

sixteenth annual **2012-2013**
southern colorado
economic forum
SEPTEMBER 28, 2012

UCCS College of Business
UNIVERSITY OF COLORADO COLORADO SPRINGS

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



Welcome from Holland & Hart

Holland & Hart is proud to sponsor the 16th Annual Southern Colorado Economic Forum. We are hopeful that our partnership will provide an outstanding program for our local business community complete with economic forecasts to help you plan for the years ahead as well as invaluable information from expert panelists on specific business and legal issues affecting your company.

The Colorado Springs office of Holland & Hart includes attorneys and staff who offer a wide variety of legal services to national and international companies while remaining dedicated to our local community. We are committed professionals providing insightful and responsive counsel with the experience needed to fit your particular needs and to help you pursue new business opportunities. Holland & Hart has more than 470 attorneys in 15 offices in Colorado, Wyoming, Idaho, Montana, Nevada, New Mexico, Utah and the District

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Wendy Pifher, Partner, Holland & Hart LLP



Welcome from the Chancellor

The University of Colorado Colorado Springs is pleased to join with its business partners to present the 16th 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 2012-2013 Southern Colorado Economic Forum. We wish you a productive and successful 2013.

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



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

Thank you for your interest in the 16th Annual Southern Colorado Economic Forum. As we weather through financial and economic storms, an understanding of what the future might hold is very valuable. This year, as in the past, Dr. Tom Zwirlein and Dr. Fred Crowley, of the College of Business gathered, analyzed and explain a complex set of data that can help you make informed business decisions. This year's panel is focused on health care, a very timely topic. We hope the panel helps you understand the changes taking place in health care and the opportunities it presents.

We continue to approach the future with optimism. We will capitalize on opportunities we develop or find at our door. For instance, our campus has launched several undergraduate degree programs in business, criminal justice, nursing and health sciences. Our Daniels Ethics Initiative is engaging our faculty, staff, and our community leaders in instilling ethical decision making skills in our students. Our Career and Placement Center is helping place interns and graduates in our local for profit and non-profit entities. We hope that the College of Business, through its vision of building successful futures, is making a difference for all our stakeholders.

We invite you to partner with us to strengthen our region's economic environment. You can learn more about us by meeting with me one-on-one, getting to know our faculty, staff and alumni, attending our events, following us on Twitter and Facebook, or joining my Dean enews 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 use their business connections to help bring you an outstanding program.

As you learn and network at this year's Forum, please share with us your suggestions for improvement. We don't simply want to be 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 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 2012 – 13 Southern Colorado Economic Forum

This marks the sixteenth 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 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

The El Paso County private sector jobs figures from the Quarterly Census of Employment and Wages (QCEW) increased by 1.5 percent, or 3,042 jobs, in 2011. The gain marked a reversal of the job loss trend over the last three years.

Thirteen sectors saw job gains in 2011. Significant job gains were in health care (1,426), accommodations and food services (1,178), retail (848) and arts, entertainment and recreation (322).

Job losses took place in 8 sectors. Significant losses took place in wholesale (-1,080), Administrative and waste services (-532), professional and technical services (-409), construction (-407) and other services (-118).

Echoing the weak job market is an unemployment rate

that averaged 9.2 in 2011. The unemployment rate in 2012 has trended up to 9.7 percent by July 2012. Circumstances in the economy do not support an improving job market in the next six months.

Primary or cluster industry employment continues to decline as a percent of total employment in the county. There needs to be renewed effort to define and attract new and emerging clusters to the region in order to diversify the economy as it was in 2000-01. This will be a challenging task in a period of low job creation. Communities around the nation compete vigorously for jobs, often offering very attractive incentives to convince companies to relocate. Colorado Springs has few incentives to offer.

The military presence and military employment has been a bright spot in the local economy for many years but it is now threatened by sequestration of the federal budget. This impasse, if not resolved, has the potential to dramatically affect military and defense related private sector employment in the region over the next several years.

The primary areas of concern about the El Paso County economy continue to be employment and income/wages. Employment in 2011 was 272,828. This is only 266 more than employment in 2010. As of July, employment fell to 266,729. This is 23,845 fewer than the September 2007 peak of 290,574. Employment appears to be slowly declining.

Income generation has been lackluster in the community. Per capita income in 2011 increased slightly to \$38,866, up 1.2 percent over per capita income of \$38,405 in 2010.

Average QCEW wages increased in El Paso County from \$42,989 in 2010 to \$43,628 in 2011 or 1.5 percent. Allowing for inflation, real wages in 2011 were \$42,153 a decline of \$836 from the average wage in 2010. The average wage in the county is 11.1 percent below the state average of \$49,088. Wages which directly impact household income remain low compared to the state average. Cluster industry wages rose to \$70,767 in 2011 from \$68,744 in 2010. Other high paying sectors include mining (\$80,184) which currently has low employment but has the potential to grow, manufacturing (\$58,240) which should be targeted in any sector of manufacturing and wholesale trade (\$57,200).

Residential Construction and Commercial Real Estate Activity

Residential building rebounded strongly from last half of 2011 through August 2012. A total of 1,476 single family building permits have been issued through

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August 2012. Another 106 town homes permits have been pulled through August. While these numbers are not as impressive as the heydays of 2004 and 2005, they show a good deal of improvement over 2009 when only 1,307 single family and town homes were built for the full year and only 30 multifamily units were constructed. The Forum forecasts 2,300 single family and town homes will be constructed in 2012 (a 47.4% increase over 2011) and another 2,450 units in 2013 (up 6.5%). This forecast may be conservative depending on how quickly home owners are able to resolve insurance claims and decide on rebuilding homes destroyed in Mountain Shadows.

Multifamily construction is showing its strongest year since 2002 when 1,917 units were built. Interest in multifamily projects is being propelled by the low 6.3 percent vacancy rate and an average county-wide rent of \$770 per month. Through August of this year, permits for 29 projects and 597 units have been pulled. Multifamily permits are expected to end the year at 750 units with a forecast for another 800 units in 2013. Permit values are averaging \$125,123 so far this year.

Home sales have been strong this year. Buyers are taking advantage of historically low mortgage rates and attractive prices. The average sales price of a home is expected to increase to \$232,000 in the Pikes Peak region in 2012

which would be a 10.1 percent increase from \$210,688 in 2011. The median price of a single family home is expected to increase to \$205,000 in 2012 compared to \$185,000 in 2011. Low mortgage interest rates should help to improve the market even more in 2013 with sales near 9,200 and median home sale prices near \$215,000. Some areas of the country are reporting a lack of inventory of existing homes on the market which is causing prices to increase. Much of the inventory at the lower end of the market is being purchased by investors taking advantage of low mortgage interest rates. These properties are being repaired and then either flipped or rented. The local market is most likely benefiting from some of this activity.

The increase in residential real estate activity helped to further reduce the rate of foreclosure. Foreclosures decreased 11.8 percent in 2011 to 3,620. This is the



Downtown Colorado Springs

second year foreclosures have declined. There have been 1,777 foreclosures through June of 2012 and the estimate is that foreclosures will decrease to 3,500 for all of 2012. The Forum forecasts foreclosures to continue to decline to about 3,100 in 2013.

The commercial real estate market is not showing the same return to health. The current all office vacancy rate stands at 14.9 percent with average triple net lease rates at \$10.27 per sq. ft. as reported by Turner Commercial Research. Hoff & Leigh reports a similar overall vacancy rate of 14.4 percent with an average asking rate of \$11.04 per sq. ft. The vacancy rate has worsened slightly from December 2011 while the average rent is virtually unchanged.

According to Hoff & Leigh, asking rents for office space vary from \$9.24 in the northwest section of the city to \$13.81 in the downtown core. Evidence suggests landlords are willing to negotiate on leases and the actual lease rate may be as much as 25-40 percent below the posted rates. Vacancy rates are the highest in the southeast of the city at 22.3 percent and lowest in the west at 5.1 percent.

The industrial vacancy rate increased by the end of June of this year to 9.8 percent from 9.2 percent at the end of 2011. Average rents have declined from \$6.17 at the end of 2011 to \$6.09 at the end of June 2012 according to Turner Commercial Research. Hoff & Leigh report the lowest asking rates in the south of the city at \$5.83 per sq. ft. and the highest rate at \$8.09 in the north of the city. Vacancy rates are highest at 14.6 percent in the northern part of the city and lowest at 5.9 percent in the eastern sections of the city.

Shopping center vacancy rates increased from 11.5 percent at the end of December 2011 to 12.0 percent in June 2012. Average rents have declined about \$0.26 per sq. ft. from \$12.72 at the end of December 2011 to \$12.46 in June 2012 according to Turner Commercial Research. Hoff & Leigh reports second quarter vacancy rates are highest in the southeast of the city at 16.9 percent and lowest in the western and northern areas of the city and county. Hoff & Leigh report that 70 percent of the total retail vacancy is located in the central and southeast submarkets of the city. These are areas of the city that are ripe for redevelopment.

Wholesale and Retail

Retail sales increased 8.5 percent, or \$1 billion, to \$13.8 billion in 2011. A strong showing in motor vehicle sales and parts helped propel this increase. Electronic appliances, furniture & home furnishings; clothing accessories, health & personal care, hobby, books & music; and food & beverages sales all increased. In contrast, retail trade sales declined in



Wholesale sales declined 18.3 percent in El Paso County in 2011 to \$3.6 billion from \$4.5 billion in 2010. In comparison, wholesale sales increased 3.4 percent in Colorado in 2011. El Paso County wholesale sales have declined in each of the past three years. Employment in this sector has also declined from 5,780 in 2010 to 4,700 in 2011.

The Forum's forecast, which includes estimates for the remainder of 2012 and forecasts for 2013, can be found on page 16.

Most of the modest aggregate economic growth in El Paso County since the recession

general merchandise, building materials, and non-store retailers. Employment in the retail trade sector increased from 28,470 in 2010 to 29,218 in 2011 or 2.6 percent.

The City of Colorado Springs benefits from strong and growing taxable retail sales since over fifty percent of the city's budget dollars come from these collections. City sales and use tax collections increased a healthy 5.4 percent or \$6.25 million from \$115.61 million in 2010 to \$121.85 million in 2011. Sales and use tax collections are expected to increase 5.1 percent this year and another 4.0 percent in 2013. Sales tax collections in 2013 could be stronger if a large number of homeowners in Mountain Shadows rebuild and refurbish their homes. Sales and use tax collections would weaken if the country is thrown into a recession by a sequestration of the federal budget.

A number of factors will affect retail sales in 2013. If Congress is unable to resolve the budget impasse, military expenditures and a host of federal transfer payments in the region will decline. The drops in federal expenditures would negatively affect retail sales. Further, if the "Fiscal Cliff" causes a recession in 2013, more people will be without jobs or on reduced employment. This will also cause a drop in retail sales activity. On the other hand, the rebuilding and restocking of homes in Mountain Shadows could have a positive effect on retail sales in 2013. At the moment it is too early to forecast the impact a surge of building and refurbishing could have on retail activity next year.

(8.8% in the Forum's Business Conditions Index - BCI) can be attributed to new residential housing permit activity and new vehicle registrations. If these measure were assigned a neutral influence, the BCI would actually be 101, essentially unchanged since the recession. El Paso County needs to get the economy back on the road to recovery. The area needs jobs that pay a good living wage! Increased purchasing power would boost the area's other economic activity.

Emerging Drivers in El Paso County

The local economy was impacted by four important issues this year. They are: 1) the global and national economies and the "Fiscal Cliff," 2) oil and gas exploration in El Paso County, 3) the Waldo Canyon fire and 4) the Memorial Health System - University of Colorado Health lease. We explain how these issues are affecting the regional economy.

The Global and National Economy and the U.S. Fiscal Cliff

The National Bureau of Economic Research (NBER) determines recession and growth periods in the economy. "The NBER does not define a recession in terms of two consecutive quarters of decline in real GDP. Rather, a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." (www.nber.org) Under this definition, it is possible to have a recession without a negative GDP.

Europe has been in a recession for over a year. Its unemployment rate is 11.2 percent vs. 10.1 percent

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at the peak of its recession. Year over year GDP is -0.1 percent for all of Europe and has been slowing for over a year. The debt crisis in Europe is not over. Greece, Spain and Italy continue to struggle with high national debt and declining GDP.

The trouble in Europe has a direct impact on China. Growth in China's GDP has declined steadily from 11.9 percent in early 2010 to 7.6 percent in Q2 2012. China is sufficiently concerned about the slowing of GDP growth that its central bank cut the required reserve ratio three times since December 2011. China also cut its interest rate twice since June 2012. China's most recent industrial production growth rate is 9 percent, a steady decline from 19 percent in late 2009. Europe buys 20 percent of China's exports and is China's largest export market. Year over year, Chinese exports to Europe are down 16.2 percent. Growth in exports to the US (18% of China's exports) are up a nominal 0.6 percent. The slowdown in China's export base also means a slowdown in its imports of goods and materials from other countries. The result is a global slowdown in economic activity.

Japan's GDP is also slowing. The most recent GDP estimates show an annualized growth rate of 1.6 percent, down from 3.5 percent a year ago. Japan cites weak exports and declining consumer expenditures. The high priced yen, currently near 80 yen per dollar, is contributing to the export problems in Japan.

Consumers in the U.S. are responsible for two-thirds of final demand in the American economy. The most recent retail sales numbers (real or nominal) indicate retail has fallen over the last three months. The net effect is the ratio of inventory to sales increased from 1.25 to 1.27. Real net exports have been declining for a year, partly the result of a strong dollar and slowing economies in Europe and Asia. Business investment in inventory has held steady over the last three months. If perpetuated, planned investment in inventory will be reduced by business.

National politics are interfering with economics like never before. After all, it is an election year! Congress has been at an impasse over the budget for years. The impasse led to passage of the Budget Control Act of 2011 (BCA). This law is set to take effect in January of 2013. The initial estimate called for a \$1.7 billion reduction in Federal Government expenditures over the next ten years. The federal debt is now \$16 trillion. It grew by \$6 trillion in the past four years. Unless there is a dramatic change in the politics of Congress, automatic BCA cuts will start early next year. Expectations for Congress to act are low.

Another political issue for 2012 concerns the Bush era tax cuts. If the tax cuts are allowed to expire this

year, it is estimated that between \$440 and \$600 billion in additional tax revenues will be generated for the Federal Government. While this reduces federal deficits, it also reduces the ability of consumers to make purchases. Tax rates will automatically increase across the board. This includes "reinstatement" of the marriage penalty tax. More tax payers will also be affected by the alternative minimum tax. On August 22, the Congressional Budget Office (CBO) released its budget outlook for 2013 and beyond. The base model assumes "current" law means the Budget Control Act of 2011 cuts are made and the Bush era tax cuts are eliminated. The military budget will absorb 50 percent of the cuts. Mandatory programs, particularly Medicare expenditures, and discretionary spending will absorb the remaining half of the cuts. Under the base CBO scenario the U.S. is expected to fall into a recession in early 2013.

The CBO also generated an alternative scenario where the spending cuts are not made and the Bush era tax cuts are extended to 2022. In this scenario, the payroll tax reductions that occurred in 2011 and 2012 are not continued. The trade-off in scenarios appears to be lower deficits combined with a recession versus higher deficits and a continuing slow economic recovery. Of course, Congress may do something between these scenarios, nothing at all or something entirely different. Table 1 has CBO federal budget deficits projections under the baseline and alternative scenarios.

Table 1: CBO Budget Deficit Projections 2012-22 under baseline projections and alternative scenarios (\$billions)

	Baseline	Alternative	Difference
2012	1,128	1,128	
2013	641	1,037	396
2014	387	924	537
2015	213	810	597
2016	186	832	646
2017	123	833	710
2018	79	870	791
2019	130	1,003	873
2020	142	1,102	960
2021	144	1,200	1,056
2022	213	1,362	1,149
Totals for 2013-2022	2,258	9,975	7,717

Source: "An update to the budget and economic outlook: fiscal years 2012 to 2022," Congressional Budget Office

Currently the federal deficit is projected to be 7.3 percent of GDP in fiscal year 2012. By the end of fiscal year 2022, the deficit is projected to be 1.1 percent of

GDP under the baseline projection and 4.9 percent of GDP under the alternative projection. Total national debt is projected to be \$7.7 trillion more under the alternative projection compared to the baseline projection. A recession is not a foregone conclusion at this time. However, the chances for a recession are very good since inaction by Congress seems to be the norm. The good news for the country is budget deficits and additions to the national debt will be much lower if Congress does not act. The bad news is a high probability of a recession beginning in 2013 and higher taxes for all taxpayers. In short, prospects for the next several years are disconcerting.

The Colorado Springs economy could be hard hit by cuts in military and discretionary expenditures that are called for by the BCA. The most recent federal data indicate El Paso County was the recipient of approximately 1.0 percent of all military expenditures by the Federal Government. The CBO projections suggest the defense budget could be cut by \$492 billion over 9 years or approximately \$55 billion per year. If the area has a proportional reduction in its share of budget reductions, there could be as much as \$550 million a year less spent in the area than was previously scheduled. Due to the national security aspects of the local military installations, it is unlikely the full effect would be as large as a \$550 million reduction. Expenditures may not decrease according to plans spelled out in the BCA or the forecasts of the CBO. Some of the required spending reductions may be achieved by not increasing planned expenditures. Assuming the actual reduction is one half the potential, approximately \$275 million less in defense spending would take place in the region each year.

The second half of the budget reductions comes from sequestration of mandatory programs, in particular Medicare, and other discretionary spending. Based on available data, there was approximately \$3.6 billion in discretionary expenditures in El Paso County in 2009. This amount is about 0.2 percent of total federal discretionary expenditures. Implementation of the BCA could mean as much as \$72 million less discretionary spending on things from SBA loans to the Federal Housing Administration in the region. Reduction in Medicare expenditures will further reduce federal spending in the region.

The full effect of these possible losses would be realized through an economic multiplier. Government multipliers are usually defined as being between 1.5 and 2.0. A midpoint multiplier would bring about a reduction in local GDP equal to \$700 million a year. This would reduce local GDP by 2.7 percent.

In addition to reduced federal expenditures, increases in federal income tax rates would decrease discretionary income. Allowing for per capita income levels, the local community can expect to pay approximately \$1 to \$1.2 billion more in federal income taxes.

The combination of a reduction in government expenditures and increased taxes would have a significant negative impact on the community. This "worst case" scenario is unlikely to take place. However, some version of it will. Many more jobs will be needed to make up lost wages and income resulting from the eventual cuts in the federal budget. El Paso County has become too dependent on Federal Government expenditures. More effort will be needed to keep existing military related jobs and to add jobs in new sectors to diversify the economy.

Banning Lewis Ranch and Energy Development

Ultra Resources bought approximately 18,000 acres of the bankrupt Banning Lewis Ranch in 2011. It also acquired drilling rights to another 120,000 acres in unincorporated El Paso County. Ultra Resources plans to explore for oil in what is called the Niobrara Shale formation that lies, in part, under El Paso County.

Elected officials in both El Paso County and Colorado Springs have expressed concern about environmental consequences of oil drilling operations. During the last seven months, the Colorado Oil and Gas Conservation Commission made it clear that it has authority on mineral extraction activities under the surface. Local government is limited to zoning and impact fees.

If commercially developable quantities of oil are found in El Paso County, there could be as many as 3,000 producing wells. The Assessor's Office estimated the county could receive approximately \$9,000 in taxes per well. There would also be sales and use taxes, severance taxes and various royalties that would benefit city and county government.

As a comparison, Weld County's tax revenues from its 17,000 productive wells (mostly natural gas) generate sufficient tax revenue that the county eliminated all long term debt by 2011 and eliminated the county sales tax. The possible effects on El Paso County cannot be determined without more drilling. If exploration is successful, developed oil fields would have a significant effect on tax revenues.

Annual employment levels could reach as high as 2,800 jobs during the development stage of oil well drilling in El Paso County. These jobs pay approximately twice the prevailing annual private sector wage of \$42,000. If oil and gas is discovered, there is the potential for about 600 permanent jobs that would

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remain in the community. The jobs include maintenance, supply and local resident services associated with oil production.

Job skills for the oil industry include geologists, rough-necks, wholesale distribution, welders, mechanics, truck drivers and engineers, among others. Some of the induced effects would create demand for physicians, restaurants, real estate development and dozens of other occupations. Currently, most of the jobs and suppliers needed for the successful operation of an oil field do not exist in El Paso County. The economic benefits to the community of oil development will be lost if these are not developed in a timely manner.

Sectors that are affected by oil exploration and development include restaurants and taverns, housing, medical, real estate, special trades and others. In addition to local growth in jobs and income, successful development of an oil field should make the El Paso County economy more diversified than it is now. This is extremely important in light of the possible effects of the Budget Control Act of 2011. Oil development in El Paso County will take 3 to 5 years before significant benefits are realized. A copy of the Ad Rem Project's full report *Advanced Drilling and Regional Energy Management* can be downloaded at the Forum's website: <http://www.SouthernColoradoEconomicForum.com> under the publications tab. This project was recently completed by a group of MBA students at UCCS under the direction of Professor Fred Crowley.

The Waldo Canyon Fire

The Waldo Canyon Fire took the lives of two people, destroyed 346 homes, significantly damaged another 50 homes, caused extensive smoke damage to hundreds of other residences, businesses and schools and burned approximately 18,000 acres. The Colorado Springs Police Department believes there were 42 home burglaries in the area and 43 vehicles were vandalized. The Rocky Mountain Insurance Information Association reported more than 4,300 initial claims for about \$353 million in damages from the fire. Estimates of costs to fight the fire include \$13 million by the U.S. Forest Service, \$4 million by the City of Colorado Springs and \$3.5 million by Colorado Springs Utilities. Grant requests to FEMA may result in up to 75 percent reimbursement of eligible direct costs of fire suppression. El Paso County, Teller County, Woodland Park, Manitou Springs, Green Mountain Falls, Chipita Park and Cascade also incurred direct fire suppression costs.

When totaled, damage and suppression costs are expected to be \$400 million or more. Several hundred businesses were closed during and immediately after the fire. This affected thousands of jobs. Residential evacuations included 32,000 in the area north of Garden of the Gods, West of I25 and south of the Air Force Academy. Several thousands more were evacuated from Manitou Springs, Cascade, Chipita Park, unincorporated El Paso and Teller counties and Woodland Park. The costs of lost business due to closings, lost wages, evacuation expenses and others are very difficult to measure since there are no reliable metrics to form a basis of comparison.

The evacuation of the US24 corridor from Manitou Springs through most of Ute Pass caused businesses to close during the fire. Many of the businesses are



Waldo Canyon Fire, Courtesy of The Gazette

seasonal in nature. The closing took place at their peak period of business. Hotel rooms went unoccupied. Employees were laid off during the fire before being recalled several weeks later when business improved. A number of hotels are still reporting tourist cancellations and low occupancy rates as we move into the fall. In the case of the Flying W Ranch, the loss of business and jobs are permanent unless it is rebuilt.

Every wildfire is different in terms of geographic reach and economic impact. However, the indirect costs above and beyond the direct measurable cost of suppression and structure damage are believed to be in the millions of dollars.

Prior to any rebuilding in the Mountain Shadows community, significant zoning and wild fire prevention and/or mitigation standards will be developed. Assuming rebuilding takes place, it is likely to take at least five years.

Initial insurance claims of \$353 million suggest the economic impact of rebuilding could be significant. The Forum examined the economic impact of rebuilding the Mountain Shadows community in two parts:

Introduction

construction and refurbishing of the residences including housing contents. Both were done with Implan.

The construction phase assumed 346 residences would be rebuilt. There would also be another 50 residences repaired due to fire and/or smoke damage. The total replacement and repair cost is estimated to be \$140 million. The following economic impact is anticipated from the rebuilding and repair activity.

	Jobs	Income	Sales & Use Tax
Direct	1,254	\$66,468,000	\$2,310,000
Indirect	464	\$19,865,000	\$741,195
Induced	461	\$16,686,000	\$803,915
Total	2,179	\$103,031,000	\$3,855,110

Spread over five years, the Forum expects there will be about 436 jobs created per year to rebuild Mountain Shadows. These jobs will generate income of \$20,606,200 per year and \$771,022 in local sales taxes (2% local city and 1% county). Allowances for property taxes were not made. The analysis assumes 100 percent rebuilding in the area which may not occur. The expected economic activity would be reduced if fewer homes are rebuilt.

It was assumed that the balance of the insurance claims of \$213 million is related to refurbishing contents such as furniture, clothing, general merchandise, automotive and miscellaneous items. As with the

rebuilding period, these funds are expected to be spent over a period of at least five years. The following economic impact is anticipated in the community when these funds are spent.

	Jobs	Income	Sales & Use Tax
Direct	1,253	\$34,040,000	\$5,391,705
Indirect	156	\$6,098,000	\$428,885
Induced	210	\$7,601,000	\$667,960
Total	1,619	\$47,739,000	\$6,498,550

Over the five year period, the Forum expects 324 jobs per year will be created. These jobs will generate income of \$9,547,800 per year and \$1,299,710 in local sales taxes (2% local city and 1% county). Allowances for property taxes were not made. Again, the Implan analysis assumes 100 percent rebuilding in the area and all sales are captured by the local economy. The economic impact to the region will certainly be lower than these estimates since some of the contents to refurbish homes and replace clothing will be purchased outside the region in Castle Rock, Denver and over the Internet. The local economic impact estimates provided above may be lowered anywhere from 10 to 30 percent depending on these leakages.

The analysis did not take into consideration allowances for extended temporary housing, clothing and any food subsistence paid by insurance companies. No allowances were made for lost business incomes.



Waldo Canyon Fire, Courtesy of The Gazette



Waldo Canyon Fire, Courtesy of The Gazette

There will be additional costs associated with the fire. These include the potential for flooding, hill-slides and repeated restoration and cleaning of gathering and holding reservoirs along the Rampart range. Colorado Springs Utilities is concerned about the potential for damage to power lines and water treatment facilities in the burn area during a rain-storm. The potential disruption in the water system is severe. Currently, Colorado Springs Utilities runs about 80 percent of its water through areas burned in the fire.

There are several other concerns about the burn area. Revegetating and regrowing trees will take a long time. Ten years after the Haymen Fire of 2002, the affected area remains devoid of significant vegetation. Reforesting the Waldo Canyon burn area with trees from 4 to 10 feet could easily take 20 years or more. How quickly this area is reforested will depend on the severity and heat generated during the burn, actions taken by the U.S. Forest Service, volunteer activity to help in the reforestation process and many other factors.

Another concern is how will the fire affect housing values in the northwest foothills area of the city? Some prospective buyers may choose to avoid areas where the danger from wild fires is higher or areas that are now denuded of all vegetation. Will this contribute to a lowering of property values?

If property values decline in the affected areas, it is possible that bankruptcies could increase in subdivisions near the burn site. If demand for housing in the area declines and property values drop, it is

possible that homeowners may find their homes under water, i.e. the market value of a home is less than the mortgage balance. This might only matter if refinancing is sought or if an out of area job relocation mandates selling a home in the burn area.

The reverse situation is also possible where property values in the burn area increase. The potential is there for 346 new, modern, upscale residences complete with new landscaping in the burn area. These residences could contribute to a contagion effect where all property values in the area rise. Answers to some of these unknowns will

become clearer over the next several years.

In sum, the Waldo Canyon fire of 2012 had direct measurable and indirect unmeasurable costs. Insurance claims will bring money into the community and create jobs over the next five years in the construction industry. Government entities affected by the fire are in the process of applying for reimbursement for direct costs from FEMA. Many indirect and induced jobs will be created as homes are rebuilt and other post fire activities begin. These activities include protecting valuable assets from further damage caused by storms or flooding and reforestation efforts.

Health Care Opportunities and the Memorial Health System Lease

Voters in Colorado Springs overwhelmingly approved the proposed lease arrangement between the University of Colorado Health (UCH) in which UCH will operate Memorial Health System under a long-term lease beginning October 1, 2012. UCH will now operate Memorial for 40 years, make annual payments to the city and provide annual injections to UCCS to help expand medical training in Southern Colorado. The potential economic impacts and business opportunities of the arrangement are of great interest to the community and the Forum. The discussion below provides a benchmark to assess the impact this agreement may have on the health care industry in the community in the future.

Location quotients (LQ) estimate the tendency that a business sector will operate in an area. The Forum estimated the local health care sector has a LQ of 1.14. This means the health care sector is 14 percent more concentrated in El Paso County than the nation as a whole. The

LQ also suggests El Paso County might have a comparative advantage to attract and promote health care, vis-à-vis surrounding areas.

The Forum used Implan to estimate economic multipliers associated with the health care sector for the El Paso County economy. The results are:

Employment multiplier	2.46
Income multiplier	2.21
Tax effect value	0.71

An employment multiplier of 2.46 means the sector will create 1.46 additional local jobs for each person employed directly in health care. The income multiplier of 2.21 means \$1,210 in additional income will be created for each \$1,000 in wages and salaries paid to people who work directly in the health care sector. Finally, the tax effect value of 0.71 is a relative tax measure. Medical expenditures are not subject to local sales taxes (direct) and Memorial Hospital pays no property or income taxes. Thus, it is not possible to estimate a tax multiplier directly. The 0.71 tax effect value means it is 29 percent less efficient as a generator of taxes for the same billing amount as the average of the other sectors in El Paso County.

To explore potential growth, employment and income patterns, the Forum examined eight other communities where a university sponsored hospital is located. We realize the agreement between Memorial Hospital and UCH does not mean Memorial will become a teaching hospital. Rather, the interest is in seeing whether growth in the health care sector in areas with a university sponsored hospital differs from the nation as a whole and in El Paso County. Employment, income and firm data were gathered for 1998 and 2010 from County Business Patterns to estimate growth of the health care sector compared to other economic sectors. The specific universities are:

California (Davis)	Duke
Michigan	Ohio State
Pittsburgh	Texas
Vanderbilt	Yale

Data were also gathered for the United States and El Paso County. Comparisons were made for growth in employment, wages and number of establishments. Table 2 summarizes the comparative findings for the U.S., the eight comparison university counties where they are located and El Paso County.

The health care sector represented approximately 15 percent of all employment in the U.S. in 2010. This is up substantially from about 10 percent in 1998. The sector grew more rapidly than all other sectors of the U.S. economy combined from 1998 to 2010. Total

nonfarm employment grew approximately 3.8 million between 1998 and 2010. Employment in the health care sector grew by a little more than 4.0 million. Without the growth in health sector employment, total employment in the U.S. would have declined.

The counties with the eight representative university hospitals saw health care employment grow by 134,473 whereas total employment growth in these counties was 84,015. This means employment in these counties would have declined by -50,458 from 1998 to 2010 without the growth in the health care sector.

Table 2: Growth in Employment, Wages and Establishments in the Health Care Sector 1998-2010

Panel A: Growth in Employment by Area

	U.S.	Eight Sample University Areas	El Paso County
All Employment	3,852,364	84,015	17,964
Health Care Sector	4,029,863	134,473	8,010
Health Care Growth as a percent of Total Growth	104.6%	160.1%	44.6%

Panel B: Growth in Wages by Area

	U.S.	Eight Sample University Areas	El Paso County
All Employment	44.2%	43.7%	48.1%
Health Care Sector	47.2%	52.3%	49.5%

Panel C: Growth in Establishments by Area

	U.S.	Eight Sample University Areas	El Paso County
All Employment	454,806	5,988	2,793
Health Care Sector	163,452	3,758	595
Health Care Share of Growth	35.9%	62.8%	21.3%

Health care employment growth in El Paso County represented 44.6 percent of all job growth from 1998 to 2010. Health care employment is growing significantly faster than total employment in the U.S. and in our eight sample university hospital based areas.

However, health care employment in El Paso County grew at a much slower rate than in the U.S. or in the eight sample university hospital areas. Memorial Hospital's affiliation with the UCH system offers the potential for higher health care employment growth in El Paso County than we have seen from 1998 to 2010.

Wage growth in the health care sector from 1998 to 2010 was also higher in the U.S. than average wage growth for all employment in the U.S. Wage growth was higher in the sample of eight university hospital areas compared to wage growth for all employment in the areas. Wage growth in the health care sector in El Paso County also grew faster than the all employment average. However, the difference in growth was not as large as the other comparison counties. Wage growth has the potential to be higher with the University of Colorado and Memorial Hospital affiliation.

Another measure of economic impact that the health care sector has had on the U.S. and the eight university hospital supported areas is the growth in the number of establishments. Panel C in the Table 2 provides these comparisons. In the U.S., the health care sector was responsible for almost 36 percent of the growth in establishments over the 1998-2010 period. In contrast, the health care sector was responsible for almost 63 percent of the growth in establishments in the eight sample areas with university hospitals. The health care sector was responsible for 21 percent of the growth in establishments in El Paso County over the 1998-2010 period. Establishment data indicate growth in the health sector in El Paso County may be broad based

and not confined to Memorial Hospital. By all measures examined in the table, health care grew faster in areas with a university hospital.

The Current Health Care Sector in El Paso County

Table 3 provides a current look at the health care sector in El Paso County. The table provides 2011 employment and wage information by 3 or 4 digit NAICS code. Physician offices, outpatient care centers, medical & diagnostic labs and hospitals are all desirable sub sectors in the health care sector because of the higher average wages.

The demand for health care is population dependent. Colorado's Department of Local Affairs projects the population in El Paso County will grow by 243,000 from 2012 to 2032, a 40 percent increase. The fastest growing segment in percent is the 70+ age group.

El Paso County Population Projection

Age	2012	2032	Change	Growth %
0-25	236,533	304,441	67,908	28.7%
25-40	131,205	210,294	79,089	60.3%
40-55	132,304	146,868	14,564	11.0%
55-70	97,372	113,047	15,675	16.1%
70+	45,124	111,490	66,366	147.1%

This group is interesting because people at this age are more likely to have medical insurance including Medicare and are prone to more age related illnesses. Age related illnesses include: Alzheimer's, heart/circulatory disease, cancer, depression, diabetes, cataracts,

Table 3: Employment and Average Wages in the Healthcare Sector (NAICS 62) in El Paso County in 2011

NAICS		Employment	Average Wages
6211	Physicians offices	5,011	\$71,898
6212	Dental offices	2,185	44,419
6213	Offices of other health practitioners	2,110	33,186
6214	Outpatient care centers	1,085	52,944
6215	Medical & diagnostic labs	541	63,600
6216	Home health care services	1,827	27,848
6219	Other ambulatory health care	375	45,299
622	Hospitals	8,270	51,435
6231	Skilled nursing care facilities	2,172	31,932
6232	Developmental disability, mental health & substance abuse facilities	241	28,500
6233	Assisted living & continuing care	1,457	24,556
6239	Other residential care facilities	428	28,721
624	Community food & housing, emergency & other relief services	3,618	32,334
6244	Child day care services	1,948	20,241
62	Health care totals	31,266	44,557

Source: Colorado Department of Labor, Quarterly Census of Employment and Wages



image of Colorado? Could the region promote wellness in order to attract people with weight control, cardiovascular, diabetes or other health problems? This might be done by establishing teaching-learning programs supported by one or more of our local hospitals and tied to athletic training programs at the Olympic Training Center and luxury health enrichment facilities. This might be a form of medical tourism in the region. Whatever synergisms can be developed, it is expected to take at least 5-10 years before significant benefits are realized in the community.

Memorial Hospital North

glaucoma, macular degeneration, hearing loss, incontinence, obesity, osteoarthritis and osteoporosis strokes.

These represent medical needs of the existing population. Expanding medical facilities to address these health care needs will increase the quality of life for local residents and keep jobs and income in the community. Developing an externally recognized expertise in these areas will increase the likelihood that the health care sector will become more of a primary employer. Based on evidence from the sample of university hospital areas, the likelihood of growing health care into a primary employer increases when a university hospital is in an area. Job, income and establishment growth would be expected to outpace significantly the average of other employment sectors in the county. Targeting specific, high demand, health care needs would help the health care sector grow into a primary employer.

Another observation from the population projections is that the highest population growth in numbers is expected in the 25 to 40 age group. This is a large demographic that typically uses and participates in recreational and competitive sports activities. This is a tangent area to the health care sector and is often cited in local economic development conversations as a desirable sector for economic growth. There is an important and strong link to be made here. The Gallup Poll's 2011 fitness survey cited Colorado residents as being the most fit in the country. There is a synergism to be developed between fitness and avoidance of many of the illnesses of an aging population including cardiovascular disease and obesity. Can local economic development officials package a successful medical tourism sub sector that builds on the wellness

The idea of a university hospital promoting medical tourism is not new. Both Vanderbilt and the University of Michigan promote specialized programs. Vanderbilt identified a niche in which it promotes cancer and heart disease treatments based on an individual's DNA. A competitive analysis and business plan are needed to identify the full set of opportunities in our region.

Growing the health care sector will add jobs and income to the community. It will also help diversify the local economic base which, at the moment, is heavily dependent on the threatened defense industry.

What to Expect through 2013.

The residential building permit boom will have carry-over effects into 2013. Housing construction takes months to complete. Lagged multiplier benefits will include construction employment, higher sales tax revenues from sales of home furnishings and building materials and modest gains in income.

Reduced federal expenditures beginning in 2013 will take a gradual toll on the economy toward the end of 2013. Continued low interest rate policies of the Federal Reserve will sustain housing activity through most of 2013. This is not believed to be sufficient to avert what appears to be a mounting concern that a recession will take hold in 2013. The likelihood that a recession will take effect in 2013 will be increased if the Bush era tax cuts expire. The combination of large reductions in federal expenditures and increases in tax rates will lead to lower economic activity in 2013. The extent of the decline will depend on whatever political compromises take place in the lame duck session of Congress or when the new Congress is seated in January. Cuts in federal expenditures are mandated unless Congress rewrites the law to revise or replace

the Budget Control Act of 2011. It is more likely that Congress will compromise on the Bush tax cuts. The compromise will likely mean some of the Bush tax cuts are extended. At the current time, this is not believed to be sufficient to avert a recession.

International trade concerns also point to a recession. Europe's recession is deepening. Japan's latest GDP projections have been revised downward from 5.3 percent in Q1 2012 to 0.7 percent in Q2 2012. Growth in China has been slowing sharply from 11.9 percent in Q1 2010 to 7.6 percent in Q2 2012. Economic conditions in Europe and Asia matter because exports to these markets represent approximately 30 percent of all exports and 2.9 percent of the U.S. GDP. More importantly, exports to these markets tend to be high value added, high multiplier items. Given the interwoven relation of global trade, declines tied to Europe and Asia will find their way to Canada and Mexico. At the current time, a recession appears likely in 2013.

Acknowledgments

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

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 participation of our program committee. We also want to thank our keynote speaker and panelists.

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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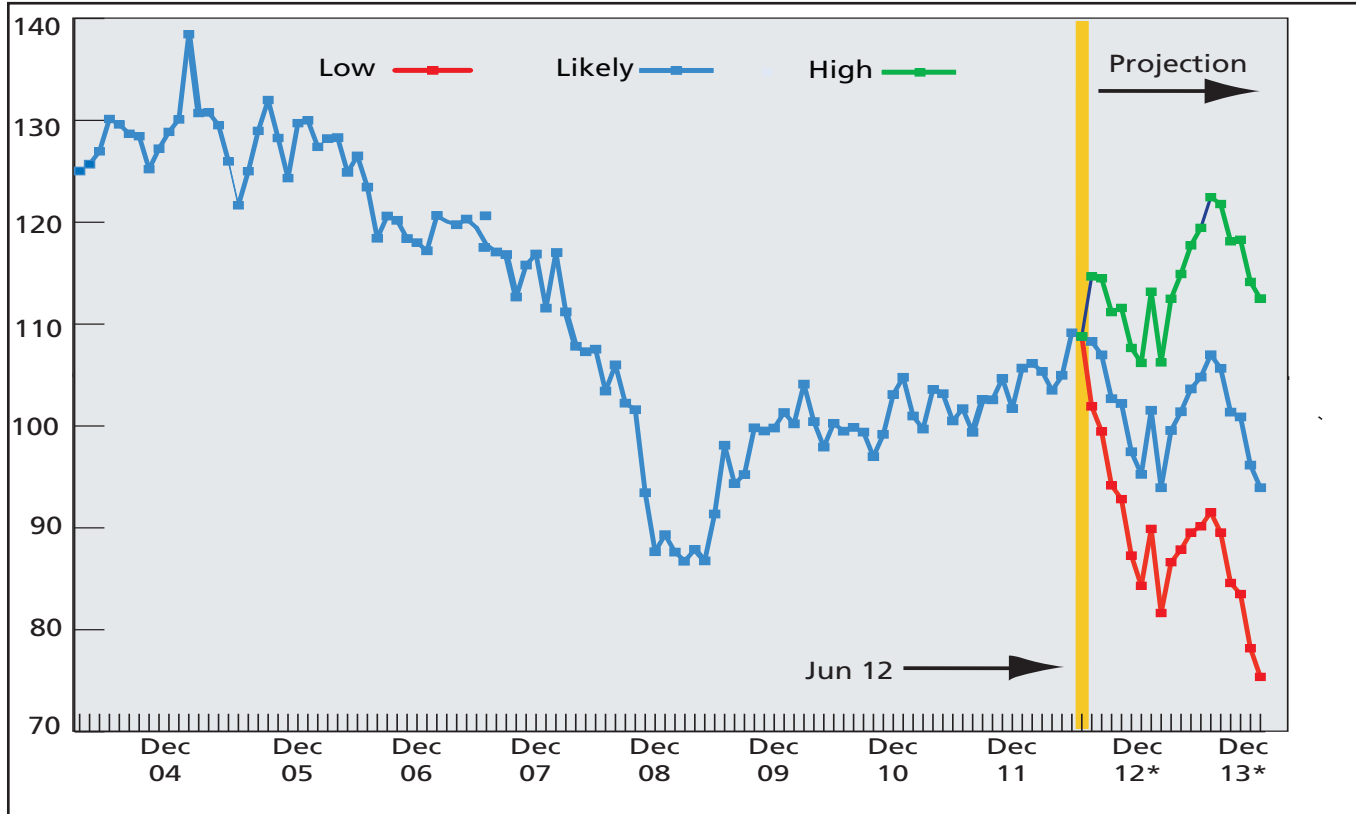
Forecast Summary

Actual, Estimated and Forecast Percent Change in Key Economic Indicators: U.S., Colorado and El Paso County										
		United States			Colorado			El Paso County		
		2011	2012*	2013*	2011	2012*	2013*	2011	2012*	2013*
		Actual	Estimate	Forecast	Actual	Estimate	Forecast	Actual	Estimate	Forecast
1	Population	0.8	1.0	1.0	1.4	1.5	1.4	1.2	1.2	1.6
2	Unemployment Rate	8.9	8.4	8.1	8.3	7.9	7.6	9.2	9.5	9.2
3	GDP/GSP/GMP	1.8	1.9	1.8	0.2	2.0	1.8	2.6*	1.7	0.8
4	Industrial Production	4.1	4.2	2.8	-	-	-	-	-	-
5	Non-Agricultural Employment	1.1	1.2	0.8	1.6	1.7	1.0	0.9	0.5	0.0
6	Total Wages & Salaries	4.0	3.1	3.0	4.7	4.6	3.4	2.8	3.7	1.2
7	Average Wage & Salaries	-	-	-	2.6	5.4	3.8	1.5	3.2	1.2
8	Consumer Price Index (CPI)	3.2	2.2	2.0	3.7	2.5	2.3	-	-	-
9	Personal Income	5.0	4.0	3.6	5.7	4.5	4.0	2.5	3.2	3.3
10	Per Capita Personal Income	4.3	3.0	2.6	4.4	3.0	2.5	1.2	2.0	1.6
11	Retail Trade	7.7	5.8	3.9	7.2	5.4	4.1	8.4	5.8	3.9
12	Single Family Housing Permits ¹	0.3	19.3	15.6	19.1	22.3	18.0	-4.1	47.4	6.5
13	Non-Residential Construction	8.6	8.8	5.8	25.0	3.4	2.4	227.0	-30.6	17.6

Sources: Colorado Office of Budgeting and Planning, June 2012 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.
 *Estimate/projection for individual values or entire year.

Business Conditions Index

Business Conditions Index (BCI): December 2007-June 2009 = 100



	COS Enplanements	El Paso SF & TH Permits	Univ of Mich Consumer Sentiment	Kansas City Fed Mfg Index	El Paso Employment Rate	Colorado Springs 2% Sales & Use Tax	El Paso County New Car Sales	El Paso County Foreclosures	El Paso County Employment	El Paso County Income	BCI
Jan-12	81.45	95.67	116.81	148.34	97.46	111.66	140.85	100.82	95.30	91.23	106.14
Feb-12	85.15	88.99	117.28	149.10	97.67	106.07	140.20	100.67	95.89	90.69	105.36
Mar-12	80.40	105.18	118.68	143.83	97.37	109.31	105.29	101.01	95.30	90.47	103.49
Apr-12	79.23	120.10	118.99	125.75	96.92	109.83	111.85	100.91	94.71	99.40	104.88
May-12	80.62	139.92	123.51	134.04	96.86	112.43	125.59	100.79	94.80	98.45	109.16
Jun-12	77.45	174.15	114.01	118.60	96.81	112.38	125.89	100.18	95.14	97.56	108.79

WHY IS THIS IMPORTANT?

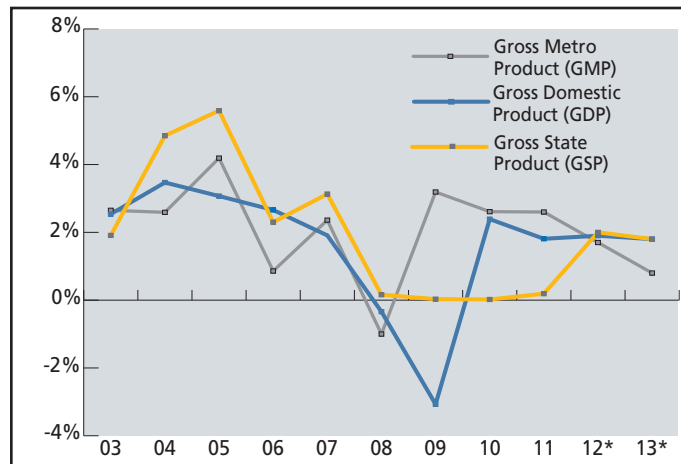
An aggregate trend of the local economy is extremely useful in gauging whether the economy is expanding, contracting or remaining stable. Rather than replace individual measures of activity such as housing or retail sales, the aggregate index should be compared to the individual indicators within the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

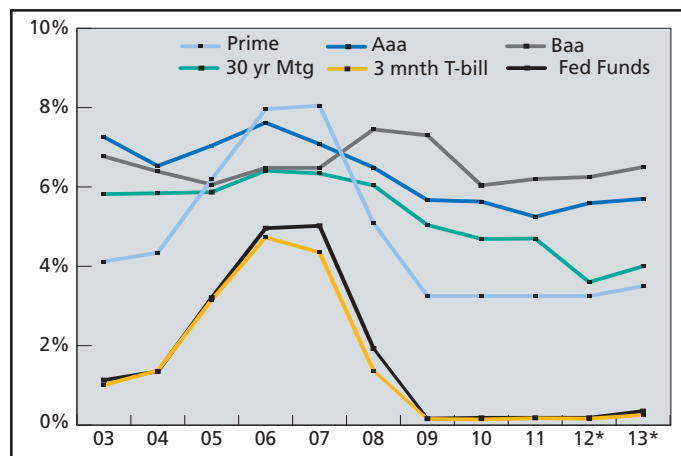
The BCI stabilized in late 2008 through February 2009 before beginning to rebound. As of June 2012, the BCI is up approximately 25.4 percent over its February 2009 low of 86.75. Local economic conditions stayed within the Forum's upper limit projection for the BCI. Problems in China and Europe will continue to constrain growth. The Forum used an ARIMA forecasting model to project the expected value of the BCI over the next 18 months. The results point to an overall decline in the BCI. A local concern is the possible cuts to the military per the Budget Control Act of 2011 and ripple effects of the recessions in Europe and China. However, there may be a positive bump in the BCI if housing remains strong and benefits are realized from early activity from rebuilding homes that were destroyed in the Waldo Canyon fire.

National and State Indicators

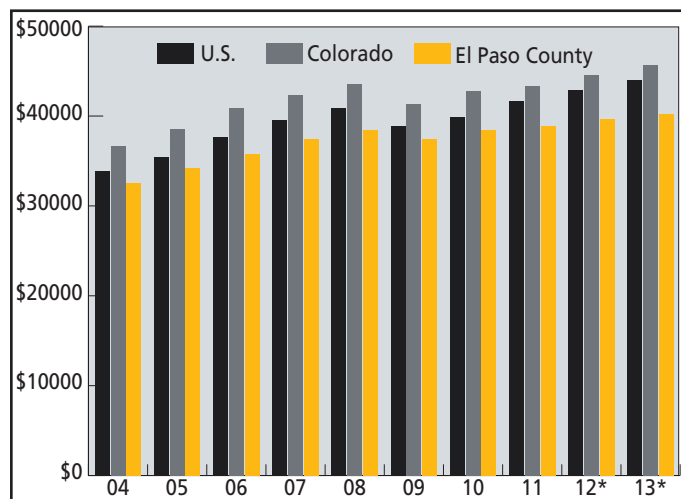
Growth in Real Gross Domestic Product (GDP), Gross State Product (GSP) and Gross Metropolitan Product (GMP)



Key Interest Rates



Per Capita Personal Income



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

WHY ARE THESE IMPORTANT?

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

Interest rates are 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 1.8 percent in 2011 vs. a 2.4 percent increase in 2010. The latest GDP estimates indicate the economy will grow at 1.9 percent in 2012. Preliminary projections for 2013 suggest real GDP will grow by 1.8 percent.

The Forum is less optimistic. Europe has been in a recession for more than a year. Growth in China has slowed to approximately 7 percent from about 12 percent in the first quarter of 2011. Trade is slowing significantly among the US, Europe and China. The latest Open Market Committee minutes indicate the US economy is slowing and that the Federal Reserve is contemplating a QE3. The impending "Fiscal Cliff," slowing economy and expiring Bush Era tax cuts are pointing to a recession in 2013. Compromises are expected that may avert a recession. However, these are not expected until early 2013 when the new Congress is seated.

Colorado's real GSP grew by 0.2 percent in 2011. The Colorado Office of Budgeting and Planning expects GSP to grow by 2.0 percent in 2012 and 1.8 percent in 2013. The Forum expects the increase in troops based at Fort Carson and fewer deployments will help the local economy in 2012 and 2013. 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 1.7 percent in 2012 and 0.8 percent in 2013.

Per capita income growth continued its upward trend in the U.S., up 4.3 percent to \$41,663 in 2011. Colorado's per capita income rose to \$43,316 (4.4%). Per capita income gains for the U.S. are projected to grow by 3.0 percent in 2012 and 2.6 percent in 2013. Colorado's per capita income is expected to grow 3.0 percent in 2012 and by 2.5 percent in 2013.

Local per capita personal income grew 1.2 percent to \$38,866 in 2011. Problems in the national and local economies contributed to the Forum's forecast of slower per capita income growth in El Paso County. Expect per capita income to grow by 2.0 percent in 2012 and 1.6 percent in 2013.

Sentiment and Savings

WHY IS THIS IMPORTANT?

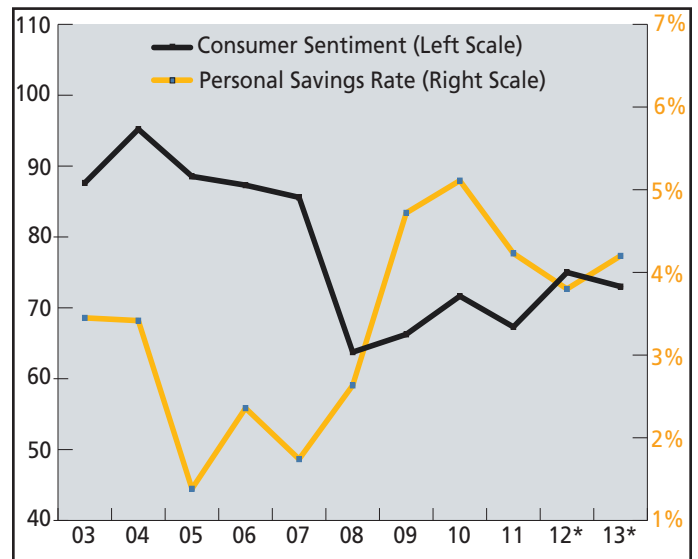
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of the consumer's confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer sentiment measures confidence using 1996-97 as the base 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 due to concerns about Europe. Despite a rebound to 79.2 in May 2012, consumer sentiment is beginning to decline. It is expected to average 75 in 2012 before falling further to 73 in 2013.

Pent up demand for cars, homes and general retail helped spur consumption in 2011 and drive the personal savings rate down to 4.2 percent. Large ticket item purchases are expected to exert downward pressure on the savings rate for 2012 (3.8%). However, retail sales have fallen the last few months. A decline in consumer sentiment and concerns about rising unemployment rates point to a likely increase in the savings rate for 2013 to 4.2 percent.

Consumer Sentiment and Personal Savings Rate



* SCEF forecast
Sources: University of Michigan and Federal Reserve bank of St. Louis

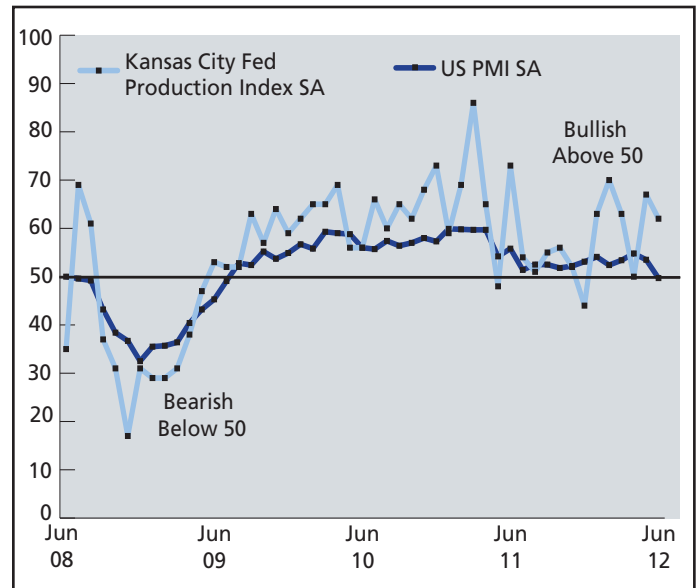
WHY IS THIS IMPORTANT?

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 have trended down since the spring of 2011. As of June, the PMI is 49.7. The ongoing downward trend suggests the possibility of a recession. The Kansas City Fed Production Index is 56.8. While more volatile than the PMI, its trend also suggests a weakening economy. At this time, it appears the indices are expected to continue trending down from their peaks in the spring of 2011. If the "Fiscal Cliff" does occur next year, the national economy will slow further. This would affect the local economy negatively.

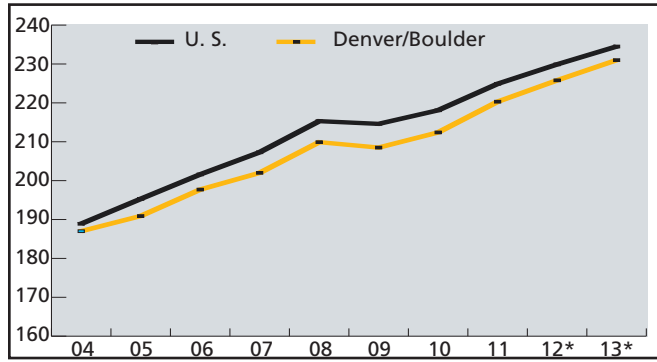
Purchasing Managers Index



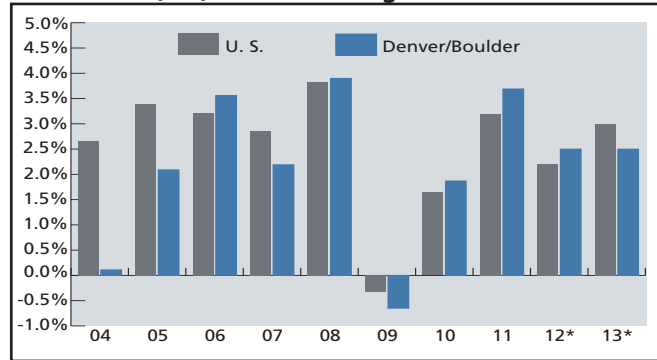
Sources: Institute of Supply Management and Federal Reserve Bank of Kansas City

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.

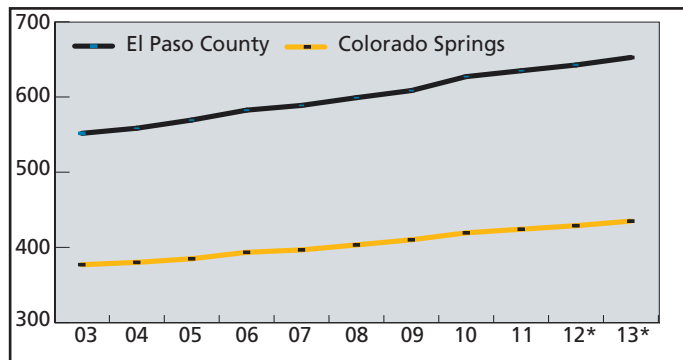
HOW ARE WE DOING?

The Denver/Boulder/Greeley CPI rose 3.7 percent in 2011 after increasing 1.9 percent in 2010. The Colorado Office of State Planning and Budgeting expects inflation will be 2.5 percent in 2012 and 2.3 percent in 2013 for the Denver/Boulder/Greeley CPI.

The U.S. urban CPI rose 3.2 percent in 2011 after increasing 1.6 percent in 2010. The Office of Planning and Budgeting expects inflation will be 2.2 percent in 2012 and 2.0 percent in 2013 in the U.S.

There is general consensus that inflation pressure will increase over the next 6 to 18 months. This is due to QE3, the drought induced food price increases and persistent \$95 per barrel oil.

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.

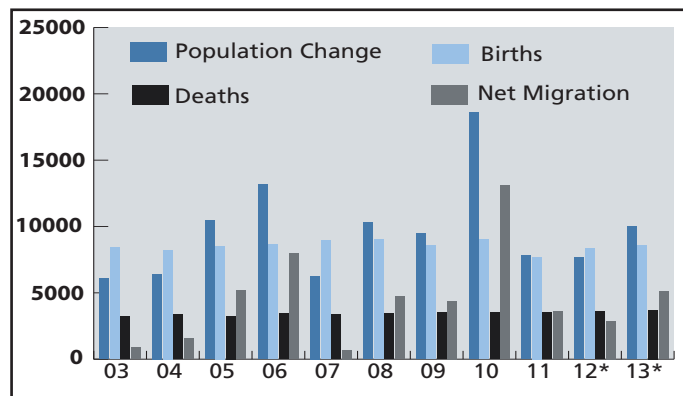
Population growth comes from natural increase (births minus deaths) and from net in-migration (or out-migration). The sum of these components is the change in population. Identifying trends in these indicators helps project future changes in the county's population and their impact on the economy.

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 estimates El Paso County's population at 642,538 in 2012, an increase of 7,650 (1.2%) over 2011.

The natural increase in the population was 4,765 in 2012. Net in-migration slowed to 2,884. Net migration slowed from its historical 50 percent share of total population growth to 37.7 percent in 2012. This is attributed to conditions in the economy and the lack of job growth. Stronger population growth would increase local demand for housing and other local resident services. Better job growth would benefit local residents in the work force and lead to more in-migration.

Births, Deaths and Migration in El Paso County



* Colorado Department of Local Affairs and SCEF estimates

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

Unemployment and Employment

WHY IS THIS IMPORTANT?

The size and mix of jobs is an important indicator of the quality and sustainability of the economy during both good times and bad. During good economic times we expect the economy to grow, to expand and to change the mix through the addition of high quality, well paid job opportunities. A diversified employment base is better able to withstand eventual economic downturns.

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

HOW ARE WE DOING?

The 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 2012 (270,444). During the same time, the labor force in El Paso County was reduced from 305,255 to 300,160, a loss of 5,095 labor market participants. At the same time, the population grew 53,766. The data suggest there are 30,000 discouraged workers who dropped out of the labor force. The area needs 6,000 jobs a year for five years just to get the current work force back to a natural rate of unemployment.

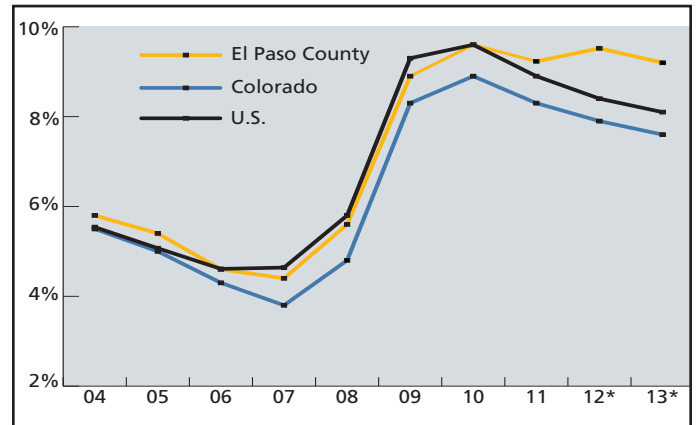
Local unemployment rates have fared worse than the U.S. and Colorado over the last year. The seasonally adjusted (SA) June 2012 unemployment rate in El Paso County stood at 9.5 percent vs. 9.4 percent in June 2011. Colorado's June 2012 SA unemployment rate was 8.2 percent vs. 8.4 percent in June 2011. The U.S. unemployment rate decreased to 8.2 in June 2012 compared to 9.1 percent a year earlier. The Colorado Office of Budget and Planning projects the state annual unemployment rate will be 7.9 percent in 2012 and 7.6 percent in 2013. The Forum projects El Paso County unemployment will average 9.5 percent in 2012 and 9.2 percent in 2013.

The Colorado Department of Labor reported that 13 of the 21 NAICS sectors in El Paso County saw job growth in 2012. Significant job gains were in Health Care (1,426), Accommodations (1,178), Retail (748) and Government (447). Notable employment losses took place in Wholesale (-1,080) Administration (-532), Construction (-417) and Professional Technical (-409). Average wages increased 1.5 percent to \$43,628 in 2011. Seventeen of the sectors saw increases in their average wage. Notably increases took place in Management (8.6%), Information (7.6%), Accommodation (6.6%) and Manufacturing (4.9%). Average wages declined in Non-Classified (-26.3%), Mining (-11.8%), Agriculture (-8.2%) and Construction (-2.2%).

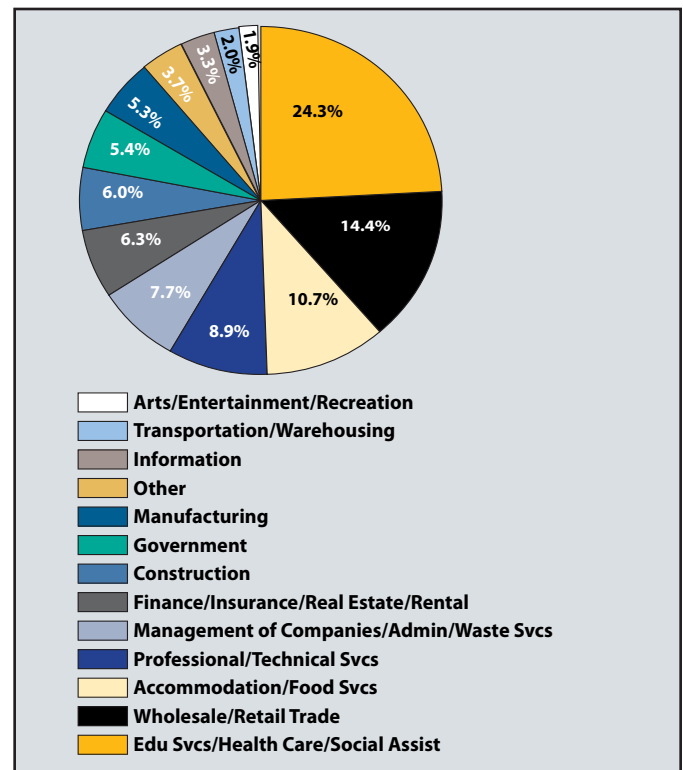
Average wages increased in all of Colorado by 2.6 percent in 2011. Wages went from \$47,864 in 2010 to \$49,088 in 2011. The wage gap between Colorado and El Paso County decreased slightly in 2011. The average wage in El Paso County is now 10.2 percent lower than the average wage in Colorado. This is 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 went from 7.93 in 2009 to 8.39 in 2010 and 8.43 in 2011. The Hirschman Index for wages increased from 8.47 in 2009 to 8.60 in 2010 and 8.51 in 2011. Based on the HI, the employment and earnings base in El Paso County are becoming slightly less diversified.

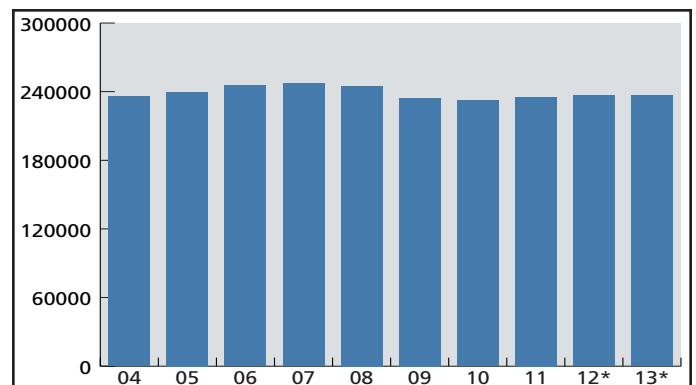
The Unemployment Rate in El Paso County, Colorado, and the U.S.



2011 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 2010 and 2011							
NAICS Code		2010			2011		
		Employment	Percent of Total Employment	Average Annual Wage	Employment	Percent of Total Employment	Average Annual Wage
11	Agriculture, Forestry, Fishing & Hunting	175	0.1	\$23,556	217	0.09	\$21,632
21	Mining	143	0.1	\$90,948	156	0.07	\$80,184
22	Utilities ¹	2,632	1.1	\$78,676	2,612	1.11	\$81,380
23	Construction	11,452	4.9	\$45,552	11,035	4.69	\$44,564
31-33	Manufacturing	12,498	5.4	\$55,536	12,571	5.34	\$58,240
42	Wholesale Trade	5,780	2.1	\$55,640	4,700	2.00	\$57,200
44-45	Retail Trade	28,470	12.3	\$26,208	29,218	12.42	\$26,520
48-49	Transportation & Warehousing	4,856	2.1	\$43,420	4,789	2.04	\$44,044
51	Information	7,487	3.2	\$63,648	7,699	3.27	\$68,484
52	Finance & Insurance	10,766	4.6	\$52,260	10,815	4.60	\$53,560
53	Real Estate, Rental & Leasing	4,006	1.7	\$32,760	4,005	1.70	\$33,800
54	Professional & Technical Services	21,343	9.2	\$76,440	20,934	8.90	\$76,596
55	Management of Companies & Enterprises	897	0.4	\$77,792	944	0.40	\$84,500
56	Administrative and Waste Services	17,604	7.6	\$35,412	17,072	7.26	\$36,712
61	Educational Services	25,604	11.0	\$35,880	25,718	10.93	\$35,932
62	Health Care & Social Assistance	30,213	13.0	\$44,096	31,639	13.45	\$44,772
71	Arts, Entertainment & Recreation	4,073	1.8	\$19,500	4,395	1.87	\$19,656
72	Accommodation & Food Services	23,991	10.3	\$16,484	25,169	10.70	\$17,576
81	Other Services	8,878	3.8	\$36,088	8,770	3.73	\$36,868
99	Non-Classifiable	9	0.0	\$58,916	14	0.01	\$43,420
	Total Non-Government	219,877	94.7	\$41,861	222,472	94.56	\$42,489
92	Government	12,350	5.3	\$63,076	12,797	5.44	\$63,856
	Total All Industries	232,227	100.0	\$42,989	235,269	100.00	\$43,628
	Hirfindahl Concentration Measure: Lower indicates greater diversification	8.39	-	8.60	8.43		8.51

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?

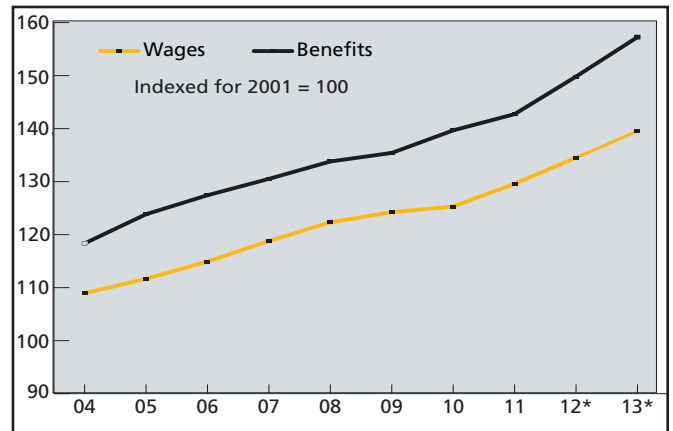
The national benefit cost index rose at a slower rate than the wage index did in 2011. Benefits rose approximately 2.2 percent in 2011 compared to 3.1 percent in 2010. Wages rose at a faster rate in 2011 (3.4%) than in 2010 (0.9%). Nationally, wages have increased a modest 2.6 percent a year since 2001. Benefits have increased 3.6 percent a year since 2001. The Forum expects national wages will increase by 3.6 percent in 2012 and benefits will increase by 5.0 percent. Weak economic conditions into 2013 will keep wage growth to 2.6 percent and benefits growth to 3.6 percent in 2013.

The base year for the cost of business index (COBI) is set at 100 in 2001. The index stood at 128.5 at the end of 2011. This means the average cost of business was 28.5 percent higher in 2011 than in 2001. By comparison, the CPI rose 27.1 percent while the producer price index (PPI) rose 49.8 percent during the same period. The Forum projects that the cost of business index will increase 2.8 percent to 136.3 in 2012 and 3.6 percent in 2013 to 139.7.

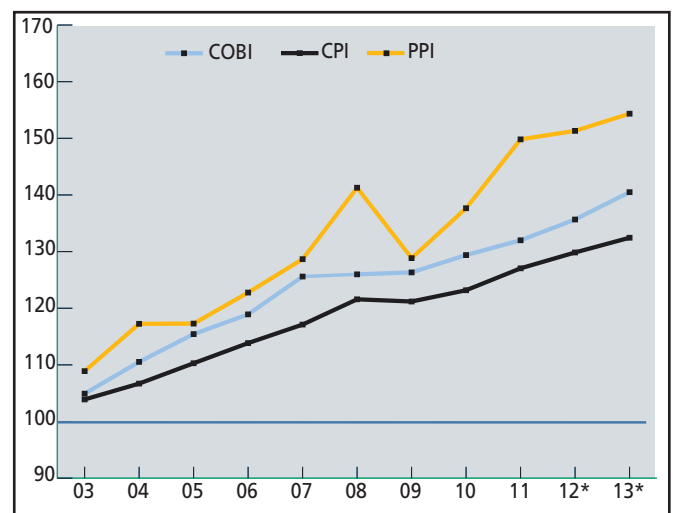
The final chart on this page provides the average annual percentage increase in the individual components in the COBI since 2001 and their respective annual increases in 2011. With the exception of wages, all costs of business in 2011 were below their historical averages. The components and their change in cost in 2011 compared to 2010 were: electricity 2.2 percent; wages 3.4 percent; benefits 2.2 percent; rents -0.95 percent; property taxes 1.0 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. Local labor costs tend to be lower than the national average. Benefit costs are uncertain. Local utility costs are the only part of the COBI that are expected to increase materially over the next couple of years due to shifts in coal prices and possible substitution of natural gas and higher cost clean energy components.

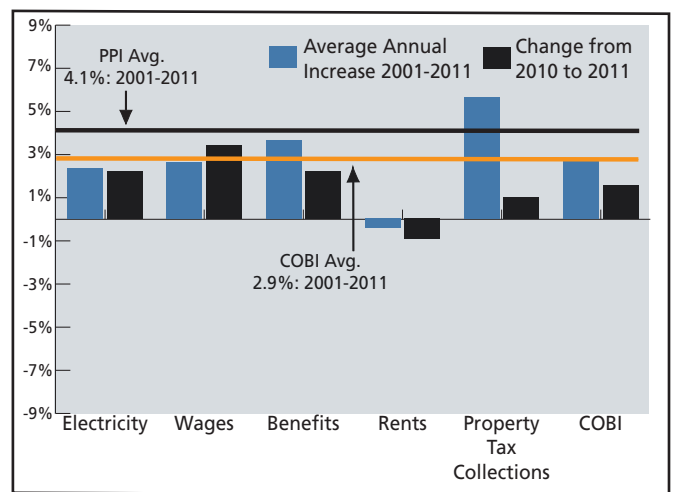
Wage and Benefit Cost Index, U.S. Average



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



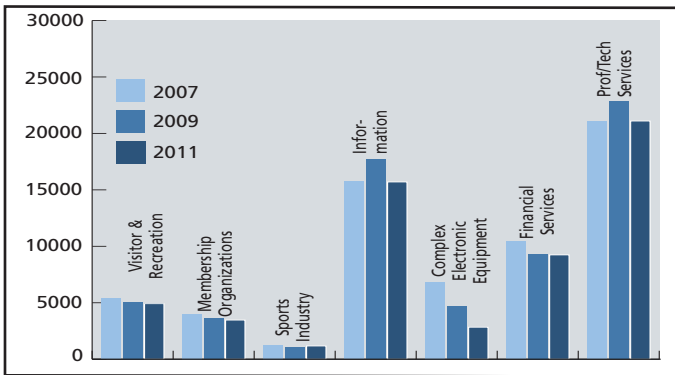
Percent Change in Individual Items in the Cost of Business Index for El Paso County



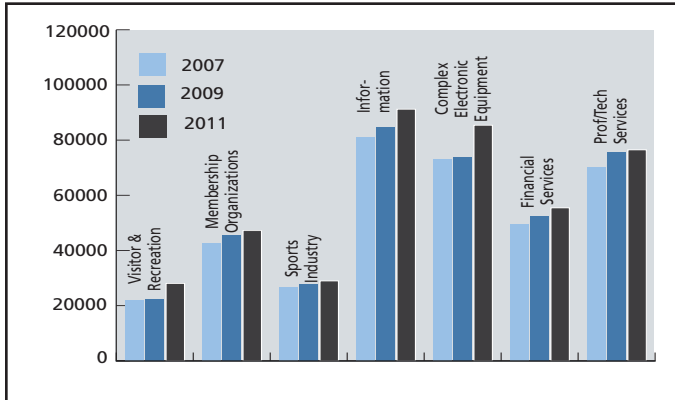
* SCEF forecast
Sources: Federal Reserve Bank of St. Louis, Colorado Springs Utilities, Turner Commercial Report, El Paso County Assessor, SCEF

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.

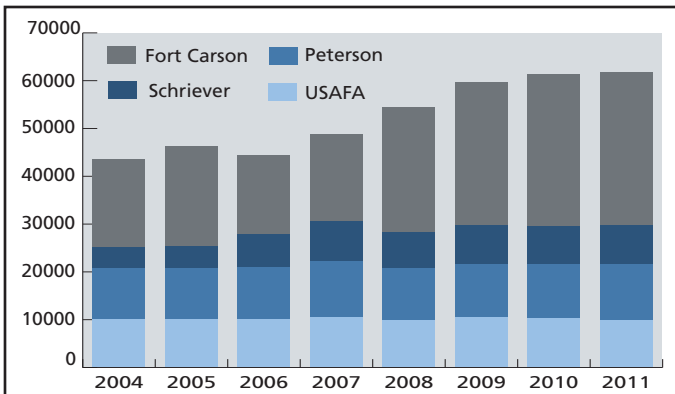
HOW ARE WE DOING?

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 2011, primary sectors provided 24.8 percent of all jobs (down from 27.4% in 2009) and 39.9 percent of all wages (down from 44.1% in 2009) in El Paso County.

Average wages grew in all sectors from 2010 to 2011. Notable increases took place in Complex Electronics (\$11,112 or 15%) Visitor/Recreation (\$4,488 or 21.1%) and Information (\$3,369 or 3.8%). The average wage for the seven primary employer clusters was \$70,767 in 2011 vs. \$68,744 in 2010 and \$67,883 in 2009. The average wage among the primary employers is 65 percent higher than the average private sector wage in the county. Job growth needs to occur in existing and emerging technologies. Economic multipliers from these sectors will contribute to a collective improvement in the wage and job prospects in the community.

Military Employment in El Paso County



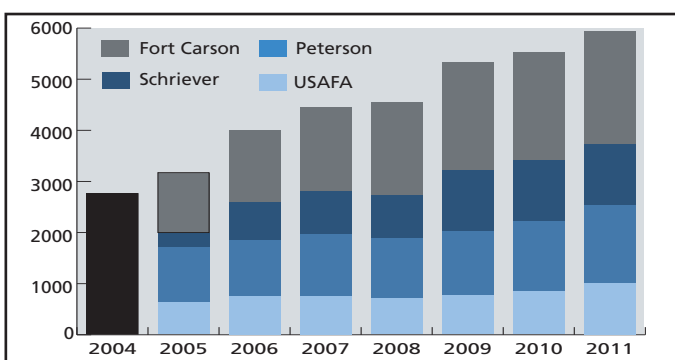
WHY IS THIS IMPORTANT?

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 61,501 in 2011 from 61,192 in 2010. This was an increase of 309 positions or 0.5 percent. With the exception of the Air Force Academy (-507) all other installations increased employment a total of 816 positions. Employment change, by base, were: Peterson 554; Schriever 91; Fort Carson 171. Plans to add an air cavalry brigade at Fort Carson with 2,700 soldiers and 113 helicopters are on schedule for some time in 2013.

Military Expenditures in El Paso County(\$ millions)



Sources: The Greater Colorado Springs Chamber of Commerce and EDC

The effects of the Budget Control Act of 2011 are not known at this time. Initial estimates called for approximately \$1.7 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 effects these 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?

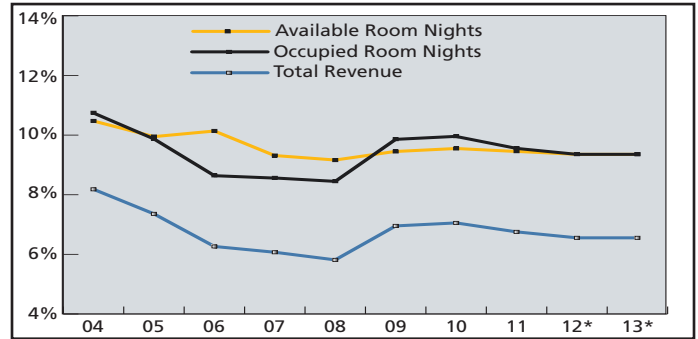
Hotel market shares, relative to Colorado totals, are general indicators of the health of local tourism. Changes in these can signal changes in the popularity of Colorado Springs as a tourism destination compared to the rest of Colorado. Each year, about 6 million people visit the Pikes Peak area. These 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?

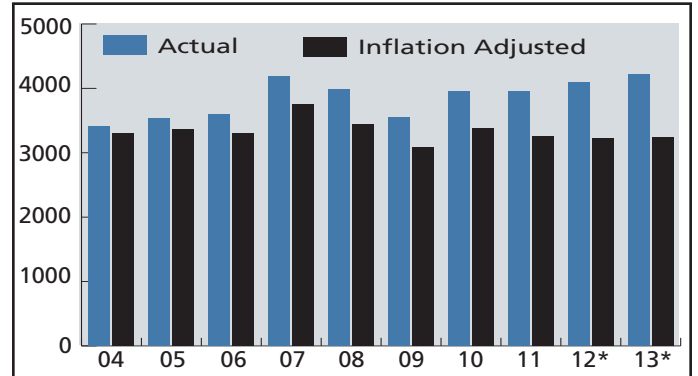
Despite the success of the LPGA Open at the Broadmoor and Pro Cycling race in the summer of 2011, the Colorado Springs lodging market lost market share for revenues, occupied room nights and available room nights compared to the balance of Colorado during 2011. The Waldo Canyon fire helped contribute to an 8 percent decline in occupied room nights in July 2012 compared to July 2011. Through July 2012, revenues are down \$2 million despite average room rates running \$5 higher than last year. Occupied room nights are 58,000 lower than in 2011.

Total room revenues in the area increased from \$94.1 million in 2010 to \$96.1 million in 2011. Despite total room revenues increases of 2.1 percent, the lodging and automobile rental taxes (LART) increased by just 0.04 percent due to declines in auto rental tax revenues. The decline is attributed to a 6 percent decrease in airport enplanements.

Colorado Springs Hotel Market Share as a Percent of Colorado Totals



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



* SCEF forecast

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

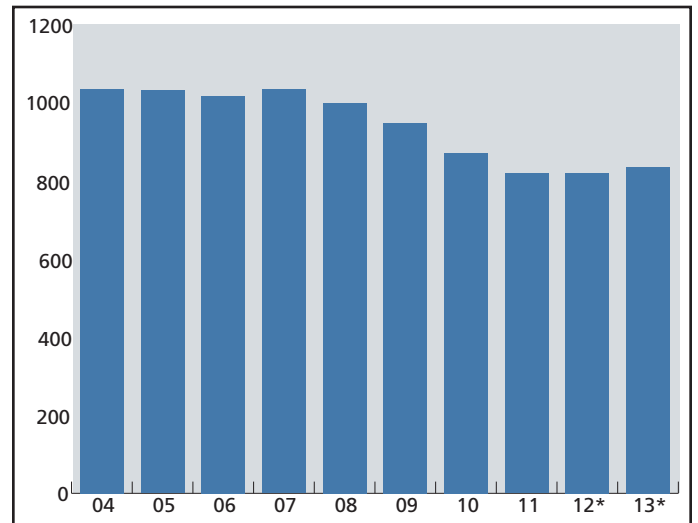
WHY IS THIS IMPORTANT?

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 818,820 in 2011, a 6 percent decline from 871,061 in 2010. 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 2012 despite four additional routes by Frontier. Enplanements in 2012 are expected to increase 2,000 (0.25%). Conditions in the economy are expected to limit growth to 15,000 enplanements (1.8%) in 2013. The challenge for the airport seems to be attracting more air carriers with more destinations to offer the local market.

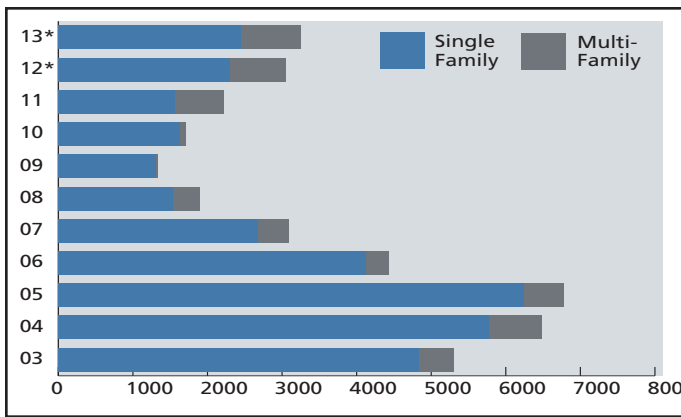
Colorado Springs Airport Enplanements (000s)



* SCEF forecast

Source: Colorado Springs Airport

Residential Building Permits (Dwelling Units)



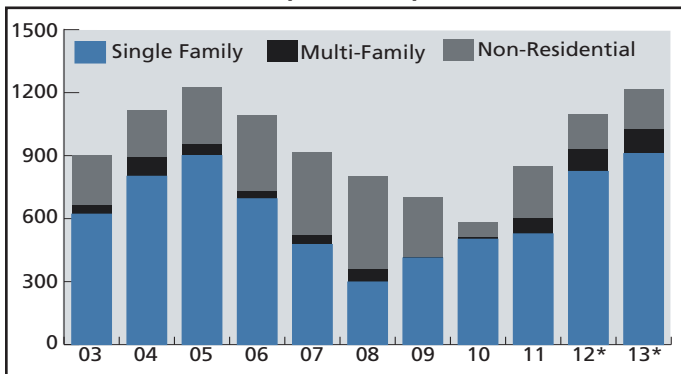
WHY IS THIS IMPORTANT?

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?

Residential building strengthened from late 2011 through June 2012. While growth needs a longer track record before recovery is proclaimed, the recent improvement in construction activity is a welcome vanguard. There were 1,920 single family permits from July 2011 through June 2012, an increase of 468 (32.2%) compared to the July 2010 to June 2011 period. Most likely, the recovery in housing reflects some pent up demand, depletion of inventory, declining foreclosures, 3.5 percent mortgage rates and a decline in homes available for resale. Despite concerns about a recession in 2013, the Forum expects single family permits will be 2,300 in 2012 (up 47.4%) and 2,450 in 2013 (up 6.5%). If we see a jump start in rebuilding Mountain Shadows, the numbers could be even stronger.

Value of Construction (\$ millions)

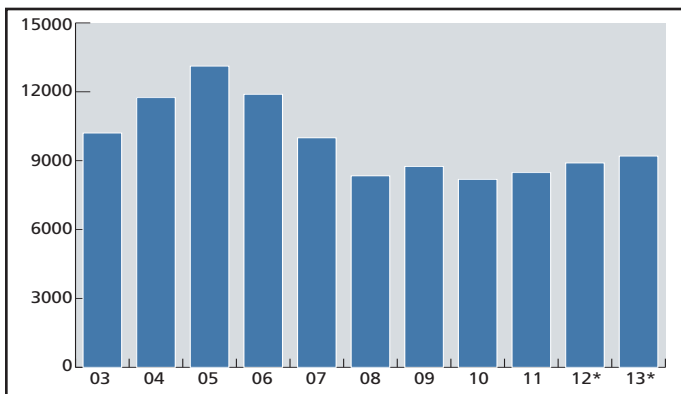


* SCEF forecast
Source: Pikes Peak Regional Building

Vacancies in the 6.3 percent range spurred investors to take out permits for 982 new multi-family units over the 18 months from January 2011 through June 2012. Rents are currently \$770 a month. This is up 1.0 percent over the average of \$763 in 2011. Multi-family permits are expected to be 750 units in 2012 and 800 in 2013.

Non-residential construction in 2011 increased \$170 million (227%). A modest decline of \$74 million is expected in 2012 before a \$20 million increase is anticipated in 2013. These projections reflect concerns about a possible recession in 2013.

El Paso County Home Sales



WHY IS THIS IMPORTANT?

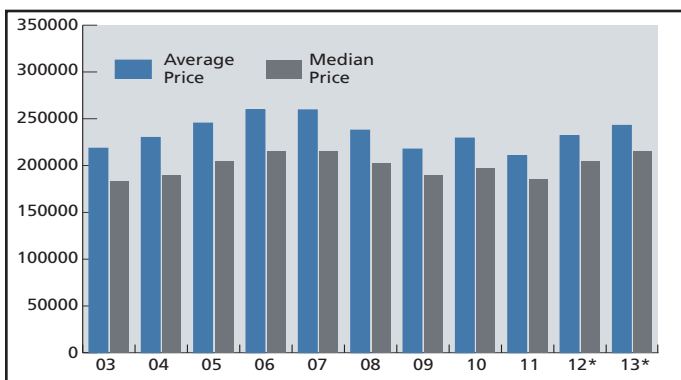
Home sales are an indicator of vitality in the local real estate market. An unusual drop in annual home sales could indicate a problem in one or more economic sectors.

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 eventual leveling off in 2008. Sales were 8,480 in 2011, up 3.6 percent. This signified strength since sales for most of the year competed with sales that were inflated by home buyer credit induced purchases in 2010 and 2011. Sales in 2012 are on track to hit 8,900, a 5% increase over 2011. The pace is expected to be a little slower in 2013 at 9,200 sales. This could vary depending on the housing choices of the air cavalry brigade arriving at Fort Carson in 2013.

Mean and Median Prices of Homes Sold



* SCEF forecast
Source: Pikes Peak Association of Realtors

The current market conditions point to the average sales price of a home will increase to \$232,000 in 2012, up 10.1 percent from an average price of \$210,688 in 2011. Similar gains are expected for the median price. A median price of \$205,000 is expected in 2012 compared to \$185,000 in 2011. Median prices are expected to be \$215,000 in 2013.

The recovery in housing prices reflects lower mortgage rates, an increase in population, a decline in available housing for sale and some pent up demand for housing.

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.

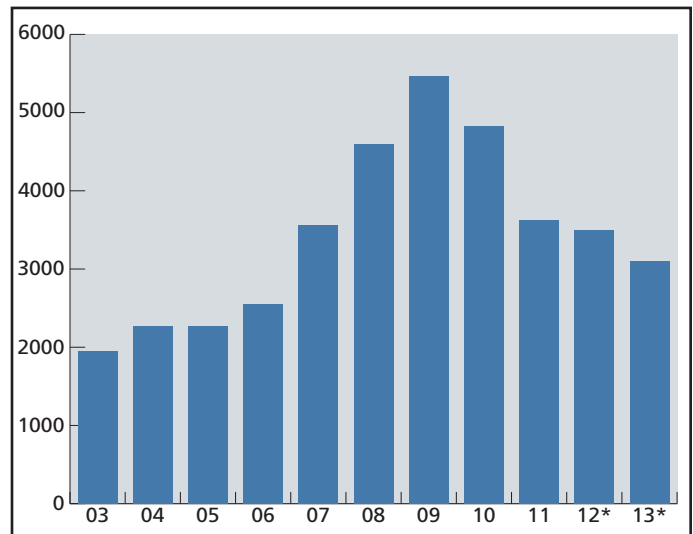
HOW ARE WE DOING?

There were 3,620 foreclosures in 2011, a decrease of 11.8 percent from 2010 when there were 4,828 foreclosures. Through June 2012, there were 1,777 foreclosures, an increase of 34 compared to the 1,743 foreclosures through June 2011. At the current rate, the Forum anticipates there will be 3,500 foreclosures in 2012 and 3,100 in 2013.

Possible defense cuts are not expected to devastate Fort Carson or the Air Force bases in El Paso County. The Air Force facilities are consistent with the military vision of a lean, rapid response ability. Possible cuts at Fort Carson are likely to be roughly offset by the arrival of an air cavalry brigade in 2013. This will stabilize the military's impact on civilian housing in the region.

Much of the bad paper has worked itself out of the mortgage industry. Remaining foreclosures depend on housing values, employment and income levels of homeowners who have a mortgage. Interest rates are at record low levels (3.5-3.75% for a 30 year conventional mortgage). Housing prices are up 14.0 percent (\$30,197) compared to June 2011. Lower interest rates have helped to increase housing affordability. Increased demand contributed to higher prices and a reduction in underwater mortgages. Significant improvement in the foreclosure numbers may depend on job growth in the region. This will be difficult in the next 12 to 18 months.

Foreclosures in El Paso County



* SCEF forecast
Source: El Paso County Public Trustee

WHY IS THIS IMPORTANT?

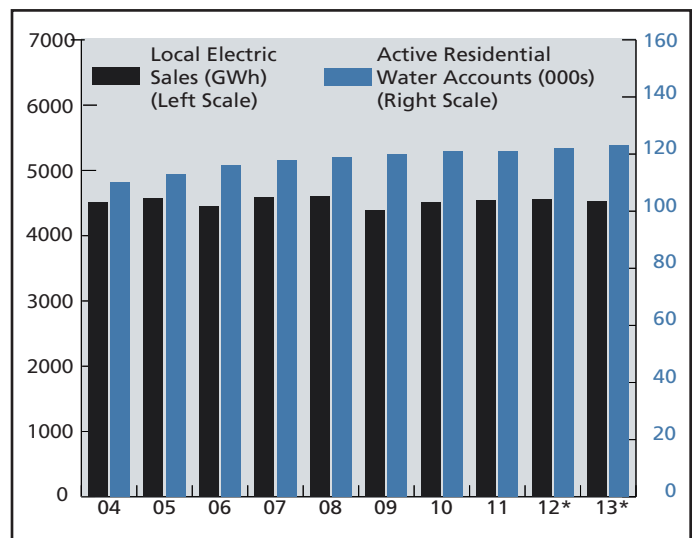
Local electric sales and residential water accounts are good indicators of growth and economic activity. Active residential water accounts correlate with residential construction and housing market activity. Changes in electric sales on system capture both residential and commercial activity.

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 growth slowed to 0.6 percent in 2009 and 2010 and 0.7 percent in 2011. Projections for 2012 and 2013 call for 0.7 percent growth in 2012 and 0.8 percent in 2013.

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 before dropping to 4,384 in 2009. Since then, electric sales rose to 4,546 in 2011. Sales are projected to remain flat in 2012 (4,561 GWh) and 2013 (4,520 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.

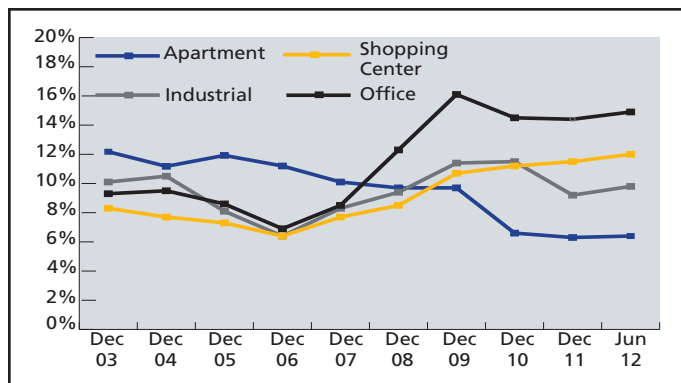
Total Local Electric Sales on System (GWh) Active Residential Water Accounts (000s)



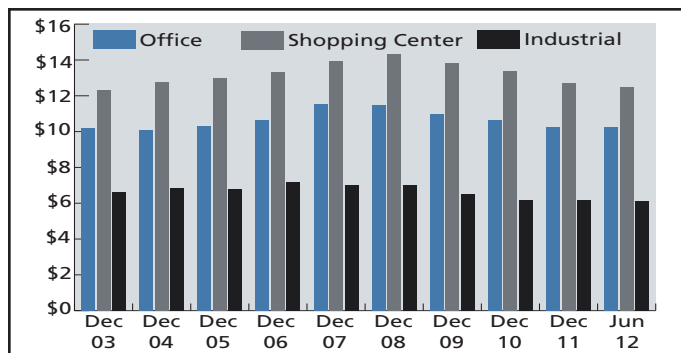
*City Utilities forecast
Source: Colorado Springs Utilities

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?

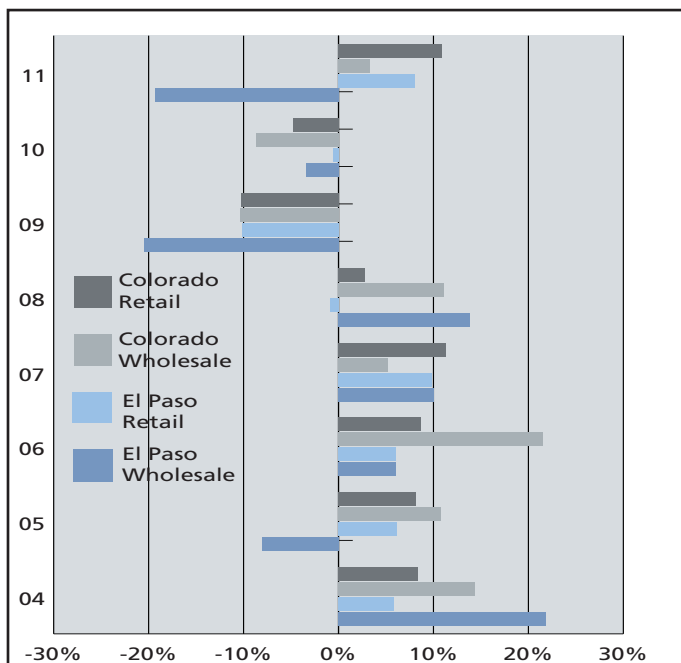
As expected, rents for office, shopping center and industrial space decreased slightly in 2011. The economy has yet to demonstrate systemic strength. The Forum expects rents will finish 2012 with a small decrease in asking rents.

Rents for multi-family housing was expected to increase. Apartment rents averaged \$763 in 2011. This is a 5.0 percent increase over the average rent for 2010 (\$724). At the current levels, it appears multi-family rents will increase by 6 percent in 2012.

A snapshot of December 2011 and June 2012 vacancies and rents is shown below.

Vacancy Rates and (Rents per Sq. Ft. NNN)		
Property type	December 2011	June 2012
Office	14.4% (\$10.26)	14.9% (\$10.27)
Industrial	9.2% (\$6.17)	9.8% (\$6.09)
Shopping	11.5% (\$12.72)	12.0% (\$12.46)
Apartments	6.7% (\$775.00)	6.3% (\$770.00)

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 increased 8.5 percent in 2011 to \$13.8 billion vs. \$12.8 billion in 2010. Colorado retail sales were up 10.9 percent in 2011 to \$150 billion vs. \$136.2 billion in 2010. Stronger growth in retail sales in Colorado is probably attributed to a 4.4 percent growth in state-wide per capita income vs. 1.2 percent growth in El Paso County.

Wholesale sales, which tend to be more volatile than retail sales, decreased 18.3 percent to \$3.6 billion in El Paso County in 2011. This marked the third consecutive decline in annual wholesale sales. Colorado wholesale sales increased 3.4 percent in 2011. Jobs in manufacturing and wholesale are doing better in Colorado than in El Paso County. This was mirrored in the wholesale sales data. El Paso County will continue to demonstrate weakness in wholesale trade until its manufacturing and wholesale sectors grow. This will be made more challenging in 2013, given a possible recession.

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.

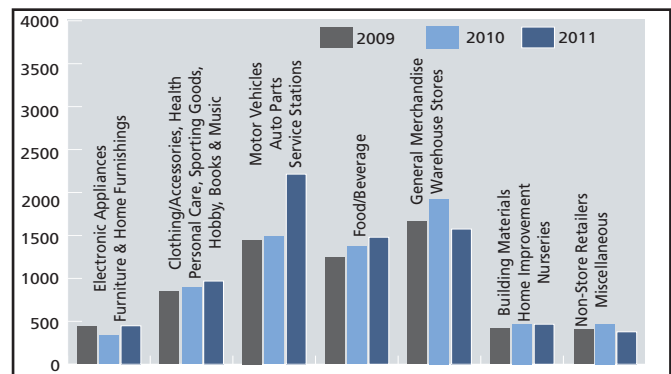
HOW ARE WE DOING?

Retail trade in 2011 was \$6.94 billion or 54.4 percent of the total retail sales in the county. Retail trade increased by 8.4 percent in 2011. The largest portion of retail trade went to motor vehicles in 2011. Retail trade gains were spotty and appear to reflect pent-up demand in some sectors. Retail trade increased in electronics (34.2%), clothing (8.0%), motor vehicles (48.8%) and food (8.1%).

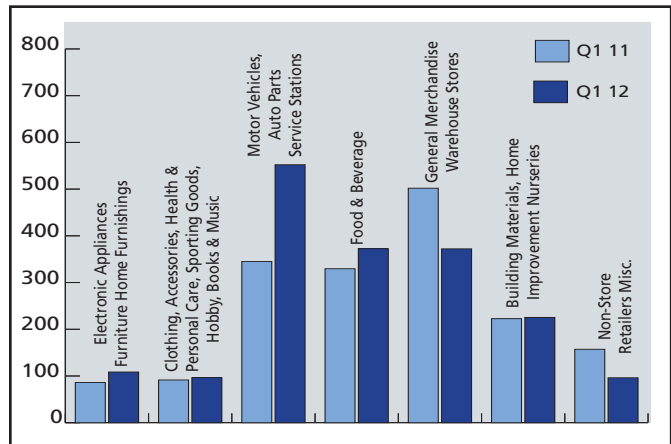
Retail trade declined in general merchandise/warehouse stores. Some of this might be attributed to internet sales. Some might be allocated to retail cannibalization by the big box stores. Retail trade declined in general merchandise (-18.2%), building materials (-0.3%) and non-store retailers (-19.2%).

Retail trade had peaked in 2007 before declining through the recession. Retail trade recovered and is now 11.2 percent higher than during the previous peak. Since the pre-recession peak, retail trade is up in clothing (22.4%), motor vehicles (13.8%), food (37.4%) and general merchandise (19.4%). Sectors that have yet to recover fully are electronics (-13.0%), building materials (-24.5%) and non-store retailers (-25.1%). Building materials are expected to recover due to the boom in housing permits. Strength should also occur in electronics and home furnishings in the coming 6-12 months. Retail trade patterns for the first quarter of 2012 are similar to the general pattern of retail sales for all of 2011.

El Paso County Retail Trade (\$ millions)



El Paso County Retail Trade First Quarter 2011/2012



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.

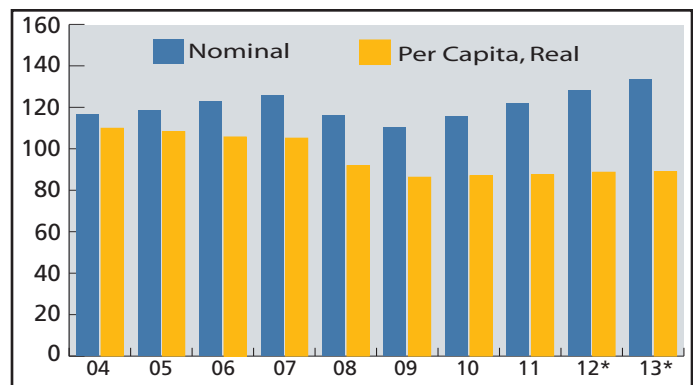
HOW ARE WE DOING?

City sales and use tax collections were \$121.85 million in 2011. This is \$6.25 million higher (5.4%) than in 2010. Through June 2012, sales and use tax collections were up \$2.9 million (5.1%) over June 2011. The Forum expects sales and use tax collections will increase by 5.1 percent in 2012 to \$128.1 million and by 4.0 percent in 2013 to \$133.2 million. Real per capita sales and use tax collections are expected to increase by 1.4 percent in 2012 and 0.23 percent in 2013.

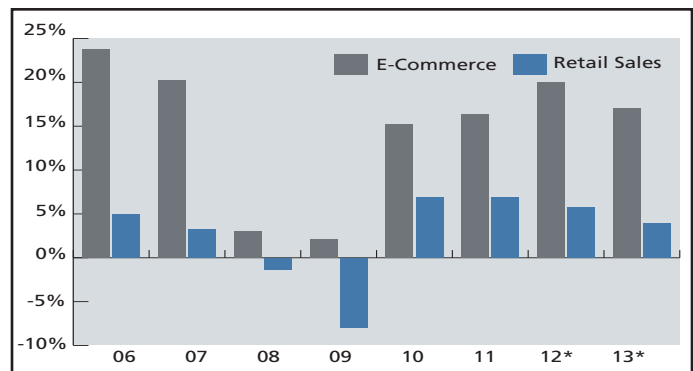
Through June 2012, all sales tax revenue categories were higher when compared to June 2011 except for department stores (-2.4%), furniture and appliance stores (-4.0%) and grocery stores (-0.6%). The largest gains were reported in commercial machines (14.4%), building materials (12.2%), auto dealers (9.2%) and restaurants (6.9%).

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. Post recession, e-commerce grew by 16.4 percent in 2011. Conventional retail sales grew 6.9 percent in 2011. E-tail is expected to grow 20 percent in 2012 and 17 percent in 2013. Retail is expected to have lower growth in 2012 (5.8%) and in 2013 (3.9%).

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



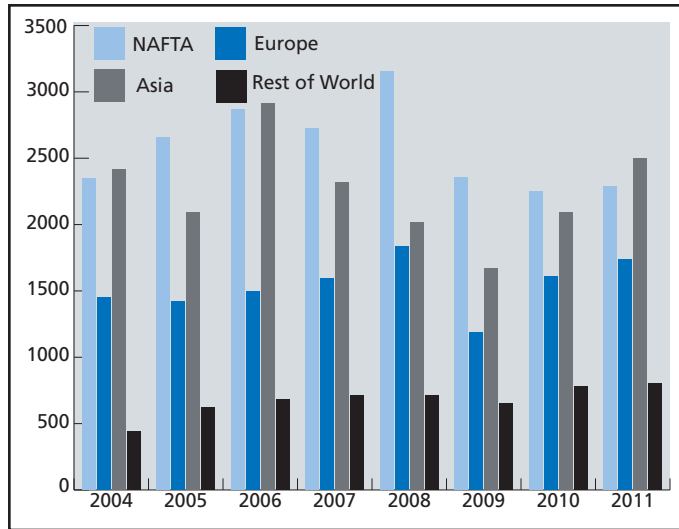
E-Commerce vs. Retail Sales Growth in the U.S.



* SCEF forecast

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

Colorado Exports to Selected Destinations (\$ million)



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

WHY IS THIS IMPORTANT?

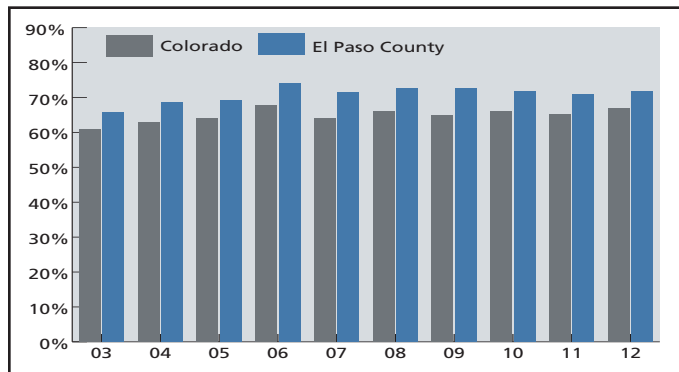
One indicator of the state’s competitiveness in a global economy is the ability to export goods and services. A higher level of export activity translates into more jobs in the state and more income and wealth. Colorado and Colorado Springs must continue to grow exports of goods and services in order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

HOW ARE WE DOING?

A slowing global economy and a 6.0 percent rise in the trade-weighted value of the dollar kept Colorado from a repeat of the strong 2010 increase in exports of \$859 million (15.0%). Colorado saw exports increase \$605 million in 2011, a growth rate of 9.0%. Exports to Canada and Mexico increased \$41 million (1.8%). Exports to Asia increased \$410 million (19.6%). Exports increased to Europe by \$126 million (7.8%). Rest of the world exports increased \$29 million (3.8%).

Twenty-one of 32 manufacturing categories saw increased export activity. The largest gains were in computer and electronic products \$257 million (14.6%), food manufacturing \$241 million (30.4%), machinery except electronic components \$146 million (20.8%), miscellaneous manufacturing \$83 million (22.6%), fabricated metals \$58 million (30.2%) and electrical equipment \$34 million (20.3%). Significant export declines took place in chemicals -\$194 million (-22.3%), oil and gas -\$97 million (-49.3%) and primary metals -\$25 million (-14.5%). Recessions in Europe and Asia will likely slow exports in 2012 and 2013, possibly contributing to a decline in 2013.

Colorado Student Assessment Program: Fourth Grade Reading Results



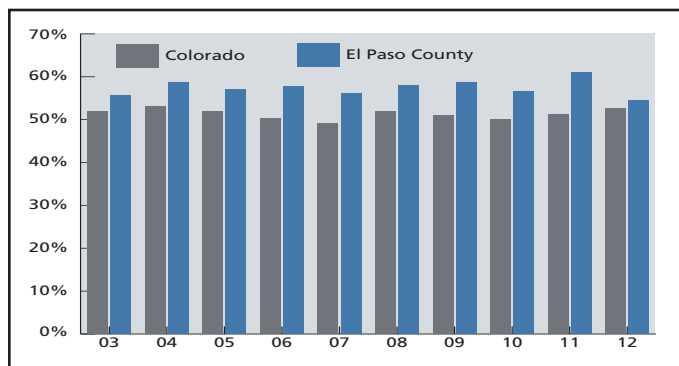
WHY IS THIS IMPORTANT?

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, 71.7 percent of El Paso County fourth graders were proficient or advanced in reading. This is about the same as last year’s proportion of 70.9 percent and noticeably higher than the statewide score of 67.0 percent. Reading scores in El Paso County have improved 12.9 points (21.9%) since the first CSAP, fourth grade reading exam in 1997 vs. a 11.6 point improvement in reading scores for Colorado since 1997.

Colorado Student Assessment Program: Fourth Grade Writing Results



Proficiency in writing slipped in El Paso County. In 2012, 54.4 percent of El Paso County fourth graders were proficient or advanced in writing vs. 60.7 percent in 2011. This is 1.9 points higher than the statewide proficient or advanced proportion (52.5% in 2012). Since the first CSAP writing exam in 1997, scores in El Paso County have improved 14.6 points compared to a 14.5 point improvement in Colorado.

Source: Colorado Department of Education

Education

WHY IS THIS IMPORTANT?

A skilled workforce 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.

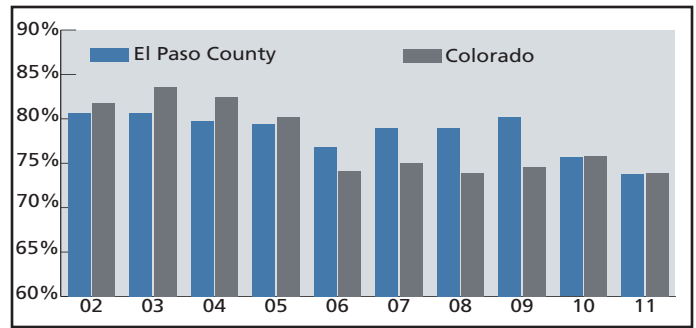
In a global economy, a multi-cultural, skilled work force is a requirement for success. Providing a quality education to all ethnic groups is important to our economic well-being. Reducing the dropout rate for all ethnic groups is one measure of success.

HOW ARE WE DOING?

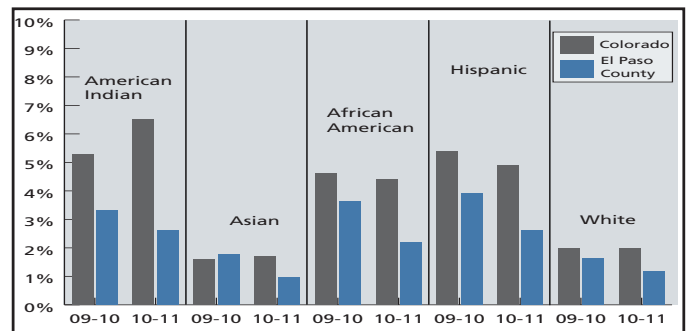
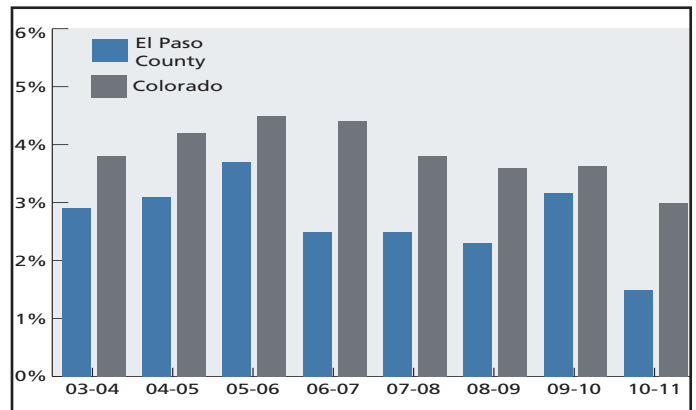
Graduation rates in El Paso County fell to 73.8 percent in 2011 compared to 75.7 percent in 2010. This is slightly lower than Colorado's graduation rate of 73.9 percent in 2011. With the exceptions of Harrison (72.4%), Colorado Springs (64.8%) and Edison (50.0%), all other districts had higher graduation rates than Colorado.

Dropout rates in El Paso County decreased from 2.1 percent in 2010 to 1.5 percent in 2011. Colorado saw a decrease in dropout rates from 3.1 percent in 2010 to 3.0 percent in 2011. 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?

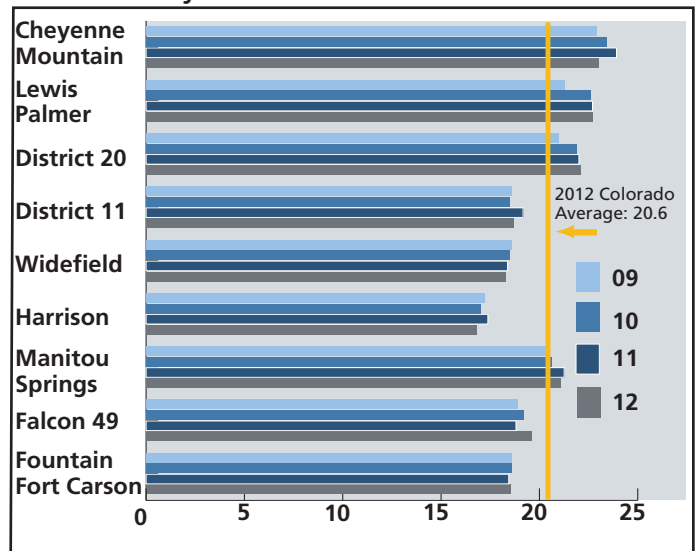
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates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

HOW ARE WE DOING?

In 2012, the ACT reported that Colorado students had an average test score of 20.6. This is up from 19.9 in 2011. Fountain Fort Carson (19.1) and Harrison (18.4) were the only two local districts with higher ACT scores in 2012. All other districts had lower scores contributing to an overall decline in El Paso County ACT scores from 20.51 in 2011 to 20.36 in 2012.

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 fifteenth lowest in the nation. Only eight other states [Illinois (20.9), Kentucky (19.4), Louisiana (20.3) Michigan (20.1) Mississippi (18.7) North Dakota (20.7), Tennessee (19.7) and Wyoming (20.3%)] require all students to take the ACT. An unbiased alternative test should be considered.

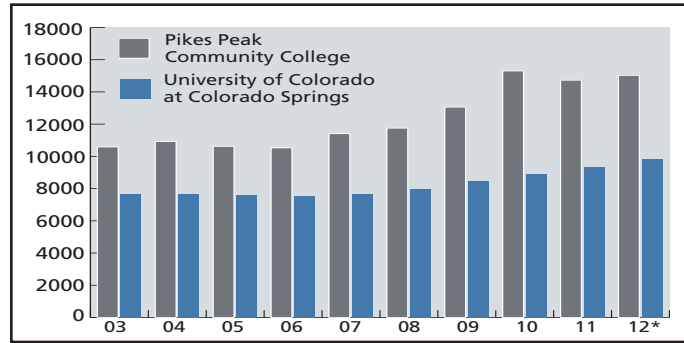
High School Junior ACT Scores in Selected El Paso County School Districts



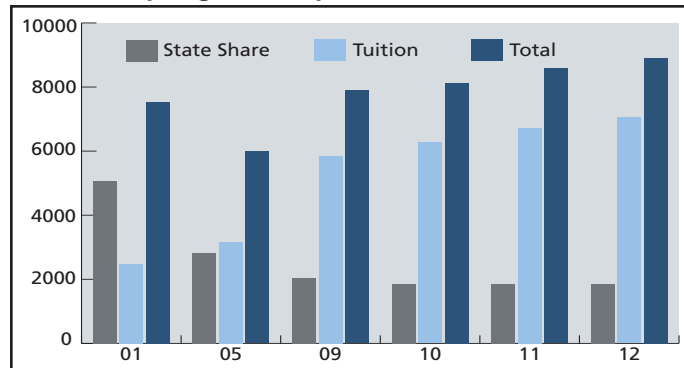
Sources: American College Testing program; Colorado Department of Education; local school districts

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 640,000 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.

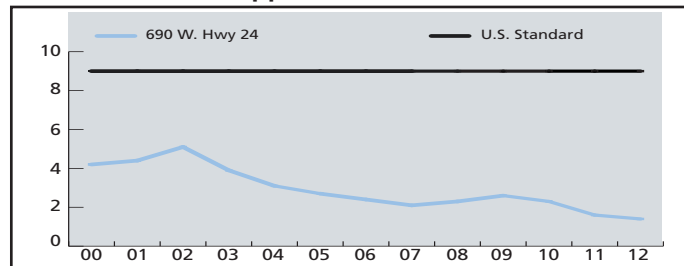
HOW ARE WE DOING?

Enrollments at University of Colorado Colorado Springs (UCCS) increased from 9,321 in 2011 to 9,850 students in the fall of 2012, an increase of 5.7 percent. Campus housing facilities of 900 rooms reached capacity in 2008. Dorms for 200 more students are scheduled to open in the Fall of 2013. A new science-engineering building opened fall 2009. A health sciences building is scheduled to open in 2014. The renovated science building opened in 2010-2011. These improvements give UCCS some of the best science labs in the state. Since 2006, enrollments at UCCS grew 30.6 percent (7,543 to 9,850).

Pikes Peak Community College (PPCC) enrollments increased to 15,020 in 2012 from 14,725 in 2011 (2.0%). Enrollments grew 42.7 percent since 2006 (10,526 to 15,020) at PPCC.

Per student state support for a typical, in-state freshman or sophomore at UCCS is 20.9 percent of the total per student revenue in 2012, down from 67.3 percent in 2001. State support plus tuition per student went from \$7,538 in 2001 to \$8,910 in 2012, an increase of 13.8 percent. Allowing for inflation, per student total revenue declined 5.1 percent from \$7,538 to \$7,152 between 2001 and 2012. Tuition increases have not been sufficient to make up for lost state support on a real per FTE basis.

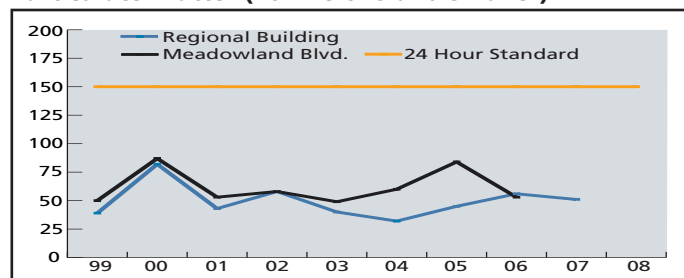
Carbon Monoxide (ppm)



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.

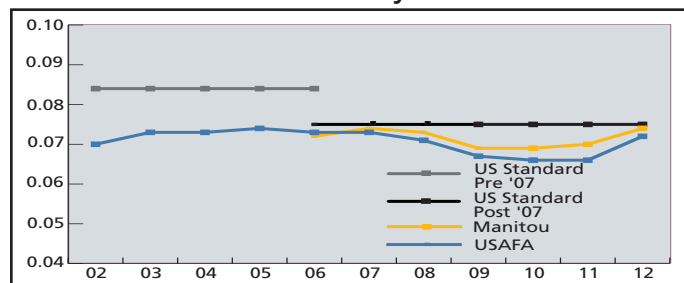
Particulate Matter (10 microns and smaller)



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 activity during the recession is also believed to have reduced pollution levels.

Ozone Trends in El Paso County



Sources: Pikes Peak Area Council of Governments

Particulate matter (PM) includes both solid particles and liquid droplets found in the air. Particles less than 10 micrometers in diameter 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 over the last couple of years. They now register 0.072 at the Air Force Academy and 0.074 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.

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?

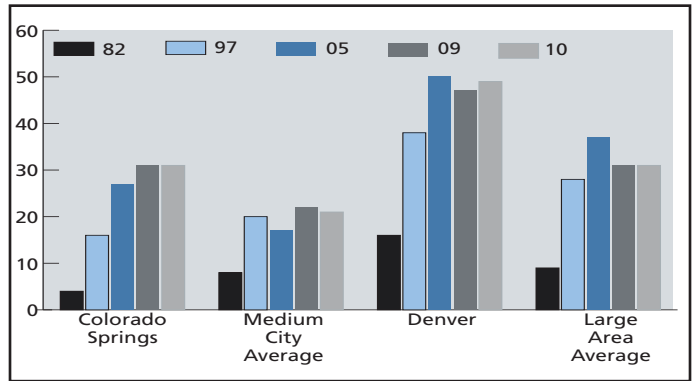
Traffic congestion continues to be an issue for the community. This information is reported by the Texas Transportation Institute. The 2010 results are presented to the right. Traffic conditions worsened in Colorado Springs and Denver.

The annual delay per traveler in Colorado Springs in 2010 was unchanged from 2009 at 31 hours and remains the highest on record. It is an increase of 8 hours over 2007. The 2010 score is 10 hours worse than the average for medium cities (21 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.

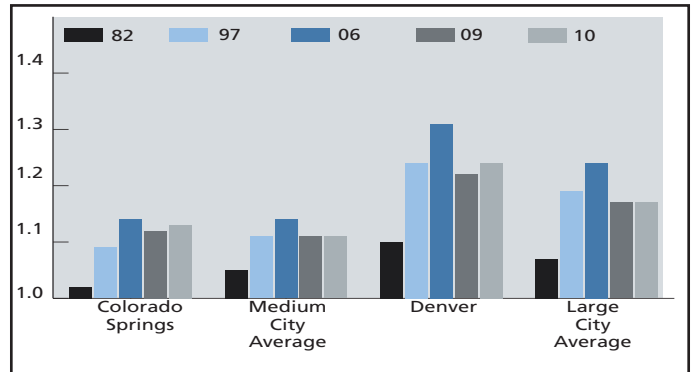
Annual delays per traveler in Denver worsened to 49 hours in 2010 compared with 47 hours in 2009. The average delay for large cities remained the same at 31 hours in 2010.

The travel time index is a ratio of travel time in the peak period to the travel time during free-flow conditions. The value of 1.13 for Colorado Springs in 2010 means that a 30 minute free-flow trip would take 33.9 minutes during the peak period. This has held relatively steady since 2004.

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 comparable size cities in the country.

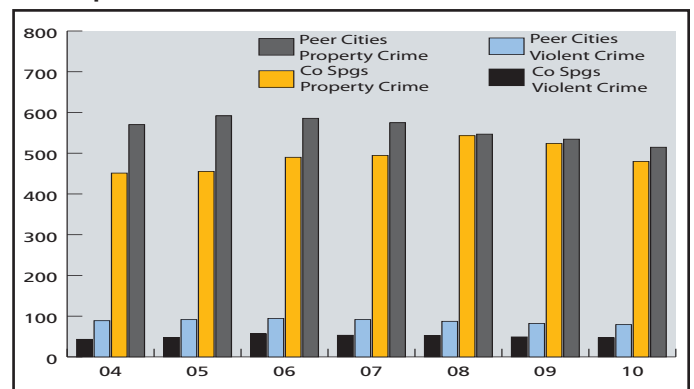
HOW ARE WE DOING?

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.

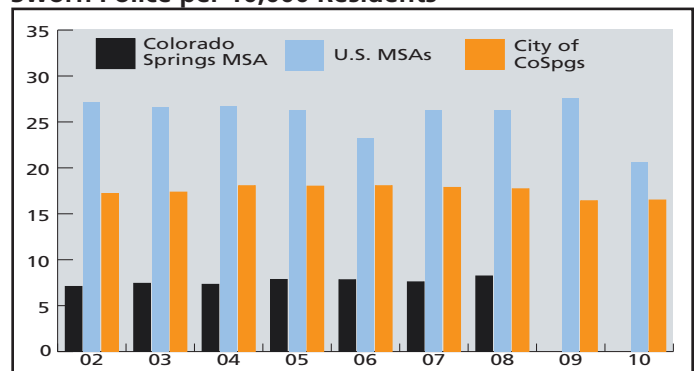
The Colorado Springs MSA violent crime rate remains below its peers. There were 47.1 violent crimes per 10,000 people in the Colorado Springs MSA in 2010. This is 40.6 percent below other similar size cities. The property crime rate is also below the peer group. There were 479.7 property crimes per 10,000 people in the Colorado Springs in 2010. This is 6.8 percent below the average of the peer group.

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 peer cities. Colorado Springs had 16.5 officers per 10,000 population while other MSAs had 20.6 officers in 2010. Given the current trends in the economy, the number of sworn police officers per 10,000 residents is expected to remain stable in 2011 and 2012.

Colorado Springs U.S. Peer Cities Violent and Property Crime per 10,000 Residents



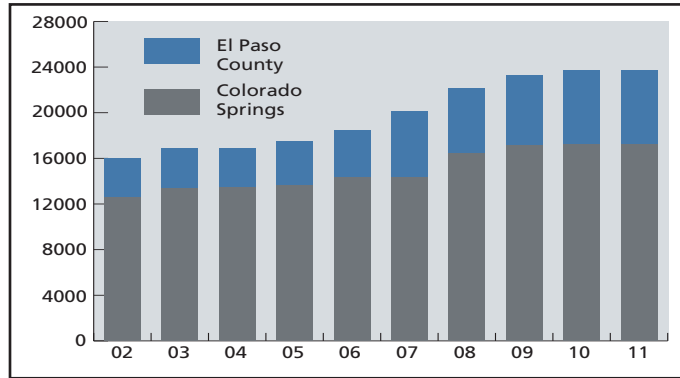
Sworn Police per 10,000 Residents



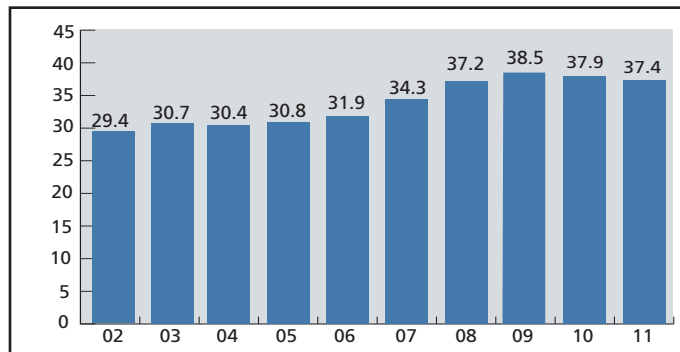
Sources: Colorado Springs Police Department; FBI

Park Acres and Birth Weight

Parks and Open Space in Colorado Springs and El Paso County (Acres)



Acres Per 1,000 Residents



Sources: City of Colorado Springs and El Paso County Parks Departments

WHY IS THIS IMPORTANT?

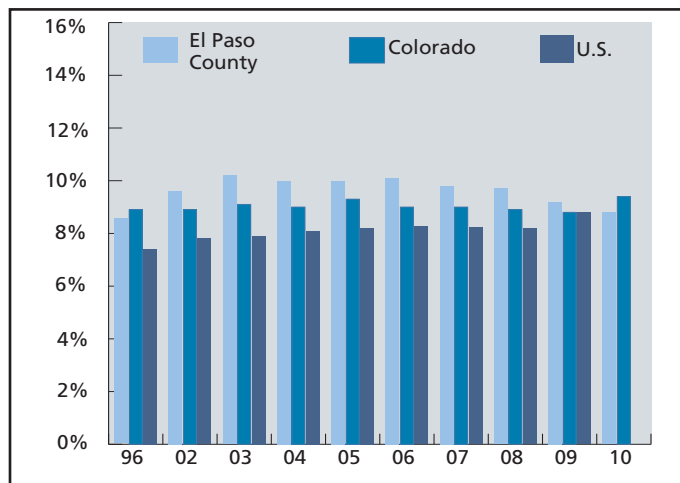
Open space, trails and park land provide important areas for recreation and leisure activity, support natural habitat and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and 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 23,728 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 decreased by 28 acres due to more precise GIS mapping of open spaces. El Paso County now manages 6,540 acres of trails and open space. 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 \$82.2 million or roughly \$5.7 million per year for trail construction, park construction, and open space acquisition. At its current pace, TOPS is expected to generate approximately \$6.4 million in 2012, an increase of 5.1 percent over 2011. Managing 23,728 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 upward trend that began in 1995 peaked in 2003. Since then, the proportion of low birth weight babies declined slightly. Currently, 8.8 percent of the children born in El Paso County are low-weight babies. This is lower than last year's 9.2 percent of the babies who were low-weight births. Of the children born in Colorado and the U.S., about 9.4 percent and 8.8 percent, respectively, were low-weight births in 2010 (2009 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. While this is an improvement, it should be noted that 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	2010 Per Capita Personal Income	Percent Change in Personal Income 2001-2010	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	34,482	20.3%	87.0%	2.51	45,955	41,673
Austin, TX	38,736	20.4%	97.8%	2.58	50,597	48,695
Boise, ID	33,307	13.0%	84.1%	2.67	43,645	39,173
Boulder, CO	50,095	23.1%	126.4%	2.39	51,972	53,815
Colorado Springs, CO	38,405	24.2%	96.9%	2.55	50,364	45,658
Denver, CO	46,871	17.1%	118.3%	2.5	58,515	53,724
Huntsville, AL	38,576	36.0%	97.4%	2.45	55,498	50,362
Kansas City, MO	41,557	25.3%	104.9%	2.51	52,733	46,574
Minneapolis, MN	46,819	23.5%	118.2%	2.53	56,184	51,345
Portland, OR	39,843	20.5%	100.5%	2.52	50,805	47,482
Pueblo, CO	30,194	21.0%	76.2%	2.46	39,028	36,684
Salt Lake City, UT	38,248	27.8%	96.5%	2.97	49,026	44,129
Tucson, AZ	34,987	38.1%	88.3%	2.46	44,048	41,379
Wichita, KS	37,221	21.6%	93.9%	2.55	48,070	41,402
Comparison City Average	39,239	23.7%	99.0%	2.55	49,746	45,864

Sources: Bureau of Economic Analysis, Regional Economic Accounts, 2010 American Community Survey U.S. Census Bureau

WHY IS THIS IMPORTANT?

The Forum looks at several MSA-City comparisons to provide a relative measure of how Colorado Springs compares with other metropolitan regions in the U.S. 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 2010 American Community Survey, U.S. Census Bureau. All figures are for 2010, the latest available comparison data for these MSA's.

HOW ARE WE DOING?

Reported per capita personal income in Colorado Springs was \$38,405 which is virtually unchanged from the 2009 figure. The average per capita personal income for all of the MSA's in the table is \$39,239. Per capita personal income in the Colorado Springs MSA was 96.9 percent of the U.S. average in 2010 of \$40,584. 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 2010 or 2.42 percent per year compared to a 23.7 percent growth rate for the average of the group or 2.37 percent per year. Differences in per

capita income are not explained by differences in household size. Household size varies marginally from 2.39 in Boulder to 2.97 in Salt Lake City.

Per capita income is largely determined by jobs and the earnings from 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 are 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 \$45,864 for all of the MSA's in the table. Wage and salary disbursements in Colorado Springs averaged \$45,658, ranking the city 8th out of the fourteen MSA's. Average earnings per job for the MSA's was \$49,746 in 2010. Colorado Springs average earnings per job were \$50,364 in 2010 also ranking the region 8th out of the fourteen MSA's. The average earnings per job in 2010 was \$618 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?

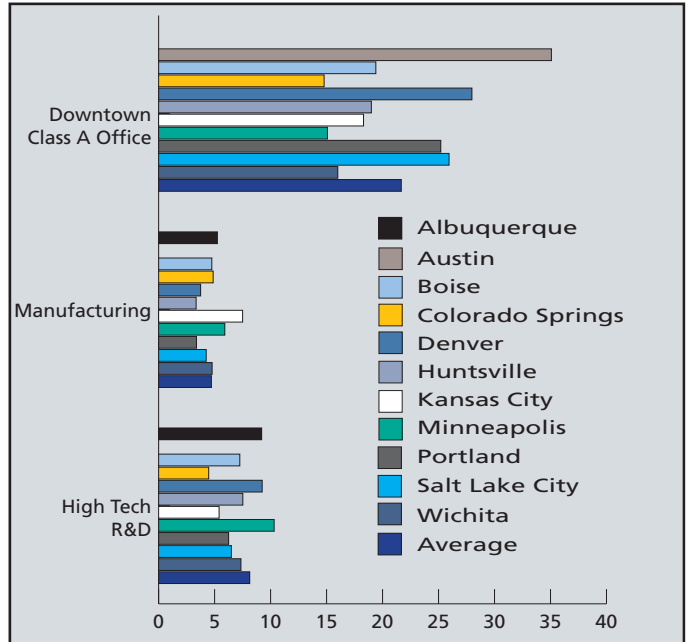
In January 2012, the average NAI Global downtown class A asking rent for this group of cities is \$21.68 per sq. ft. NNN. This is a drop from \$22.34 per sq. ft. NNN in October 2010. It suggests softness in the class A market in these cities. Rents in the Colorado Springs downtown area (\$14.78 per sq. ft.) are the lowest among all competitor cities. Rents fell in six of the cities and rose in four (Boise +\$.15, Colorado Springs +\$.28, Salt Lake City +\$.19, and Wichita +\$1.35). There is a slight positive correlation between vacancy and rental rates.

Manufacturing rents in the Colorado Springs MSA were \$4.75 with vacancy rates of 14 percent. There is very little association between rents and vacancy rates. The reported rents in manufacturing space are near the average for the comparable cities but the vacancy rate is much higher than the average. This probably has more to do with the lack of demand for manufacturing space than the asking price which seems to be in line with comparable cities. The average manufacturing rent in January 2012 was \$4.78 per sq. ft. for the competitor cities. Austin (\$5.25), Minneapolis

(\$7.50), Portland (\$5.91) and Denver (\$4.87) reported manufacturing rents that are higher than Colorado Springs.

High Tech/R&D space in the Colorado Springs MSA is competitive at \$7.25 per sq. ft., up \$.25 from last year. Average High Tech/R&D rents for the comparable cities is \$7.35 per sq. ft. which is a decline from \$8.14 per sq. ft. last year. Austin is the only city where High Tech/R&D rents increased.

NAI Metro Area Commercial 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?

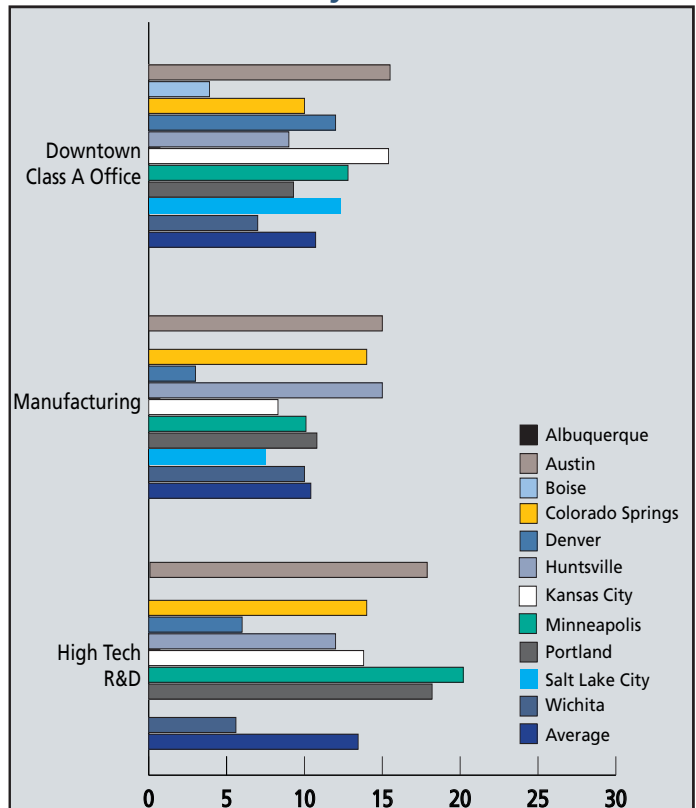
The Downtown Class A vacancy rate for these comparable cities averaged 10.7 percent as of January 2012. This rate is virtually unchanged from the 10.6 percent vacancy rate reported in 2010. The Downtown Class A vacancy rate in Colorado Springs rose from 9.1 percent in 2010 to 10.0 percent in early 2012. Vacancy rates varied from a high of 15.5 percent in Austin to a low of 3.0 percent in Denver. Only Austin, Boise and Kansas City experienced a decline in Class A vacancy rates.

Colorado Springs' manufacturing vacancy rate increased from 13.0 percent in 2010 to 14.0 percent in 2012. The average vacancy rate in manufacturing for these cities was 10.4 percent in January 2012. About half of the cities experienced declines in the vacancy rate over the past year. Austin saw its manufacturing vacancy rate decline from 20 percent to 15 percent while the manufacturing vacancy rate in Salt Lake City increased from 5 percent to 7.5 percent over the past year.

High Tech/R&D vacancy in Colorado Springs remained the same at 14.0 percent in January 2012 compared to the year earlier figure. The average High Tech/R&D vacancy rate declined 0.1 percent to 13.5 percent from year earlier figures. Denver saw its reported High Tech/R&D vacancy rate improve from 15 percent

to 6 percent over the past year. In contrast, the High Tech/R&D vacancy rate in Minneapolis increased from 11.2 percent to 20.2 percent over the past year.

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 9,850.
- 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. In 2011 the college 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.

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 relationships 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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