

EDC Luncheon
November 17, 2005
Keynote Speaker: Dennis Donovan

Good afternoon. For me it is a pleasure to be back in blue skies and sunny temperatures. This is really a very special place to visit and obviously for you all to live. So for the next few minutes what I hope to do is to present my firm's thoughts, and I think we are pretty representative of corporate America and actually multi-national corporations in terms of what's going on out there today in the level of corporate location activity in the U.S., on the most important trends that are influencing where companies are placing new corporate facilities. I would then like to give you a sense, as I know that EDC has a retreat coming up, of what some of the best practices are that we see – this is just from a customer standpoint, I'm not an economic development consultant, but from an end user standpoint what we see are some of the best practices of economic development organizations relative to job creation strategies. Then I'd like to finish up with a high altitude view. When I was asked to come out here, I thought as long as I was going to be here I can take a quick view of locational statistics and from an outside expert's standpoint what the initial impressions that a company or site selection consultant, if they were to retain one, would have of Colorado Springs/El Paso County. Those are initial impressions and to me they are very important as you think about retooling your marketing campaign because it is the initial impressions that have to be addressed in any marketing endeavor. You have to strengthen the positives with your potential customer base and address the negatives with your potential customer base. So, I'm hoping that my objective, don't kill the messenger – this is the truth, pluses and minuses are helpful as you go about assessing what your game plan ought to be to improve this great product called Colorado Springs and also for marketing purposes. To that end, I always prepare pretty detailed handouts on my remarks that contain a lot of information and statistics so they will be available at the end of my talk so you don't need to write things down feverishly.

The first part of my presentation this morning is Corporate Location Trends. I have to tell you that I am amazed that almost any metro area was able to attract businesses in the years 2001, 2002, and beginning of 2003. In the location industry we have depressions. Basically if we look at the year 2003 vs. the year 2000 there was a 60% drop off in terms of new facility announcements. That is a depression. That was a good time, in my opinion, for economic development groups to really take a fresh look at what they are doing, retool their organizations, and get ready for a new round and surge of investment. We have begun to see that – the tide has turned. Our business is a pretty good bellwether of the economy – we are pretty much 6 months early and 6 months late on coming in and out of recessions. And sure enough in the 1st Qtr of 2003 we started to see companies investing again in new facilities. It was led initially by two sectors – one was retail, we don't do retail consulting but the implication of retail was a tremendous amount of distribution center locations going on by retailers, and the second was consumer goods manufacturing – everything from food products, to health and beauty products, and so forth. Then as the year wore on we started to see capital goods manufacturing and other

sectors become active, where to the point today that nearly all major sectors of the economy are locationally active, investing in new facilities. There are a number of reasons for it but it really is cutting back too much during the recession, not having enough capacity, not having the right capacity, cutting back too much on people, and needing to invest again to assume leadership roles in their market niches. So, other than the technology sector we see very strong growth in corporate locations. I see technology coming back from a location standpoint probably toward the end of the 1st Qtr beginning of the 2nd Qtr in 2006. And in my view, at least in my business plans for capital investment in my company and hiring, we see this continuing on certainly through the year 2008. So, it's a very, very good time – lots of industries that are active. Now, we hear all this alarm about globalization, of course we're globalized. In my opinion even back in the 1970's and 1980's we were globalized, companies exported – the JGB's did license arrangements. We truly are, however, in a globalized period for corporate survival, but that doesn't mean that there isn't going to be a substantial level of locational activity across most industry sectors in the U.S. The fact that we're not going to get manufacturing, we're not going to get software, and we're not going to get call centers is absolutely a falsehood. I've lived this stuff every day, studied it for the CORENET 2010 Research Initiative, and I have to tell you that the stuff that you hear from Lou Dobbs at night is a total disingenuous disservice to the country because it is false. The fact that we shouldn't have a target industry that is in manufacturing is completely ridiculous unless you're talking about apparel products or shoes, and even shoes you can make in this country and do it successfully. Believe me. The fact of the matter is that off shoring reflects strength and dynamism and makes us do what we do best and we will succeed. We were going to be dead when the Japanese came about; you know it was all gloom and doom. Every time there is a major global challenge the U.S. comes to the forefront and we're going to continue to do it. And we have a lot of companies, tremendous amount of companies, foreign companies investing in the U.S. Guess what, next year you're going to start seeing some Chinese major conglomerates investing in the U.S. because this is where the market is. We're already seeing Mexican companies and others, so it is truly becoming a globalized economy.

When a company sets about on a national location search in the U.S. what region of the country automatically is on the minds of most corporate prospects – your decision makers, not me as a consultant, but the end user? The number one region would be the Atlantic sunbelt stretching from Virginia to Florida. I have to tell you if that is not on our list of almost any location search that we're doing on a national basis, our clients are going to ask us why. To me that is kind of gold standard. Colorado Springs needs to also get to that level. The reason the Atlantic sunbelt is on the national radar screen is because they have a very long history of supporting economic development, irrespective of government administrations, long public/private sector partnerships in economic development, very favorable business climates, favorable quality of life, moderate business costs, making the investments where they are weak (historically in education and transportation) and have done very well. Another area – state, republic, country or whatever you want to call it – is Texas. Texas, because it is so big and has so much to choose from in terms of diverse communities always remains a pretty viable option on the national location search. Also the intermountain region, which includes Idaho all the

way down through Arizona. It's funny, we see a lot of companies from the West Coast seeking locations in the intermountain region because of better labor markets, lower operating costs, and so forth and that's funny because we also get quite a few companies on the East Coast saying, "This isn't a bad location, if we're going to move far away maybe we can consider the intermountain region." I don't see as many Midwestern companies necessarily looking at this region, but nevertheless, this is kind of like the northern sunbelt if you will and I think does very well from a national location search.

What tends to be the most important factors today as we move toward the middle to end part of this decade? What are going to be the greatest influences on corporate location decisions? My remarks assume that a community has the basics – you've got sites, etc. When a company gets to a long list of areas that pretty much meet its locational needs, what is really critical? For the vast majority of industries, what I call labor cubed – labor supply, quality, and costs are absolutely essential. You have to remember that about $\frac{3}{4}$ of new facilities that are being established are branch operations. Branch operations typically have over 50% of their new hires which need to be highly qualified entry level workers – basic skills that they teach new technologies to; the remainder tends to be skilled craft persons or professionals. So, the availability, supply and cost across the skill sets from qualified entry level labor all the way through to engineers or technicians is number one. If you're going to be a low cost, high quality producer then that's about people.

In the late 1990's we had a very severe shortage across all skills sets of labor in this country. We're predicting and we're already beginning to see shortages. I can tell you right now around the country, maybe some of the aerospace companies here have experienced the same thing, shortages in construction trades, shortages in machine trades, shortages in nursing. That is going to move up the food chain. To me there is not a shortage of engineers, but there will be probably by the year 2010. That is what the U.S. Bureau of Labor Statistics is predicting. Any area that can demonstrate its labor market resources and remains in rough equilibrium – supply, quality and cost – is going to do very well. That is why I think you are so fortunate in that you are a growth area and that growth is composed mainly of working age adults, many of whom are very skilled, moving into the area. What drives that growth needs to be protected at all costs, in my opinion, to move up the food chain and create better quality jobs. So, labor market is #1.

When a company, and I think a lot of Colorado Springs companies would recognize this, looks at a labor market or in a retention program says, "I'm having a hard time getting labor" you have to look at whether or not that company is viewed as an employer of choice among the companies it is competing against. That goes beyond just compensation it includes HR practices, career advancement potential, training, company reputation, onsite amenities, etc. so that in industry retention when things get tough and a company says, "I can't recruit labor" you have to really look at how they compare to others on the holistic HR perspective and many times when a company that says they're having a tough time it isn't really the labor market it is more internal and how they compete against other competitors in the market.

Logistics – Another major consideration. We are seeing a tremendous assault on efficiency and cost reduction throughout the entire supply chain. Corporate real estate, its facilities, and the people who populate them are definitely being viewed more and more as part of a vertical, global supply chain. In fact, one thing you'll see in a lot of manufacturing companies is the corporate real estate executive reporting up through the global supply chain. These whole issues of speed to market, low cost, and efficiency means we're going to actually in a global economy, this may sound contradictory, have more regional production and distribution facilities in certain industries, believe it or not. That puts a premium on market access, how far away from your customers, particularly in first or second morning delivery by truck, transportation services, speed and efficiency of transportation – moving goods and people very, very quickly in multiple modes.

Electric power – Ever since 9-11 and deregulation, partial deregulation has been bad news. The states that partially deregulated are pretty much the worst in the country right now on electric power situations. Montana from costs and Nevada from capacity and then you've got problems with transmission capability. The capacity of electric power and generation transmission reliability, which economic developers never report on and you always have to go dig out this information, and the costs and the stability of those costs, now and in the future, is very important. We're seeing many more companies, and it's important for the development community here to understand, requiring dual power feed from two substations as a prerequisite even when they don't usually need it, in my opinion, but they are calling for that more and more. Same for telecommunications. Companies, even manufacturing plants, now are communicating more volumes of data, pictures and drawings with their R&D facilities and need broadband communications. And again, many companies are requiring dual feed telecommunications with their sites as well.

Another major criteria today and is going to continue in the future is the decision cycle continues to come down in corporate America in terms of making the decisions quickly. It is not just about getting into business for a cost reason – it is revenue generation and profits. Seventy percent of our clients come in the door today demanding an available building. They say they are not going to consider any area that doesn't have an available building meeting their general overall specifications. Quite frankly, half of them wind up doing a build-to-suit, but nevertheless you don't get on the radar screen unless you have a building and it has to be a fully ready to go building. So, areas without product are often not in contention. This is unfortunate because there could be a lot of areas that have great transportation and labor market but may take an extra three months to get into business, but boy that might be a price to pay for long term opportunity on costs. That, however, is the way it is out there. And at the very least companies are saying they need pre-permitted, certified, ready to go sites for their industry and many of them are looking for big sites of 50+ acres. That is particularly true in industrial. Fast track construction is important and again, it is getting into business quickly – environmental permits and so forth because companies are looking at this as producing profit, not just what it is going to cost for permitting, but they need to produce profit more quickly from this new facility. Since 9-11 disaster risk has become very important. It is getting tougher to recommend locations for any kind of an operation, even if they are not mission critical,

that have a significant natural disaster risk – earthquake, flooding, etc. Companies, particularly if they are mission critical like data centers, are very concerned about site security with wanting perimeter protection with guards and all of this kind of stuff. That does impact the kind of sites that can be considered and also the security that is provided at these sites is very important for a lot of business today.

I do have to say that incentives are an important site criteria once you get down to a manageable number of locations. It is very seldom that there is going to be one location that is so far superior to numbers 2, 3, and 4 on the short list that you say I can only go to the number 1 location. So you have to look at incentives holistically in the big picture, not just what are they but how do they affect the operating environment, how do they affect the 10 year business economics of one location – you pick a whole list of components. It is difficult for communities that don't have significant incentive programs to successfully compete on all the projects that come their way because this is a fact, the capitalists like it – you don't have to like it, but that is the way it is. Every product, I don't care how premiere it is, has a discount or an incentive – Mercedes, etc. Incentives are part of the game. Companies prefer cash obviously, and most states have credits which a lot of branch operations really can't use, so there is a miss match there, but incentives definitely could be designed so they are a win/win and performance based and earned out of incremental revenue. I think all communities should have incentives.

There is definitely going to be more off shoring of global America and the reason is predominately because we as companies are trying to gain market share in developing countries. Our best research on the CORENET 2010 was that about 60% of all foreign investment of U.S. companies, or multi-national companies for that matter, is done for market penetration reasons, about 30% is done for cost reduction reasons (some of that they double up, they also want to get into the markets), and about 10% for knowledge acquisitions – R &D centers, etc. When you look at it the big drive is still market. On a macro basis, in our opinion, at best we could find that if you took all of the wildest predictions of how many jobs are going to be lost in this economy, white and blue collar between this year and 2010, I've got to tell you 2 million would be a stretch for cost reduction purposes. That doesn't even include the inward investment that probably is going to be upward of 500,000 to maybe even 1 million – inward investment, rough number. We're going to have about 145 million people in our workforce at that time plus a predicted worker shortage. On a macro basis we do not see this huge threat. We see the threat is there and certainly there are going to be certain types of functions that will go off shore and they may even move up the food chain, but there will be a lot going on in the U.S. both because this is a tremendous market – need to be here, certain products are high value, and you could go on and on. Manufacturing is by no means dead. Our business is filled with manufacturing right now and it is going to be in the future. Yes, after downsizing it is probably going to increase nominally in employment over historical levels, but it is definitely strong across a lot of industries right here in this country fueled by American and foreign companies moving in. Nevertheless the global economy is here to stay – no question about it. What companies are doing today is the best companies, 20% of the larger companies, when they look to expand a new facility they don't do it in the silo approach they look at the global business portfolios and say, "How can I best

balance my objectives of costs, risk minimization and so forth,” rather than saying, “I need a new facility in the Western U.S.” They take more of a global approach which means they have global databases. What this means for communities is that when you do your industry retention programs most of the decisions about whether or not a company is going to expand in a particular community are going to be dictated by global dynamics. They aren’t going to be dictated necessarily by local considerations. So, with that said then to us as business people advising communities, that economic diversification and quality economic growth are essential for success because that 75-80% of your existing businesses create the new jobs. A lot of that stability is well beyond the control of local economic development groups. You have to add to the base and it has to be something different to add to the base so that you continue to have minimum impact from global situations.

In CORENET 2010 we said there are five things that communities must do to be able to compete in a global economy: 1) Acknowledge your assets and limitations and develop realistic strategies for job growth; 2) Continuously upgrade physical infrastructure, human infrastructure (workforce), business climate – open business climate; we’re ready for business. Fair to business, not exceedingly pro-business, but fair. Don’t get in the way with idiotic rules and regulations; have your zoning done – be ready for business. 3) Brand and market for realistic results. It is always important for public and private leaders to have a vision of where you want to go. You’re not going to get there on day one. You want to get that corporate headquarters? Right now you’re not going to get the Fortune 500 headquarters. If you want to get there you develop more branch operations, you do things to bring in more tourism, you keep on building off the associations, and you start getting air service to Boston and New York – then you get the corporate headquarters. So it is a building block, realistic approach with a vision taking what you can get at the highest end now and building toward the future and you gradually move up the food chain. That is the way all areas develop – ALL. That is the way San Diego developed. They started their own biotech industry basically; now they are on the top of the food chain when companies are considering a national biotech search. It took them 20 years to do it. So that means devoting resources to business start up; it’s a triangle – expansion, retention and selective recruits, which is going to be the most expensive, but is essential to keep that base going. I am a gardener, so gardening, cultivation and hunting are really essential for successful economic development and better job creation in the future.

Business recruitment essentials from what we see out there. What characterizes the best EDO’s (economic development offices) in the country? Well supported publicly and privately. We don’t see very many truly first class organizations that are much beyond the 40-60% range of public and private funding and that means actively involved. It is common, I don’t care if it is Richmond or Kansas City, you have public and private partnerships. You can’t do it all private, you can’t do it all public – it doesn’t work. You need them involved in thoughts, leadership and dollars. That is the way it is and it is repeated around the country. Your stakeholders are educated as to the necessities of economic development. Your citizens have to understand the importance of economic development, elected stakeholders and appointed officials need to know what goes down

in making corporate location decisions and they need to understand what they can do to facilitate the process so that once you get somebody here you don't lose them because of an impediment locally.

Adequate Funding – The better EDO's have public and private funding mechanisms that extend out for a minimum of 3 years, generally speaking 5 years. You have too much to do, you shouldn't have to go through a budget process every single year and going through this exercise of trying to get money from all these different sources when you ought to be focusing on the job at hand, which is getting better quality jobs for people. Don't worry about the funding, take care of that upfront and then have metrics that you report back and so forth, but this going to the well every year is really a needless exercise.

Quality Value Proposition – Very, very important. Companies today want value. They want human resource value, they want a high quality workforce, and they want it at an affordable cost, now and in the future. They want a high quality physical appearance in their communities and they want it at the worksites as well. Quality and value, that is really important. When you go branding, if you can brand yourselves as "Quality & Value" that resonates among all businesses.

This doesn't apply to El Paso County, but most of the good ED groups are regional groups. You don't have a region – you're kind of like a lone wolf. The state doesn't do any marketing, Denver does a little marketing, and Pueblo doesn't do too much marketing, so you're here by yourself with no cover for a big metro, no cover from the state – you're pretty much on your own, which makes it both good and bad. You don't have any air cover – nobody else is out there promoting Southern Colorado, so you have to do it all on your own. On the other hand you are independent so you can say what you want and do what you want, which is nice too, but you wind up spending proportionally more dollars when you're a lone wolf than you would if you were a Kansas City where they have 11 counties in the region and they all band together for marketing purposes.

The better EDO's have tremendous data rich websites. You have to remember that 1/3 of the market is represented by guys like me who are professional consultants, 1/3 of the market is represented by related professionals that are helping out and want to get rid of areas, because this is not their job – real estate brokers, architects, lawyers. They want to get rid of areas, not include more. And then you have 1/3 of the companies that are doing this on their own, particularly the small mid-sized companies where a senior executive is working nights and weekends on it. For 2/3 of the marketplace especially, a great website – data rich where you have what they call data standards that have been recommended by a national organization – absolutely critical. I guarantee if you've got that down you'll get a lot more prospects and have a higher deal closing rate by having a world class website, of which there are very few in economic development today, which to me is relatively amazing.

I think it is important to understand the target marketplace. Most good EDO's understand what is going on in their target markets. They understand who the decision

makers are in target companies that tend to be multiple points of decision making, which you have to reach and influence. You just can't be sending letters to the CEO and to the top real estate person, etc. The best organizations have very high paid, relatively autonomous staff that you trust – they aren't micro-managed by committees. They go out and do what they have to do and you hold them accountable at the end of the year. Just from my involvement with Colorado Springs, I would rate Colorado Springs a B+. I think it is a very good organization. I would to say it rates A+. I have worked with the people at EDC, you have a lot of people that have been here a long time, and have worked projects in Colorado Springs for 25 years. Every single time I have asked for information I got tremendous support. The customer service that I have received over the years, without failing, has been an A+ – absolutely outstanding. I think where the challenge has been is in making the investment in technology and research and also in marketing, because quite frankly at the level of marketing right now of Colorado Springs it really pales in comparison. I have been told you spend about \$300,000 a year on marketing. You are up against Boise, Albuquerque, Kansas City, and Jacksonville and you've got many of these areas spending over \$2 million a year on marketing. I'm not talking about an ED budget, this is a marketing budget. So, I think you've done pretty well on a shoe string, quite frankly. But it is getting pretty tough out there; it is time to step up to the plate, no question about it.

Let's talk about an outsider's view of assets and liabilities. First of all, every place has assets, every place has liabilities, and no place is perfect. So just having said that, let's talk about Colorado Springs and to me the assets are compelling. What I have to say here, hopefully you will be able to take and weave together three, four, or five sales themes – which means combinations of different factors. You don't have to say, "I have land at \$10 an acre or I have population to jump," but weave it together – what does it mean for certain types of businesses. A compelling story, fortified factors to me creates a sales theme or ultimately a brand. Number one to me is the location. The biggest locational advantage is the location. You happen to sit on the front range. You have mountains, clean air, outdoor recreation that is world class, and well known tourism. This is a great place to be and people want to be here. If people want to be here they move here and then businesses follow suit. That to me is a tremendous advantage and then where you sit on the front range you have great access to DIA. I live in Hoboken, NJ – it takes me as long to get to JFK for an international flight and I only live a few miles away as it takes you to get to DIA from Colorado Springs. A company in Colorado Springs can take advantage of a global business platform, of which there are only a handful of global cities in this country, and with costs that are among the lowest on the front range or actually in the western U.S. You see, this is unique. You can't do this in a lot of other areas. I love Salt Lake City but what is near Salt Lake? Nothing. I love Albuquerque, but what is near Albuquerque? Nothing, they don't have a global business. This is really important. Also, transferees can take advantage not only of the quality of life here, but also a global quality of life platform in Denver. This is unique. Could you do this in Northern Virginia? Yes, at a cost of about 25% higher and with commute times about 4 times longer. It can be replicated but at what cost? A unique advantage. Second advantage is logistics in transportation, which is good, but is also being eroded, which is bad. Right now logistics in transportation tend to be a major advantage in Colorado

Springs. Again, just look at the highway linkage, the fact that you have two railroads, over 20 motor carriers, etc. which is very good. Transportation costs to a regional market are competitive, the services are terrific, and the highway linkages are right there. I have to rate logistics and transportation for Colorado Springs as being very, very competitive. I think the utility infrastructure, again what is in place now, needs to be expanded, but if we look at supply, capacity, reliability, cost – very, very strong. All of the utilities are very, very strong. And, you have water – a lot of areas don't have a water supply. The labor pool – this is a huge advantage; something that must be protected at all costs. It is over 300,000 deep and growing. I estimate that you have over 24% of your workforce in low wage jobs, white collar and blue collar, which is 75,000 people underemployed. That is a rough guess. If you look at the skills, you have critical mass where you can draw talent from if you pay market level wage when you come into town all the way from the qualified entry level labor, which we need – everybody is not a knowledge worker at least to begin with, all the way through the skill trades, technicians, and engineers. You're a little bit light on scientists, but other than that very, very strong. For industrial and office operations, this is an educated workforce, a high performance workforce, and on top of it all supplemented by over 4,400 college graduates coming out every year from the institutions here. Also by the military where you've got a huge retirement base, annual separations, retirees and spousal employment and they make excellent, excellent workers and they know English, they sometimes know foreign languages, which most Americans don't, they know geography – these are very good workers. The workforce is very strong. And then if we look on top of that, what does it take to recruit high technology businesses today? You don't recruit a national high technology enterprise unless you have a critical mass in that particular industry – you just can't do it, the company won't do it for a number of reasons. When I look at Colorado Springs, you legitimately have a critical mass of selected high tech industries – defense, which is predominately software and systems, electronics, and aerospace. When I looked at aerospace, a lot of which is metalworking, and then looked at machinery and metalworking shops I realized Colorado Springs has a unique metalworking niche that needs to be built upon. I didn't even realize this, and I study this area a lot, this is one of the premiere metal locations in the entire western U.S. To me it represents a major opportunity for manufacturing and also high technology in metals and materials and nanotechnology related to metals. I think this is a great opportunity. I couldn't believe all of the Christian and sports associations in Colorado Springs. I don't know if the sports people are Christians, but nevertheless, that is amazing. That is a unique niche. And then there is a good supply of back office operations, some of which are lower wage and can present labor for up the food chain, so this is a pretty good deal with very good industrial and office space that allows for creation and a building block approach to attract new businesses. Right now there is an adequate supply of industrial sites and there is a good supply of available buildings, but that remains a challenge. You have good local fast track construction, but the state environmental permits still take about 50% too long to process on routine projects and that needs to be addressed.

The tax climate in Colorado, I know you complain, but it really isn't that bad other than the property tax on business. The state, believe it or not, is one of the better ones on tort and liability and this quality of life has got to be protected at all times because it goes

hand and hand with the labor force – ranked #18 out of all 330 metro areas for quality of life and that is amazing. Colorado Springs has relatively affordable housing, low crime rate, decent public education, right now OK on commutation time, and all of this at a cost basically below average. Again, it is a value proposition. If you look at the total cost of doing business in Colorado Springs vs. your competitive areas in the West or the national average, Colorado Springs is generally at or noticeably below, up to 10% below. Again, value proposition on quality of life and value proposition on business, particularly human resource base – very, very potent. Those advantages need to be protected going into the future if you are going to fully utilize your economic growth potential.

Liabilities – This is alarming. There is a shrinking supply; you're almost out, of large scale industrial sites that I define as over 50 acres. This really is a big drawback because these sites aren't quickly brought into the market. You are going to lose a lot of prospects. I realize that residential development is critical, but guess what, you lose those prospects and you're going to have a big hit on residential development. You must have some kind of sense and order on how you are zoning these sites in the future out east and up north to accommodate the needs of the core business that is going to generate the demand for retail, housing and so forth. Maybe you have it out there, but I didn't see it. This is critical – if you don't have product you don't have people moving in. You can see the land prices are rising dramatically and some companies are going to be priced out, they are going to be turned off by A) they don't have any incentives and B) I'm going to have to pay this premium on land – forget it I'm going someplace else. This is a correctable situation.

I wouldn't be smug on workforce, because I believe in a full economy you will start seeing spot shortages of skills and I think you're going to start seeing it in the machine trades here. The workforce investment needs to really be up to speed on this issue of workforce preparedness, particularly in the skill trades. This is going to be real important and I suspect in the technician ranks as well – electronic technicians, engineering technicians, etc. I haven't done the interviews, but I'm sure if I talk to companies here they are either starting to see shortages or they will because you aren't getting enough students coming through programs in these technical and skill craft fields. You have the programs, but not enough volume coming through. Clearly a disadvantage and you all recognize, is the lack of non-stop service to the East Coast. It is expensive – \$1000 to Atlanta is a real disadvantage for air service. It would be nice to get some low cost carriers in here and get service to the East Coast. It would really open up the kind of prospects that could be attracted to this area.

One of the major disadvantages, especially for the kind of industry you can attract – capital intensive such as semiconductors, is the disproportionate burden of property tax on business. You can't have your businesses paying a 30% assessment and the residential 10% - that is ridiculous. It needs to be fair – remember what I said, fairness. That has got to be equalized, because that is completely out of whack.

The state has no incentive programs, the community basically has none, which puts you at a big disadvantage relative to other areas of the country. Most other areas, even Idaho

which is extremely conservative, have finally figured out that they have to play ball because they were losing too much business – they got an incentive program. I think all areas need to have some kind of an incentive program.

This is minor, but I looked at diversity in population and I didn't see as much diversity here, maybe there is but statistically I didn't see it. I think that is always healthy in an economy and I don't know what you do about it. It is just an observation – I'd take a look into it more and see what can be done about that.

There is a legacy of NIMBY all up and down the front range – not in my backyard. People want to move in and then shut the door – very selfish and self centered. It is nice when they are retiring or earning \$100,000 a year and they don't care about somebody working at Wal-Mart. The problem is that you can't let that overcome seeing the importance of economic development. Quality of life and job creation has to be genuine in places like this or the NIMBY's can have some victories that can cost people dearly.

This TABOR thing I wasn't sure was good or bad – it sounded good, you can't spend people's money, but what is going on at UCCS anticipating a 47% drop in state funding from 2001; 96% increase in tuition. You can't go on like that. Eventually you aren't going to have students coming in and that is going to kill this economy. Something has to be done about this funding for higher education. This is really alarming, more so than I've seen in other states.

Another real disadvantage for Colorado Springs is traffic congestion. Once you kill the golden egg of why people move in here then they aren't going to move in and then you're going to have a real problem. It is not a matter of perspective, it really isn't. People come here because they want a quality of life. They don't come here to be sitting on an interstate 15 minutes extra on their commute every day which adds up to 37 hours a year. That is not why they came to Colorado Springs. It doesn't matter that they sat 45 minutes in the L.A. basin, that is irrelevant. It matters that they came here because they wanted this quality of life. This is the most congested small metro area in the U.S. – that is a dubious distinction. You've got to get out of that because if this worsens and people stop moving in the spigot turns off for business in terms of the kind of surplus skills we have in this labor market. This is really serious. I came down from the Air Force Academy at 1:30 in the afternoon and was in a huge traffic jam and then I see all of this growth. I get about another 5 miles south and see where they are expanding the interstate, but wonder why it isn't being expanded all the way through the city. In an area of this size, it really isn't unreasonable to have a loop around the city or that kind of thing, so you are going to have to deal with this. This is really a serious issue and more on the people side moving as it is on the goods side.

On balance, Colorado Springs is a very strong location. Drawbacks are mostly fixable. I tried to determine what industries would be great for Colorado Springs and I came up with too many. Even if you double the budget to \$750,000 a year, you can really only have 3-4 target industries to do an integrated sales approach. Certainly air maintenance and repair (anything related to aircraft; could be parts) this is a great area for a number of

reasons – military, etc. You attract more of this, build a big critical mass and then you start asking these companies when they are doing R&D on high strength and performance materials, “Wouldn’t it be a good thing to get the university involved,” so you can build it up with a vision toward the future. Clearly metalworking has got something here. We are talking about metalworking, which also spills over into aerospace and materials. We are also talking about the technologies of the future in metalworking, which are meso-technology, the mineralization of manufacturing and that is a big deal in metalworking – it is almost like the chip was and it is called meso-manufacturing. I see a lot of tremendous potential for near term attraction of more plants like you have in developing the technological food chain. You don’t want to see yourself as the Pittsburgh of the West, but you want to be a place where state of the art metal think-tanks come to Colorado Springs.

Semiconductors – there are a lot out there. Intel has built centers in Albuquerque and Phoenix so you’re seeing those built all over the world; there is a lot of capacity out there. High end electronics including semiconductors – you have the product here; it makes a lot of sense. Very high end performance instrument manufacturing, be it in the medical fields or the scientific instruments. I really like IT centers and IT even includes software applications. I know my clients are not putting all applications off shore – some they are, some they aren’t. So, software centers particularly as it relates to sophisticated systems of multiple programming skills, ranging all the way from the legacy Colbalt to C++, would be very, very good here. I love this area for data centers – primary or back up sites. One thing that is missing in the white collar sector is shared services centers where you hire a lot of professional accountants or HR people because they are consolidating enterprise wide – so rather than having one or two people in the field they get put in a central operation and we see a lot of that, which represents a tremendous opportunity for Colorado Springs.

Here is what I think is really important for ensuring the competitiveness of El Paso County. Without question, number one is to develop large scale sites for industrial development and that is going to have to be around the airport and out towards the east; that is the only answer – Banning Lewis Ranch, etc. If you don’t have it all zoned and ready to go then you’re behind the 8-ball a little on this, it should have been done a long time ago. This has got to be done or you will not reach your economic potential. You have to have the product. Never stop encouraging the private sector to do spec buildings because if you don’t have available product then you get dumped on national site searches.

It is important as well, I know this is a state issue, but I really believe that there has got to be some degree of equalization in this property tax thing because there is a lot of people that have said this is a fatal flaw in the state’s business climate so something really needs to be done on that issue.

I have been told by a lot of you that incentives are out of the question in Colorado and I am saying I don’t buy that. I think that as you put it forward to the people, who are intelligent people that live here, why you need an incentive plan that is performance

based, that is win/win, that is based on increments not handouts – I don't think you're going to have a problem. Existing business shouldn't have a problem because they are eligible with expansion. I would call for the State of Colorado to adopt a program that is widely used, including my state of NJ which is absolutely average when it comes to business. They were losing the kind of jobs they needed in biotech to Philadelphia, Boston, and New York. If they don't have incentives they lose. Even those morons got it and we have incentives programs. If it can be done there you can't tell me it can't be done here. What we need to do is have the state develop a Jersey type or an Oklahoma type, which is the business model of the country incentive plan, which is cash oriented, payroll/people oriented and not a given. Everybody doesn't get it – it is a case by case basis. In Oklahoma the way it works is that you provide the kind of job that a community and state wants at a certain salary level, they give you a rebate of up to 5% on payroll for up to 10 years. Very meaningful incentive. You put a call center at \$7/hr in Tulsa you get nothing. It is win/win, you're not giving away anything and it allows you to really target your businesses and is very helpful. I know Pueblo has a mechanism to collect sales tax for economic development in their community. I don't know if a sales tax would pass here, but you have a lot of tourists that come through this area and I think really appreciate it, I know I do. If I was being asked to donate 1-2% of my hotel bill or whatever to go to strengthen the area's economy and provide better services for everybody including me, I would do it. That is how some areas fund a very good economic development program. There are ways to do this. That money could be used on a case by case basis for a local incentive pool to combine with the state. I think you have to do something for competitiveness. It is critical if you want to ensure that you are going to get the kind of high quality job growth that you would like.

I already mentioned this, but the marketing budget needs to be doubled to at least \$750,000 a year, which means that you need a commitment of over \$2.2 million a year for a three year period with at least 40-60% public/private funding – that is the business model out there. So, just get over it – you have to do it.

I think that it is important to have a very well focused technology based economic development effort which will concentrate on business start up, but don't make it just in high tech – don't forget the metals, don't forget other kinds of businesses. You don't want to do it for retail, but you want to certainly do it for businesses that are going to be exporting their goods outside of the area. I can see having a really good technology transfer program with the basis here with the schools (Colorado College, UCCS), the real estate community involved in terms of developing the kind of space incubators need – and eventually have virtual incubators. You have education, military, real estate and clearly there needs to be a regional angel investor's club that is created to provide second stage financing for those that are going to be incubated here. All of the resources from SCORE to the SBC need to be in one place where a person goes to get routed to the right people and get the assistance they need to grow their business or expand it into a second stage. I think that is very, very important.

I think the state ought to have both an R&D tax credit that is transferable. I also think that a business in an incubator should not have to pay city and county property tax. That would really help jump start businesses.

Eventually we have to encourage both more low fare carriers as well as non-stop service to New York, and then secondarily to other Eastern cities. That would be a huge win for Colorado Springs. In the meantime, you don't have international air service from here, but as part of the marketing effort I would look at my target industries and see what companies are based in the countries that are served by DIA and I would have a sub marketing campaign aimed at those foreign companies that use DIA right now and get them to come to Colorado Springs. I think you could be pretty successful with that.

Lastly, I do think it is important to better quantify your workforce. I mentioned C++ and those kinds of things. We have no idea of how many of these skills are in the market, we don't really have a good idea of people that have moved into the area and what kind of skills to they bring; same with the retired military. It would be really great to do a labor market survey where you would survey employers and then something equivalent to a household survey so you could get a better handle on the labor market resources so you could communicate those to prospects. That would be very helpful.

I've already mentioned to staff what I think ought to be done on the website. You need to make it data rich, user friendly, easy to use. We don't care about bells and whistles – we just want the data in an Excel spreadsheet. Staff knows what to do, get the IEDC data standards in there, get that website up and running.

I can't help it, I've been a basketball fan and am a lifelong Nuggets fan, even back when they were called the Rockets. I will have to say, and I hope somebody appreciates it, I think that Fischer DeBerry is like the Pete Carril of college basketball. Pete Carril coached Princeton and they had no talent and nobody ever wanted to play them. This year Air Force is a little bit different, but I've got to tell you that this guy with no talent for many, many years has had a competitive program. I am former Air Force and I love the Air Force Academy and I love this area. Thank you very much.