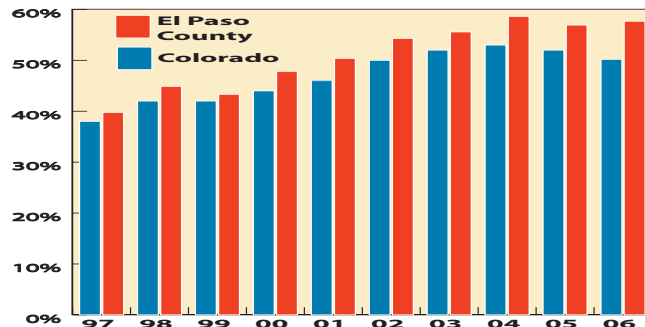
WHY IS THIS IMPORTANT?

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 Colorado students.

HOW ARE WE DOING?

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. This year, 75.9 percent of El Paso County fourth graders were proficient or advanced in reading. This is noticeably higher than the statewide score of 67.6 percent and the 2005 county average of 69.2 percent. Reading scores in El Paso County have improved 17.1 points (29.0%) over the first administration of the fourth grade reading exam in 1997.

Colorado Student Assessment Program Fourth Grade Writing Results



This year, 57.7 percent of El Paso County fourth graders were proficient or advanced in writing. This is slightly higher than last year's proportion of 56.9 percent who were proficient or advanced. This is 6.7 points higher than the statewide proficient or advanced proportion of 50.2 percent in 2006. Writing scores in El Paso County have improved 17.9 points (45.0%) since the inception of the fourth grade writing exam.

Source: Colorado Department of Education

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 multi-cultural, 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.

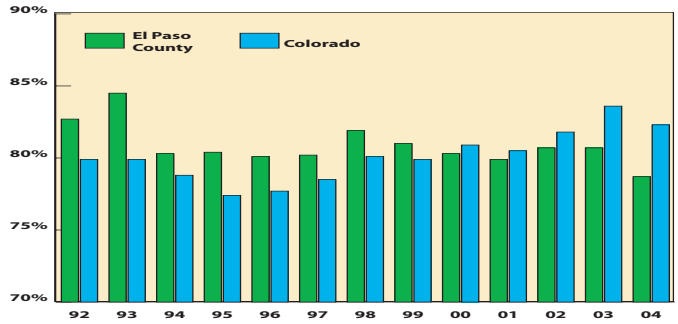
HOW ARE WE DOING?

In 2003-2004 Colorado began tracking individual students rather than in the aggregate. The State Assigned Student Identifier (SASID) system is expected to result in a gradual decline in graduation rates for the next several years before they stabilize in 2007.

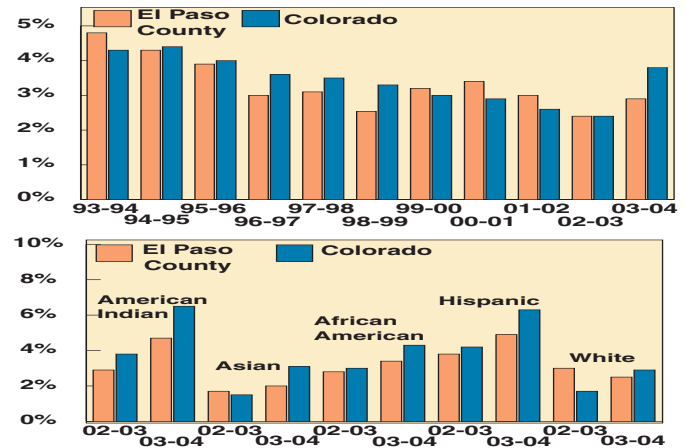
The graduation rates in El Paso County are below Colorado's. The graduation rate in El Paso County was 78.7 percent in 2004 compared to Colorado's at 82.3 percent. Colorado Springs District 11, Manitou Springs, Edison and Miami Yoder have graduation rates below 70 percent.

After a three year decline, the overall dropout rate in El Paso County increased in 2003-04 to 2.9 percent. The Colorado dropout rate increased in 2003-04 to 3.8 percent. Dropout rates in El Paso County are highest for Hispanics and American Indians/Alaskan Natives and lowest for Whites and Asians.

High School Graduation Rates



Grade 7 through 12 Dropout Rates



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

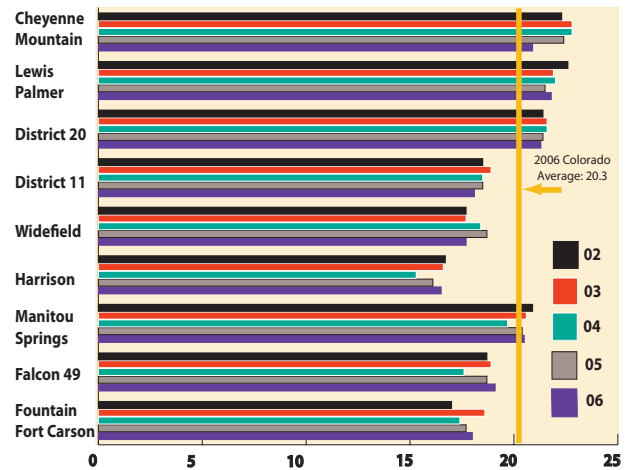
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates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

HOW ARE WE DOING?

The statewide average ACT score for juniors in 2006 is 20.3, up from 20.2 in 2005. Lewis Palmer (21.8), Harrison (16.5), Manitou Springs (20.5), Falcon (19.1) and Fountain/Fort Carson (18.0) improved ACT scores in 2006. Scores fell in Widefield (17.7), Cheyenne Mountain (20.9), District 20 (21.3) and District 11 (18.5).

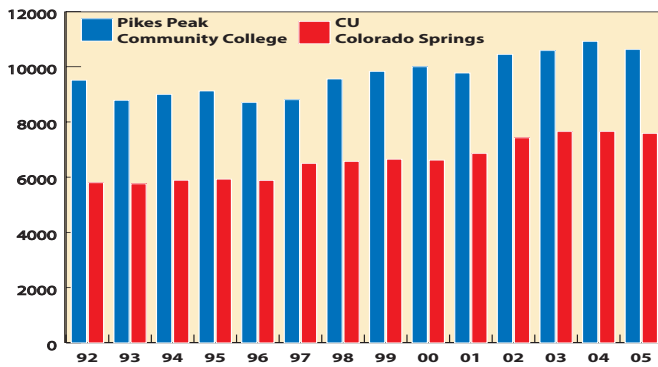
Colorado creates a systematic downward bias in the ACT results by recording a zero for any high school junior who does not take the exam. The national average for all juniors with valid records was 21.4 in 2006. Colorado and Illinois require all juniors to take the ACT. On average, other states find that only 39.7 percent of their students take the ACT. There is a clear self selection bias in the reported ACT results. While Colorado is to be applauded for a national comparative testing tool, thought should be given to leveling the playing field by making it optional, as is the case in 48 other states.

High School Junior ACT Scores in Selected El Paso County School Districts

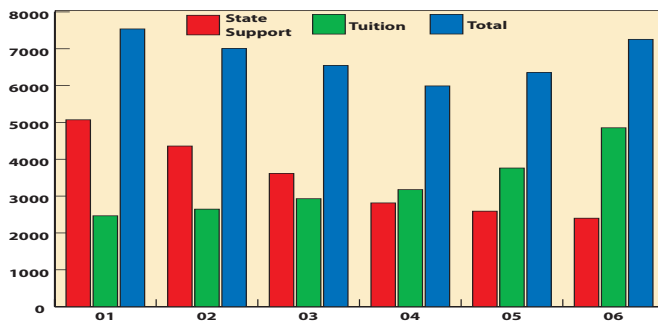


Sources: American College Testing program; Colorado Department of Education; local school districts

Enrollments at Public Institutions of Higher Learning in El Paso County



Funding Sources at UCCS (per FTE)



* UCCS forecast

Sources: Registrars' offices at Pikes Peak Community College and CU-Colorado Springs and Office of Institutional Research

WHY IS THIS IMPORTANT?

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

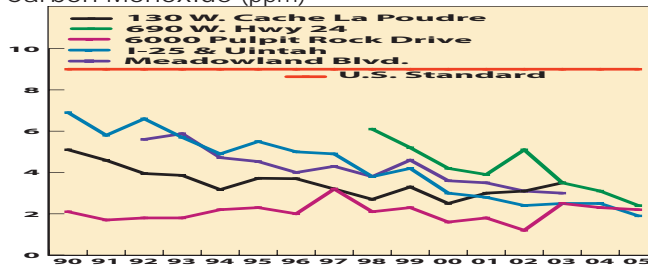
HOW ARE WE DOING?

At UCCS, enrollments declined to 7,581 (-0.9%) in 2005-2006 compared to 7,650 in the 2004-2005 academic year. Enrollments this fall are about the same as last year. The campus now has facilities to house 900 students. The average age of the student body continues to drop while the average credit load continues to increase.

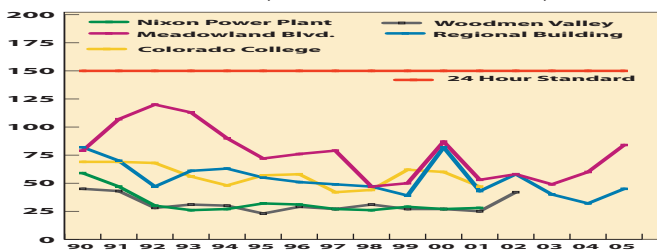
Pikes Peak Community College enrollments also declined in 2005-2006. Enrollments were 10,619 compared to 10,917 in the 2004-2005 academic year, a decline of 2.7 percent.

Per student state support held constant in 2005 although it is down significantly since 2001. Had a TABOR limit been applied to UCCS since 2001, state funding should have increased 19.9 percent (enrollment growth of 10.6% + inflation of 9.3%). Since 2001, state support per student declined from \$5,072 to \$2,480, a decline of 51.1 percent. This is a 67.2 difference between expected funding limits under TABOR and actual funding since the economic downturn in 2001. Much of the shortage has been made up with higher tuition costs, a 96.8 percent increase from \$2,466 in 2001 to \$4,855 in 2005. Adjusted for inflation, total funding per student has declined by \$900, or 11.8 percent, since 2001.

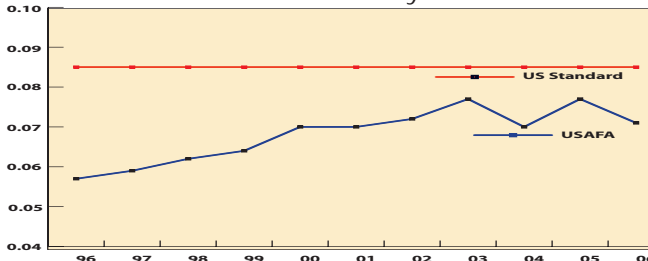
Carbon Monoxide (ppm)



Particulate Matter (10 microns and smaller)



Ozone Trends in El Paso County



Sources: Pikes Peak Area Council of Governments

WHY IS THIS IMPORTANT?

Air quality is fundamental to community health, the environment and the economy. There is growing concern over the interdependence between the health of the environment and the economy. A key selling point of our area is the quality of and opportunity to enjoy outdoor activities. Many people move to Colorado to enjoy sunny days and clean air. While there is no overall index of environmental health, carbon monoxide, particulate concentrations and ozone levels provide an indication of air quality.

HOW ARE WE DOING?

The Pikes Peak region has remained well below the U.S. standard for carbon monoxide (CO) emissions since 1989. The Pikes Peak Area Council of Governments expects more improvement in CO emissions because of technological advancements and because older cars are being replaced by cleaner burning autos. Reduced congestion and better traffic flows also helps to alleviate CO emissions. Overall CO levels have trended downward since 1990.

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 increased recently despite improvements in car engine combustion and street cleaning techniques. Ozone levels have increased from 69 percent of the standard in 1998 to 84 percent of the standard in 2006.

WHY IS THIS IMPORTANT?

As the city grows, increased traffic leads to congestion, longer travel times, and more pollution. Although roadway improvements may alleviate some congestion, it may not be the total solution. Communities interested in quality of life and mobility will seek alternatives to relieve traffic congestion. These may include expanding public transit, better location planning and improving the public transportation, walking and biking infrastructure.

HOW ARE WE DOING?

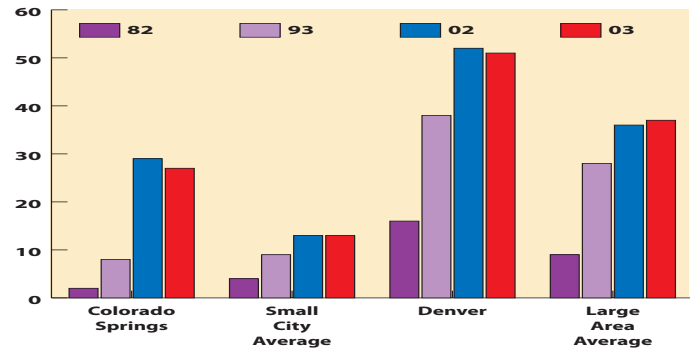
Traffic congestion continues to be an issue facing the community. This information is normally reported by the Texas Transportation Institute. The 2006 Urban Mobility Report was not prepared this year. The results of the 2005 report are presented below.

The annual delay in Colorado Springs, per traveler, in 2003 was 27 hours. The small area average for comparison is 13 hours. The annual delay estimate is the extra travel time in hours spent in traffic per traveler each year during peak period travel. Peak travel periods occur between 6 to 9 a.m. and 4 to 7 p.m.

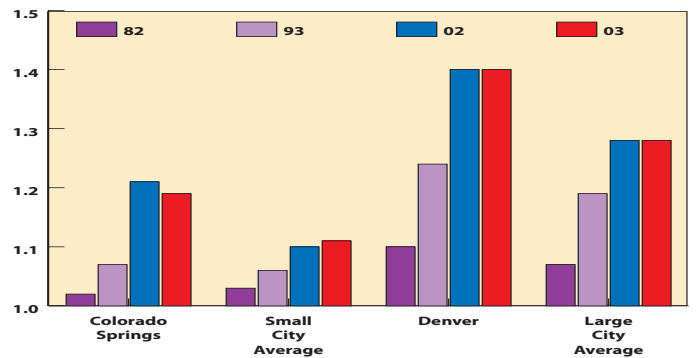
Denver had annual delays per traveler of 51 hours compared to the large area average of 37 hours in 2003. Denver was ranked as the fifth most congested city in the large area average.

The travel time index is a ratio of travel time in the peak period to the travel time during free-flow conditions. The value of 1.19 for Colorado Springs in 2003 means that a 30 minute free-flow trip would take 35.7 minutes during the peak period.

Annual Delay per Traveler in Hours for Peak Period Travel



Travel Time Index



Source: The 2005 Urban Mobility Report, Texas Transportation Institute

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?

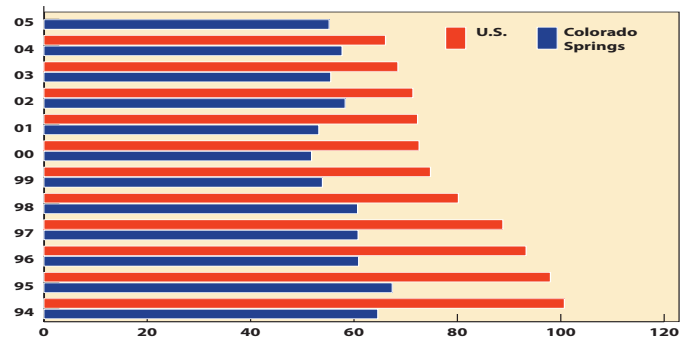
The total crime index in Colorado Springs decreased 4.33 percent in 2005. The city remains well below the U.S. average for cities of its size. Violent crimes (murder, rape, robbery and aggravated assault) increased in 2005 from 4.3 to 4.6 violent crimes per 1,000 population. The violent crime rate remains less than half the violent crime rate in the nation.

There were a total of 21,366 index crimes reported in 2005. The majority of the index crimes reported involve larceny/theft (66.3%), followed by burglary (17.2%), motor vehicle theft (8.2%), aggravated assault (5.1%), robbery (2.1%), forcible rape (1.2%) and homicide (.1%).

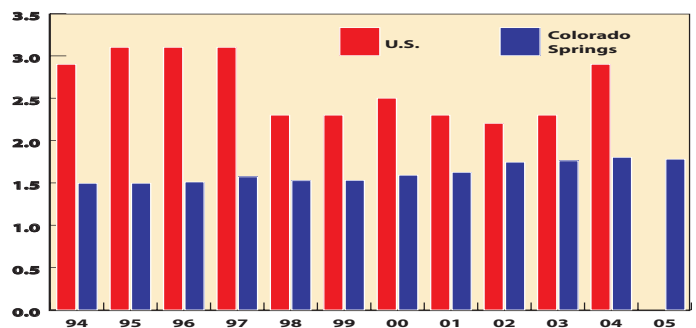
The number of sworn police per 1,000 inhabitants in 2005 decreased slightly to 1.78 from 1.80 in 2004. This figure is expected to remain in the 1.75 to 1.80 range of officers per 1,000 inhabitants in 2006. As of June 2006, the city has collected a total of \$98.1 million to support fire and police department budgets since the 0.4 percent public safety sales and use tax was approved by voters.

U.S. and Colorado Springs Crime Index

(Index per 1,000 inhabitants)



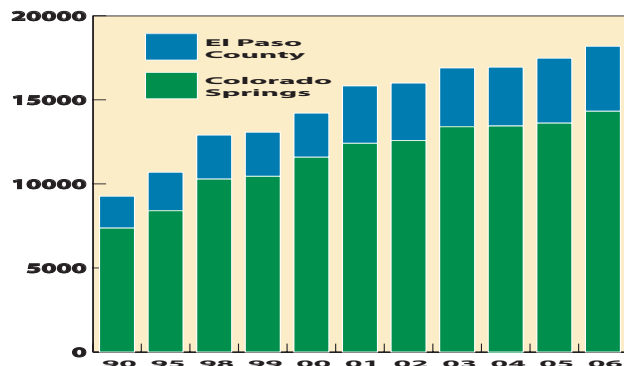
Sworn Police per 1,000 Inhabitants



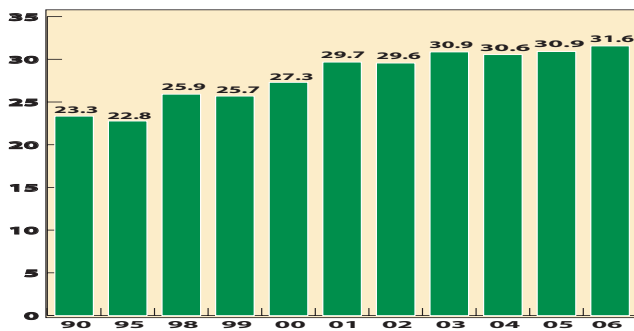
Sources: Colorado Springs Police Department; FBI

Park Acres and Birth Weight

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?

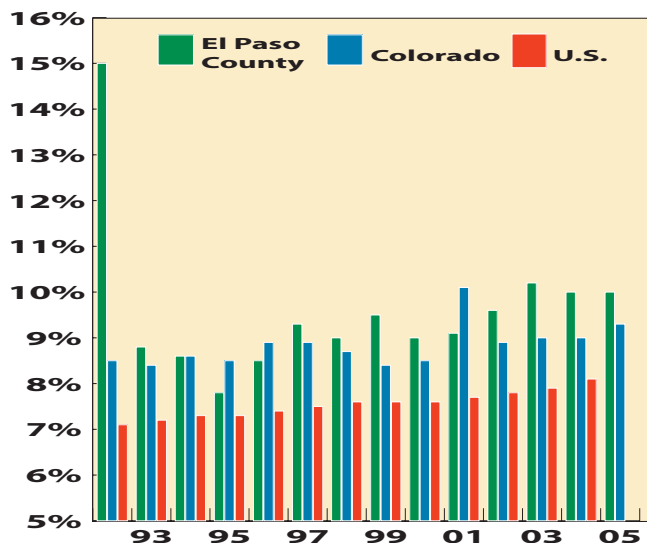
Open space, trails and park land provide important areas for recreation and leisure activity, support natural habitat and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and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

HOW ARE WE DOING?

The Pikes Peak region is blessed with beautiful views and natural scenic areas. Together, the city and county manage over 18,000 acres of open space and park land or 30.9 acres per 1,000 residents in 2005. The City of Colorado Springs now has 14,320 acres of park and open space under management. The addition of Paint Mines Park near Calhan brought the El Paso County park and open spaces total to 3,864 acres. The city and county must continue the effort to add public space and facilities as the population increases. This space is important, since it improves the quality of life for all citizens and is an important positive factor affecting business in the region.

Since the 0.1 percent Trails, Open Space and Parks sales tax (TOPS) was passed and implemented in 1997, the City of Colorado Springs has collected more than \$45.9 million or roughly \$5.7 million per year for trail construction, park construction, and open space acquisition. TOPS is expected to generate approximately \$6.2 million over the next twelve months. These funds have been leveraged with private donations and grants from other agencies to preserve additional open space.

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. The low-weight criterion is 2,500 grams or about 5.5 pounds.

HOW ARE WE DOING?

Colorado and El Paso County have a high proportion of low-weight births. The proportion of low weight babies born in El Paso County is significantly lower than it was in 1992. However, there has been a noticeable upward trend since 1995 when the low-weight births were 7.8 percent of all births in El Paso county. In 2005, low-weight births were 10 percent of all births, the same as in 2004. Colorado's low-weight birth rate was 9.3 percent in 2005, up from 9 percent in 2004. Current low-weight birth rate figures for El Paso County and Colorado remain well above the 5 percent target set by the U.S. Public Health Service. El Paso County's low-weight birth rate in 2005 was 24 percent higher than the national low-weight birth rate (compared to 2004, the most recent year for national data).

UCCS College of Business and Administration and the Graduate School of Business Administration

Contact: College of Business and Administration (719) 262-3113

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 30% of business schools nationally. The College of Business was recently recognized by the readers of the Colorado Springs Business Journal as the Best Business School in Colorado. Dwire Hall, home of the College of Business is currently undergoing a \$10 million renovation and will reopen in August of 2007. The rebuilt facility will provide a state of the art learning environment for our students.

Professors at the College of Business and Administration provide intense, effective teaching, focused on understanding the fundamentals of business solutions. The faculty is internationally acclaimed and doctoral qualified from leading institutions around the country. The classroom experience is enriched by their efforts in leading-edge research, academic publishing, community involvement, and industry consulting. Students are prepared for lifelong careers in diverse fields as banking, advertising, accounting, information systems and technology, marketing, human resource management, financial services, manufacturing, professional golf management and more.

The College of Business and Administration at UCCS has excellent partnerships with the business community. These contacts are essential in infusing current business practices into the classroom. The College stays connected to the community through a variety of organizations including the Small Business Development Center (SBDC) and the Southern Colorado Economic Forum. Find out information about Extended Studies and Career, Intern, and Placement opportunities by visiting <http://business.uccs.edu>.

Holland & Hart is proud to partner our 4th Annual Colorado Springs Business Symposium with the 10th Annual Southern Colorado Economic Forum. We are hopeful that our joint efforts will provide an outstanding program for our local business community complete with economic forecasts to help you plan for the years ahead as well as invaluable information from expert panelists on specific business and legal issues affecting your company.

The Colorado Springs office of Holland & Hart includes attorneys and staff who offer a wide variety of legal services to national and international companies while remaining dedicated to our local community. We are committed professionals providing insightful and responsive counsel specialized to fit your particular needs and to help you pursue new business opportunities. Holland & Hart has nearly 350 attorneys lawyers in 13 offices in Colorado, Wyoming, Idaho, Montana, Nevada, New Mexico, Utah and the District of Columbia. We work hard to bring the experience of a large national firm to our local businesses and people. For more information, please visit us online at www.hollandhart.com.

Wendy Pifher, Partner, Holland & Hart LLP

The Southern Colorado Economic Forum

Contact: UCCS College of Business and Administration (719) 262-3241 or (719) 262-3531

The Southern Colorado Economic Forum (SCEF) is a University and community supported research effort of the College of Business and Administration at the University of Colorado at Colorado Springs. The SCEF mission is to provide timely, accurate and unbiased information about the economy in southern Colorado. The Forum analyzes economic and quality of life trends along with other information to provide a forecast of future economic activity. The Southern Colorado Economic Forum is held each fall to provide the community with an update of the area's economy and quality of life. The Southern Colorado Economic Forum electronically publishes the *Quarterly Updates and Estimates (QUE)* in order to keep the business community informed about current changes in economic activity in the region. You may visit our web-site at <http://www.southerncoloradoeconomicforum.com> to find back issues of the QUE and the Southern Colorado Economic Forum. This year the Forum is pleased to join forces with the 4th Annual Colorado Springs Business Symposium to further enhance the information provided to the business community.

The Forum is available to help business and other organizations with economic and financial analysis and modeling, survey work, and other custom analysis. To learn more about the services SCEF and the College of Business can provide your organization contact: Tom Zwirlein, Faculty Director of the Southern Colorado Economic Forum at (719) 262-3241 or tzwirlei@uccs.edu or Fred Crowley, Associate Director of the Southern Colorado Economic Forum at (719) 262-3531 or fcrowley@uccs.edu.

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