Members Present:
Brian Cary, Salt River Project
Dennis Doby, Arizona Department of Commerce
Pete Ewen, Pinnacle West
Eileen Klein, Director, OSPB
Dean Martin, State Treasurer
Georganna Meyer, Arizona Department of Revenue
Elliott Pollack, Elliott D. Pollack and Company
Martin Shultz, Pinnacle West Capital Corporation
Marshall Vest, Eller College of Management

Mr. Richard Stavneak, Director, JLBC Staff, opened the meeting at 11:34 a.m. and welcomed everyone to the Finance Advisory Committee (FAC) meeting. The panel meets 3 times a year to discuss the economy and to provide the Legislature with guidance on state revenue projections. Mr. Stavneak stated that materials being presented are also on the JLBC website.

Mr. Stavneak, Mr. Eric Jorgensen, Mr. Hans Olofsson, and Mr. Martin Lorenzo, gave the JLBC Staff presentation with an overview of state revenues. (Click here to view.)

Mr. Elliott Pollack, Elliott D. Pollack & Company, gave a slide presentation on the national economy. (Click here to view.)

Mr. Dennis Doby, Department of Commerce, gave a handout to members and made a presentation regarding Arizona employment. (See Attachment 1)

Mr. Dean Martin, State Treasurer, gave a handout to members and made a presentation regarding the state operating balance and revenue picture. (See Attachment 2)

Ms. Georganna Meyer, Arizona Department of Revenue stated to the members that as they are watching April income tax revenues, beware of the comparisons. The Department is operating at significantly lower staffing levels, which may impact income tax processing.

Marshall Vest stated that the economy was in a free-fall during the 4th quarter of 2008. He noted that we are seeing the very worst in the numbers now. He does not think it will get any worse. He stated that we
are at a point where we are trying to find the bottom of this economic cycle. It is still very possible that this recession could bottom out by the middle of this year. He would suggest guarding against being too pessimistic. The data look awful, but he believes that it is not going to get any worse. The recession will end because of all the liquidity that is occurring and a lot of assets are looking very cheap at this point. At some point all the liquidity starts to move and the stock market recovers, fear recedes and the economy follows suit. A couple years down the road, however, we could see a lot higher inflation and unfortunately a lot higher interest rates.

The meeting adjourned at 12:36 p.m.

______________________________
Sandy Schumacher, Secretary

______________________________
Tim Everill, Assistant Director
Finance Advisory Committee

March 31, 2009

JLBC
Arizona Economic Indicators at Historic Lows

• 2.7% personal income growth lowest since 1949
• (6.5)% employment decline lowest since 1946
• (5.9)% year-to-date withholding loss only exceeded in 1964 and 1983
Any Revenue Forecast Will Have Significant Constraints In Predicting the Next 15 Months

• Current economic instability makes forecasting especially challenging
• The impact of Federal stimulus is difficult to gauge
• Current forecasts can indicate the direction of the economy, not its precise landing point
General Fund Revenues Are Declining More Rapidly Than Budget Forecast

- FY ’09 budget forecast (9.7)%
  (January Special Session)
- February YTD revenue decrease (13.5)%
- YTD revenue below $(155) M
  January forecast
Rate of ’09 Decline Appears to be Accelerating

- 8 Month YTD Decline = (13.5)%
- February Decline May Be Overstated

Percent Change Below FY 2008

<table>
<thead>
<tr>
<th>Month</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul</td>
<td>-6.2%</td>
</tr>
<tr>
<td>Aug</td>
<td>-11.1%</td>
</tr>
<tr>
<td>Sep</td>
<td>-9.3%</td>
</tr>
<tr>
<td>Oct</td>
<td>-10.9%</td>
</tr>
<tr>
<td>Nov</td>
<td>-11.9%</td>
</tr>
<tr>
<td>Dec</td>
<td>-12.1%</td>
</tr>
<tr>
<td>Jan</td>
<td>-21.3%</td>
</tr>
<tr>
<td>Feb</td>
<td>-33.4%</td>
</tr>
</tbody>
</table>
February Decline of (33.4)% Is Overstated - Probably Closer to (19)%

- Sales tax collections are down by (17.9)%
- Withholding tax collections are down by (19.2)%
- Net February income tax collections are not a large dollar amount
- Total income tax collections for February went from a $39 M in 2008 to $(42) M in 2009 – a reduction of (207)\%
All Major Tax Categories Declined in the 1st 8 Months of FY ‘09

- Sales: -11.3%
- IIT: -15.1%
- CIT: -20.3%
Where Are We Headed Over the Next Few Years?
- Four-Sector Consensus Forecast Incorporates Different Economic Views, Including the FAC

4-sector forecast equally weights:

- FAC average
- UofA model - base
- UofA model - low
- JLBC Staff forecast
- Remaining revenues (9% of total) are staff forecast

* Includes Big 3 categories of sales tax, individual income and corporate income taxes.
March 4-Sector Projecting Revenue Decline of (13.0)% in FY ‘09
- January 2009 Forecast for FY ’09 was (9.7)% Decline

Weighted Big 3 Average of (13.2)% and JLBC Forecast for Small Categories Prior to Tax Law Changes
(13.0)\% \text{ Decline Appears Optimistic Given Trend} \quad - \text{Recommend Using (14.5)\% Decline}

\begin{align*}
\text{Jul} & \quad -6.2\% \\
\text{Aug} & \quad -8.6\% \\
\text{Sep} & \quad -8.9\% \\
\text{Oct} & \quad -9.4\% \\
\text{Nov} & \quad -9.8\% \\
\text{Dec} & \quad -10.2\% \\
\text{Jan} & \quad -12.0\% \\
\text{Feb} & \quad -13.5\% \\
\end{align*}
Each Sector Shows Improvement for FY ’10, But Overall Forecast Still A (2.1)% Decline
- Compares to January Rate of (2.8)%

Weighted Big 3 Average of (2.3)% and JLBC Forecast for Small Categories Prior to Tax Law Changes
Sales Tax
- The Consensus Forecasts Declines of (10.6)% in ’09 and Another (2.7)% in ‘10

FY 2008 Actual = $4.3 Billion

* 5.6% without the $(55.2) million estimated payment threshold change.
Sales Tax
- Collections Below FY ’06 Level Through FY ’12

Includes enacted tax law changes.
Construction and Vehicle Spending Have Continued to Decline
- Historically Represents 37% of Sales Tax
Individual Income Tax
- The Consensus Forecasts Declines of (14.8)% in ’09 and Another (1.1)% in ’10

FY 2008 Actual = $3.4 Billion

* Excluding the 10% phased-in rate reduction, growth would have been 6.3% in ’07, and (4.1)% in ’08.
Individual Income Tax
- Collections Are Below FY ’06 Level Through FY ’12

Includes enacted tax law changes.
Individual Income Tax
- Withholding and Estimated Payments Have Declined Sharply

• Through February, YTD withholding is down (5.9)%
• Only twice in the past 47 years has the comparable withholding number declined by more (’64 and ’83)
• YTD estimated payments are down (26.5)%
• ’09 YTD estimated payments are comparable to amounts collected in ’05
• April is critical to the ’09 forecast since two-thirds of final payments are collected in this month
Recent Federal Legislation Reduces State Withholding

- New $400/$800 federal tax cut implemented through federal withholding
- Since state withholding is a percentage of federal withholding, recent federal change reduces state withholding
- Absent any legislative action, the state will incur an income tax loss of $(73) M in ’09 and $(37) M in ’10
- These losses (which began in late February) are not reflected in the 4-sector consensus forecast
Corporate Income Tax
- The Consensus Forecasts Declines of (20.9)% in ’09 and Another (5.3)% in ’10

* Excluding tax law changes, growth would have been 12.8% in ’07, and the ’08 decrease would have been (14.7)%.

** In FY ’09-11, there will be an additional incremental loss associated with the phase in of the corporate sales factor legislation.
Corporate Income Tax
- Collections Below FY ’05 Level Through FY ’12

Includes enacted tax law changes.
Forecast Shows Declining Revenue Through FY ‘10 - Recovery Begins in FY ‘11

* 4-sector forecast weighted average growth.
On-Going General Fund Revenue
- Collections Are Below FY ’06 Level Through FY ‘12

Includes Urban Revenue Sharing and enacted tax law changes
- excludes balance forward and other one-time revenues.

JLBC
Impact on Budget Shortfall of (14.5)% FY '09 Revenue Decline

- Projected revenue shortfall is $(487) M
  - After adjusting for $(73) M withholding and $50 M balance, net shortfall is $(510) M

- Given accelerating losses and lack of any remaining Budget Stabilization Funds, JLBC Staff recommends contingency plan
  - Suggest deficit reduction solutions equal to at least $650 M
Estimated FY ’10 Shortfall = $(2.93) B

- (2.1)% revenue decline in ‘10
- Incorporating January Special Session ’09 expenditure reductions as on-going
- Assumes ’10 spending growth from January Baseline
### FY2009-FY 2012 Quartile Forecast Worksheet

<table>
<thead>
<tr>
<th></th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>FY 2011</th>
<th>FY 2012</th>
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<tbody>
<tr>
<td><strong>Sales Tax</strong></td>
<td></td>
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<tr>
<td>JLBC Forecast (3/17/09)</td>
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<td>-1.6%</td>
<td>3.5%</td>
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<td>UA - Low (2/09 revision)</td>
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<td>3.3%</td>
<td>7.1%</td>
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<tr>
<td>UA - Base (2/09 revision)</td>
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<tr>
<td>FAC (3/4/09 Survey)</td>
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<td>4.9%</td>
<td>7.1%</td>
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<tr>
<td><strong>Average:</strong></td>
<td>-10.6%</td>
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<td>7.2%</td>
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<td><strong>Individual Income Tax</strong></td>
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<td><strong>Corporate Income Tax</strong></td>
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<tr>
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<td>8.9%</td>
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<td><strong>Consensus Weighted Average:</strong></td>
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<td>7.8%</td>
</tr>
</tbody>
</table>

Forecast percentages are prior to tax law changes.
National Economic Outlook

Presented to:
Finance Advisory Committee

By:
Elliott Pollack
March 31st, 2009
2009

a BAD year

or

a TERRIBLE year
Economics vs. Psychology
Liquidity Trap
Liquidity or Solvency?

Banks are still worried about covering their bad loans and covering their reserve requirements.

Credit will remain tight (for now).
Stimulus package?

It does not stimulate as advertised.

(as much social engineering as economic development)
Basic Story?
Basic Story

Consumer

- Too much debt
- Not enough traditional savings
- Poor stock market and housing price performance
- Jobs and hours worked declining
The Result

Consumer

- Consumer spending squeezed
- Big cuts in spending on durables
- Also cuts in non-durables and services
Consumer Spending on Durable Goods
Percent Change Year Ago
1971 – 2008*
Source: Bureau of Economic Analysis

* Data through fourth quarter 2008, Nominal GDP release.
Consumer Spending on Non-Durable Goods & Services
Percent Change Year Ago
1971 – 2008*

Source: Bureau of Economic Analysis

* Data through fourth quarter 2008
Basic Story

Business

- Had been strong due to weak dollar / strong exports
- Weakness in domestic spending
- Weakness in rest of world will hurt exports
The Result

Business

- Business spending on plant & equipment will be weak
- Just starting inventory correction
Basic Story

**Housing**
- Supply / demand imbalance continues
- No quick fix for credit markets
- Foreclosures to continue at high rates
The Result

**Housing**

- Drag on economy from housing will end because comparisons so easy
- But drag on economy from commercial will get worse
Credit and housing are still major problems.
Anything left to shock us?

TOUCHING WIRES CAUSES INSTANT DEATH

$200 FINE

Newcastle Tramway Authority
There may be a few more shoes left to drop....
The One Horsepower Economy: Consumers and Businesses
Real Personal Income Net of Government Transfers
Percent Change Quarter Ago, Annualized
1971 – 2008*

Source: Bureau of Economic Analysis

* Data through fourth quarter 2008
Real Retail Sales U.S.
Percent Change Year Ago
1973 – 2009*
Source: Federal Reserve

*Data through February 2009
**Three-month moving average
Short-term: deflation

Long-term: inflation

?
Wealth Effect
What Will Happen to HH Net Worth?

**In the 90s**
Housing prices increased moderately, but **stock market boomed**.

**First half of 2000’s**
Stock market was doing poorly, but **housing prices boomed**.

**Now**
Declining housing prices AND poor results in the stock market.
Financial Obligation Ratio**
1980 – 2008*
Source: Federal Reserve

**Ratio of mortgage and consumer debt (including auto, rent and tax payments) to disposable income.

*Data through fourth quarter 2008
Savings Rate
1973 – 2009*
Source: Federal Reserve

*Data through February 2009
**Three-month moving average
Recap: Reduced Spending

- Paying for past purchases,
- No money left in homes,
- Declining stock values,
- Having to save more,
- Feeling poor.

Also:
- Tighter access to money,
- Fear.
Business: Finally taking it on the chin
• Corporations were in good financial shape. Now can’t get credit.

• Exports were booming. Now declining.
Industrial Production
Percent Change Year Ago
1973 – 2009*
Source: The Conference Board

*Data through February 2009
Capacity Utilization Rate
1970 – 2009*

Source: The Conference Board

*Data through February 2009
Total Inventories – All Industries
Percent Change Year Ago
1993 – 2009*
Source: Bureau of Labor Statistics

*Data through January 2009

Recession Periods
National Employment
Percent Change Month Ago, Annualized (S/A)
1981 – 2009*

Source: U.S. Bureau of Labor Statistics

*Data through February 2009
U.S. Y/Y Job Losses - Recent Recessions
Duration in Months - BLS

-3.5%
-3.0%
-2.5%
-2.0%
-1.5%
-1.0%
-0.5%
0.0%
-3.5%
-3.0%
-2.5%
-2.0%
-1.5%
-1.0%
-0.5%
0.0%

1974 Recession
1980/81 Recessions
1991 Recession
2001 Recession
Current Recession

Current 1/09
1974
1980/81
1991
Hours Worked
Percent Change from Year Ago
1976 – 2008**
Source: Bureau of Labor Statistics

Recession Periods

**Data through fourth quarter 2008
How tight is Credit?
Tougher Mortgage Loan Standards
Source: Federal Reserve Survey, October 2008

• 100% of banks tightened on sub-prime mortgages.

• 89.6% of banks tightened on “non-traditional” mortgages (ARMs, Interest-only, or Limited Income Verification loans).

• 71.0% of banks tightened on prime mortgage loans.
Net Percentage of Large U.S. Banks Reporting Tougher Standards versus Eased Standards on Residential Mortgage Loans

2007 – 2008q4

Source: Federal Reserve, Board of Governors
Percentage of Large U.S. Banks Reporting Tougher Standards on Business Loans 1997 – 2008*

Source: Federal Reserve, Board of Governors

* Data as of January 2009 survey.
High Yield Credit Spread
1997 – 2009*

Source: Bespoke Investment Group; Merrill Lynch

Recession Periods

*Data through March 27, 2009.

** The spread between high yield corporate bonds (non investment grade/below bbb rated) and comparable Treasuries.
Housing Market
U.S. Number of Vacant Homes for Sale
2000 – 2008*
Source: U.S. Census Bureau

- Data through 4th Quarter 2008.

* Elliott D. Pollack & Company
United States Home Sales
Months Supply – Single Family New Homes
2000 – 2009*
Source: U.S. Census Bureau

Recession Periods

* Data through February 2009.
Median Price of Resale Homes – U.S.
Percent Change Year Ago
2003 – 2008*
Source: National Association of Realtors

*Data through fourth quarter 2008
Tighter lending standards and a weak economy have acted as a drag on the housing market.
It’s Not Just Subprime
2008 Q1 - Arizona
Source: Mortgage Bankers Association

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>AZ Share of Loans</th>
<th>AZ Share of Foreclosures</th>
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<tbody>
<tr>
<td>Prime Fixed</td>
<td>57.2%</td>
<td>14.2%</td>
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<tr>
<td>Prime ARM</td>
<td>19.8%</td>
<td>23.7%</td>
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<tr>
<td>Sub Fixed</td>
<td>4.9%</td>
<td>6.4%</td>
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<tr>
<td>Sub ARM</td>
<td>9.8%</td>
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<tr>
<td>FHA</td>
<td>4.9%</td>
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<td>VA</td>
<td>2.3%</td>
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<tr>
<td>Other</td>
<td>1.1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
How will it turn out?
Look for a: U

Not a: V
U.S. Summary 2009:

The first half, continued ugly.
The second half, no better than homely.
Because....

In the first half, comparisons are tough.
In the second half, comparisons get easier.
**EMPLEYEE ON NONFARM PAYROLLS BY STATE (in Thousands, Unadjusted)**

**RANKED BY OVER-THE-YEAR CHANGE**

<table>
<thead>
<tr>
<th>RANK</th>
<th>STATE</th>
<th>Feb. 2009p</th>
<th>Feb. 2008</th>
<th>Over-Year Change</th>
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<td>2009</td>
<td>2008</td>
<td>Amount</td>
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<td>WYOMING</td>
<td>292.1</td>
<td>287.8</td>
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<td>2</td>
<td>ALASKA</td>
<td>306.7</td>
<td>306.1</td>
<td>0.6</td>
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<tr>
<td>3</td>
<td>LOUISIANA</td>
<td>1,938.0</td>
<td>1,928.5</td>
<td>9.5</td>
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<tr>
<td>4</td>
<td>NORTH DAKOTA</td>
<td>359.5</td>
<td>359.0</td>
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<tr>
<td>5</td>
<td>OKLAHOMA</td>
<td>1,572.4</td>
<td>1,581.3</td>
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<td>6</td>
<td>SOUTH DAKOTA</td>
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<td>401.1</td>
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<td>7</td>
<td>TEXAS</td>
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<td>10,535.4</td>
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<td>8</td>
<td>NEBRASKA</td>
<td>942.1</td>
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<td>KANSAS</td>
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<td>10</td>
<td>MONTANA</td>
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<td>2,569.4</td>
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<td>5,874.8</td>
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<td>MISSISSIPPI</td>
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<td>15,031.5</td>
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<td>457.5</td>
<td>476.4</td>
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<td>5,325.9</td>
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<td>639.4</td>
<td>-29.6</td>
</tr>
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<td>NEVADA</td>
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<td>1,272.4</td>
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<td>4,159.0</td>
<td>-475.0</td>
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</tbody>
</table>

**ALL STATES** | 131,277.4 | 135,507.1 | -4,229.7 | -3.12%

**NOTES:**

1) U.S. Total does not include District of Columbia

2) Over-the-Year Percentage Change is published at the nearest hundredth of a percentage point. State rank is based on percentage change at the nearest ten thousandth of a percentage point.

p = preliminary

**Source:** U.S. Department of Labor, Bureau of Labor Statistics

**Prepared By:** Arizona Department of Commerce, Research Administration, Mar. 30, 2009
<table>
<thead>
<tr>
<th>Industry</th>
<th>Arizona</th>
<th>California</th>
<th>Nevada</th>
<th>Utah</th>
<th>Colorado</th>
<th>New Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction (includes mining and logging)</td>
<td>-25.06%</td>
<td>-17.94%</td>
<td>-15.03%</td>
<td>-11.92%</td>
<td>-8.83%</td>
<td>-8.41%</td>
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<td>39</td>
<td>28</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-6.14%</td>
<td>-6.33%</td>
<td>-6.76%</td>
<td>-7.80%</td>
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<td>-5.97%</td>
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<td>21</td>
<td>26</td>
<td>19</td>
<td>12</td>
</tr>
<tr>
<td>Trade, Transportation, and Utilities</td>
<td>-8.02%</td>
<td>-5.63%</td>
<td>-3.03%</td>
<td>-1.59%</td>
<td>-3.68%</td>
<td>-3.72%</td>
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<td>20</td>
<td>11</td>
<td>29</td>
<td>31</td>
</tr>
<tr>
<td>Information</td>
<td>-6.57%</td>
<td>-3.98%</td>
<td>-5.26%</td>
<td>-3.61%</td>
<td>-3.35%</td>
<td>-3.07%</td>
</tr>
<tr>
<td>State Rank</td>
<td>46</td>
<td>25</td>
<td>37</td>
<td>21</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-3.71%</td>
<td>-5.96%</td>
<td>-5.30%</td>
<td>-3.20%</td>
<td>-5.74%</td>
<td>-2.01%</td>
</tr>
<tr>
<td>State Rank</td>
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<td>46</td>
<td>42</td>
<td>30</td>
<td>45</td>
<td>18</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>-10.93%</td>
<td>-4.39%</td>
<td>-6.64%</td>
<td>-1.19%</td>
<td>-7.88%</td>
<td>-1.77%</td>
</tr>
<tr>
<td>State Rank</td>
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<td>23</td>
<td>42</td>
<td>5</td>
<td>42</td>
<td>10</td>
</tr>
<tr>
<td>Education and Health Services</td>
<td>0.92%</td>
<td>1.70%</td>
<td>3.08%</td>
<td>2.53%</td>
<td>2.99%</td>
<td>3.94%</td>
</tr>
<tr>
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<td>32</td>
<td>10</td>
<td>15</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>-6.37%</td>
<td>-2.64%</td>
<td>-5.91%</td>
<td>-4.18%</td>
<td>-0.55%</td>
<td>-2.12%</td>
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<td>33</td>
<td>47</td>
<td>45</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Other Services</td>
<td>-5.33%</td>
<td>-1.00%</td>
<td>-1.10%</td>
<td>-2.85%</td>
<td>0.32%</td>
<td>-0.68%</td>
</tr>
<tr>
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<td>24</td>
<td>25</td>
<td>37</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Government</td>
<td>1.35%</td>
<td>-0.30%</td>
<td>0.37%</td>
<td>3.21%</td>
<td>3.34%</td>
<td>1.21%</td>
</tr>
<tr>
<td>State Rank</td>
<td>13</td>
<td>43</td>
<td>30</td>
<td>4</td>
<td>3</td>
<td>16</td>
</tr>
</tbody>
</table>

| Total All Industries                          | -6.50%  | -3.96%     | -4.80% | -2.13%| -2.63%   | -1.46%     |
| State Rank                                    | 49      | 36         | 47     | 19    | 23       | 12         |

Source: U.S. Department of Labor, Bureau of Labor Statistics
Prepared By: Arizona Department of Commerce, Research Administration, March 30, 2009
### Top and Bottom 10 States Ranked by Annual Average Percentage Change in 2008 Nonfarm Payroll Employment*

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>2008</th>
<th>2007</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wyoming</td>
<td>298.5</td>
<td>288.9</td>
<td>3.32%</td>
</tr>
<tr>
<td>2</td>
<td>N. Dakota</td>
<td>367.0</td>
<td>358.4</td>
<td>2.40%</td>
</tr>
<tr>
<td>3</td>
<td>Texas</td>
<td>10,818.6</td>
<td>10,395.0</td>
<td>2.13%</td>
</tr>
<tr>
<td>4</td>
<td>Oklahoma</td>
<td>1,595.4</td>
<td>1,568.4</td>
<td>1.72%</td>
</tr>
<tr>
<td>5</td>
<td>Alaska</td>
<td>322.4</td>
<td>317.9</td>
<td>1.42%</td>
</tr>
<tr>
<td>6</td>
<td>Louisiana</td>
<td>1,940.0</td>
<td>1,915.5</td>
<td>1.28%</td>
</tr>
<tr>
<td>7</td>
<td>S. Dakota</td>
<td>411.4</td>
<td>408.5</td>
<td>1.21%</td>
</tr>
<tr>
<td>8</td>
<td>Washington</td>
<td>2,959.4</td>
<td>2,933.6</td>
<td>0.88%</td>
</tr>
<tr>
<td>9</td>
<td>Kansas</td>
<td>1,391.1</td>
<td>1,380.0</td>
<td>0.80%</td>
</tr>
<tr>
<td>10</td>
<td>Colorado</td>
<td>2,349.3</td>
<td>2,331.3</td>
<td>0.77%</td>
</tr>
</tbody>
</table>

### Top and Bottom 10 States Ranked (including ties) by 2008 Average Unemployment Rate*

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>2008</th>
<th>2007</th>
<th>Percentage Point Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>S. Dakota</td>
<td>3.0%</td>
<td>2.9%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2</td>
<td>Wyoming</td>
<td>3.1%</td>
<td>2.9%</td>
<td>0.2%</td>
</tr>
<tr>
<td>3</td>
<td>N. Dakota</td>
<td>3.2%</td>
<td>3.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>4</td>
<td>Nebraska</td>
<td>3.3%</td>
<td>2.9%</td>
<td>0.4%</td>
</tr>
<tr>
<td>5</td>
<td>Utah</td>
<td>3.4%</td>
<td>2.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>6</td>
<td>New Hampshire</td>
<td>3.8%</td>
<td>3.5%</td>
<td>0.3%</td>
</tr>
<tr>
<td>6</td>
<td>Oklahoma</td>
<td>3.8%</td>
<td>4.1%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>8</td>
<td>Hawaii</td>
<td>3.9%</td>
<td>2.6%</td>
<td>1.3%</td>
</tr>
<tr>
<td>9</td>
<td>Virginia</td>
<td>4.0%</td>
<td>3.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>10</td>
<td>Iowa</td>
<td>4.1%</td>
<td>3.7%</td>
<td>0.4%</td>
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</table>

*Note: Arizona's 2008 unemployment rate of 5.5% ranked 31st, compared to a tie for 16th in 2007 with a rate of 3.8%. For additional information on states ranked by nonfarm employment percent change, see Arizona Workforce Informer Web site at link below:


<table>
<thead>
<tr>
<th>Table 2 Nonfarm Payroll Employment, February 2009(3)</th>
<th>(in Thousands, Not Seasonally Adjusted)</th>
<th>Amount Change</th>
<th>Percent Change</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Monthly</td>
<td>Over-Year</td>
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<tr>
<td>ARIZONA</td>
<td></td>
<td>Jan. '09</td>
<td>Feb. '09</td>
</tr>
<tr>
<td>Total Nonfarm Payroll Employment(4,8)</td>
<td>2,488.5</td>
<td>-7.1</td>
<td>-178.9</td>
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<tr>
<td>Government</td>
<td>443.1</td>
<td>9.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Goods-Producing Industries</td>
<td>1,350.0</td>
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<td>-53.9</td>
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<tr>
<td>Manufacturing</td>
<td>166.5</td>
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<td>-109.5</td>
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<tr>
<td>Durable Goods</td>
<td>134.0</td>
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<td>-2.8</td>
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<tr>
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<td>-8.8</td>
</tr>
<tr>
<td>Heavy</td>
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<td>5.4</td>
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<td>Specialty Trades</td>
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<tr>
<td>Service-Providing Industries</td>
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<td>-110.9</td>
</tr>
<tr>
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<td>-6.1</td>
<td>-110.9</td>
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<td>Clothing &amp; Clothing Accessories Stores</td>
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<td>-2.2</td>
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<td>-1.1</td>
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<td>-10.8</td>
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<td>-10.8</td>
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<td>-10.8</td>
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<td>10.9</td>
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<td>Management of Companies and Enterprises</td>
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<td>10.9</td>
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<td>10.9</td>
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<td>Services to Buildings and Dwellings</td>
<td>36.6</td>
<td>1.7</td>
<td>10.9</td>
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<td>44.1</td>
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<td>Other Services (except Public Administration)</td>
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<td>State</td>
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<td>Local Education</td>
<td>184.4</td>
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Notes: For notes and source, see end of Table 2.
Arizona Construction Employment -- Over-the-Year Change

Source: USDOL, BLS, March 2009
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009
United States; Arizona; and California
Monthly Seasonally Adjusted Unemployment Rates

Source: USDOL, BLS, March 2009.
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009
<table>
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<tr>
<th>YEAR-QTR</th>
<th>TPI (1)</th>
<th>Change</th>
<th>TPI-WS(2)</th>
<th>Change</th>
<th>QCEW(3)</th>
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<td></td>
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<td>SAAR*</td>
<td>Annual %</td>
<td>Quarterly</td>
<td>Annual %</td>
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<td>14,732</td>
<td>11.5%</td>
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<td>1998.3</td>
<td>114,597</td>
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<td>66,595</td>
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<td>17,011</td>
<td>12.8%</td>
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<td>27,017</td>
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<td>-1.0%</td>
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<td>n.a.</td>
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</table>

Notes:
- 98.444% = Correlation between TPI-WS:QCEW
- 1. Total Personal Income (TPI), SAAR, BEA Table S01. Updated 03.24.09 -- next update 06.18.09.
- 2. TPI-Wage & Salary Disbursements, SAAR, BEA Table S07N, Updated 03.24.09 -- next update 06.18.09.
- 3. Quarterly Census of Employment and Wages (QCEW); most recent data is PRELIMINARY and subject to revisions over next 7 quarters. Run 3.10.09
- SAAR = Seasonally Adjusted at Annual Rates
- Source: AZ Dept. of Commerce, RA, in cooperation with BLS and BEA.
Arizona and United States Personal income
Quarterly Over-the-Year Percent Change

Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009
Arizona Unemployment Insurance Weekly Initial Claims 
by Filed Week Ending Date

Source: USDOL, ETA, March 2009
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009
Arizona Unemployment Insurance Weekly Continued Claims by Filed Week Ending Date

Source: USDOL, ETA, March 2009
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009
State Budget & Cash Flow Crisis

March 31st 2009
State of Arizona Operating Cash Balance On A Downward Trend
Percent Change in Operating Account Balance

Jan 2007 -5.3%
Jan 2008 -21.6%
Jun 2008 -50.8%
Feb 2009 -67.2%
State Operating Balance:
Actual vs Adjusted for One Time Transfers

Jan-07  Feb-07  Mar-07  Apr-07  May-07  Jun-07  Jul-07  Aug-07  Sep-07  Oct-07  Nov-07  Dec-07  Jan-08  Feb-08  Mar-08  Apr-08  May-08  Jun-08  Jul-08  Aug-08  Sep-08  Oct-08  Nov-08  Dec-08  Jan-09  Feb-09

$2,500
$2,000
$1,500
$1,000
$500
$0
-$500
-$1,000

Actual  Adjusted
Phoenix, Arizona Metropolitan Area House Prices

Latest quarterly, median, existing, single-family home price provided by the National Association of Realtors. Trailing house price index data provided by Standard & Poors. Inflation data provided by the Federal Reserve Bank of Cleveland.

The chart on this page estimates the market value of today's median-priced house over time. The trailing nominal prices are derived by taking the recent median price of existing single-family homes, as reported by the National Association of Realtors, and discounting it by the S&P/Case-Shiller Home Price Index. The S&P/Case-Shiller HPI is a "constant quality" index, so even though houses are built larger today than they were many years ago, this graph automatically adjusts for this variation. The trailing inflation-adjusted prices are then derived by adjusting the nominal prices by the CPI-U Research Series Using Current Methods.

http://my sites.verizon.net/voacroushousingbubble/Phoenix.html
Monthly TPT Collections

- $425,000,000
- $375,000,000
- $325,000,000
- $275,000,000
- $225,000,000
- $175,000,000

2006: Top of the Bubble
2004: Housing Bubble Starts

Source: JLBC Monthly Fiscal Highlights
“Nike” Whoosh Revenue Forecast