

YEAR IN REVIEW

Dec 26, 2005

TOP 10

Cost of energy, strong housing market lead list of biggest Pikes Peak-region business stories of 2005

CONTRIBUTING WRITERS

Jim Bainbridge, Wayne Heilman, Debbie Kelley, Rich Laden

Sticker shock usually happens when you buy a car, not when you fill the gas tank. In 2005, however, record-high gasoline prices dramatically drove up costs for businesses and consumers in Colorado Springs and surrounding areas, as they did for the rest of the nation.

As if record gas prices weren't enough, it's expected that huge increases in the cost of natural gas will send heating bills soaring for homeowners and businesses this winter.

Skyrocketing energy costs — particularly gasoline — touched practically every aspect of life in the Pikes Peak region during 2005, and were judged to be the top local business story as ranked by The Gazette's Business-news staff.

Gas prices had been rising throughout the summer after months of steady demand and a constrained supply. But days after Hurricane Katrina ripped through the Gulf Coast region and disrupted refining and distribution operations, Colorado Springs gas prices smashed previous records to average \$3.037 per gallon Sept. 6, according to AAA Colorado. Diesel, which historically lags behind gasoline, got even pricier, hitting a record \$3.282 on Oct. 24.

This story and the other top local stories begin to the left.

THE LIST

1. ENERGY PRICES

Gas prices have since retreated by almost \$1 a gallon since September, but the damage was done. Some transportation dependent-businesses raised prices for goods and services and slapped surcharges on deliveries.

The higher costs hurt Springs auto dealers, who reported sagging sales this fall of large sport-utility vehicles and booming demand for a growing selection of hybrid vehicles that use electric motors to supplement gasoline engines and reduce fuel consumption.

Consumers, meanwhile, changed their driving habits or switched from more expensive premium brands to regular unleaded.

When adjusted for inflation, the average price of unleaded regular gasoline in September was at a 24-year high and just 25 cents below the record \$3.13 a gallon — in today's dollars — reached during March 1981, according to the U.S. Energy Information Administration.

Drivers weren't the only ones feeling the pinch of higher prices. Homeowners in El

Paso and Teller counties served by Aquila will see natural gas prices up 34 percent to 37 percent, while Colorado Springs Utilities customers will get a 6 percent increase.

Both consumers and businesses reacted by cutting back spending. Colorado Springs sales-tax collections weakened as energy prices jumped, and Springsarea payroll growth slowed late in the year to about half the peak level reached in March.

2. HOUSING SETS RECORDS

A much-improved local economy, more troops coming to Fort Carson and mortgage rates that hovered around 5 percent before increasing later in the year propelled the area's housing industry to set more records in 2005.

Although final numbers are days away, El Paso County is certain to break last year's record of 5,060 single-family building permits.

At the same time, area home sales through November totaled more than 12,000, already surpassing a record set during all of 2004.

Rising mortgage rates might slow the building, buying and selling of homes in 2006, but real estate experts don't expect a housing bubble to burst and prices to plummet.

3. DEFENSE INDUSTRY GROWS

While not exactly back to the Cold War days of a generation ago when the defense industry accounted for 60 percent to 70 percent of the local economy, it is back at the forefront and rising by the month.

Local economist Dave Bamberger estimates that 53,000 of the region's 118,000 primary jobs — 45 percent — are tied to the defense industry with its four military bases and myriad contractors. Primary jobs are those in which goods and services are produced here and sold elsewhere, thereby bringing new money into the Springs economy.

Over the past three years local employment among defense contractors here has jumped 78 percent to more than 11,200.

Lockheed Martin (2,100 employees), Northrop Grumman Corp. (1,200) and ITT Industries (1,050) are all among the top 15 private sector employers in El Paso County.

The Colorado Springs division of Northrop-Grumman recently was awarded a 10-year Department of Defense contract worth as much as \$2.5 billion, likely bringing 2,000 more primary jobs to the area.

ITT Industries was just awarded a continuation of its communications contract with the U.S. Army that could yield \$681 million over the next five years.

The combination of military-base growth and defense-contractor hiring is projected to bring an estimated 15,000 more primary jobs by the end of the decade.

4. ECONOMIC RECOVERY CONTINUES

The Colorado Springs economy shifted into a higher gear during 2005 as a recovery from the recent recession gained strength in its second year.

Most economic indicators improved for the area in 2005 from their 2004 levels: housing construction set a record for the second consecutive year, job growth and city sales-tax collections increased, and the unemployment rate and mortgage

foreclosures fell.

Not all of the economic news, however, was good. Individuals across the state and nation filed record numbers of personal bankruptcies before a new tougher law took effect Oct. 17 as personal debt levels soared and savings rates fell sharply.

Many economists who follow the Springs economy sounded an optimistic note for 2006 with the expected arrival of more than 10,000 additional troops at Fort Carson and expansions by 10 companies that are planning to hire 2,460 in the next few years.

The new jobs created nearly tripled the number of local jobs lost through layoffs by Atmel Corp., Hewlett-Packard Co., Sanmina-SCI Corp. and others.

5. SOUTHWEST FLIES TO DIA

Southwest Airlines changed the landscape of the airline industry overnight in both Colorado Springs and Denver with its plans to service the Mile High City.

The Dallas-based discount carrier will begin flying from Denver International Airport on Jan. 3 with 13 flights to Chicago, Las Vegas and Phoenix. One-way fares will be as low as \$59, or 43 percent lower than carriers at DIA had been charging on the same routes.

Colorado Springs officials had been courting Southwest for more than a decade as an alternative to DIA and its higher fees. They had offered the carrier \$2 million for additional airport facilities that would have been needed had the airline come to the Springs.

Local airport, tourism and business officials vowed to continue trying to lure other low-fare carriers to the Springs and bring down the price of fares, which often are significantly higher than fares out of DIA.

Airlines continue to add service in the Springs as United Express began flights to San Francisco in February and announced plans to begin a flight to San Antonio in March 2006. American Airlines began flights to Chicago in June, but halted nonstop service to St. Louis in July. Delta Air Lines ended service to Dallas Jan. 31.

6. RETAIL-SCENE CHANGES

Mervyn's is leaving the Springs next month and so is Media Play. Foley's? It will be turned into a Macy's by next fall.

Colorado Springs' retail scene got a substantial face-lift in 2005 with some of the city's high-profile marquees coming down for good, victims of sagging profits and corporate mergers.

As those stores departed, the Springs market got an infusion of fast-rising national retailers like Steve & Barry's University Sportswear and Sportsmen's Warehouse, with the promise of a Costco somewhere down the road.

Wal-Mart continued its massive expansion, readying stores in Monument, Woodland Park and southeast Colorado Springs for the coming year, bringing the chain's total to nine stores in the region.

7. INTEL EXPANDS, ADDS JOBS

For the second time in as many years Intel made a big-money commitment to upgrade its Colorado Springs chip-making plant on Garden of the Gods Road.

This year, Intel earmarked up to \$190 million — on top of the \$400 million announced in 2004 — to expand capacity for manufacturing flash memory chips used in cell phones and other wireless electronic gadgets.

The company has added 109 jobs at the Springs plant since July 2004 and is projecting an increase of several hundred more hires over the next three years. The plant now employs 905.

8. BROADMOOR CONTINUES IMPROVEMENT PROJECTS

The Broadmoor hotel in Colorado Springs already is rated by one national travel publication as a top-of-the-line, five-diamond resort.

In October, it added another jewel to its crown, opening its 60,883-square-foot Broadmoor Hall.

The \$28 million exhibition center and a \$17 million, threelevel underground parking garage are the latest in a series of Broadmoor improvements totaling about \$250 million over the past 15 years.

Broadmoor officials believe the exhibition hall will help attract more conventions, meetings and trade shows — filling up the hotel's 700 guest rooms during the late fall, winter and spring when occupancies are lower than during its busy summer tourist season.

9. CONVENTION CENTER GOES TO BACK BURNER

After years of going back and forth on cost, financing and other details, proponents of a downtown Colorado Springs convention center shelved their effort.

In April, city voters approved a ballot measure that made it tougher for Springs government officials to support a convention center.

In effect, voters gave themselves the right to veto the city's role in planning, building or funding a convention center — a huge roadblock. A month later, convention center backers pulled the plug on their efforts.

Even before the April vote, City Council members weren't convinced of the need to invest public money in a convention center, although they had publicly supported the concept.

10. HOSPITALS DELIVER

Local hospitals followed the nationwide trend toward expansion, as an aging population is boosting the need for services.

In January, Penrose-St. Francis Health Services opened a 72-bed wing for critical care and cardiovascular patients. The \$52 million project at its main hospital north of downtown took three years to complete and also included a new hospital entrance.

City-owned Memorial Hospital continued construction on a five-story addition to its main hospital at 1400 E. Boulder St. Design changes and rising material costs upped the budget from \$71 million to \$81 million. A new general contractor, PCL Construction Services Inc. of Denver, took over in October. Construction also is progressing on a 89-bed, \$138 million hospital in Briargate.

In Teller County, a grass-roots movement to build a 40,000-square-foot full-service hospital received \$14 million in government-backed loans.

HONORABLE MENTIONS:

c

DISCOUNTS PUSH AUTO SALES

Deep discounts by the Big Three automakers led to a record number of new vehicles registered in El Paso County in August. The 3,218 registrations, up 54 percent over last August, topped the previous monthly record of 2,695 in October 2001.

c

LABOR

ISSUES RESOLVED

Unionized workers at Albertsons, King Soopers and Safeway agreed to new contracts with the grocery giants that included having workers pay a part of their health-insurance premiums. In addition, new hires will make less money and have fewer health-insurance and pension benefits.

Workers at Qwest Communications International Inc. won a contract in which they received raises averaging 2½ percent a year and don't have to pay any of their health-insurance premium.

c

ECONOMIC DEVELOPMENT GURU LEAVES

After 16 years, Rocky Scott — one of the city's leading voices on business and community issues — resigned as president of the Greater Colorado Springs Economic Development Corp. to take a job in private real estate near Fort Collins.

c

DOWNTOWN GETS HIGHER

Two local developers announced they're planning separate buildings on the downtown City Auditorium block that each might stretch to at least 20 stories — making them the Springs' tallest buildings. A third local developer is considering a six-story building in another part of downtown.