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SOUTHERN COLORADO ECONOMIC FORUM

seventeenth annual 2013-2014

southern colorado **economic forum**

SEPTEMBER 26, 2013

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The FBB Group, Ltd.®, formerly First Business Brokers, Ltd., is one of Colorado's largest and most successful intermediary firms representing privately owned businesses in the Rocky Mountain Region. Established in 1982 by Ronald V. Chernak, CBI, M&AMI, Fellow of the IBBA, The FBB Group has completed over 900 business sales covering a wide variety of industries.

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For further information, please visit www.fbb.com or contact Ron Chernak (rvc@fbb.com or 719-635-9000).

Ron Chernak, President, FBB Group, LTD.® Founding Partner of the Southern Colorado Economic Forum

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Welcome from Holland & Hart

Holland & Hart is proud to sponsor the 17th 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 of Columbia. We work hard to bring the experience of a large national firm to our local businesses and people. For more information, please visit us online at:

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Wendy Pifher, Partner, Holland & Hart LLP

HOLLAND & HART LLP

Welcome from the Chancellor

The University of Colorado Colorado Springs is pleased to join with its business partners to present the 17th 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 2013-2014 Southern Colorado Economic Forum. We wish you a productive and successful 2014.

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 17th Annual Southern Colorado Economic Forum. It is encouraging to see a pretty strong recovery in the stock market and the housing market. 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 working together to resolve regional issues. We hope the panel helps you understand these issues and some potential solutions.

We continue to approach the future with strong enthusiasm. Our online undergraduate degree completion programs in business, criminal justice, nursing and health sciences have been launched successfully. 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 businessES 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 2013 – 14 Southern Colorado Economic Forum

This marks the seventeenth 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 Quarterly Census of Employment and Wages (QCEW) for El Paso County indicates total jobs increased by just over 1.0 percent, or 2,414 in 2012. This is the second year of job growth after three years of job losses that occurred over the years 2008 through 2010. Even with two years of gains, employment in 2012 stood at 237,683 or 9,440 jobs below the peak achieved in 2007.

Fifteen of the twenty-one sectors saw job gains in 2012. The most significant job gains were in health care (1,067), accommodations and food services (383), construction (380), other services (298), manufacturing (253) and arts, entertainment and recreation (204). The strong showing in the health care sector represented 47.5 percent of total job gains in the county. Job losses took place in 6 sectors. Losses occurred in professional and technical services (812), and educational services (123).

The job market is improving ever so slowly. The unemployment rate at the end of 2012 stood at 8.7 percent. The rate has edged down since then and stood at 7.9 percent at the end of May. Several factors in the local economy including strength in residential construction, the general real estate market, health care and strong auto sales point towards a lower unemployment rate over the next six months. However, the uncertainty surrounding sequestration, furloughs and further reductions in the military budget cloud the forecast.

Downtown Colorado Springs

The primary or cluster industries we track (see graph on page 24) saw a slight employment decline from a total of 58,425 in 2011 to 57,904 in 2012. The largest decline occurred in professional and technical services (-975). Complex electronic manufacturing actually ticked up by about 327 employees in 2012. Quantum Corp. announced in July it is laying off 170 employees by the end of 2013. The announcement suggests this sector will not experience any growth in 2013.

The Colorado Springs Regional Business Alliance is targeting a number of key industries as part of the 6035 analysis conducted several years ago. Based on the identified NAICS codes in the final 6035 report, the Forum tracked employment and wages in El Paso County in these targeted industries in 2012 using the QCEW data from the Colorado Department of Labor and Employment. The information is summarized in the table below (page 5). Total employment in these five clusters is estimated at 34,693 in 2012. The estimates in the table may be high since it is often difficult to track specific jobs within a NAICS code. For example, the companies represented by NAICS 541712 [Research and Development in the Physical Engineering, and Life Sciences (except Biotechnology) industry] places them in the Emerging Industries/Entrepreneurs cluster. The Forum counts employment and wages for all firms in this NAICS code and does not attempt to differentiate firms that are "emerging and entrepreneurial" from those firms that are not.

Operation 6035 Target Industries			
	Employment	Total Wages	Average Wage
Aerospace, Defense & Homeland Security	7,345	$547,253,278	$74,511
Software and Information Technology	11,766	$1,074,786,743	$91,346
Renewable Energy and Energy Efficiency	7,437	$621,958,646	$83,630
Sports and Sports Related Industries	5,757	$129,645,181	$22,522
Emerging Industries/ Entrepreneurs	2,389	$236,335,602	$98,927
Total	34,693	$2,609,979,450	$75,230

This method undoubtedly leads to some overestimation in the cluster categories. As long as we continue to measure this way in coming years our data may have an upward bias but the data will be consistent, meaning it can be compared from year to year.

Several other observations and limitations should be made regarding cluster information. The Sport and Sports Related Industries include retailers such as Dick's Sporting Goods, fitness centers including the YMCA and other similar businesses. Many of these businesses and organizations would naturally locate in Colorado Springs without any targeted effort by economic development officials.

The renewable energy and energy efficiency cluster tends to have many small consulting and engineering companies with 1 to 10 employees interspersed with mid-size companies employing 30 to 200 employees. As expected, small firms with less than 21 employees dominate the emerging industries and entrepreneurs.

The military presence and military employment has been a bright spot in the local economy for years but is being impacted by sequestration of the federal budget. The U.S. Air Force Academy reported payroll reductions of $80 million and reduced purchases of construction and supplies of $43 million for its 2012 fiscal year. Other air force bases in the region have reported reductions in expenditures. Fort Carson's 2012 economic impact analysis estimates there will be 5,800 fewer civilian and military employees on the base. Collectively, the military is expected to provide 6,106 fewer jobs in fiscal year 2013. Sequestration, if not resolved, will continue to erode military and defense related private sector employment in the region over the next several years.

Last year the Forum examined the emergence of the health care sector in El Paso County. The interest in this sector stems from the 40 year lease of Memorial Hospital by the University of Colorado Health. Employment and wages for the healthcare sector in El Paso County are provided in the table below. The Forum found that total employment in the U.S. would have declined between 1998 and 2010 if employment

Table 3: Employment and Average Wages in the Health Care Sector (NAICS 62) in El Paso County in 2012			
NAICS		Employment	Average Wages
6211	Physicians offices	5,050	$71,768
6212	Dental offices	2,261	$44,447
6213	Offices of other health practitioners	2,330	$33,805
6214	Outpatient care centers	1,087	$53,955
6215	Medical & diagnostic labs	579	$61,006
6216	Home health care services	1,929	$28,371
6219	Other ambulatory health care	362	$46,886
622	Hospitals	8,868	$52,560
6231	Skilled nursing care facilities	2,258	$32,821
6232	Developmental disability, mental health & substance abuse facilities	250	$28,718
6233	Assisted living & continuing care	1,509	$24,322
6239	Other residential care facilities	387	$28,717
624	Community food & housing, emergency & other relief services	3,720	$33,452
6244	Child day care services	2,126	$20,990
62	Health care totals	32,715	$44,983
Source: Colorado Department of Labor, Quarterly Census of Employment and Wages			

Downtown Colorado Springs with Pikes Peak in the Distance

growth in the health care sector was not included in the total figures. The health care sector has become a more prominent employment driver in many communities including El Paso County. Page 22 provides a two-year comparison of wages and employment in El Paso County by NAICS code for years 2011 and 2012. Although not shown in the table, health care has grown from 9.3 percent of total QCEW employment in 2001 to 13.7 percent of employment in 2012. Hospitals and physicians offices are some of the larger employers in the sector. These sub sectors have average wages that are much higher than the average wage in the county. Total health care wages paid in El Paso County in 2012 amounted to $1.47 billion or 13.9 percent of total wages in all sectors in El Paso County. Employment in the county's health care sector grew by 1,067 between 2011 and 2012 or 3.4 percent. As this sector evolves, the Forum anticipates employment will continue to grow at a faster rate than general employment in the county.

Average QCEW wages increased in El Paso County from $43,628 in 2011 to $44,564 in 2012 or 2.2 percent. Wage growth was particularly strong in mining (up $156,728 to $236,912), utilities (up $22,204 to $103,584), manufacturing (up $3,640 to $61,880), wholesale trade (up $1,768 to $58,968), finance and insurance (up $3,120 to $56,680), real estate and rental and leasing (up $1,352 to $35,152), and management of companies and enterprises (up $6,864 to $91,364). The large increase in mining wages is likely an aberration caused by oil and gas drilling in the county. The drilling concluded after low-quality oil and gas formations were found in the test wells. The Forum expects wages in mining to decline to more normal levels this year. The average wage in the county is 11.8 percent below the state average of $50,544.

Income generation has been lackluster in the community. However, per capita personal income did increase 5.25 percent to $39,994 in 2011 over the 2010 level of $37,999. The Forum forecasts per capita personal income will increase to $40,794 in El Paso County in 2012. This would be 4.5 percent below the U.S. and 9.6 percent below the Colorado per capita personal income in 2012.

Residential Construction and Commercial Real Estate Activity

Residential building continued its strong rebound that started in the second half of 2011. During the last twelve months from July 2012 through June 2013, there were 2,836 single family permits issued in El Paso County. This is an increase of 916 permits (47.7%) compared to the 1,920 permits issued from July 2011 through June 2012. At the current pace, the Forum expects there will be 3,000 single family permits issued in 2013. The Forum expects the housing recovery along with ongoing rebuilding in Mountain Shadows and Black Forest will generate a total of 3,700 permits in 2014.

Multi-family permits are expected to top 600 for the third consecutive year. Interest in multi-family projects is being propelled by the low 6.4 percent vacancy rate and an average county-wide rent of $780 per month. Through June this year, permits for 25 projects and 348 units have been pulled. Multi-family unit values are averaging $130,785 so far this year. This is up 4.5 percent from an average multi-family unit value of $125,123 for this time last year. Multi-family permits are expected to end the year at 625 units with a forecast for another 650 units in 2013.

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 $257,770 in the Pikes Peak region in 2013, a 6.0 percent increase from $243,180 in

2012. The median price of a single family home is expected to increase to $222,300 in 2013 compared to $209,700 in 2012. Despite having increased almost a full percent in the early summer of 2013, near record low mortgage interest rates should continue to help improve the housing market through 2013. Sales are expected to reach 11,000 homes in 2013 and 12,000 homes in 2014.

The increase in residential real estate activity helped to reduce the rate of foreclosure. Foreclosures decreased 2.8 percent in 2012 to 3,364. This is the third consecutive year foreclosures declined in El Paso County. Through June, there have been 1,049 foreclosures. This compares very well with 1,777 foreclosures for the same period in 2012. The Forum projects there will be 2,100 foreclosures in 2013 and 1,700 foreclosures in 2014.

Turner Commercial Research reports mixed signals in the commercial real estate market. Commercial vacancy rates improved to 13.7 percent compared to 14.9 percent last year. However, triple net lease rates dropped to $10.23 a square foot compared to $10.27 a year ago. Hoff & Leigh reports a similar overall vacancy rate of 13.2 percent with an average asking rate of $11.07 per sq. ft. This is an improvement from June 2012 when the asking rent was $11.04 and vacancy rates average 14.4 percent.

According to Hoff & Leigh, asking rents for office space vary from $9.18 in the southwest section of the city to $14.75 in the east. Evidence suggests landlords remain willing to negotiate leases and the actual lease rate may be 25-40 percent below the advertised rates. However, these discounts will continue to diminish as long as the vacancy rate continues to decline. Vacancy rates are the highest in the central part of the city at 21.6 percent and lowest in the west at 3.3 percent.

The industrial vacancy rate decreased to 9.1 percent in June 2013 from 9.8 percent in June 2012. Average rents increased from $6.09 in June 2012 to $6.30 in June 2013 according to Turner Commercial Research. Hoff & Leigh reports the lowest asking rates are in the south of the city at $5.53 per sq. ft. and the highest rate at $8.35 in the north of the city. Vacancy rates are highest at 13.4 percent in the downtown part of the city and lowest at 4.9 percent in the eastern sections of the city.

Shopping center vacancy rates increased from 12.0 percent at the end of June 2012 to 12.3 percent in June 2013. Average rents increased about $0.20 per sq. ft. from $12.46 at the end of June 2012 to $12.66 in June 2013 according to Turner Commercial Research. Hoff & Leigh reports second quarter vacancy rates are highest in the southeast area of Colorado Springs (21.4%) and lowest in Monument (3.3%), southwest (3.3%) and west (3.8%) areas of the local market. As was the case last year, Hoff & Leigh reports that 70 percent of the total retail vacancy is located in the central and southeast sub markets of the city. These are areas of the city that are ripe for redevelopment.

Wholesale and Retail

Retail sales increased 4.0 percent, or $600 million to $14.5 billion in 2012. 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 increased. In contrast, retail trade sales declined in general merchandise, building materials, and non-store retailers. Employment in the retail trade sector increased 78 jobs from 29,218 in 2011 to 29,296 in 2012 or 0.27 percent. Wages increased $676 to $27,196 (2.5%)

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 5.6 percent or $6.9 million from $121.8 million in 2011 to $128.7 million in 2012. Sales and use tax collections are expected to increase 7.0 percent this year and another 5.5 percent in 2014.

A number of factors will affect retail sales in 2014. 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 will affect retail sales negatively. Sequestration is expected to reduce employment and incomes in the area. This will hinder retail growth next year. On the other hand, the rebuilding and restocking of homes in Mountain Shadows will continue into 2014. This economic activity will be boosted by rebuilding and restocking efforts in the Black Forest burn area. These rebuilding activities will help offset any reductions in federal spending in the region.

After declining for three consecutive years, wholesale sales increased for the first time since 2008. Wholesale sales in El Paso County increased 10.7 percent in 2012 to $3.94 billion from $3.56 billion in 2011. Wholesale sales did not do well in Colorado. Wholesale sales levels in 2012 decreased 9.5 percent to $59.0 billion from $65.2 billion in 2011. Wholesale trade employment in El Paso County increased only 46 from 4,700 in 2011 to 4,746 in 2012. Wage growth for employees in wholesale trade increase an average of $1,768 to

Black Forest home destroyed by fire

$58,968 from $57,200 in 2011.

The Forum's forecast for the remainder of 2013 and forecasts for 2014, can be found on page 16.

Most of the aggregate economic growth in El Paso County since the recession (16.8% in the Forum's Business Conditions Index - BCI) can be attributed to new residential housing permit activity and new vehicle registrations. If these two measures 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.

The Black Forest Fire

The Black Forest fire started on June 11, 2013. The fire burned for ten days before being declared 100 percent contained on June 21, 2013. The fire took the lives of two people, destroyed 464 single family homes, 24 mobile homes, 8 garages, 1 commercial building, 188 outbuildings and hundreds of historical barns and other structures. Thirty-eight to forty thousand people were evacuated. Dozens of other residences were damaged and seven burglaries were reported. The cost to fight the fire was approximately $10 million. The El Paso County Assessor's Office estimated the fire caused $116 million in property damage. The Rocky Mountain Insurance Information Association reported there were 3,630 initial insurance claims for $292.8 million. Seasonal monsoons since the fire was contained are causing repeated flooding in the Black Forest as well as the highway 24 corridor and Manitou Springs. The potential for additional damage will continue for years.

The Forum extrapolated the economic impact of the Black Forest fire based on its analysis of the Waldo Canyon Fire in 2012. The Forum expects there will be approximately 5,600 insurance claims amounting to $453 million. Rebuilding the destroyed homes and outbuildings, repairing damaged homes will take several years. Most damaged vehicles will be replaced within a year. Collector vehicles may never be replaced. As with the estimates done for the Waldo Canyon fire, the Forum assumed these activities would be paced evenly over a five year period. The Forum examined the economic impact of rebuilding the Black Forest community including construction and the refurnishing of the residences which includes housing contents. Both stages were done by scaling last year's analysis of the results for Waldo Canyon. These results were generated with Implan.

The construction phase assumes 488 residences will be rebuilt. The total replacement and repair cost is estimated to be $118 million. The following economic impact is anticipated from the rebuilding and repair activity.

Economic Impact of Rebuilding 488 Residences in Black Forest			
	Jobs	*Income*	*Sales & Use Tax*
Direct	*1,058*	*$56,086,000*	*$1,949,000*
Indirect	*392*	*$16,762,000*	*$625,000*
Induced	*389*	*$14,080,000*	*$678,000*
Total	*1,839*	*$86,928,000*	*$3,252,000*

Spread over five years, the Forum expects 368 jobs will be created each year to rebuild Black Forest. These jobs will generate income of $17,386,000 per year and $650,000 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. This may not be the case since some residents may not rebuild. The expected economic activity would be reduced if fewer homes are rebuilt.

It was assumed that the balance of the insurance claims of $175 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.

Economic Impact of Refurbishing 488 Residences in Black Forest			
	Jobs	*Income*	*Sales & Use Tax*
Direct	*1,029*	*$27,970,000*	*$230,000*
Indirect	*128*	*$5,010,000*	*$1,169,000*
Induced	*173*	*$6,245,000*	*$1,197,000*
Total	*1,330*	*$39,225,000*	*$2,596,000*

Over the five year period, the Forum expects 266 jobs per year will be created. These jobs will generate income of $7,845,000 per year and $519,000 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 automobiles, replacement furnishings, clothing and so forth 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 10.0 to 30.0 percent depending on these leakages.

The table below provides combined economic impact estimates of the Waldo Canyon and the Black Forest fires. 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.

Economic Impact of Rebuilding/Refurbishing 488 Residences in Black Forest and 346 Residences in Waldo Canyon fires			
	Jobs	*Income*	*Sales & Use Tax*
2013	*760*	*$30,154,000*	*$2,071,000*
2014	*1,394*	*$55,385,530*	*$2,572,271*
2015	*1,394*	*$55,385,530*	*$2,572,271*
2016	*1,394*	*$55,385,530*	*$2,572,271*
2017	*1,394*	*$55,385,530*	*$2,572,271*
2018	*634*	*$25,230,930*	*$1,169,249*

There will be additional costs associated with the fire. These include inevitable flooding, hill-slides and repeated restoration and cleaning of gathering and holding reservoirs along the Rampart Range and U.S. 24. Colorado Springs Utilities is concerned about the potential for damage to power lines and water treatment facilities in the burn area during a rainstorm. The potential disruption in the water system is severe. Currently, Colorado Springs Utilities runs about 80.0 percent of its water through areas burned in the fire.

There are several other concerns about the burn areas. Re-vegetation and growing trees in the burn areas will take a long time. Eleven years after the Haymen Fire of 2002, the affected area remains devoid of significant vegetation. Reforesting the Mountain Shadows/Waldo Canyon and Black Forest burn areas with trees that are 4 to 10 feet tall could takes 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 the fire will affect housing values. The Assessor's Office estimated properties in Black Forest with destroyed trees lost 30.0 percent of their values. Properties with some tree damage, but not totally destroyed, lost 15.0 percent. Market transactions over the next several years will yield evidence of actual property value losses.

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 834 new, modern, upscale residences complete with new landscaping in the burn areas. These residences could contribute to a contagion effect where the surrounding property values rise. Answers to these unknowns will become clearer over the next several years.

In sum, the Waldo Canyon fire of 2012 and the Black Forest fire of 2013 have both direct measurable costs and many indirect costs that are difficult or impossible to attach monetary value. 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.

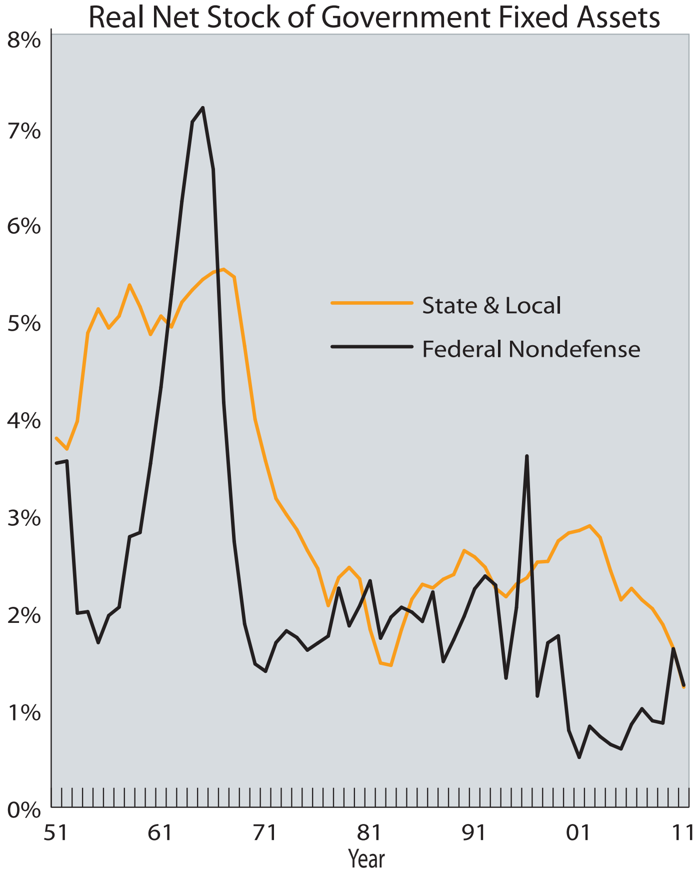
Infrastructure in the Pikes Peak Region

Over the years, local government has struggled with securing the financial resources necessary to maintain and improve the region's infrastructure. Infrastructure includes but is not limited to roadways, public transportation, water, sewer, electric grid, gas, stormwater, schools, parks, trails and open space and other systems that provide commodities or services to enhance society and the community. The peculiar tax structure in Colorado has placed limits on the ability of most communities along the front range to adequately fund and support infrastructure maintenance and improvements.

An area of research in economics examines public investment made in infrastructure and how it affects private sector performance and productivity. One economic argument suggests any increase in public sector investment and spending will reduce private sector spending and investment. "Crowding out" occurs when government raises taxes or borrows money which leaves businesses with less money to spend on their activities. The argument goes on to state that any increase in borrowing by government increases the demand for capital from investors which has the potential of raising interest rates. The increase in rates, in turn, discourages private sector investment. Further, increases in government expenditures can be inflationary if any increase is financed with newly printed money. Economic research does not provide much support for the "crowding out" effect. In fact, the evidence on this topic, although not conclusive, seems to indicate that public expenditures may actually complement private sector consumption and investment. In other words, rather than "crowding out," public expenditures may complement private investment by increasing the overall productivity of capital.

James Heintz, in his 2010 article "The impact of public capital on the US private economy: new evidence and analysis" points out, "*If public capital is an important determinant of private economic performance, the decline in the growth rate of the public capital stock would have had a negative impact on US economic growth.*" The graph below and the table show the annual growth rate in the real net stock of government fixed assets. Government fixed assets includes buildings for offices, schools, hospitals, etc.; highways and streets; transportation assets; water, power, sewer systems; amusement and recreation assets such as parks and other assets. These real net stocks represent investments made in the infrastructure of the country.

Annual Growth Rate in
Real Net Stock of Government Fixed Assets



The graph and the table show the stock of fixed assets grew at about twice the rate from 1951 to 1972 compared to the period from 1973 to 2011 for both federal non-defense stocks and state and local government.

The question to be considered is if public and private investments are complements, does a decrease in the growth rate of public investment imply lower growth in output of the economy. A second question is whether states and communities that invest more (less) in fixed capital stock will see more (less) private investment and higher (lower) productivity of capital.

Annual Growth Rates in Real Net Stock of Government Fixed Assets		
	1951-1972	*1973-2011*
Federal non-defense	*3.45%*	*1.62%*
State & local government	*4.75%*	*2.30%*

With these questions in mind we set out to collect information on the need for public infrastructure investments in the Pikes Peak region. We examined a number of sources including the "Capital Improvement Program (CIP)" in the City of Colorado Springs Budget for 2013, "Moving Forward Update 2035 Regional Transportation Plan," January 2012 from the Pikes Peak Area Council of Governments, Colorado Springs Utilities "2013-2017 Strategic Plan & 2013 Operating Budget," and "White Paper Exploring Potential Solutions To Regional Stormwater Challenges," June 2012 by Summit Economics LLC. These sources provide estimates of infrastructure needs in El Paso County covering roads, bridges, transit, signals and safety, trails, bikeways, parks, open spaces, stormwater needs and information technology, sewer, water and electric infrastructure needs for the City of Colorado Springs and others.

There are a number of limitations with the data we have gathered. First, it was evident that it would be easy to double count projects. For example, many road and bridge projects listed in the City of Colorado Springs capital improvement plan are also listed in the Pikes Peak Area Council of Governments regional transportation plan. In order to avoid double counting, information was collected from the source that provided a more comprehensive coverage of the region. In the case of transportation, the Forum relied more on the PPACG report and used the CIP report to supplement the information. The Forum repeated this with other documents that appeared to contain overlapping information. The second issue is which of the project cost estimates are in today's dollars and which projects reflect future dollar costs. In many cases it was difficult to tell whether cost estimates and anticipated needs were in present or future dollars. In our analysis, we did not attempt to discount any future planned expenditures since often there was no information provided on when the proposed expenditure would take place. What this means is that our information will likely over represent the present value of infrastructure needs. The validity of the analysis would be improved if more detail were available on the proposed expenditures. Third, the complete transportation needs list was examined including the fiscally constrained projects and unfunded projects in the PPACG regional transportation plan. The list was grouped to place the proposed expenditures into a reasonable number of categories. Some of the proposed expenditures in this plan were difficult to interpret and overlapped several categories.

Given these limitations, estimates of the most "critical" infrastructure needs in El Paso County are provided in the table below.

Total Infrastructure Needs	
Stormwater	*$834,400,000*
Colorado Springs Utilities	*$1,150,700,000*
Colorado Springs Misc.	*$12,970,000*
Regional Roadway	*$3,073,060,000*
Regional Bridge	*$103,710,000*
Regional Pedestrian	*$45,220,000*
Regional Bikeways	*$40,990,000*
Regional Signals/Safety	*$146,080,000*
Regional Transit	*$728,710,000*
Total	*$6,135,840,000*

The infrastructure needs total over $6.1 billion covering a period stretching out as far as 25 years. The good news is that a good portion of these infrastructure investments have an identified funding source. For example, the investments made by Colorado Springs Utilities over the next five years are largely for water and the Southern Delivery System (SDS). Utility rate increases will pay for these investments. Potential funding sources for the regional transportation infrastructure improvements listed in the table have been identified. Funding for these investments will come from federal, state and local sources over time.

Currently there is no dedicated source of funding for the region's stormwater infrastructure needs. The Pikes Peak Regional Task Force on Stormwater is currently working to develop funding alternatives to meet the needs for stormwater improvements. Some of the recent flash floods experienced in the Waldo Canyon and Black

Forest burn areas make it imperative that a regional solution for funding these projects be found quickly. Hopefully, citizens in El Paso County will have the opportunity to vote on this issue in 2014.

The transportation and transit needs shown in the above table have an identified revenue source to fund the proposed projects. However, as stated in the regional transportation plan:

"The reality is that the costs of maintaining, operating, and expanding the transportation system have risen dramatically, but revenues are flat or, in many cases, reduced. The Pikes Peak region has accumulated a backlog of projects that are needed just to sustain the current system, let alone expand it. The 2035 Regional Transportation Plan acknowledges that projected funding is not sufficient to adequately maintain existing infrastructure or serve all of the projected needs. Achieving the complete vision will require significant new revenues from yet-identified sources" [p. E-8].

The implication is clear. Without new funding to cover the transportation backlog, our roadways will become more congested and degraded as the population increases over the 25 year planning horizon. The regional transportation plan identified $7.0 billion other unfunded projects that "would also be beneficial to the regional transportation system" [p. 244]. The cost estimates for unfunded transportation needs are provided in the table below. If funding is not identified to complete these projects we can expect further deterioration in the regional transportation system and more gridlock. Assuming funding is identified, these projects would relieve congestion, improve safety, reduce travel times, improve air quality and the overall quality of life in the Pikes Peak Region.

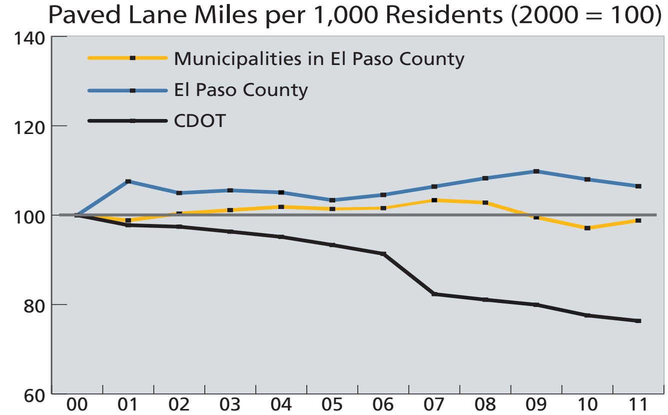
Unfunded Transportation and Transit Needs Identified through 2035	
Regional Roadway	*$6,118,500,000*
Regional Bridge	*$67,850,000*
Regional Pedestrian	*$37,150,000*
Regional Bikeways	*$32,050,000*
Regional Signals/Safety	*$43,660,000*
Regional Transit	*$724,230,000*
Total	*$7,023,440,000*

Roadway construction in El Paso County is done by the Colorado Department of Transportation (CDOT), El Paso County or one of the municipalities in the county. Paved lane miles for each agency were obtained from CDOT for years 2000 through 2011. Population statistics were obtained from the Colorado Department of Local Affairs. The Forum standardized paved lane miles to paved lanes miles per 1,000 residents. The data were then indexed to 100 for year 2000. The results are illustrated in the following table and chart.

The data were separated by level of responsibility for the roads. Three categories were identified. They are state (CDOT), El Paso County and local municipalities in El Paso County. Current population estimates for municipalities are not available. Therefore, total population in the county was used to standardize all paved lane miles to a per capita basis. The standardized results are summarized in the following table and chart.

Lane Miles per 1,000 Residents in El Paso County (Indexed for 2000 = 100)			
Year	*CDOT*	*El Paso County*	*Municipalities in El Paso County*
2000	*100.0*	*100.0*	*100.0*
2001	*97.8*	*107.6*	*98.8*
2002	*97.4*	*105.0*	*100.3*
2003	*96.3*	*105.5*	*101.1*
2004	*95.1*	*105.1*	*101.9*
2005	*93.3*	*103.3*	*101.4*
2006	*91.4*	*104.5*	*101.6*
2007	*82.3*	*106.4*	*103.3*
2008	*81.1*	*108.3*	*102.8*
2009	*80.0*	*109.8*	*99.5*
2010	*77.6*	*108.0*	*97.1*
2011	*76.3*	*106.5*	*98.8*

Paved Lane Miles per 1,000 Residents (2000 = 100)



Since 2000, CDOT maintained paved lane miles in the county dropped approximately 23.7 percent on a per capita basis. Quite simply, population growth was far greater than the growth in CDOT maintained lane miles. Examples of CDOT roads include I25, Powers Boulevard and U.S. 24. The inability to expand highway lane miles in the county contributes to higher levels of congestion, increased air pollution and higher social costs ranging from being late for a family or business event to discouraging tourists from visiting the area. The great New York Yankee philosopher noted this about Ruggeri's restaurant in St. Louis. "Nobody goes there anymore. It's too crowded."

During the last decade, much of the residential growth in the county took place in areas outside Colorado Springs. New residential development anyplace in the county carries the responsibility of building new roads. These roads are generally designed for build-out capacity of the developments. Local roads were constructed in anticipation of development. These developer constructed roads grew faster than the population. The net effect is per capita lane miles in the county increased from 2000 to 2011 by 6.5 percent.

Finally, paved lane miles in municipalities in El Paso County remained relatively stable from 2000 through 2011. On a per capita basis, paved lane miles under the control of municipalities in El Paso County decreased slightly by 1.2 percent from 2000 to 2011.

When evaluated on a per capita basis, the analysis points to one area that needs the greatest attention. CDOT administered roads need more resources to accommodate population growth. Since improved roadway throughput reduces gasoline consumption and vehicle emissions, enhancements to CDOT maintained roads will also contribute to controlling and/or reducing air pollution in the area. The challenge seems to be how will enhancements to I25, U.S. 24 and other similar CDOT maintained roads be funded over time?

I25 Lane Addition from Academy to Monument

The EPA noted in March 2013 in its Light-Duty Automotive Technology, Carbon Dioxide Emissions, and Fuel Economy Trends: 1975 Through 2012. "CO_2 is the most important greenhouse gas, responsible for a majority of all global, anthropogenic greenhouse gas emissions. Light-duty vehicles directly emit approximately 17% of total U.S. CO_2 emissions. In April 2007, the U.S. Supreme Court determined that CO_2 is a pollutant under the Clean Air Act, and in December 2009, EPA published two findings that CO_2 and other greenhouse gases from new motor vehicles and new motor vehicle engines contribute to air pollution, and that the air pollution may reasonably be anticipated to endanger public health and welfare."

The question is: What emission standards will the EPA impose to reduce CO_2 emissions? A consequence of this is road improvements must demonstrate an expectation that air quality will be improved.

Currently, I25 is being expanded to three lanes from North Academy to Monument. While residents of the area might think it is overdue, the motivating factor is how the road improvements will affect air quality. The project carries a cost of approximately $66 million, $5.5 million a mile to cover the twelve mile project.

Wilson and Company published an update on air quality issues for the I25 corridor in its I25 RE-EVALUATION, Mileposts 149 to 161, in April 2012. This covers the current construction project on I25 from North Academy to Monument. The report noted that key intersections along I25 will be incapable of additional peak travel capacity if I25 is not expanded to three lanes. Expanding to three lanes will accommodate daily expected increased traffic flow of 100,000 vehicles in 2015, 140,000 in 2025 and 180,000 in 2035. Currently, I25 through Colorado Springs accommodates approximately 110,000 vehicles per day. The report notes the enhancements to I25 are expected to accommodate an increase in traffic without an increase in air pollution.

Despite the capacity increase along I25, the Level of Service (LOS) is not expected to improve. LOS D is the level at which speeds decline slightly due to traffic density, and room to maneuver is more noticeably restricted. LOS E provides reduced speeds and offers little room to maneuver because vehicles are closely spaced. The roadway is at or near its capacity. LOS F represents a breakdown in traffic flow in which traffic demand exceeds the roadway's capacity. Even with the improvements, the report indicates peak congestion will most likely be D in 2015, E in 2025 and F in 2035.

The Federal Highway Administration (FHWA) operates the Highway Trust Fund by collecting a specific tax per gallon of gasoline used in vehicles that operate on the nation's roads. The historical tax rates and revenues are shown in the following table.

Higher CAFE standards represent a two edged sword. Increased fuel efficiency reduces CO_2 emissions per mile. However, increased fuel efficiency is also lowering revenues for the FHWA Trust Fund. The Congressional Budget Office projects there will be a 21.0 percent decline in FHWA tax revenues by 2040. This begs the question – How will an already underfunded highway system be able to build and repair roads if revenues decrease 21.0 percent?

According to the Texas Transportation Institute's (TTI) 2012 Urban Mobility Report, commuters in Colorado Springs sit in traffic congestion, mainly along I25, for 26 hours a year. Commuters waste 11 gallons of gasoline in stop and go driving each year. The per commuter cost of the congestion was estimated at $530 a year by the TTI. Quality of life factors for the lost time were not explicitly estimated. Allowing for approximately 240,000 commuters in El Paso County, the annual cost of congestion is approximately $127.2 million. Local commuters are misdirecting their personal budgets. Instead of sitting in traffic, they would be better off paying for road improvements with some form of fee/tax to eliminate congestion.

Highway Financing Trends, Fuel Efficiency and Emissions

	FHWA tax per gallon	FHWA taxes (billions)	Avg. MPG	CAFE target MPG for new vehicles	CO_2 grams/mile
1975	$0.049	$6.77	13.1		681
1980	$0.049	$7.64	19.2		466
1985	$0.099	$12.90	21.3		417
1990	$0.141	$13.45	21.2		420
1995	$0.184	$19.37	20.5		434
2000	$0.184	$30.34	19.8		450
2005	$0.184	$32.90	19.9		447
2010	$0.184	$30.19	22.6		394
2016				35.5	300*
2025				54.5	200*

*Projection by Forum

Data from the FHWA and Congressional Budget Office point to a funding crisis for our highways in the near future. Improved fuel efficiency is going to reduce funding for road maintenance and enhancements. The most recent data from the Federal Highway Administration points out that vehicle miles peaked in November 2007 at approximately 3,038,889 million miles. This dropped approximately 2.6 percent to 2,959,999 million miles at the end of the recession. Since then, vehicle miles remained relatively unchanged. Fewer vehicle miles translates to fewer gallons of gasoline being consumed and reductions in highway trust fund revenues. Declining trust fund revenues are also tied to a projected increase in vehicle MPG under the 2016 and 2025 CAFE standards.

The Congressional Budget Office projects that a $6 billion revenue shortfall will take place in 2013. The cumulative shortfall through 2023 is projected to be $92 billion.

An alternative tax system is being considered. It is likely to be based on miles driven with a smart chip in vehicles that is scanned at a fuel pump or your recharging station at home for electric vehicles. The alternative is to live with worsening road conditions. Drivers will pay for worsening road conditions through more wasted fuel, lost time, increased auto repair costs and poorer air quality. The cost of necessary infrastructure improvements is significantly less than the recurring cost of congestion.

Where is the Economy Heading?

As of August 2013, prospects for the economy are significantly better than they were a year ago. While the federal budget deficit continues to hover near $1 trillion, it has stabilized. The congressional Budget Office estimated that federal tax revenues rose 6.0 percent in 2012 and are expected to increase 11.0 percent in 2013. This reflects both an increase in tax rates on high income individuals and existing tax rates being applied against higher income levels for individuals and corporations.

The local economy and the effects of sequestration are a concern. The Department of Defense is looking at annual budget cuts of approximately $50 to $60 billion a year from its planned funding through 2021. It is reasonable to assume the local military installations will see a reduction in their expenditure allocations. In addition to reduced military expenditures, the Budget Control Act calls for a matching reductions in "soft" expenditures by the federal government. These run the range of student and small business loans to disaster relief. The final demand dollar impact on the community is large. In 2011, the Forum estimated that the federal government was responsible for 51.0 percent of El Paso County's final demand component of its Gross Metropolitan Product. Defense and other federal budget cuts could have a significant effect on the local economy.

Federal expenditure cuts aside, the international, national and local economies are showing signs of growth. The latest GDP numbers for Europe suggest the Euro community will see GDP grow 1/4 to 1/2 percent in 2013. This will reverse a two-year period of negative growth in GDP. The growth rate in China's GDP has stabilized at approximately 7.5 percent. Growth in Europe will increase China's exports and its GDP. Annualized growth in GDP for China could hit 8.0 percent later this year.

Growth in the global economy will contribute to a growing U.S. economy. GDP in the U.S. is expected to hit 2.4 percent in 2014.

The downside of a healthier economy is interest rates will rise. This is a reflection of a healthy economy. Improved economic conditions in the local economy can be seen in most measures of economic activity. Retail sales are expected to grow as much as 7.0 percent. Residential building permits are expected to increase 23.0 percent in 2014 to approximately 3,700 units. Job growth is expected to be about 2.0 percent (5,000 jobs). Personal income should increase 4.5 percent. Commercial construction is expected to increase 20.0 percent in 2014. The only direct restraint to stronger growth in the local economy appears to be relatively slow growth in higher wage jobs. An indirect constraint on growth is low passenger activity at the airport.

Considering all things including sequestration, a rebounding global economy and stronger growth in El Paso County, the Forum expects the Gross Metropolitan Product to grow 2.2 percent in 2013 and 2.8 percent in 2014.

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 all of 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 this year's Forum and helped to put together our program. We want to also thank our keynote speaker, our panel moderator and all of the 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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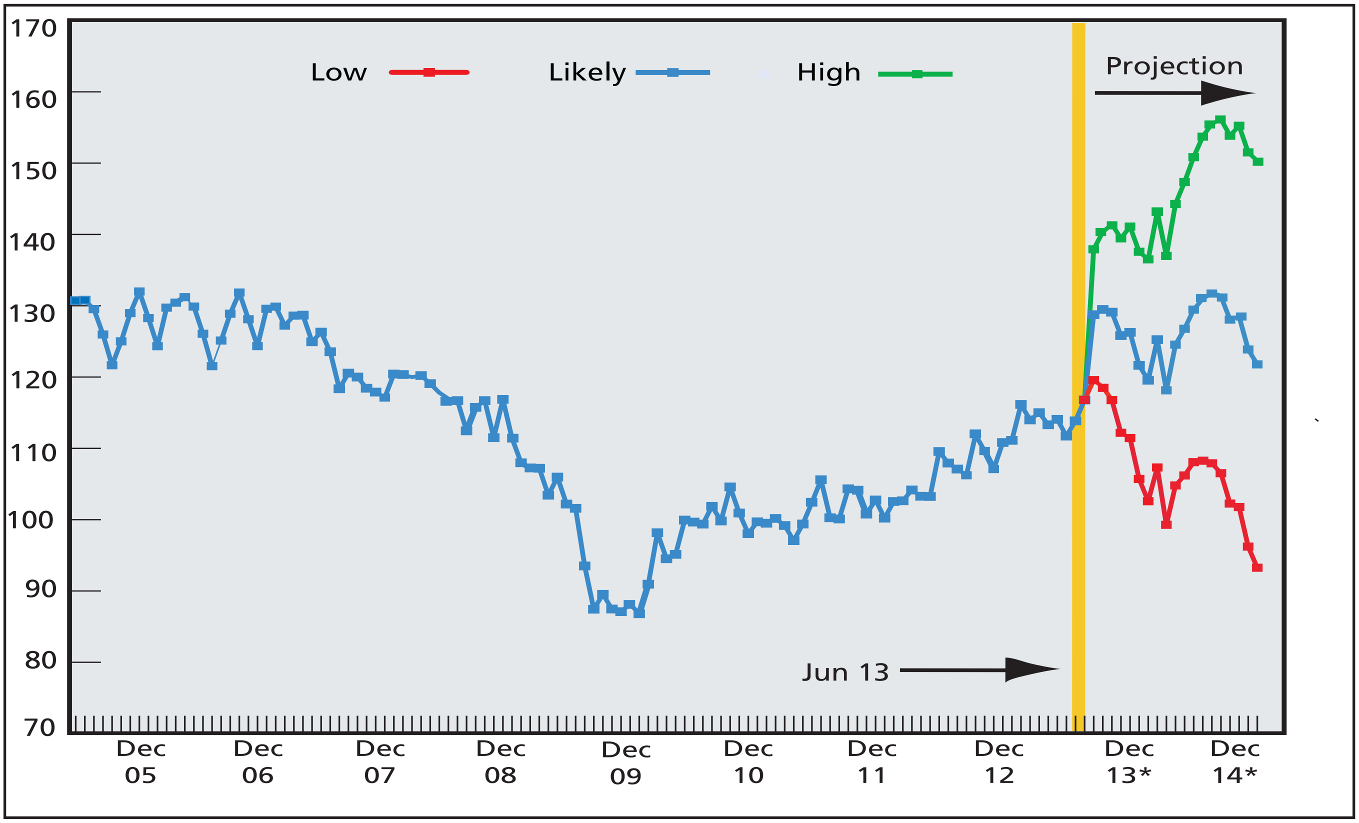
	Actual, Estimated and Forecast Percent Change in Key Economic Indicators: U.S., Colorado and El Paso County									
		United States			Colorado			El Paso County		
		2012	2013*	2014*	2012	2013*	2014*	2012	2013*	2014*
		Actual	Estimate	Forecast	Actual	Estimate	Forecast	Actual	Estimate	Forecast
1	Population	1.0	1.0	1.0	1.4	1.5	1.6	1.3	1.4	1.9
2	Unemployment Rate	8.1	7.6	7.1	8.0	6.8	6.5	9.3	7.8	7.4
3	GDP/GSP/GMP	2.2	2.0	2.4	2.1	2.4	3.1	2.1	2.2	2.8
4	Industrial Production	3.2	3.3	3.5	-	-	-	-	-	-
5	Non-Agricultural Employment	1.7	1.5	1.6	2.3	2.2	2.3	1.3	1.9	2.1
6	Total Wages & Salaries	4.0	3.6	4.1	4.6	4.4	4.8	3.2	4.0	4.3
7	Average Wage & Salaries	2.3	2.1	2.5	2.2	2.2	2.4	2.1	2.0	2.2
8	Consumer Price Index (CPI)	2.1	1.9	2.3	1.9	2.4	2.2	-	-	-
9	Personal Income	3.5	3.6	4.7	4.3	4.0	5.2	3.3	3.6	4.5
10	Per Capita Personal Income	2.9	2.6	3.7	2.5	2.4	3.5	2.0	2.2	2.6
11	Retail Trade	5.0	3.8	4.5	5.4	4.3	5.2	6.1	7.0	5.5
12	Single Family Housing Permits[1]	30.9	27.2	29.6	57.9	31.5	25.9	52.8	25.8	23.3
13	Non-Residential Construction	5.0	6.3	7.2	-6.5	1.3	4.0	-17.4	33.5	20.4

Sources: Colorado Office of Budgeting and Planning, June 2013 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 (BCI): December 2007-June 2009 = 100



	COS Enplane-ments	El Paso Single Family & Town Home Permits	University of Michigan Consumer Sentiment	Kansas City Fed Mfg Index	El Paso Employ-ment Rate	Colorado Springs 2% Sales & Use Tax	El Paso County New Car Sales	El Paso County Foreclo-sures	El Paso County Employ-ment	El Paso County Income	BCI
Dec-12	84.44	200.48	113.54	123.56	97.56	115.35	152.81	101.37	97.62	100.22	115.01
Jan-13	83.78	214.29	114.94	120.02	98.08	113.38	133.35	101.22	97.94	95.80	113.31
Feb-13	80.84	233.03	120.86	107.05	98.02	119.34	136.11	101.38	98.31	96.41	114.07
Mar-13	69.67	186.03	122.42	110.72	98.09	117.67	155.49	101.50	97.90	96.66	111.72
Apr-13	67.33	221.89	118.99	110.09	98.05	125.00	160.15	101.46	97.52	96.39	113.86
May-13	73.17	257.76	131.61	115.37	98.30	115.94	148.24	101.51	98.49	97.58	116.79

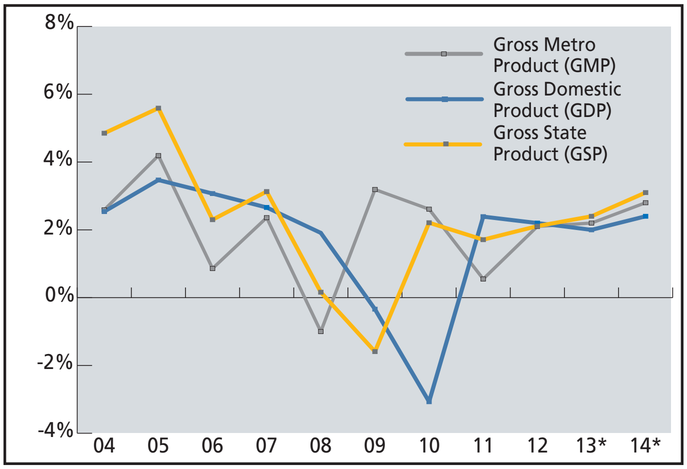
WHY IS THIS IMPORTANT?

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. The reader should understand that a drop in one of the components in a given month is not necessarily a concern. A decrease in a value may be a result of the seasonal adjustment process. 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.

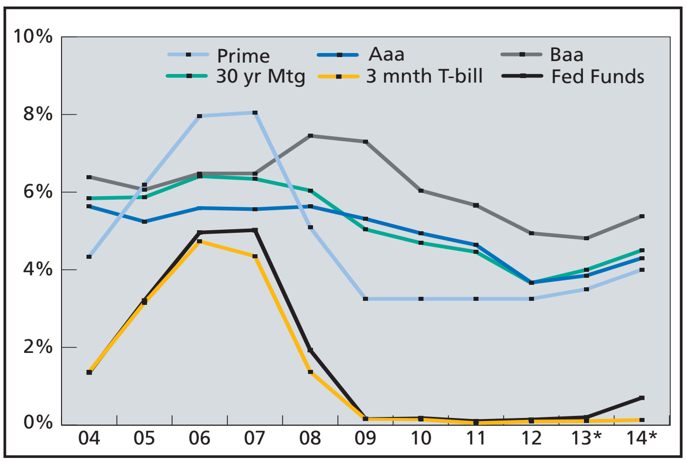
HOW ARE WE DOING?

The BCI stabilized in late 2008 through February 2009 before beginning to rebound. As of May 2013, the BCI is up approximately 34.1 percent over its February 2009 low of 87.1. Local economic conditions stayed within the Forum's upper limit projection for the BCI. Growth in China has stabilized at 7.5 percent. Europe appears to have stabilized. The Fed's aggressive quantitative easing policy continues to support cheap money to support domestic growth. The local area will continue to get a temporary spike in growth from rebuilding associated with local wildfires (Waldo Canyon and Black Forest). The major concern for the area is how will continued sequestration affect the military bases in El Paso County. The net analysis by the Forum indicates the BCI will continue improving over the next 18 months at a rate of 4-5 percent per year.

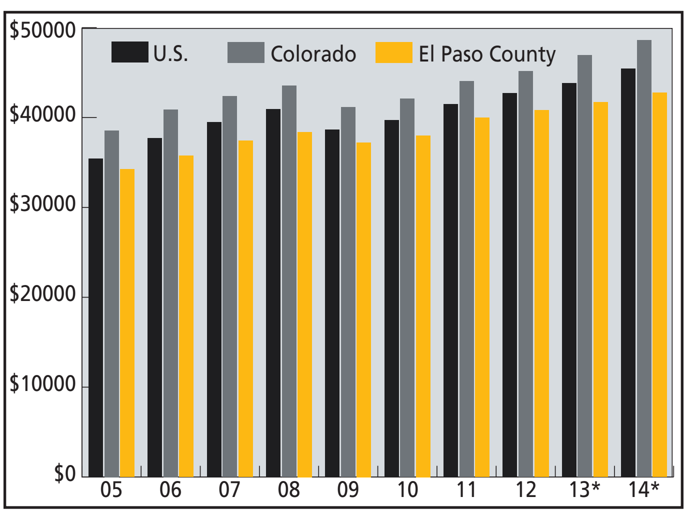
Growth in Real Gross Domestic Product (GDP), Gross State Product (GSP) and Gross Metropolitan Product (GMP)



Key Interest Rates



Per Capita Personal Income



* Office of State Planning and Budgeting and SCEF forecasts. Per capita income for El Paso County in 2012 was estimated by the Forum.

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?

Based on the real GDP series from the Federal Reserve Bank of St. Louis, growth in real GDP was 2.2 percent in 2012 vs. a 1.8 percent increase in 2011. The latest GDP estimates indicate the economy will grow 2.0 percent in 2013. Preliminary projections for 2014 suggest real GDP will grow by 2.4 percent.

The Forum is in general agreement with the projections. Europe is showing signs of economic stabilization. Growth in China has leveled off at approximately 7.5 percent. The impending "Fiscal Cliff," appears to have been averted. The improving economy is increasing tax revenues at the federal, state and local levels of government. Elimination of the social security tax holiday did not appear to have a material effect on the economy. Thank you Milton Friedman for the Permanent Income Hypothesis, 1976 Noble Prize in Economics.

Colorado's real GSP grew by 2.1 percent in 2012. The Colorado Office of Budgeting and Planning expects GSP to grow by 2.4 percent in 2013 and 3.1 percent in 2014.

The military presence in El Paso County provided economic stability in the area. Despite another year of weak private sector employment, the Gross Metropolitan Product for 2012 is believed to be about 2.1 percent. It is expected to increase by 2.2 percent in 2013 and 2.8 percent in 2014. Effects of the Budget Control Act of 2011 and sequestration issues at the local military bases have yet to be felt. However, current indications suggest the effects may be minimal if Congress resolves the budget impasse in the next year.

Per capita income growth continued its upward trend in the U.S., up 2.9 percent to $42,693 in 2012. Colorado's per capita income rose to $45,135 (2.5%). Per capita income gains for the U.S. are projected to grow by 2.6 percent in 2013 ($43,803) and 3.7 percent ($45,424) in 2014. Colorado's per capita income is expected to grow 4.0 percent in 2013 ($46,263) and by 3.5 percent in 2014 ($48,583).

Estimated local per capita personal income grew 2.0 percent to $40,794 in 2012. The Forum expects growth will continue at a slightly faster pace through 2014. Per capita income growth is projected to grow 2.2 percent in 2013 ($41,691) and 2.6 percent ($42,775) in 2014.

Sentiment and Savings

WHY IS THIS IMPORTANT?

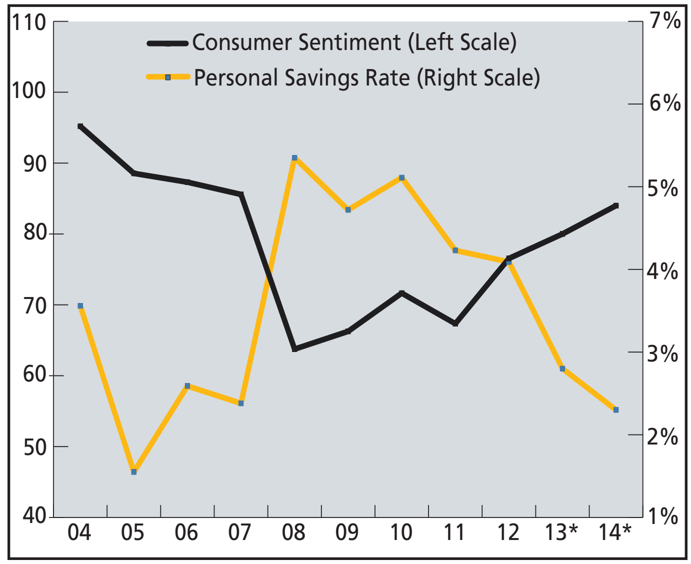
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of consumer confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer sentiment measures confidence using 1996-97 as the base year (1996-97=100). The personal savings rate measures the percent of income put into savings and indicates consumer confidence in the current economy and is 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 began a rebound in late 2008 through early 2010 before dropping to 63.7 in August 2011 due to concerns about Europe. Growing employment, income and housing prices pushed aside thoughts about the problems in Europe and slower growth in China over the last year. The July 2013 consumer sentiment level is 85.1, a six year high.

Pent up demand for cars, homes and general retail helped spur consumption in 2012 and drive the personal savings rate down to 4.1 percent. Large ticket item purchases are expected to exert downward pressure on the savings rate for 2013 (2.8%). Rising consumer sentiment will contribute to higher consumption patterns and lead to lower expected savings rates (2.3%) in 2014.

Consumer Sentiment and Personal Savings Rate



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

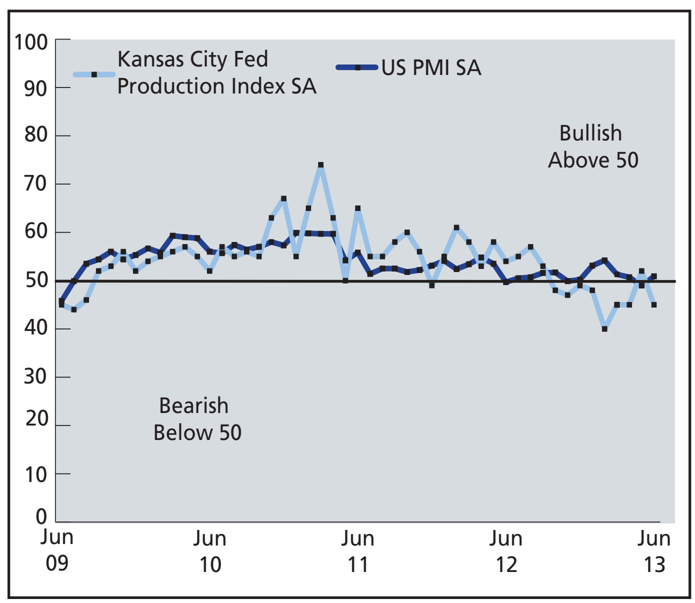
WHY IS THIS IMPORTANT?

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?

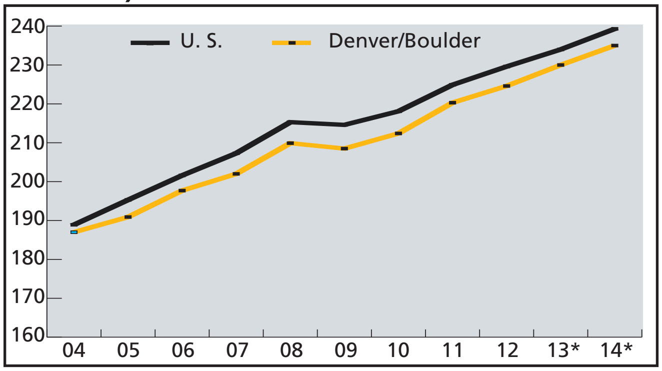
Both the Kansas City Federal Reserve's Production Index and the national PMI have trended down since the spring of 2011. As of June, the PMI is 50.9. The Kansas City Fed Production Index is 45.0. Traditional interpretations of these trends suggests there is a possibility of a recession in the manufacturing sector. General economic conditions in the Kansas City Federal Reserve region, which includes Colorado, are limiting hiring, capital expenditures, inventory accumulation and spending. The Forum does not believe there will be a recession in manufacturing, much less the U.S. economy. It is the Forum's belief that the trend reflects more of the lack of trade going on between the U.S. and Europe and the U.S. and China. Both of these regions have struggled in the last year but are showing signs of stability to some improvement in their respective economies.

Purchasing Managers Index

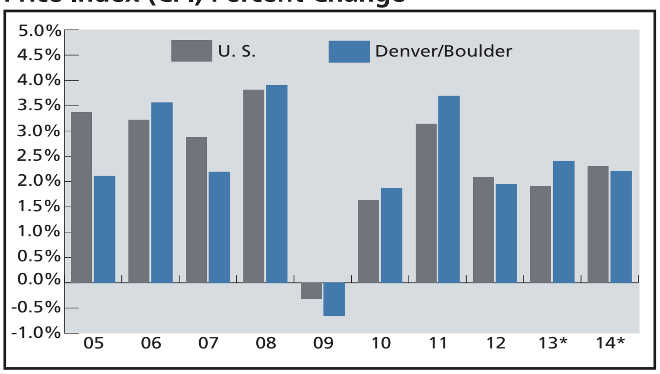


Sources: Institute of Supply Management and Federal Reserve Bank of Kansas City

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



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



* SCEF forecast
Source: U.S. Department of Labor, Bureau of Statistics

WHY IS THIS IMPORTANT?

The consumer price index (CPI) measures the average price change (inflation) for a basket of goods and services selected by the U.S. Department of Labor, Bureau of Labor Statistics. The CPI measures the period-to-period loss of purchasing power of a dollar caused by rising prices. The CPI is often used to compute real wages, income and wealth to determine whether consumer purchasing power and household wealth are increasing, decreasing, or remaining constant.

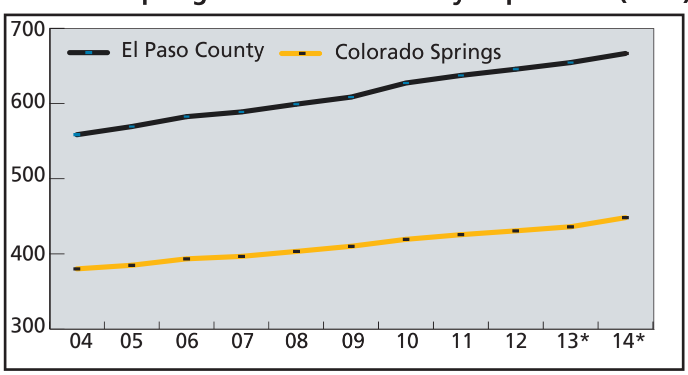
HOW ARE WE DOING?

The Denver/Boulder/Greeley CPI rose 1.9 percent in 2012 after increasing 3.7 percent in 2011. The Colorado Office of State Planning and Budgeting expects inflation will be 2.4 percent in 2013 and 2.2 percent in 2014 for the Denver/Boulder/Greeley CPI.

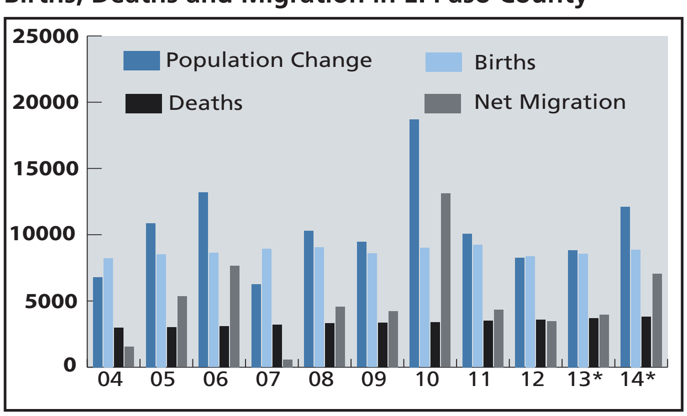
The U.S. urban CPI rose 2.1 percent in 2012 after increasing 3.1 percent in 2011. The Federal Reserve Bank of Philadelphia expects inflation will be 1.9 percent in 2013 and 2.3 percent in 2014 in the U.S.

There is general consensus that inflation is not a near-term concern. Unemployment remains high. Together, these economic measures help provide guidance to the Federal Reserve that quantitative easing will continue for the next 6-9 months. Monetary policy and inflationary expectations will cause Federal Reserve officials to take a wait and see attitude as the fourth quarter approaches.

Colorado Springs and El Paso County Population (000s)



Births, Deaths and Migration in El Paso County



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

WHY IS THIS IMPORTANT?

Population growth is important because it influences the labor market and the health of the economy in general. Understanding population trends helps government officials, builders, retail establishments and others plan for 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 2000 to the 2010 Census, Colorado's population grew at an average annual rate of 1.6 percent vs. 3.0 percent from 1990 to 2000. El Paso County's population grew at an average annual rate of 1.9 percent from 2000 to 2010 vs. 3.2 percent from 1990 to 2000. The Colorado Division of Local Affairs estimates El Paso County's population at 654,407 in 2012, an increase of 8,264 (1.3%) over 2011.

The natural increase in the population was 4,771 in 2012. Net in-migration slowed to 3,493. Net migration slowed from its historical 50.0 percent share of total population growth to 42.3 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.

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 stated that post-recession employment growth (jobs plus self employed) will be like watching ice melt in January. Employment declined each year from June 2007 (291,293) to June 2012 (270,444). During this time, the labor force in El Paso County shrank from 305,255 to 300,160, a loss of 5,095. 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.

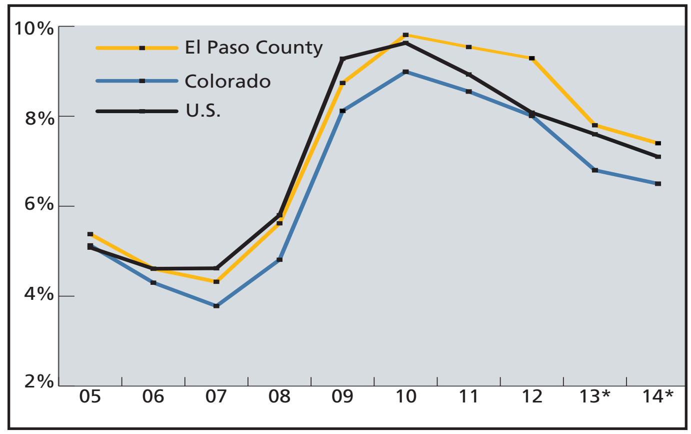
Local unemployment rates have fared worse than the U.S. and Colorado over the last five years. The seasonally adjusted (SA) May 2013 unemployment rate in El Paso County stood at 8.1 percent vs. 9.5 percent in May 2012. Colorado's June 2013 SA unemployment rate was 7.0 percent vs. 8.2 percent in June 2012. The U.S. unemployment rate decreased to 7.6 percent in June 2013 compared to 8.2 percent a year earlier. The Colorado Office of Budget and Planning projects the state annual unemployment rate will be 6.8 percent in 2013 and 6.5 percent in 2014. The Forum projects El Paso County unemployment will average 7.8 percent in 2013 and 7.4 percent in 2014.

The Colorado Department of Labor reported 15 of the 21 NAICS sectors in El Paso County saw job growth in 2012. Significant job gains took place in Health Care (1,067), Accommodations (383), Construction (380), Other Services (298), Manufacturing (253), Finance & Insurance (211) and Arts/Entertainment (204). Job losses took place in Professional & Technical Services (-812) and Educational Services (-123). Seventeen sectors saw increases in their average wage. Wage increases in Mining (196.5%) were artificially boosted from short-lived exploratory oil drilling in the county. Another spike was associated with Kinder Morgan's expanded operations (Utilities wages up 27.3%). Notable increases took place in Management of Companies & Enterprises (8.1%), Manufacturing (6.5%), Finance & Insurance (5.8%), Real Estate (4.0%) and Wholesale Trade (3.1%). Declines in wages took place in Accommodations (-3.6%) and Arts/Entertainment (-1.3%). The decline in accommodations is probably due to the drop in tourism associated with the 2012 Waldo Canyon fire.

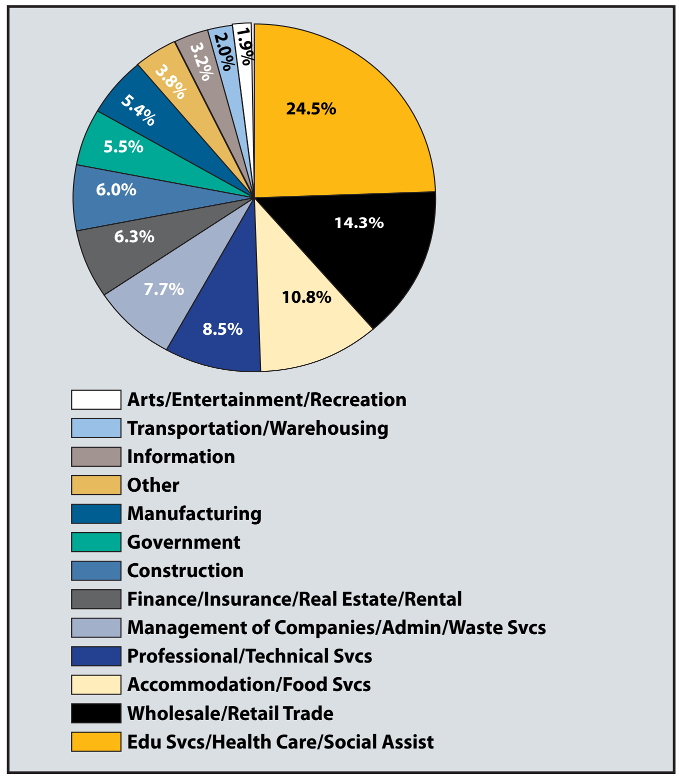
Average wages increased in Colorado by 3.0 percent in 2012. Wages went from $49,088 in 2011 to $50,544 in 2012. In 2012, the average wage in El Paso County was 11.8 percent lower than the average wage in Colorado. In 2011, the wage gap was 10.2 percent. The wage gap is increasing.

The Hirfindahl economic base diversification measure points to greater concentration in employment (9.3) and wages (8.9). Concentration has increased since 2009 when the Hirfindahl measure was 7.9 for employment and 8.5 for wages.

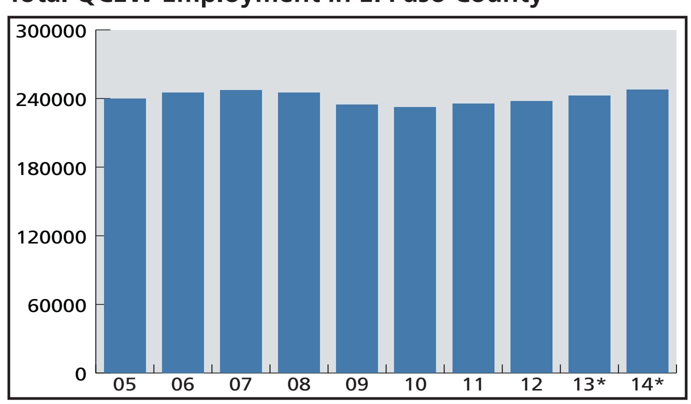
The Unemployment Rate in El Paso County, Colorado, and the U.S.



2012 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

El Paso County Average Annual Employment and Wages by NAICS Classification in 2011 and 2012							
		2011			2012		
NAICS Code		Employ-ment	Percent of Total Employment	Average Annual Wage	Employ-ment	Percent of Total Employment	Average Annual Wage
11	Agriculture, Forestry, Fishing & Hunting	217	0.09	$21,632	200	0.09	$24,336
21	Mining	156	0.07	$80,184	183	0.08	$236,912
22	Utilities[1]	2,612	1.11	$81,380	2,592	1.10	$103,584
23	Construction	11,035	4.69	$44,564	11,415	4.85	$45,864
31-33	Manufacturing	12,571	5.34	$58,240	12,824	5.45	$61,880
42	Wholesale Trade	4,700	2.00	$57,200	4,746	2.02	$58,968
44-45	Retail Trade	29,218	12.42	$26,520	29,296	12.45	$27,196
48-49	Transportation & Warehousing	4,789	2.04	$44,044	4,814	2.05	$44,720
51	Information	7,699	3.27	$68,484	7,678	3.26	$70,460
52	Finance & Insurance	10,815	4.60	$53,560	11,026	4.69	$56,680
53	Real Estate, Rental & Leasing	4,005	1.70	$33,800	3,992	1.70	$35,152
54	Professional & Technical Services	20,934	8.90	$76,596	20,122	8.55	$78,208
55	Management of Companies & Enterprises	944	0.40	$84,500	1,068	0.45	$91,364
56	Administrative and Waste Services	17,072	7.26	$36,712	17,190	7.31	$36,608
61	Educational Services	25,718	10.93	$35,932	25,595	10.88	$36,348
62	Health Care & Social Assistance	31,639	13.45	$44,772	32,706	13.90	$44,980
71	Arts, Entertainment & Recreation	4,395	1.87	$19,656	4,599	1.95	$19,396
72	Accommodation & Food Services	25,169	10.70	$17,576	25,552	10.86	$16,952
81	Other Services	8,770	3.73	$36,868	9,068	3.85	$37,388
99	Non-Classifiable	14	0.01	$43,420	24	0.01	$54,912
	Total Non-Government	222,472	94.56	$42,489	224,690	94.48	$43,476
92	Government	12,797	5.44	$63,856	12,993	5.52	$63,700
	Total All Industries	235,269	100.00	$43,628	237,683	100.00	$44,564
	Hirfindahl Concentration Measure: Lower indicates greater diversification	8.43		8.51	9.28		8.86

Source: Colorado Department of Labor QCEW,

[1]Does 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. The COBI is an unweighted geometric average of the five measures. This index captures the average annual increase in the major cost elements of most businesses. The final chart on this page shows the average annual change in the individual items in the Cost of Business Index. Together these indicators provide a relative measure of business costs and cost changes over time.

HOW ARE WE DOING?

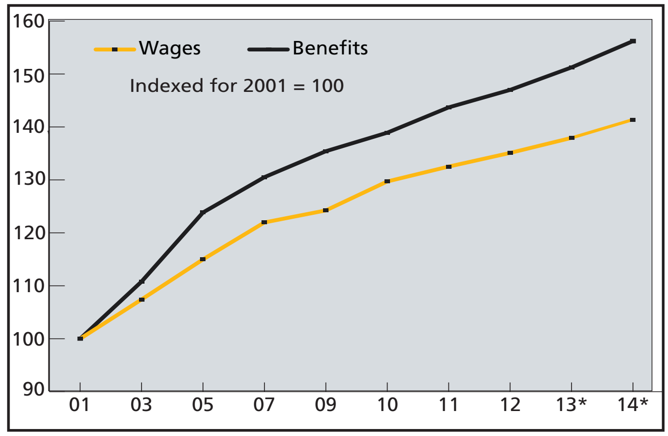
The national benefit cost index continued to rise faster than wages in 2012. Benefits rose approximately 2.3 percent in 2012 compared to 2.0 percent for wages in 2011. Nationally, wages have increased a modest 2.7 percent a year since 2001. Benefits have increased 3.6 percent a year since 2001. The Forum expects national wages will increase by 2.1 percent in 2013 and benefits will increase by 2.9 percent. Improving economic conditions into 2014 will push wage growth to 2.5 percent and benefits growth to 3.3 percent in 2013.

The base year for the cost of business index (COBI) is set at 100 in 2001. The index stood at 132.9 at the end of 2012. This means the average cost of business was 32.9 percent higher in 2012 than in 2001. By comparison, the CPI rose 29.7 percent while the producer price index (PPI) rose 50.7 percent during the same period. The Forum projects that the cost of business index will increase 2.5 percent to 136.2 in 2013 and 3.3 percent in 2014 to 140.7.

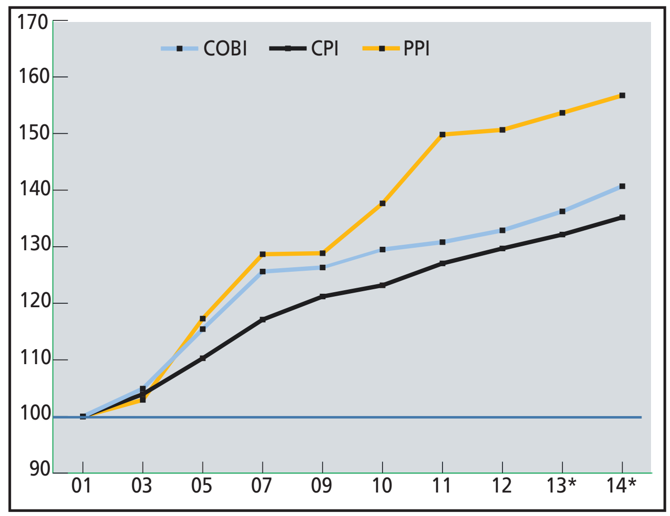
The final chart on this page provides the average annual percentage increase in the individual components in the COBI since 2007 and their respective annual increases in 2012. Rates of increase for electricity, rents and collected property taxes in 2012 were higher than their respective averages for 2007-2012. Rates of increase for wages and benefits in 2012 were lower than their respective averaged change from 2007-2012. The components and their change in cost in 2012 compared to 2011 are: electricity, 3.6 percent; wages, 2.0 percent; benefits, 2.3 percent; rents, -0.7 percent; property taxes, 1.1 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. Rents are soft. Local labor costs tend to be lower than the national average. Benefit costs are uncertain. Local electricity 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, greater reliance on natural gas and the higher cost of additional clean energy resources.

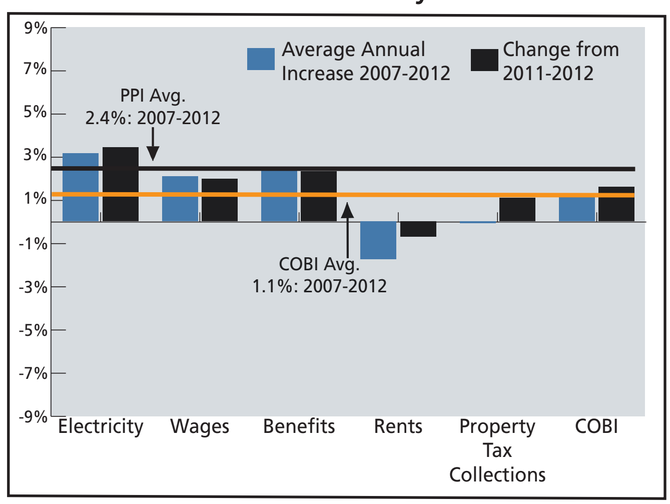
Wage and Benefit Cost Index, U.S. Average



Cost of Business Index for El Paso County (COBI), Consumer Price Index (CPI) and Producer Price Index (PPI). (2001 = 100)



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

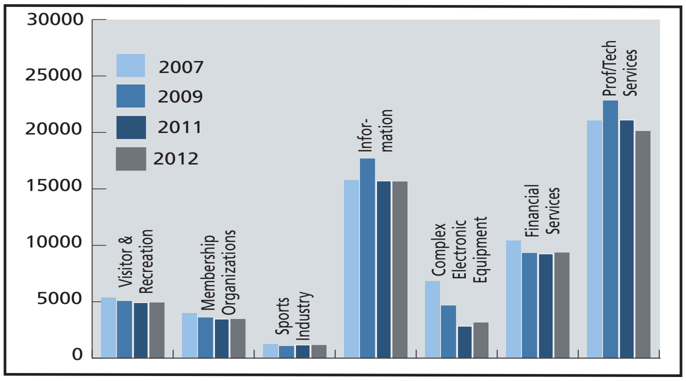


* SCEF forecast

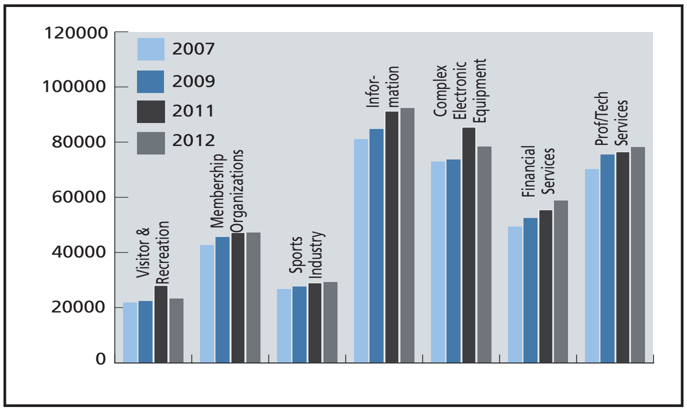
Sources: Federal Reserve Bank of St. Louis, Colorado Springs Utilities, Turner Commercial Report, El Paso County Assessor, SCEF

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 Department of Labor and Employment

WHY IS THIS IMPORTANT?

The Regional Business Alliance 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.

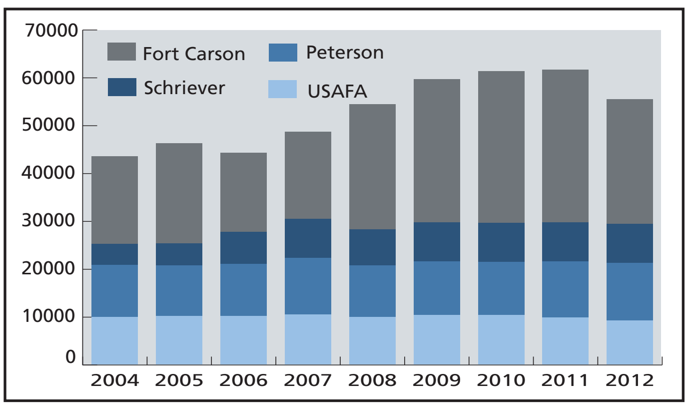
HOW ARE WE DOING?

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.

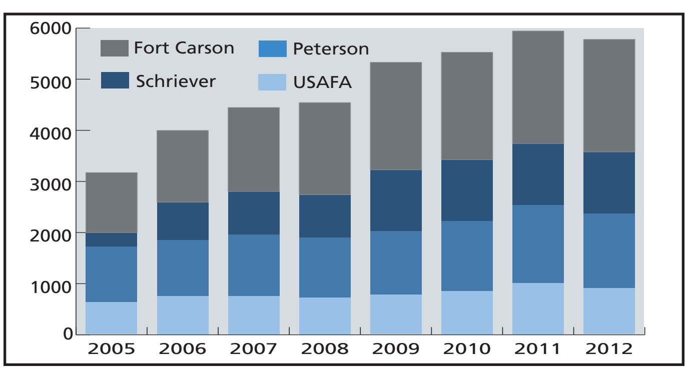
These primary sectors provided 28.8 percent of all jobs and 39.5 percent of all wages in 2001. By 2012, these primary sectors provided 19.5 percent of all jobs (down from 24.8% in 2011) and 39.0 percent of all wages (down from 40.3% in 2011) in El Paso County.

Average wages among all sectors grew by $936 (2.1%) from 2011 to 2012. Notable increases took place in Financial Services ($3,357 or 6.1%) and Information ($1,211 or 1.3%). Large declines took place in Complex Electronic Equipment (-$7,086 or -8.3%) and Visitor & Recreation (-$4,718 or -16.8%). The average wage among these primary employers in 2012 was $89,222. This is $44,658 (100.2%) higher than the average of all sectors in the county. Lack of aggregate wage growth will persist as long as the market for primary jobs declines in the county.

Military Employment in El Paso County



Military Expenditures in El Paso County($ millions)



Sources: The Colorado Springs Regional Business Alliance and respective military installations

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 decreased to 55,395 in 2012 from 61,501 in 2011. This was a loss of 6,106 positions or 9.9 percent. Employment change, by base, were: Air Force Academy, -590; Peterson, 297; Schriever, -15; Fort Carson, -5,800. The latest information about plans to add an air cavalry brigade at Fort Carson with 2,700 soldiers and 113 helicopters indicates this is on schedule for 2013.

The effects of the Budget Control Act of 2011 are not known at this time. Estimates from the Congressional Budget Office project military budget cuts will amount to $487 billion by 2021. Will the military complex in Colorado Springs be spared?

The Forum examined the effects the 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 50.0 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 and its multiplier effects. This is captured to some extent in the Hirfindahl measure of economic base diversification on pages 21 and 22.

Tourism and Lodging

WHY IS THIS IMPORTANT?

Hotel market share, relative to Colorado totals, are general indicators of the health of local tourism. Changes in these can signal changes in the popularity of Colorado Springs as a tourism destination compared to the rest of Colorado. 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.

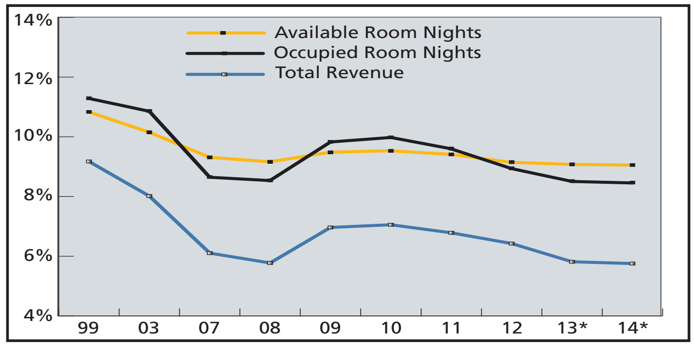
HOW ARE WE DOING?

Lodging in El Paso County in 2012 took a turn for the worse. Occupancy fell to 60.5 percent vs. 62.2 percent in 2011. Total room revenues dropped $3.9 million (4.0%) to $92.8 million in 2012. The drop in total revenue took place despite an increase in average room rates from $86.05 in 2011 to $89.35 in 2012. Through June 2013, the occupancy rate was 58.2 percent compared to 62.3 percent in 2012. For the first six months of 2013, total revenues trailed last year's year-to-date revenues by $843,335 (1.9%) despite having higher room rates through June 2013 ($89.75) than June 2012 ($88.48).

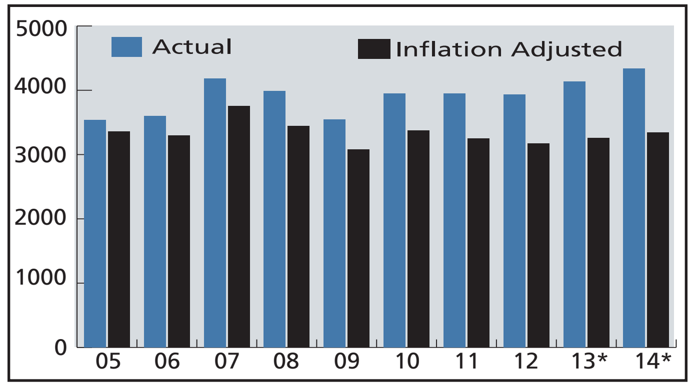
Some of the problems can be attributed to the Waldo Canyon fire, decline in airport activity and the absence of door-busting local events like the LPGA Open held at The Broadmoor in 2011.

There is a more important issue in the local lodging market. The local market has consistently lost market share relative to the rest of Colorado since the late 1980's. This applies to the number of available room nights, occupied room nights and total revenues. This structural problem is not expected to disappear in the next 18 months.

Colorado Springs Hotel Market Share Trends 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?

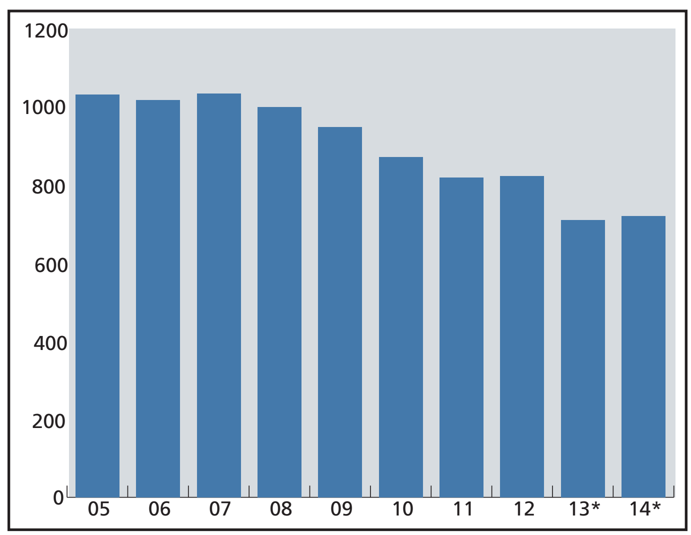
Air service contributes to the quality of life and the economic prosperity of southern Colorado. Air service has a profound impact on the local economy, particularly air-dependent industries. Companies need convenient service in order to maximize productivity and minimize travel time. Company location 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 822,010 in 2012. This is an increase of 0.5 percent over the 818,820 enplanements in 2011. The increase and retention of enplanement activity is attributable to the arrival of Frontier Airlines to Colorado Springs. This proved to be a short term gain. This year, Frontier announced it would terminate all activity at the airport. Through May 2013, enplanements are 271,911, down from 307,835 through May 2012. This is a decline of 11.8 percent. Enplanements are projected to continue this downward trend to 710,000 in 2013 before seeing a nominal increase of 10,000 to 720,000 in 2014. Significant changes are not expected at the airport until the community sees a material increase in local employment. Higher employment should increase the number of business class travelers.

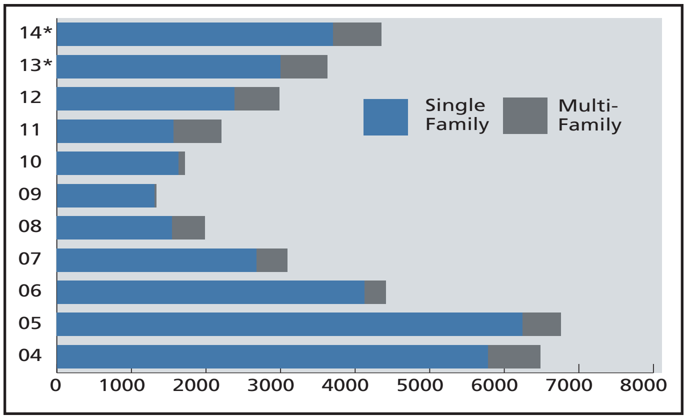
Late this summer, the Mayor of Colorado Springs assembled an airport task force to make recommendations to improve local air service and airport activity. The report is due by the end of 2013.

Colorado Springs Airport Enplanements (000s)

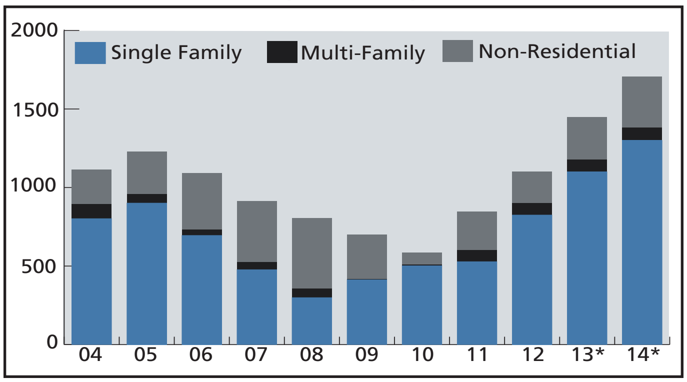


* SCEF forecast
Source: Colorado Springs Airport

Residential Building Permits (Dwelling Units)



Value of Construction ($ millions)



* SCEF forecast
Source: Pikes Peak Regional Building

WHY IS THIS IMPORTANT?

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

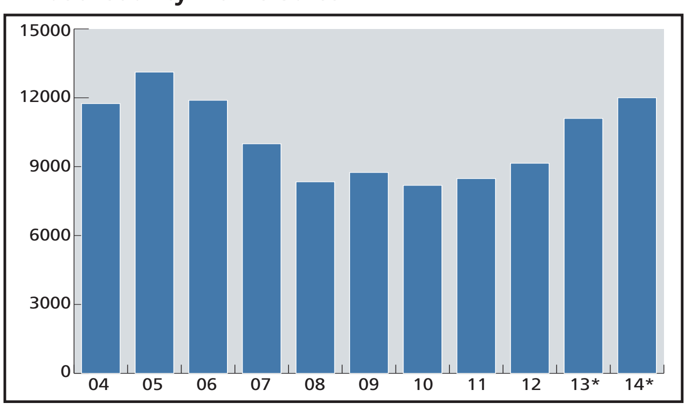
HOW ARE WE DOING?

Residential building strengthened from late 2011 through June 2013. There were 2,836 single family permits from July 2012 through June 2013, an increase of 916 (47.7%) compared to the 1,920 permits issued from July 2011 to June 2012. Most likely, the recovery in housing reflects pent up demand, depletion of inventory, declining foreclosures, 3.5 percent mortgage rates during the last year and a decline in homes available for resale. Rebuilding in Mountain Shadows after the Waldo Canyon fire contributed about 200 permits. Additional rebuilding through 2014 and rebuilding in Black Forest will help boost permits through 2014. The Forum expects Regional Building will issue 3,000 permits in 2013 and 3,700 permits in 2014.

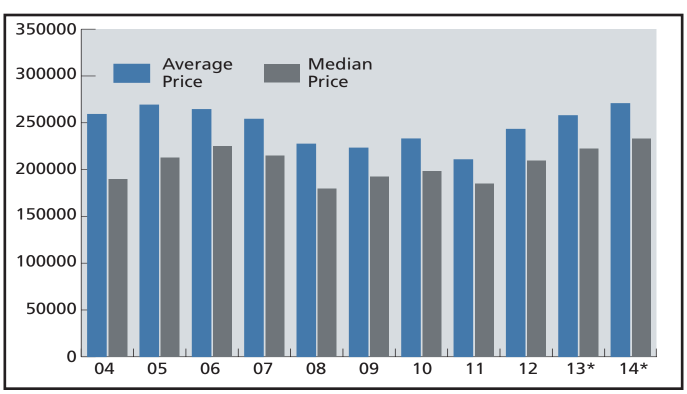
For the third consecutive year, permits for over 600 multi-family housing units are expected in El Paso County. Vacancies in the 6.5 percent range and rising rents, currently in the $780 range, are contributing to multi-family development in El Paso County. Multi-family permits are expected to be 625 units in 2013 and 650 in 2014.

Non-residential construction in 2012 decreased $42 million (-17.4%). Activity through June indicates commercial construction will be about $270 million in 2013. An increase of $55 million to $325 million is expected in 2014.

El Paso County Home Sales



Mean and Median Prices of Homes Sold



* SCEF forecast
Source: Pikes Peak Association of Realtors

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 declining and leveling off in 2008. Sales were 9,147 in 2012, up 7.9 percent (667 more sales over 2011). Sales in 2013 are on track to hit 11,000, a 20.3 percent increase over 2012. The rate of increase in 2014 is expected to be less but it will produce 12,000 total sales. This could vary depending on the housing choices of the air cavalry brigade arriving at Fort Carson in 2013, the effects of sequestration and continued employment growth in the region.

Current market conditions point to an average home sales price increase to $257,770 in 2013, up 6.0 percent from $243,180 in 2012. The average price is expected to be $270,000 in 2014. Similar gains are expected for the median price. A median price of $222,300 is expected in 2013 compared to $209,700 in 2012. Median prices are expected to be $233,400 in 2014.

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.

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 a coincidental indicator in the current economy.

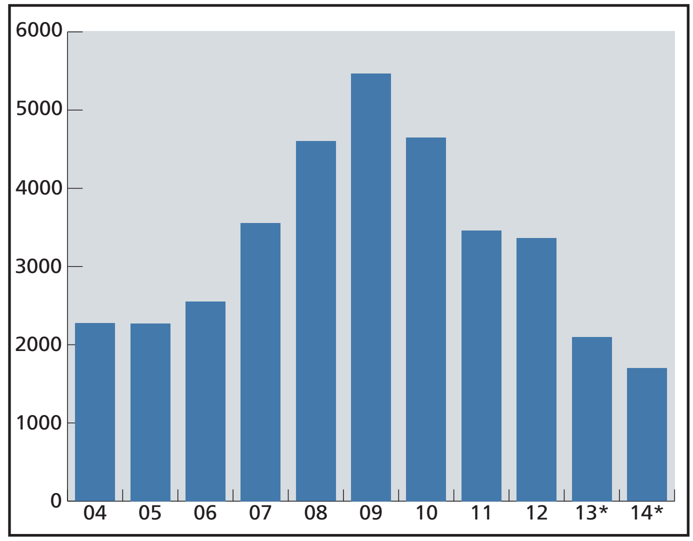
HOW ARE WE DOING?

There were 3,364 foreclosures in 2012, a decrease of 2.8 percent from 2011 when there were 3,461 foreclosures. Through June 2013, there were 1,049 foreclosures, a decrease of 683 compared to the 1,732 foreclosures through June 2012. At the current rate, the Forum anticipates there will be 2,100 foreclosures in 2013 and 1,700 in 2014.

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 calvary 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 near their record low levels (4.25-4.50% for a 30 year conventional mortgage). The average price of a home sold as of June 2013 is $255,590, an increase of $9,652 (3.9%) since last year and $39,849 since June 2011 (19.8%). Low interest rates and job/income growth contributed to homeowners' abilities to carry mortgage payments. Price appreciation is contributing to a decrease in upside down mortgages. The foreclosure crisis is nearing its end.

Foreclosures in El Paso County



* SCEF forecast
Source: El Paso County Public Trustee

WHY IS THIS IMPORTANT?

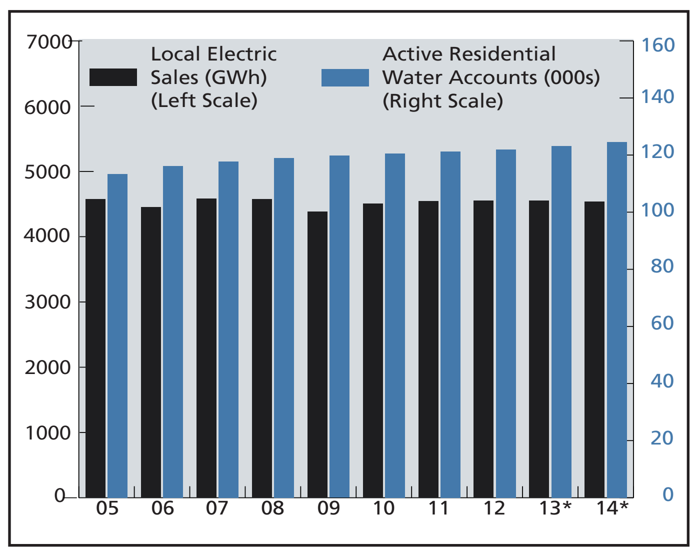
Local electric sales and residential water accounts are good indicators of growth and economic activity. Active residential water accounts correlate with residential construction and housing market activity. Changes in electric sales-on-system capture both residential and commercial activity.

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 averaged 0.6 percent from 2009 through 2012. City Utilities projects residential water accounts will grow by 1.0 percent per year in 2013 and 2014.

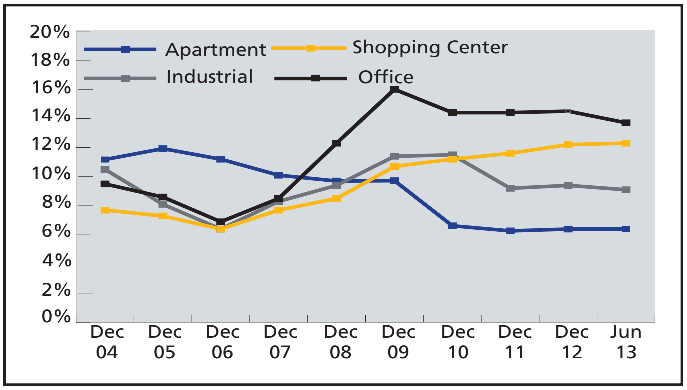
Electric sales grew at an average annual rate of 4.2 percent from 1993 through 2000. Growth slowed materially to 0.8 percent from 2001 through 2006. Electric sales peaked in 2008 at 4,608 GWh before dropping to 4,384 in 2009. Since then, electric sales rose to 4,546 in 2011 and 4,552 in 2012. Sales are projected to remain flat in 2013 (4,550 GWh) and 2014 (4,538 GWh). The decline in growth of electricity sales for Colorado Springs Utilities reflects success in demand side energy management and the shift in mix of industry in the community, particularly in the loss of manufacturing firms.

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

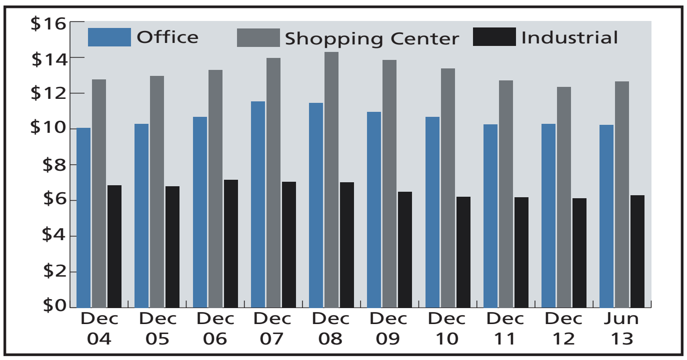


*City Utilities forecast
Source: Colorado Springs Utilities

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?

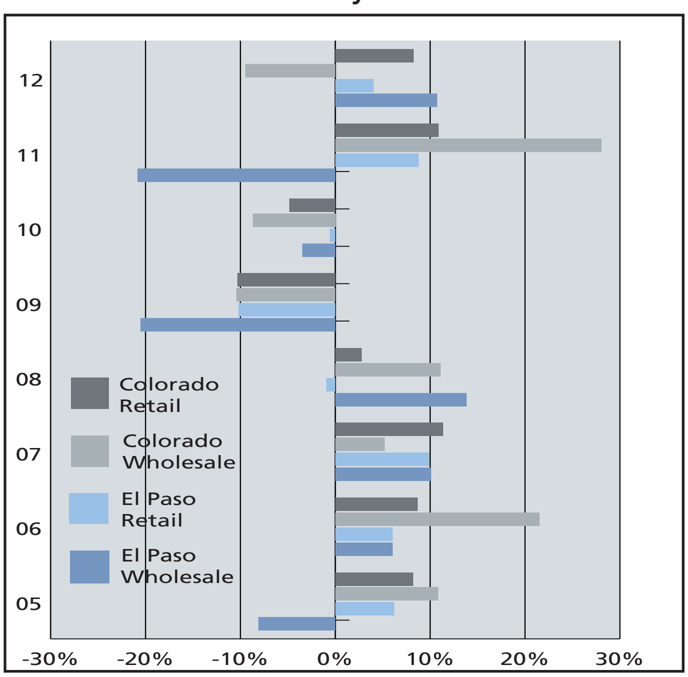
As expected, rents for office, shopping center and industrial space increased slightly in 2012. This was a reflection in the overall performance of the local economy. Rent increases of 2.0 to 4.0 percent are expected in 2013 and early 2014. This reflects the strengthening local economy.

Rents for multi-family housing was expected to increase. Apartment rents averaged $777 in 2012. This is a 2.0 percent increase over the average rent for 2011 ($763). Current multi-family construction and stable vacancy rates suggest rents will increase by 2.0 to 3.0 percent in 2013 and 2014.

A snapshot of December 2012 and June 2013 vacancies and rents is shown below.

Vacancy Rates and Rents (per Sq. Ft. NNN)		
Property Type	December 2012	June 2013
Office	14.5% ($10.27)	13.7% ($10. 23)
Industrial	9.4% ($6.12)	9.1% ($6.3)
Shopping	12.2% ($12.34)	12.3% ($12.66)
Apartments	6.4% ($777.44)	6.4% ($780)

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 4.0 percent in 2012 to $14.5 billion vs. $13.9 billion in 2011. Colorado retail sales were up 8.2 percent in 2012 to $163 billion vs. $151 billion in 2011. Stronger growth in retail sales in Colorado is probably attributed to a 4.3 percent growth in state-wide personal income vs. 3.3 percent growth in El Paso County.

El Paso County wholesale sales, which tend to be more volatile than retail sales, increased 10.1 percent to $3.9 billion in 2012 vs. a 20.9 percent decline in 2011. This marked the first increase after three consecutive declines in annual wholesale sales. Colorado wholesale sales decreased 9.5 percent in 2012. El Paso County will continue to demonstrate weakness in wholesale trade until its manufacturing and wholesale sectors grow. Since 2008, El Paso County manufacturing jobs decreased 4,133 jobs (8.8%). During the same time, wholesale jobs decreased 1,132 (19.3%).

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.

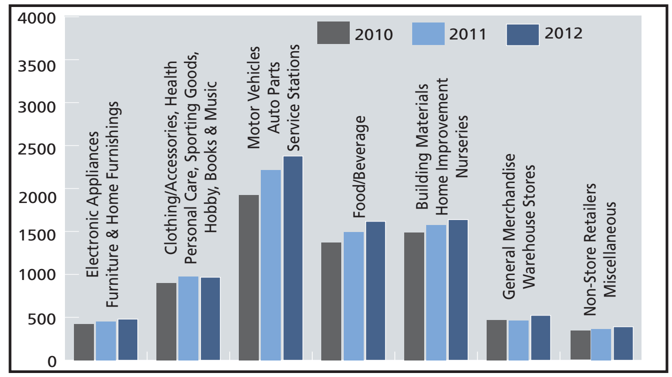
HOW ARE WE DOING?

Retail trade in 2012 was $7.5 billion or 55.2 percent of the total retail sales in the county. Retail trade increased by 6.1 percent in 2012. The largest portion of retail trade went to motor vehicles in 2012 (29.8%). All retail trade categories increased in 2012 except for clothing (-1.1%). Retail trade increased in electronics (6.5%), motor vehicles (7.4%), food (8.4%), building (12.7%), general merchandise (4.0%) and non-store retailers (7.3%).

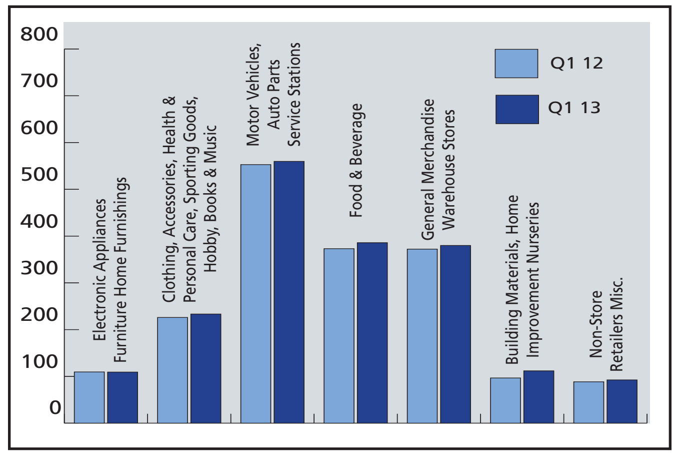
Retail trade had peaked in 2007 before declining through the recession. Retail trade recovered and is now 11.8 percent higher than the previous peak. Since the pre-recession peak, retail trade is up in clothing (13.4%), motor vehicles (11.7%), food (36.1%) and general merchandise (16.8%). Sectors that have yet to recover fully are electronics (-5.9%), building materials (-10.4%) and non-store retailers (-19.61%). Except for non-store retailers, the lagging sectors are all expected to exceed pre 2007 recession levels within 12-18 months.

Retail trade patterns for the first quarter of 2013 are similar to the general pattern of retail sales for all of 2012. Retail trade in all sectors is better than the first quarter of 2012 except for electronics (-0.3%).

El Paso County Retail Trade ($ millions)



El Paso County Retail Trade First Quarter 2012/2013



Source: Colorado Department of Revenue

WHY ARE THESE IMPORTANT?

City sales and use tax revenues are 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.

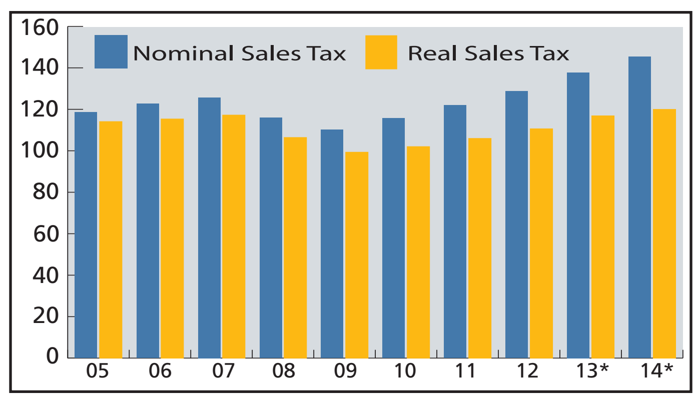
HOW ARE WE DOING?

City sales and use tax collections were $128.7 million in 2012. This is $6.9 million higher (5.6%) than in 2011. Through June 2013, sales and use tax collections were up $4.4 million (9.0%) over June 2012. The Forum expects sales and use tax collections will increase by 7.0 percent in 2013 to $138 million and by 5.5 percent in 2014 to $145.3 million. Real sales and use tax collections are expected to increase by 4.6 percent in 2013 and 3.3 percent in 2014.

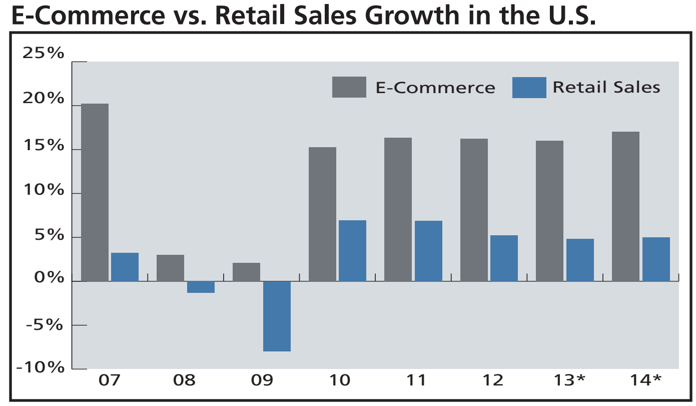
Through June 2013, all sales tax revenue categories were higher than year ago amounts except department and discount stores (-1.2%). The largest gains were in grocery stores (19.8%), furniture, appliances and electronics (16.5%), utilities (12.9%), building materials (10.5%) and miscellaneous retail (10.0%).

At the national level, prior to the recession, e-commerce grew 20.0 to 25.0 percent a year. E-commerce growth declined sharply during the recession but managed small gains in 2008 and 2009. Conventional retail sales declined over this period. Post-recession, e-commerce grew by 16.4 percent in 2011 and 16.2 percent in 2012. Conventional retail sales grew 6.9 percent in 2011 and 5.2 percent in 2012. E-commerce is expected to grow 16.0 percent in 2013 and 17.0 percent in 2014. Retail sales are expected to have lower growth in 2013 (4.8%) and in 2014 (5.0%).

Colorado Springs Sales and Use Tax Collections
(Nominal in actual $millions. Real indexed for inflation: 2001=100)

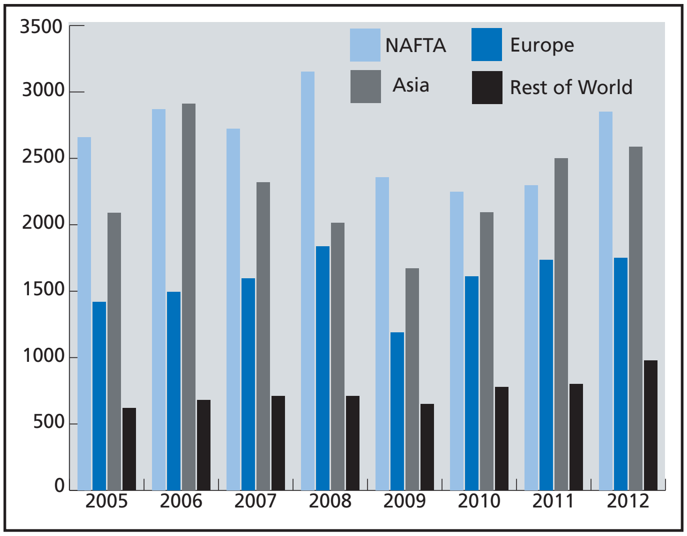


E-Commerce vs. Retail Sales Growth in the U.S.



* 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?

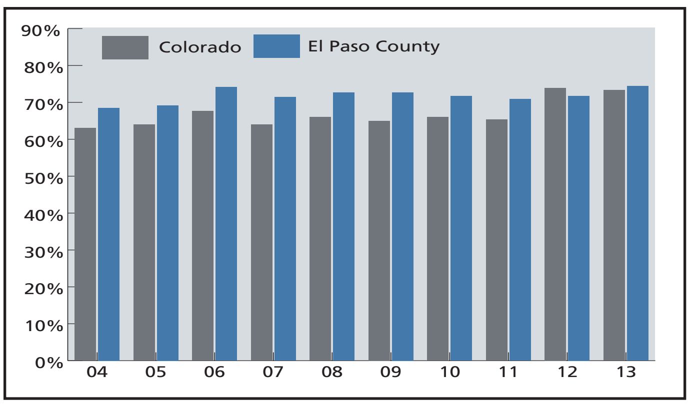
One indicator of the state's competitiveness in a global economy is the ability to export goods and services. A higher level of export activity translates into more jobs in the state and more income and wealth. Colorado and Colorado Springs need to grow exports to compete in a global economy. The International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

HOW ARE WE DOING?

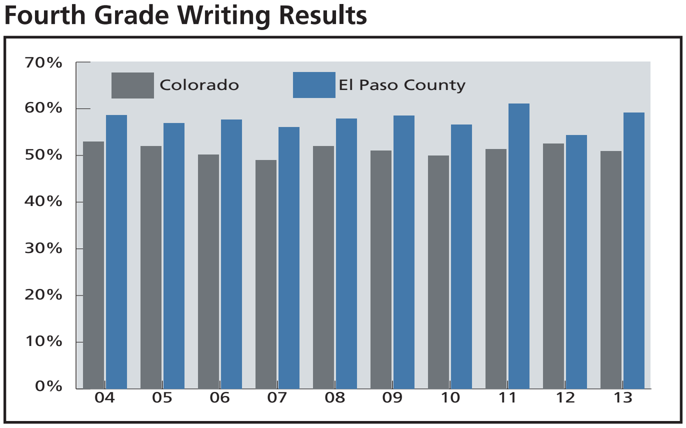
A slow global economy and a 3.7 percent rise in the trade-weighted value of the dollar curtailed Colorado's exports to Europe and Asia. Strong export growth to Canada and Mexico (NAFTA) and developing economies led the way to a net increase of $836 million in 2012 (11.4%). Exports to Canada and Mexico increased $554 million (24.2%). Exports to Asia increased $85 million (3.4%). Exports increased to Europe by $18 million (1.0%). Rest of the world exports increased $179 million (22.3%).

Eighteen of 32 manufacturing categories increased exports. The largest gains were in machinery except electronic components $481 million (57.0%); food manufacturing $127 million (10.5%); chemicals $81 million (12.0%) fabricated metal products $50 million (20.2%); computer and electronic products $48 million (2.4%) and electrical equipment $39 million (18.7%). Significant export declines took place in non-metalic minerals -$36 million (-22.9%); minerals & ores -$21 million (-10.9%); waste and scrap -$20 million (-12.7%) and transportation equipment -$16 million (-4.6%). Stabilizing conditions in Europe and Asia will boost exports by 7.0 to 10.0 percent in 2013 and 2014.

Colorado Student Assessment Program: Fourth Grade Reading Results



Colorado Student Assessment Program: Fourth Grade Writing Results



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

Colorado adopted content standards in the areas of reading, writing, mathematics, science, social studies, foreign languages, visual arts, physical education and music in 1995. 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) was administered through 2011 to give parents, the public and educators a uniform source of information on how proficient Colorado students are at meeting the standards. This was replaced by The Transitional Colorado Assessment Program (TCAP) in 2012. TCAP is Colorado's standards-based assessment designed to provide a picture of student performance to schools, districts, educators, parents and the community. TCAP supports the transition to the Colorado Academic Standards (CAS) during the development of the new assessment, currently scheduled for 2014.

HOW ARE WE DOING?

TCAP provides continuity from CSAP to CAS. As such, comparison with testing performance by students on CSAP can be trended and compared with TCAP. This year, 74.4 percent of El Paso County fourth graders were proficient or advanced in reading. This is up 2.7 points over last year's 71.7 percent and slightly higher than the statewide score of 73.3 percent. Reading scores in El Paso County have improved 15.6 points since the first fourth grade reading exam in 1997 vs. a 17.9 point improvement in reading scores for Colorado since 1997.

In 2013, 59.2 percent of El Paso County fourth graders were proficient or advanced in writing vs. 54.4 percent in 2012. The 2013 score is 8.2 points higher than the statewide proficient or advanced proportion (51.0% in 2013). Since the first writing exam in 1997, scores in El Paso County have improved 15.9 points compared to a 13.0 point improvement in Colorado.

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.

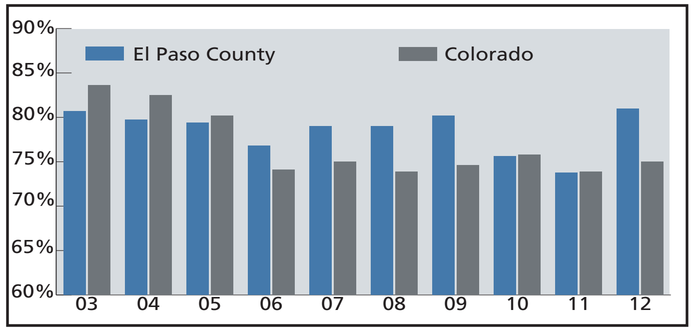
In a global economy, a multi-cultural, skilled work force is a requirement for success. Providing a quality education to all ethnic groups is important to our economic well-being. Reducing the dropout rate for all ethnic groups is one measure of success.

HOW ARE WE DOING?

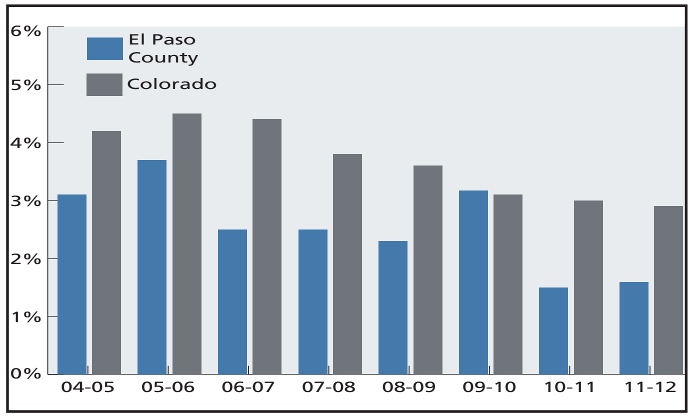
Graduation rates in El Paso County increased to 81.0 percent in 2012 compared to 73.8 percent in 2011. This is significantly higher than Colorado's graduation rate of 75.0 percent in 2012. With the exceptions of Harrison (74.1%), Colorado Springs (67.0%) and Edison (57.5%), all other El Paso County districts had higher graduation rates than the Colorado rate.

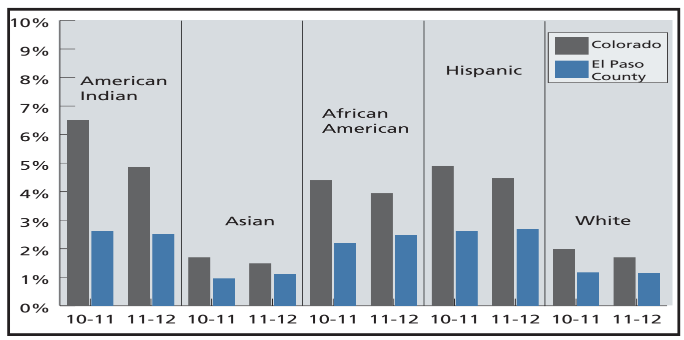
Dropout rates in El Paso County increased from 1.5 percent in 2011 to 1.6 percent in 2012. Colorado saw a decrease in dropout rates from 3.0 percent in 2011 to 2.9 percent in 2012. Dropout rates in El Paso County are highest among American Indian/Alaskan Native and Hispanic students. Dropout rates are lowest among Asian and White students.

High School Graduation Rates



Grade 7 through 12 Dropout Rates





Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

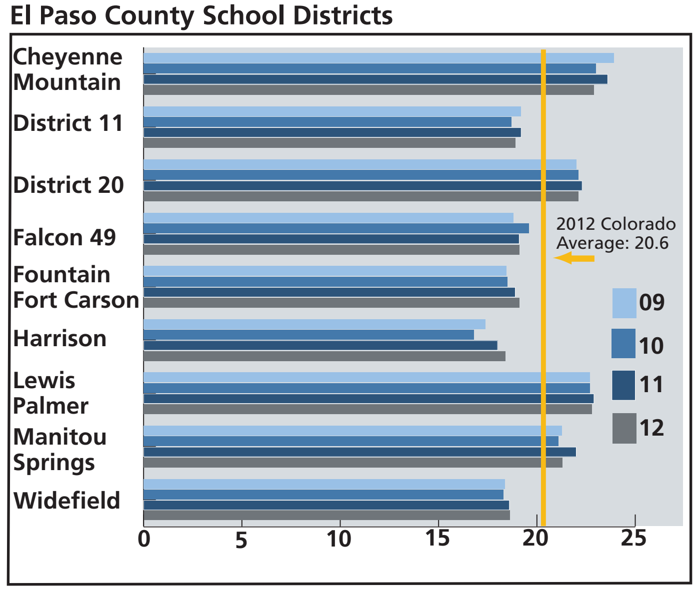
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates 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 improved ACT scores in 2012 over 2011. 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 (19.8), 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. The U.S. average was 21.1 in 2012.

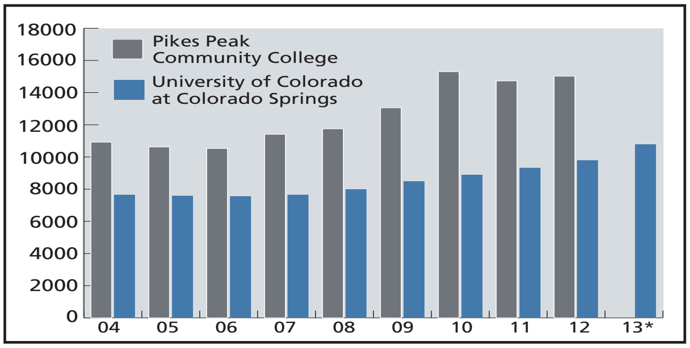
High School Junior ACT Scores in Selected El Paso County School Districts



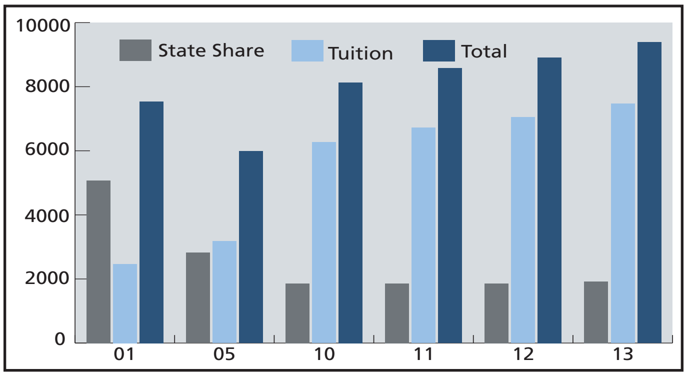
Sources: American College Testing program; Colorado Department of Education; local school districts

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.

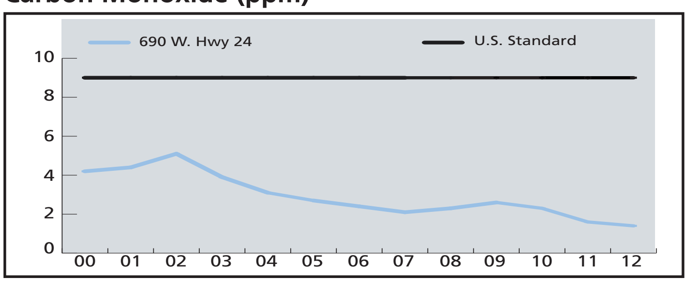
HOW ARE WE DOING?

Enrollments at University of Colorado Colorado Springs (UCCS) increased from 9,798 in 2012 to an estimated 10,778 students in the fall of 2013, an increase of 10.0 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. Current construction projects include the Lane Center for Academic Health Sciences, parking garage with athletic field and the arena parking facility. Since 2006, enrollments at UCCS grew 42.9 percent (7,543 to 10,778).

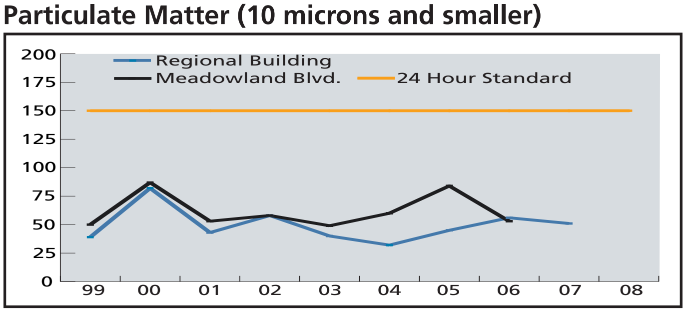
Pikes Peak Community College (PPCC) enrollments increased to 15,584 in 2013 from 14,800 in 2012 (5.3%). Enrollments grew 48.1 percent since 2006 (10,526 to 15,584) at PPCC.

Per student state support for a typical, in-state freshman or sophomore at UCCS is 20.5 percent of the total per student revenue in 2013, down from 67.3 percent in 2001. State support plus tuition per student went from $7,538 in 2001 to $9,390 in 2013, an increase of 24.6 percent. Allowing for inflation, per student total revenue declined 5.1 percent from $7,538 to $7,401 between 2001 and 2013. Total tuition has not kept up with inflation.

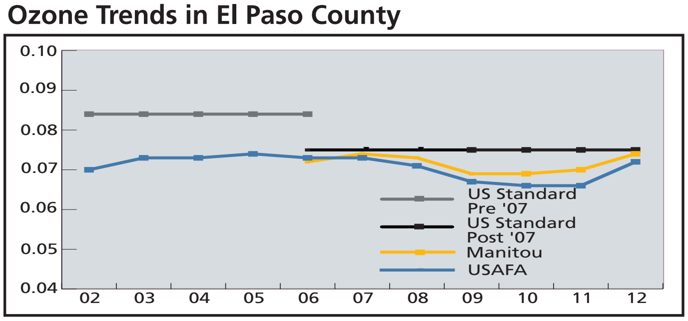
Carbon Monoxide (ppm)



Particulate Matter (10 microns and smaller)



Ozone Trends in El Paso County



Sources: Pikes Peak Area Council of Governments

WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?.

The Pikes Peak region has remained well below the U.S. standard for carbon monoxide (CO) emissions since 1989. The Pikes Peak Area Council of Governments expects more improvement in CO emissions because of technological advancements and because older cars are being replaced by 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.

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?

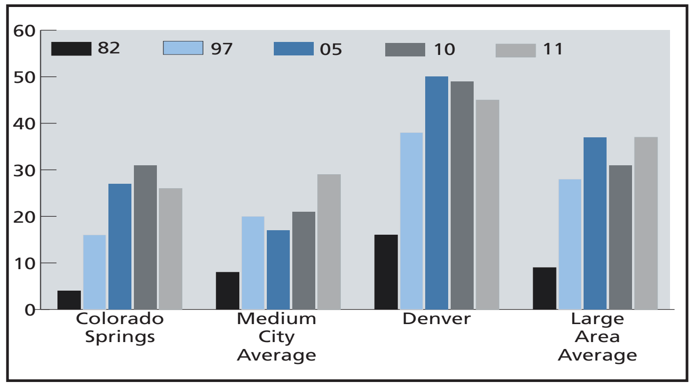
Traffic congestion continues to be an issue for the community. This information is reported by the Texas Transportation Institute. The 2011 results are presented to the right. Traffic conditions improved in Colorado Springs and Denver in 2011.

The annual delay per traveler in Colorado Springs in 2011 was 26 hours. This is much improved over the 2010 delay of 31 hours per traveler. The 2011 score is 3 hours better than the average for medium cities (29 hours). The annual delay estimate is the extra travel time in hours spent in traffic per traveler each year during peak travel periods. Peak travel periods occur between 6 to 9 a.m. and 4 to 7 p.m.

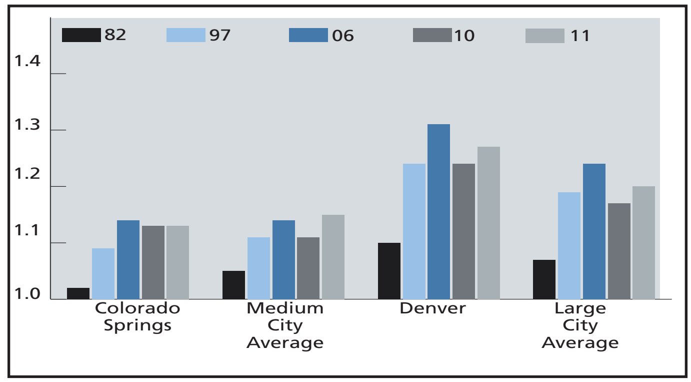
Annual delays per traveler in Denver improved to 45 hours in 2011 compared with 49 hours in 2010. The average delay for large cities increased from 31 to 37 hours in 2011.

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 2011 remained the same as 2010. It means 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 graph shows comparisons to similar size cities in the country.

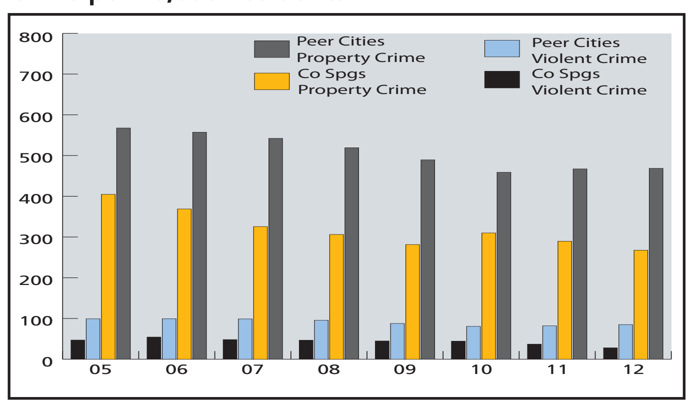
HOW ARE WE DOING?

Changes in the FBI's 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.

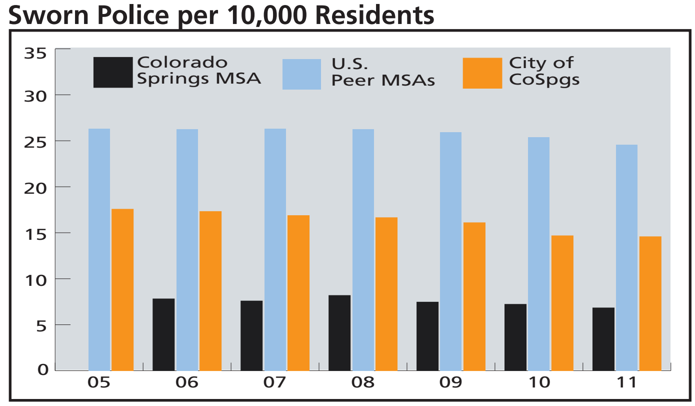
The Colorado Springs MSA violent crime rate remains below its peers. There were 28.1 violent crimes per 10,000 people in the Colorado Springs MSA in 2012. This is 66.9 percent below other similar size cities. The property crime rate is also below the peer group. There were 267.6 property crimes per 10,000 people in the Colorado Springs in 2012. This is 42.9 percent below the average of the peer group.

The number of sworn police officers per 10,000 residents in the Colorado Springs area is 42.9 percent below the number of sworn police per 10,000 inhabitants among peer cities. Colorado Springs had 14.6 officers per 10,000 population while other MSAs had 24.6 officers in 2010. Given the current trends in the economy and local crime statistics, the number of sworn police officers per 10,000 residents is expected to remain stable in 2013.

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



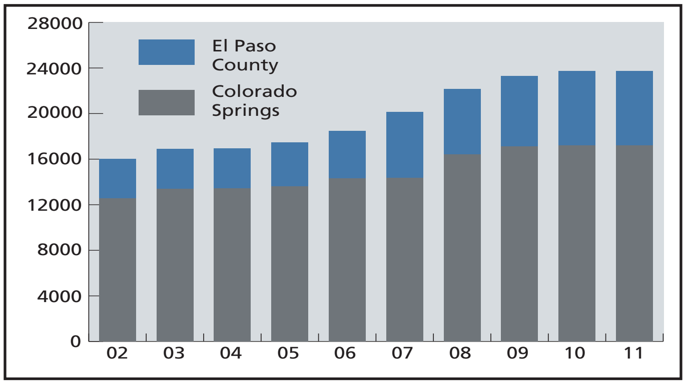
Sworn Police per 10,000 Residents



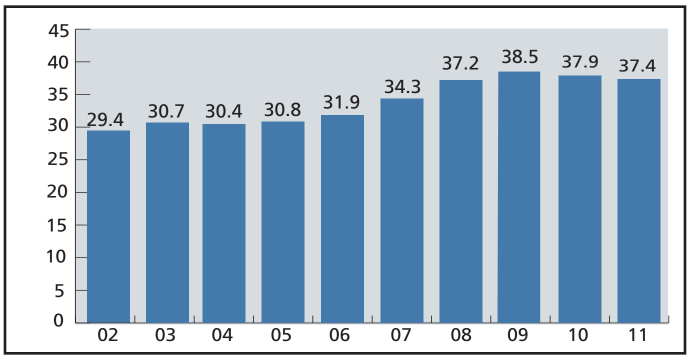
Sources: Colorado Springs Police Department; FBI

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?

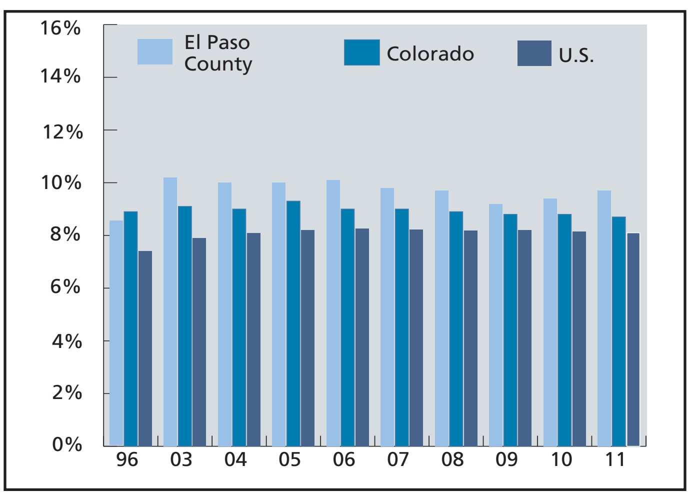
Open space, trails and park land provide important areas for recreation and leisure activity, support natural habitat and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and 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 approximately 6,650 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 $84.7 million or roughly $6.1 million per year for trail construction, park construction, and open space acquisition. At its current pace, TOPS is expected to generate approximately $6.9 million in 2013, an increase of 7.0 percent over 2012. 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 IS THIS IMPORTANT?

The proportion of low-weight birth children is a predictor of future costs of both health care and special education. Proper nutrition and prenatal care can reduce the incidence of low-weight births. A healthy community will help ensure that mothers of all backgrounds practice proper nutrition and have access to and are encouraged to receive prenatal care. The low-weight criterion is 2,500 grams or about 5.5 pounds.

HOW ARE WE DOING?

Colorado and El Paso County have a high proportion of low-weight births. The upward trend that began in 1995 peaked in 2003. Since then, the proportion of low birth weight babies declined slightly. Currently, 9.7 percent of the children born in El Paso County are low-weight babies. The rate is higher than the last two years (9.2% in 2009 and 9.4% in 2010). Of the children born in Colorado and the U.S., about 8.7 percent and 8.1 percent, respectively, were low-weight births in 2011.

In recent years, the proportion of low-weight birth babies has decreased slightly for the U.S. and Colorado. If not for 2011, the trend would have also been down for El Paso County. While this is an improvement from their respective peaks in 2005 and 2006, it should be noted that low-weight births in 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	Per Capita Personal Income (2011)	Percent Change in Personal Income 2001-2011	Per Capita Personal Income as a Percent of the U.S. Average (2011)	Household Size (2010)	Average Earnings per Job (2011)	Average Wage and Salary Disbursements (2011)
Albuquerque, NM	35,007	22.2%	84.2%	2.51	$46,904	$42,387
Austin, TX	40,455	25.7%	97.3%	2.58	$52,929	$50,509
Boise, ID	34,274	16.3%	82.5%	2.67	$45,628	$39,831
Boulder, CO	51,893	27.5%	124.9%	2.39	$54,609	$54,888
Colorado Springs, CO	39,994	29.3%	96.2%	2.55	$52,934	$46,635
Denver, CO	48,980	22.3%	117.9%	2.50	$61,743	$55,130
Huntsville, AL	40,126	41.5%	96.5%	2.45	$57,422	$51,489
Kansas City, MO	43,062	29.8%	103.6%	2.51	$54,799	$47,425
Minneapolis, MN	48,657	28.4%	117.1%	2.53	$57,915	$52,563
Portland, OR	41,302	24.9%	99.4%	2.52	$52,700	$49,131
Pueblo, CO	31,760	27.3%	76.4%	2.46	$41,878	$37,722
Salt Lake City, UT	39,595	32.3%	95.3%	2.97	$50,777	$45,204
Tucson, AZ	34,961	38.0%	84.1%	2.46	$45,430	$42,398
Wichita, KS	38,568	26.0%	92.8%	2.55	$50,325	$42,457
Comparison City Average	40,617	27.7%	97.7%	2.55	$51,857	$46,984

Sources: Bureau of Economic Analysis, Regional Economic Accounts, 2011 American Community Survey U.S. Census Bureau

WHY IS THIS IMPORTANT?

The Forum looks at several other MSAs-Cities to provide a relative measure of how Colorado Springs compares with other metropolitan regions in the U.S. The MSAs 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 2011, the latest available comparison data for these MSAs.

HOW ARE WE DOING?

Reported per capita personal income in Colorado Springs was $39,994. This is 5.3 percent higher than per capita personal income in 2010 ($37,999). The average per capita personal income for all of the MSAs in the table is $40,617. Per capita personal income for the Colorado Springs MSA in 2011 was 96.2 percent of the U.S. average of $41,564. Seven of the comparison MSAs have per capita personal income higher than Colorado Springs. Personal income in Colorado Springs grew 29.3 percent from 2001 to 2011 or 2.9 percent per year compared to a 27.7 percent growth rate for the average of the group or 2.8 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 $46,984 for all of the MSAs in the table. Wage and salary disbursements in Colorado Springs averaged $46,635, ranking the city sixth out of the fourteen MSAs. Average earnings per job for the MSAs was $51,857 in 2011. Colorado Springs average earnings per job were $52,934 in 2011, also ranking the region sixth out of the fourteen MSAs. The average earnings per job in 2011 was $1,077 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?

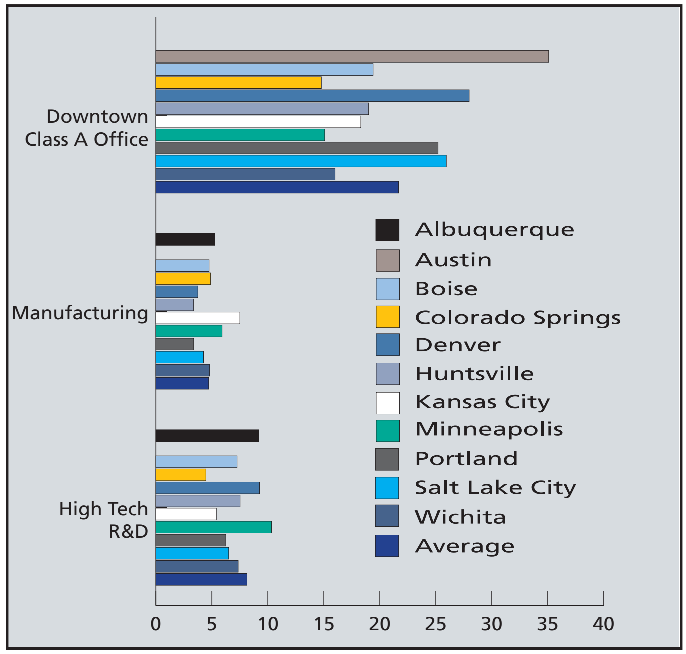
NAI Global Commercial Real Estate Services, Worldwide maintains a database of comparative information on commercial real estate market conditions in many MSA's around the country. The information can be used to benchmark a region's commercial real estate market against cities that compete directly with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

Manufacturing rents in the Colorado Springs MSA were $4.75 with vacancy rates of 14.0 percent. There is very little association between rents and vacancy rates. The reported rents in manufacturing space are near the average for the comparative 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.

NAI Metro Area Commercial Rents: 2012



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. in 2011. Austin is the only city where High Tech/R&D rents increased.

WHY IS THIS IMPORTANT?

NAI Global Commercial Real Estate Services, Worldwide maintains a 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.

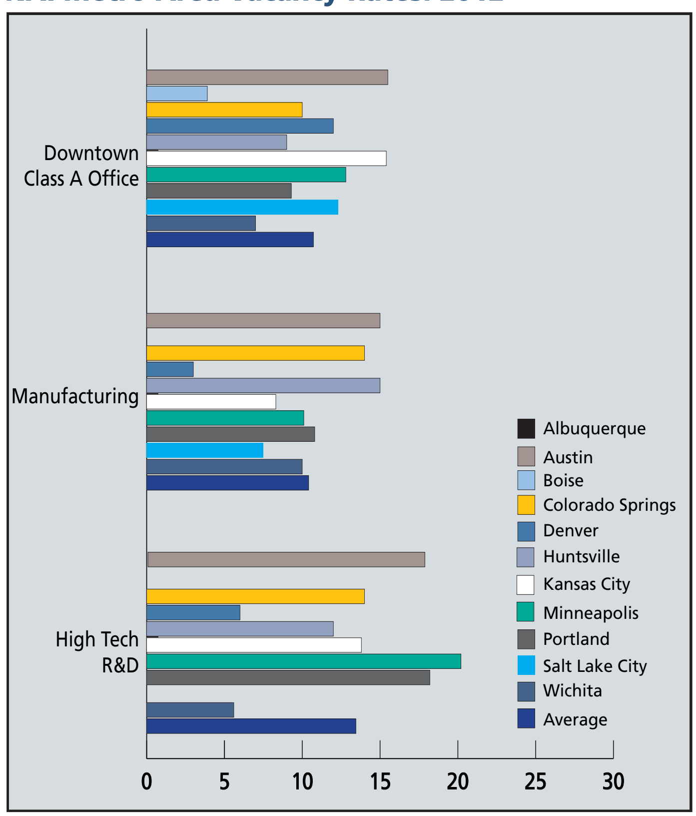
HOW ARE WE DOING?

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 20.0 percent to 15.0 percent while the manufacturing vacancy rate in Salt Lake City increased from 5.0 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 15.0 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 in 2012.

NAI Metro Area Vacancy Rates: 2012



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 54 percent women and 46 percent men.
- 36 Bachelor's degrees, 19 Master's degrees, and 5 Ph.D. programs.
- 14 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, AACSB International, 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 the Master of Business Administration degrees. 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 local 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, executive education, extended studies, working with interns, or hiring graduates, by visiting www.uccs.edu/business.

Contact: College of Business and Administration

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