

UNIVERSITY OF COLORADO AT COLORADO SPRINGS



fifteenth annual **2011-2012**
southern colorado
economic forum
OCTOBER 14, 2011



College of Business
UNIVERSITY OF COLORADO COLORADO SPRINGS

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



Welcome from Holland & Hart

Holland & Hart is proud to sponsor the 15th 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



Welcome from the Chancellor

The University of Colorado at Colorado Springs is pleased to join with its business partners to present the 15th 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 2011-2012 Southern Colorado Economic Forum. We wish you a productive and successful 2012.

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

As we prepare for the 15th Annual Southern Colorado Economic Forum, stock markets are experiencing wild swings and reports of economic recovery are mixed. The U.S. and the regional economy continue to weather difficult financial and economic storms. What we really want is a crystal ball, but we'll have to settle for a glimpse of what's in store for the future. As in the past, the Forum continues to gather, analyze and explain a complex set of data to help you make informed business decisions.

We continue to approach the uncertain future with optimism and to capitalize on opportunities. For instance, this fall the College of Business launched an online undergraduate business degree program. Students in remote areas now have access to our high-quality business education. The program also provides convenience and flexibility to our current students. Our Career and Placement Center places interns and graduates in numerous profit and non-profit organizations. Our alumni are actively engaged in connecting the college to our community and helping to build mutually beneficial partnerships. We want the College of Business vision of building successful futures to make a difference for all our stakeholders.

We invite you to partner with us to strengthen our region's economic environment. You can learn more by meeting with me one-on-one, getting to know our faculty, staff and alumni and by attending one of our events. Now you can follow the College on Twitter, Facebook or by joining my email list.

The Southern Colorado Economic Forum would not be possible without the active sponsorship and participation, year after year, of our business partners. We thank them. Not only do they support the forum financially, they also provide their expertise and their business connections to help bring you an outstanding program.

We do not want to be just the best business school in Colorado; we want to be the best business school *for* Colorado.

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 (QUE)* 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 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, Colorado Gaming Association, Bent County Development Foundation and others.

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The 2011 – 12 Southern Colorado Economic Forum

This marks the fifteenth 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 2010-11, the world's economy was influenced strongly by political and economic conditions that contributed to uncertainty, high oil prices and political upheaval. It seems the entire Middle East underwent a revolution in 2011. Governments were overthrown in Egypt, Libya and Tunisia. Protests to armed conflicts took place or are ongoing in Iran, Afghanistan, Bahrain, Yemen, Algeria, Syria, Jordan and Saudi Arabia. Osama bin Laden was killed.

Uncertainty in the Middle East and a global economy that was growing in spring 2011 helped push West Texas Intermediate oil prices from \$84.45 a barrel in January to \$112.27 in April. By August, evidence of

a slowing global economy helped lower oil prices to \$86.65.

Japan experienced a crippling earthquake and tsunami that killed tens of thousands and displaced hundreds of thousands.

Greece, Ireland and Portugal were bailed out of their fiscal problems by members of the European Community. The problems in Greece are creating global market turmoil. Italy is attempting to deal with its fiscal problems. Deficits in Spain appear to be the next debt issue facing the euro-zone. The ability of the European Community to absorb the collective debt burden is in doubt. Basel III called for banks to bolster reserves and capital structure beyond their financial capabilities.

Banks in the United States appear to be better off than they were in 2008. However, they have exposure to European sovereign and other debt. The Dodd-Frank Bill mandates significant restructuring of domestic banking practice and creates new and onerous regulation. The Budget Control Act requires the U.S. Government to reduce its deficit growth by \$2.5 trillion from 2011 to 2021. Domestic GDP revisions were revised downward the first and second quarter of 2011. The Reuters/University of Michigan consumer sentiment index declined to 63.7. This low value is found only two other times; late fall 2008 and spring/summer 1982. Consumers are likely to cut back on their expenditures and increase their savings for what appears to be the coming of a rainy day. This often means the economy will slow and unemployment will rise.

As of June 2011, the seasonally adjusted unemployment rate for El Paso County was 9.5 percent. There are 25,433 fewer people employed in the county as of June 2011 than in June 2007. During this period, population increased by 46,071. Normal labor force participation rates suggests the labor force should be 318,754. Currently, there are 294,797 people in the labor force. This means there are probably 24,000 discouraged workers who have dropped out of the labor force. Allowing for these discouraged workers, the local unemployment rate could conceivably be closer to 15.5 percent. This does not include under employed workers.

Unemployment rates are high in all major economies except China and Japan. China has a high rate of inflation that is likely to trigger its government to slow its economy if the slowing global community does not reduce China's inflationary pressures first. Global slowing is expected to trickle down to El Paso County.

The lack of job growth and sluggish economies are global problems. TradingEconomics.com reports the

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following measures of international economic activity as of August 10, 2011.

	Unemployment Rate	Annual Inflation-	Annual GDP Growth
Euro area	9.9%	2.4%	2.5%
Germany	7.0%	2.4%	5.2%
Greece	15.9%	3.3%	5.5%
France	9.7%	2.1%	2.2%
Ireland	14.2%	2.7%	0.1%
Italy	8.1%	2.7%	0.8%
Portugal	12.4%	3.4%	-0.6%
Spain	20.9%	3.1%	0.8%
UK	7.7%	4.2%	0.7%
China	4.1%	6.5%	9.7%
Japan	4.6%	0.2%	-1.0%
Russia	6.1%	9.0%	4.5%
U.S.	9.1%	3.6%	0.9%
www.tradingeconomics.com			

Locally, the effects can be seen in sales tax collections and other local government receipts. LART receipts for 2011 are expected to be \$3.9 million vs. \$4.2 million in 2007, the peak collection year. Sales and use taxes in Colorado Springs are expected to be \$118.5 million in 2011. This would be a 2.5 percent gain over 2010, but still below 2007 receipts. The slowing economy and probable cuts in expenditures by the Federal



Government suggest 2012 will be accompanied by declining tourism, a small increase in sales and use tax receipts and a potential decrease in defense industry spending in the region.

GMP grew 4.5 percent for the area in 2010. Total personal income in 2010 increased by 4.6 percent in El Paso County. Private sector personal income grew by 0.7 percent while personal income among military grew 16.1 percent. The military presence is the primary reason the county can point to income growth in 2010.

There is a contrarian argument to the above observa-

tion. President Obama plans to have U.S. troops out of Iraq by the end of this year. This should result in more troops staying at Fort Carson rather than being deployed to the Middle East. If this does happen, it might be enough to postpone the expected negative impact from the Budget Control Act of 2011.

The local economy is expected to see decreased Federal expenditures in the coming years. The Budget Control Act of 2011 will result in reduced Federal expenditures beginning in 2012. This is expected to result in decreased local expenditures for military and Federal civilian employees. This will slow the local economy, independent of concerns about the national economy. The local economy does not have the luxury of growing the private sector by evolution. Efforts to grow the private sector must be more aggressive and innovative.

Employment/Unemployment

The El Paso County private sector employment figures from the Quarterly Census of Employment and Wages (QCEW) decreased by 0.9 percent, or 2,163 jobs, in 2010. The loss adds to losses of 10,507 in 2009, 2,216 jobs in 2008.

Five sectors saw job gains in 2010. They are health care (839), education services (391) retail (297), government (292), and administration and waste services (263).

Job losses were more common than job gains. Twelve of the twenty-one NAICS sectors reported job losses. Sectors that lost jobs in 2010 and their amounts are: construction (-1,514) manufacturing (-863), professional technical services (-659) and wholesale (-499). The remaining eight sectors had smaller losses.

Echoing the very weak job market is an unemployment rate that averaged 9.4 percent since January 2009. The seasonally adjusted unemployment rate hit 10.04 percent in November 2010. Since then, the unemployment rate declined to 9.53 percent. As stated earlier, this is misleading. If discouraged workers are included, the unemployment rate in El Paso County would be close to 15.5 percent. If not for the build up of the military, especially at Fort Carson, there could very well be an additional 10,000 people unemployed.

Wages and Income

The Forum has written repeatedly about the changing nature of the local economic base. The community lost approximately 19,000 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.

Well paid manufacturing and information technology jobs were replaced with lower economic multiplier jobs



age points from 2000 and 0.3 percent from 2009.

Wholesale sales in Colorado decreased 8.7 percent in 2010 vs. a 3.4 percent decline in wholesale sales in El Paso County during 2010. The “better” wholesale activity in El Paso County might be due to losses of manufacturers and wholesalers in prior years rather than a better business climate.

Housing Construction and Commercial Activity

There were 1,627 permits for new single family and town homes in 2010. This is an increase of 24.5 percent

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. Without a doubt, the loss of high employment multiplier jobs contributed to the negative trend in private sector employment.

The average wage in El Paso County increased in 2010 to \$42,989. This is 1.9 percent above the 2009 average wage of \$42,189. By comparison, the average wage in Colorado increased 2.1 percent in 2010 to \$47,864. El Paso County’s average wage is now 10.2 percent below the state average.

The need for more high income, high multiplier primary jobs is apparent. 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

The Colorado Department of Revenue reported retail sales in Colorado were \$136.2 billion in 2010 vs. \$143.1 billion in 2009, a decline of 4.8 percent. El Paso County fared better with retail sales of \$12.797 billion, a decline of \$70 million (.5%) from sales of \$12.867 billion in 2009.

Colorado Springs continued to lose share in sales tax collections compared to the rest of El Paso County in 2010. Ten years ago, the city captured 91.7 percent of taxable retail sales. As of 2010, its share of taxable retail sales fell to 86.1 percent, a decline of 5.6 percent-

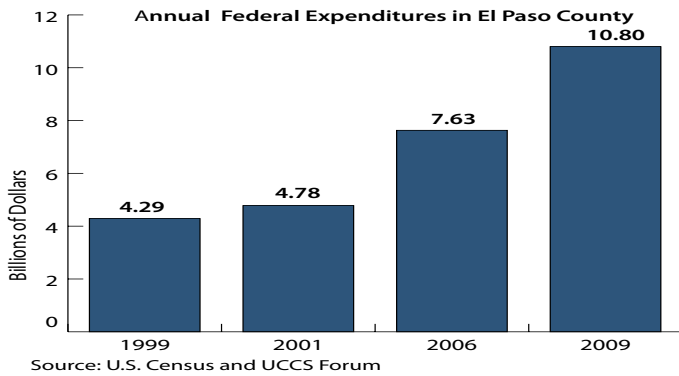
compared to the 1,306 permits in 2009. This marked the first yearly increase since 2005. The increase was, to some extent, influenced by the first time and trade-up home buyer tax credit programs in 2010. Average permit value decreased by 3.2 percent from \$342,485 in 2009 to \$331,446 in 2010.

Town home construction rose to 222 in 2010 from 201 permits in 2009, a 10.5 percent increase. Average permit value increased by 3.9 percent from \$172,355 in 2009 to \$179,011 in 2010.

As expected, new arrivals at Fort Carson boosted population growth and the demand for multi-family housing in 2010. Vacancy rates declined to 6.6 percent in 2010 from 9.7 percent in 2009. Rents increased an average of \$20 a month from \$704 to \$724, an increase of 2.8 percent.

The lower vacancy rates and higher rents helped stimulate very modest multi-family construction in 2010. Permits for 88 units were taken in 2010 compared to 30 units in 2009. Permits for 232 multi-family units have been taken through June 2011. Permits for a 177 unit luxury complex were recently pulled for a development in Monument. The Forum believes there will be an uptick in multi-family permit activity and will increase to 550 units in 2011 and 500 units in 2012.

Commercial construction value decreased in 2010 to \$74.8 million, a decline of \$207.2 million (73.5%) from 2009. Current activity in non-residential construction suggests 2011 will finish with about \$140 million of new commercial construction. Existing vacancy rates in all areas of commercial properties and the slowing economy suggest there will be very little



during the first round of budget cuts. Beyond that, cuts in all areas of the federal budget are expected.

The El Paso County GMP

The Federal Government’s effect on the local economy goes beyond the \$10.8 billion in expenditures. A final demand analysis (Gross Metropolitan Product, GMP) shows the relative importance of the Federal Government in the El Paso County economy.¹ The Forum examined the GMP for El Paso County in 2008 with the Implan Input/Output software. Implan estimated El Paso County’s GMP in 2008 was \$26.74 billion. The composition of the GMP is:

change in non-residential construction in 2012.

Federal Expenditures in El Paso County

According to the *Consolidated Federal Funds Report*, the Federal Government spent \$10.8 billion in El Paso County in 2009. This is a \$6.5 billion increase (152%) from 1999. During the same period, total expenditures by the Federal Government went from \$1.532 to \$3.238 trillion (111% growth). El Paso County experienced a \$1.75 billion disproportionate increase in Federal expenditures. The Forum estimates most of this was due to BRAC 05, the Base Realignment and Closure Commission.

GMP Final Demand Approach (\$Billions)

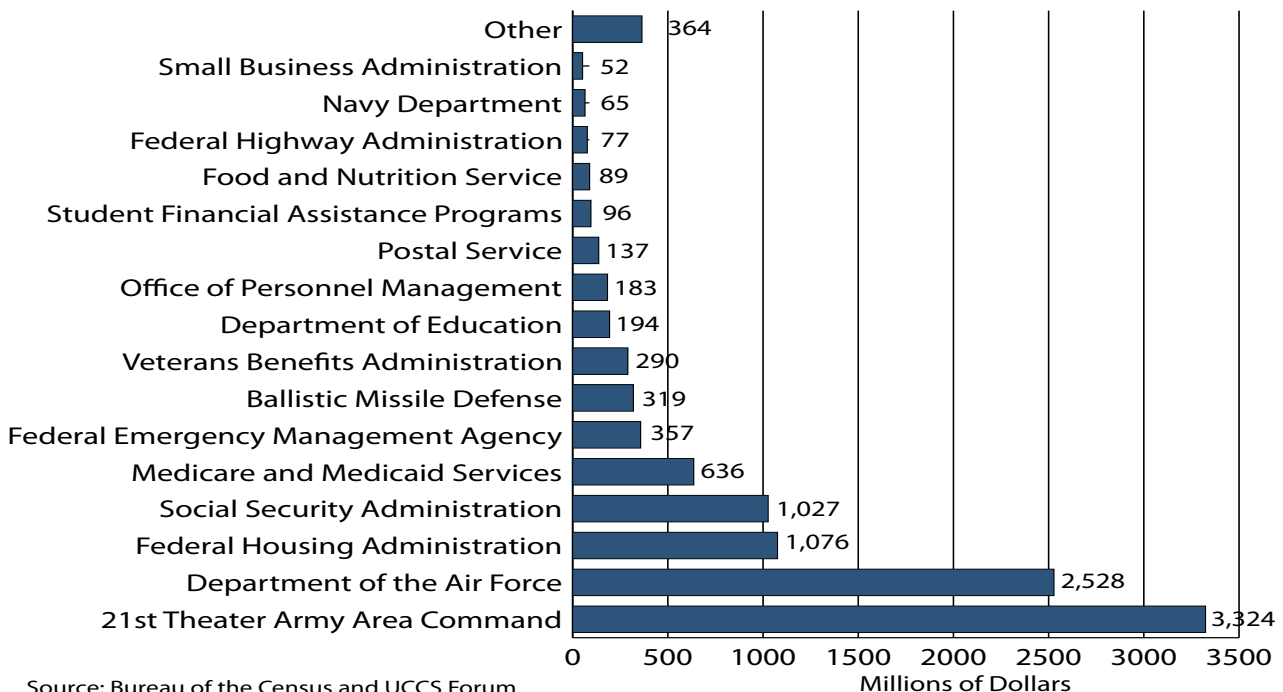
Households	17.92
State/Local Governments	3.07
Federal Government	13.64
Capital	4.19
Exports	17.69
Imports	-28.32
Institutional Sales	-1.44
Total	26.75

Federal Government expenditures affect most areas of the local economy. These are illustrated in the charts on this page. Military expenditures, excluding retirees and VA, were \$6.236 trillion in 2009, 57.7 percent of all federal expenditures. Military salaries, social security and medicaid are expected to be safe

Approximately 51 percent of El Paso County’s GMP is due to Federal Expenditures, the majority of which are

¹ The final demand approach is different from the Bureau of Economic Analysis (BEA) approach. Approach aside, the BEA reports GDP of \$24.617 billion in 2008. Of this amount, \$4.375, or 17.8%, is attributed to the Federal Government. The BEA definition includes El Paso and Teller Counties. GDP measures the market value of all final goods and services produced in an area.

Federal Expenditures in El Paso County by Source: 2009



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tied to the military.

On August 2, 2011, President Obama signed a bill that allows the national debt to grow to \$16.7 trillion, an increase of \$2.4 trillion over the current \$14.3 trillion limit. The Federal Government will be required to decrease expenditures by \$917 billion with another \$1.5 trillion in cuts to be identified by the “Gang of 12” bipartisan committee by November 23, 2011 to be voted on by the Congress by December 23. If left as the legislation is currently drafted, the military could experience a budget reduction of \$850 billion over the next 10 years.

The military allocated a little less than 1 percent of its budget to El Paso County in 2009. The anticipated reductions will be taken from projected military budgets through 2021. Assuming nominal growth in tax revenues for the Federal Government, the required budget cuts of \$2.4 trillion could amount to a reduction of at least 10 percent of expenditures. This could reduce local GMP by \$1.34 billion, a 5 percent decline. Possible higher cuts could have a more adverse effect on the local economy.

Employment and Population Projections to 2019

The Colorado Departments of Labor & Employment and Local Affairs produced employment and population estimates for 2009 and projections to 2019.

El Paso County Employment and Projections			
Sector	2009	2019	Growth
Utilities	711	782	10.0%
Construction	13,152	14,206	8.0%
Manufacturing	13,420	9,120	-32.0%
Wholesale Trade	5,396	4,895	-9.3%
Retail Trade	27,962	28,695	2.6%
Trans & Warehousing	3,886	4,256	9.5%
Information	6,914	6,445	-6.8%
Finance & Insurance	11,545	11,822	2.4%
Real Estate	4,252	4,391	3.3%
Prof/Tech Svcs	21,727	24,626	13.3%
Mgmt of Cos & Ent	974	1,217	25.0%
Admin, Support & Svcs	17,481	22,164	26.8%
Educational Svcs	26,297	28,441	8.2%
Health Care & Soc Svcs	29,507	38,446	30.3%
Arts, Ent & Rec	4,470	5,652	26.4%
Accomm & Food Svcs	25,255	29,966	18.65%
Other Svcs	14,619	15,163	3.72%
Total Employment	267,092	291,074	8.98%
Population	604,925	720,486	19.10%
Source: Colorado Departments of Labor and Local Affairs			

Their work is based on trend analysis. The Department of Local Affairs projected that El Paso County can expect a 19.1 percent increase in population from 2009 through 2019. This implies the workforce will grow and the number of jobs must grow in order to absorb the influx of people. The Department of Labor & Employment (DL&E) projected job employment increases of 8.98%. Projected employment growth is less than half the projected population growth (19.1%). A total of 23,982 new jobs are projected for 115,561 new residents. If the projections hold true, El Paso County can expect a significant increase in the local unemployment rate.

Local Economic Multipliers

The Taxpayer’s Bill of Rights (TABOR) limits local government spending increases to inflation plus net growth in property value. In the event a local government generates tax revenues that are less than the spending limit, expenditures are restricted to the actual tax revenues. The TABOR spending limit in the subsequent year is limited to inflation plus growth over current year actual expenditures, not the TABOR limit for that year. This resulted in a lowering of the base in a number of years since 1992. This is referred to as the ratchet down effect of TABOR.

Some local government services are essential. Economic development that fails to generate tax revenues consistent with local government’s need to provide stable levels of essential services to its residents and employers will prove to be counter productive in the long run. For this reason, public officials and developers need to consider how economic development affects local tax revenue. This can be done with an economic base, tax multiplier analysis. Economic multipliers, by sector, in El Paso County are shown in the table below.

The 2008 employment weighted tax multiplier for El Paso County was 4.53. Promoting growth in sectors with tax multipliers less than 4.53 would be expected to reduce total tax revenues. Conversely, promoting growth in sectors with tax multipliers greater than 4.53 should increase tax revenues. In the event economic development results in business sectors with higher than average tax multipliers, the local TABOR limit could be exceeded. Under this circumstance, the TABOR excess could be refunded to the public or kept by the local government if approved by the voters.

Two of the three sectors that are expected to have declines in employment through 2019 have tax multipliers that are greater than the average tax multiplier among the local business sectors. Manufacturing is projected to lose 4,300 jobs and has a

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tax multiplier of 8.29. This means an additional \$7.29 in tax revenues would be generated for each \$1.00 a typical manufacturing firm pays in taxes. Information is expected to lose 469 jobs and has a tax multiplier of 5.49. This means an additional \$4.49 in tax revenues would be generated for each \$1.00 a typical information technology firm pays in taxes.

El Paso County Economic Multiplier Values			
Sector	Employment	Income	Tax
Utilities	3.58	2.21	1.45
Construction	1.81	2.02	10.75
Manufacturing	2.63	2.57	8.29
Wholesale Trade	2.47	2.04	1.29
Retail Trade	1.57	2.23	1.3
Trans & Warehousing	2.06	2.1	20.82
Information	3.23	2.74	5.49
Finance & Insurance	2.52	7.84	7.55
Real Estate	2.73	4.06	1.94
Prof/Tech Svcs	2.13	2.06	5.97
Mgmt of Cos & Ent	2.79	1.73	4.98
Admin, Support & Svcs	2.02	1.93	4.89
Educational Svcs	1.41	1.7	6.72
Health Care & Soc Svcs	1.61	1.68	7.46
Arts, Ent & Rec	1.5	2.11	2.87
Accomm & Food Svcs	1.63	2.16	1.62
Other Svcs	1.69	2.14	1.88
Source: Implan 2008 data set			

If employment growth develops as DL&E anticipates, the local weighted tax multiplier will go from 4.52 to 4.56, a nominal increase. This small increase would be swamped by the ratchet down effect a recession would have on tax revenues. There would almost certainly be a significant decline in local government tax revenue and expenditures.

Assume for the moment that the changes in projected employment take place with the exception that employment in manufacturing and information remain constant. How would this "what if" analysis affect the local tax multiplier? The Forum analyzed this scenario to determine what affect this change might have on the tax, employment and income multipliers. The results are shown below.

El Paso County Economic Multiplier Scenario Analysis for Zero Loss in Employment in Manufacturing and Information

Category	2009 Actual	2019	2019
		DL&E Projection	Forum Scenario
Tax Multiplier	4.52	4.56	4.69
Employment Multiplier	1.62	1.60	1.65
Compensation Multiplier	2.02	2.00	2.04

The Forum then examined the effects that stable manufacturing and information employment would have on taxes, employment and compensation

El Paso County Economic Multiplier Scenario Analysis for Zero Loss in Employment in Manufacturing and Information: Level Effects

Dollar or Employment Change	DL&E Projection	Forum Scenario
2% Sales Taxes (CO Spgs)	\$795,200	\$4,054,400
Employment	-2,220	5,736
Total Income	-\$91,020,000	\$235,576,000

El Paso County Economic Multiplier Scenario Analysis for Zero Loss in Employment in Manufacturing and Information: Percent Effect

Percent Change	DL&E Projection	Forum Scenario
2% Sales Taxes (CO Spgs)	0.71%	3.62%
Employment	-0.76%	1.97%
Total Income	-1.11%	0.99%

The average employment multiplier among the sectors in El Paso County is 1.615. This is significantly lower than it was ten years ago. This is attributed to the shift to a service level economy. Service economies have lower employment multipliers. All three sectors where DL&E expects employment declines have higher employment multipliers than the average employment multiplier. If employment were to remain unchanged in Manufacturing, Wholesale and Information (the three declining areas), these sectors would retain 5,288 jobs in the county. The multiplier effects would generate an additional 6,501 jobs. Collectively, there would be an additional 11,789 jobs in the county.

The income multipliers for Manufacturing (2.63), Wholesale (2.47) and Information (3.23) are greater than the average income multiplier in the county (2.02). In addition to providing higher tax revenues and more jobs, retaining employment in these three sectors would also increase income in the community.

Strategic Developments

One state and two regional strategic visions were unveiled over the last two years. They are:

1. Southern Colorado Business Partnership (SCBP)
2. *Operation 60ThirtyFive*
3. *Blueprint for Colorado*

The SCBP is a coalition of 13 business oriented associations that includes chambers of commerce, economic development organizations, a convention and visitors bureau and others. SCBP was started to advance common business interests in southern Colorado while working to eliminate organizational and community "silo" issues. In short, SCBP promotes regional economic development and attempts to

Introduction

reduce costs while reducing overlapping efforts.

Operation 60ThirtyFive was unveiled in the fall of 2009. It identified five major sectors to target for job growth in El Paso County. The sectors are:

1. Aerospace, Defense and Homeland Security
2. Software and Information Technology
3. Renewable Energy and Energy Efficiency
4. Sports and Sports Related Industries
5. Emerging Industries/Entrepreneurs

The *Blueprint for Colorado* was released in July 2011. It is called a “bottom up” vision of economic development. Common themes among the regional inputs for the Blueprint are:

1. Advance a business friendly environment
2. Recruit, grow and retain businesses
3. Increase access to capital
4. Develop a brand message that promotes Colorado’s strengths
5. Educate and train the workforce of the future

Taken together, the three strategies share common ground. Economic development can be advanced through an efficient, business friendly environment that fosters regional efforts to retain and attract industries of the future that can utilize an educated progressive workforce.

The Forum has a keen interest in these strategic developments. The interest lies in seeing how the above strategies can be facilitated and advanced with research that the Forum has completed.

In 2002, the Forum received a grant that funded research on the El Paso County labor market and its economic base. The study included approximately 30 years of quarterly data through December 2000. The study had two objectives. First, the study reviewed skills of the labor force with job requirements of the employment base. Second, the Forum studied the El Paso County economic base to determine if key sectors could be identified that could provide steady employment growth. Seventeen desirable sectors were identified to promote stable employment growth. The work the Forum did to identify these sectors was based on optimization literature that examined the benefits of diversification.

In the spring of 2005, the Forum published a follow-up to the desirable sector recommendations that came out of the 2002 study. The follow-up report was based on employment trends in the January 2001 through September 2004 period. This encompassed the 2001 recession.

The Forum found that the 17 desirable sectors it had

previously identified increased employment by 3,431 jobs and had average wage gains of 7.0 percent during the period surrounding the 2001 recession. Sixty unselected business sectors experienced a loss of 6,329 jobs and had an average wage loss of 4.7 percent.

The study also found that the recommended sectors were identified repeatedly as being desirable for the El Paso County over the entire 30 years of data used in the study. This suggests the economic base that is good for El Paso County at a given point in time is very likely good for the area at most other points in time, regardless of the business cycle. The study demonstrated that economic base diversification can prove to be an effective economic development tool. The follow-up study is available at the Forum’s website: <http://www.SouthernColoradoEconomicForum.com> (*QUE* 2005, Volume 3, Number 4).

In 2008, the Forum expanded its economic base diversification research with a study that examined Colorado’s economic base. This study used monthly data from January 2001 through September 2007. The diversification objective was different from the 2002 El Paso County study. The 2008 Colorado study sought to achieve stable employment growth but was constrained to provide an expected minimum income growth (0.549% per month - the historical average) and produce an economic base with a tax multiplier equal to its historical average (2.875). The model was developed over eight sub periods of the data. The sectors and number of sub periods they were identified as desirable are:

NAICS Sector and Frequency Selected for Desirable Optimal Economic Base

Management of companies & enterprises	8
Credit intermediation & related activities	8
Motor vehicle and parts dealers	8
Social assistance	8
Hospitals	7
Publishing industries, except internet	8
Paper manufacturing	8
Printing & related support activities	8
Electronic markets & agents & brokers	8
Textile product mills	8
Insurance carriers & related activities	8
Food manufacturing	8
Warehousing and storage	8
Gasoline stations	7
Pipeline transportation	8
Transit & ground passenger transportation	7
Machinery manufacturing	7
Nursing and residential care facilities	7
General merchandise stores	8

In another study, the Forum worked with faculty

Introduction

and staff at the University of Colorado at Boulder, Colorado State University and front range workforce centers to complete a statewide assessment at the county, regional workforce and state levels to assess workers' skills, their portability and employer needs. The purpose of the project was described this way: "The information in this report is intended to provide workforce centers, economic developers, educators, and other public and private leaders with insight into their local economies. The information can be used in many ways as it illustrates the drivers of a county or regional economy using different metrics, such as location quotients, total employment, housing prices, retail sales, or growth rates. Typically, local economic analysis focuses on key industry drivers. This report takes it a step further by also evaluating the occupations that drive a local economy. Taken together, these reports provide a comprehensive platform for identifying strengths, trends, and opportunities for strategic partnerships to sustain and grow Colorado's economy." This study can also be downloaded on the Forum's website.

As part of the preparation for the 14th Annual Forum, the Forum researched industries at the three digit NAICS code within the sectors *Operation 60ThirtyFive* identified as desirable sectors to attract and develop.

The *Operation 60ThirtyFive* document did not explore a number of items the Forum believes are important considerations for economic development. These include location quotients (a likelihood of doing business in the area) and employment, income and tax multiplier effects. These measures were obtained and ranked to assess which among the recommended sectors are, perhaps, best to target. The results are summarized in table below.

Several industries appear to have appeal for economic development in El Paso County. It is not known if these firms have local suppliers and end users. Access to local markets for production and sale of products can reduce transportation costs significantly for a firm. Access to markets was examined by the Forum for the telecommunications industry (NAICS 517). The Forum generated a series of maps to illustrate the locations of suppliers to the industry and end users of the industry's products. These maps are shown below.

The ability to attract a business to an area is often dependent on four factors. The factors are location advantage, supplier and consumer distances to the location, labor force skills and operating costs.

The telecommunications industry has a location pref-

Location Quotients; Employment, Income and Tax Multipliers for Select <i>Operation 6035</i> Sectors									
<i>Operation 6035</i> Sectors	Location Quotient	Rank	Employment Multiplier	Rank	Income Multiplier	Rank	Relative Tax Effect	Rank	Overall Rank
334 Computer & electronic mfg	2.73	1	8.17	1	4.26	1	0.46	17	2
511 Publishing except internet	2.24	2	4.77	4	2.83	10	0.71	12	3
813 Membership assoc and orgs	1.84	3	2.71	10	3.18	4	0.57	15	5
451 Sporting goods, hobby ...stores	1.60	4	1.54	19	2.22	13	2.71	1	8
541 Professional and tech services	1.55	5	2.39	12	1.77	21	0.77	9	9
517 Telecommunications	1.52	6	5.55	2	3.37	3	1.48	5	1
339 Miscellaneous manufacturing	1.34	7	1.70	18	2.22	13	0.40	20	19
238 Specialty trade contractors	1.31	8	2.04	16	1.97	18	0.65	13	16
713 Amusements, and recreation	1.21	9	2.08	14	3.06	7	1.39	6	7
621 Ambulatory health care	1.14	10	2.46	11	2.21	15	0.71	11	9
332 Fabricated metal product mfg	1.01	11	2.97	9	2.44	11	0.49	16	9
711 Performing arts/spectator sports	0.99	12	1.39	21	2.02	16	1.62	4	13
237 Heavy/civil engineering cons	0.93	13	2.06	15	2.00	17	0.62	14	19
611 Educational services	0.90	14	1.54	19	1.87	20	0.83	7	21
518 Data processing, hosting & services	0.80	15	3.33	6	4.02	2	0.73	10	6
423 Merchant wholesalers, durable gds	0.67	16	1.82	17	2.25	12	2.58	2	12
221 Utilities	0.67	16	5.01	3	3.04	8	2.27	3	4
551 Management of companies	0.26	18	3.08	8	1.93	19	0.77	8	13
335 Electrical equipment mfg	0.25	19	2.38	13	3.10	5	0.42	18	18
333 Machinery manufacturing	0.24	20	3.54	5	2.97	9	0.40	21	16
336 Transportation equip mfg	0.23	21	3.10	7	3.10	5	0.41	19	13

erence in El Paso County. This is measured through the location quotient of 1.52. A good number of suppliers to the industry are in El Paso County. A large number of firms that use products of the telecommunications industry are located in the county. The proximity to suppliers and end users reduce transportation costs for the industry. If this were not the case, operating costs would have to be significantly lower in El Paso County than alternative locations in order for a telecommunications firm to overcome the transportation costs. For example, most suppliers in telecommunications are located along the front range with a heavy concentration in Arapahoe, Denver and Jefferson Counties. If operating costs are not low enough in the local market, tax credits and/or other financial incentives may be needed to attract a telecommunications firm. The issue of incentives is controversial in El Paso County. Never-

was presented previously. GMP for El Paso County in 2008 was approximately \$26.8 billion. The Federal Government was responsible for \$13.6 billion (50.7%) of the final demand in the county. While welcome, this is too much of the community's economic activity coming from a single source. Diversification is needed to broaden the base, particularly private sector employers.

There is an especially interesting data point in the final demand analysis for GMP. Imports into El Paso County were \$28.3 billion in 2008. This means the local economy had to purchase these goods and services from outside the area. Perhaps economic development officials should examine the imported goods and services to see if some of these can be produced locally. Assuming half the imports could be produced locally, GMP would

increase from \$26.8 billion to \$40.9 billion.

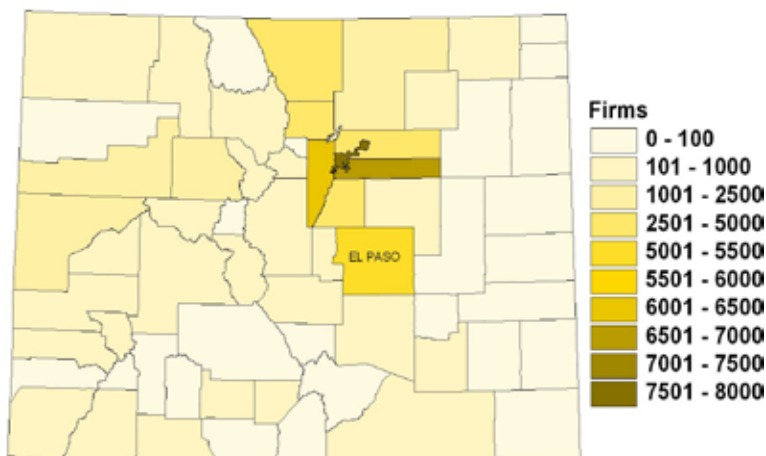
New markets do not need to be identified.

Local growth could be achieved by providing locally produced goods and services to meet existing local demand.

Suppliers to the Telecommunications Industry: 2008



Telecommunication Product Users: 2008



theless, promoting growth of telecommunications firms and its employment might produce good results.

Leakages in El Paso County

The Forum used Implan's 2008 data to estimate Gross Metropolitan Product (GMP) for El Paso County. This

Diversification and Challenge

Diversification does not have to mean wholesale change in an economy. The *Blueprint for Colorado* includes a call for training of the workforce. The Data Mining Project demonstrated that the workforce across the state has a number of skills that are transferable to other jobs. Needed job skills can be developed in training programs through regional efforts to improve efficiency in training the workforce, a concept advocated by the *Blueprint for Colorado* and the Southern Colorado Business Partnership.

Industries with stable employment, income growth and that generate sufficient tax revenue to support essential services needed for a growing population and employer base can be identified. The Forum has applied several techniques to El Paso County and Colorado information and has achieved promising results. The techniques can be modified to control for labor skills, natural resources, transportation costs or other relevant constraints to local economic development.

Based on projections from the Colorado Department of Labor & Employment, it appears El Paso County is moving towards an economic base that generates far too few jobs for a growing population. Incomes are expected to decline. Tax revenues are expected to be insufficient to accommodate the per capita requirements of the anticipated population. New approaches to economic development are needed.

Perhaps it is time to integrate the concepts of economic multipliers and economic base diversification to identify desirable economic sectors that are within the community's means to develop. The Forum has demonstrated the viability of these approaches. The Forum has also demonstrated this can be done within the constructs of TABOR. The Forum is prepared to lead this effort with community support.

Additional work is needed to identify and attract entrepreneurs and developers of new technologies. A number of sources have reported repeatedly that venture capital is not landing in El Paso County. Is it time for the community's private sector to develop its own venture capital fund?

Any venture capital fund should be capitalized with an amount that will provide the means to invest in many projects. The fund should be significant in size, perhaps from \$50 to \$100 million. The fund could be raised in stages and operated like any other privately owned venture capital fund.

Once the fund is established, notifying prospective entrepreneurs about the fund should not be a problem. These things tend to become known quickly with a search of the internet. It is suspected the largest initial problem the fund would have is which inbound call center in El Paso County should be hired to field the anticipated enquiries.

A requirement to the receipt of funding is that the business locates and remains in the community. The business would be required to stay in the community as long as the fund has controlling interest. This will increase employment, the demand for housing and local resident services.

Call for Action

The Forum has called for action a number of times over the last several years. The following call for action is updated from the 2009 Annual Forum.

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 *Blueprint for Colorado*, 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, integrated, 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. Economic development should integrate the principles of economic, tax and income multipliers and economic base diversification.

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 that it is using tax funds efficiently. Essential services of the government should be identified versus services that are deemed elective in nature that poten-

tially can be provided by others in the community. Benchmark comparisons of relative efficiency should be developed with Data Envelopment Analysis and/or Frontier Analysis.

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 leaders around the state to 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 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. They do not fit into fiscally constrained budgets.

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?

Where is the Economy Heading?

There is a mounting body of evidence that the European countries that have been bailed out or are likely to be bailed out (Portugal, Ireland, Italy, Greece, and Spain) are causing international concerns about their solvency. A contagion effect has spilled over to the other members of the European Community. The solvency of their banks is under question.

The decision by Standard & Poor's to lower the credit rating of the U.S. undermined markets. Municipal debt that is guaranteed by the Federal Government is also likely to be assigned a lower credit rating. AAA rated countries, like France, may also end up with lower credit ratings. Consumer sentiment is not improving. International unemployment rates are in the 9 percent range. Employment growth is not materializing in developed countries except in Germany and China. Germany and China have their respective problems ranging from the euro weighing down on Germany to inflation concerns in China.

The August 10 FOMC announcement to maintain near zero interest rates through the middle of 2013 suggests the economy is, at a minimum, incredibly fragile to potentially on the verge of a recession. The August unemployment rate remained stable at 9.1 percent but it was accompanied by no job growth. Job growth for June and July were revised downward. Second quarter GDP was revised downward. At the time of this writing, the Forum believes a recession is a probable scenario for the national and local economies.

Acknowledgments

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

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 the active partici-

pation of our program committee.

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

Thomas J. Zwirlein, Ph.D.

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Fred Crowley, Ph.D.

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US Bank
Vectra Bank

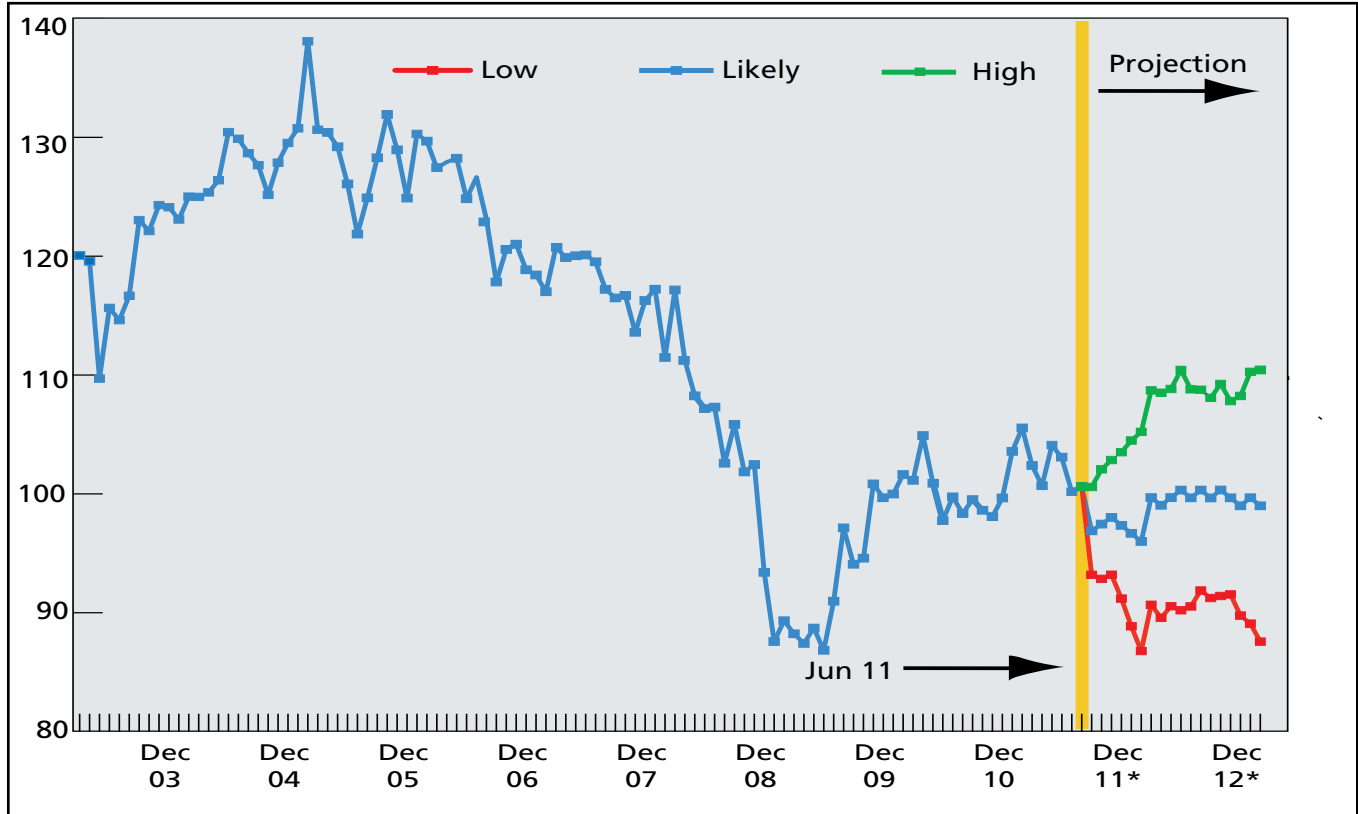
Forecast Summary

Actual, Estimated and Forecast Percent Change in Key Economic Indicators: U.S., Colorado and El Paso County										
		United States			Colorado			El Paso County		
		2010	2011	2012	2010	2011	2012	2010	2011	2012
		Actual	Estimate	Forecast	Actual	Estimate	Forecast	Actual	Estimate	Forecast
1	Population	1.0	1.0	1.0	1.5	1.6	1.6	2.9	1.5	1.3
2	Unemployment Rate	9.6	9.0	8.6	8.9	9.0	8.7	9.6	9.6	9.4
3	GDP/GSP/GMP	3.0	1.7	2.6	1.4	1.1	1.8	4.5	1.1	0.5
4	Industrial Production	5.3	3.8	3.2	-	-	-	-	-	-
5	Non-Agricultural Employment	-0.8	1.0	1.4	-1.1	0.5	0.9	-1.0	-1.5	-0.5
6	Total Wages & Salaries	2.0	-0.8	1.3	1.0	1.8	2.9	1.0	-0.5	0.5
7	Average Wage & Salaries	-	-	-	2.1	1.3	2.0	1.9	1.0	1.0
8	Consumer Price Index (CPI)	1.6	3.2	2.0	1.9	3.5	2.4	-	-	-
9	Personal Income	2.5	3.6	4.6	2.3	2.7	3.0	4.6	1.0	1.1
10	Per Capita Personal Income	2.2	2.6	5.4	-0.5	1.2	1.4	5.2	0.5	0.8
11	Retail Trade	6.4	5.9	4.1	6.4	5.2	4.2	7.6	2.5	1.5
12	Single Family Housing Permits ¹	3.7	-1.5	7.4	23.9	-8.9	13.9	24.9	-5.0	2.0
13	Non-Residential Construction	-23.5	6.9	8.4	-10.2	-5.1	0.9	-73.5	67.1	0.0

Sources: Colorado Office of Budgeting and Planning, June 2011 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 (BCI): December 2007-June 2009 = 100



	COS enplane-ments	El Paso SF & TH Permits	Univ of Mich Consumer Sentiment	Kansas City Fed Mfg Index	El Paso Employ-ment Rate	Colorado Springs 2% Sales & Use Tax	El Paso County New Car Sales	El Paso County Foreclo-sures	El Paso County Employment	El Paso County Income	BCI
Jan-11	90.65	106.37	115.57	134.78	96.63	104.52	91.53	99.65	94.47	96.87	102.39
Feb-11	87.08	78.35	120.71	155.76	96.65	101.53	91.98	100.77	94.48	97.14	100.69
Mar-11	85.68	101.30	105.13	167.24	96.96	97.88	110.27	101.15	94.55	97.95	104.11
Apr-11	86.15	100.23	108.71	151.17	97.10	106.45	97.30	101.06	94.18	98.98	103.01
May-11	86.99	85.76	115.72	121.33	96.86	109.00	98.54	100.95	93.31	99.22	100.18
Jun-11	83.07	91.80	111.36	131.83	96.82	105.00	100.15	100.88	93.10	99.39	100.62

WHY IS THIS IMPORTANT?

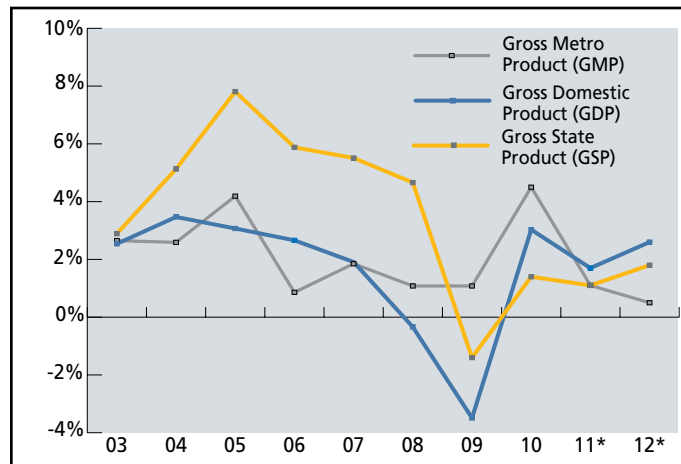
An aggregate trend of the local economy is extremely useful in gauging whether the economy is expanding, contracting or remaining stable. Rather than replace individual measures of activity such as housing or retail sales, the aggregate index should be compared to the individual indicators within the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

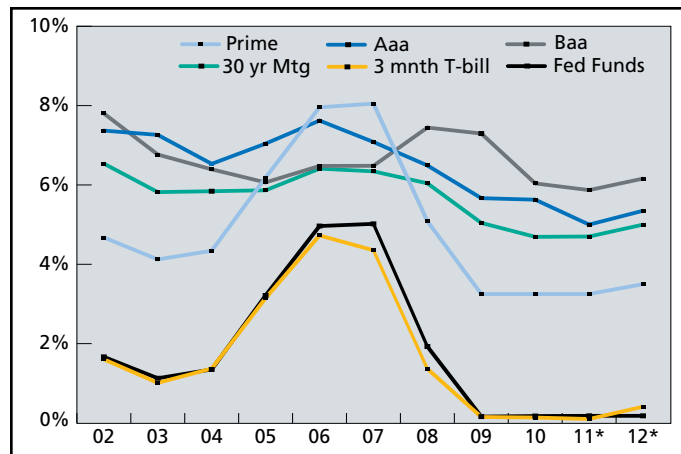
The BCI stabilized in late 2008 through February 2009 before beginning to rebound. As of June 2011, the BCI is up approximately 14.6 percent over its February 2009 low of 87.42. Since September 2009, the BCI stayed close to 100 with a small variation. Current conditions in the economy suggest there is little reason to expect growth in the BCI through 2012. It is possible to be 10 to 15 points higher or lower depending on whether military expenditures are maintained at current levels, new jobs are attracted to the region or both. Macro conditions in the global economy and lack of consumer confidence could lead to a lower BCI.

National and State Indicators

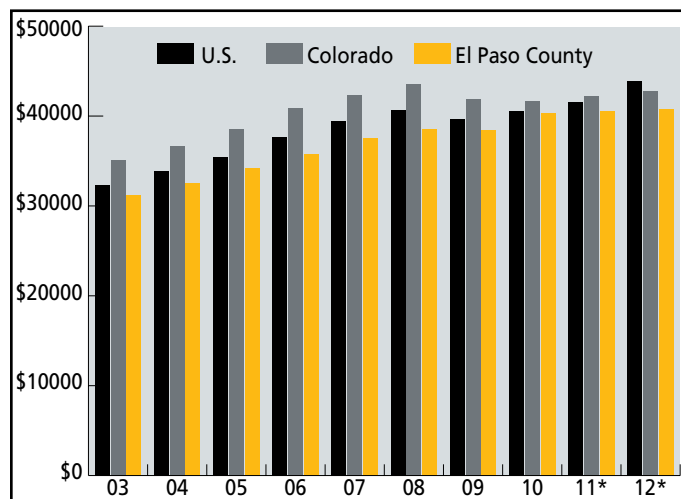
Growth in Real Gross Domestic Product (GDP), Gross State Product (GSP) and Gross Metropolitan Product (GMP)



Key Interest Rates



Per Capita Personal Income



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

WHY ARE THESE IMPORTANT?

The indicators on this page are predominately state and national in scope. Gross domestic product (GDP) measures the output of goods and services produced by labor and property located in the United States. The Bureau of Economic Analysis also measures gross state product (GSP) and gross metropolitan product (GMP) which are state and local equivalent measures 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 3.0 percent in 2010 vs. a 3.5 percent decline in 2009. The latest GDP estimates indicate the economy is growing at a 0.7 percent annual rate. Earlier estimates by national economists projected GDP growth for 2011 at 1.7 percent and 2.6 percent in 2012. With the exception of China and Germany, global economies are exhibiting modest to weak growth. Financial problems within the European community are contributing to uncertainty. Consumer sentiment fell to 63.7, or 6.1 percent below a year ago. The Federal Reserve reported it does not expect growth for the next 18 months. Employment and income growth are not taking place. The Forum suggests that a more conservative projection for national GDP growth of 1.0 percent in 2011 and -0.5 percent in 2012 is in order.

Colorado's real GSP grew by 1.4 percent in 2010. The Colorado Office of Budgeting and Planning expects GSP to grow by 1.1 percent in 2011 and 1.8 percent in 2012. The Forum expects the increase in troops based at Fort Carson and staying at Fort Carson and declining gasoline prices will help the local economy in 2011 and 2012. However, the slowing national economy and reduced expenditures under the Budget Control Act of 2011 will result in challenges for the local economy. The Forum expects local economic growth will be 1.1 percent in 2011 and 0.5 percent in 2012, down from 4.5 percent growth in 2010.

Concerns about capital markets and a slowing economy drove the Federal Reserve (Fed) 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. Rates have stayed at these levels. The press release of the August 2011 Federal Reserve Open Market Committee meeting indicated the Fed intends to keep interest rates at the current levels through June 2013 despite the credit downgrade of U.S. debt by S&P.

Per capita income growth continued its upward trend in the U.S., up 2.2 percent to \$40,540 in 2010. Colorado's per capita income declined by \$180 (-0.5%). Per capita income gains for the U.S. are projected to grow by 2.6 percent in 2011 and 5.4 percent in 2012. Colorado's per capita income is expected to grow 1.2 percent in 2011 and by 1.4 percent in 2012.

Local per capita personal income grew 5.2 percent to \$40,389 in 2010 due to increased expenditures by the Federal Government. Problems in the national and local economies contribute to the Forum's belief that per capita income will grow only 0.5 percent in 2011 and another 0.8 percent in 2012.

Sentiment and Savings

WHY IS THIS IMPORTANT?

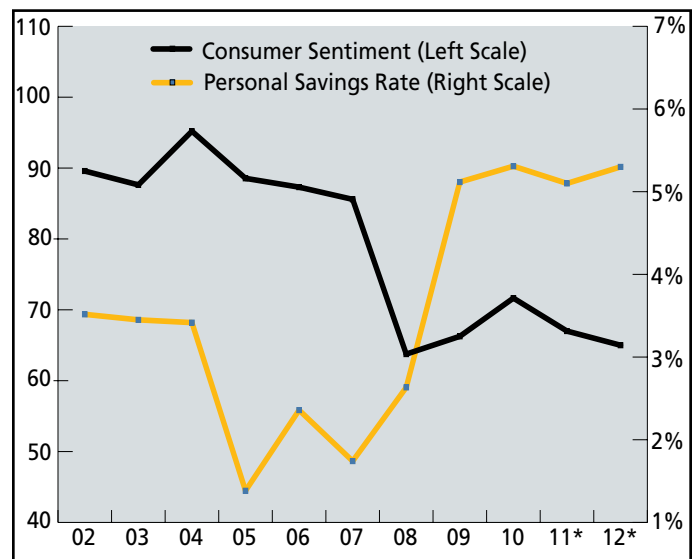
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of the consumer's confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer sentiment measures confidence using 1996-97 as the base 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, rising interest rates and inflation through 2007. It rebounded in late 2008 through early 2010 before dropping to 63.7 in August 2011. This is 6.1 percent lower than a year ago. Consumers continue to pay down debt, struggle with mortgages that are underwater and may be bracing for a recession.

Consumers tend to maintain high savings rates going into and during a recession. The personal savings rate rose to about 5 percent during the official recession. It has remained in the low 5 percent range in the last two years. The Forum expects the personal savings rate to be in the 5.25 percent range through 2012. A high savings rate may be good for individual personal finances. However, saving implies less consumption and does not contribute to robust economic growth,

Consumer Sentiment and Personal Savings Rate



* SCEF forecast

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

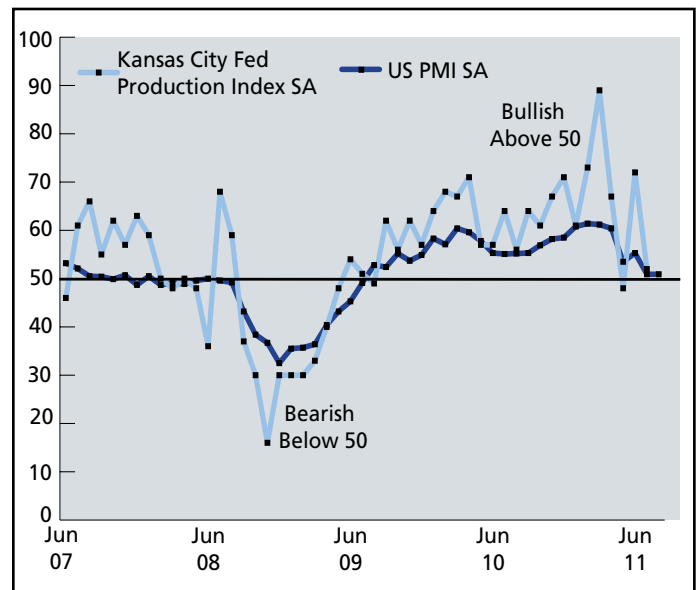
WHY IS THIS IMPORTANT?

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 and the national PMI peaked in the spring of 2011. At this time, it appears the leading indicators will remain near 50 for the next 18 months. This is a neutral position that suggests little to no growth. It is possible that a recession is possible. If the economy does slip into a back-to-back recession, the indexes are expected to fall to the 40 range.

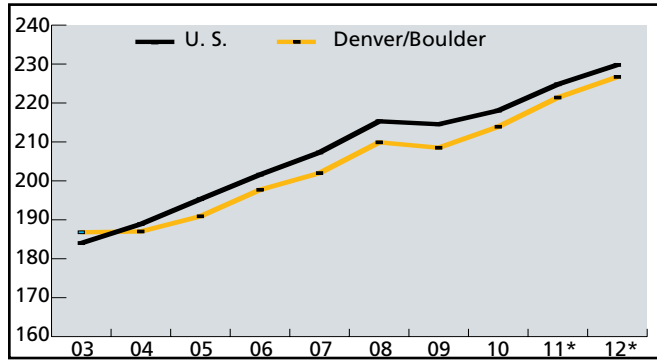
Purchasing Managers Index



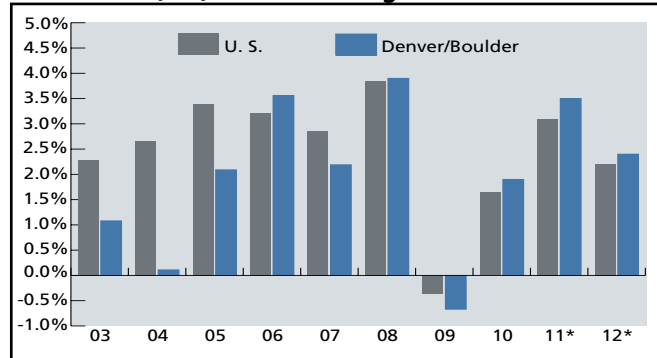
Sources: Institute of Supply Management and Federal Reserve Bank of Kansas City

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) Percent 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.

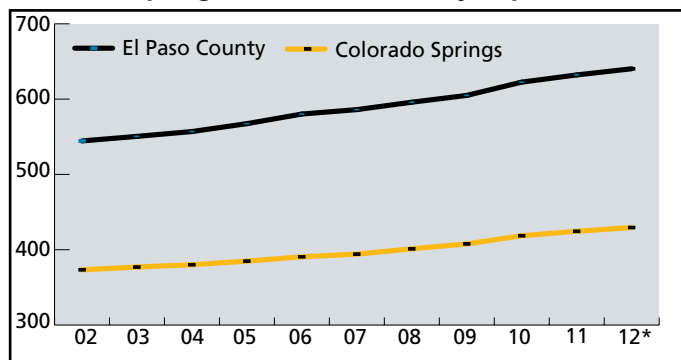
HOW ARE WE DOING?

The Denver/Boulder/Greeley CPI rose 1.9 percent in 2010 after declining 0.7 percent in 2009. The Colorado Office of State Planning and Budgeting expects inflation will be 3.5 percent in 2011 and 2.4 percent in 2012.

The U.S. urban CPI rose 1.6 percent in 2010 after decreasing 0.32 percent in 2009. The Federal Reserve Bank of Philadelphia survey of economists expects inflation will be 3.2 percent in 2011 and 2.0 percent in 2012.

There is general consensus that inflation pressure will increase over the next 6 to 18 months. This is due to QE 2 and the possibility of a QE 3/Twist policy. QE 2 flooded the economy with money that brought bank excess reserves to \$1.6 trillion and contributed to an 11 percent increase in producer prices from June 2010 to June 2011. It would appear that the Federal reserve is trying to inflate prices as a possible way to grow the economy.

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.

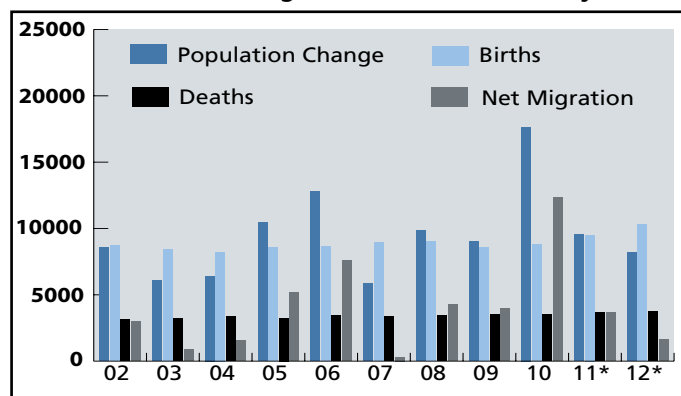
Population growth comes from natural increase (births minus deaths) and from net in-migration (or out-migration). The sum of these components is the change in population. Identifying trends in these indicators helps project future changes in the county's population and their impact on the economy.

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 632,120 in 2011, an increase of 9,550 (1.5%) over 2010.

The natural increase in the population was 5,858 in 2011. Net in-migration slowed to 3,092. Net migration slowed from its historical 50 percent share of total population growth to 38.9 percent in 2011. This is attributed to conditions in the economy and the lack of job growth. Population growth helps to bolster the demand for housing.

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?

Local and state unemployment has fared better than the U.S. during the recent recession. Since late 2009, the unemployment rate in El Paso County remained above national and state unemployment rates. The seasonally adjusted (SA) June 2011 unemployment rate in El Paso County stood at 9.5 percent vs. 9.4 percent in June 2010. Colorado's June SA unemployment rate was 8.5 percent vs. 8.8 percent in June 2010. The U.S. unemployment rate decreased to 9.2 in June compared to 9.5 percent a year earlier. The Colorado Office of Budget and Planning projects the state annual unemployment rate will be 9.0 percent in 2011 and 8.7 percent in 2012. The Forum projects El Paso County unemployment will average 9.6 percent in 2011 and 9.4 percent in 2012.

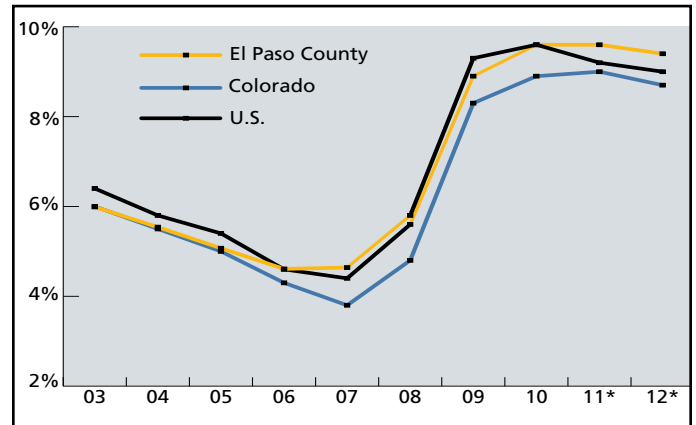
The Forum has stated that employment growth will be like watching ice melt in January. Employment declined each year from June 2007 (291,293) to June 2011 (265,053). During the same time, the labor force in El Paso County was reduced from 304,499 to 294,185, a loss of 10,314 labor market participants. The Colorado Department of Labor reported that 9 of the 21 NAICS sectors saw job growth in 2010. Significant job gains were in Education (3,391), Healthcare (839), Wholesale (501), Government (292) and Retail (291). Sectors with significant job losses are Construction (-1,514), Manufacturing (-863), Professional and Technical Services (-659), Finance and Insurance (-395) and Transportation and Warehousing (-251).

Average wages increased 1.9 percent to \$42,989 in 2010. Despite the anemic economy and labor market, all sectors saw average wage increases in 2010 except Agriculture, Management of Companies, Administration & Waste Services and Arts, Entertainment and Recreation. The largest percentage wage gains were in Wholesale (7.8%), Transportation and Warehousing (4.7%), Real Estate (4.1%), Construction (3.7%) and Health Care (3.7%).

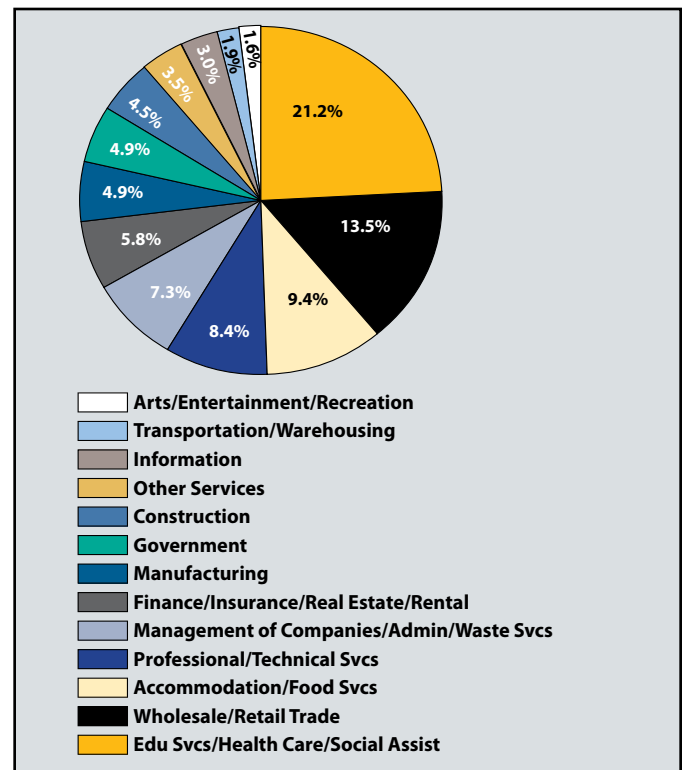
Average wages increased in all of Colorado by 2.7 percent in 2010. Wages went from \$46,861 in 2009 to \$47,864 in 2010. The wage gap between Colorado and El Paso County widened slightly in 2010. The average wage in El Paso County is now 10.2 percent lower than the average wage in Colorado. This is an improvement over the 12.1 percent wage gap in 2008.

The Hirschman Index (HI) can be used to measure diversification in employment and wages. The Hirschman Index for employment income went from 7.93 in 2009 to 8.39 in 2010. The Hirschman Index for wages increased from 8.47 in 2009 to 8.60 in 2010. Based on the HI, the local economy is becoming more concentrated and less diversified.

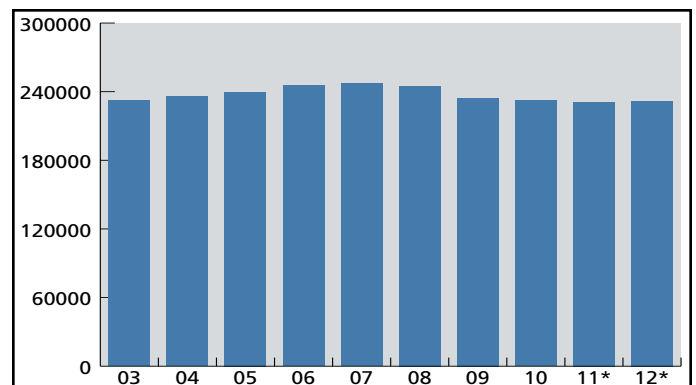
The Unemployment Rate in El Paso County, Colorado, and the U.S.



2010 Employment in El Paso County by North American Industrial Classification (NAICS)



Total QCEW Employment in El Paso County



* Estimate

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 2009 and 2010							
NAICS Code		2009			2010		
		Employment	Percent of Total Employment	Average Annual Wage	Employment	Percent of Total Employment	Average Annual Wage
11	Agriculture, Forestry, Fishing & Hunting	184	0.1	\$24,336	175	0.1	\$23,556
21	Mining	126	0.1	\$87,516	143	0.1	\$90,948
22	Utilities ¹	2,699	1.2	\$77,740	2,632	1.1	\$78,676
23	Construction	12,966	5.5	\$43,888	11,452	4.9	\$45,552
31-33	Manufacturing	13,361	5.7	\$54,860	12,498	5.4	\$55,536
42	Wholesale Trade	5,279	2.3	\$51,324	5,780	2.1	\$55,640
44-45	Retail Trade	28,173	12.0	\$25,948	28,470	12.3	\$26,208
48-49	Transportation & Warehousing	5,107	2.2	\$41,392	4,856	2.1	\$43,420
51	Information	7,426	3.2	\$63,284	7,487	3.2	\$63,648
52	Finance & Insurance	11,161	4.8	\$50,856	10,766	4.6	\$52,260
53	Real Estate, Rental & Leasing	4,066	1.7	\$31,408	4,006	1.7	\$32,760
54	Professional & Technical Services	22,002	9.4	\$74,464	21,343	9.2	\$76,440
55	Management of Companies & Enterprises	916	0.4	\$80,028	897	0.4	\$77,792
56	Administrative and Waste Services	17,341	7.4	\$34,996	17,604	7.6	\$35,412
61	Educational Services	22,213	10.8	\$35,360	25,604	11.0	\$35,880
62	Health Care & Social Assistance	29,374	12.5	\$42,484	30,213	13.0	\$44,096
71	Arts, Entertainment & Recreation	4,058	1.7	\$19,552	4,073	1.8	\$19,500
72	Accommodation & Food Services	23,963	10.2	\$15,860	23,991	10.3	\$16,484
81	Other Services	8,911	3.8	\$35,776	8,878	3.8	\$36,088
99	Non-Classifiable	15	0.0	\$76,024	9	0.0	\$58,916
	Total Non-Government	222,341	94.9	\$41,125	219,877	94.7	\$41,861
92	Government	12,058	5.1	\$61,828	12,350	5.3	\$63,076
	Total All Industries	234,399	100.0	\$42,189	232,227	100.0	\$42,989
	Hirfindahl Concentration Measure: Lower indicates greater diversification	7.93	-	8.47	8.39	-	8.60

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

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?

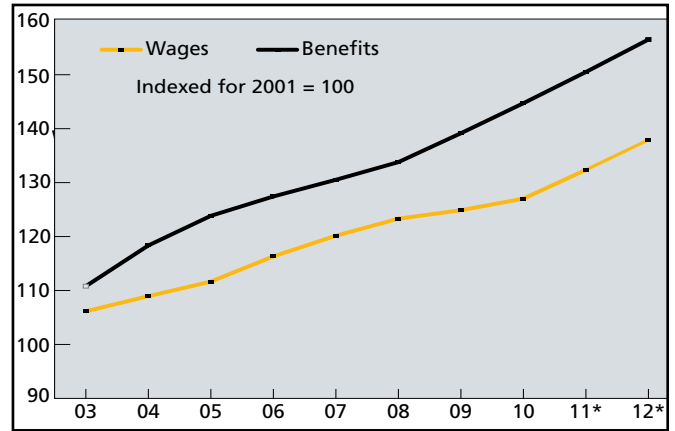
The national benefit cost index continued to rise faster than the wage index in 2010. Benefits rose approximately 4.0 percent in 2010 compared to 2.8 percent in 2009. Wages rose at a faster rate in 2010 (2.0%) than in 2009 (1.3%). Nationally, wages have increased a modest 2.6 percent a year since 2005. Benefits have increased 3.2 percent a year since 2005. The Forum expects national wages will decline by 0.8 percent in 2011 and benefits will increase by 2.5 percent. Weak economic conditions into 2012 will keep wage growth to 1.3 percent and benefits growth to 3.0 percent in 2012.

The base year for the cost of business index (COBI) is set at 100 in 2001. The index stood at 132.7 at the end of 2010. This means the average cost of business was 32.7 percent higher in 2010 than in 2001. By comparison, the CPI rose 23.1 percent while the producer price index (PPI) rose 48.1 percent during the same period. The Forum forecasts that the cost of business index will increase 2.0 percent to 135.3 in 2011 and 2.5 percent in 2012 to 138.7.

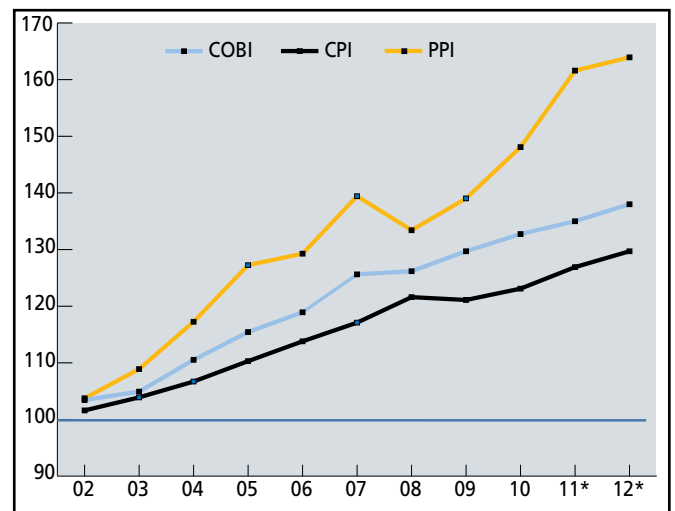
The final chart on this page provides the average annual percentage increase in the individual components in the COBI since 2005 and their respective increases in 2010 compared to 2009. All costs of business in 2010 were below their historical averages. The components and their change in cost in 2010 compared to 2009 were: electricity 3.0 percent; wages 1.7 percent; benefits 4.0 percent; rents -8.3 percent; property taxes 2.5 percent. The property tax change is based on total property taxes collected. It is not a change for a specific property.

The message in the estimate of the COBI is the Colorado Springs market tends to be a lower cost location for doing business than the national cost of business as measured by the PPI. This is not expected to change in the next few years. Property taxes are ratcheting down. Rents are soft and will not increase enough to return 2009 levels. Local labor costs tend to be lower than the national average.

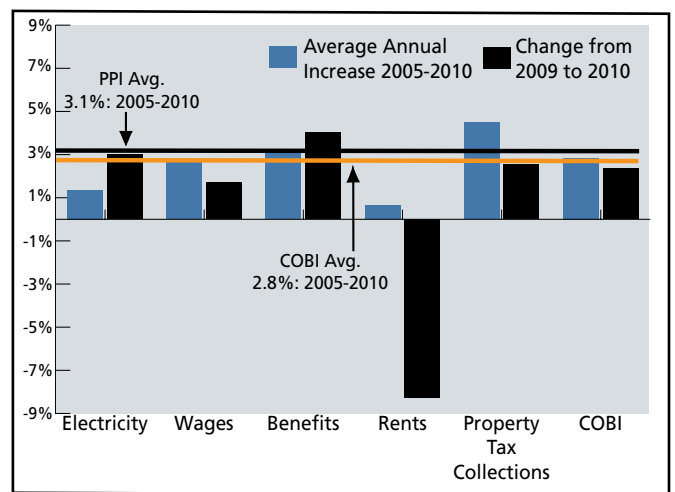
Wage and Benefit Cost Index, U.S. Average



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



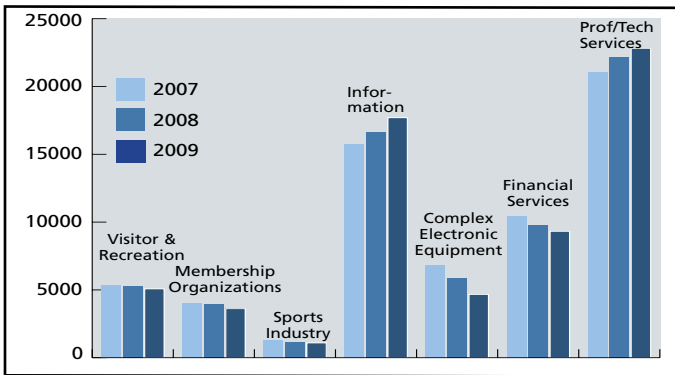
Percent Change in Individual Items in the Cost of Business Index for El Paso County



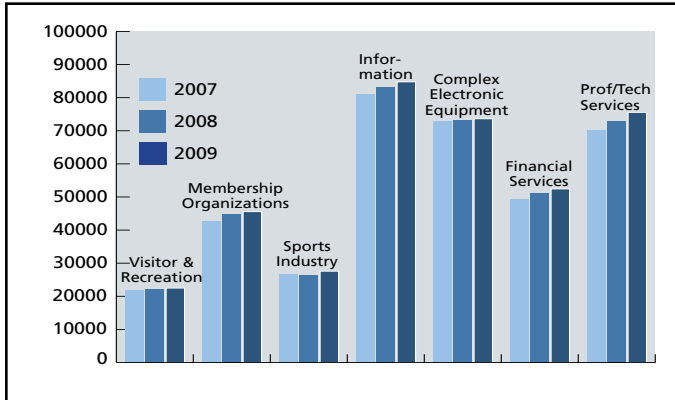
* SCEF forecast
Sources: Federal Reserve Bank of St. Louis, Colorado Springs Utilities, Turner Commercial Report, El Paso County Assessor, SCEF

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?

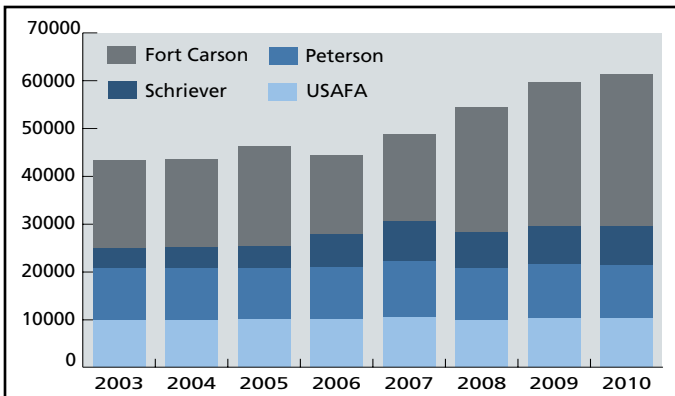
A primary employer/cluster industry is the engine in the economic multiplier process. A primary employer generates at least half of its revenues from customers outside the local economy.

Primary sectors provided 28.8 percent of all jobs and 39.5 percent of all wages in 2001. By 2009, primary sectors provided 27.4 percent of all jobs (up from 26.5% in 2008) and 44.1 percent of all wages (up from 42.1% in 2008) in El Paso County.

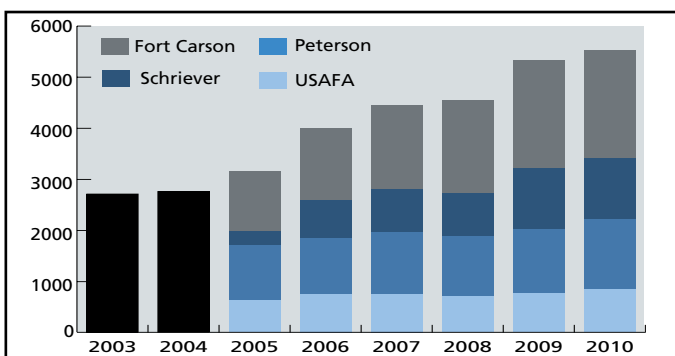
Wages grew in Information Technology and Professional & Technical Services. These areas were the only two to show employment gains in 2008 and 2009. The new jobs and wages in these sectors are welcome. However, the distribution of primary employers shifted in the county. The shift resulted in lower employment and income multipliers (see pp. 8-9). This leads to a false perception that primary employment is making an about face from a downward trend. The economic development goal should be high multiplier primary jobs - not just primary jobs.

The average wage for the seven clusters was \$67,883 in 2009 vs. \$65,624 in 2008. The average wage is 62 percent higher than the average private sector wage in the county.

Military Employment in El Paso County



Military Expenditures (\$ millions)



Sources: The Greater Colorado Springs Chamber of Commerce

WHY IS THIS IMPORTANT?

The military has been an important contributor to the local economy since World War II. 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 61,192 in 2010 from 59,981 in 2009. This was an increase of 1,211 positions or 2.0 percent. Fort Carson had an increase of 1,719 while the Air Force facilities lost a net 108 positions. There is additional good news about employment at the military installations. The U.S. Army has announced plans to bring a combat aviation brigade to Fort Carson in 2013. This will add 2,700 soldiers and 113 helicopters. The effects of the Budget Control Act of 2011 are not known at this time. However, it requires about \$2.4 trillion in reduced spending by the Federal Government by 2021. It is possible that half of the cuts could come out of the military budget if Congress cannot agree on cuts in other areas. Will the military complex in Colorado Springs be spared?

The Forum examined the role expenditures by the Federal Government have on the local economy. Based on a final demand analysis of data for 2008 in the Implan software, Federal Expenditures account for approximately 50 percent of the Gross Metropolitan Product in El Paso County. These expenditures are a welcome addition to the economy. However, the community appears to have a disproportionately high dependence on the military.

Tourism and Lodging

WHY IS THIS IMPORTANT?

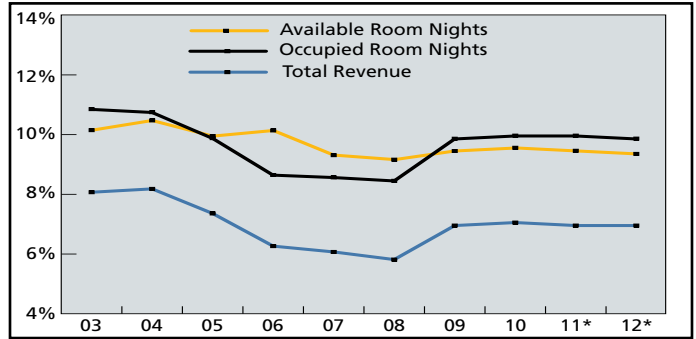
Hotel market shares, relative to Colorado totals, are general indicators of the health of local tourism. Changes in these can signal changes in the popularity of Colorado Springs as a tourism destination compared to the rest of Colorado. Each year, about 6 million people visit the Pikes Peak area. These 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 \$75 to \$90 range. The lodgers and auto rental tax is an additional tourism indicator.

HOW ARE WE DOING?

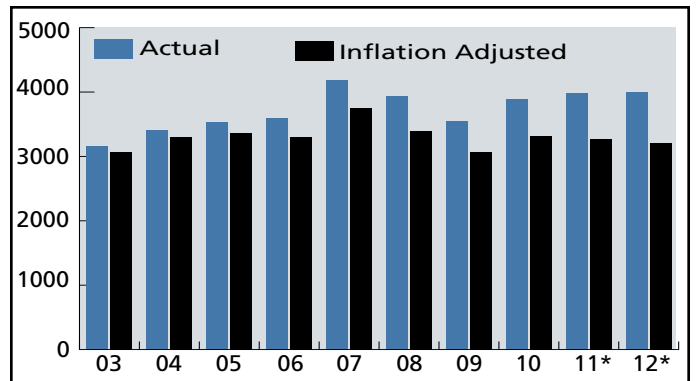
The area's share of statewide occupied room nights, revenues and available room nights have remained stable over the last few years. This is projected to continue through 2012 as the statewide economy struggles. Average revenue per room night fell slightly from \$84.84 in 2009 to \$84.39. This is similar to the change in statewide revenues per night of \$118.90 in 2009 and \$118.60 in 2010. Average room night revenues in Denver rose from \$106.84 in 2009 to \$107.82 in 2010. None of the room rates kept up with inflation.

Total room revenues in the area went from \$88.5 million in 2009 to \$94.1 million in 2010, a 6.3 percent increase. Despite total room revenues increases of 6.3 percent, the lodging and automobile rental taxes (LART) declined. Collections for 2010 were \$3,883,400, down from \$3,936,344 in 2009. This 1.3 percent decline is the result of low automobile rentals. The Forum believes this can be traced to the decline in airport activity and the corresponding decline in automobile rentals by visitors arriving through the airport.

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

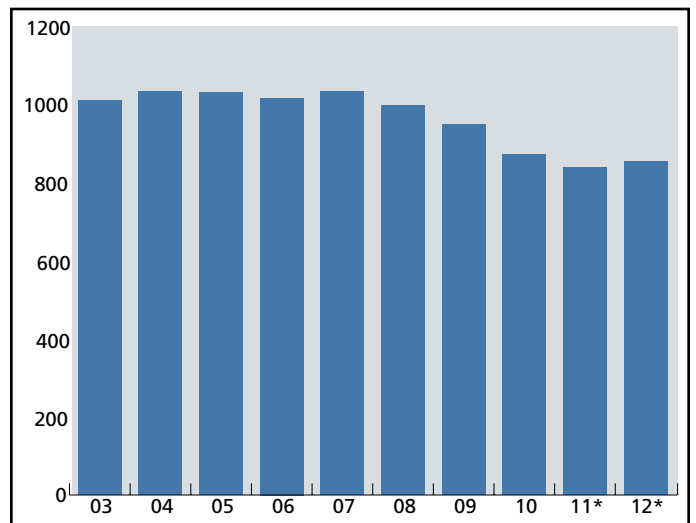
WHY IS THIS IMPORTANT?

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?

Total enplanements at the Colorado Springs Airport were 871,061 in 2010, an 8.1 percent decrease from the 947,936 enplanements in 2009. The decrease reflects the decline in local economic activity and the loss of U.S. Air after 2009. The Forum's ongoing assessment is that the airport will continue to struggle in 2011. Enplanements in 2011 are expected to decline by 31,000 (-3.6%) before increasing a modest 15,000 (1.8%) in 2012. The small increase in 2012 is expected from the number of troops at Fort Carson who will no longer be deployed overseas and will fly out of the airport to visit friends and family. Significant increases in enplanements are not expected until there is a marked improvement in the economy.

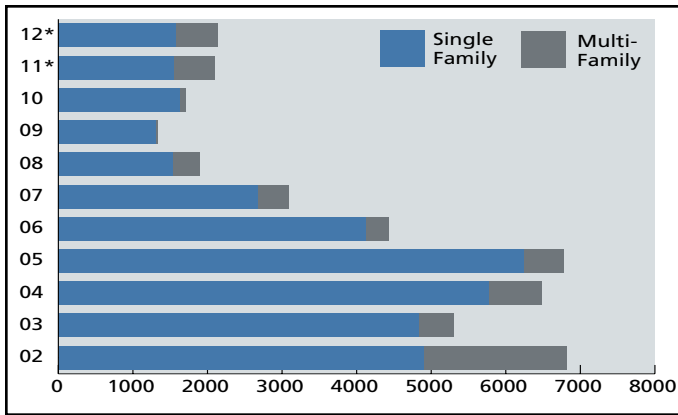
Colorado Springs Airport Enplanements (000s)



* SCEF forecast

Source: Colorado Springs Airport

Residential Building Permits (Dwelling Units)



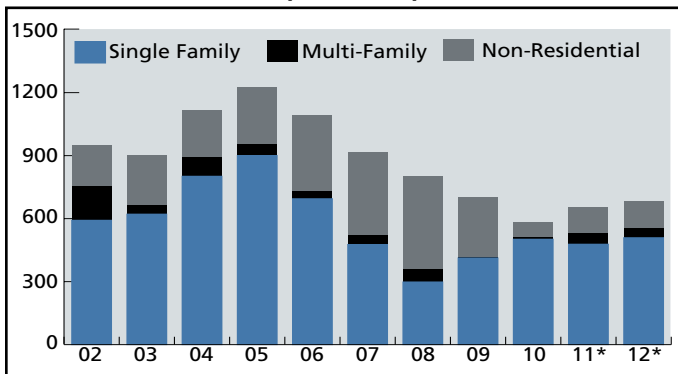
WHY IS THIS IMPORTANT?

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?

The havoc in the housing market caused by chaos in capital markets and the sub prime mortgage crisis is waning. While not in a true recovery, the local housing market stabilized and has grown since it bottomed in 2009. There were 1,627 single family and town home permits in 2010. This is 321 more than the 1,306 permits in 2009. The housing market is expected to remain slow over the balance of 2011 and into 2012. Problems in 2011 are attributed to residual effects of the tax credit programs for home buyers that occurred in 2010, a sluggish economy and persistent, though rapidly declining foreclosures. At this time, expectations for the economy are not good. Single family permits are expected to be 1,550 in 2011 and 1,650 in 2012. Multi-family vacancies are below 6 percent at this time and rents have increased. Permits for multi-family units are expected to be 550 in 2011 and 500 in 2012.

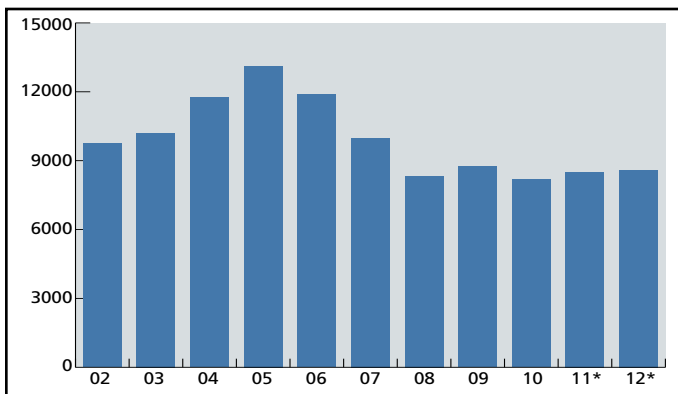
Value of Construction (\$ millions)



* SCEF forecast
Source: Pikes Peak Regional Building

Non-residential construction in 2010 decreased 73.5 percent to \$74.8 million compared to \$282 million in 2009. This reflects the ongoing sluggish economy and the lack of local job growth. Through July of 2011, non-residential construction totaled \$72.9 million. This suggests commercial construction will probably be about \$125 million in 2011. Luke warm economic growth indicates non-residential construction will remain unchanged in 2012 at \$125 million.

El Paso County Home Sales



WHY IS THIS IMPORTANT?

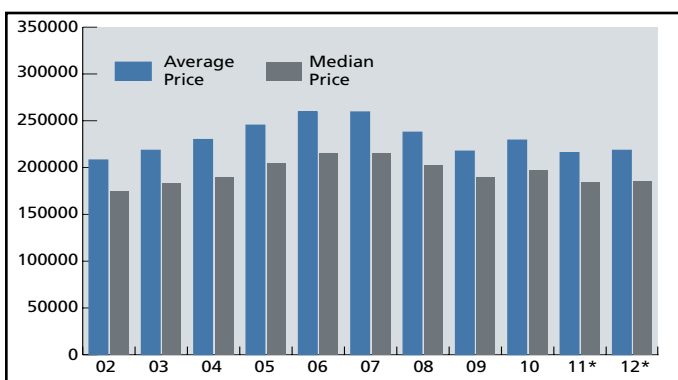
Home sales are an indicator of vitality in the local real estate market. An unusual drop in annual home sales could indicate a problem in one or more economic sectors.

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 peaked in 2005 at 13,118 before their decline and leveling off in 2008. Sales volume of 8,185 in 2010 was supported by first-time and trade-up home buyer programs. The customary post-stimulus vacuum followed. Backlash aside, home sales are showing some sign of improvement and are expected to be about 4 percent higher in 2011. Sales in 2012 are not expected to change much from 2011 levels. Federal Reserve assurances that interest rates will remain low through June 2013, a nearly stalled economy and concerns about possible cuts in local Federal expenditures lead the Forum to estimate single family home sales will be around 8,600 in 2012.

Mean and Median Prices of Homes Sold



* SCEF forecast
Source: Pikes Peak Association of Realtors

The current buyer's market suggests the average sales price of a home will decline to \$216,000, down 5.9 percent from 2010. The average price is expected to increase slightly in 2012 to \$218,600. Median prices are expected to move similarly to the average price. Median prices are expected to be \$184,000 in 2011 and increase to \$185,000 in 2012. These prices are about 6.3 percent below the \$197,485 median price in 2010.

Foreclosures and Utilities

WHY IS THIS IMPORTANT?

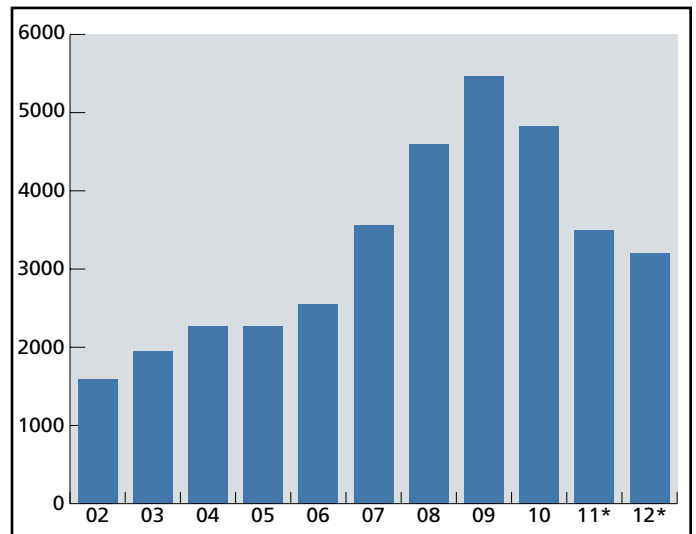
The downside of the housing market is when a foreclosure occurs. Foreclosures are normally used by economists as a lagging indicator, since they tend to peak just about the time an economic recovery occurs. Foreclosures appear to be more of a leading to coincidental indicator in the current economy.

HOW ARE WE DOING?

There were 4,828 foreclosures in 2010, a decrease of 11.8 percent from 2009 when there were 5,471 foreclosures. Through June 2011, there were 1,743 foreclosures compared to 2,420 foreclosures in the first six months of 2010. At the current rate, the Forum anticipates there will be 3,500 foreclosures in 2011 and 3,200 in 2012.

Much of the bad paper has worked itself out of the mortgage industry. Foreclosures are dependent on employment and income levels of homeowners who are carrying a mortgage. Interest rates are at record low levels (4.0-4.5% for a 30 year conventional). Housing prices are down 9.1 percent (\$21,600) compared to June 2010. While this helps housing affordability, it does nothing to reduce upside down situations in housing. Troops at Fort Carson might be “permanently” stationed in Fort Carson in 2012, given the President’s desire to get them out of Iraq. Some increase in the demand for housing is expected with this move. However, housing will recover more quickly when more high wage jobs are created in the region.

Foreclosures in El Paso County



* SCEF forecast
Source: El Paso County Public Trustee

WHY IS THIS IMPORTANT?

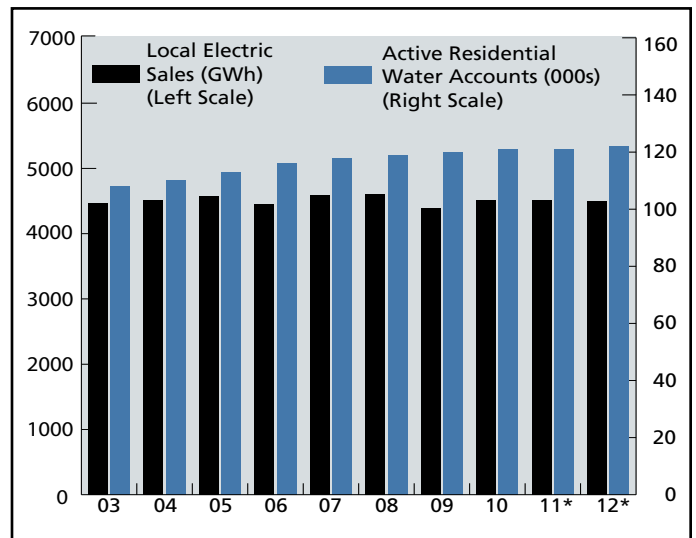
Local electric sales and residential water accounts are good indicators of growth and economic activity. Active residential water accounts correlate with residential construction and housing market activity. Changes in electric sales on system capture both residential and commercial activity.

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 was a modest 1.2 percent per year. Water accounts slowed again to 0.6 percent in 2009 and 2010. Projections for 2011 and 2012 call for 0.6 percent growth.

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 peaked in 2008 at 4,608 GWh. Since then electric sales declined to 4,508 GWh. Sales are projected to remain flat in 2011 (4,511 GWh) and 2012 (4,497 GWh). The decline in growth for City Utilities reflects the ongoing loss of the City of Colorado Springs’ share of population growth and economic activity in the county. It also reflects the inability of the community to grow out of the recession. Consumer aversion to higher utility rates and conservation efforts may also be contributing to the lack of growth in electricity sales.

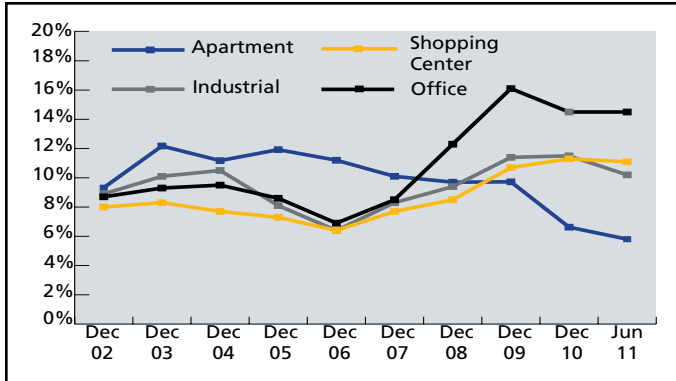
Total Local Electric Sales on System (GWh) Active Residential Water Accounts (000s)



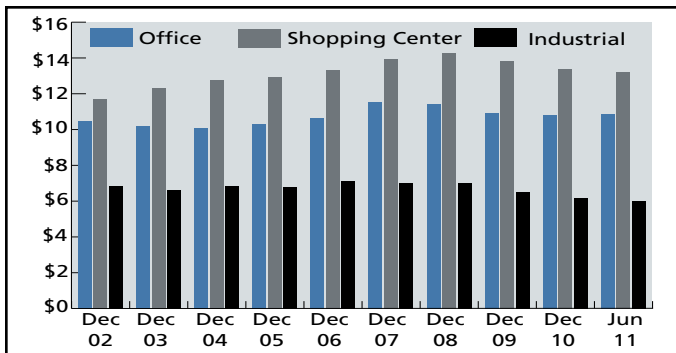
*City Utilities forecast
Source: Colorado Springs Utilities

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

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.

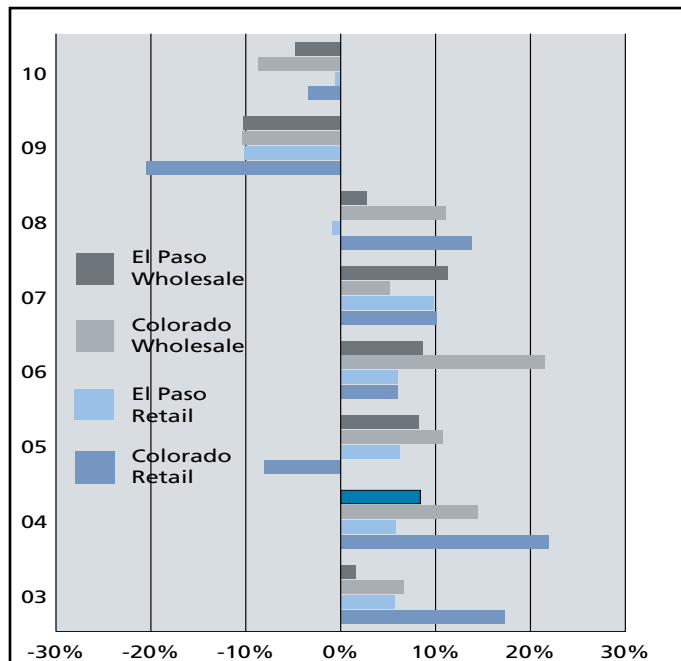
HOW ARE WE DOING?

Last year, the Forum wrote declines in rents were expected with the exception of apartment rents. This was prompted by the slow economy. Declining vacancy rates suggested apartment rents would rise. These expectations held true. The situation is similar this year. The economy failed to exhibit strong growth. Office, industrial and retail vacancies have not improved. A small decline in rents is expected with the exception of apartment rents. Vacancy rates in apartments are trending lower. Multi-family construction is not keeping up with demand. This is expected to lead to higher multi-family rents in 2011 and into 2012. Rent increases for apartments are expected to be modest due to the struggling economy and lack of income/job growth in the area.

A snapshot of June 2011 vacancies and rents is shown below.

Vacancy Rates and (Rents)		
Property type	December 2010	June 2011
Office	14.5% (\$10.68)	14.5% (\$10.58)
Industrial	11.5% (\$6.17)	10.2% (\$6.00)
Shopping	11.3% (\$13.37)	11.1% (\$13.20)
Apartments (3/11)	6.6% (\$724.23)	5.8% (\$737.00)

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?

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 0.5 percent in 2010 to \$12.8 billion vs. \$12.9 billion in 2009. Colorado retail sales were down 4.8 percent in 2010 to \$136.2 billion vs. \$143.1 billion in 2009. A deep recession from December 2007 through June 2009, declining consumer sentiment, weak tourism expenditures and rising unemployment rates contributed to the poor performance in Colorado's retail volume. El Paso County fared better due to the influx of troops at Fort Carson.

Wholesale sales, which tend to be more volatile than retail sales, decreased 3.4 percent in El Paso County in 2010. Colorado wholesale sales declined by 8.7 percent in 2010. The loss of manufacturing employment and output over the last ten years contributed to the decline in wholesale activity. The slowing national and local economies indicate retail and wholesale sales will level off in 2011. Wholesale sales may decline in Colorado and El Paso County in 2012 if the economy slows any further.

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 a good indicator of the health of this important part of the economy.

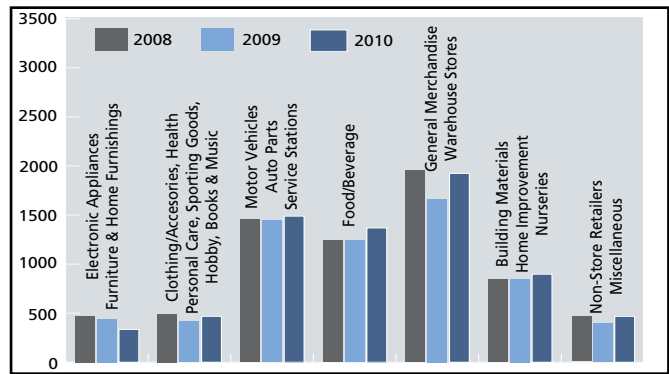
HOW ARE WE DOING?

Retail trade in 2010 was \$6.94 billion or 54.3 percent of the total retail sales in the county. Retail trade increased by 7.6 percent in 2010. Every retail trade category increased except for electronics (-24.4%). Gains in 2010 for the other sectors were clothing (12.6%), motor vehicles (2.9%), food (10.3%), general merchandise (15.6%), Building materials (5.8%) and non-store retail (17.7%).

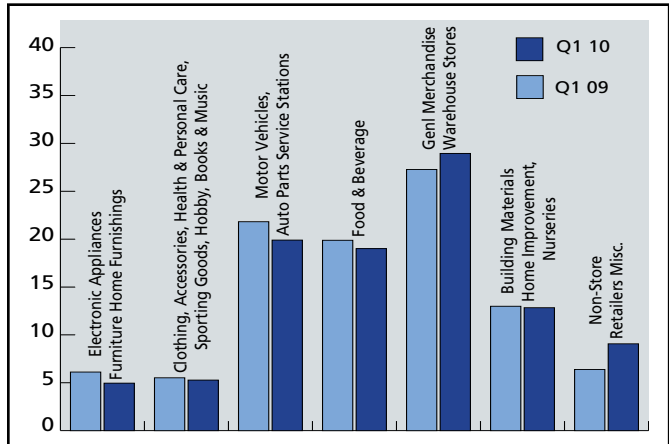
The largest portion of retail trade is general merchandise/warehouse stores. Big box stores tend to retail their merchandise for lower prices than other stores. The effect is items subject to sales tax are sold for lower prices. Hence, sales tax collections tend to be lower than they might otherwise be.

Since their peaks in 2006-2007, all retail trade sectors experienced declines in sales except for food/beverage (+10%) and building materials (+6%). Declines took place in several subcategories including electronics (-35%), clothing (-45%), general merchandise (-1%) and non-stores (-7%). More often than not, the greatest declines took place among sectors whose merchandise is subject to sales tax collections. The effect is sales tax collections will go unrealized. This trend is expected to continue and present a challenge to public fiscal management, especially in a TABOR environment.

El Paso County Retail Trade (\$ millions)



El Paso County Retail Trade First Quarter 2009/2010



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.

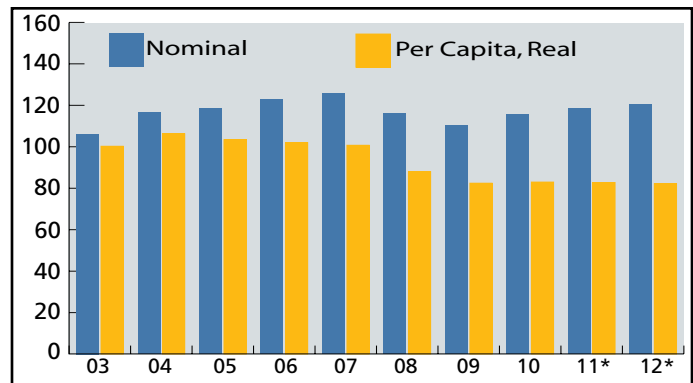
HOW ARE WE DOING?

City sales and use tax collections were \$115.6 million in 2010. This is \$5.5 million higher (5.0%) than in 2009. Through July 2011, sales and use tax collections were up \$1.6 million (2.8%) over July 2010. The Forum expects sales and use tax collections will increase by 2.5 percent in 2011 to \$118.5 million and by 1.5 percent in 2012 to \$120.3 million. Real per capita sales and use tax collections will decline by about 2.5 percent in 2012.

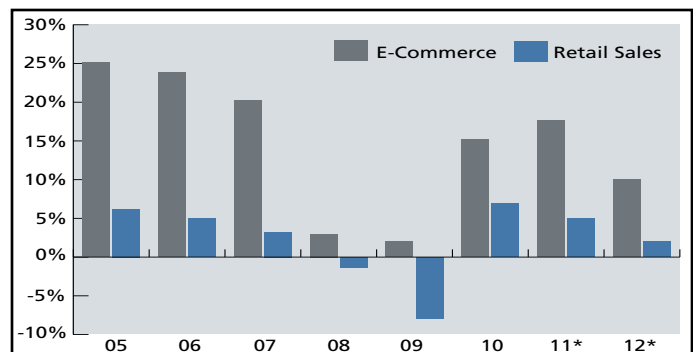
Through July 2011, all sales tax revenue categories were higher when compared to July 2010 except for utilities (-1.0%). The largest gains were reported in grocery stores (11.5%), auto dealers (7.9%), miscellaneous retail (7.8%), restaurants (7.6%), clothing stores (7.5%), business services (7.4%), commercial machines (4.5%) and building materials (4.0%).

At the national level, prior to the recession, e-tail grew 20 to 25 percent a year. E-tail growth declined sharply during the recession but managed small gains in 2008 and 2009. Conventional retail showed revenue declines over this period. E-commerce grew by 15.2 percent in 2010 vs. 6.9 percent for all retail. The slowing economy points to reduced retail growth in the balance of 2011 through 2012. Nevertheless, the Forum expects e-commerce to grow 17.6 percent in 2011 and 10.0 percent in 2012. Nationally, retail trade is expected to grow 5.9 in 2011 and 4.1 percent in 2012.

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



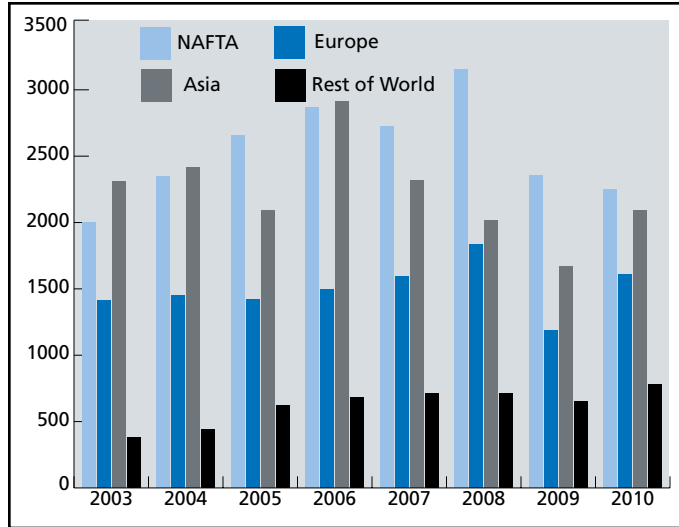
E-Commerce vs. Retail Sales Growth in the U.S.



* SCEF forecast

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

Colorado Exports to Selected Destinations (\$ millions)



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

WHY IS THIS IMPORTANT?

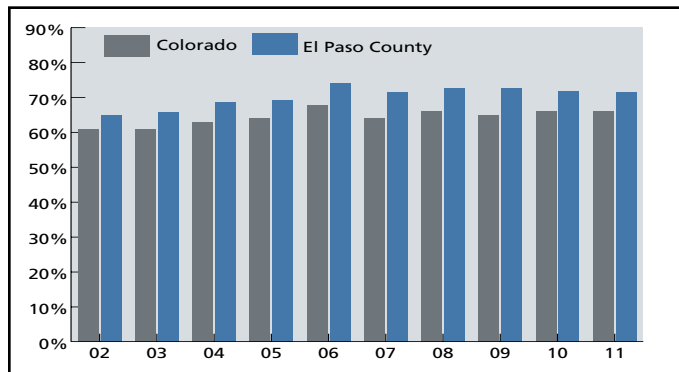
One indicator of the state’s competitiveness in a global economy is the ability to export goods and services. A higher level of export activity translates into more jobs in the state and more income and wealth. Colorado and Colorado Springs must continue to grow exports of goods and services in order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

HOW ARE WE DOING?

A growing global economy and a 3.0 percent decline in the trade-weighted value of the dollar helped Colorado global exports increase by \$859 million (15.0%) in 2010. Exports to Canada and Mexico decreased \$107 million (-4.5%). Exports to Asia increased \$449 million (25.1%). Exports increased to Europe by \$419 million (35.2%). Rest of the world exports increased \$128 million (19.7%).

A complete reversal of trade activity by product took place in 2010. Twenty-three of 32 manufacturing categories saw increased export activity. The largest gains were in food manufacturing (\$227 million, 30.4%), computer and electronic products (\$210 million, 13.5%), machinery except electronic components (\$111 million, 18.9%) minerals and ores (\$77 million, 83.8%), fabricated metals (\$64 million, 50.3%) and miscellaneous manufacturing (\$57 million, 18.5%). Two manufacturing sectors had significant declines in their exports. Oil and gas declined by \$92 million (-31.9%) and petroleum and coal products declined by \$22 million (-52.4%). A slowing global economy and weakness in the euro suggest exports will decline in 2011 and into 2012.

Colorado Student Assessment Program Fourth Grade Reading Results



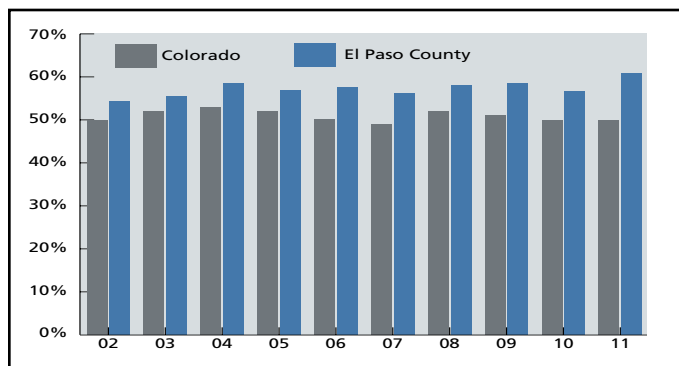
WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

CSAP is designed to measure how close students are to the targets of what they should know and be able to do by the time they reach a given grade, giving a performance-level score for each student. This year, 71.4 percent of El Paso County fourth graders were proficient or advanced in reading. This is about the same as last year’s proportion of 71.7 percent and noticeably higher than the statewide score of 66.0 percent. Reading scores in El Paso County have improved 12.6 points (23.3%) since the first CSAP, fourth grade reading exam in 1997 vs. a 10.6 point improvement in reading scores for Colorado since 1997.

Colorado Student Assessment Program Fourth Grade Writing Results



Source: Colorado Department of Education

This year, 60.7 percent of El Paso County fourth graders were proficient or advanced in writing. This is 10.7 points higher than the statewide proficient or advanced proportion (50% in 2011). Writing scores in El Paso County have improved 21 points compared to a 12 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.

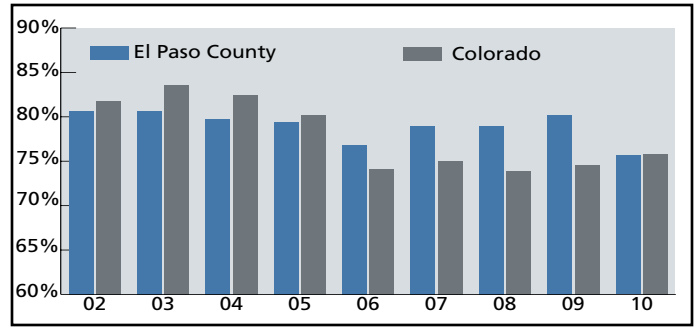
In a global economy, a multi-cultural, skilled work force is a requirement for success. Providing a quality education to all ethnic groups is important to our economic well-being. Reducing the dropout rate for all ethnic groups is one measure of success.

HOW ARE WE DOING?

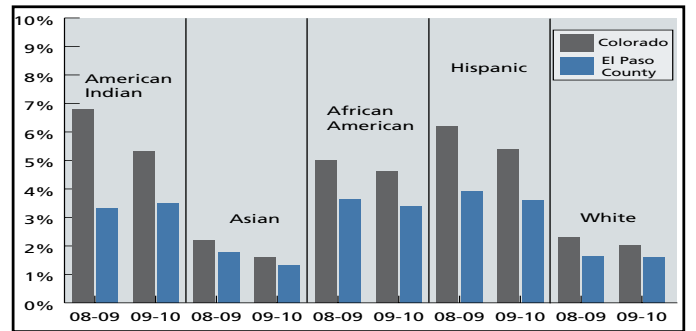
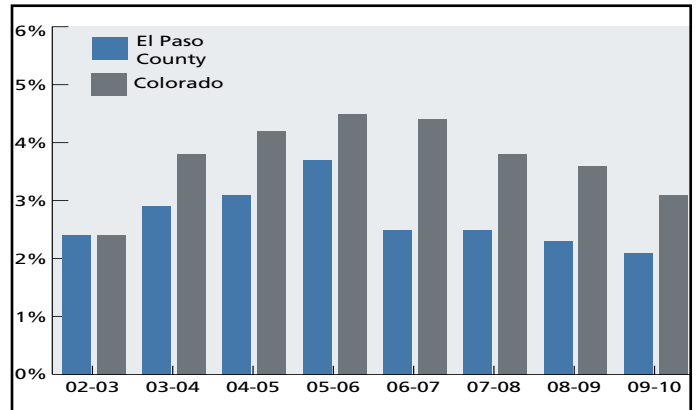
Graduation rates in El Paso County fell to 75.7 percent in 2010 compared to 80.2 percent in 2009. This is about the same as Colorado's graduation rate of 75.8 percent. With the exceptions of Harrison (73.3%), Edison (68.2%) and Colorado Springs (68.6%), all other districts had higher graduation rates than Colorado.

Dropout rates in El Paso County decreased from 2.3 percent in 2009 to 2.1 percent in 2010. Colorado saw a decrease in dropout rates from 3.6 percent in 2009 to 3.1 percent in 2010. Dropout rates in El Paso County are highest among American Indians/Alaskan Natives and Hispanics. 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?

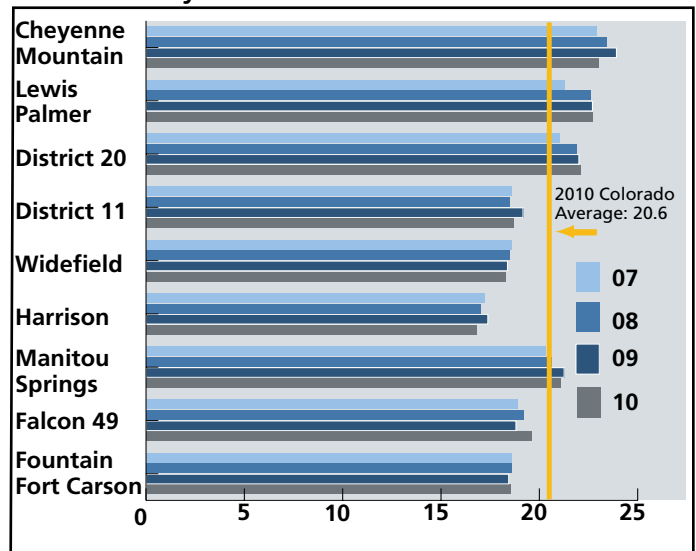
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates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

In 2010, the ACT reported high school juniors in Colorado had an average score of 20.6, down from 20.8 in 2009. Academy District 20 (22.1), Falcon (19.6), Fountain Fort Carson (18.5) saw their respective scores improve. All other districts had lower scores contributing to an overall decline in El Paso County ACT scores from 20.2 in 2009 to 20.1 in 2010.

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 20.6, the fourteenth lowest in the nation. Only five other states [Illinois (20.7), Kentucky (19.4), Michigan (19.7), Tennessee (19.6) and Wyoming (20)] require all students to take the ACT. An unbiased alternative test should be considered.

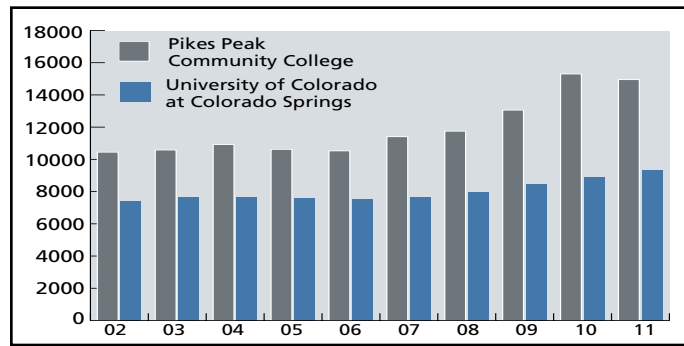
High School Junior ACT Scores in Selected El Paso County School Districts



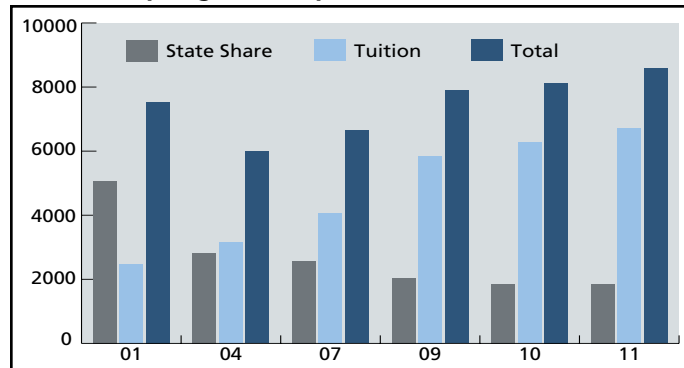
Sources: American College Testing program; Colorado Department of Education; local school districts

Higher Education and Air Quality

Enrollments at Public Institutions of Higher Learning in El Paso County



Funding Sources at the University of Colorado at Colorado Springs UCCS (per FTE)



Sources: Strategy Management 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.

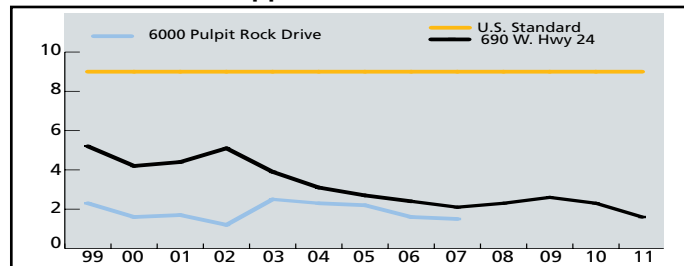
HOW ARE WE DOING?

Enrollments at UCCS increased from 8,900 to 9,321 students this fall, an increase of over 4 percent. The campus has facilities to house 900 students which reached capacity in 2008. A new science-engineering building opened fall 2009. The renovated science building opened in 2010-2011. These improvements give UCCS some of the best science labs in the state.

Pikes Peak Community College (PPCC) enrollments decreased by 2.2 percent from 15,299 in the fall of 2010 to 14,949 in 2011. Enrollments grew 42 percent since 2006 (4,423 students). During the 2009-2010 school year, 535 of UCCS's 614 transfer students came from PPCC.

Per student state support for a typical, in-state freshman or sophomore at UCCS is 22.9 percent of the total per student revenue in 2011, down from 67.3 percent in 2001. Total funding per student changed from \$7,538 in 2001 to \$8,580 in 2011, an increase of 13.8 percent. Allowing for inflation, per student total revenue declined 13.8 percent from \$7,538 to \$7,039 between 2001 and 2011. State support for in-state college students has declined steadily as a portion of total per student revenue. Tuition increases have not been sufficient to make up for the loss of state support on a real per FTE basis.

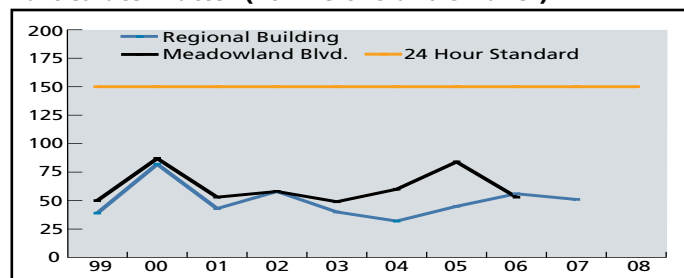
Carbon Monoxide (ppm)



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.

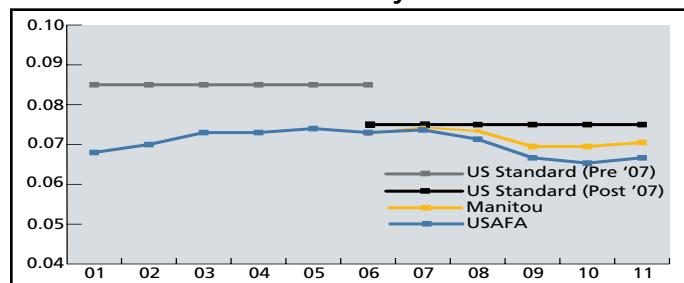
Particulate Matter (10 microns and smaller)



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 lower emissions autos. Reduced congestion and better traffic flows help to alleviate CO emissions. CO levels continued a downward trend that began in 1990. The decline in business during the recession is also believed to have reduced pollution levels.

Ozone Trends in El Paso County



Particulate matter (PM) includes both solid particles and liquid droplets found in the air. Particles less than 10 micrometers in diameter 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. PM10 is no longer monitored. Ozone levels have increased slightly over the last couple of years. They now register 0.067 at the Air Force Academy and 0.071 at Manitou. While currently below the standard of 0.075, there is an ongoing discussion the ozone standard will be reduced, potentially below the currently observed levels in the region.

Sources: Pikes Peak Area Council of Governments

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?

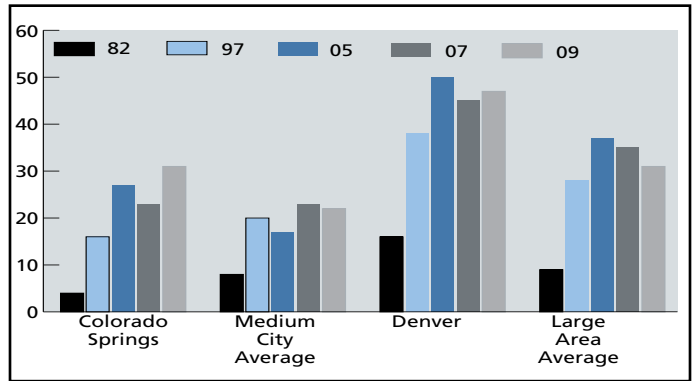
Traffic congestion continues to be an issue for the community. This information is reported by the Texas Transportation Institute. The 2009 results are presented to the right. Traffic conditions worsened in Colorado Springs and Denver

The annual delay per traveler in Colorado Springs in 2009 was 31 hours, the highest on record. It is an increase of 8 hours over 2007. The 2009 score is 9 hours worse than the average for medium cities (22 hours). The annual delay estimate is the extra travel time in hours spent in traffic per traveler each year during peak period travel. Peak travel periods occur between 6 to 9 a.m. and 4 to 7 p.m.

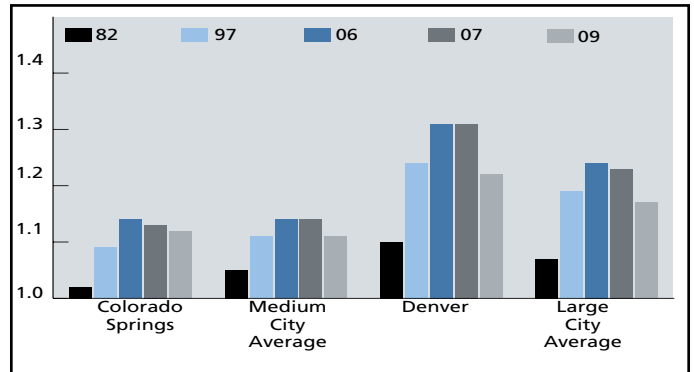
Annual delays per traveler in Denver worsened to 47 hours in 2009 compared with 45 hours in 2007. The average delay for large cities decreased by 4 hours to 31 in 2009 from 2007.

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 1.12 for Colorado Springs in 2009 means that a 30 minute free-flow trip would take 33.6 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 all MSA's in the country.

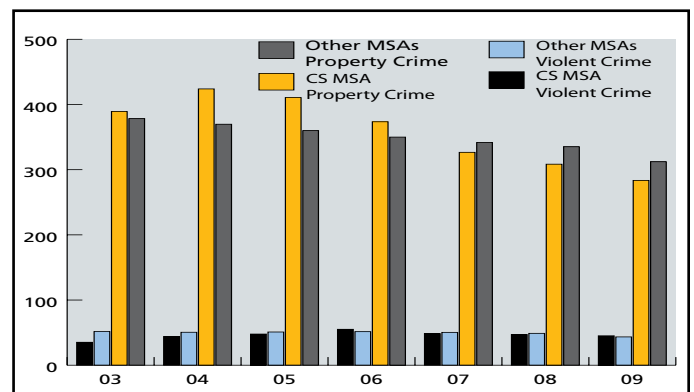
HOW ARE WE DOING?

The change in FBI tracking of the data requires the Forum to track the information for the Colorado Springs MSA. This includes all municipalities within El Paso and Teller Counties as well as non-municipal areas of the counties.

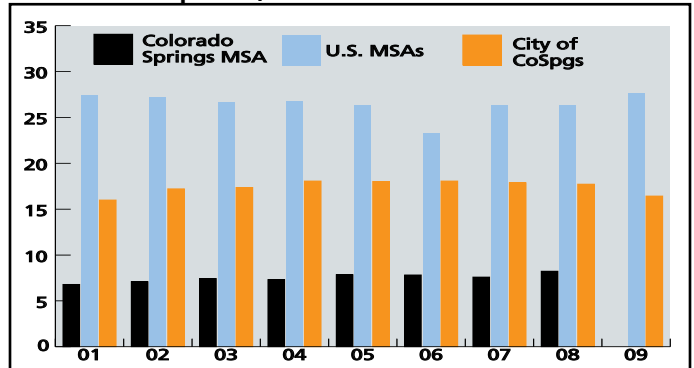
The Colorado Springs MSA violent crime rate has been above its peers since 2006. There were 45.2 violent crimes per 10,000 people in the Colorado Springs MSA in 2009. This is 3.9 percent above other MSAs. Property crime has been below its peers since 2007. There were 283.6 property crimes per 10,000 people in the Colorado Springs MSA in 2009. This is 9.2 percent below other MSAs.

The number of sworn police officers per 10,000 residents in the Colorado Springs area is well below the number of sworn police per 10,000 inhabitants among other MSAs. The Colorado Springs MSA had 8 officers per 10,000 population while other MSAs had 27.6 officers in 2009. Given the current trends in the economy, the number of sworn police officers per 10,000 residents is expected to remain stable in 2010 and 2011.

Colorado Springs MSA and U.S. Peer MSA's Crime



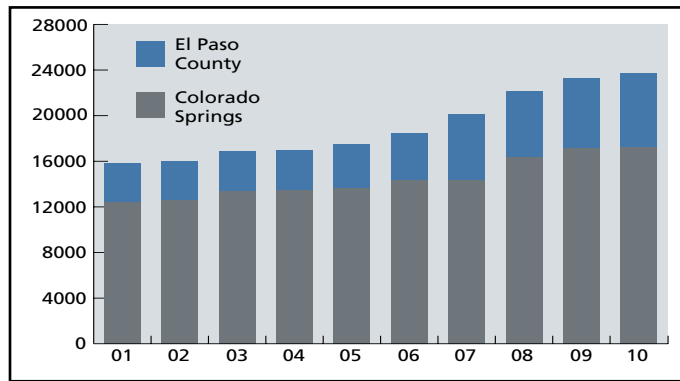
Sworn Police per 10,000 Residents



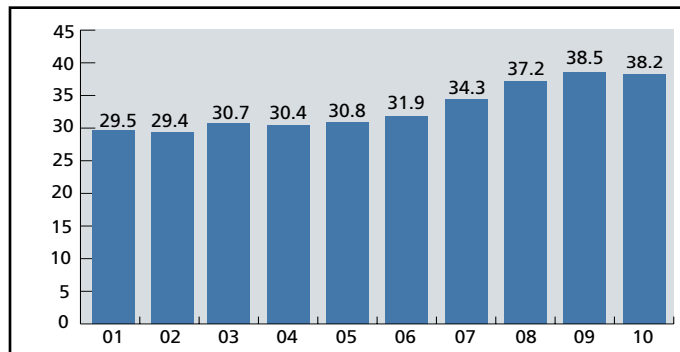
Sources: Colorado Springs Police Department; FBI

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?

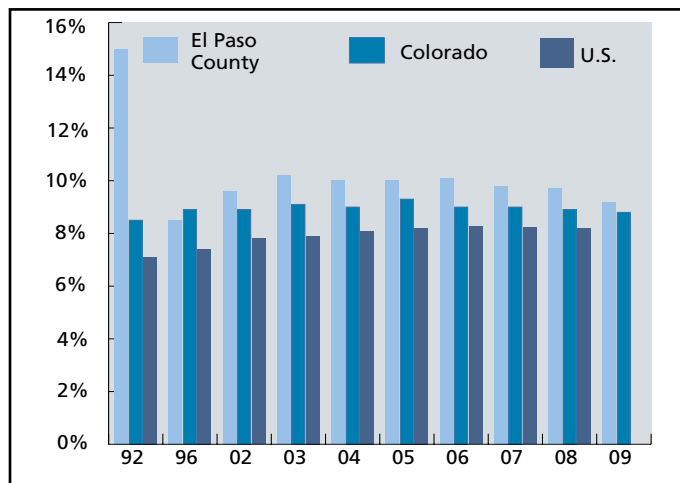
Open space, trails and park land provide important areas for recreation and leisure activity, support natural habitat and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and 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 23,756 acres of open space and park land or 38.2 acres per 1,000 residents in 2010. The City of Colorado Springs has 17,188 acres of park and open space under management. El Paso County park and open spaces increased by about 400 acres in 2010. El Paso County now manages 6,568 acres plus 99.45 miles of trails. These facilities are important enhancements to the quality of life of residents in the Pikes Peak region. They are also an important, positive factor affecting business in the region.

Since the 0.1 percent Trails, Open Space and Parks sales tax (TOPS) was passed and implemented in 1998, the City of Colorado Springs has collected \$75.4 million or roughly \$5.6 million per year for trail construction, park construction, and open space acquisition. At its current pace, TOPS is expected to generate approximately \$5.9 million in 2011, an increase of 1.6% compared to 2010. Managing 23,756 acres of parks, open space and trails is a fiscal burden to the county and city. Park and recreation budgets have been scaled back in both local governments. Funding for maintenance has not kept up with funding for acquisitions.

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. An upward trend that began in 1995 appears to have peaked in 2003. Since then, the proportion of low birth weight babies declined slightly. Currently, 9.2 percent of the children born in El Paso County are low-weight babies. This is lower than last year's 9.7 percent of the babies who were low-weight births. Of the children born in Colorado and the U.S., about 8.8 percent and 8.2 percent, respectively, were low-weight births in 2009 (2008 for the U.S.).

In recent years, the proportion of low-weight birth babies has increased steadily for the U.S. and has declined slightly for Colorado.

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

City Comparisons

MSA	2009 Per Capita Personal Income	Percent Change in Personal Income 2000-2009	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	35,329	23.3%	89.2%	2.36	45,178	41,225
Austin, TX	37,544	16.7%	94.7%	2.39	48,834	47,054
Boise, ID	33,950	15.2%	85.7%	2.36	42,650	38,395
Boulder, CO	48,056	18.1%	121.3%	2.24	51,064	52,075
Colorado Springs, CO	38,401	24.2%	96.9%	2.47	49,509	44,663
Denver, CO	46,611	16.4%	117.6%	2.31	59,242	52,634
Huntsville, AL	38,364	35.3%	96.8%	2.27	54,044	48,736
Kansas City, MO	40,438	21.9%	102.0%	2.41	51,542	45,641
Minneapolis, MN	45,811	20.9%	115.6%	2.19	54,205	49,773
Portland, OR	39,206	18.5%	98.9%	2.27	50,029	46,164
Pueblo, CO	31,613	26.7%	79.8%	2.42	39,645	36,245
Salt Lake City, UT	37,500	25.3%	94.6%	2.43	47,257	43,073
Tucson, AZ	33,833	33.6%	85.4%	2.58	42,936	40,887
Wichita, KS	38,935	27.2%	98.3%	2.42	47,387	40,841
Comparison City Average	38,971	23.08%	98.35%	2.37	48,823	44,815

Sources: Bureau of Economic Analysis, Regional Economic Accounts, 2009 American Community Survey U.S. Census Bureau

WHY IS THIS IMPORTANT?

The Forum added several metropolitan statistical area (MSA) comparisons to its indicators in 2009. 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 2009 American Community Survey, U.S. Census Bureau. All figures are for 2009, the latest available comparison data for these MSA's.

HOW ARE WE DOING?

Per capita personal income in Colorado Springs was \$38,401 compared to \$38,971 for the average of the MSA's. Per capita personal income in the Colorado Springs MSA was 96.9 percent of the average in 2009. Seven of the comparison MSA's have per capita personal income higher than Colorado Springs. Personal income in Colorado Springs grew 24.2 percent from 2000 to 2009 compared to a 23.1 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 2.19 in Minneapolis to 2.58 in Tucson.

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 aggregate earnings in the city divided by full- and part-time employment. In addition to wage and salary disbursements, this includes other labor income and proprietors' incomes. Wage and salary disbursements averaged \$44,815 for all of the MSA's in the table. Wage and salary disbursements in Colorado Springs averaged \$44,663, ranking it 8th out of the fourteen MSA's. Average earnings per job for the MSA's was \$48,823 in 2009. Colorado Springs average earnings per job were \$49,509 in 2009 ranking the area 7th out of the fourteen MSA's. The average earnings per job is \$686 higher in Colorado Springs compared to the group average. Per capita income is largely determined by the earnings of people at their job. Higher earnings translate into 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.

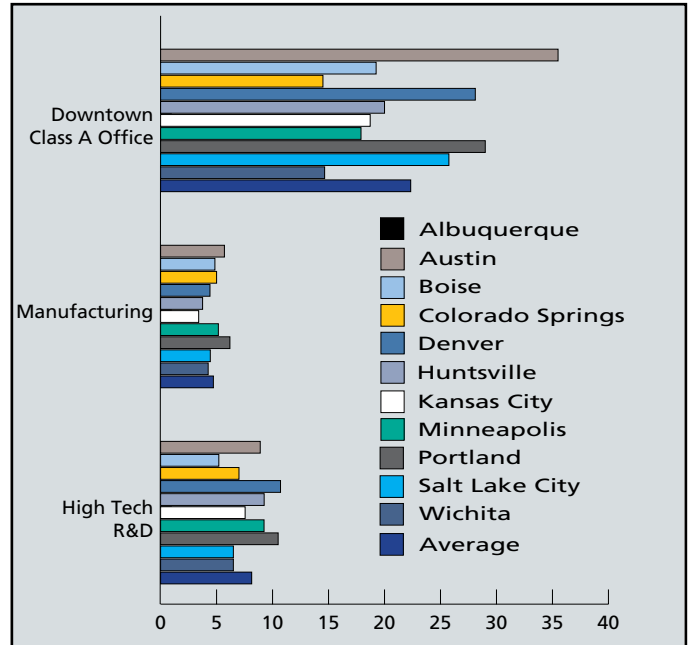
HOW ARE WE DOING?

NAI Global reported that downtown class A asking rents for this group of cities averaged \$22.34 per sq. ft. NNN in October 2010. Rents in the Colorado Springs downtown area (\$14.50 per sq. ft.) are the lowest among all competitor cities. Rents fell in three cities (Austin -\$0.50, Colorado Springs -\$1.50 and Minneapolis -\$0.60). An analysis of the data failed to provide an insight of the relation between rent and vacancy rate.

Manufacturing rents in the Colorado Springs MSA were \$5.00 with vacancy rates of 13 percent. A review of the data indicates there is an inverse relationship between rents and vacancy rates. Higher rents were observed, on average, among cities with higher vacancy rates. The average manufacturing rent in October 2010 was \$4.72 per sq. ft. for the competitor cities. The cities of Portland (\$6.19) Austin (\$5.70), and Minneapolis (\$5.16) were the only cities with manufacturing rents higher than Colorado Springs.

High Tech/R&D space in the Colorado Springs MSA is very competitive at \$7.00 per sq. ft., down \$2.96 from last year. Average High Tech/R&D for the comparable cities is \$8.14 per sq. ft. Rents went up in only two cities Denver (up \$3.71 to \$10.71) and Portland (up \$0.01 to \$10.50)

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.

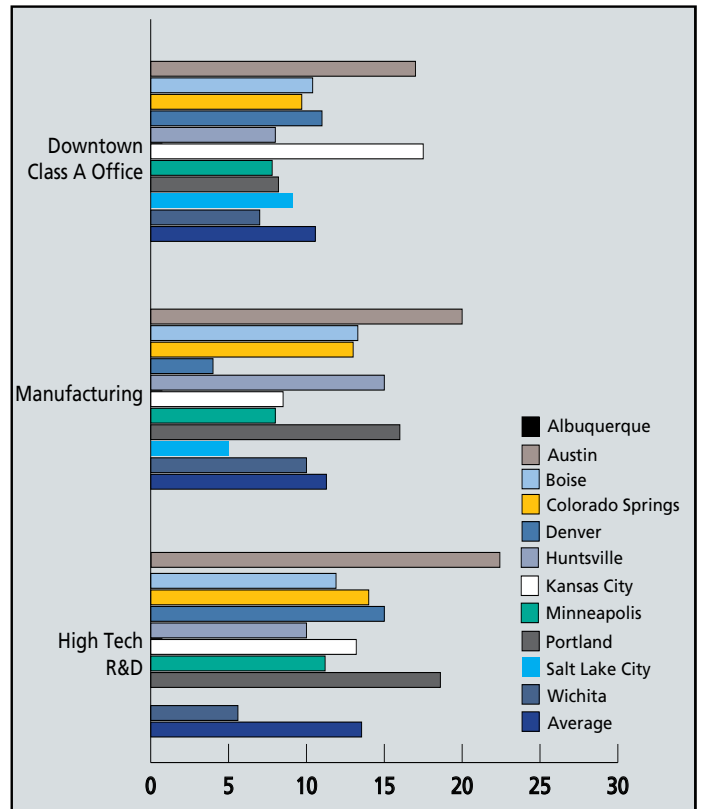
HOW ARE WE DOING?

The Downtown Class A vacancy rate for these comparable cities averaged 10.6 percent as of October 2010, an improvement from 11.4 percent in 2009. The Downtown Class A vacancy rate in Colorado Springs was considerably lower at 9.1 percent. Vacancy varied from a high of 17.5 percent in Kansas City to a low of 7.0 percent in Boise. Only Denver, Kansas City, Minneapolis and Wichita experienced a decline in Class A vacancy rates.

Colorado Springs had the second highest increase in manufacturing vacancy rates. They went to 13.0 percent in 2010 from 7.9 percent in 2009. Six of the comparable cities saw vacancy rates increase. The largest increase in manufacturing vacancy was in Boise where it went from 5.7 percent in 2009 to 13.3 percent in 2010. The average vacancy rate in 2010 was 11.3 percent, the same as it was in 2009.

High Tech/R&D vacancy in Colorado Springs rose to 14.0 percent in October 2010 from 10.9 percent in 2009. Five of the comparable cities saw vacancy rates increase. Austin's high tech vacancy rate increased from 8.8 percent in 2009 to 22.4 percent in 2010. The average vacancy rate in 2010 was 13.5 percent.

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 9,300.
- Students come from all 50 states and 43 countries.
- The student body is 53 percent women and 47 percent men.
- 36 Bachelor's degrees, 19 Master's degrees, and 5 Ph.D. programs.
- 13 UCCS athletic programs are part of the NCAA Division II.
- More than 375 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 under graduate 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 along with the University of Colorado Colorado Springs in 1965. The College awards the Bachelor of Science in Business, the Bachelor of Innovation™ in Business, and a Master of Business Administration. The college recently established a dual degree program in Business Administration with its long-time partner, the Frankfurt School of Finance and Management.

All degree programs are accredited by AACSB, International - the Association to Advance Collegiate Schools of Business. Less than 5% of business schools in the world hold this distinction. The College of Business is nationally ranked by US News and World Report and has been a consistent "Best Of" winner, as voted by readers in the Colorado Springs Business Journal.

Our internationally-recognized doctoral faculty is known for innovative thinking, skilled teaching, and relevant research. A distinctive focus on business ethics

complements the knowledge and technical skills our students gain. Employers seek our UCCS graduates for their ability to apply classroom learning to real-world business challenges.

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 in a variety of ways, including the Small Business Development Center, the Southern Colorado Economic Forum, and the UCCS College of Business Ethics Initiative. Get information about alumni, extended studies, working with interns, or hiring graduates, by visiting www.uccs.edu/business.

Contact: College of Business and Administration

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