

UNIVERSITY OF COLORADO AT COLORADO SPRINGS



twelfth annual 2008-2009  
**southern colorado  
economic forum**  
OCTOBER 10, 2008



UNIVERSITY OF COLORADO  
AT COLORADO SPRINGS

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



FIRST BUSINESS  
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## Welcome from Holland & Hart

Holland & Hart is proud to sponsor the 12th Annual Southern Colorado Economic Forum. We are hopeful that our partnership 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 with the experience needed to fit your particular needs and to help you pursue new business opportunities. Holland & Hart has more than 400 attorneys lawyers in 15 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 <http://www.hollandhart.com>.

*Wendy Pifher*, Partner, Holland & Hart LLP

HOLLAND & HART 

## Welcome from the Chancellor

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The University of Colorado at Colorado Springs is pleased to join with its business partners to present the 12th 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 gives a peek at our community's future. The information offered 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 gives a realistic and unbiased economic forecast for the coming year.

We are fortunate to have many committed individuals involved in this project. I especially 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.

I want to thank the Forum 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 2008-2009 Southern Colorado Economic Forum. We wish you a productive and successful 2009.

Pamela Shockley-Zalabak, Chancellor, University of Colorado at Colorado Springs



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## 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 economic forum in the region. Now in the 12th year, we continue the tradition of gathering, analyzing and explaining a complex set of indicators designed to guide your business decisions. 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 expanded as a result of feedback from these partners. This is continued evidence that the future of the university and local businesses are intertwined. Our college has a special mandate to provide leading edge academic resources to its regional partners. 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 12th Annual Southern Colorado Economic Forum. We hope you find the forum informative. Please thank our sponsors and share with us your suggestions for improvement.

Venkat Reddy, Dean, College of Business and Administration



## The Southern Colorado Economic Forum

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The Southern Colorado Economic Forum is a university and community supported research effort of the College of Business and Administration at the University of Colorado at Colorado Springs. The forum 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. Each fall, the forum provides an update of the area's economy and quality of life. The Southern Colorado Economic Forum publishes the Quarterly Updates and Estimates to keep the business community informed about current changes in economic activity.

Visit <http://www.southerncoloradoeconomicforum.com> to find back issues of the QUE and the Southern Colorado Economic Forum. 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, Southern Colorado Economic Forum, (719) 262-3241 or [tzwirlei@uccs.edu](mailto:tzwirlei@uccs.edu), or Fred Crowley, associate director, Southern Colorado Economic Forum, (719) 262-3531 or [fcrowley@uccs.edu](mailto:fcrowley@uccs.edu).



***Thomas J. Zwirlein, PhD***

A Professor of Finance, Thomas J. Zwirlein joined the UCCS College of Business faculty in 1984, following his graduation from the University of Oregon where he earned his PhD. He earned bachelor's in economics and a master's in business administration from the University of Wisconsin, LaCrosse.

In addition to teaching undergraduate and graduate-level courses in finance and investment policy, Dr. Zwirlein's research interests include corporate control, investment policy, financial strategy, and shareholder value. He is widely published in areas such as investment strategy, stock selection, and corporate takeovers.

He earned the College of Business Outstanding Service Award in 1996 and 2000 and is a member of the Financial Management Association. He founded the Southern Colorado Economic Forum in 1996.



***Fred Crowley, PhD***

Fred Crowley is a Senior Instructor in the College of Business in the University of Colorado at Colorado Springs. He has been the Senior Economist for the Southern Colorado Economic Forum in the College of Business since September 2001. He is also the Forum's Associate Director. Fred has an earned doctorate from New York University in quantitative methods in urban and regional planning, urban economics and corporate financial theory. Fred has published in a number of academic journals on public finance and economic base diversification topics. His articles have appeared in *Urban Studies*, *Financial Review* and the *Journal of Energy and Development* among others. He has also conducted numerous economic impact studies for the Colorado Department of Transportation, the City of Colorado Springs, the City of Woodland Park, the City of Fountain, Atmel Corporation and others.

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### The 2008 – 09 Southern Colorado Economic Forum

This marks the twelfth 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, the region's quality-of-life 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 businesses and organizations that operate here.

### The Southern Colorado Economy

During 2007-2008, the El Paso County economy was influenced strongly by five national and local economic issues. Capital markets fell into disarray in July 2007. A record number of foreclosures were initiated in El Paso County. Single family residential permits declined 35 percent in 2007. Inflationary pressures took hold of the national economy from steep increases in the cost of energy and food. The effect of these factors was a slowing in the economy, especially for job growth.

Capital market problems were initially ignored by the Federal Reserve's Open Market Committee (FOMC) at its August 2007 meeting, despite discussions that it was

a mounting problem. The FOMC decided it was more important to fight potential inflation problem than address the mounting lack of liquidity in capital markets. The result was a knee jerk reaction that lowered the discount loan rate half a percent within days of the August meeting. Seven interest rate cuts later, the Fed Funds rate was reduced to 2 percent by April 2008. Despite the aggressive change in policy, the economy slowed. The unemployment rate went from 4.7 percent in July 2007 to 5.7 percent in July 2008.

The number of foreclosures in the U.S. rose sharply as capital markets and mortgage financing sources dried up. A record number of foreclosures were seen in El Paso County in 2007. There were 3,556 foreclosures in 2007, up 1,002 from 2,554 foreclosures in 2006.

The large number of foreclosures in the local economy created an additional housing option for home buyers. Together with tighter credit standards and the lack of capital market liquidity, existing home buyers looking to trade-up had fewer potential buyers of their existing homes. Contracts for new homes were characterized by contingencies that provided trade-up buyers the option to cancel the new home contract if they could not sell their existing home. Multiple Listing Service facilitated home sales decreased approximately 20 percent in 2007. New home sales declined approximately 35 percent from 4,127 in 2006 to 2,678 in 2007.

Annualized inflation levels rose from 2.4 percent in July 2007 to 6.2 percent in July 2008. The cost of energy increased from an annual rate of 1 percent in July 2007 to 30 percent by July 2008. The cost of food increased at a lesser rate but still rose to an annual rate of 6 percent in July 2008 compared to 4.2 percent in July 2007. The rate of inflation outpaced income gains. Consumers had less discretionary income. Retail activity declined. Local sales tax collections fell. Both the City of Colorado Springs and El Paso County will likely experience TABOR induced ratchet down effects in 2008 and 2009.

The combined effects of an illiquid capital market, rising foreclosures, sharp declines in residential construction and inflationary pressures contributed to slow economic growth in 2007. Two major employers closed facilities in 2007. Intel and SCI ceased operations. Approximately 1,057 jobs were lost between the two firms. Job growth in El Paso County was 0.8 percent in 2007.

The local economy is expected to experience slow employment growth through 2008 and into 2009. The anticipated recovery in 2009 will be partly due to a "normal" return to growth and the arrival of 10,200 troops at Fort Carson.

## Introduction

### Employment/Unemployment

The El Paso County private sector employment figures from the Quarterly Census of Employment and Wages, QCEW, increased by 0.8 percent, or 1,884 jobs, in 2007. The modest job gains followed stronger gains of 4,208 jobs in 2006, and 4,087 jobs in 2005. This was the fourth consecutive year of positive job growth in the private sector for El Paso County after three consecutive years of declines from 2001 through 2003.

The largest employment gains were in government (1,594 jobs), administrative and waste services (872 jobs), health care (740 jobs), and professional and technical services (308 jobs), health care (533 jobs) and retail (422 jobs). Excluding the government sector, private industry jobs gained a modest gain of 290 jobs in 2007.



As expected, construction jobs declined by 528 in 2007 as residential construction slowed further, COSMIX was completed, and hospital construction wound down. Additional job losses took place in manufacturing (1,000) as SCI closed and Intel began its phased shut down. Other significant job losses took place in financial services (-400 jobs) and wholesale trade (-276 jobs). Jobs were lost in eight of the 20 NAICS sectors.

The unemployment rate continued a downward trend in 2007, albeit at a slower rate. The average unemployment rate in El Paso County fell to 4.4 percent in 2007 compared to 4.6 percent in 2006. Unemployment rates are expected to be 5.7 percent in 2008 and 5.3 percent in 2009.

The average unemployment rate in Colorado was 3.8 percent in 2007 versus 4.3 percent in 2006. Unemployment rates in Colorado are expected to be 4.9 percent in 2008 and 5.1 percent in 2009.

Three factors stand out about employment and wage patterns in El Paso County when they are compared to Colorado. First, the number of firms in El Paso County continues to grow faster than in Colorado. Second, wages are growing much slower than in Colorado. The ratio of supply of workers to the demand for workers in El Paso County is slightly greater than in Colorado. This is expected to lead to slower income gains in El Paso County. Third, the lower wage gains for El Paso

County compared to Colorado is attributed to the change in the number of employees per firm.

In 2001, El Paso County averaged 13.9 employees per private sector firm compared to 12.4 employees per firm in Colorado. By 2007, the averages had dropped to 11.6 (11.8 in 2006) for El Paso County and 11.0 for Colorado (11.0 in 2006). The average number of employees per firm in El Paso County decreased 15.1 percent between 2001 and 2007 compared to a decrease of 11.3 percent for Colorado. The significance of firm size is found in average wage data from the Quarterly Census of Employment and Wages. El Paso County lost a disproportionate number of highly paid jobs among larger firms, manufacturing and technology employers between 2001 and 2007. Part of the reason for the ongoing drop in average firm size in El Paso County was the loss of two large employers, Intel and SCI, during 2007.

There is an advantage of having more small firms in an economic base. Research repeatedly points to greater economic base diversification where the employment base is less dependent on limited numbers of large employers. This is normally expected to provide increased stability to a region's employment base. El Paso County appears to be in a period of improving employment stability but declining real wages.

#### PERCENT CHANGE

	01 – 06	06 – 07
<b>Colorado</b>		
No. of Firms	13.7%	2.3%
Jobs	1.0%	2.3%
Labor Force	10.7%	2.0%
Total Wages	15.4%	6.7%
<b>El Paso County</b>		
No. of Firms	18.0%	2.4%
Jobs	0.3%	0.8%
Labor Force	11.0%	0.9%
Total Wages	11.1%	4.5%

#### TOTAL CHANGE

	01 – 06	06 – 07
<b>Colorado</b>		
No. of Firms	20,675	4,056
Jobs	17,853	50,619
Labor Force	256,454	54,179
Total Wages (000,000s)	10,986	6,535
<b>El Paso County</b>		
No. of Firms	2,619	421
Jobs	643	1,884
Labor Force	29,659	2,766
Total Wages (000,000s)	769	424

## Introduction

Reductions in the unemployment rate have been occurring systematically since May 2003. If additional gains in employment take place in El Paso County during 2008, they are most likely going to be in professional service, health care and defense contracting. Significant gains in construction employment are not expected in 2008. Most large scale commercial and road projects were completed in 2007. Aside from some work on Fort Carson, few new large projects are anticipated at this time.

On average, the monthly labor force in El Paso County was estimated to be 301,635 in 2007, an increase of

in 2006 and a 2.6 percent increase in 2005. By comparison, the average wage in Colorado was \$45,396 in 2007 compared to \$43,524 in 2006. This is an increase of \$1,872 or 4.3 percent. This is similar to the 4.6 percent increase in 2006 and better than the 3.1 percent increase in 2005.

El Paso County remains well below the state average wage. The figures for 2007 indicate the average wage in El Paso County is 11.9 percent below the average wage in Colorado. According to Bankrate, Inc., the cost of living in El Paso County is approximately 6.2 percent lower than the Denver region. Assigning the state average figures to the Denver market, the data suggests workers in El Paso County experienced a 5.1 percent lower standard of living than Denver and Colorado. By comparison, El Paso County had an estimated 5.9 percent lower standard of living in 2006 and 4.4 in 2005.



2,827 (1%) over the 2006 labor force of 298,868. This was a small increase compared to the increase in the labor force in 2006 when 9,043 more people entered the labor force. Total private sector employment, based on the Quarterly Census of Employment and Wages (QCEW), averaged 203,079 in 2007. This is an increase of 288 jobs over the 202,791 jobs in 2006. The nominal gain in jobs in 2007 was sufficient to bring about a record high number of jobs in the county.

Preliminary June 2008 figures from the Colorado Department of Labor put the El Paso County labor force at 309,836, compared to 304,348 in June 2007. The change in the labor force reflects an increase in the participation rate among those aged 16 plus.

### Wages and Income

The average wage in El Paso County increased in 2007 and stood at \$39,988, an increase of \$1,404 or 3.6 percent over 2006. This follows a 2.9 percent increase

Eighteen of the twenty NAICS two digit classifications had wage increases in 2007. Mining and Arts/Entertainment were the only sectors that had a decline in average wages, -8.7 and -0.1 percents, respectively. Significant wage gains were realized in agriculture (12.5%), management services (9.0%), accommodations (7.7%), information (6.7%), financial services (5.5%), professional services (4.5%), transportation (4.4%) and utilities (4.3%).

### Retail and Wholesale

Retail sales in Colorado were up 11.3 percent in 2007 compared to an 8.6 percent increase in 2006. Real retail sales growth can be measured by expressing retail figures on an inflation adjusted per capita basis. The Forum found real retail sales grew 6.8 percent in 2007 compared to 2.4 percent in 2006. Retail sales in El Paso County increased 9.8 percent in 2007 compared to 6.0 percent in 2006. After adjusting for inflation and population growth in El Paso County, real retail sales decreased 1.2 percent in 2007 compared to an increase of 0.3 percent in 2006 and 2.0 percent in 2005.

The Forum has repeatedly pointed out that growth in retail activity in El Paso County will follow the



## Introduction

growing number of rooftops beyond the Colorado Springs' city limits. Evidence supporting this expectation began in 2004 and has continued through 2007. In 2000, 90.2 percent of all retail sales were inside of Colorado Springs. By 2007, the City of Colorado Springs captured 87.0 percent of all retail sales in El Paso County. The effect is Colorado Springs' sales tax revenues are declining relative to its suburban neighbors.

Wholesale sales in Colorado increased 5.2 percent in 2007 vs. 21.5 percent in 2006. The strong decrease is attributed to the production decline of computer and complex electronics products. Complex electronics exports were down approximately 16.8 percent in 2007.

Despite the loss of Intel and SCI in 2007, wholesale sales in El Paso County increased 10.1 percent in 2007. Wholesale activity growth in 2006 was not as strong (up 6.0%). The strong growth in wholesale trade in 2007 is attributed to a broad cross section of activity among business sectors.

### Housing Construction and Commercial Activity

New, single family, detached residential construction declined 22.3 percent in 2007 compared to 35.2 percent decline in 2006. A total of 2,135 permits were taken out in 2007 compared to 3,446 in 2006. This is a decline of 1,311 single family, detached housing units.

The decline in permit activity was again accompanied by an increase in permit values in 2007. The average single family, detached, permit value in 2007 was \$193,669 compare to \$178,983 in 2006. This is an unexpected increase of \$14,812 in the average permit value in 2007. Compared to 2005, the average permit value in El Paso County increased about \$45,000. This and other evidence indicate the homes built in 2007, although fewer in number, were larger and had more options than in 2005 and 2006. For example, the average number of square feet in a new home in 2007 was 3,801 compared to 3,562 square feet in 2005. The housing dilemma seems to be having a greater negative effect on smaller and/or entry level types of new home permit activity.

Town home construction also declined in 2007. There were 542 town home permits in 2007. This was a decline of 139 units or 20.4 percent. However, permit values increased slightly in 2007. The average town home permit value rose slightly to \$116,957, a modest increase of \$2,171 compared to \$114,786 in 2006. The average permit value in 2007 was roughly equal to the value in 2005 (\$116,922). The relative stability in town home permit values, despite estimates of approximately 20 percent higher construction costs (RSMMeans

and Turner Construction) is, most likely, explained by smaller and/or less accessorized housing units. Town home construction has emerged as the entry level price point for single family construction.

Perhaps of greater interest is the persistent and accelerating flight to suburbia. During 2007, there were approximately 971 single family, detached permits taken out in areas outside Colorado Springs. This was 45.5 percent of all permits. By comparison, 37.9 percent of all permits were in areas outside of Colorado Springs in 2006. Residents in these new homes tend to be younger adults, with larger household sizes and earn incomes above the county average. The move to areas outside of Colorado Springs will influence commercial construction patterns and location.

Permits that authorized a total of 414 multifamily units were issued in 2007 compared to 289 units in 2006. This is an increase of 43.3 percent above the levels in 2006. The increase was expected and reflects investor interests as vacancy rates decreased from 11.7 percent to 10.1 percent and average rents increased to \$698 compared to \$683 per month in 2006. Additional multifamily housing unit activity is expected in 2009 as the arrival of Fort Carson troops approaches.

Commercial construction in 2007 was boosted by strong activity in two areas; office buildings (\$188 million) and retail space (\$84 million). Most of the office space was for the University of Colorado at Colorado Springs and Northrop at the airport. Retail space was scattered throughout the county. Given the current trend to put several large office facilities on hold, commercial activity is expected to slow in the second half of 2008. Commercial permit value is expected to be \$425 million in 2008. The value of commercial activity is expected to be less in 2009 with an expected value of \$350 million in permits.

Significant retail construction in 2007 took place in three Zip Codes outside of Colorado Springs. The areas are Monument (80132), Falcon (80831), and Fountain (80817). These three areas captured 19 percent of all retail permits in 2007. In 2006, these areas captured 31 percent of all retail permits. This is noteworthy because the areas represent about 10–12 percent of the county's population. This reflects the pattern of retailers who are following the rooftops to suburbia. This trend is expected to accelerate as critical population and income masses are achieved in the suburbs and towns surrounding Colorado Springs.

Recent examples of big box store openings in the bedroom communities include Home Depot, Kohls and Wal-Mart in Monument; Wal-Mart in Falcon and Woodland Park. A Lowe's is expected to open in Falcon

## Introduction

in the next couple of years. The effect of these patterns will be the transfer of retail purchases previously made in Colorado Springs to the suburbs. Colorado Springs will receive as much as \$1 to \$1.5 million less in sales tax collections for each big box built outside of the city. This does not include lost sales tax collections from the satellite stores that will surround the big box anchors.

Central business district (CBD) office vacancies rose to 7.9 percent in December 2007 compared to 5.5 percent in 2006. Leasing plus absorption was negative in 2007 (-24,000 square feet). Despite the increase in vacancy rates and negative leasing plus absorption figures, rents managed to increase to \$12.40 compared to \$11.41 in 2006. Class "A" office space vacancies in the central business district also increased to 8.2 percent from 6.3 percent in 2006. Class "A" rents also increased to \$15.14 from \$14.17 in 2006.

Metro office vacancies also increased in 2007. The vacancy rate stood at 8.4 percent vs. 6.9 percent in 2006. Despite the softness in this office market, rents increased in the metro area to \$11.53 from 10.86 in 2006.

Industrial vacancies increased in 2007 to 8.4 percent from 6.6 percent in 2006. The significant increase in vacancies was accompanied with -344,000 absorption in 2007. While leasing was positive, net leasing and absorption is expected to decline significantly in 2008 as Intel and SCI vacant spaces hit the market. The weak industrial market saw rents decline to \$7.03 from \$7.16 in 2006. Additional weakness is expected in the balance of 2008 and possibly into 2009.

Aggregate shopping center lease rates showed strength in 2007 despite a slowing economy and the addition of 1,000,000 square feet in 2007. Rents rose to \$13.96 a square foot compared to \$13.30 in 2006.

The commercial market is not expected to exhibit strength in the balance of 2008 or into 2009. Vacancy rates are expected to increase slightly. The Forum expects asking rents to level off or decrease slightly through 2009. Unlike the 2001 downturn, the Colorado Springs market does not appear to be as over-built. The local market also can expect a gentle nudge to the economy in the middle of 2009 as Fort Carson troops and their families begin to arrive. The expected impact on the economy is discussed next.

## BRAC05 and the Military Community

Previously, the Forum reported BRAC05 will have most of its expected impact on the El Paso County region beginning in 2009. The impact is expected to be larger than originally estimated. During the fall of 2007, Fort Carson released a revised time line for troop arrivals. The best estimate indicates 12,800 more troops will arrive from 2007 through 2011. The largest number will arrive in 2009. The information also included estimates of the number of dependents. The tentative schedule is:

### Projected Troop Arrival at Fort Carson

Year	Troops	Dependents	Total
2007	1,100	2,054	3,154
2008	100	187	287
2009	10,200	19,710	29,910
2010	700	1,307	2,007
2011	700	1,307	2,007
Total	12,800	24,565	37,365

Based on 2006 Department of Defense pay and allowances schedules, the Forum has determined the weighted average income for a member of the Army at Fort Carson is approximately \$57,000 in 2008 dollars. This does not include any additional household income that may be earned by a spouse. Given the soldier's income and an assumed 20 percent down payment at current interest rates, a soldier can afford to finance a \$200,000 mortgage on a \$250,000 home. This implies the typical Fort Carson troop can afford the typical house in El Paso County.

The Forum did additional research to determine the housing needs of the additional troops at Fort Carson. The General Accounting Office released a report several years ago which estimated 50 percent of the Army troops buy a home while in the service. A more recent study by the Rand Institute suggests 60 percent of the troops who live off base will buy a home. Allowing for 25-30 percent of the troops who will live on base, the math indicates 3,190 will live on base; 3,364 will live off base and rent; 5,046 will live off base and buy a home. These estimates assume an equilibrium housing level has been achieved. Equilibrium is not expected until a few years after the realignment is completed.

The Forum also examined the most likely place the troops will live off base. Allowing for drive time, commuting costs, housing affordability and available developable land, the Forum believes at least 90 percent of the off base troops will live in El Paso County. The most likely communities will be Fountain (80817), Security-Widefield (80911) and the planned developments along Drennan (80916), Powers/Marksheffel (80915, 80922) and Falcon (80831).

## Introduction

### Input Output Analysis of 10,200 Additional Troops to be Stationed at Fort Carson in 2009

Business Sector	New Jobs	Total Wages	Average Wages
Food services/ restaurants	1,032	15,618,972	15,128
State & local education	715	28,102,602	39,277
Physician & dentist offices	534	26,780,884	50,162
Nonstore retailers	415	1,452,070	3,498
State/local non-education	361	20,578,714	57,059
General merchandise stores	326	7,510,121	23,055
Real estate	310	3,431,901	11,079
Nursing & care facilities	254	7,798,297	30,722
Food/beverage store	250	7,219,431	28,930
New residential bldg	247	8,934,503	36,164
Wholesale trade	232	13,262,923	57,162
Social assistance	214	6,171,029	28,862
Motor vehicles & parts	212	9,139,322	43,166
Miscellaneous retailers	207	2,127,296	10,260
Private households	197	1,102,069	5,602
Hospitals	181	8,580,541	47,370
Comm and ind buildings	166	6,032,602	36,285
Clothing stores	160	2,361,435	14,779
Auto repair/maintenance	154	3,903,726	25,353
Employment services	148	4,140,898	28,007
Colleges	147	4,107,504	27,898
Health and personal care	143	3,153,051	22,125
Bldg mtl & garden supply	142	5,213,685	36,739
Architects & engineers svcs	140	9,126,786	65,285
Banks & credit unions	139	6,931,469	49,862
Totals	7,026	\$212,781,829	\$35,373

The Forum revised its Input/Output analysis to determine the economic impact the remaining 10,200 troop arrivals in 2009 are expected to have on the El Paso County economy. Selected findings are shown above.

After the troops arrive, a total of 12,785 local resident services jobs are expected in the community. The top 25 civilian employment sectors are expected to see approximately 7,026 jobs which will result from the military. This is 55 percent of the total new jobs. Private sector annual wages are expected to increase by \$526 million. The top 25 sectors are expected to capture 40 percent of the wages.

The economy has been struggling to avoid negative job growth in 2008. The arrival of additional troops at Fort Carson in 2009 will be very timely for the local economy. The additional troops and the incomes they will spend in the community will help stimulate the

economy. The City of Colorado Springs can expect to see an increase in sales tax collections of approximately \$13.5 million per year after equilibrium is achieved. Retail equilibrium is expected within 12 months of the troops' arrival. Housing equilibrium is expected within 24 to 48 months of the troops' arrival at Fort Carson.

### Recent Trends and the Federal Reserve

On August 28, the Bureau of Economic Analysis revised its preliminary estimate of the 2nd quarter GDP from 1.9 percent to 3.3 percent. The strength of the number is misleading. The weak dollar contributed to a 13.2 percent increase in exports and a 7.6 percent decrease in imports. Rising gasoline and food prices contributed to a decline in real disposable income of 2.6 percent in June and 1.7 percent in July.

The tax rebate check bolstered purchasing capacity for a limited time. Its effects are probably over. The recent rise in the value of the dollar and the slowing global economy will make growth in exports more difficult in the coming year. Imports will be less expensive but consumers do not have the income to spend on discretionary imported goods.

Gasoline prices peaked at \$4.16 a gallon on July 16, 2008. As of August 25, gasoline prices declined 10.1 percent to \$3.74. While the decline is welcome, prices are \$0.90 per gallon higher than they were at their recent bottom of \$2.84 per gallon on September 3, 2007. The decline in price is attributed to a 5 percent decrease in the demand for oil in the U.S., a 14 percent increase in the dollar during the summer, a modest slowing in the global economy and normal seasonal price movements.

The stronger dollar and a slowing global economy will hurt the exporting segments in the economy. Rising unemployment rates will hurt domestic demand. A slowing global economy will also hurt exports. Consumer sentiment is still very low. Bank failures are increasing. Credit standards have been raised. The aggregate effect will be to slow the economy in the latter half of 2008 and into 2009. This is the scenario Ben Bernanke, Chairman of the Federal Reserve, expects to see. The slower domestic and global economies are expected to decrease inflationary pressures, especially for energy and food. At the Fed's annual economic symposium in Jackson Hole, WY, Bernanke noted the drop in commodity prices along with "a pace of growth that is likely to fall short of potential for a time, should lead inflation to moderate later this year and next year." If correct, the Federal Reserve will be able to maintain interest rates where they are without being inflationary, perhaps through the first quarter of 2009.

### Where is the Southern Colorado Economy Headed in 2009?

The future of the Southern Colorado economy appears to rest on five factors. The area needs better job and income growth from basic industry employers, an end to the spiralling problem in foreclosures, a rebound in residential construction, the arrival of BRAC05 troops at Fort Carson and the success of the Greater Colorado Springs Economic Development Corporations (EDC).

The private sector provided more total jobs in 2007 for the second year in a row since 2001 — a net gain of 288 jobs in 2007 and 641 jobs in 2006. Manufacturing and telecommunications lost an additional 1,408 jobs in 2007. Together, these sectors lost 14,846 jobs over the 2001 through 2007 period. Had these jobs stayed in the county, it is estimated that wages in these two sectors would have been \$817 million higher in 2007. Assuming all lost jobs could have been kept in El Paso County, standard multipliers for these sectors indicate the community lost a total of 33,389 jobs and \$2.1 billion in wages in 2007.

No doubt, these are overstated values. Some natural level of attrition and work environment changes would have reduced employment and wages in these sectors had the technology implosion not occurred from 2000 to 2004. While this point can be debated for some time, the local employment base shifted to an economy that is less dependent on a limited number of large, well paying employers to an economy that is increasingly dependent on smaller firms for employment. The Forum has studied the relationship between size of firm and employee wages. The Forum found the average number of employees in 2006 was 11.8 compared to 13.9 in 2001. The Forum also found that firms with fewer than 11.8 employees paid their employees an average of \$4,500 less than firms with more than 11.8 employees.

The advantage of larger numbers of small firms is the economy tends to be more stable than one dominated by fewer large employers. Our economy is probably less susceptible to volatile employment swings with the absence of key large employers. Unfortunately, the lower volatility appears to be accompanied with lower average wage levels.

A consequence of lower incomes is reduced tax collections for local governments. The Forum is not advocating higher taxes. However, a larger population and employment base do require more public services. Both the City of Colorado Springs and El Paso County governments are likely to experience a TABOR induced, ratchet down effect in 2008 and 2009. The effect will be declining services until a crisis situation

evolves. At that time, registered voters will be asked to approve a taxing authority to correct the perceived municipal revenue shortfall. Most recently, this was done with the 1% sales tax to fund the Rural Transportations Authority. A November 2008 ballot measure calls for doubling the El Paso County sales tax from 1 percent to 2 percent.

The number of foreclosures should be reduced slightly in 2009 as the inventory of problem loans works its way through the system. Fewer foreclosures and better job prospects should help rekindle the residential housing market in 2009. The Forum expects single family construction in 2009 will be about 21 percent higher than in 2008.

Fort Carson is expected to have 10,200 more troops stationed at the base in 2009. This is expected to generate wages for the troops in excess of \$550 million dollars. The expected expenditures by the troops will probably generate 12,700 civilian, local resident service jobs when equilibrium is achieved in two to four years. When equilibrium is achieved, the forum expects about 60 percent of the troops who live off base will purchase a home. If this takes place among the new troops expected at Fort Carson, they will require 5,000 single family housing units once the housing effect equilibrium is achieved in two to four years after their arrival.

The EDC has sought to increase the number of primary jobs in the community. The EDC's efforts helped to bring 2,462 new job announcements to the area in 2007. Unfortunately, the region also lost 1,471 jobs for a net job gain of 991 jobs in 2007. Help is expected for the EDC in 2008 and 2009 if the Federal Reserve's anticipated scenario for the economy pans out. The Federal Reserve appears to be content to leave the Fed Funds rate at 2 percent to stimulate the economy provided inflationary pressures are reduced. Declining world demand for energy is expected to help stem the rising trend in the cost of energy. The global decline in economic growth should also reduce price increases for basic commodities and set the stage for economic growth in 2009. The anticipated growth in the economy, national and local, should leverage the EDC's efforts to promote primary jobs in the area. As of this year, the EDC was working on 126 prospects, a 19 percent increase over the previous year. The most viable prospect list has the potential to bring 3,000 primary jobs in bioscience, data support, homeland defense and office headquarters. The year 2009 holds the potential for a turnaround year for the local economy. As with all potential things, the right mix of circumstances is needed before potential becomes reality.

## Introduction

### 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.

#### Platinum Level:

Colorado Springs Business Journal  
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US Bank

This year marks another year of our joint effort between the Forum and Holland & Hart's annual Business Symposium. We thank Holland & Hart for their partnership and we want to especially thank them for providing marketing, design and web support for the Forum.

A special thanks to all of our partners who helped organize the Forum this year, especially members of the program, finance and marketing committees.

Finally, to all of the Forum partners and our other supporters, we wish you continued success in the coming year.

*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



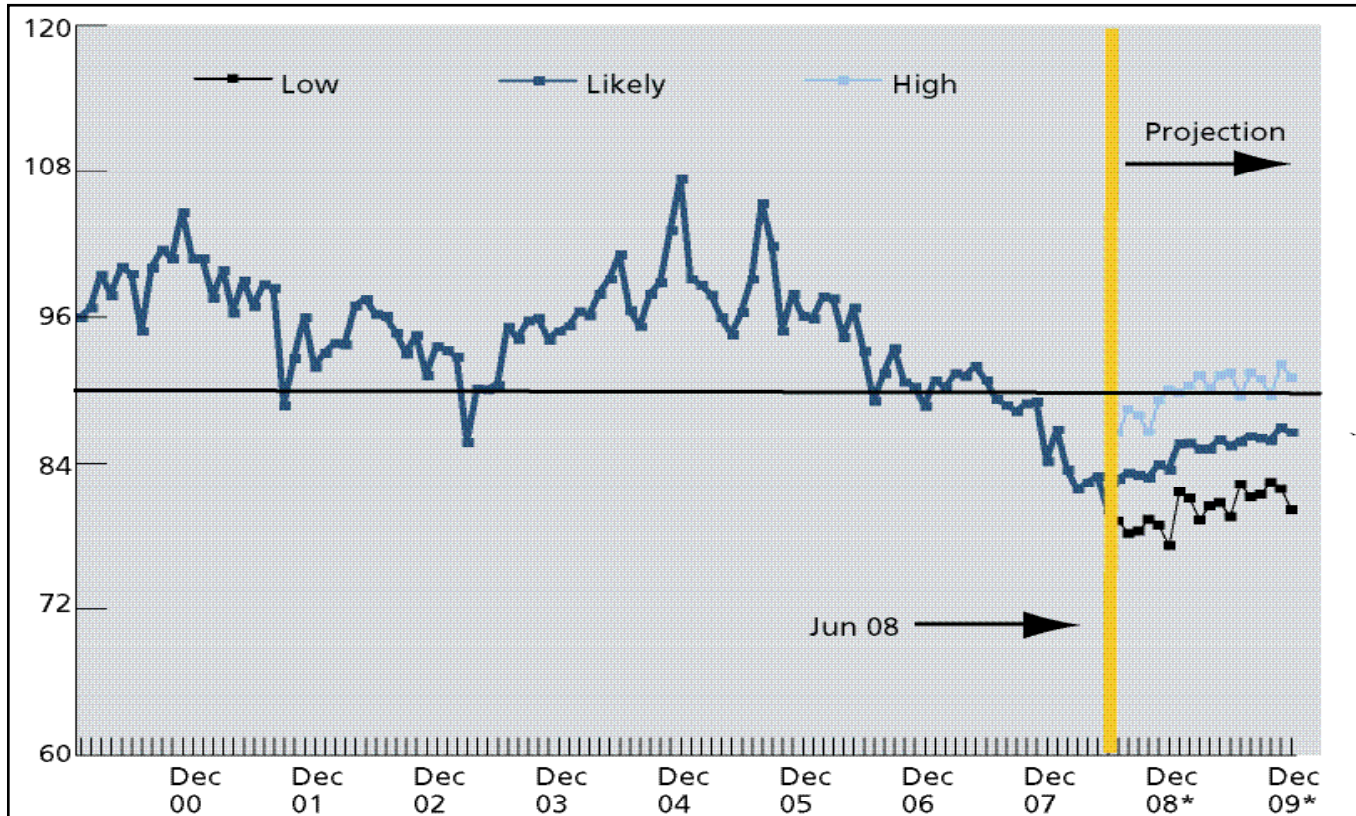
## Forecast Summary

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		
		2007	2008	2009	2007	2008	2009	2007	2008	2009
		Actual	Estimate	Forecast	Actual	Estimate	Forecast	Actual	Estimate	Forecast
1	Population	0.8	0.8	0.9	2.0	2.0	2.0	3.3	3.3	6.5
2	Unemployment Rate	4.6	5.4	6.2	3.8	4.9	5.1	4.4	5.7	5.3
3	GDP/GSP	2.2	2.2	2.8	2.0	2.5	2.2	-	-	-
4	Industrial Production	0.2	0.2	0.5	-	-	-	-	-	-
5	Non-Agricultural Employment	1.1	-0.6	-0.1	2.2	1.3	1.3	0.8	0.6	0.9
6	Total Wages & Salaries	-	-	-	6.3	5.6	5.6	5.3	4.8	4.3
7	Average Wage & Salaries	-	-	-	4.3	3.9	3.9	3.6	3.1	2.9
8	Consumer Price Index (CPI)	2.9	5.5	4.6	2.2	5.1	4.4	-	5.6	-
9	Personal Income	6.2	4.4	5.2	6.0	5.7	5.9	6.6	6.2	6.7
10	Per Capita Personal Income	5.1	3.6	4.3	4.0	3.7	3.9	3.2	2.7	2.9
11	Retail Trade	-	-	-	7.0	4.1	5.0	5.4	1.0	5.2
12	Single Family Housing Permits <sup>1</sup>	-26.0	-27.0	1.2	-22.6	-15.9	-1.0	-35.1	-21.6	20.8
13	Non-Residential Construction	5.8	3.3	1.1	10.4	2.2	2.8	9.3	8.7	-17.6

Source: Colorado Office of Budgeting and Planning, June 2008 Revenue Forecast, Federal Reserve Bank of Philadelphia, Bureau of Economic Analysis and the Southern Colorado Economic Forum.  
<sup>1</sup> Includes single family detached and town home units.

# Business Conditions Index

Business Conditions Index: March 2001 = 100 (BCI)



	COS Enplane-ments	El Paso SF & TH Permits	U Of Mich Con Sent	El Paso Employ-ment Rate	Colorado Springs 2% Sales & Use Tax	El Paso Car Sales	El Paso Foreclo-sures	El Paso Employed	El Paso Income	BCI
Jan-08	93.20	35.03	81.01	98.33	107.79	87.40	98.11	112.85	103.94	86.88
Feb-08	93.12	30.85	77.06	98.14	99.40	80.71	97.19	112.97	104.66	83.64
Mar-08	90.14	28.74	75.77	97.96	104.12	72.64	97.35	113.08	105.19	82.04
Apr-08	87.24	28.47	68.75	98.05	101.79	93.43	97.43	112.65	102.35	82.59
May-08	93.34	36.69	65.54	97.75	101.78	75.98	97.89	111.47	102.32	83.12
Jun-08	85.60	23.83	60.49	98.11	110.33	96.42	96.86	110.38	101.46	80.36

### WHY IS THIS IMPORTANT?

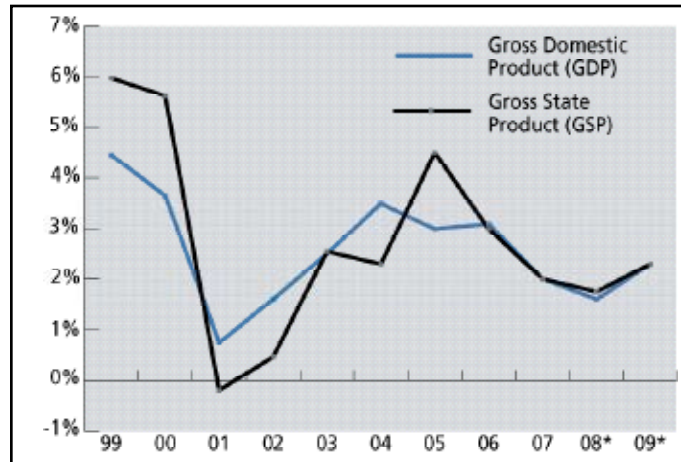
An aggregate trend of the local economy is extremely useful in gauging whether the economy is expanding, contracting or remaining stable. Rather than replace individual measures of activity such as housing or retail sales, the aggregate index should be compared to the individual indicators within the 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?

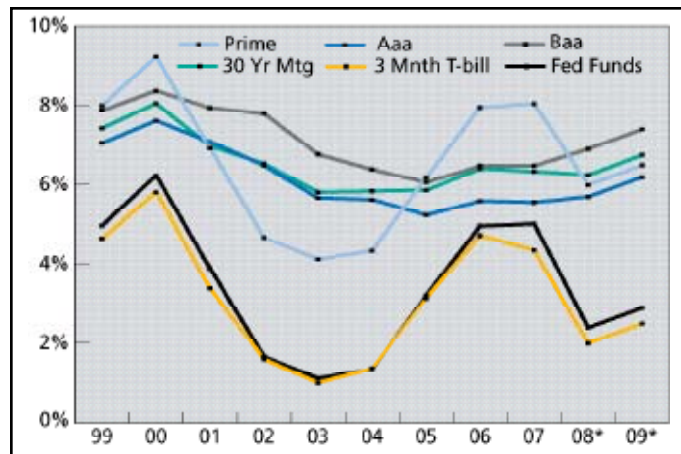
The BCI declined from 88.82 in 2006 to 84.3 in 2007 despite the fact that six of the nine indicators increased in 2007. Declines took place in residential permit activity, consumer sentiment and foreclosures. A 4.5 point decline in the BCI points to the importance of consumer activity in our economy. The lack of a positive consumer sentiment and consumer investment in housing can slow the economy. As of June 2008, the BCI stood at 80.36. Areas of weakness will constrain the BCI through the remainder of 2008. The BCI is expected to average 83 for all of 2008. Assuming the Federal Reserve adequately addresses current liquidity issues in financial markets, the BCI is expected to average 86 in 2009. Most improvements will not take place until late second quarter or third quarter of 2009.

## National and State Indicators

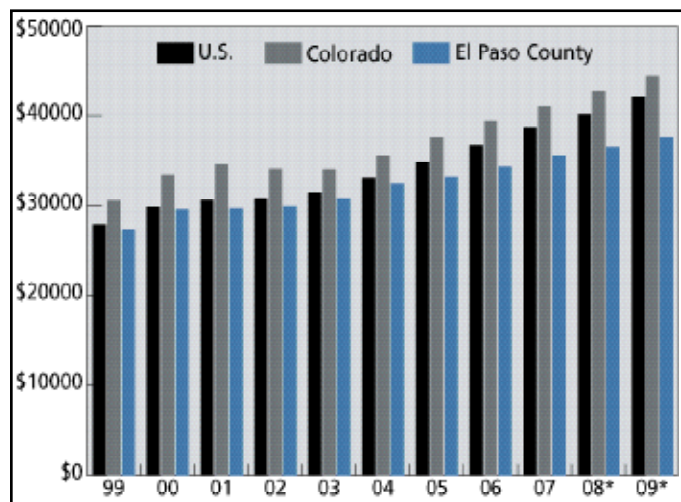
### Gross Domestic Product (GDP) and Gross State Product (GSP) Growth



### Key Interest Rates



### Per Capita Personal Income



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

### 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.

### HOW ARE WE DOING?

Growth in real GDP was 2.0 percent in 2007, a decline from a rate of 3.1 percent in 2006. Through June 2008, real GDP grew at 1.6 percent. The relatively slow growth in the last two and a half years reflects the Federal Reserve's monetary tightening policies from June 2004 through June 2006, rising oil prices and the decline in consumer sentiment. Colorado's GSP growth lagged U.S. GDP in 2006 by 0.1 percent and matched U.S. growth in 2007. GSP for Colorado is expected to be about 10% higher than U.S. GDP in 2008. GDP and GSP are expected to grow at 2.8 and 2.3 percent, respectively, in 2009.

Concerns about capital markets and a slowing economy drove the Fed to lower the discount rate in nine steps from 6.25 percent to 2.25 percent from August 17, 2007 through April 30, 2008. The target rate for the Fed Funds rate was reduced from 5.25 percent to 2.00 percent from September 18, 2007 through April 30, 2008. Current indicators suggest concern about the value of the dollar, oil prices, housing values, inflationary pressures, consumer sentiment and viability of the financial bailouts.

Per capita income growth continued its upward trend in the U.S. and Colorado in 2007. Preliminary estimates for 2007 indicate per capita income was \$38,632 for the U.S., a 5.2 percent increase, and \$41,042 for Colorado, a 4.0 percent increase.

Colorado's projected per capita income is expected to be \$42,471 in 2008 and \$44,340 in 2009. Since 1990, per capita personal income in Colorado has been about 9 percent higher than the U.S. per capita income. The gap is expected to decrease to approximately 5 percent above the U.S. average for 2009.

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 \$35,550 in 2007. The gap between El Paso County and Colorado per capita income continues to grow. In 1990, El Paso County per capita income was 9.7 percent below Colorado's. By 2007, El Paso County's per capita income was 13.4 percent or \$5,492 below Colorado's. This is \$267 worse than 2006. Projected per capita income in El Paso County is expected to increase to \$36,510 in 2008 and \$37,569 in 2009. This would be about 2.8 percent a year.



## Sentiment and Savings

### WHY IS THIS IMPORTANT?

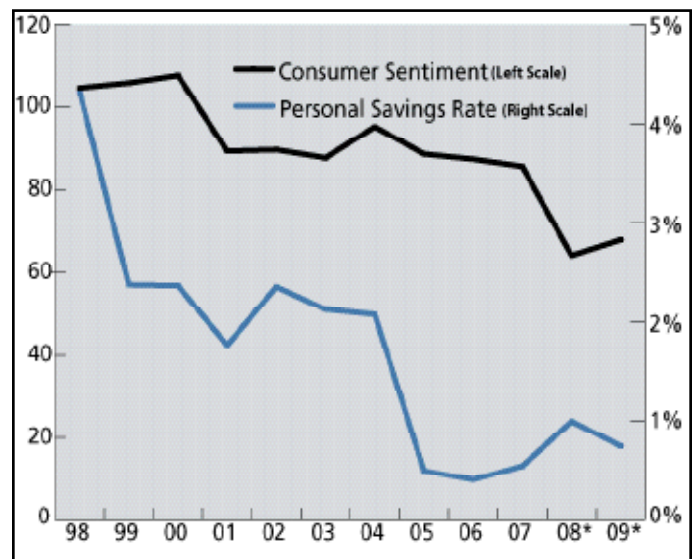
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of the consumer's confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer sentiment measures confidence using 1996-97 as the base 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. It has trended down through recession, war, escalated gasoline prices, a national housing crisis and recent rising interest rates and inflation. The August 2008 consumer sentiment stood at 61.7, 23.6 points below June 2007. The CPI is now 5.6 percent higher than a year ago. Gasoline was relatively inexpensive in August at \$3.60 after hitting \$4.16 at its peak in July. Concerns about rising inflation and unemployment rates will hold consumer sentiment to 64.25 in 2008. A modest increase to 68 is expected in 2009.

The tax stimulus checks are expected to lead to a 1% savings rate in 2008, up from 0.55 percent in 2007. This is not expected to be a pattern as rising unemployment rates and decreased disposable incomes are expected to leave the consumer with less savings in 2009. The savings rate is expected to be 0.75 percent in 2009.

### Consumer Sentiment and Personal Savings Rate



\* SCEF forecast

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

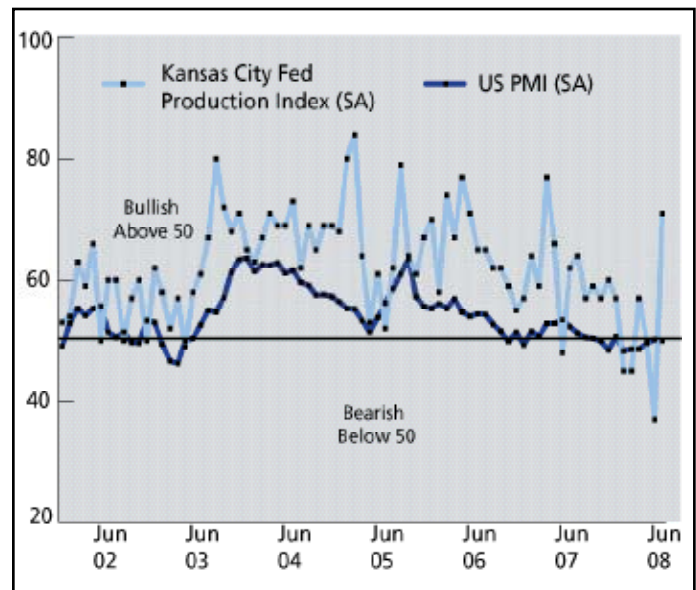
### WHY IS THIS IMPORTANT?

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 Kansas City Federal Reserve's Production Index (KCPI) and the national PMI have tended to be in bullish territory since early 2008. The KCPI has demonstrated great volatility over the years. The KCPI's July 2008 value of 71 is not expected to be sustained. The U.S. PMI and the KCPI should remain over 50 in 2008 if three conditions prevail. First, oil price need to drop to \$110 per barrel. Second, inflationary pressures need to decrease. Third, the Federal Reserve's current monetary policy and changes to the residential mortgage market need to show signs of improving the economy and housing problems. Currently, expectations call for growth in 2009 that will be similar to 2008 levels.

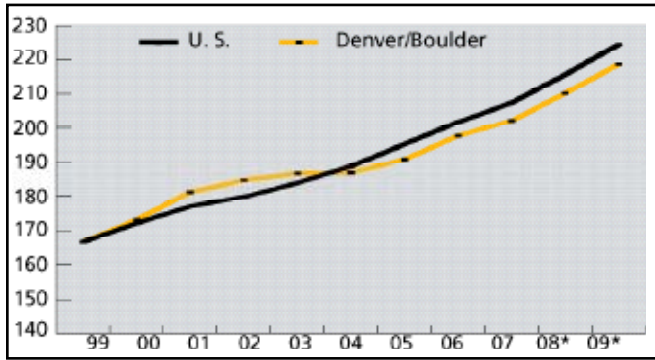
### Purchasing Managers Index



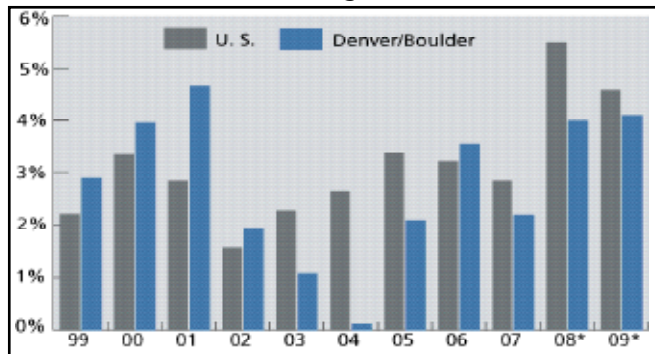
Sources: Institute of Supply Management and Creighton University

## 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.

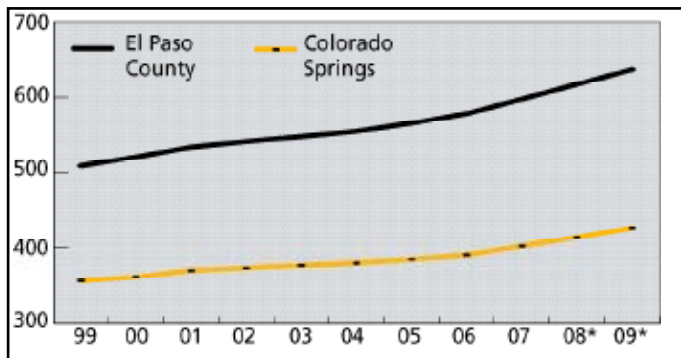
#### HOW ARE WE DOING?

The Denver/Boulder/Greeley CPI rose an estimated 2.2 percent in 2007 after rising 3.6 percent in 2006. The modest price increases for 2007 will be short lived. The CPI is expected to increase at a faster rate in 2008 and 2009.

The U.S. urban CPI rose 2.9 percent in 2007 after increasing 3.2 percent in 2006. Led by gasoline price increases (up 37% over July 2007), inflationary pressures were seen in a broad array of categories in late 2007 through July 2008. Food prices rose 6.0 percent from July 2007 to July 2008. Commodity prices increased 7.8 percent while housing costs increased 3.9 percent. Inflation averaged 5.6 percent from July 2007 to July 2008.

The Office of State Planning and Budgeting (OSPB) expects Colorado prices to rise 4.0 percent for all of 2008 and 4.1 percent in 2009. The Forum projects U.S. inflation will be 5.5 and 4.6 percent in 2008 and 2009, respectively.

### Colorado Springs and El Paso County Population (000s)



#### 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.

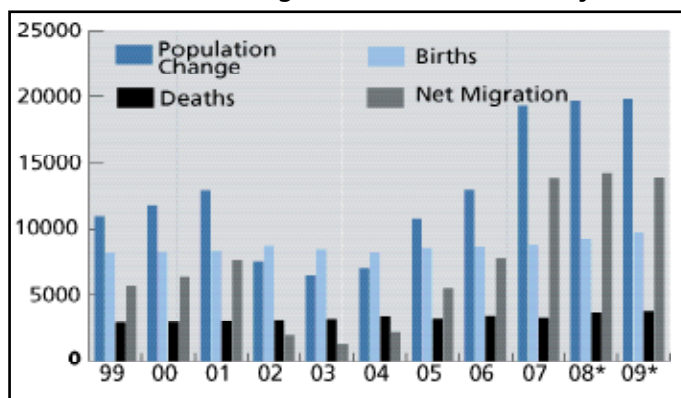
Population growth comes from the natural increase (births minus deaths) and from net in-migration (or out-migration). The sum of these components is the change in population. Identifying trends in these indicators helps project future changes in the county's population and their impact on the economy.

#### 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 597,635 in 2007, an increase of 19,299 over 2006. The large increase in 2007 addresses the Forum's belief that population was under counted by at least 10,000 in 2006.

The natural increase in the population was 5,495 in 2007. In the early to mid 1990's in-migration accounted for 60-70 percent of the total population change. That percentage dropped to 20 percent in 2003. In 2007, migration again explained 70 percent of the population growth. The Forum expects normal net migration plus Fort Carson troops and dependents arrivals will add approximately 40,000 to El Paso County in 2009-2010. This is about 20,000 higher than DOLA projected. The DOLA projections are shown in the chart.

### 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.

## Unemployment and Employment

### 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?

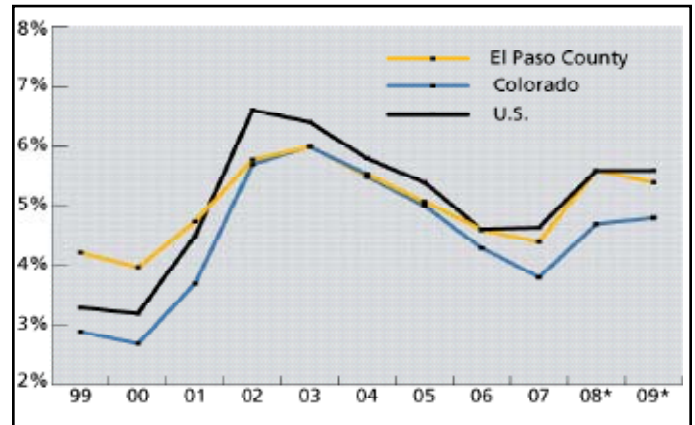
The seasonally adjusted (SA) July 2008 unemployment rate in El Paso County stood at 5.9 percent vs. 4.3 percent in July 2007. Colorado's SA July unemployment rate was 5.2 percent vs. 3.8 percent in July 2007. The U.S. unemployment rate increased to 5.7 in July compared to 4.7 percent in July 2007. The local and state employment pictures have been better than in the U.S. Colorado and El Paso County fared better than the nation through the Federal Reserve's tight monetary policy induced slowdown. The Colorado Office of Budget and Planning estimates that unemployment will be 4.7 percent in Colorado for all of 2008 and fall to 4.5 percent in 2009. The Forum projected the unemployment rate for the U.S. will average 5.7 percent in 2008 and 6.2 percent in 2009. The Forum projects El Paso County unemployment will average 5.7 percent in 2008 and 5.3 percent in 2009.

The employment picture improved slightly in El Paso County during 2007. The Colorado Department of Labor reported an increase of 1,882 non-agriculture jobs. Average annual Quarterly Census of Employment Wages (QCEW) employment was 247,123, or 0.8 percent above 2006. This is lower than the 2.2 percent gain in 2006 and 1.7 percent gain in 2005. The best employment gains were in Administration and Waste Services (872), Health Care (740), Professional and technical Services (308), Accommodations (170), Management of Companies (131), Wholesale (130) and Retail (126). Significant employment losses were seen in Manufacturing (1,008), Construction (508), Finance and Insurance (400) and Information (276). A total of twelve sectors saw employment gains while eight sectors saw employment losses. These patterns reflect the slow down in the economy the Forum anticipated.

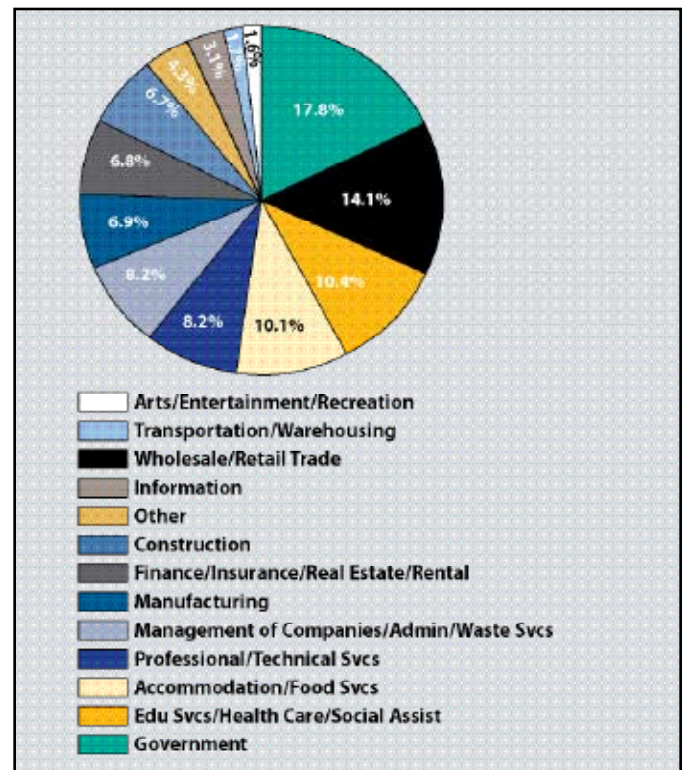
Average wages increased 3.6 percent to \$39,988 in 2007. All sectors saw average wage increases in 2007 except for mining and performing arts. The largest percentage gains were in agriculture (12.5%), management services (9.0%), accommodations (7.7%), information (6.7%), financial services (5.5%), professional services (4.5%), transportation (4.4%) and utilities (4.3%).

Average wages increased in all of Colorado by 4.3 percent in 2007. Wages went from \$43,524 in 2006 to \$45,396 in 2007. Wage increases in El Paso County lagged the state levels and were 3.6 percent higher than in 2006. Wages went from \$38,584 in 2006 to \$39,988 in 2007. The average wage in El Paso County is now 11.9 percent lower than the average wage in Colorado. In 2006, El Paso County wages were 11.4 percent below the average in Colorado.

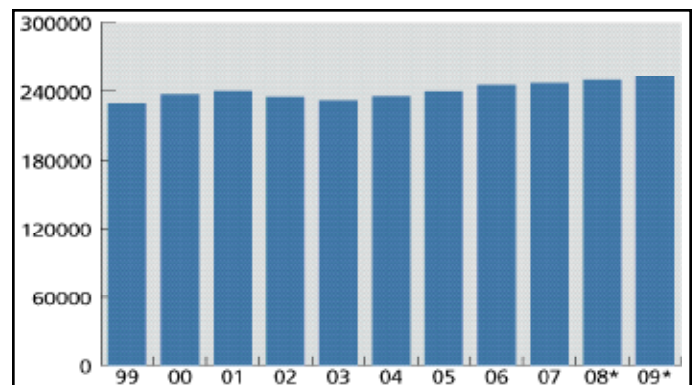
### The Unemployment Rate in El Paso County, Colorado, and the U.S.



### 2007 Employment in El Paso County by North American Industrial Classification (NAICS)



### Total QCEW Employment in El Paso County



\* Through June 2007 and estimate for 2008

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

## Employment and Wages

El Paso County Average Annual Employment and Wages by NAICS Classification in 2006 and 2007							
NAIC Code		2006			2007		
		Employment	Percent of Total Employment	Average Annual Wage	Employment	Percent of Total Employment	Average Annual Wage
11	Agriculture, Forestry, Fishing & Hunting	347	0.1	\$20,800	311	0.1	\$23,400
21	Mining	163	0.1	99,632	135	0.1	90,948
22	Utilities <sup>1</sup>	573	0.2	86,372	608	0.2	90,168
23	Construction	17,104	7.0	41,756	16,576	6.7	42,588
31-33	Manufacturing	17,965	7.3	52,312	16,957	6.9	54,340
42	Wholesale Trade	5,748	2.3	49,452	5,878	2.4	50,232
44-45	Retail Trade	28,929	11.8	24,960	29,055	11.8	25,532
48-49	Transportation & Warehousing	4,353	1.8	33,956	4,295	1.7	35,464
51	Information	8,011	3.3	57,720	7,735	3.1	61,568
52	Finance & Insurance	12,751	5.2	45,552	12,351	5.0	48,048
53	Real Estate, Rental & Leasing	4,648	1.9	29,640	4,500	1.8	30,576
54	Professional & Technical Services	19,971	8.1	68,432	20,279	8.2	71,500
55	Management of Companies & Enterprises	830	0.3	73,736	961	0.4	80,392
56	Administrative and Waste Services	18,449	7.5	30,316	19,321	7.8	31,460
61	Educational Services	3,820	1.6	31,096	3,880	1.6	32,032
62	Health Care & Social Assistance	21,019	8.6	38,636	21,759	8.8	39,780
71	Arts, entertainment & Recreation	3,852	1.6	18,252	3,882	1.6	18,096
72	Accomodation & Food Services	24,768	10.1	14,092	24,938	10.1	15,184
81	Other Services	9,481	3.9	31,876	9,648	3.9	33,332
99	Non-Classifiable	9	0.0	37,648	10	0.0	45,760
	<b>Total Non-Government</b>	<b>202,791</b>	<b>82.7</b>	<b>37,980</b>	<b>203,079</b>	<b>82.2</b>	<b>39,365</b>
	<b>Government</b>	<b>42,450</b>	<b>17</b>	<b>41,496</b>	<b>44,044</b>	<b>17.8</b>	<b>43,004</b>
	<b>Total All Industries</b>	<b>245,241</b>	<b>100.0</b>	<b>38,584</b>	<b>247,123</b>	<b>100.0</b>	<b>39,988</b>

<sup>1</sup> Does not include Colorado Springs Utilities  
Source: Colorado Department of Labor QCEW.

## Business Costs

### 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 the top 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 with one national component. The local factors are average wages, electricity prices, rents and aggregate property tax levies. The fifth measure used in COBI is the national cost of benefits. All measures are indexed to 2001 = 100. The COBI is the unweighted geometric average of the five measures. 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?

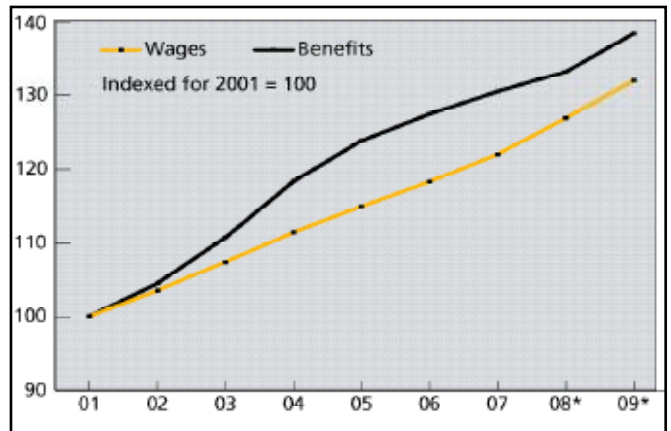
The national benefit cost index continued to rise faster than wages in 2007. Benefits rose approximately 3.1 percent in 2007 compared to 2.9 percent in 2006. Wages rose at a slower rate in 2007 (2.4%) than in 2006 (2.9%). Nationally, wages have increased a modest 3.4 percent a year since 2001. Benefits have increased 5.0 percent a year since 2001. The Forum expects wages will increase nationally by 2 percent while benefits will increase by 4 percent in 2008. Weak economic conditions in 2009 will keep wage growth to 2.2 percent and benefits growth to 3.8 percent.

The base year for the COBI is set at 100 in 2001 (2001 = 100). The index stood at 121.51 at the end of 2007. This means the average cost of business is 23.5 percent higher in 2007 than in 2001. By comparison, the CPI rose 11.9 percent while the PPI rose 28.7 percent during the same period. The Forum forecasts that the cost of business index will increase 3.1 percent to 127.3 in 2008 and 2.2 percent in 2009 to 130.1

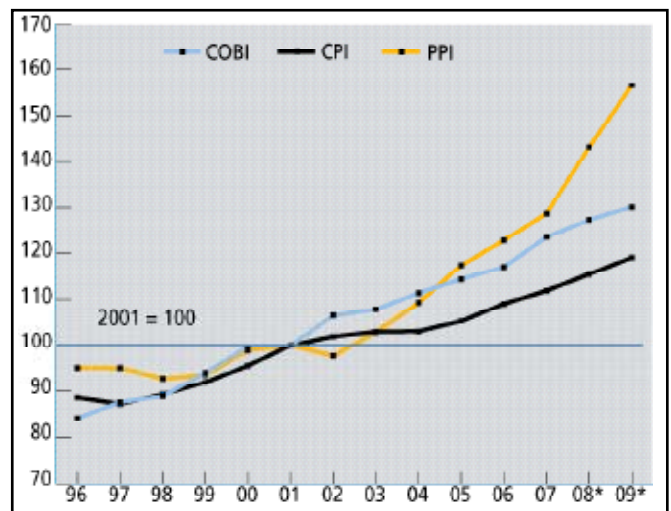
The final chart on this page provides the average annual percentage increase in the individual components in the COBI since 1992 and their respective increases in 2007 compared to 2006. All costs of business that the Forum monitors were above their historical averages in 2007. The components and their change in cost in 2007 compared to 2006 were: electricity 2.9 percent; wages 4.1 percent; benefits 4.3 percent; rents 5.9 percent; property taxes 10.8 percent. The property tax change is based on total property taxes collected. It is not a change for a specific property.

The Forum expects that inflationary pressures that began to appear in late 2007 will continue through the first half of 2009. As a result, there will be general price pressure for the cost of business. Rents are expected to decline as the economy slows. Electricity costs are expected to increase significantly in February 2009, due to expiring coal and gas contracts for Colorado Springs Utilities.

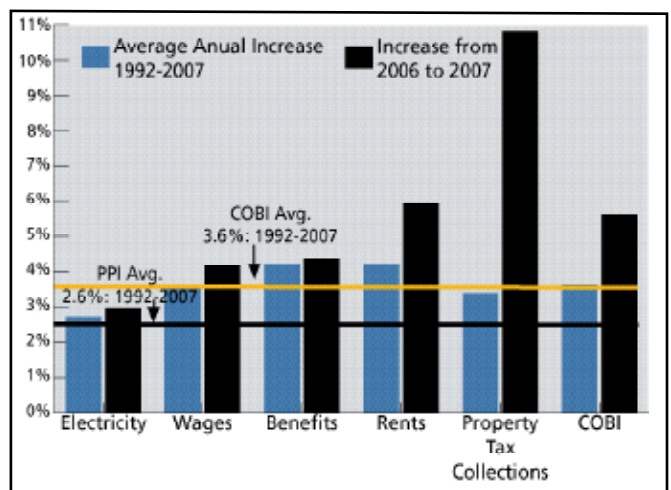
### Wage and Benefit Cost Index U.S. Average



### 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

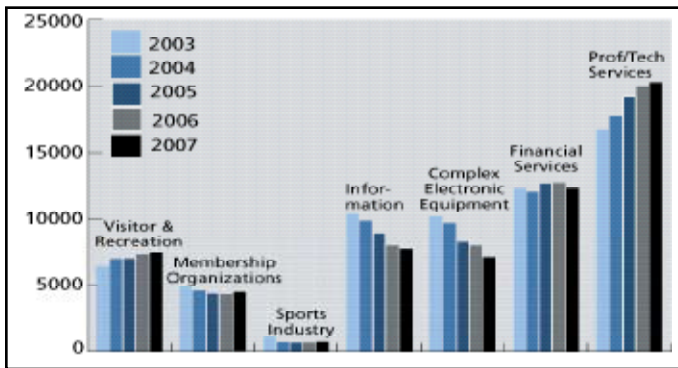


\* SCEF forecast

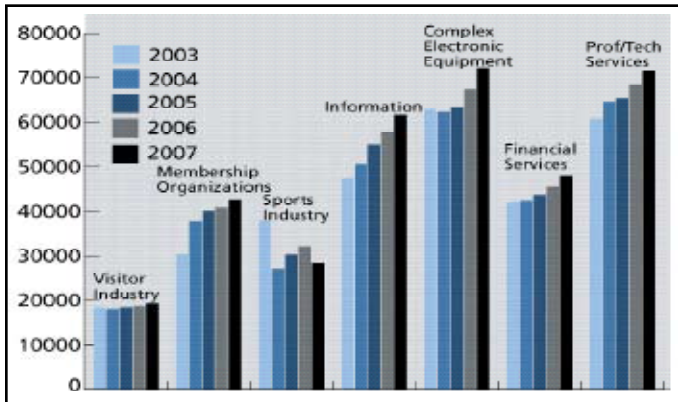
Source: Federal Reserve Bank of St. Louis, SCEF

## 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 Governments

### WHY IS THIS IMPORTANT?

The Economic Development Corporation has identified key cluster industries 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.

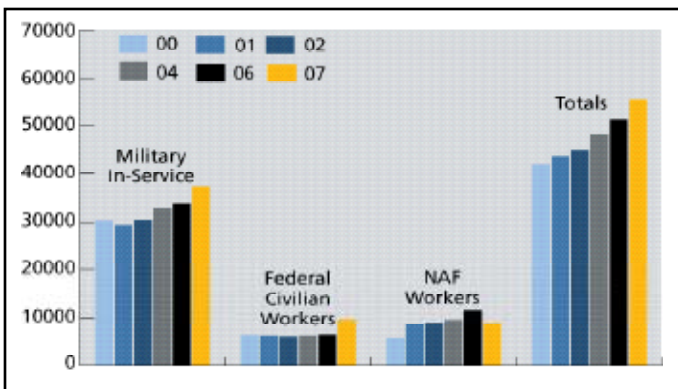
### HOW ARE WE DOING?

Primary employers/cluster industries are the economic engine in the economic multiplier process. A primary employer generates at least half of its revenues from customers outside the local economy. Year 2007 marks the first time that sufficient data existed to analyze employment and wages for seven primary sectors since the 2001 changeover from SIC to NAICS.

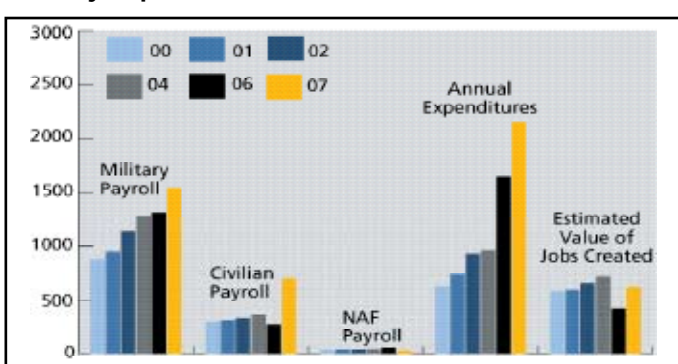
Primary sectors provided 28.8 percent of all jobs and 39.5 percent of all wages in 2001. By 2007, primary sectors provided 24.5 percent of all jobs and 34.7 percent of all wages in El Paso County. The primary employers' share of the local economy has deteriorated significantly since 2001. Had the proportion of primary jobs remained the same in 2007 as it was in 2001, the county would have had 11,170 more primary jobs and \$629 million more wages dollars in 2007. Multiplier effects would produce at least another 15,000 jobs and another \$600 million dollars in wages in 2007.

Key primary employers must be identified and attracted to the local economy to raise the standard of living for its residents.

### Military Employment in El Paso County



### Military Expenditures (\$ millions)



Sources: Military installations, The Greater Colorado Springs Economic development Corporation and The Greater Colorado Springs 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 to 37,157 in 2007 from 34,484 in 2006, or 7.8 percent. Approximately 11,600 more troops are expected at Fort Carson by 2011. This will bring active military population to approximately 48,757. The Forum estimates active military and dependent population at 106,540 in 2007. This is expected to grow to 139,800 in 2011 after an additional 11,600 troops are stationed at Fort Carson. By 2011, military families are expected to represent approximately 22 percent of the county's total population.

In addition to the active duty personnel, there were approximately 18,200 civilians on military payrolls in 2007. Together, they represent 55,300 jobs, 16.8 percent of all employment (civilian plus military) in El Paso County.

Based on available data, the Forum estimated payroll, expenditures and the value of jobs created in 2006 and 2007. For 2007, the military payroll was approximately \$1.543 billion. Civilian payroll was approximately \$733 million. The aggregate economic impact of direct and indirect military related wages and construction activities in 2007 was approximately \$4.5 billion. The Forum estimated the military accounted for 19 percent of the county's Gross Metropolitan Product in 2007.

## Tourism and Lodging

### WHY IS THIS IMPORTANT?

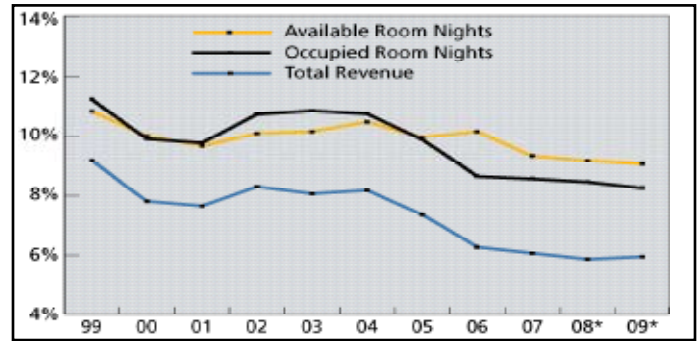
Hotel market share, relative to Colorado totals, are general indicators of the health of local tourism. Changes in these can signal changes in the popularity of Colorado Springs as a tourism destination compared to the rest of Colorado. The lodger's and auto rental tax is an additional tourism indicator.

### HOW ARE WE DOING?

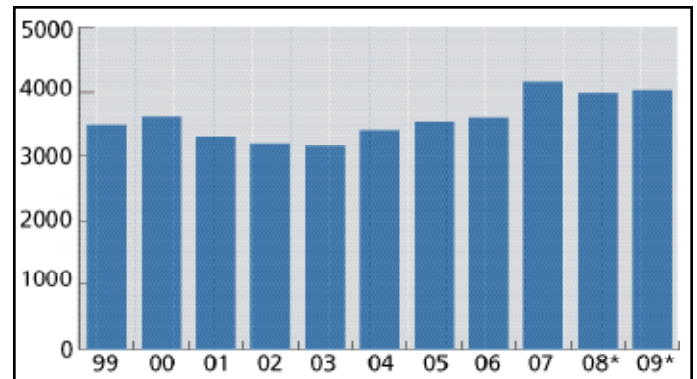
Each year, about 6 million people visit the Pikes Peak area. These visitors generate over \$1 billion in travel-related revenue. Single room rates range from \$20 to \$300. Many of the new rooms are value-priced facilities in the \$65 to \$80 range. Colorado Springs' market share of statewide occupied room nights, revenues and available room nights have declined steadily since 1998. The number of occupied room nights decreased from 125,393 in June 2004 to 107,199 in June 2008, a decline of 14.5 percent. Standardizing the data reveals the occupancy rate declined from 77.4 percent in June 2004 to 66.2 percent in June 2008. Adjusting for inflation, hotel revenues for the benchmark month of June went from \$10,628,226 in 2004 to \$9,279,184 in 2008. The hotel industry in Colorado Springs is losing market share to other locations in the state.

The problems in the local hotel industry are contributing to the lack of growth in tax collections on lodging and automobile rentals (LART). Collections for 2008 are expected to be \$4.1 million, down from \$4.2 million in 2007. Adjusting for inflation, real LART is expected to be \$3.7 million in 2008, a decline of 10.3 percent from the 2004 reference year in the lodging analysis. A slow recovery in the economy will probably support nominal gains in hotel occupancy and LART in 2009.

### Colorado Springs Hotel Market Share as a Percent of Colorado Totals



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



\* SCEF forecast

Source: Rocky Mountain Lodging Report; City of Colorado Springs Finance Department, Sales Tax Division

### WHY IS THIS IMPORTANT?

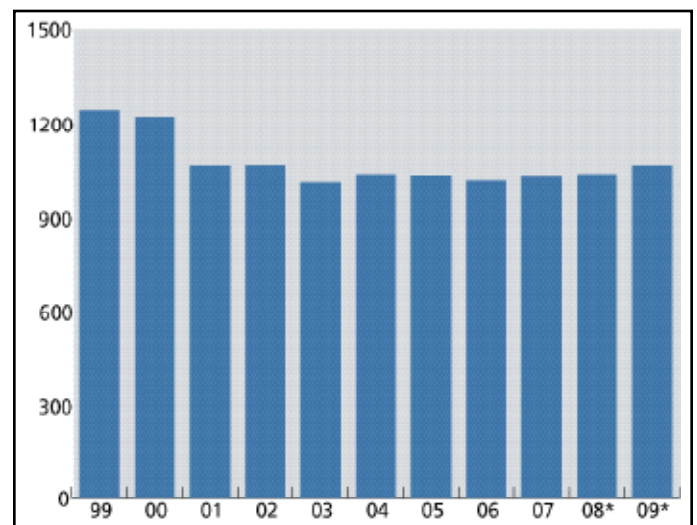
Air service contributes to the quality of life and the economic prosperity of southern Colorado. Air service has a profound impact on the local economy, particularly air-dependent industries. Companies need convenient service in order to maximize productivity and minimize travel time. Company location 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 1,029,292 in 2007, a 1.2 percent increase over the 1,016,867 enplanements in 2006. The nominal increase was projected last year by the Forum. The increase in enplanements is attributed to completed repairs to the main runway and the arrival of two regional carriers. Through June 2008, enplanement activity is up 5.5 percent compared to June 2007. An increase was expected by the Forum.

Several structural changes in air travel have taken place since the spring. Midwest and Express Air announced the end of service in 2008. Fuel prices have forced airlines to reduce service where possible. The slowing economy will reduce air travel. Enplanement gains through June are likely to be eroded in the second half of the year. The Forum believes enplanements in 2008 will be 5,000 higher than in 2007. Depending on the conditions in the economy and fuel prices, enplanements could end up slightly below 2007 levels. Enplanements in 2009 are expected to be up 3 percent due to a recovering economy and enplanements by additional troops at Fort Carson in the second half of the year.

### Colorado Springs Airport Enplanements (000s)

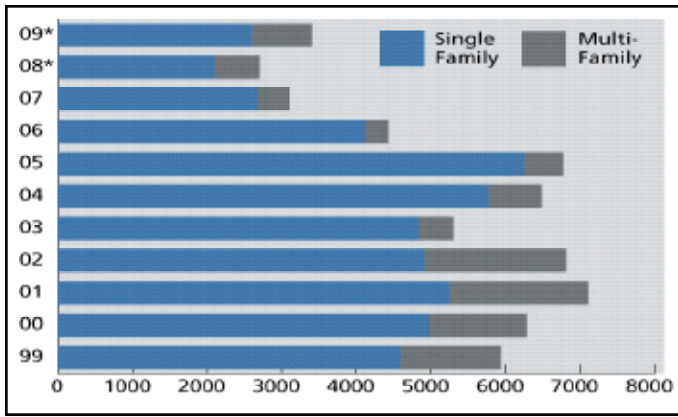


\* SCEF forecast

Source: Colorado Springs Airport

# Construction and Housing

## Residential Building Permits ( Dwelling Units)



### WHY IS THIS IMPORTANT?

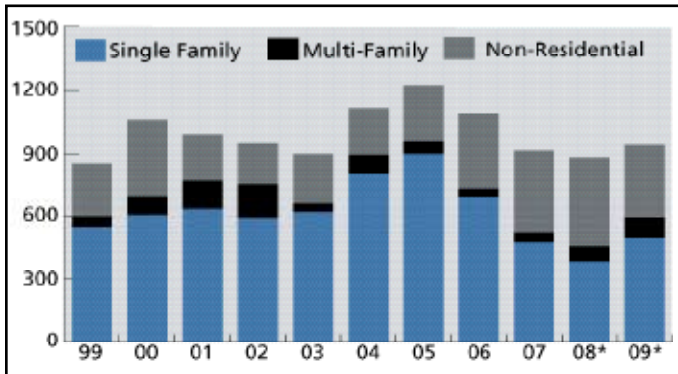
Growing communities like Colorado Springs continually add to the housing stock in order to meet the needs of new residents. With a desirable location, Colorado Springs and El Paso County will continue to grow. Adequate and affordable housing must be available to accommodate the growth.

### HOW ARE WE DOING?

Capital market and sub prime mortgages continued to wreak havoc on residential construction in 2007 and into 2008.

There were 2,677 single family permits in 2007. This is 1,448 below the 4,127 permits in 2006. The problem in the housing market is expected to continue at the national level longer than in El Paso County. Troop arrivals and normal population growth are expected to help start a housing recover in 2009. The Forum projects there will be 2,100 single family permits in 2008 and 2,600 permits in 2009. Multi-family permits are expected to be 600 in 2008 and 800 in 2009.

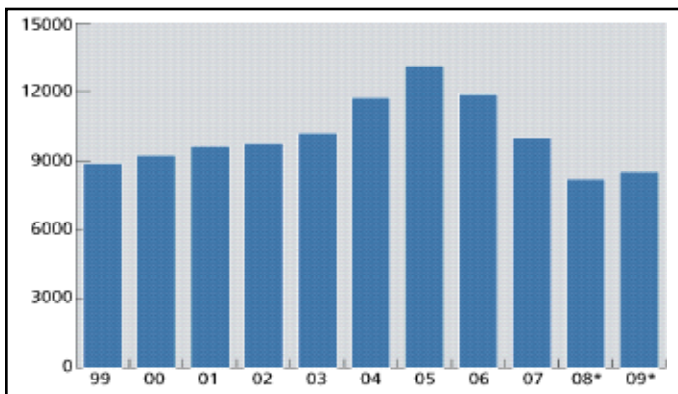
## Value of Construction (\$ millions)



\* SCEF forecast  
Source: Pikes Peak Regional Building

Non-residential construction in 2007 was a strong \$391 million. Most private and public projects started in 2007 are winding down in 2008. New hotel/office projects scheduled for the downtown market have been postponed due to the slow economy. Non-residential permits are expected to be \$425 million in 2008 and \$350 million in 2009. Single family permit value is expected to be \$374 million in 2008 and \$460 million in 2009.

## El Paso County Home Sales



### WHY IS THIS IMPORTANT?

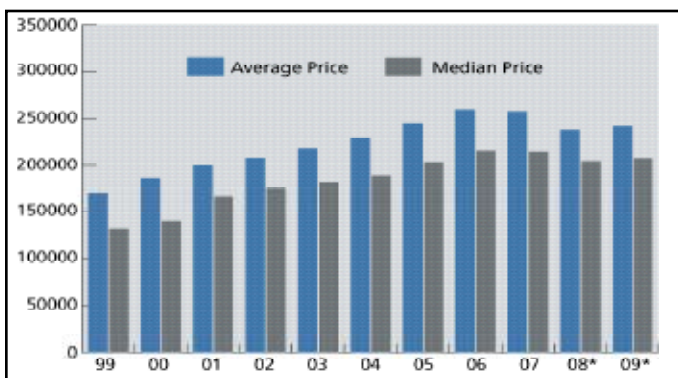
Home sales are an indicator of vitality in the local real estate market. An unusual drop in annual home sales could indicate a problem in one or more economic sectors.

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 the largest assets in an individual's portfolio. Home valuation forms the basis of local residential property taxes. Property taxes, in turn, are used to support public schools in the area.

### HOW ARE WE DOING?

Housing sales fell sharply after June 2006 and continued through June 2008. A total of 9,995 sales were reported by the Pikes Peak Association of Realtors in 2007, a 15.9 percent decline compared to 11,890 sales recorded in 2006. Housing sales are expected to decline in 2008 to 8,200. A recovering economy and the Fort Carson effect are expected to increase sales to 8,500 in 2009.

## Mean and Median Prices of Homes



\* SCEF forecast  
Source: Pikes Peak Association of Realtors

The average home price in the region stood at \$252,549 in July 2008, a decline of 7.9 percent. The July median price was \$223,900, a 1.3 percent decline over 2007. More importantly, the Office of Federal Housing Enterprise Oversight reported in June 2008 that same house sale prices in El Paso County actually increased 0.5 percent over the year earlier.

The decline in the price of homes sold is attributed to three factors. First, fire sale foreclosure units have lowered prices. Second, aggressive discounting on new home prices and the decline in new home sales have lowered the average. Third, capital market problems have made it difficult to finance a jumbo mortgage.



## Foreclosures and Utilities

### 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.

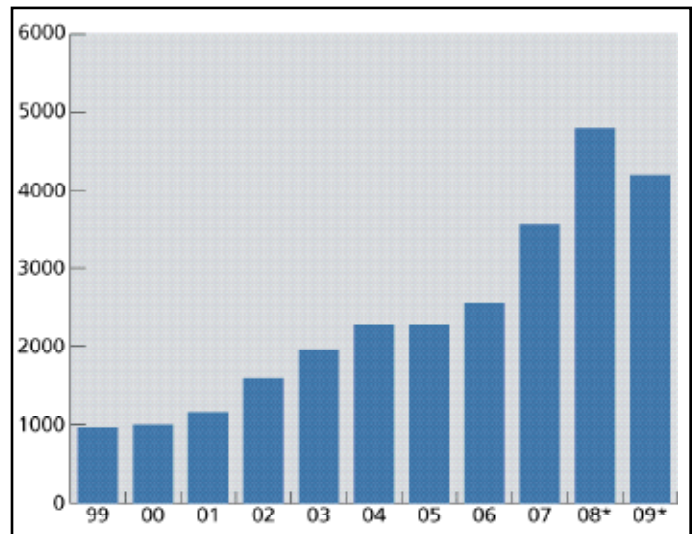
### HOW ARE WE DOING?

There were 3,556 foreclosures in 2007, up 39.3 percent from 2006. At the current rate, the Forum anticipates there will be 4,800 foreclosures in 2008. The Forum expects 4,200 foreclosures in 2009, a modest improvement over 2008.

The general lack of liquidity in the housing market is preventing some homeowners from selling their homes to stave off a foreclosure. Moreover, a number of home buyers who purchased with zero down financing are finding it difficult to refinance into a fixed rate mortgage. This is especially true where prime and sub prime mortgages had rapidly escalating interest rate schedules and prohibited principal repayment during the first five years of the mortgage. These mortgages are working themselves out of the market very slowly. Deteriorating capital markets are aggravating foreclosure problems.

Foreclosures affect new residential construction. Normal supply and demand forces are disturbed as they cope with thousands of foreclosed homes on the market. Resale homes take longer to sell. Price appreciation slows. New home contracts are canceled by prospective buyers because they are unable to sell their existing home in a timely manner. Residential construction will not recover until the foreclosure problem is corrected.

### Foreclosures in El Paso County



\* SCEF forecast  
Source: El Paso County Public Trustee

### WHY IS THIS IMPORTANT?

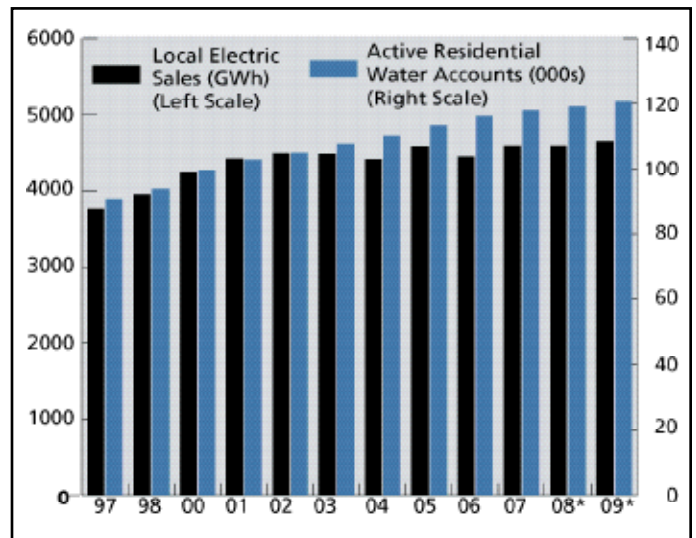
Local electric sales and residential water accounts are good indicators of growth and economic activity. Active residential water accounts correlate with residential construction and housing market activity. Changes in electric sales on system capture both residential and commercial activity.

### HOW ARE WE DOING?

From 1993 to 2000, the number of active residential water accounts 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. Between 2000 and 2006, growth in water accounts slowed to 2.6 percent per year. Water account growth from 2006 to 2007 grew a modest 1.4 percent. Projections for 2008 and 2009 put water account growth at 1.1 percent growth a year. This reflects the slow growth pattern in El Paso County and, more importantly, a declining share of new residential units for the City of Colorado Springs.

Electric sales grew at an average annual rate of 4.2 percent from 1993 through 2000. Growth slowed materially to 0.8 percent from 2001 through 2006. Electric sales grew at a modest 1.1 percent in 2007. Growth is expected to be flat in 2008 before increasing to 1.4 percent in 2009. As was noted above, the slower growth in electric demand reflects low growth pattern in El Paso County and, more importantly, a declining share of new residential units for the City of Colorado Springs. It also reflects the loss of high electricity users such as Intel.

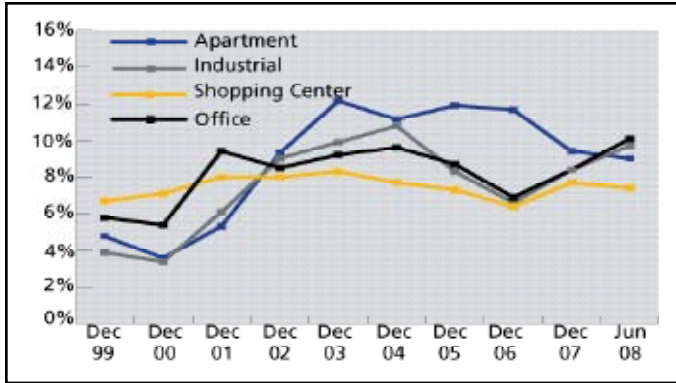
### Total Local Electric Sales on System (GWh) Active Residential Water Accounts (000s)



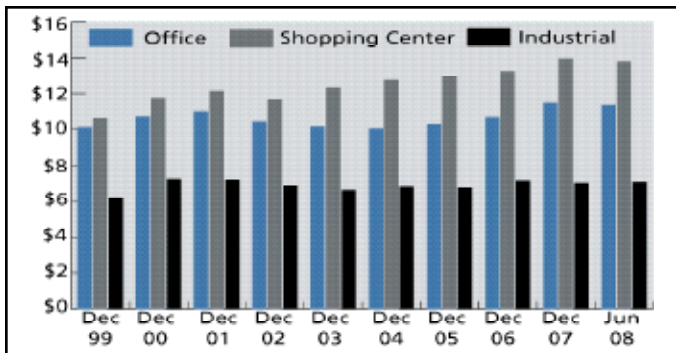
\* SCEF forecast  
Source: Colorado Springs Utilities

## Commercial Property and Retail

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

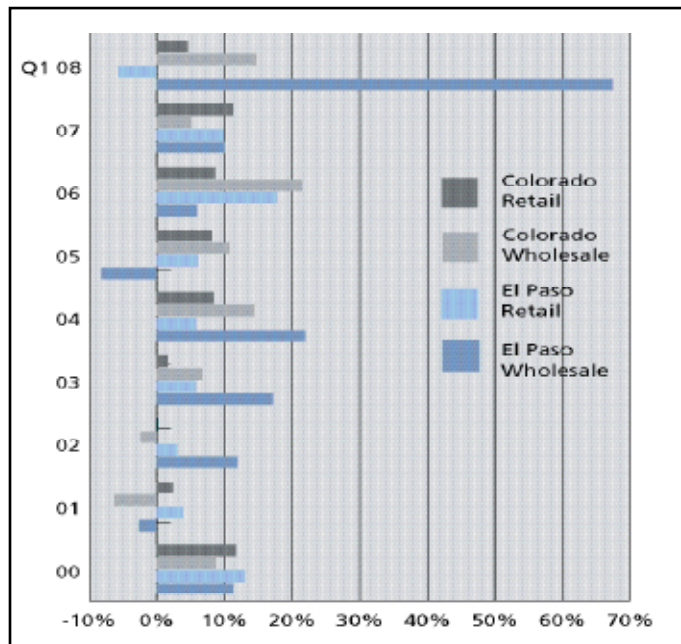


### Average Asking Rents For Office, Shopping Center and Industrial Space



Source: Turner Commercial Research: Commercial Availability Report; Colorado Department of Local Affairs, Division of Housing

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



Source: Colorado Department of Revenue, Office of Tax Analysis

#### 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?

Except for apartment units, vacancy rates increased in all commercial property categories since June 2007. As of June 2008, vacancy rates were 10.1 percent for office space (vs. 7.7% in June 2007), 9.7 percent for industrial space (vs. 6.7% in June 2007) and 9.0 percent for apartments (vs. 9.6% in June 2007). Shopping center vacancies increased to 7.4 percent from 7.0 percent in June 2007. Apartment vacancies appear to be trending down. This reflects a larger population, high foreclosure numbers and very few new multifamily units being constructed last year. The decline in all other categories reflects a slowing economy and aggressive construction last year.

Despite the vacancy increases, most rents increased. June 2008 office space was \$11.38 per square foot (up \$0.35); \$13.81 for shopping center space (up \$0.20); \$7.09 for industrial space (up \$0.09). First quarter 2008 apartment rents declined to \$690 vs. \$701 in the first quarter of 2007.

The slowing economy is expected to lead to higher vacancy rates in all commercial categories except for apartment units. Foreclosures, net in-migration and the arrival of Fort Carson troops will increase demand beyond new multi-family units. Apartment vacancies are expected to decline in 2008 and 2009.

#### 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 9.8 percent to \$13.8 billion in 2007 after growing 6.0 percent in 2006. This is below the 11.3 percent growth rate in Colorado for 2007. Preliminary first quarter 2008 El Paso County retail sales were \$3.1 billion, or 5.7 percent below the first quarter of 2007. Colorado retail sales were up 4.6 percent for the first quarter of 2008. An aggravated retail environment including a slow economy, frequent deployment of troops from Fort Carson, weak consumer sentiment, sustained high oil prices, and weak residential construction are expected to slow retail activity further in the latter portion of 2008 and into 2009.

Wholesale sales, which tend to be more volatile than retail sales, increased 10.1 percent in El Paso County in 2007. Colorado wholesale sales grew 5.2 percent in 2007. First quarter 2008 wholesale data for El Paso County grew 67.4 percent over the first quarter in 2007 while first quarter wholesale sales were up 17.2 percent in Colorado. Strength in the Colorado Wholesale Purchasing Managers Index in the last half of 2007. A slowing economy may lead to a softening in wholesale activity and a decline in the Colorado PMI in 2007 and 2008. The weak dollar failed to boost Colorado exports in 2007. Any wholesale gains will have to be domestic. Given the slowing economy, nominal gains are the best that can be anticipated at this time.

## 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.

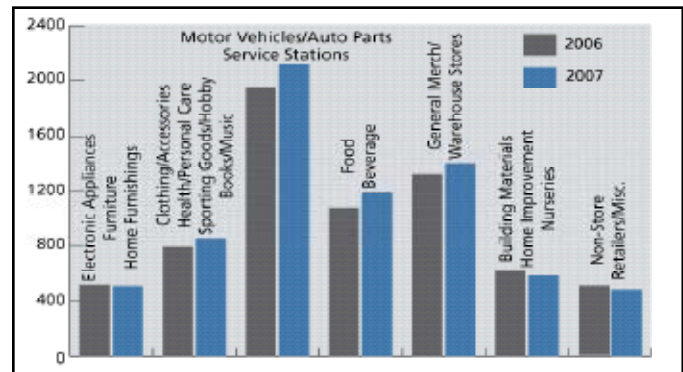
### HOW ARE WE DOING?

Retail trade in 2007 was \$7.13 billion or 54.0 percent of the total retail sales in the county. Retail trade grew by 5.4 percent over the \$6.77 billion in 2006. The largest portion of retail trade is motor vehicles/auto parts/service stations, which accounted for \$2.12 billion or 30.0 percent of the total trade in 2007. Growth in motor vehicle/auto parts/service stations retail trade is attributed to the significant increases in the price of gasoline and people's decisions to repair their existing vehicles rather than purchase a new vehicle. New car sales are projected to be 21,200 in 2008. This is the fewest sales in over ten years and 25 percent below the record of 28,219 in 2000 despite population growth of 18.6 percent since 2000.

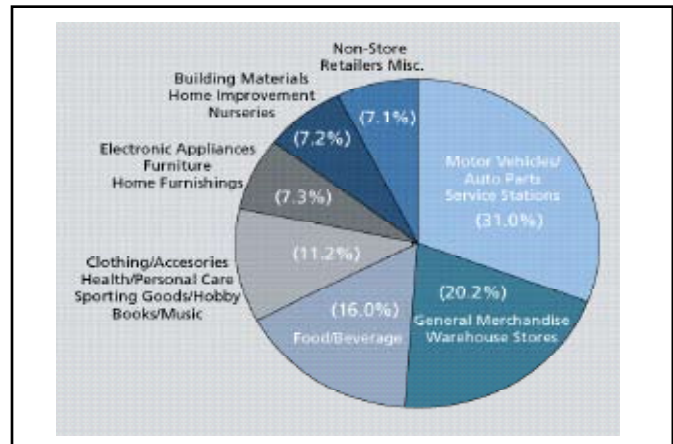
General merchandise/warehouse stores (20.0%), food/beverage establishments (16.7%) and clothing/accessories/sporting goods/hobby/book (11.9%) are other significant contributors to total retail trade sales.

Retail trade was down 0.3 percent in the first quarter of 2008 compared to the same period a year ago. Until the residential construction slump ends, building material sales will lag the economy. Aggregate retail trade sales are expected to be up about 1 percent in 2008 and 5.2 percent in 2009.

### El Paso County Retail Trade (\$ millions)



### El Paso County Retail Trade First Quarter 2008



Source: Colorado Department of Revenue

### WHY ARE THESE 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.

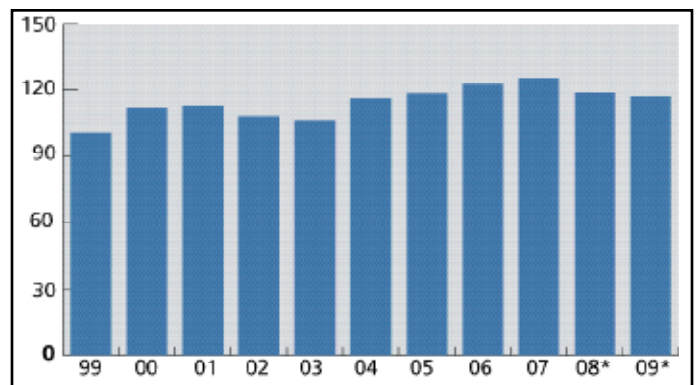
### HOW ARE WE DOING?

City sales and use tax collections were \$124.7 million in 2007. This is \$1.7 million higher (1.4%) than in 2006. Through July of 2008, combined sales and use tax collections were down about 3.7 percent compared to July 2007. A 4.0 percent decrease is projected for 2008. A 1 percent increase is projected for 2009.

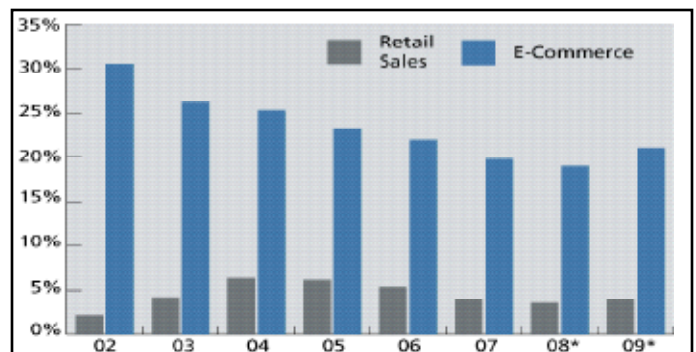
Sales tax revenue for Colorado Springs proved to be disappointing through July 2008. Eight revenue categories are below their 2007 figures. The declines are: building materials (down 32.5%); auto dealers (down 16.3%); furniture, appliances and electronics (down 9.5%); department/discount stores (down 7.7%); utilities (down 6.8%); sales to business (down 3%); auto repairs (down 2.3%); restaurants (down 0.1%). Miscellaneous retail (up 8.3%), grocery stores (up 6.5%), clothing stores (up 5.1%) and hotel/motel (up 1.6%) were the only sectors reporting increases.

E-tail currently captures 3.5 percent of all retail. E-tail is growing approximately 20-25 percent a year. E-tail will aggravate the declining sales tax revenue for Colorado Springs. The U.S. Supreme Court ruled a local government could not collect taxes through businesses which do not operate in its jurisdiction in 1992 (Quill Corp. v North Dakota).

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



### E-Commerce vs. Retail Sales Growth

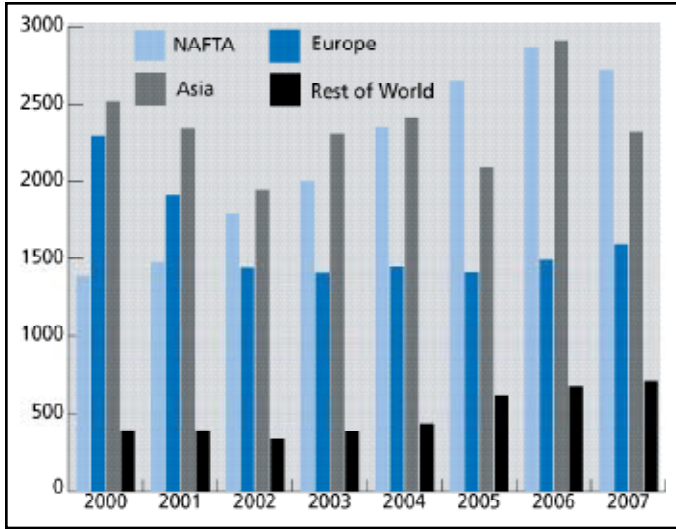


\* SCEF forecast

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

## Exports and Education

### Colorado Exports to Selected Destinations (\$ millions)



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

#### WHY IS THIS IMPORTANT?

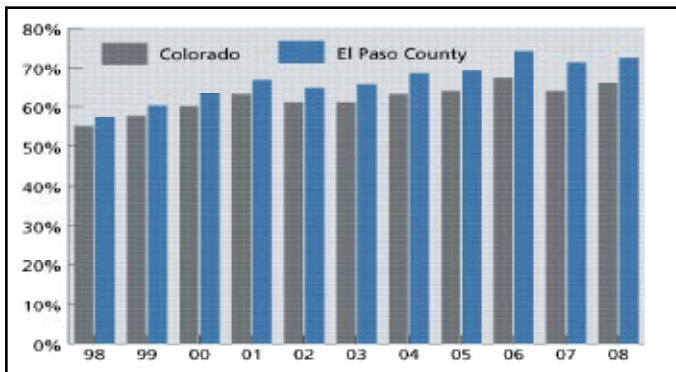
One indicator of the state's competitiveness in a global economy is the ability to export goods and services. A higher level of export activity translates into more jobs in the state and more income and wealth. Colorado and Colorado Springs must continue to grow exports of goods and services in order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

#### HOW ARE WE DOING?

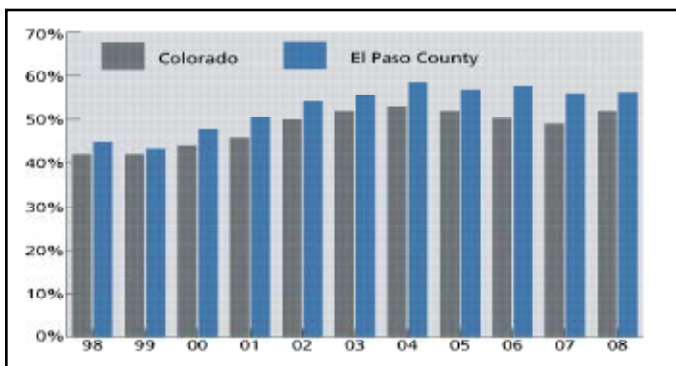
Despite an 8.9 percent decline in the dollar, Colorado global exports declined by \$605 million (7.6%) in 2007. Exports to Canada and Mexico decreased \$146 million (-5.1%). Exports to Asia decreased by \$596 million (-20.3%). Exports increased to Europe by \$101 million (6.8%) and the rest of the world by \$29 billion (4.2%). The Forum anticipated the realized decline in the dollar would contribute to gains in exports. A review of exports by category indicated exports of computer related items declined approximately \$980 million in 2007. Only processed foods (\$156 million) and mining (\$137 million) increased materially. Changes to all other sectors were nominal. The top four export product categories are computer and electronics (41.6% vs. 50.7% in 2006), processed foods (11.3% vs. 8.5% in 2006), manufactures (9.3% vs. 9.1% in 2006), chemical manufactures (8.9% vs. 8.9% in 2006).

Given current export amounts through June 2008, a slowing global economy and the modest increase in the dollar during July and August, the Forum anticipates another decline in state exports in 2008 and into 2009.

### Colorado Student Assessment Program Fourth Grade Reading Results



### Colorado Student Assessment Program Fourth Grade Writing Results



Source: Colorado Department of Education

#### WHY IS THIS IMPORTANT?

Beginning in 1995, the State of Colorado adopted content standards in the areas of reading, writing, mathematics, science, social studies, foreign languages, visual arts, physical education and music. Content standards define what students should know and be able to do at various levels in the schooling process. The Colorado Student Assessment Program (CSAP) is administered to give parents, the public and educators a uniform source of information on how proficient Colorado students are at meeting the standards. These scores provide a benchmark for assessing the educational progress of 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, 72.5 percent of El Paso County fourth graders were proficient or advanced in reading. This is better than last year's proportion of 71.4 percent and noticeably higher than the statewide score of 66.0 percent. Reading scores in El Paso County have improved 13.7 points (23.3%) over the first CSAP, fourth grade reading exam in 1997.

This year, 56.4 percent of El Paso County fourth graders were proficient or advanced in writing. This is a modest increase over last year's proportion of 56.1 percent and 4.4 points higher than the statewide proficient or advanced proportion (52% in 2007). Writing scores in El Paso County have improved 16.6 points (41.7%) since the first CSAP, fourth grade writing exam in 1997.

# 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 21<sup>st</sup> century. High school graduation and dropout rates are indicators of possible future societal costs from underemployment or unemployment and low earning potential.

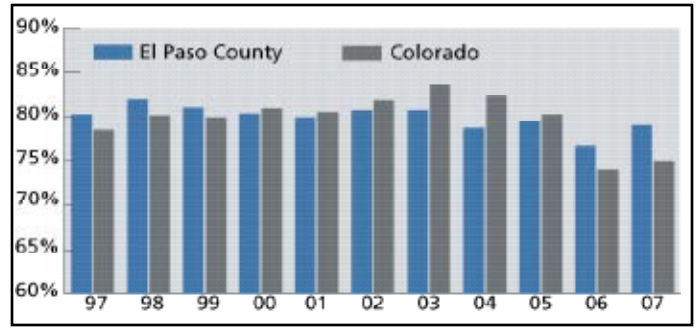
In a global economy, a multi-cultural, skilled work force is a requirement for success. Providing a quality education to all ethnic groups is important to our economic well-being. Reducing the dropout rate for all ethnic groups is one measure of success.

## HOW ARE WE DOING?

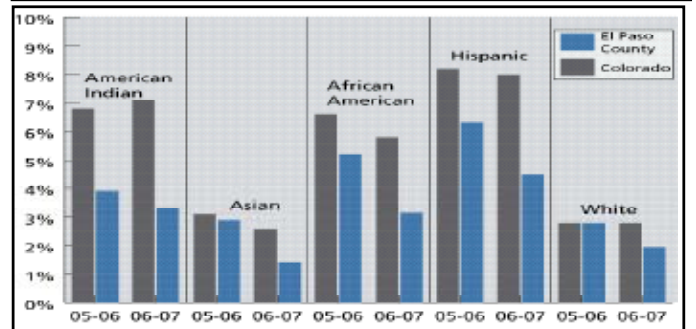
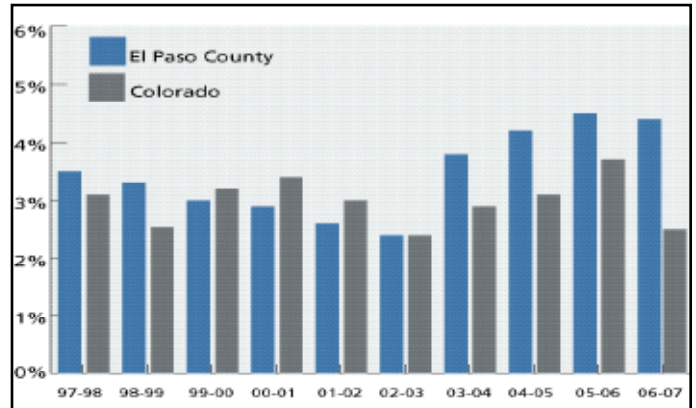
Graduation rates in El Paso County increased significantly to 79 percent in 2007. This is significantly higher than Colorado's graduation rate of 75 percent. Colorado Springs District 11, Harrison and Edison districts' graduation rates are below 70 percent. Graduation rates for the other county districts are Widefield 3 (81.5%), Hanover 28 (82.6%), Falcon 49 (83.2%), Fountain 8 (84%), Ellicott 22 (84.5%), Academy 20 (91.4%), Miami/Yoder 60 JT (92.9%), Cheyenne Mountain 12 (93.4%), Peyton 23 JT (93.9%), Manitou Springs 14 (94.9%), Lewis-Palmer 38 (94.9%), Calhan RJ-1 (100%).

Dropout rates decreased in 2006-07 to 2.5 percent vs. the historical average of 3.3 percent. The Colorado dropout rate decreased slightly in 2006-07 to 4.4 percent, vs. the historic average of 3.5 percent. Dropout rates in El Paso County are worst among Hispanics and American Indians/Alaskan Natives and best among Whites and Asians.

## High School Graduation Rates



## Grade 7 through 12 Dropout Rates



Source: Colorado Department of Education

## WHY IS THIS IMPORTANT?

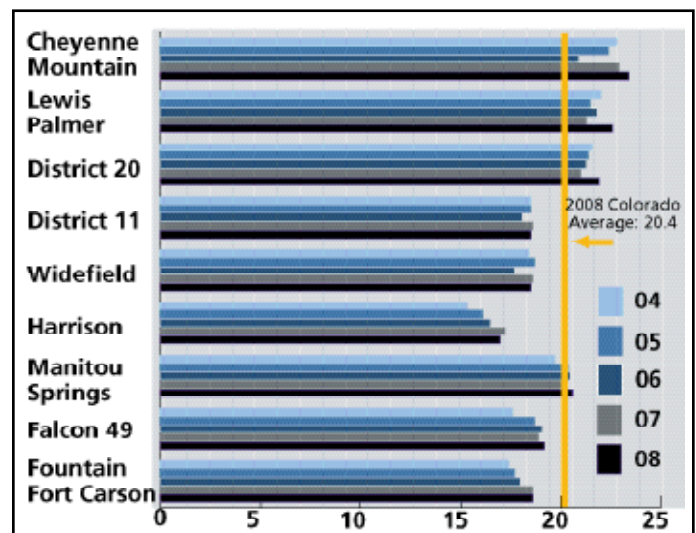
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates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

## HOW ARE WE DOING

The statewide average ACT score for juniors in 2008 is 19.1, down from 20.3 in 2007. Cheyenne Mountain (22.9), Colorado Springs (18.6), Fountain (18.6), Widefield (18.6) and Harrison (17.2) improved ACT scores in 2008. Lewis Palmer (21.3), Academy (21.0), Manitou Springs (20.3) and Falcon (18.9) saw their ACT scores decline in 2008.

Colorado creates a systematic downward bias in the test results by requiring all high school students to take the ACT. The average composite ACT score for Colorado juniors was 20.5, the ninth lowest in the nation. Only two other states (Illinois and Michigan) require all students to take the ACT. An alternative test that does not have a self selection bias should be considered.

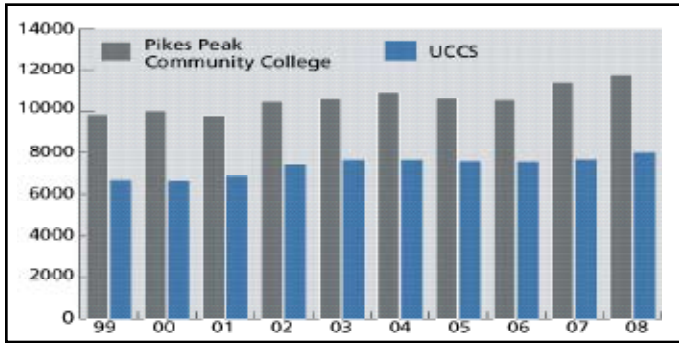
## High School Junior ACT Scores in Selected El Paso County School Districts



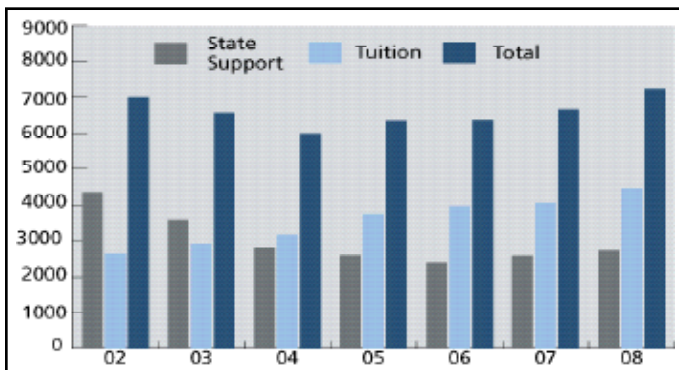
Sources: American College Testing program; Colorado Department of Education; local school districts

## Higher Education and Air Quality

### Enrollments at Public Institutions of Higher Learning in El Paso County



### Funding Sources at UCCS (per FTE)



Sources: Registrars' offices at Pikes Peak Community College and UCCS 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.

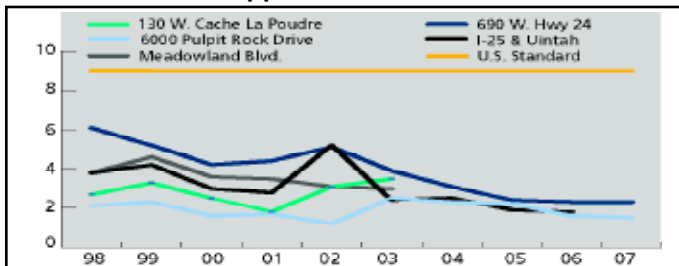
### HOW ARE WE DOING?

Enrollments at UCCS increased from 7,662 to just under 8,000 students this fall, an increase of 4.2 percent. The campus has facilities to house 900 students which reached capacity this fall. A new science-engineering building is expected to be completed in fall 2009. The existing science building will undergo renovations in 2009. These improvements will give UCCS some of the best science labs in the state.

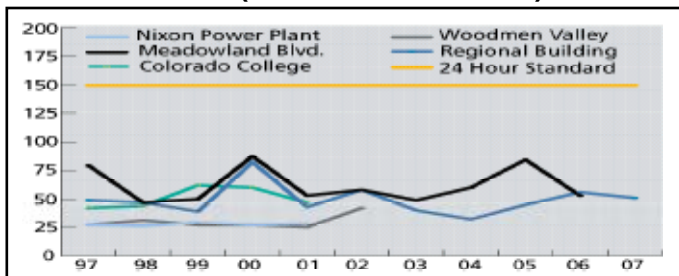
Pikes Peak Community College enrollments increased by 3.0 percent to 11,749 in the fall of the 2008-2009 academic year. Enrollments in the 2007-2008 academic year were 11,407.

Per student state support for a typical, in-state freshman or sophomore is 38.2 percent of total revenue in 2008, down from 67.3 percent in 2001. Total funding per student changed from \$7,538 in 2001 to \$7,224 in 2008, a decline of 4.2 percent. Factoring in inflation, per student revenue declined 17.3 percent from \$7,538 to \$6,233. State support for in-state college students continues to be a declining portion of total per student revenue. However, tuition increases have not been sufficient to make up for the loss of state support. Real and nominal total funding remains below 2001 levels. Year over year real tuition did increase in 2008 by \$269 (4.5%).

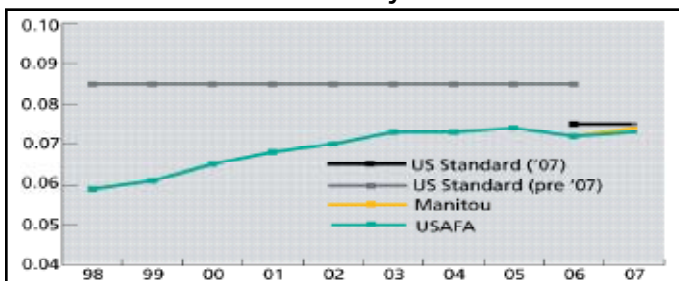
### Carbon Monoxide (ppm)



### 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 help to alleviate CO emissions. CO levels continued their downward trend that began in 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 improved slightly in 2006 after having increased in 2005. Ozone levels have increased from 69 percent of the standard in 1998 to 84 percent of the standard in 2006 and 2007. Ozone standards were lowered in 2007 to .075. El Paso County came dangerously close to exceeding the revised ozone standards in 2007.

## Congestion and Crime

### 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 and improving public transit, better location planning and walking and biking infrastructure.

### HOW ARE WE DOING?

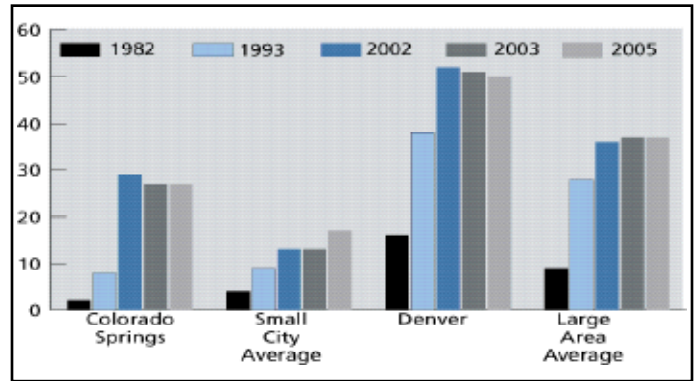
Traffic congestion continues to be an issue for the community. This information is reported by the Texas Transportation Institute. The results of the 2007 report are presented to the right.

The annual delay in Colorado Springs, per traveler, in 2005 was 27 hours, unchanged from 2003. The small city average increased to 17 hours in 2005. 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.

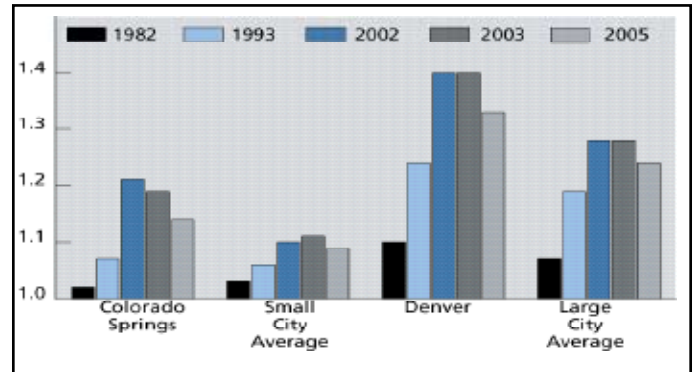
Annual delays per traveler in Denver improved slightly to 50 hours in 2005 compared with 51 hours in 2003. The average delay for large cities decreased remained unchanged at 37 hours. Denver was ranked as the fifth most congested city in the large area average.

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 1.14 for Colorado Springs in 2005 means that a 30 minute free-flow trip would take 34.2 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 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.

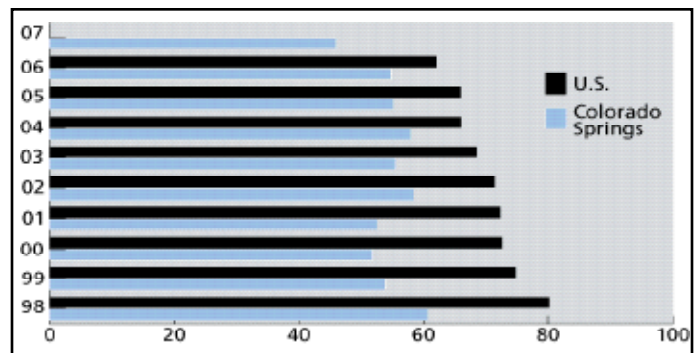
### HOW ARE WE DOING?

The total crime index in Colorado Springs decreased 15.9 percent in 2007. The city remains well below the U.S. average for cities of its size. Violent crimes (murder, rape, robbery and aggravated assault) decreased in 2007 from 5.5 to 5.0 per 1,000 population. The violent crime rate remains less than half the violent crime rate in the nation.

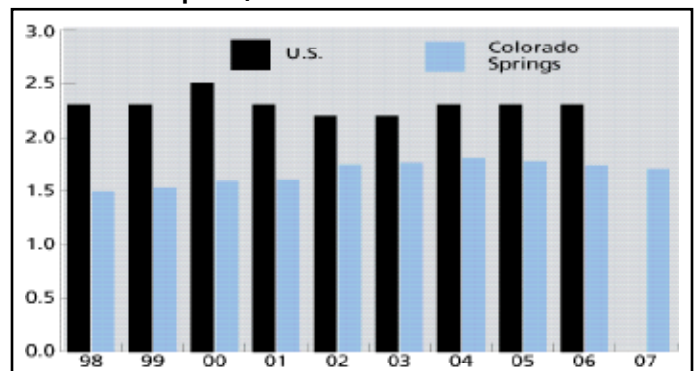
There were a total of 18,509 index crimes reported in 2007, down from 20,284 in 2006. The majority of the index crimes reported involve larceny/theft (64.2%), followed by burglary (17.2%), motor vehicle theft (8.0%), aggravated assault (6.2%), robbery (2.9%), forcible rape (1.5%) and homicide (0.2%).

The number of Colorado Springs sworn police per 1,000 inhabitants declined for the third consecutive year. It declined from 1.80 in 2004 to 1.74 in 2006 to 1.70 in 2007. Given the current trends in the economy, the number of sworn police officers per 1,000 residents is not expected to increase in 2008 or 2009.

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



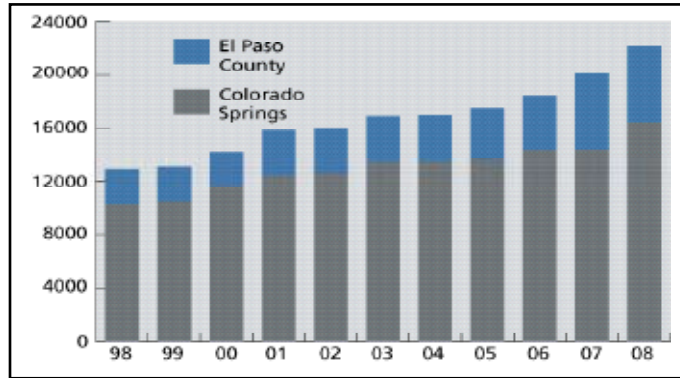
### Sworn Police per 1,000 Inhabitants



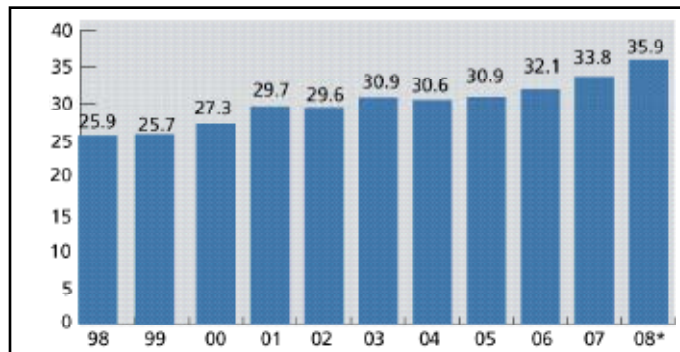
Sources: Colorado Springs Police Department; FBI

## 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?

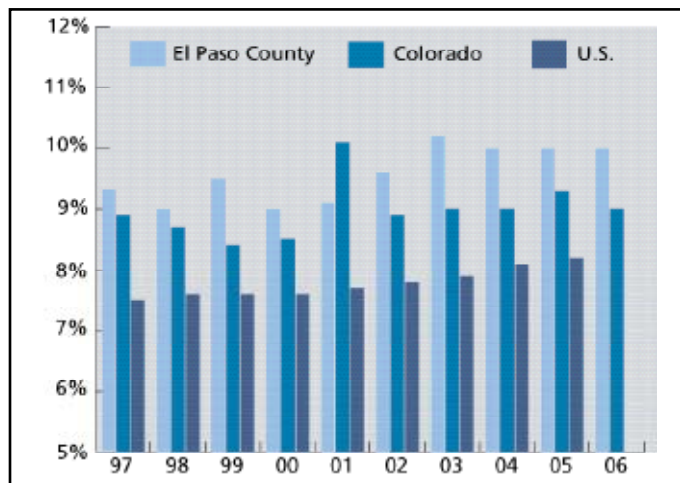
Open space, trails and park land provide important areas for recreation and leisure activity, support natural habitat and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and 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 22,000 acres of open space and park land or 35.9 acres per 1,000 residents in 2008. The City of Colorado Springs now has 16,396 acres of park and open space under management. The recent acquisition of Sanctuary of the Pines and Kane Ranch parcels brought the El Paso County park and open spaces total to 5,758 acres. These facilities are important enhancements to the quality of life of residents in the Pikes Peak region. They are also 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 1998, the City of Colorado Springs has collected more than \$56 million or roughly \$5.6 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 ARE THESE 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. The upward trend that began in 1995 appears to have peaked in 2003. Since then, the proportion of low birth weight babies declined slightly. Currently, 10 percent of the children born in El Paso County are low-weight babies.

The proportion of low-weight birth babies has increased steadily for the U.S. and Colorado.

The global nature of the problem appears to be worsening while the El Paso County problem may have stabilized. El Paso County and Colorado remain well above the 5 percent target set by the U.S. Public Health Service.



## City Comparisons

MSA	Per Capita Personal Income	Percent Change in Personal Income 2001-2006	Per Capita Personal Income as a Percent of the U.S. Average	Household Size	Average Earnings per Job	Average Wage and Salary Disbursements
Albuquerque, NM	\$32,727	29.3%	89%	2.52	\$40,281	\$36,712
Austin, TX	36,328	31.0%	99%	2.62	48,900	45,341
Boise, ID	33,774	36.2%	92%	2.59	41,634	36,266
Boulder, CO	49,628	17.5%	135%	2.41	50,447	49,171
Colorado Springs, CO	34,255	23.3%	93%	2.56	44,183	39,805
Denver, CO	44,691	23.0%	122%	2.51	55,767	47,668
Huntsville, AL	34,689	33.9%	94%	2.47	48,873	44,102
Kansas City, MO	37,566	22.7%	102%	2.51	46,785	41,184
Minneapolis, MN	44,237	24.2%	120%	2.52	50,780	46,325
Portland, OR	36,845	23.0%	100%	2.57	46,386	42,100
Pueblo, CO	26,363	17.0%	72%	2.52	33,439	30,923
Salt Lake City, UT	35,145	32.4%	96%	2.99	44,235	38,226
Tucson, AZ	31,418	39.4%	86%	2.51	39,743	36,781
Wichita, KS	37,471	28.4%	102%	2.50	45,806	38,119
Comparison City Average	36,796	27.2%	100%	2.56	45,519	40,909

Sources: Bureau of Economic Analysis, Regional Economic Accounts, 2006 American Community Survey U.S. Census Bureau

### WHY IS THIS IMPORTANT?

The Forum added several metropolitan statistical area (MSA) comparisons to its indicators this year. The MSA's included in this analysis are cities that compete directly with Colorado Springs for jobs. The table provides comparisons of per capita personal income, earnings, and wages and salaries. The figures in the table above are from the Bureau of Economic Analysis and the 2006 American Community Survey, U.S. Census Bureau. All figures are for 2006, the latest available comparison data for these MSA's.

### HOW ARE WE DOING?

Per capita personal income in 2006 was \$34,255 compared to \$36,796 for the average of the MSA's. Per capita personal income in the Colorado Springs MSA was 93 percent of the U.S. average in 2006. Nine of the thirteen comparison MSA's have per capita personal income higher than Colorado Springs. Personal income in Colorado Springs grew 23.3 percent from 2001 to 2006 compared to a 27.2 percent average growth rate for the other MSA's. Differences in per capita income are not explained by differences in household size. Household size varies marginally from 2.41 in Boulder to 2.99 in Salt Lake City.

Per capita income is largely determined by jobs and the earnings in these jobs. Two measures of earnings are provided in the table. The wage and salary disbursements in the table are the monetary remuneration made to employees including corporate officer salaries, bonuses, commissions and other incentive payments. Average earnings per job is a broader measure that uses total earnings divided by full- and part-time employment. In addition to wage and salary disbursements, this figure also includes other labor income and proprietors' income. Wage and salary disbursements averaged \$40,909 for all of the MSA's in the table. Wage and salary disbursements in Colorado Springs were \$39,805 ranking it 8th out of the fourteen MSA's. Average earnings per job for the MSA's was \$45,519 in 2006. Colorado Springs average earnings per job were \$44,183 in 2006 ranking the area 10th out of the fourteen MSA's. Per capita income is largely determined by earnings. Higher earnings translate in higher per capita income in these communities.

## City Comparisons

### WHY IS THIS IMPORTANT?

The charts on this page provide a number of comparative indexes from NAI Global Commercial Real Estate Services Worldwide. The top chart has several general indicators as defined below.

The affordability index is median household income divided by the median price of an existing home. The resulting figure is then divided by the same figure for the US. Values less than one indicate the location has more affordable housing than the U.S. as a whole.

The age index is the average age in the MSA divided by the US average age. Lower values indicate younger populations.

The education index is the number of people in the area with at least some college education divided by the total population. This figure is then divided by the same figure for the US. Higher index values indicate more highly educated populations in the area.

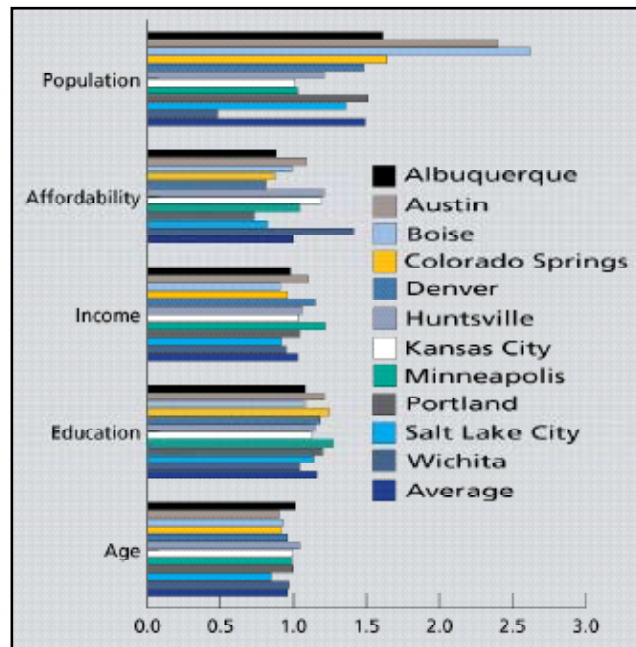
The income index is calculated by dividing per capita income in the area by the average national per capita income. Indexes above 1 indicate higher incomes than the U.S. average.

The population growth index is calculated by dividing the projected five year population growth rate for the area by the same projected value for the US. Higher index values indicate the population in the area is expected to grow faster than the U.S. average population growth.

### HOW ARE WE DOING?

According to the various indicators, the Colorado Springs metro area is growing faster than the nation as a whole, is more affordable, has lower incomes, has a population that is more educated than the nation as a whole and is younger than the general U.S. population.

### NAI Metro Area Indices



### WHY IS THIS IMPORTANT?

The lower chart shows a number of employment indexes. These indexes indicate the concentration of employment in a region relative to the average concentration of employment in the U.S. Higher values indicate a larger concentration of employment while lower values indicate a lower concentration of employees in the sector for the region.

The government index is an estimate of total government service employment divided by total non-agricultural employment in the area. Each of the five indexes in the chart is then divided by the comparable figure for the US.

The health service index is an estimate of total health service employment divided by total non-agricultural employment in the area. The office index is calculated by dividing an estimate of total office employment by total non-agricultural employment in the area.

The retail services index is an estimate of total retail services employment divided by total non-agricultural employment in the area.

The wholesale index is the calculated by dividing an estimate of total wholesale employment by total non-agricultural employment in the area.

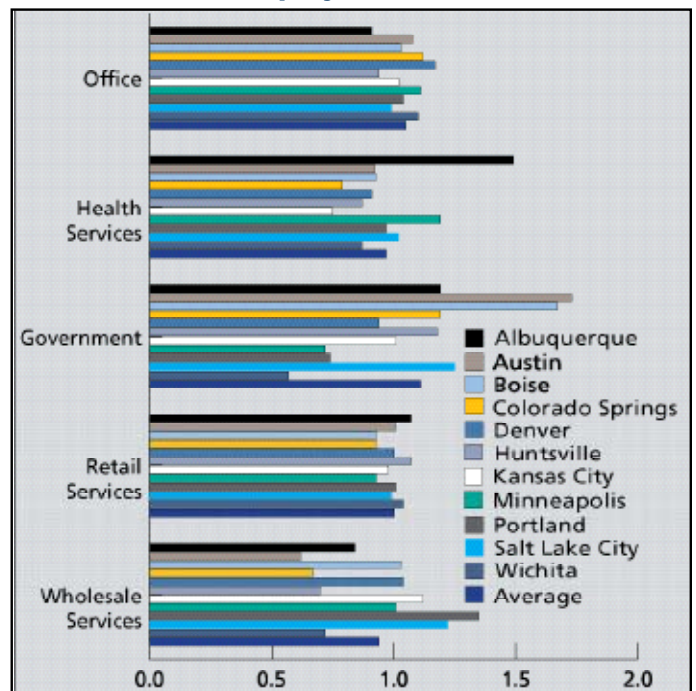
### HOW ARE WE DOING?

The Colorado Springs MSA scores high on government employment (1.19) and office (1.12) compared to the U.S. Albuquerque, Austin, Boise and Huntsville are other metro areas with proportionally higher levels of government workers. Austin, Denver and Minneapolis score higher on office employment.

Colorado Springs lags the nation in relative health service, retail

and wholesale employment scoring (.79, .93 and .67) respectively. In contrast, the health services index values for Albuquerque, Minneapolis and Salt Lake City are all above 1. The retail employment indices for Albuquerque, Austin, Denver, Huntsville, Portland and Wichita are above 1. Boise, Denver, Kansas, Minneapolis, Portland and Salt Lake City have wholesale employment indices greater than 1.

### NAI Metro Area Employment Indices



Source: NAI Global Commercial Real Estate Services, Worldwide.

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## UCCS & The Southern Colorado Economic Forum

The Southern Colorado Economic Forum is the research product of Tom Zwirlein and Fred Crowley, faculty members of the UCCS College of Business. As a research university, UCCS prides itself on faculty who are leaders not only in their respective fields, but also in the pursuit of new knowledge that can be applied to regional issues and concerns. The sharing of this research is a tenet of the university's mission and its promise to be closely connected with and engaged in the communities of southern Colorado.

### UCCS by the facts

- Current student enrollment is approximately 8,500 (1,500 freshman).
- Students come from all 50 states and 67 countries.
- The student body is 58 percent women and 42 percent men.
- 30 Bachelor's degrees, 18 Master's degrees, and 4 Ph.D. programs.
- 12 UCCS athletic programs are part of the NCAA Division II.
- More than 300 students are active military and more than 30 are U.S. Olympic athletes.
- There are six academic colleges: business, education, engineering and applied science, public affairs,

letters, arts and sciences, nursing and health sciences.

- Founded in 1965 at the foot of Pikes Peak in response to community and business needs; one of three campuses of the University of Colorado System.

### UCCS kudos

- Named a top Western public university by *U.S. News and World Report*; The UCCS College of Engineering and Applied Science is ranked, alongside the military service academies, as having one of the best undergraduate engineering curriculums in the nation.
- Fastest growing campus in Colorado and among the fastest in the nation.
- Named a national leader in community engagement efforts by the American Association of State Colleges and Universities.
- Accrediting agencies: North Central Association of Colleges and Schools, The Higher Learning Commission, Accreditation Board for Engineering and Technology, Commission on Collegiate Nursing Education, National Association of Schools of Public Affairs and Administration, National Council for Accreditation of Teacher Education.

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

The College of Business and Administration was established in 1965, the same year as the University of Colorado at Colorado Springs. The College awards the Bachelor of Science in Business Administration degree and a Masters of Business Administration degree. All degree programs are accredited by the Association to Advance Collegiate Schools of Business placing the College in the top 30 percent 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 to the College of Business, reopened in 2008 after undergoing a \$10 million renovation. Dwire Hall provides a state-of-the-art learning environment.

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-degree qualified. The classroom

experience is enriched by leading-edge research, academic publishing, community involvement, and industry consultation. Students are prepared for lifelong careers in diverse fields as banking, advertising, accounting, information systems, marketing, human resource management, finance, manufacturing, golf and other sport management fields.

The UCCS College of Business and Administration is proud of its partnership with the business community. These contacts are essential in infusing current business practices into the classroom. The college connects to the community through a variety of organizations including the Small Business Development Center and the Southern Colorado Economic Forum. Find out information about extended studies, career, intern, and placement opportunities by visiting <http://business.uccs.edu>.

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

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