

# Economic Overview and Outlook

In past years, City staff has collected and presented data that reflect the condition of the local economy. For 2012, staff is using the July 2011 edition of the Southern Colorado Economic Forum's *Quarterly Updates and Estimates* (QUE) as the report on the local economy. The QUE can be found following the description of City's economic development programs. We would like to thank the Forum for granting the City permission to reproduce and include this publication as a part of this budget document.

For additional information about the Southern Colorado Economic Forum's *Quarterly Updates and Estimates* (QUE), please contact the:



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## **Economic Overview and Outlook**

The Mayor's and City Council's 2012 Strategic Plan identifies Economic Vitality as one of its five strategic prioritized goals. In 2007, citizens supported economic development and job growth with about 40% of citizens responding to the Citizen Survey indicating that attracting and retaining jobs in Colorado Springs was a high priority. The Mayor and City Council also support proactively enhancing the local business climate, retaining existing businesses and jobs, and bringing new companies and industries to Colorado Springs. The City of Colorado Springs has a conservative portfolio of economic development programs. Economic development agreements primarily are executed with criteria that they must be performance-based agreements.

The following sections display the City's portion of shared revenue or direct payments provided for economic development efforts through Urban Renewal Areas, Economic Development Partners, Economic Development Programs, and other Economic Development Agreements.

### **Urban Renewal Areas**

City Council approved seven Urban Renewal Areas (URAs) in the city: North Nevada, South Central Downtown (Lowell project), Southwest Downtown, City Auditorium, Gold Hill Mesa, CityGate and Copper Ridge. All seven have a TIF agreement in place for property tax sharing. Currently, only the North Nevada URA has an additional sales tax sharing agreement.

Urban Renewal Areas receive funding through tax increment financing. Tax increment financing (TIF) is a method of redistributing tax collections within a designated area to finance public infrastructure improvements within the specified geographic area. Infrastructure improvements may include upgraded on-site drainage systems and adjacent intersection, roadway capacity, and pedestrian improvements, etc.

#### **Property Tax TIF**

This funding comes from the additional new property tax revenue generated from the increased assessed value of the new development. Only the increment of increased tax revenue collected is shared.

#### **Sales Tax TIF**

City Council approved Resolution No. 46-06, dated April 11, 2006 adopting guidelines for the use of sales tax revenue to promote economic activity, job creation, and assist urban renewal area projects. This funding comes from a portion of the new sales tax revenue generated from the new retail businesses that locate within the designated boundaries.

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b><u>Property Tax Revenue*</u></b>	<b><u>Actual</u></b>	<b><u>Actual</u></b>	<b><u>Budget</u></b>	<b><u>Budget</u></b>
City Auditorium URA	\$0	\$0	\$720	\$1,137
CityGate URA	0	0	120	369
Copper Ridge at Northgate URA	0	0	3,561	2,874
Gold Hill Mesa URA	8,727	9,007	13,474	13,704
North Nevada URA	5,914	16,721	55,091	60,216
South Central Downtown URA (Lowell project)	17,356	13,812	13,717	13,010
Southwest Downtown URA	93	0	0	0
<b><u>Shared Sales Tax Revenue**</u></b>				
North Nevada URA	\$0	\$1,466,557	\$2,000,000	\$2,100,000

\*Property tax revenue is collected by the El Paso County Treasurer and disbursed directly to the URA.

\*\*Sales tax revenue is collected by the City's Sales and Use Tax Division. The revenue is disbursed directly to the URA and budgeted in the General Cost section.

## ***Economic Development Partners***

The City of Colorado Springs partners with the following four organizations to support regional economic development efforts in the arts/cultural and business environments:

**CSTI** is a non-profit organization dedicated to helping entrepreneurs accelerate the growth and success of their startup companies, and in the process, creates more jobs and wealth in the region. CSTI provides strategic counsel, operational guidance, business services and resources to its start-up clients including: business planning, executive mentoring, investor relations, financial forecasting, competitor analysis, business networking, market research, training courses, and affordable facilities.

**SBDC** is one of the 14 Colorado Small Business Development Centers. The Colorado SBDC Network is a partnership between the Federal Small Business Administration (SBA) and the State of Colorado. The SBDC is dedicated to helping small businesses in the region achieve their goals of growth, expansion, innovation, increased productivity, management improvement and success. In partnership with the University of Colorado Springs (UCCS) and the City, the SBDC provides one on one business counseling and training to business startups and ongoing businesses. The major objective is to foster the successful growth and development of small businesses that result in a positive economic impact.

**EDC** is a privately-funded organization whose sole purpose is to provide primary employers with complementary, comprehensive relocation and expansion services. The Colorado Springs Regional Economic Development Corporation (EDC) is focused on the attraction, retention, and creation of quality jobs for the region. EDC is the only organization that actively works to bring into our region the primary employers who import wealth and jobs. The success of our primary employers is the key to our economic vitality, the future of our community, and the preservation of our quality of life in the entire region.

**COPPeR** serves as the lead organization for centralizing and coordinating information about cultural services in the community. COPPeR maintains a comprehensive community arts and cultural web site, PeakRadar.com, in efforts to build cultural participation in the region; foster sustainability of the region's cultural arts industry; advocate for the region's cultural vitality; leverage cultural assets to promote positive regional brand and image; and foster authenticity by celebrating aspects unique to our region's heritage and future. Cultural elements of a community continue to be paramount in workforce availability. National studies continue to show an upward trend indicating that young professionals move to "cool" communities first and then seek employment. Local companies convey that they are successful in recruiting specialized talent but struggle to retain these employees because their young people "can't get plugged-in" to Colorado Springs. COPPeR helps to bridge this gap.

<b><u>Expenditures</u></b>	<b>2009 Actual</b>	<b>2010 Actual</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
Colorado Springs Technology Incubator (CSTI)*	\$50,000	\$50,000	\$50,000	\$50,000
Small Business Development Center (SBDC)*	50,000	50,000	50,000	50,000
Economic Development Corporation (EDC)*	70,000	70,000	70,000	70,000
COPPeR**	39,000	39,000	39,000	39,000
Office of International Affairs (OIA)***	35,000	0	0	0
Procurement Technical Assistance Center (PTAC)	10,000	0	0	0
<b>Annual Expenditures</b>	<b>\$254,000</b>	<b>\$209,000</b>	<b>\$209,000</b>	<b>\$209,000</b>

\* Funding for 2012 is budgeted in the General Cost section.

\* Funding for 2012 is budgeted from the City's share of the Lodgers and Automobile Rental Tax (LART).

\*\* During 2010, the Office of International Affairs and the remaining fund balance of \$48,100 were transferred from the City to the Greater Colorado Springs Chamber of Commerce.

## **Economic Development Programs**

Economic Development Programs are available to all companies that meet certain criteria and proceed with a formal agreement with the City. These programs include the Alternative Rate of Tax Exemption for Manufacturing Equipment, Business Personal Property Tax, and the issuance of Private Activity Bonds.

### **ALTERNATIVE RATE OF TAX EXEMPTION FOR MANUFACTURING EQUIPMENT**

City Council authorized this program by Resolution No. 22-09, dated January 27, 2009. This program offers a payment based upon a sliding scale of City sales tax rates for purchases of equipment and machinery used in manufacturing operations during a calendar year. The alternate tax rate applies to annual purchases exceeding \$5 million and decreases to zero tax on purchases over \$20 million. These payments are dependent upon the company's annual purchases of machinery and equipment, and the budget estimate may vary significantly so a supplemental appropriation may be necessary once the actual dollar amounts are known.

<b><u>Alternative Tax Agreement Payments</u></b>	<b>2009 Actual</b>	<b>2010 Actual</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
Medical imaging manufacturing company	\$175,020	\$769,266	\$66,236	\$37,200

### **BUSINESS PERSONAL PROPERTY TAX AGREEMENTS**

City Council reauthorized this program by Resolution No. 203-04, dated September 28, 2004. The Business Personal Property Tax (BPPT) Agreement program is only available to primary employer companies. A primary employer is a business entity that derives at least 50% of its principal source of gross annual income from the sale of products or services outside of El Paso County. In addition, the company must create at least 10 new jobs and have over \$1 million in business personal property value over the term of the agreement. Businesses pay personal property taxes to the City on equipment used to conduct business, such as large machinery, computer equipment, desks and furniture. The payments are 50% of City taxes paid on investments of \$1 to \$5 million and 90% on investments exceeding \$5 million. The term for a standard BPPT agreement is four years and requires the company to create at least 10 new jobs in addition to the investment. If the company meets the investment criteria and creates at least 100 jobs, the company is then eligible for a 10-year agreement. A 10-year agreement may be extended an additional 5 years (for a maximum total of 15 years) if the company invests over \$75 million and hires over 500 employees.

There are several companies with BPPT agreements.

<b><u>Description</u></b>	<b>2009 Actual</b>	<b>2010 Actual</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
Amount paid to companies	\$75,526	\$53,289	\$100,000	\$100,000

### **PRIVATE ACTIVITY BONDS**

On April 28, 1998, El Paso County Board of County Commissioners and City Council jointly adopted Private Activity Bond procedures by Resolution No. 98-247, General 69 and Resolution No. 72-98. Private Activity Bonds (PABs) are a form of tax-exempt financing in which the City or County acts as the issuer. The advantage of PABs is financing through the City or County provides funds at lower-than-market interest rates because bond proceeds are exempt from Federal and State income tax. There is no financial risk to the City or County since the bond debt is repaid by the entity requesting the PAB and financings do not constitute a debt or financial obligation of the City or County. The City has not issued any PABs since 2007.

## **Economic Development Agreements**

Due to the City of Colorado Springs limited and conservative portfolio of economic development programs, some projects require economic impact analysis and separate economic development agreements (EDA). The City has several EDAs as listed below:

<b><u>Shared Sales and Use Tax Revenue</u></b>	<b>2009 Actual</b>	<b>2010 Actual</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
Hewlett-Packard	\$0	\$522,933	\$0	\$0
Lowe's	\$0	\$0	\$0	\$50,000
Mining Exchange (first payment 2013)	\$0	\$0	\$0	\$0

### **SkyWest Airlines Use Tax Agreement**

In 2004, City officials worked with SkyWest Airlines representatives to secure an aircraft maintenance center and flight crew base in Colorado Springs. City Council approved an EDA based upon the City Use Tax paid by SkyWest on purchases of aircraft parts. The City retains a maximum of \$40,000 annually in Use Tax from SkyWest's qualifying purchases of aircraft parts; any Use Tax collected by the City in excess of \$40,000 the company keeps under the EDA.

### **United States Olympic Committee (USOC) Certificate of Participation (COP) Payment**

In August 2009, the City Council approved an EDA that kept the United States Olympic Committee (USOC) in Colorado Springs for the next 30 years. The EDA included funding of improvements for the USOC headquarter building, the National Governing Bodies building and the Olympic Training Center (OTC).

<b><u>USOC COP Payment*</u></b>	<b>2009 Actual</b>	<b>2010 Actual</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
Scheduled amount	\$74,234	\$1,538,409	\$1,578,575	\$1,621,675

\*These payments are budgeted in the General Cost section.

## **UTILITY USAGE AGREEMENTS**

In 2006, City Council approved two 10-year EDAs with two companies: a medical imaging manufacturing company, and an insurance company, which established local regional headquarters in Colorado Springs. Under these EDAs, the City provides a payment to the company based upon their electric and natural gas utility usage. Due to Issue 300 approved in November 2009, legal review is required to determine the future use of utility usage agreements. These agreements:

- Do not involve any sharing of existing revenue;
- Target new utility revenue generated directly from the company;
- Establish the payment on a use and percentage basis, which therefore reduces the City's risk (if revenue collections underperform) since the payment is not tied to a specific annual amount;
- Minimize financial risk since the payment is strictly performance-based, and revenue is returned only after it is collected.

<b><u>Utility Usage Rebates*</u></b>	<b>2009 Actual</b>	<b>2010 Actual</b>	<b>2011 Budget</b>	<b>2012 Budget</b>
Medical imaging manufacturing company	\$129,713	\$198,060	\$140,000	\$200,000
Insurance company regional headquarters	<u>102,665</u>	<u>96,010</u>	<u>100,000</u>	<u>120,000</u>
<b>Annual Payments</b>	<b>\$232,378</b>	<b>\$294,070</b>	<b>\$240,000</b>	<b>\$320,000</b>

\*Actuals are for the previous year utility usage.

\*These payments are budgeted in the General Cost section.

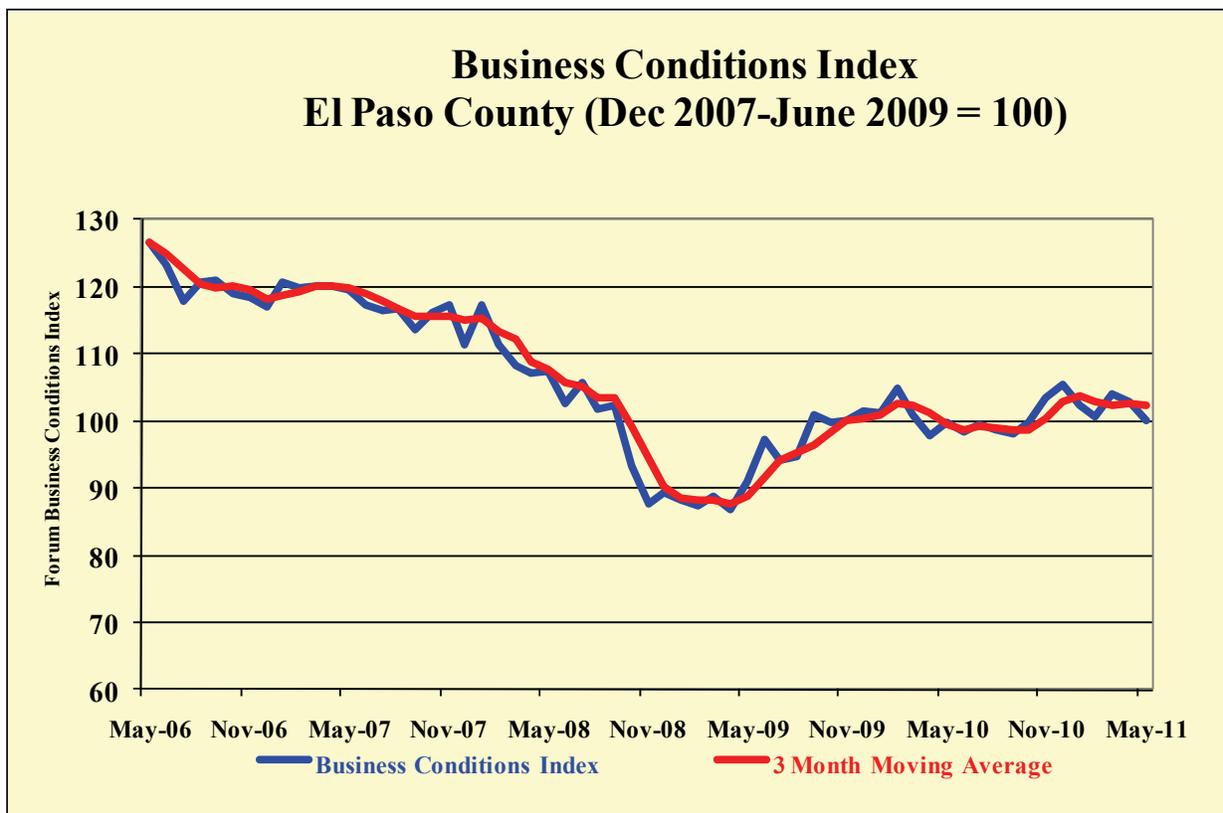


# Quarterly Updates and Estimates

Volume 11, Number 1, 2011  
 Fred Crowley - Senior Economist

## Update on the El Paso County Economy

The trend in the Business Conditions Index (BCI) points to a struggling local economy. The BCI stands at 100.18. This is 14.6 percent higher than its low of 87.41 in February 2009. However, the BCI is also 5.1 percent lower than its recent high of 105.55 in December 2010. Five of the indicators in May are higher than they were in April. However, none are showing good strength. Regional manufacturing activity has declined sharply since March. Disappointing as the recent trends are, it should be noted that seven of the ten indicators



<sup>1</sup> The Business Conditions Index (BCI) is a geometric index of ten seasonally adjusted data series. The El Paso County data are single family and town home permits, new car sales, employment rate, foreclosures, ES202 employment and ES202 wages and salaries. Colorado Springs data are sales and use tax collections and airport enplanements. University of Michigan's Consumer Sentiment and the Federal Reserve Bank of Kansas City Manufacturing Index are non-local indicator in the BCI. The BCI is indexed to December 2007—June 2009 = 100. All raw series are seasonally adjusted by UCCS Southern Colorado Economic Forum using the Department of Commerce X12 adjustment process. See page 3 for an explanation of how the BCI is calculated.



**Table 1: Business Conditions Index Components - All Values Indexed: Dec 2007 - June 2009 = 100**

	COS Enplane- ments	El Paso County SF & TH Permits	U Of Mich Con Sent	Kansas City Fed Mfg Index	El Paso <u>Employ- ment</u> Rate	CoSpgs 2% Sales & Use Tax	County New Car Registra- tions	El Paso County Fore- closures	El Paso County Employed	El Paso County Real Wages	BCI
Feb-10	90.19	170.90	114.63	124.61	96.97	103.90	79.86	100.20	95.71	94.98	104.90
Mar-10	87.55	126.01	114.63	126.25	96.72	98.59	78.40	100.03	95.76	95.60	100.89
Apr-10	87.83	96.18	112.45	132.81	96.66	79.17	88.31	99.86	95.84	97.57	97.75
May-10	84.40	97.60	114.63	118.05	96.78	111.42	87.06	100.06	95.46	97.65	99.76
Jun-10	88.15	109.19	118.37	104.94	96.95	94.10	83.56	100.04	95.18	97.70	98.36
Jul-10	86.16	111.43	105.60	112.48	96.79	102.15	89.38	100.30	95.37	98.91	99.52
Aug-10	86.70	113.21	107.31	105.59	96.51	98.41	87.43	99.85	95.27	99.09	98.62
Sep-10	91.16	99.13	106.22	114.77	96.50	102.91	79.63	99.96	95.52	99.10	98.09
Oct-10	91.58	110.09	105.44	116.74	96.44	103.08	82.84	100.08	94.77	99.78	99.67
Nov-10	92.50	131.51	107.94	129.20	96.28	101.74	91.42	99.58	93.99	100.08	103.59
Dec-10	86.36	130.85	116.03	139.70	96.74	104.82	96.42	100.31	94.37	101.26	105.55
Jan-11	90.65	106.37	115.57	134.78	96.63	104.52	91.53	99.65	94.42	96.87	102.38
Feb-11	87.08	78.35	120.71	155.76	96.65	101.53	91.98	100.77	94.40	97.14	100.68
Mar-11	85.68	101.30	105.13	167.24	96.95	97.88	110.27	101.15	94.33	97.95	104.09
Apr-11	86.15	100.23	108.71	151.17	97.09	106.45	97.30	101.06	94.11	98.98	103.00
May-11	86.99	85.76	115.72	121.33	96.85	109.00	98.54	100.95	93.29	99.22	100.18
May 2011 Compared to:											
Apr-11	1.0%	-14.4%	6.4%	-19.7%	-0.3%	2.4%	1.3%	-0.1%	-0.9%	0.2%	-2.7%
Feb-11	-0.1%	9.5%	-4.1%	-22.1%	0.2%	7.4%	7.1%	0.2%	-1.2%	2.1%	-0.5%
Nov-10	-6.0%	-34.8%	7.2%	-6.1%	0.6%	7.1%	7.8%	1.4%	-0.7%	-0.9%	-3.3%
May-10	3.1%	-12.1%	1.0%	2.8%	0.1%	-2.2%	13.2%	0.9%	-2.3%	1.6%	0.4%
Real wages in El Paso County are estimated by the Forum for the period Jan '11 - May '11											

in the BCI are higher than they were a year ago. The economy moved forward at the speed of ice melting in January.

The knee-jerk ups and downs in single family permit levels are misleading without considering that the current period competes with year ago permit levels when the home buyer incentive programs distorted the demand for housing. Residential housing permit levels are showing modest signs of recovery when the home buyer tax credit programs are controlled in the analysis. See page 5 for a discussion about this.

The near-term outlook for the local economy seems to be slow growth, at best. Nothing suggests the economy is poised for good growth. A lack of growth among primary jobs and real incomes in the area will contribute to slow growth prospects. President Obama's goal to reduce or end military deployments to Iraq and Afghanistan is expected to boost the local economy in 2012.

We need three things. They are jobs! Jobs! And jobs! Financial markets need a resolution to the Federal deficit and prevention of sovereign failure in Europe.



## Southern Colorado Economic Forum's Business Conditions Index Explained

The Business Conditions Index (BCI) is a monthly geometric average of ten seasonal adjusted data series. The El Paso County data are single family and townhome permits; new car sales; employment rate (1-the unemployment rate); foreclosures; QCEW employment and QCEW wages and salaries. Colorado Springs data are sales and use tax collections; and airport enplanements. Non-local indicators in the BCI include the University of Michigan Consumer Sentiment and the Federal Reserve Bank of Kansas City Manufacturing Index. The base period for the BCI is December 2007 through June 2009. This base level was set to 100. Declines in the index point to a slowdown in the economy while increases in the index point to a rising economy. Not all indicators in the index move up or down in unison. Some may rise while others fall. The general direction of the economy is based on the trend value of the composite indicator, the BCI.

The Forum gathers the raw data from a variety of sources. Due to changes in data availability, the composition of the BCI can differ over time. The raw data are adjusted for seasonality using the X-12-ARIMA algorithm developed by the U.S. Census Bureau. This produces a new series for each indicator that has been controlled for seasonal aberrations to identify emerging trends in time series data. The Forum is most interested in observing the overall trend in the BCI and less interested in seasonal peaks and troughs.

The reader should be aware that anytime revised prior values or new observations are used in a series, the X-12 adjustment process can change past indicator values. Thus, adding new observations and running the X-12 process will lead to new X-12 monthly indicator values that will differ from preliminary estimates that were reported previously.

The seasonally adjusted values are indexed to March 2001. This means the value for a given indicator in each month is divided by the base period and multiplied by 100 to get the indexed value for each indicator.

Calculation of the BCI, the Geometric Mean

$$BCI_t = \sqrt[N]{(Ind_{1,t})(Ind_{2,t})\dots(Ind_{N,t})}$$

Where:  $Ind_{it}$  = The level of an indicator, "i" in month "t." A geometric mean is used for the BCI because the geometric mean has less sensitivity to outliers than an arithmetic mean.

Repeated sequential increases in the BCI indicate an improving economic environment while a decline in the BCI points to a decline in economic activity.

### Changing the Base Period

Previous issues of the *QUE* used March 2001 as the base period to calculate the various index values in the publication. The traditional definition of a reference period for an index is the previous recession. Beginning with this issue of the *QUE*, the base period for all indexed values generated by the Forum reported in this publication will be indexed to December 2007—June 2009. These are the official dates from the National Bureau of Economic Research for the previous recession,



**Mark Your Calendar for the  
15<sup>th</sup> Annual Southern Colorado Economic Forum**

**When: Friday, October 14, 2011, 7:30 to 11:30 a.m.**

**Where: Antlers Hilton Hotel, Colorado Springs, CO**

**Cost: \$75.00 / \$95.00 with real estate continuing education credits**

**7:30 – 9:45 a.m. – Global, National and Regional Economic Analysis**

**This Year's Keynote Speaker:**

**Jim Paulsen, Ph.D.,**

**Chief Investment Strategist, Wells Capital Management**

**10:00 – 11:30 a.m. - Business Symposium:**

**“Regional Economic Development Along the Front Range of Colorado”**

**Featured Panelists:**

**Dennis Donovan,**

**Principal/Owner WDG Consulting**

**Dave Csintyan,**

**President and CEO of the Greater Colorado Springs Chamber of Commerce**



## The Local Housing Market

The Forum conducted an analysis of single family residential building permits from July 2001 through May 2011 to determine the condition of the local market for new residential construction. Without getting into unnecessary detail, the analysis included a regression to estimate the effect the first time home buyer program had on new single family permit activity from December 2009 through April 2010. April 2010 was chosen because it was the latest a person could contract for a home and qualify for the tax credit.

The results indicate the program was responsible for 550 permits during the program. Literature on the effects of the tax credit program suggests as much as 75 percent of the homes purchased would have been purchased even if the tax credit program did not exist. Applying this standard to El Paso County, 25 percent of the permits (138) were the result of the home buyer tax credit program.

During the period of December 2009 through June 2010, there were 1,024 single family permits. The Forum's permit model indicates the county would have had 886 permits if not for the home buyer tax credits. There were 851 single family permits from December 2010 through June 2011. Of the 138 home buyers who bought because of the tax credit, it might be realistic to assume half (69) might have been ready to buy a home during the period December 2010 through June 2011. If these buyers are included in the December 2010 through June 2011 figures, the number of permits would have been 920, an increase of 3.8 percent over December 2009 through June 2010. The home buyer tax credit program caused a time shift in new home permits. Controlling for the time shift, permit activity in 2011 is doing slightly better than it appears.

Speculation about home buyer activity during the tax credit program aside, an objective question can be answered. Would a home buyer have been better off if he/she bought a home under the tax credit program in 2010 or today, June 2011?

A comparison of the costs and payments are summarized in the table. Housing prices

	First Time Home Buyer in June 2010	Regular Home Buyer in June 2011	Trade-Up Home Buyer in 2010	Regular Home Buyer in 2011
House Price	237,318	214,902	237,318	214,902
Down Payment (20%)	-47,464	-42,980	-47,464	-42,980
Mortgage (360 payments)	-368,368	-313,964	-368,368	-313,964
Home-Buyer Tax Credit	8,000	0	6,500	0
Sale of house in 30 years (4% growth per year)	697,013	697,013	697,013	697,013
Sum of cash flows	289,181	340,068	287,681	340,068
Advantage		50,887		52,387

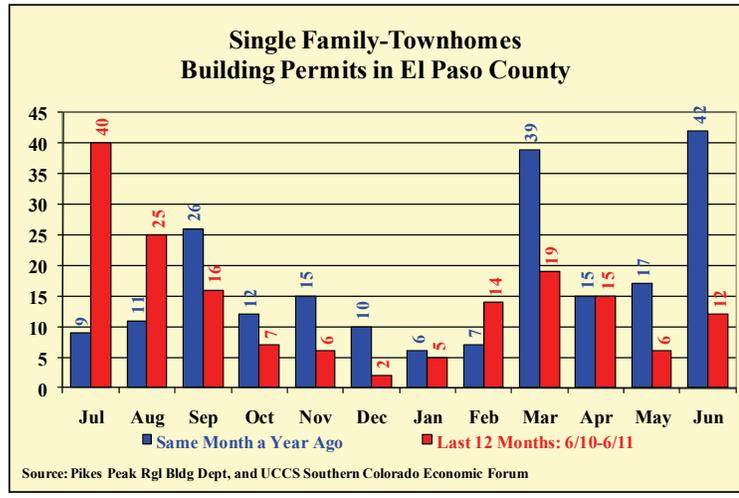
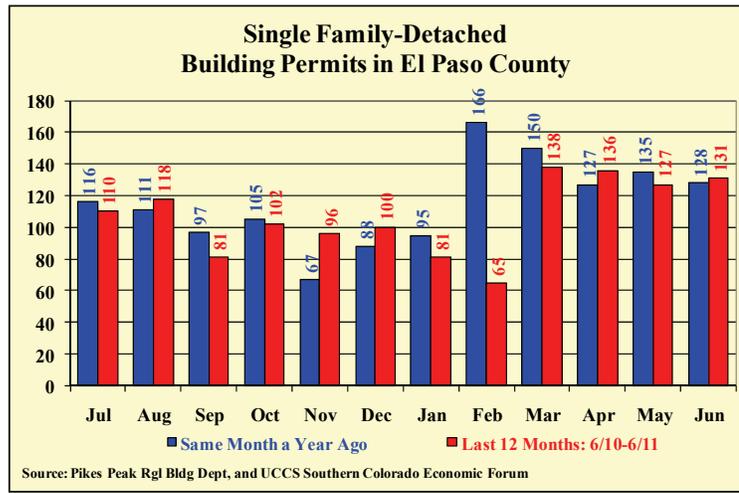
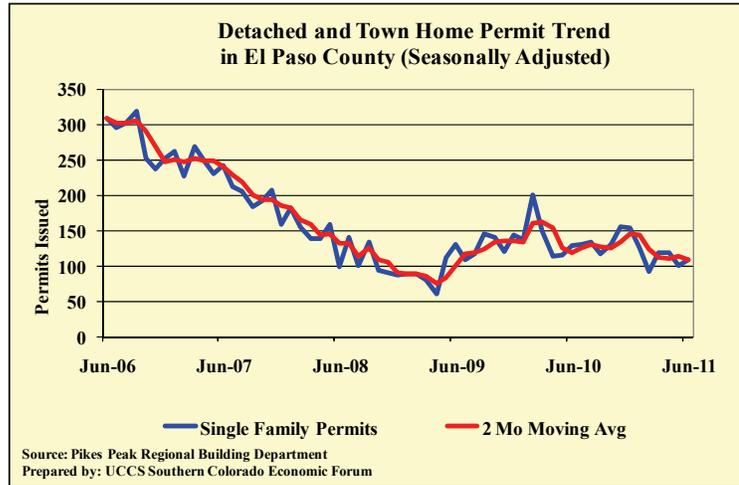
were obtained from the Pikes Peak Association of REALTORS®. The 2010 mortgage payments reflects the average interest rate April-May for a June 2010 close. After considering differences in mortgage payments, down payments, interest rates and tax credits, buying a home today is between \$50,887 and \$52,387 less expensive than a year ago. Lower mortgage and down payment advantages for today's buyer mean it would take today's trade-up buyer 14 months to recoup the lost tax credit (\$6,500) and the first time buyer 24 months to recoup the lost tax credit (\$8,000). Anything beyond these periods is an advantage for today's buyer.

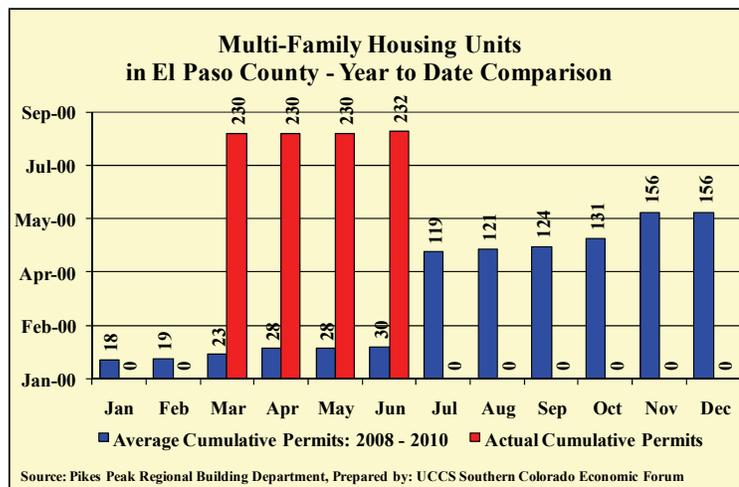
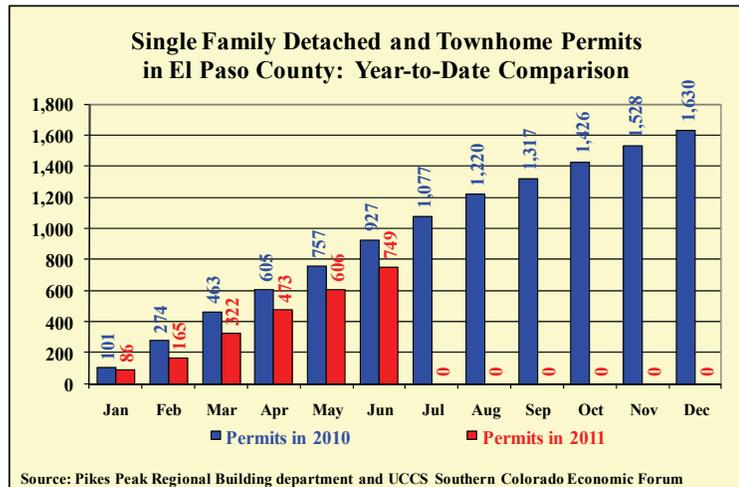
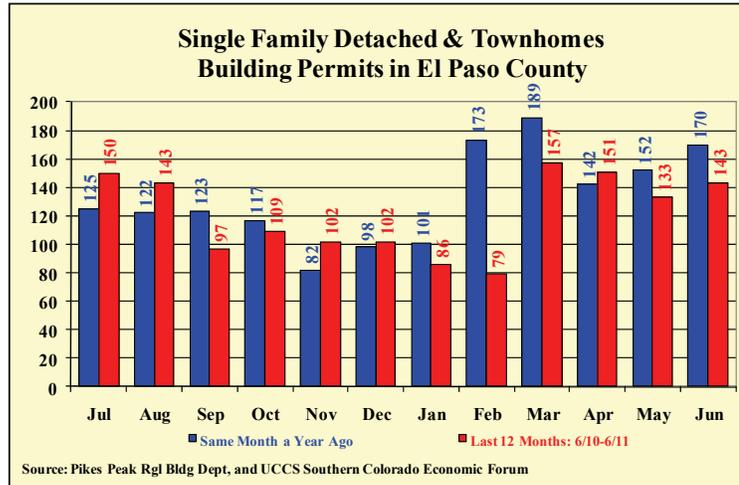
Foreclosures are expected to be 34 percent lower in 2011 than in 2009 (see page 11). Combined with a more balanced supply and demand for housing (page 10), prices are expected to stabilize and begin to rise over the next year, barring federal debt contagion and a financial collapse in the economy. The shortage of multi-family housing points to declining vacancies and rising rents (see page 12). If job and income growth do materialize, the current period will be remembered as having been a great time to buy a home.



## Analysis of the El Paso County Residential Housing Market

The figures on pages 6 and 7 summarize trends in single and multi-family permit activity in El Paso County. Please see the write-up on page 5 for additional information.

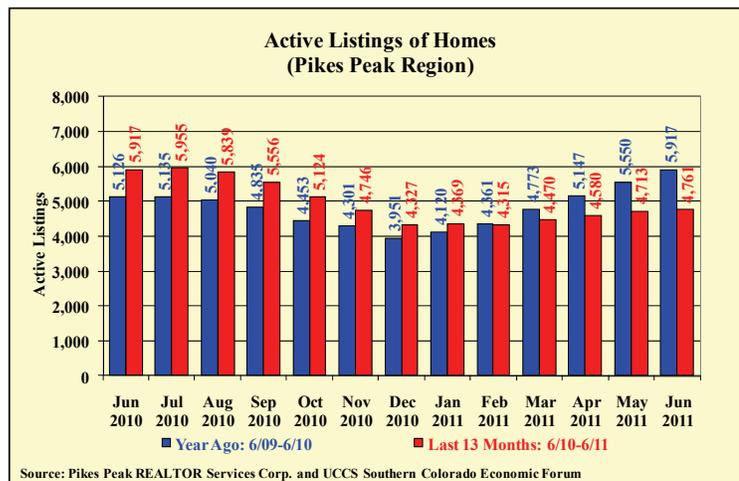
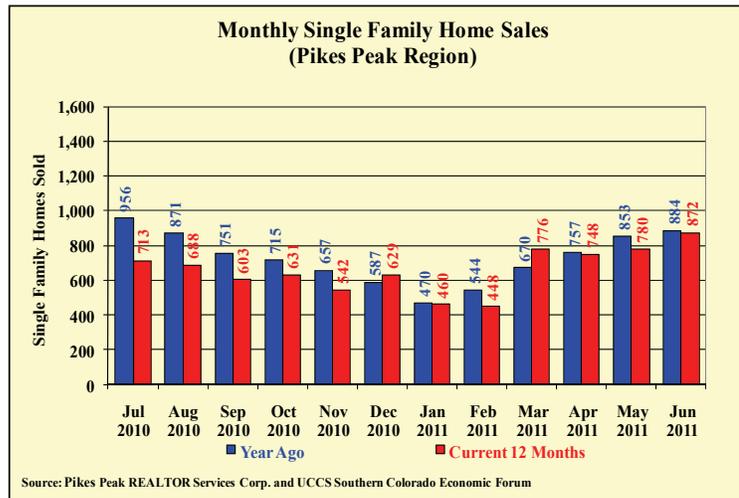
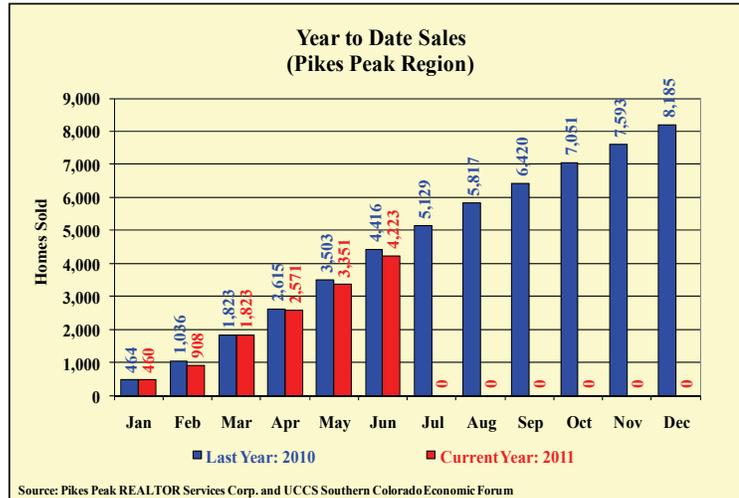


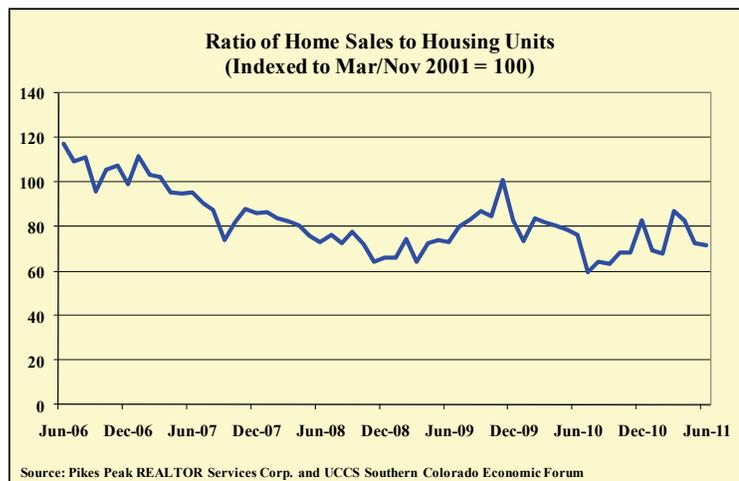
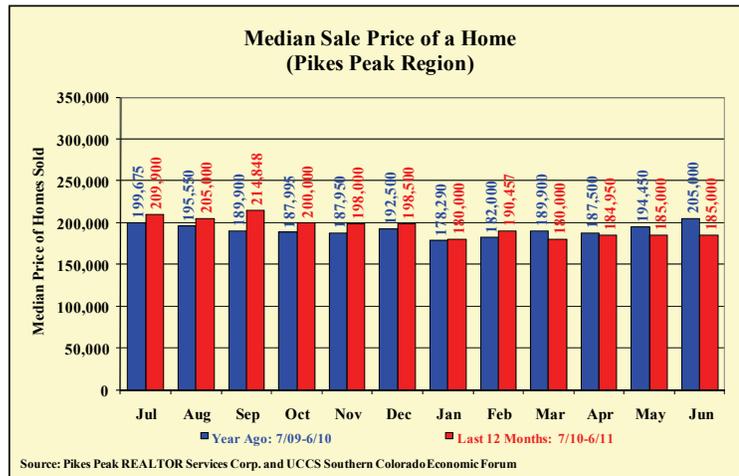
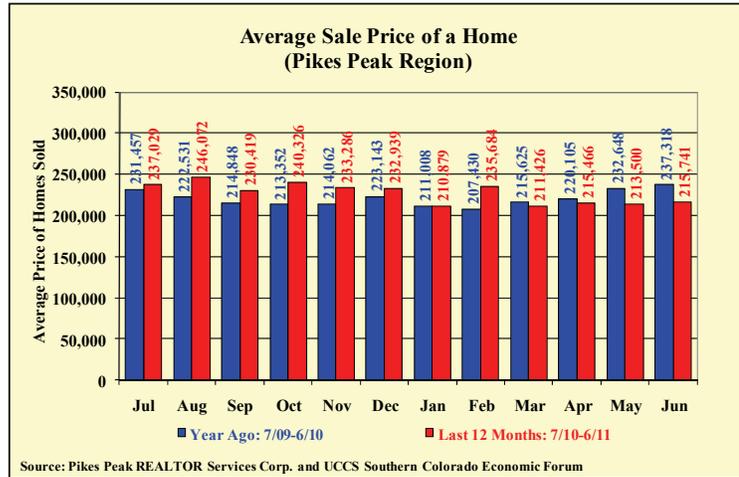




### MLS Activity

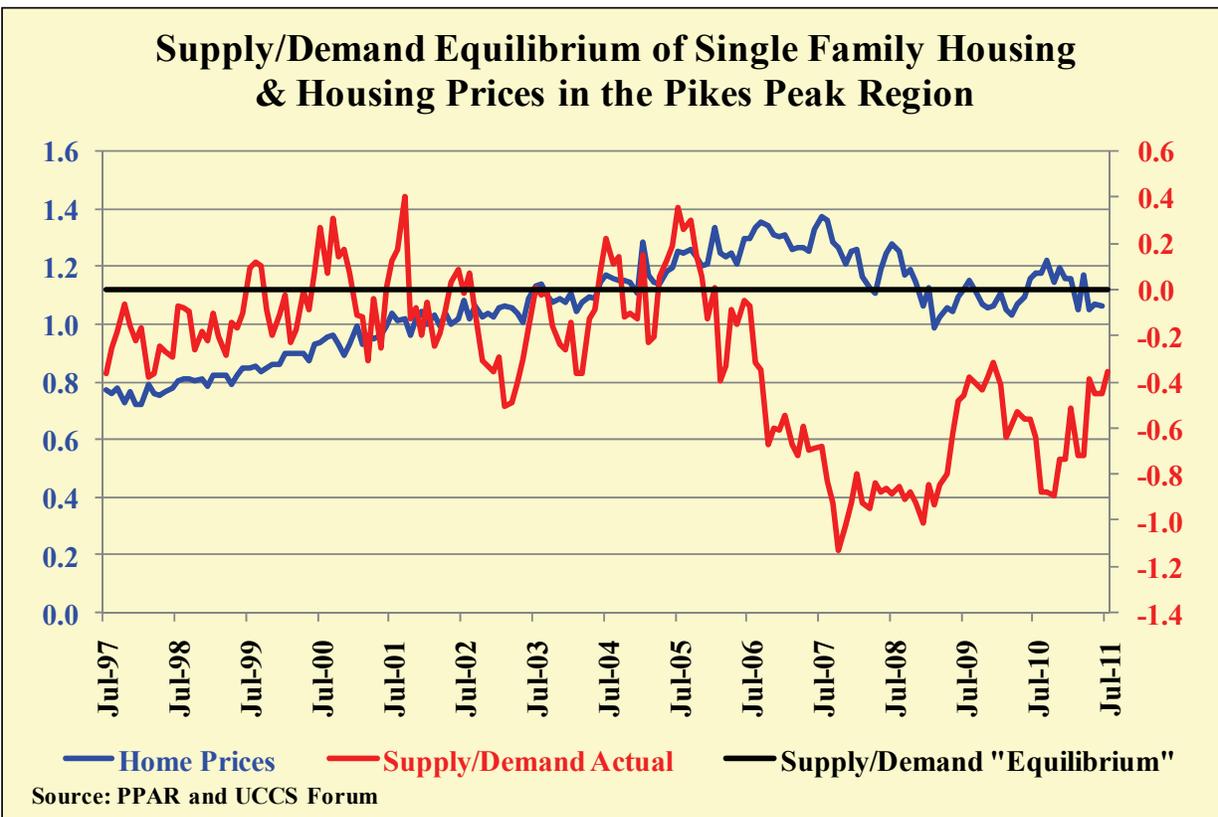
MLS activity for the first six months of 2011 is summarized in the next illustrations.





## Housing Price Equilibrium in the Region

The relation between supply and demand for private residential housing in the region was out of balance because of a significant oversupply in late 2006. This persisted through the middle of 2009. The excess supply of housing contributed to declines in housing prices (blue line) through the end of 2008. An increase in demand continued through the first half of 2010. This overlapped the home buyer tax credit from January 1, 2009 through September 30, 2010, an extension beyond the original June 30, 2010 date. Prices increased. Since then, there was a decrease in demand—not an increase in supply. Prices dropped. It is believed stability of the supply of housing units for sale led to recent price increases for homes. Data over the last three quarters suggest the supply and demand of homes for sale is trending to equilibrium. Prices should stabilize and begin to increase. Continued improvement will depend on low mortgage rates, income and job growth.



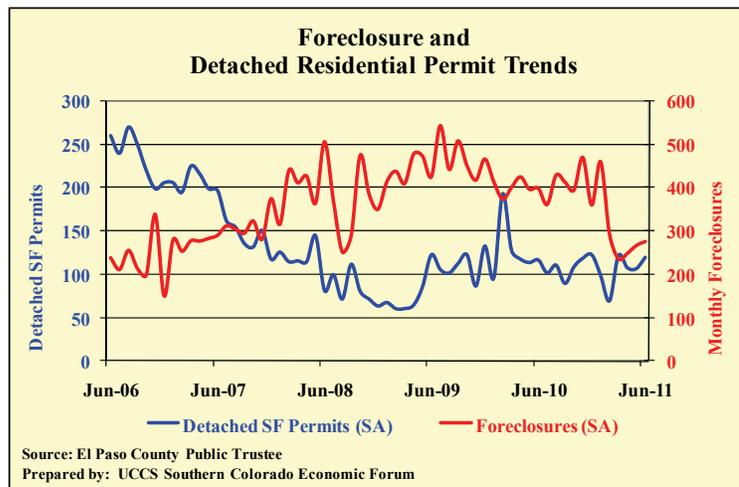
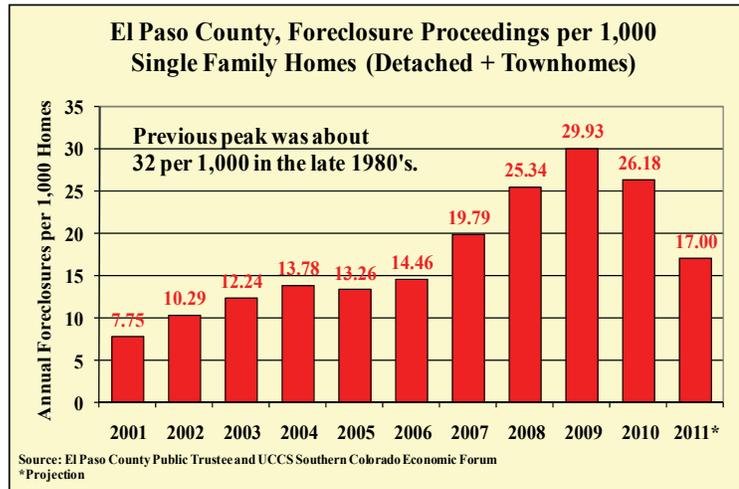
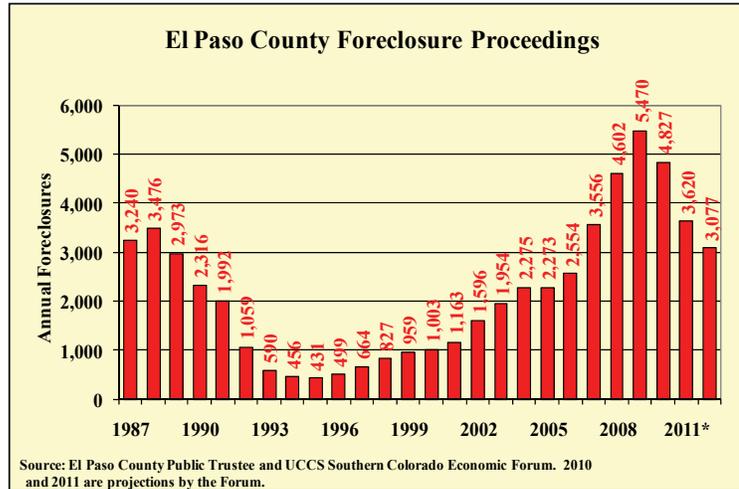
### Explanation of Data and Process

The Forum was asked to study the effect demand and supply of single family housing has on housing prices. The Forum gathered monthly demand, supply and price data from the Pikes Peak Association of REALTORS® and its Pikes Peak REALTOR® Services Corporation (RSC) for this study. Demand was identified as actual sales reported by RSC. Supply was identified as the number of active listings by RSC. Price is the average price of an MLS facilitated sale in the region. Demand, supply and price data were seasonally adjusted and indexed. If sustained demand exceeded supply the excess demand would suggest prices would trend upward. If sustained demand is less than supply, the excess supply would suggest prices would trend downward. If trends in supply and demand were roughly equal, prices should behave “normally” with limited plus and minus variations around an upward price trend.



### Foreclosures

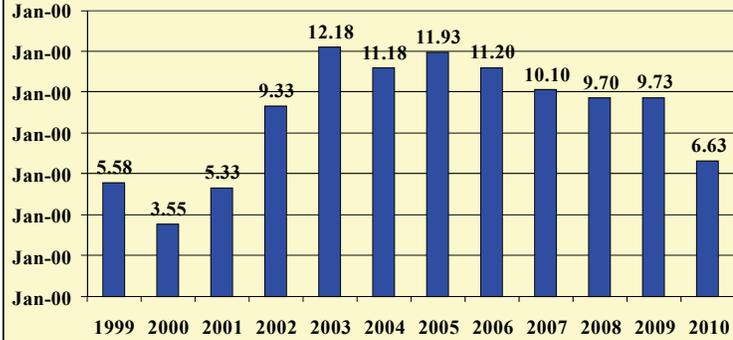
The number of foreclosures continues to decline. The current annualized rate suggests foreclosures in 2011 will be about 34 percent lower than they were in 2009.



## Multi-family Market

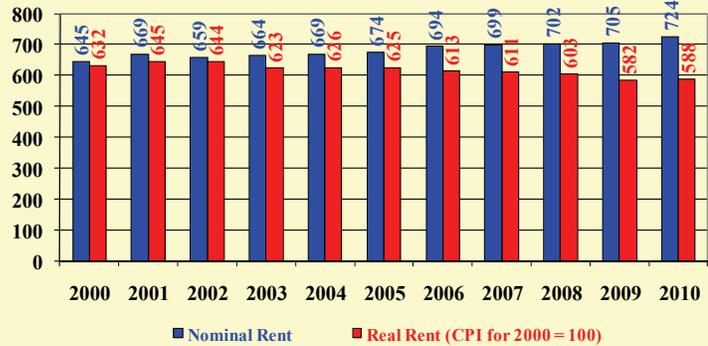
The market for multi-family housing continued to tighten. The average rent for an apartment is \$737. Vacancy rates are below 6 percent. The lack of new multi-family permit activity will continue to put upward pressure on apartment rents and downward pressure on vacancy rates. Additional multi-family housing appears to be needed in the area.

### Multi-Family Annual Vacancy Rates in El Paso County



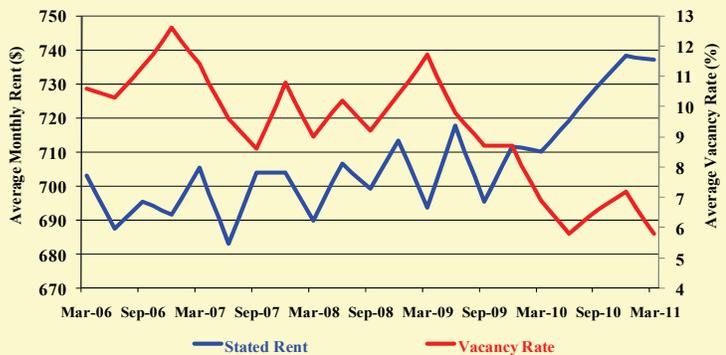
Source: Colorado Division of Housing, 2010 is a June 2010 observation

### Annual Nominal & Real Multi-Family Rents in El Paso County



Source: Colorado Division of Housing

### Monthly Apartment Rents in El Paso County

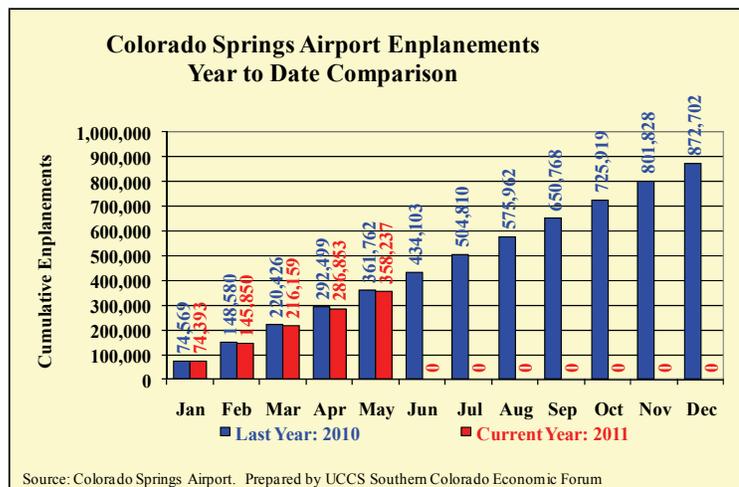
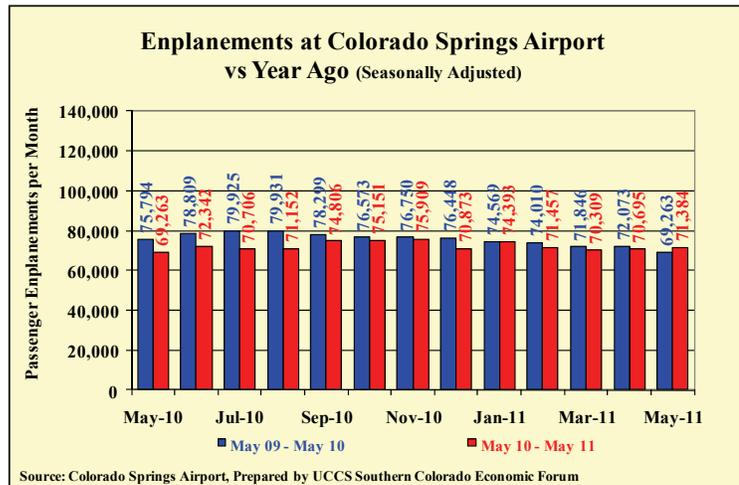
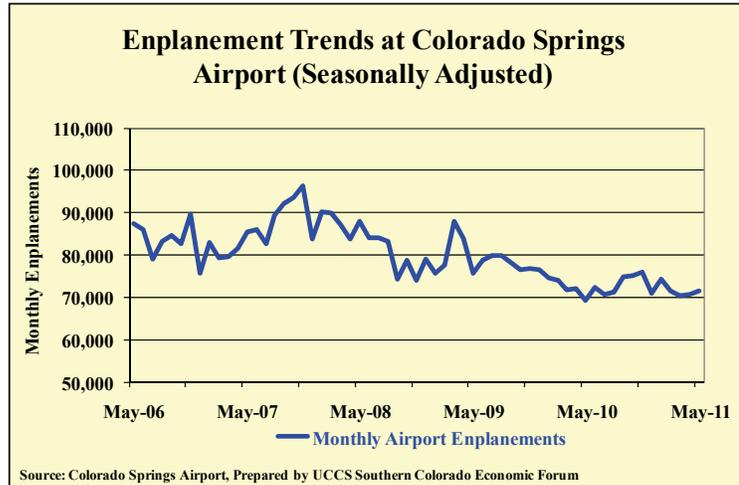


Source: Colorado Division of Housing, UCCS Forum



### Colorado Springs Airport Trends

Air traffic associated with the LPGA tournament at the Broadmoor is expected to provide a boost in enplanements at the Airport for June and July 2011.

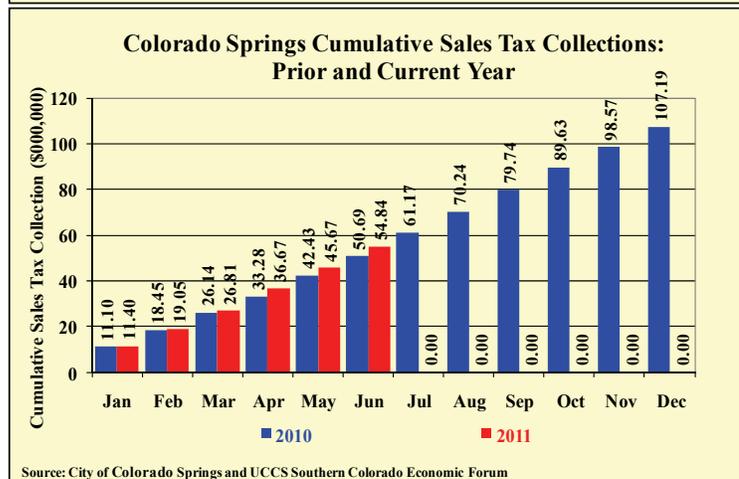
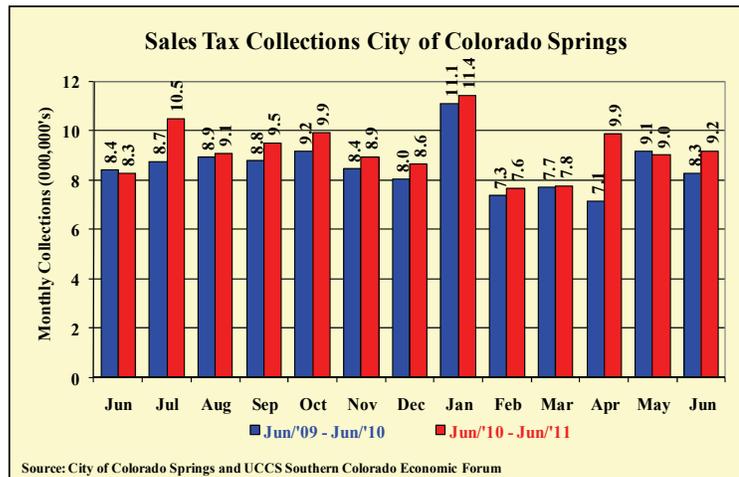
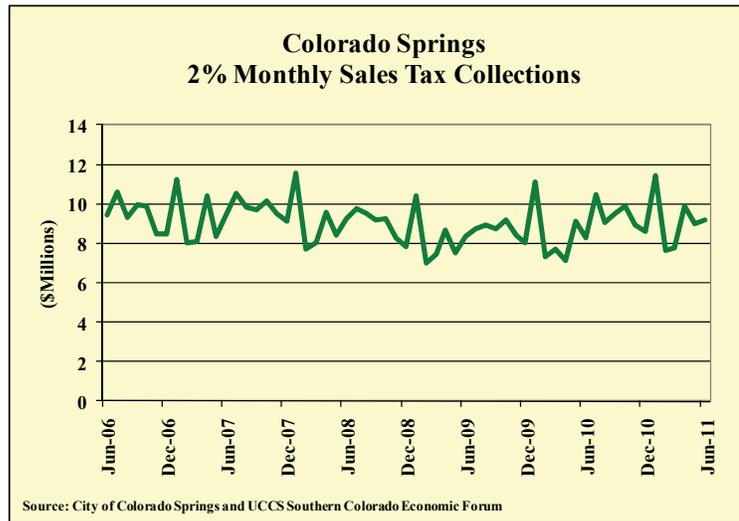




## Colorado Springs Sales Taxes

Gasoline prices in the \$3.50 range over the last several months are expected to slow/decrease consumer spending on taxable retail items. Local unemployment rates are in the low 9.5 percent range. The lack of real growth in aggregate income have aggravated the effect high gasoline prices have had on consumer spending. Compared to last year, sales tax collections of the next couple of months are expected to show modest growth when the effects of the LPGA at the Broadmoor are controlled.

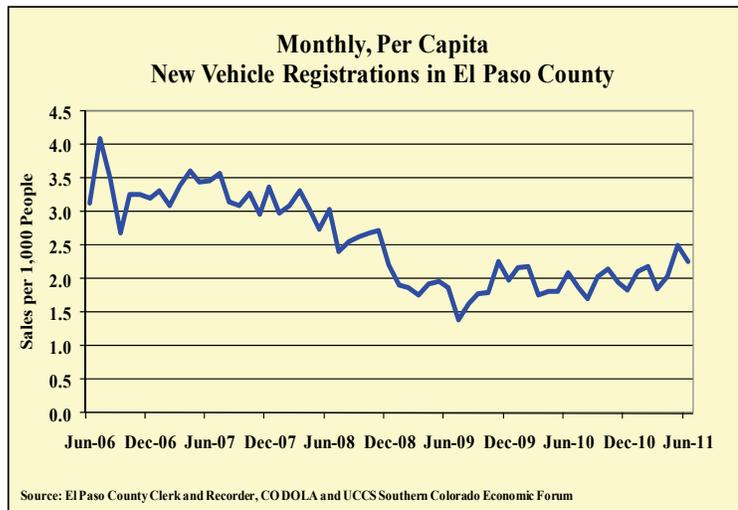
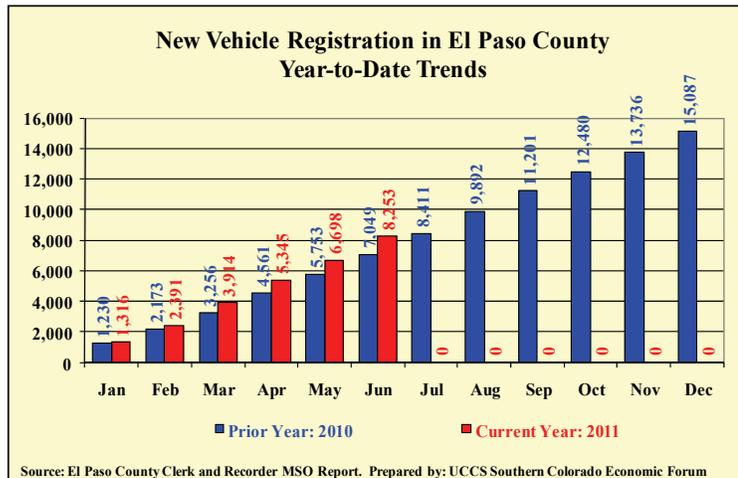
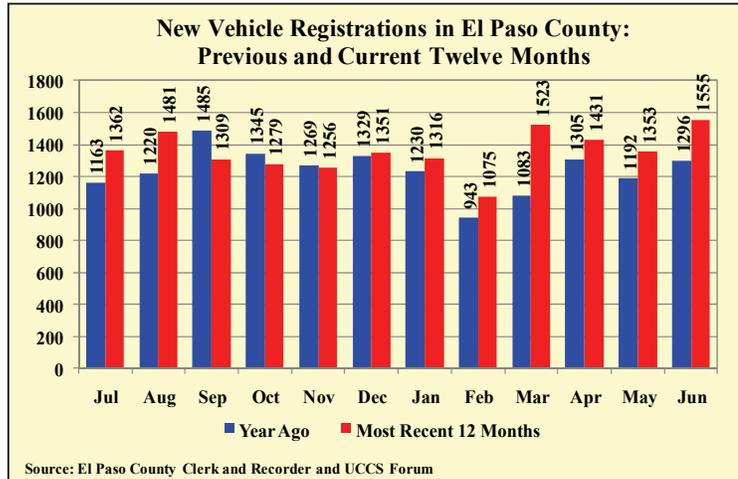
For comparison purposes, year-to-date, real per capita sales tax collections in January 2008 through June 2008 (\$135.65) were compared to real per capita sales tax collections in January 2011 through June 2011 (\$123.17). *Real, per capita sales tax collections for the City of Colorado Springs are down 9.2 percent since 2008.*





### New Car Registration Trends

The increase in new vehicle registrations are believed to reflect the normal “inventory adjustment” recovery phase of a recession. Older cars have worn out. Reduced auto industry production over the last few years and the Cash for Clunkers program reduced the number of used cars on the road. The Manheim Used Vehicle Value Index indicates used vehicle prices have gone up 11.7 percent since May 2008. The lack of quality used cars, higher prices on used cars and improved miles per gallon for new vehicles seem to be encouraging buyers to purchase new vehicles.



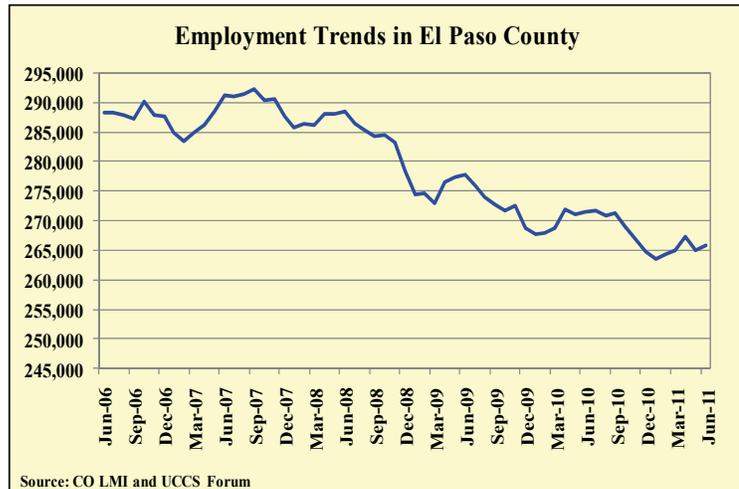
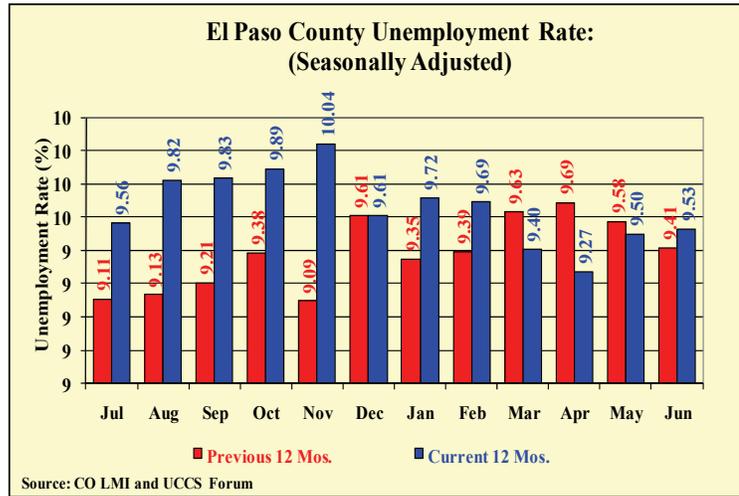


### Employment Trends and Wages

While higher than a year ago, unemployment rates began a slow, downward trend in December 2010.

While the improvement in unemployment is encouraging, improvements in employment have not materialized. Employment is approximately 27,500 lower than it was at its peak in 2007 (seasonally adjusted).

A further indicator of the weak recovery going on is the decline in aggregate real income since 2008. Real income is approximately 3.5 percent lower today than it was in January 2008.





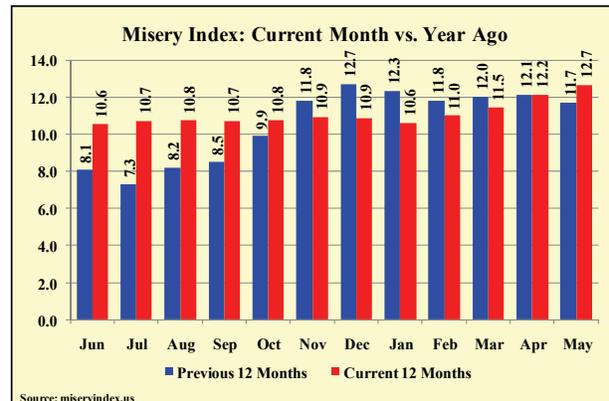
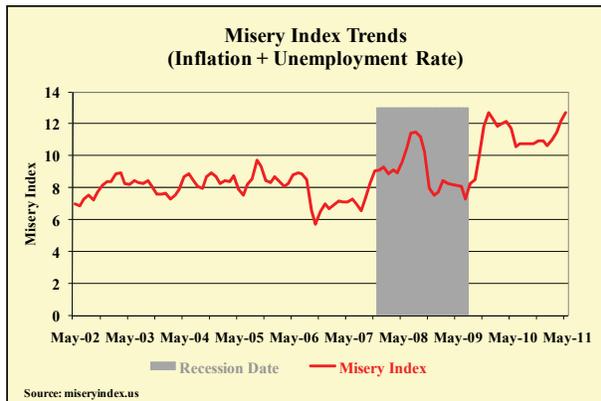
### National Expectations

The Federal Reserve Bank of Philadelphia May 2011 *Survey of Professional Economists* (<http://www.philadelphiafed.org/index.cfm>) points toward an expectation for higher inflation and slower growth in the economy. It is the Forum's belief that the May 2011 survey results will be lowered when the August 2011 survey is taken. The more conservative expectations reflect the recent significant changes in the global and domestic economies. The central message from the survey appears to be things are slowing down.

Annualized Rate for					
	Q2-11	Q3-11	Q4-11	Q1-12	Q2-12
10-Year T-Bond Rate	3.40	3.70	3.80	4.00	4.10
3-Month T-Bill Rate	0.10	0.20	0.20	0.50	0.80
AAA Corp Bond Rate	5.14	5.30	5.40	5.50	5.65
New Private Housing Starts (Annualized Rate Millions)	0.58	0.62	0.66	0.69	0.74
Industrial Production Index (2007=100)	94.1	95.1	96.2	97.2	98.0
CPI Annual Rate %	3.5	2.2	2.0	2.3	2.1
Real GDP Growth %	3.2	3.4	3.5	2.9	2.5
Unemployment %	8.9	8.7	8.5	8.4	8.2
Employment Growth					
Nonfarm Payroll Employment Growth (000's)	191.1	194.5	173.9	219.4	182.0
Nonfarm Payroll Employment Growth (%)	1.2	1.7	1.8	1.9	1.8
Likelihood of Decline in Real GDP					
Mean Likelihood of a Decline in Real GDP (%)	7	8.5	10.2	12.2	12.1

### Misery Index

The Misery Index, a consumer economic wellness measure ([www.miseryindex.us](http://www.miseryindex.us)), defines consumer misery as the sum of the rate of unemployment and the rate of inflation. The lower left chart illustrates the historical values for the last ten years through March 2011. The rise in the Misery Index beginning in late 2007 identified the onset of the recession correctly. Unemployment rates are not improving. Inflation, as measured by the CPI, is currently 2.5 percent. The interaction of these measures raised the Misery Index to 12.65. This is the highest it has been since the spring of 1983.





**Table 2: Selected Economic Indicators**

Table 2: Selected Economic Indicators													
National Quarterly Data	2010 Q3			2010 Q4			2011 Q1			2011 Q2		Change vs. Yr Ago	
Ttl Loans/Lease Charge-off Rate %			2.56			2.28			1.98			na	-1.01
Loan Delinquency Rate %			6.94			6.33			6.16			na	-1.21
Benefit Costs SA 2005=100			111.6			112.2			113.5			na	3.20
Compensation Costs SA 2005=100			112.1			112.7			113.3			na	2.20
Retail Sales SA (billions)			970			1,052			965			na	76.18
e-Sales SA (billions)			39.2			53.2			43.7			na	6.54
e-Sales as % of Retail Sales SA			4.0%			5.1%			4.5%			na	0.00
GDP Real % Growth SA			2.6%			3.1%			1.9%			na	-0.02
Consumer Debt to Disposable Inc			11.9%			11.8%			11.5%			na	-0.01
National Monthly Data	Change vs. Yr Ago												
	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	
Capacity Utilization SA	75.3	75.5	75.7	75.7	75.8	76.8	76.8	76.5	76.8	76.7	76.7	na	2.20
Car & Lt Trk Sales Millions SA	11.5	11.4	11.7	12.2	12.2	12.5	12.6	13.4	13.1	13.1	11.8	11.4	0.27
Cons Sent (1966=100) SA	68.7	69.5	66.8	68.6	72.1	72.8	71.5	76.8	70.1	70.1	72.7	70.2	-3.2
CPI-U 1982-84=100 SA	217.6	218.1	218.4	219.0	219.2	220.2	221.1	222.3	223.5	224.4	224.8	na	3.7%
Federal Funds Rate (Effective)	0.18%	0.19%	0.19%	0.19%	0.19%	0.18%	0.17%	0.16%	0.14%	0.10%	0.09%	0.09%	-0.1%
Gasoline Price per Gal. of Regular	2.73	2.73	2.71	2.80	2.86	2.99	3.10	3.21	3.56	3.80	3.91	3.68	\$0.95
Ind Production (1997=100) SA	90.8	91.0	91.2	91.1	91.4	92.6	92.7	92.4	92.9	92.9	93.0	na	3.0
Inventory/Sales Ratio SA	1.29	1.29	1.30	1.29	1.28	1.28	1.26	1.27	1.25	1.26	1.26	na	-0.02
Mtg Rate, 30 Yr Conventional NSA	4.56%	4.43%	4.35%	4.23%	4.30%	4.71%	4.76%	4.95%	4.84%	4.84%	4.64%	4.51%	-0.2%
Prime Rate (%) NSA	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	0.0
Purch Mgr Index SA	55.10	55.20	55.30	56.90	58.20	58.50	60.80	61.40	61.20	60.40	53.50	55.30	0.0
Real Rtl/Food Svc Sales SA (billions)	165.21	166.47	167.89	169.61	170.66	170.91	171.56	172.78	173.14	172.90	172.20	na	7.0
S&P500	1,102	1,049	1,141	1,183	1,181	1,258	1,286	1,327	1,327	1,364	1,364	1,321	289.9
Tech Index SA - Mar 2001 = 100	110.4	113.9	115.2	108.2	112.2	114.1	110.7	111.6	107.0	106.4	107.1	na	-4.3
Trade Weighted Dollar	77.0	76.2	75.2	72.5	73.0	74.0	73.2	72.2	71.0	69.7	69.9	69.8	-9.6
West Texas Oil Spot Price NSA	76.4	76.8	75.3	81.9	84.1	89.0	89.4	89.6	102.9	110.0	101.3	96.3	20.9
Colorado Data	Change vs. Yr Ago												
	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	
Denver-Boulder CPI SA (est for June)	-	-	-	-	-	213.92	-	-	-	-	-	219.26	3.9%
Kansas City Fed Mfg Index	129.0	121.1	131.7	133.9	148.2	160.3	154.6	178.7	191.9	173.4	139.2	151.2	19.3
Labor Force NSA (000's)	2,704	2,703	2,695	2,682	2,673	2,656	2,662	2,671	2,673	2,671	2,668	2,688	-13.8
Labor Force SA (000's)	2,683	2,678	2,675	2,673	2,670	2,668	2,671	2,678	2,686	2,692	2,692	2,682	-7.7
Employment NSA (000's)	2,683	2,678	2,675	2,455	2,435	2,424	2,399	2,411	2,425	2,449	2,442	2,453	-235.9
Employment SA (000's)	2,466	2,469	2,469	2,436	2,433	2,430	2,427	2,430	2,440	2,454	2,459	2,453	-7.8
Unemployment Rate NSA	8.8%	8.7%	8.4%	8.4%	8.9%	8.7%	9.9%	9.7%	9.3%	8.3%	8.5%	8.7%	-0.2%
Unemployment Rate SA	8.8%	8.8%	8.8%	8.9%	8.9%	8.9%	9.1%	9.3%	9.2%	8.8%	8.7%	8.5%	-0.3%
Colorado Springs Data	Change vs. Yr Ago												
	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	
Business Conditions Index SA	99.52	98.62	98.09	99.67	103.59	105.55	102.38	100.68	104.09	103.00	100.18	na	20.4
Co Spgs Airport Boardings SA	84,706	82,252	75,704	78,307	70,444	67,188	61,151	54,971	67,587	65,850	74,089	na	4,826
Foreclosures SA	361	428	412	394	469	359	459	292	235	248	266	275	-123
New Car Registrations SA	1,308	1,280	1,166	1,212	1,338	1,411	1,340	1,346	1,614	1,424	1,442	1,466	243
Sales & Use Tax (000's) SA	9,806	9,448	9,880	9,895	9,767	10,063	10,033	9,746	9,396	10,220	10,464	10,080	1,047
Single Family & TH Permits SA	131	133	116	129	155	154	125	92	119	118	101	108	-30
Labor Force NSA (000's)	300.7	299.2	298.6	296.1	295.0	292.2	294.8	295.2	294.6	294.0	292.2	294.8	-2.1
Employment NSA (000's)	271.6	270.8	271.2	268.9	266.8	264.8	263.4	264.3	264.9	267.3	265.1	265.9	-4.4
Unemployment Rate NSA	9.7%	9.5%	9.2%	9.2%	9.6%	9.4%	10.6%	10.5%	10.1%	9.1%	9.3%	9.8%	0.8%
Unemployment Rate SA	9.6%	9.8%	9.8%	9.9%	10.0%	9.6%	9.7%	9.7%	9.4%	9.3%	9.5%	9.5%	1.1%



## About the Forum

The Southern Colorado Economic Forum (SCEF) is part of the College of Business outreach to the Colorado Springs Community. The Forum gathers, analyzes and disseminates information relevant to the economic health of the region. Through its efforts, the Forum has gathered a number of unique data sets. The Forum and its staff are available for fee-for-service work to analyze business situations, develop forecasts, conduct and analyze surveys and develop solutions to other business problems you may have. Examples of prior work include Small Area Forecast for the Pikes Peak Area Council of Governments, Colorado Springs Airport Passenger Survey, exit survey for La-Z-Boy, a Community Audit for the Pikes Peak Workforce Center and the Data Mining Project for the Colorado Workforce Centers. If you would like additional information about how the Forum can assist you, contact Fred Crowley at (719) 255-3531 or e-mail at [fcrowley@uccs.edu](mailto:fcrowley@uccs.edu).

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