

2003 - 2004

Seventh Annual



Southern Colorado Economic Forum

October 8, 2003

College of Business and Administration
University of Colorado at Colorado Springs
Colorado Springs, Colorado 80933-7150



University of Colorado
at Colorado Springs



*Founding
Partner
of the Forum*

First
Business
Brokers, LTD.

Welcome From the Chancellor

The University of Colorado at Colorado Springs is pleased to join with its business partners to present the seventh 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 provides a peek at our community's future. The information provided at the Forum is intended to provide insight to policy makers and to aid them in making informed decisions about our region. We also hope to provide a realistic economic forecast for the coming year.

We are fortunate to have many committed individuals involved in this project. I wish to thank Fred Crowley, and Tom Zwirlein of the College of Business, for their data analysis and its presentation in this report. I also wish to thank our panel of experts for their contributions.

Additionally, I want to thank our business community sponsors: First Business Brokers, LTD., Colorado Springs Utilities, Fittje Brothers Printing, Key Bank, La Plata Investments, LLC., Skotty Consulting, BiggsKofford Certified Public Accountants, Van Gilder Insurance Corporation, ADD STAFF, Inc., Colorado Classics Furniture & Design, Colorado Springs Credit Union, Ent Federal Credit Union, Laz-Z-Boy Furniture Galleries, TelWest Communications, The Gazette, and The Mail Room, Inc. We are grateful for the support we receive from the Greater Colorado Springs Economic Development Corporation, the Chamber, the City of Colorado Springs and the Fountain Economic Development Committee.

Thank you for coming to the 2003-2004 Southern Colorado Economic Forum. We wish you a productive and successful 2004.

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

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

The Southern Colorado Economic Forum is the preeminent forum in the region to anticipate and explain the dynamics of our business and commercial economy. We continue this tradition by gathering, analyzing and explaining a complex set of indicators designed to guide your business decisions in the next year. The informative panels add to the value by discussing topics of current concern to the local business community.

The College of Business and Administration at UCCS could not accomplish this without the aid of our many business partners. The information content of the analysis has evolved and expanded as a direct result of feedback from the Forum partners. The panels are designed and composed in close collaboration with our local business partners. This is continued evidence that the futures of the University and local businesses are intimately intertwined.

Our college has a special mandate to provide leading edge academic resources to our partners in the region. Our economic outreach efforts in education are supplemented with relevant research as disseminated through the Forum and our economic update report QUE, through assistance programs including the Small Business Development Center and the Colorado Springs Technology Incubator, and active involvement in the Colorado Institute for Technology Transfer and Implementation.

Welcome to the seventh annual Southern Colorado Economic Forum. We hope your visit is informative, that you take the time to thank those sponsors who have made this possible, and consider helping us make the Forum even more valuable in the years to come.

Gary Klein, Dean, College of Business and Administration

First Business Brokers, LTD.

First Business Brokers, Ltd. is a firm that deals exclusively with the sale of privately-owned businesses. Established in 1982 by Ronald V. Chernak, JD, CPA, FCBI, the firm is one of Colorado's largest and most successful brokerage companies representing privately-owned businesses. First Business Brokers, Ltd., has completed over 700 business sales covering a wide variety of industries.

First Business Brokers, Ltd. assists with the complex legal, accounting, and negotiation issues involved with the sale of a business. The firm offers professional assistance at every phase of the business sale transaction including: valuations, preparation of a detailed business presentation package, development of a sound marketing strategy, pre-screening of potential purchasers, negotiating the transactions, and interfacing with accountants, attorneys and bankers during the closing process. To complement these activities, the firm provides comprehensive professional services with an acute awareness of current market conditions to assist clients in making easier, more informed, and financially stronger transactions. The firm's strength lies in its professional approach and customized strategy to each and every business transfer. A successful transaction requires the input of skilled professionals who are experienced in, and sensitive to, the process of effectively bringing the buyer and seller together. First Business Brokers, Ltd. understands what building the business has meant to the seller and what opportunity, through acquisition, is perceived by the buyer.

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

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The 2003 – 2004
Southern Colorado Economic Forum

Introduction

This marks the seventh 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 others. This information is 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, health and the like.

The information is gathered to develop a "set" of economic and quality-of-life indicators for El Paso County. The indicators provide a picture of the economy and the quality-of-life in the region 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 business and organizations that operate here.

The Southern Colorado Economy

The southern Colorado economy is going through another soft year. The layoffs we have seen over the past few years appear to be slowing. There is evidence the economy is gaining positive momentum. Nationally, economists continue to expect to see the economy rebound. The FED has driven interest rates to 40-year lows. Homeowners have taken advantage by refinancing home mortgages. This puts more disposable income into consumer pockets. The stock market is heading into higher territory this year and moving beyond the dot-com meltdown, accounting scandals, war, and recession. Consumer spending is holding up well and consumer confidence is showing some signs of strength. The tax cuts passed by Congress this spring are showing up in employee paychecks. The dollar has declined steadily against other major currencies. This lowers the cost of U.S. exports to the world market. These positive signs indicate the worst is behind us and the economy is poised for growth.

At the same time, business remains cautious and is hesitant to hire workers. Employment remains weak and unemployment high. Business investment is lackluster. The big question is: when will business regain confidence, resume its investments and add employees to their payrolls?

The Colorado and southern Colorado economies were adversely affected by trends in the national economy, the war in Iraq and persistent reluctance of industry to invest. The layoffs in high technology that began in 2001 in El Paso County continued into the first half of 2003. Total layoffs since January 2001 are now estimated to be in the neighborhood of 9,000 or more workers. ES202 job growth in 2002 was negative for the first time in over ten years. While the bulk of the lost jobs occurred in the technology sector, the impact is being felt in other sectors. Local resident service businesses continued to report a soft business environment. These businesses, in turn, are reacting by reducing employees and payrolls. While signs of improvement are present, it is still possible a limited number of additional lay-offs will be announced in the foreseeable future.

Employment/Unemployment

ES202 job growth in Colorado was down 1.9 percent in 2002 after growing 0.7 percent in 2001. El Paso County saw jobs decline in 2002 by 4,989 or down 2.1 percent after a 1 percent increase in 2001. At the end of 2002, the unemployment rate in Colorado stood at 5.7 percent while the unemployment rate in El Paso County stood at 6.6 percent. These were up 2.0 and 2.2 percentage points, respectively, compared to 2001.

On average, the monthly labor force in El Paso County was estimated to be 279,833 in 2002, compared to a labor force of 272,297 in 2001, an increase of 2.8%. Preliminary July 2003 figures from the Colorado Department of Labor put the labor force at 281,206. Last year's July labor force figure was 282,167. The decline in labor force from July 2002 is thought by many to be the result of discouraged workers leaving the labor market or displaced technology workers turning to entrepreneurial activities such as consulting. During the period January 2001 to December 2002, the Colorado Department of Labor and Employment reported 120 new firms were started in the area of professional business services – consulting. This suggests displaced professional and technology workers may have started consulting firms. We do not have data on discouraged workers leaving the labor market.

Employment for July 2003 was estimated at 263,837, a 0.3 percent increase over the year earlier figure of 263,045. While additional layoffs in the manufacturing and technology sectors are possible, we expect any layoffs to be negligible over the balance of 2003 and into 2004. Some growth in employment appears to be occurring in selected services such as health care, finance, insurance, real estate and local government, especially local education. Employment in our basic industries is expected to improve gradually in 2004.

The unemployment rate for 2003 is expected to average 6.1 percent for the year. The unemployment rate in 2004 is expected to improve to 5.8 percent for the year as the national and local economies improve.

Wages and Income

Average wages in El Paso County increased 0.9 percent to \$34,679 in 2002 after increasing 4.1 percent to \$34,391 in 2001. Average wages in Colorado were up 0.14 percent in 2002 to \$38,012 after increasing 2.1 percent to \$37,960 in 2001. The gap between average El Paso County wages and average Colorado wages decreased slightly in 2002 and is now \$3,333.

Average wage increases were modest in most sectors of the economy. Average wages increased in manufacturing, management of companies and enterprises, administrative and waste services, arts, entertainment and recreation, and government. With the exception of government, all of these sectors lost employees in 2002. Average wages in most other economic sectors remained flat or declined.

Personal income is expected to increase 3.0 percent in 2003 and 3.5 percent in 2004. Per capita personal income is expected to increase 1.5 percent in 2003 and 2.0 percent in 2004. Personal income increases will remain modest due to a slow recovery in the economy, but may rise toward year's end if the stock market continues its upward movement. The positive market trend may not have a significant impact on personal income given the reluctance of individual investors to re-enter the stock market at this time.

The Military

The military's normally positive impact on the local economy has eroded due to the deployment of troops from Fort Carson to Iraq. An estimated 11,000 troops were deployed and are expected to be in Iraq until approximately March-April of 2004. Allowing for household size and an estimated 15% of spouses and children leaving the area due to the deployment, we estimate a direct loss in salary of \$165,829,000 a year. Based on Keynes' government multiplier model, the direct impact will magnify and ripple through the economy to an estimated loss of \$518,217,000 to the local economy.

The loss in economic activity will also affect the government sector. According to a Department of Labor's study of household spending patterns, the typical household will spend approximately 26.3% of its income on items subject to state and local sales tax. Thus, the potential lost sales taxes for the city of Colorado Springs attributed to troops deployed from Fort Carson is \$4,633,896. This assumes the economic impact is immediate, complete and sustained. It is more likely the impact will be spread over the course of a year, will end when the troops return and not be fully realized. The Forum estimates the actual lost sales taxes to Colorado Springs will be closer to \$2.5 million. El Paso County will lose approximately \$1.04 million in sales tax collections.

The money that will not be spent in the community while the troops are in Iraq will be greatest among businesses catering to local resident services used by the soldiers at Fort Carson. This impact will be felt most by businesses near the base. The impact is expected to be large enough that some local businesses will either not hire an employee or possibly lay-off an existing employee. Using the same assumptions that the deployment is temporary and its impact lags the actual deployment, the Forum estimates as many as 595 jobs, full and part-time, could be lost until the troops return. This could raise the local unemployment rate by 0.25 percent.

Housing Construction and Commercial Activity

The local housing industry was again bolstered by extremely attractive mortgage interest rates in 2002 and for the first 7 months of 2003. The 30-year conventional mortgage rate hovered around 5.0 to 5.25 percent in early June 2003. This is the lowest rate ever observed for this instrument since it was first published in 1971. Despite job losses in the region, very weak net in-migration population growth and very aggressive rents being offered in multi-family housing units, many households found home ownership affordable and purchased new homes. Residential builders continued to capitalize on the low mortgage rate bonanza. We expect approximately 4,100 single-family and town house units will be built in 2003. This is a decline of 806 units, or 16.4 percent compared to 2002. This is in line with the 2003 projection we made last year.

Low job growth, low net in-migration, and higher mortgage interest rates will slow single-family construction in 2004. The Forum is projecting mortgage interest rates in the 6.0 to 6.5 percent range by the end of 2003. While this is still an attractive rate, it raises the monthly carrying cost of a mortgage by approximately 16.1 percent compared to the cost when rates are in the 5.0 to 5.25 percent range, as they were in early June 2003. This might be more than the entry-level homeowner can afford if the prices of a new home remain at current levels. Although the economy is expected to be in recovery during 2004, significant job growth is not expected until late 2004 or early 2005. Net in-migration is expected to be better in 2004 than in 2003, but only 25 percent of the high in-migration experienced during the 1990's. For 2004, we expect single-family housing permits will be 3,895, a 5 percent decline from 2003.

The multi-family housing market is awash in newly and nearly completed construction. Apartment vacancy rates were 6.5 percent in 2002. By June 2003, the apartment vacancy rate reached 14 percent. The rising apartment vacancy trend was aggravated by the sluggish economy, no job growth and record low mortgage rates. The deployment of troops from Fort Carson had only a modest effect on vacancies between the first and second quarters of 2003. Vacancies between these periods increased about 2 percent. Doug Carter, LLC reports the long-term vacancy rate among multi-family units is about 10 percent.

Estimates put the number of multi-family units in the region at about 42,500. This means we have about 1,700 vacant units more than long run equilibrium suggests. Aggravating this will be the approximately 1,000 new units scheduled to come onto the market in the next several months. The Forum believes multi-family unit vacancies of 5 percent are unrealistically low and expect double-digit vacancies well into 2004. The above "normal" vacancies should minimize the construction of additional multi-family units through 2004 and keep apartment rents soft. Apartment unit construction is not expected to increase materially until 2005 when vacancies are expected to be in the 7.5 percent range.

Industrial vacancy rates were 10.9 percent in 2002, compared to 6.7 percent in 2001. No significant changes in vacancies are expected for 2003. Absorption in 2002 was -942,745 square feet. More than half of this loss in lease space took place in the Northwest area of Colorado Springs. The average asking rent in the 4th quarter was \$7.67 a square foot. The large negative absorption during 2002 is expected to put pressure on landlords to lower lease rates for 2003. Average rents for 2003 industrial space are expected to be approximately \$7.50, NNN.

Commercial construction of retail space along the Powers Boulevard and East Woodmen corridors is expected to continue in 2003 and into 2004. As the population center continues moving northeast, commercial space is expected to follow the rooftops. This is expected to exert downward pressure on retail occupancy and lease rates in other areas of the community, especially along parts of Academy Boulevard and the northwest. The intersection of Powers Boulevard and East Woodman is quickly becoming a major retail center with the construction of a Home Depot and another Super Wal-Mart. The Forum expects these anchor stores will have other retail neighbors soon. The value of nonresidential construction in 2003 is expected to be \$195 million, a decline of 1.1 percent from 2002. Commercial construction is expected to increase by 1.0 percent in 2004 unless a major commercial project is unveiled.

Retail and Wholesale Trade

The Colorado Department of Revenue reported retail sales for Colorado were up 0.12 percent in 2002. Retail sales in El Paso County were up 3 percent in 2002. Retail sales in 2003 are running close to the 2002 levels. This is encouraging given the general decline in the economy, the slow-down in building, reduced sales volumes in furniture, automobiles and the deployment of troops from Fort Carson to Iraq. Unfortunately, the taxable components of retail sales are running behind last year's values. As a result, through July, Colorado Springs has collected 2.4 percent less sales tax in 2003, compared to 2002. The expected strengthening of our economy should produce an increase in retail sales of 3 percent in 2004. The opening of the Shops at Briargate will help keep some higher-end retail trade business in the county and attract additional businesses to this area.

Year 2002 saw a 2.4 percent decline in wholesale sales in Colorado. El Paso County's experience was the opposite. Wholesale sales rose 11.94 percent in El Paso County during 2002. Given the increasing levels of economic activity, the Forum expects wholesale activity in El Paso County to outpace that of Colorado. Wholesale sales were up 22 percent in the first quarter of 2003 over year earlier figures. Provided this pace continues, wholesale sales in El Paso County should increase at least 15 percent in 2003. Wholesale sales in El Paso County for 2004 are also expected to be strong with at least 10 percent growth over 2004.

Where is the Southern Colorado Economy Headed in 2004?

The national slowdown still holds a grip on the Southern Colorado economy. The economy slowed dramatically after 9/11/2001 and hasn't regained much strength since. Although we are seeing fewer layoffs in the technology sectors, there still is not enough new job creation to replace all the ones that were lost. While some indicators are turning up there are still signs of a sluggish economy, particularly in the employment picture.

Last year's accounting scandals have worked their way through the economy and the stock market appears to be reacting to better corporate news since it bottomed out in September 2002. Since it hit bottom, the S&P 500 index has gone up 21.9 percent. Compared to a year ago, several measures are driving optimism in the stock market. Corporate profits are up 12.12 percent. Consumer sentiment is up 3.1 percent. Interest rates are down 75 basis points. Changes in stock market prices reflect expectations for the economy. The improved market indicators appear to reflect the investment community's expectation of a stronger economy in the next 6-12 months.

The market for single-family and town house residential units has been stronger than the general performance of the local economy. For 2003, a 16.4 percent decline from 2002 levels is expected. This would produce 4,100 permits in 2003. It is a strong number, especially when net-migration for 2003 is expected to be only 778 people. Natural increase in population is expected to be 5,300 for a total increase

of 6,078. This is approximately two-thirds of the average annual increase we saw in El Paso County during the 1990's. The average household size is 2.6 people. This implies that the population increase would support 2,338 new single-family residential units; not the 4,100 units projected for this year based on current trends. Traditionally, the population splits its housing preferences into 1/3 renters and 2/3 owners. This implies that the population increase for 2003 would support only 1,543 new single-family units.

Despite the apparent overproduction of single-family housing units during 2003, the Forum believes the units will continue to sell at close to the projected pace of approximately 4,100 units. Home affordability has increased tremendously due to the drop in mortgage rates. The Forum believes most of the net population increase will purchase a home rather than rent an apartment. This is expected to continue into 2004 when mortgage rates are expected to be in the 6.5-6.75 percent range. While this is higher than the rates in 2003, the projected mortgage rates will continue to make home ownership extremely attractive. Relatively high absorption of new single-family housing units will come at the expense of more multi-family vacancies.

The lack of a strong recovery and low net in-migration point to a modest decline in single-family housing for 2004. The Forum projects total single-family and town house construction in 2004 will be 3,895 units, a 5 percent decline. Non-residential construction, which shows a great deal of year-to-year volatility, is forecast to decline 1.1 percent in 2003 and increase 1 percent in 2004.

Unemployment is currently 6.2 percent (July). The average unemployment rate for all of 2003 is expected to be 6.1%. A modest improvement in unemployment is expected in 2004 and is forecast to average 5.8 percent. We do not expect much change in the unemployment picture in the first half of 2004, unless there is an unforeseen recovery in the manufacturing and technology sectors.

Non-agricultural employment is expected to remain flat for all of 2003 and then grow by 1.7 percent in 2004. Average salaries will increase 1.5 percent this year and 3.0 percent in 2004. The small increases in wages and salaries reflect the loss of manufacturing

and other high-paying jobs in the community. Total wage and salary income will increase by only 1.5 percent in 2003 and 4.8 percent in 2004.

Personal income is expected to increase 3.0 percent in 2003 and 3.5 percent in 2004. Retail trade is forecast to grow about 2.5 percent for all of 2003 and by another 3.0 percent in 2004.

Estimates and forecasts for national, state, and El Paso County economic indicators are provided in the table on the following page. The national and state estimates and forecasts are from the Colorado Economic Perspective, prepared by the Office of State Planning and Budgeting, June 2003 and the Federal Reserve Banks of Philadelphia Survey of Professional Economists. The El Paso County estimates and forecasts are from the Southern Colorado Economic Forum.

We wish to thank all the people who took time from their busy schedules to speak with us about local economic conditions and for providing us with valuable information. The many discussions provided valuable insight into a variety of economic sectors and gave us a good sense of where the local economy is headed and where we stand in terms of quality-of-life.

Acknowledgments

A special thank you goes to our valuable partners who provide generous financial support and guidance in producing the Forum. We wish to thank our Forum partners: First Business Brokers, LTD., Colorado Springs Utilities, Fittje Brothers Printing Company, Key Bank, La Plata Investments LLC, Skotty Consulting Group, Inc., BiggsKofford Certified Public Accountants, Van Gilder Insurance Corporation, ADD STAFF, Inc., Colorado Classic Furniture & Design, Colorado Springs Credit Union, Ent Federal Credit Union, La-Z-Boy Furniture Galleries, TelWest Communications LLC, The Gazette and The Mail Room, Inc. for their financial and in-kind support. Finally, we could not have completed the Forum and arranged this event without the superlative assistance of Kathy Abeyta and the College of Business staff.

*Thomas J. Zwirlein, Ph.D.
Professor of Finance and
and Faculty Director
of Connections*

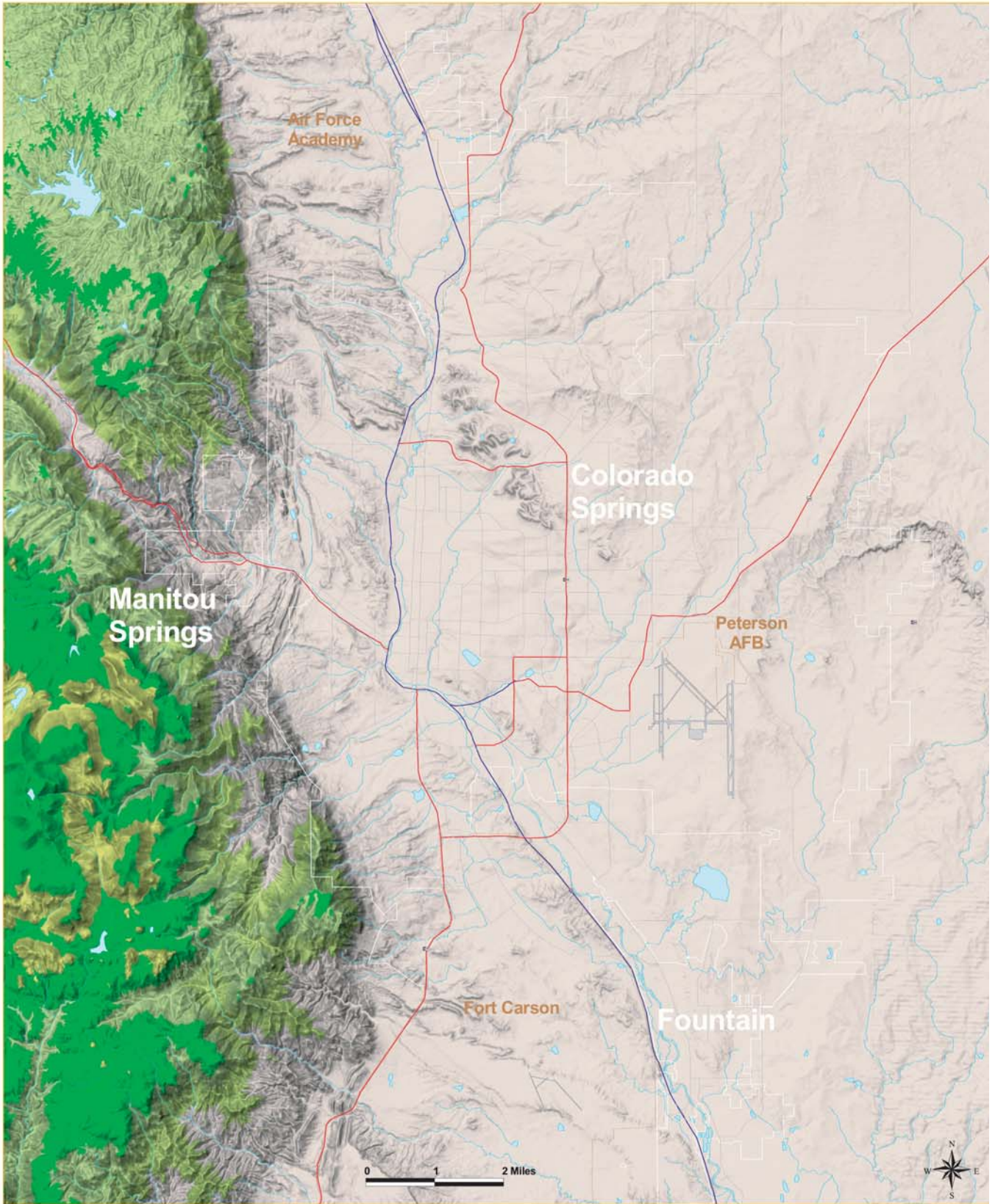
*Fred Crowley, Ph.D.
Senior Economist for
the Southern Colorado
Economic Forum*

| | | Estimated and Forecast Percent Change in Key Economic Indicators for the U.S., Colorado and El Paso County | | | | | | | | |
|----|------------------------------|--|----------|----------|----------|----------|----------|----------------|----------|----------|
| | | United States | | | Colorado | | | El Paso County | | |
| | | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 |
| | | | Estimate | Forecast | | Estimate | Forecast | | Estimate | Forecast |
| 1 | Population | 0.9 | 0.9 | 0.9 | 1.6 | 1.2 | 1.3 | 1.5 | 1.1 | 1.3 |
| 2 | Unemployment Rate* | 5.8 | 6.1 | 5.9 | 5.7 | 5.8 | 5.7 | 6.5 | 6.1 | 5.8 |
| 3 | Non-Agricultural Employment | -9 | 0 | 1.2 | -1.9 | -1 | 1.8 | -2.1 | 0 | 1.7 |
| 4 | Total Wage and Salaries | | | | -1.5 | 1.8 | 3.7 | -1.3 | 1.5 | 4.8 |
| 5 | Average Wage and Salaries | | | | .14 | 1.5 | 3.0 | .9 | 1.5 | 3.0 |
| 6 | Consumer Price Index (CPI) | 1.6 | 2.4 | 2.3 | 1.9 | 2.5 | 2.5 | | | |
| 7 | Personal Income | 2.8 | 3.7 | 4.0 | 1.2 | 3.1 | 3.9 | 1.0 | 3.0 | 3.5 |
| 8 | Per Capita Personal Income | 1.7 | 2.8 | 3.1 | -5 | 1.8 | 2.5 | -50 | 1.5 | 2.0 |
| 9 | Retail Trade | | | | -7 | 2.9 | 3.3 | 1.1 | 2.5 | 3.0 |
| 10 | Housing Permits | 6.7 | -7 | -5.0 | -12.9 | -16.7 | -3.7 | -6.5 | -16.4 | -5.0 |
| 11 | Non-Residential Construction | | | | -22.5 | -14.4 | -2 | -9.4 | -1.1 | 1.0 |

Sources: Colorado Office of State Budgeting and Planning, June 2003 Revenue Forecast and the Southern Colorado Economic Forum.

* refers to the unemployment rate and not the change in the rate.

Colorado Springs Region



WHY IS THIS IMPORTANT?

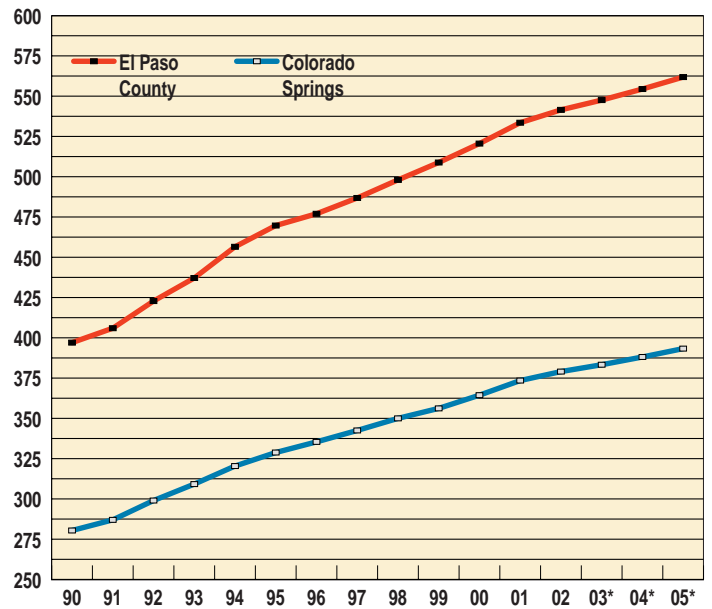
Population growth is important because it influences the labor market and the health of the economy in general. Understanding population trends helps city and county officials, builders, retail establishments and others plan for growth. Estimates are used for planning and evaluation, state revenue sharing, and distribution of projects and money by public and private agencies.

HOW ARE WE DOING?

Colorado's population continues to increase at a steady pace. From 1990 to the 2000 census, Colorado's population grew at an annual average rate of 3.0 percent. El Paso County's population grew at an average annual rate of 3.2 percent over the same period. The Colorado Division of Local Governments estimates El Paso County's population at 541,491 in 2003. Current projections suggest lower growth in El Paso County population due to slower in-migration. Forecasts for 2003 and 2004 estimate the population at 554,428 and 561,849 in El Paso County respectively.

The strong state economy, growing key industries, economic development efforts, quality of life, natural beauty of the state, and an educated work force all contributed to the population increases realized in the 1990's. The slower economy and loss of jobs contribute to slower population growth of recent years.

Colorado Springs and El Paso County Population (000s)



* Forecasts for 2003 to 2005

Sources: U. S. Census and Colorado Department of Local Affairs

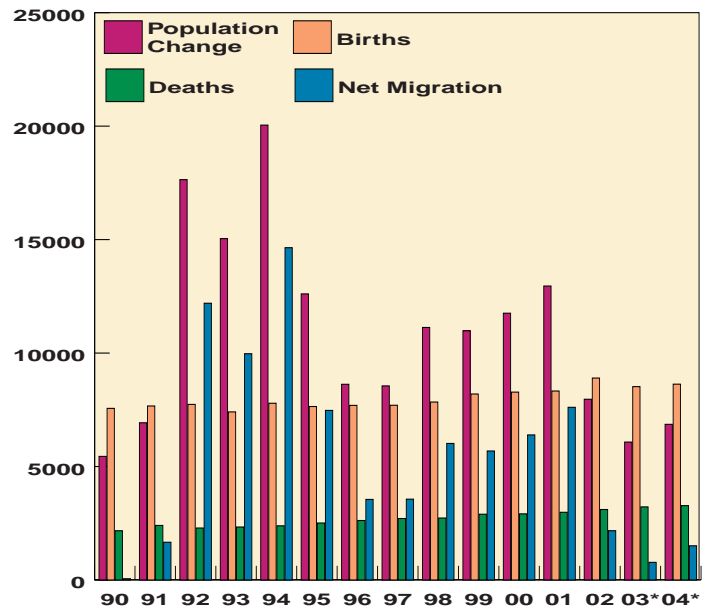
WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

The trend in the natural increase in the population has been relatively stable since 1990. Each year, the number of resident births exceeds residents deaths by approximately 5,000 to 5,400 people. The in-migration trends are much less stable. In the early to mid-nineties, in-migration accounted for 60-70 percent of the total population change. That percentage dropped to about 50 percent in the last half of the decade. In 2002, in-migration slowed dramatically and accounted for only 27 percent of the county population increase. In 2003, in-migration will account for only 13 percent of the county's population increase.

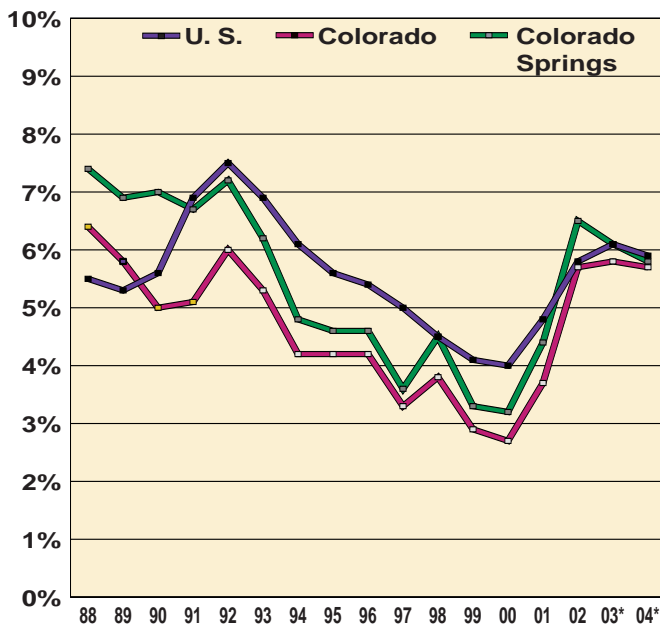
Births, Deaths and Migration in El Paso County



* 2003 and 2004 forecasts

Sources: Colorado Department of Local Affairs; Colorado Department of Public Health and Environment, Health Statistics and Vital Records

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



* Through July 2002
 Sources: U.S. Department of Labor;
 Colorado Department of Labor and Employment

WHY IS THIS IMPORTANT?

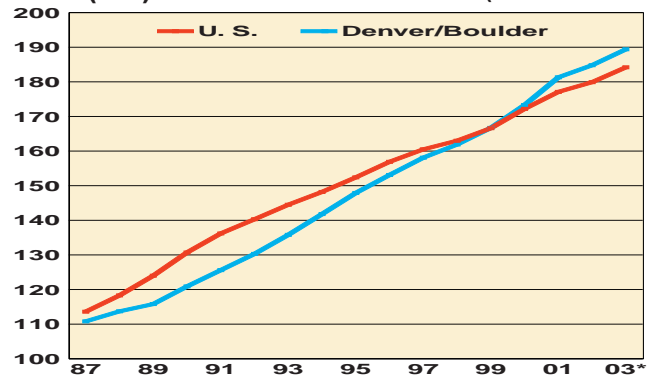
The unemployment rate is the percentage of the work force without jobs. There will always be some unemployment due to seasonal factors, workers between jobs, recent graduates looking for work and others. Comparisons with the state and national unemployment rate provide information about how well the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

HOW ARE WE DOING?

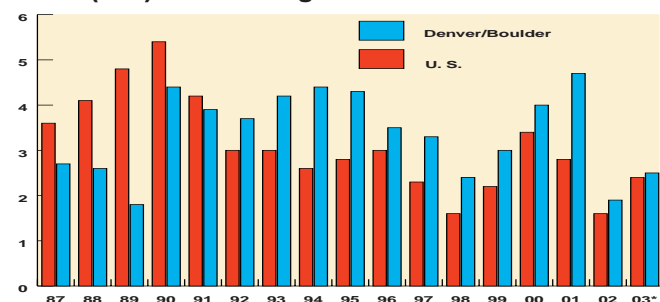
In 2000, unemployment figures reached 30-year lows. Since that time, unemployment increased in the U.S., Colorado, and El Paso County. The continued economic slowdown inched the unemployment rate up through 2001-2003. Colorado's unemployment rate currently stands at 5.7 percent. The Colorado Springs MSA unemployment rate as of July stood at 6.2 percent, down from 6.6 percent at the end of 2002.

Much of the slowdown in the economy and employment is attributed to the technology sector which laid off employees throughout 2001 and 2002. Layoffs in this key sector have finally slowed in 2003. The anemic national economy has dramatically affected Colorado and the Colorado Springs labor force. Preliminary figures from the Colorado Department of Labor and Employment estimate that the Colorado Springs labor force declined by .3 percent from July 2002 to July 2003. Over the same period, employment grew by .3 percent.

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



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



* 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 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?

We report the Denver/Boulder CPI because the Bureau of Labor Statistics does not compile an index for Colorado Springs. The Denver/Boulder CPI rose 1.9 percent in 2002 after rising 4.6 percent in 2001. The U.S. urban CPI rose 1.6 percent in 2002 after increasing 2.8 percent in 2001. Both the U.S. and Denver/Boulder CPI are up about 1.6 percent over the first six months of 2003. Household energy costs (particularly natural gas) and motor fuel costs are largely responsible for the increase in the index. Food and beverage, medical care and recreation prices rose modestly over the last year. Apparel posted a decline over the past year.

The Office of State Planning and Budgeting expects consumer prices in Colorado to rise 2.5 percent for all of 2003 and again in 2004, which is in line with the Forum estimate. The Office of Planning and Budgeting forecasts U.S. inflation for 2003 to be 2.4 percent and to decrease slightly to 2.3 percent in 2004.

WHY IS THIS IMPORTANT?

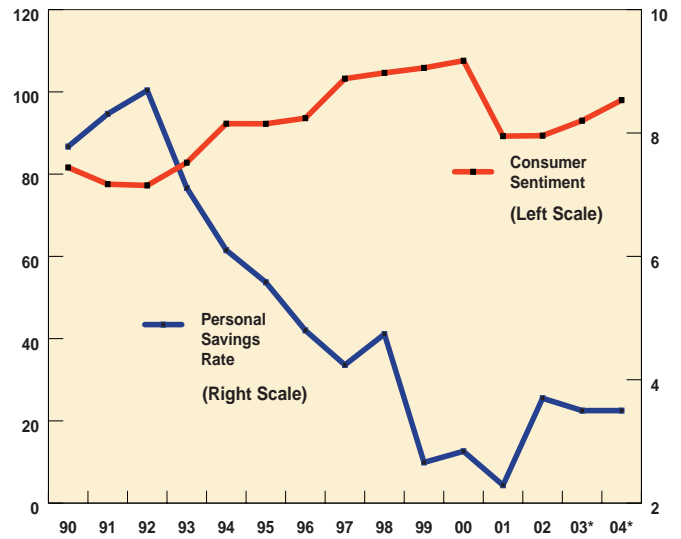
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of the consumer's confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer sentiment measures confidence using 1996 as the base year (1996=100). The personal savings rate is an indication of the consumer's confidence in the current economy and a proxy for consumption capacity in the future.

HOW ARE WE DOING?

Consumer sentiment peaked in December 2000 and then trended downward through April 2001. Consumer sentiment recovered through August 2001 and peaked again in May 2002. Consumer sentiment dropped for the next twelve months until May 2003. For the past few months, consumer sentiment is on the rise again. Consumers appear to be more willing to spend. Reported profits by a number of retailers were stronger in the last quarter than expected. Many economists are seeing signs of a national economic recovery. The stock market, which is considered a leading economic indicator, is up for the first time in several years.

Personal savings, which had trended down until 2001, is on the rise again. The slow economy and lack of consumer confidence pushed people into saving more and consuming less. Personal savings as a percent of disposable income is expected to remain in the 3.0 to 3.5 percent range for the next 12-18 months. Increased personal savings builds capacity for future consumption.

Consumer Sentiment and Personal Savings Rate



* SCEF forecasts

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

WHY IS THIS IMPORTANT?

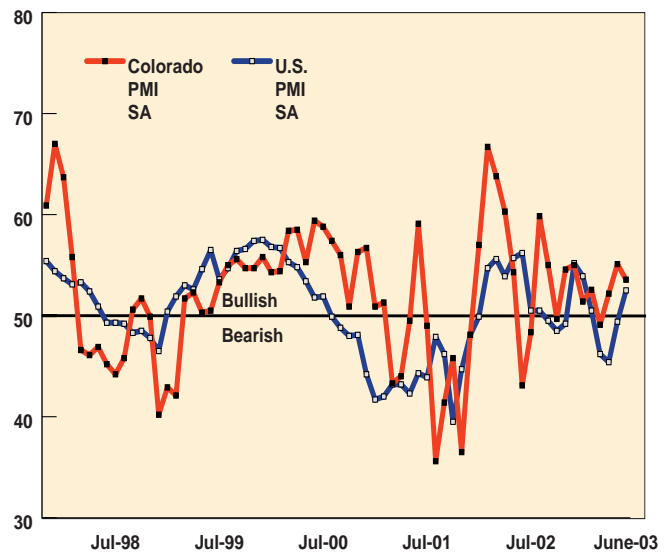
The Purchasing Managers Index (PMI) is a leading economic indicator. PMI measures expectations in business activity in raw materials and finished goods, employment and pricing of goods for the next 12 months among purchasing managers in the manufacturing sector. Values greater than 50 are considered bullish. Values below 50 are considered bearish.

HOW ARE WE DOING?

Seasonally adjusted values for the national PMI and the Colorado PMI pointed to a declining manufacturing sector in late 1999 to early 2000. The Colorado PMI clearly lagged the national trend. Both indexes were showing signs of recovery by early 2001 until 9/11. Since 9/11, the Colorado PMI has demonstrated great volatility but has moved upward along with the national PMI. So far in 2003, the national PMI declined through April but increased in May and June. The Colorado PMI has remained more stable in 2003, remaining above 50 in 5 of the first 6 months of the year.

Some recent reports of stronger GDP growth should help to keep the national and Colorado PMI above 50 for the remainder of the year.

Purchasing Managers Index



Sources: Institute of Supply Management and Creighton University

Employment and Wages

El Paso County Average Annual Employment and Wages by NAICS Classification in 2001 and 2002

| NAICS ¹ | Title | 2001 | | | 2002 | | |
|--------------------|---|------------|-----------------------------|----------------------|------------|-----------------------------|----------------------|
| | | Employment | Percent of Total Employment | Average Annual Wages | Employment | Percent of Total Employment | Average Annual Wages |
| 11 | Agriculture, Forestry, Fishing, Hunting | 262 | .1 | \$21,458 | 223 | .1 | \$22,581 |
| 21 | Mining | 95 | .04 | \$67,619 | 82 | .03 | \$77,601 |
| 22 | Utilities ² | 515 | .2 | \$122,132 | 628 | .3 | \$76,838 |
| 23 | Construction | 15,745 | 6.6 | \$36,785 | 14,998 | 6.4 | \$36,680 |
| 31-33 | Manufacturing | 25,209 | 10.5 | \$48,085 | 22,280 | 9.5 | \$49,086 |
| 42 | Wholesale Trade | 6,348 | 2.6 | \$41,816 | 6,056 | 2.6 | \$41,462 |
| 44-45 | Retail Trade | 27,890 | 11.6 | \$23,044 | 27,648 | 11.7 | \$23,703 |
| 48-49 | Transportation & Warehousing | 3,483 | 1.5 | \$28,924 | 3,417 | 1.5 | \$28,839 |
| 51 | Information | 14,205 | 5.9 | \$45,830 | 12,671 | 5.4 | \$45,025 |
| 52 | Finance & Insurance | 11,279 | 4.7 | \$40,616 | 12,067 | 5.1 | \$39,542 |
| 53 | Real Estate, Rental & Leasing | 4,059 | 1.7 | \$25,557 | 4,063 | 1.7 | \$26,050 |
| 54 | Professional & Technical Services | 17,714 | 7.4 | \$60,050 | 16,647 | 7.1 | \$59,823 |
| 55 | Management of Companies & Enterprises | 1,071 | .5 | \$58,386 | 866 | .4 | \$63,682 |
| 56 | Administrative & Waste Services | 15,902 | 6.6 | \$25,292 | 15,274 | 6.5 | \$26,689 |
| 61 | Educational Services | 2,970 | 1.2 | \$27,359 | 3,128 | 1.3 | \$27,337 |
| 62 | Health Care & Social Assistance | 18,881 | 7.9 | \$32,972 | 19,252 | 8.2 | \$34,887 |
| 71 | Arts, Entertainment & Recreation | 3,649 | 1.5 | \$20,949 | 3,575 | 1.5 | \$22,820 |
| 72 | Accommodation & Food Services | 22,919 | 9.6 | \$12,519 | 23,015 | 9.8 | \$12,568 |
| 81 | Other Services | 9,952 | 4.2 | \$25,616 | 9,942 | 4.2 | \$26,325 |
| 99 | Non-classifiable | 2 | 0 | \$55,940 | 3 | 0 | \$76,071 |
| | Government | 37,949 | 15.8 | \$34,739 | 39,271 | 16.7 | \$36,739 |
| | Total All Industries | 240,094 | 100.0 | \$34,391 | 235,105 | 100.0 | \$34,679 |

¹ - For information on NAICS see www.census.gov/epcd/www/naics.html

² - Does not include Colorado Springs Utilities
Source: Colorado Department of Labor ES202

WHY IS THIS IMPORTANT?

This is the second year we have reported employment and wage data using the North American Industrial Classification System (NAICS). This system identifies 20 major employment sectors, which are provided in the table. We further condense the 20 sectors into 14 in order to provide an employment pie for El Paso County.

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 higher quality job opportunities. A diversified economy is better able to withstand the economic downturns.

HOW ARE WE DOING?

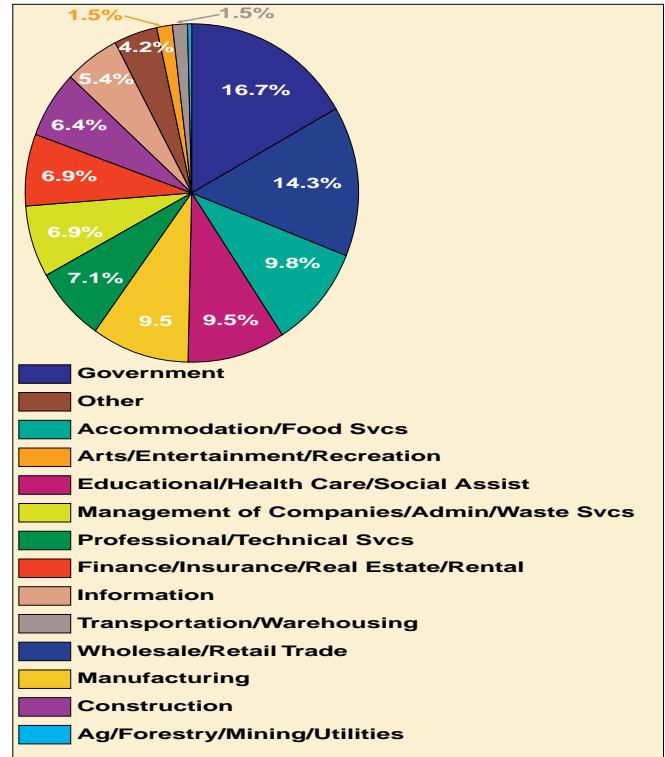
The robust employment growth experienced throughout the last decade has ended. Total wage and salary employment in El Paso County declined by 4,989 jobs to 235,105 in 2002 from year earlier figures. This is a drop of 2.1 percent. Fifty-eight percent, or 2,929 jobs were lost in manufacturing. Seventy-six percent of the lost manufacturing jobs (2,227) were lost in the computer and electronics product manufacturing sub-sector. Most of the remainder of the county job losses occurred in the information sector, including non-internet publishing, telecommunications and ISPs, search portals and data processing. The construction sector lost 747 jobs.

Government employees at all levels increased by 1,322. Much of this increase is from hiring by local-area school districts. Employment increased in finance and insurance (788) and in health care and social services (371).

Average annual wages for all industries in El Paso County were \$34,679 in 2002, which is an increase of only \$288 or .8 percent. Average wages rose in manufacturing; management of companies and enterprises; administration and waste services; health care and social assistance; arts, entertainment and recreation; and government. Average wages in most other sectors were flat or decreased.

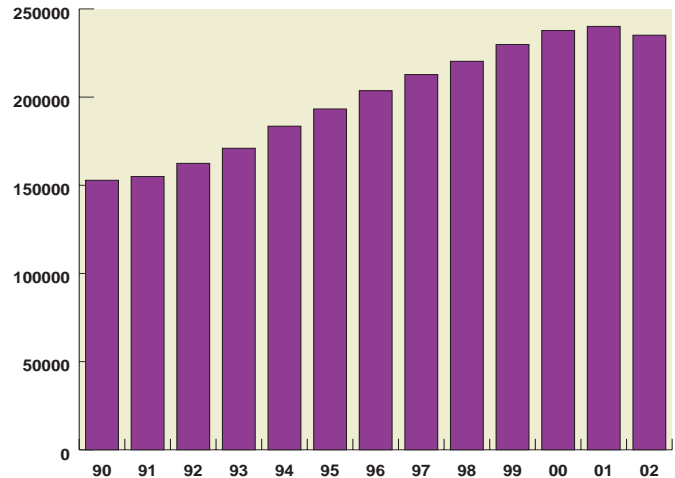
Average wages in all of Colorado increased a meager .1 percent from \$37,960 in 2001 to \$38,012. As a result, the wage gap between El Paso County and the state averages decreased slightly to \$3,333.

Employment by NAICS Sectors in 2002



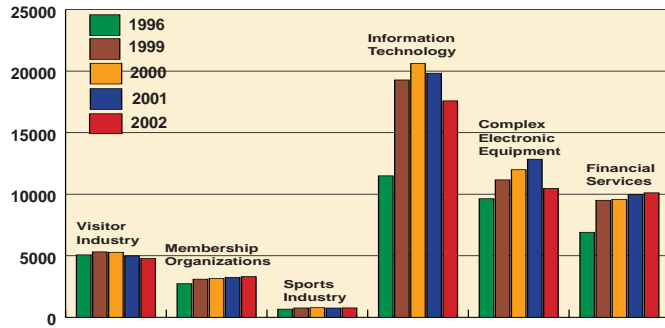
Source: Colorado Department of Labor

Total Employment in El Paso County

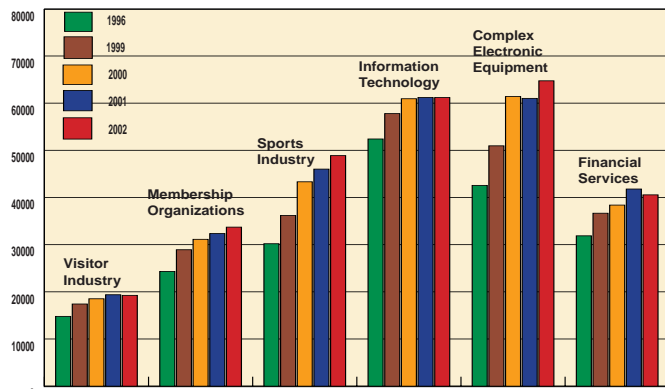


Source: Colorado Department of Labor

Number of Employees in Cluster Industries



Average Wages of Employees in Cluster Industries



Sources: State of Colorado Department of Local Affairs; State of Colorado Division of Local Government; SCEF estimates

WHY IS THIS IMPORTANT?

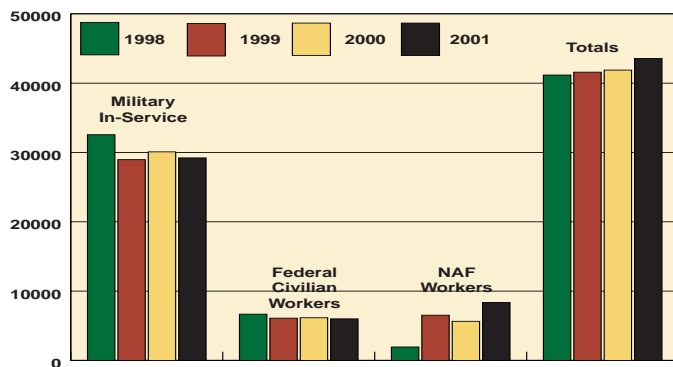
The Economic Development Corporation has identified key industry clusters as targets for economic development. The clusters group industries that complement each other and generate income and wealth for the community by exporting goods and services out of the region. Employment, growth and wages derived from these industries help to support induced sectors of the economy such as services, retail and construction.

HOW ARE WE DOING?

In 2002, these clusters accounted for approximately 20 percent of the wage and salary labor force in El Paso County. Employment in the clusters is estimated at 46,994 in 2002. This is a drop in cluster employment of 4,621 jobs between 2001 and 2002. Almost all of the job losses occurred in the information technology and complex electronic manufacturing clusters. Still, 60 percent, or 28,048 cluster jobs are in these two high-paying industries.

The clusters account for approximately 30 percent of the total ES202 wages and salaries in the county. Weighted average wages in the cluster industries remained relatively constant in 2002 at \$51,150. In comparison, average wages for all industries in El Paso County were \$34,679 in 2002. Average wages in information technology were \$61,186. Average wages reached \$64,736 in complex electronic equipment, \$40,556 in financial services and \$48,875 in the sports industry.

Military Employment in El Paso County



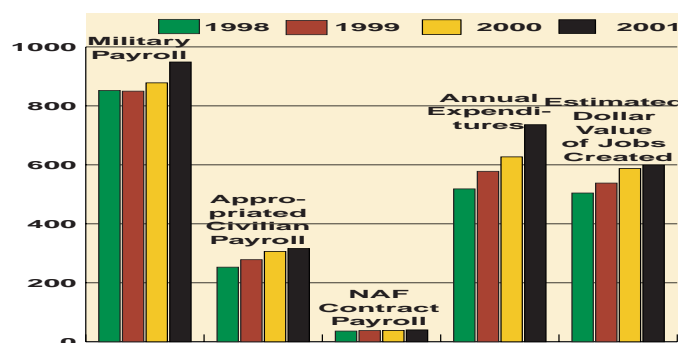
WHY IS THIS IMPORTANT?

The military has been an important contributor to the local economy since World War II. Even though the economy has diversified dramatically in the past decade, the military sector remains an important piece of the regional economy.

HOW ARE WE DOING?

Active duty and civilian employment at military establishments grew from 41,891 in 2000 to 43,571 in 2001, a 4 percent increase. Total military employment will increase modestly over the next several years due to the arrival of Northern Command. The deployment of troops to Iraq is having an impact on areas in the Fort Carson region.

Military Expenditures (\$ millions)



Military figures are not included in Department of Labor wages and salary figures, but total military employment represents approximately 18 percent of El Paso County employment. In 1990, it was 24.1 percent. The military impact on the economy has declined over time, as other economic sectors have increased in employment and importance. The military continues to provide an important and valuable stabilizing effect on the economy.

Payroll to military and civilian employees topped \$1.3 billion in 2001, up 6.7 percent from 2000. Annual expenditures by the military establishment in Colorado Springs was \$736.1 million. The individual military installations use a number of multipliers to estimate that the dollar value of indirect jobs created by the military presence in Colorado Springs was \$599 million in 2001. Thus, the total estimated impact of the military in El Paso County, including salary and wages, was \$2.64 billion in 2001.

Sources: Various Military Establishments; EDC

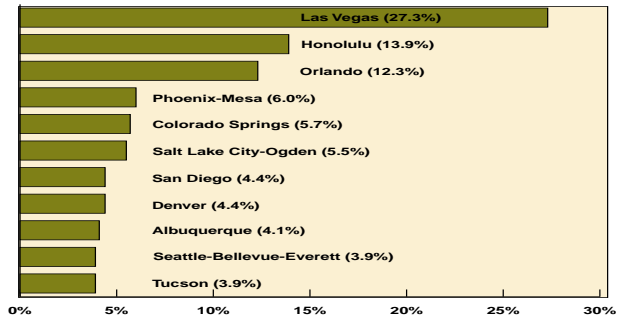
WHY IS THIS IMPORTANT?

Travel and tourism is one of our basic industries. The tourism industry brings outside dollars into the community and creates jobs for local residents. In turn, local residents working in this industry spend money in other economic sectors such as housing, retail, health, education, transportation and utilities. Thus, jobs created from outside dollars support and stimulate other sectors of our economy.

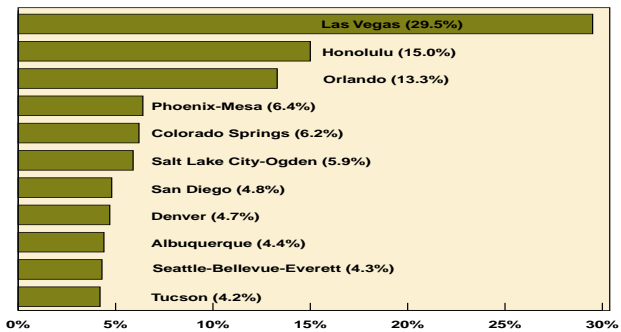
HOW ARE WE DOING?

A study released by the U.S. Conference of Mayors and conducted by DRI-WEFA reported on the significance of travel and tourism in metropolitan areas in the U.S. The study examined the top 100 metropolitan areas in the U.S. to measure the impact of travel and tourism on these metro areas. DRI-WEFA developed methodology to measure tourism's percentage of both gross metropolitan product (GMP) and total employment. According to the report, 5.7 percent of Colorado Springs' gross metropolitan product is generated from the travel and tourism sector. Further, 6.2 percent of employment in Colorado Springs is directly related to travel and tourism. Overall, Colorado Springs ranked 11th out of the 100 top metro areas in the contribution travel and tourism makes to the local economy.

Travel and Tourism Percent of Gross Metro Product in 2000 in Selected Cities



Travel and Tourism Percent of Total Employment in 2000 in Selected Cities



Source: U.S. Conference of Mayors, DRI-WEFA

WHY IS THIS IMPORTANT?

The hotel occupancy rate is a general indicator of the health of tourism. Changes in these rates can potentially signal changes in the popularity of Colorado Springs as a tourism destination. The lodger's and auto rental tax is an additional indicator of tourism activity.

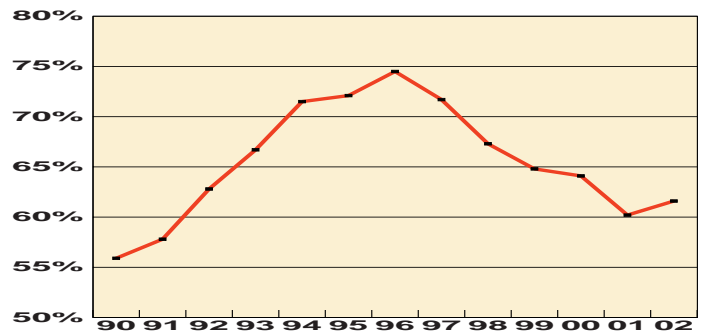
HOW ARE WE DOING?

Each year, about 6 million people visit the Pikes Peak area. These visitors generate over \$1 billion in travel-related revenue. The Colorado Springs Convention and Visitors Bureau reports that there are approximately 14,000 hotel and motel rooms available in Colorado Springs. Single room rates range from \$20 to \$300. Many of the new rooms are in economy-priced facilities in the \$60 to \$70 range.

Average annual hotel occupancy rates decreased from 1996 through 2001 because of a hotels/motels building boom which added to the existing supply of rooms. In 2002, the average hotel occupancy rate increased to 61.6 percent. Last year many travelers stayed away from Colorado because of the drought and fires around the state. Better weather, few fires, and reasonable gasoline prices will all contribute to a better year in the travel and tourism industry in the Pikes Peak Region in 2003.

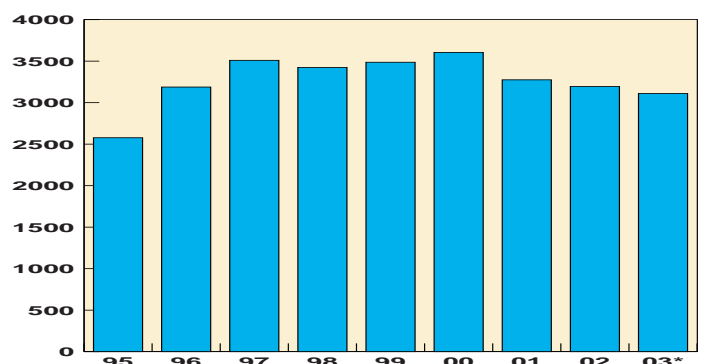
Lodger and auto rental tax (LART) collections were down 2.5 percent in 2002 after falling 6 percent in 2001. The Forum forecasts that LART collections are likely to decline slightly this year.

Hotel Occupancy Rates



Source: Pikes Peak Convention and Visitors Bureau

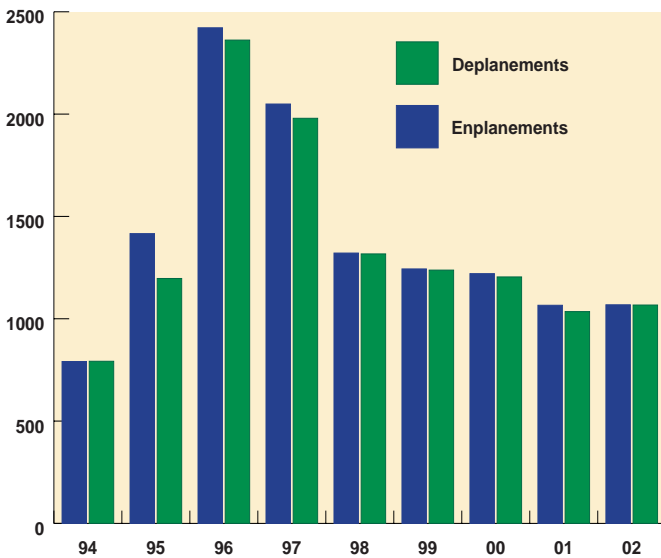
Lodgers and Rental Car Tax Collections (\$000s)



* SCEF forecast

Source: City of Colorado Springs, Sales Tax Division

Colorado Springs Airport Activity (000s)



Source: Colorado Springs Airport

WHY IS THIS IMPORTANT?

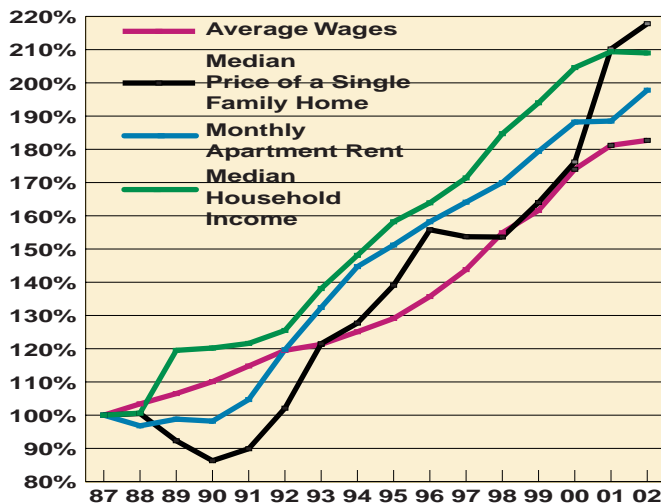
Air service contributes to both the quality of everyday life and the economic prosperity of southern Colorado. Air service has a profound impact on the local economy, particularly air-dependent high tech industries. Companies need nonstop service in order to maximize productivity and minimize travel 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?

The Colorado Springs Airport continues to be impacted by the slow economy and fall in air traffic after 9/11. Enplanements and deplanements did increase modestly by 2.2 and 3.0 percent respectively in 2002. Enplanements in 2002 totaled 1,068,157 while deplanements totaled 1,067,011. So far in 2003, enplanements through July are down 7.1 percent at 588,512 from year earlier figures. Aircraft departures are down 3.3 percent through July 2003. The number of enplanements per departure stands at 54 this year down from 56 a year ago. Cargo landed weight is down 10.5 percent through July at 104,352,000 pounds.

The top carriers and their market share figures in July 2003 are: United/United Express (30%), American (21%), Delta/Delta Connection (18%), America West/AW Express (11%), Northwest (8%), Continental/Continental Express (7%), and Allegiant Air (4%).

Index of Apartment Rents, Single-Family Home Prices, and Household Income and Wages (1987=100)



Sources: Derived from data from Pikes Peak Area Council of Governments; Colorado Department of Labor and Employment; Palmer McAllister, A Frederick Ross Company; and the Pikes Peak Association of Realtors

WHY IS THIS IMPORTANT?

Affordable housing is important for both the economic viability of the community and the maintenance of a high quality of life. Families and workers who find housing unaffordable may be forced into longer commutes from outside the area, which leads to increased traffic congestion, the need for more roads and a reduction in worker productivity. If the work force is mobile, high-cost housing will drive workers away from the region.

HOW ARE WE DOING?

The median household income and wage indexes remained stable in 2002. Median income declined .2 percent and wages increased .8 percent. The median home price index rose 3.6 percent while the monthly apartment rent index rose 5 percent in 2002.

The household income index remains above the apartment rental index but fell below the median home price indexes. The median price of a single family home stood at \$173,000 in December 2001. The median price increased to \$179,250 by December 2002. The median home price reported in July of this year was \$189,825, for a 5.9 percent increase since December 2002.

Another comparison is between wages and rents. Wages are arguably more closely related to apartment rents since wages are more likely to be used to pay monthly rent. The wage index is tracked along with the rent index thanks to some healthy wage gains over the past several years. The gap between these two indexes opened somewhat this year due to a small increase (.84%) in average county wages and the much higher increase in apartment rents.

WHY IS THIS IMPORTANT?

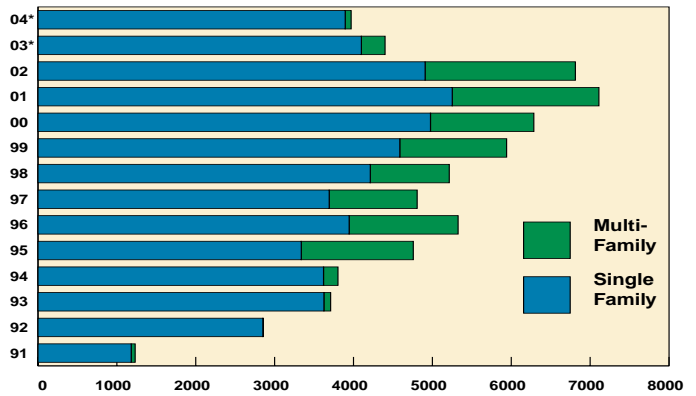
Growing communities like Colorado Springs continually add to the housing stock in order to meet the needs of new residents. The El Paso County population is expected to continue to grow. Adequate and affordable housing must be available to accommodate the growth.

HOW ARE WE DOING?

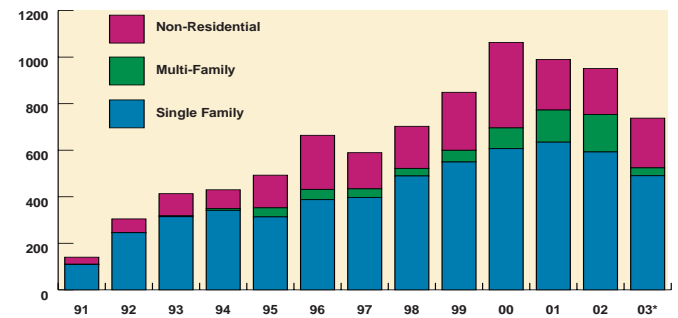
Residential construction slowed in 2002. A total of 4,908 single family and townhomes were constructed, which is 6.5 percent lower than the record year in 2001. A total of 1,905 multi-family units were constructed, which was 2.5 percent ahead of the figure in 2001. Last year we forecast the market would slow in 2003, and it has, although it has remained more resilient than expected. Thank low interest rates for this resilience. Through July of this year, 2,873 single family and townhomes have been built. We forecast that 4,100 single family units will be built this year. Permits for 311 multi-family units have been pulled so far this year. We do not expect much more activity in multi-family construction for this year. Provided our forecasts are accurate, this is a drop of 35 percent in the year-to-year number of dwelling units constructed. Much of the decline is occurring in the multi-family sector.

The value of non-residential construction reached \$197.2 million in 2002, a drop of 9.4 percent from the \$217.5 million in 2001. The pace of non-residential construction is somewhat improved this year due to activity in new offices and retail building. We forecast non-residential construction may reach \$213.5 million for all of 2003.

Residential Building Permits (Dwelling Units)



Value of Construction (\$ millions)



* SCEF forecast
Source: Pikes Peak Regional Building

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.

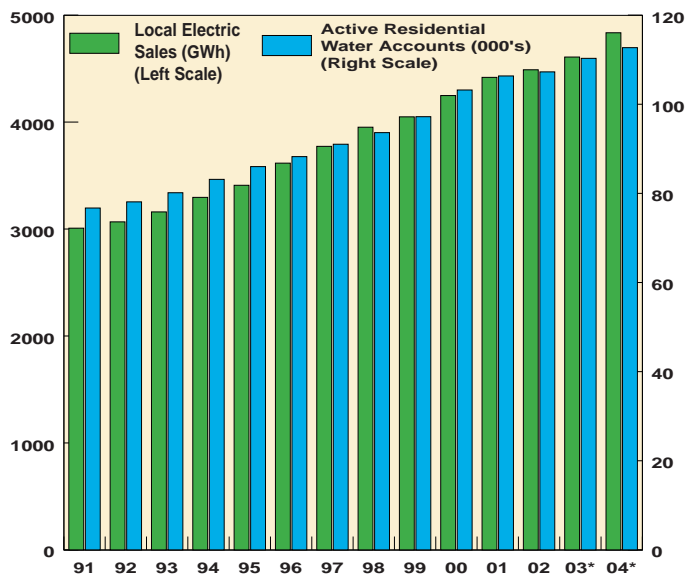
HOW ARE WE DOING?

Both electric sales on system and active residential water accounts continue to rise, and are reflective of the population growth and the overall economy in the region. Residential water accounts have increased an average 3.3 percent per year over the last ten years, which closely mirrors the average annual growth rate of 2.75 percent in owner and renter occupied housing units.

Electric sales grew an average 3.7 percent per year since 1991 which broadly reflects the economic expansion in the county. Electric sales grew 5.6 percent in 2002 due in part to a hot and dry summer. Colorado Springs Utilities forecasts a 2 to 3 percent increase in electric sales this year.

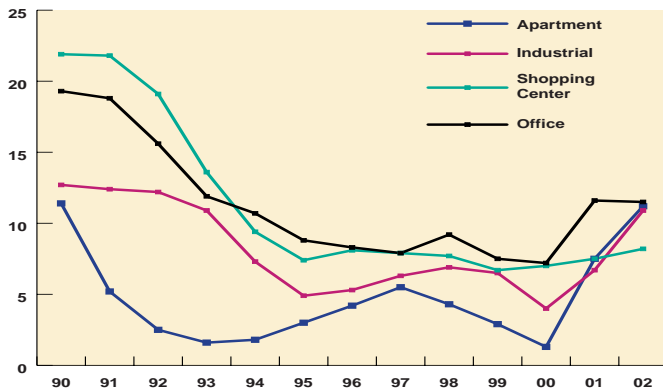
Residential water meter hookups increased less than 1 percent in 2002. This compares to an average annual growth rate of 3.1 percent since 1991.

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

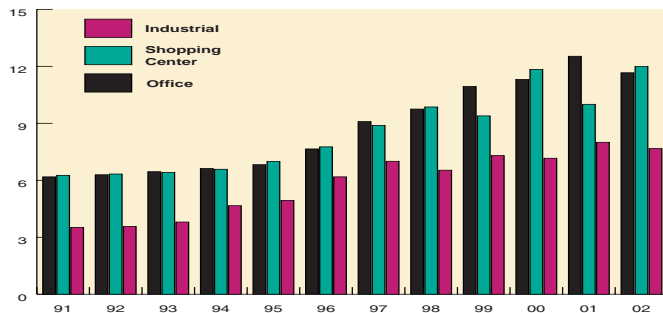


* Colorado Springs Utilities forecasts
Source: Colorado Springs Utilities

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



Average Asking Rents For Office, Shopping Center and Industrial Space



Source: Palmer McAllister, A Frederick Ross Company

WHY IS THIS IMPORTANT?

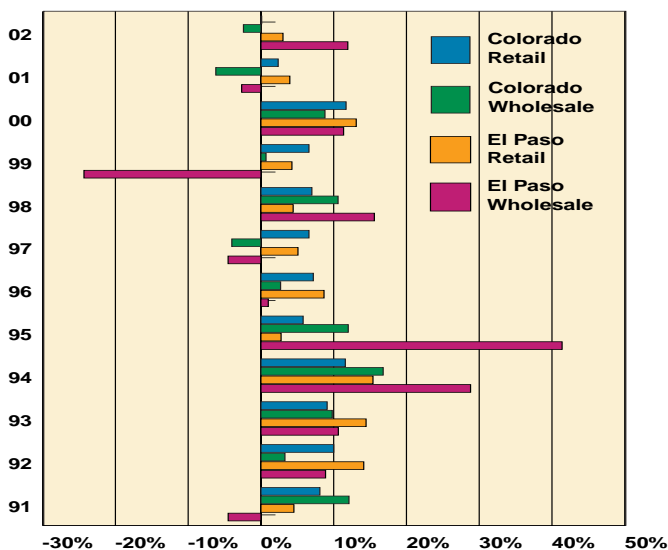
Vacancy rates are a leading indicator of economic activity. Declining vacancy rates put upward pressure on lease rates. Low vacancy rates reduce location choices for businesses. The availability of adequate and affordable commercial space allows existing companies to expand and helps attract new companies to the area.

HOW ARE WE DOING?

Office, shopping center and industrial vacancy rates all increased through 2002 standing at 11.5 percent, 8.2 percent and 10.9 percent respectively by the end of the year. By the end of the first quarter of 2003, vacancy rates stood at 12.3 percent for office, 8.4 percent for shopping space and 10.9 percent for industrial. In spite of high vacancy rates, Palmer McAllister reported that triple net lease rates at the end of the first quarter 2003 were holding relatively steady at \$11.48 per square foot for office space, \$11.88 for shopping center space and \$7.47 for industrial space. Office and industrial lease activity remains slow this year while shopping center activity is more robust.

Palmer McAllister reports that leasing activity in the office market reached 217,607 square feet through the first quarter of 2003, but absorption was negative at -91,538 square feet. The negative absorption is the result of businesses giving up sublease space. Industrial leasing activity amounted to 124,000 square feet through March, with absorption at 31,406. All leasing activity occurred in the northwest part of the city. In retail, 37,632 feet were leased through the first quarter while absorption was negative -24,936.

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 65 percent of the total economy. Thus, growth in retail and wholesale sales are an important indicator of the strength of the local economy.

HOW ARE WE DOING?

Retail sales in El Paso County grew 3 percent to \$9,839.6 million in 2002 after growing almost 4 percent in 2001. This compares favorably to the almost flat, .1 percent growth rate in Colorado in 2002. First quarter 2003 El Paso County retail sales were \$2,468 million, which is 13 percent above the year earlier figures for the same quarter.

Wholesale sales, which tend to be more volatile than retail, grew 11.94 percent in 2002. Colorado wholesale sales declined 2.4 percent in 2002. El Paso County wholesale sales are up 22 percent in the first quarter of 2003 over year earlier figures.

The Shops at Briargate recently opened on the north end of Colorado Springs. This upscale retail mall should boost county retail sales and city and county sales tax collections in 2003.

WHY IS THIS IMPORTANT?

Colorado Springs is a major retail hub in southern Colorado. Sales in retail trade sectors are good indicators of the health of this important part of the economy. Beginning in January 2002, the Department of Revenue changed the reporting of the retail trade subgroup from eight Standard Industry Classification (SIC) subdivisions, to twelve subdivisions based on the North American Industry Classification System (NAICS). The graphs to the right report the historical SIC and the new NAICS subdivisions.

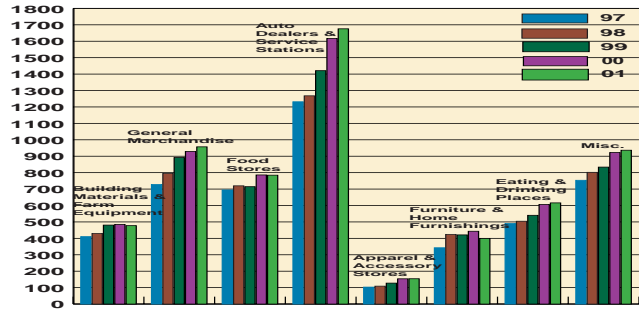
HOW ARE WE DOING?

In 2002, retail trade amounted to \$5.48 billion of the total retail sales in the county. Motor vehicles/auto parts accounted for \$1.46 billion or 27 percent of total retail trade. This sector benefitted from low-cost financing and rebates during most of the year. Motor vehicle/auto part sales were down 3.7 percent in the first quarter of 2003 compared to year earlier figures.

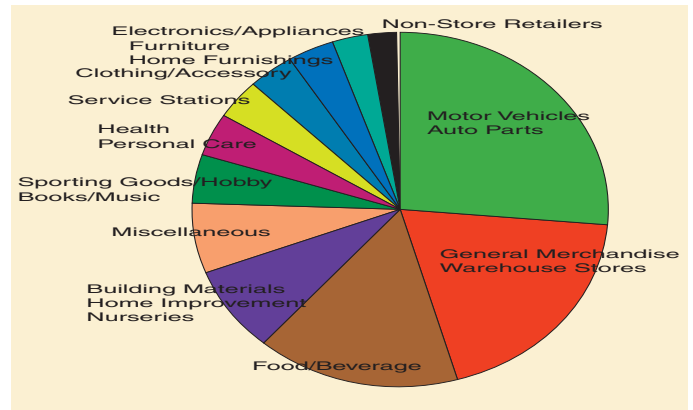
General merchandise/warehouse stores (19%), food/beverage establishments (15.8%) and building materials/home improvement/nurseries (8.0%) are the other big contributors to total retail trade sales. In the first quarter of 2003, both merchandise/warehouse stores and food/beverage retail sales were up 9.5 percent while building materials/home improvement/nursery retail sales declined almost 25 percent from the same period one year ago.

The other 8 retail trade subsectors comprised the final 30.7 percent of total trade sales. Consumer confidence will play a big role in determining how well retail trade sales do over the next 12 months.

El Paso County Retail Trade by SIC



El Paso County Retail Trade by NAICS in 2002



Source: Colorado Department of Revenue

WHY IS THIS IMPORTANT?

City sales and use tax revenue is used for municipal operations by the City of Colorado Springs for such purposes as law enforcement, fire protection, street repair and park maintenance. It is critical that these revenues increase along with community growth and needs in order for the city to provide necessary services.

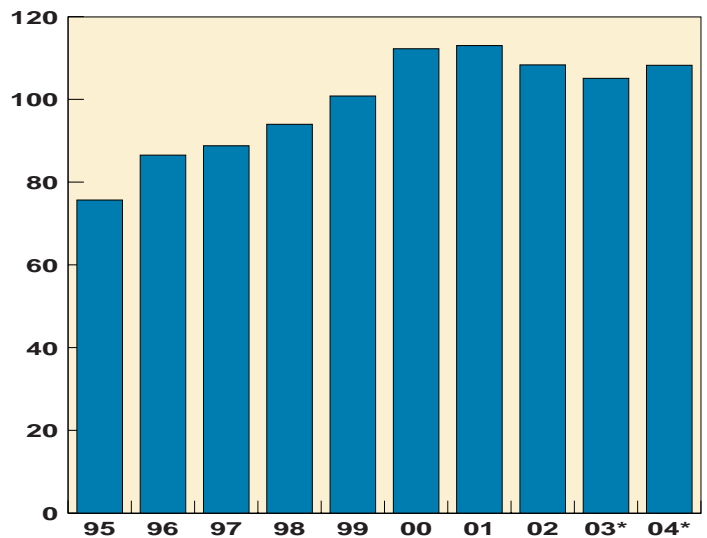
HOW ARE WE DOING?

City sales and use tax collections were \$108.3 million in 2002, down \$4.67 million or 4.1 percent from the previous year. Through July of 2003, combined sales and use tax collections are down 4.42 percent from year earlier figures. Separately, sales tax collections are down 2.35 percent while use tax collections are off 25.5 percent.

Through July 2003, sales tax collections from all major retail sectors are down from year earlier figures with the exception of department/discount stores. Utility sales (-10.82 %) and grocery stores (-10.65%) show double digit declines. Building materials (-7.68%), sales to business (-5.88%), furniture, appliance, and electronics (-4.98%) and auto dealers (-2.65%) are other retail sectors with significant sales tax decreases.

The Forum estimates that sales and use tax collections could decline 3 percent this year to \$105.1 million before improving in 2004. The loss of this important source of revenue is putting extreme pressure on the city budget. Police and fire protection, street improvements and repairs, park maintenance and other municipal services will all suffer.

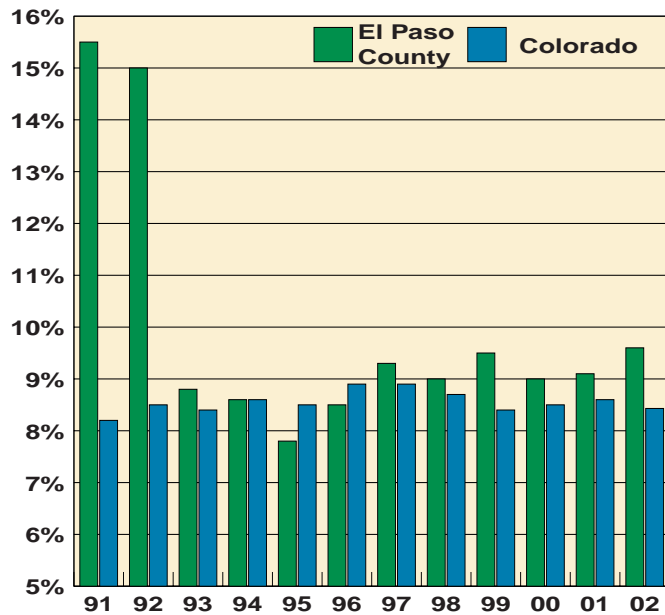
Colorado Springs Sales and Use Tax Collections (\$ millions)



* SCEF forecast

Source: City of Colorado Springs Finance Department, Sales Tax Division

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

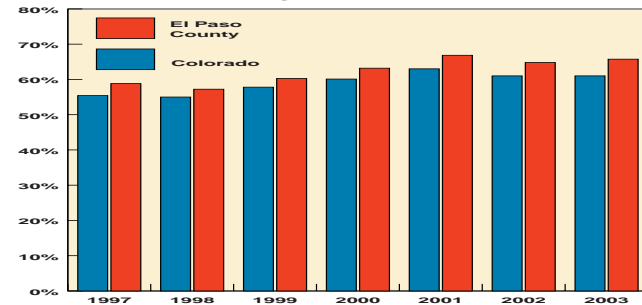
WHY IS THIS IMPORTANT?

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.

HOW ARE WE DOING?

Colorado and El Paso County have a high proportion of low-weight births. El Paso County made substantial improvements in the last decade to reduce the low-weight birth rate. Low-weight births decreased dramatically from the 14 to 15 percent level in the early 1990s to the 9 to 10 percent level since 1993. Currently, the low-weight birth rate stands at 9.6 percent in El Paso County and 8.0 percent in the state. Colorado as a whole has done a better job than El Paso County over the past decade in maintaining a steady low-weight birth rate. Current low-weight birth rate figures for El Paso County and Colorado remain well above the 5 percent target set by the U.S. Public Health Service.

Colorado Student Assessment Program Fourth Grade Reading Results



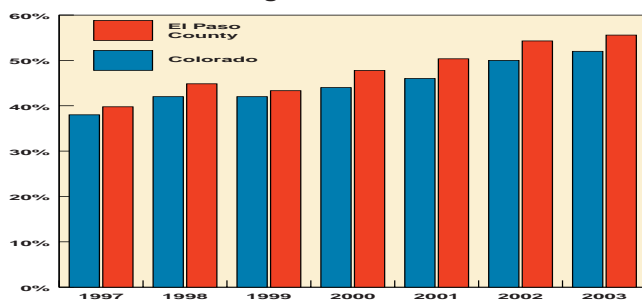
WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

CSAP is designed to measure how close students are to the targets of *what they should know and be able to do* by the time they reach a given grade, giving a performance-level score for each student. Cut points were adjusted in 2000 and 2001 for several tests to realign scores so that results of the tests can be compared over time. This year, 55.6 percent of El Paso County fourth graders were proficient or advanced in writing. This compares favorably to the statewide proficiency level of 52 percent. Writing scores in El Paso County have improved 16 percentage points (40 percent) since the inception of the writing exam.

Colorado Student Assessment Program Fourth Grade Writing Results



Source: Colorado Department of Education

This year, 65.7 of El Paso County fourth graders were proficient or advanced in reading. Statewide, 61 percent of the fourth graders were proficient or advanced in reading. Reading scores in El Paso County have improved 7 percentage points (12 percent) over the first administration of the fourth grade reading exam seven years ago.

WHY IS THIS IMPORTANT?

A skilled work force is essential for an economy to be competitive in world markets. Completion of high school is the minimal requirement to obtain needed skills in the 21st century. High school graduation and dropout rates are indicators of possible future societal costs from underemployment or unemployment and low earning potential.

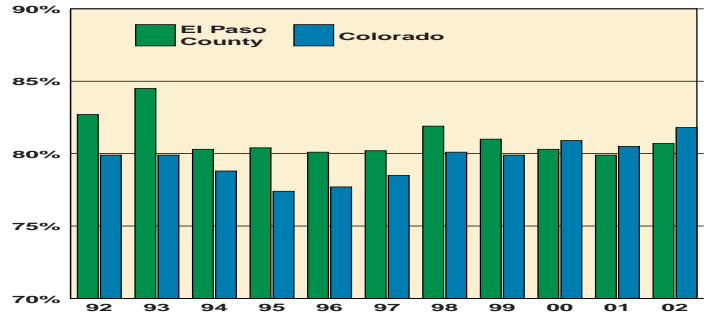
In a global economy, a multicultural, skilled work force is a requirement for success. Providing a quality education to all ethnic groups is important to our economic well-being. Reducing the dropout rate for all ethnic groups is one measure of success.

HOW ARE WE DOING?

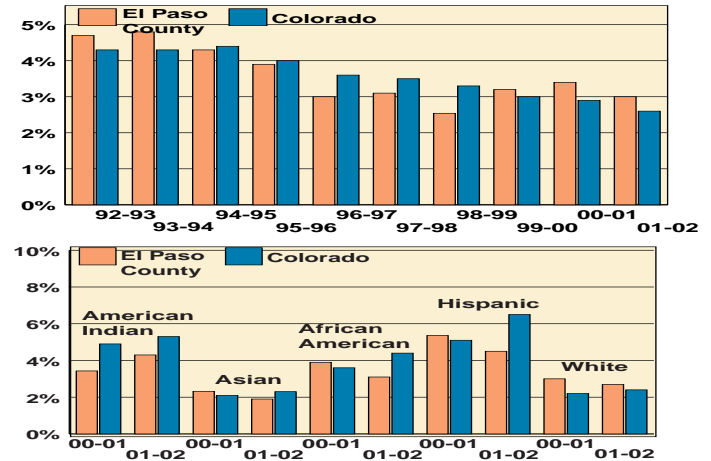
The Colorado Department of Education has a target high school graduation rate of 90 percent. Graduation rates in El Paso County were higher than in Colorado as a whole throughout the 1990s but remained below the target rate. County high school graduation rates have dipped below the Colorado average since 2000. The graduation rate did go back up in 2002 to 80.70 percent in El Paso County but remains below the 90 percent target level.

Dropout rates for all students had been falling since the 1993-94 school year. After dipping to 2.54 percent in 1998-99, the overall dropout rate in El Paso County increased in both 1999-00 and 2000-01. The dropout rate declined to 3 percent in 2001-02. The Colorado dropout rate continues to decline and now stands at 2.6 percent. Dropout rates remain highest for the American Indian and Hispanic populations.

High School Graduation Rates



Grade 7 through 12 Dropout Rates



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

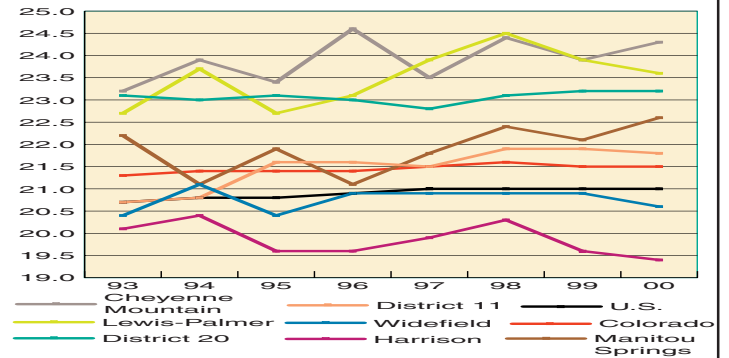
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates will do in their first year of college. The test reflects the cultural and sociological differences in society, making it more representative for all ethnic groups taking the test.

HOW ARE WE DOING?

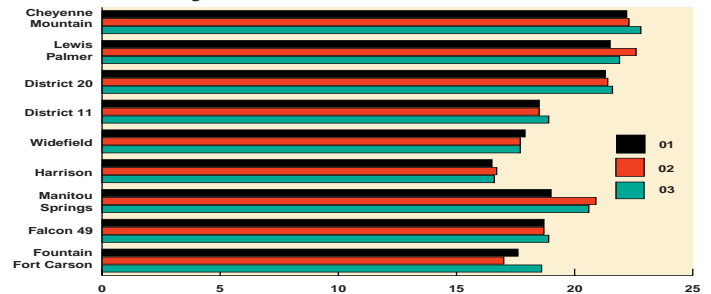
In past years, the ACT was taken only by Colorado high school juniors and seniors planning to pursue a college education. Three years ago, Colorado enacted legislation requiring that all high school juniors take the ACT. As a result, past ACT scores (top chart) and U.S. averages are not comparable to ACT scores for the El Paso County high school juniors reported in the lower chart. The average scores for the high school juniors are approximately 2.0 points below the college-bound test takers in prior years.

The statewide average junior ACT score for 2003 is 19.7. Junior ACT scores improved at Fountain/Ft. Carson, Cheyenne Mountain, District 11, District 20 and Falcon. Fountain/Ft. Carson junior ACT scores improved by an impressive 1.63 points. It is important to note that the state creates a systematic downward bias in the ACT results by recording a zero for any high school junior who does not take the exam.

ACT Scores in Selected El Paso County School Districts, Colorado and the U.S.

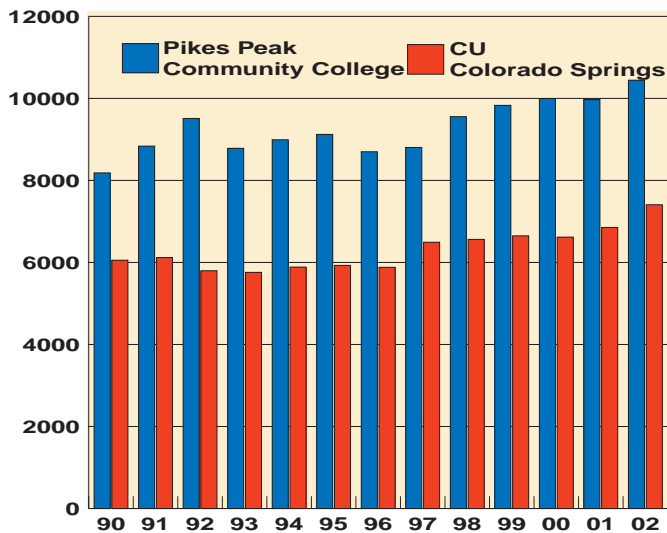


High School Junior ACT Scores in Selected El Paso County School Districts



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

Enrollments at Public Institutions of Higher Learning in El Paso County



Sources: Registrars' offices at Pikes Peak Community College and CU-Colorado Springs

WHY IS THIS IMPORTANT?

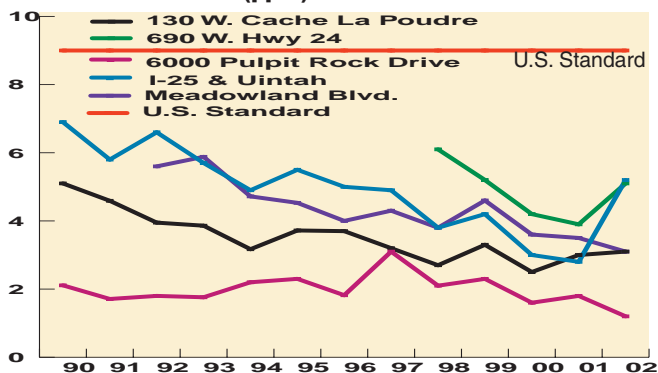
With a population over one-half million and a demand for skilled labor, El Paso County needs quality public higher education institutions capable of meeting community needs. A well-trained and educated work force is essential for economic growth. Enrollments are an indicator of the future supply of qualified workers and of how well the region is preparing individuals for a competitive work force.

HOW ARE WE DOING?

At CU-Colorado Springs, enrollments surpassed 7,400 in the 2002-2003 academic year or an 8 percent increase. Although census enrollment data for fall 2003 is unavailable, full-time equivalent enrollment is expected to be up 4 percent from year earlier figures. Cragmor Hall renovations are underway and should be completed in March 2004. Ground breaking on a parking structure will take place in the fall and more housing is planned. In spite of these capital improvements, space remains tight. Plans for new space for Engineering and the Sciences and renovations to College of Business facilities remain up in the air until adequate funding can be secured.

Pikes Peak Community College enrollments hit a milestone of 10,444 students for the 2002-2003 academic year. PPCC full-time equivalent enrollments are also expected to be up this year. General fund budget cuts at both institutions in each of the past two years are hampering the ability of each to grow responsibly to meet the educational needs of the community.

Carbon Monoxide (ppm)



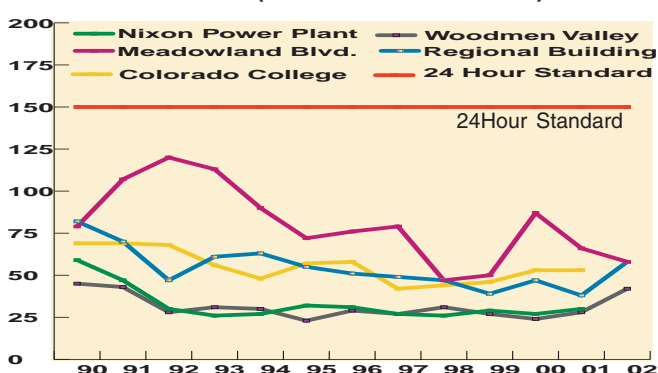
WHY IS THIS IMPORTANT?

Air quality is fundamental to community health, the environment and our economy. There is growing concern over the interdependence between the health of the environment and our economy. A key selling point of our area is the quality of and opportunity to enjoy outdoor activities. Many people move west to enjoy sunny days and clean air. While there is no overall index of environmental health, carbon monoxide and particulate concentrations 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 that CO emissions are expected to decrease in the future because of technological advancements and because older cars are being replaced by cleaner burning autos. Reduced congestion and better traffic flows can help alleviate CO emissions.

Particulate Matter (10 microns and smaller)



Sources: Colorado Department of Public Health and Environment and Pikes Peak Area Council of Governments

Particulate matter (PM) includes both solid particles and liquid droplets found in the air. Particles less than 10 micrometers in diameter can pose the greatest health concerns when inhaled because they accumulate in the respiratory system. Particulate matter has decreased over time due to decreases in wood burning, improvements in car engine combustion and street cleaning techniques. El Paso County remains well below the U.S. standard.

WHY IS THIS IMPORTANT?

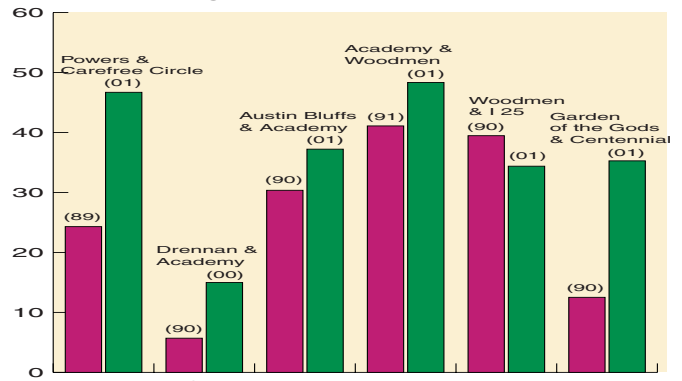
As the city grows, increased traffic leads to congestion, longer travel times, and more pollution. Roadway improvements will not necessarily improve the situation. Communities interested in quality of life and mobility will seek out other alternatives to relieve traffic congestion. These may include expanding public transit, building houses and offices near each other and improving the walking and biking infrastructure.

HOW ARE WE DOING?

Traffic flows have increased tremendously over the past decade. Traffic along the interstate now surpasses 90,000 to 100,000 vehicles per day in many parts of Colorado Springs. Many intersections on surface streets are congested during the day leading to delays, accidents, pollution and an overall decrease in the quality of life.

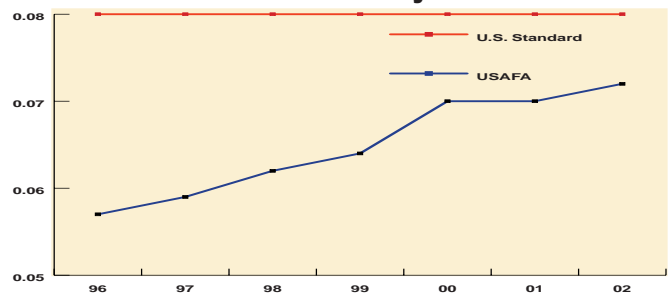
The backlog of surface street repair and improvement is worsened by a limited city budget. This situation will be exacerbated this year if sales tax collections remain down. The I-25 road improvements continue, but it will be years before this project is completed. The state of Colorado has approved bonding to widen I-25 to three lanes in each direction through Colorado Springs. The completion of this project is also years away. By the time the widening is completed there will be a critical need for more lanes along I-25 from north Colorado Springs to Castle Rock. Although community leaders have made certain decisions to alleviate east-west congestion, the city has not found the money to fund these road improvement projects. In the meantime, the congestion contributes to an increase in area ozone levels. There may be time in the near future when the county falls out of compliance.

Traffic Flows Near Major Intersections in Colorado Springs



Thousands of vehicles per day traveling in both directions on the road listed first. Values in parentheses are the year in which the counts were taken.

Ozone Trends in El Paso County



Sources: City of Colorado Springs and Pikes Peak Area Council of Governments

WHY IS THIS IMPORTANT?

Index crimes are serious crimes (murder, forcible rape, robbery, aggravated assault, burglary, larceny, theft and motor vehicle theft). Violent crimes result in the loss of life and property. Fighting crime is expensive and uses valuable community resources. Crime affects the business climate, as well as individual perceptions of the quality of life in the community.

HOW ARE WE DOING?

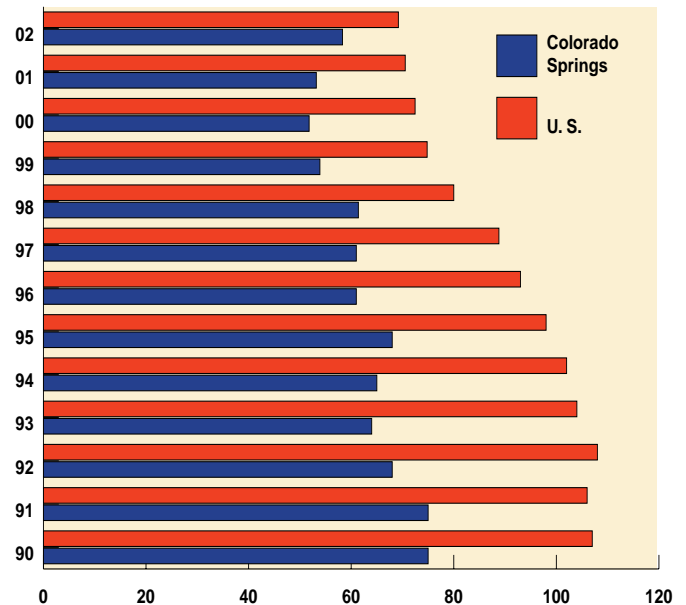
Index crime in Colorado Springs increased 12 percent in 2002. Overall, the city remains well below the U.S. average for cities of its size. Violent crimes (murder, rape, robbery and aggravated assault) also increased in 2002 from 5.2 to 5.4 violent crimes per 1,000 population. The violent crime rate remains below national levels for cities with populations between 250,000 - 499,999. All types of indexed crime including murder, forcible rape, robbery, aggravated assault, burglary, larceny/theft and motor vehicle theft increased in 2002.

There were a total of 21,817 index crimes reported in 2002. The majority of the index crimes reported involve larceny/theft (65%), followed by burglary (19%), motor vehicle theft (7%), aggravated assault (6%), robbery (2.3%), forcible rape (1.3%) and homicide (.1%).

Index crime decreased slightly in the first six months of 2003 compared with the same period last year.

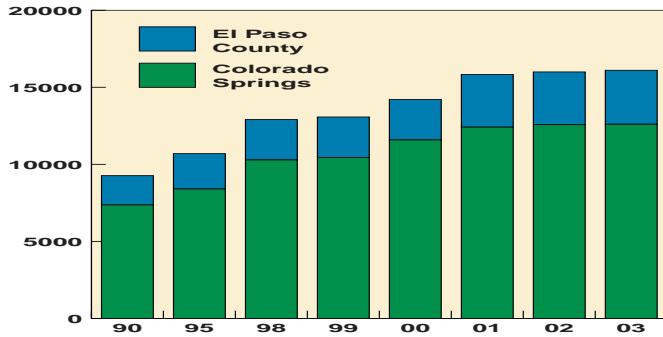
U.S. and Colorado Springs Crime Index

(Index per 1,000 inhabitants)

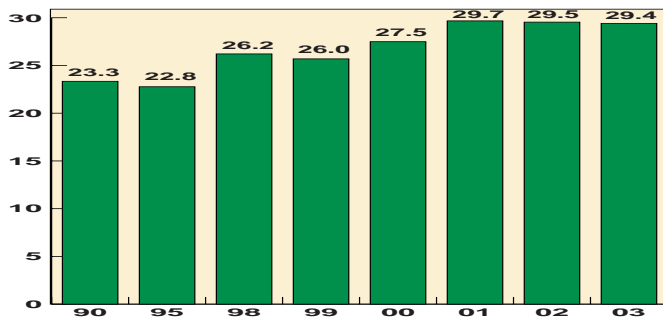


The U.S. rate in 2002 is preliminary. Sources: Colorado Springs Police Department; FBI

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



Acres Per 1,000 Inhabitants



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

WHY IS THIS IMPORTANT?

Open space, trails and park land provide important areas for recreation and leisure activity, support natural habitat and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and other open space available for public use.

HOW ARE WE DOING?

The Pikes Peak region is blessed with beautiful views and natural scenic areas. The city and county combined manage over 15,000 acres of open space and park land or 29.4 acres per 1,000 residents in 2003. The recent purchase of Red Rock Canyon by the City of Colorado Springs will add 789 scenic and valuable acres of park land. The city and county must continue the effort to add public space and facilities as the population increases. This space is important since it improves the quality of life for all citizens and is an important positive factor affecting business in the region.

Since the 0.1 percent Trails, Open Space, Parks sales tax was passed and implemented five years ago, the City of Colorado Springs has collected more than \$26.2 million or roughly \$5 million per year for trail construction, park construction, and open space acquisition. These funds have been leveraged with private donations and grants from other agencies to preserve additional open space.

CU-Colorado Springs College of Business and Administration and the Graduate School of Business Administration

Contact: College of Business and Administration (719) 262-3408

The University of Colorado at Colorado Springs was established in 1965, with the College of Business and Administration being formed at that time. The College awards the Bachelor of Science in Business Administration degree and a Masters of Business Administration (MBA) degree. All degree programs are accredited by the Association to Advance Collegiate Schools of Business (AACSB International), placing the College in the top 28% of business schools nationally. UCCS is the only BS and MBA program in the Pikes Peak Region that has earned this recognition.

The College of Business and Administration at UCCS has excellent partnerships with the business community. These contacts are essential as the ability to infuse current business practice into the classroom is consistent with the mission of the UCCS campus within the CU system, while also insuring a direct, continuing relationship with business partners in the region.

Professors at the College of Business and Administration provide intense, effective teaching, focused on understanding the fundamentals of business solutions. Technology might change, but the principles of good business practice are constant, so our business graduates learn how to adapt and grow with the marketplace. In this fashion, we prepare students for lifelong careers in diverse fields as banking, advertising, accounting, information systems, marketing, financial services, computer technology, manufacturing and many more exciting fields.

The faculty is internationally acclaimed and doctoral qualified from leading institutions such as the Universities of Arizona, Colorado, Minnesota, Oregon, Texas and Washington. The classroom experience is enriched by their efforts in leading-edge research, academic publishing, community involvement, and industry consulting. This talent combined with a focus on practical business issues has led to our students being recognized nationally in competitions and to several of our graduating students being awarded funds to develop a technology company they designed in the classroom. We will continue to deliver a quality, programmatic, and practical education to promote the success of each student we serve.

Community Connections

Contact: CU-Colorado Springs College of Business and Administration (719) 262-3241

The College of Business and Administration stays connected to the community through a variety of organizations. These specialized Centers of the College of Business provide the community with a wealth of resources. You may find out more by visiting our Community Connections portal at: <http://business.uccs.edu/> and clicking on Community Connection. Find out information about Extended Studies and Career, Intern, and Placement opportunities, or contact other offices including: the Small Business Development Center (SBDC), International Small Business Development Center (ISBDC), and the Southern Colorado Economic Forum. In addition, Community Connection will provide information about an independent center with close links to the University of Colorado at Colorado Springs: the Colorado Springs Technology Incubator (CSTI).

The Southern Colorado Economic Forum

Contact: CU-Colorado Springs College of Business and Administration (719) 262-3241

The Southern Colorado Economic Forum (SCEF) is a University and community supported research effort of the College of Business and Administration at the University of Colorado at Colorado Springs. The SCEF provides timely and unbiased information about the economy by analyzing trends and providing forecasts of future economic activity. The Southern Colorado Economic Forum is held every October to provide the community with an update of area economic activity and quality of life indicators. The Southern Colorado Economic Forum electronically publishes the *Quarterly Updates and Estimates (QUE)* in order to keep the business community informed about current changes in economic activity in the region.

The Forum is available to help business and other organizations with economic analysis, survey work, and other custom analysis on a fee based arrangement. To learn more about the services SCEF can provide your organization contact: Tom Zwirlein, Faculty Director of Connections at (719) 262-3241 or tzwirlei@uccs.edu.

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