V. SUMMARY OF CURRENT AND PROJECTED ECONOMIC CONDITIONS

A. Economic Briefing and Comments

1. Need for Summary and Approach

Although not specifically directed to do so in the CEDS guidelines, we decided a summary was needed to draw selected data from the various background chapters providing the best indicators for describing the current economic conditions of the region, and to offer some plausible alternatives for the future economic conditions which may prevail in the next five years of CEDS implementation. This section may also prove useful for more frequent updates of economic conditions as required in the combined Annual CEDS and Progress Reports.

We would emphasize that our analysis here focuses as much as possible on a regional analysis, with reference to county differences on a selected basis or as needed to support a regional perspective.

2. Comment on Data Limitations and Availability

In order to minimize references to anecdotal information and present findings consistent with widely circulated information on websites and published reports, we are using official data sources wherever possible to make a statement on economic conditions. In doing so, we are faced with the handicap of a set of more limited data sources for rural counties which often lack the detail needed to make more definitive or accurate statements about the economy.

Our intended reference period to analyze current economic conditions is 2007, but data for 2007 was either incomplete or not available at all when we completed this section in late 2007. In almost all cases, the most current information we can get relates to 2006, and a large share is even two or three years older. For example, the latest data available to us at this time from the Bureau of Economic Analysis (BEA) for per capita personal income is 2005; and the latest available from the Census Bureau for median household income is 2004. The latest population estimate for Colorado counties from the State Demography Office (SDO) relates to July 2006, and we will not have an official estimate for 2007 until October 2008.

The Decennial Census is now 7 years old, and will not be available again to provide detailed characteristics until after 2010. The Census Bureau is creating new studies to provide more frequent updates, but counties of our size are not being included.

To compensate for the data lag, we will be relying on printed reports and articles, interviews, and undocumented sources to keep the analysis as current as possible. These limitations present an even more difficult task in projecting future conditions, but we believe this is necessary to the CEDS planning process in order to select appropriate strategies and projects to implement.

B. Population Trends as an Overall Economic Indicator

1. Regional Population Total: Trends and Forecast

Changes in total population generally reflect a good overall and summary indicator of the many influences and trends affecting the economy of a region. As a general reference for discussion, an anecdotal estimate of the region's population in round numbers has been quoted at 50,000. According to official sources, however, we stood at a little over 48,000 in 2006, and will not cross the 50,000 mark until 2010.

The State Demography Office (SDO) in Denver estimates July 2006 population for the Valley at 48,291, an increase of 4.5% over the 2000 Census, or an annual growth rate of 0.75%. Colorado's growth over the same period was moving at a rate of 2.0%/year --- over 2.5 times faster.

Indicators of slower population growth in the SDO estimates included: losses in population due to out-migration; overall small increases (and possible under-reporting) in the number of new housing units from year-to-year; and relatively high housing vacancy rates. Other factors symptomatic of slower growth included declining school enrollment, and weak gains or losses in Wage & Salary jobs.

The regional total represents the second year in a row of small population losses, indicating what may be a temporary growth plateau. Estimates for July 2004 and July 2005 were reported at 48,528 and 48,506, respectively. But judging from the SDO's population forecasts, we would expect the slower growth rates experienced in the former CEDS timeframe to be picking up in the next five years from 2008-2012.

If we believe in the SDO predictions, we will be seeing annual population growth between 0.9-1.2% in order to reach 50,608 by 2010, and 54,037 by 2015. This would represent modest growth, however, compared with the even more vigorous 1.9-2.0% growth rates predicted for Colorado statewide.

As with any set of statistical projections of growth, we would add some caveats about too much reliance on the SDO forecasts alone. The potential for solar and other renewable energy development in the Valley in the next 5 years may be cause for optimism, but this may (or may not) be enough to offset potential negative factors such as recession; global market competition; and a continuing shortage of local, State, and Federal funds needed for infrastructure improvements to accommodate growth or provide needed services to residents.

2. County Differences in Population Trends

Counties showing percentage population gains from 2000-2006 exceeding the region's 4.5% include Mineral (16.2%); Saguache (11.0%); and Alamosa (5.3%). Counties with slower growth (or losses) include Costilla (-1.7%); Conejos (2.2%); and Rio Grande (3.1%). Rio Grande County has challenged the SDO population estimates from time-to-time, based on increases in the number of new housing units in the South Fork and western Rio Grande area which would warrant more substantial population increases. Unfortunately the base data available to the SDO is also showing high vacancy rates in these units, which the SDO interprets as seasonal, or second-home owners who are not considered permanent residents.

With the exception of the City of Alamosa and a few notable hotspots, the unincorporated areas of the counties have been growing faster than the cities/towns. County sub areas and places where growth rates from 2000-2006 were higher than the region include: Crestone (68.5%); unincorporated Saguache County (26.0%); unincorporated Mineral County (19.4%); Creede (12.5%); South Fork (8.9%); Romeo (8.0%); unincorporated Rio Grande County (7.3%); Alamosa (6.7%); and unincorporated Conejos County (5.5%). Most of the other towns lost population, according to the SDO estimates.

Differences in growth rates demonstrated in past years for the various counties are also being carried forward in the SDO projections to 2010 and 2015.

C. Labor Force and Employment Trends

1. Trends in Total Labor Force and Employment

Estimates from the Labor Market Information Section (LMI) of the Colorado Department of Labor and Employment are reporting a total labor force for the region averaging 23,658 in 2006, representing a 13.9% increase over 2000. The region's addition to the labor force compares with a 12.1% gain for Colorado statewide for the same period, and indicates a healthy rate of entry into the labor force. The region's 12.6% increase in total employment averaging 22,357 in 2006 also surpassed the State's 10.3% gain over the same period. Counties exceeding the regional percentage increase included Saguache (28.8%); Alamosa (13.4%); and Rio Grande (13.2%).

From 2000 to 2006, employment growth in the region averaged about 2.3% per year, compared with 2.0% for Colorado. The SDO forecasts to 2010, however, have job demand moving at a slightly faster clip for the State at 1.9%/year compared with 1.3% for the region.

With the high prices of gasoline and other costs affecting job commuters, development of job commuter and general public transit services could play a stronger role in workforce development. Availability of these services

could also provide an affordable transportation alternative for workers and students who are attending (or considering) college or training classes in order to acquire and upgrade skills and employment credentials.

2. Unemployment

The number unemployed in the region's labor force averaged 1,301 in 2006, vs. 928 in 2000. The rate of unemployment as a percent of labor force increased from only 4.5% in 5.5% in 2006. Rates for Colorado statewide were reported by the LMI at only 2.7% in 2000 and 4.3% in 2006. Judging from these estimates, we can conclude that the Valley as a whole is no longer a "labor surplus" area.

Counties with rates exceeding the regional average of 5.5% in 2006 included Costilla (8.6%); Conejos (6.6%); and Saguache (6.3%). Over half the number of persons unemployed are residents of Alamosa and Rio Grande counties.

In the event of more attractive job opportunities, we would anticipate a labor pool up to 3.5 times larger than the official unemployment number coming into play from "underemployed persons" and "discouraged workers." This in all likelihood would also be supplemented by former Valley residents who left the region to pursue careers or find higher paying jobs; and who will return when more attractive employment opportunities become available.

D. A Worker's View of the Economy

1. Income

Perhaps the most telling feature of the economic conditions in our region are the low incomes, which are usually among the State's lowest or at the bottom of the list. This condition seems to persist over the years, although some improvement is indicated by comparing changes in median household income from the 2000 Census to an estimate on the Census Bureau's website for 2004; and by comparing the change in per capita personal income reported by the Bureau of Economic Analysis (BEA) from 2000 to BEA's latest estimate for 2005.

Changes in median household income ranged from an increase of 7.3% in Alamosa County to 14.0% in Mineral. This compared with a 6.1% percent change for Colorado. Trends in Saguache County, already the poorest county in the State, worked in reverse to produce a -7.3% loss in median household income from the 2000 Census.

Gains for the Valley counties were also shown for the BEA per capita income comparisons, ranging from 15.9% in Saguache, to 24.8% in Costilla, and 23.4% overall for the region.

The increases for Colorado statewide were a modest 6.1% for median household income, and 12.4% on per capita personal income. This being said, however, in no way diminishes the fact that income in the Valley

counties is still only a percentage of that enjoyed by the average Coloradan. On 2004 median household income, Alamosa County's median of $31,587 is only 63.0% of the amount reported for State's median household at $50,105. Amounts and percentage of State calculations for other counties are as follows: Conejos ($27,077/54, 0%; Costilla ($22,165/44.2%); Mineral ($39,725/79.3%); Rio Grande ($34,680/69.2%); and Saguache ($23,638/47.2%).

On 2005 BEA per capita personal income, the comparisons of county to State were no better, and are as follows: Alamosa ($24,995/66.6%); Conejos ($18,875/50.3%); Costilla ($22,158/59.0%); Mineral ($27,066/72.2%); Rio Grande ($26,793/71.4%); and Saguache ($17,999/48.0%). Per capita personal income for 2005 in the USA was $34,471, or 92.0% of Colorado's $37,510.

2. Wages

Tables in the Colorado Department and Labor's Employment and Wages report for 2005 showed an "all industry average" for the region at $477/week, or only 60.0%, of wages reported for Colorado statewide at $801/week. This presents an industry perspective on wage, with data which includes the entire occupational distribution of a given industry, and also includes overtime, commissions, and other pay differentials in addition to hourly rates and salaries.

Colorado's minimum wage of $6.85/hour is currently in effect, and is being raised to $7.02/hour January 1, 2008. Fears that a minimum wage increase would result in small business failures and worker layoffs did not materialize. Prevailing wages in agriculture are running at $7.00-$7.50/hour, and also influence wages for unskilled categories in retail and some service industries.

We have no data for our counties on the current purchasing power of wages and incomes, or the "real wages" after accounting for inflation, but on a national scale they are reported to be flat and we would suspect the same to be true here as well.

3. Cost of Living

Fortunately, the Valley's lower cost of living relative to many other parts of Colorado enables the low incomes to stretch a little further, and creates a sustainable lifestyle for many families. A 2002 study by CSU researchers showed composite index ratios on the cost of living ranging from .861 in Alamosa County to .947 in Mineral, as compared with a statewide average of 1.0; Pitkin County (Aspen) at 1.106; and a low in Baca County of .834.

With the exception of the early years in the former CEDS timeframe, inflation as measured by the Denver-Boulder-Greeley CSMA Consumer Price Index (CPI) as reported by the Bureau of Labor Statistics (BLS) was under 2.0%. In 2006, the CPI rose to 3.6% and may become a more serious factor in the 2008-2012 timeframe.

4. Cost Impacts on Discretionary Income

With no real income gains, it is unlikely that our economy will be able to sustain much of a boost from consumer-driven spending in the face of escalating living costs for gas, home heat, health care and insurance, food, utilities, housing, and other necessities. The strain on family budgets also does not leave much room for investments in training and education needed to upgrade skills and careers with higher income rewards. A further tightening on credit is also likely, and consumer spending based on debt appears to have reached its limit as well.

E. Selected Industry Trends

1. Ag Trends and Outlook

According to the last SDO base industry analysis available to us at this time, the agricultural production, inputs, and processing cluster at $143.6 million in base income represents 37.9% of all the region's base income and is the #1 driver of the economy. In spite of a 15% cutback in acreage for water management (and a goal of 20%), crop prices are the best in years and agriculture still remains as the region's major economic force. Potatoes have seen the third straight year of good prices, with bulk potatoes fetching $7-$8/hundredweight (Cwt), and a guess on the new crop at $8.50-$9.00/Cwt.

Faced with less crop, a drop in consumer demand, and reduction in water supply, Valley farmers are co-oping with other potato states to keep the supply down and prices up. This is keeping the San Luis Valley in the #2 spot as a supplier of fresh potatoes to the nation, and #5 in the USA in overall production. Grain prices are also extremely good, with some farms seeing $10/bushel wheat. Alfalfa and beef prices are also returning good farm and ranch receipts.

Labor, however, is another problem, and there are signs that a significant shortage of farm workers is developing with the stricter enforcement of immigration laws. Some growers and warehouse operations have experienced a 40% reduction in their workforce, with remaining employees required to work longer hours. This is hard on workers, but has produced what may be a permanent upscale in farm labor rates, with some growers paying $8.00/hour to get workers.

While rainfall in the Valley in 2007 was the best in recent years, and mountain watersheds produced good surface flows, it will probably take many average-or-above water years to recharge the drought-damaged aquifers. With the prospect of well shutdowns and greater water curtailments being imposed, farmers are considering cooperative actions through groundwater management sub-districts.

As the value of water for development and urban expansion increases, an almost constant vigilance is being required to protect and retain water supplies for existing beneficial uses, and also to meet Rio Grande Compact delivery obligations to downstream states. A recent proposal by representatives of an index fund to purchase the

majority of irrigated farmland (and ergo water rights) was a reminder of the level of outside investor interest in our land and water assets, and we anticipate more to come in the 2008-2012 CEDS timeframe.

2. Tourism Trends and Outlook

A consistent series of data for tourism, which represents $43.5 million in base income and the third largest driver of the regional economy, is not available for trend analysis, but we can get some indication of where we are and where we are headed by piecing together data from older studies and visitation reports. A study funded by the Colorado Tourism Office and conducted by Dean Runyon Associates on travel spending, employment, earnings, and taxes for the years 1996-2003 was the last seen with county detail. It showed a total of travel spending in the region, including base income and the household income derived from it, at $70 million in 2003.

From 1996-2000, the increase in tourism spending averaged 5.1%/year. From 2001-2003, however, the growth rate slowed to only 0.6%/year, which we attribute to a lull in tourism after the 9/11 disaster, and drought and fires in Colorado. The State experienced similar trends with a 6.2% annual growth rate in the earlier period, and -2.0% in the latter.

To get a view of trends in the intervening years from the Dean Runyon study to 2007, we are fortunate to have visitation records at the Valley's #1 tourist destination --- the Great Sand Dunes National Park and Preserve. Measuring a cumulative total of visits at year-end, the reports show a total of 268,823 in 2004; increasing to 278,975 in 2005; dropping to 259,131 in 2006; and increasing to 285,591 at the end of 2007. The increase of 10.2% from 2006-2007 may be cause for some optimism for tourism, and also indicates that the added attraction of the National Park status for the Dunes might be starting to kick in.

In spite of 80 or more attractions and draws like the Sand Dunes, scenic railroads, scenic byways, and many others, the Valley lags behind the rest of Colorado in tourism spending per capita, and is far below its potential as an economic driver. In the forthcoming CEDS timeframe from 2008-2012, more tourism-related prospects are in the offing, and give us reason to believe that trends for the industry over the next five years have "nowhere to go but up."

Examples of these new prospects and influences are as follows:

- Additional interest and attention focused on the region by heritage tourists from designation of the Sangre de Cristo National Heritage Area, and availability of itineraries for heritage travelers providing better guidance and potentially longer visits.
- Creation of a central visitor information, Chamber of Commerce, business development, passenger rail, and multimodal transportation hub in downtown Alamosa for the convenience of tourists and residents.
- Improved charter transit services connecting scattered tourist attractions, and providing access to a greater number of attractions.

- Increased activity from potential development of the Village at Wolf Creek.
- Potential tourist interest in solar and other renewable energy production operations.

3. Adams State College

Our 2005 study of ASC's economic impact on the region reported a $40.8 million impact in annual direct spending by the college operations, students, professors, and staff; $29.3 million more in additional spending activity created by the direct dollars; and a total economic impact of $70.1 million. Enrollment appears to have stabilized at about 2,500 students, and we are optimistic that enrollment levels will increase slightly over the next five years.

Tuition at Adams is usually the lowest in the State, providing a more affordable education, and serving an important role within the State college system to ensure educational opportunity regardless of family income level. This results in average total revenue per student of $4,832, or about 45% of the $10,780 per student which ASC's peer institutions receive. New leadership at the State level has resolved to close this gap, and ensure ASC continuation.

4. Construction and Real Estate

The impact on construction and real estate from the sub prime housing market has so far not been felt to the same extent as the metro areas in Colorado, although some bankruptcies have been noted. Construction activity and costs in recent years have been heavily influenced by seasonal and second-home construction in South Fork and other growth communities, which rely on home buyers with higher incomes and qualifying for larger home investments.

5. Retail Sales and Outlook

Total retail sales for the region at $823.2 million in 2006 reflect an average increase of 5.1%/year since 2000, almost the same pace as the State's 5.4% annual growth over the same period. Alamosa County at $416.9 million in 2006 represented 50.6% of the region's retail sales, compared with 47.2% in 1992 and 50.3% in 2000. Rio Grande County, with the next largest retail concentration at $253.3 million in 2006, reflected an annual average increase of 4.2% from 2000-2006, compared with 5.2% for Alamosa County.

With a fairly optimistic view on the flows of basic income from agriculture, retirees, and tourism in the next five years, and the prospect of new income flows from solar and other renewable production, we would also expect modest growth in retail sales averaging no more than 5.0%/year (not adjusted for inflation).