

UNIVERSITY OF COLORADO AT COLORADO SPRINGS



thirteenth annual **2009-2010**
southern colorado
economic forum
OCTOBER 30, 2009



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AT COLORADO SPRINGS

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



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Welcome from Holland & Hart

Holland & Hart is proud to sponsor the 13th 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

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Wendy Pifher, Partner, Holland & Hart LLP

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Welcome from the Chancellor

The University of Colorado at Colorado Springs is pleased to join with its business partners to present the 13th 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 2009-2010 Southern Colorado Economic Forum. We wish you a productive and successful 2010.

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



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

The Southern Colorado Economic Forum is the preeminent economic forum in the region. Now in the 13th 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 13th 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

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) 255-3241 or tzwirlei@uccs.edu, or Fred Crowley, associate director, Southern Colorado Economic Forum, (719) 255-3531 or 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 a 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.

Table of Contents

Introduction	4
Indicators	
National, State and El Paso County Economic Projections	12
Business Conditions Index (BCI)	13
Gross Domestic Product (GDP) and Gross State Product (GSP) Growth	14
Key Interest Rates	14
Per Capita Personal Income	14
Consumer Sentiment and Personal Savings Rate	14
Purchasing Managers Index	15
The Denver/Boulder and U.S. Consumer Price Index (CPI) for all Urban Consumers	15
Colorado Springs and El Paso County Population	16
Births, Deaths and Migration in El Paso County	16
The Unemployment Rate in El Paso County, Colorado and the U.S.	16
Employment in El Paso County by NAICS	17
Employment by NAICS Sectors	17
Total Employment in El Paso County	17
Wages and Employment by Economic Sectors	17
Wage and Benefits Cost Index	18
Cost of Business Index	19
Percent Change in Individual Items in the Cost of Business Index	19
Number of Employees in Cluster Industries	19
Average Wages of Employees in Cluster Industries	20
Military Employment in El Paso County	20
Military Expenditures in El Paso County	20
Colorado Springs Hotel Market Shares	20
Lodgers and Rental Car Tax Collections	21
Colorado Springs Airport Enplanements	21
Residential Building Permits	21
Value of Construction	22
El Paso County Home Sales	22
Mean and Median Prices of Homes	22
Foreclosures in El Paso County	22
Total Local Electric Sales and Residential Water Accounts	23
Average Vacancy Rates for Office, Shopping Center, and Industrial Space	23
Average Asking Rents for Office, Shopping Center, and Industrial Space	24
Growth in Retail and Wholesale Sales in Colorado and El Paso County	24
El Paso County Retail Trade	24
El Paso County Retail Trade 1st Quarter	25
Colorado Springs Sales and Use Tax Collections	25
E-Commerce vs. Retail Trade Growth	25
Colorado Exports to Selected Destinations	25
Colorado Student Assessment Program Results	26
High School Graduation Rates	26
Grade 7 through 12 Drop-Out Rates	27
Junior ACT Scores in Selected El Paso County School Districts, Colorado and the U.S.	27
Enrollments at Public Institutions of Higher Learning in El Paso County	27
Sources of Funding at CU-Colorado Springs	28
Carbon Monoxide	28
Particulate Matter	28
Ozone Trends in El Paso County	28
Travel Delay per Traveler	28
Travel Time Index	29
U.S. and Colorado Springs Crime Index per 1,000 Inhabitants	29
Sworn Police per 1,000 Inhabitants	29
Parks and Open Space in Colorado Springs and El Paso County	29
Park Acres Per 1,000 Inhabitants	30
Low-Weight Birth Rate in Colorado and El Paso County	30
City Comparison	31
NAI Metro Area Commercial Rents	32
NAI Metro Area Commercial Vacancy Rates	32

The 2009 – 10 Southern Colorado Economic Forum

This marks the thirteenth 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 2008-2009, the El Paso County economy was influenced strongly by a national and global recession, strong military presence and a deteriorating economic base.

The national recession proved to be the worst since the double dip recessions of the early 1980's. A decline in consumer sentiment was accompanied by reduced retail activity and tourism. This has reduced city sales tax and the lodging and auto rental tax (LART) collections. The national recession had a lagged effect on local employment patterns.

LART receipts for 2009 are expected to be \$3.5 mil-

lion compared to its peak collection of \$4.2 million in 2007. Sales tax receipts for Colorado Springs are expected to be 8.5 percent below receipts in 2008. The important lesson of a reduction in LART revenue is a slow national economy does reduce tourism related expenditures in our local economy.

Employment levels remained relatively stable through the second quarter of 2008. Since then, seasonally adjusted unemployment rates rose to 8.3 percent by April 2009 before falling to a preliminary estimate for August 2009 of 7.7 percent, 2 points lower than the national unemployment rate for August.

The military presence has had both positive and negative effects on the economy. According to the Forum's analysis of the Department of Defense wage and allowances for army personnel, the average wage of a soldier at Fort Carson is approximately \$57,000 in 2008. This allows for direct wages plus the value of housing, clothes, and meals provided by the Army.

Since the wars in Iraq and Afghanistan, Fort Carson troops have experienced recurring deployments, effectively reducing the military population in the community. Over the same period, the BRAC05 reallocation added approximately 10,000 additional troops to Fort Carson. The deployments and arrivals of additional troops have kept the Army population in the community relatively stable since 2003. Air Force facilities in the region have approximately 15,000 airmen. When civilian personnel are included, the military bases employ approximately 54,300 people in El Paso County. The direct and indirect economic effects of the military are estimated to be approximately 20 percent of the region's Gross Metropolitan Product.

Consumer sentiment fell sharply in late 2007 through the middle of 2008. Since then, it has rebounded but remains approximately 20 percent below its value in 2007. One consequence of declining consumer sentiment is reduced retail expenditures. Saving also tends to increase as consumers de-leverage and stockpile their savings in the event of a rainy day. Reduced tourism expenditures and declines in general retail sales results in revenue shortfalls for communities that depend on sales tax revenues to fund their respective general funds. With the exception of Green Mountain Falls, all municipal governments in El Paso County are experiencing significant reductions in revenue in 2009. The effect is government services are being reduced. TABOR's ratchet down effect can make the reduced level of service permanent.

Employment/Unemployment

The El Paso County private sector employment figures from the Quarterly Census of Employment and Wages

Introduction

(QCEW) decreased by 0.9 percent, or 2,216 jobs, in 2008. The loss in jobs followed gains of 1,884 jobs in 2007, and 4,208 jobs in 2006.

Three sectors saw significant job gains. They are government (1,396 jobs), health care (1,230 jobs) and professional & technical services (1,019 jobs).

Job losses were much more common than job gains. Fifteen of the twenty-one NAICS sectors reported for QCEW employment experienced job losses. Significant job losses took place in manufacturing (1,375 jobs), construction (1,326 jobs), administration and waste management (1,138) finance & insurance (580 jobs), retail (477 jobs) and accommodations and food service (397 jobs).

The loss in jobs propelled the unemployment rate to 8.3 percent in April 2009 from approximately 5 percent in late 2007 to early 2008. The August 2009, seasonally adjusted unemployment rate in El Paso County fell to 7.7 percent. This is two points lower than the national unemployment rate of 9.7 percent for August. The military presence and fewer jobs in volatile industries help explain the lower unemployment rate in the county.

Wages and Income

The Forum has written repeatedly about the changing nature of our economic base. The community lost approximately 17,000 manufacturing/technology related jobs since 2000. These jobs paid very high wages compared to the average wage in the community. However, the jobs were volatile and cyclically sensitive.

High paying manufacturing and information jobs were replaced with jobs in the service sector. These jobs tend to be more stable but pay lower wages than the jobs that were lost. The net effect is the employment base is less susceptible to business cycle swings but provides lower wages to workers.

The average wage in El Paso County increased in 2008 to \$40,664. This is 1.7 percent above the 2007 average wage of \$39,988. By comparison, the average wage in Colorado increased 2.3 percent in 2008 to \$46,592. El Paso County's average wage is now 12.1 percent below the state average, a record wage gap.



The Forum's previous publications have pointed to the need to attract high paying primary jobs to the area. Higher income has been linked to higher standards of living, better quality of life, lower crime, better educational attainment, better coverage of medical insurance and improved life expectancy. Strong primary job growth in high wage industries is needed in El Paso County.

Retail and Wholesale

Retail sales in Colorado were \$152.7 billion in 2008. This is 2.7 percent higher than the \$148 billion in retail sales during 2007. El Paso County did not do as well. Retail sales declined 0.9 percent in 2008 to \$13.7 billion compared to \$13.8 billion in 2007. The decline should not be a surprise given the decline in employment during a national recession and a decline in consumer sentiment.

The largest loser in the competition for sales tax dollars in El Paso County was the City of Colorado Springs. Ten years ago, the city captured 91.7 percent of taxable retail sales. As of 2008, its market share of taxable retail sales fell to 86.7 percent. The Forum has repeatedly pointed out that growth in retail activity in El Paso County will follow the growing number of rooftops beyond Colorado Springs' city limits. Evidence supporting this expectation began over ten years ago and became more pronounced beginning in 2004. The effect is Colorado Springs' general fund will continue to deteriorate as long as it depends on sales tax revenues to fund 50+ percent of its general fund.

Wholesale sales in Colorado increased 11.1 percent in 2008 vs. 5.2 percent in 2007. Despite the loss of Intel and SCI in 2007, wholesale sales in El Paso County increased 13.8 percent in 2008 after a 10.1 percent increase in 2007.

Housing Construction and Commercial Activity

There were 1,223 permits for new, single family, detached residential homes in 2008. This is a decline of 42.7 percent in 2008. It followed a decline of 22.3 percent in 2007 and a 35.2 percent decline in 2006. A total of 2,135 permits were taken out in 2007 compared to 3,446 in 2006, a decline of 2,223 single family, detached housing unit permits.

The decline in permit activity was again accompanied by an increase in permit values in 2008. The average single family, detached, permit value in 2008 was \$213,982 an increase of \$20,186 compared to the average permit value of \$193,669 in 2007. The downturn in housing construction has been accompanied by an inverse relation in permit values. Nominal permit values increased approximately \$65,000 since 2005.

Introduction

This is believed to be attributed to a decrease in bare bones, entry level housing, a decline in housing trade up trends to higher end homes and the increased use of incentives by builders to close the deal.

Town home construction declined in 2008. There were 321 permits in 2008 compared to 542 permits in 2007. This was a decline of 221 units or 40.8 percent. Unlike the detached permits, town home permits decreased in value to \$114,859 in 2008, a decline of \$2,098.

Persistent multifamily vacancy rates in the 10 percent range and decline in real rents for an apartment were



disincentives for multifamily construction in 2008. Despite the weak demand for multifamily housing, new multifamily permits were authorized for a total of 441 multifamily units in 2008. This was up slightly from the 414 multifamily units issued in 2007. Additional multifamily housing unit activity is expected in early 2010 as the newly arrived Fort Carson troops occupy vacant units. This will reduce vacancy rates in the county. Any new construction that is undertaken should be done with caution. The Forum's analysis of statewide vacancy rates found the El Paso County market has the highest multifamily vacancy rates in Colorado.

Commercial construction value increased to \$447 million in 2008 compared to \$390.8 million in 2007. If not for \$81.5 million in new hotel construction, non-residential construction would have declined by \$20 million. Year to date permit values suggest commercial values will be approximately \$330 million in 2009. A small gain in 2010 is expected with the anticipated

general growth in the economy in post recession 2010.

The combination of strong commercial construction and the recent recession has placed pressures on commercial vacancies and rents. Vacancies have increased in all classes of commercial and industrial space. Real rents have declined in every category of commercial and industrial space. The Forum does not anticipate a recovery in the commercial market before well into 2010 or beyond.

BRAC05 and the Military Community

The number of new troops stationed at Fort Carson under BRAC05 has changed. Previous estimates of 10,000 additional troops by summer 2009 turned out to be approximately 8,011 new military and civilian positions troops. Offsetting the gains at Fort Carson were 2,366 fewer military and civilian jobs at Peterson, Schriever and the Air Force Academy over the last year. The community saw a net increase of 5,645 military and civilian jobs at the bases since last year.

The Forum studied the economic impact that Fort Carson has on the community. It found that Army troops and families contribute to approximately 12,000 additional civilian jobs in the community. The impact from the Air Force installations is believed to be about 14,000 civilian jobs. Collectively, the military is responsible for approximately 18 percent of all employment in El Paso County. This includes military and civilian jobs.

The arrival of new Army personnel at Fort Carson had the largest impact on the local community. Based on 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 soldier can comfortably afford the typical house in El Paso County. This does not include second

Introduction

income amounts from a working spouse.

The Forum did 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. This suggests about 2,625 of the most recent 3,500 new troop arrivals at Fort Carson will live off base. Approximately 1,050 are expected to rent their housing and 1,575 will purchase 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 revised its Input/Output analysis to determine the economic impact the 3,500 troops can be expected to have on the El Paso County economy. Selected findings are shown below.

Input Output Analysis of 3,500 Additional Troops to be Stationed at Fort Carson in 2009

Business Sector	New Jobs	Total Wages	Average Wages
Food svcs & restaurants	344	5,206,324	15,128
State & local education	238	9,367,534	39,277
Physician & dentist offices	178	8,926,961	50,162
Nonstore retailers	138	484,023	3,498
State/local non-education	120	6,859,571	57,059
General merch stores	109	2,503,374	23,055
Real estate	103	1,143,967	11,079
Nursing & care facilities	85	2,599,432	30,722
Food/beverage store	83	2,406,477	28,930
New residential building	82	2,978,168	36,164
Wholesale trade	77	4,420,974	57,162
Social assistance	71	2,057,010	28,862
Motor vehicles & parts	71	3,046,441	43,166
Miscellaneous retailers	69	709,099	10,260
Private households	66	367,356	5,602
Hospitals	60	2,860,180	47,370
C&I buildings	55	2,010,867	36,285
Clothing stores	53	787,145	14,779
Auto repair/maintenance	51	1,301,242	25,353
Employment services	49	1,380,299	28,007
Colleges	49	1,369,168	27,898
Health and personal care	48	1,051,017	22,125
Bldg mtl & garden supply	47	1,737,895	36,739
Architects & engineering svcs	47	3,042,262	65,285
Banks & credit unions	46	2,310,490	49,862
Totals	2,342	70,927,276	35,373

After the troops arrive, a total of 4,387 local resident services jobs are expected to be created in the com-

munity. The top 25 civilian employment sectors are expected to see approximately 2,342 jobs. This is 53.4 percent of the total new jobs. Private sector annual wages are expected to increase by \$180 million. The top 25 sectors are expected to capture 39.4 percent of the wages.

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).

Issues Facing the City of Colorado Springs

The United States Olympic Committee

The United States Olympic Committee (USOC) incentive package began to unravel when a series of charges, counter charges and law suits were levied among the principals involved in the construction and financing for the facility. This included the USOC, the City of Colorado Springs and LandCo.

Stumbling blocks aside, the successful completion of the package appears to rest with the City of Colorado Springs' ability to obtain approximately \$38 million in financing. The city has chosen to use Certificates of Participation (COP) to raise the funds rather than ask voters to authorize additional debt as would be required under the Taxpayer's Bill of Rights (TABOR). Normally, a COP is used to raise funds for a project in which expected rent revenues from the project collateralize the loan. The city will become owner of the facility upon its final loan repayment. In the event of a default, the holder of the COP can force foreclosure and take title to the facility.

The city appears to have based the decision to use a COP to complete its financing responsibility in the USOC deal, in part, on an analysis by Dave Bamberger & Associates. The analysis concluded the following economic impact of keeping the USOC in Colorado Springs.

Economic Output	\$341.3 million
Jobs	3,480
Employee earnings	\$146.7 million
City & County sales tax revenue	\$3.6 million
Aggregate property taxes	\$4.6 million
City lodging and auto rental tax	\$278 thousand

There has been debate about the benefits the city can expect by continuing to host the USOC in Colorado

Introduction

Springs. Alternatively stated, can the city afford to lose the USOC?

April 7, 2009 Ballot Proposals

Issue 1A on the April 7, 2009 ballot for the City of Colorado Springs sought voter approval to continue an expiring mill levy on property taxes. The mill levy was dedicated to pay for a police operations center and part of the Powers Boulevard improvement. A typical residential property would have paid about \$10.60 a year until the proposal's sunset provision in 2025. The proceeds from Issue 1A would "be used exclusively to create, attract and retain primary jobs." The proposal was defeated when 27.2 percent of eligible voters cast their votes with 61.7 percent opposed and 38.3 percent in favor. Issue 1C was also rejected by the voters. It would have allocated up to 15 percent of Trails and Open Space sales tax revenues to maintenance. It had a 5 year sunset provision.

Two TABOR related tax issues did find voter support. Issue 1B permitted the city to keep \$1.2 million in tax revenues over the TABOR limit for the purpose of general fund allocations for essential services, parks, and roads. This was a one time surplus. Issue 1D authorized the Colorado Springs Airport to accept Federal grants without limit and without violating TABOR caps. This received strong voter support (67.2% in favor and 32.8% opposed).

Deterioration in Local Tax Revenues

The decline in sales tax revenues that began in early 2008 continued through August 2009. Although the media focused on revenue shortfalls in Colorado Springs, the problem is more widespread. As of March 2009, every local municipality in El Paso County except for Green Mountain Falls saw sales tax revenues decline. Municipal officials project further deterioration into 2010.

The drop in revenue to the city has repercussions in future years due to the TABOR ratchet down effect. TABOR limits next year's municipal revenue to no more than inflation plus local growth ("net percentage change in actual value of all real property in a district from construction of taxable real property improvements, minus destruction of similar improvements, and additions to, minus deletions from, taxable real property"). If revenues drop in a given year, as they have, the allowable increase for the next year is based off of the lower revenue collections. Thus, allowable city revenues may increase by the allowable TABOR limit, increase by less than the allowable limit or decrease from the prior year. For example, allowable revenue for the next year would decrease in a year when revenue drops 10 percent in the current year and infla-

tion plus growth is only 3 percent for the year. In this case, the revenue base for the next year would be set at the revenue from the current year which is just 90 percent of the prior year. Given inflation plus growth total allowable city revenue for next year would be limited to 92.7 percent of the year before the revenue decline. Several years of ratchet down can severely limit the cities ability to provide necessary services.

Given the revenue shortfalls, the City of Colorado Springs City Council placed a property tax increase on the November 3, 2009 ballot. Issue 2C, proposes a 10 mill property tax increase that would be done in stages through 2014. When fully implemented, the proposed increase in property taxes would increase general revenues by \$46 million. If passed by voters, the measure will reduce the city's reliance on sales taxes.

Sustainable Funding Committee

In 2008, the Colorado Springs City Council asked a number of citizens to constitute a Sustainable Funding Committee (SFC). The SFC was convened to address Goal 1 of the city's strategic plan which states: "Develop and implement fiscal sustainability policies to support core services that proactively ensure the health, safety and welfare of our citizens; attract, develop and retain a high performing municipal workforce; and fund internal infrastructure needs." After more than one year of effort, the SFC released its final report to the City Council on August 8, 2009.

The committee focused on three key areas in its analysis: 1) city services, 2) city assets and enterprises, and 3) revenues and sustainability. A rigorous analyses of the city's operations, functions and efficiency was performed by the city services subcommittee. This group comprehensively reviewed all current City of Colorado Springs services. The subcommittee spent considerable time and effort reviewing every aspect of city operations from the city clerk's office, engineering, fleet management, parks and recreation, police, fire, streets, transit and others. From this analysis, a comprehensive list of 80 initiatives were developed to streamline and improve efficiency within city operations.

The assets and enterprises subcommittee examined the main enterprises of the city including Memorial Hospital, Colorado Springs Utilities, Colorado Springs Airport and the Parking Enterprise. The major recommendations of this committee to City Council were to examine a governance change and a potential change in ownership of Memorial Hospital. The subcommittee also recommends a governance change from the current Utility Board to an independent board of directors for Colorado Springs Utilities. Finally, Colorado Springs Utilities should adjust utility rates over time to a market index in order to provide more city revenue.

Introduction

The revenue subcommittee examined a variety of alternative revenue sources that the City Council should consider in the future to help stabilize and sustain revenue. Some of the potential sources included an increase in property taxes, targeted user fees such as increased vehicle registration fees and emergency response fees, an employment tax and an increase in the lodgers and auto rental tax. The benefits and costs of each potential revenue source should be evaluated carefully by City Council and implemented over the next five or more years.

The Forum encourages City Council to consider the recommendations of the sustainable funding committee in order to improve the efficiency of city government. The city manager should also consider adopting the Budgeting for Outcomes approach recommended by Public Financial Management, Inc. (PFM). Budgeting for Outcomes focuses on outcomes rather than an incremental budgeting approach. It is a variation on zero base budgeting. An important part of the process is to measure and report outcomes to citizens. The city should “state its case” annually to show citizens that it is operating efficiently and continually working to improve efficiency. There are powerful and useful tools such as Data Envelopment Analysis/Frontier Analysis that can be used to measure efficiency and performance in organizations.

The Colorado Springs City Charter

The City Charter calls for the city to provide police, fire, recreation, roads and other services for its citizens. The Charter does not specify the level of service that should be provided.

City Council and management have interpreted the Charter’s charge to mean services should be provided at the highest possible level within budget constraints. The idea behind TABOR is to put a limit on the size of government and to protect citizens from the imposition of excessive taxes which could lead to a level of services beyond those desired by the citizens. The ratchet down effect of TABOR assures declining levels of city services with successive recessions in the economy.

The time seems to have arrived where the city must look for guidance from its voting citizens as to which services are essential and which services are elective. This might be accomplished through an extension of the work completed by the Sustainable Funding Committee.

Economic Development

Local economic development efforts have had limited success over the last ten years. The dot.com implo-

sion, off shoring of tech related jobs, two recessions and an inability to compete in the competitive arena of tax incentives to keep and attract firms contributed to the loss of tens of thousands of jobs in El Paso County. The Colorado Springs Regional Economic Development Corporation (EDC) announced the following EDC facilitated primary job gains since 2000. The number of primary job losses is included for comparative purposes.

	Announced Jobs	Job Losses	Net Jobs
2000	3,650	1,473	2,177
2001	1,110	4,761	-3,651
2002	2,050	3,972	-1,922
2003	1,233	1,430	-197
2004	2,038	1,683	355
2005	2,466	983	1,483
2006	2,087	1,155	932
2007	2,462	1,441	1,021
2008	1,280	1,037	243
Total	18,376	17,935	441

Previous EDC targeted industries for growth in the region are listed below. The Forum generated employment and tax multipliers for the traditionally targeted primary employers in El Paso County. The multipliers values are:

	2006 Job Multiplier	2006 Tax Multiplier
Amusements, Gambling & Recreation	1.78	4.59
Accommodation	1.99	2.14
Membership Organizations	3.42	0.07
Sports	1.37	2.44
Information Technology	4.47	6.81
Computer & Electronic Product Manufacturers	9.33	11.23
Electrical Equipment & Appliance Manufacturers	3.22	13.76
Financial Services	2.92	5.18
Professional Technical	2.69	9.62

Source: IMPLAN

Given a choice about retaining or attracting a primary employer to the community, the community would be expected to choose the employer with the more jobs and higher salaries. However, economic multipliers indicate that not all jobs are equally beneficial to the local economy. For example, Membership Organizations and Electrical Equipment & Appliance Manufacturers have similar employment multipliers. However, Electrical Equipment & Appliance manufacturing has

Introduction

the highest tax multiplier among all traditionally targeted primary employers. The analysis indicates some industries create more indirect jobs than others and are better contributors to the community's tax base. The *Operation 6035* study by Angelou Economics is scheduled for release this fall. It will provide a new list of targeted sectors the community should strive to retain and attract. The Forum looks forward to seeing how the next generation of targeted industries are expected to create jobs, increase incomes, promote economic base diversity, employment stability and provide tax revenues that are sufficient to support the need for local government services in the region.

Call for Action

"You will never plough a field if you only turn it over in your mind." Irish Proverb

Over the past year, there has been a great deal of introspection within the region to examine issues facing the city, county and region. A partial list of these activities include Operation 60ThirtyFive (the Angelou report), the sustainable funding committee formed by the Colorado Springs City Council, the dream city vision 2020, the quality of life indicator report, the Colorado workforce centers cooperative data mining project and others.

Several final reports have come out or are ready to be rolled out into action plans while others are still being reviewed by decision makers. The time is ripe to take this creative thought and energy from the work of many and roll it into a comprehensive, integrate, long-term strategy for the city, county and the region. Simply implementing ideas and strategies from individual reports is not enough. An integrated approach is necessary.

As the process of developing this strategy proceeds the Forum makes the following recommendations:

1. Any new economic development strategy should be integrated, comprehensive and regional. Economic development and workforce officials understand the benefit of forming an integrated regional development strategy. This means integrating land use plans, water and waste planning, transportation, tax, work force training, education, the provision of government services and others. Integrating the plans developed by separate organizations is a challenge but one that will provide more comprehensive strategic direction for the decision makers in the community.
2. The key to a sound regional economic strategy is diversification of the economic base. This sounds simple and reasonable but it has to be done efficiently to be

effective. The core of economic base analysis is employment stability without reducing expected growth over the business cycle. A base analysis can be used to target desirable employers (primary and secondary) to maximize employment and income growth while minimizing unemployment and simultaneously achieving a tax multiplier that will provide sufficient taxes to underwrite local government's ability to provide desired services in the community.

There are well known methods in business and economics to determine how to diversify the economic base of a region. It starts with a clear definition of a set of objective and measurable outcomes. For example, one objective might be to sustain growth in jobs over time. This objective is further articulated by a set of desirable constraints which may include the specific jobs that are most attractive, the amount of variability in employment that is acceptable over time, wage and income levels of the jobs, and the appropriate tax multiplier needed to provide sufficient taxes to support local government.

3. The City of Colorado Springs must rebuild the trust of its citizens. Government should develop measures of efficiency and comparisons to other cities to demonstrate the prudent use of tax funds. Essential services of the government should be identified versus services that are deemed elective in nature that potentially can be provided by others in the community.

Citizens need to make it perfectly clear the level of service they expect from local government. Citizens need to provide local government with sufficient taxes to be able to provide the desired services. In the event a business downturn reduces tax revenues, local governments and citizens should be prepared to see fewer government services. If a restoration of services is desired by the citizens when the economy recovers, the tax mechanism in place must be able to accommodate tax revenue increases.

4. Leaders from the Pikes Peak region should join forces with other leaders around the state to critically examine the complex taxing structure in Colorado including TABOR, the Gallagher amendment and other conflicting constitutional amendments that reduce the efficiency of government. This is a call to improve the tax structure to make it less complex, to make it more transparent and to end the conflicts that make it practically impossible to develop sound tax policy in Colorado. Complexities of the current structure resulted in an inefficient patchwork of "fixes." Much can be done to simplify the tax structure to better balance the tax burden between residents and business and among the mix of property, sales and income taxation. At the

Introduction

same time the right of the citizen to vote on any tax increase can and probably should be preserved. Finally, it is important that no level of government pass or adopt any legislation with unfunded mandates.

5. Measurable outcomes must be defined and openly shared with the public. A partial list of outcomes should include:

a. Jobs created and their benefits to the community. Creating a job in and of itself is not sufficient unless it is a net benefit to the community.

b. The impact on wages and per capita income. The most desirable jobs increase regional wages and per capita income levels. This outcome would have other benefits to the community.

c. The impact of new jobs on the infrastructure. No job should be brought to the region unless that job can support all external costs including the infrastructure cost to government to support the job.

d. The effect on the existing workforce. How will new jobs impact the current workforce and workforce career pathways? What training and educational resources are needed?

e. The impact on quality of life. How will any new jobs impact quality of life in the region and the benefit to citizens. Is quality of life improved?

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
First Business Brokers, LTD.
Freedom Financial Services
Holland & Hart LLP
The Gazette
University of Colorado at Colorado Springs
Wells Fargo

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Silver Level:

BiggsKofford Certified Public Accountants
Colorado Lending Source
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Sierra Commercial Properties
The Mail Room, Inc.
Transit Mix Concrete Company
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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

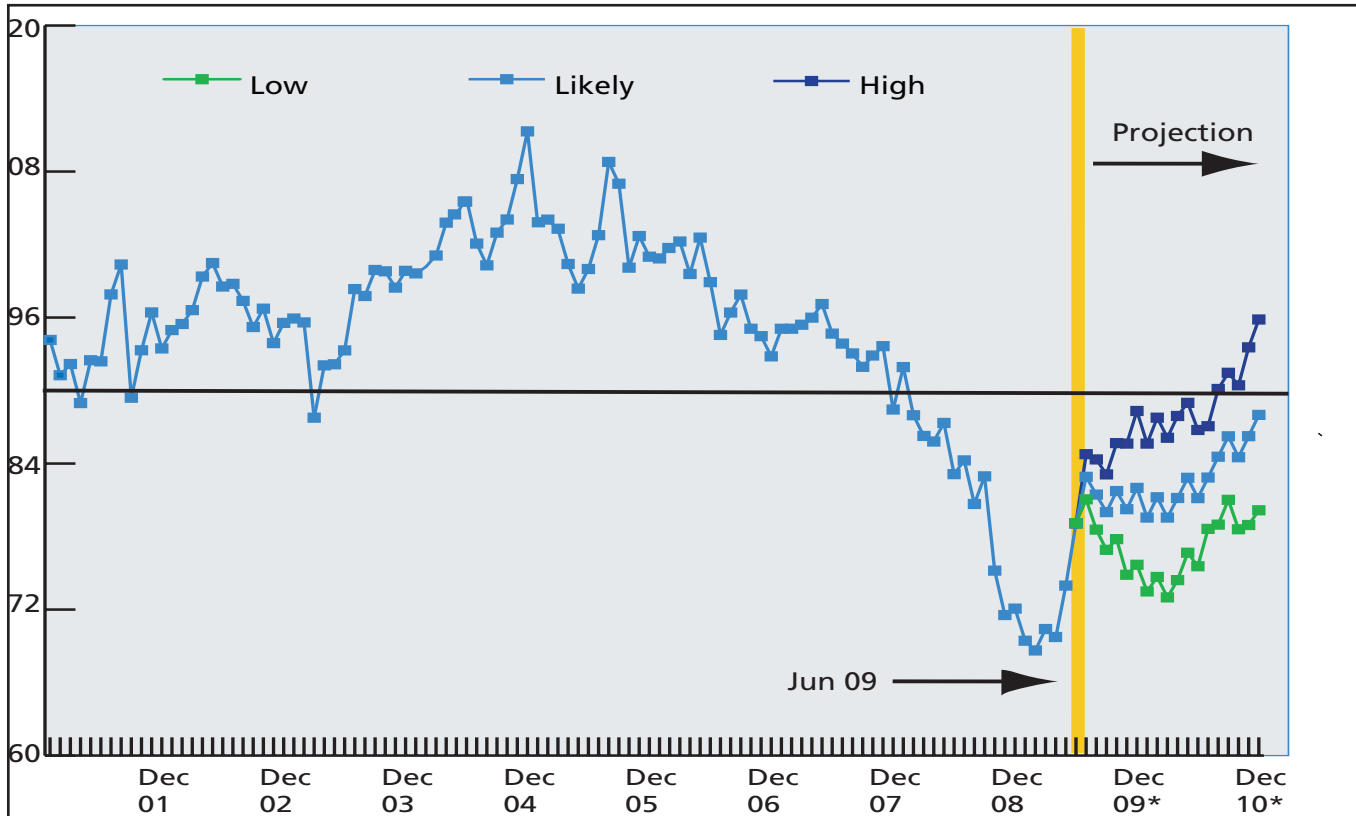
Forecast Summary

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		
		2008	2009	2010	2008	2009	2010	2008	2009	2010
		Actual	Estimate	Forecast	Actual	Estimate	Forecast	Actual	Estimate	Forecast
1	Population	0.9	0.9	0.7	2.0	2.8	1.8	1.2	1.8	2.9
2	Unemployment Rate	5.3	9.2	9.6	4.9	7.2	7.2	5.8	7.9	7.0
3	GDP/GSP	0.4	-2.6	2.3	2.5	-3.2	2.3	1.1	-2.1	2.0
4	Industrial Production	0.3	-10.5	2.4	-	-	-	-	-	-
5	Non-Agricultural Employment	3.8	-3.6	-0.2	0.8	-2.2	1.0	0.8	-3.6	1.2
6	Total Wages & Salaries	-	-	-	3.5	-0.2	1.0	2.2	-1.3	1.8
7	Average Wage & Salaries	-	-	-	2.6	0.2	2.5	3.3	1.0	2.4
8	Consumer Price Index (CPI)	3.8	1.0	2.3	3.9	0.0	1.5	-	-	-
9	Personal Income	3.8	0.0	3.9	4.9	0.2	2.5	4.1	-3.8	1.5
10	Per Capita Personal Income	2.8	10.8	3.2	2.9	-2.5	0.8	2.4	1.0	1.0
11	Retail Trade	-	-	-	-0.8	-1.7	3.0	-7.1	-8.5	2.0
12	Single Family Housing Permits ¹	-22.2	-42.6	36.5	-35.5	-44.2	41.5	-42.5	-18.9	25.0
13	Non-Residential Construction	13.2	-4.5	1.1	-12.5	-10.0	3.6	14.5	-26.2	3.0

Sources: Colorado Office of Budgeting and Planning, June 2009 Revenue Forecast, Federal Reserve Bank of Philadelphia, Bureau of Economic Analysis and the Southern Colorado Economic Forum.
¹ 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	Univ of Mich Consumer Sentiment	Kansas City Fed Mfg Index	El Paso Employment Rate	Colorado Springs 2% Sales & Use Tax	El Paso New Car Sales	El Paso Fore-clo-sures	El Paso Employ-ment	El Paso Income	BCI
Jan-09	79.02	17.92	65.64	62.78	95.88	89.24	49.03	98.17	107.00	101.30	69.44
Feb-09	78.56	17.71	61.71	59.79	95.18	90.86	50.03	97.78	106.68	100.24	68.64
Mar-09	87.83	17.5	62.31	64.65	95.13	98.11	49.99	97.94	106.14	99.58	70.40
Apr-09	87.24	12.44	71.50	78.10	94.97	92.01	49.08	97.74	107.69	98.33	69.66
May-09	80.54	25.94	75.3	90.06	94.98	87.36	41.19	97.83	106.37	97.28	73.97
Jun-09	80.15	32.26	75.93	106.13	95.80	94.46	51.77	98.18	104.00	96.09	79.09

WHY IS THIS IMPORTANT?

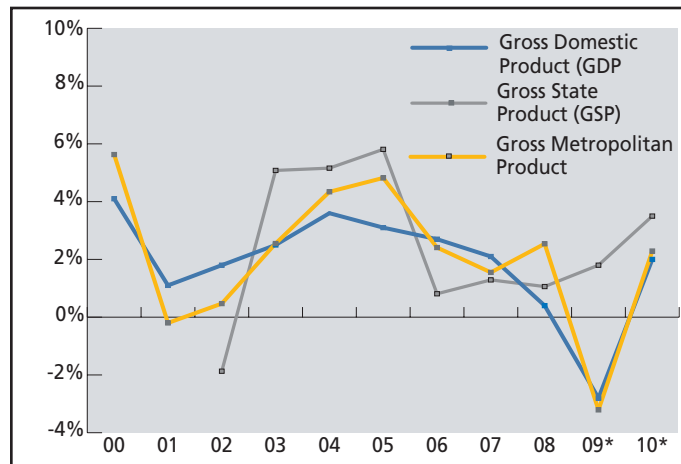
An aggregate trend of the local economy is extremely useful in gauging whether the economy is expanding, contracting or remaining stable. Rather than replace individual measures of activity such as housing or retail sales, the aggregate index should be compared to the individual indicators within the 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. A seasonally adjusted index is a more reliable identifier of emerging trends and is not biased by non-seasonally adjusted, monthly data spikes and troughs.

HOW ARE WE DOING?

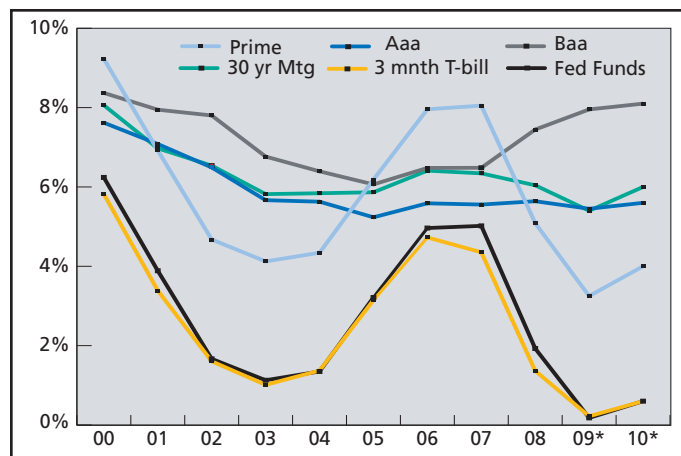
The BCI stabilized in late 2008 through April 2009 before beginning to rebound. As of June, the BCI is up approximately 15.2 percent over its February low of 68.64. In March 2009, the Forum published its opinion in the *QUE* that the local recession appeared to have bottomed out. By the June 2009 *QUE*, it was clear that the local economy was no longer declining. Seven of the ten indicators were higher than their previous monthly values. The improvements were realized before the new troops arrived at Fort Carson. Current conditions suggest the recovery will be gradual, taking 12 to 18 months. The BCI is expected to average 76.6 in 2009 and 83.2 in 2010.

National and State Indicators

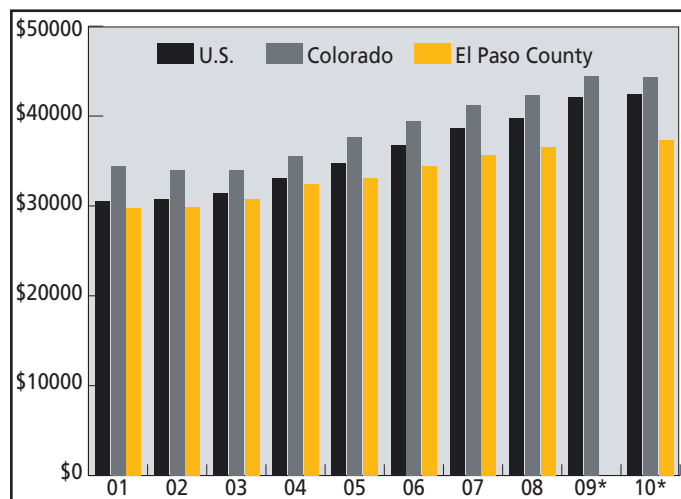
Real Gross Domestic Product (GDP), Gross State Product (GSP) and Gross Metropolitan Product (GMP)



Key Interest Rates



Per Capita Personal Income



* Office of State Planning and Budgeting and SCEP 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) and gross metropolitan product (GMP) which are state and local 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 0.4 percent in 2008, a decline from a rate of 2.1 percent in 2007. Real GDP shrank by 3.0 percent from June 2008 through June 2009. Evidence points to the failure of financial markets as the primary cause of the recent recession. Rising oil prices, the decline in consumer sentiment and spending, and record foreclosures contributed to the recession. Colorado's real GSP growth exceeded U.S. growth in 2008 by 2.1 percent. Growth in GSP for Colorado is expected to be about the same as the U.S. in 2009 and 2010. Real Gross Metropolitan Product (GMP) for Colorado Springs was up 1.1 percent in 2008. Most of the increase in GMP is attributable to troop increases at Fort Carson and professional & technical consultants to the area's Air Force facilities.

Concerns about capital markets and a slowing economy drove the Fed Reserve to lower the primary discount rate in nine steps from 5.75 percent to 0.50 percent from August 17, 2007 to December 16, 2008. The target rate for the Fed Funds rate was reduced from 5.25 percent to a range of 0.0 to 0.25 percent during the same period. Since December 2008, both benchmark rates have remained at their December 2008 target values. Current indicators suggest interest rates will begin increasing by early 2010.

Per capita income growth continued its upward trend in the U.S. and Colorado in 2008. Preliminary estimates for 2008 indicate per capita income was \$39,751 for the U.S., a 2.8 percent increase, and \$42,377 for Colorado, a 2.9 percent increase.

Colorado's per capita income is expected to be \$44,433 in 2009 and \$44,300 in 2010. The Forum projected the 9.0 to 10.0 percent per capita income advantage that Colorado had over the U.S. from 1990 through 2007 would decline from 2008 to 2009 to approximately 5.0 percent. This appears to be materializing. Colorado's per capita income advantage in 2008 was 6.6 percent over per capita income in the U.S. Current job and income trends suggest Colorado's per capita income advantage will be approximately 4.3 percent in 2010.

El Paso County per capita personal income remains well below both the U.S. and Colorado averages. The gap between El Paso County and Colorado per capita income continues to widen. In 2000, the gap was 10.2 percent. The 2008 gap was 13.4 percent below Colorado's per capita income. Projected El Paso County per capita income is expected to grow at -1.0 percent a year to \$36,937 in 2009 and \$37,306 in 2010.

Sentiment and Savings

WHY IS THIS IMPORTANT?

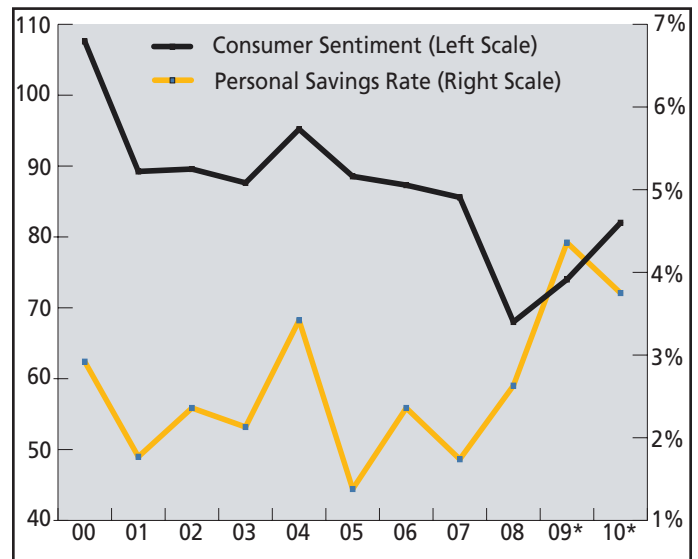
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of the consumer's confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer sentiment measures confidence using 1996-97 as the base 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. Recently, it has rebounded. The August 2009 consumer sentiment stood at 65.7, 10.4 points above the low of 55.3 in November 2008. Additional increases in consumer sentiment are expected through 2010 as unemployment rates peak and begin to decline. The gradual improvement in consumer sentiment is expected to lead to an increase in retail activity.

The tax stimulus checks and reduced consumer expenditures over the last 18 months contributed to a significant increase in the personal savings rate. Savings are currently running at 4.2 percent. This is expected to remain in the 3.4 to 4.0 percent range through 2010. The increase in consumer savings is expected to provide consumer purchasing power in the recovery as individuals and families reduce debt and improve their personal "balance sheets." Consumer stockpiled savings are expected to be the driving force, albeit a modest force, for retail recovery over the next 18 months.

Consumer Sentiment and Personal Savings Rate



* SCEF forecast

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

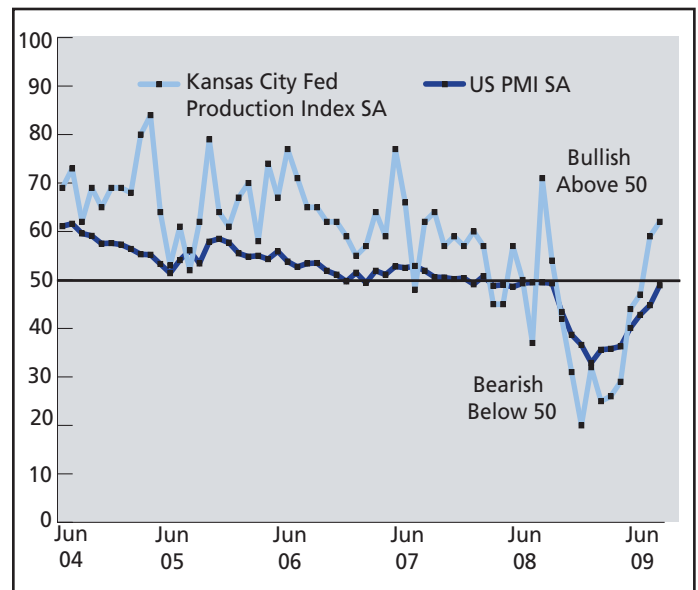
WHY IS THIS IMPORTANT?

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 bottomed out in November-December 2008. Manufacturing in the Kansas City Fed district rebounded from a low of 20 in November to 62 in July. Similar gains were made in the PMI. Both the KCPI and the PMI are somewhat forward looking indicators. While it is encouraging to observe strong growth in these primary sector barometers, the growth rates are not sustainable. Both measures are expected to demonstrate additional growth over the next 12 months. However, the growth is expected to be modest. Both indicators are likely to remain in bullish territory with values in the low 50's, on average, through the middle of 2010. Economic recovery is generally characterized by slow growth during the initial stages of post recession economic activity.

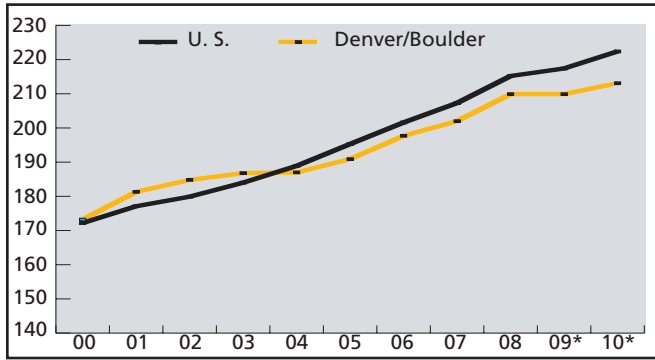
Purchasing Managers Index



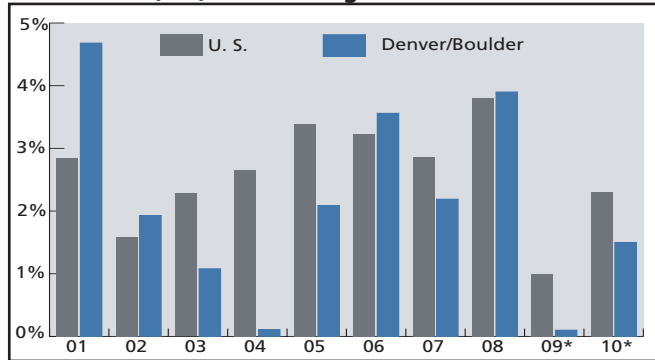
Sources: Institute of Supply Management and Federal Reserve Bank of Kansas City

CPI and Population

The Denver/Boulder/Greeley 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.

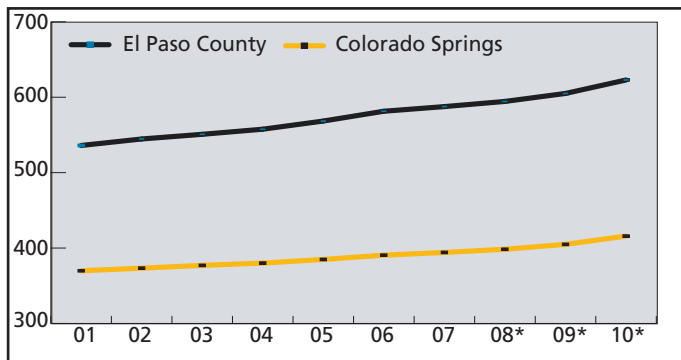
HOW ARE WE DOING?

The Denver/Boulder/Greeley CPI rose an estimated 3.9 percent in 2008 after rising 2.2 percent in 2007. Recessions are good for lowering inflation rates. Through June 2009, the Denver/Boulder/Greeley CPI is unchanged. For the year, inflation is expected to increase less than 0.1 percent. A 1.5 percent rate of inflation is expected in 2010 by the Colorado Office of State Planning and Budgeting.

The U.S. urban CPI rose 3.8 percent in 2008 after increasing 3.9 percent in 2007. Inflation in 2009 is expected to be 1.0 percent. Anticipated recovery in the economy is expected to bring about annual inflation of about 2.3 percent in 2010. The slower rate of inflation since 2008 is attributed to lower energy and transportation prices, especially in 2009.

While there is general consensus that inflation pressures have eased for the next 6 to 12 months, there is concern that inflation could become an issue in 18 months. The unfolding global economic recovery is expected to put price pressure on basic commodities. Together with \$800 billion in excess banking reserves, there is the potential for higher inflation in 2010.

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 government 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.

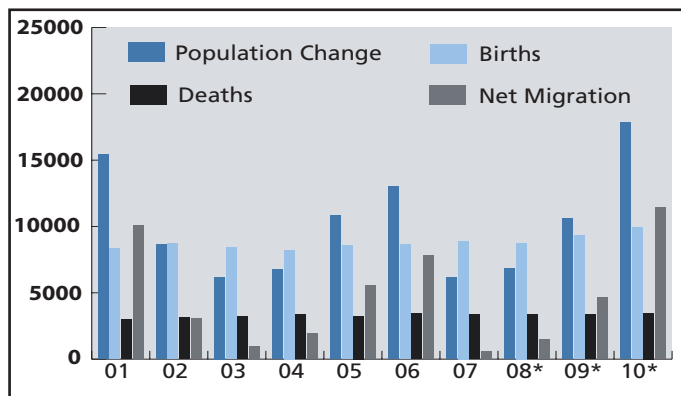
Population growth comes from the natural increase (births minus deaths) and from net in-migration (or out-migration). The sum of these components is the change in population. Identifying trends in these indicators helps project future changes in the county's population and their impact on the economy.

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 594,437 in 2008, an increase of 6,847 over 2007.

The natural increase in the population was 5,375 in 2008, 27 more than the annual historical average. Net in-migration is expected to drive population increases in 2009 and especially in 2010. All population growth contributes to economic growth. However, net in-migration has a more immediate effect on the local economy. Families who move to Colorado Springs need housing, schools, food, clothing and other local residential services immediately. This is especially good for the local residential housing industry. If past patterns hold, there should be a rebound in housing construction beginning in 2010 to accommodate the new civilian and military residents in our community.

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?

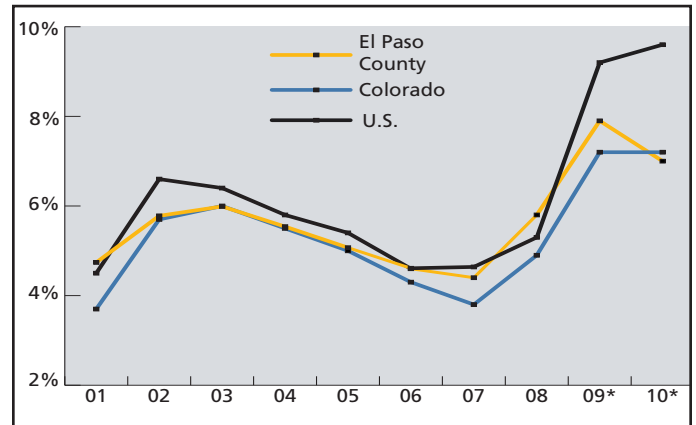
The seasonally adjusted (SA) July 2009 unemployment rate in El Paso County stood at 7.6 percent vs. 5.8 percent in July 2008. Colorado's SA July unemployment rate was 7.3 percent vs. 4.9 percent in July 2008. The U.S. unemployment rate increased to 9.7 in July compared to 6.2 percent in July 2008. The local and state unemployment trends have fared better than U.S. trends during the recent recession. The Colorado Office of Budget and Planning estimates that unemployment will be 7.2 percent in Colorado for all of 2009 and 2010. The Forum projects El Paso County unemployment will average 7.9 percent in 2009 and 7.0 percent in 2010.

The employment picture deteriorated in El Paso County during 2008. The Colorado Department of Labor reported an increase of 2,216 non-agriculture jobs. Average annual Quarterly Census of Employment Wages (QCEW) employment was 244,907, or 0.9 percent below 2007. The best employment gains were in Government (1,396), Health Care (1,230), Professional Technical Services (1,019) and Arts/Entertainment/Recreation (270). Significant employment losses were seen in Manufacturing (1,375), Construction (1,326), Administration and Waste Management (1,138), Finance & Insurance (580), Retail (477), Accommodation and Food Service (397) and Transportation/Warehousing (250).

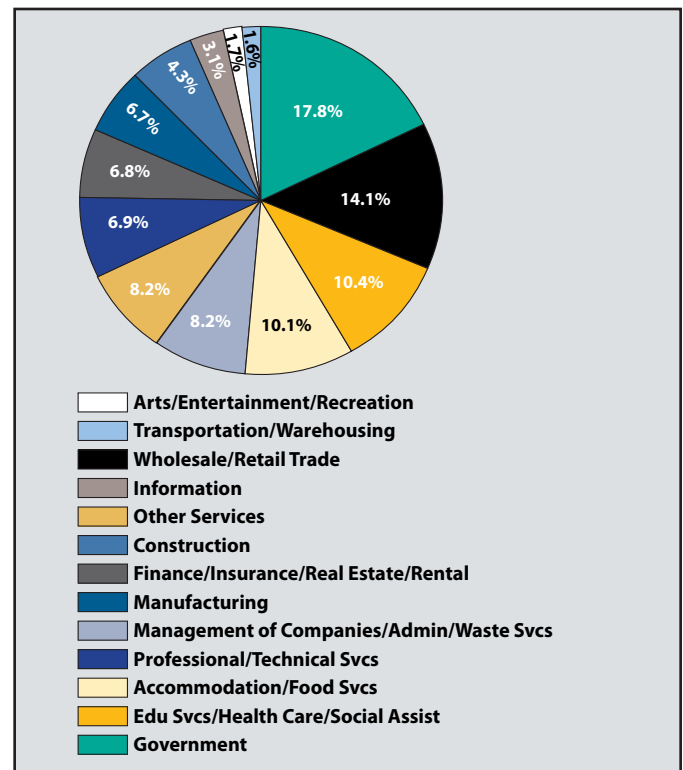
Average wages increased 1.7 percent to \$40,664 in 2008. Despite the recession, all sectors saw average wage increases in 2008 except for Wholesale Trade, Transportation & Warehousing and Arts/Entertainment/Recreation. The largest percentage gains were in Administration and Waste Services (7.9%), Mining (7.8%), Management of Companies (7.3%), Utilities (6.5%) and Agriculture (4.2%).

Average wages increased in all of Colorado by 2.3 percent in 2008. Wages went from \$45,396 in 2007 to \$46,592 in 2008. The wage gap between Colorado and El Paso County widened in 2008. The average wage in El Paso County is now 12.1 percent lower than the average wage in Colorado. In 2007, El Paso County wages were 11.9 percent below the average in Colorado.

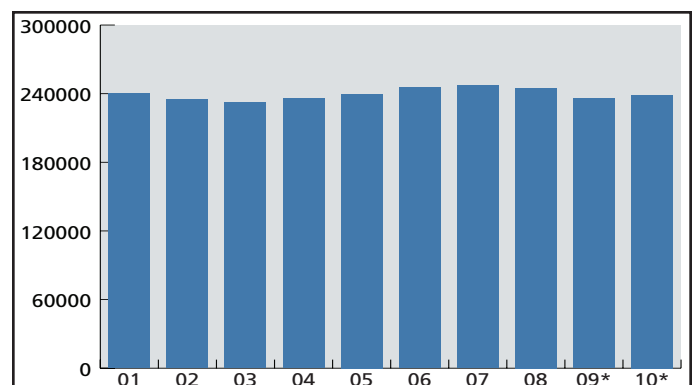
The Unemployment Rate in El Paso County, Colorado, and the U.S.



2008 Employment in El Paso County by North American Industrial Classification (NAICS)



Total QCEW Employment in El Paso County



* Through March 2009 and estimate for 2010

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 2007 and 2008							
NAICS Code		2007			2008		
		Employment	Percent of Total Employment	Average Annual Wage	Employment	Percent of Total Employment	Average Annual Wage
11	Agriculture, Forestry, Fishing & Hunting	311	0.1	\$23,400	250	0.1	\$24,388
21	Mining	135	0.1	90,948	133	0.1	98,072
22	Utilities ¹	608	0.2	90,168	657	0.3	95,992
23	Construction	16,576	6.7	42,588	15,250	6.2	43,732
31-33	Manufacturing	16,957	6.9	54,340	15,582	6.4	54,808
42	Wholesale Trade	5,878	2.4	50,232	5,954	2.4	53,092
44-45	Retail Trade	29,055	11.8	25,532	28,578	11.7	25,636
48-49	Transportation & Warehousing	4,295	1.7	35,464	4,045	1.7	35,152
51	Information	7,735	3.1	61,568	7,590	3.1	63,544
52	Finance & Insurance	12,351	5.0	48,048	11,771	4.8	49,764
53	Real Estate, Rental & Leasing	4,500	1.8	30,576	4,268	1.7	31,096
54	Professional & Technical Services	20,279	8.2	71,500	21,298	8.7	73,944
55	Management of Companies & Enterprises	961	0.4	80,392	881	0.4	86,268
56	Administrative and Waste Services	19,321	7.8	31,460	18,183	7.4	33,956
61	Educational Services	3,880	1.6	32,032	3,770	1.5	33,228
62	Health Care & Social Assistance	21,759	8.8	39,780	22,989	9.4	40,612
71	Arts, Entertainment & Recreation	3,882	1.6	18,096	4,152	1.7	17,992
72	Accommodation & Food Services	24,938	10.1	15,184	24,541	10.0	15,652
81	Other Services	9,648	3.9	33,332	9,566	3.9	34,580
99	Non-Classifiable	10	0.0	45,760	17	0.0	49,400
	Total Non-Government	203,079	82.2	39,365	199,467	81.4	41,288
	Government	44,044	17.8	43,004	45,440	18.6	43,940
	Total All Industries	247,123	100.0	39,988	244,907	100.0	41,288

¹ Does not include Colorado Springs Utilities
Source: Colorado Department of Labor QCEW.

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 an 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?

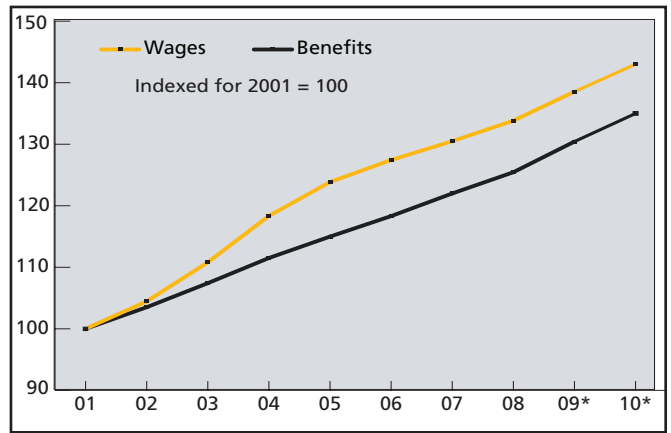
The national benefit cost index continued to rise faster than wages in 2008. Benefits rose approximately 2.8 percent in 2008 compared to 3.1 percent in 2007. Wages rose at a faster rate in 2008 (2.6%) than in 2007 (2.4%). Nationally, wages have increased a modest 4.3 percent a year since 2001. Benefits have increased 3.3 percent a year since 2001. The Forum expects wages will increase nationally by 3.5 percent while benefits will increase by 4 percent in 2009. Weak economic conditions into 2010 will keep wage growth to 2.0 percent and benefits growth to 4.0 percent in 2010.

The base year for the COBI is set at 100 in 2001. The index stood at 126.2 at the end of 2008. This means the average cost of business was 26.2 percent higher in 2008 than in 2001. By comparison, the CPI rose 21.6 percent while the PPI rose 41.3 percent during the same period. The Forum forecasts that the cost of business index will increase 2.8 percent to 129.7 in 2009 and 2.3 percent in 2010 to 132.7.

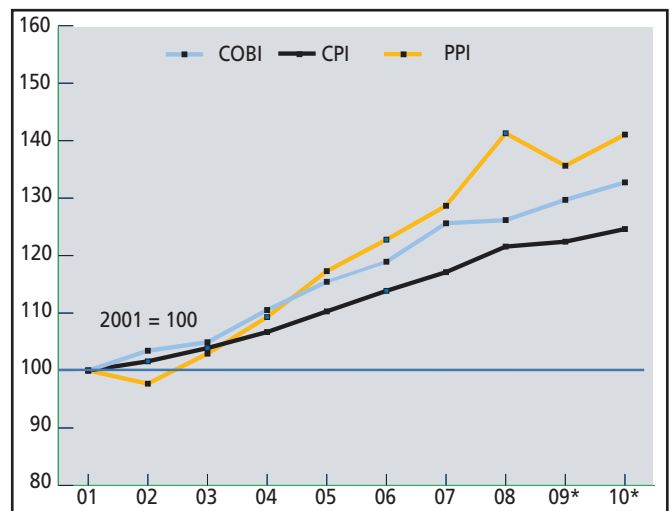
The final chart on this page provides the average annual percentage increase in the individual components in the COBI since 2001 and their respective increases in 2008 compared to 2007. All costs of business in 2008 were below their historical averages in 2008 except for rents. The components and their change in cost in 2008 compared to 2007 were: electricity -7.9 percent; wages 2.6 percent; benefits 2.8 percent; rents 2.2 percent; property taxes 2.3 percent. The property tax change is based on total property taxes collected. It is not a change for a specific property.

Commercial utility rates were lowered during 2008, in part, due to an internal cost of services audit City Utility conducted. Given the initiative to reduce carbon footprints, similar savings in the future are extremely unlikely. The Forum expects that inflationary pressures that stabilized in 2008 and part of 2009 will continue through the first half of 2010. Rents are expected to decline as the economy slows. Electricity costs are expected to increase significantly in the next few years due to expiring coal and gas contracts for Colorado Springs Utilities along with potential Cap and Trade effects. Property tax collections will increase significantly if Issue 2C passes in November.

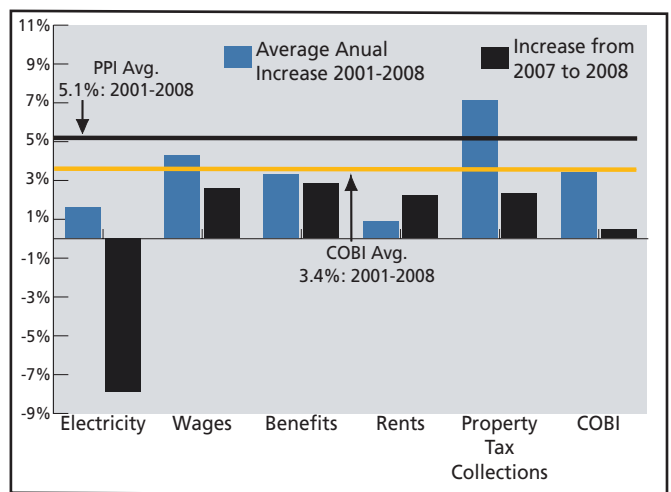
Wage and Benefit Cost Index U.S. Average



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



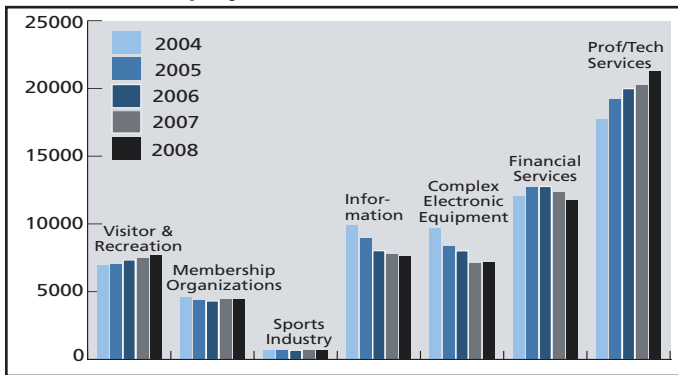
Percent Change in Individual Items in the Cost of Business Index for El Paso County



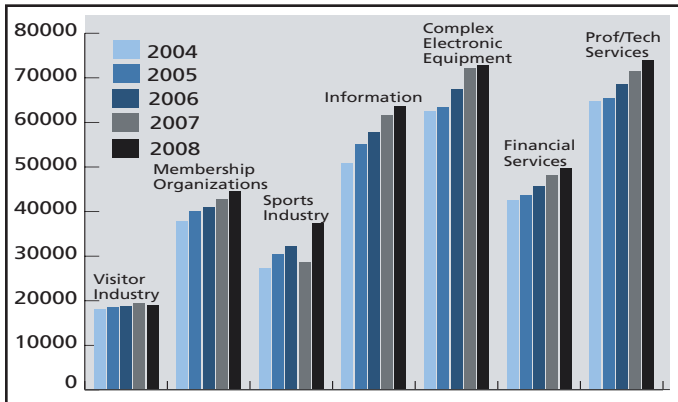
* SCEF forecast
Source: Federal Reserve Bank of St. Louis, SCEF

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.

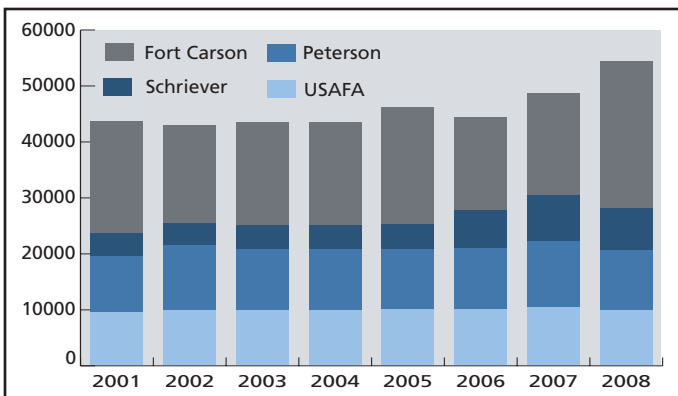
HOW ARE WE DOING?

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.

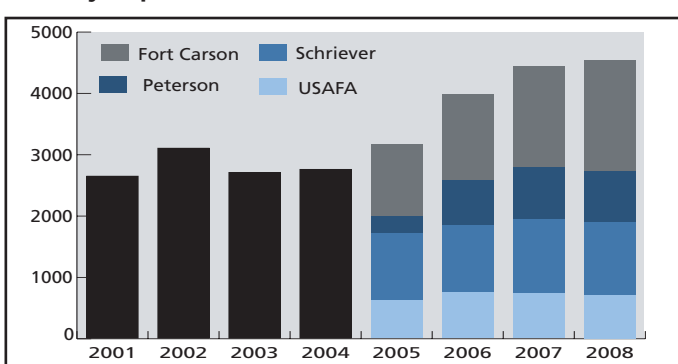
Primary sectors provided 28.8 percent of all jobs and 39.5 percent of all wages in 2001. By 2008, primary sectors provided 24.8 percent of all jobs and 35.0 percent of all wages in El Paso County. The primary employers' share of the local economy has deteriorated by 4 percentage points since 2001. Had the proportion of primary jobs remained the same in 2007 as it was in 2001, the county would have had 9,784 more primary jobs and \$582 million more wages in 2008. Multiplier effects would produce about 36,000 additional jobs and another \$1.1 billion dollars in wages in 2008.

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: The Greater Colorado Springs Economic Development Corporation and Quality of Life Indicators Report

WHY IS THIS IMPORTANT?

The military has been an important contributor to the local economy since World War II. The military presence in the local economy has grown since 2001. 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 54,294 in 2008 from 48,589 in 2007. This was an increase of 5,705 positions or 11.7 percent. All of the growth can be attributed to 8,011 military and civilian workers at Fort Carson. Aggregate military and civilian staff levels at the Air Force facilities decreased by 2,306 positions in 2008. At the current time, it is uncertain if additional troops will arrive at Fort Carson under BRAC05. Military related jobs might have peaked in 2008. The current employment levels on the military facilities represent approximately 18 percent of all jobs in the community, military and civilian

Based on available data from the Chamber of Commerce and the United Way *Quality of Life Indicators* publication, the Forum estimated the economic impact of the military facilities at \$4.5 billion in 2008. The Bureau of Economic Analysis estimated the Colorado Springs Metropolitan Statistical Area's Gross Metropolitan Product (GMP) at \$24 billion in 2008. This includes Teller County. Allowing for up to \$2 billion in GMP for Teller County, the military installations were responsible for approximately 20.5 percent of all economic activity. This is similar to the 19 percent estimated economic impact the military had on the area in 2007.

Tourism and Lodging

WHY IS THIS IMPORTANT?

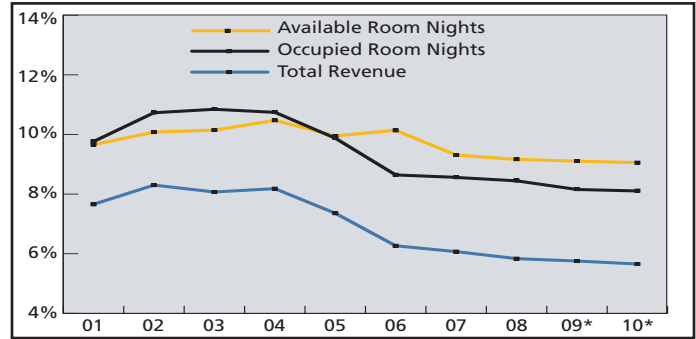
Hotel market share, relative to Colorado totals, are general indicators of the health of local tourism. Changes in these can signal changes in the popularity of Colorado Springs as a tourism destination compared to the rest of Colorado. The lodgers and auto rental tax is an additional tourism indicator.

HOW ARE WE DOING?

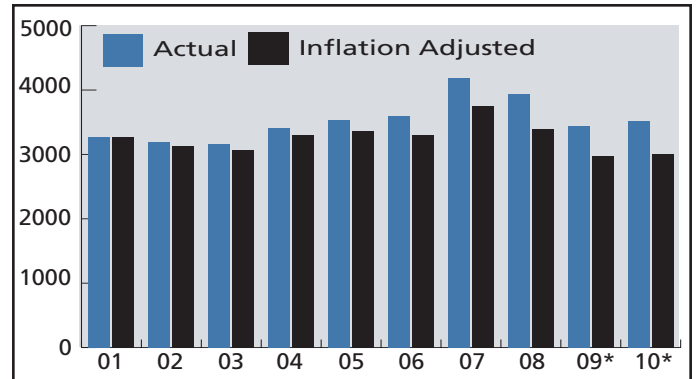
Each year, about 6 million people visit the Pikes Peak area. These visitors generate over \$1 billion in travel-related revenue. Single room rates range from \$20 to \$300. Many of the new rooms are value-priced facilities in the \$70 to \$85 range. The area's share of statewide occupied room nights, revenues and available room nights continued its decline. Colorado Springs captured 8.6 percent of occupied room nights in 2008 compared to 11.6 percent in 1998. The share of statewide room rents was 5.9 percent in 2008 compared to 9.6 percent in 1998. The hotel industry in Colorado Springs is losing market share to other locations in the state. Despite the recession, the number of occupied room nights increased in June 2009 by 8,479 to 115,678, while room rates were down \$5.21 per night to \$88.20.

The problems in the local hotel industry are contributing to the lack of growth in lodging and automobile rental taxes (LART). Collections for 2009 are expected to be \$3.5 million, down from a peak of \$4.2 million in 2007. Adjusting for inflation, real LART is expected to be \$3.0 million in 2010, a decline of 8.4 percent from the 2001 reference year. If Colorado Springs does not re-brand itself as a tourism destination, its market share and tax base are not expected to grow.

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?

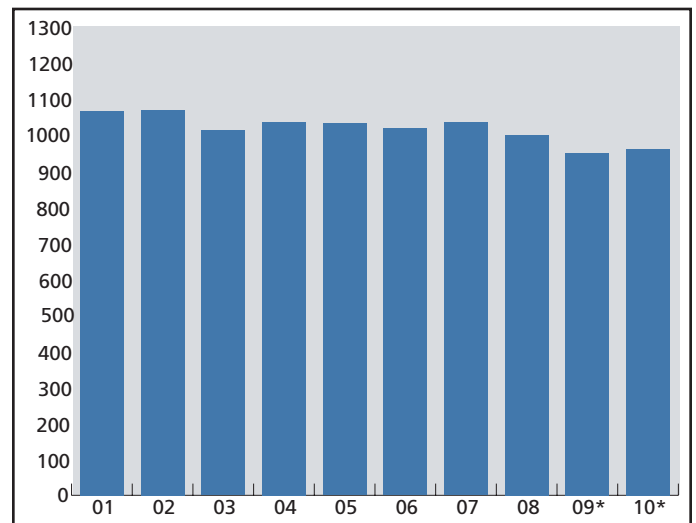
Enplanement activity at the Colorado Springs Airport was 998,347 in 2008, a 3.4 percent decrease from the 1,033,586 enplanements in 2007. The decrease was projected by the Forum.

Through June 2009, enplanement activity was down 7.0 percent compared to June 2008. The prolonged recession, and reduced business class travel contributed to the decline.

Enplanement activity for the balance of 2009 is not promising. Volatile fuel costs have created unstable ticket prices. Airlines have trimmed schedules. The International Air Transport Association released a revised forecast in September in which it expects passenger traffic will decline by 4 percent and cargo tonnage by 14% for 2009.

The Forum expects enplanements will be down about 7 percent in 2009 and up about 1 to 2 percent in 2010. In the event Republic Airways Holdings manages to reverse Frontier's bankruptcy woes, it is possible enplanement activity could increase significantly if Republic expands service in Colorado Springs under the Frontier brand.

Colorado Springs Airport Enplanements (000s)

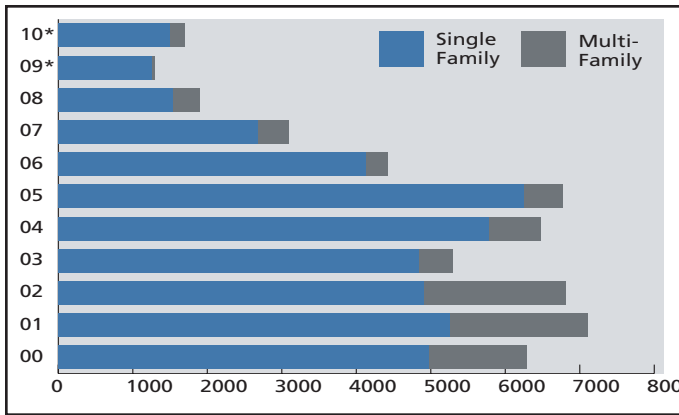


* SCEF forecast

Source: Colorado Springs Airport

Construction and Housing

Residential Building Permits (Dwelling Units)



WHY IS THIS IMPORTANT?

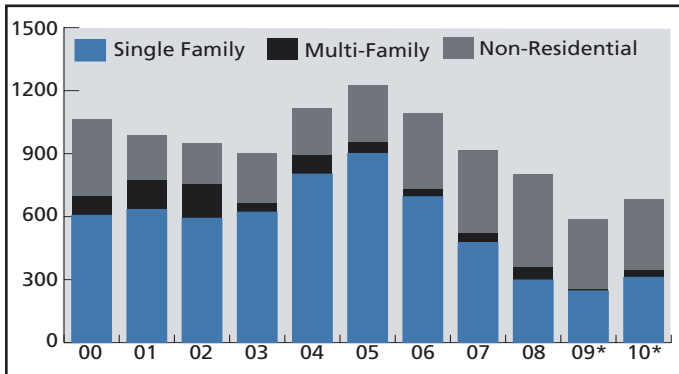
Growing communities like Colorado Springs continually add to the housing stock in order to meet the needs of new residents. With a desirable location, Colorado Springs and El Paso County will continue to grow. Adequate and affordable housing must be available to accommodate the growth.

HOW ARE WE DOING?

Capital market and sub prime mortgages continued to wreak havoc on residential construction in 2008 and into 2009.

There were 1,541 single family permits in 2008. This is 1,136 below the 2,677 permits in 2007. The problem in the housing market is expected to continue at the national level longer than in El Paso County. Troop arrivals, tax incentives and normal population growth have contributed to a slow, but defined recovery in housing. The Forum projects there will be 1,250 single family permits in 2009 and 1,500 permits in 2010. Multi-family permits are expected to be 50 in 2009 and 200 in 2010.

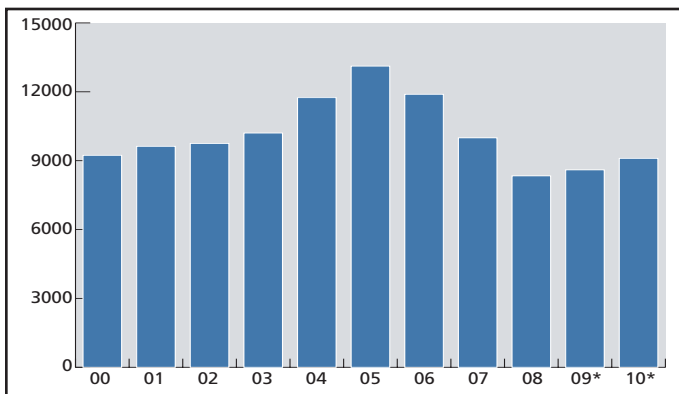
Value of Construction (\$ millions)



* SCEF forecast
Source: Pikes Peak Regional Building

Non-residential construction in 2008 increased \$56.6 million to \$366 million. Most of the non-residential construction booms in 2007 and 2008 are finished. The recent recession is now spilling over to commercial property and is contributing to rising commercial vacancy rates and foreclosures. Non-residential permits are expected to be \$330 million in 2009 and \$340 million in 2010. Single family permit value is expected to be \$247 million in 2009 and \$311 million in 2010.

El Paso County Home Sales



WHY IS THIS IMPORTANT?

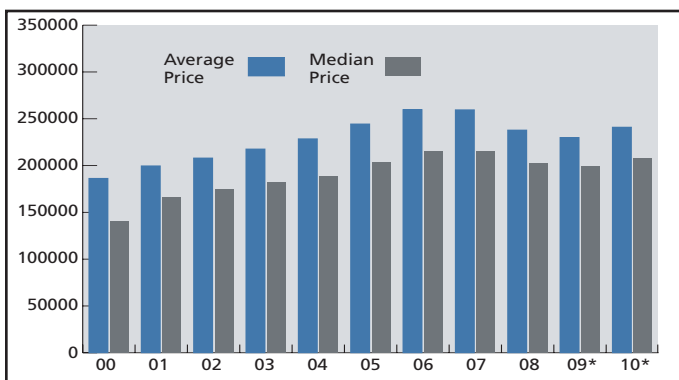
Home sales are an indicator of vitality in the local real estate market. An unusual drop in annual home sales could indicate a problem in one or more economic sectors.

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 the 2008-2009 winter. A total of 8,339 sales were reported by the Pikes Peak Association of Realtors in 2008, a 16.6 percent decline compared to the 9,995 sales recorded in 2007. Housing sales are expected to increase in 2009 to 8,600. A recovering economy and the Fort Carson effect are expected to increase sales to 9,100 in 2010.

Mean and Median Prices of Homes



* SCEF forecast
Source: Pikes Peak Association of Realtors

The average home price in the region stood at \$222,531 in August 2009, a decline of 5.4 percent from August 2008. The August median price was \$195,550, a 2.5 percent decline over 2008. More importantly, the Office of Federal Housing Enterprise Oversight reported in June 2009 that same house sale prices in El Paso County decreased 2.4 percent compared to June 2008.

Recent factors in the local housing market suggest stability to modest growth can be expected in the next 12 to 18 months. Stricter bank lending policies will constrain price appreciation.

Foreclosures and Utilities

WHY IS THIS IMPORTANT?

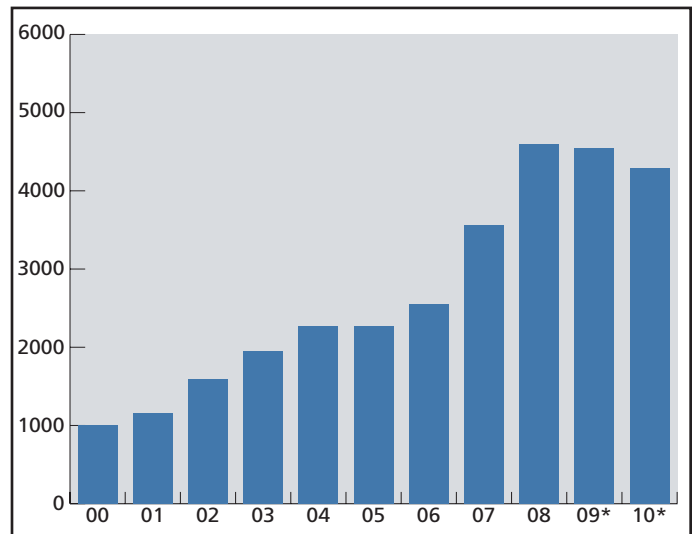
The downside of the housing market is when a foreclosure occurs. Foreclosures are normally used by economists as a lagging indicator, since they tend to peak just about the time an economic recovery occurs.

HOW ARE WE DOING?

There were 4,597 foreclosures in 2008, up 29.3 percent from 2007. At the current rate, the Forum anticipates there will be 4,550 foreclosures in 2009. The Forum expects 4,284 foreclosures in 2010.

A major contributing factor to the foreclosure problem has been the number of low documentation or no documentation mortgage loans. According to data from the Federal Reserve Bank of New York, El Paso County has had steady reduction in these problem loans. Through August 2009, the number of mortgages being refinanced in El Paso County is running approximately 8,000 more than in 2008. This is expected to reduce foreclosure rates in 2009 and 2010. Since January 2009, housing prices reported by Pikes Peak Association of Realtors have increased approximately 12 percent. The number of upside down mortgages in the community should decrease. The number of loans scheduled to have their interest rates reset in 12 months has decreased over the last five months. These evolutions in the mortgage market suggest a decline in the number of foreclosures can be expected over the next 12-18 months. The local economy is beginning to grow again. Approximately 3,500 additional troops arrived at Fort Carson this summer. Collectively, these vitamin B12 shots are expected to contribute to fewer foreclosures in late 2009 and throughout 2010.

Foreclosures in El Paso County



* SCEF forecast
Source: El Paso County Public Trustee

WHY IS THIS IMPORTANT?

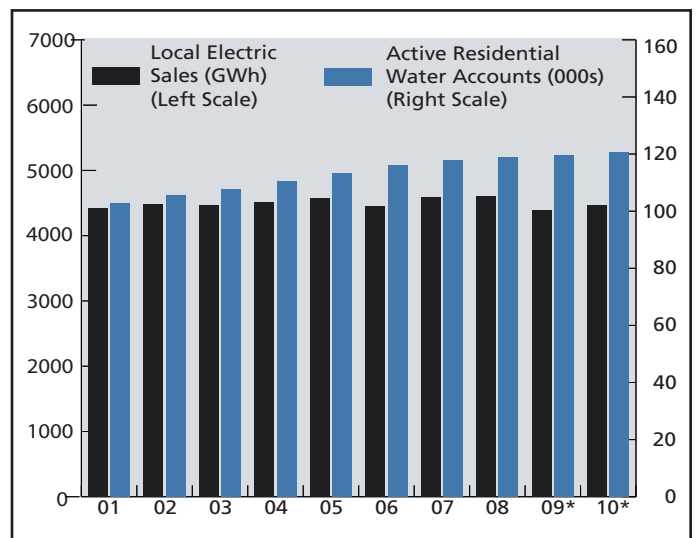
Local electric sales and residential water accounts are good indicators of growth and economic activity. Active residential water accounts correlate with residential construction and housing market activity. Changes in electric sales on system capture both residential and commercial activity.

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 2008 grew a modest 1.2 percent a year. Projections for 2009 and 2010 put water account growth at 1.0 percent growth per 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 0.6 percent in 2008. Growth is expected to be -4.8 percent in 2009 before growing at 1.9 percent in 2010. The decline in growth for City Utilities reflects the ongoing loss of the City of Colorado Springs' share of economic activity in the county and the recession of 2008 through the summer of 2009.

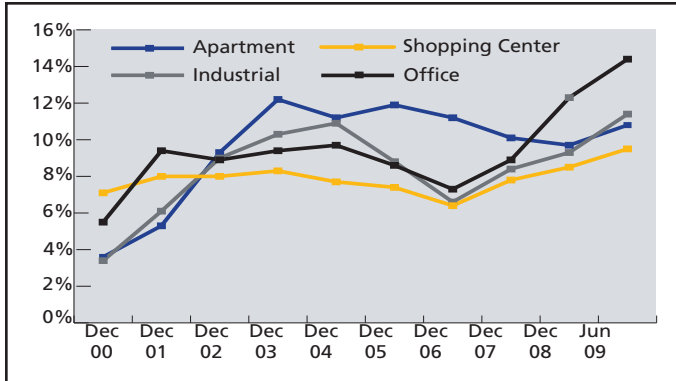
Total Local Electric Sales on System (GWh) Active Residential Water Accounts (000s)



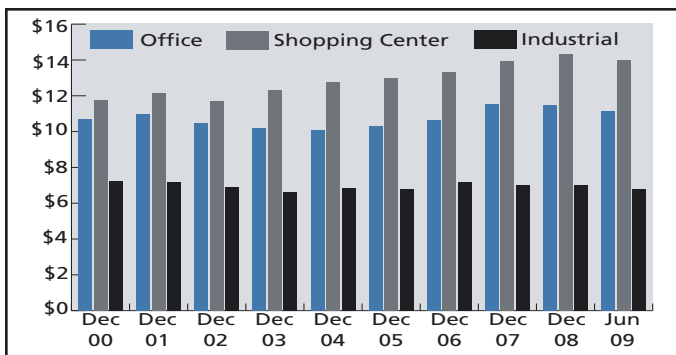
*City Utilities forecast
Source: Colorado Springs Utilities

Commercial Property and Retail

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

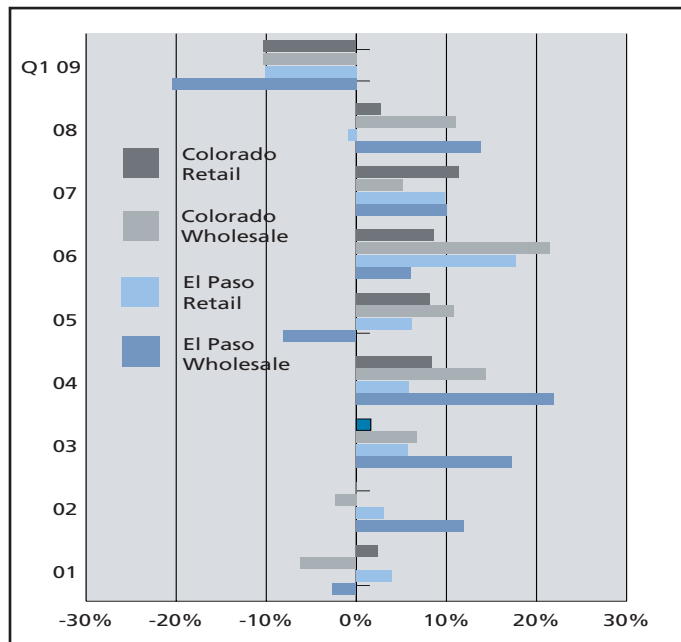


Average Asking Rents For Office, Shopping Center and Industrial Space



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 key 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?

Last year, the Forum wrote "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 2009 and 2010."

As of June 2009, vacancy rates were higher in all property types. Vacancy rates began to increase and continued increasing through June 2009. Recent vacancies and rents are:

Vacancy Rates and (Rents)		
Property type	December 2008	June 2009
Office	12.3% (\$11.45)	14.4% (\$11.15)
Industrial	9.3% (\$7.01)	11.4% (\$6.80)
Shopping	8.5% (\$14.30)	9.5% (\$14.00)
Apartments	9.7% (\$702.13)	10.8% (\$704.00)

In all cases, real rents declined since 2007: office (-8.3%), industrial (-8.3%), shopping (-4.9%) and apartments (-4.5%). Additional declines in rent are expected through 2010. Higher vacancies are expected in all commercial properties except for apartments.

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 decreased 0.9 percent to \$13.7 billion in 2008 after growing 9.8 percent in 2007. This is below the 2.7 percent growth rate in Colorado for 2008. Preliminary first quarter 2009 El Paso County retail sales were \$2.8 billion, or 10.2 percent below the first quarter of 2008. Colorado retail sales were down 10.3 percent for the first quarter of 2009. A deep recession, declining consumer sentiment, weak tourism expenditures and rising unemployment rates contributed to the poor performance in retail volume.

Wholesale sales, which tend to be more volatile than retail sales, increased 13.8 percent in El Paso County in 2008. Colorado wholesale sales grew 11.1 percent in 2008. First quarter 2009 wholesale volume for El Paso County shrank by 20.5 percent below the first quarter in 2008 while first quarter wholesale sales were down 10.3 percent in Colorado.

Declines in retail and wholesale activity are expected in 2009. Modest increases in the 2 to 4 percent range are expected in 2010.

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?

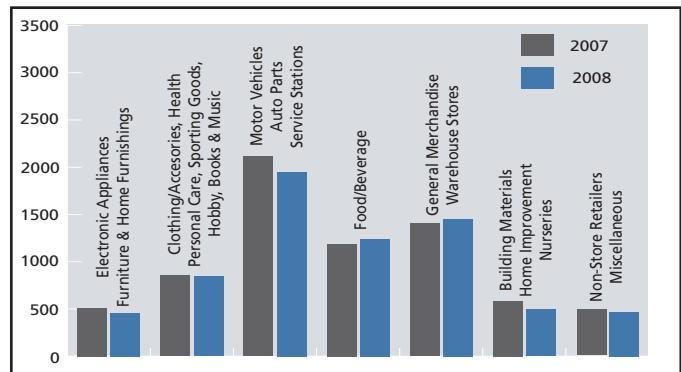
Retail trade in 2008 was \$6.91 billion or 50.6 percent of the total retail sales in the county. Retail trade declined by 3.1 percent below the \$7.13 billion in 2007. Every retail trade category declined except for food/beverage (4.3%) and general stores (3.7%). Declines for the remaining sectors were building (15.5%) electronics (10.1%), motor vehicles (7.8%), non-store retailers (3.0%) and clothing (0.7%).

The largest portion of retail trade is motor vehicles/auto parts/service stations. Auto sales declined 18 percent in 2008. The only reason motor vehicles was not down more than 7.8 percent in 2008 was gasoline was sold for well over \$4 a gallon in the summer of 2008. The increase in general merchandise and food, along with modest decline in clothing, reflects consumer budget decision to purchase essential items only in 2008.

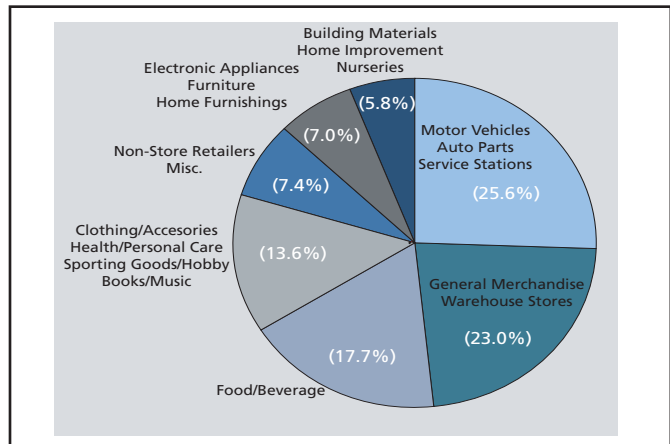
Through the first quarter of 2009, retail trade was down approximately 10.8 percent compared to 2008. For the year, retail trade sales are expected to be 10 percent below 2008. Weakness in retail trade indicates local sales tax collections should also be down in 2010.

Projections could be increased significantly if Fort Carson troops are deployed less often. Improving consumer sentiment and economic recovery could also translate to higher retail trade than currently projected.

El Paso County Retail Trade (\$ millions)



El Paso County Retail Trade First Quarter 2009



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.

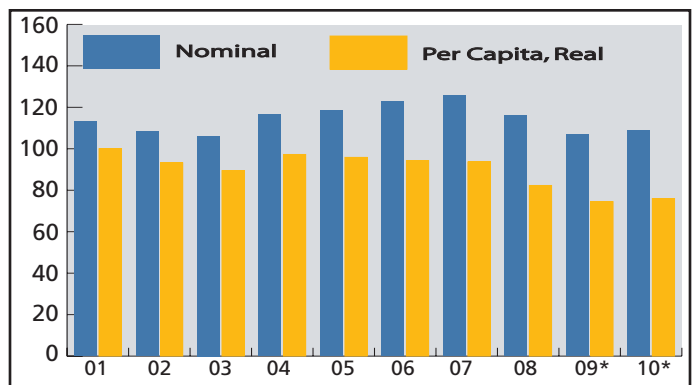
HOW ARE WE DOING?

City sales and use tax collections were \$116.0 million in 2008. This is \$10.0 million lower (7.1%) than in 2007. Through August of 2009, combined sales and use tax collections were down about 9.2 percent compared to August 2008. An 8.5 percent decrease is projected for 2009. A 2 percent increase is projected for 2010.

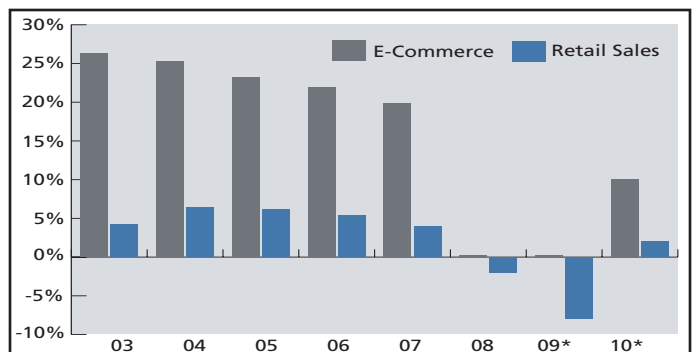
Sales tax revenue for Colorado Springs proved to be disappointing through August 2009. Ten revenue categories are below their 2008 figures. The declines are: building materials (down 19.0%); auto dealers (down 10.8%); furniture, appliances and electronics (down 20.2%); utilities (down 8.1%); sales to business (down 15.1%); auto repairs (down 12.0%); restaurants (down 3.3%); miscellaneous retail (down 10.2%); clothing stores (down 3.6%) and hotel/motel (down 20.4%). Department/discount stores (up 1.6%) and grocers stores (up 0.6%) were the only two sectors with higher sales tax generation than year to date 2008.

Prior to the recession e-tail grew approximately 20 to 25 percent a year. Growth rates for e-tail were cut sharply during the recession but managed to demonstrate small gains in 2008. While e-tail may not generate sales taxes for sales out of the region, the sector does generate economic activity and jobs. Concerted efforts to capitalize on the internet are needed to stabilize the local retail economy and its jobs.

Colorado Springs Sales and Use Tax Collections (Nominal in actual \$000,000. Per capita, real indexed to 2001=100)



E-Commerce vs. Retail Sales Growth

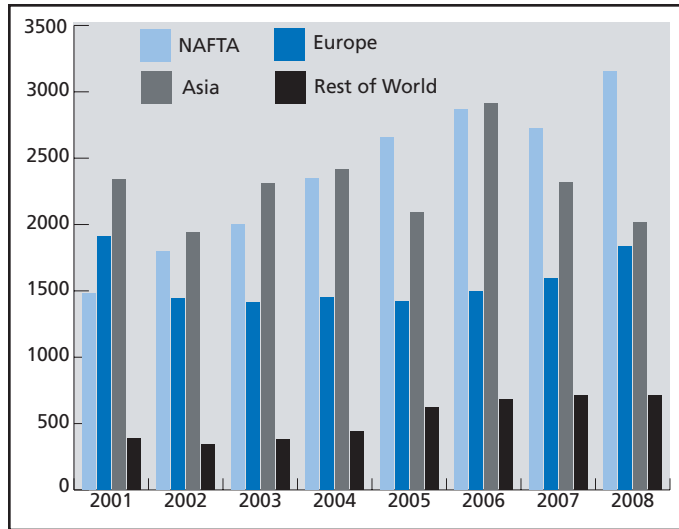


* SCEF forecast

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?

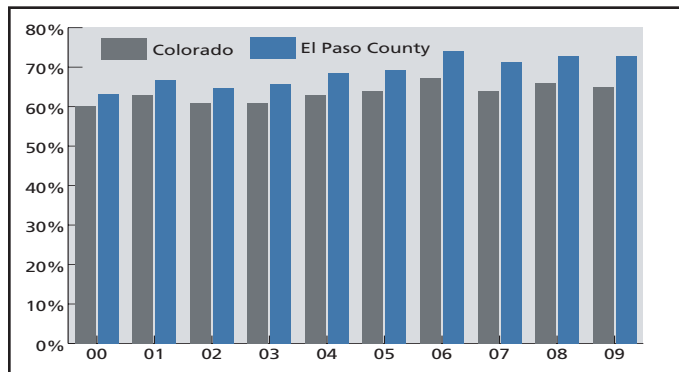
One indicator of the state's competitiveness in a global economy is the ability to export goods and services. A higher level of export activity translates into more jobs in the state and more income and wealth. Colorado and Colorado Springs must continue to grow exports of goods and services in order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

HOW ARE WE DOING?

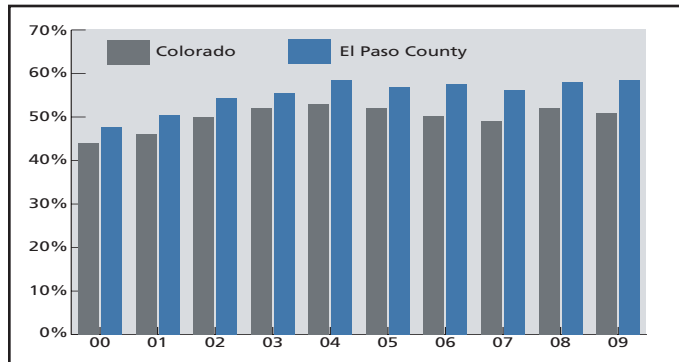
Despite a global recession and a 9 percent increase in the trade-weighted value of the dollar, Colorado global exports increased 4.9 percent in 2008 to \$7.7 billion (\$7.4 billion in 2007). Exports to Canada and Mexico increased \$429 million (15.8%). Exports to Asia decreased by \$307 million (-13.2%). Exports increased to Europe by \$241 million (15.1%) Rest of the world exports decreased \$1 million.

Eleven of 21 manufacturing categories experienced record high exports in 2008. Significant declines did take place in computer related products, down 34.3 percent from their high in 2006, and printed materials, a long trend declining industry, down 39.6 percent from its high in 1999. All other industries showed little change. The export of non-manufactured goods was stable except for mining and oil & gas products. \$1,000 an ounce gold and \$150 a barrel oil drove these products to record export values, \$349 and \$167 million, respectively. These gains offset declines in computer products and printed materials. Declines in oil prices, continued global economic weakness and further deterioration in the manufacture of computer related products point to a decline in exports in 2009 and possibly into 2010.

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, 72.8 percent of El Paso County fourth graders were proficient or advanced in reading. This is the same as last year's proportion of 72.8 percent and noticeably higher than the statewide score of 65.0 percent. Reading scores in El Paso County have improved 14 points (23.3%) since the first CSAP, fourth grade reading exam in 1997 vs. a 10 point improvement in reading scores for Colorado since 1997.

This year, 58.6 percent of El Paso County fourth graders were proficient or advanced in writing. This is a 7.6 points higher than the statewide proficient or advanced proportion (51% in 2009). Writing scores in El Paso County have improved 18.8 points compared to a 13 point improvement in Colorado since CSAP's first 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 21st century. High school graduation and dropout rates are indicators of possible future societal costs from underemployment or unemployment and low earning potential.

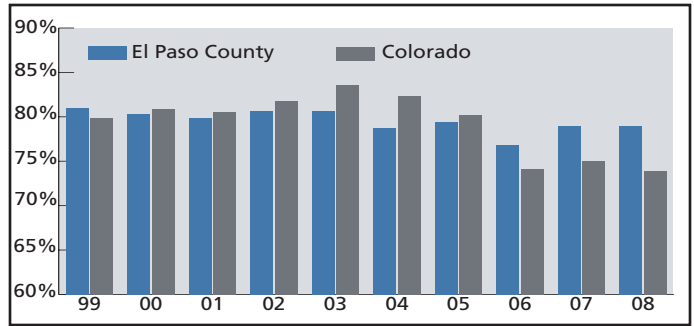
In a global economy, a multi-cultural, skilled work force is a requirement for success. Providing a quality education to all ethnic groups is important to our economic well-being. Reducing the dropout rate for all ethnic groups is one measure of success.

HOW ARE WE DOING?

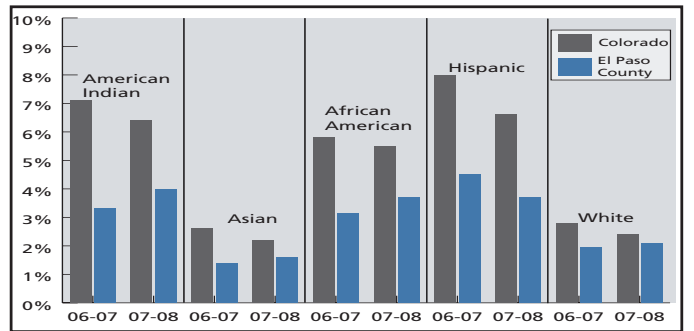
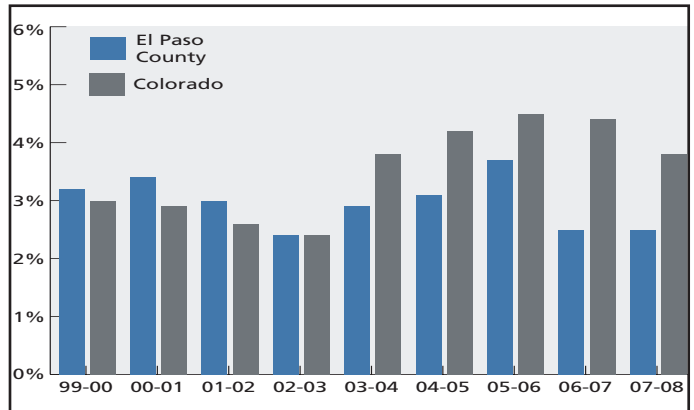
Graduation rates in El Paso County held steady at 79 percent in 2008. This is significantly higher than Colorado's graduation rate of 73.9 percent which declined from 75 percent in 2007. Colorado Springs District 11, Harrison and Edison districts' graduation rates are below 70 percent. Graduation rates for the other school districts in El Paso County are Academy 20 (94.7), Calhan RJ-1 (94.8), Cheyenne Mountain 12 (94.9), Edison 54 JT (78.8), Ellicott 22 (82.4), Falcon 49 (79.7), Fountain 8 (83.7), Hanover 28 (89.5), Lewis Palmer 38 (94.3), Manitou Springs 14 (91.3), Peyton 23 JT (96.9), Widefield 3 (83.7).

Dropout rates in El Paso County held steady at 2.5 percent in 2007-08. This is significantly below the historical average of 3.3 percent. The Colorado dropout rate decreased in 2007-08 to 3.8 percent, vs. 4.4 percent in 2006-2007 and a historic average of 3.5 percent. Dropout rates in El Paso County are highest among Hispanics and American Indians/Alaskan Natives. Dropout rates are lowest among Asians and Whites.

High School Graduation Rates



Grade 7 through 12 Dropout Rates



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

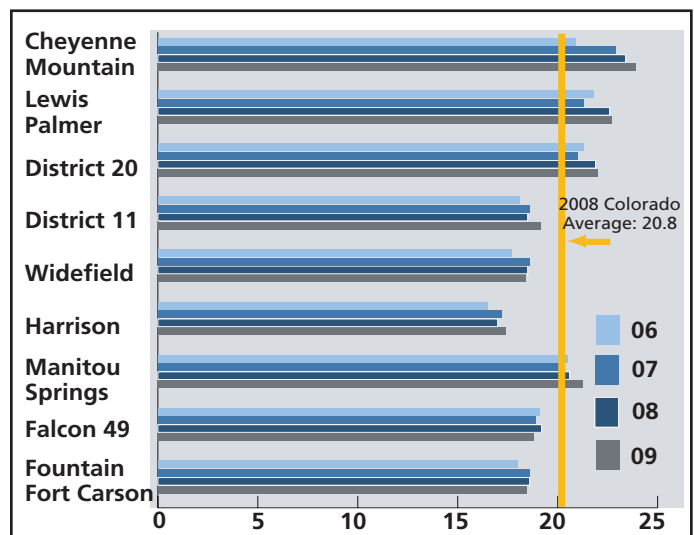
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates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

HOW ARE WE DOING

The 2009 average ACT score for Colorado juniors is 20.8, up from 20.4 in 2008. Cheyenne Mountain (23.9), District 11 (19.2), Academy District 20 (22.0), Harrison (17.4), Lewis Palmer (22.7), and Manitou Springs (21.3) saw improved ACT scores. Falcon (18.8), Fountain Fort Carson (18.4) and Widefield (18.4) saw their respective ACT scores decline. Overall, the region continued its upward trend in ACT scores.

Colorado creates a downward bias in ACT results by requiring all high school students to take the ACT. The average composite score for Colorado juniors was 20.8, the sixteenth lowest in the nation. Only four other states (Illinois, Kentucky, Michigan and Wyoming) require all students to take the ACT. An unbiased alternative test should be considered.

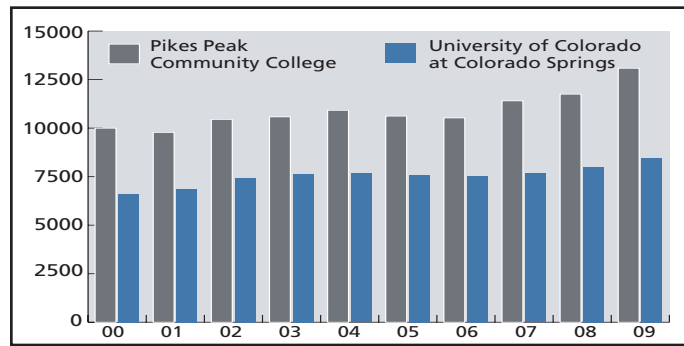
High School Junior ACT Scores in Selected El Paso County School Districts



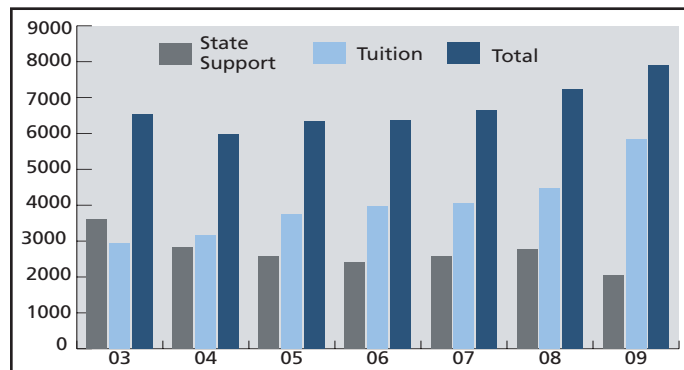
Sources: American College Testing program; Colorado Department of Education; local school districts

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. Higher education enrollments are an indicator of the future supply of qualified workers.

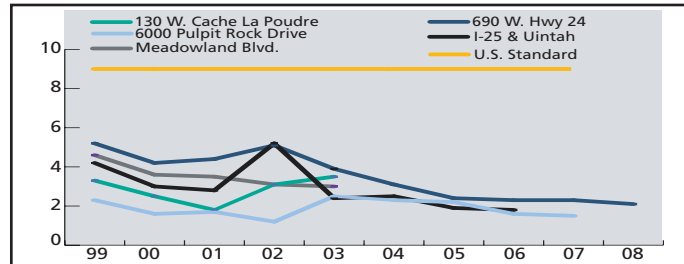
HOW ARE WE DOING?

Enrollments at UCCS increased from 7,987 to 8,464 students this fall, an increase of 6.0 percent. The campus has facilities to house 900 students which reached capacity in 2008. A new science-engineering building opened fall 2009. The existing science building is undergoing renovations in 2009-2010. These improvements will give UCCS some of the best science labs in the state.

Pikes Peak Community College enrollments increased by 11.4 percent to 13,083 in the fall of the 2009-2010 academic year. Enrollments in the 2008-2009 academic year were 11,749.

At UCCS, per student state support for a typical, in-state freshman or sophomore is 25.9 percent of tuition revenue in 2009, down from 67.3 percent in 2001. Total funding per student changed from \$7,538 in 2001 to \$7,830 in 2009, an increase of 4.7 percent. Allowing for inflation, per student revenue declined 9.6 percent from \$7,538 to \$6,815 from 2001 to 2009. State support for in-state college students has declined steadily as a portion of total per student revenue. However, tuition increases have not been sufficient to make up for the loss of state support. Real total funding remains below 2001 levels..

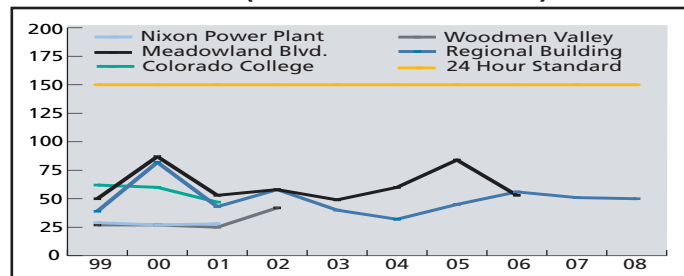
Carbon Monoxide (ppm)



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.

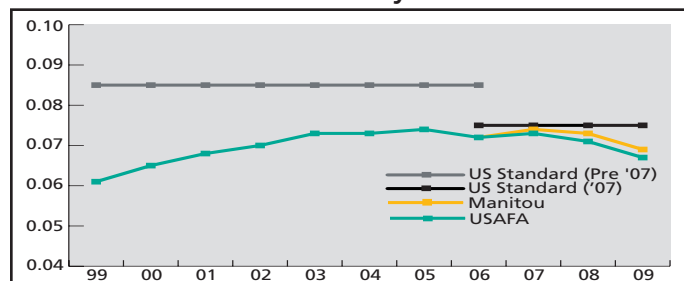
Particulate Matter (10 microns and smaller)



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. The decline in business during the recession is also believed to have a reducing effect on pollution levels.

Ozone Trends in El Paso County



Sources: Pikes Peak Area Council of Governments

Particulate matter (PM) includes both solid particles and liquid droplets found in the air. Particles less than 10 micrometers in diameter can pose the greatest health concerns when inhaled, because they accumulate in the respiratory system. Particulate matter improved slightly in 2007 and 2008 after having increased in 2006. Ozone levels have also improved. They now register 0.067 at the Air Force Academy, 10.7 percent below the tougher 0.75 standard that was implemented in 2007. The "Cash for Clunkers" program in 2009 is not expected to have a significant impact on air quality.

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?

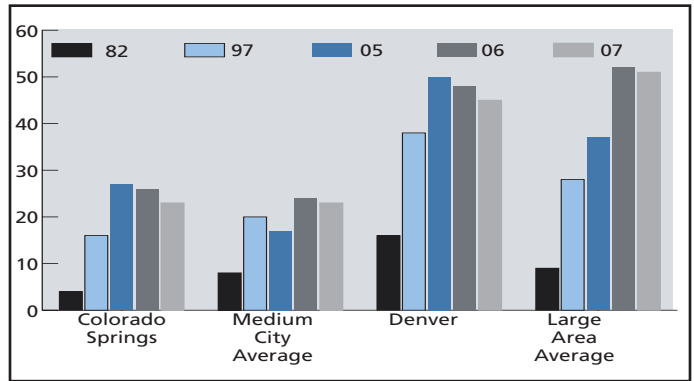
Traffic congestion continues to be an issue for the community. This information is reported by the Texas Transportation Institute. The results of the 2009 report are presented to the right.

The annual delay in Colorado Springs, per traveler, in 2007 was 23 hours, an improvement of 3 hours since 2006 and 6 hours from the worst delay of 29 hours in 2002. The latest score now matches the average for medium cities. 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.

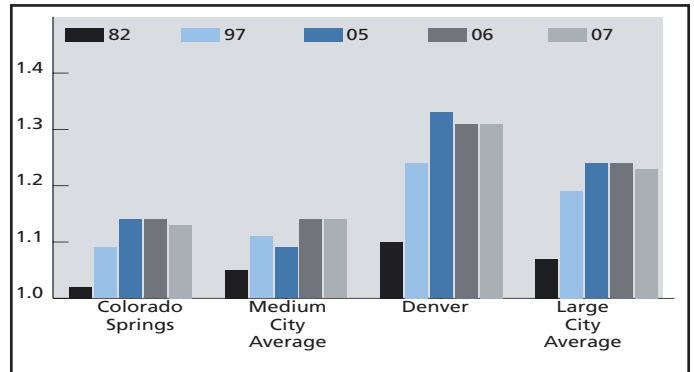
Annual delays per traveler in Denver improved to 45 hours in 2007 compared with 52 hours in 2002. The average delay for large cities decreased by 1 hour to 51 in 2007.

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 1.13 for Colorado Springs in 2007 means that a 30 minute free-flow trip would take 33.9 minutes during the peak period. On average, this has improved steadily since 2002.

Annual Delay per Traveler in Hours for Peak Period Travel



Travel Time Index



Source: The Urban Mobility Report, Texas Transportation Institute, various reports

WHY IS THIS IMPORTANT?

Violent and property 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. Due to a departure from the concept of an index crime by the FBI, violent and property crimes are shown separately. The comparisons are with MSA's with populations between 500,000 and 999,999.

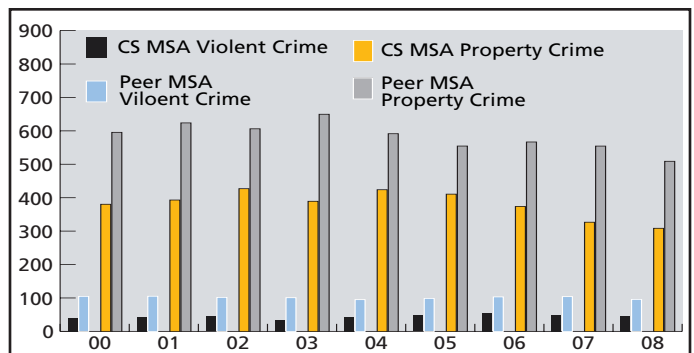
HOW ARE WE DOING?

The change in FBI tracking of the data resulted in the Forum's tracking the information for the Colorado Springs MSA. This includes all municipalities within El Paso and Teller Counties as well as the counties.

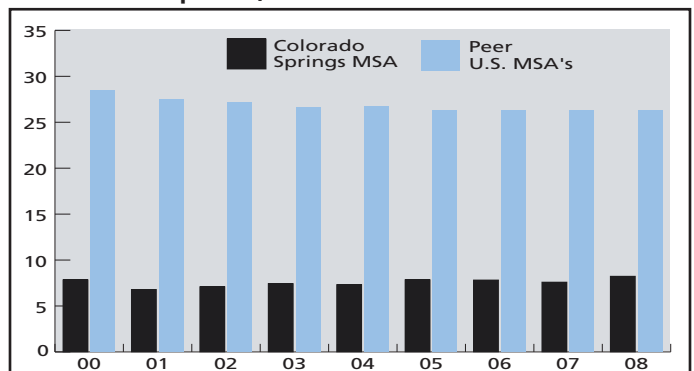
The Colorado Springs MSA enjoys significantly lower violent and property crime rates than peer MSA's in the U.S. There were 47.1 violent crimes per 10,000 people in the Colorado Springs MSA in 2008. This is 50.7 percent below the peer group. There were 95.6 property crimes per 10,000 people in the Colorado Springs MSA in 2008. This is 39.4 percent below the peer group.

The number of sworn police officers per 10,000 residents in the area Colorado Springs area is well below the number of sworn police per 10,000 inhabitants among the peer group. For example, Colorado Springs MSA had 8.2 officers per 10,000 population while the peer group had 26.3 officers in 2008. Given the current trends in the economy, the number of sworn police officers per 10,000 residents is expected to decline in 2009 and 2010.

Colorado Springs MSA and U.S. Peer MSA's Violent and Property Crime per 10,000 Residents



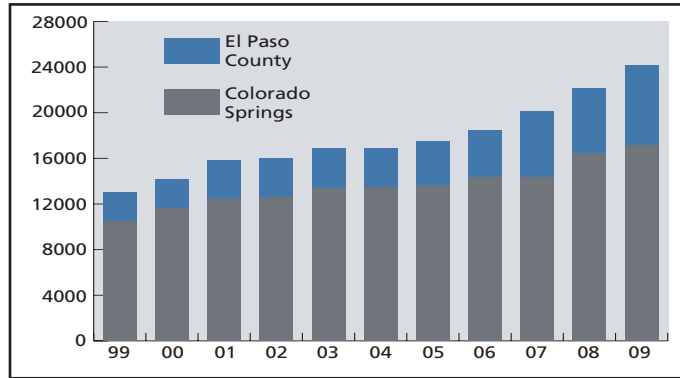
Sworn Police per 10,000 Residents



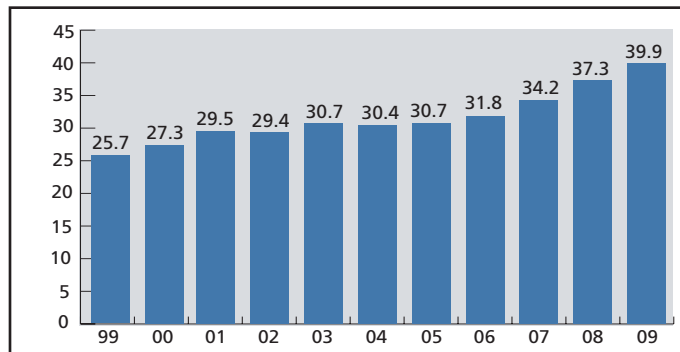
Sources: Colorado Springs Police Department; FBI

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?

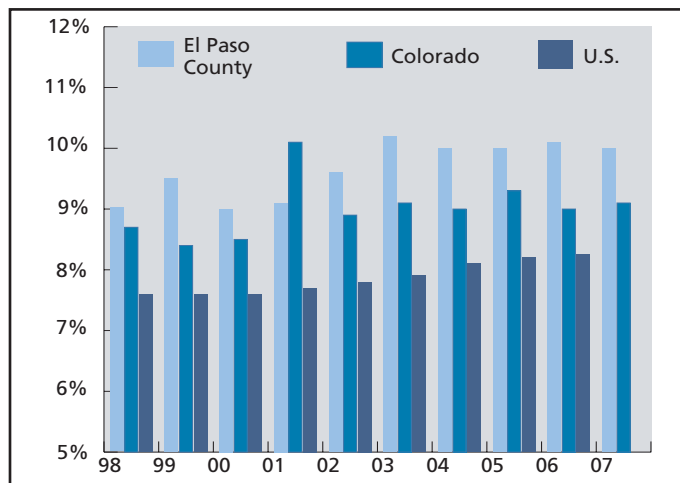
Open space, trails and park land provide important areas for recreation and leisure activity, support natural habitat and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and 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 24,132 acres of open space and park land or 39.89 acres per 1,000 residents in 2009. The City of Colorado Springs now has 17,132 acres of park and open space under management. This is an increase of 736 acres, or 4.5 percent in 2009. El Paso County park and open spaces increased by 1,242 acres in 2009. El Paso County now manages 7,000 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.

Managing 24,132 acres of parks, open space and trails has become a fiscal burden to the county and city. Park and recreation budgets are being cut in both local governments. 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 \$61 million or roughly \$6.1 million per year for trail construction, park construction, and open space acquisition. At its current pace, TOPS is expected to generate approximately \$5.3 million in 2009, a decline of 10% compared to 2007. Efforts to shift 15 percent of TOPS funds to operations were defeated in the April 2009 election.

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 has declined slightly for Colorado in recent years.

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 2001-2007	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	\$33,305	34.1%	87.2%	2.52	\$41,381	\$37,999
Austin, TX	37,238	39.6%	97.4%	2.62	48,569	46,196
Boise, ID	35,737	48.9%	93.5%	2.59	41,786	37,142
Boulder, CO	51,388	22.8%	134.5%	2.41	52,231	51,104
Colorado Springs, CO	35,717	31.6%	95.7%	2.56	45,281	41,005
Denver, CO	46,682	30.7%	122.2%	2.51	57,664	49,614
Huntsville, AL	36,550	44.1%	95.6%	2.47	50,029	45,272
Kansas City, MO	39,222	29.4%	102.6%	2.51	48,813	42,819
Minneapolis, MN	46,752	32.3%	122.3%	2.52	53,657	48,925
Portland, OR	38,842	31.6%	101.6%	2.57	48,445	43,826
Pueblo, CO	27,245	23.0%	71.3%	2.52	35,470	32,569
Salt Lake City, UT	36,008	37.8%	94.2%	2.99	45,352	40,468
Tucson, AZ	31,755	48.0%	83.1%	2.51	39,009	38,199
Wichita, KS	38,552	33.5%	100.9%	2.50	47,428	39,026
Comparison City Average	38,275	34.8%	100.0	2.56	46,800	42,442

Sources: Bureau of Economic Analysis, Regional Economic Accounts, 2007 American Community Survey U.S. Census Bureau

WHY IS THIS IMPORTANT?

The Forum added several metropolitan statistical area (MSA) comparisons to its indicators in 2008. 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 2007 American Community Survey, U.S. Census Bureau. All figures are for 2007, the latest available comparison data for these MSA's.

HOW ARE WE DOING?

Per capita personal income in 2007 was \$35,717 compared to \$38,275 for the average of the MSA's. Per capita personal income in the Colorado Springs MSA was 95.7 percent of the U.S. average in 2007. Ten of the comparison MSA's have per capita personal income higher than Colorado Springs. Personal income in Colorado Springs grew 31.6 percent from 2001 to 2007 compared to a 34.8 percent average growth rate for the group. 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 \$42,442 for all of the MSA's in the table. Wage and salary disbursements in Colorado Springs were \$41,005 ranking it 8th out of the fourteen MSA's. Average earnings per job for the MSA's was \$46,800 in 2007. Colorado Springs average earnings per job were \$45,281 in 2007 ranking the area 10th out of the fourteen MSA's. Per capita income is largely determined by earnings. Higher earnings translate to higher per capita income in these communities.

City Comparisons

WHY IS THIS IMPORTANT

NAI Global Commercial Real Estate Services, Worldwide maintains a readily accessible database of comparative information on commercial real estate market conditions in many MSA's around the country. This information can be used to benchmark a region's commercial real estate market against cities that compete directly with the region for jobs and business.

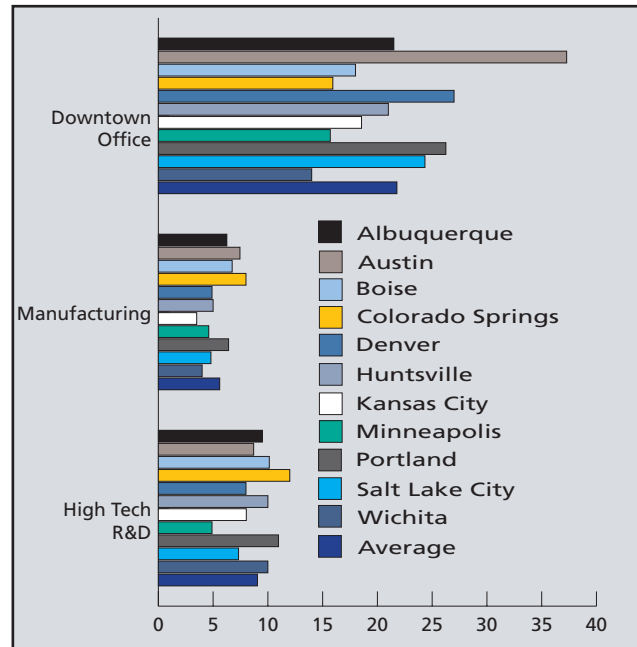
HOW ARE WE DOING?

In January 2009, NAI Global reported that downtown class A asking rents averaged \$15.93 per sq. ft. NNN. Rents in the Colorado Springs downtown area compare favorably to downtown rents in these other cities. Wichita (\$14.00 per sq. ft.) and Minneapolis (\$15.70 per sq. ft.) are the only cities with lower reported rents in the downtown class A space. Austin (\$37.28 per sq. ft.) has the highest reported downtown class A rents followed by Denver (\$27.00 per sq. ft.) and Portland (\$26.25 per sq. ft.)

In contrast, manufacturing rents in the Colorado Springs MSA were reported to be at the top of all of the comparison cities at (\$8.00 per sq. ft.). The average manufacturing rent in January 2009 was \$5.60 per sq. ft. for the eleven cities. Austin (\$7.45 per sq. ft.), Boise (\$6.74 per sq. ft.), Portland (\$6.41 per sq. ft.) and Albuquerque (\$6.25 per sq. ft.) were other cities with manufacturing rents that were significantly above the average.

Rent for High Tech/R&D space in the Colorado Springs MSA is also high at \$12.00 per sq. ft. Average High Tech/R&D for the comparable cities is 33 percent lower than Colorado Springs. Portland, Boise, Huntsville and Wichita all had High Tech/R&D rents above \$10.00 per sq. ft. in January 2009.

NAI Metro Area Rents



WHY IS THIS IMPORTANT?

NAI Global Commercial Real Estate Services, Worldwide maintains a readily accessible database of comparative information on commercial real estate market conditions in many MSA's around the country. This information can be used to benchmark a region's commercial real estate market with cities that compete directly with the region for jobs and business..

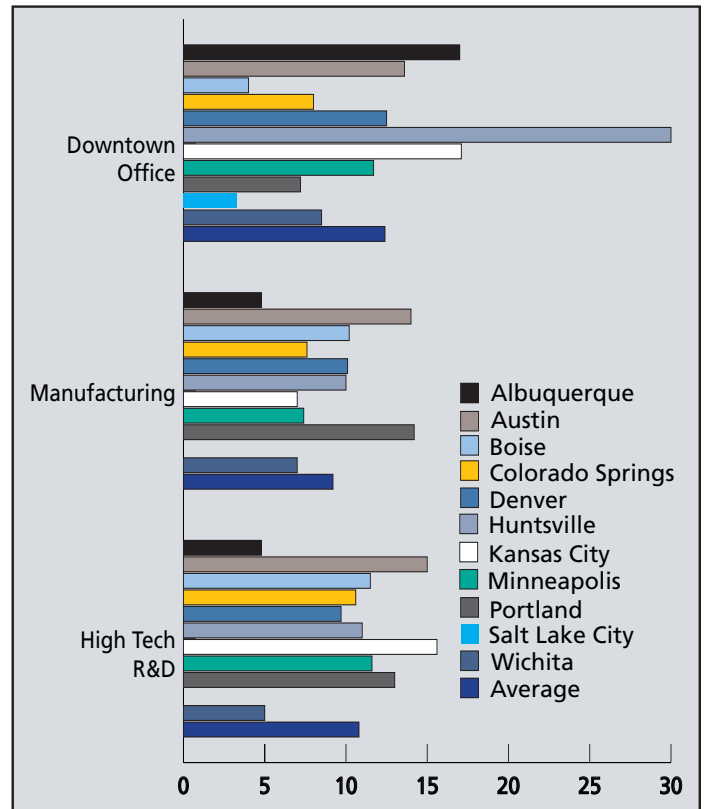
HOW ARE WE DOING?

The Downtown Class A vacancy rate for these comparable cities averaged 12.1% in January 2009. The Downtown Class A vacancy rate in Colorado Springs was considerably lower in January at 8 percent. Colorado Springs recorded the fourth lowest vacancy rate of the comparable cities. Colorado Springs appears to benefit from keeping lease rates relatively low in the downtown area. Six of the comparable cities have double digit vacancy rates in their Downtown Class A office space.

In spite of the relatively high per square foot rent among the comparable cities, Colorado Springs has one of the lower manufacturing vacancy rates. The reported vacancy rate was 7.6 percent in January which was in the middle of the pack of these cities. Portland (14.2%) and Austin (14.0%) had manufacturing vacancy rates that are almost double the rate in Colorado Springs. Both of these cities have lower average asking rents in their manufacturing space.

High Tech/R&D vacancies in Colorado Springs are near the average for the comparable cities at 10.6%. Kansas City (15.6%) and Austin (15.0%) have vacancy rates in this segment of the market that are well above the average of 10.8 percent for these cities. Albuquerque (4.8%) and Wichita (5.0%) have exceptionally low High Tech/R&D vacancy rates.

NAI Metro Area Vacancy Rates



Source: NAI Global Commercial Real Estate Services, Worldwide.

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.
- Students come from all 50 states and 67 countries.
- The student body is 56 percent women and 44 percent men.
- 30 Bachelor's degrees, 19 Master's degrees, and 4 Ph.D. programs.
- 13 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.
- Among the fastest growing college campuses 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) 255-3113

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