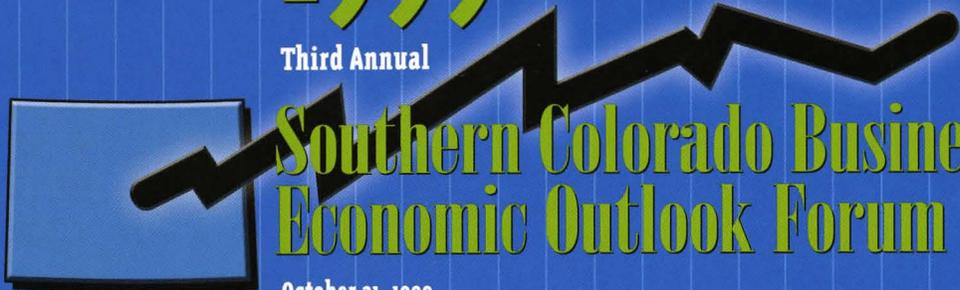


1999

Third Annual



**Southern Colorado Business
Economic Outlook Forum**

October 21, 1999

Wyndham Colorado Springs (formerly The Marriott Hotel)
Colorado Springs, Colorado

**Giving Direction to Business
in Southern Colorado**



**First
Business
Brokers, LTD.**



University of Colorado
at Colorado Springs

CU-COLORADO SPRINGS

Welcome! The University of Colorado at Colorado Springs is pleased to join with First Business Brokers, Ltd. to present the third annual Business Economic Outlook Forum. Our program provides a unique opportunity to take a first look at the changes that have taken place this past year and to gain a glimpse into the anticipated economic activity in El Paso county in 2000.

Projections on employment and major economic and quality of life indicators presented in this Forum are based on an in-depth analysis using both primary and secondary data collected from a variety of sources. With this information, we hope to provide valuable insight to policymakers in business and government in making crucial decisions related to growth and development in the state and in particular, in southern Colorado. We also hope to reduce the uncertainty inherent in these decisions while providing a realistic forecast of the direction of the economy in the coming year.

We are very fortunate to have so many committed people from Colorado business, education, and government organizations involved in this project. I would like to acknowledge Professors Jeff Ferguson and Tom Zwirlein for the compilation, analysis, and presentation of the report. My thanks are extended to the panel of experts assembled today who will provide commentary and additional insight into the local economy. I also wish to thank Vice Chancellor John Pierce, College of Business Dean Joe Rallo, Kathy Griffith in University Relations, and the College of Business staff for helping coordinate the event. Special thanks to our business community sponsors; First Business Brokers, Ltd., Fittje Brothers Printing, Vista Bank, Biggs Kofford & Co., Pepsi/Lane Sales, and Salomon Smith Barney, Inc.

Thank you for coming to the Business Economic Outlook Forum. We wish you a productive and successful 2000!

Linda Bunnell Shade, Chancellor, University of Colorado at Colorado Springs

Welcome from the Dean! As the new Dean of the College of Business at CU-Colorado Springs it is a distinct pleasure to share with you the activities associated with the third annual Southern Colorado Business Economic Outlook Forum. The results of the annual survey are increasingly important to the forecasting requirements associated with the dynamic business economy of the region. The Forum is also a critical ingredient of the College's mission statement which is to provide innovative, learner-focused education of superior quality that integrates theory and practice.

Together we can forge a business and academic partnership in the Pikes Peak region which will serve as a national model for others to emulate. Thank you for continued support.

Joseph C. Rallo, Dean of the College of Business

FIRST BUSINESS BROKERS, LTD.

Co-Sponsor of The Annual Southern Colorado Business Economic Outlook Forum
Contact: Ron Chernak, President (719) 635-9000

First Business Brokers, Ltd. is a firm that deals exclusively with the sale of privately-owned companies. Established in 1982 by Ronald B. Chernak, JD, CPA, FCBI, the firm is Colorado's largest business brokerage company representing privately-owned organizations. First Business Brokers, Ltd., has completed over 600 business sales covering a wide variety of industries.

First Business Brokers, Ltd. assists with the complex legal, accounting, and negotiation issues involved with the sale of a business. The firm complements comprehensive professional services with an acute awareness of current market conditions to assist clients in making easier, more informed, and financially stronger transactions. The firm's strength lies in its professional approach and customized strategy to each and every business transfer. A successful transaction requires the input of skilled professionals who are experienced in, and sensitive to, the process of effectively bringing the buyer and seller together. First Business Brokers, Ltd. understands what building the business has meant to the seller and what opportunity, through acquisition, is perceived by the buyer.

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Contact: College of Business (719) 262-3408

The University of Colorado at Colorado Springs was established in 1965, with the College of Business and Administration being formed at that time. The College awards the Bachelor of Science in Business degree and a Master of Business Administration (MBA) degree. All degree programs are accredited by the International Association for Management Education (AACSB), placing

(Continued on inside back cover)

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Introduction

The Southern Colorado Business Economic Outlook Forum is now in its third year of providing businesses in El Paso county with information to help them make more informed and thus, better decisions. The objective in preparing the Outlook is to provide timely and useful information focused specifically on the Pikes Peak Region. This information serves as a community progress report; identifying areas where we excel, as well as areas where we face challenges.

We collect both primary and secondary information about the region which is used to assess the health of the area. In order to find out what is on the minds of regional business people, we conducted a mail survey of over 2,500 local businesses. The survey was designed to ascertain the major issues facing business including a variety of factors that positively or negatively influence operations. We asked questions about hiring projections for the coming year, special areas where businesses will concentrate their attention, export activity, and how well businesses are doing in 1999 compared to their projections.

The secondary economic data concentrates on labor market information, retail and wholesale trade, military employment and expenditures, local construction information, commercial property activity, exports, hotel occupancy, airport activity, utility use and tax collections. In addition we examine a number of quality of life indicators for El Paso county including air quality, education, road congestion, park area, and crime.

From this information, we developed a set of graphic economic and quality of life indicators for El Paso county. These indicators provide a picture of economic activity in the area and help to answer the questions of 'how we are doing' and 'where are we going' in the future.

A Word About Indicators

Indicators are used to help assess our progress by measuring changes in various economic and quality of life

factors. No single indicator provides a complete picture of our situation. Examined collectively, economic and quality of life indicators provide a picture of the health of the region, the welfare of the citizens who live and work here, and the progress of the businesses and organizations who operate here.

We have attempted to provide a reasonable set of indicators for the Outlook. There were some indicators that we wanted to provide but could not because we were unable to find the relevant information in a timely manner. The indicators in this Outlook should be viewed as a work in progress since we will revise and expand indicators as changes take place in the community. We will refine the set of indicators in order to provide the clearest picture of the economy and the quality of life in the region. To that end, we welcome all suggestions from our audience to help us improve the Outlook.

The Southern Colorado Economy

The southern Colorado economy is enjoying another solid year of performance. Unemployment remains low and employment levels in all economic sectors are high. We are near the end of the ninth year of expansion and it appears we are poised to make it ten years in 2000. A summary of where we are and where we are going follows.

Employment/Unemployment

Job growth was strong in 1998 and continues to be this year. Average annual employment in El Paso county increased by over 7,500 in 1998. Employment continues to grow in 1999, albeit at a less torrid pace. Through July 1999, employment is up 2.2 percent from year earlier figures.

Much of the employment growth in 1998 was concentrated in finance, insurance, and real estate; business services; and local government.

Manufacturing employment which grew over 3 percent in 1998 is flat so far this year. Cluster industry employment continues to increase while overall military establishment employment remains stable.

Wages

Wages in El Paso county increased 7.75 percent in 1998. Large wage and salary gains were reported in communications, business services, non-electrical machinery, construction, memberships organizations, and engineering services. With inflation at only 2.4 percent in 1998, real wages advanced sharply. The current year stacks up as another good year for many sectors of the local economy. However, one concern is that not all sectors of the local economy are sharing in the wage gains of the current expansion. Real wages, after adjusting for inflation, are lower today in several key economic sectors including some areas of manufacturing, wholesale and retail trade, and banking than they were in 1987.

Construction and Commercial Activity

The housing market is turning in another strong year as interest rates remain low and demand for new housing remains strong. Over 5,200 residential building permits were pulled in 1998 and this high level of activity is likely again this year. The question remains whether this level can be maintained with the prospect of higher interest rates and a slowdown in migration into the county.

The value of non-residential construction totaled over \$180 million in 1998 and reached \$95 million through June of this year. Construction of office space reached 640,000 square feet in 1998. Prime office space remains tight in the downtown area and north I-25 corridor. There are numerous public works projects in progress throughout the area and this translates into full employment for construction crews and an upward trend in the bids on new projects

Office vacancy rates increased in 1998 for the first time since 1990. Office construction added nearly 640,000 square feet of space in 1998. In spite of the overall increase in office vacancy rates, Class A office space, with superior amenities and strategic location in the downtown business district and other areas of town, remains in short supply. Asking rents for Class A space in downtown averaged over \$14.00 per square foot triple net.

Industrial vacancy rates also rose slightly in 1998 to 6.9 percent. Palmer McAllister reported a significant

drop in industrial leasing activity due to the lack of available and desirable space.

The retail and shopping center market was very active in 1998. Palmer McAllister reported leasing activity of over 1 million square feet in 1998. Over 750,000 square feet of new big box construction was completed in 1998, three times the 1997 level. Retail vacancy rates were down and asking rents were up.

Retail and Wholesale Trade

Retail sales were ahead 4.43 percent in 1998 over year earlier figures. Wholesale sales leaped ahead 15.6 percent in 1998. Furniture and home furnishings store sales were strong in 1998 reporting a 12.4 percent increase, while general merchandise trade was ahead 9.2 percent. Preliminary figures indicate that retail sales growth will be relatively flat in 1999.

Where are We Headed in 2000?

We expect that 2000 will be another good year, the 10th year of the current expansion in southern Colorado. Given the tight labor market, expect wages and salaries to increase again next year. Real wages should also increase due to relatively mild inflation. Consumer prices should rise by 3 percent for all of this year and 3.1 percent next year. Assuming our predictions are accurate, this would mark the fifth year in a row that real wages increased in El Paso county. This is good news for employees in the county.

Employment should also increase, although at a slower rate than 1999 because of a tight labor market and a slowdown in migration into the county. Expect non-agricultural employment to increase roughly 2 to 2.5 percent next year. Unemployment will remain at historically low levels because of lower in-migration into the area.

Slower in-migration will also mean a moderation in residential construction. We do not expect the current rate of residential construction to continue, given fewer numbers of people moving into the county combined with the possibility of higher interest rates in 2000. It's reasonable to expect that residential construction will moderate to 3,500 to 4,000 single and multi-family units in 2000. Apartment vacancy rates should remain about where they are today.

Office leasing activity should remain healthy, although office vacancy rates may go up as a result of the completion of some speculative construction projects. The lack of desirable industrial space may remain a problem since there are few speculative industrial projects on the drawing board. According to Palmer McAllister, the shopping center market should continue to flourish.

Business Survey Results

Our annual survey of businesses and organizations in southern Colorado provide us with some insights into the minds of business leaders in the community.

First, business optimism is quite high. Seventy-nine percent of the companies responding to our survey indicate that performance in 1999 is as expected or better. Moreover, businesses expect that 2000 will be better than 1999.

Business operations are being positively impacted by computers and technology, state and national economic conditions, and the ability to offer competitive wages. Finding trained workers and workers with a strong work ethic remains the toughest challenges facing business these days. What may be equally important is that factors such as employee benefits, changes in the number of hours worked, changes in the cost and availability of raw materials, and the value of the dollar, appear to be having little impact on business operations. Businesses rely extensively on Colorado suppliers and find it important to have these suppliers.

Business development areas for the next 18 months are varied but they can be roughly categorized as internet- and technology-related, service and product offering revisions and additions, and worker training.

Overall, the survey results support the economic indicators in predicting continued economic growth.

Acknowledgments

We wish to thank all of the individuals from the community who took time from their busy schedules to talk with us or to provide us with needed information. The many discussions provided valuable insight into a variety of economic sectors and gave us a good sense of where the local economy is headed and where we stand in terms of quality of life. We wish to thank the employees from numerous state and local agencies who provided timely information. Thank you to the sponsors for providing financial support and important guidance in producing the Forum. Finally, we could not have completed the Outlook and arranged this Forum without the many hours of dedicated effort on the part of the staff at the university.

Jeff Ferguson, Ph.D.
Professor of Service Management and Marketing

Tom Zwirlein, Ph.D.
Associate Professor of Finance

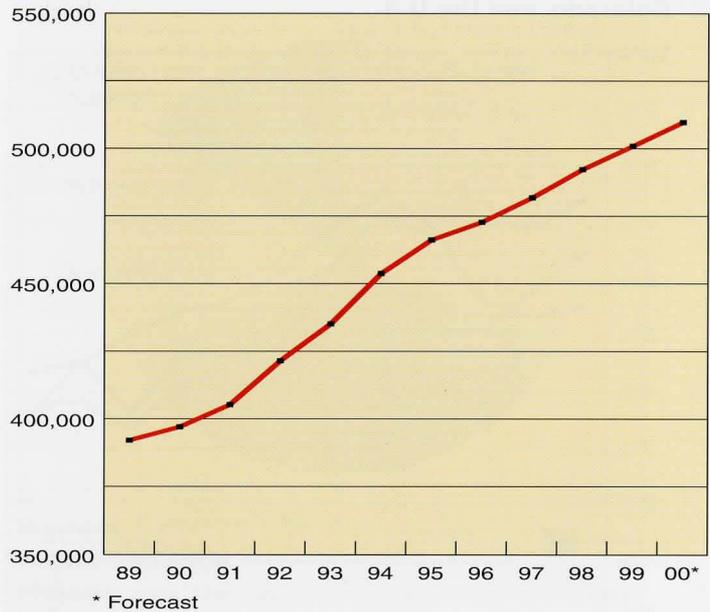
WHY IS THIS IMPORTANT?

Population growth is important because it influences the labor market and the health of the economy in general. Understanding population trends helps city and county officials, builders, retail establishments and others plan for growth.

HOW ARE WE DOING?

Colorado's population continues to increase. The strong state economy, growing key industries, economic development efforts, quality of life, natural beauty of the state, and an educated workforce, all play a role in this increase. El Paso county shares in this growth and is one of the most rapidly growing counties in the state. The county's population pushed past the one-half million point this year and will likely increase by 10,000 in 2000. The population increased over 30% or by more than 115,000 residents since 1987.

Population of El Paso County



Source: Colorado Department of Labor: State Demography Section

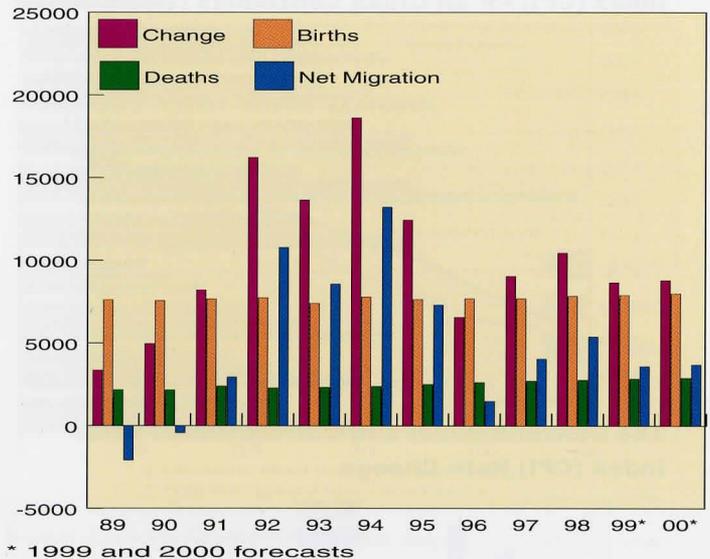
WHY IS THIS IMPORTANT?

Births, deaths, and migration combine to produce the changes in population. Identifying trends in these indicators helps project future changes in the county's population and impact on the economy.

HOW ARE WE DOING?

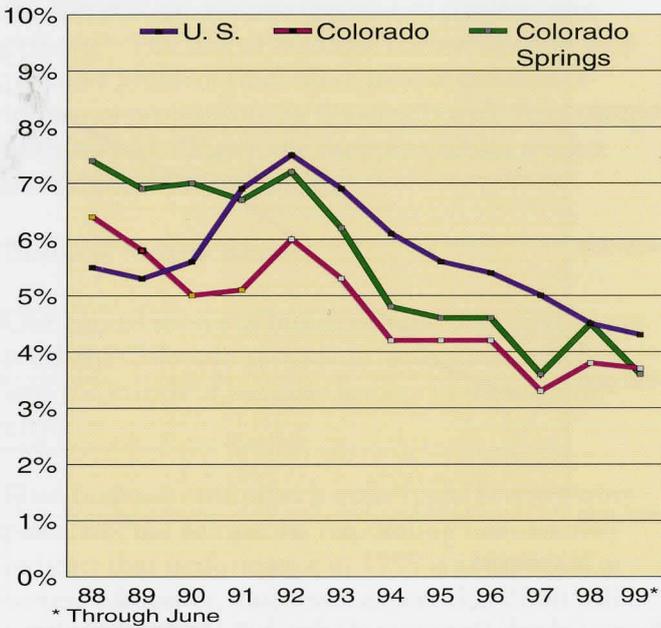
The number of resident births and deaths have remained relatively stable over the past ten years. Total in-migration into the county represents about 45 percent of the change in population since 1987. The net in-migration appears to be slowing somewhat from the highs that occurred beginning in 1992 and continuing through 1995. In-migration is expected to remain moderate as long as the national economy remains strong. With a healthy national economy, low national unemployment rate (now at 4.3%), and strong wage and salary gains nationally, there may be few reasons for people to relocate to El Paso county. There will always be some migration for people moving in or out of the region because of job or military transfers. Over the past several years, employers in the county have depended on strong net in-migration for the supply of new workers as their businesses expanded. The slowdown in migration may also slow potential business expansion in the coming year.

Births, Deaths, and Migration in El Paso County



Sources: Colorado Department of Labor: State Demography Section; Colorado Department of Public Health and Environment, Health Statistics and Vital Records; Forum estimates

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



Source: Colorado Department of Labor

WHY IS THIS IMPORTANT?

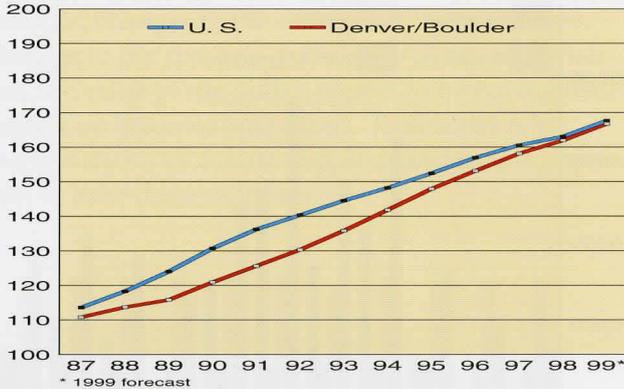
The unemployment rate is the percentage of the workforce without a job. There will always be some unemployment due to seasonal factors, workers between jobs, recent graduates looking for work, and others. Comparisons with the state and national unemployment rate provide information regarding how well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

HOW ARE WE DOING?

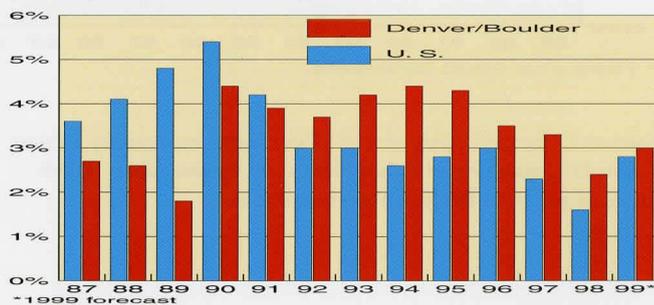
The unemployment rate in the U.S. dropped to a 30 year low in 1999 and currently stands at 4.3 percent. Colorado's unemployment rate reached 3.7 percent in July, down from the end of last year. The Colorado Springs MSA unemployment rate is currently 3.6 percent which is down from 4.5 percent at the end of 1998.

Unemployment in Colorado Springs is at near-historical lows. Businesses and organizations throughout the area are having difficulty finding workers to fill job openings. Businesses may have to reduce expansion plans and may not achieve normal growth potential if they are unable to find workers. In the past, in-migration supported business growth. Given the strong national economy, we do not expect in-migration of new workers to contribute greatly to the area's workforce.

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



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



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

WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

We use the Denver/Boulder CPI since the Bureau of Labor Statistics does not compile an index for Colorado Springs. The Denver/Boulder CPI rose a modest 2.4 percent in 1998. This compares to the U.S. urban CPI which rose only 1.6 percent. For the first six months of 1999, the Denver/Boulder CPI increased by 2 percent which is comparable to the national rate.

Consumer prices in Colorado, on average, should rise 3.0 percent for all of 1999 and then increase at a modestly higher rate in 2000. Some factors that will lead to the increase include: strong consumer spending, wage and salary growth, and increases in imported raw material, energy, and commodity prices due to the sagging value of the dollar.

WHY IS THIS IMPORTANT?

Community leaders have worked hard to diversify the economy in the Pikes Peak Region. A diversified economy is better able to weather downturns in national economic activity. Officials have targeted high-paying, low-polluting industries for growth. Continued growth in the targeted cluster industries is important since it adds jobs in our primary industries, as well as the induced sectors of the economy like construction, services, and retail. Moreover, it moves the El Paso county away from the predominant military economy of the 1980's.

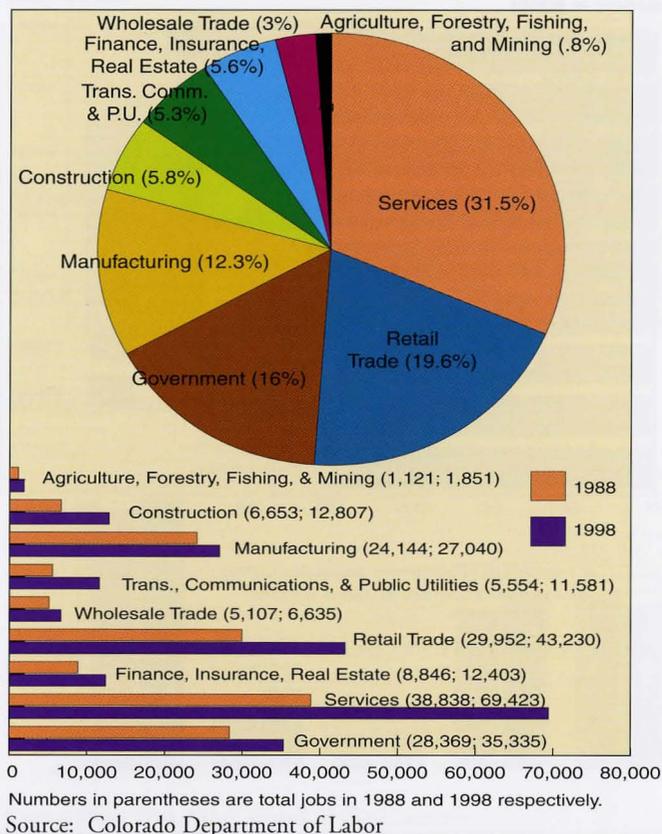
HOW ARE WE DOING?

Average annual employment in El Paso county reached 220,305 in 1998 for a 3.55 percent increase over 1997 levels. The labor department reported that this figure had grown to 229,000 by May of this year on a non-seasonally adjusted basis. Since 1988, a total of 71,721 jobs have been created in El Paso county, a 48.3 percent increase. A total of 30,585 jobs were created in the services sector over this period which accounts for 42.6 percent of the jobs created over the past ten years.

Manufacturing remains strong in the county. Over the past ten years, 2,896 employees were added to manufacturing payrolls, which represents a growth rate of 12 percent. Manufacturing jobs grew 3 percent in 1998 alone.

Healthy gains in employment were recorded in retail trade; finance, insurance and real estate; business services; and local government workers in 1998.

Employment in 1997 by Sector



WHY IS THIS IMPORTANT?

Wages are an indicator of the wealth-generating capacity of the community. High wage jobs help attract qualified, well-trained employees to the area. Lower wage scales in a community can be used as a source of competitive advantage for economic development officials. With today's low unemployment environment, it is important to offer competitive wage scales to attract and retain good employees.

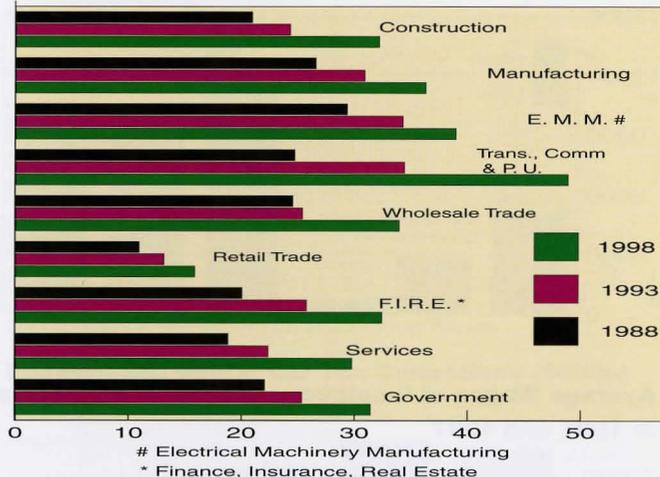
HOW ARE WE DOING?

Average annual wages for all industries in El Paso county were \$29,413 in 1998, a very healthy increase of 7.75 percent over 1997. Average wages over the past two years have increased a total of 13.68 percent.

Many sectors of the economy benefited from these strong wage gains. However, the gain was particularly strong and concentrated in non-electrical manufacturing, communications, and business services where increases of 11.6, 21.8, and 13.7 percent occurred respectively in 1998.

In 1997, the wage gap between El Paso county and Colorado closed substantially from \$4,324 in 1996 to \$2,760 in 1997 due largely to strong wage and salary gains in El Paso county coupled with virtually no increase in statewide wages and salaries. In 1998, the wage gap between El Paso county and average state wages grew modestly by \$84 to \$2,844.

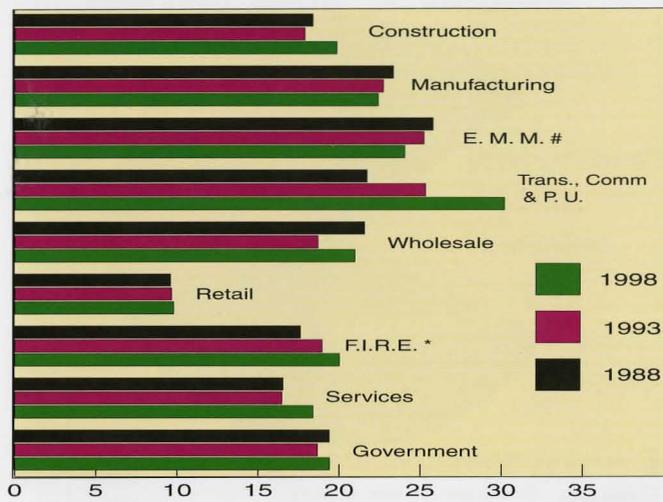
Average Annual Wages in El Paso County by Sector (\$000)



Source: Colorado Department of Labor

Real Wages in El Paso County by Sector (1987

dollars in \$000)



Electrical Machinery Manufacturing
* Finance, Insurance, Real Estate

Source: Derived series from Colorado Department of Labor Data

WHY IS THIS IMPORTANT?

Real wages and real wage growth indicate how well employees fare against inflation. Job creation serves as an indicator of the quantity of jobs in the economy while real wages and real wage growth are indicators of job quality.

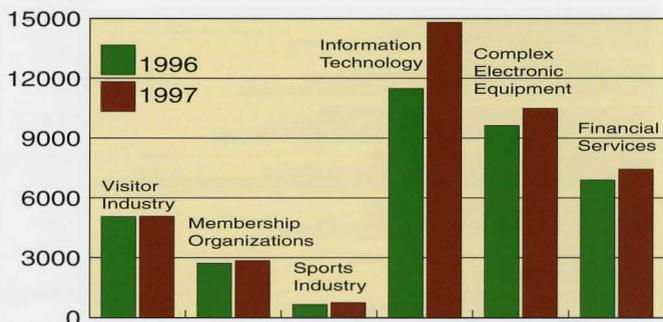
HOW ARE WE DOING?

Helped by low inflation and strong wage gains, real wages jumped in 1998 after remaining flat close to a decade. Last year we stated, "With regional inflation low, a tight labor market, and low in-migration, we can expect to see an increase in real wages." On average, real wages increased 5.2 percent in 1998. Again, communications, business services, and non-electrical manufacturing lead the increases in real wages, (18.9, 11.0, and 9.0 percent respectively).

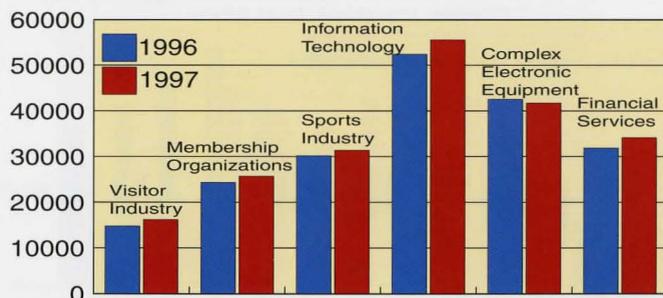
Since 1988, real wages have declined in mining, manufacturing, and wholesale trade. Real wages have increased in agriculture, forestry, and fishing; construction; transportation, communications, and public utilities; retail trade; finance, insurance, and real estate; and services while staying constant in government.

Statewide, real wages increased to \$19,924 in 1998 but are still below the base year (1988), when the average wage level was \$20,167.

Number of Employees in Cluster Industries in 1996 and 1997



Average Wages of Employees in Cluster Industries in 1996 and 1997



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

WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

In 1997, these clusters accounted for approximately 19.5 percent of the wage and salary labor force in El Paso county. Employment in the clusters was estimated at 41,430 in 1997, the most recent year in which cluster data is available. Over 70 percent or 21,122 jobs in the cluster industries are in the higher paying information technology and complex electronic equipment clusters.

Average wages in El Paso county reached \$27,297 in 1997. In comparison, average wages in the cluster industries reached \$34,118. Average wages in information technology fields were more than double the El Paso county average at \$55,571. Wages in complex electronic equipment (\$41,719), financial services (\$34,151), and the sports industry (\$31,382) also exceeded the average. The membership organization cluster (\$25,681) and the visitor industry cluster (\$16,203) fell below the all industry average.

WHY IS THIS IMPORTANT?

The military has been a strong contributor to the economy since World War II. Even though the economy has diversified dramatically in the past decade, the military sector remains a critical contributor to the economic vitality of the county.

HOW ARE WE DOING?

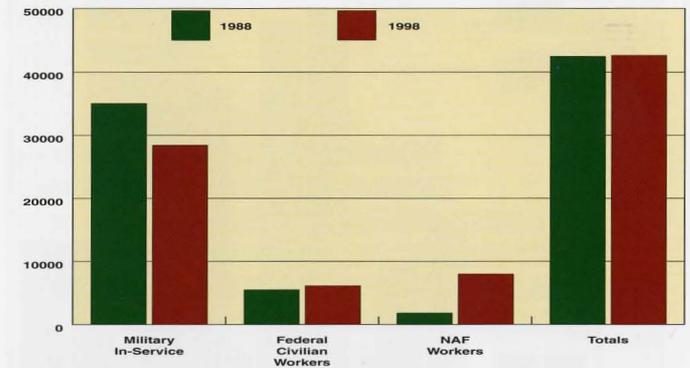
Active duty and civilian employment at military establishments remained relatively constant at 42,570 in 1998. A comparison of military employment to El Paso wage and salary employment suggests that the military comprises only 20 percent of total employment in the county. However, it is estimated that, including defense contractor employment, 35 to 50 percent of El Paso county's economic base is directly or indirectly related to the military.¹ As shown in the graph, although the total number of military jobs has remained stable since 1988, the composition has shifted toward civilian employees.

Payroll to military and civilian employees topped \$1.1 billion in 1998. Annual expenditures by the military establishment in Colorado Springs was \$518.5 million. Using a number of multipliers, the PPACG estimates that the dollar value of indirect jobs created by the military presence in Colorado Springs was \$504.5 million.²

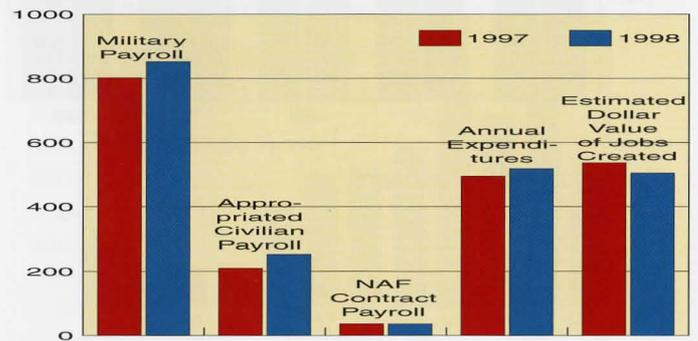
1. El Paso County Military Profile, Pikes Peak Area Council of Governments, May 1998. Data include Fort Carson, Peterson Air Force Base/Cheyenne Mountain Air Station, Falcon Air Force Base, and the U.S. Air Force Academy.

2. Pikes Peak Area Council of Governments, Military Profile, 1998.

Military Employment in El Paso County in 1988 and 1998



Military Expenditures (\$millions)



Source: Pikes Peak Area Council of Governments

WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

The Colorado Springs Convention and Visitors Bureau estimates that there will be approximately 13,000 rooms available in Colorado Springs by the end of the year. This is a 53 percent increase in the room inventory since 1995. Many of the new rooms are in economy-priced facilities in the \$60 to \$70 range. Growth in new hotels remains clustered along both north and south I-25 corridors.

The rapid growth in the room supply has obviously affected occupancy rates which have been on the decline since 1996. Hotel occupancy rates declined nearly 3% in both 1997 and 1998. Seasonal hotel occupancy rates reached 80.7 percent in June of this year. In spite of the growth in available rooms, the Convention and Visitors Bureau reports that room rates are holding relatively stable in the mid-\$80.00 range for Level-I rooms and the mid-\$60's for Level-II rooms for an average of \$77.00 for all rooms in 1998.

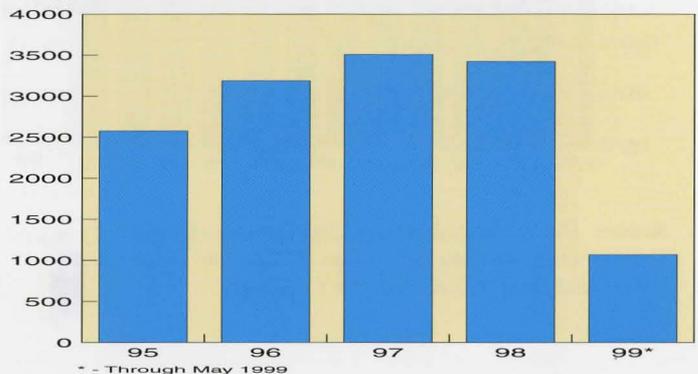
Through June 1999, the majority of area attractions are rating their season as "good." Lodger and auto rental tax collections were up 4.81 percent through June 1999 over year earlier figures.

Hotel Occupancy Rates



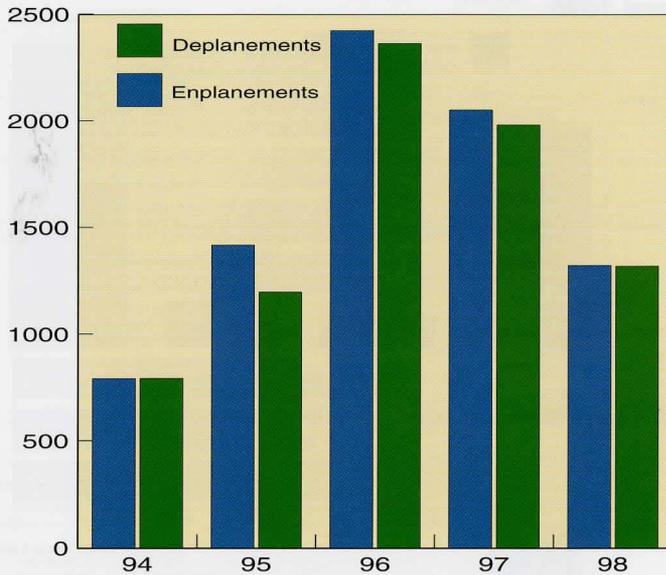
Source: Pikes Peak Convention and Visitors Bureau

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



Source: City of Colorado Springs, Sales Tax Division

Colorado Springs Airport Activity (000s)



Source: Colorado Springs Airport

WHY IS THIS IMPORTANT?

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

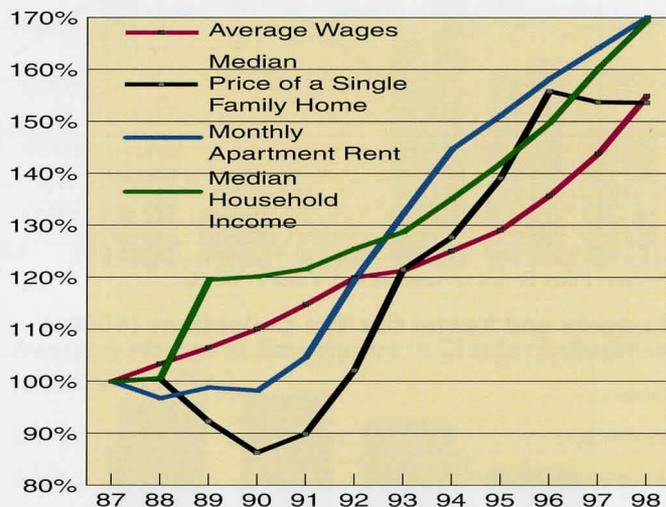
HOW ARE WE DOING?

When the new Colorado Springs Airport was built in 1994, there were 791,000 enplanements. By 1998 that figure almost doubled with 1,321,000 enplanements. This made Colorado Springs one of the fastest growing airports in the nation. The demise of Western Pacific Airlines greatly slowed the steep growth but, fundamentally, the traffic base remains strong.

The Colorado Springs Airport is currently served by ten airlines. Nonstop service includes over fifty flights daily to fourteen cities. Additionally, there is direct service (one stop, same plane) to thirty-three cities daily.

The Colorado Springs Airport, Colorado Springs Chamber of Commerce, Convention & Visitors Bureau, and Economic Development Corporation have developed a plan to increase nonstop service from Colorado Springs. Efforts are underway to provide nonstop service to San Francisco, the Northeast corridor, and Chicago.

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



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

WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

The indices of median household income and of wages rose by 5.7 and 7.72 percent respectively in 1998. In comparison, the monthly apartment rent index rose 3.6 percent while the median price for a single family home index remained almost unchanged.

The healthy gain in median household income resulted in this index catching the apartment rent index in 1998. This means that the average rent on an apartment consumed as much household income (16.5 percent) in 1998 as it did in 1987, the base year for the index. The median price of a single family home remained at about 4.4 times the average wage in El Paso county in both 1997 and 1998. Combine this with the healthy growth in both household income and wages and low mortgage interest rates and the result is more affordable housing. Whether builders will continue to add lower cost homes to the housing stock in 2000 is a big question.

WHY IS THIS IMPORTANT?

Growing communities such as Colorado Springs must add to the housing stock in order to meet the needs of new residents. The El Paso county population is expected to increase by 8,600 this year and another 8,800 next year. Adequate housing must be available to accommodate the growth.

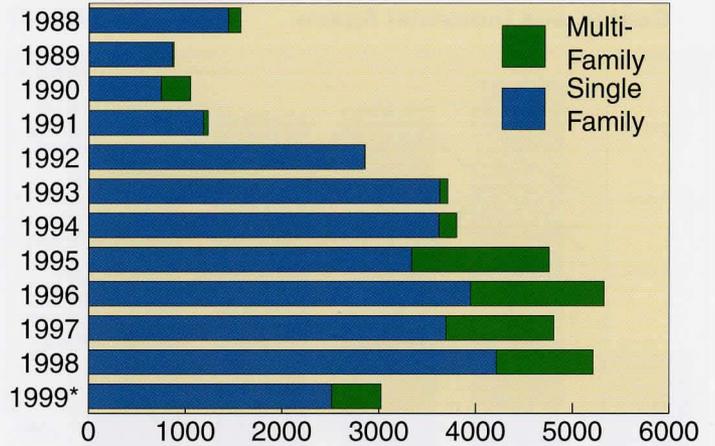
HOW ARE WE DOING?

A total of 4,016 single family building permits were issued in 1998 with another 3,100 issued through August of 1999. In addition, permits for 1,198 multi-family dwelling units were issued in 1998. There were 678 multi-family permits issued so far this year. This year will be another strong year in the housing market. The median price of resale homes sold is up 6.5 percent in 1999 to \$169,816 from a level of \$159,452 in 1998.

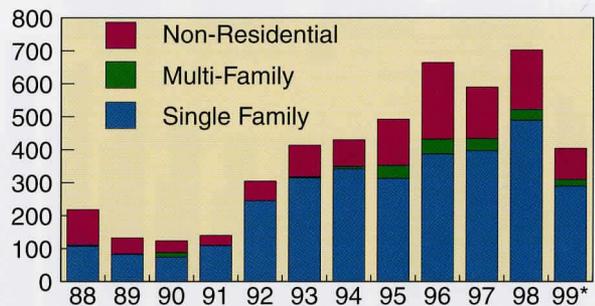
A recent study by David Bamberger & Associates¹ characterizes the Colorado Springs housing market as being demand driven as opposed to speculative building. The market is always susceptible to a downturn in the economy, rising mortgage rates, a drop in migration, and any unforeseen lay-offs. Builders and lenders appear to be watching the market and appear optimistic in spite of the recent increase in interest rates. A decline in migration should slow the building market somewhat in 2000.

The value of non-residential construction reached 180.8 million in 1998 driven by office and professional buildings; new schools and other educational facilities; and new hotels and motels. Non-residential construction through June 1999 stood at a little over \$100 million.

Residential Building Permits



Value of Construction (\$ millions)



* - Through June 1999

Source: Pikes Peak Regional Building

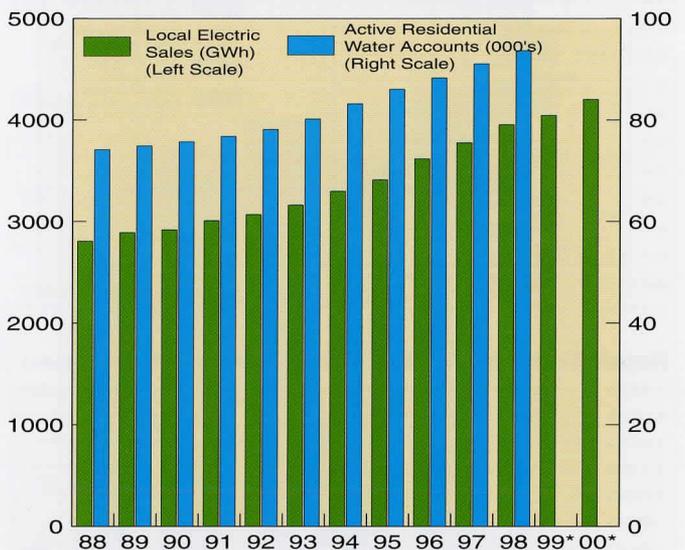
WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

Both electric sales on system and active residential water accounts have been on the rise since 1992 which is reflective of a healthy economy and a rapidly expanding housing market. Electric sales have grown an average of 4.3 percent per year while residential water accounts have increased on average 3.1 percent per year since 1992. The Colorado Springs Utilities Department continues to improve and enhance the water and electric infrastructure to meet current and future needs.

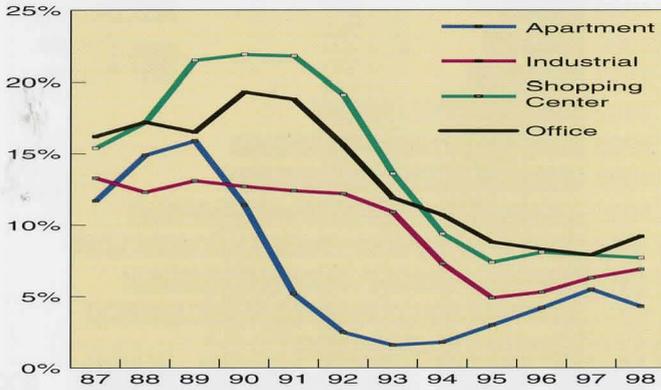
**Total Local Electric Sales on System (GWh)
Active Residential Water Accounts (000's)**



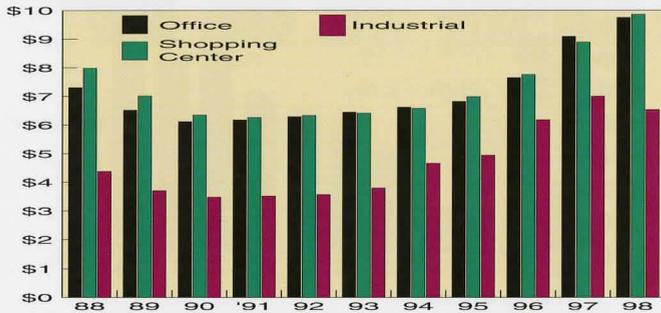
Source: Colorado Springs Department of Utilities

¹ Colorado Springs Single Family Housing Market, August 1999, David Bamberger & Associates

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



Average Asking Rents For Office, Shopping Center, and Industrial Space



Source: Palmer McAllister, A Frederick Ross Company

WHY IS THIS IMPORTANT?

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

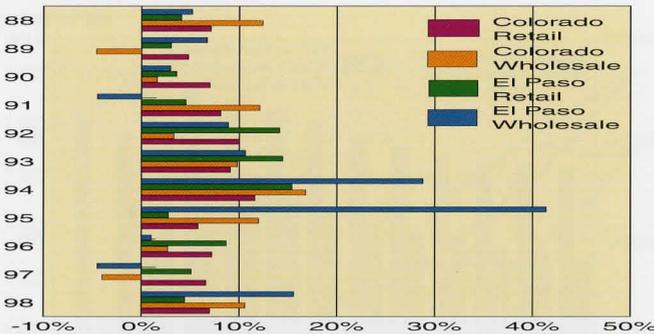
HOW ARE WE DOING?

1998 was another active year in commercial real estate market. The addition of 480,000 sq. ft. of speculative office space helped ease a tight market. Office vacancy rates rose to 9.2 percent across the city. However, class A space remains tight in the central city and north I-25 corridor. Lease rates continue to climb and reached \$9.75 triple net in 1998.

Over one million sq. ft. of industrial space was leased in 1998. Average rents were \$6.53 sq. ft. triple net with prices from \$3.10 sq. ft. for warehouse space to \$11.00 for R&D space. High-tech companies reported difficulty finding feasible space.

Apartment vacancy rates were down to 4.3 percent and average rents up to \$578.00 per month in 1998. A total of 1198 units were added to the apartment stock in 1998 and over 675 units so far this year. This market remains in balance with single family home production.

Growth in Retail and Wholesale Sales in Colorado and El Paso County



WHY IS THIS IMPORTANT?

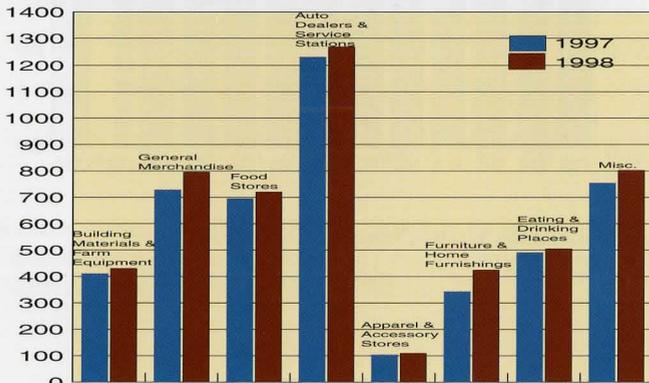
Consumer spending is estimated to generate 65 percent of the total economy. Thus, growth in retail and wholesale sales are an important indicator of the local economy.

HOW ARE WE DOING?

Retail sales in El Paso county grew 4.43 percent between 1997 and 1998 compared to a 7.0 percent growth rate overall in Colorado. Through the first quarter of this year, retail sales grew 11.5 percent in the county from year earlier figures. Wholesale sales reversed a 1997 decline and grew a robust 15.6 in El Paso county in 1998 compared to 10.6 percent growth statewide.

Employment in the retail sector grew 2.1 percent in 1998, while the wholesale sector experienced a growth rate of 7.5 percent.

Retail Trade by Sector in 1997 and 1998 (\$ millions)



Source: Colorado Department of Revenue: Office of Tax Analysis

Palmer McAllister reports that the commercial retail market remained strong in 1998. Leasing activity was over 1 million sq. ft. with average leases at \$9.86 per sq. ft. triple net. Leases for grocery-anchored retail space ranged from \$20-24 per sq. ft. Absorption of retail space reached 650,000 sq. ft. The retail vacancy rate stood at 7.7 percent at the end of 1998 and was only 3 percent in the north Academy Boulevard area. Over 1 million sq. ft. of retail space is in the planning or construction phase in 1999.

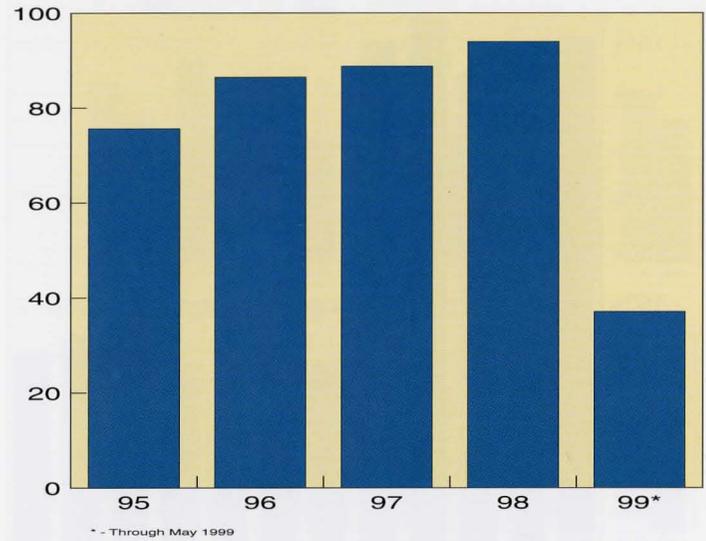
WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

City sales and use tax collections were near \$94 million in 1998, up 5.8 percent from the previous year. So far this year, sales and use tax collections are up 4 percent through the first eight months of 1999. Sales tax collections, which represent the bulk of the two separate taxes, are up a healthy 6.9 percent through August, while use tax collections are down nearly 17 percent this year. Some of the factors contributing to the strong sales tax collections include a double digit increase in new auto sales, building material sales, higher prices of building materials, healthy increases in furniture and home furnishing sales, and a relatively strong summer tourist season.

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



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

WHY IS THIS IMPORTANT?

One indicator of the region's global competitiveness is the ability to export goods and services. A high level of export activity translates into more jobs and wealth for the region. Colorado Springs must continue to develop export activity as it grows to ensure that it will be a global player.

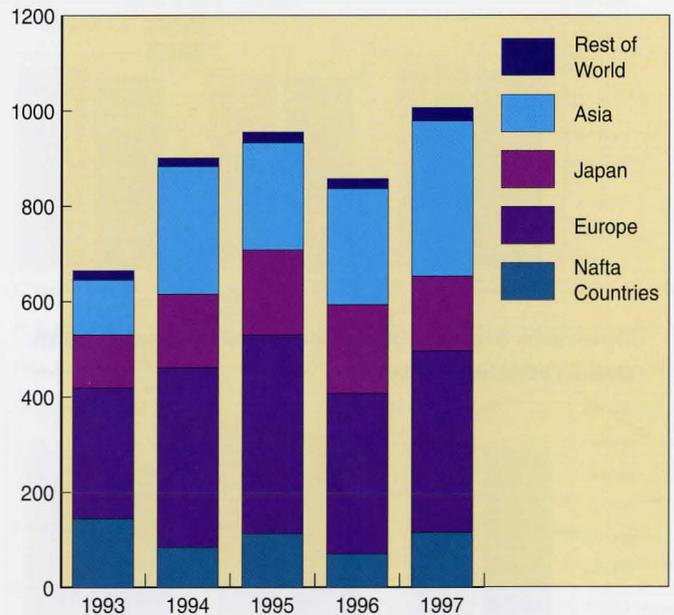
HOW ARE WE DOING?

Colorado exported over \$11.3 billion worth of goods in 1997 and \$10.7 billion in 1998, a 5.3 percent decline. Colorado ranked 19 out of the 50 states in the value of merchandise exports in 1998. Manufactured exports are dominated by high tech commercial industrial machinery and computer equipment.

Colorado Springs merchandise exports of goods and services topped \$1 billion in 1997. As the graph shows, Asia (including Japan) is the largest export area for Colorado Springs followed by Europe and the NAFTA countries. Between 1996 and 1997 exports increased 64.3 percent to NAFTA countries and 12.9 percent to Europe. While exports were off by 15.4 to Japan in 1997, they grew by 33.7 percent in the rest of Asia.

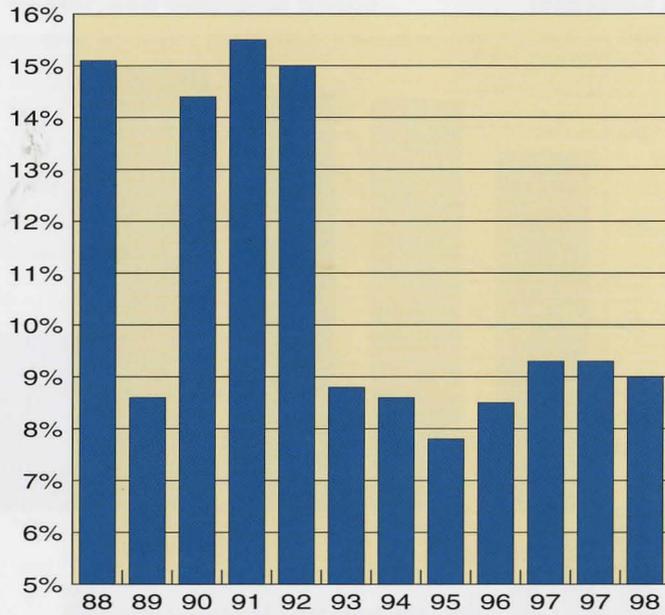
Asia appears to be showing signs of recovery from the financial collapse last year. Europe also appears to be rebounding from its struggle with monetary union. Recently, the euro and the yen have both strengthened against the dollar. An economic revival in these two important regions combined with a weaker dollar would benefit Colorado Springs exporters.

Colorado Springs Merchandise Exports to Selected Areas (\$ millions)



Source: Exporter Location Series, Census Bureau; Prepared by: International Trade Administration, U.S. Department of Commerce

Low Birth Weight in El Paso County



Source: Colorado Department of Public Health and Environment, Health Statistics and Vital Records

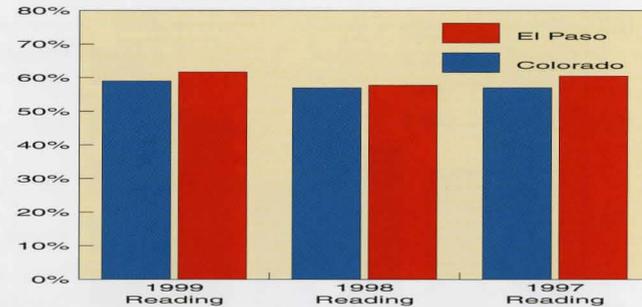
WHY IS THIS IMPORTANT?

The proportion of low birth weight 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 have access to, and are encouraged to receive, prenatal care and practice proper nutrition.

HOW ARE WE DOING?

Traditionally, Colorado has had a high proportion of low weight births. El Paso county has made substantial improvements during the past decade. Low weight births have decreased from the 14 percent and more in the early '90s to the 9 percent level over the past three or four years. The current low birth rate figures remain above the 5% target set by the U.S. Public Health Service.

Colorado Student Assessment Program Fourth Grade Reading Results



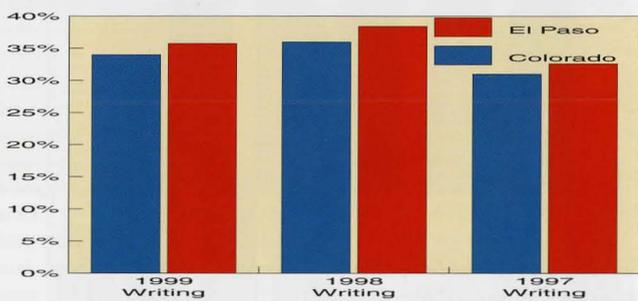
WHY IS THIS IMPORTANT?

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

HOW ARE WE DOING?

All fourth grade students in the state of Colorado were given the first CSAP reading and writing assessment in the spring of 1997. During a five-year phase in process, additional grades and subject matter are scheduled to be given Colorado's standard based assessments. Standards-referenced assessments differ from norm-referenced tests, like the ITBS and CAT, in several ways. Norm-referenced tests are designed to measure how much a student knows in comparison to other students, not what particular knowledge and skills have been mastered. CSAP is designed to measure how close students are to the targets of *what they should know and be able to* by the time they reach a given grade, giving a performance level score for each student. While it is too soon to evaluate progress over time, results from the first three administrations of CSAP given to 52,000 Colorado fourth graders indicate that 35 to 36 percent of El Paso county students score at or above the proficient level in writing and 62 percent of the students are considered at or above proficiency in reading. Students in El Paso county have performed better than the state averages on these tests.

Colorado Student Assessment Program Fourth Grade Writing Results



Source: Colorado Department of Education

WHY IS THIS IMPORTANT?

A skilled workforce is essential for an economy to be competitive in world markets. Completion of high school is a stepping stone for obtaining the necessary skills needed in the 21st century. High school graduation and drop-out rates can predict future shortages of trained workers.

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

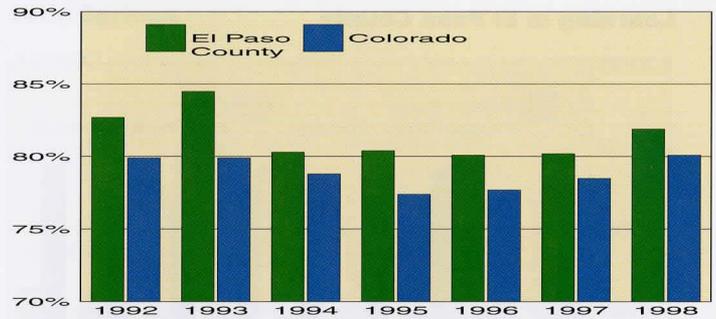
HOW ARE WE DOING?

Graduation rates in El Paso county are higher than those for Colorado but are still below the Colorado Department of Education target of 90%. For the past five years the graduation rates in El Paso county have remained around 80% but did show a marked improvement to 81.9 percent in 1998.

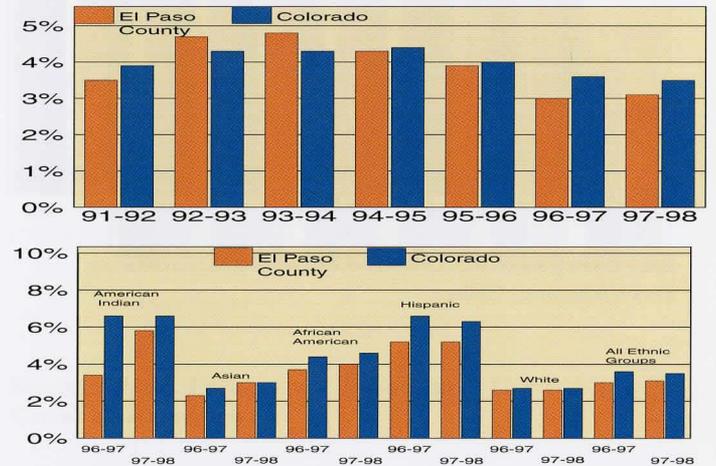
Drop-out rates for all students have been falling since the '93-'94 school year. In 1997-98, the overall dropout rate was 3.10 percent in El Paso county and 3.5 percent in Colorado.

The drop-out rate is lowest among whites and Asians in El Paso county which is similar to the statewide averages for these two ethnic groups. Drop-out rates for American Indians, African Americans, and Hispanics although high, are below the statewide averages for the three ethnic groups.

High School Graduation Rates



Grade 7 through 12 Drop-Out Rates



Source: Colorado Department of Education

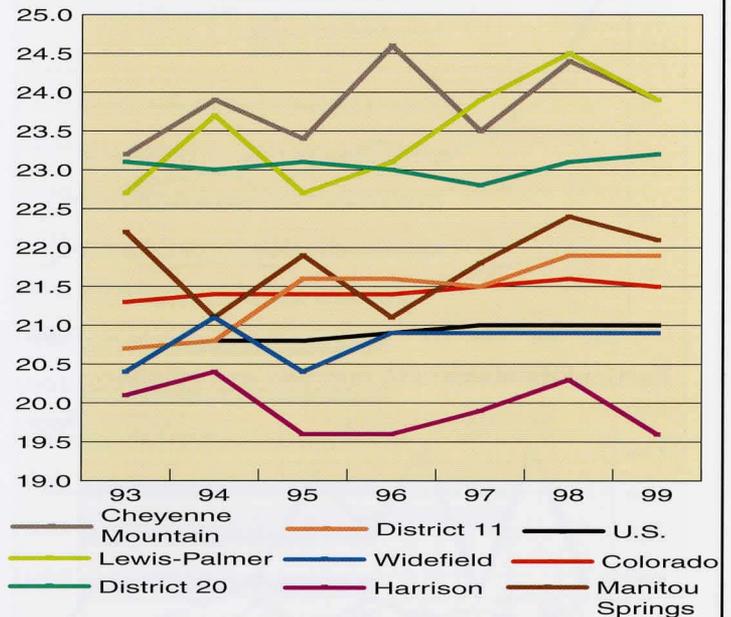
WHY IS THIS IMPORTANT?

Academic performance of high school students is an important indicator of the knowledge base of the workforce of the future. In our high technology economy this is especially significant. The American College Test (ACT) is a comprehensive achievement test that reflects the cultural and sociological differences in society making it more representative for all ethnic groups taking the test.

HOW ARE WE DOING?

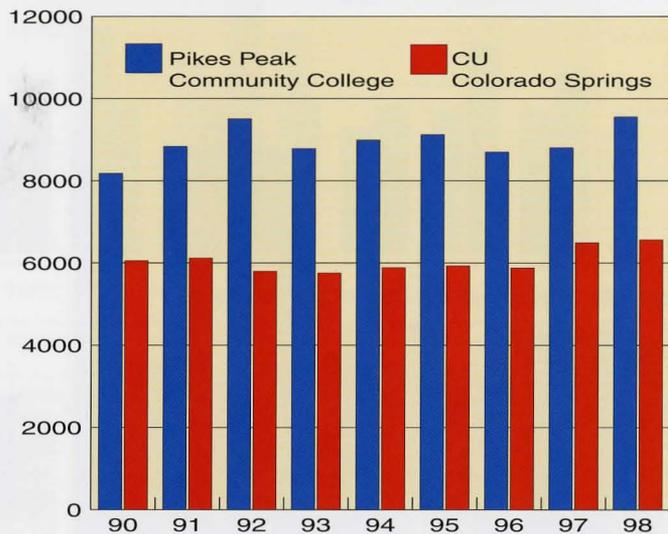
ACT scores in El Paso county appear to be on a slight upward trend and reflect recent reform and attention to performance standards in local area school districts. Lewis-Palmer School District 38, Cheyenne Mountain School District 12, Manitou Springs and Academy District 20 remain well above the averages for both Colorado and the U.S. Colorado School District 11 scores moved above the U.S. average in 1995 and above the state average in the most recent years. Scores in the Widefield School District 3 have remained flat for the past five years. Harrison School District 2 scores have improved somewhat since 1996 but remain below state and national averages. These scores do not include every El Paso county school district, but do provide a representative profile of the performance of a large portion of our students.

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



Sources: The Colorado Springs Gazette; American College Testing program; Colorado Department of Education, local school districts

Enrollments at Public Institutions of Higher Learning in El Paso County



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

WHY IS THIS IMPORTANT?

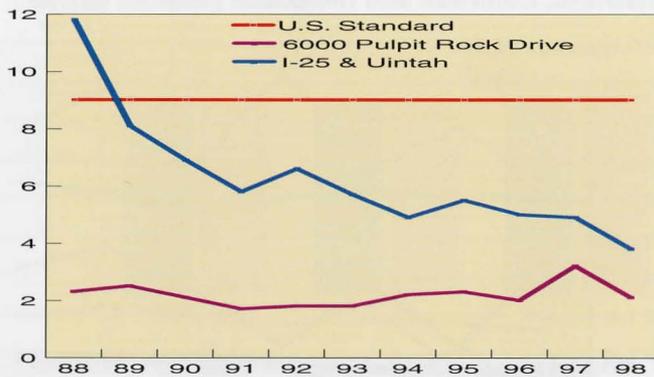
With a population now at one-half million and an ever-increasing demand for skilled labor, El Paso county needs public higher education institutions to meet the needs of the community. A well-trained and educated workforce is essential for economic growth. Enrollments are an indicator of the future supply of qualified workers and how well the region is preparing individuals for a growing and competitive workforce.

HOW ARE WE DOING?

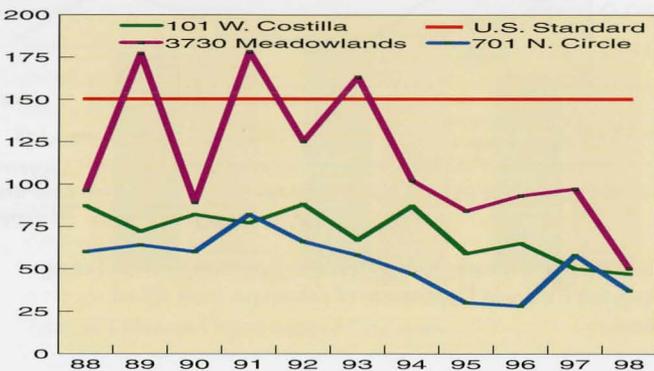
At CU-Colorado Springs, enrollments surpassed 6,500 in 1998-99 and the university anticipates strong growth again this year. Groundbreaking occurred this spring on the \$30 million El Pomar Center which will greatly enhance the library space and the technological capabilities of the campus. President Buechner's Total Learning Environment initiative is expected to lead to profound changes in the delivery of education into the next century. The campus is in the process of developing a facilities master plan which will guide the development of the university as it grows in size and stature within the CU system.

Pikes Peak Community College enrollments topped 9,500 students in 1998-99. Enrollment for fall 1999 was up about 4.6 percent. PPCC is learning and learner-centered, market-aligned and community-connected. For academic year 1999-2000 its focus is on Learning for Life. PPCC opened its new Rampart Range Campus in northern Colorado Springs in the fall of 1998. Some 2,300 students now take classes at this technology-oriented campus. Fall 1999 enrollements at the college's Downtown Studio Campus were up over 23 percent. The Centennial Campus will begin a multi-year renovation next year.

Carbon Monoxide (ppm)



Particulate Matter (10 microns and smaller)



Source: Colorado Department of Public Health and Environment

WHY IS IT IMPORTANT?

Air quality is fundamental to community health, the environment, and our economy. There is growing concern over the interdependence between the health of the environment and our economy. A key selling point of our area is the quality and opportunity for outdoor activities. In fact, many people move west to escape the "smokestack" industrial areas back east. While there is no overall index of environmental health, carbon monoxide and particulate concentrations provide an indication of air quality.

HOW ARE WE DOING?

The unique geography of our region influences air quality. Inversions and lack of winds have exacerbated air quality problems over the years. In order to remain abreast of the status of our air quality, the state has an ongoing monitoring program.

For the purpose of this indicator, we selected two elements regularly monitored in El Paso county. The graphs show steady improvement in these air quality measures. Carbon monoxide readings are declining steadily and have been below the U.S. standard throughout the '90s. Particulate measures, while varying greatly, have been below the U.S. standard since the mid '90s. Population growth, more vehicles on the highways, urban sprawl, congestion, and longer commute times all affect the quality of our air.

WHY IS THIS IMPORTANT?

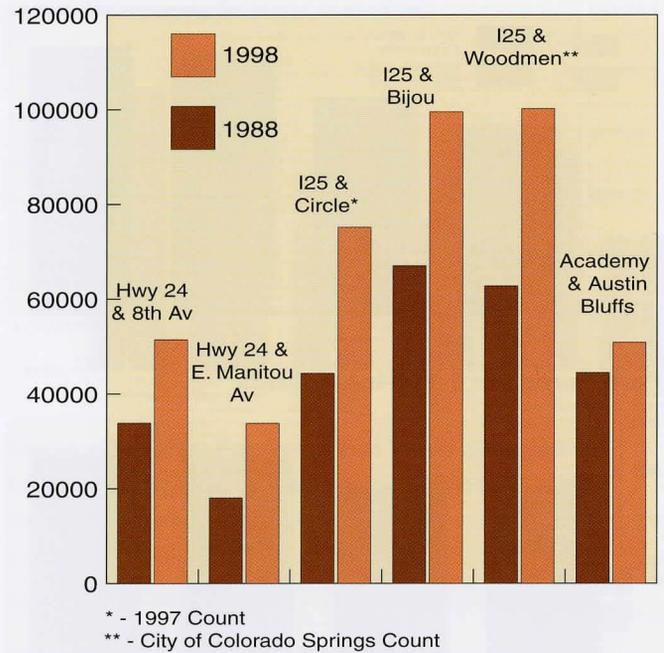
As the city grows, increased traffic leads to congestion, longer travel times, and more pollution. Roadway improvements will not necessarily improve the situation. Communities interested in quality of life and mobility will seek out other alternatives to relieve traffic congestion. These may include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

HOW ARE WE DOING?

Traffic flows in many parts of the city have increased tremendously since 1988. Traffic along the interstate now surpasses 90,000 vehicles per day in many parts of Colorado Springs. In addition, many intersections on surface streets are increasingly congested during rush hour, leading to delays, accidents, and "road rage."

The backlog of surface street repair and improvement is being hampered by tax limits imposed on the city. The expansion of I-25 has begun, but it will still be years before the needed third lane is added to an extremely overcrowded thoroughfare. The city is currently examining ways to improve east-west travel, the Powers Boulevard extension, and other roadway improvements. Completion times for a number of current and planned roadway projects in El Paso county will be shortened, provided voters approve the transportation referendum in November. However, relief from traffic congestion is still years away.

Traffic Flows Near Major Intersections in Colorado Springs



Sources: Colorado Department of Transportation; Pikes Peak Area Council of Governments

WHY IS THIS IMPORTANT?

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

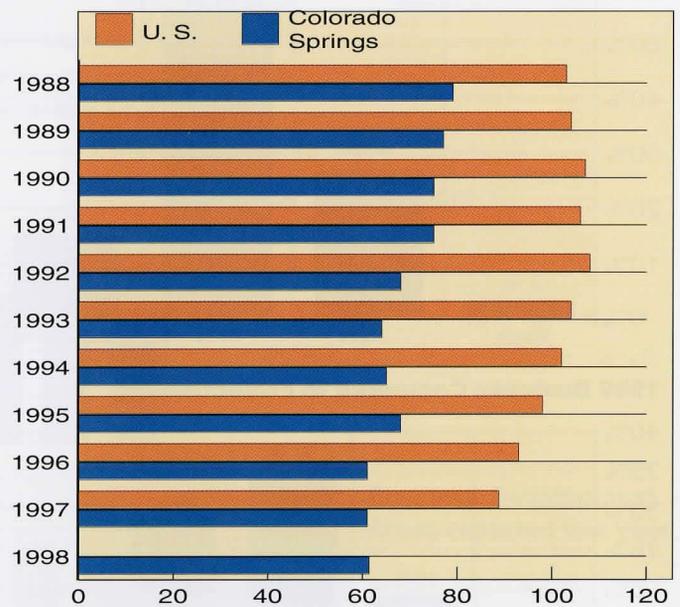
HOW ARE WE DOING?

Index crime in Colorado Springs has remained stable over the past three years after declining from 1988 to 1994. Overall, the city remains well below the U. S. average for cities of its size. Violent crimes have declined steadily in Colorado Springs over the past ten years although there was a modest increase last year.

There were a total of 20,922 indexed crimes reported in 1998, a 1.78 percent increase over year earlier figures. The bulk of the index crimes reported involve larceny/theft (68%) followed by burglary (17%), motor vehicle theft (6.2%), aggravated assault (5.5%), robbery (2.4%), forcible rape (1.3%), and homicide (.04%).

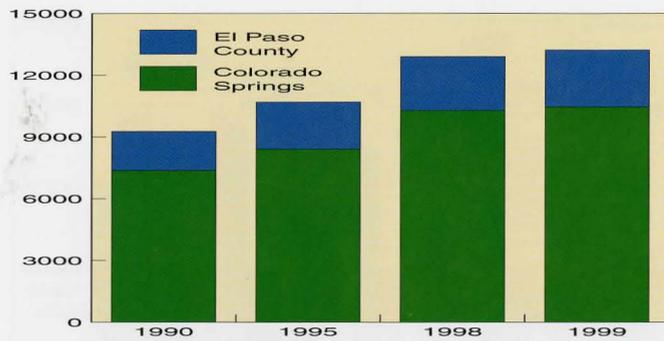
Index crime was down by over 16 percent in the first half of 1999, although criminal homicide/murder, forcible rape, and robbery were up.

U.S. and Colorado Springs Crime Index (Index per 1,000 inhabitants)

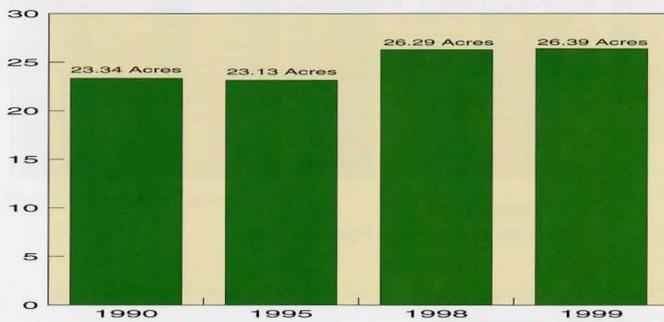


Sources: Colorado Springs Police Department; FBI

Acres of Parks in Colorado Springs and El Paso County



Park Acres Per 1,000 Inhabitants



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

WHY IS THIS IMPORTANT?

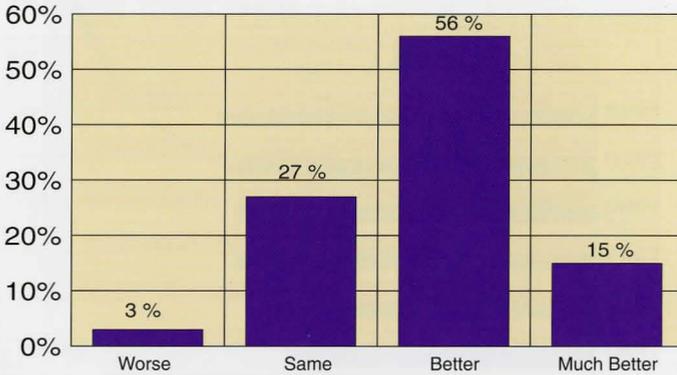
Open space and park land provide important areas for recreation and leisure activity, support natural habitat, and enhance the visual appeal of the region. Open spaces have a significant impact on the quality of life in the area. The beauty and attraction of the region is enhanced by parks and other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

HOW ARE WE DOING?

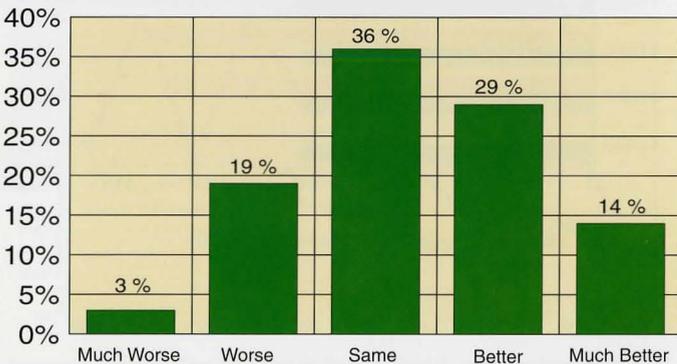
The Pikes Peak region is blessed with beautiful views and natural scenic areas. Garden of the Gods is one of the most well-known and beautiful parks in the country. Currently the city and county combined have set aside and developed over 13,000 acres of park land. This translates into 26.79 acres per 1,000 residents in 1999 which is up from the 23.13 acres per 1,000 residents in 1995. The recent passage of a .1 percent city tax to buy and set aside open space for park development should help to assure that Colorado Springs continues to develop park space to meet community needs. Over \$6.5 million in Trails, Open Space, and Parks Tax (TOPS) has been collected since this tax referendum was passed in 1997. The approval of the \$88 million bond referendum in Colorado Springs in 1998 will aid the growth in park land. Most notable is Confluence Park to be located downtown.

Survey Results

Expected Business Performance in 2000 Compared with 1999



1999 Business Compared to Projections



HOW DID WE COLLECT THE DATA?

A survey packet was mailed to 2,562 local business leaders. Each person received a cover letter explaining the importance of the study, a postage-paid return envelope, and a questionnaire. Out of the total mailing, 268 questionnaires were returned in time to be included in our analysis. The response rate of 10.5 percent is not uncommon for mail surveys but less than we hoped for. While 268 responses is a good number for making general assessments, we should be cautious about making specific numerical projections based on these data.

WHAT DID WE ASK?

The purpose of the survey was to gauge the level of local business optimism in the economy. We listed a number of factors on the questionnaire to determine which factors positively or negatively impact company operations. We also inquired about a number of business development areas that these companies will emphasize over the next 18 months.

The questions are important since they provide valuable insights regarding what is on the minds of business policy and decision makers at our local businesses. We provide a summary of business optimism and factors that are currently and will continue to affect business operations over the next year. The last charts provide some insight into expected areas of business development for next year and compares them to the business development areas that were important this year.

WHAT DID WE FIND OUT?

Businesses are optimistic. This year, 43% of responding firms say that 1999 performance is "better" or "much better" than expected (graph previous page). This is up from 33% last year. Additionally, 71% predict that business in 2000 will be "better" or "much better" than 1999. This is also up from the 64 percent reported in last year's survey results.

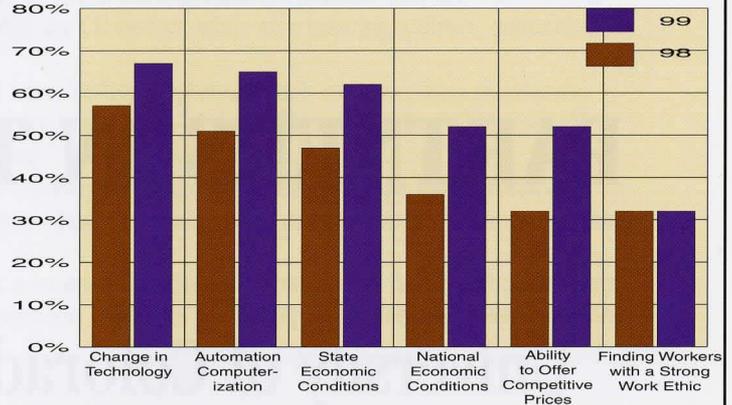
This optimism is reflected in the predicted hiring for 2000. Responding companies predict a 14% increase in regular full-time employees, and a 7% increase in both temporary full-time, and part-time employees. The need for more employees is being driven by increased sales. Companies report that their biggest challenge is finding qualified people with a strong work ethic. We have concerns whether businesses will find the needed workers in 2000 given the low unemployment and low in-migration.

The positive factors impacting operations have changed very little this year. Businesses continue to report that change in technology, automation/computerization, and the state economic conditions will have the most positive impact on operations over the next 18 months. The graph compares results over the past two years.

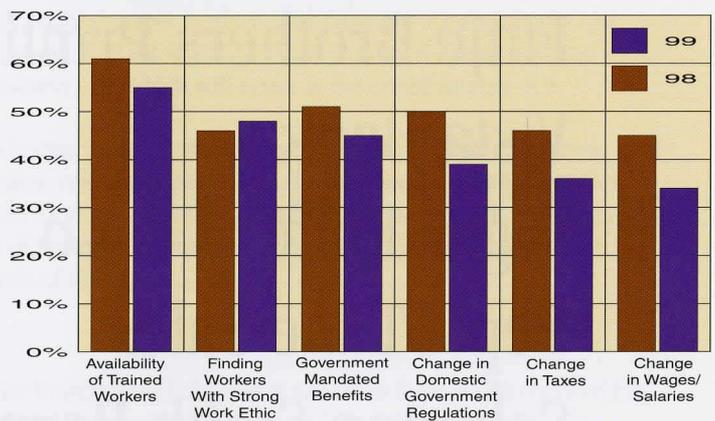
The negative factors impacting operations also change little from last year's results. However, while the same factors are present in both years, their relative importance has changed. Availability of trained workers continues to be a big challenge for companies. This factor may significantly affect business expansion next year.

Although the relative emphasis has changed, companies continue to pursue a number of development areas. The graphs below allow a comparison between this year's and last year's development initiatives. Notice the significant increase in the rank and importance placed on E-commerce and use of the information highway.

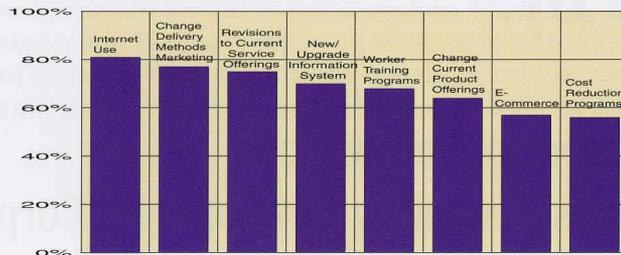
Survey Results: Factors That Have a Positive Impact on Operations (Values represent the percent of companies reporting the factor as positive)



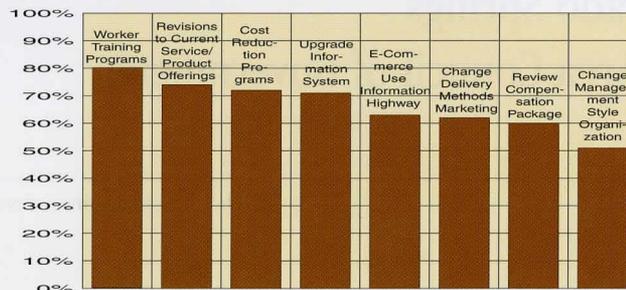
Survey Results: Factors That Have a Negative Impact on Operations (Values represent the percent of companies reporting the factor as negative)



Survey Results: Key Business Development Areas For the Next 18 Months (Values represent the percent of companies reporting the development area. Bottom graph presents last year's results.)



Business Development Areas for 1999-2000



Business Development Areas reported last year

PARTNERS IN THE FORUM

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the College in the top 20% of business schools nationally. CU-Colorado Springs is the only MBA program in the Pikes Peak Region that has earned this recognition. Indeed our Distance MBA has been ranked in the top 20 nationally by Forbes magazine. CU-Colorado Springs has excellent partnerships with the business community. Local businesses help the College develop course work that focuses on issues important to managers today. The ability to infuse current business practice into the classroom is consistent with the mission of the CU-Colorado Springs campus within the CU system, while also insuring a direct, continuing relationship with business partners in the region.

The faculty is internationally acclaimed and doctoral qualified from leading institutions such as Universities of Arizona, Colorado, Minnesota, Texas and Washington. The classroom experience is enriched by their efforts in leading-edge research, academic publishing, community involvement, and industry consulting.

Professors at the College of Business provide intense, effective teaching focused on understanding the fundamentals of business solutions. Technology might change but the principles of good business practice are constant, so our business graduates learn how to adapt and grow with the marketplace.

The College of Business and Administration trains students for a competitive edge in diverse career fields such as banking, advertising, accounting, information systems, marketing, financial services, computer technology, manufacturing and many more exciting fields.

COLLEGE OF BUSINESS OUTREACH

Contact: CU-Colorado Springs College of Business (719) 262-3408

Local business people and politicians recognize a need for a credible, non-biased source for basic business conditions and trends within the southern Colorado region. Denver and Boulder have such establishments in place, and there are approximately 130 business bureaus that operate from higher education facilities throughout the United States. The College of Business is in the process of reorganizing its external operations and developing a business plan which will result in the establishment of a coordinated business outreach division by May 2000.

This division is intended to be a resource for businesses investigating the local economic climate for possible relocation, local businesses looking to expand or make aggressive changes in operation, real estate developers, home builders, capital investors, consulting and other activities. The bureau is intended to become the focal point for the college's business outreach to the southern Colorado region. The outreach division will link with other College of Business resources (CITTI, SBDC, Center for Creativity) to provide a spectrum of services to meet the growing business demands of the region.

ABOUT THE AUTHORS AND PRESENTERS OF RESULTS

Dr. Thomas J. Zwirlein is an Associate Professor of Finance at the University of Colorado at Colorado Springs. He received his Ph.D. in 1985 from the University of Oregon with a major in finance and minors in economics and quantitative methods. He teaches managerial and international finance. His research interests are in the areas of investments, financial strategy, and corporate control and organizational issues. While earning his MBA, Dr. Zwirlein worked for the Bureau of Business and Economic Research at the University of Wisconsin at LaCrosse. (719) 262-3241

Dr. Jeffery Ferguson, Professor of Service Management and Marketing, has been on the faculty of the University of Colorado at Colorado Springs for twenty years. He has a Ph.D. in business from Arizona State University, an MBA from the University of Montana, and a BS in physics from Denison University. As an educator, Dr. Ferguson teaches courses in service management, marketing research, and marketing. His research interest is in the area of marketing of services including health care, financial services, and nonprofit organizations. Dr. Ferguson is a consultant in marketing research and service quality. (719) 262-3228



University of Colorado
at Colorado Springs



University of Colorado Foundation, Inc.
P.O. Box 7150
Colorado Springs, CO 80933-7150