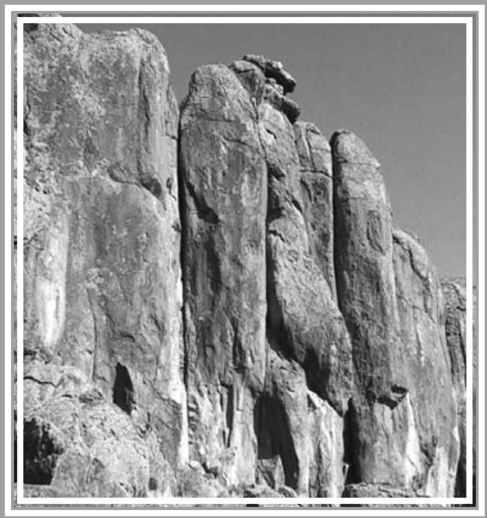
Wealth Transfer in San Luis Valley

Draft Report

Prepared for San Luis Valley Development Resources Group

December 2008

-Executive Summary-

Transfer of Wealth (TOW) in San Luis Valley was prepared by the RUPRI Center for San Luis Valley Development Resources Group. Our TOW Team is pleased to provide our preliminary TOW findings.

	CNW		50-Year TOW		10-Year TOW		5% Capture	5% Payout
County	(Billions)	PHH	(Billions)	PHH	(Billions)	PHH	(Millions)	(Millions)
Alamosa	$0.64	$150,000	$1.08	$255,000	$0.12	$27,000	$5.77	$0.29
Conejos	$0.23	$110,000	$0.33	$160,000	$0.05	$23,000	$2.37	$0.12
Costilla	$0.11	$117,000	$0.16	$167,000	$0.02	$24,000	$1.14	$0.06
Mineral	$0.18	$441,000	$0.28	$676,000	$0.04	$92,000	$1.91	$0.10
Rio Grande	$0.91	$250,000	$1.42	$389,000	$0.18	$49,000	$8.87	$0.44
Saguache	$0.28	$135,000	$0.46	$222,000	$0.05	$24,000	$2.51	$0.13
San Luis Valley	**$2.35**	**$175,000**	**$3.72**	**$278,000**	**$0.45**	**$34,000**	**$22.57**	**$1.13**

Note: CNW represents current net worth, TOW represents transfer of wealth and PHH represents per household.

Information on methodology used in this analysis can be found on pages 30-32 of this report. The RUPRI Center has completed 30 TOW analyses including the following locations: Nebraska, Minnesota, Wisconsin, Wyoming, South Dakota, Louisiana, Montana, Indiana, North Dakota, Ohio, Illinois, Michigan, Nevada, New York, Pennsylvania, Vermont and California. We have advised studies in Iowa, Arizona and Kansas.

Scenarios

Experienced researchers would say that projecting anything out 50 years is heroic at best, and foolhardy at worst. Yet this is what must be done in order to portray the magnitude of the TOW opportunity. We want to be clear that the TOW figures presented in this study are not predictions, around which one can statistically describe a confidence interval. Nor are they explicit projections, such as a city's population ten years in the future, or an economic forecast.

Instead, this study strives to portray plausible scenarios of the future. These are stories about a likely tomorrow, based on a conservative set of assumptions, reviewed by resident experts, and adjusted to reflect their knowledge of local conditions. These scenarios are a way to frame the future to make better decisions today. As Arie de Geus said in The Living Company, "Scenarios are stories. They are works of art, rather than scientific analyses. The reliability of actual numbers is less important than the types of conversations and decisions they spark." We hope this study sparks conversations about the magnitude of the assets present in San Luis Valley and the opportunities to invest a small portion of those assets toward community betterment projects.

Expatriates and Former Residents

America has always been a mobile society with massive waves of in and out migration. Rural areas and inner-cities have long exported their children to other communities. Our analysis does not attempt to estimate the TOW potential associated with expatriates. For some larger and more urban communities where 70% to 80% of all children eventually settle in the area, this may not be a major consideration. However, for communities in rural areas or inner-city neighborhoods, the pool of potential expatriate donors may be very large relative to these communities' resident populations. Give back strategies should explore how to connect with these donors.

2008 Recession

While we continue to debate whether we are in a recession or not, most would agree that we are in the midst of a major stock market decline, capital crisis, housing crisis and significant economic slow down. In fact, this economic event may be the most severe since the 1973 recession and even the Great Depression. Time will tell the depth and severity of this economic downturn.

Our TOW scenarios covering the period of 2005 through 2055 assume economic downturns and growth periods consistent with our most recent 50 years of history. But, given the size of this event, we have reworked our national model to account for the 2008 recession reflecting a less than 5% drop in TOW over the short-term (2005 through 2015). Longer-term we have not further adjusted our estimates. It is also important to note that our TOW scenarios are already very conservative and represent a floor estimate highlighting our belief that wealth creation in the next 50 years will be lower than was the case in the last 50 years.

BACKGROUND ON WEALTH IN AMERICA

-Background-

We have prepared this **Background on Wealth in America** to provide readers of this study a context for viewing and interpreting the San Luis Valley TOW results.

Review and Verification Process

We have undertaken a careful review and verification process to ensure our TOW scenarios reflect San Luis Valley's unique circumstances and realities.

Wealth in America

Forget the numbers for a moment and think about our history over the past 100 years. Not that long ago, America departed prosperity and good times in the 1920s and entered into two of our greatest challenges -- the Great Depression and World War II. Hard times, tragedy and eventually victory characterize this page in American history. What followed World War II was remarkable. Of all the world economic powers following World War II, the United States exited the war the strongest. The post World War II period ushered in the "baby boom generation," rapid economic progress and unrivaled prosperity right into the 1970s. The middle class in America boomed, incomes soared and wealth accumulated throughout the country.

Economic times began to fundamentally change in the 1970s, and the broadly held progress among American households lessened in more recent decades, although a legacy of wealth nevertheless has been created. Where economies continue to grow, new wealth is being created as well. Our study - **Wealth Transfer in San Luis Valley** - creates reasonable scenarios of wealth holding in these counties and the likely transfer of wealth over the period of 2005 through 2055.

Two Great Traditions

America, like other nations around the world, is rich in traditions. As we consider wealth in America, there are two great American traditions worth noting.

1. America's economic system has demonstrated its capacity to create new wealth for a broad segment of American households over time. Our traditions of personal property rights, intellectual property protection and entrepreneurship have all combined to create remarkable affluence. While this affluence is not universal and unacceptable levels of poverty exist in America, household wealth holding nevertheless represents a key development asset for our communities.

2. America has a deep and strong culture of giving. Public policy encourages charitable giving, through powerful and long-standing incentives incorporated into our estate and tax laws. The vast majority of Americans share a strong value of giving, beginning with their family members, extending to their churches and schools and often including local charities.

Wealth holding or the capacity for give back and our culture of giving combine to set the stage for a golden age of community philanthropy in America. This section of our report provides an overview and reference point for San Luis Valley's Transfer of Wealth analysis.

Wealth Drivers

The following factors have a significant impact on our TOW scenarios and our projections. Here is a sampling of the more important drivers:

- CNW or Current Net Worth is very important. The wealth that has been created over time is represented in Current Net Worth. States with larger CNWs have a stronger starting point for future wealth creation.

- Demographics play a central role in a number of ways. Places with strong population growth tend to have stronger economic performance, which creates the opportunity for wealth formation.

  - A key demographic factor is education. On average, a person with a college degree has an estate six times larger than a person with no high school degree.

  - Another key demographic factor is age of households. On average, as we get older our estate grows. For example, someone in the 55-64 age group typically has an estate six times larger than someone in the 35 and under age group.

- Economic performance is critically important. Above average and particularly strong performing economies create more and better employment, generate greater business performance and enable wealth to be created.

- Business ownership is a strong indicator of wealth status. Additionally, we would expect that someone who is not working will have lower net worth than a gainfully employed person.

- Behavior and customs also play a critical role. We all know the story of the high income family with corresponding high spending habits. They have very low net worth and limited wealth. On the other hand, there is a couple who does well, spends little and invests well. This couple has significant wealth.

BACKGROUND ON WEALTH IN AMERICA

Boston College's Study

Let us begin our exploration of American wealth as it relates to community philanthropy with Boston College's 1999 study <u>Millionaires and the Millennium</u>. There had been earlier research and considerable writing on American wealth prior to this study authored by John J. Havens and Paul G. Schervish, but it is fair to say this study sparked a remarkable dialogue throughout America as no other research had done.

The Boston College study estimated America's Transfer of Wealth (TOW) over a 55 year period from 1998 through 2052. Havens and Schervish produced three scenarios of TOW for this 55 year period of time -- a high, medium and low estimate:

High Estimate	$136 trillion
Medium Estimate	$73 trillion
Low Estimate	$41 trillion

At first these estimates were viewed with wonder and question. These were remarkable numbers in their size and scope. However, over time, the low estimate of $41 trillion took on credibility and became widely used within philanthropic circles.

By the early part of this decade, America had changed. There were three key events that fundamentally altered America's wealth course:

- •The bursting dot.com bubble in the stock market and vast wealth write-offs.
- •9/11 and the Age of Terrorism and War.
- •A mild recession.

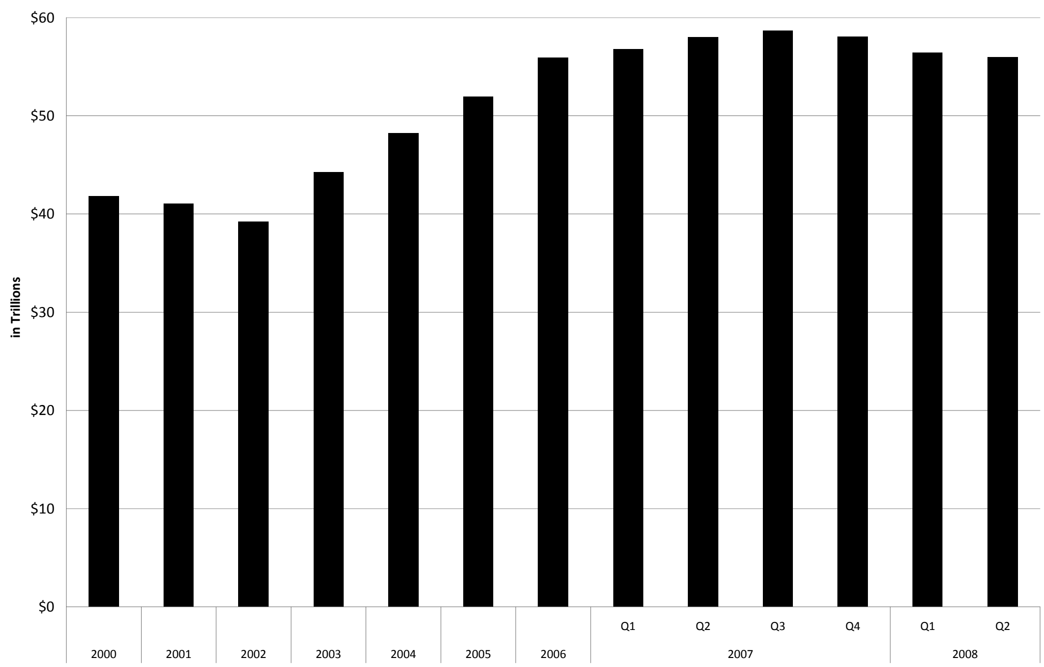
Questions were raised about the accuracy of the $41 trillion estimate and the Boston College authors reviewed their research and concluded that the $41 trillion estimate was reasonable and remains a solid projection of likely TOW in the coming years. Our research would agree and support these findings.

The Boston College projection of $41 trillion is now nearly 10 years old and a lot has happened in America over the past decade. Later in this section of the report we provide our current scenario estimate of future transfer of wealth which remains in the Boston College ballpark estimate of $41 trillion.

Federal Reserve

America's Federal Reserve is a primary source of information on wealth in America. The Federal Reserve tracks on a quarterly basis Current Net Worth (CNW) for American households. Figure 1 on page 7 illustrates the current trend line with respect to CNW for the period of 2000 through 2008. Aggregate CNW for the United States declined with the 2001 recession bottoming out in 2002 and has since increased through 2007.

Figure 1 - U.S. Household Current Net Worth
(Source: U.S. Federal Reserve, 2008)



The current housing, inflation and stock market challenges are resulting in a drop in CNW in 2008 and possibly 2009. However, the longer term trend line is positive, reflecting the underlying economic strength of America's dynamic economy.

Figure 2 on page 8 provides a somewhat different perspective for the same Federal Reserve research. It provides the trend line for gross assets, liabilities and net assets (or current net worth) following the 2001 recession. Overall, household liabilities are growing faster than gross assets, eroding the growth in net assets. The current economic recession will likely deepen this pattern for the next few years. If long term trends return, the following economic recovery and expansion will result in gross assets increasing faster than liabilities resulting is expanding Current Net Worth.

Figure 3 on page 8 provides quarterly trend data from 2006 and 2008 for gross assets, liabilities and net assets. This information begins to confirm the decline in Current Net Worth associated with the present economic challenges. Net assets drop after the third quarter of 2007 because of weaker gross asset expansion and rising liabilities.

We have recently revised our national estimates of household current net worth (CNW) and Transfer of Wealth (TOW). Figure 4 illustrates our current base case scenario of U.S. household current net worth that is available for give back to heirs, charities and communities. If you compared CNW for 2005 from Figure 2 and Figure 4 you will note a significant difference. CNW data for 2005 in Figure 2 is taken from the U.S. Federal Reserve which calculates

Figure 2 - U.S. Household Current Net Worth
(Source: U.S. Federal Reserve, 2008)

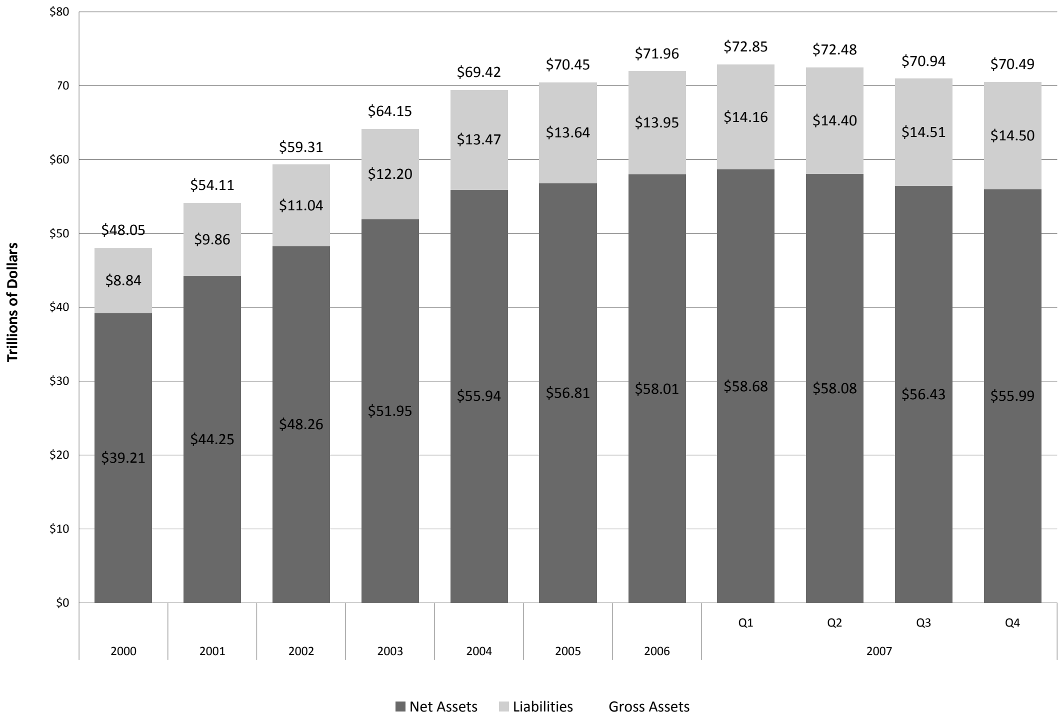


Figure 3 - U.S. Household Current Net Worth
(Source: U.S. Federal Reserve, 2008)

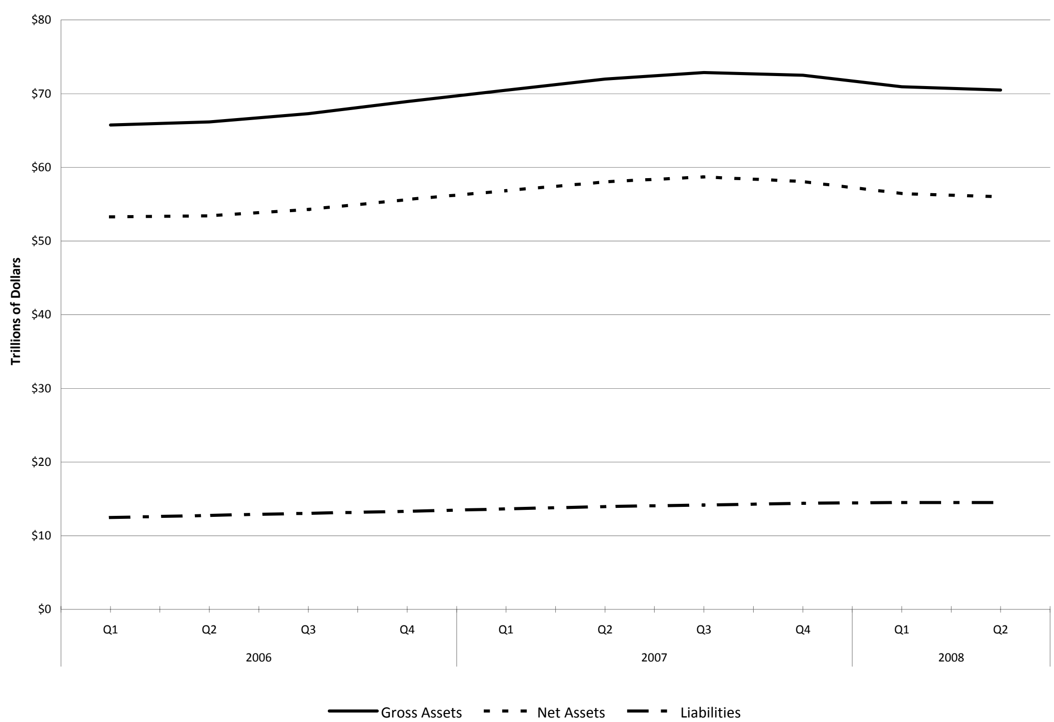
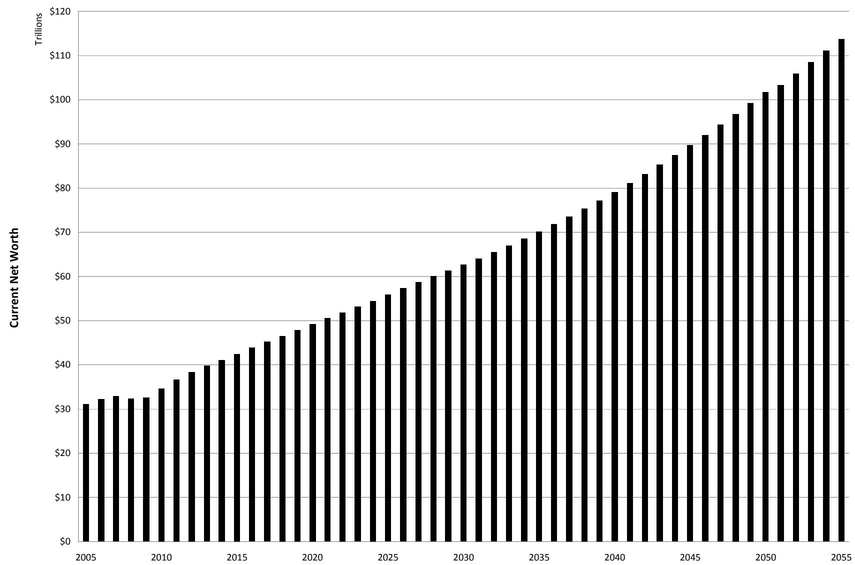


Figure 4 - America's Current Net Worth



household and non-profit CNW at $51.95 trillion. Our estimate of "available" CNW in 2005 is $31.1 trillion. The difference is due to the following two factors. First, we exclude CNW associated with non-profits and consider only household net worth. Second, we discount household CNW to exclude assets that are hard to value (art for example), assets that depreciate rapidly (motor vehicles for example) and closely held business related assets (such as family businesses). Combined we begin with a significantly smaller household CNW value. We believe this approach provides a more likely base from which the potential for wealth give back is calculated.

Figure 4 displays the rise in estimated real (adjusted for inflation) change in available household CNW from 2005 to 2055. Using our very conservative approach, CNW rises from just over $31 trillion in 2005 to over $114 trillion in 2055. We have factored in the likely impact of the current economic recession and the devaluation in wealth associated with real estate and stock portfolios. Our future forecasts are conservative and assume a wealth creation rate that is roughly half that of the historical rate.

Figure 5 illustrates our most likely scenario of the U.S. Transfer of Wealth (TOW) opportunity for the period 2005 through 2055. We estimate that the national TOW opportunity rises from $548 billion in 2005 to $1.7 trillion in 2055. Please note that these are inflation adjusted real dollars. By real dollars we mean that a dollar in 2055 has the same purchasing power as a dollar in 2005. Over the

Figure 5 - America's Transfer of Wealth

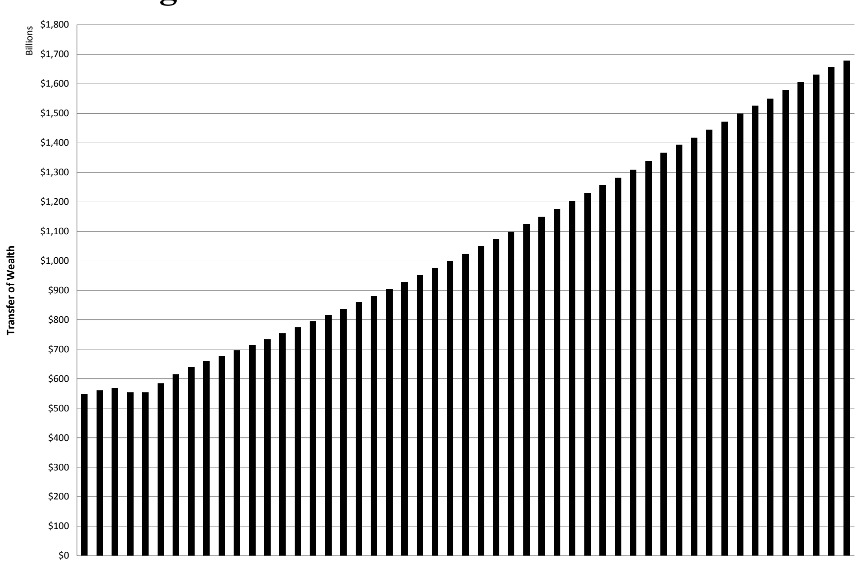
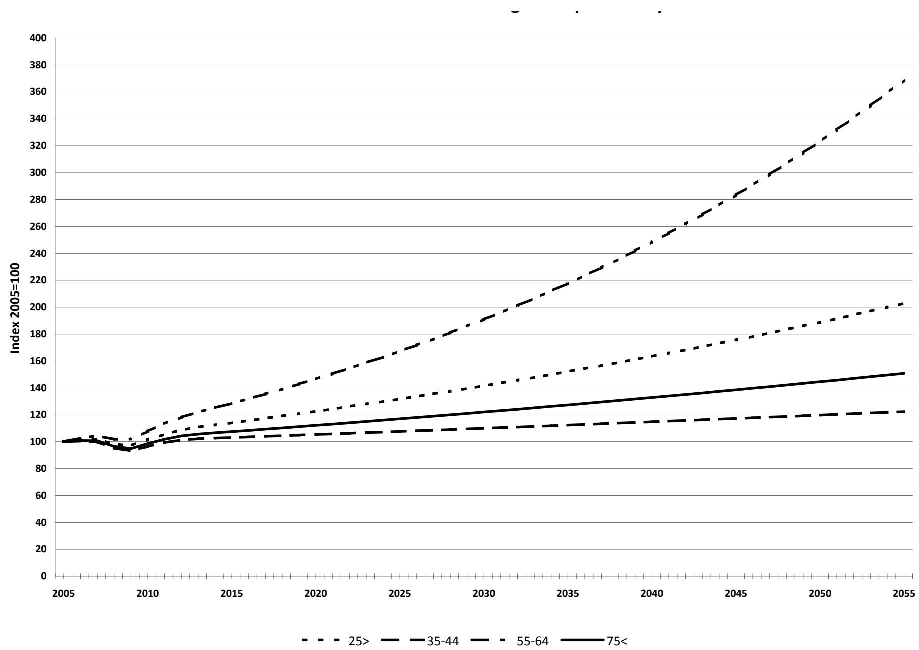


Figure 6 - Mean Net Worth Growth for Slected Age Groups



first ten years of this period (2005 to 2015) the TOW opportunity is just under $6.1 trillion and rises to just under $53 trillion in 2055.

America has a strong history of wealth creation rooted in our ability to re-invent ourselves economically. Despite our current economic woes, there is real room for optimism that the next 50 years of American history will look more like the last 50. The changing demographics in America will alter this pattern as we move from a younger society (past 50 years) to an older society (next 50 years). There is a powerful connection between age and wealth creation.

Figure 6 displays the mean net household wealth growth rates for four demographic segments in the United States over the next 50 years:

- Young Adults - Under 25 Years of Age
- Maturing Families - 35 to 44 Years of Age
- Peak Income Years - 55 to 64 Years of Age
- Retirees - 75 and older

A young adult right out of college is on the door step of their career and earning power. Typically, they have few assets and very low CNW. But they have knowledge and a hunger to get ahead. As education levels rise in the U.S. over time, the "under 25" trend line shows modest growth in CNW. The next group - 35 to 44 year olds - are typically at that stage in their lives when career is taking root, incomes are rising, homes are being purchased and retirement funds are growing. But demands on spending are also rising to meet car and mortgage payments, the pay-off of student loans and costs associated with raising kids. The power of compounding interest and equity in homes has not yet really kicked in and wealth growth rates are very modest for this age group. The peak earning and wealth creating years in American society continue to be in the 55 to 64 year old group. The power of time and compounding grows equity in homes, businesses, retirement funds and investments. It is at this stage that optimal wealth growth occurs. As one might expect, the growth rate in wealth formation then declines as we age. As wealth is not renewed (due to reduced incomes, given away and spent down, the trend line for the 75 plus age group is actually lower than for the young adults group.

Next we want to explore the Federal Reserve's Survey of Consumer Finances research.

The U.S. Federal Reserve conducts it Survey of Consumer Finances every three years. The most recent survey contains data for 2004. We have summarized some of the key findings in this report. Let us a take a closer look at the relationships that determine (on average) wealth in America.

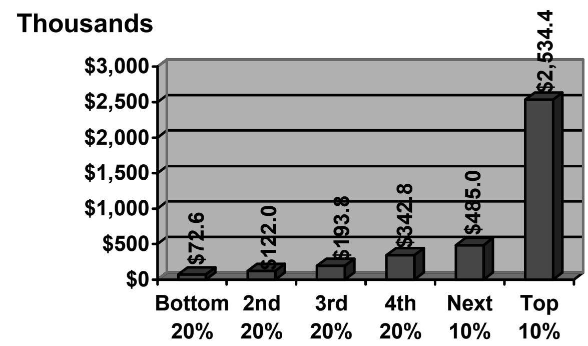
Figure 7 provides "net worth" or "current net wealth" by income group for 2004. Group 1 includes the bottom 20% of families by income. Groups 2, 3 and 4 include the next 20% to 80% of all families by income. Groups 5 and 6 include subsequent increments of 10% of families. The differences are striking. The bottom 20% of families by income have an average net worth of just under $75,000. This compares with the top 10% of families by income, which have an average net worth of over $2.5 million or a difference of 33 times! Income does matter and it is a powerful predictor of asset holdings. As Figure 7 clearly shows, there is a dramatic increase in net worth between Groups 5 and 6, illustrating the power of high incomes translating to larger estates.

Age also matters. Clearly there are many elders in America barely getting by and living on fixed incomes with very small estates. But on average, Americans' net worth rises and then falls with age. Figure 8 illustrates this pattern for all families in the United States. Net worth rises from a modest $74,000 for families 35 and younger (age of the household head) to over $800,000 as families reach their mid-50s into their early 60s. Then net worth begins to erode or decline as earning power drops and assets are used in retirement and for health care.

Education has always been a strong predictor of both income and wealth. Figure 9 provides a vivid picture of this relationship. On average in America someone with a college degree compared with someone without a high school diploma will have 6.2 times more net worth. Education pays and it contributes to spending, saving and investment habits that grow estate value. In our new global knowledge economy, education is becoming even more important. Research clearly shows that as we move into the future, advanced and specialized education will become very important to earning power and the opportunity to build estate wealth. A college degree will not be enough, but specialized education that translates to unique knowledge needed in our economy and society will be essential. Conversely, outsourcing of low skill to even high skill jobs will erode the ability of less educated Americans to earn adequate incomes for them to save and build assets.

Figure 7

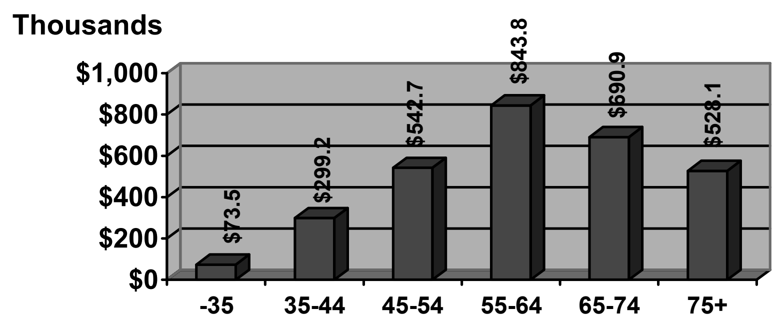
U.S. Average Net Worth by Income Group



Source: U.S. Federal Reserve, 2004

Figure 8

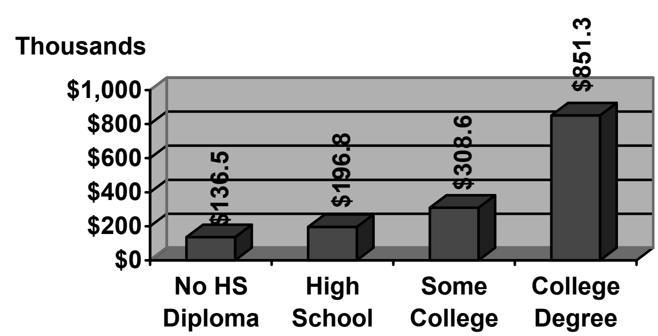
U.S. Average Net Worth by Age of Household



Source: U.S. Federal Reserve, 2004

Figure 9

U.S. Average Net Worth by Education, 2004



Source: U.S. Federal Reserve, 2004

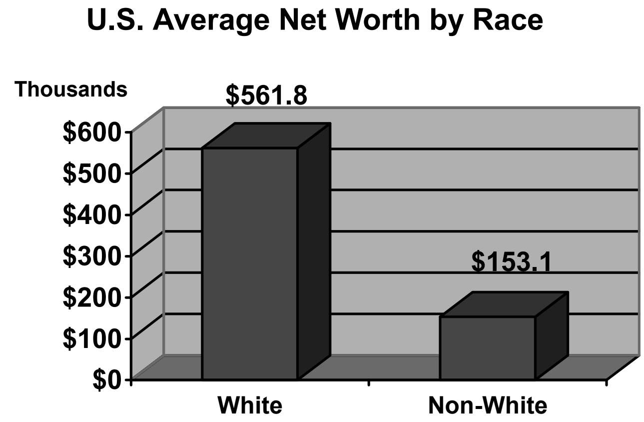
Tragically, race still matters in the United States. Figure 10 illustrates the tremendous divide of wealth held by race. A simple comparison of "white" families compared to all "non-white" families results in a 3.7 times difference. People of color continue to have weaker educations, lower earning power and less capacity to accumulate assets and wealth.

America is the land of opportunity where owning a business has always been a pathway for some to economic opportunity and greater financial security. In today's economy where the "best" jobs are downsized by major corporate and government employers, self employment is becoming even more important. Figure 11 provides a striking picture of the important connection between business ownership and wealth holding. We know from the research that business ownership or self-employment offers no guarantee to success and wealth. Many struggle and fail at business. Yet on average in 2004, a self-employed person in America held 5.3 times more net worth than a wage and salary worker. While the difference is not as dramatic, self-employed persons hold more wealth than even retirees who are at the peak of their personal wealth accumulation process.

Erosion of good wage and salary jobs in America (greatly tied to globalization and outsourcing trends) is stimulating movement of both poorly educated and very well educated persons towards self-employment. We anticipate that as the roads to prosperity narrow in the American economy over the next 20 to 30 years, self-employment and business ownership will become even more important routes to economic opportunity and security.

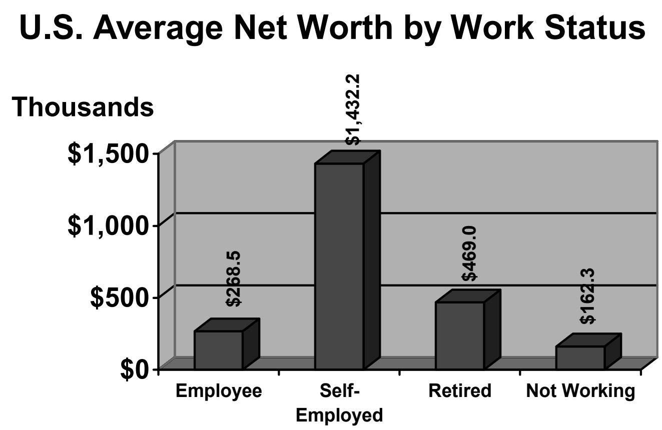
Home ownership has always been important in America. Figure 12 highlights this on-going relationship between home ownership and wealth formation. On average for all American families, a family that owns a home versus being a renter has nearly 12 times more net worth!

Figure 10



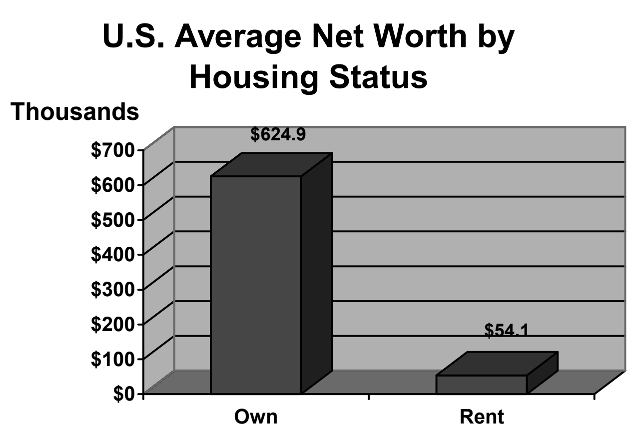
Source: U.S. Federal Reserve, 2004

Figure 11



Source: U.S. Federal Reserve, 2004

Figure 12



Source: U.S. Federal Reserve, 2004

United States Estimates

Research about the wealth holdings in the U.S. on current and projected transfers of wealth is more detailed and reliable than the state and county research. There continues to be debate regarding the size and the nature of both current net worth in the United States and the TOW opportunity. We employ three benchmarks of U.S. current net worth ranging from a low of $31.1 trillion to a mid-range estimate of $45 trillion and a high estimate of $55 trillion. As the most recent research on current net worth holding in the United States has come from the U.S. Federal Reserve, we are now benchmarking our studies to the low-range current net worth estimate of $31.1 trillion. We continue to employ a conservative and low scenario of transfer of wealth over the 50 year period due to slowing economic growth rates, stagnating wealth formation rates (particularly among middle class and middle income households) and the rapid growth among the middle to rich class that is highly mobile.

Inflation Adjusted Dollars

All of our analysis is done in "inflation adjusted dollars." In other words, these are real dollars for which inflation has been adjusted out. So a dollar in 2055 is worth the same as a dollar in 2005.

America's Ultra-Rich

Evolving research on wealth holding in the United States continues to document that wealth is concentrating within America's most wealthy households. Generally speaking, the top quarter of one percent of American families (roughly 250,000 families) now control about 25% of all American wealth. When we consider the top 1% and even the top 10% of Americans (based on wealth holdings), over 50% of all American wealth is concentrated in the top 10%. However, the opportunity for give back does not rest solely with high net worth families. America's middle class (particularly its upper middle class) has significant capacity to give. This segment of society (a majority of American families in most communities) contains roughly 35% of all American wealth.

Factors Contributing to American Wealth

At an individual or family level, wealth formation is a function of numerous inter-acting factors. Among the more important wealth formation factors are the following:

1. The ability of a household to generate income over a life time that provides the foundation for possible wealth formation.

2. Income generation in and of itself is not sufficient to generate wealth (or assets such as property, investments and the like). Behaviors regarding spending, saving and investments are equally important to wealth formation as is income generation.

3. Clearly, a household with higher lifetime earnings has a greater potential to create surplus earnings when compared to working poor families, for example. Social norms and practices around spending, savings and investment are critically important. Additionally, our tax codes provide numerous incentives and tools supportive of wealth formation ranging from access to higher education (generally translates to higher earnings) to retirement savings to real estate ownership. Households who understand and fully use tax code advantages are more likely to generate richer estates than those Americans who do not use these tools.

4. Finally, the times in which we are earning income, saving and investing are also important. Since World War II there has been consistent and strong growth in the macro economy. Prudent investments in stocks, bonds and real estate guaranteed the power of compounding interest. A person in their 20s in the 1970s who invested $1,000 in the U.S. stock market would be worth millions today. Historic conditions over the past 50 years have been very supportive of wealth formation.

The future is less certain. Earnings and spending are now tracking very close for most American households. Saving and investment rates are relatively low compared to past decades. There appears to be less certainty around possible investment vehicles to grow nest eggs into larger estates. Nevertheless, wealth continues to be formed at rates nearing personal income growth rates despite current uncertainty and changes in household behavior.

One trend is clear, that wealth in America is becoming more concentrated and the financial well-being of America's middle class less certain. Let us explore America's Ultra-Rich next.

America's Ultra-Rich

We estimate adjusted current net worth for America's households at $31.1 trillion (2005 estimate). The U.S. Federal Reserve [B.100 Balance Sheet of Households and Nonprofit Organizations - March 6, 2008] estimates the current net assets at $51.95 trillion. Adjusting for non-profits we arrive at our estimated $31.1 trillion.

Research dating back to the 1970s strongly supports the view the wealth is concentrating in the United States. America's poor and low-income households are struggling to maintain income and wealth levels (which are very low compared to mean values). America's middle income households are being pulled in two directions. Most middle income households in the bottom half of this group are losing ground in terms of both incomes and wealth. Those in the upper ends of the middle class are making progress and growing somewhat more wealthy. It is too early to tell how the declines in real estate values and the stock market might be impacting these higher net worth middle income households.

Now, let us take a look at our San Luis Valley TOW findings.

Our Golden Opportunity- Transfer of Wealth

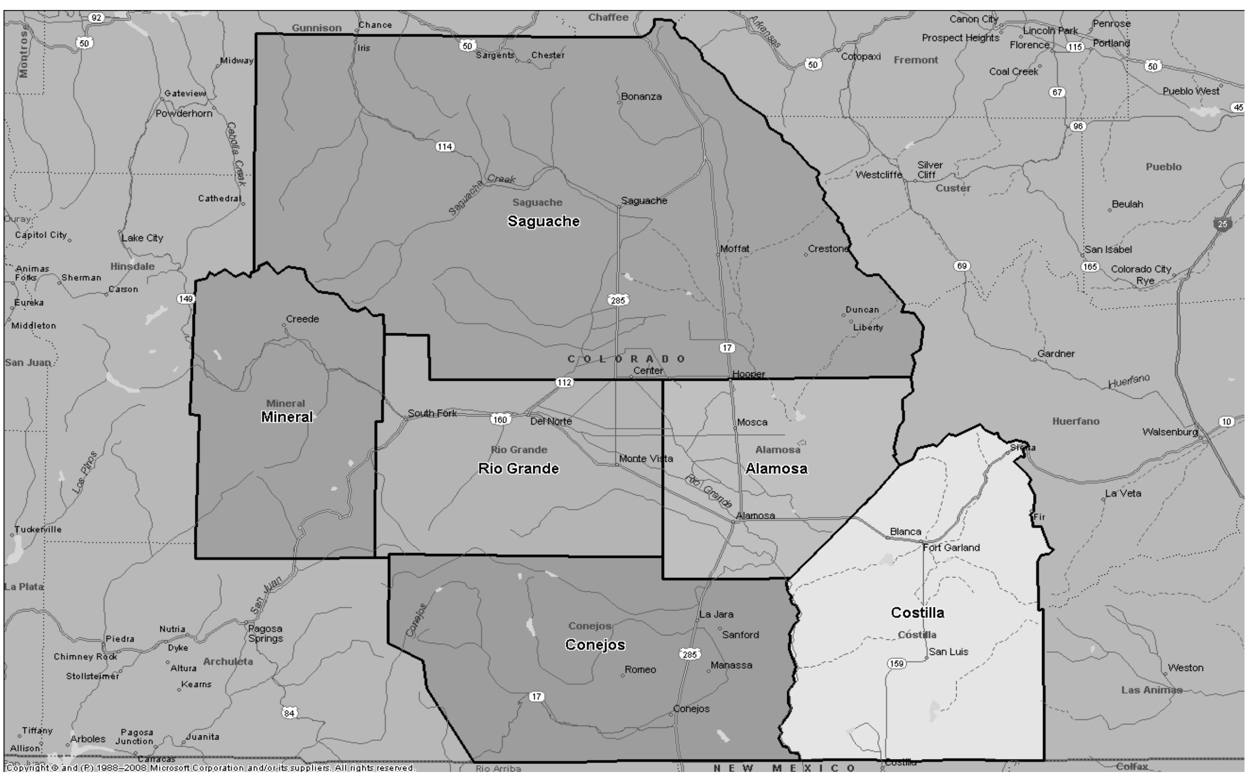
Our TOW analysis for San Luis Valley Region includes the six counties in South Central Colorado - Alamosa, Conejos, Costilla, Mineral, Rio Grande and Saguache. The San Luis Valley is reputed to be the largest and highest alpine valley in North America. The Valley and its mountains create a remarkable landscape. The Valley is also part of the historic Santa Fe and Taos civilizations. There is a rich history and diverse collection of cultures.

The San Luis Valley Region is one of the last great Rocky Mountain West landscapes to experience rapid development. The Region’s economy is rooted in agriculture, tourism and now people attraction. This is still a working landscape increasingly impacted by its potential as a playground for visitors and new residents.

Unlike many rural regions, the San Luis Valley is experiencing population and economic growth. Based on recent analysis (2008 Targeted Industry Study), we anticipate this Region to continue to grow and probably at an accelerated pace once the current economic recession passes.

Like many rural landscapes, wealth is often connected with physical assets like homes, family businesses and farms or ranches. Portions of this Region are largely comprised of public lands (particularly Mineral, Rio Grande, Saguache and Conejos Counties). Public lands impact household wealth in two ways. First, there tends to be less household wealth due to public land ownership. Second, because of the recreational value of public lands, the value of private lands tend to be higher.

Figure 13



The following table summarizes our TOW findings for San Luis Valley and its six counties. Over the next 10 years, the TOW opportunity for San Luis Valley is estimated at around $0.45 billion. If just a five percent of this TOW opportunity could be captured into community endowments, over $22.5 million in endowments could be created. Assuming a conservative 5% annual payout rate, nearly $1.13 million would be available annually for community betterment investments.

Figure 14

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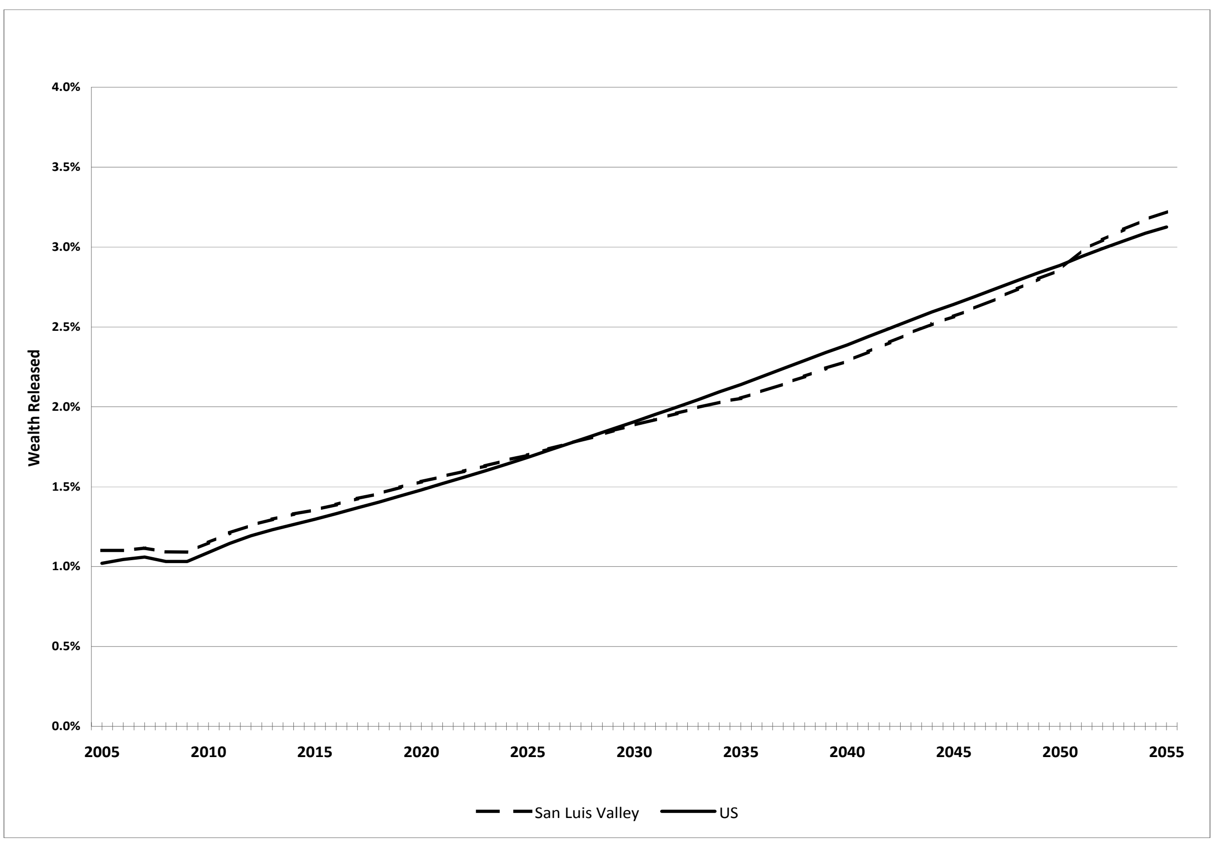
Rio Grande	$0.91	$250,000	$1.42	$389,000	$0.18	$49,000	$8.87	$0.44
Saguache	$0.28	$135,000	$0.46	$222,000	$0.05	$24,000	$2.51	$0.13
San Luis Valley	**$2.35**	**$175,000**	**$3.72**	**$278,000**	**$0.45**	**$34,000**	**$22.57**	**$1.13**

Figure 15 - San Luis Valley's Wealth Transfer



Our Golden Opportunity- Transfer of Wealth

Alamosa County is the urban heart of this Region and home to the Valley's largest city (Alamosa) and largest population base. The County is located in the Center of the Valley and its rich agricultural lands. More wealth is concentrated in Alamosa County because of its size and economic diversity. A significant portion of the Region's businesses, professionals and banks are rooted in Alamosa. However, Alamosa County does not hold the greatest share of household current net worth or TOW potential. Neighboring Rio Grande County is the Region's most wealthy despite so much of its land in public ownership. Adjusted household CNW is $150,000 per household in 2005 compared with a community wide average of $175,000.

CNW in 2005 is nearly $0.64 billion and we estimate the 10-Year TOW at $120 million. If this community could achieve a 5% capture of the 10-Year TOW opportunity, an additional $5.8 million in endowments could be built with the potential to generate nearly $290,000 in annual payout (assuming a 5% annual payout rate).

Figure 16 - Alamosa's Wealth Transfer: A Likely Scenario

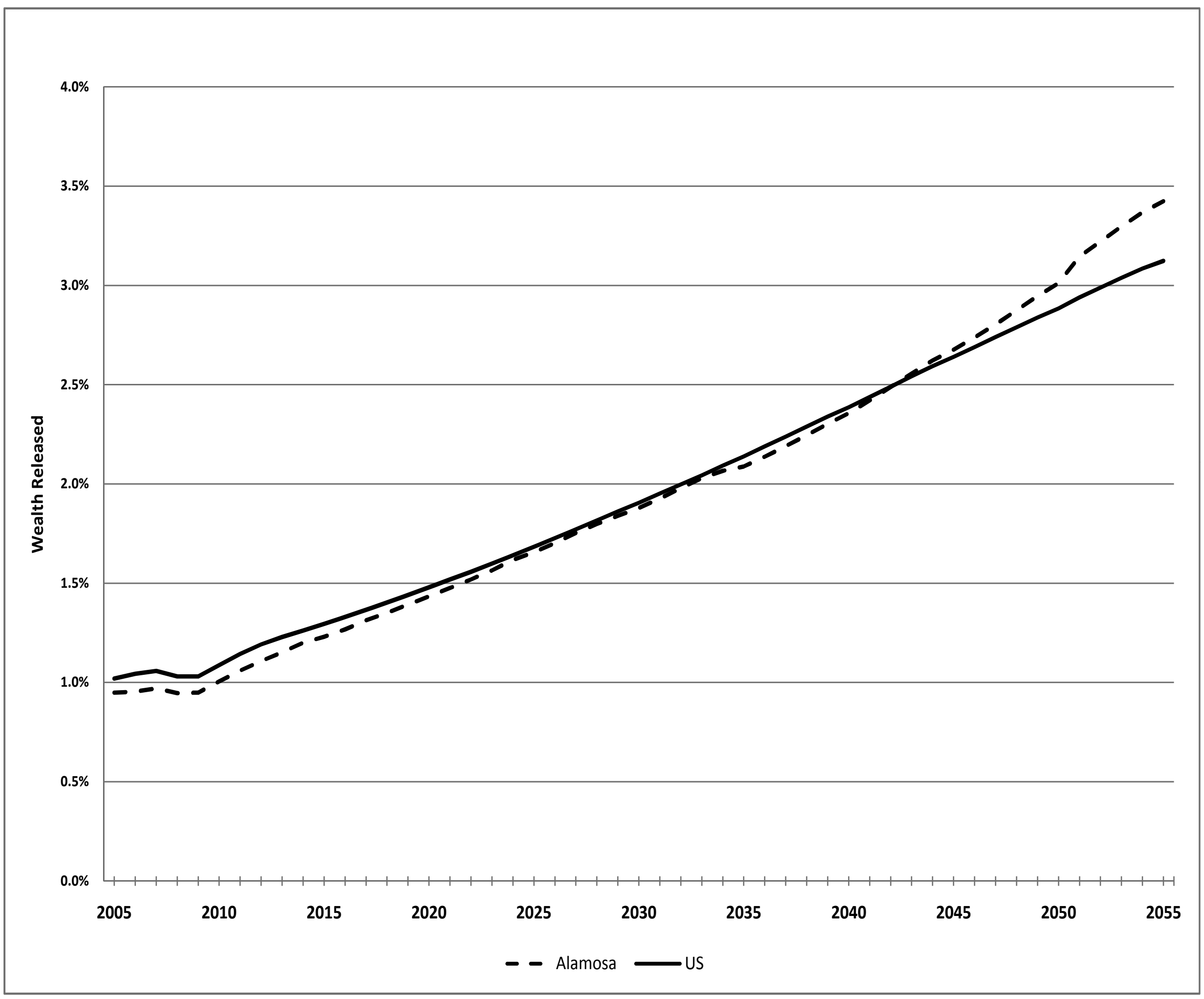


Figure 17 - Alamosa's Current Net Worth

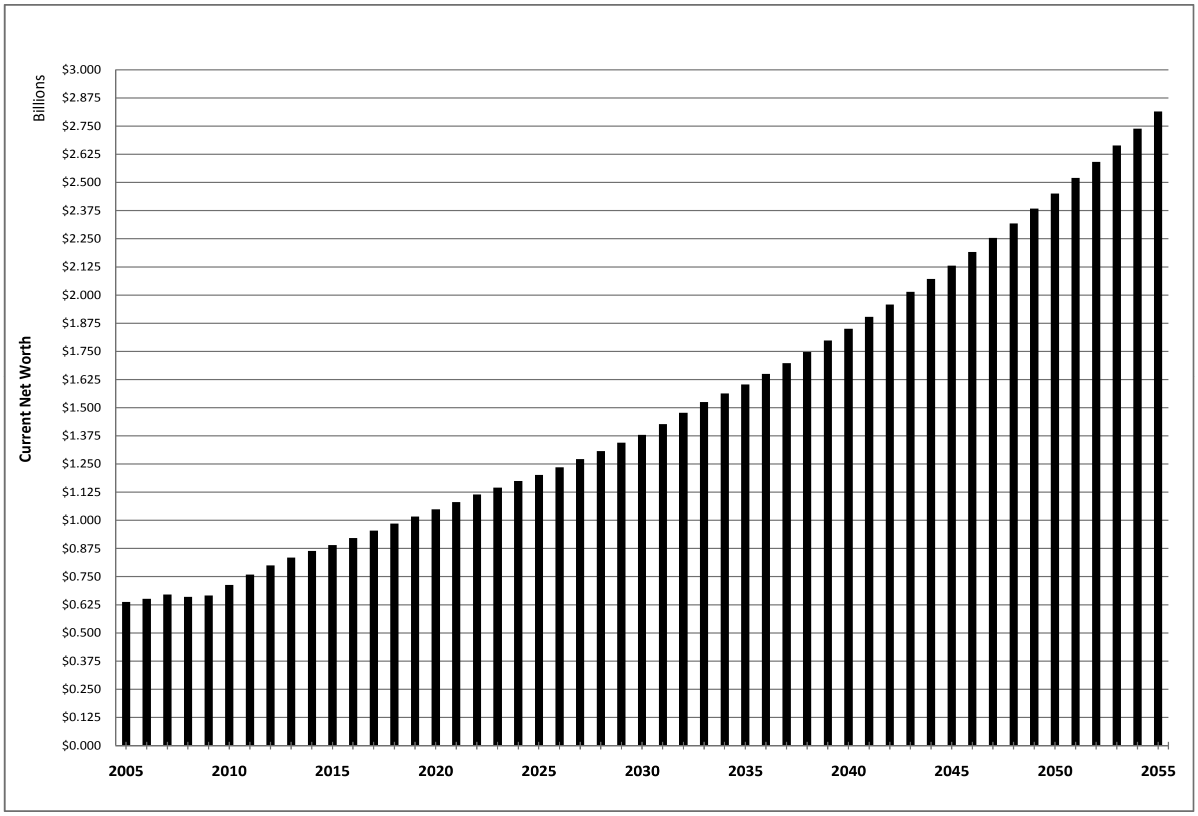
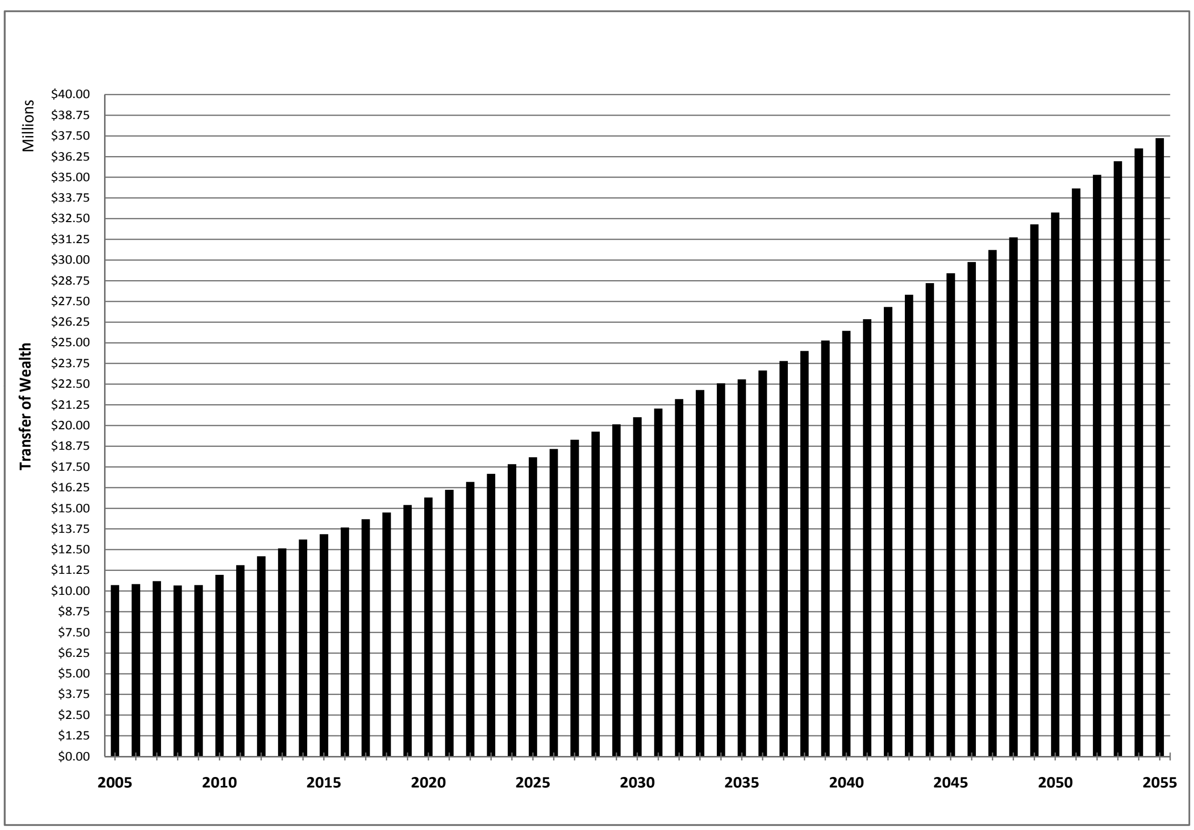


Figure 18 - Alamosa's Transfer of Wealth



Our Golden Opportunity- Transfer of Wealth

Conejos County is a diverse landscape with valley landscapes in the east and mountains in west. It is part of the historic Santa Fe culture. U.S. 285 bisects the county from north to south out of Alamosa creating both a population and commercial zone. After losing population in the 1970s and 1980s, Conejos County has send significant growth in the 1990s with some drop off in this decade. Conejos County has significant household wealth, but it has the lowest overall current net worth and TOW opportunity among the six counties. Adjusted household CNW is $110,000 per household in 2005 compared with a community wide average of $175,000.

CNW in 2005 is nearly $230 million and we estimate the 10-Year TOW at nearly $50 million. If this community could achieve a 5% capture of the 10-Year TOW opportunity, an additional $2.37 million in endowments could be built with the potential to generate nearly $120,000 in annual payout (assuming a 5% annual payout rate).

Figure 19 - Conejos's Wealth Transfer: A Likely Scenario

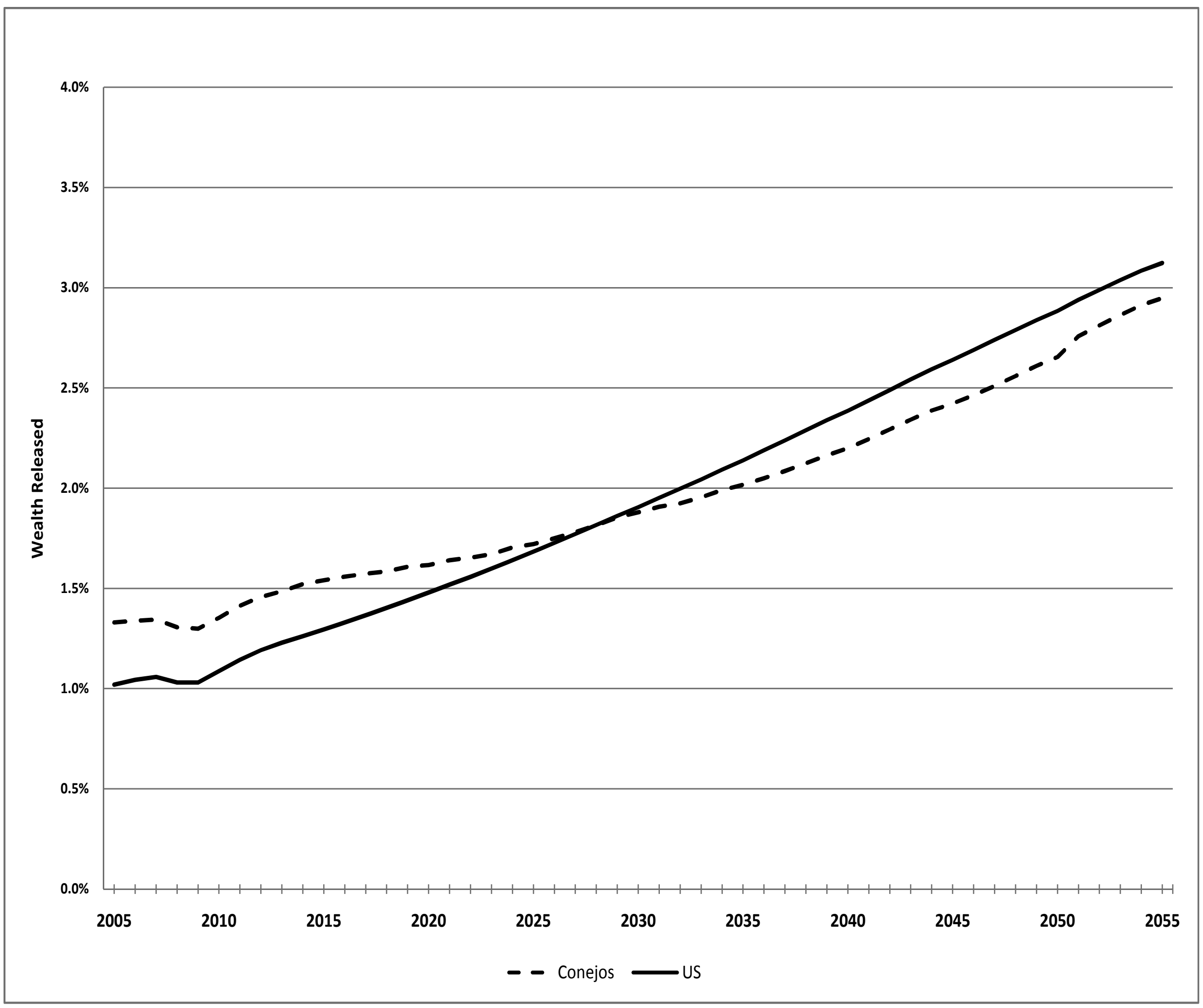


Figure 19 - Conejos's Current Net Worth

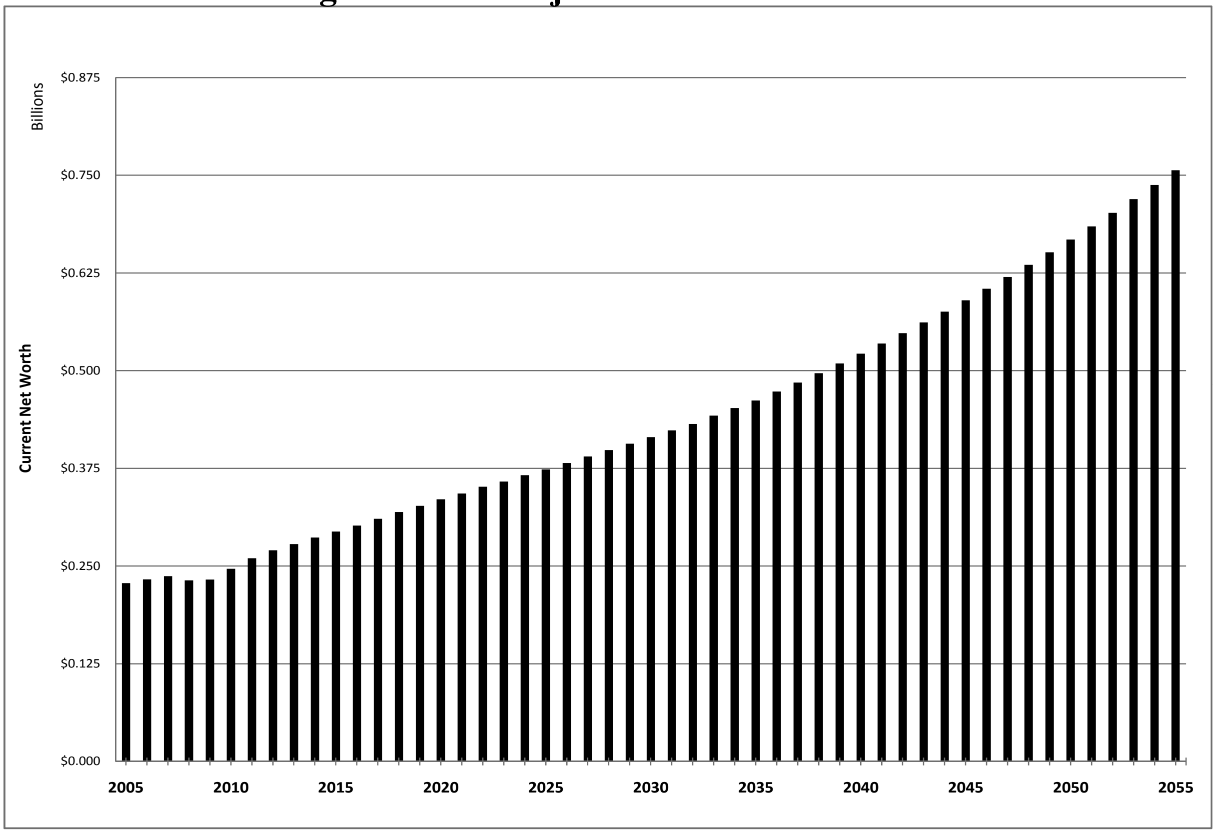
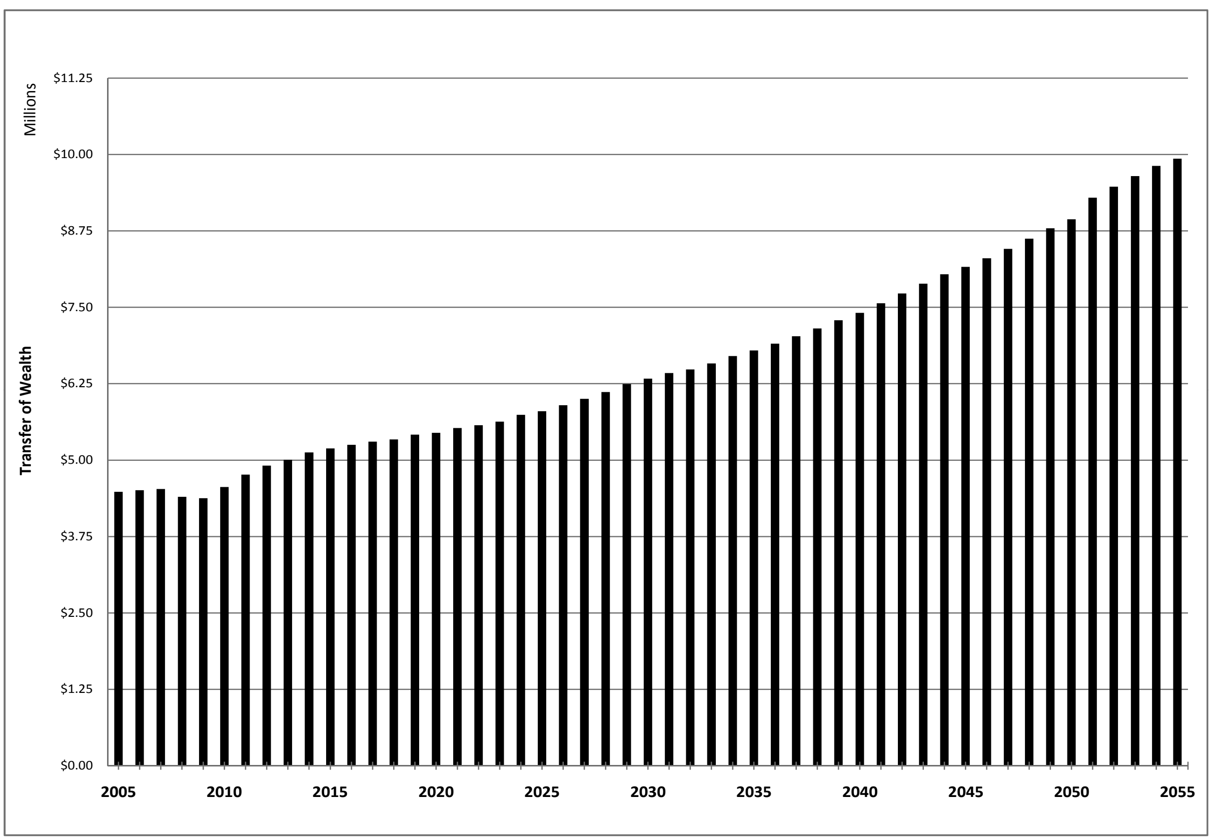


Figure 20 - Conejos's Transfer of Wealth



Our Golden Opportunity- Transfer of Wealth

Costilla County is very unique even in this very unique Region. It is very similar to Conejos County in so many ways. But it has a very small population base (just over 3,400 residents) and much of its lands are owned by private interests who do not live in the County. Despite significant mountain ladscapes, there are very limited public lands due to private ownership. Despite these differneces, there are significant TOW opportunities comparable to Conejos County. Adjusted household CNW is $117,000 per household in 2005 compared with a community wide average of $175,000.

CNW in 2005 is nearly $111 million and we estimate the 10-Year TOW at nearly $20 million. If this community could achieve a 5% capture of the 10-Year TOW opportunity, an additional $1.14 million in endowments could be built with the potential to generate nearly $60,000 in annual payout (assuming a 5% annual payout rate).

Figure 21 - Costilla's Wealth Transfer: A Likely Scenario

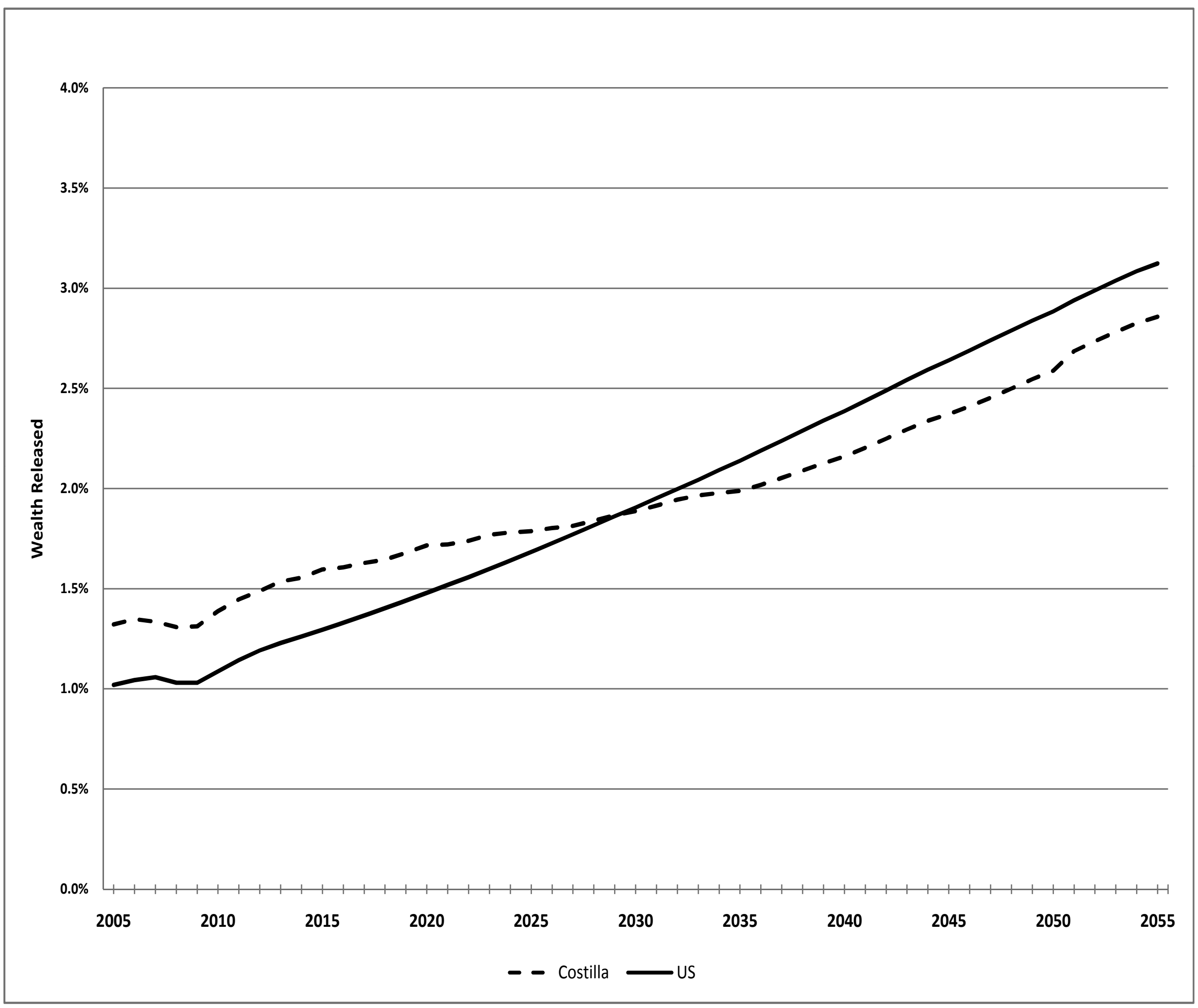


Figure 22 - Costilla's Current Net Worth

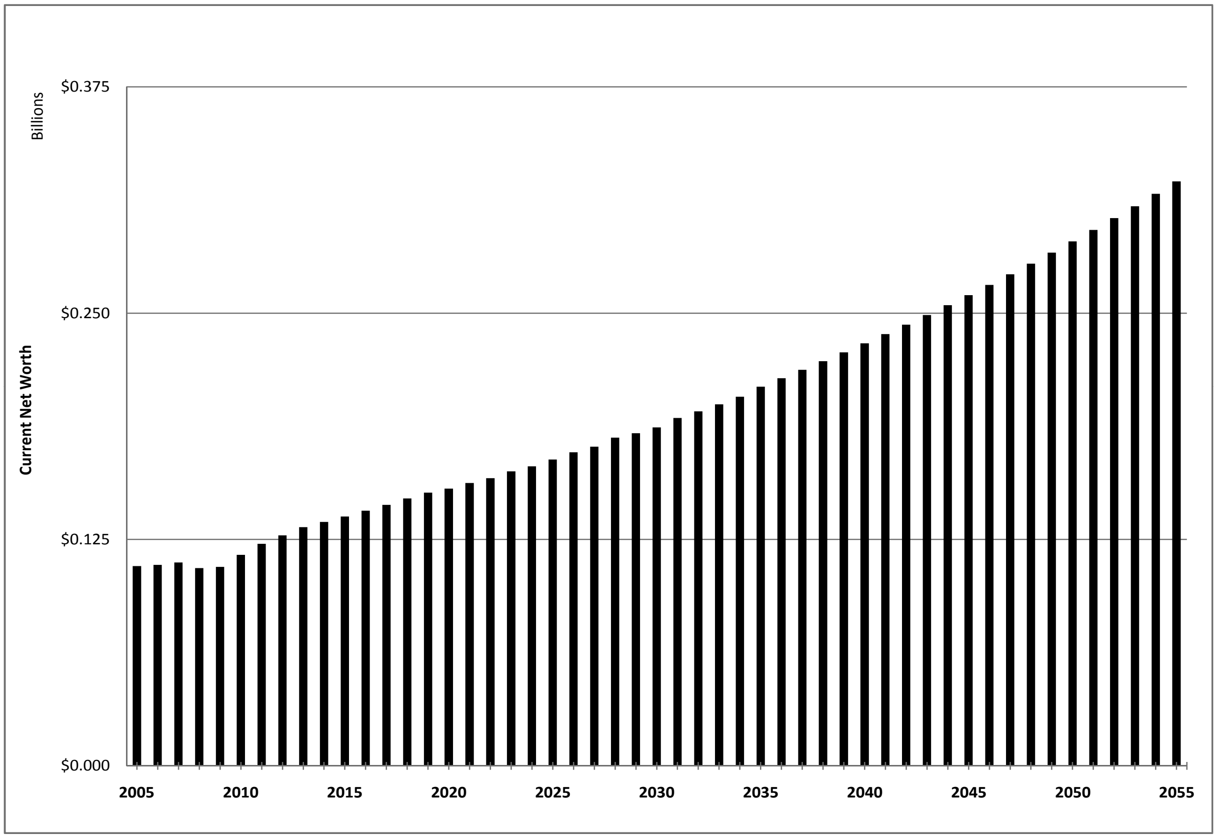
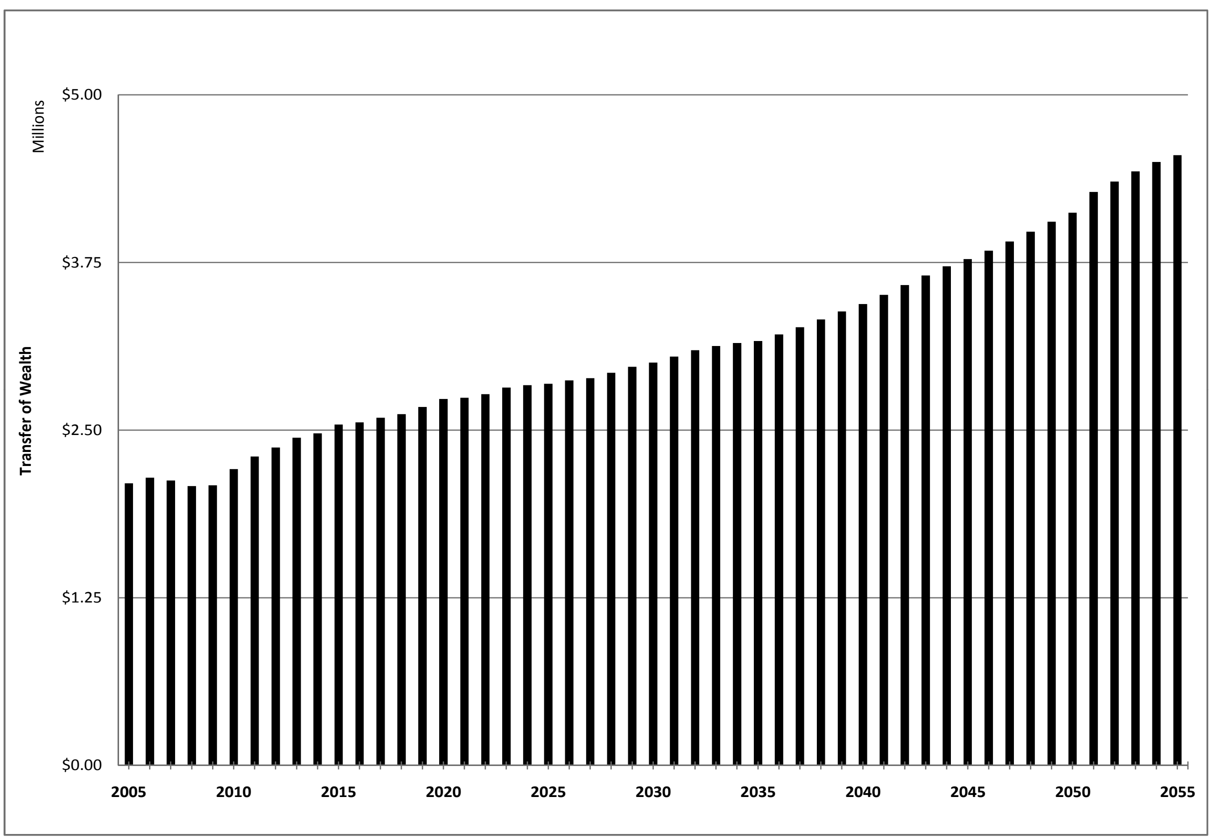


Figure 23 - Costilla's Transfer of Wealth



Our Golden Opportunity- Transfer of Wealth

Mineral County is all mountains and mostly public lands. However, these very realities create attractive assets. Despite a very small year round population base (less than 1,000 residents), Mineral County has the highest relative wealth rates and TOW opportunities in the Region. Development along U.S. Highway 160 and Colorado Highway 149 is intense and likely increase in value over time. Given the seasonal nature of Mineral County, there is a significant non-resident TOW opportunity to be developed. Adjusted household CNW is $441,000 per household in 2005 compared with a community wide average of $175,000.

CNW in 2005 is nearly $180 million and we estimate the 10-Year TOW at nearly $40 million. If this community could achieve a 5% capture of the 10-Year TOW opportunity, an additional $1.91 million in endowments could be built with the potential to generate nearly $100,000 in annual payout (assuming a 5% annual payout rate).

Figure 24 - Mineral's Wealth Transfer: A Likely Scenario

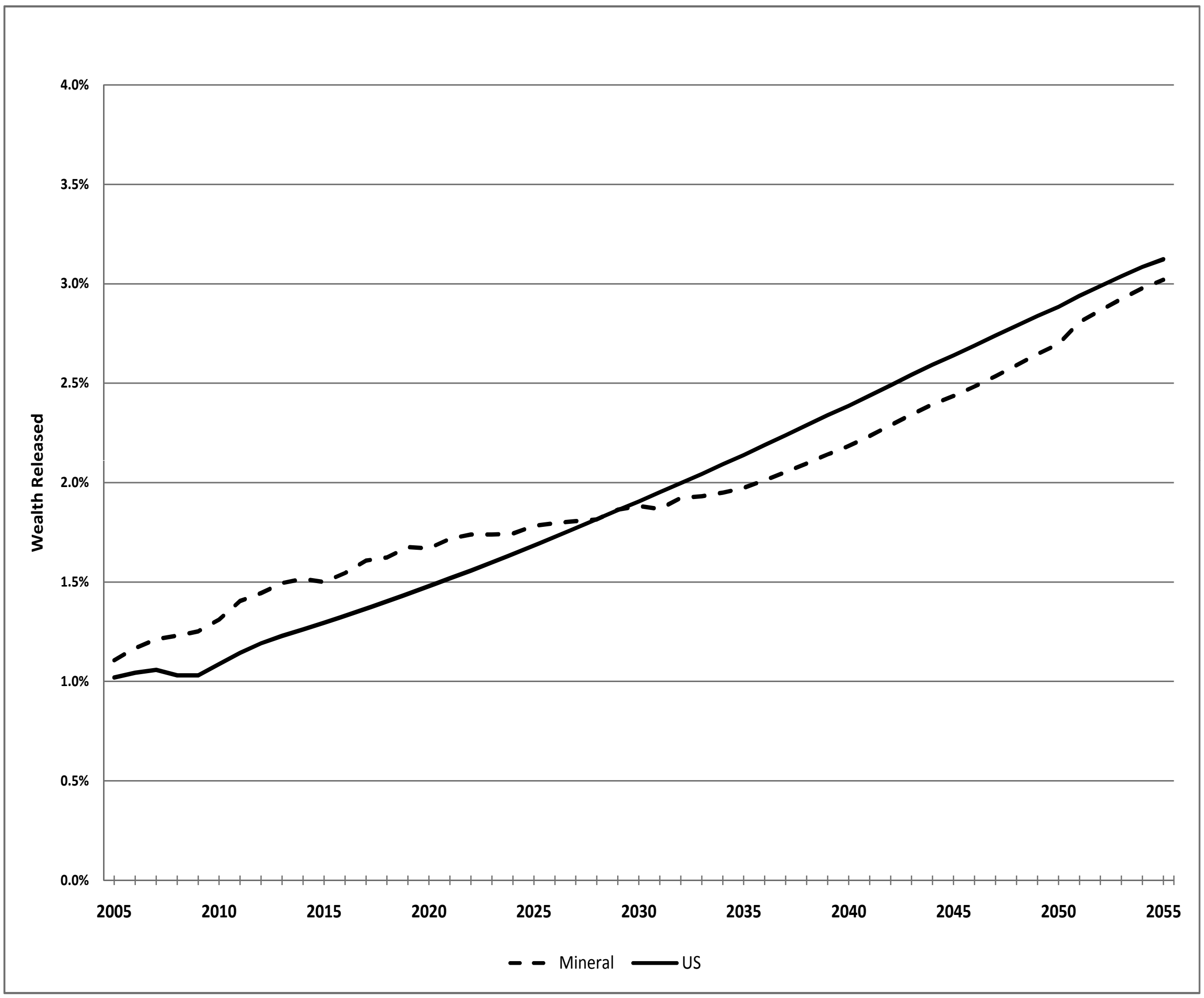


Figure 25 - Mineral's Current Net Worth

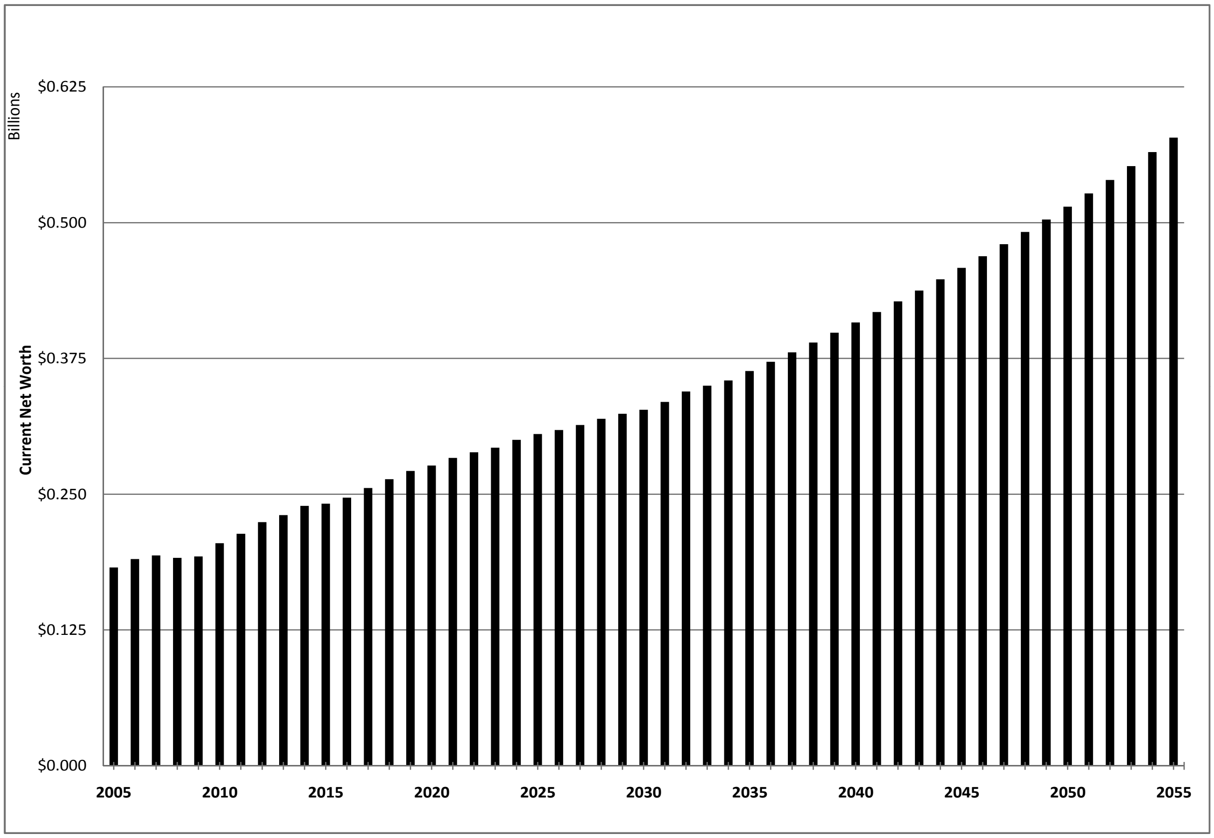
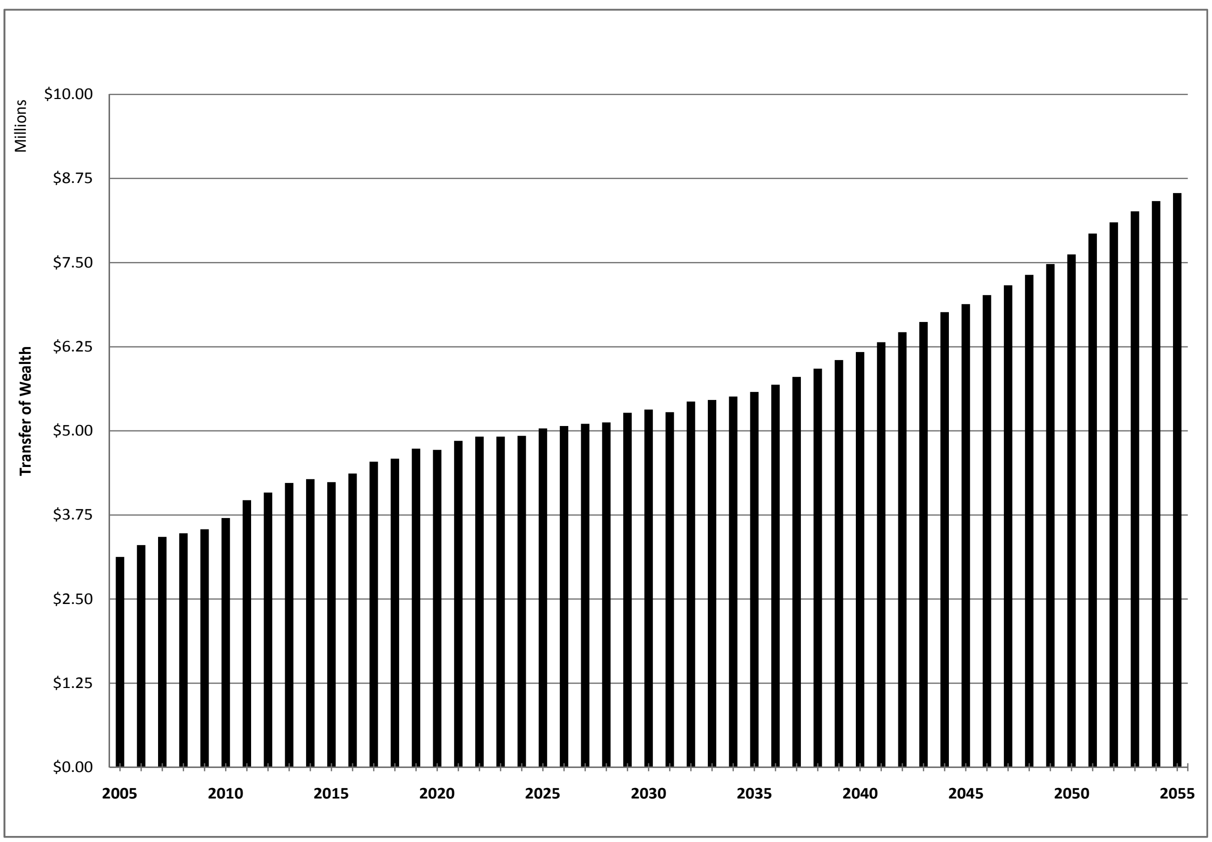


Figure 26 - Mineral's Transfer of Wealth



Our Golden Opportunity- Transfer of Wealth

Rio Grande County is second most populated county in the Region. There has been substantial growth in the past decade with now over 12,000 year round residents. It is home to important communities including Monte Vista, Del Norte and South Park. Proposed high end recreational developments in the mountains could spur significant future growth in these valley communities. Rio Grande County has higher relative current net worth when compared to Alamosa County and we project that its TOW opportunity will be substantial over time. Adjusted household CNW is $250,000 per household in 2005 compared with a community wide average of $175,000.

CNW in 2005 is nearly $910 million and we estimate the 10-Year TOW at nearly $180 million. If this community could achieve a 5% capture of the 10-Year TOW opportunity, an additional $8.87 million in endowments could be built with the potential to generate nearly $444,000 in annual payout (assuming a 5% annual payout rate).

Figure 27 - Rio Gande's Wealth Transfer: A Likely Scenario

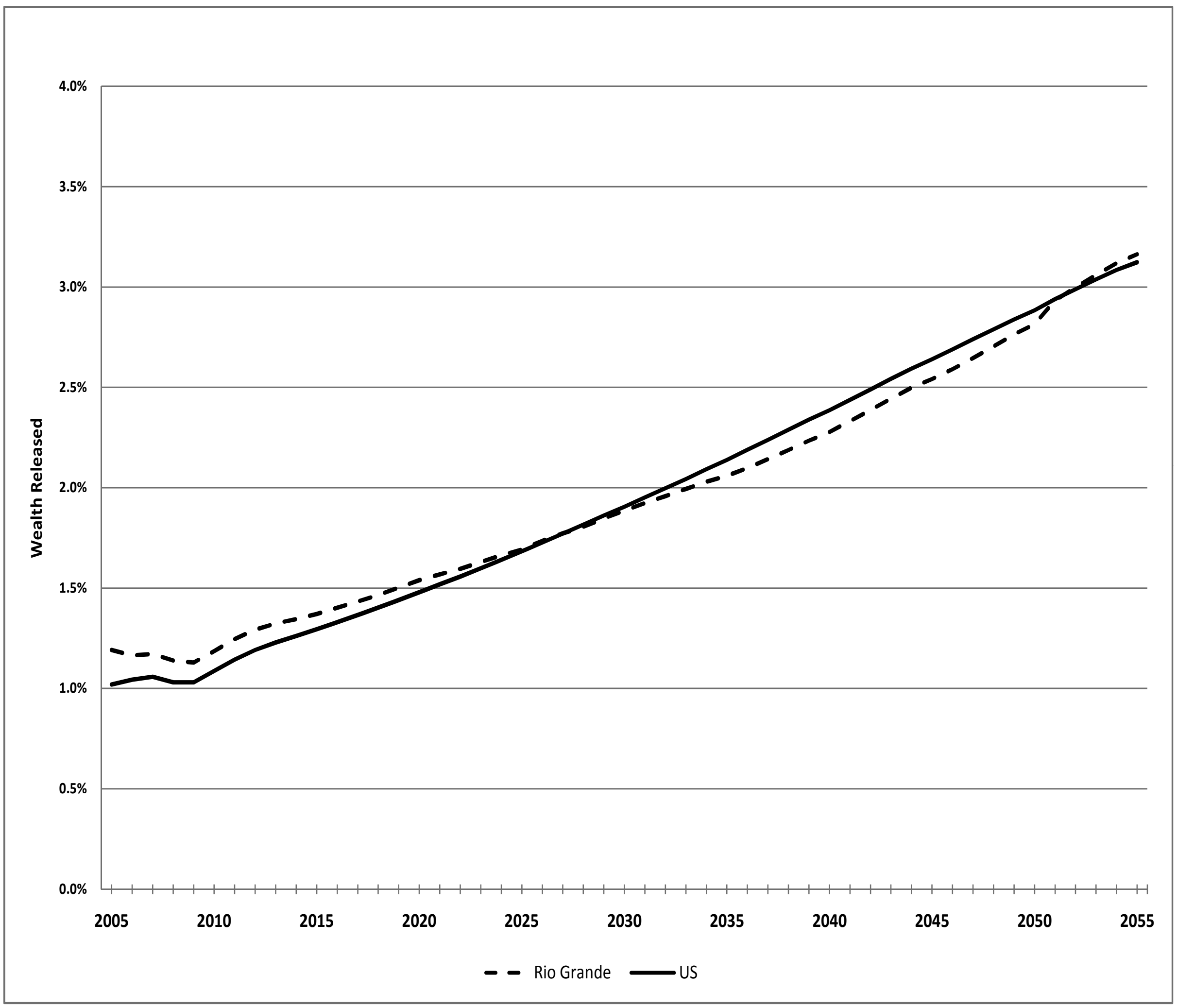


Figure 28 - Rio Grande's Current Net Worth

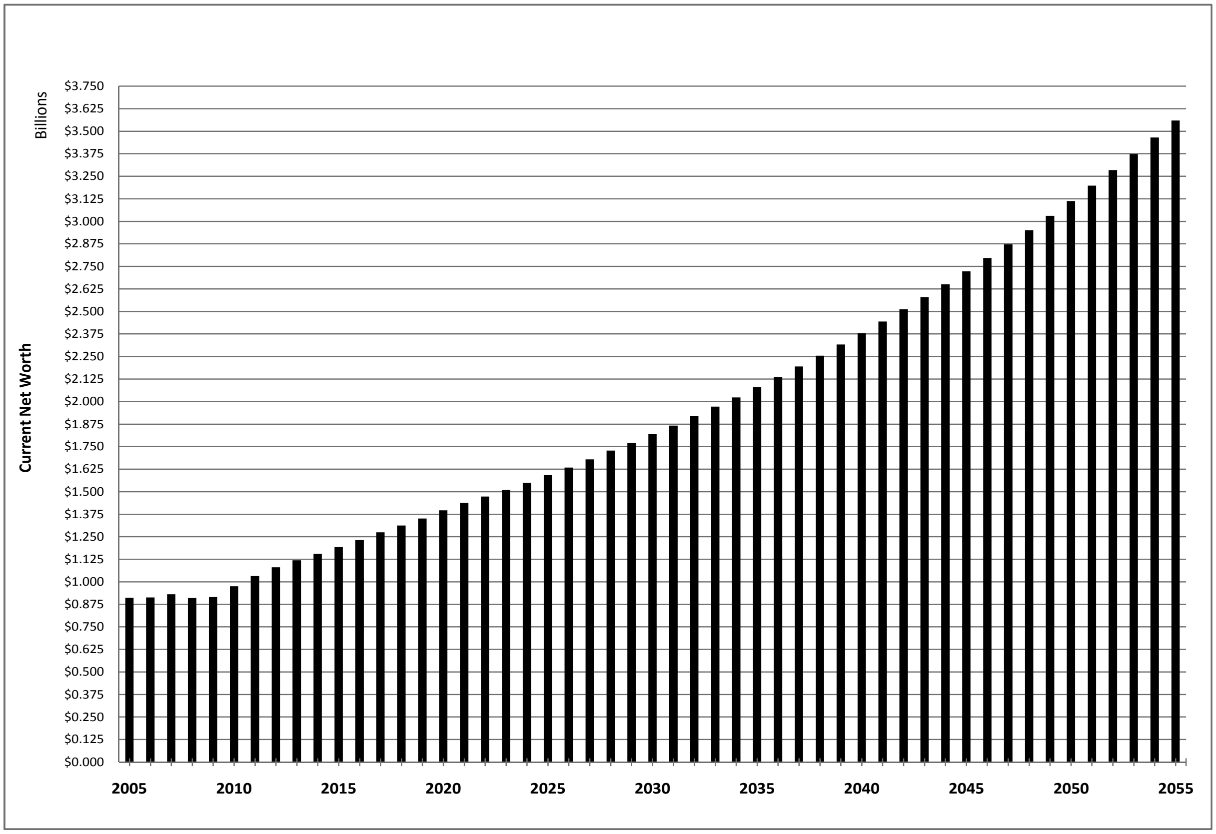
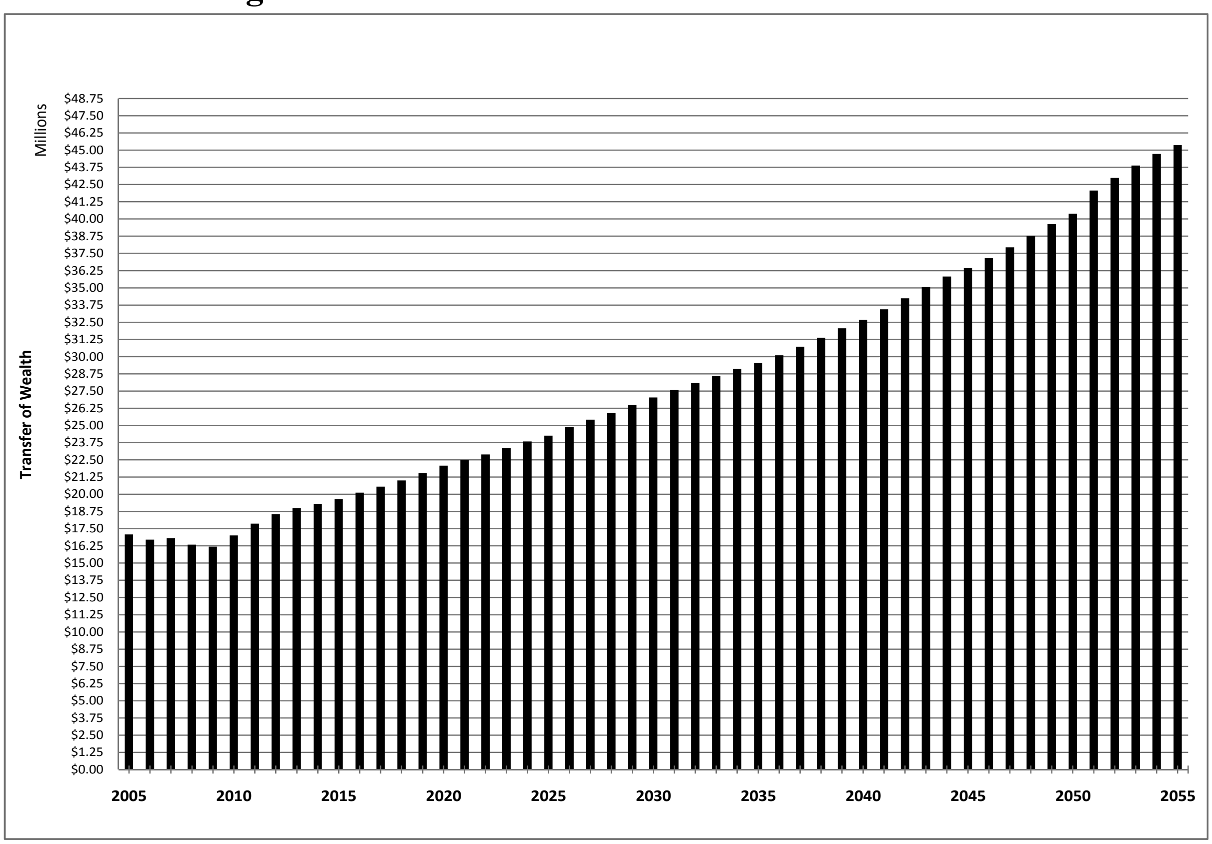


Figure 29 - Rio Grande's Transfer of Wealth



Our Golden Opportunity- Transfer of Wealth

Saguache County is physically large containing both valley and mountain landscapes. There has been steady and accelarating population growth rising from just under 4,000 residents in 1970 to over 7,000 in 2005. Wealth in this County is associated with homes, businesses, farms, ranches and recreational properties. Because of anticipated continued population growth, particularly from new people moving into the county because of its landscape assets, there will be considerable TOW opportunity over time. Adjusted household CNW is $135,000 per household in 2005 compared with a community wide average of $175,000.

CNW in 2005 is nearly $280 million and we estimate the 10-Year TOW at nearly $50 million. If this community could achieve a 5% capture of the 10-Year TOW opportunity, an additional $2.51 million in endowments could be built with the potential to generate nearly $130,000 million in annual payout (assuming a 5% annual payout rate).

Figure 30 - Saguache's Wealth Transfer: A Likely Scenario

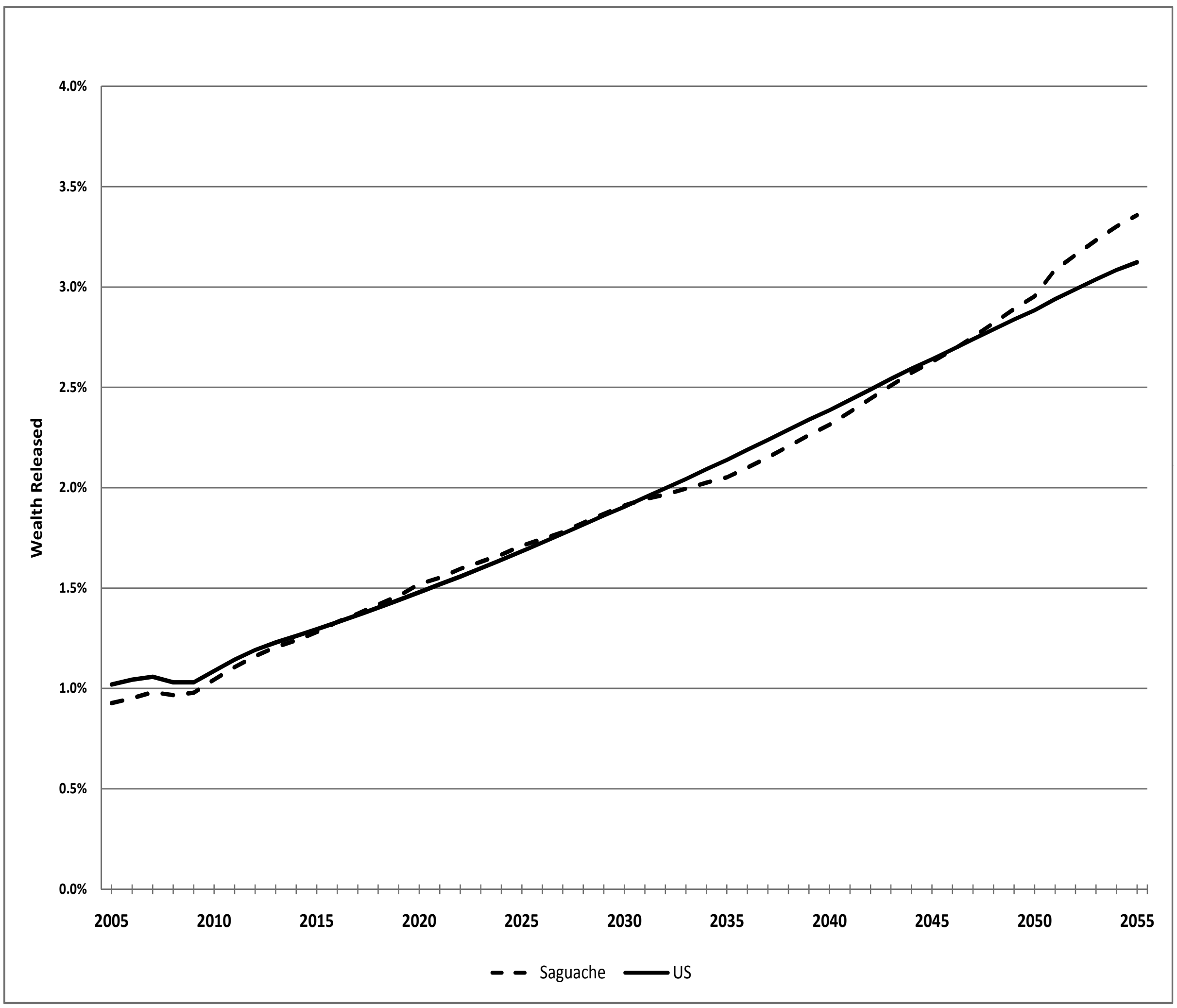


Figure 31 - Saguache’s Current Net Worth

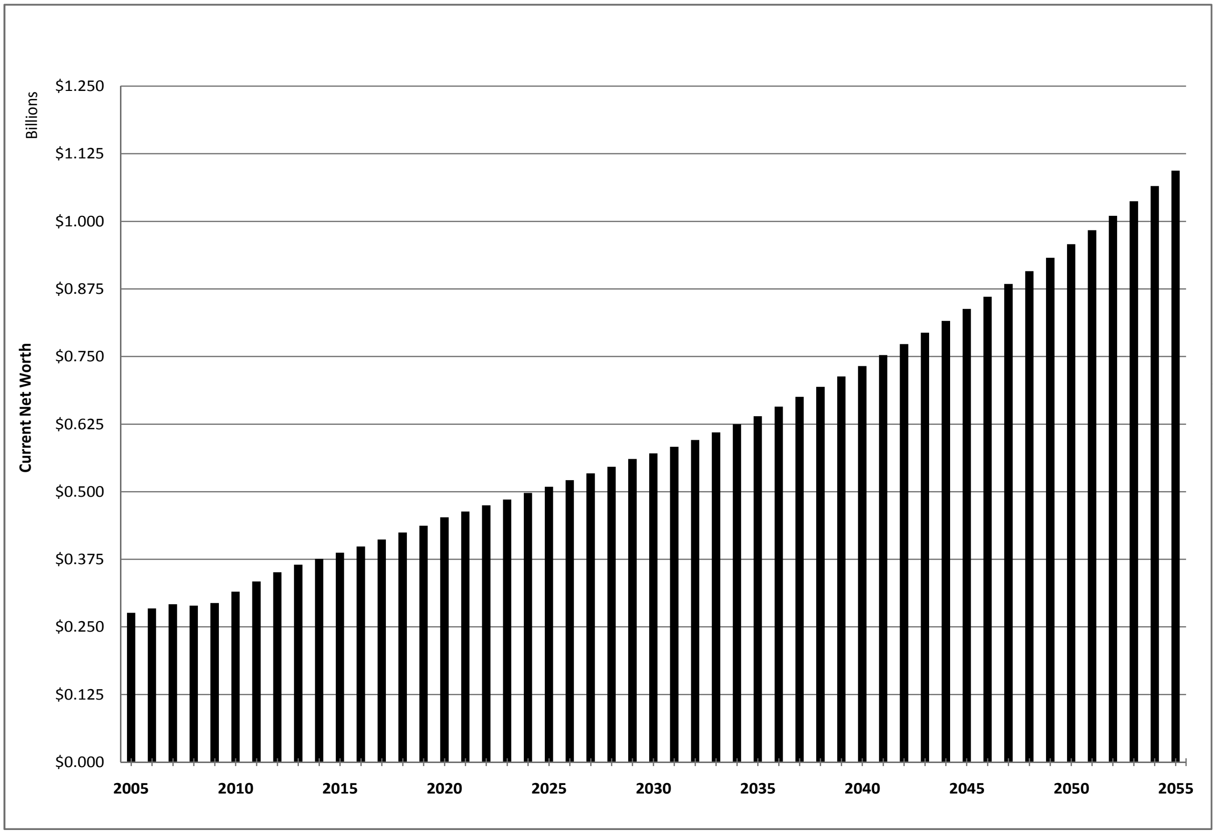
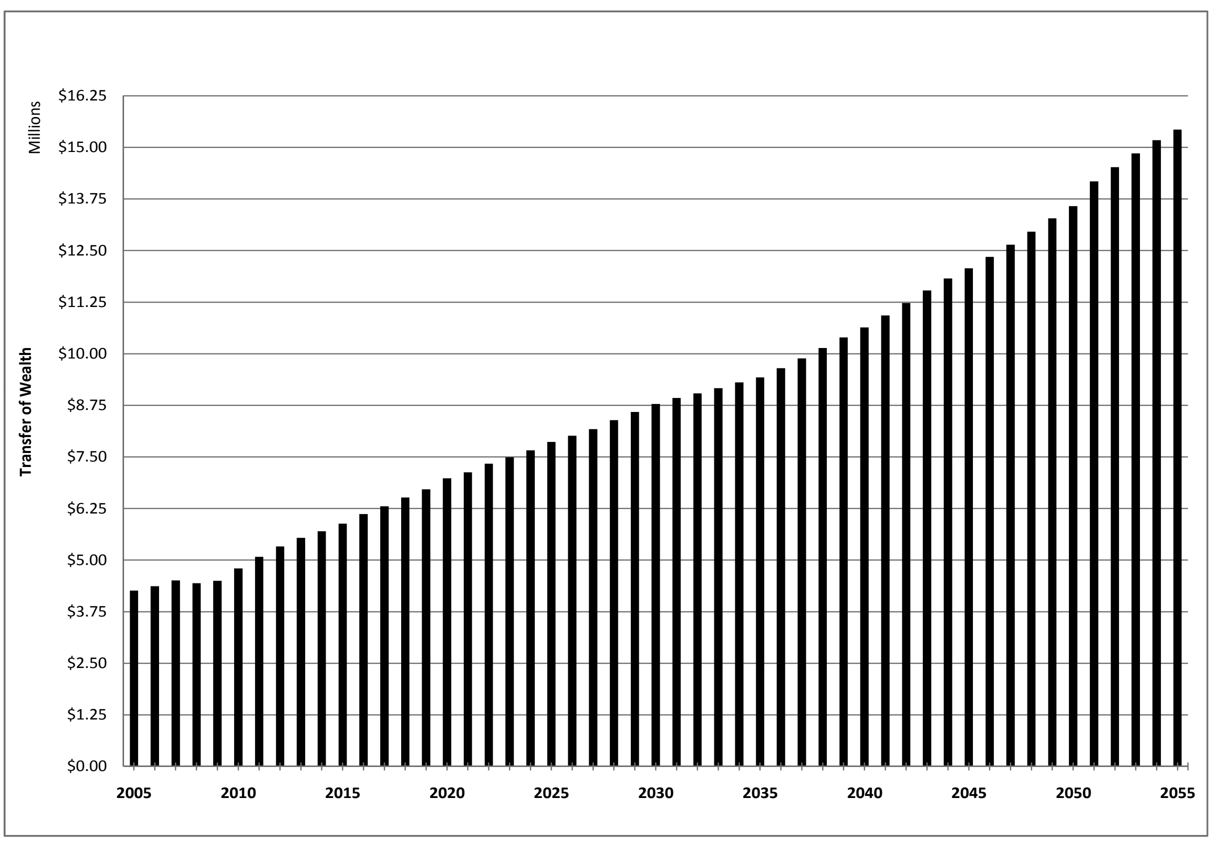


Figure 32 - Saguache’s Transfer of Wealth



HOW TO USE THIS RESEARCH

We all know it is important, but economics and finance can often be hard for many of us to get our heads around. This research by its very nature involves a lot of numbers and economic concepts. But the whole point of this research is to help individuals, communities, donors and organizations gain a grasp of this remarkable transfer of wealth opportunity. Goal setting is important in our culture and way of doing business. Individuals, communities and even nations can be mobilized in powerful ways when there are clear goals and opportunities for being part of the effort. The TOW estimates provide not only a good idea of the size of this opportunity, but the ability to set donor development goals that can translate to endowment building and strategic grant making.

Sometimes we are asked why we use the 5% TOW transfer number. Its origins are simple but powerful. When we were first exploring this work with the Nebraska Community Foundation, a group of board members were pulled together to identify a possible great target or goal for community wealth capture through endowments. Research was shared and options discussed. But in the final analysis, one board member said "what about 5%?" What if our communities could make the case to donors so that just 5% of the available TOW opportunity could be captured? All agreed that this goal was reasonable, achievable and the math was easy. As it turns out, they were right. The number 5% really did not matter -- it provides people who care with a reasonable target to work towards. Today in Nebraska and elsewhere, communities are working towards their 5% goals with passion and effectiveness.

At the request of places where we have completed TOW analysis, we are exploring offering practical "how-to" academies, technical assistance and mentoring. We believe that there is a growing body of experience from those who are using our TOW analysis that can be shared, helping others moving down this path. If you are interested in this kind of assistance, please contact Taina Radenslaben at taina@e2mail.org or 402.323.7336.

Thanks

A special thanks to Board and Staff of the San Luis Valley Development Resources Group and the El Pomar PNI Council of the San Luis Valley.

For More Information . . .

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SAN LUIS VALLEY DEVELOPMENT RESOURCES GROUP

METHODOLOGY

America is in the midst of a remarkable time -- a time when wealth from one of our most prosperous periods in time is passing from one generation to the next. This inter-generational Transfer of Wealth trend offers significant opportunities for most American communities to create community foundations and endowments capable of supporting community improvement work over time.

We would like to recognize the contributions of Boston College and their landmark transfer of wealth study Millionaires and the Millenium (1999). This research stimulated expansive discussion within the United States and was primary motivation and influence in our Transfer of Wealth work. We encourage you to visit the Center on Wealth and Philanthropy at Boston College at www.bc.edu/research/swri/ to learn more about their work.

The RUPRI Center has developed a methodology for creating scenarios for inter-generational wealth transfer for states and counties. This section summarizes our basic methodology for creating these scenarios. We would be happy to personally explore our approach with other interested parties on a request basis.

The following components constitute the methodology we employed in conducting this analysis:

1. It is important to note that we generate scenarios of likely transfer of wealth opportunities at the state and county level. Our scenarios are projections of likely futures, but are not predictions of what the future actually will become. Scenarios are driven by key assumptions about the future. To fully understand our scenarios, it is important to understand the assumptions we are making about the future. In all cases, we work to create very conservative scenarios, ensuring our projections represent realistic estimates of TOW opportunities.

2. One of our first steps is to establish a base year for analysis. For this study we have selected 2005 as our base year. 2005 was selected because it affords us considerable adjusted indicators necessary to establish state and county Current Net Worth (CNW). We consider 50 years of historical indicators (extending back to the post-World War II period) and project estimates 50 years into the future (to 2055).

Two types of assets are excluded from our CNW estimates. One is the value of personal assets like furniture, vehicles, art and collectibles. The second type of assets excluded are defined-benefit pensions which according to the U.S. Federal Reserve provide lifetime income to 57% of Americans, but may have no transferable value in an estate. Both exclusions mean our CNW estimates are conservative.

3. We begin by benchmarking our analysis to the U.S. Federal Reserve's Flow of Funds Accounts of the United States (http://www.federalreserve.gov/releases/z1/). The Flow of Funds Report is the definitive national accounting of household Current Net Worth in the United States on a year-to-year basis. All of our subsequent analysis is benchmarked to this national value.

4. Our next step is to employ national findings from the U.S. Federal Reserve's Survey of Consumer Finances research. Since the 1980s, the U.S. Federal Reserve has commissioned every three years an extensive survey of

household finances in the United States. The most current report covers 2004. This report provides detailed U.S. asset and liability holdings by key demographic characteristics (e.g., age of household, income of household, race, employment type, region, housing type, etc.) We match demographic characteristics with key indicators from the Survey of Consumer Finances Report to estimate likely CNW for the state and its counties. We generate three estimates -- low, moderate and high for CNW.

5. Once we have established final current net worth estimates for the base year at the state and county levels, we employ key indicators to customize these estimates to the unique characteristics of each county and state. Our primary customizing indicators include: (a) Dividend, interest and rent income; (b) Income characteristics; (c) Age characteristics; (d) Concentrations of creative class employment; (e) Concentrations of business ownership; and (f) Market valuation of real property by class. We also adjust our estimates to eliminate institutional populations (e.g., prisons, military, mental, colleges, etc.)

6. We then consider a number of additional customizing considerations to further refine our CNW estimates, including:

Time Period for Analysis

Our original analysis incorporated a 2000 to 2050 time frame. We have since adjusted this time frame to cover the period of 2005 through 2055. Creating scenarios reaching out 50 years is somewhat heroic. But this time frame provides a full generational picture of the transfer dynamic.

(a) Adjacency to high amenity areas, second home development and retirees. (b) Pockets of the ultra-rich (locals or newcomers). (c) Effects of public lands - Bureau of Land Management, Forest Service, National Parks, Department of Defense installations, etc. (d) Effects of mineral/energy right holdings. (e) Effects of tribal lands. (f) Pockets of high corporate stock ownership and ESOPs. (g) Pockets of the creative economy. (h) Specific new economic developments, e.g. new plants, mines, power plants, highways, alternative energy, water projects. (i) Effects of the gaming industry. (j) Effects of investment patterns and traditions of San Luis Valley, Colorado. (k) Effects of new immigrants and repatriation of earnings. (l) Areas of future population boom, bust, or plateau.

Many of these factors are also key considerations in building assumptions for our TOW projections. The technical advisory

committee also helps us identify other unique circumstances that would impact our estimates of either CNW or TOW.

7. For each landscape we build (a) a population model for the period of 2005 through 2055 and (b) an economic forecasting model. We employ existing and available state population forecasts and then build out our population forecasts through 2055. Typically we become more conservative furthest into the future with high-growth states and a bit more optimistic with states that are currently struggling demographically and economically.

There is a strong and historic relationship between population, personal income change, and change in household current net worth. We employ these relationships along with our demographic and economic forecasts to project household CNW over time through 2055. Again, we generate relatively conservative projections benchmarked to the low-range CNW for the U.S. and the low TOW projection for the United States.

8. Not all assets are equal with respect to TOW opportunity. Many assets will not be available for give back either to heirs, charities or communities. We employ a discounting methodology to reduce the value of our CNW projections so we can generate a TOW estimate that more closely represents the likely TOW opportunity for each state and county. Here are some examples of where we might discount CNW:

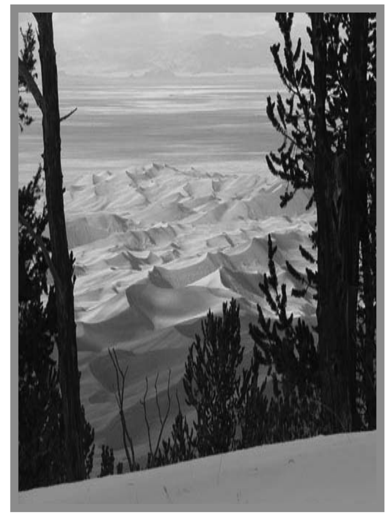
(a) Assets that depreciate quickly such as motor homes, automobiles and other durable household goods. (b) Assets where future value is hard to estimate including collections, art and jewelry. (c) Assets that generate income, but are not part of our estimates from a give back standpoint, including defined benefit retirement programs or annuities. (d) Closely held assets including farms, ranches and family businesses. (e) The assets of lower income households which are likely to be consumed during retirement leaving limited estates available for give back.

This discounting can reduce gross CNW by 50% to 75% depending upon the demographics of households in a particular state and county. Again, the discounting allows us to estimate TOW which is truly available for potential give back.

9. Our next step is to estimate the timing of TOW release. We employ projected deaths as our primary indicator of TOW release. Our demographic projections estimate the number of deaths throughout the analysis time frame and these percentages are used to estimate TOW release.

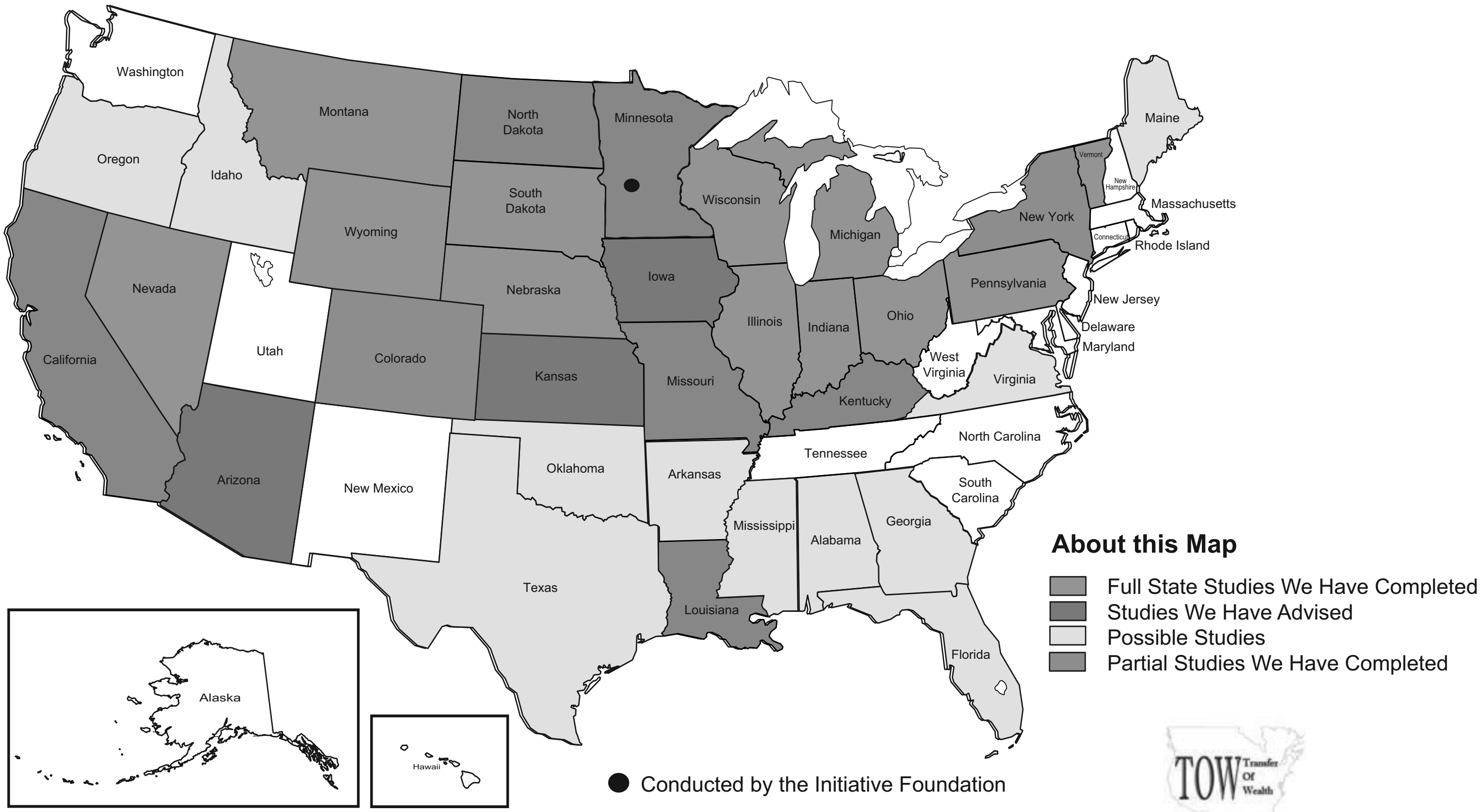
10. To ensure that we have captured all material considerations, we worked with the staff of the San Luis Valley Development Resources Group to review and finalize our analysis.

We hope this information on our methodology is helpful to understanding how we generate CNW and TOW estimates.



MORE ABOUT OUR TOW WORK

We are pleased that we have been able to contribute to America's development through our Transfer of Wealth Analysis. The following map highlights TOW work around the country including our studies.



The following is a chronology of TOW studies in the United States:

- 1999 - Boston College released <u>Millionaires in the Millennium</u> estimating $41 trillion in U.S. intergenerational wealth transfer.
- 2000 - We engaged in early discussions with the Nebraska Community Foundation to estimate TOW for Nebraska and its 93 counties.
- 2002 - We released Wealth in Nebraska - our first TOW study.
- 2003 - We completed TOW analysis for Wyoming.
- 2004 - TOW is done for Wisconsin and we advised the Iowa TOW study.
- 2005 - We completed TOW analysis in South Dakota and the Greater New Orleans Region. Boston College does TOW analysis for North Dakota.
- 2006 - We completed TOW studies for Montana and Indiana, and advised the Arizona TOW study.
- 2007 - We completed TOW studies for Ohio, Illinois, Michigan, Northeastern New York, and Pennsylvania. We also advised Wichita State University and the Kansas Health Foundation on a TOW study in Kansas.
- 2008 - We completed TOW studies for Vermont, Nevada, and California.

Over the years we have completed individual community and county studies in North Dakota, Kansas, Missouri, and Iowa.

rupri Center for RURAL ENTREPRENEURSHIP

TOW Transfer Of Wealth

Our Inter-Generational Transfer of Wealth (TOW) analysis is a service of the RUPRI Center for Rural Entrepreneurship. The RUPRI Center for Rural Entrepreneurship strives to be the focal point for efforts to stimulate and support private and public entrepreneurship development in communities throughout rural America. The Center is part of the Rural Policy Research Institute, an organization dedicated to providing unbiased analysis and information on the challenges, needs, and opportunities facing rural America.

Original founding support to develop our TOW analysis service was provided by the Nebraska Community Foundation (NCF). For more information about NCF visit its web site at www.nebcommfound.org. Subsequent and ongoing support for the RUPRI Center for Rural Entrepreneurship and our TOW Analysis is being provided by RUPRI (www.rupri.org).

Our TOW Initiative is led by Don Macke who serves as a Director with the RUPRI Center. TOW analysis is supported by Ahmet Binerer (Senior Analyst), Taina Radenslaben (Project Manager), Dick Gardner (Senior Fellow), Tim Murphy (Geographer) and Dr. Eric Thompson (University of Nebraska - Lincoln, Bureau of Business Research).

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