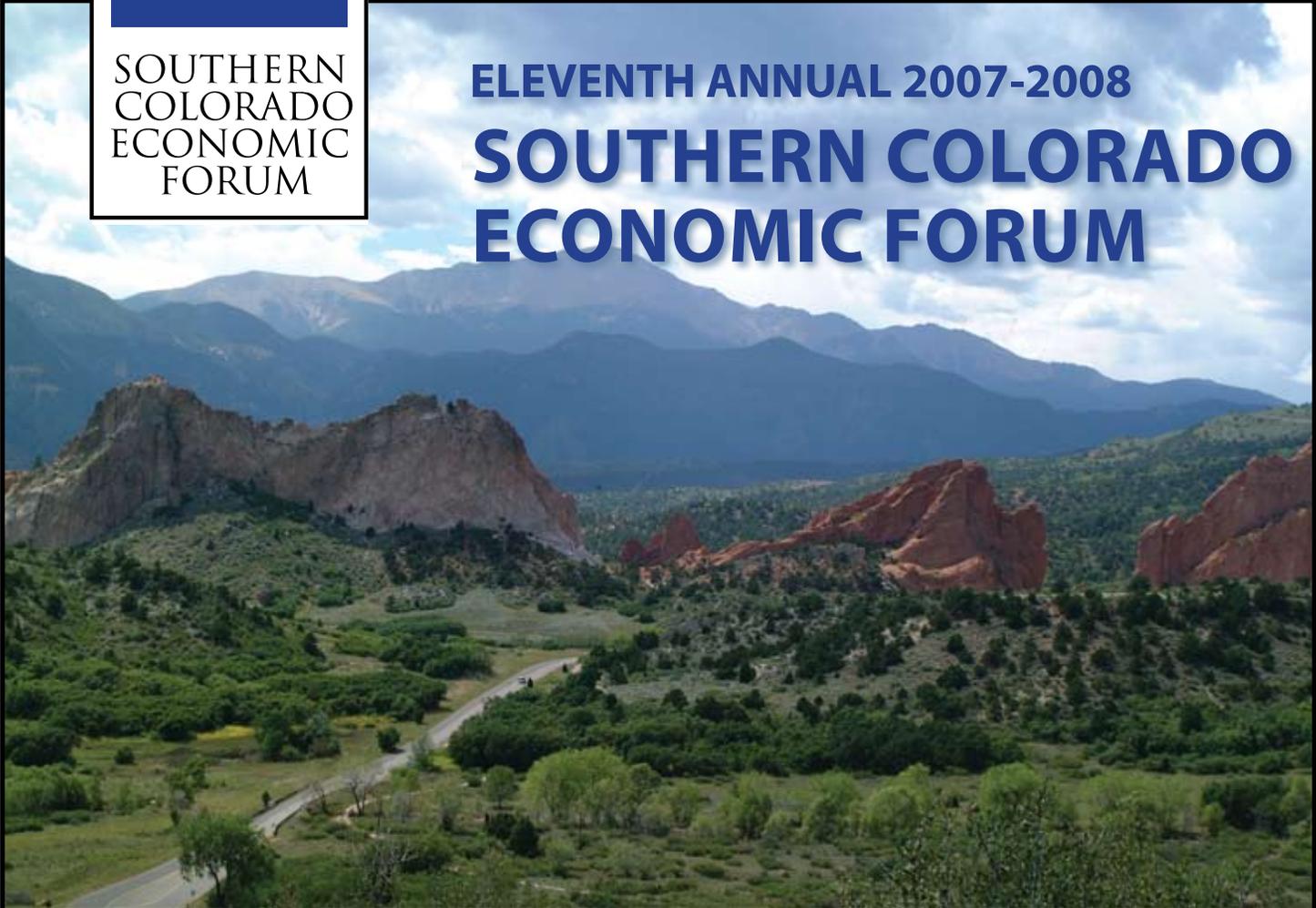




SOUTHERN
COLORADO
ECONOMIC
FORUM

ELEVENTH ANNUAL 2007-2008 SOUTHERN COLORADO ECONOMIC FORUM



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

October 11, 2007
Heritage Ballroom
Antlers Hilton
4 South Cascade Avenue
Colorado Springs, CO

Platinum Sponsors



Founding Partner of the Forum



Welcome from the Chancellor

The University of Colorado at Colorado Springs is pleased to join with its business partners to present the eleventh 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 in making informed decisions about our region's future. The Forum provides a realistic and unbiased 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 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 2007-2008 Southern Colorado Economic Forum. We wish you a productive and successful 2008.

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

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

The Southern Colorado Economic Forum is the preeminent economic forum in the region. Now in the eleventh year, we continue the tradition of 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. 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 updates reported in the QUE.

Welcome to the eleventh annual Southern Colorado Economic Forum. We hope you find the Forum informative. Please 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.

Venkat Reddy, Dean, College of Business and Administration

Welcome from First Business Brokers, LTD.

First Business Brokers, Ltd.® is a firm that deals exclusively with the sale of privately owned businesses, located in Colorado. Established in 1982 by Ronald V. Chernak, CBI, M&AMI, Fellow of the IBBA, the firm is one of Colorado's largest and most successful brokerage companies representing privately owned businesses. First Business Brokers, Ltd.® has completed over 800 business sales covering a wide variety of industries.

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

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

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The 2007 – 2008 Southern Colorado Economic Forum

Introduction

This marks the eleventh year for the Southern Colorado Economic Forum. Our goal remains the same. We provide businesses and other organizations in El Paso County with information to assess economic conditions in the region. The Forum's objective is to provide timely, accurate, and useful economic and quality-of-life information focused on the Pikes Peak region. This information and our analysis can be used by businesses as they form their strategic plans. The information provided by the Forum serves as a community progress report: identifying areas where we excel, as well as areas where we face challenges.

We concentrate on labor market information, retail and wholesale trade, construction and commercial real estate activity, military employment and expenditures, tourism, sales and use taxes, utility activity and other economic information. The data are used to develop estimates of economic activity for the remainder of the year, as well as forecasts for next year. In addition, we examine several quality-of-life and education indicators for El Paso County to ascertain community progress in dealing with issues such as the impact of growth, congestion, open space, education attainment and the like. The information is gathered to develop a "set" of economic and quality-of-life indicators for El Paso County. The indicators provide a picture of the economy, the region's quality-of-life and help answer the questions of 'how are we doing' and 'where are we going.' The indicators are used to help assess our progress by measuring changes over time. No single indicator can provide a complete picture of the economy, quality-of-life, or educational status of our citizenry. Examined collectively, economic and quality-of-life indicators provide a picture of the region's economic health, the welfare and educational attainment of the people who live and work here, and the progress of businesses and organizations that operate here.

The Southern Colorado Economy

During 2005-2006, the El Paso County economy was influenced strongly by five local and national issues. Deployments from Fort Carson to Iraq, a restrictive Federal Reserve monetary policy resulting from concerns about inflation, rising foreclosures and stagnating home value, low residential building permit activity and average wages that did not keep up with inflation.

To date, approximately 4,000 troops have been stationed at Fort Carson as part of BRAC05. However, at any given time, approximately one third of the troops stationed at Fort Carson are deployed overseas. As a result, the boost community leaders expect from BRAC05 has yet to materialize. The most recent information indicates the next large influx of troops at Fort Carson will not happen until 2009 when 5,200 troops and their families are expected to arrive. While the deferred arrival of the troops is disappointing from a local economic perspective, the good news is the additional troops are expected to be based here by 2011. All indications are the core of additional troop arrivals will provide a timely economic boost to the El Paso County economy.

Inflation began to be noticeable in April 2004 when the annual rate of inflation hit 2.3 percent. As expected, the Federal Reserve reduced the growth rate in the money supply and targeted higher interest rates for the economy to slow aggregate demand and reduce inflationary expectations. Adjusting for inflation, the real growth in the money supply (M1) changed 0.3 percent from June 2004 to June 2005. From June 2005 to June 2006, the real growth in M1 was -4.4 percent. During the same period, the Fed Funds rate increased from 1 percent to 5.25 percent. The Federal Reserve Open Market Committee (FOMC) halted interest rate increases in June 2006. However, the Fed continued its restrictive policy on the money supply. Between June 2006 and June 2007, the real growth in M1 was -3.3 percent. Three years of a restrictive monetary policy slowed inflation and the economy, raised interest rates, contributed to a lack of liquidity in the economy and aggravated the financial problems in the subprime market.

Foreclosure problems can often be traced to the type of mortgage instrument used to finance a home. Troublesome situations have tended to occur around an overuse of teaser interest rates, adjustable rate mortgages (ARMs) extended to people who barely qualify at the low teaser rates, ARM's with punitive interest rate escalation clauses and the near complete disregard for prudent risk assessment by mortgage underwriters.

Additional issues in the mortgage market can be found by examining the Office of Federal Housing Enterprise Oversight statistical release for the quarter ending March 2007. In 1991, 62 percent of all mortgages were used to purchase a home while 3.8 percent were used to cash out equity in the house. By March 2007, 30 percent of the mortgages were used to purchase a home and 49 percent were used to take cash out of the house. Homeowners maintained or increased their purchasing capacity at the cost of greater financial debt. Evidence now indicates many of the cash out mortgages in recent years were ARMs.

By the middle of 2006, financial markets began tightening the qualification standards for mortgage financing. FOMC policies had raised interest rates and decreased liquidity in the economy. The market for mortgage back securities began to shrink. Home purchase deals collapsed at the time of closing when financing was pulled from a prospective homeowner by mortgage lenders. The secondary market for mortgage transactions shrank.

Mortgagees often found themselves under pressure to refinance or sell their homes because relentless increases in mortgage rates drove their payments beyond their capacity. Stricter credit standards, a shrinking mortgage backed securities market and the lack of a liquid capital market contributed to the sharp rise in foreclosures. El Paso County is not immune to the national mortgage markets. At its current rate, the Forum expects there will be 3,434 foreclosures in El Paso County in 2007. If this happens, it will be the second highest number of foreclosures in the county's history. The highest number of foreclosures was set in 1988 when there were 3,476 foreclosure procedures begun in the county. El Paso County may surpass the record in 2007 if the often observed December spike in foreclosures takes place this year.

The sharp increase in foreclosures steered prospective home buyers on a scramble for a bargain among foreclosure properties and away from an existing or new home purchases. Traditional sales of existing single family homes slowed. New home builders faced a rise in contracts that were contingent upon prospective buyers being able to sell their existing homes. Competition for existing home sales increased as near record levels of foreclosures hit the market and credit standards tightened in light of problems in the subprime market. Deals fell through. Home financing problems spiraled to the new home builder's doorstep. New single family detached and town home construction are expected to be 3,100 units in 2006. This is significantly below the construction of 4,127 units in 2007 and 6,245 units in 2005. The Forum estimates the slow down in new residential construction will reduce job growth by 4,000 in 2007.

In the past, problems in the single family residential construction market were traced to overbuilding by the new home builders. Current evidence suggests this is not the problem. Rather, the evidence points to an irrationally exuberant subprime mortgage origination market.

Wage gains in El Paso County were modest in 2006. Average wages in El Paso County increased \$1,092, or 2.9 percent, to \$38,584. During 2006, the Denver CPI increased 3.6 percent. This means the real average wage in El Paso County actu-

ally went from \$37,492 in 2005 to \$37,243, a decline of \$249. The lack of a real wage increase had the effect of decreasing economic activity in the area. This reduces local purchases of goods and services. Evidence of these effects can be read on the vignettes in the following pages.

In summary, troop deployments, a restrictive monetary policy, escalating problems in the foreclosure market and their contagion effects on new residential construction along with declining real wages in the county all contributed to a disappointing year in the local economy. On a brighter note, the local economy produced a record number of total jobs while the unemployment picture continued to improve.

Employment/Unemployment

The El Paso County private sector employment figures from the Quarterly Census of Employment and Wages, QCEW, increased by 2.1 percent, or 4,208 jobs, in 2006. The strong increases followed similar gains in 2005 of 1.7 percent or 4,087 jobs. This was the third consecutive year of positive job growth in the private sector for El Paso County after three consecutive years of declines from 2001 to 2003.

The largest employment gains were in administrative and waste services (1,504 jobs), construction (994 jobs), accommodations (978 jobs), professional and technical services (754 jobs), health care (533 jobs) and retail (422 jobs). The employment gains in construction came from strong activity in the commercial sector, COSMIX and housing on Fort Carson. These are not expected to be repeated in the end of 2007 and into 2008.

Job loss trends in information technology and manufacturing that began in 2001 continued into 2006. Information technology lost 975 jobs. Manufacturing lost 386 jobs. Wholesale trade lost 338 jobs.

The unemployment rate continued a downward trend, albeit at a slower rate. The average unemployment rate in El Paso County fell to 4.6 percent in 2006 compared to 5.4 percent in 2005. Unemployment rates are expected to be 4.4 percent in 2007 and 4.6 percent in 2008.

The average unemployment rate in Colorado was 4.3 percent in 2006 versus 5.0 percent in 2005. Unemployment rates in Colorado are expected to be 3.7 percent in 2007 and 3.9 percent in 2008.

Three factors stand out about employment and wage patterns in El Paso County when they are compared to Colorado. First,

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the number of firms in El Paso County is growing much faster than in Colorado. Second, wages are growing much slower than in Colorado. The ratio of supply of workers to the demand for workers in El Paso County is slightly greater than in Colorado. This is expected to lead to slower income gains in El Paso County. Third, the lower wage gains for El Paso County compared to Colorado is attributed to the change in the number of employees per firm. In 2001, El Paso County averaged 13.9 employees per firm compared to 12.4 employees per firm in Colorado. By 2006, the averages had dropped to 11.8 for El Paso County and 11.0 for Colorado. The average number of employees per firm in El Paso County decreased 15.1 percent between 2001 and 2006 compared to a decrease of 11.3 percent for Colorado. The significance of firm size is found in average wage data from QCEW. El Paso County lost a disproportionate number of highly paid jobs among larger firm, manufacturing and technology employers between 2001 and 2006.

There is an advantage of having more small firms in an economic base. Research repeatedly points to greater economic base diversification where the employment base is less dependent on limited numbers of large employers. This is normally expected to provide increased stability to a region's employment base. El Paso County appears to be in a period of improving employment stability but declining real wages.

Reductions in the unemployment rate have been occurring systematically since May 2003. If additional gains in employment take place in El Paso County during 2007, they are most likely going to be in professional service, health care and defense contracting. Significant gains in construction employment are not expected in 2008. Most large scale commercial and road projects should be completed in 2007. Aside from some work on Fort Carson, no new large projects are anticipated at this time.

On average, the monthly labor force in El Paso County was estimated to be 298,840 in 2006, an increase of 9,043 (3.1%) over the 2005 labor force of 289,797. Total private sector employment, based on the Quarterly Census of Employment and Wages (QCEW), averaged 202,789 in 2006. This is an increase of 4,208 jobs over 2005 levels. For the first time since 2001, private sector employment exceeded 202,000 jobs.

Preliminary June 2007 figures from the Colorado Department of Labor put the El Paso County labor force at 301,015, compared to 290,905 in June 2006. The change in the labor force reflects a large increase in the participation rate among those aged 16 plus.

Wages and Income

The average wage in El Paso County increased in 2006 and stood at \$38,584, an increase of \$1,092 or 2.9 percent over 2005. This follows a 2.6 percent increase in 2005 and a 3.3 percent increase in 2004. By comparison, the average wage in Colorado was \$43,524 in 2006 compared to \$41,600 in 2005. This is an increase of \$1,924 or 4.6 percent. This is a marked improvement over the 3.1 percent increase in 2005 and 2.1 percent in 2004.

El Paso County remains well below the state average wage. The figures for 2006 indicate the average wage in El Paso County is 11.4 percent below the average wage in Colorado. According to Bankrate, Inc., the cost of living in El Paso County is approximately 5.5 percent lower than the Denver region. Assigning the State average figures to the Denver market, the data suggests workers in El Paso County experienced a 5.9 percent lower standard of living than Denver and Colorado. By comparison, El Paso County had an estimated 4.4 percent lower standard of living in 2005.

Nineteen of the twenty NAICS two digit classifications had wage increases in 2006. Agriculture was the only sector that had a decline, -6.8 percent. Significant wage gains were realized in Management of Companies, 8.5 percent; Construction, 5.2 percent, Wholesale Trade, 5.1 percent, Manufacturing, 4.9 percent, Information, 4.6 percent, and Educational Services, 4.5 percent.

	Percent Change	
Colorado	01 - 06	05 - 06
No. of Firms	13.7%	3.1%
Jobs	1.0%	2.6%
Labor Force	10.7%	3.3%
Total Wages	15.4%	7.7%

El Paso County	01 - 06	05 - 06
No. of Firms	18.0%	4.3%
Jobs	0.3%	2.1%
Labor Force	11.0%	3.1%
Total Wages	11.1%	5.2%

	Total Change	
Colorado	01 - 06	05 - 06
No. of Firms	20,675	5,152
Jobs	17,853	47,077
Labor Force	256,454	83,617
Total Wages	10,986	5,875

El Paso County	01 - 06	05 - 06
No. of Firms	2,619	712
Jobs	643	4,208
Labor Force	29,659	9,043
Total Wages	769	389

Retail and Wholesale

Retail sales in Colorado were up 8.6 percent in 2006 compared to an 8.2 percent increase in 2005. Adjusting for population growth and inflation, real retail sales grew 2.4 percent in 2006 compared to 4.5 percent in 2005. Retail sales in El Paso County increased 6.0 percent in 2006 compared to a stronger 6.6 percent in 2005. After adjusting for inflation and population growth in El Paso County, real retail sales decreased 0.3 percent in 2006 compared to an increase of 2.0 percent in 2005 and 9.1 percent in 2004.

The Forum has repeatedly pointed out that growth in retail activity in El Paso County will follow the growing number of rooftops beyond the Colorado Springs' city limits. Evidence supporting this expectation began in 2004 and has continued through 2006. In 2000, 90.2 percent of all retail sales were inside of Colorado Springs. By 2006, the City of Colorado Springs captured 86.9 percent of all retail sales in El Paso County. The effect is Colorado Springs' sales tax revenues are declining relative to its suburban neighbors.

Wholesale sales in Colorado increased 21.5 percent in 2006 compared to 10.8 percent in 2005. The strong increase is attributed to the decline in the dollar on the world market and subsequent gain in manufacturing exports. Wholesale sales in El Paso County increased 6.0 percent in 2006. Wholesale activity growth in 2005 was much stronger with 8.1 percent growth. The modest growth in wholesale sales is attributed to the loss of basic manufacturing firms since 2000.

The Forum expected to see a slower local economy in 2007. Retail and wholesale activities support the observation that the value of economic output in the local economy did slow during 2006. Some of the difficulty in wholesale is attributed to the slow down in residential construction and the anticipated layoffs of 800 workers at Intel before the end of the year. Local retail sales will feel the effects of these conditions. Local retail activity will also be adversely affected by growing e-commerce sales, fewer and smaller automobile sales and the near constant deployment of one third of the troops at Fort Carson.

Housing Construction and Commercial Activity

New, single family, detached residential construction declined 35.2 percent in 2006 compared to 2005. A total of 3,446 permits were taken out compared to 5,314 in 2005. This is a decline of 1,868 units. An unexpected increase in permit value took place in 2006. The average permit value in 2006 was \$178,983. The average permit value was \$30,000 higher

than in 2005. This and other evidence indicate the homes built in 2006, although fewer in number, were larger and had more options than in 2005.

Town home construction also declined in 2006. There were 682 town home permits in 2006. This was a decline of 249 units or 26.4 percent. Permit values also declined in 2006. The average town home permit value was \$114,786 in 2006 compared to \$116,922 in 2005 and \$123,836 in 2004. This took place despite a 13 percent increase in construction cost reported by RSMMeans. Current town home construction is dominated by smaller, less accessorized housing units. Town home construction has emerged as the entry level price point for single family construction.

Perhaps of greater interest is the persistent flight to suburbia. During 2006, there were approximately 1,300 single family, detached permits taken out in areas outside Colorado Springs. This was 37.9 percent of all permits. Residents in these new homes tend to be younger adults, with larger household sizes and earn incomes above the county average. The move to areas outside of Colorado Springs will influence commercial construction patterns and location.

Permits for a total of 289 multifamily units were issued in 2006. This is a decline of 50.4 percent from the levels in 2005. The decline was expected and reflects investor reluctance to get into a market that averaged approximately 11.7 percent vacancy during 2006. Average rents were \$683 per month.

Commercial construction in 2006 was boosted by strong activity in three areas; medical construction of \$113 million; office construction of \$97 million and retail construction of \$99 million.

Medical construction included Penrose St. Francis, Memorial Hospital and two health care facilities. Having caught up with medical construction, large scale, new medical construction is not anticipated in 2008.

Significant retail construction in 2006 took place in three Zip Codes outside of Colorado Springs. The areas are Monument (80132), Falcon (80831), and Fountain (80817). These three areas captured 31.2 percent of all retail permits in 2006. This is noteworthy because the areas represent about 10-12 percent of the county's population. This reflects the pattern of retailers who are following the rooftops to suburbia. This trend is expected to accelerate as critical population masses are achieved in the suburbs and towns surrounding Colorado Springs.

Recent examples of big box stores opening or about to open in the bedroom communities include Home Depot, Kohls and Wal-Mart in Monument; Wal-Mart and Lowe's in Falcon, Lowe's in

Fountain and Wal-Mart in Woodland Park. The effect of these patterns will be the transfer of retail purchases previously made in Colorado Springs to the suburbs. Colorado Springs will receive as much as \$1 million less in sales tax collections for each big box built outside of the city. This does not include lost sales tax collections from the satellite stores that will surround the big box anchors.

Central business district (CBD) office vacancies declined to 5.5 percent in 2006 compared to 7.0 percent in 2005. Leasing plus absorption totaled 143,492 square feet. This is typical of an average year's activity. Class "A" office space vacancies in the central business district declined to 6.7 percent in 2006. Vacancies are down 8.5 points since 2001. Metro office market vacancy rates decreased to 6.9 percent in 2006 from 8.6 percent in 2005.

Along with the general decrease in vacancy rates among all classes of office space, leasing rates increased in 2006. The metro market increased to \$10.86 a square foot from \$10.29 in 2005, Triple Net (NNN).¹ The central business district increased to \$11.41 a square foot from \$11.37 in 2005. Downtown class A office space decreased to \$14.17 a square foot from \$14.34 in 2005.

Industrial vacancies decreased to 6.6 percent in 2006. This is a significant drop from 8.3 percent in 2005. As in 2005, leasing and absorption totaled almost 2 million square feet during 2006. Leasing plus absorption for 2007 should be about 1,200,000 square feet. Rents increased to \$7.15 a square foot in 2006 compared to \$6.80 in 2005.

Through June 2007, it appears industrial rents have decreased. Industrial rents are currently averaging \$7.00 per square foot. They are expected to average \$7.00 for the balance of 2007. A slight decrease is possible if the economy slows further and new industrial construction takes place, especially among owner occupied properties. If the Intel and SCI facilities are left vacant, industrial vacancy rates are likely to be higher.

Aggregate shopping center lease rates increased 2.6 percent in 2006 to \$13.30. Vacancy rates declined again in 2006 to 6.4 percent. Large facilities are either completed or under construction in Monument, Falcon, Fountain and along Powers Boulevard and Woodmen. Despite the extensive commercial construction in these high residential growth corridors, it appears to be matched with demand. Leasing plus absorption totaled 1,593,610 square feet in 2006. This is an increase of 40,000 square feet.

¹ Triple Net refers to a lease in which the tenant is responsible for taxes, insurance, utilities and maintenance.

Shopping center commercial activity in 2006 showed little sign of letting up. Leasing plus absorption should be close to 1,400,000 square feet in 2007. Rents are currently running \$13.61 per square foot. Commercial activity trends are expected to continue through 2007 before they decline slightly in 2008 as the economy continues to slow.

BRAC05 and the Military Community

Previously, the Forum reported BRAC05 will not have most of its expected impact on the El Paso County region until 2009. During the spring of 2007, Fort Carson released a tentative time line for troop arrivals. The best estimate indicates 7,800 more will arrive from 2007 through 2011. The largest number will arrive in 2009. The information also included estimates of the number of dependents. The tentative schedule is:

Projected Troop Arrival at Fort Carson

Year	Troops	Dependents	Total
2007	1,100	2,054	3,154
2008	100	187	287
2009	5,200	9,710	14,910
2010	700	1,307	2,007
2011	700	1,307	2,007
Total	7,800	14,565	22,365

Based on 2006 Department of Defense pay and allowances schedules, the Forum has determined the weighted average income for a member of the Army at Fort Carson is approximately \$55,500 in 2007 dollars. This does not include any additional household income that may be earned by a spouse. Given the soldier's income and an assumed 20 percent down payment at current interest rates, a soldier can afford to finance a \$200,000 mortgage on a \$250,000 home. This implies the typical Fort Carson troop can afford the typical house in El Paso County.

The Forum did additional research to determine the housing needs of the additional troops at Fort Carson. The General Accounting Office released a report several years ago which estimated 50 percent of the Army troops buy a home while in the service. Allowing for 25-30 percent of the troops who will live on base, the math indicates 2,000 will live on base; 1,900 will live off base and rent; 3,900 will live off base and buy a home. These estimates assume an equilibrium housing level has been achieved. Equilibrium is not expected until a few years after the realignment is completed.

The Forum also examined the most likely place the troops will live off base. Allowing for drive time, commuting costs, housing affordability and available developable land, the Forum believes at least 90 percent of the off base troops will live in El Paso County.

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The most likely communities will be Fountain (80817) Security-Widefield (80911) and the planned developments along Drennan (80916), Powers/Marksheffel (80915, 80922) and Falcon (80831).

The Forum revised its Input/Output analysis to determine the economic impact the remaining 7,800 troop arrivals are expected to have on the El Paso County economy. Selected findings are shown below.

Input Output Analysis of BRAC05 Remaining Troops to be Stationed at Fort Carson

Business Sector	New Jobs	Total Wages	Average Wages
Food services/restaurants	497	7,997,169	16,091
State & Local Education	243	11,176,292	45,993
State & Local Non-Education	217	10,983,093	50,613
Physician & Dentist offices	217	12,821,130	59,084
Real estate	137	1,410,622	10,297
General merchandise stores	126	3,182,368	25,257
Nonstore retailers	122	735,830	6,031
Nursing & care facilities	121	3,962,155	32,745
Auto repair/maintenance	118	3,246,266	27,511
Wholesale trade	113	6,156,529	54,483
Food/beverage store	106	3,708,850	34,989
Computer programming svcs	98	7,657,069	78,133
Computer systems design svcs	96	6,529,260	68,013
Employment services	94	2,529,274	26,907
Private households	94	437,155	4,651
Social assistance	91	2,102,903	23,109
Motor vehicles & parts	86	4,509,133	52,432
Architects & engineers svcs	83	5,339,194	64,328
Hospitals	83	3,999,296	48,184
Building svcs	81	1,562,959	19,296
Banks & credit unions	76	3,473,620	45,706
Miscellaneous retailers	72	1,069,006	14,847
Child day care services	69	994,590	14,414
Clothing stores	58	1,091,004	18,810
Research & development svcs	57	4,926,126	86,423
Total for top 25 sectors	3,155	\$111,600,898	\$35,373

After the troops arrive, a total of 6,283 local resident services jobs are expected in the community. The top twenty-five civilian employment sectors are expected to see approximately half of the total jobs that will result from the military. Total annual wages are expected to be \$249 million in all affected sectors.

Ongoing deployments of troops and the later than expected arrival of troops from Fort Hood have muted some of the growth that was anticipated in the local economy this year. At

any given point, the Forum estimates there are approximately 5,000 troops on deployment. This has had a roughly proportional negative effect on the local economy when compared to the expected benefits of having all BRAC05 troops based at Fort Carson. This will be an ongoing characteristic of a military community.

Recent Actions of The Federal Reserve

Ben Bernanke, Chair of the Federal Reserve, gave an annual address to economists in Jackson Hole, WY at the end of August. Bernanke noted the deteriorated condition of the residential housing and mortgage markets. The latest data on delinquencies indicate variable rate, subprime mortgages delinquencies are running approximately 13.5 percent as of June 2007. Most of these mortgages were issued in 2005 and 2006, the exact period during which the FOMC was in the process of targeting higher Fed Funds interest rates. These actions contributed directly and indirectly to the escalation of interest rates on variable rate mortgages. Subprime fixed rate mortgages are doing better at a 5.5 percent delinquency rate. Delinquency rates on prime mortgages are running at 1 percent.

Bernanke stated "It is not the responsibility of the Federal Reserve--nor would it be appropriate--to protect lenders and investors from the consequences of their financial decisions." Bernanke added "But developments in financial markets can have broad economic effects felt by many outside the markets, and the Federal Reserve must take those effects into account when determining policy." The Fed Funds rate had risen to 5.75 percent. The Federal Reserve increased bank reserves to bring the Fed Funds rate back to the 5.25 percent target rate. The Federal reserve also reduced the Discount Loan rate to 6.25 percent to increase liquidity and assure financial markets that an illiquid financial market would not be permitted to undermine the economy.

The Taylor Rule, developed by Stanford Professor John Taylor in 1993, has proven to be a reliable predictor of trends in Fed Funds rates. Allowing for statistical error, the Taylor Rule has indicated for several months that the Fed Funds rate should be no more than 4.75 percent to perhaps 4.5 percent. Most of the argument for the Taylor Rule Fed Funds rate currently comes from an under performing GDP. Lower interest rates would stimulate the economy and raise actual GDP closer to its potential levels. Despite the arguments that a rate cut was needed to stabilize the economy, the Federal Reserve held steadfast to its dual mandate of low inflation and full employment until September 18. The Fed reduced the target Fed Funds rate by 50 basis points to 4.75 percent on this date.

The FOMC's press release from the September 18 meeting stated "Economic growth was moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. Today's action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time." Do not expect a rapid reversal in momentum in capital markets. Substantive change and growth are not expected for at least six to nine months. Despite the Fed's ongoing concern about inflation, there does not appear to be significant evidence at this time to indicate the cut in the Fed Funds Rate will be inflationary.

Where is the Southern Colorado Economy Headed in 2008?

The future of the Southern Colorado economy appears to rest on five factors. The area needs better job and income growth from basic industry employers, reduced interest rates, an end to the spiralling problem in foreclosures, a rebound in residential construction and the arrival of BRAC05 troops at Fort Carson.

The private sector provided more total jobs in 2006 for the first time since 2001 - a net gain of 641 jobs. Manufacturing and telecommunications lost an additional 1,365 jobs in 2006. Together, these sectors lost 13,438 jobs over the 2001 through 2006 period. Had these jobs stayed in the county, it is estimated that wages in these two sectors would have been \$736 million higher in 2006. Assuming all lost jobs could have been kept in El Paso County, standard multipliers for these sectors indicate the community lost of total of 30,200 jobs and \$1.69 billion in wages in 2006.

No doubt, these are overstated values. Some natural level of attrition and work environment changes would have reduced employment and wages in these sectors had not the technology implosion taken place from 2000 to 2004. While this point can be debated for some time, the local employment base shifted to an economy that is less dependent on a limited number of large, well paying employers to an economy that is increasingly dependent on smaller firms for employment. As stated previously, the average number of employees per firm in 2006 was 11.8 compare to 13.9 in 2001. For year 2006, the Forum found the average wage paid by small employers, fewer than 11 employees, was \$4,500 less than the average wage paid by larger employers, more than 11 employees. Our economy is probably less susceptible to volatile employment swings with the absence of key large employers. Unfortunately, the lower volatility appears to be accompanied with lower average wage levels.

In order to move forward, the community must attract well paying jobs in basic industries. Ideally, these industries should add to the economic base diversification. The Economic Development

Corporation (EDC) has sought to achieve this. Through July 2006, the EDC announced 1,545 jobs in a mix of sectors including medical technology, financial services and information technology. Of the 1,545 new jobs that were announced, 1,515 are expected to be filled by workers in the community. Thirty are expected to be transfers to El Paso County.

The ability and success of the EDC is predicated on continued growth of the economy. Growth prospects for the economy, in turn, are in the hands of the Federal Reserve.

Despite the recent problems in the financial markets, real GDP grew at 0.6 percent in the first quarter and 4 percent in the second quarter of 2007. Real GDP is expected to grow approximately 2 percent in 2007 and 2.8 percent in 2008. These numbers suggest the economy is under performing by 1.5 to 2.0 percent.

Locally, foreclosures are expected to approach an all-time record for El Paso County in 2007. The problem is expected to abate somewhat in 2008 provided the Federal Reserve acts decisively to instill confidence in financial markets.

A somewhat improved financial market and declines in local foreclosures will not be sufficient to restore strength in the El Paso County new residential construction market. This sector is expected to decline slightly and will be 1,100 new units below its equilibrium level. This will retard employment growth by approximately 4,000 jobs. Income growth will also be limited.

The silver lining to the cloud covered economy over Al Capp's good friend, Joe Btfsplk, is interest rates have been reduced by 50 basis points. Corrections to capital markets will follow. Foreclosure problems will improve as variable rate mortgages benefit slightly from the cuts in interest rates. Foreclosures will also improve because the subprime mortgages are beginning to work their way out of the economy. As these factors evolve, the demand for new residential housing will increase. These events could accelerate if the EDC remains successful at attracting and keeping our clusters of key basic employers. One final positive to our economy is the anticipated arrival of 5,200 troops and their families in 2009. This will have a significant, positive impact on the local economy. The problem with the expected positive turns for the economy is it will take 12 to 18 months to be realized. For that reason, the Forum expects modest growth at best in 2008.

Acknowledgments

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

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This year marks another year of our joint effort between the Forum and Holland & Hart's annual Business Symposium. This partnership has proven to be a very successful combination.

We wish to thank Wendy Pifher, Jessie Neville, Jenny Kummer and Bernard Wooten of Holland & Hart for all of their help and support this year. A special thanks to all of our partners who helped organize the Forum this year, especially members of the program, finance and marketing committees.

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

Thomas J. Zwirlein, Ph.D.
Professor of Finance and Faculty Director of the Southern Colorado Economic Forum

Fred Crowley, Ph.D.
Associate Director and Senior Economist for the Southern Colorado Economic Forum

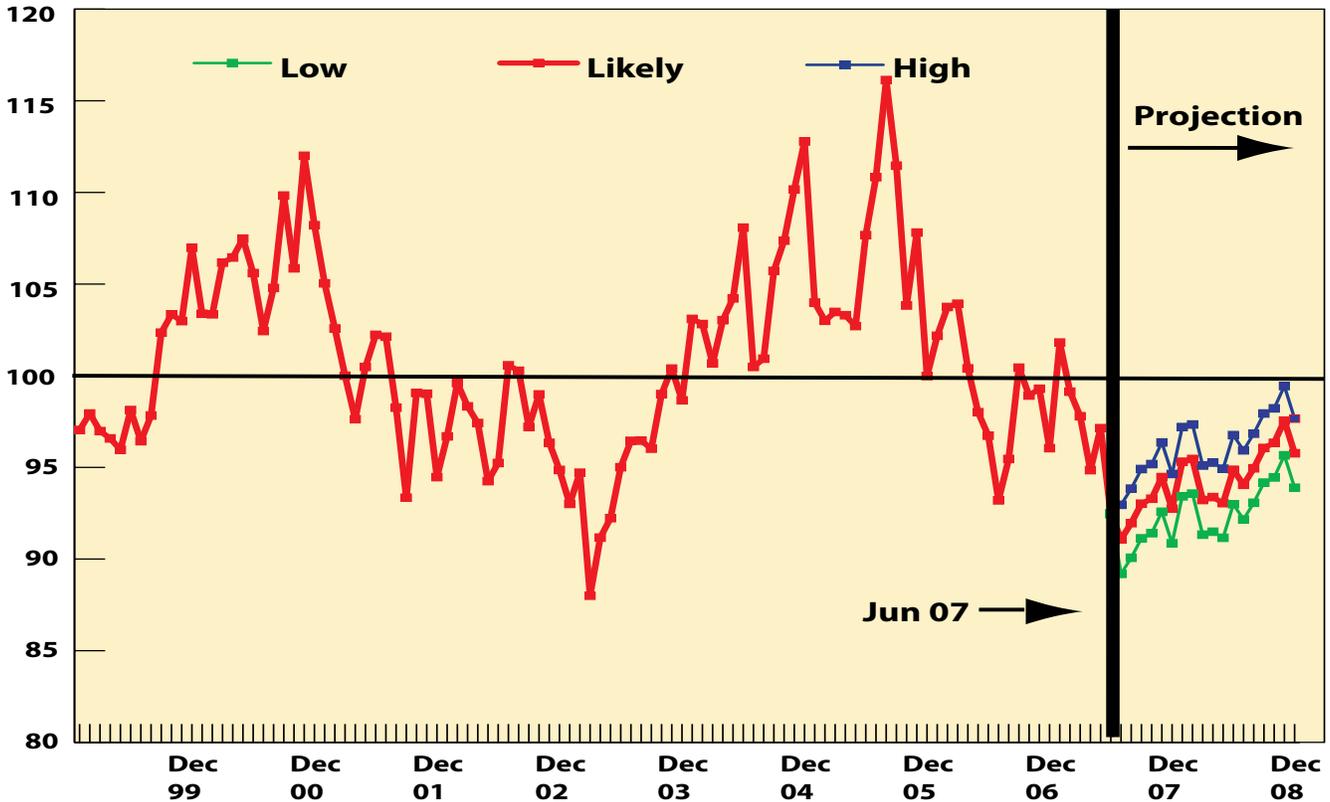
Forecast Summary

		Actual, Estimated and Forecast Percent Change in Key Economic Indicators for the U.S., Colorado and El Paso County								
		United States			Colorado			El Paso County		
		2006	2007	2008	2006	2007	2008	2006	2007	2008
		Actual	Estimate	Forecast	Actual	Estimate	Forecast	Actual	Estimate	Forecast
1	Population	1.0	0.8	0.9	1.9	2.9	2.1	1.9	3.4	2.1
2	Unemployment Rate	4.6	4.6	4.7	4.3	3.7	3.9	4.6	4.4	4.6
3	GDP/GSP	2.2	1.9	2.8	4.9	4.2	4.2	-	-	-
4	Industrial Production	4.0	2.0	3.0	-	-	-	-	-	-
5	Non-Agricultural Employment	1.9	1.4	1.0	2.4	2.1	1.9	2.2	1.8	1.5
6	Total Wages and Salaries	-	-	-	7.4	6.8	6.7	5.3	4.9	4.6
7	Average Wage and Salaries	-	-	-	5.0	4.7	4.8	2.9	3.1	3.1
8	Consumer Price Index (CPI)	3.2	3.6	2.2	3.6	3.2	2.8	-	-	-
9	Personal Income	6.2	6.0	5.8	6.5	7.4	7.2	4.6	5.9	5.5
10	Per Capita Personal Income	5.2	4.8	4.5	4.6	5.3	5.1	2.7	4.0	3.9
11	Retail Trade	-	-	-	5.7	5.5	6.3	6.0	5.8	5.8
12	Single Family Housing Permits ¹	-12.1	-18.7	4.7	-15	-5.0	0.3	-34.1	-25.0	-3.0
13	Non-Residential Construction	5.8	3.2	4.9	-2.2	-1.4	3.6	12.5	16.0	-5.0

Source: Colorado Office of Budgeting and Planning, June 2007 Revenue Forecast, Federal Reserve Bank of Philadelphia, Bureau of Economic Analysis and the Southern Colorado Economic Forum

¹Includes single family detached and town home units.

Business Conditions Index: March 2001 = 100 (BCI)



	COS Enplanements	El Paso SF & TH Permits	U Of Mich Con Sent	Creighton CO PMI	El Paso Employment Rate	Colorado Springs 2% Sales & Use Tax	El Paso Car Sales	El Paso Fore-closures	El Paso Employed	El Paso Income	BCI
Jan-07	85.42	55.16	100.86	155.62	98.79	100.79	88.48	170.00	109.97	98.25	101.81
Feb-07	81.56	45.51	99.14	137.20	99.09	104.72	94.11	170.00	110.77	98.71	99.13
Mar-07	81.17	55.88	96.33	151.77	99.23	105.46	87.97	120.00	110.93	98.45	97.79
Apr-07	83.63	50.89	96.63	166.41	99.58	110.51	90.43	80.00	110.10	98.20	94.85
May-07	89.16	54.45	100.82	148.94	99.53	99.99	95.12	100.00	110.71	97.95	97.14
Jun-07	89.00	56.68	91.71	130.32	99.46	107.42	82.14	80.00	110.55	97.70	92.47

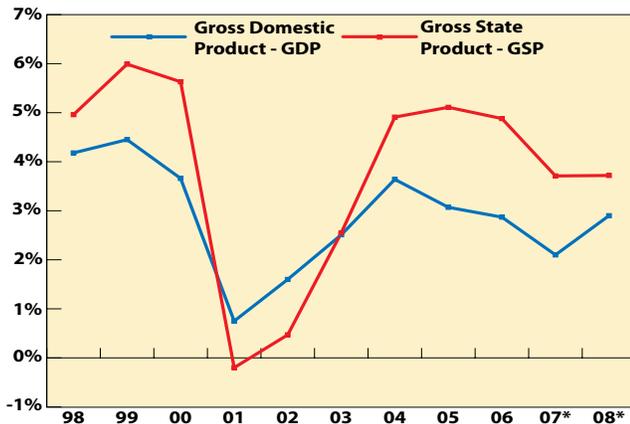
WHY IS THIS IMPORTANT?

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 so that true trends can be identified as opposed to potential misleading spikes in monthly data.

HOW ARE WE DOING?

The BCI declined from 106 in 2005 to 99 in 2006. This is one point higher than the Forum projected. The seven point decline resulted from aggregate weakness in the national and local economy. Specific weakness in single family permits, foreclosures, new car sales and enplanements are not expected to improve materially in the next twelve months. Modest improvements are expected in consumer confidence, employment, income and sales tax collections. As of June 2007, the BCI stood at 92.47. Areas of weakness will constrain the BCI in 2007. The BCI is expected to average 95 for all of 2007. Assuming the Federal Reserve adequately addresses current liquidity issues in financial markets, the BCI for 2008 is expected to average 95 in 2008, the same level expected in 2007. A recession is not expected at this time, provided the Federal Reserve maintains its increased liquidity and lower interest rate policy of September 18.

Gross Domestic Product (GDP) and Gross State Product (GSP) Growth



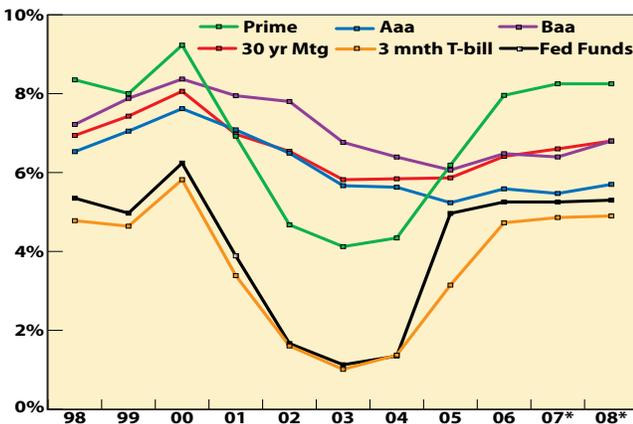
WHY ARE THESE IMPORTANT?

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) which is a state equivalent measure of GDP.

Interest rates represent the cost of financing and the reward on investments. Low interest rates encourage borrowing and discourage investment (unless the investment is associated with borrowing for appreciable assets such as borrowing to purchase a home).

Personal income measures the total income received by individuals, before taxes and not adjusted for inflation. Per capita personal income reflects individual wealth creation and is a good indicator of the area's wealth.

Key Interest Rates

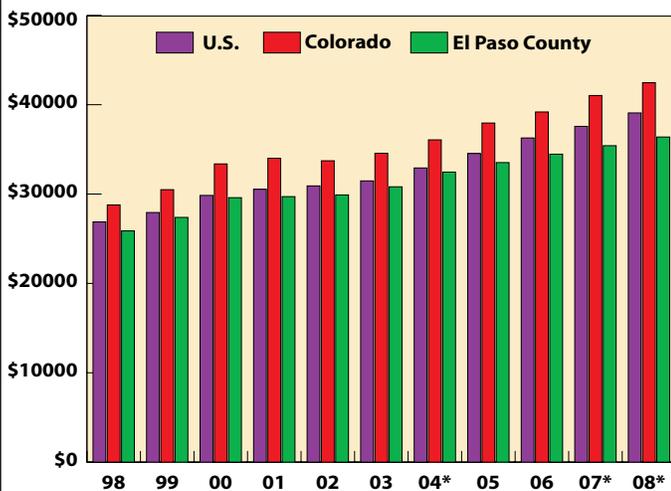


HOW ARE WE DOING?

Real U.S. GDP grew a moderate 2.9 percent in 2006. This was slightly lower than the 3.1 percent growth in 2005. Through June 2007, real GDP grew at 2 percent. The relatively slow growth in the last two and a half years reflects the Federal Reserve's monetary tightening policies from June 2004 through June 2006. As projected by the Forum, Colorado extended a four year trend where its GSP grew at a faster rate than the national economy. The Office of Planning and Budgeting expects GSP for Colorado will be approximately 65 percent higher than GDP growth in 2007 and 2008.

Interest rates were driven to historic lows through the middle of 2004 to prime the pump of economic recovery. Some hints of inflation began to appear during this low interest rate environment. The inflationary concerns prompted the Fed to begin raising interest rates in June 2004. The latest comments from the Federal Reserve suggest fighting inflation is a secondary consideration at this time. Current indicators suggest concern about employment will drive interest rate policy through 2008.

Per Capita Personal Income



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

Per capita income growth continued its upward trend in the U.S. and Colorado in 2006. Preliminary estimates for 2006 indicate per capita income was \$36,276 for the U.S., a 5.3 percent increase, and \$39,186 for Colorado, a 4.5 percent increase.

Colorado's projected per capita income is expected to be \$41,026 in 2007 and \$42,460 in 2008. Since 1990, per capita personal income in Colorado has been about 9.2 percent higher than the U.S. per capita income. The gap is expected to increase slightly through 2008.

El Paso County per capita personal income remains well below both the U.S. and Colorado averages. Per capita income in El Paso County is estimated at \$34,462 in 2006. The gap between El Paso County and Colorado per capita income continues to grow. In 1990, El Paso County per capita income was 9.7 percent below Colorado's. By 2006, El Paso County's per capita income was 12.1 percent or \$4,724 below Colorado's. This is \$300 lower than in 2005. Projected per capita income is expected to increase to \$35,840 in 2007 and \$37,238 in 2008. This would be about 4 percent a year.

WHY IS THIS IMPORTANT?

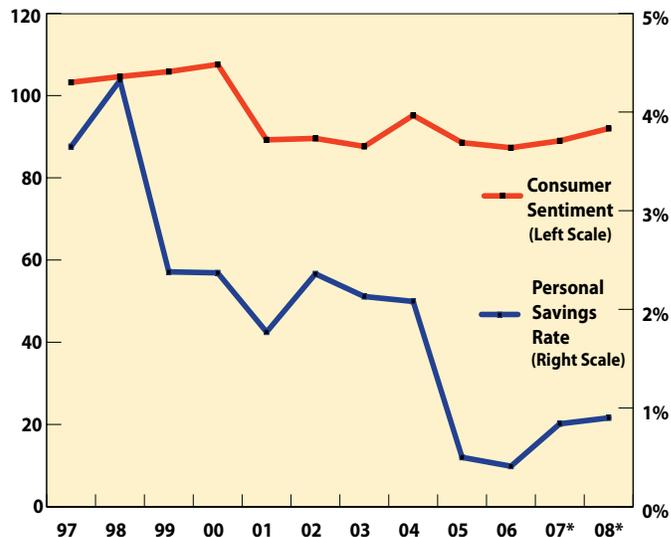
Approximately two-thirds of the American economy is driven by consumer spending. An understanding of the consumer's confidence in the economy and expected spending patterns over the next twelve months are essential to effective planning. Consumer sentiment measures confidence using 1996-97 as the base year (1996-97=100). The personal savings rate is an indication of the consumer's confidence in the current economy and a proxy for consumption capacity in the future.

HOW ARE WE DOING?

Consumer sentiment peaked in December 2000 and then trended downward through April 2001. Consumer sentiment recovered through August 2001 and peaked again in May 2002. Geopolitical uncertainty, rising gasoline prices, higher interest rates and an uncertain housing market contributed to a narrow banding for consumer sentiment through 2006. The June 2007 consumer sentiment stood at 85.3, slightly above the 84.9 in June 2006. Inflation has moderated, \$3 a gallon for gasoline is no longer shocking and foreclosures appear to be peaking in 2007. These improvements are expected to help consumer sentiment increase to 89 in 2007 and 92 in 2008.

Revised estimates of the savings rate turned the previous negative values to small positives. The slow economy and lack of consumer confidence normally induce people to increase their savings rate. It appears this will happen in 2007 when the savings rate is expected to be 0.84 percent. The savings rate in 2008 is expected to be 0.90 percent.

Consumer Sentiment and Personal Savings Rate



* SCEF forecast

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

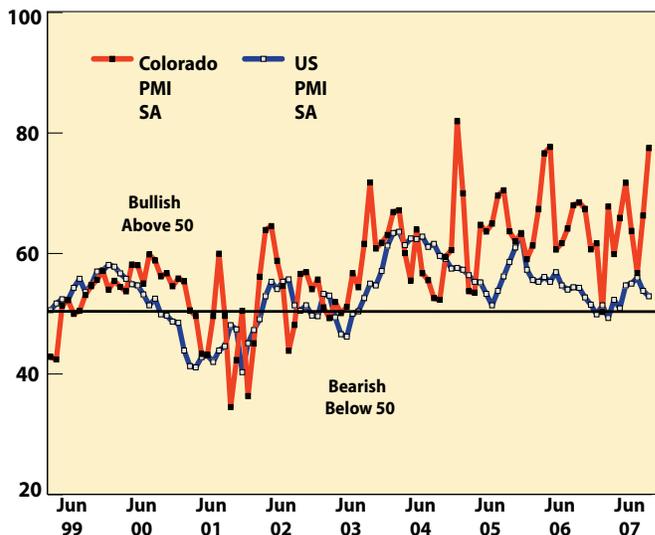
WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

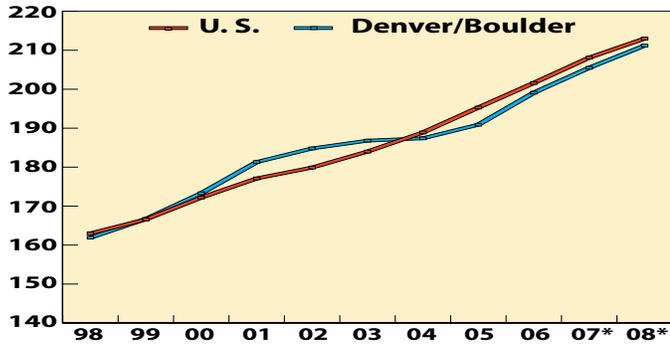
Both the Colorado and national PMI have remained in bullish territory since late 2002 and early 2003. The Colorado PMI has demonstrated great volatility over the years and has had a strong upward move since it bottomed out in late 2002. Through August 2007, the seasonally adjusted values are 77.5 for Colorado and 52.9 for the U.S. Both the U.S. and Colorado PMI's should remain over 50 in 2008 providing Federal Reserve's monetary policy maintains its September stance of increased liquidity and reduced interest rates. Currently, expectations call for growth in 2008 that will be slightly weaker than it was in the last twelve months. This assumes the subprime financial problems do not overflow into investment decisions by business.

Purchasing Managers Index

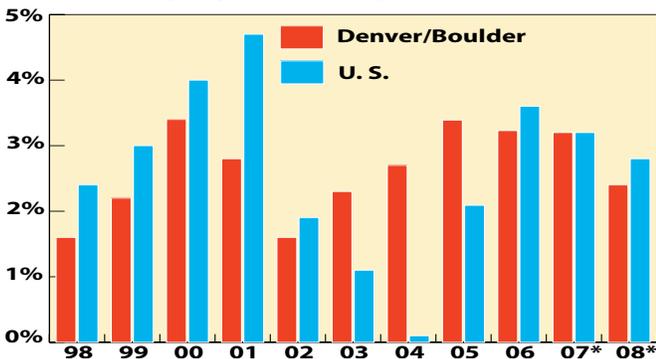


Sources: Institute of Supply Management and Creighton University

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



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



* SCEF forecast

Source: U.S. Department of Labor, Bureau of Statistics

WHY IS THIS IMPORTANT?

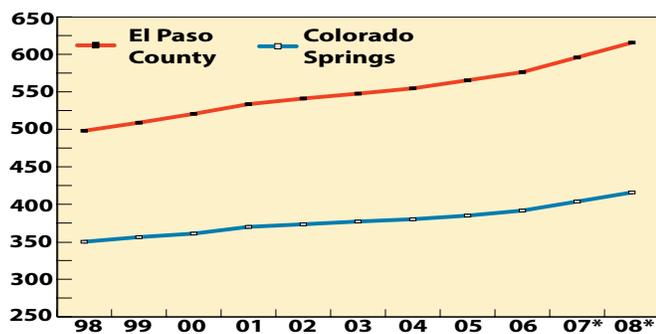
The consumer price index (CPI) measures the average price change (inflation) for a basket of goods and services selected by the U.S. Department of Labor, Bureau of Labor Statistics. The CPI measures the period-to-period loss of purchasing power of a dollar caused by rising prices. The CPI is often used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

HOW ARE WE DOING?

The Denver/Boulder/Greeley CPI rose 3.6 percent in 2006 after rising 2.1 percent in 2005. Both numbers are noticeably higher than the 0.1 percent increase in CPI during 2004. They also reflect the Federal Reserve's concern about inflationary pressures beginning in 2004. The U.S. urban CPI rose 2.5 percent in 2006 after increasing 3.4 percent in 2005. Aside from clothing (up 24.2 percent) and medical (up 8.2 percent), price levels for consumer items remained relatively stable in 2006. Energy prices actually declined but were offset by other housing cost increases (net increase of 3 percent in 2006). Energy costs are expected to change very little in 2008. Housing costs are also expected to remain stable or decline slightly. General price level changes will depend on how well productivity gains offset expected higher costs of clothing, transportation and medical.

The Office of State Planning and Budgeting (OSPB) expects consumer prices in Colorado to rise 3.2 percent for all of 2007 and 2.8 percent in 2008. The Forum projects U.S. inflation will be 3.2 and 2.4 percent for 2007 and 2008, respectively.

Colorado Springs and El Paso County Population (000s)

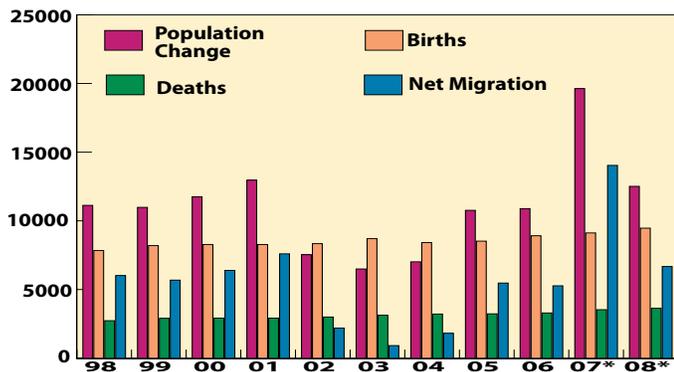


WHY IS THIS IMPORTANT?

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

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

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.

HOW ARE WE DOING?

From 1990 to the 2000 Census, Colorado's population grew at an average annual rate of 3.0 percent. El Paso County's population grew at an average annual rate of 3.2 percent over the same period. The Colorado Division of Local Affairs (DOLA) estimates El Paso County's population at 595,863 in 2007, an increase of 19,625 over 2006. The large increase in 2007 addresses the Forum's belief that population was under counted by at least 10,000 in 2006.

The natural increase in the population was 5,837 in 2007, 500 higher than its historical average. In the early to mid-nineties, in-migration accounted for 60-70 percent of the total population change. That percentage dropped to 20 percent in 2003. In 2007, migration explained 70 percent of the population growth. The region will see a significant population increase if the Fort Carson troops arrive in 2009.

WHY IS THIS IMPORTANT?

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

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

HOW ARE WE DOING?

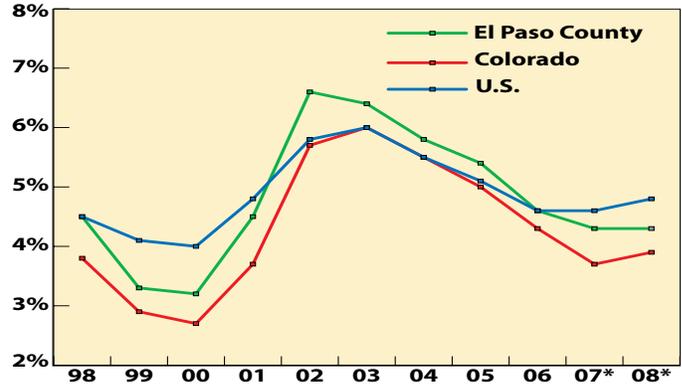
The seasonally adjusted (SA) June 2007 unemployment rate in El Paso County stood at 4.0 percent vs. 4.6 percent in 2006. Colorado's SA June unemployment rate was 3.5 percent vs. 4.4 percent in 2006. The U.S. unemployment rate decreased by 0.1 percent to 4.5 percent in June 2007. Local and state employment growth has been much stronger than in the U.S. This could change as the Federal Reserve induced slow down winds down in the coming nine to 12 months. The Colorado Office of Budget and Planning estimates that unemployment will be 3.7 percent in Colorado for all of 2007 and rise to 3.9 percent in 2008. The Federal Reserve Bank of Philadelphia reports projected U.S. unemployment rates of 4.6 percent for 2007 and 4.7 percent in 2008. The Forum projects El Paso County unemployment will average 4.4 percent in 2007 and 4.6 percent in 2008.

The employment picture improved in El Paso County during 2006. The Colorado Department of Labor reported an increase of 5,453 total jobs, government and private sectors. Average annual Quarterly Census of Employment Wages (QCEW) employment was 245,239, or 2.2 percent above 2005. This compares favorably to the 1.7 percent gain in 2005 and 1.4 percent gain in 2004. The June 2007 civilian employment figures for El Paso County are up 1.0 percent compared to June 2006. The most recent data point to modest gains among professional and business services and local government. Losses have occurred in manufacturing, mining & construction, information and leisure/accommodations. These patterns reflect the slow down in the economy as shown in the Forum's BCI.

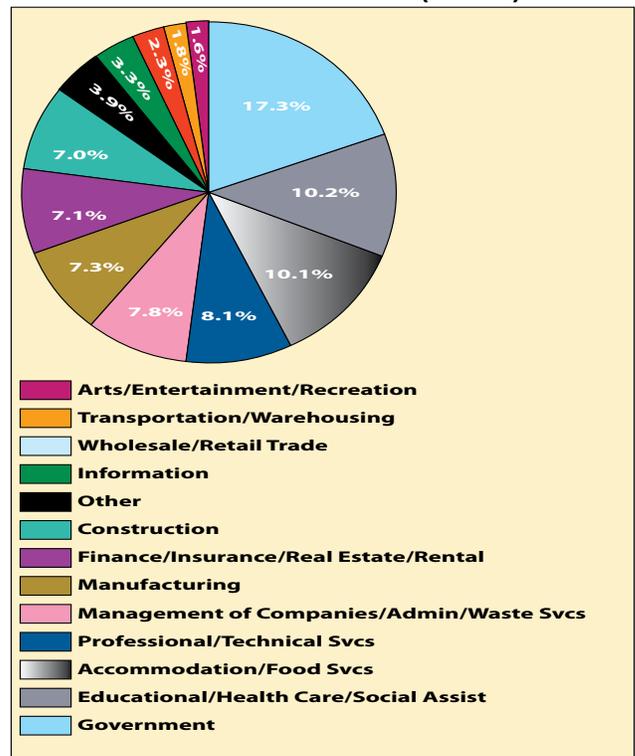
As the employment picture improved, so did wages. Average wages in El Paso County increased 2.9 percent to \$38,584 in 2006. With the exception of agriculture, all sectors saw an average wage increase in 2006. Some of the larger wage gains were in management services (8.5%), construction (5.2%), wholesale (5.1%), manufacturing (4.9%), information (4.8%), professional services (4.6%), and education (4.5%).

Average wages increased in all of Colorado by 4.6 percent from \$41,600 in 2005 to \$43,524 in 2006. The wage gap between El Paso County and Colorado continued to grow in 2006. Average wages in El Paso County lagged average wages in Colorado by \$4,940 (11.4%) in 2006 compared to \$4,108 (9.9%) in 2005.

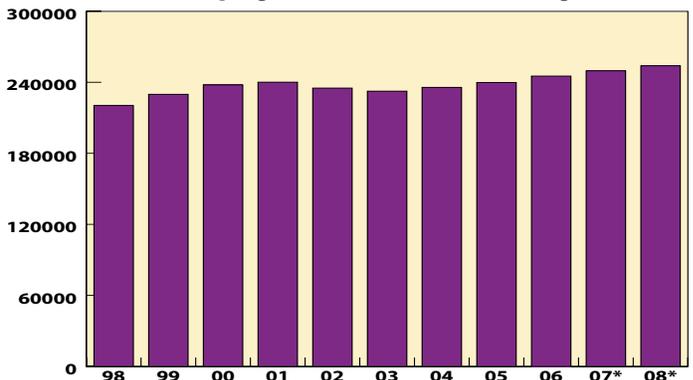
The Unemployment Rate in El Paso County, Colorado, and the U.S.



2006 Employment in El Paso County by North American Industrial Classification (NAICS)



Total QCEW Employment in El Paso County



* Through June 2007 and estimate for 2008

Sources: U.S. Department of Labor; Colorado Department of Labor and Employment

El Paso County Average Annual Employment and Wages by NAICS Classification in 2005 and 2006

NAICS ¹	Industry	2005			2006		
		Employment	Percent of Total Employment	Average Annual Wage	Employment	Percent of Total Employment	Average Annual Wage
11	Agriculture, Forestry, Fishing & Hunting	302	0.1	\$22,308	347	0.1	\$20,800
21	Mining	188	0.1	\$96,044	163	0.1	\$99,632
22	Utilities ²	559	0.2	\$85,176	573	0.2	\$86,372
23	Construction	16,110	6.7	\$39,676	17,104	7.0	\$41,756
31	Manufacturing	18,351	7.7	\$49,868	17,965	7.3	\$52,312
42	Wholesale trade	6,086	2.5	\$47,060	5,748	2.3	\$49,452
44	Retail trade	28,507	11.9	\$24,648	28,929	11.8	\$24,960
48	Transportation & warehousing	3,780	1.6	\$32,604	4,353	1.8	\$33,956
51	Information	8,986	3.7	\$55,068	8,011	3.3	\$57,720
52	Finance & insurance	12,734	5.3	\$43,732	12,751	5.2	\$45,552
53	Real estate, rental & leasing	4,538	1.9	\$28,600	4,648	1.9	\$29,640
54	Professional and technical services	19,217	8.0	\$65,416	19,971	8.1	\$68,432
55	Management of companies and enterprises	851	0.4	\$67,964	830	0.3	\$73,736
56	Administrative and waste services	16,944	7.1	\$30,056	18,449	7.5	\$30,316
61	Educational services	3,669	1.5	\$29,744	3,820	1.6	\$31,096
62	Health care and social assistance	20,486	8.5	\$37,648	21,019	8.6	\$38,636
71	Arts, entertainment & recreation	3,797	1.6	\$17,680	3,852	1.6	\$18,252
72	Accommodation and food services	23,790	9.9	\$13,832	24,768	10.1	\$14,092
81	Other services- except public administration	9,677	4.0	\$30,732	9,481	3.9	\$31,876
99	Non-classifiable	12	0.0	\$24,648	9	0.0	\$37,648
	Total Non-Government	198,584	82.8	\$36,856	202,791	82.7	\$37,980
	Government	41,206	17.2	\$40,664	42,250	17.3	\$41,496
	Total of All Industries	239,790	100.0	\$37,492	245,241	100.0	\$38,584

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

²Does not include Colorado Springs Utilities

Source: Colorado Department of Labor ES202

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: 1) average wages, 2) electric prices, 3) rents and 4) property tax levies and a national benefit figure into a geometric index. The index is equally weighted and has a value of 100 in 2001 (2001 = 100). 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?

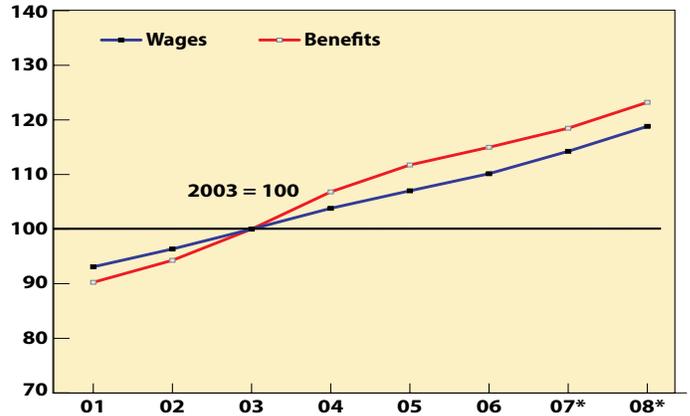
The Federal Government redefined the base period for its employment cost indexes in 2006. A direct historical comparison is difficult. The Forum reindexed the observations to 2003 = 100. Based on this information, the national wage index (top chart) increased steadily over time and stood at 118.9 by the end of 2006. The national benefit cost index rose more rapidly and stood at 123.2 at the end of 2006. Nationally, wages have increased a modest 3.4 percent since 2001. Benefits have increased 5.0 percent a year since 2001. The Forum expects wages will increase nationally by 3.1 percent while benefits will increase by 5 percent in 2007.

The base year for the COBI is set at 100 in 2001 (2001 = 100). The index stood at 119.2 at the end of 2006 meaning the average cost of business is 19.2 percent higher in 2006 than in 2001. By comparison, the CPI rose 16.2 percent while the PPI rose 26.5 percent during the same period. The Forum forecasts that the cost of business index will increase 4.5 percent to 124.6 in 2007. A 4.3 percent increase to 129.9 is expected in 2008.

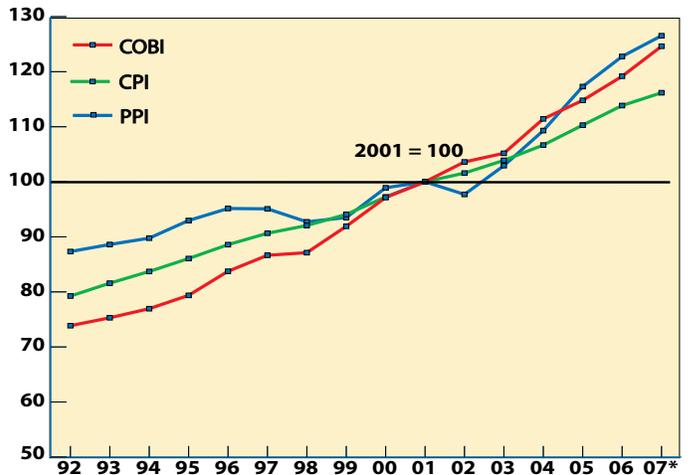
The final chart on this page provides the average annual percentage increase in the individual components in the COBI since 1992 and their respective increases in 2006 compared to 2005. With the exception of property taxes, all costs of business that the Forum monitors were at or below their historical averages in 2006. The components and their change in cost in 2006 compared to 2005 were: electricity 2.9 percent; wages 2.9 percent; benefits 4.3 percent; rents 2.7 percent; property taxes 5.5 percent. The property tax change is based on total property taxes collected. It is not a change for a specific property.

The Forum expects that benefit costs will increase 5 percent, a higher rate than general inflation. There will also be more pressure on electric rates in the coming years due to higher costs associated with purchasing coal and natural gas. Electric rates are expected to increase 3 to 4 percent in 2007. Rents are expected to increase approximately 3 percent in 2007. Given the amount of commercial construction in 2006 and 2007, property taxes are expected to increase by 4 percent. Wages are expected to increase 3.1 percent.

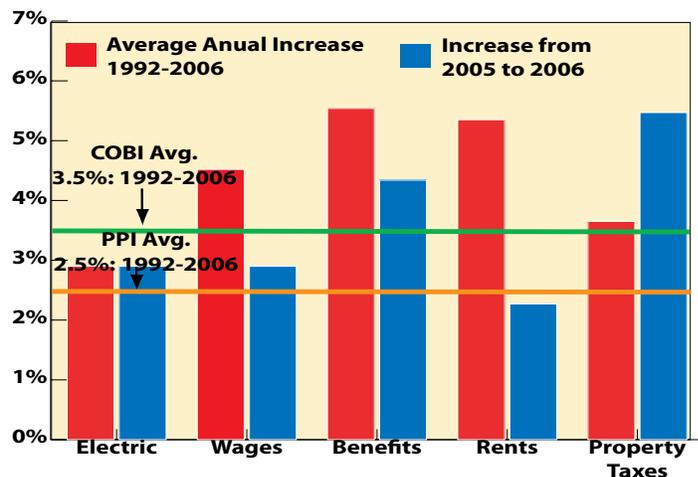
Wage and Benefit Cost Index U.S. Average



Cost of Business Index for El Paso County (2003 = 100)



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

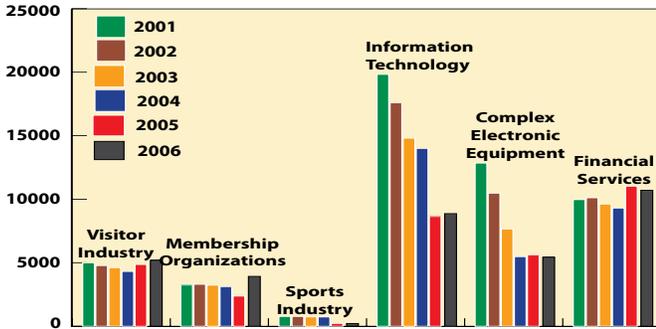


* SCEF forecast

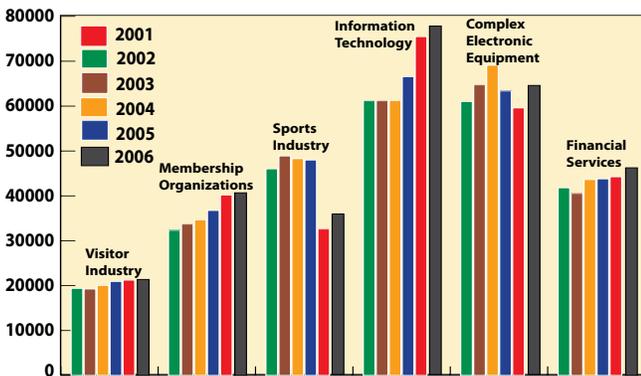
Source: Federal Reserve Bank of St. Louis, SCEF

Key Employers

Number of Employees in Cluster Industries



Average Wages of Employees in Cluster Industries



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

WHY IS THIS IMPORTANT?

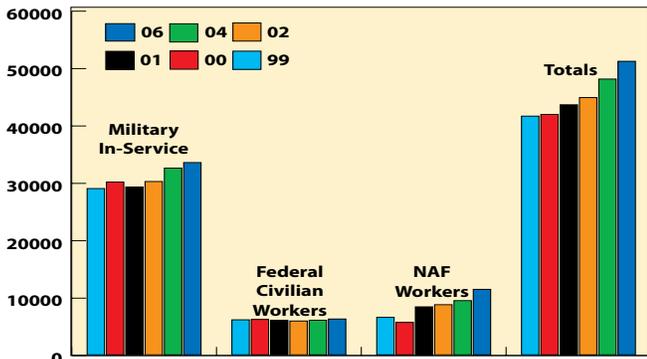
The Economic Development Corporation has identified key cluster industries as targets for economic development. The clusters group industries that complement each other and generate income and wealth for the community by exporting goods and services out of the region. Employment, growth and wages derived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

HOW ARE WE DOING?

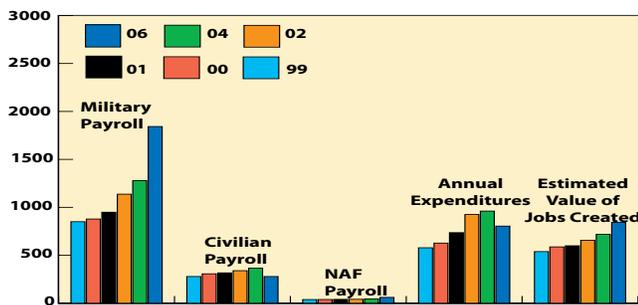
For the first time since 2001, employment in El Paso county's cluster industries did not decline. Cluster industry employment in 2006 was 34,304 compared to 34,307 in 2005 and 51,616 in 2001. These sectors now employ 14.0 percent of all employees, down from 14.3 percent in 2005 and 21.5 percent in 2001. Cluster industry employment declined by 17,312 jobs from its high point of 51,616 in 2001, a decline of 33.5 percent. Despite the seemingly dour comparisons with 2001, cluster employment may have stabilized. There will be employment adjustments within the clusters.

The clusters accounted for 19.1 percent of the QCEW wages and salaries in the county in 2006, down from 19.4 percent in 2005 and 32.1 percent in 2001. Had the county kept its 2001 cluster jobs at the 2006 average wage, there would have been \$914 million more direct wages in 2006. Allowing for income multipliers, this would have raised total wage income by \$1.8 billion or 19.3% in 2006. Key cluster industries need to be identified for the future, clusters that add to economic diversification and global comparative advantage in Colorado Springs.

Military Employment in El Paso County



Military Expenditures (\$ millions)



Sources: Various Military Establishments; EDC and Chamber of Commerce

WHY IS THIS IMPORTANT?

The military has been an important contributor to the local economy since World War II. Even though the local economy has diversified 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 to 51,142 in 2006 from 44,821 in 2002, or 14.1 percent. More troops are on the way. BRAC05 and the redeployment of troops from Korea to Fort Carson are expected to have a positive impact on the economy over the next several years. The series of positive announcements from the military establishment last year will ultimately result in an increase of 14,083 new military and local resident service jobs related jobs in the community.

Total military employment at the present time represents approximately 15.2 percent of El Paso County employment. The military's impact on the economy had declined in the late 1990's as other economic sectors increased employment. The expected growth in military employment in the county over the next several years will reverse this trend before beginning to decline again in 2012.

Payroll to military and civilian employees topped \$2.18 billion in 2006. Allowing for standard multipliers for the military, the Forum estimates the estimated wages and salaries from all sources was \$3.9 billion in 2006, up from \$3.4 billion in 2004. The military is believed to account for 27.4 percent of all direct and indirect wages and salaries in the county.

WHY IS THIS IMPORTANT?

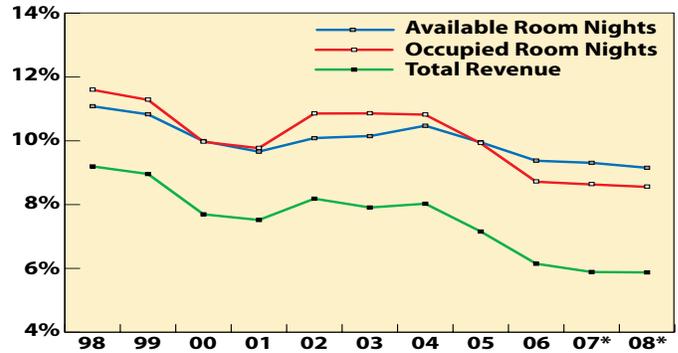
Hotel market share values, relative to Colorado totals, are general indicators of the health of local tourism. Changes in these can signal changes in the popularity of Colorado Springs as a tourism destination compared to the rest of Colorado. The lodger's and auto rental tax is an additional tourism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

HOW ARE WE DOING?

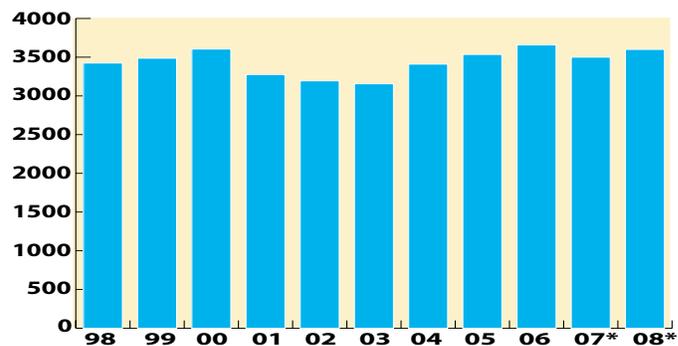
Each year, about 6 million people visit the Pikes Peak area. These visitors generate over \$1 billion in travel-related revenue. Single room rates range from \$20 to \$300. Many of the new rooms are value-priced facilities in the \$65 to \$80 range. Colorado Springs' market share of statewide occupied room nights, revenues and available room nights have declined steadily since 1998. The number of occupied room nights decreased from 125,393 in June 2004 to 112,706 in June 2007, a decline of 10.1 percent. Standardizing the data reveals the occupancy rate declined from 77.4 percent in June 2004 to 69.6 percent in June 2007. Adjusting for inflation, hotel revenues for the benchmark month of June went from \$10,628,226 in 2004 to \$9,760,363 in 2007. The hotel industry in Colorado Springs is losing market share to other locations in the state.

The problems in the local hotel industry are contributing to the lack of growth in tax collections on lodging and automobile rentals (LART). Collections for 2007 are expected to be \$3.5 million, down from \$3.6 million in 2006. Adjusting for inflation, real LART is expected to be \$3.18 million in 2007, a decline of 2.7 percent from 2006. Nominal gains in hotel occupancy and LART collections are expected in 2008.

Colorado Springs Hotel Market Share as a Percent of Colorado Totals



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



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

WHY IS THIS IMPORTANT?

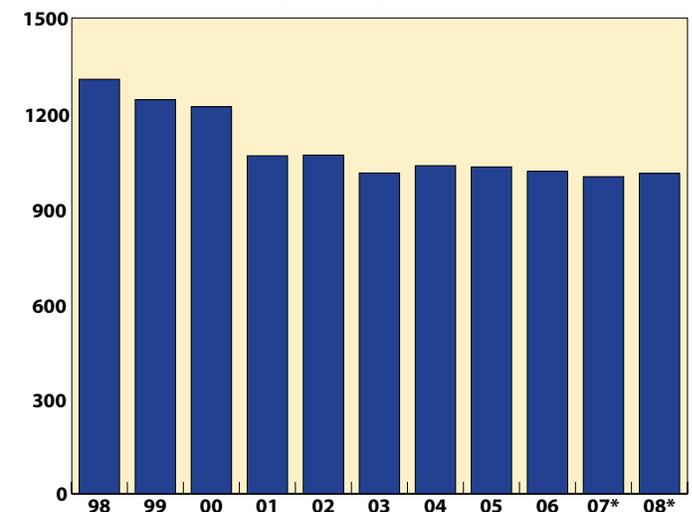
Air service contributes to the quality of life and the economic prosperity of southern Colorado. Air service has a profound impact on the local economy, particularly air-dependent industries. Companies need convenient service in order to maximize productivity and minimize travel time. Company location and expansion decisions are impacted by local air service. The travel and tourism industry is heavily dependent on quality air service.

HOW ARE WE DOING?

Enplanement activity at the Colorado Springs Airport was 1,016,867 in 2006, a decline of 1.4 percent from 1,030,833 enplanements in 2005. The decline was unexpected. The Forum anticipated a 1.5 percent increase in traffic. Contributing factors to the decline are believed to be the bad weather at the end of 2006, a reduction in scheduled flights and weight restrictions due to runway construction, reduced numbers of destination visitors, as reflected in the decline of occupied hotel room night, and the loss of some enplanements to Denver's discount carriers, Southwest, Frontier and ATA.

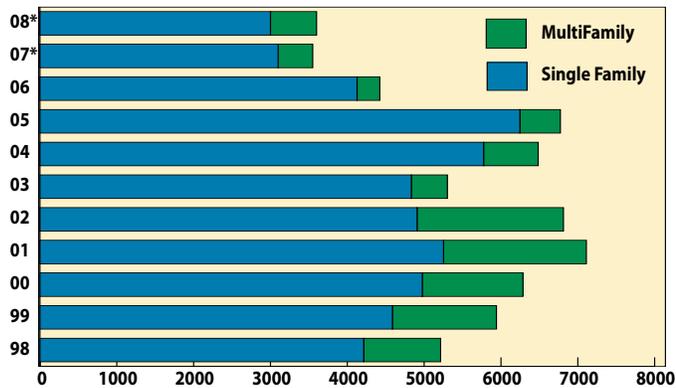
Despite disappointing statistics about the airport, enplanement activity is expected to stabilize in 2007 before a slight increase in enplanements in 2008. Runway improvements and additional flights should contribute to higher enplanement numbers. Concerns about weak tourism, the loss of business class travelers and competition with carriers at DIA continue to weigh against strong gains at the airport through 2008.

Colorado Springs Airport Enplanements (000s)

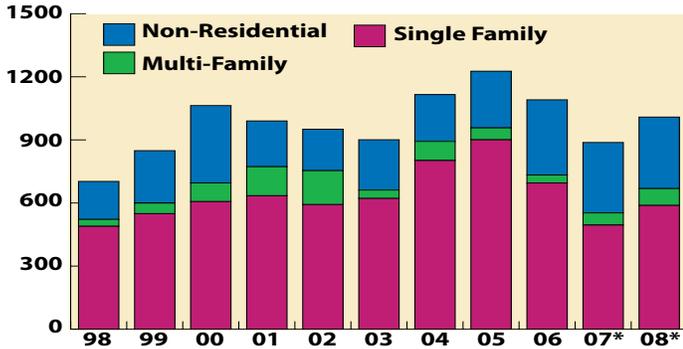


* SCEF forecast
Source: Colorado Springs Airport

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.

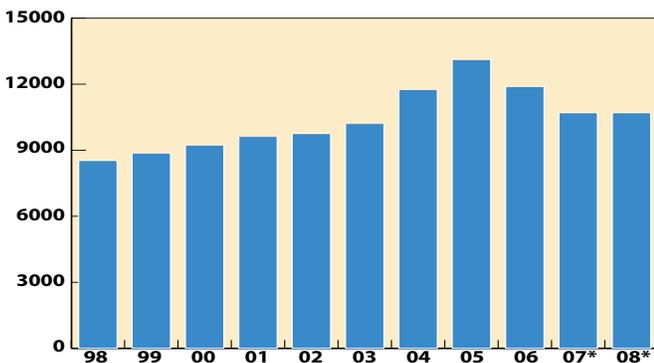
HOW ARE WE DOING?

The influx of available credit appears to have contributed to banner years in 2004 and 2005. This left 2006 and 2007 in disarray as home buyers found it more difficult to qualify for mortgages in light of a withered subprime market, stricter qualification standards and uncertainty about housing price values.

There were 4,127 single family permits in 2006. This is 623 below the Forum's 4,750 projected units for 2006. Problems in the foreclosure market, more stringent mortgage qualifications and concerns of a housing bubble are believed to have led to the weakness in the local new residential housing market. The Forum's projected 300 new multi-family units for 2006 compared well with the 296 actual units. At their current trends, it appears we can expect 3,100 single family permits and 450 multi-family units in 2007. Single family permits are expected to be a little lower with 3,000 in 2008. Multifamily units are expected to increase slightly to 600 in 2008.

Hospital construction of \$102 million helped non-residential construction hit \$357 million in 2006. Strong spending for professional and retail space also contributed. For 2007, professional office space is leading the way, due in large part to projects at UCCS. Fewer commercial projects are on the horizon. This will limit non-residential construction to \$339 million in 2007.

El Paso County Home Sales



WHY IS THIS IMPORTANT?

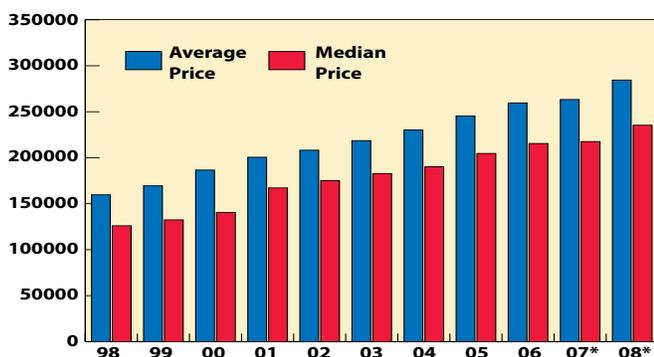
Home sales are an indicator of vitality in the local real estate market. An unusual drop in annual home sales could indicate a problem in one or more economic sectors.

Home values are one of the indicators of the wealth of the community. Home owners want to see an increase in the value of one of largest assets in an individual's portfolio. Home valuation forms the basis of local residential property taxes. Property taxes, in turn, are used to support public schools in the area.

HOW ARE WE DOING?

Housing sales fell sharply after June 2006. A total of 11,890 sales were reported by the Pikes Peak Association of Realtors in 2006, a 9.4 percent decline compared to 2005's record of 13,118. The decline is partially attributable to a slowing economy and rising foreclosures. Housing sales are expected to decline in 2007 to 10,700. The Forum expects home sales to remain stagnant in 2008 due to tighter credit in the mortgage market.

Mean and Median Price of Homes



* SCEF Forecast

Source: Pikes Peak Association of Realtors

From 1993 to 2006, the average yearly price appreciation of a home in the area was 6.9 percent. The median price appreciated 6.7 percent. From July 2006 to July 2007, the price increase was lower. The average home price in the region stood at \$274,308 in July 2007, an annual increase of 2.4 percent. The July median price was \$227,000, a 1.1 percent increase over 2006.

Currently, the ratio of active homes on the market to sales is approximately 38 percent above last year's value for July. This suggest it is a buyer's market. Price appreciation is not expected to be more than 2 to 3 percent in the next 12 months.

WHY IS THIS IMPORTANT?

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

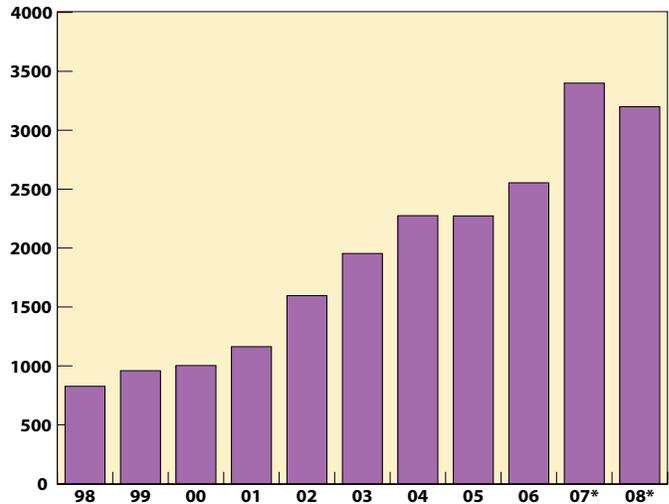
HOW ARE WE DOING?

Actual foreclosures in 2006 were 2,555, nine higher than the Forum projected last year. At the current rate, the Forum anticipates there will be 3,434 foreclosures in 2007. A modest improvement is expected in 2008. The Forum expects 3,200 foreclosures in 2008 as defaults in the subprime market work through the system.

The general lack of liquidity in the housing market is preventing some homeowners from selling their homes to stave off a foreclosure. Moreover, a number of home buyers who purchased with zero down financing are finding it difficult to refinance into a fixed rate mortgage. This is especially true where prime and subprime mortgages had rapidly escalating interest rate schedules and prohibited principal repayment during the first five years of the mortgage. Fortunately, these mortgages are working themselves out of the market.

Foreclosures affect new residential construction. Normal supply and demand forces are disturbed as they cope with thousands of foreclosed homes on the market. Resale homes take longer to sell. Price appreciation slows. New home contracts are canceled by prospective buyers because they are unable to sell their existing home in a timely manner.

Foreclosures in El Paso County



* SCEF forecast
Source: El Paso County Public Trustee

WHY IS THIS IMPORTANT?

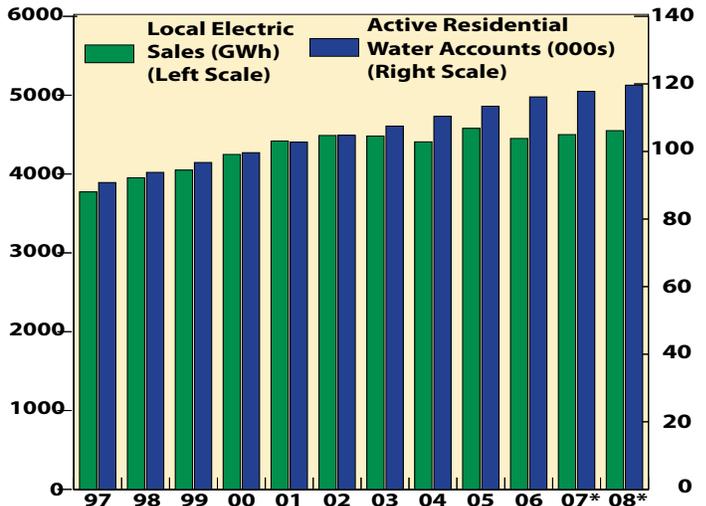
Local electric sales and residential water accounts are good indicators of growth and economic activity. Active residential water accounts correlate with residential construction and housing market activity. Changes in electric sales on system capture both residential and commercial activity.

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. Since 2000, growth in water accounts slowed to 2.6 percent per year. This reflects a slowing growth pattern in El Paso County and, more importantly, a declining share of new residential units inside Colorado Springs' city limits. Continued siphoning of residential building to communities surrounding Colorado Springs and the slowing economy are expected to produce an average of 1.5 percent growth in active residential water accounts during 2007 and 2008.

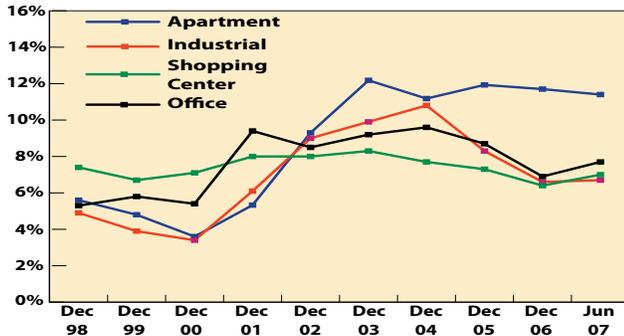
Electric sales grew at an average annual rate of 4.2 percent from 1993 through 2000. Growth slowed materially to 0.8 percent from 2001 through 2006. Electric sales are expected to grow approximately 1.1 percent a year through 2008. The slow down in sales is due to the low economic growth expected in 2007 and 2008 and the anticipated loss of Intel as a customer in late 2007 or early 2008.

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

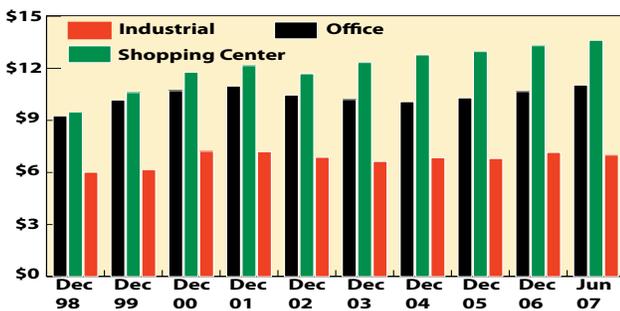


*SCEF forecast
Source: Colorado Springs Utilities

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 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.

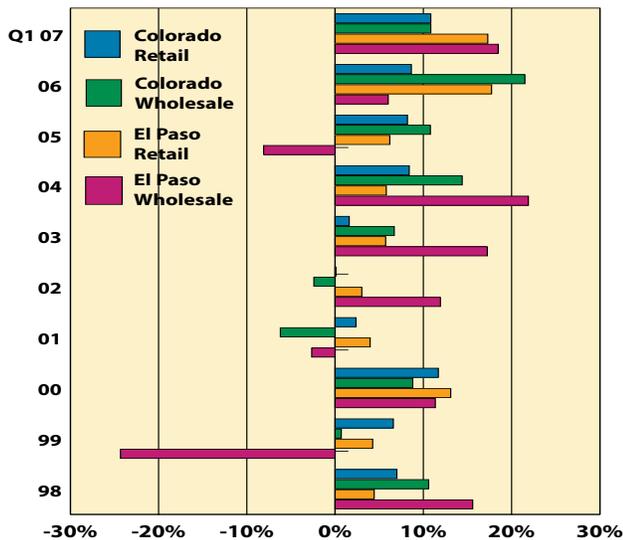
HOW ARE WE DOING?

Vacancy rates improved in all areas except shopping centers since June 2006. As of June 2007, vacancy rates were 7.7 percent for office space (vs 8.1% in June 2006), 6.7 percent for industrial space (vs 7.3% in June 2006) and 9.6 percent for apartments (vs 10.3 percent in June 2006). Shopping center vacancies increased slightly to 7.0 percent from 6.9 percent in June 2006. June 2007 vacancies are higher than December 2006 vacancies for office and shopping center space. Apartment vacancies appear to be trending down slightly. After several years of improvement, industrial vacancies appear to be stabilizing.

Triple net, office space lease rates in June 2007 were \$11.03 per square foot; \$13.61 for shopping center space; \$7.00 for industrial space. Apartment rents, on average, were \$683.06.

Turner Commercial Research reported strong activity in commercial property. Office space leasing in the second quarter of 2007 reached 498,503 while absorption was -85,620 square feet. Industrial leasing activity amounted to 427,447 square feet in the second quarter, with absorption at 97,031. Retail leasing was 423,917 square feet in the second quarter while absorption was 327,538.

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 grew 6.0 percent to \$12.5 billion in 2006 after growing 6.2 percent in 2005. This is below the 8.6 percent growth rate in Colorado for 2006. First quarter 2007 El Paso County retail sales were \$3.2 billion, or 17.3 percent above the first quarter of 2006. Colorado retail sales were up 10.8 percent for the first quarter of 2007. The slowing economy, frequent deployment of troops from Fort Carson, weak consumer sentiment, sustained high oil prices, and a weak residential construction market are expected to slow retail activity in the latter portion of 2007 and into 2008.

Wholesale sales, which tend to be more volatile than retail sales, increased 6.0 in El Paso County in 2006. Colorado wholesale sales grew 21.5 percent in 2006. El Paso County wholesale sales were up 18.5 percent in the first quarter of 2007 over year earlier figures. In contrast, Colorado wholesale sales were up 10.8 percent in the first quarter. Strength in the Colorado wholesale figures were anticipated given the strong Colorado Purchasing Managers Index values reported by Creighton University. A slowing economy may lead to a softening in wholesale activity and a decline in the Colorado PMI in 2007 and 2008. However, continued weakness in the dollar might be enough to improve wholesale activity and the Colorado PMI.

WHY IS THIS IMPORTANT?

Colorado Springs is a major retail trade hub in southern Colorado. Sales in the retail trade sectors provide information about consumer buying behavior and are good indicators of the health of this important part of the economy.

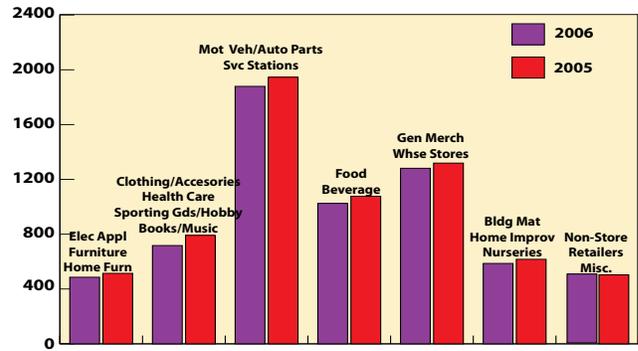
HOW ARE WE DOING?

In 2006, retail trade amounted to \$6.77 billion or 54.0 percent of the total retail sales in the county, down from 55.7 percent in 2005. The largest portion of retail trade is motor vehicles/auto parts/service stations, which accounted for \$1.946 billion or 28.8 percent of the total trade in 2006. Continued high prices for gasoline and a series of deployments of Fort Carson troops contributed to a decline in the demand for vehicles in 2006. For example, there were 3,465 fewer new vehicle sales in 2006 than in 2004, the year before gasoline prices soared.

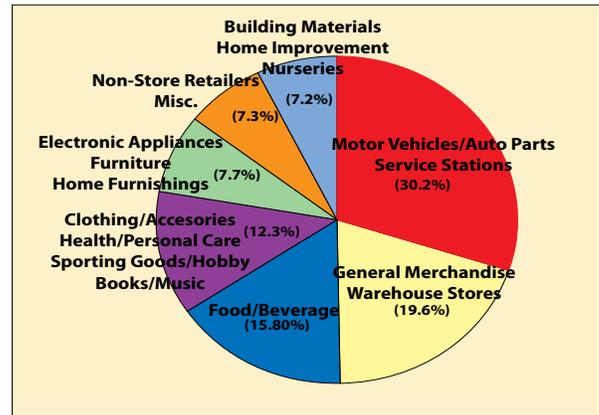
General merchandise/warehouse stores (19.5%), food/beverage establishments (15.9%) and clothing/accessories/sporting goods/hobby/book (11.7%) are other significant contributors to total retail trade sales.

Retail trade was up a moderate 6.4 percent in the first quarter of 2007 compared to the same period a year ago. All sectors were up except for building materials and non-store retailers. Until the residential construction slump ends, building material sales will lag the economy. Aggregate retail trade sales are expected to be up about 6 percent in 2007.

EI Paso County Retail Trade (\$ millions)



EI Paso County Retail Trade First Quarter 2007



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.

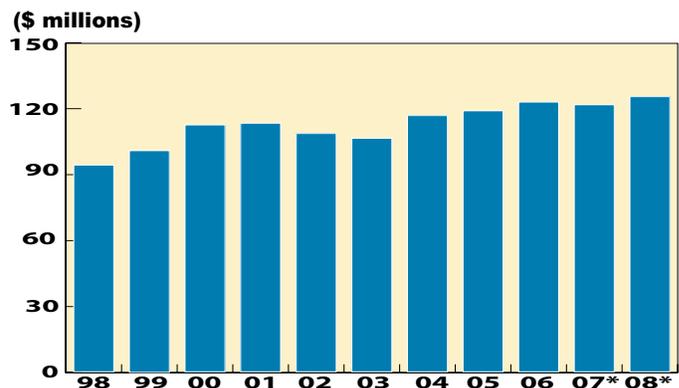
HOW ARE WE DOING?

City sales and use tax collections were \$122.6 million in 2006. This is \$4 million higher (1.9%) than in 2005. Through July of 2007, combined sales and use tax collections were up about 0.6 percent compared to July 2006. A 1.0 percent increase is projected for 2007. A 2 percent increase is projected for 2008.

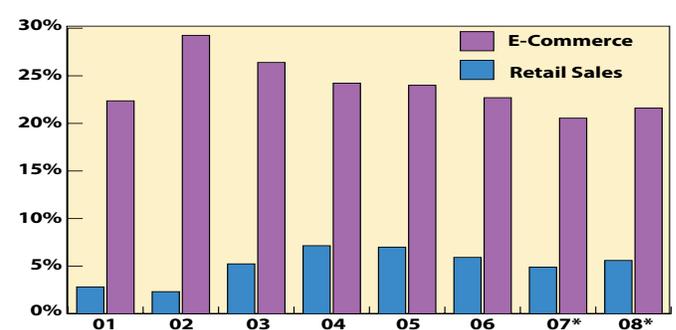
Sales tax revenue for Colorado Springs proved to be disappointing through July 2007. Six revenue categories are below their 2006 figures. Building materials are down 10.2 percent. Department and discount store sales tax revenues are also down, 3.4 and 2.5 percent, respectively. The Forum projected this last year. New stores were opened in Monument and Fountain. Additional big box openings in Falcon and Woodland Park are expected to gnaw away at these tax revenues in 2007 and 2008. In contrast, utilities tax revenues were up 10.9 percent. Other strong gains were realized in hotels (8.2%) and auto leases/repair (6.2%).

E-commerce retail sales will aggravate the declining sales tax revenue. In its 1992 landmark decision, Quill Corp. v North Dakota, the U.S. Supreme Court ruled a local government could not collect taxes through businesses which do not operate in its jurisdiction. Given this limitation and the 20-25 percent annual growth in e-commerce, local sales tax collections will suffer.

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



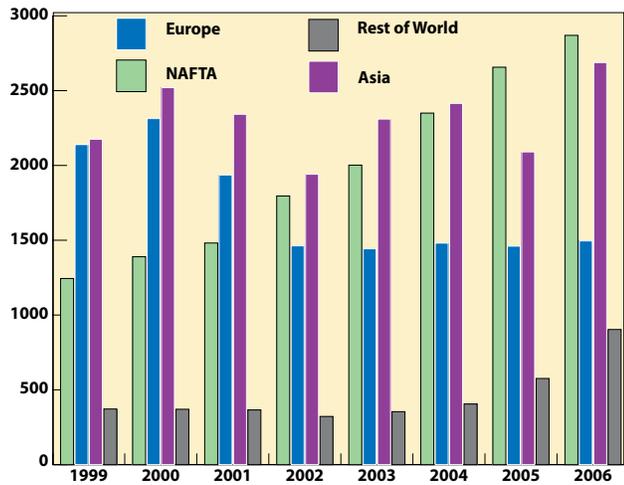
E-Commerce vs. Retail Sales Growth



* SCEF forecast

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

Colorado Exports to Selected Destinations (\$ millions)



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

WHY IS THIS IMPORTANT?

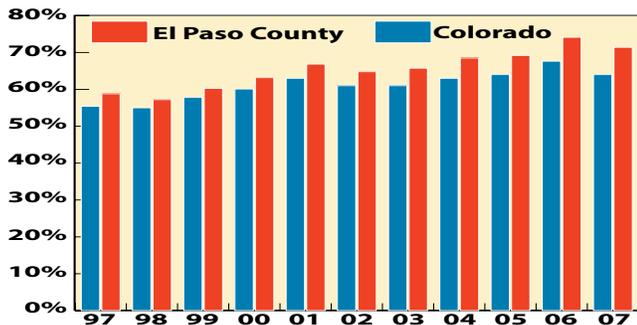
One indicator of the state's competitiveness in a global economy is the ability to export goods and services. A higher level of export activity translates into more jobs in the state and more income and wealth. Colorado and Colorado Springs must continue to grow exports of goods and services in order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

HOW ARE WE DOING?

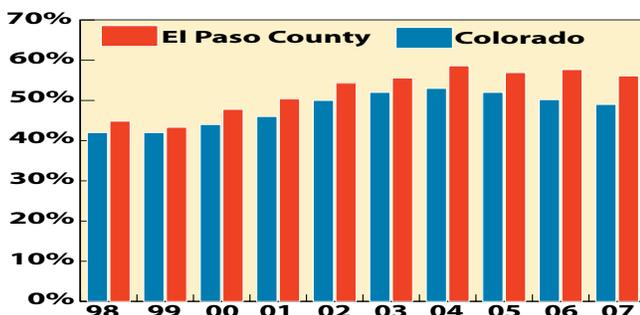
The 5.6 percent decline in the dollar and a strong global market combined to boost Colorado world exports to \$8 billion in 2006, 17.3 percent higher than in 2005. Exports to all markets increased in 2006. In 2006, Colorado exports to Canada and Mexico were \$2.9 billion (up 8.2%), Europe \$1.5 billion (up 2.4%), Asia \$2.7 billion (up 28.6%) and the rest of the world \$0.9 billion (up 56.9%). Given the continued decline of the dollar in 2007 (down an annualized 6.8% through August 2007) and a strong global economy, the Forum expects Colorado exports will remain robust in 2007 and into 2008.

The top four export product categories are computer and electronics (50.7%), machinery manufactures (9.1%), chemical manufactures (8.9%) and processed foods (8.5%). The remaining 22.8 percent of exports include fabricated metals, plastics and rubber, printing, paper, waste scrap, crops, leather, beverages and others.

Colorado Student Assessment Program Fourth Grade Reading Results



Colorado Student Assessment Program Fourth Grade Writing Results



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

CSAP is designed to measure how close students are to the targets of what they should know and be able to do by the time they reach a given grade, giving a performance-level score for each student. This year, 71.4 percent of El Paso County fourth graders were proficient or advanced in reading. This is noticeably higher than the statewide score of 64.0 percent but lower than the 2006 county average of 74.1 percent. Reading scores in El Paso County have improved 12.6 points (21.4%) over the first CSAP, fourth grade reading exam in 1997.

This year, 56.1 percent of El Paso County fourth graders were proficient or advanced in writing. This is slightly lower than last year's proportion of 57.7 percent who were proficient or advanced. This is 7.1 points higher than the statewide proficient or advanced proportion (49% in 2006). Writing scores in El Paso County have improved 16.3 points (41.0%) since the first CSAP, fourth grade writing exam in 1997.

WHY IS THIS IMPORTANT?

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

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

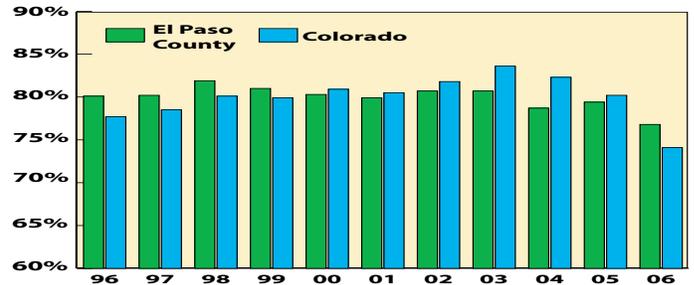
HOW ARE WE DOING?

In 2003-2004 Colorado began tracking individual students rather than in the aggregate. The State Assigned Student Identifier (SA-SID) system is expected to result in a gradual decline in graduation rates before they stabilize.

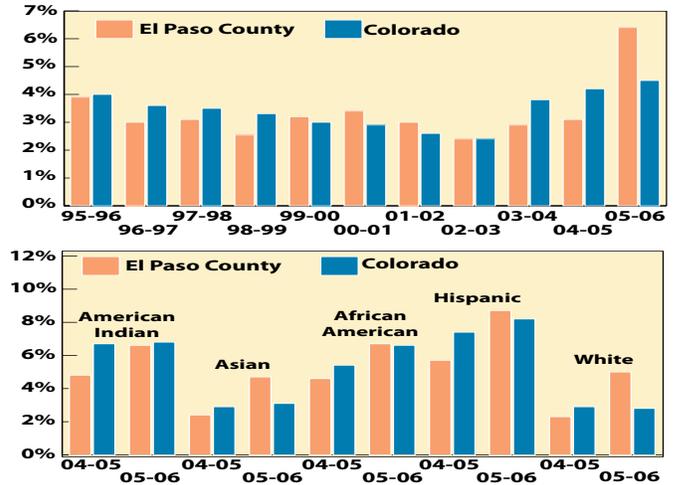
Although graduation rates in El Paso County declined in 2006, they were higher than Colorado's for the first time since 1999. The graduation rate in El Paso County was 76.8 percent in 2006 compared 74.1 percent in Colorado. Colorado Springs, Harrison, Elliott and Hanover districts' graduation rates are below 70 percent.

Dropout rates increased for the third consecutive year. The dropout rate in El Paso County for 2005-06 increased to 6.4 percent vs the historical average of 3.3 percent. The Colorado dropout rate increased in 2005-06 to 4.5 percent, vs the historical average of 3.5 percent. Dropout rates in El Paso County are worst among Hispanics and American Indians/Alaskan Natives and best among Whites and Asians.

High School Graduation Rates



Grade 7 through 12 Dropout Rates



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

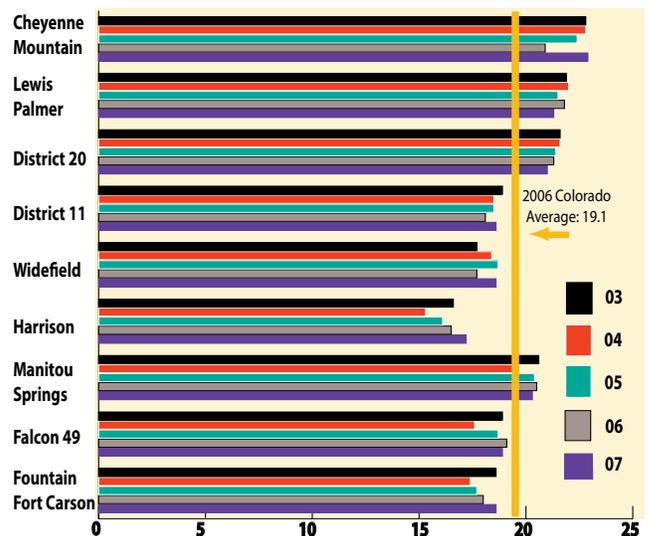
Academic performance of high school students is an important indicator of the knowledge base of the work force of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test designed to predict how well high school graduates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

HOW ARE WE DOING?

The statewide average ACT score for juniors in 2007 is 19.1, down from 20.3 in 2006. Cheyenne Mountain (22.9), Colorado Springs (18.6), Fountain (18.6), Widefield (18.6) and Harrison (17.2) improved ACT scores in 2007. Lewis Palmer (21.3), Academy (21.0), Manitou Springs (20.3) and Falcon (18.9) saw their ACT scores decline in 2007.

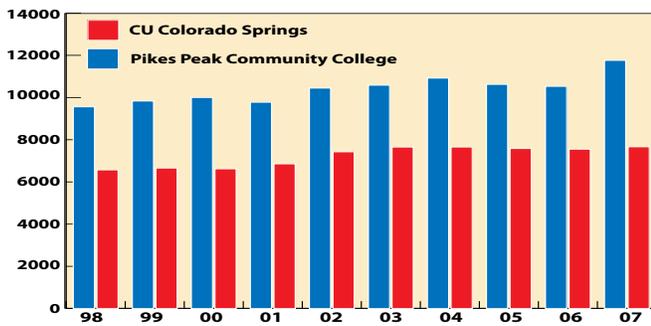
Colorado creates a systematic downward bias in the ACT results by requiring all high school students to take the ACT. The ACT reports that in 2006, 25.9 percent of Colorado Students planned to go to college. Nationally, 75.8 percent of all students who took the ACT planned to go to college. The evidence is also clear that students who take college prep courses do better on the ACT test. Colorado's requirement that all students take the ACT (college bound or not, regardless of academic preparation) will give a downward bias to the average ACT scores. An alternative unbiased test should be considered.

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

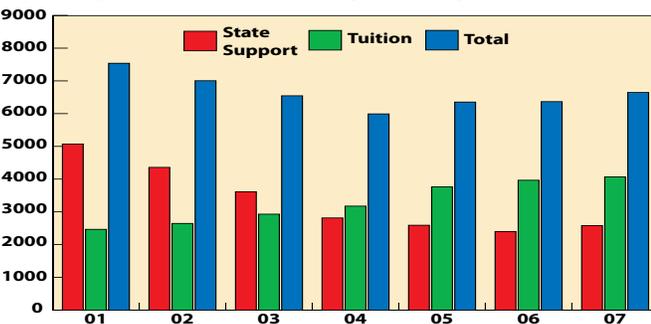


Sources: American College Testing program; Colorado Department of Education; local school districts

Enrollments at Public Institutions of Higher Learning in El Paso County



Funding Sources at UCCS (per FTE)



Sources: Registrars' offices at Pikes Peak Community College and CU-Colorado Springs and Office of Institutional Research

WHY IS THIS IMPORTANT?

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

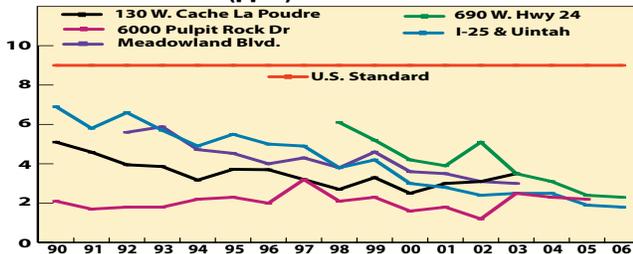
HOW ARE WE DOING?

At UCCS, enrollments declined slightly to 7,543 (-0.5%) in 2006-2007 compared to 7,581 in the 2005-2006 academic year. Enrollments this fall are up 1.9 percent to 7,662 students. The campus has facilities to house 900 students. The average age of the student body continues to drop while the average credit load continues to increase.

Pikes Peak Community College enrollments increased by 11.7 to 11,757 in the fall of the 2007-2008 academic year. Enrollments in the 2005-2006 academic year were 10,526.

Per student state support for a typical, in-state freshman or sophomore is 38.8 percent of total tuition revenue in 2007, down from 67.3 percent of total tuition revenue in 2001. Total funding per student changed from \$7,538 in 2001 to \$6,646 in 2007, a decline of 11.8 percent. Adjusting for inflation, per student revenue declined 22.2 percent from \$7,538 to \$5,864. State support for in-state college students continues to be a declining portion of total per student revenue while tuition increases. However, tuition increases have not been sufficient to make up for the loss of state support. Real and nominal total funding remains below 2001 levels.

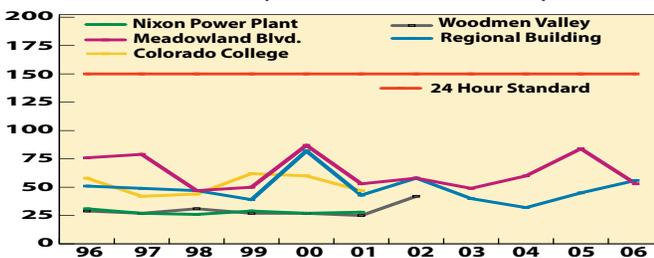
Carbon Monoxide (ppm)



WHY IS THIS IMPORTANT?

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

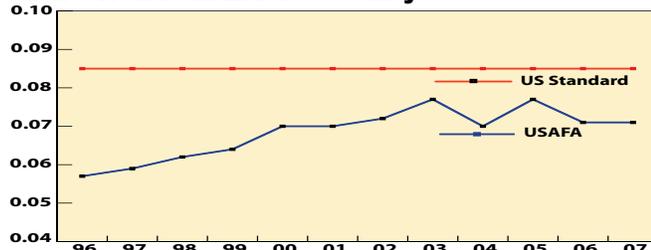
Particulate Matter (10 microns and smaller)



HOW ARE WE DOING?

The Pikes Peak region has remained well below the U.S. standard for carbon monoxide (CO) emissions since 1989. The Pikes Peak Area Council of Governments expects more improvement in CO emissions because of technological advancements and because older cars are being replaced by cleaner burning autos. Reduced congestion and better traffic flows help to alleviate CO emissions. CO levels continued their downward trend that began in 1990.

Ozone Trends in El Paso County



Particulate matter (PM) includes both solid particles and liquid droplets found in the air. Particles less than 10 micrometers in diameter can pose the greatest health concerns when inhaled, because they accumulate in the respiratory system. Particulate matter improved slightly in 2006 after having increased in 2005. Ozone levels have increased from 69 percent of the standard in 1998 to 84 percent of the standard in 2006 and 2007.

Sources: Pikes Peak Area Council of Governments

WHY IS THIS IMPORTANT?

As the city grows, increased traffic leads to congestion, longer travel times, and more pollution. Although roadway improvements may alleviate some congestion, it may not be the total solution. Communities interested in quality of life and mobility will seek alternatives to relieve traffic congestion. These may include expanding and improving public transit, better location planning and walking and biking infrastructure.

HOW ARE WE DOING?

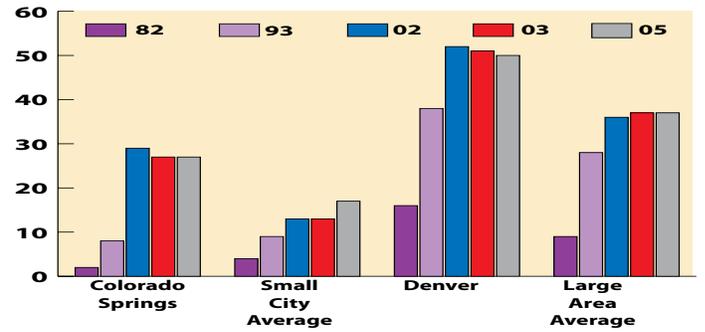
Traffic congestion continues to be an issue for the community. This information is reported by the Texas Transportation Institute. The results of the 2007 report are presented to the right.

The annual delay in Colorado Springs, per traveler, in 2005 was 27 hours, unchanged from 2003. The small city average increased to 17 hours in 2005. The annual delay estimate is the extra travel time in hours spent in traffic per traveler each year during peak period travel. Peak travel periods occur between 6 to 9 a.m. and 4 to 7 p.m.

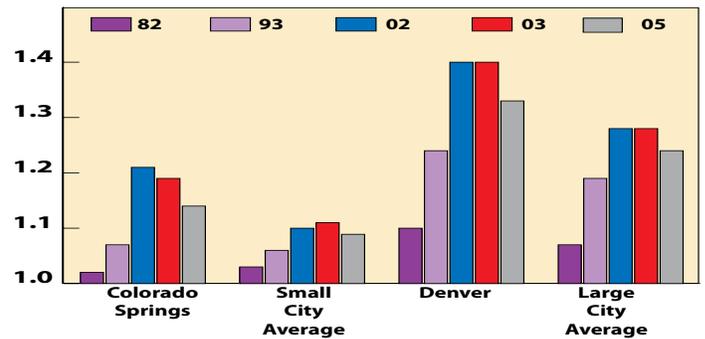
Annual delays per traveler in Denver improved slightly to 50 hours in 2005 compared with 51 hours in 2003. The average delay for large cities decreased remained unchanged at 37 hours. Denver was ranked as the fifth most congested city in the large area average.

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 1.14 for Colorado Springs in 2005 means that a 30 minute free-flow trip would take 34.2 minutes during the peak period.

Annual Delay per Traveler in Hours for Peak Period Travel



Travel Time Index



Source: The 2005 Urban Mobility Report, Texas Transportation Institute

WHY IS THIS IMPORTANT?

Index crimes are serious crimes (murder, forcible rape, robbery, aggravated assault, burglary, larceny 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?

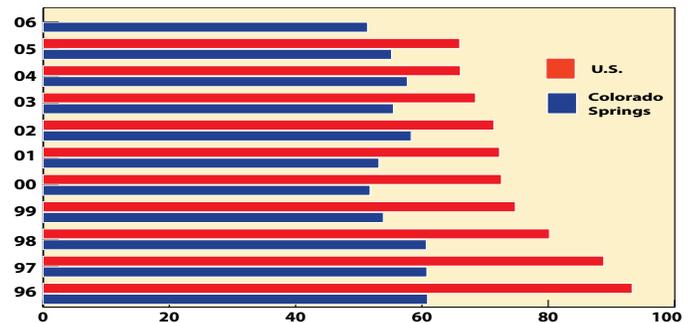
The total crime index in Colorado Springs decreased 6.9 percent in 2006. The city remains well below the U.S. average for cities of its size. Violent crimes (murder, rape, robbery and aggravated assault) increased in 2006 from 4.6 to 5.4 violent crimes per 1,000 population. The violent crime rate remains less than half the violent crime rate in the nation.

There were a total of 20,284 index crimes reported in 2006, down from 21,366 in 2005. The majority of the index crimes reported involve larceny/theft (64.1%), followed by burglary (16.5%), motor vehicle theft (8.8%), aggravated assault (6.3%), robbery (3.2%), forcible rape (1.3%) and homicide (.1%).

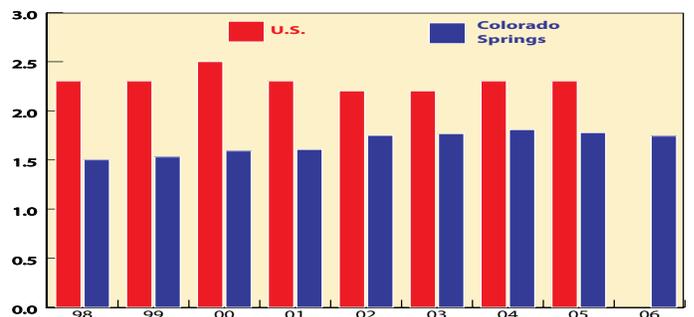
The number of sworn police per 1,000 inhabitants declined for the second consecutive year. It declined from 1.80 in 2004 to 1.74 in 2006. This is not expected to increase in 2007 unless General and Public Safety Sales Tax funds are used to increase the number of sworn police officers. Given the plight of City sales tax revenue, this is unlikely.

U.S. and Colorado Springs Crime Index

(Index per 1,000 inhabitants)

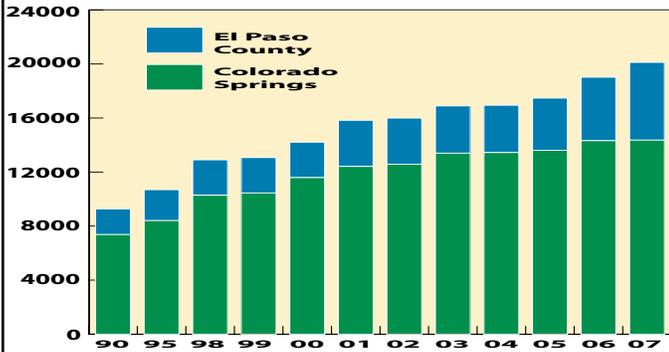


Sworn Police per 1,000 Inhabitants



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?

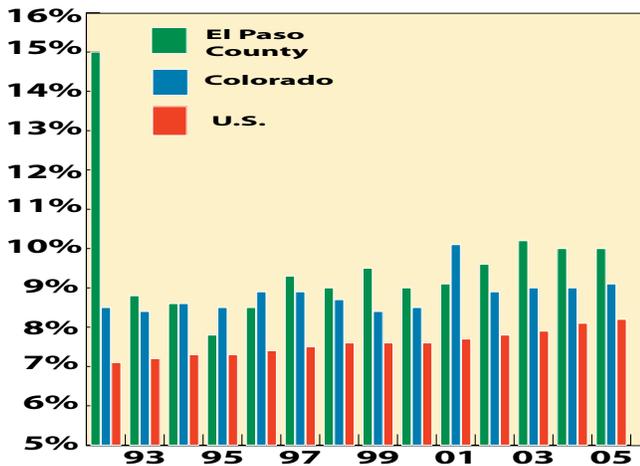
Open space, trails and park land provide important areas for recreation and leisure activity, support natural habitat and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and other open 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 over 20,118 acres of open space and park land or 33.8 acres per 1,000 residents in 2007. The City of Colorado Springs now has 14,360 acres of park and open space under management. The recent acquisition of Sanctuary of the Pines and Kane Ranch parcels brought the El Paso County park and open spaces total to 5,758 acres. 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. Per capita acreage increased 2.2 percent a year since 1990.

Since the 0.1 percent Trails, Open Space and Parks sales tax (TOPS) was passed and implemented in 1997, the City of Colorado Springs has collected more than \$52 million or roughly \$5.5 million per year for trail construction, park construction, and open space acquisition. TOPS is expected to generate approximately \$6.2 million over the next twelve months. These funds have been leveraged with private donations and grants from other agencies to preserve additional open space.

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 proportion of low weight babies born in El Paso County is significantly lower than it was in 1992. The upward trend that began in 1995 appears to have peaked in 2003. Since then, the proportion of low birth weight babies declined slightly. Currently, 10 percent of the children born in El Paso County are low-weight babies.

The proportion of low-weight birth babies has increased steadily for the U.S. and Colorado. The global nature of the problem appears to be worsening while the El Paso County problem may have stabilized. El Paso County and Colorado remain well above the 5 percent target set by the U.S. Public Health Service.

UCCS College of Business and Administration and the Graduate School of Business Administration

Contact: College of Business and Administration (719) 262-3113

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 30% of business schools nationally. The College of Business was recently recognized by the readers of the Colorado Springs Business Journal as the Best Business School in Colorado. Dwire Hall, home of the College of Business recently reopened after undergoing a \$10 million renovation. The rebuilt facility provides a state of the art learning environment for our students.

Professors at the College of Business and Administration provide intense, effective teaching, focused on understanding the fundamentals of business solutions. The faculty is internationally acclaimed and doctoral qualified from leading institutions around the country. The classroom experience is enriched by their efforts in leading-edge research, academic publishing, community involvement, and industry consulting. Students are prepared for lifelong careers in diverse fields as banking, advertising, accounting, information systems, marketing, human resource management, finance, manufacturing, professional golf management and more.

The College of Business and Administration at UCCS has excellent partnerships with the business community. These contacts are essential in infusing current business practices into the classroom. The College stays connected to the community through a variety of organizations including the Small Business Development Center (SBDC) and the Southern Colorado Economic Forum. Find out information about Extended Studies and Career, Intern, and Placement opportunities by visiting <http://business.uccs.edu>.

Welcome from Holland & Hart

Holland & Hart is proud to partner our 5th Annual Colorado Springs Business Symposium with the 11th Annual Southern Colorado Economic Forum. We are hopeful that our joint efforts 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 specialized to fit your particular needs and to help you pursue new business opportunities. Holland & Hart has more than 350 attorneys lawyers in 13 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 <http://www.hollandhart.com>.

Wendy Pifher, Partner, Holland & Hart LLP

The Southern Colorado Economic Forum

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 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. The Southern Colorado Economic Forum is held each fall to provide the community with an update of the area's economy and quality of life. The Southern Colorado Economic Forum publishes the Quarterly Updates and Estimates (QUE) in order to keep the business community informed about current changes in economic activity in the region. You may visit our web-site at <http://www.southerncoloradoeconomicforum.com> to find back issues of the QUE and the Southern Colorado Economic Forum. The Forum is pleased to join forces with the Annual Colorado Springs Business Symposium to further enhance the information provided to the business community.

The Forum is available to help business and other organizations with economic and financial analysis and modeling, survey work, and other custom analysis. To learn more about the services SCEF and the College of Business can provide your organization.

Contact: Tom Zwirlein, Faculty Director of the Southern Colorado Economic Forum at (719) 262-3241 or tzwirlei@uccs.edu or Fred Crowley, Associate Director of the Southern Colorado Economic Forum at (719) 262-3531 or fcrowley@uccs.edu.

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