

Econometer

A Newsletter of Economic Indicators in Southwest Colorado
 from the Fort Lewis College School of Business Administration
 Volume 13, Number 4 • Fall 2003

LOCAL ECONOMY GROWS DURING SECOND QUARTER

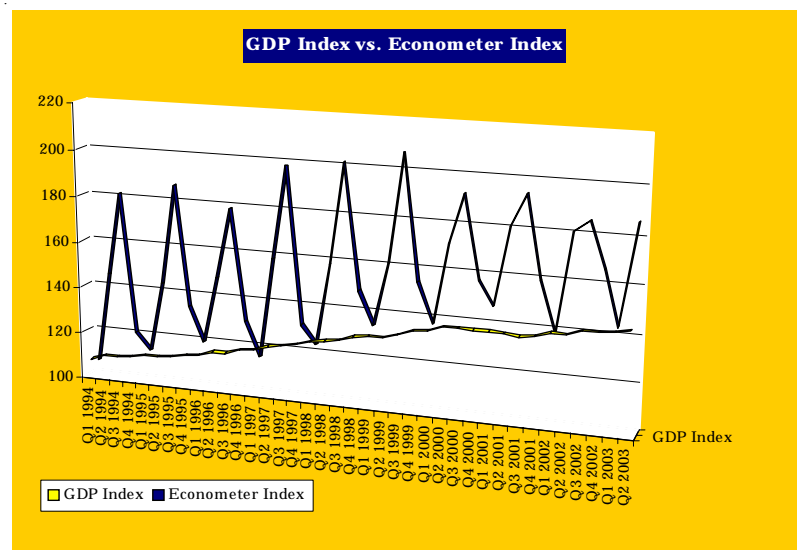
The La Plata County economy grew during the second quarter of 2003. Most sectors showed improvements as compared to the same quarter of the previous year. The Econometer Index, which includes several sectors of the local economy, increased by 3.8 percent as compared to the second quarter of 2002. Construction and the energy sector led the expansion.

The national economy enjoyed improved growth during the second quarter, expanding at an annual rate of 3.3 percent. This was a significant improvement over the weak growth rate (only 1.4 percent) of the first quarter. Although the national economy is producing increasing amounts of output, there is widespread concern that the nation is experiencing a “jobless recovery.” The unemployment rate of the nation’s labor force was 6.4 percent in June 2003. The national economy will have to grow more rapidly if the unemployment rate is to fall and total employment to rise. Consumer prices rose 2.1 percent during the twelve-month period ending in June 2003.

The Colorado economy was weak during the second quarter of 2003. Available evidence suggested that the state economy had reached bottom during the second quarter, but had not yet begun a sustained expansion.

The Colorado Economic Chronicle of the Colorado Legislative Council observes that Colorado has a relatively large concentration in tourism, telecommunications, high technology, and airline travel as compared to most other states. These are the sectors that were most seriously damaged by the national recession of 2001. Consequently, Colorado may be expected to lag the rest of the nation in recovery from recession.

The graph which compares the Econometer Index of the local economy with the GDP of the United States shows the seasonal change of the local economy from the first to the second quarters of 2003. The annual change in the local economy may be seen by comparing the index for the second quarter of 2003 to the index for the second quarter of 2002. The graph of the GDP Index shows the upturn in the national economy during the second quarter of 2003. Both the econometer Index and the GDP Index are based on 1990, with an average value of 100 for that year.



On an annual, or year-to-year, basis most sectors of the local economy expanded during the second quarter of 2003. Sectors which were improved on an annual basis included energy prices, construction, bank deposits, calf prices, real estate prices, industrial activity, employment, population, and retail sales. Declining on an annual basis were tourism, college enrollment, and hay prices.

The La Plata County economy is highly seasonal, so that some sectors of the local economy vary significantly during the course of the year. Sectors of the local economy which expanded from the first to the second quarters of the year included tourism, construction, retail trade, calf prices, real estate, bank deposits, industrial activity, and employment. Contracting seasonally were hay prices, college enrollment, and energy prices. Population increased slightly.

Economic Indicators

Tourism

Tourism indicators declined from the second quarter of 2002 to the second quarter of 2003. On a year-to-year basis the composite tourism index declined by more than six percent. Airport passenger enplanements and Mesa Verde National Park visitation fell while ridership on the Durango & Silverton Narrow Gauge Railroad increased.

Retailing

Retail sales, after adjustment for inflation, increased seasonally by more than seventeen percent and also increased by more than one percent from year to year.

Employment

Employment in La Plata County is estimated by the Colorado Department of Labor and Employment. These estimates are subject to significant revisions. According to state estimates, employment in La Plata County increased by 2.1 percent from the first to the second quarters of the year and also increased by 4.8 percent year over year.

Agriculture

Calf prices showed a strong seasonal increase, rising 10.8 percent from quarter to quarter and also rising 9.3 percent from the second quarter of 2002 to the second quarter of 2003. In contrast, alfalfa hay prices fell by more than twelve percent seasonally and by more than one percent year over year.

Industrial Activity

Industrial kilowatt-hours used increased by 4.2 percent from quarter to quarter and also by 5.6 percent from year to year. Most industrial use of electricity in La Plata County is to compress natural gas for transmission through gas pipelines.

Tourism Indicators Second Quarter 2003

Indicator	Number	Percentage Change from Previous Year
Mesa Verde Nat'l Park	155,279	-3.9%
Durango & Silverton Narrow Gauge Railroad	42,217	3.2%
Durango-La Plata County Airport	18,113	-23.7%
Durango Mtn Resort (2002-2003 Season)	265,000	5.6%

Population

The number of residential electric meters increased by 0.5 percent from the first quarter to the second quarter of 2003 and also increased by 2.1 percent year over year. The annual increase in the number of residential electric meters suggests that the population of La Plata County is continuing to grow.

Finance

After adjustment for inflation, bank deposits in La Plata County increased by six percent from quarter to quarter and by more than ten percent from year to year. Bank deposits are an important indicator of the economic health of a community as well as an indicator of the ability of local banks to make loans.

Fort Lewis College

Enrollment at Fort Lewis College showed a normal seasonal decline as the transition to summer school occurred. Year over year enrollment declined by more than two percent. Several studies have shown that the college is responsible for about ten percent of the economic activity in La Plata County.

Construction

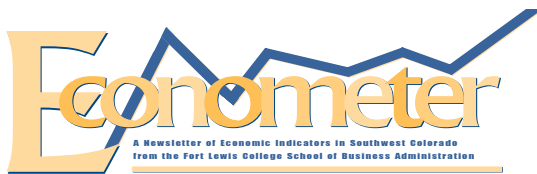
Construction activity experienced a seasonal surge, rising very rapidly from the winter to the spring quarter. Year over year, construction spending increased by more than eleven percent.

Energy Prices

The federal government's energy price index fell by more than eleven percent on a seasonal basis, but prices were still more than thirty-six percent higher than during the same quarter of the previous year. Energy prices are important to La Plata County because the county is a major producer of natural gas. Rents and royalties, as well as property tax revenues associated with natural gas production, are very important to the local economy.

Real Estate

The median price of residential real estate in La Plata County, after adjustment for inflation, increased by more than six percent from quarter to quarter and by more than five percent from year to year.



The Econometer is a newsletter on economic indicators of Southwest Colorado published by the Office of Economic Analysis and Business Research in the Fort Lewis College School of Business Administration. For information, contact:

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Business Lessons for State and Local Government

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When new state lawmakers assumed office at the beginning of this year, they stepped into one of the worst state budget deficit situations in decades. The negative effects of these deficits have been far-reaching. Perhaps it is time that state and local government decision-makers turn to the world of business for ideas about how to run an organization; even a government bureaucracy. This article will summarize a few standard business practices from which state and local governments could possibly benefit.

1. **The Economics of Revenue Forecasting**—As most business people know, forecasting revenue is not an easy thing to do. But one basic truth is always present in their analysis: people respond to changes in prices. It may seem, on first glance, that to increase revenue (which is simply defined as price times number of items sold) all a business has to do is increase prices. The problem is, consumers are not passive to price increases. If a business increases its prices, it may lose enough customers such that it actually sees a decrease in revenue. Businesses know that they must try to determine what economists call the price elasticity of demand for a firm's goods and services. Or, simply put, businesses try to determine how responsive consumers will be to a price change. In some cases, a firm can actually increase revenue with a price *decrease* by making up for the lower price in sales volume. This is the typical strategy of the discount store, like Wal Mart. Governments often, on the other hand, simply see a tax cut as a "loss" to the government and a tax increase as a "gain" to the government. This assumes that taxpayers, unlike consumers, will be passive to an increase (or decrease) in taxes. But taxpayers and consumers are the same people – acting in different roles but responding, nonetheless, to changes that will affect their pocketbooks. Tax cuts may actually bring in more revenue by increasing the tax base (the number of people and businesses taxed) through economic expansion; while tax increases may actually pull in less revenue as economic activity contracts. The Federal Reserve Bank of Atlanta provides evidence for a strong correlation between raising tax rates and lower growth rates for states. Other studies have shown that people do tend to leave places with relatively high tax rates. Our first business lesson for government decision makers then is to come to the realization that individuals, whether acting as agents of their households or as agents for a business organization, will change their behavior in response to tax changes. Government revenue forecasts should be altered in an attempt to include how people might change their behavior.

2. **Plan For The Unexpected**—Businesses often keep some "extra" cash on hand in order to meet sudden and unanticipated budget shortfalls. Whether it is called "petty cash" or a "cash reserves for default loan account," this revenue is kept on hand because businesses know that consumers don't always act as predicted or debtors don't always fulfill their promises. Any number of other events might happen that could present a business with a budget shortfall. In other words, businesses engage in long term planning and attempt to prepare for the unexpected. Governments, by their nature, are short-sighted because of periodic changes in regimes. But this is no excuse for not keeping special funds on hand that can help cushion a state or city in the event of economic emergencies. Instead of immediately changing taxes, borrowing money, or decreasing budgets, reserve funds can be tapped.

If necessary, making this fund part of a state or city constitution would avoid the "short-sightedness" problem. Our second business lesson for government then is to keep some funds on hand for emergencies so that drastic and expensive measures can be avoided in the event of an unexpected budget shortfall.

3. **E-Commerce and Efficiency**—Businesses know that being on the cutting edge of technology is a must in a competitive market. This is why the business sector in our economy is the engine of technological innovation and has made providing electronic commerce services to customers a routine business practice. Government can certainly cut costs and increase citizen-government relations by using information technology and the Internet for necessary transactions between citizens and the government. There is no need for all government business to take place in a government office. Citizens can enjoy the lower cost of not having to physically visit a government office; saving time and money for all involved. Our third business lesson for government then is to make better use of taxpayer money by utilizing information technology and the Internet.

4. **Make Or Buy?**—We all deal with this age old question, even in our households. In his famous book, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Adam Smith explained that although division and specialization of labor will increase productivity (after all, a Jack of all trades is a master of none) this division and specialization is limited to the extent of the market. In other words, a very small town does not have the market to support a specialty store, such as a Baskin Robbins; therefore the kids in town will find their ice cream at the local soda fountain in a more general store (in the author's case it was Moffitt Drug Company or Wilson's Pharmacy in Cortez, Colorado some years ago). As markets grow, however, it becomes more profitable for businesses to specialize. This then allows firms the option of either producing a particular input "in house" or buying from the specialist. In many cases, the specialist offers the better deal and the business "out sources" a particular business function, such as accounting services. Governments can also benefit from outsourcing; not only by cutting costs when a particular service

(Continued on page 4)



Business Lessons for State and Local Government

can be accomplished by the private sector more efficiently; but also by the sale of the existing assets used for the in house operations. One example is Ohio. It decided to out source spirits and sold its state liquor stores for about \$20 million. Combining both e-commerce and out sourcing is also a good idea. A Texas budget study showed that 5 percent of procurement outlays went to processing purchases. Pennsylvania saved \$13 million in merchandise costs by conducting online "reverse auctions" with contracts going to the lowest bidder. Our fourth business lesson for government then is to buy instead of make when it is cheaper to do so. Combining using the Internet with out sourcing can add even more efficiency to the government's operations.

Summary and Conclusions

Businesses face a competitive environment, which forces them to come up with and utilize efficiency enhancing practices. Many of these business practices can also be used by government decision-makers to overcome a current budget shortfall; or to avoid one in the future. Using better revenue forecasting techniques, keeping a budget reserve account for unexpected shortfalls, using information technology and the Internet, and out sourcing government functions that can be more efficiently performed by the private sector will all help keep state and local governments solvent for years to come.

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ABOUT THE AUTHOR

Deborah Walker is an Assistant Professor of Economics in the School of the Business Administration at Fort Lewis College. After attending Arizona State University for her undergraduate degree in economics and a Masters in Business Administration, she received her Ph.D. in economics from George Mason University. She spent most of her academic career teaching at Loyola University New Orleans; with a brief stint in Washington, D.C. as a public policy analyst. Wanting to return to the mountains of Southwestern Colorado (having been born and mostly raised in Cortez) she enthusiastically accepted a position at Fort Lewis College last year.

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Methodology

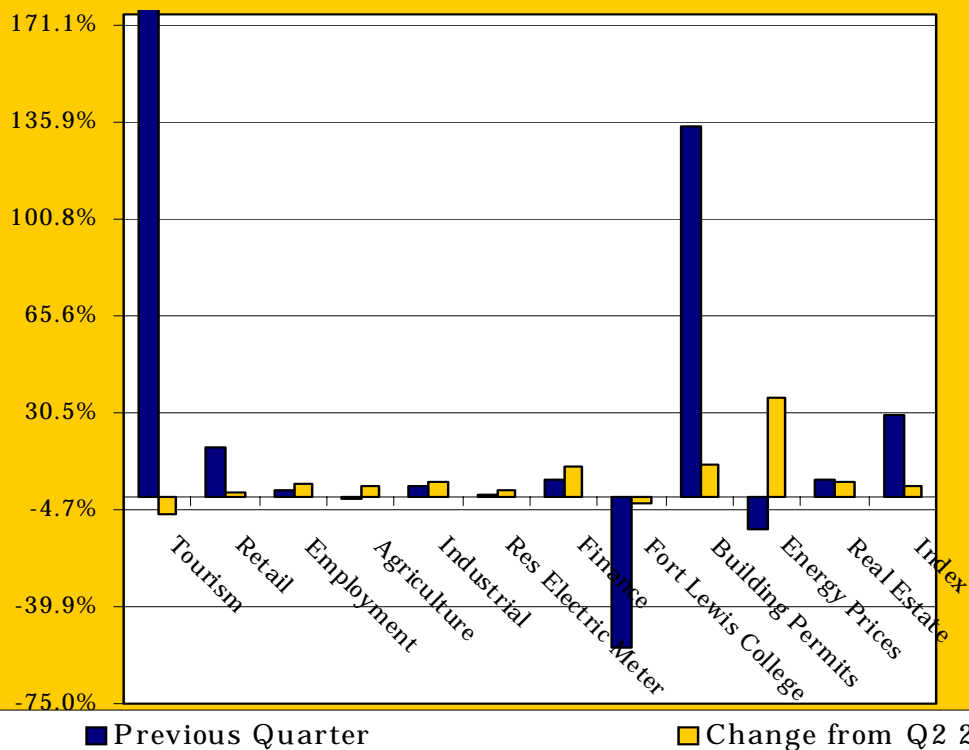
The base period for the Econometer Index is 1990. Data is developed on a quarterly basis, usually from monthly sources. Monetary data are adjusted to the 1990 price level so that analysis may be done in real terms. Weights used in the Index are: Tourism(.325), Retail Sales(.25), Employment(.05), Agriculture(.05), Industrial Kilowatt Hours(.025), FLC Enrollment(.10), Building Permits(.075), Energy Prices(.025), Residential Real Estate Prices(.025), Residential Electric meters(.025), Bank Deposits(.05).

Tourism includes train ridership, Mesa Verde visitors, and airport passenger activity. Agriculture includes calf and alfalfa hay prices.

The index is revised periodically to ensure that it accurately reflects the developing economy of Southwest Colorado.

Indicator	Previous Quarter	Change from Q2 2002
Tourism	188.8%	-6.6%
Retail	17.8%	1.3%
Employment	2.1%	4.8%
Agriculture	-1.1%	4.1%
Industrial	4.2%	5.6%
Res Electric Meter	0.5%	2.1%
Finance	6.0%	10.6%
Fort Lewis College	-54.3%	-2.7%
Building Permits	134.6%	11.6%
Energy Prices	-11.7%	36.3%
Real Estate	6.4%	5.6%
Index	30.0%	3.8%

Growth in Economic Indicators



As one scans the array of economic indicators prepared by our resident expert economist, Dr. Vernon Lynch, one continues to see the benefits of our substantially well-diversified economy. I know I've said this many times before, but economic diversification is the best remedy for wide swings in economic activity. We continue to be blessed with very substantial diversification. It looks like both the Colorado and national economies bottomed sometime last spring and have begun to turn the corner.

One might be reminded that the stock market usually anticipates economic recovery by about six months or so and, interestingly enough, the substantial rally that has taken place year-to-date began last October, which was roughly 6 months before we started to see actual indicators of economic recovery. Again, focusing on our local economy, you should note that nine of the Econometer index components are up year-to-year, and only three are down. One of those included college enrollment.

I might comment briefly on that. First of all, actual enrollment is only down a couple of percentage points year-to-year. It's worth knowing that this decrease is by design. Fort Lewis College has as part of its strategic mission to enhance the overall success of students who enter the college. We had been admitting a number of students who were unsuccessful in their college work, and so as a result, one of the things the college has done is to restrict the number of individuals who can enter the college through the "admissions window". The window is a means by which public colleges and universities in Colorado can admit up to 20% of students who do not meet the admissions standards.

Our analysis indicates that many such students are not prepared for college and thus fail. We are implementing strategies and programs to help find ways for these students to enhance their preparation prior to entering college so that they may be more likely to succeed when they do enter. The result is that we have seen a slight decrease in enrollment. We strongly believe that in the long run, enrollment will increase as the quality level and preparedness of students increases.

I'd like to comment briefly on the reorganization of the college. I am well aware that there have been many articles and editorials regarding reorganization during the past few months. I think it worth noting that the college has not been reorganized in 30 years. Fort Lewis College is not just a little school any more. It's well over 4000 students and that's not small by any measure. As organizations grow and change over time, it's important that the organizational structure and the staffing within that structure be changed to accommodate the changing needs of the organization. Technology has changed almost everything we do and one can often reorganize to capitalize on the efficiencies generated by the appropriate use of technology.

Organizational change is often frightening to many people because they're used to the old ways and fearful of the new ways. Anyone affected by the change will ask the question, "How will this affect me?" They may often speak against the change if they perceive that the change negatively impacts them. However, if one takes a macro perspective, and looks at the most appropriate structure for the entire organization, one may conclude that the changes are not only necessary but will make the organization more efficient and effective.

Fort Lewis is poised to be one of the great colleges of the nation. If you visit the college campus, you can see it and feel it, both in the appearance of campus and the energy of the faculty, students, and staff who work here. I am very confident that the new organizational structure will position the college well into the future. Individuals will adjust to the changes that they face and will go on to be even more productive in what they do, which is serving our students.

I thought that you might be interested in another community effort that is underway. A subgroup of LEAD (La Plata Economic Development Action Partnership) is currently working on issues related to

downtown Durango and Main Street.

Part of this is stimulated by discussions that the county may move its justice

operations to a more centralized area, perhaps Bodo Park. The other driver is a strong desire by LEAD to find ways to keep our downtown and main street areas vital and attractive to both tourists and locals. The recent hiring of Bob Kunkel as the Central Business District (CBD) Events and Promotion Specialist is an effort on the part of the city to assist in these efforts. A smaller subgroup of LEAD has been meeting recently to discuss comprehensive means to further work to enhance our downtown vitality. There are representatives from the city, the county and private sectors of our economy working on this effort. Dr. Roy Cook and I have been helping to do the research into cities that are comparable to Durango that have won the Main Street Award because of their successes in downtown economic revitalization and development. We are reviewing these models to see those that are most comparable to Durango and from which we might gain ideas. As you hear more about these efforts, I hope that you will support what we're doing in the best interest of our city and our local economy.



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