STATE OF ARIZONA

Joint Legislative Budget Committee

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FINANCE ADVISORY COMMITTEE
March 31, 2009
Senate Hearing Room 1 – 11:30 a.m.

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

(Continued)

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

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at http://www.azleg.gov/jlbc/meeting.htm.

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

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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

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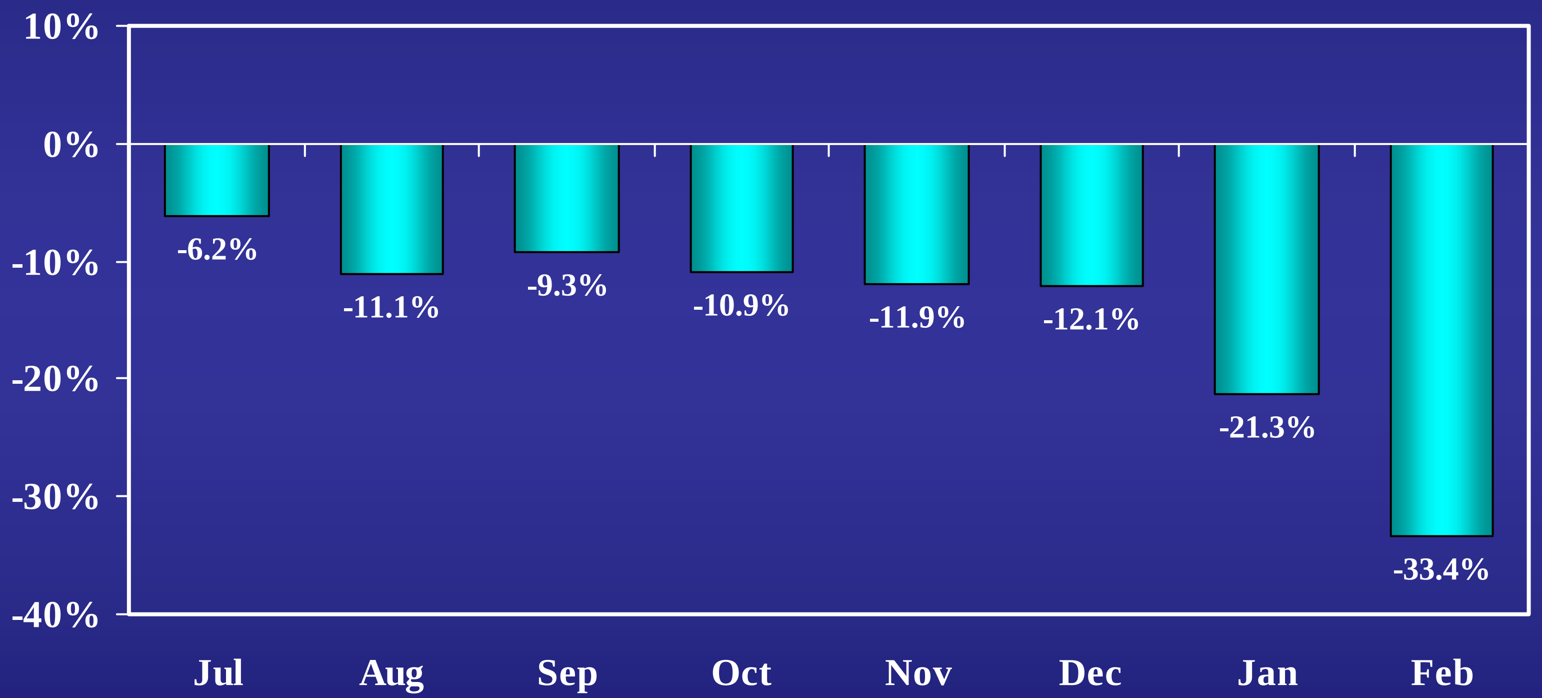
General Fund Revenues Are Declining More Rapidly Than Budget Forecast

• FY ’09 budget forecast (January Special Session)	(9.7)%
• February YTD revenue decrease	(13.5)%
• YTD revenue below January forecast	$(155) M

JLBC

Rate of ’09 Decline Appears to be Accelerating

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



Percent Change Below FY 2008

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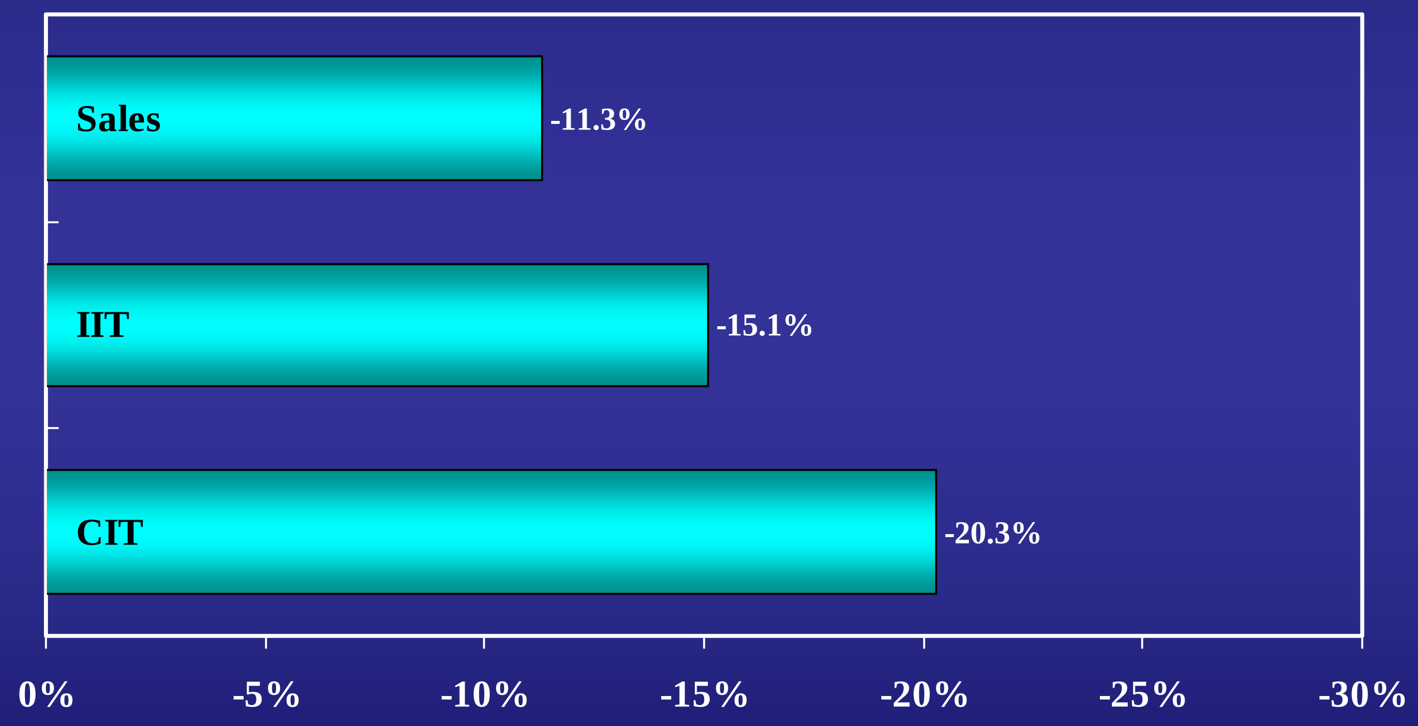
February Decline of (33.4)% Is Overstated
- Probably Closer to (19)%

- 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)%

JLBC

All Major Tax Categories Declined in the 1st 8 Months of FY '09

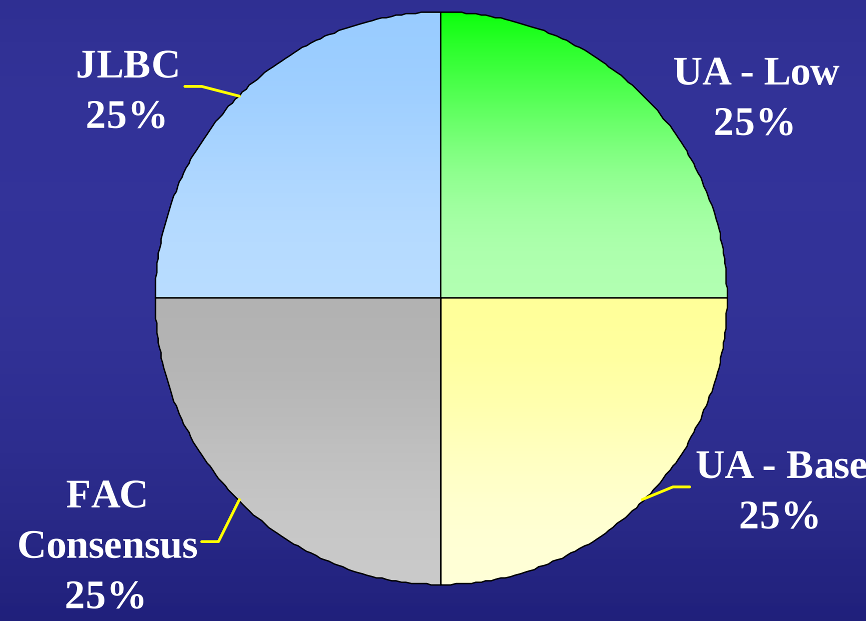


JLBC

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.

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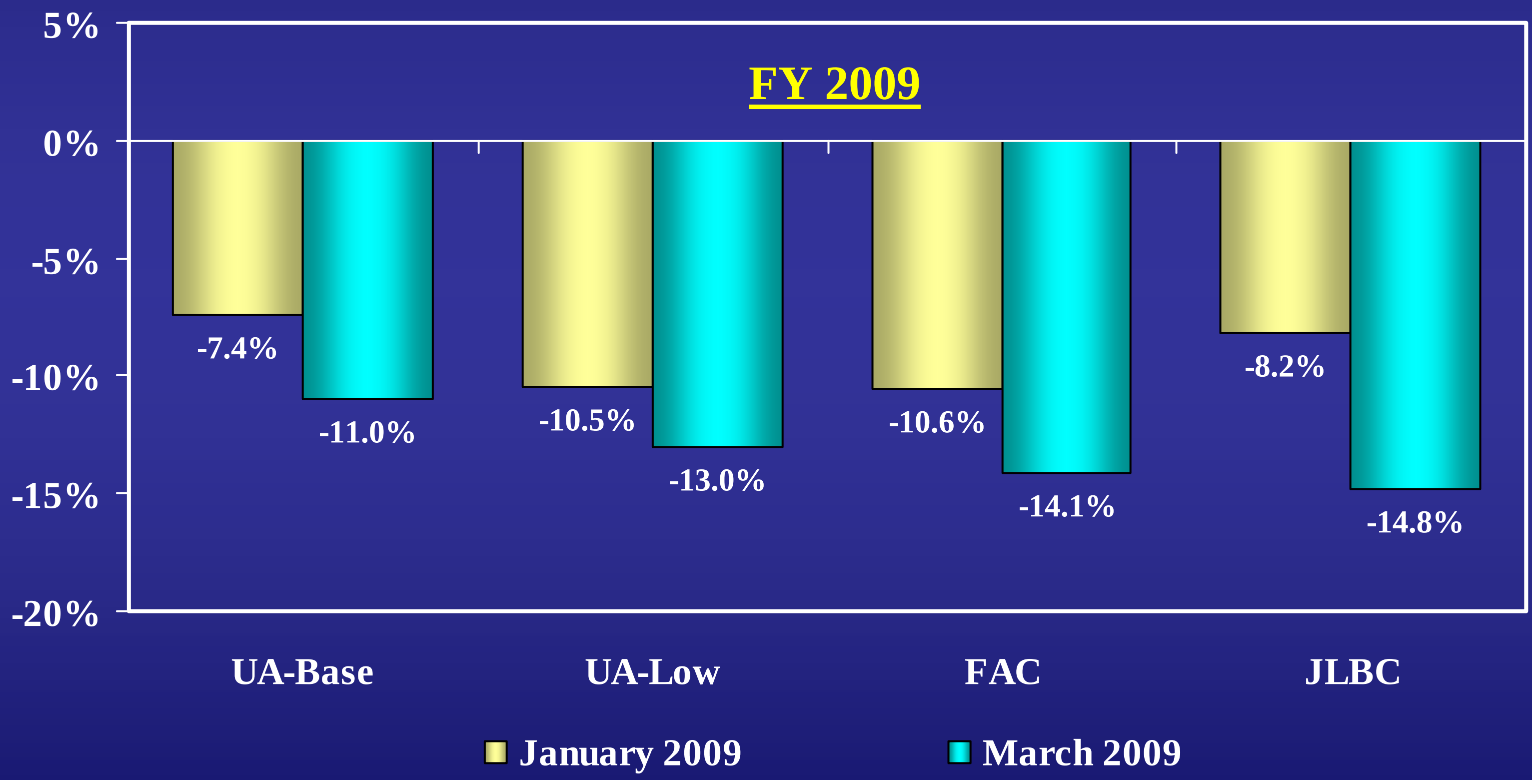
March 4-Sector Projecting Revenue Decline of (13.0)% in FY ‘09

- 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

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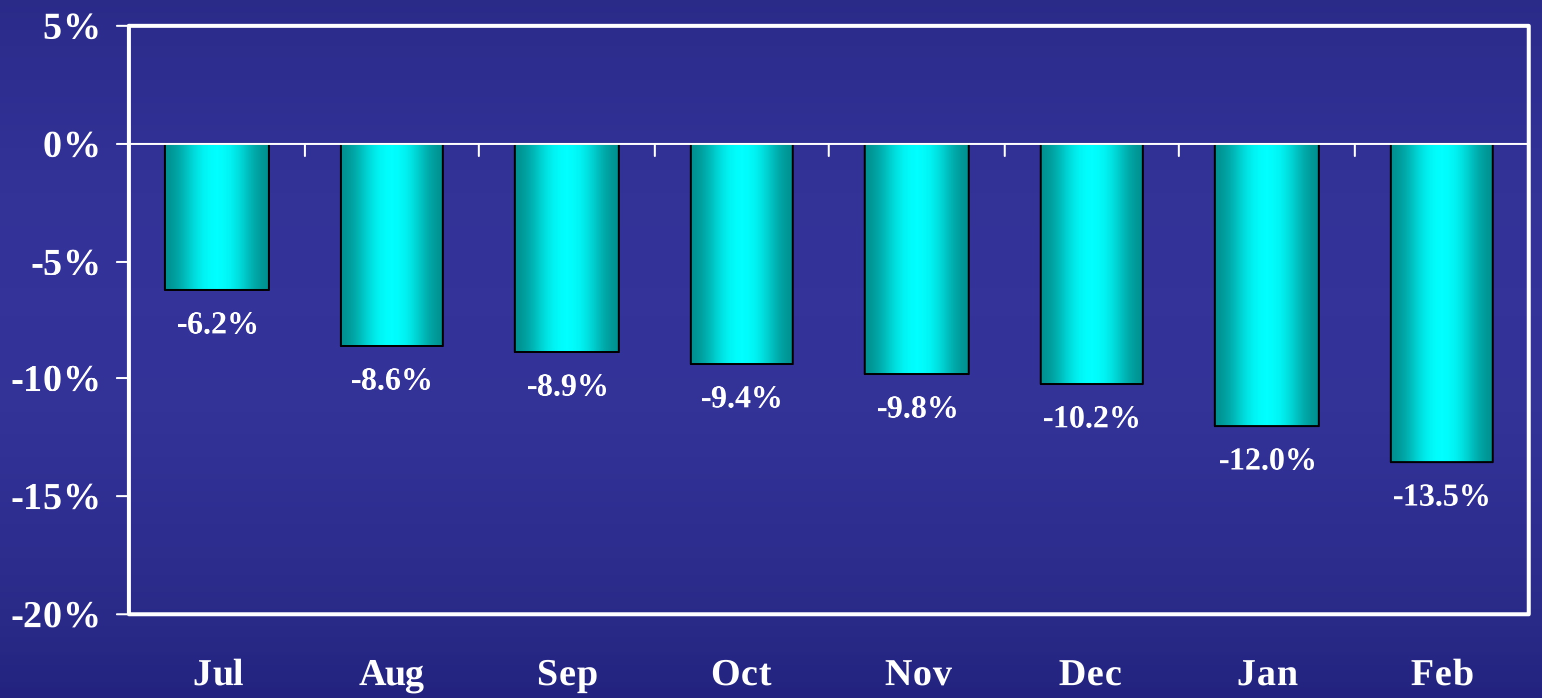
(13.0)% Decline Appears Optimistic Given Trend

- Recommend Using (14.5)% Decline



Cumulative Percent Change Below FY 2008

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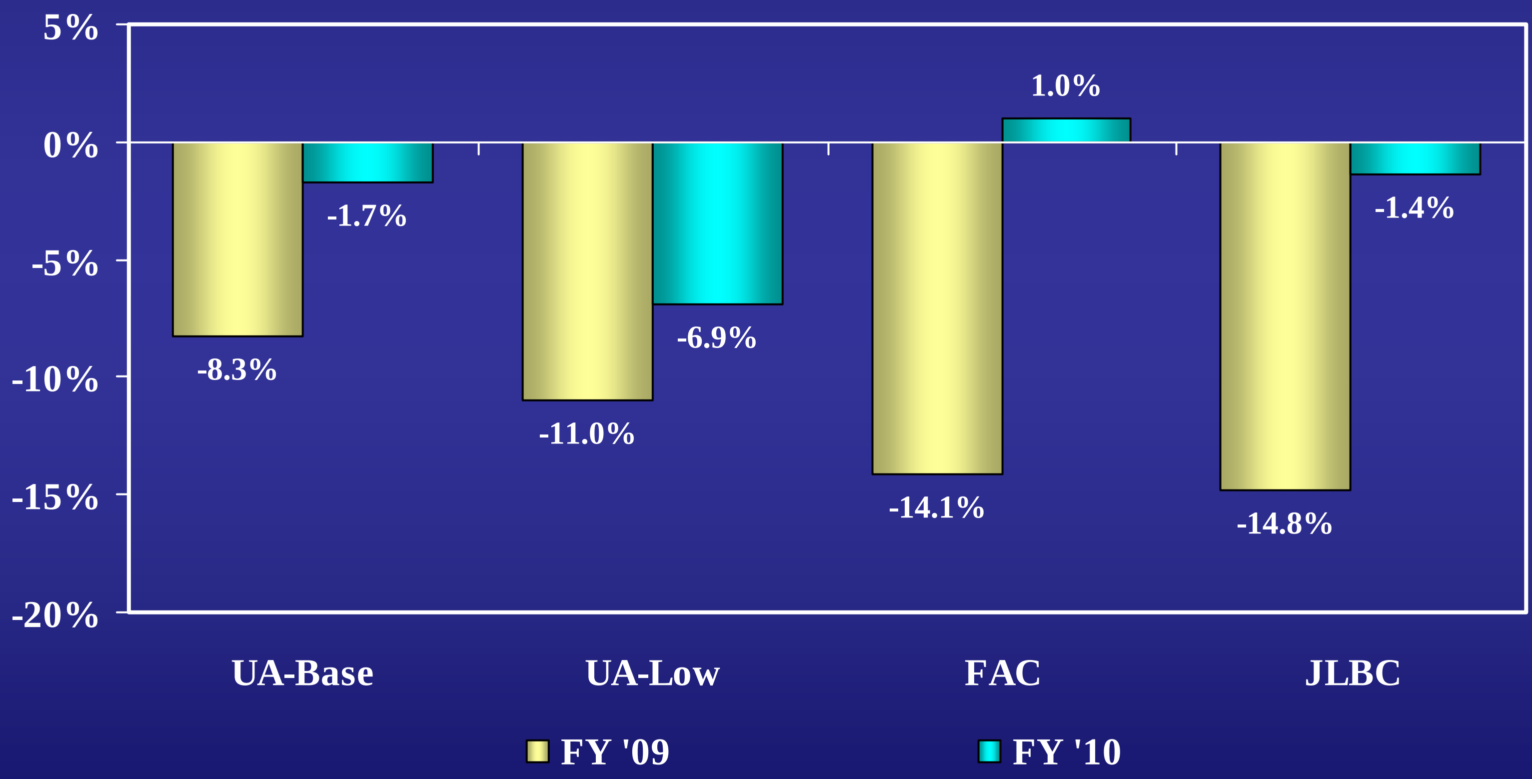
Each Sector Shows Improvement for FY ’10, But Overall Forecast Still A (2.1)% Decline

- 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

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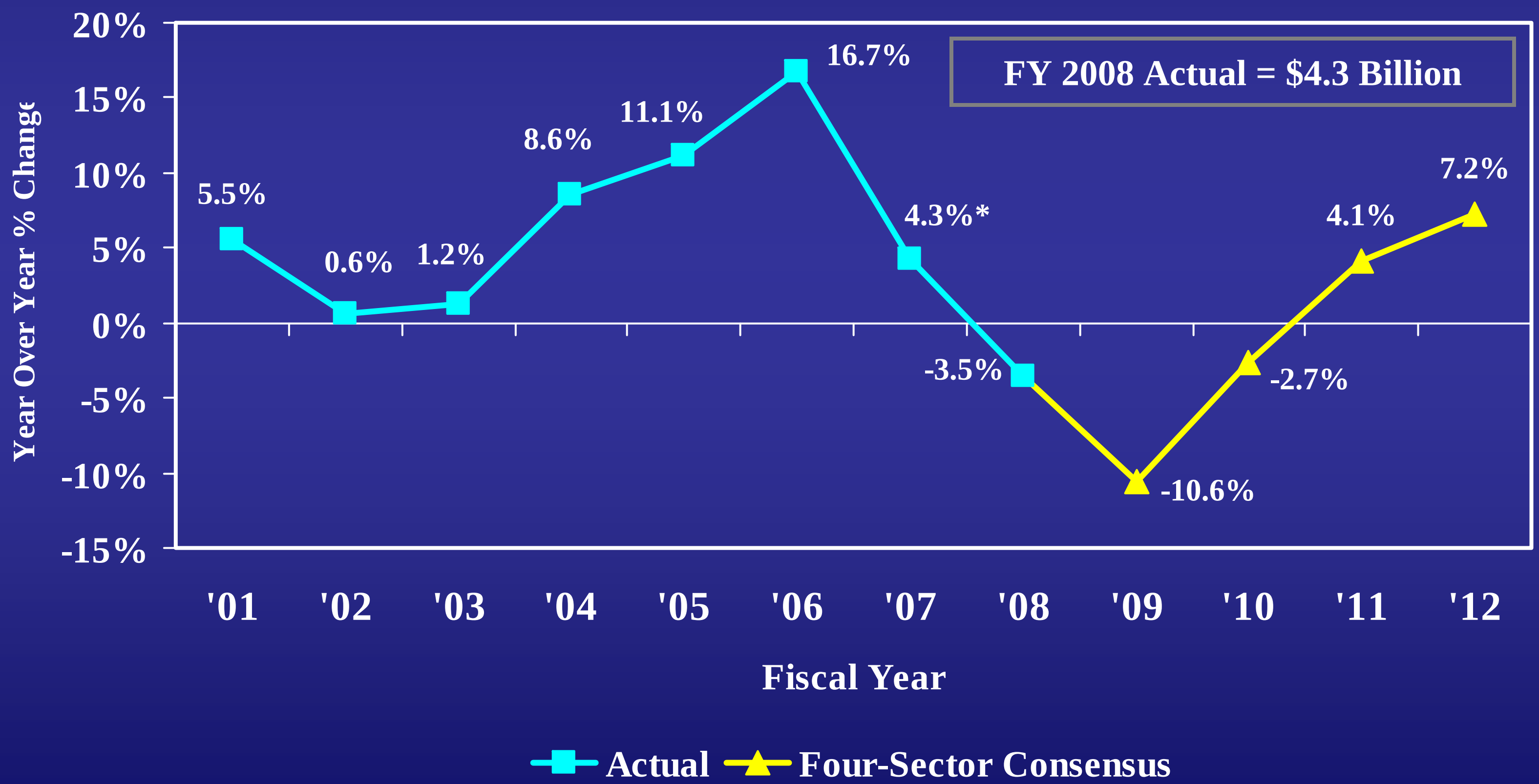
Sales Tax

- The Consensus Forecasts Declines of (10.6)% in ’09 and Another (2.7)% in ‘10



* 5.6% without the $(55.2) million estimated payment threshold change.

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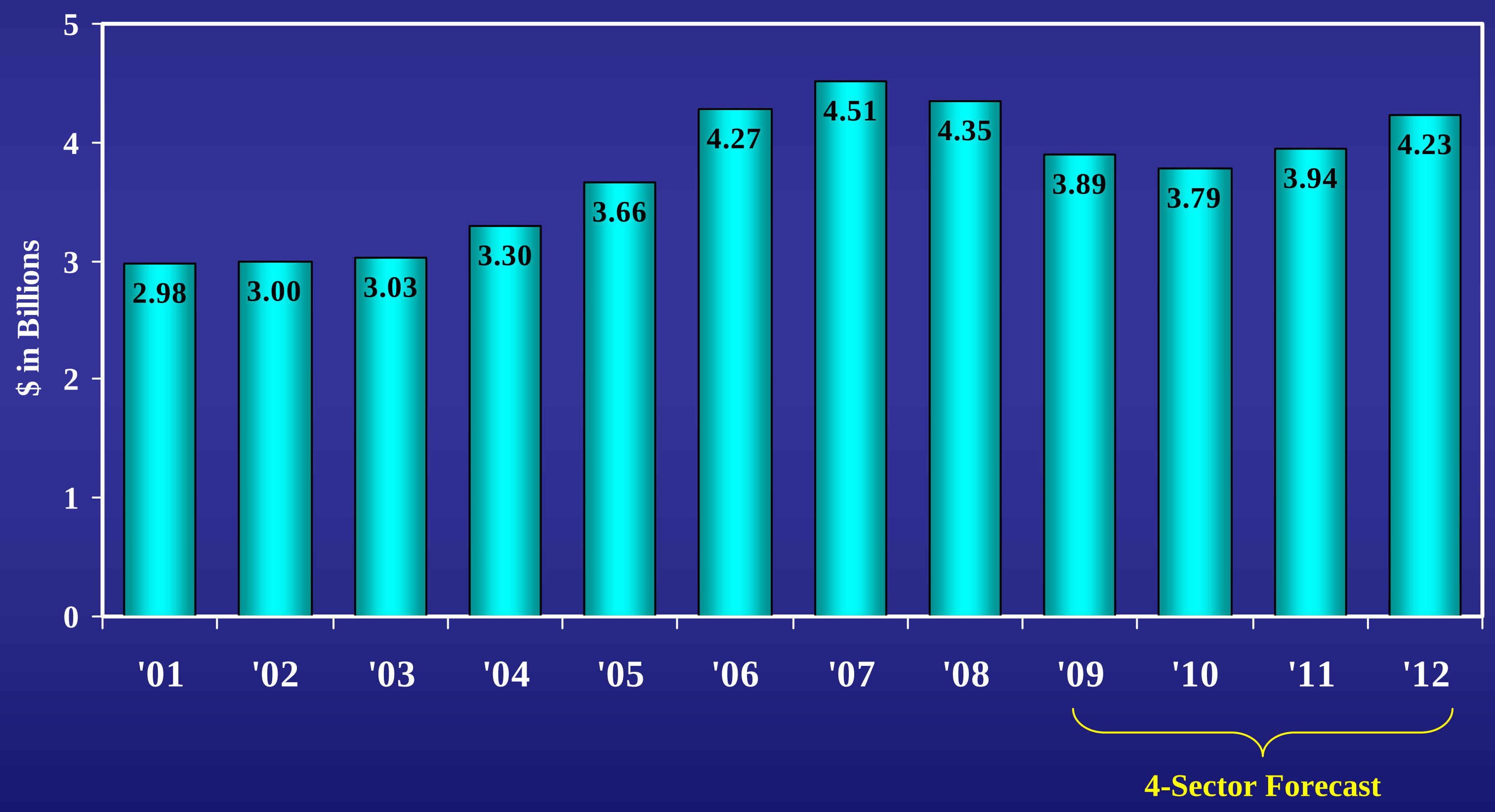
Sales Tax

- Collections Below FY '06 Level Through FY '12



Includes enacted tax law changes.

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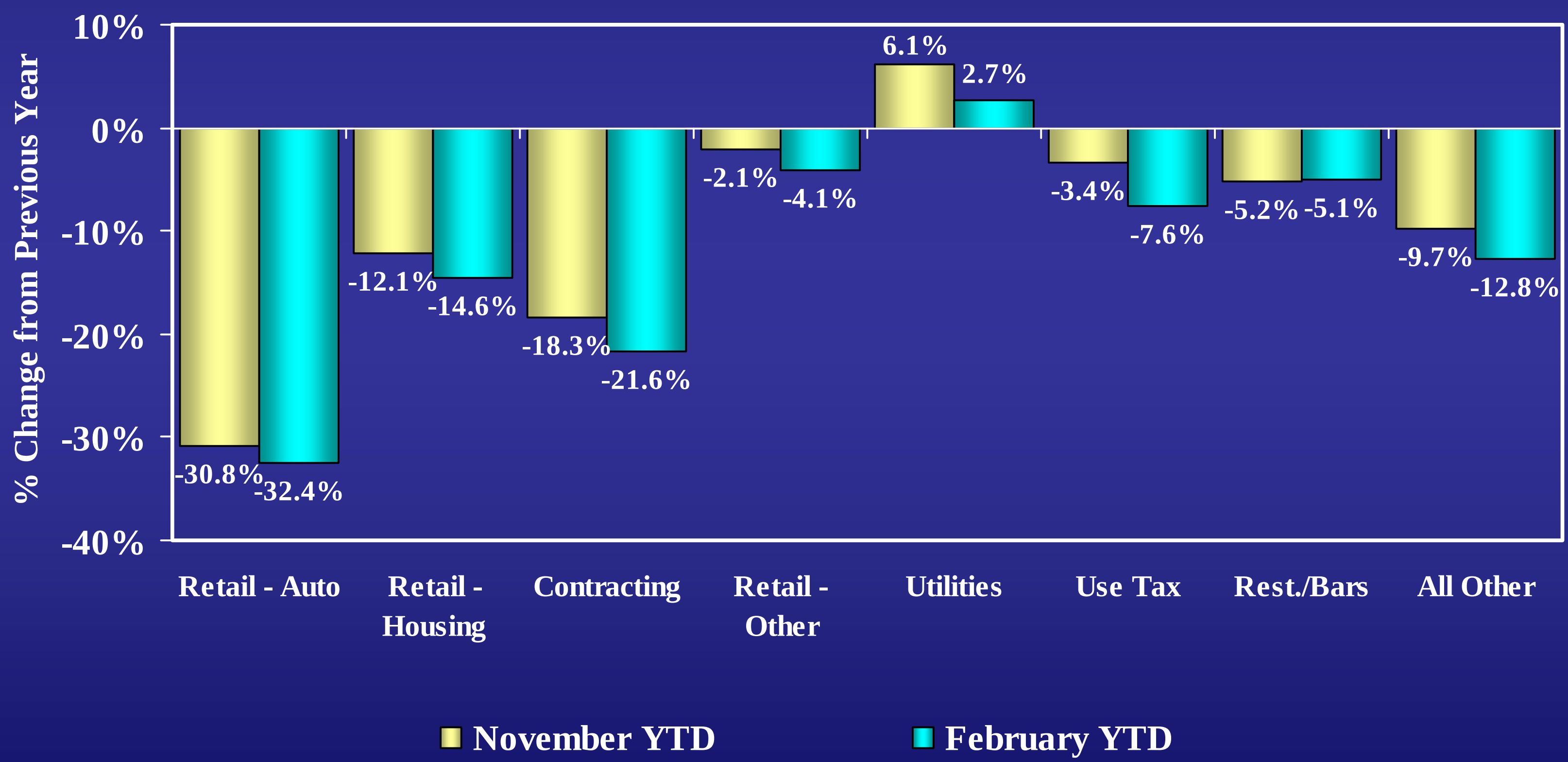
Construction and Vehicle Spending Have Continued to Decline

- Historically Represents 37% of Sales Tax



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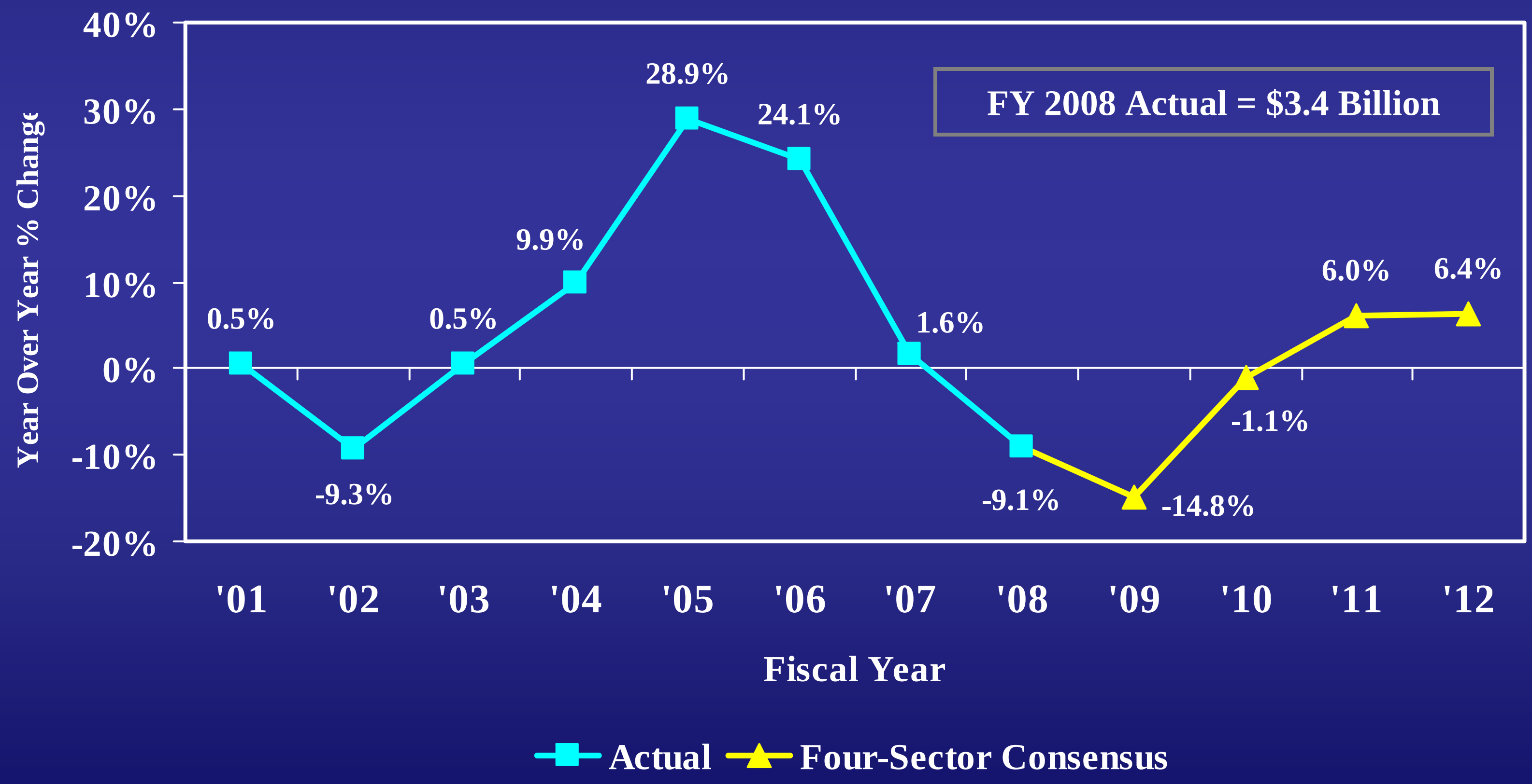
Individual Income Tax

- The Consensus Forecasts Declines of (14.8)% in ’09 and Another (1.1)% in ’10



* Excluding the 10% phased-in rate reduction, growth would have been 6.3% in ‘07, and (4.1)% in ’08.

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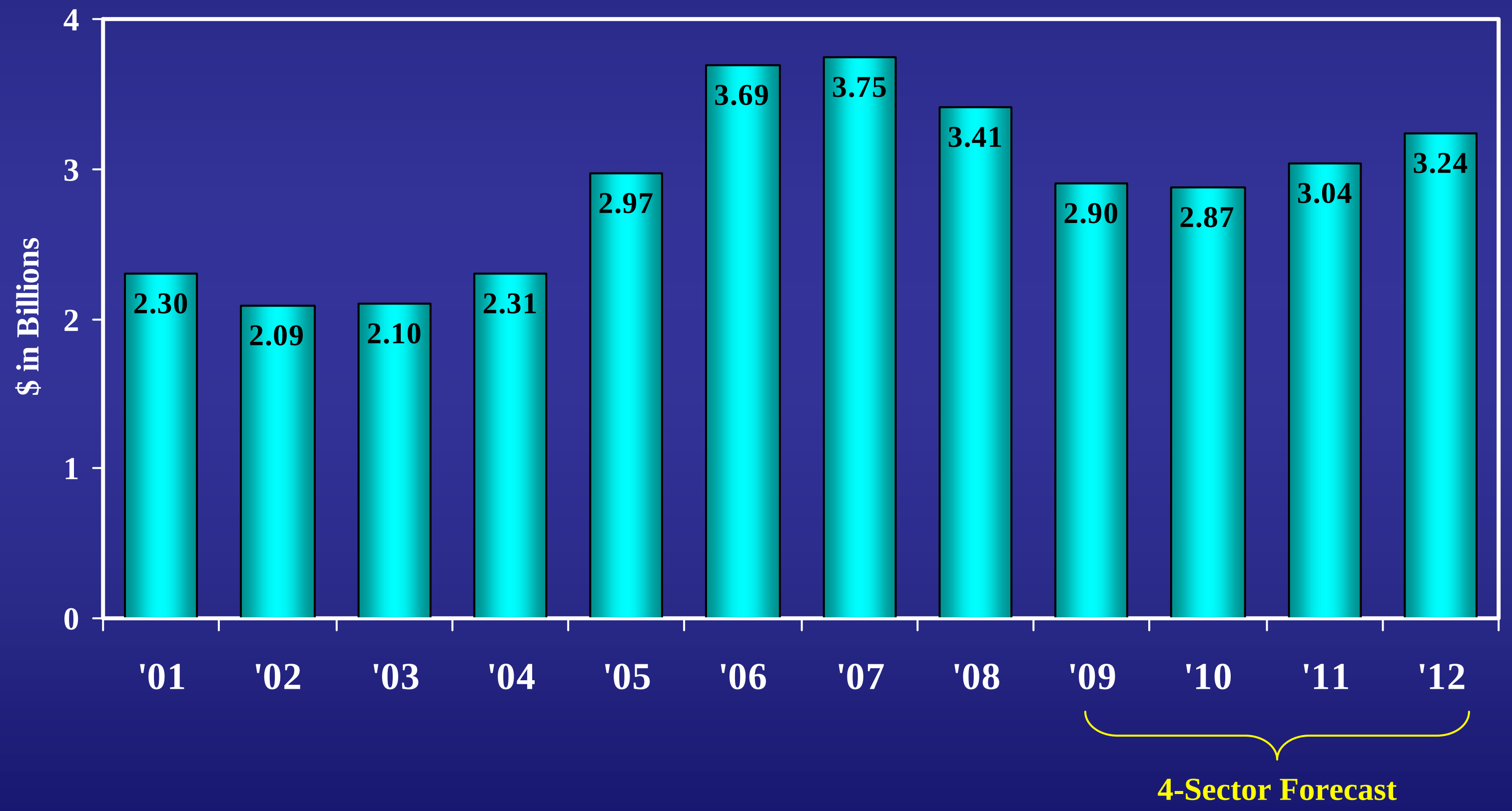
Individual Income Tax
- Collections Are Below FY '06 Level Through FY '12



Includes enacted tax law changes.

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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

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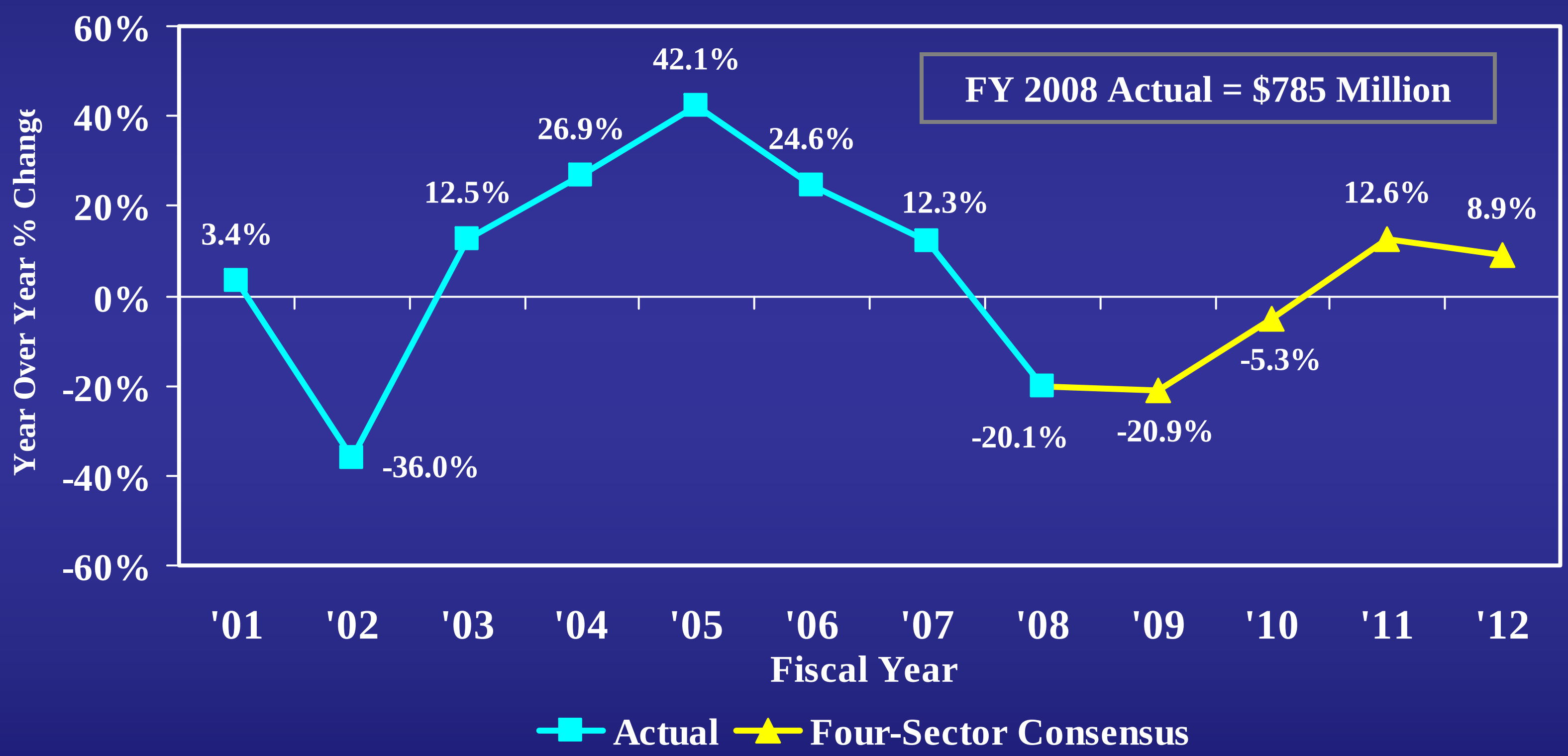
Recent Federal Legislation Reduces State Withholding

- 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

JLBC

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.

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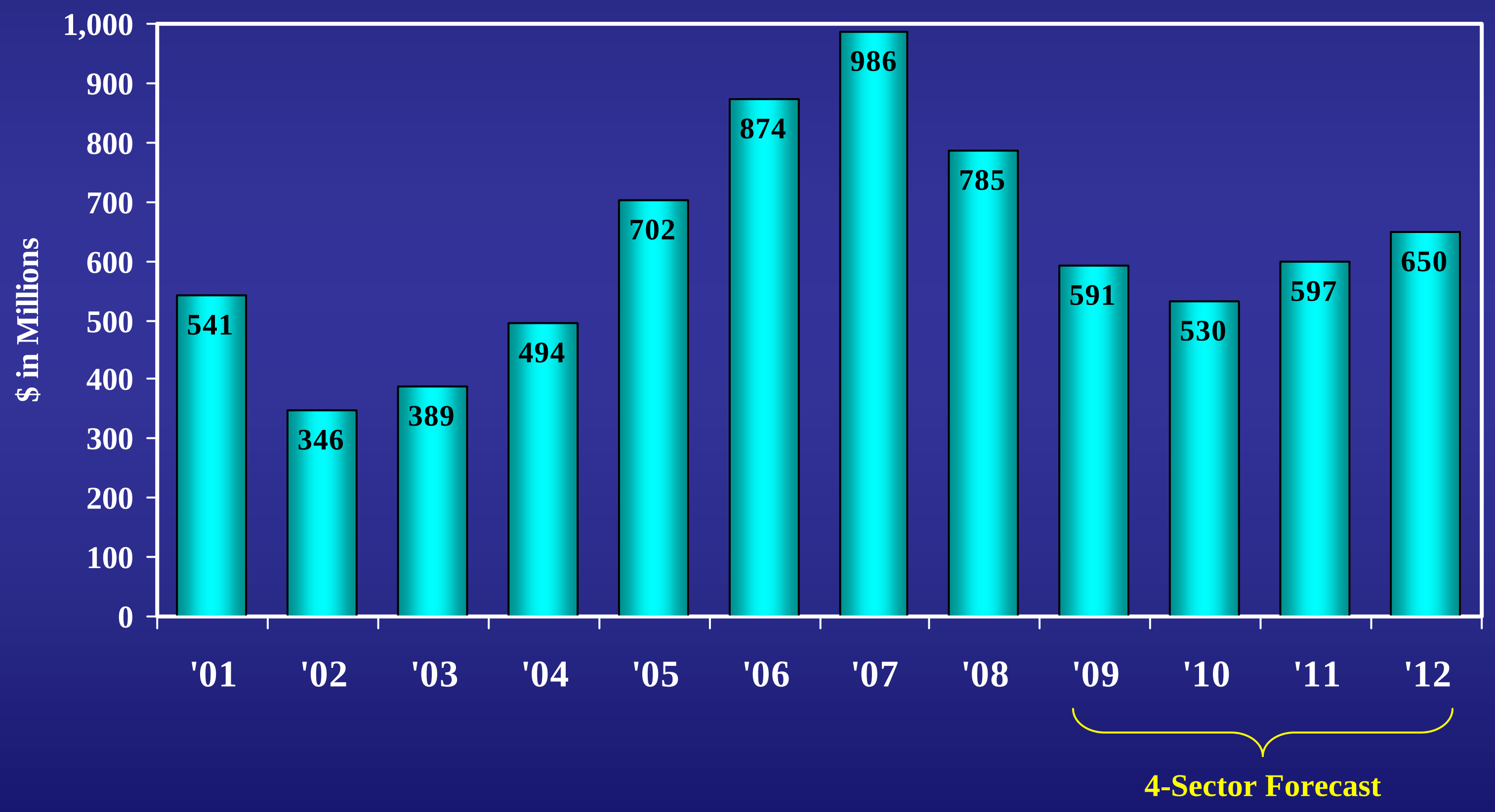
Corporate Income Tax
- Collections Below FY '05 Level Through FY '12



Includes enacted tax law changes.

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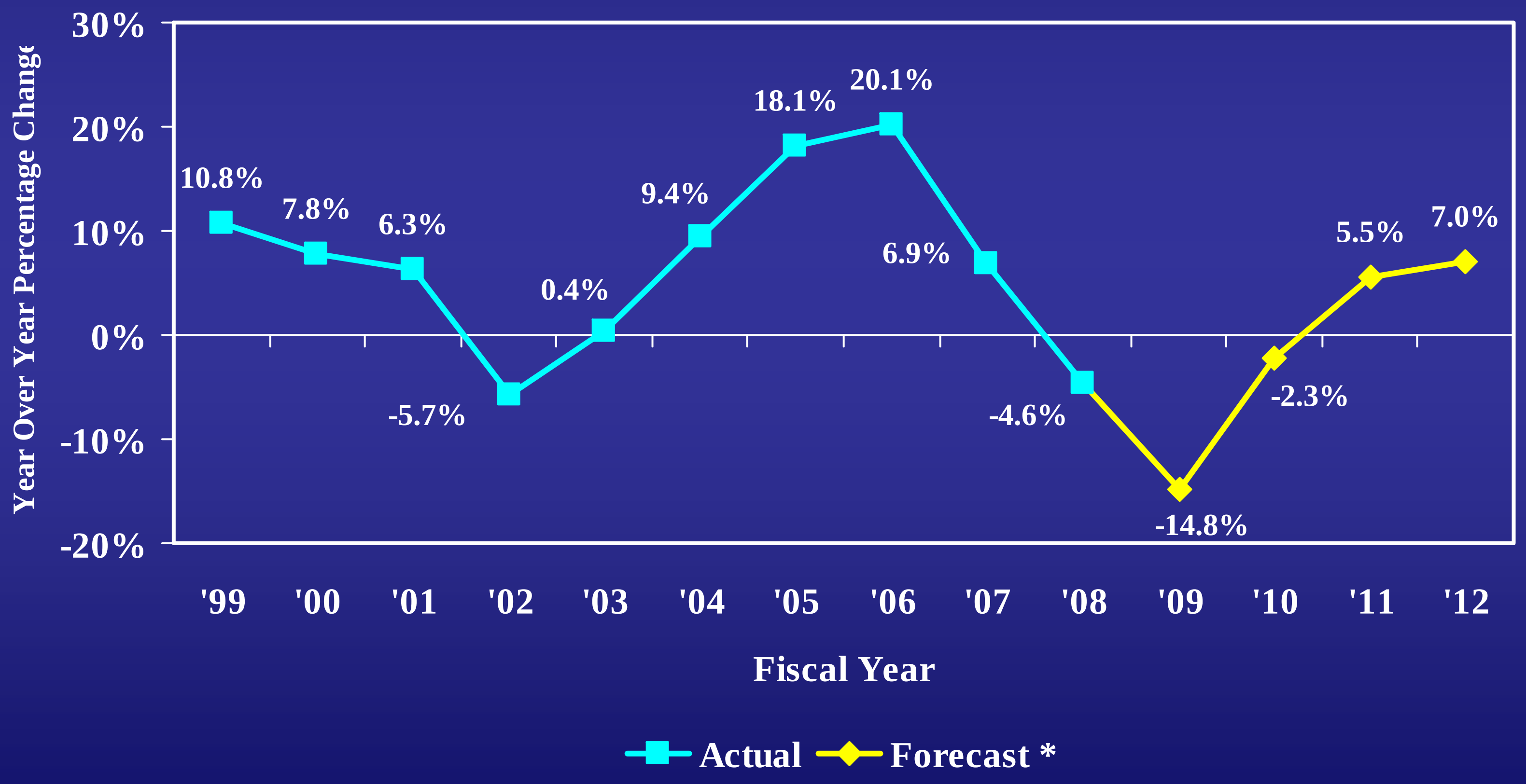
Forecast Shows Declining Revenue Through FY '10

- Recovery Begins in FY '11



* 4-sector forecast weighted average growth.

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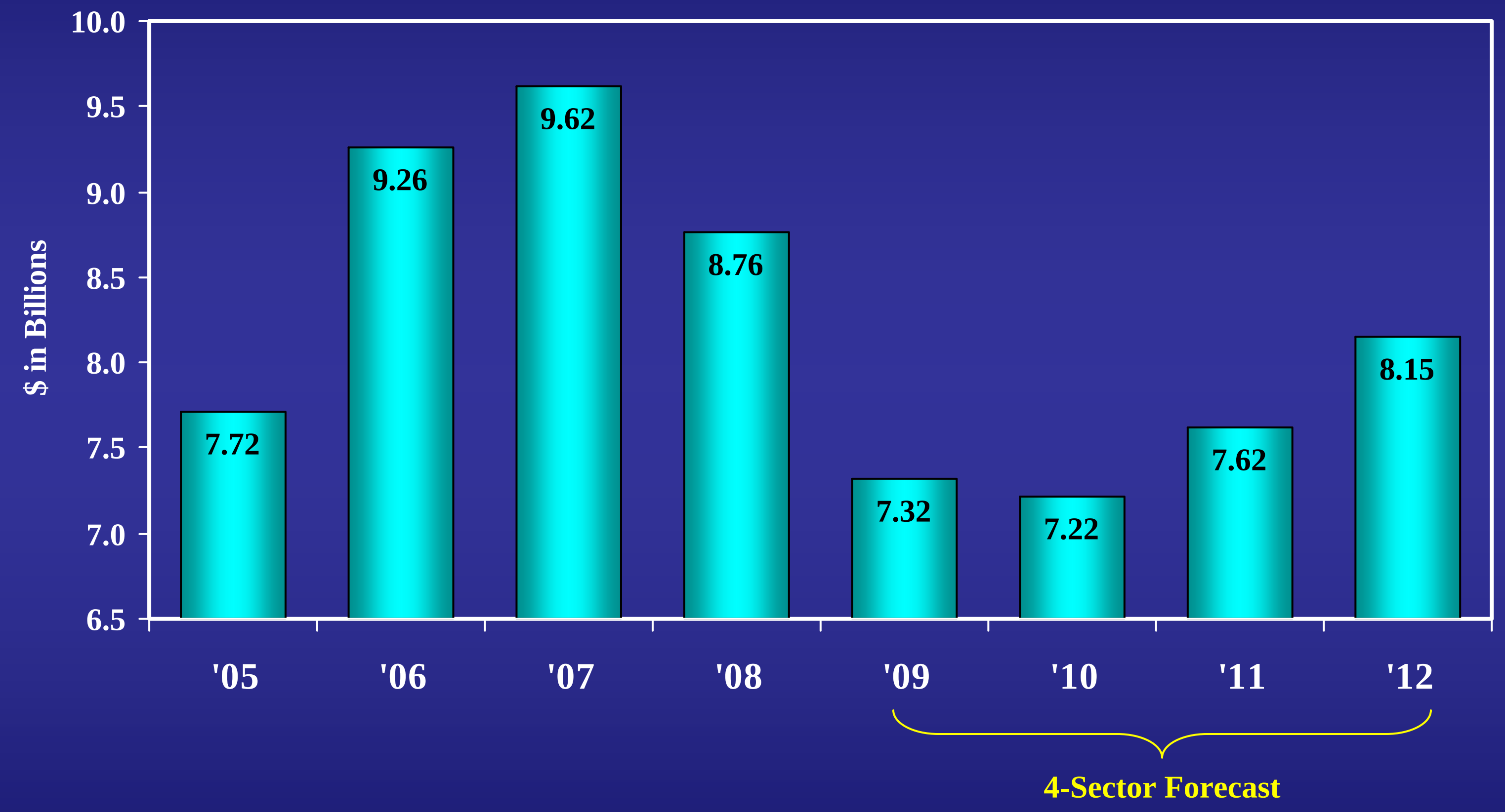
On-Going General Fund Revenue

- 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.

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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

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FY2009-FY 2012 Quartile Forecast Worksheet

	FY 2009	FY 2010	FY 2011	FY 2012
Sales Tax				
JLBC Forecast (3/17/09)	-11.4%	-1.6%	3.5%	6.5%
UA - Low (2/09 revision)	-10.2%	-6.4%	3.3%	7.1%
UA - Base (2/09 revision)	-9.4%	-3.3%	4.5%	7.9%
FAC (3/4/09 Survey)	-11.4%	0.7%	4.9%	7.1%
Average:	**-10.6%**	**-2.7%**	**4.1%**	**7.2%**
Individual Income Tax				
JLBC Forecast (3/17/09)	-17.8%	-1.4%	6.2%	7.0%
UA - Low (3/09 revision)	-14.8%	-5.8%	5.2%	5.2%
UA - Base (3/09 revision)	-11.0%	1.8%	7.1%	5.7%
FAC (3/4/09 Survey)	-15.6%	1.1%	5.5%	7.8%
Average:	**-14.8%**	**-1.1%**	**6.0%**	**6.4%**
Corporate Income Tax				
JLBC Forecast (3/17/09)	-20.4%	0.0%	12.3%	4.1%
UA - Low (2/09 revision)	-21.2%	-15.6%	11.9%	11.5%
UA - Base (2/09 revision)	-19.9%	-8.6%	18.7%	7.5%
FAC (3/4/09 Survey)	-22.1%	2.9%	7.7%	12.4%
Average:	**-20.9%**	**-5.3%**	**12.6%**	**8.9%**

	FY 2009	FY 2010	FY 2011	FY 2012
Consensus Weighted Average:	**-13.2%**	**-2.3%**	**5.5%**	**7.0%**
JLBC Weighted Average:	**-14.8%**	**-1.4%**	**5.3%**	**6.5%**
UA Low Weighted Average:	**-13.0%**	**-6.9%**	**4.7%**	**6.7%**
UA Base Weighted Average:	**-11.0%**	**-1.7%**	**6.7%**	**7.0%**
FAC Consensus Weighted Average:	**-14.1%**	**1.0%**	**5.4%**	**7.8%**

Forecast percentages are prior to tax law changes.

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National Economic Outlook

Presented to:
Finance Advisory Committee

By:
Elliott Pollack
March 31st, 2009

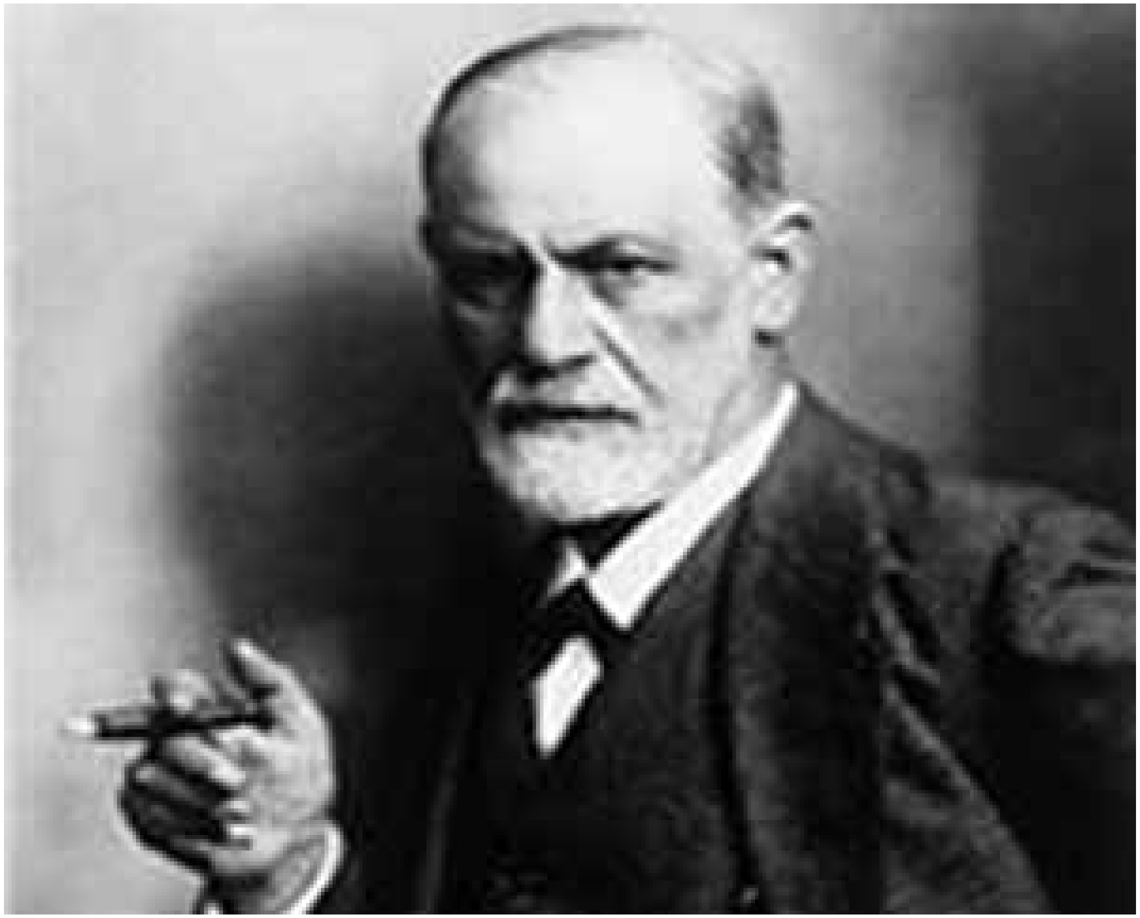
2009

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

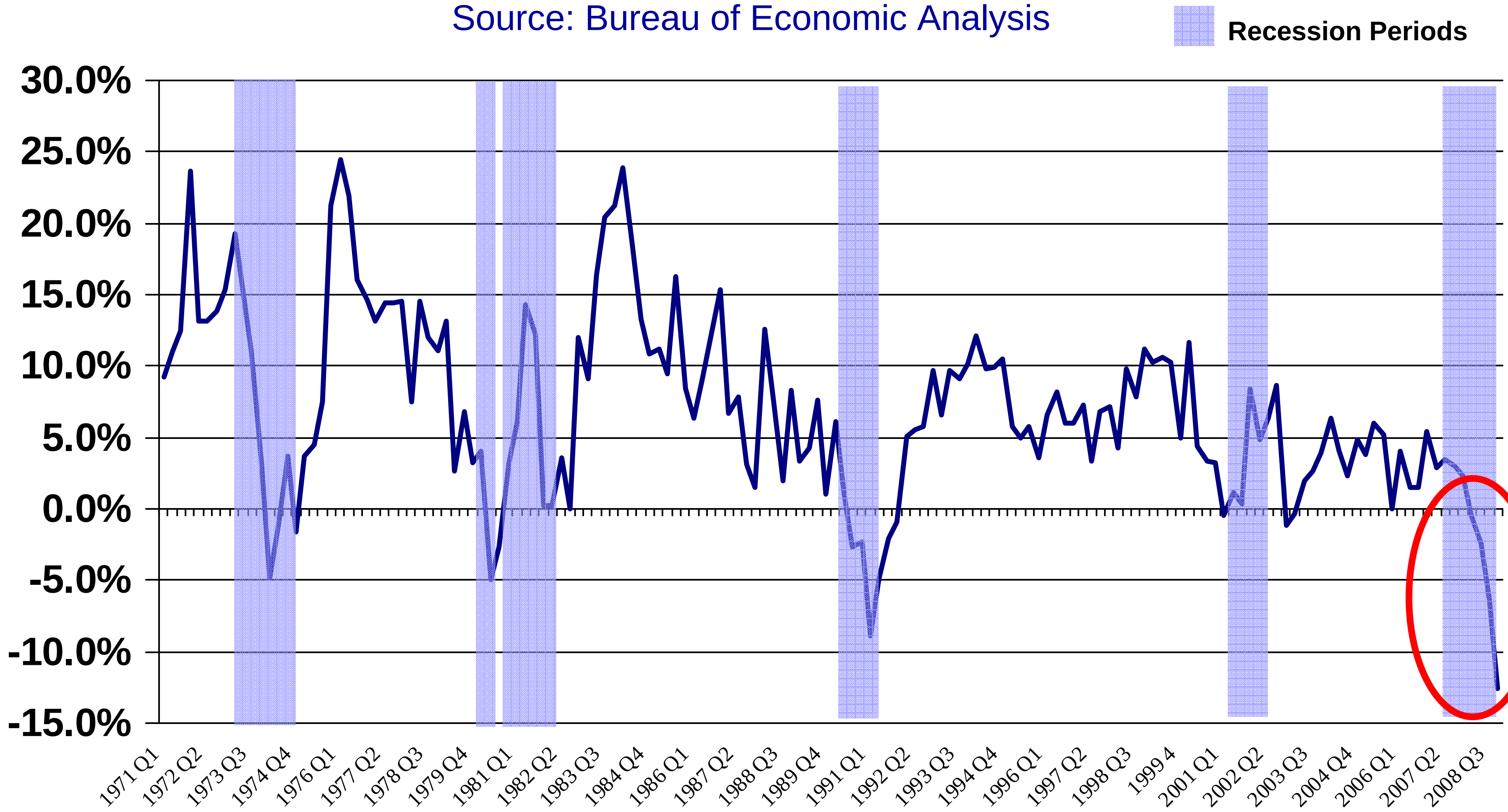
The Result

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



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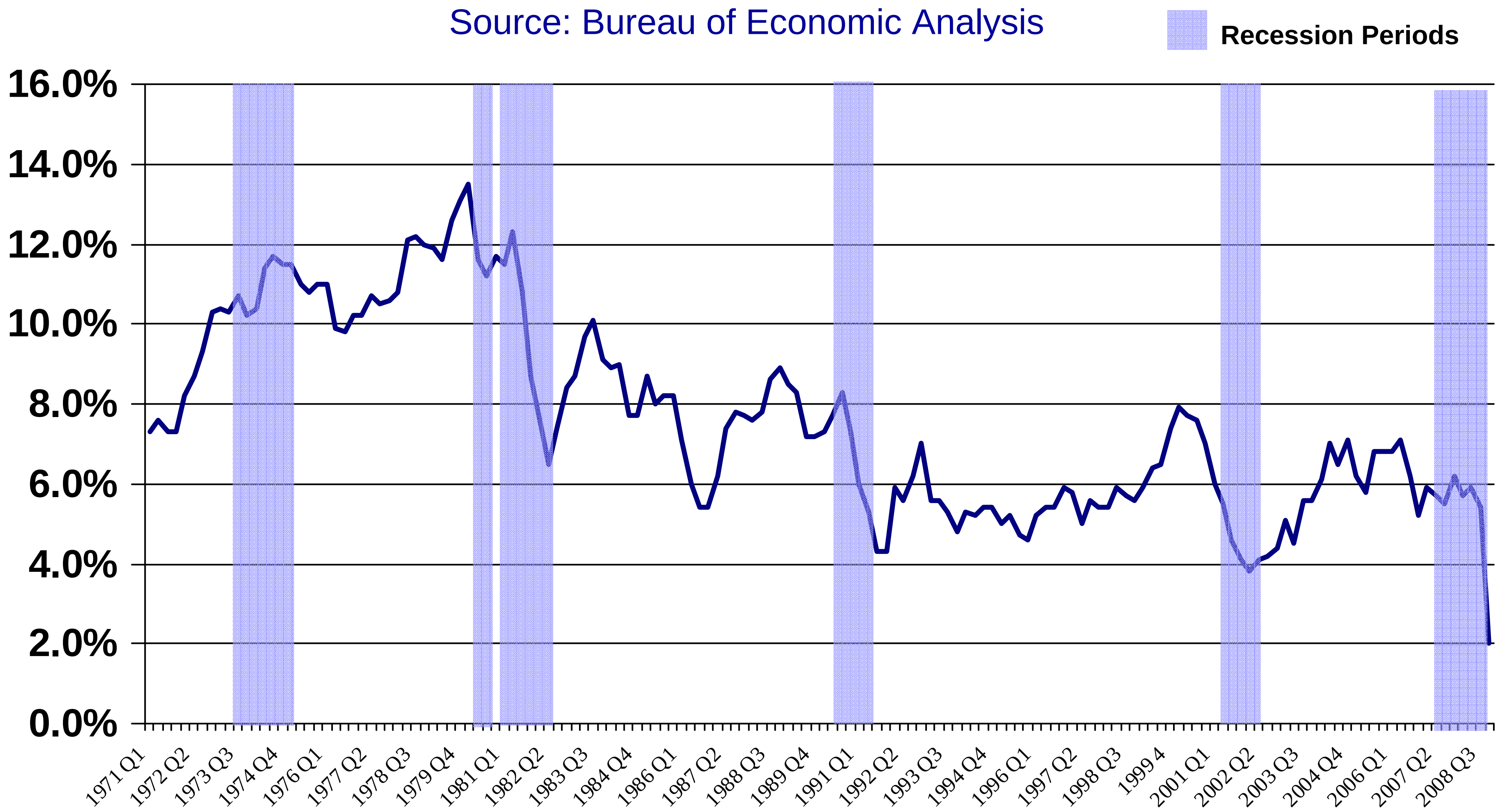
* Data through fourth quarter 2008, Nominal GDP release.

Consumer Spending on Non-Durable Goods & Services
Percent Change Year Ago
1971 – 2008*

Source: Bureau of Economic Analysis



* Data through fourth quarter 2008

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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.

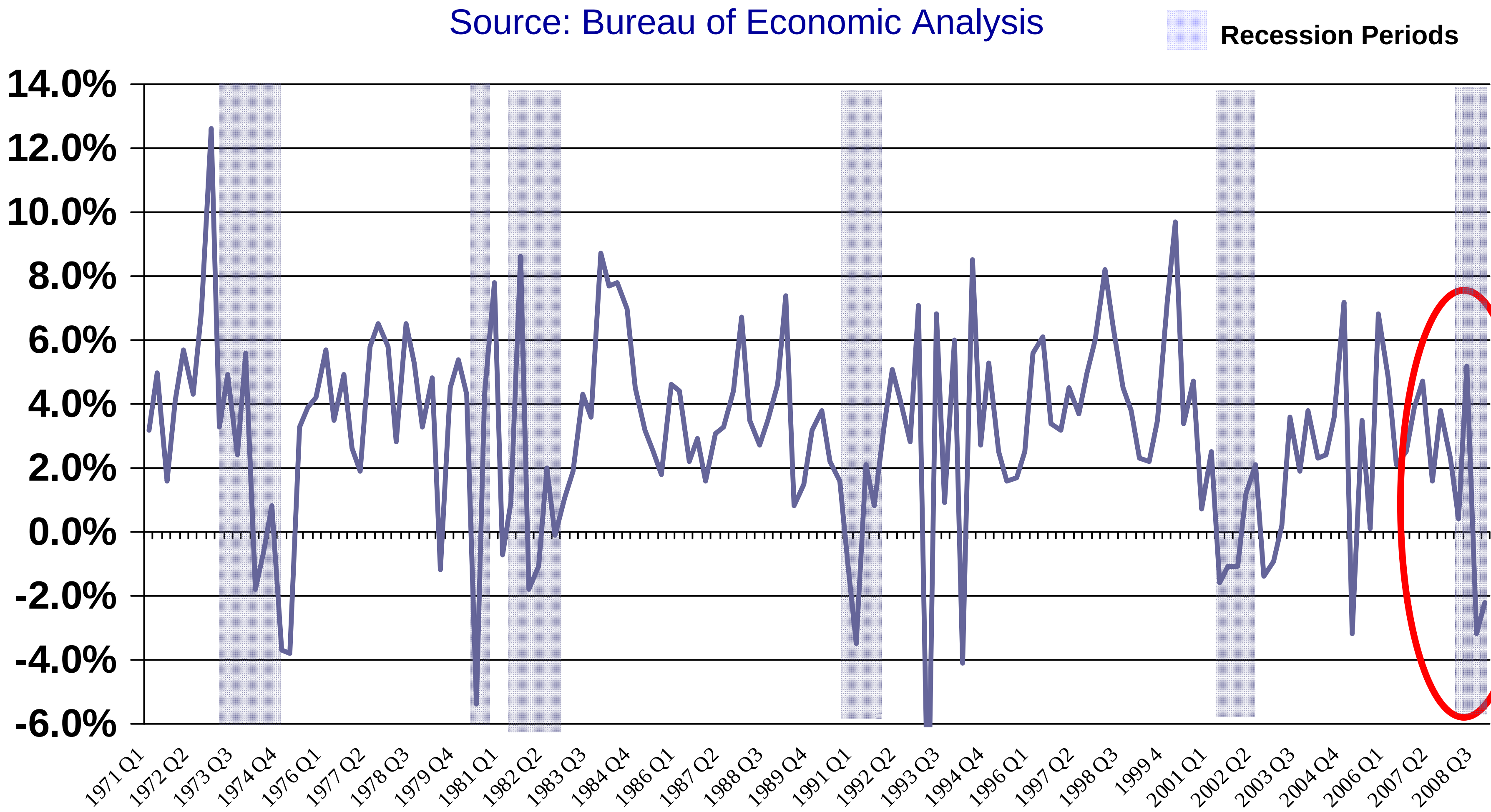
Anything left to shock us?

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

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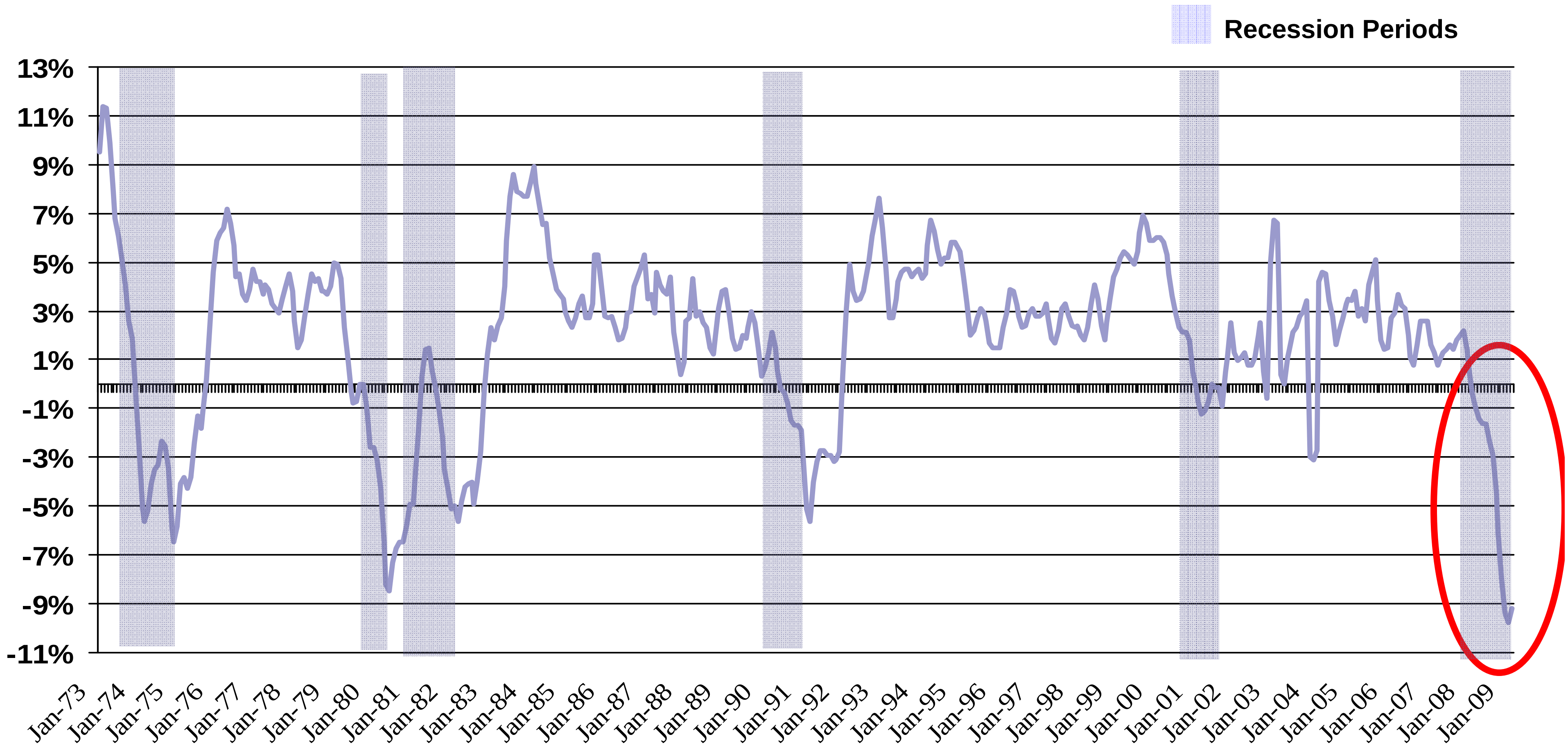
Real Retail Sales U.S.
Percent Change Year Ago
1973 – 2009*

Source: Federal Reserve



*Data through February 2009
**Three-month moving average

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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

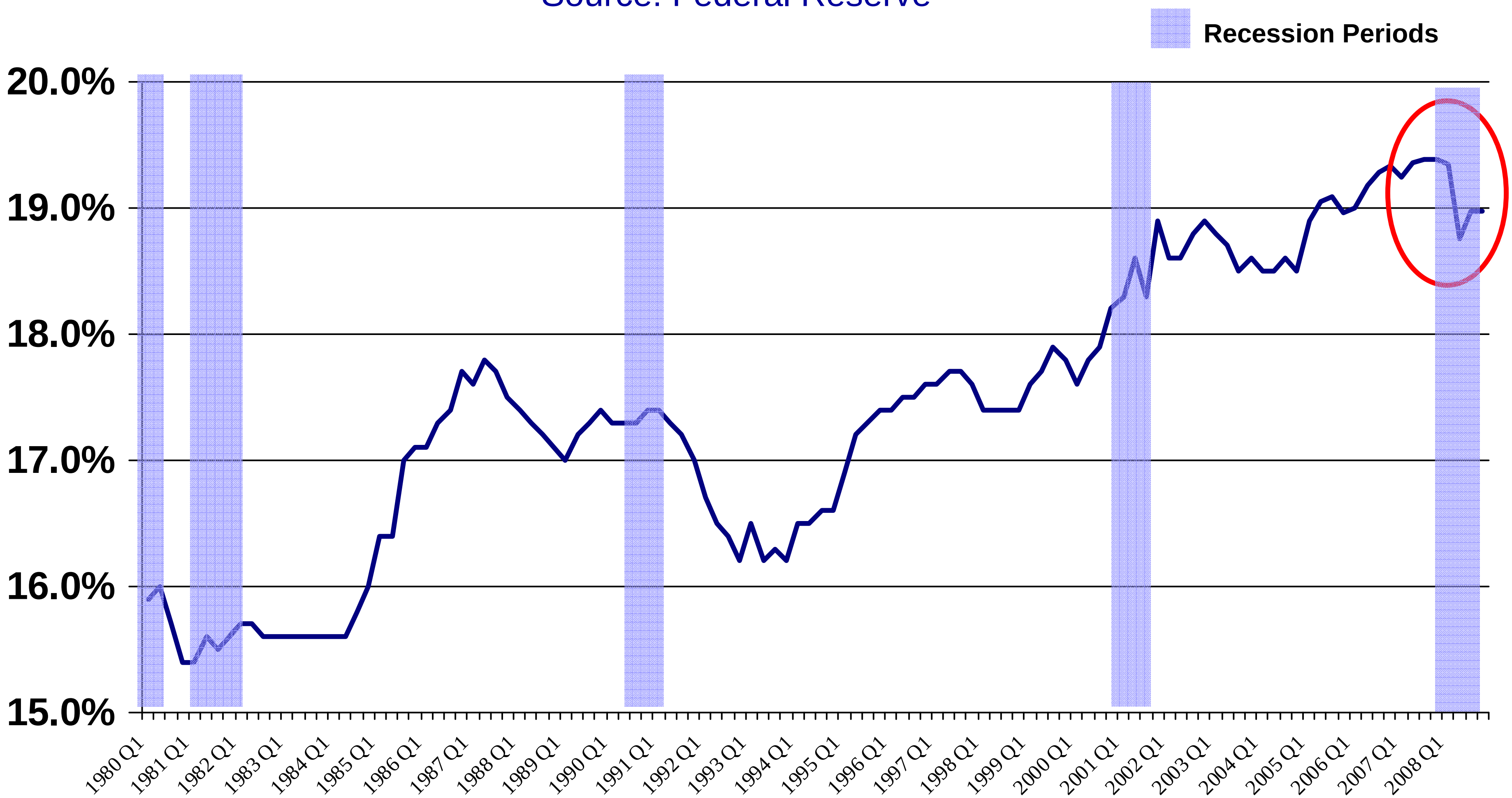
Stock market was doing poorly,
but housing prices boomed.

Now

Declining housing prices AND
poor results in the stock market.

Financial Obligation Ratio**
1980 – 2008*

Source: Federal Reserve



*Data through fourth quarter 2008

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

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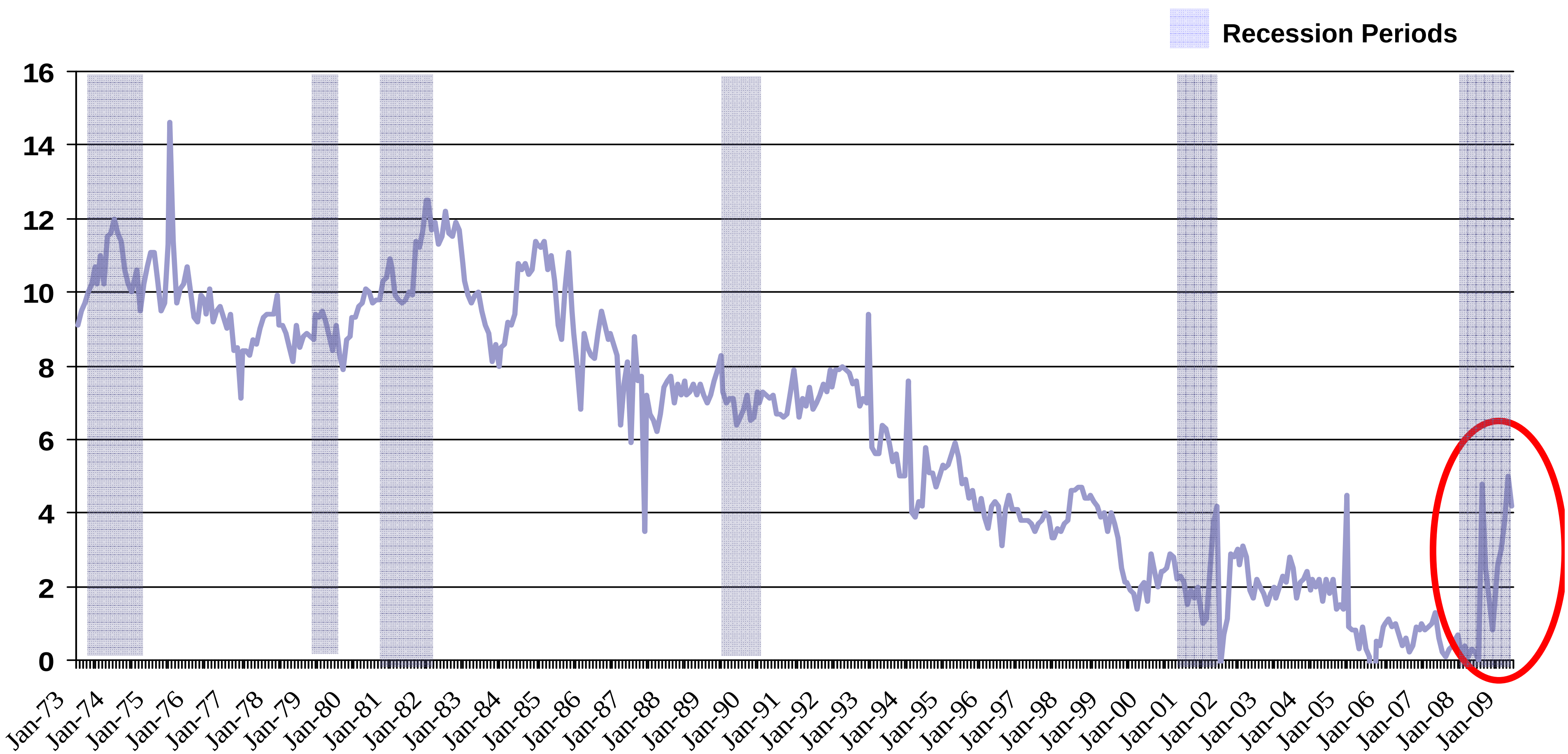
Savings Rate
1973 – 2009*
Source: Federal Reserve



*Data through February 2009
**Three-month moving average

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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.

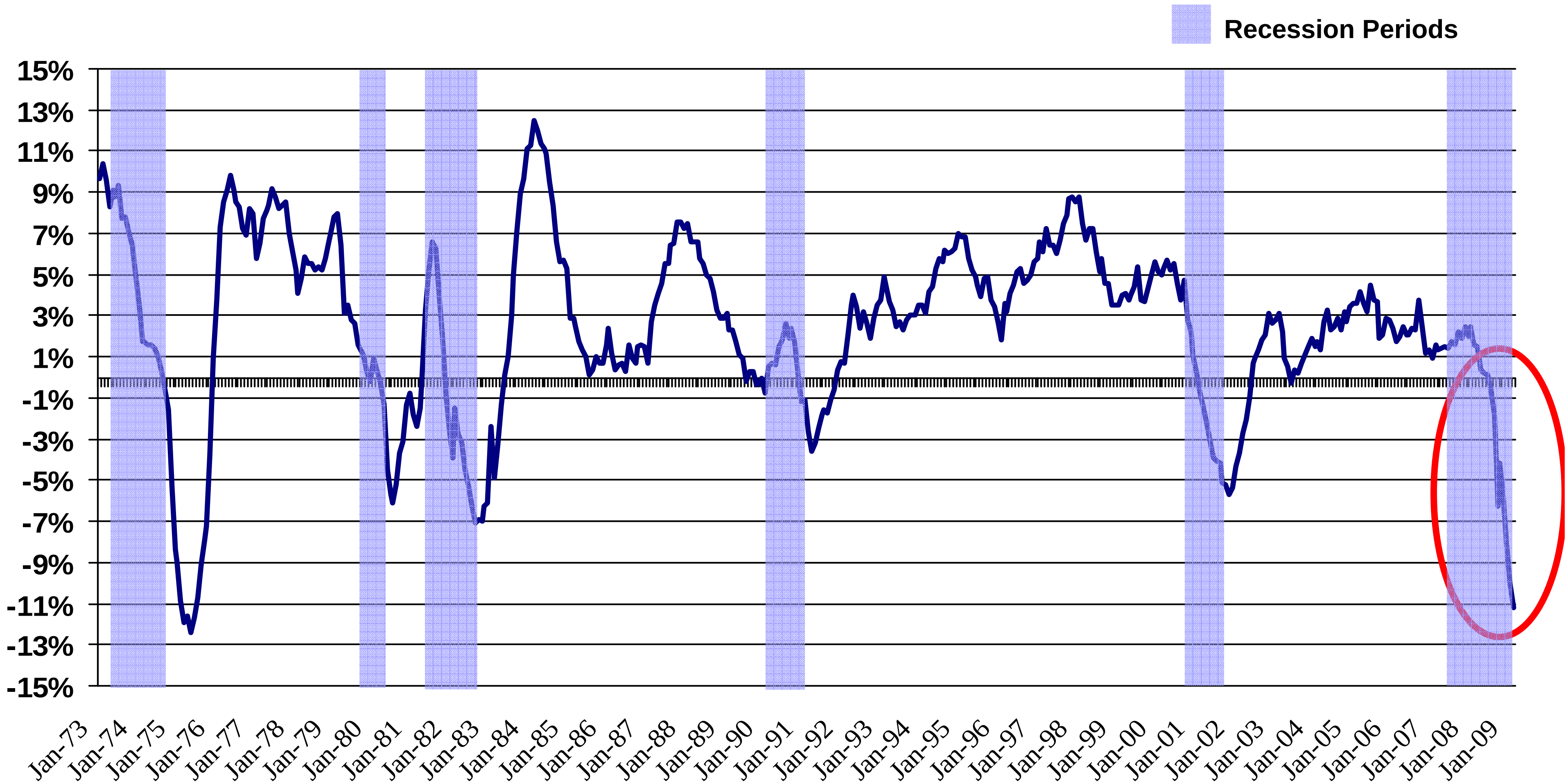
Business: Finally taking it on the chin

- 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

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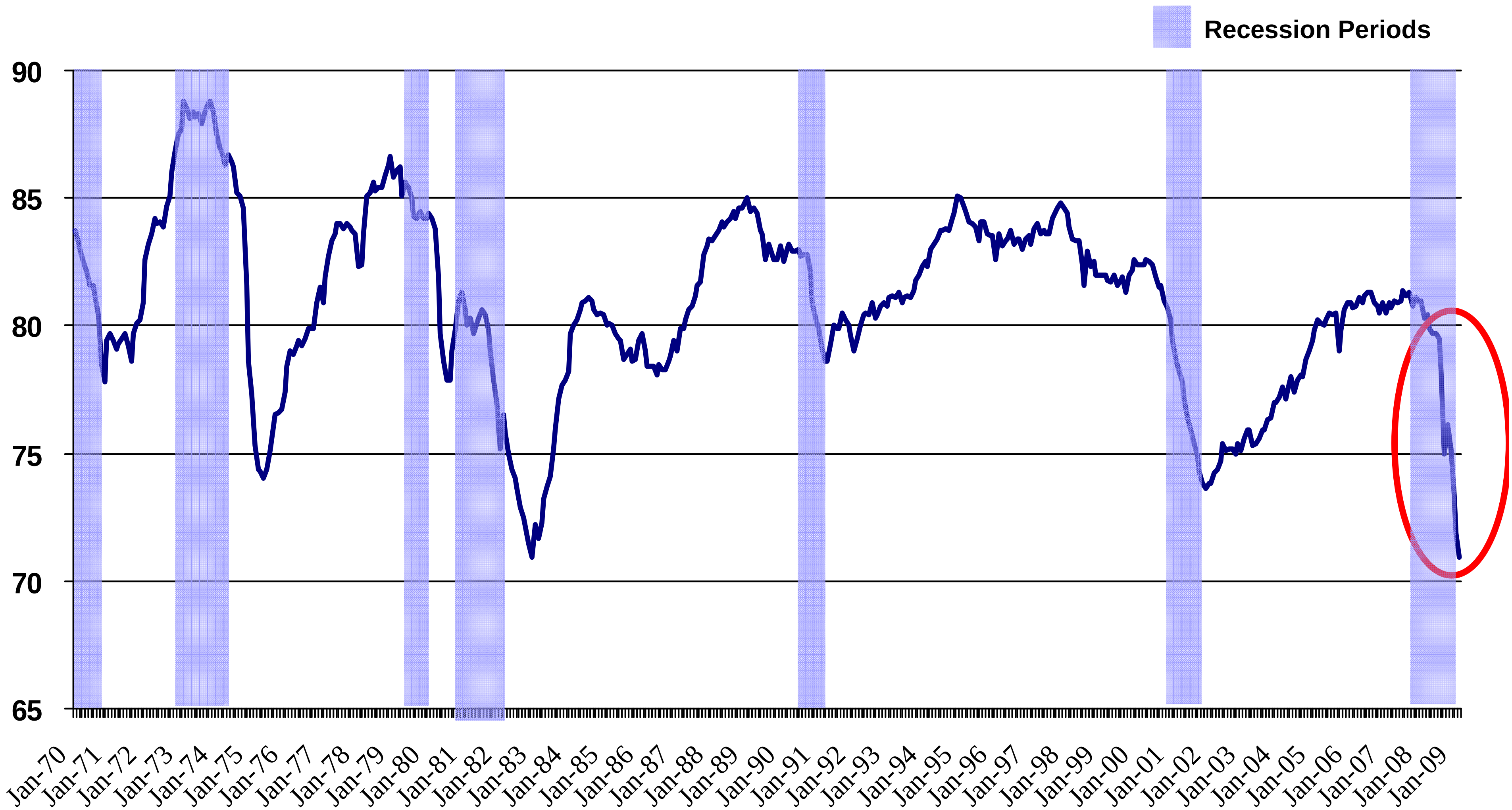
Capacity Utilization Rate
1970 – 2009*

Source: The Conference Board



*Data through February 2009

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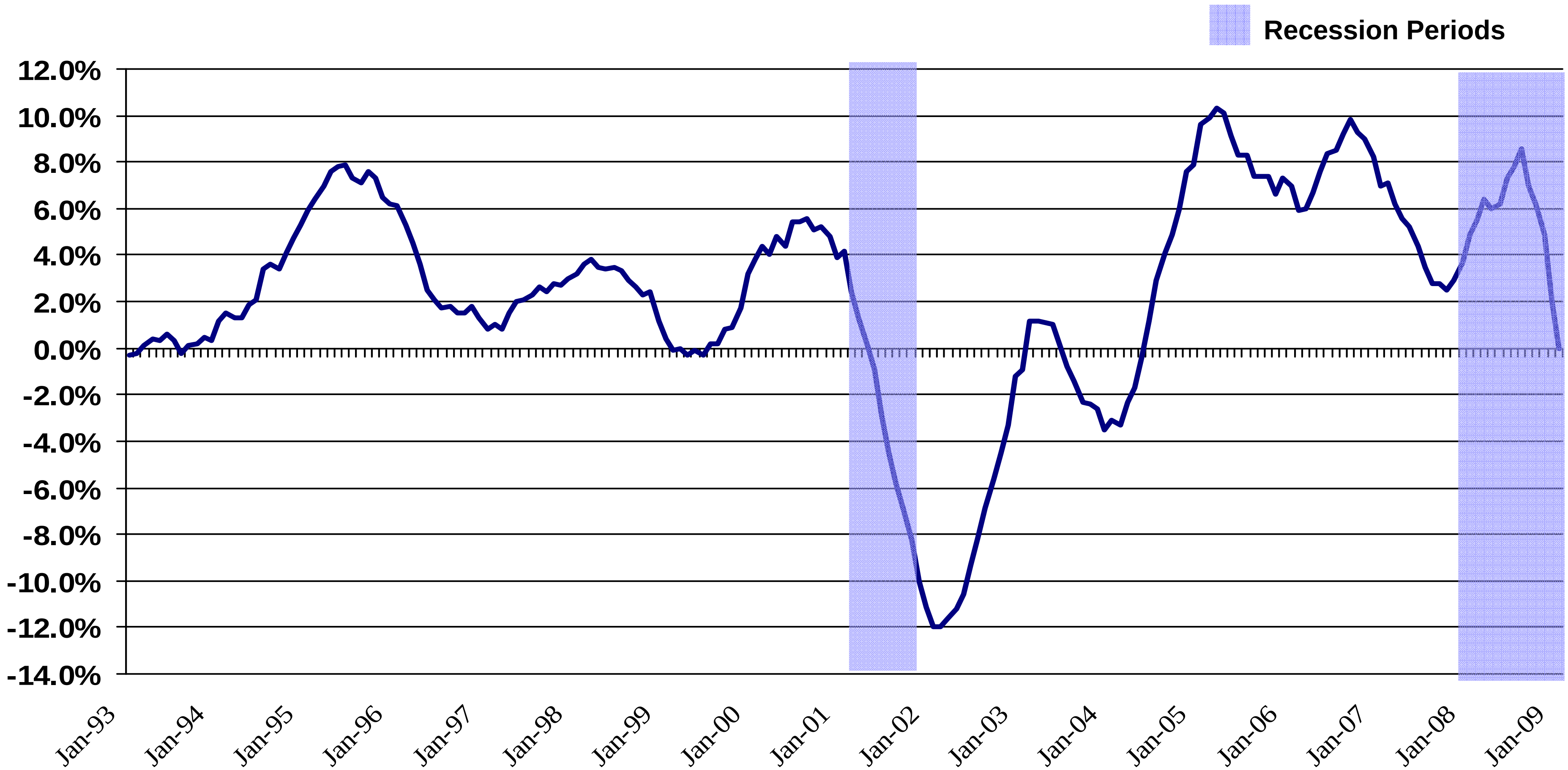
Total Inventories – All Industries
Percent Change Year Ago
1993 – 2009*

Source: Bureau of Labor Statistics



*Data through January 2009

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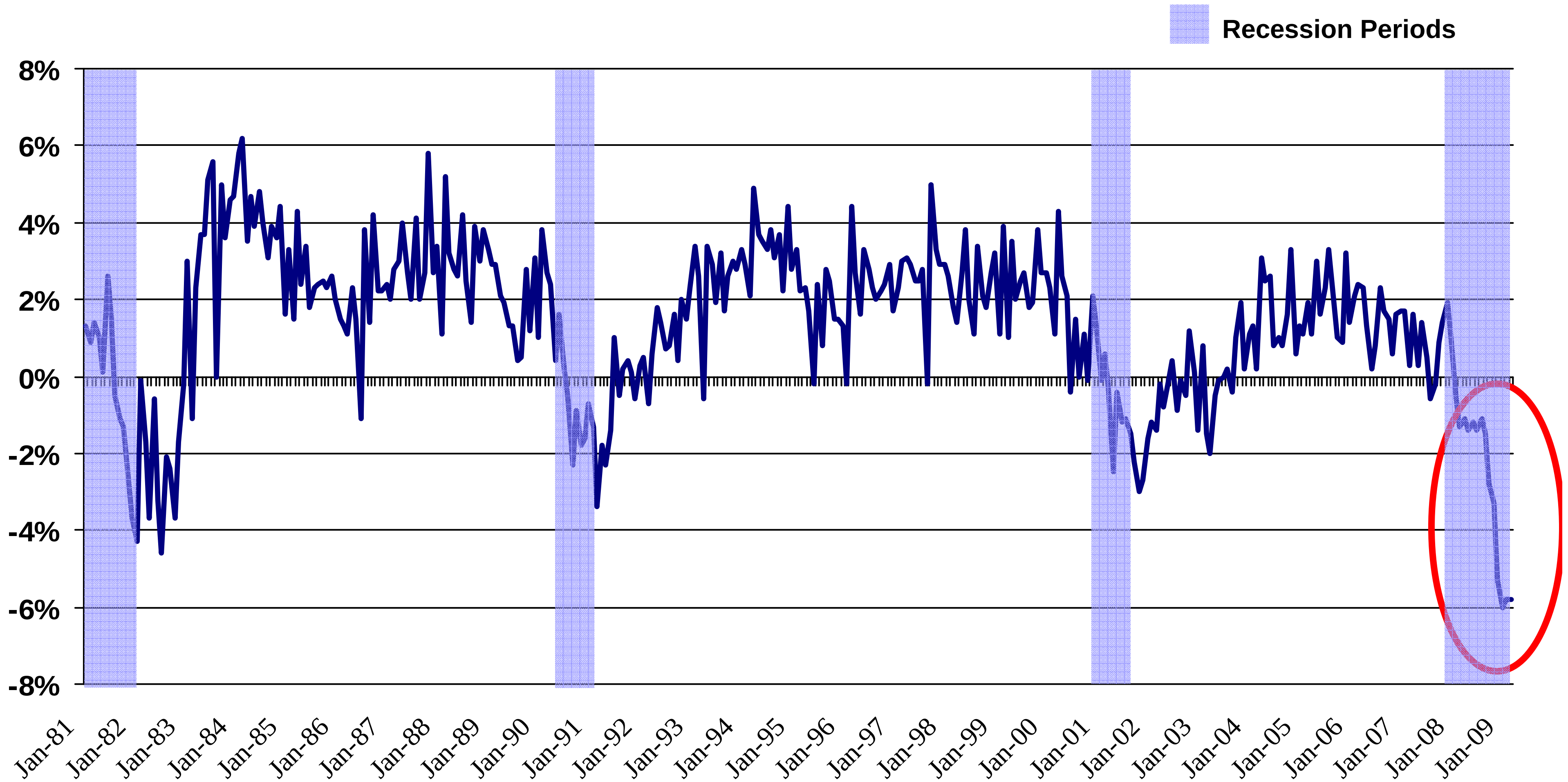
National Employment
Percent Change Month Ago, Annualized (S/A)
1981 – 2009*

Source: U.S. Bureau of Labor Statistics



*Data through February 2009

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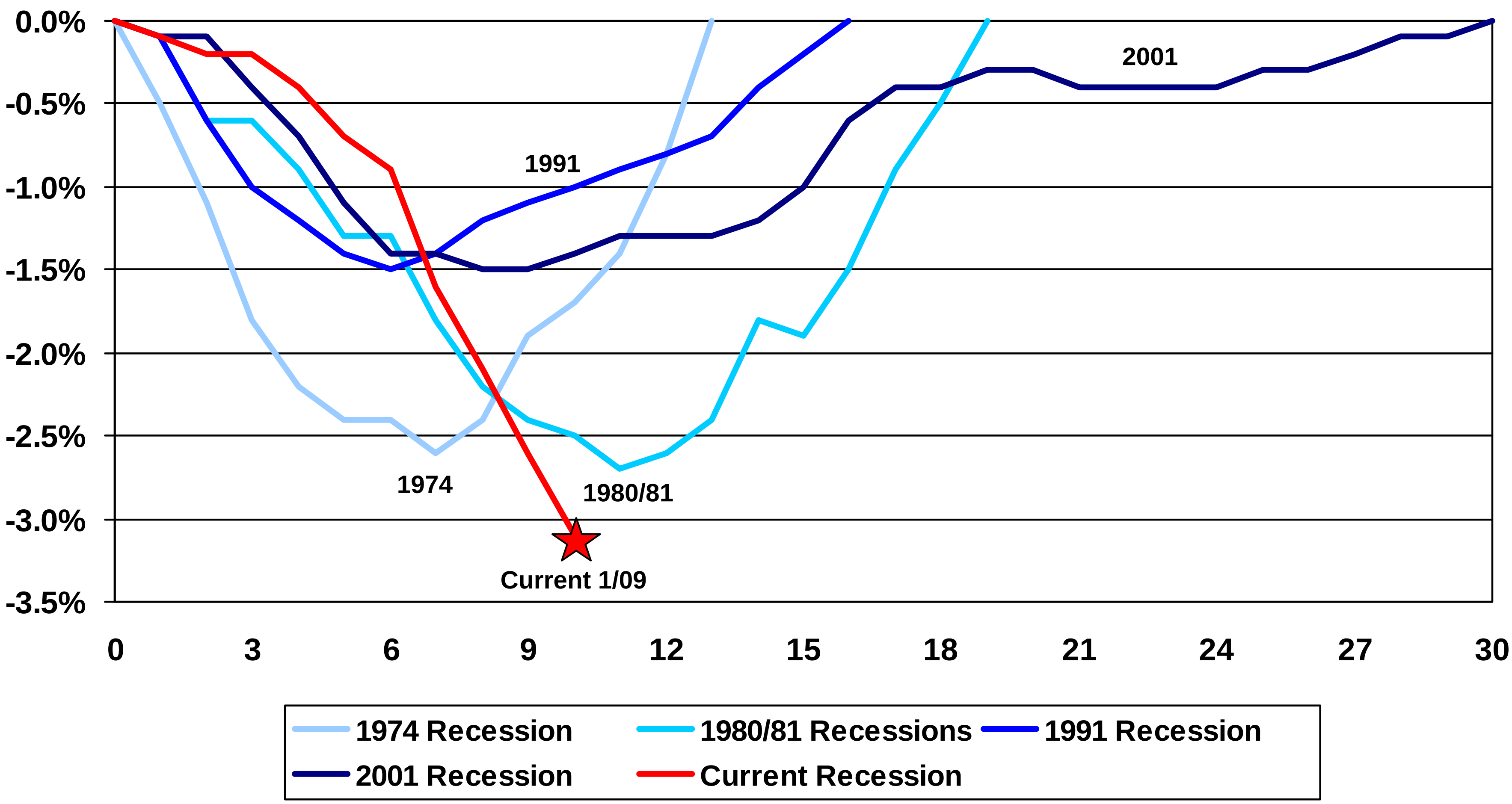
U.S. Y/Y Job Losses - Recent Recessions

Duration in Months - BLS



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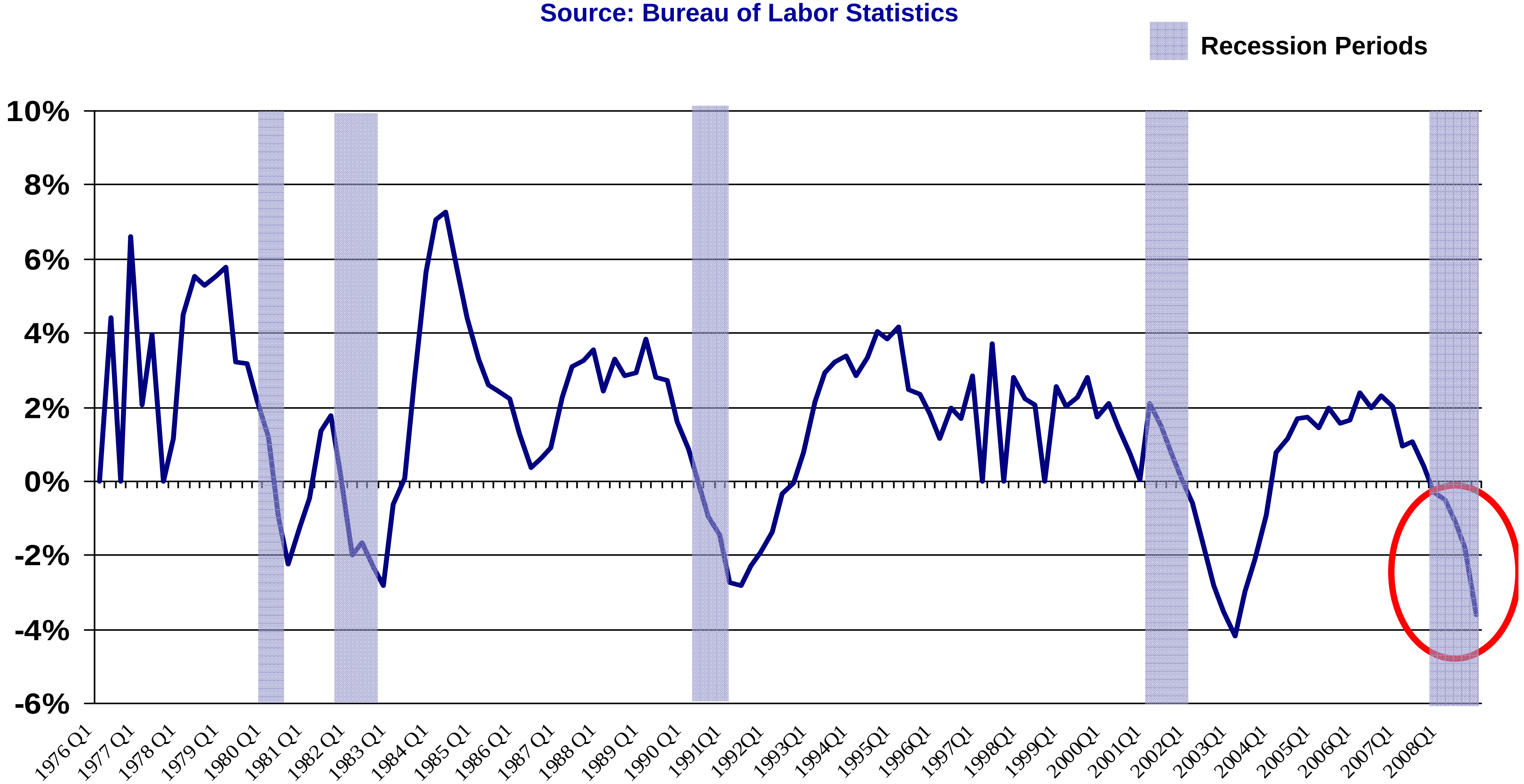
Hours Worked
Percent Change from Year Ago
1976 – 2008**
Source: Bureau of Labor Statistics



**Data through fourth quarter 2008

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How tight is Credit?

Tougher Mortgage Loan Standards

Source: Federal Reserve Survey, October 2008

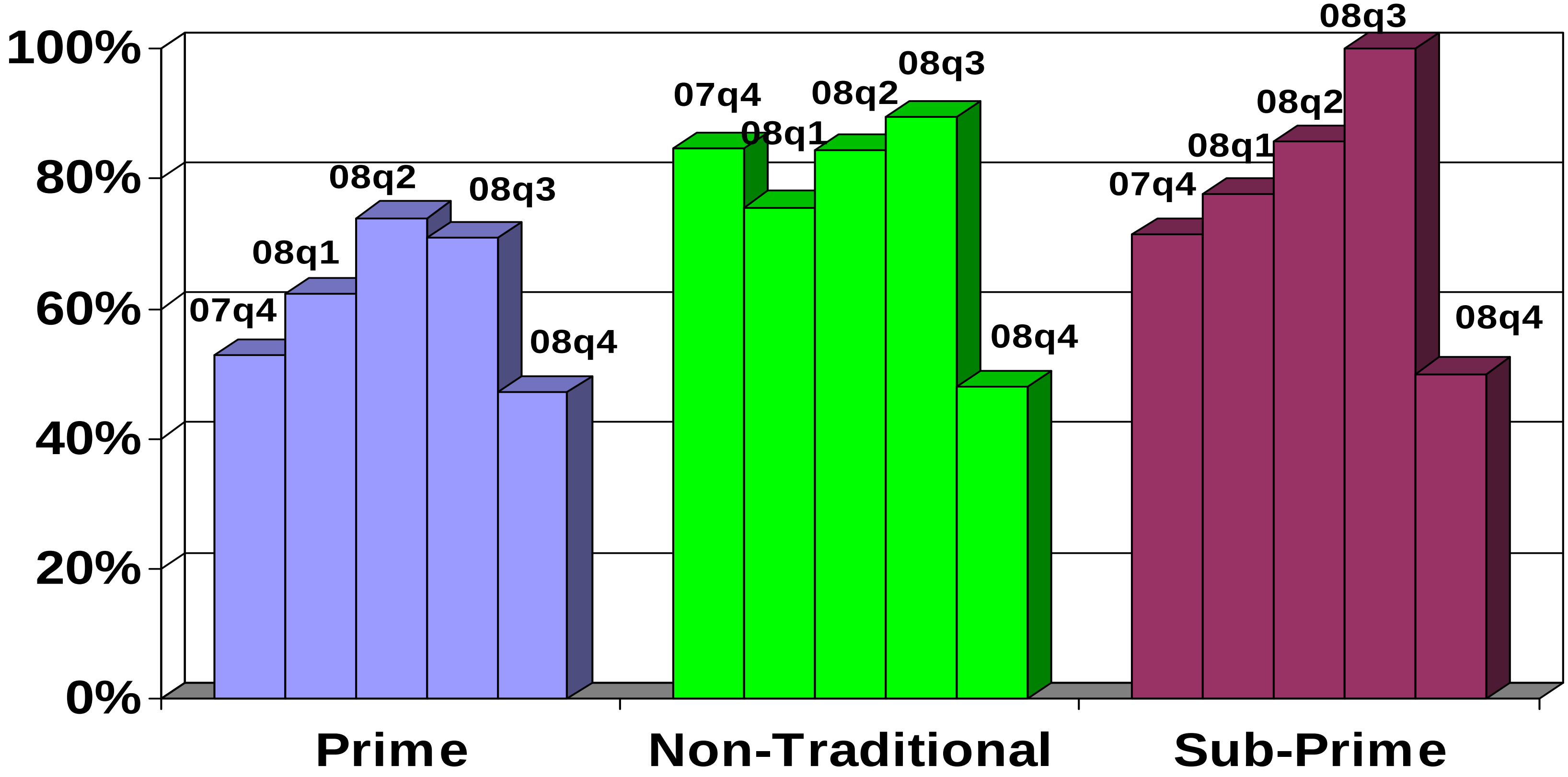
- **100% of banks tightened on sub-prime mortgages.**
- **89.6% of banks tightened on "non-traditional" mortgages**

  (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



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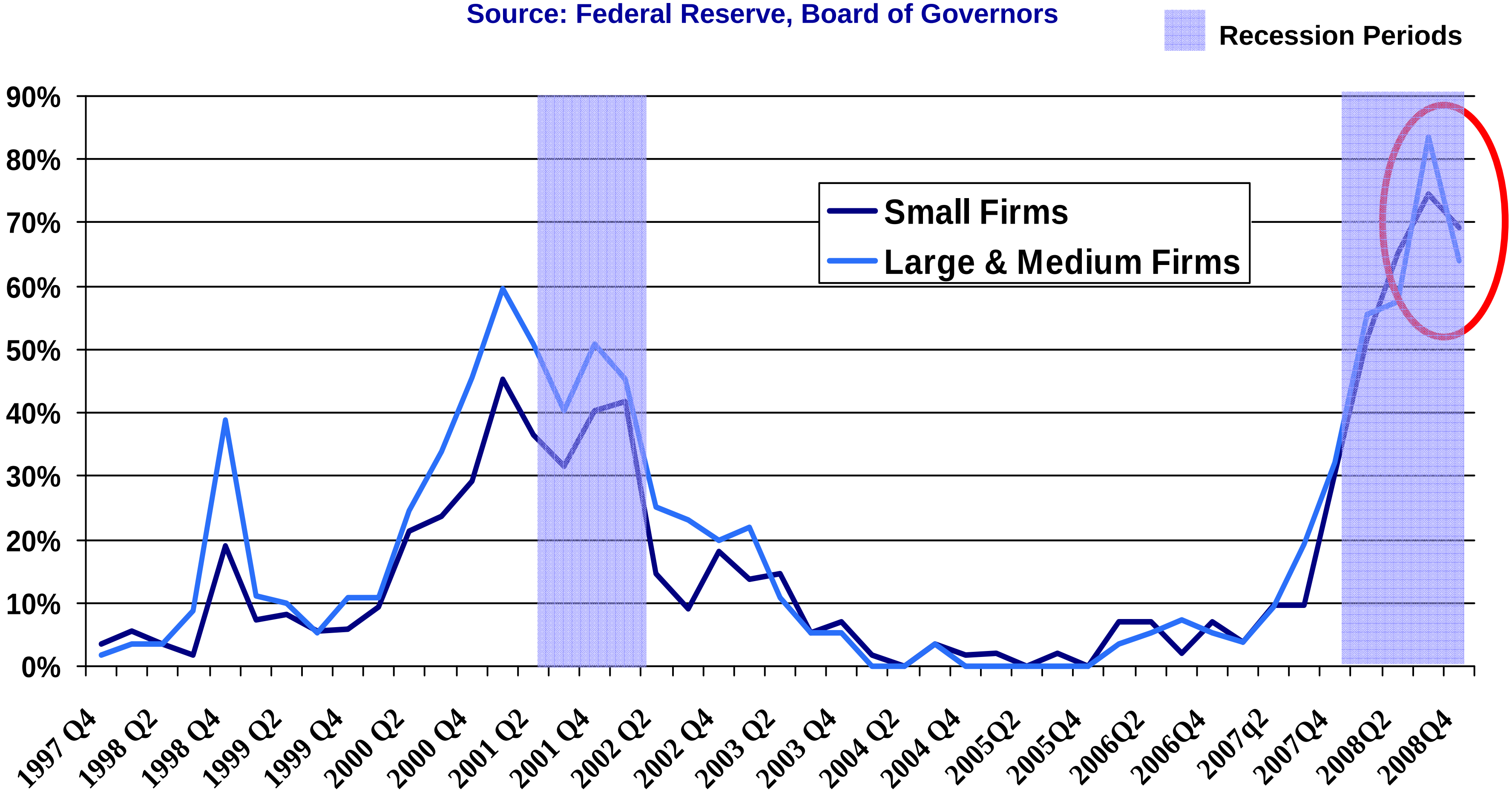
Percentage of Large U.S. Banks Reporting Tougher Standards on <u>Business</u> Loans

1997 – 2008*

Source: Federal Reserve, Board of Governors



* Data as of January 2009 survey.

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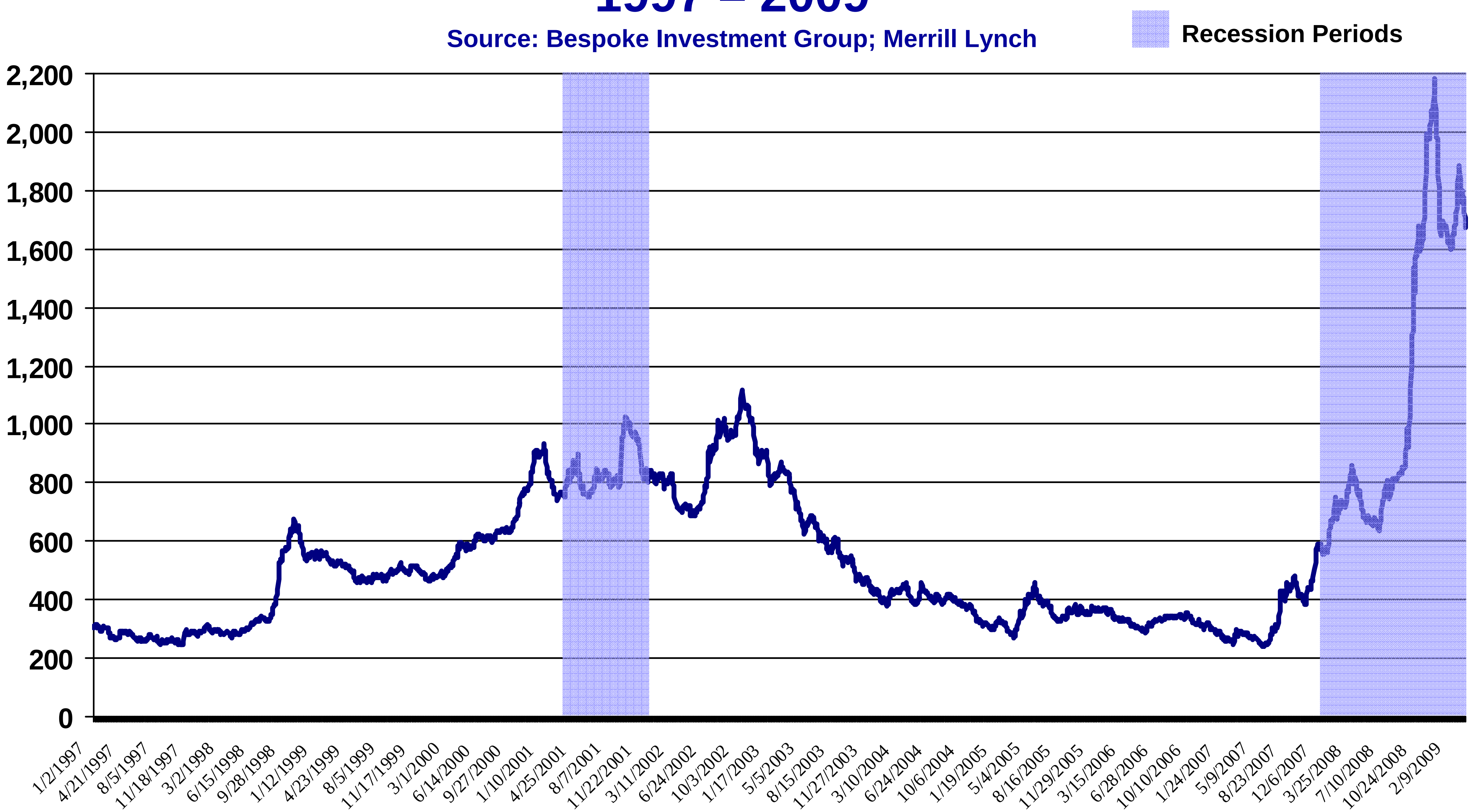
High Yield Credit Spread
1997 – 2009*

Source: Bespoke Investment Group; Merrill Lynch



*Data through March 27, 2009.

** The spread between high yield corporate bonds (non investment grade/below bbb rated) and comparable Treasuries.

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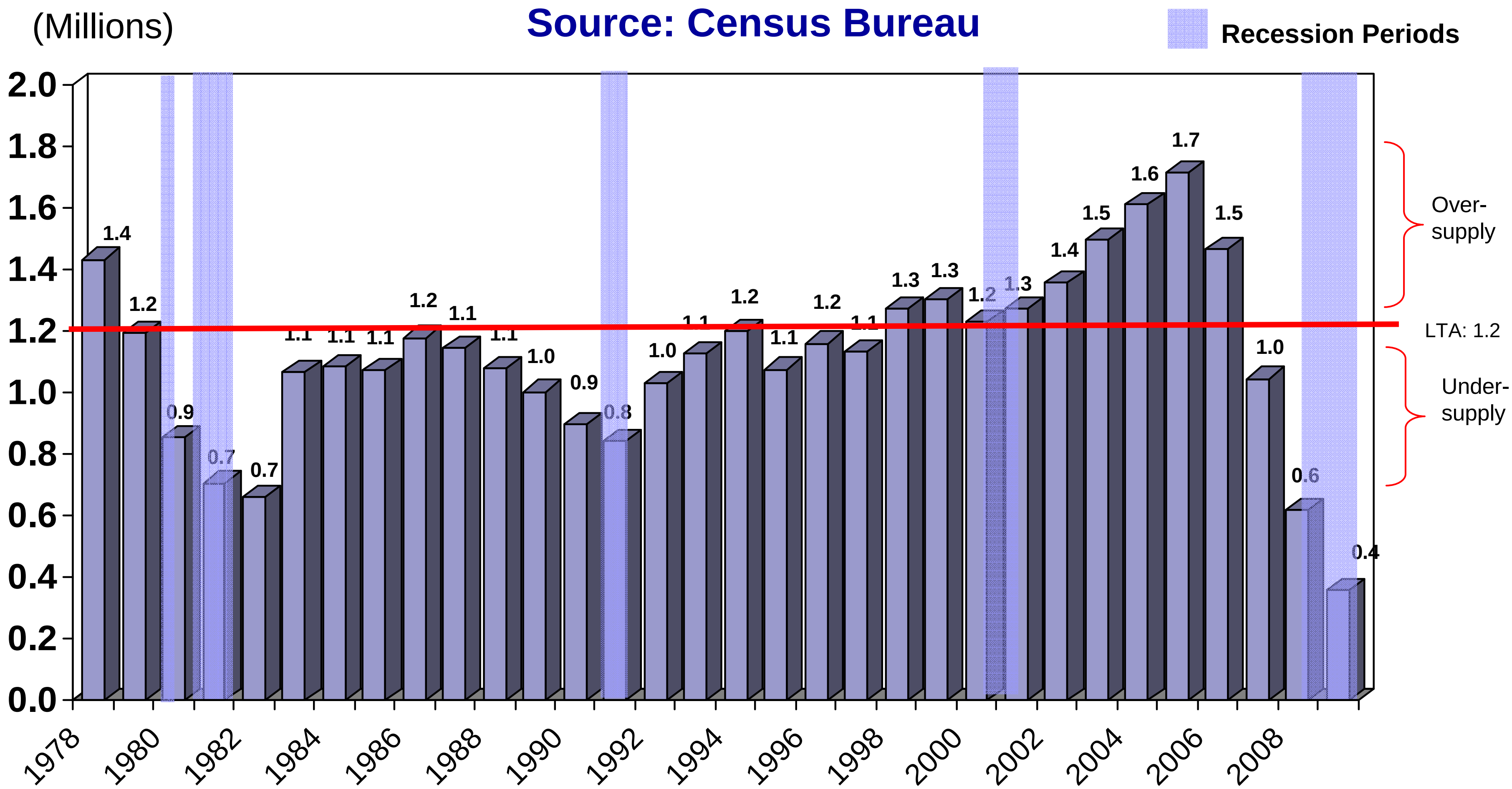
Housing Market

U.S. Single-Family Starts 1978–2009[1/]



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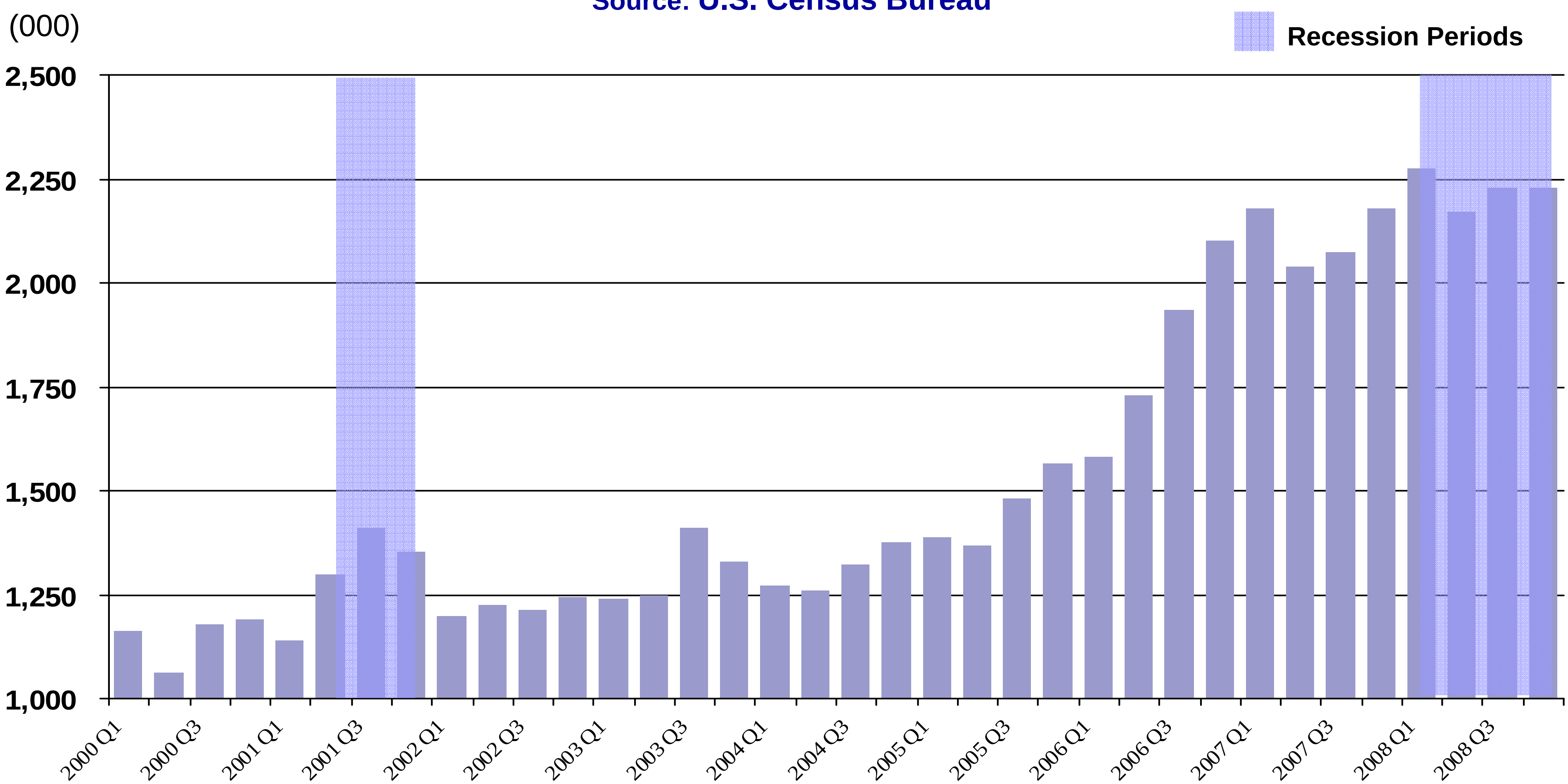
1/ Through February 2009

U.S. Number of Vacant Homes for Sale
2000 – 2008*
Source: U.S. Census Bureau

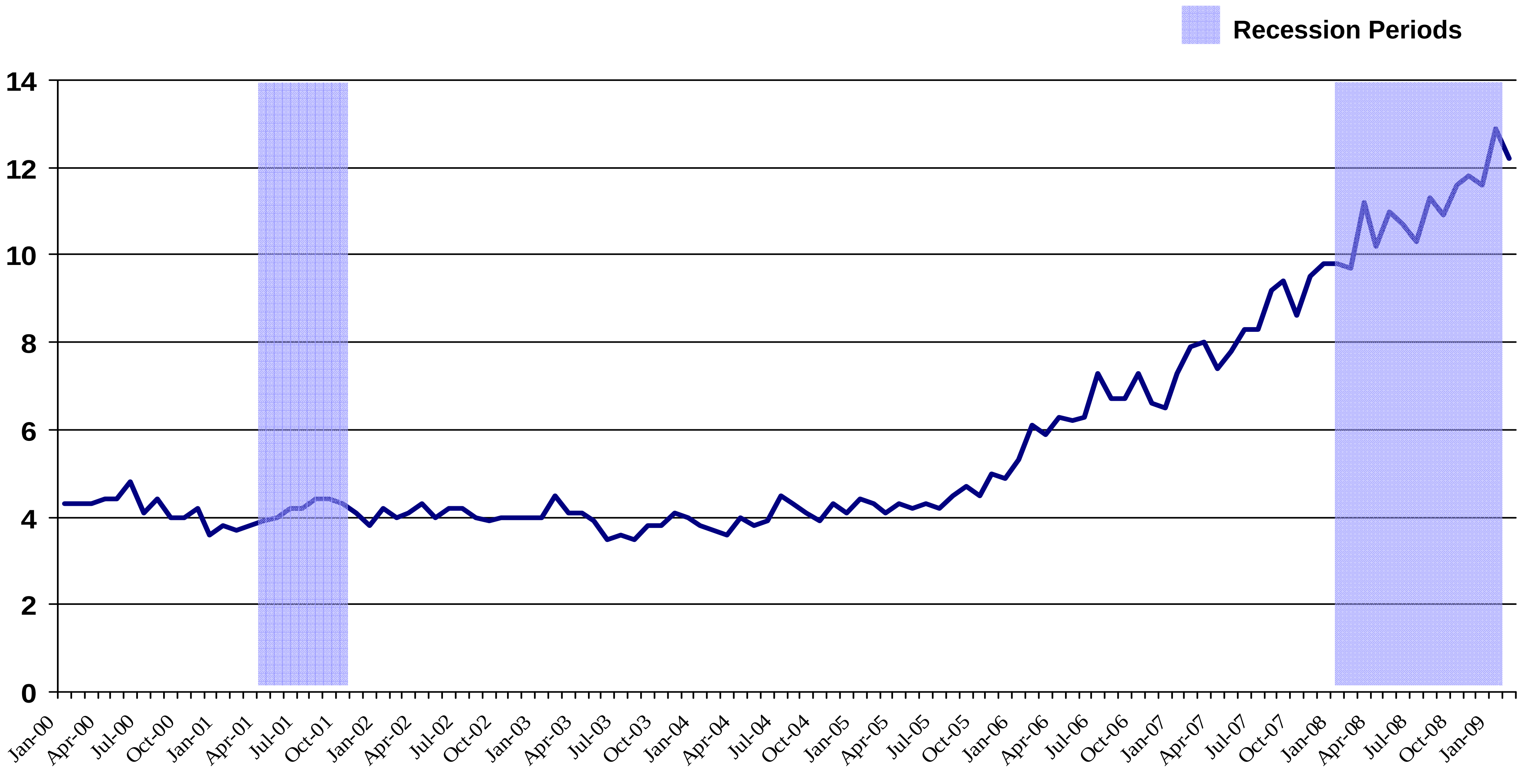


• Data through 4th Quarter 2008.

Elliott D. Pollack & Company

United States Home Sales
Months Supply – Single Family New Homes
2000 – 2009*

Source: U.S. Census Bureau

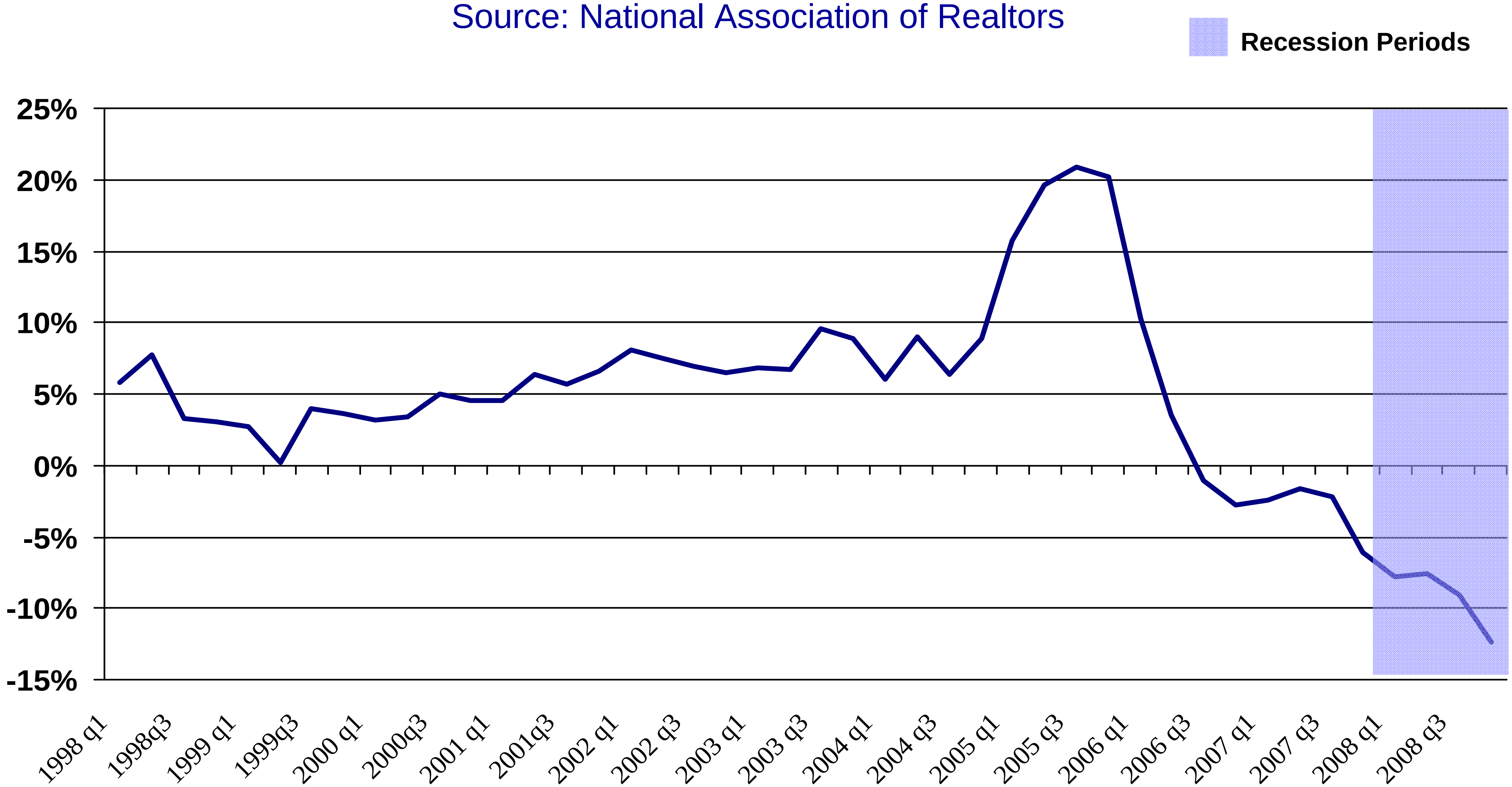


• Data through February 2009.

Elliott D. Pollack & Company

Median Price of Resale Homes – U.S.
Percent Change Year Ago
2003 – 2008*

Source: National Association of Realtors



*Data through fourth quarter 2008

Elliott D. Pollack & Company

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

Loan Type	AZ Share of Loans	AZ Share of Foreclosures
Prime Fixed	57.2%	14.2%
Prime ARM	19.8%	23.7%
Sub Fixed	4.9%	6.4%
Sub ARM	9.8%	52.6%
FHA	4.9%	2.2%
VA	2.3%	0.7%
Other	1.1%	0.3%
Total	100%	100%

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.

ECONOMIC OUTLOOK
2009 - 2010

Elliott D. Pollack & Company

ELLIOTT D. POLLACK
& Company

Economic and Real Estate Consulting

WWW.ARIZONAECONOMY.COM

INFO @ EDPCO.COM

7505 East Sixth Avenue, Suite 100 Scottsdale, Arizona 85251

480-423-9200 P **480-423-5942 F** **www.arizonaeconomy.com**

Attachment 1

EMPLOYEES ON NONFARM PAYROLLS BY STATE (in Thousands, Unadjusted)

RANKED BY OVER-THE-YEAR CHANGE

RANK	STATE	Feb. 2009p	Feb. 2008	Over-Year Change Amount	Over-Year Change Percentage[2]
1	WYOMING	292.1	287.8	4.3	1.49%
2	ALASKA	308.7	306.1	2.6	0.85%
3	LOUISIANA	1,938.0	1,928.5	9.5	0.49%
4	NORTH DAKOTA	359.5	359.0	0.5	0.14%
5	OKLAHOMA	1,572.4	1,581.3	-8.9	-0.56%
6	SOUTH DAKOTA	398.4	401.1	-2.7	-0.67%
7	TEXAS	10,462.4	10,535.4	-73.0	-0.69%
8	NEBRASKA	942.1	950.6	-8.5	-0.89%
9	KANSAS	1,360.4	1,377.0	-16.6	-1.21%
10	MONTANA	430.6	436.4	-5.8	-1.33%
11	NEW HAMPSHIRE	627.6	636.7	-9.1	-1.43%
12	NEW MEXICO	831.1	843.3	-12.2	-1.45%
13	IOWA	1,477.2	1,499.9	-22.7	-1.51%
14	NEW YORK	8,536.2	8,679.9	-143.7	-1.66%
15	MISSOURI	2,712.9	2,761.1	-48.2	-1.75%
16	MARYLAND	2,521.4	2,569.4	-48.0	-1.87%
17	WEST VIRGINIA	736.5	750.6	-14.1	-1.88%
18	PENNSYLVANIA	5,618.2	5,732.6	-114.4	-2.00%
19	UTAH	1,221.4	1,248.0	-26.6	-2.13%
20	VIRGINIA	3,646.8	3,728.1	-81.3	-2.18%
21	ARKANSAS	1,169.3	1,199.9	-30.6	-2.55%
22	MASSACHUSETTS	3,154.9	3,238.7	-83.8	-2.59%
23	COLORADO	2,269.8	2,331.0	-61.2	-2.63%
24	MAINE	584.2	600.1	-15.9	-2.65%
25	WASHINGTON	2,848.9	2,936.9	-88.0	-3.00%
26	HAWAII	607.5	626.6	-19.1	-3.05%
27	NEW JERSEY	3,893.9	4,017.0	-123.1	-3.06%
28	MINNESOTA	2,635.7	2,721.8	-86.1	-3.16%
29	WISCONSIN	2,734.4	2,824.0	-89.6	-3.17%
30	CONNECTICUT	1,633.4	1,687.8	-54.4	-3.22%
31	ILLINOIS	5,670.9	5,874.8	-203.9	-3.47%
32	MISSISSIPPI	1,112.9	1,153.5	-40.6	-3.52%
33	KENTUCKY	1,774.4	1,839.8	-65.4	-3.55%
34	INDIANA	2,826.7	2,936.2	-109.5	-3.73%
35	ALABAMA	1,918.3	1,994.5	-76.2	-3.82%
36	CALIFORNIA	14,436.5	15,031.5	-595.0	-3.96%
37	RHODE ISLAND	457.5	476.4	-18.9	-3.97%
38	TENNESSEE	2,661.2	2,771.9	-110.7	-3.99%
39	OHIO	5,103.9	5,325.9	-222.0	-4.17%
40	VERMONT	295.2	308.4	-13.2	-4.28%
41	DELAWARE	410.2	428.8	-18.6	-4.34%
42	NORTH CAROLINA	3,951.6	4,133.2	-181.6	-4.39%
43	OREGON	1,636.4	1,714.8	-78.4	-4.57%
44	GEORGIA	3,940.9	4,130.7	-189.8	-4.59%
45	SOUTH CAROLINA	1,840.7	1,929.4	-88.7	-4.60%
46	IDAHO	609.8	639.4	-29.6	-4.63%
47	NEVADA	1,211.3	1,272.4	-61.1	-4.80%
48	FLORIDA	7,520.6	7,927.8	-407.2	-5.14%
49	**ARIZONA**	**2,488.5**	**2,661.5**	**-173.0**	**-6.50%**
50	MICHIGAN	3,884.0	4,159.6	-275.6	-6.63%
	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-theYear 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

SELECTED STATES RANKED BY OVER-THE-YEAR PERCENT CHANGE IN NONFARM PAYROLL EMPLOYMENT
February 2008 to February 2009 -- Not Seasonally Adjusted

	Arizona	California	Nevada	Utah	Colorado	New Mexico
Construction (includes mining and logging)						
OTY % Chg.	-25.06%	-17.94%	-15.03%	-11.92%	-8.83%	-8.41%
State Rank	49	44	39	28	18	17
Manufacturing						
OTY % Chg.	-6.14%	-6.33%	-6.76%	-7.80%	-6.53%	-5.97%
State Rank	14	16	21	26	19	12
Trade, Transportation, and Utilities						
OTY % Chg.	-8.02%	-5.63%	-3.03%	-1.59%	-3.68%	-3.72%
State Rank	50	42	20	11	29	31
Information						
OTY % Chg.	-6.57%	-3.98%	-5.26%	-3.61%	-3.35%	-3.07%
State Rank	46	25	37	21	19	18
Financial Activities						
OTY % Chg.	-3.71%	-5.96%	-5.30%	-3.20%	-5.74%	-2.01%
State Rank	35	46	42	30	45	18
Professional and Business Services						
OTY % Chg.	-10.93%	-4.39%	-6.64%	-1.19%	-7.88%	-1.77%
State Rank	49	23	31	5	42	10
Education and Health Services						
OTY % Chg.	0.92%	1.70%	3.08%	2.53%	2.99%	3.94%
State Rank	45	32	10	15	11	4
Leisure and Hospitality						
OTY % Chg.	-6.37%	-2.64%	-5.91%	-4.18%	-0.55%	-2.12%
State Rank	49	33	47	45	18	30
Other Services						
OTY % Chg.	-5.33%	-1.09%	-1.10%	-2.85%	0.32%	-0.68%
State Rank	49	24	25	37	11	17
Government						
OTY % Chg.	1.35%	-0.30%	0.37%	3.21%	3.34%	1.21%
State Rank	13	43	30	4	3	16
Total All Industries						
OTY % Chg.	-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*

(in Thousands, Not Seasonally Adjusted)

Rank	State	2008	2007	Percentage Change	Rank	State	2008	2007	Percentage Change
1	Wyoming	298.5	288.9	3.32%	41	Indiana	2,958.2	2,985.8	-0.92%
2	N. Dakota	367.0	358.4	2.40%	42	Idaho	648.4	654.9	-0.99%
3	Texas	10,616.6	10,395.0	2.13%	43	Georgia	4,102.5	4,145.5	-1.04%
4	Oklahoma	1,595.4	1,568.4	1.72%	44	Ohio	5,368.0	5,428.0	-1.11%
5	Alaska	322.4	317.9	1.42%	45	California	14,994.1	15,173.5	-1.18%
6	Louisana	1,940.0	1,915.5	1.28%	46	Nevada	1,266.4	1,292.5	-2.02%
7	S. Dakota	411.4	406.5	1.21%	**47**	**Arizona**	**2,616.3**	**2,673.7**	**-2.15%**
8	Washington	2,959.4	2,933.6	0.88%	48	Rhode Island	481.7	492.6	-2.21%
9	Kansas	1,391.1	1,380.0	0.80%	49	Michigan	4,159.2	4,268.4	-2.56%
10	Colorado	2,349.3	2,331.3	0.77%	50	Florida	7,763.8	8,018.4	-3.18%

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

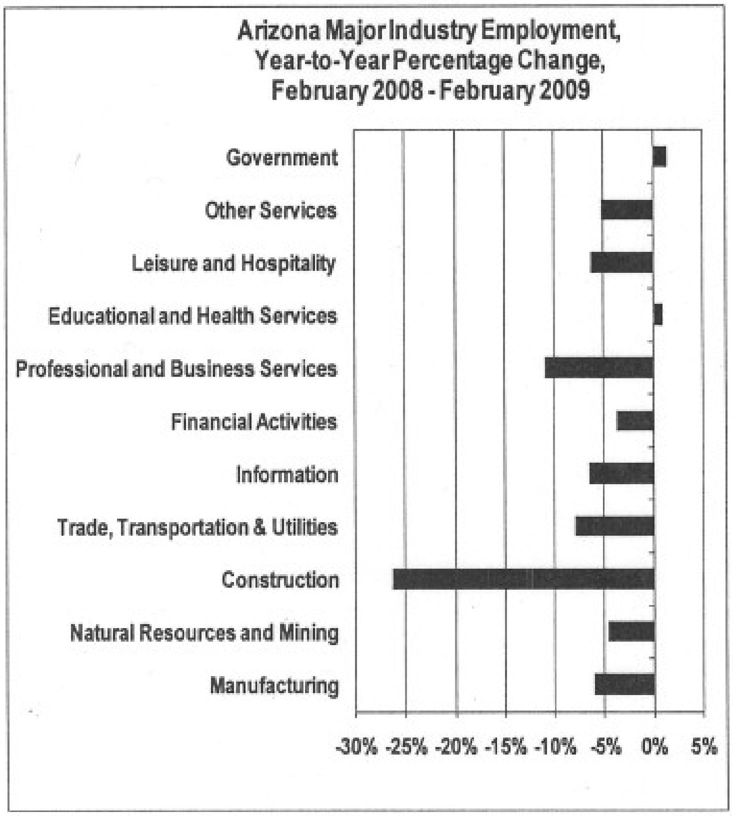
Rank	State	2008	2007	Percentage Point Change	Rank	State	2008	2007	Percentage Point Change
1	S. Dakota	3.0%	2.9%	0.1	39	Kentucky	6.4%	5.5%	0.9
2	Wyoming	3.1%	2.9%	0.2	39	Oregon	6.4%	5.1%	1.3
3	N. Dakota	3.2%	3.1%	0.1	39	Tennessee	6.4%	4.8%	1.6
4	Nebraska	3.3%	2.9%	0.4	42	Idaho	6.5%	3.0%	3.5
5	Utah	3.4%	2.7%	0.7	42	Ohio	6.5%	5.6%	0.9
6	New Hampshire	3.8%	3.5%	0.3	44	Alaska	6.7%	6.2%	0.5
6	Oklahoma	3.8%	4.1%	-0.3	44	Nevada	6.7%	4.7%	2.0
8	Hawaii	3.9%	2.6%	1.3	46	Mississippi	6.9%	6.3%	0.6
9	Virginia	4.0%	3.0%	1.0	46	S. Carolina	6.9%	5.6%	1.3
10	Iowa	4.1%	3.7%	0.4	48	California	7.2%	5.4%	1.8
					49	Rhode Island	7.8%	5.2%	1.6
					50	Michigan	8.4%	7.1%	1.3

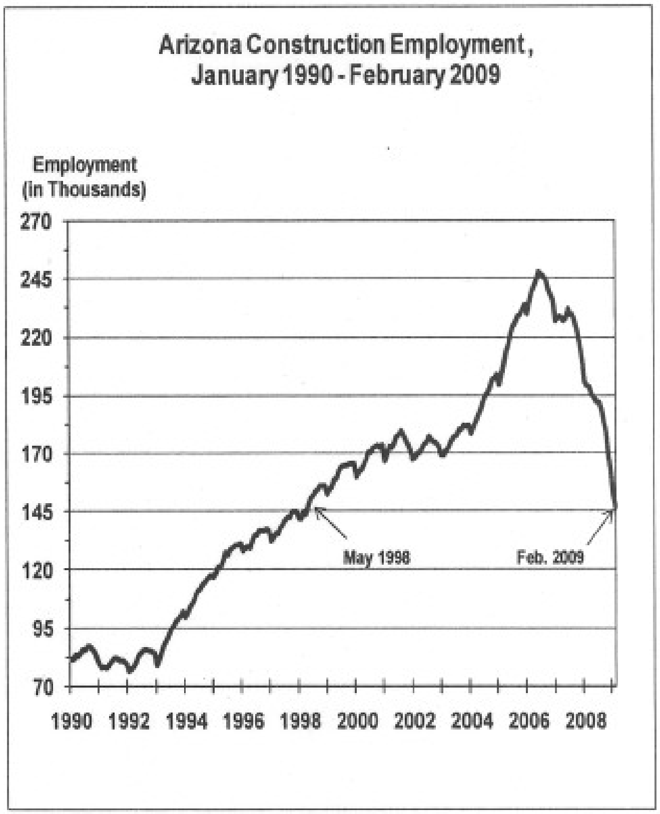
* **Note:** Arizona's 2008 unemployment rate of 5.5% ranked 31st, compared to a tie for 16th in 2007 with a rate of 3.8%. For additional information on states ranked by nonfarm employment percent change, see *Arizona Workforce Informer* Web site at link below:

http://www.workforce.az.gov/?PAGEID=67&SUBID=142

Source: *U.S. Dept. of Labor, Bureau of Labor Statistics, March 2009*

LABOR MARKET TREND CHARTS





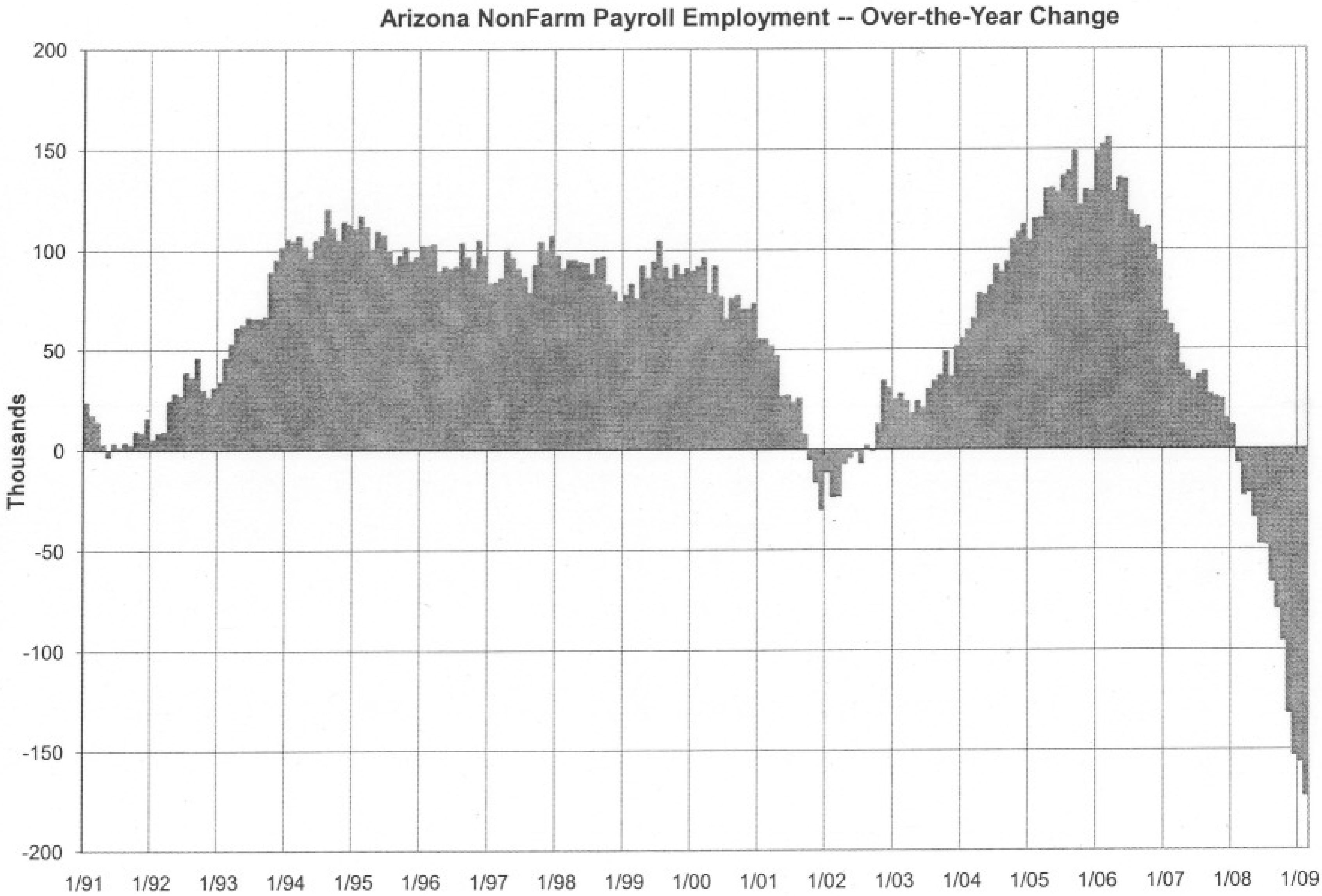
Source: Prepared by the Arizona Dept. of Commerce, Research Administration, in cooperation with the U.S. Dept. of Labor, Bureau of Labor Statistics, March 2009

Table 2

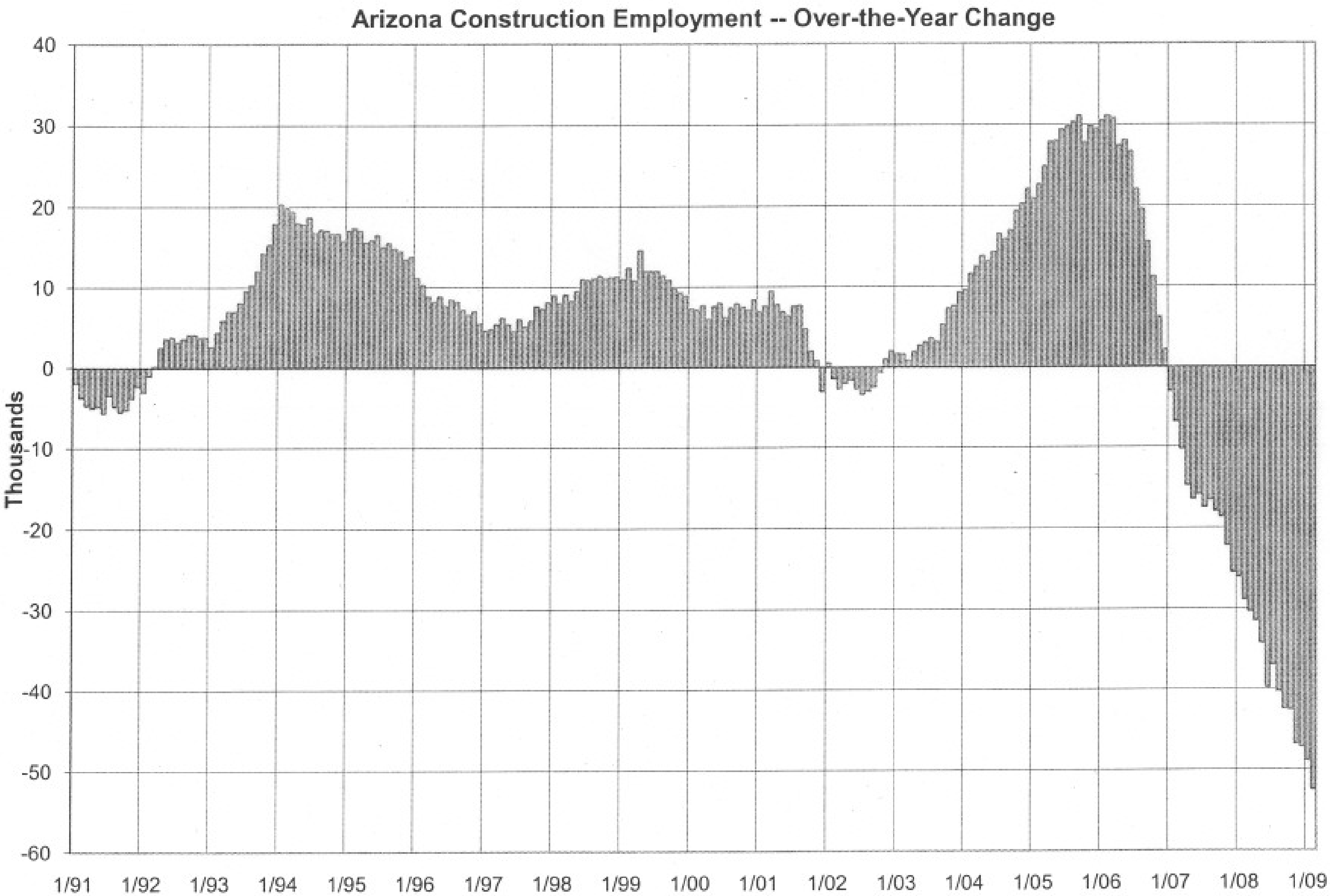
Nonfarm Payroll Employment, February 2009[a] (in Thousands, Not Seasonally Adjusted)

ARIZONA	Feb. 2009[b]	Jan. 2009[c]	Feb. 2008[c]	Amount Change: Monthly Jan. '09 - Feb. '09 -	Amount Change: Over-Year Feb. '08 - Feb. '09 -	Percent Change: Monthly Jan. '09 - Feb. '09 -	Percent Change: Over-Year Feb. '08 - Feb. '09 -
Total Nonfarm Payroll Employment[d,e]	2,488.5	2,486.4	2,661.5	2.1	-173.0	0.1%	-6.5%
Private Sector	2,045.4	2,052.5	2,224.3	-7.1	-178.9	-0.3%	-8.0%
Government	443.1	433.9	437.2	9.2	5.9	2.1%	1.3%
Goods-Producing Industries	**325.0**	**332.0**	**388.9**	**-7.0**	**-63.9**	**-2.1%**	**-16.4%**
Manufacturing	**166.5**	**167.7**	**177.4**	**-1.2**	**-10.9**	**-0.7%**	**-6.1%**
Durable Goods	134.0	134.8	142.1	-0.8	-8.1	-0.6%	-5.7%
Fabricated Metal	17.3	17.3	19.3	0.0	-2.0	0.0%	-10.4%
Computer and Electronic Parts	41.0	41.2	42.4	-0.2	-1.4	-0.5%	-3.3%
Aerospace Products and Parts	28.3	28.3	27.7	0.0	0.6	0.0%	2.2%
Nondurable Goods	32.5	32.9	35.3	-0.4	-2.8	-1.2%	-7.9%
Natural Resources and Mining	**12.1**	**12.4**	**12.7**	**-0.3**	**-0.6**	**-2.4%**	**-4.7%**
Metal Ore Mining	9.7	10.0	10.1	-0.3	-0.4	-3.0%	-4.0%
Construction	**146.4**	**151.9**	**198.8**	**-5.5**	**-52.4**	**-3.6%**	**-26.4%**
Buildings	29.5	30.2	38.3	-0.7	-8.8	-2.3%	-23.0%
Heavy	21.6	22.5	27.0	-0.9	-5.4	-4.0%	-20.0%
Specialty Trades	95.3	99.2	133.5	-3.9	-38.2	-3.9%	-28.6%
Service-Providing Industries	**2,163.5**	**2,154.4**	**2,272.6**	**9.1**	**-109.1**	**0.4%**	**-4.8%**
Private Service Providing	**1,720.4**	**1,720.5**	**1,835.4**	**-0.1**	**-115.0**	**0.0%**	**-6.3%**
Trade, Transportation and Utilities	**483.1**	**487.7**	**525.2**	**-4.6**	**-42.1**	**-0.9%**	**-8.0%**
Trade	400.7	404.1	438.1	-3.4	-37.4	-0.8%	-8.5%
Wholesale Trade	103.4	103.2	109.7	0.2	-6.3	0.2%	-5.7%
Retail Trade	297.3	300.9	328.4	-3.6	-31.1	-1.2%	-9.5%
Clothing & Clothing Accessories Stores	19.1	19.8	22.8	-0.7	-3.7	-3.5%	-16.2%
General Merchandise	62.1	62.9	67.7	-0.8	-5.6	-1.3%	-8.3%
Department Stores	26.0	26.6	30.5	-0.6	-4.5	-2.3%	-14.8%
Other General Merchandise	36.1	36.3	37.2	-0.2	-1.1	-0.6%	-3.0%
Motor Vehicle and Parts Dealers	37.4	37.8	45.4	-0.4	-8.0	-1.1%	-17.6%
Furniture and Home Furnishings Stores	10.2	10.5	13.3	-0.3	-3.1	-2.9%	-23.3%
Building Materials & Garden Equip. Dealers	22.2	22.5	25.2	-0.3	-3.0	-1.3%	-11.9%
Food and Beverage Stores	55.7	56.4	60.4	-0.7	-4.7	-1.2%	-7.8%
Transportation, Warehousing and Utilities	82.4	83.6	87.1	-1.2	-4.7	-1.4%	-5.4%
Transportation and Warehousing	69.8	71.0	74.3	-1.2	-4.5	-1.7%	-6.1%
Air Transportation	14.9	15.0	16.0	-0.1	-1.1	-0.7%	-6.9%
Truck Transportation	17.9	18.4	20.1	-0.5	-2.2	-2.7%	-10.9%
Utilities	12.6	12.6	12.8	0.0	-0.2	0.0%	-1.6%
Information	**39.8**	**40.3**	**42.6**	**-0.5**	**-2.8**	**-1.2%**	**-6.6%**
Telecommunications	14.3	14.7	16.2	-0.4	-1.9	-2.7%	-11.7%
Financial Activities	**171.1**	**171.9**	**177.7**	**-0.8**	**-6.6**	**-0.5%**	**-3.7%**
Finance and Insurance	123.3	124.0	125.6	-0.7	-2.3	-0.6%	-1.8%
Credit Intermediation and Related Activities	74.5	74.6	76.6	-0.1	-2.1	-0.1%	-2.7%
Insurance Carriers and Related Activities	36.5	36.7	36.2	-0.2	0.3	-0.5%	0.8%
Securities, Commodity Contracts	12.3	12.7	12.8	-0.4	-0.5	-3.1%	-3.9%
Real Estate and Rental and Leasing	47.8	47.9	52.1	-0.1	-4.3	-0.2%	-8.3%
Professional and Business Services	**353.6**	**351.1**	**397.0**	**2.5**	**-43.4**	**0.7%**	**-10.9%**
Professional, Scientific and Technical Services	125.4	123.7	136.2	1.7	-10.8	1.4%	-7.9%
Management of Companies and Enterprises	25.9	26.5	27.4	-0.6	-1.5	-2.3%	-5.5%
Administrative and Support and Waste	202.3	200.9	233.4	1.4	-31.1	0.7%	-13.3%
Employment Services	88.1	87.6	113.8	0.5	-25.7	0.6%	-22.6%
Business Support Services	28.8	28.5	29.1	0.3	-0.3	1.1%	-1.0%
Services to Buildings and Dwellings	38.6	38.1	43.6	0.5	-5.0	1.3%	-11.5%
Educational and Health Services	**318.1**	**317.9**	**315.2**	**0.2**	**2.9**	**0.1%**	**0.9%**
Educational Services	44.1	43.5	45.8	0.6	-1.7	1.4%	-3.7%
Health Care and Social Assistance	274.0	274.4	269.4	-0.4	4.6	-0.1%	1.7%
Health Care	238.5	238.4	233.9	0.1	4.6	0.0%	2.0%
Ambulatory Health Care Services	122.4	122.1	121.3	0.3	1.1	0.2%	0.9%
Hospitals	76.0	76.3	73.6	-0.3	2.4	-0.4%	3.3%
Nursing and Residential Care Facilities	40.1	40.0	39.0	0.1	1.1	0.2%	2.8%
Social Assistance	35.5	36.0	35.5	-0.5	0.0	-1.4%	0.0%
Leisure and Hospitality	**258.7**	**256.7**	**276.3**	**2.0**	**-17.6**	**0.8%**	**-6.4%**
Arts, Entertainment and Recreation	34.1	33.9	36.1	0.2	-2.0	0.6%	-5.5%
Accommodation and Food Services	224.6	222.8	240.2	1.8	-15.6	0.8%	-6.5%
Accommodation	46.7	46.2	48.9	0.5	-2.2	1.1%	-4.5%
Food Services and Drinking Places	177.9	176.6	191.3	1.3	-13.4	0.7%	-7.0%
Other Services (except Public Administration)	**96.0**	**94.9**	**101.4**	**1.1**	**-5.4**	**1.2%**	**-5.3%**
Government	**443.1**	**433.9**	**437.2**	**9.2**	**5.9**	**2.1%**	**1.3%**
Federal	55.3	54.8	52.5	0.5	2.8	0.9%	5.3%
State	89.3	86.9	88.2	2.4	1.1	2.8%	1.2%
State Education	47.3	44.5	44.6	2.8	2.7	6.3%	6.1%
Local	298.5	292.2	296.5	6.3	2.0	2.2%	0.7%
Local Education	164.4	157.2	160.0	7.2	4.4	4.6%	2.8%

Notes: For notes and source, see end of Table 2



Source: USDOL, BLS, March 2009
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009



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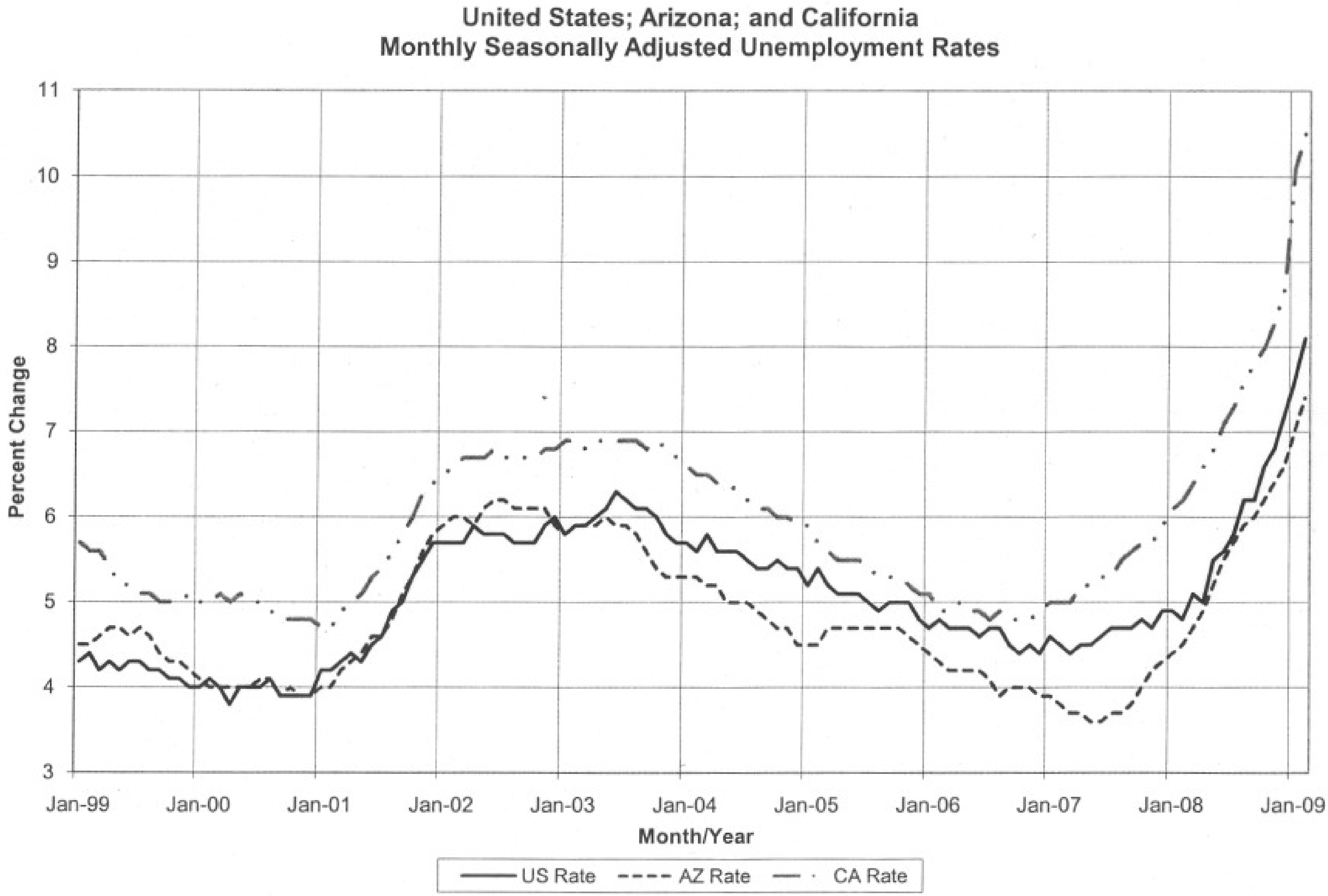
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009



Source: USDOL, BLS, March 2009.
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009

ARIZONA PERSONAL INCOME GROWTH RATE COMPARISONS
(Millions of Dollars)
Year-Quarter Versus Year-Quarter

YEAR-QTR.	TPI (1) SAAR*	Change Annual %	TPI-WS(2) SAAR*	Change Annual %	QCEW(3) Quarterly	Change Annual %
1998.1	109,797	8.7%	61,520	9.9%	14,360	9.2%
1998.2	112,104	9.6%	62,716	10.4%	14,732	11.5%
1998.3	114,597	9.9%	64,690	11.4%	14,667	11.0%
1998.4	116,983	9.7%	66,595	11.4%	17,011	12.8%
1999.1	117,161	6.7%	66,276	7.7%	15,255	6.2%
1999.2	120,028	7.1%	68,648	9.5%	16,113	9.4%
1999.3	121,646	6.2%	69,591	7.6%	16,050	9.4%
1999.4	124,594	6.5%	71,335	7.1%	18,215	7.1%
2000.1	130,893	11.7%	76,137	14.9%	18,113	18.7%
2000.2	131,065	9.2%	74,664	8.8%	17,614	9.3%
2000.3	133,437	9.7%	76,181	9.5%	17,355	8.1%
2000.4	134,836	8.2%	76,978	7.9%	19,334	6.1%
2001.1	137,195	4.8%	78,000	2.4%	18,670	3.1%
2001.2	138,552	5.7%	78,345	4.9%	18,616	5.7%
2001.3	139,826	4.8%	79,415	4.2%	18,052	4.0%
2001.4	139,842	3.7%	78,287	1.7%	19,631	1.5%
2002.1	142,595	3.9%	79,533	2.0%	18,750	0.4%
2002.2	143,488	3.6%	79,969	2.1%	18,942	1.8%
2002.3	144,410	3.3%	80,269	1.1%	18,260	1.2%
2002.4	146,108	4.5%	80,805	3.2%	20,306	3.4%
2003.1	147,196	3.2%	81,823	2.9%	19,287	2.9%
2003.2	149,424	4.1%	83,252	4.1%	19,712	4.1%
2003.3	151,205	4.7%	84,120	4.8%	19,139	4.8%
2003.4	154,504	5.7%	86,344	6.9%	21,529	6.0%
2004.1	159,779	8.5%	87,927	7.5%	20,596	6.8%
2004.2	163,073	9.1%	89,922	8.0%	21,033	6.7%
2004.3	165,946	9.7%	91,801	9.1%	20,876	9.1%
2004.4	170,893	10.6%	93,895	8.7%	23,783	10.5%
2005.1	175,472	9.8%	95,690	8.8%	22,115	7.4%
2005.2	180,311	10.6%	98,400	9.4%	23,194	10.3%
2005.3	185,625	11.9%	102,014	11.1%	23,957	14.8%
2005.4	188,724	10.4%	103,451	10.2%	25,709	8.1%
2006.1	194,543	10.9%	107,751	12.6%	25,835	16.8%
2006.2	197,373	9.5%	108,235	10.0%	25,498	9.9%
2006.3	201,417	8.5%	110,539	8.4%	25,285	5.5%
2006.4	204,527	8.4%	112,943	9.2%	27,993	8.9%
2007.1	205,774	5.8%	114,675	6.4%	27,619	6.9%
2007.2	207,079	4.9%	114,648	5.9%	27,017	6.0%
2007.3	210,275	4.4%	116,132	5.1%	26,539	5.0%
2007.4	211,284	3.3%	116,269	2.9%	28,844	3.0%
2008.1	213,060	3.5%	117,231	2.2%	28,077	1.7%
2008.2	215,531	4.1%	116,286	1.4%	27,170	0.6%
2008.3	214,810	2.2%	116,173	0.0%	26,311	-0.9%
2008.4	213,414	1.0%	115,116	-1.0%	n.a.	n.a.

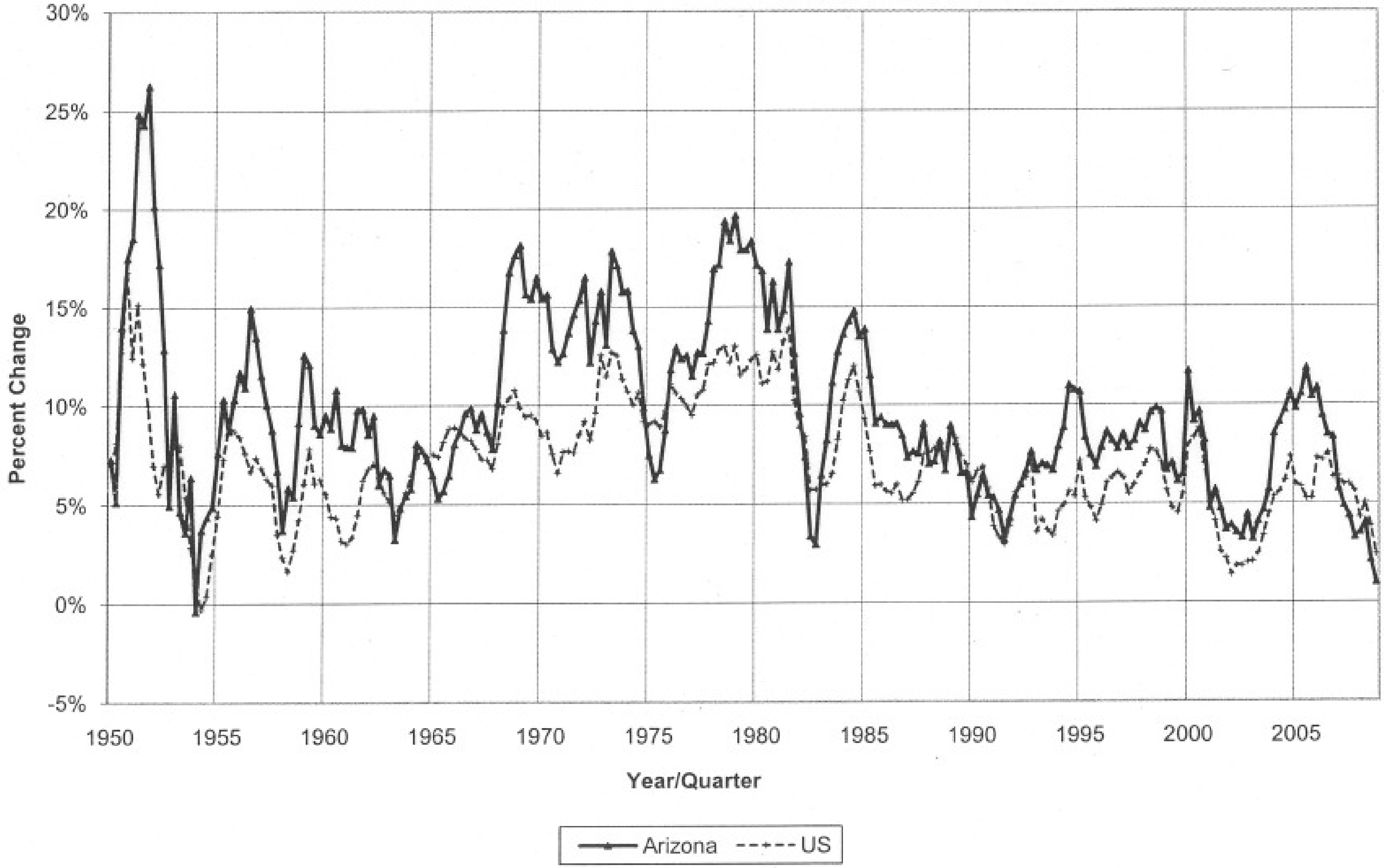
Notes: 98.444% = Correlation between TPI-WS:QCEW

1. Total Personal Income (TPI), SAAR, BEA Table SQ1. Updated 03.24.09 -- next update 06.18.09.
2. TPI-Wage & Salary Disbursements, SAAR, BEA Table SQ7N, 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

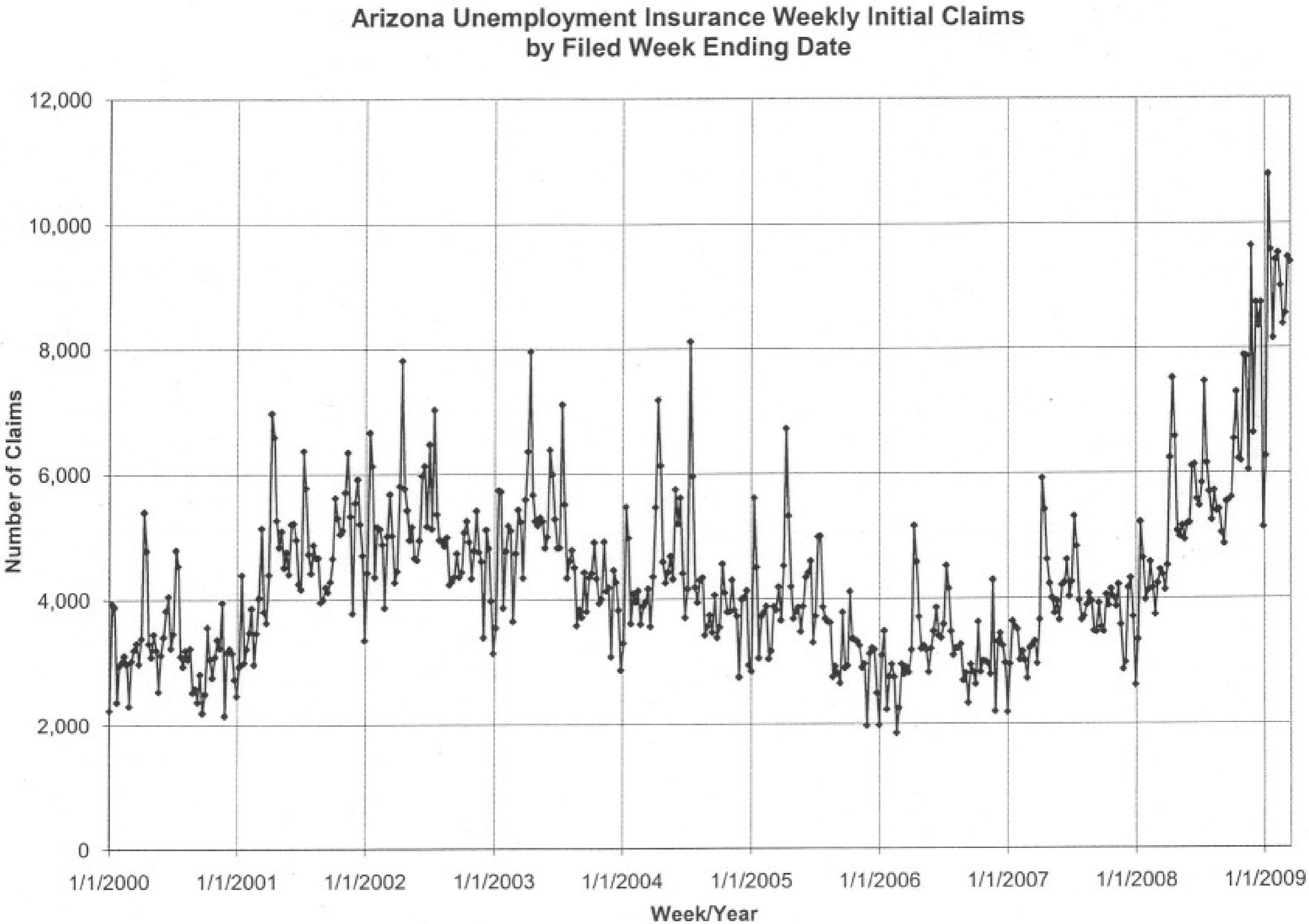
* SAAR = Seasonally Adjusted at Annual Rates

Source: AZ Dept. of Commerce, RA, in cooperation with BLS and BEA.

Arizona and United States Personal income
Quarterly Over-theYear Percent Change

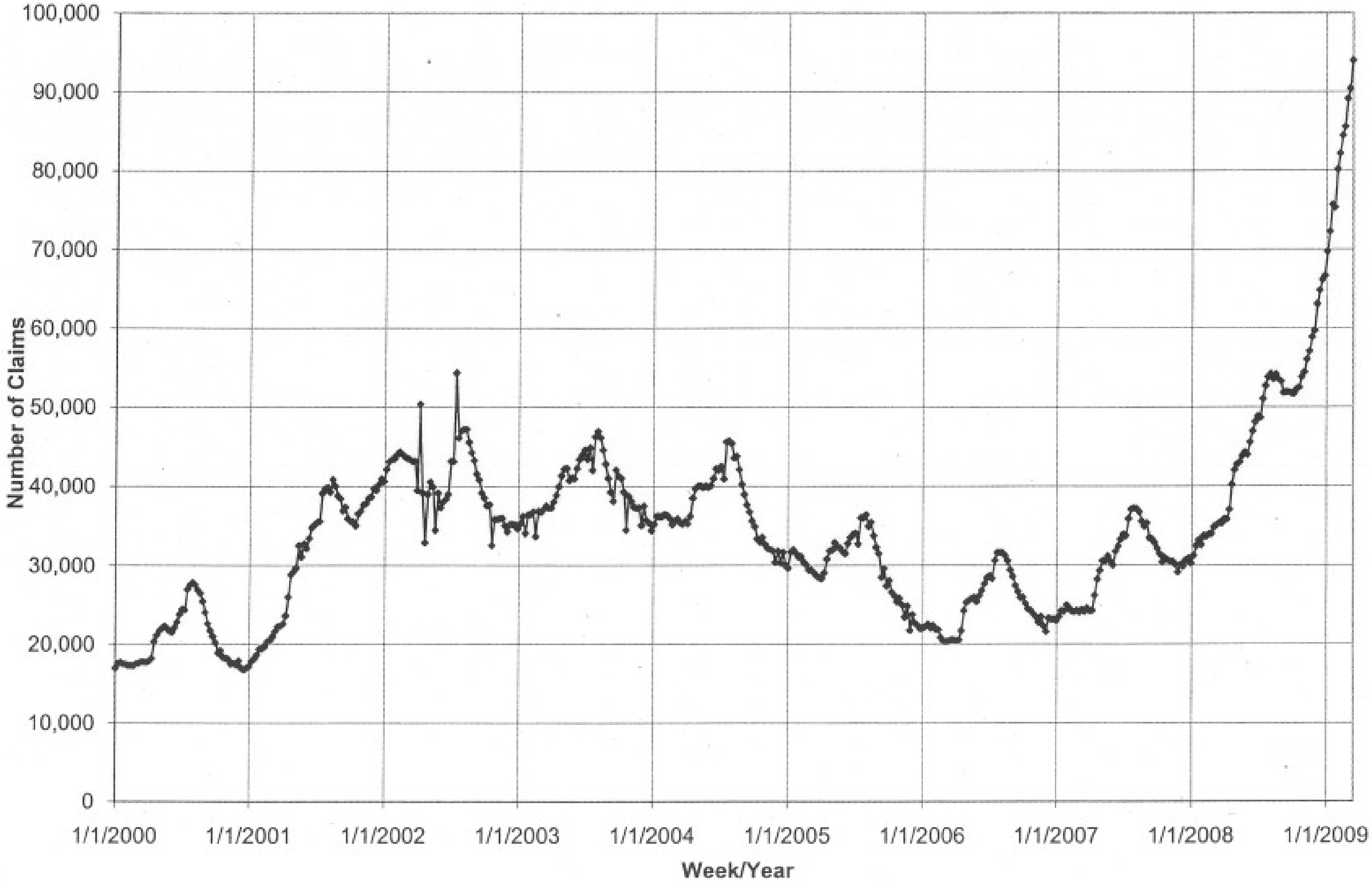


Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 24, 2009.
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009



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

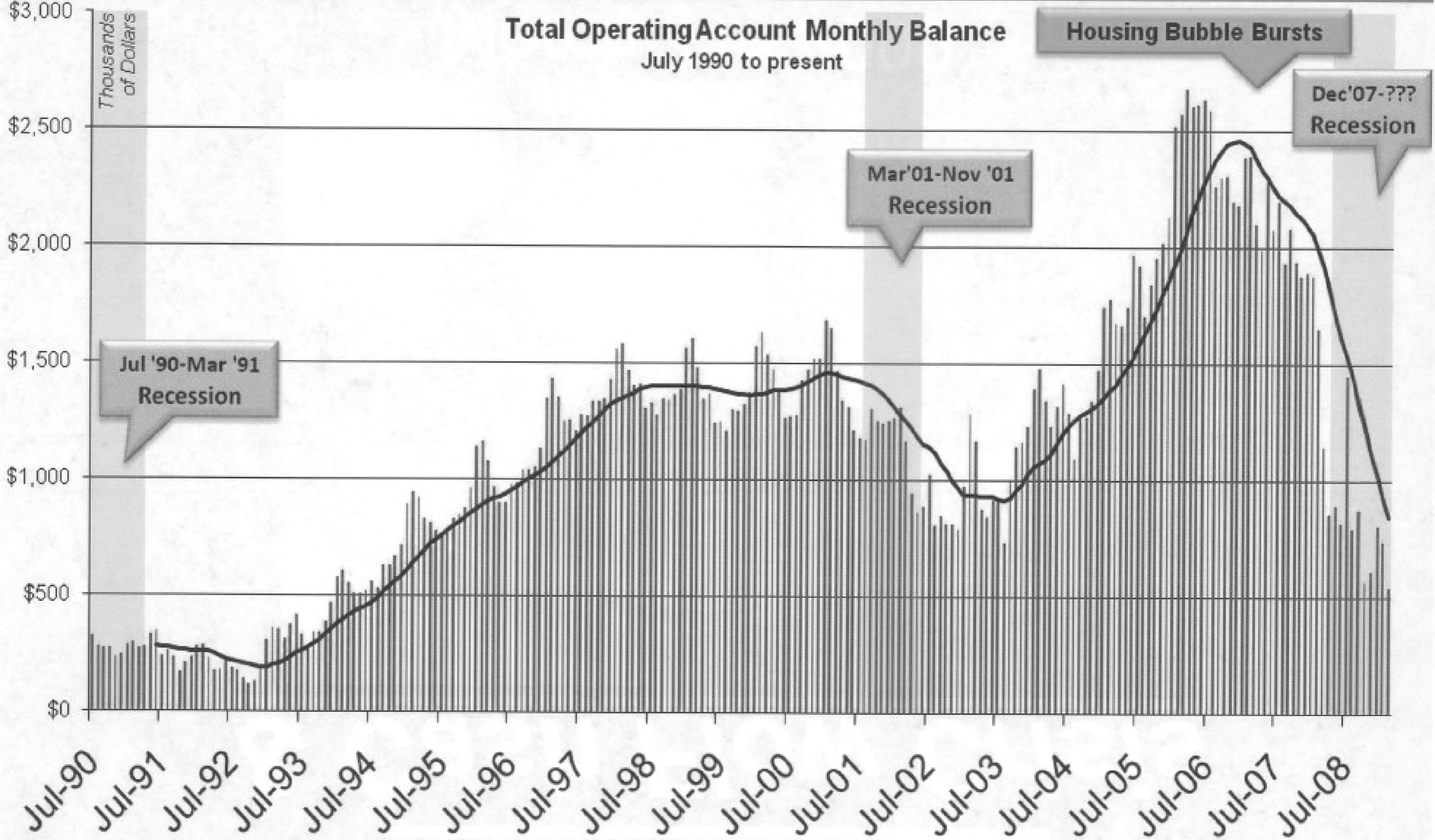
Prepared by Arizona Department of Commerce, Research Administration, March 30, 2009

State Budget & Cash Flow Crisis

March 31st 2009

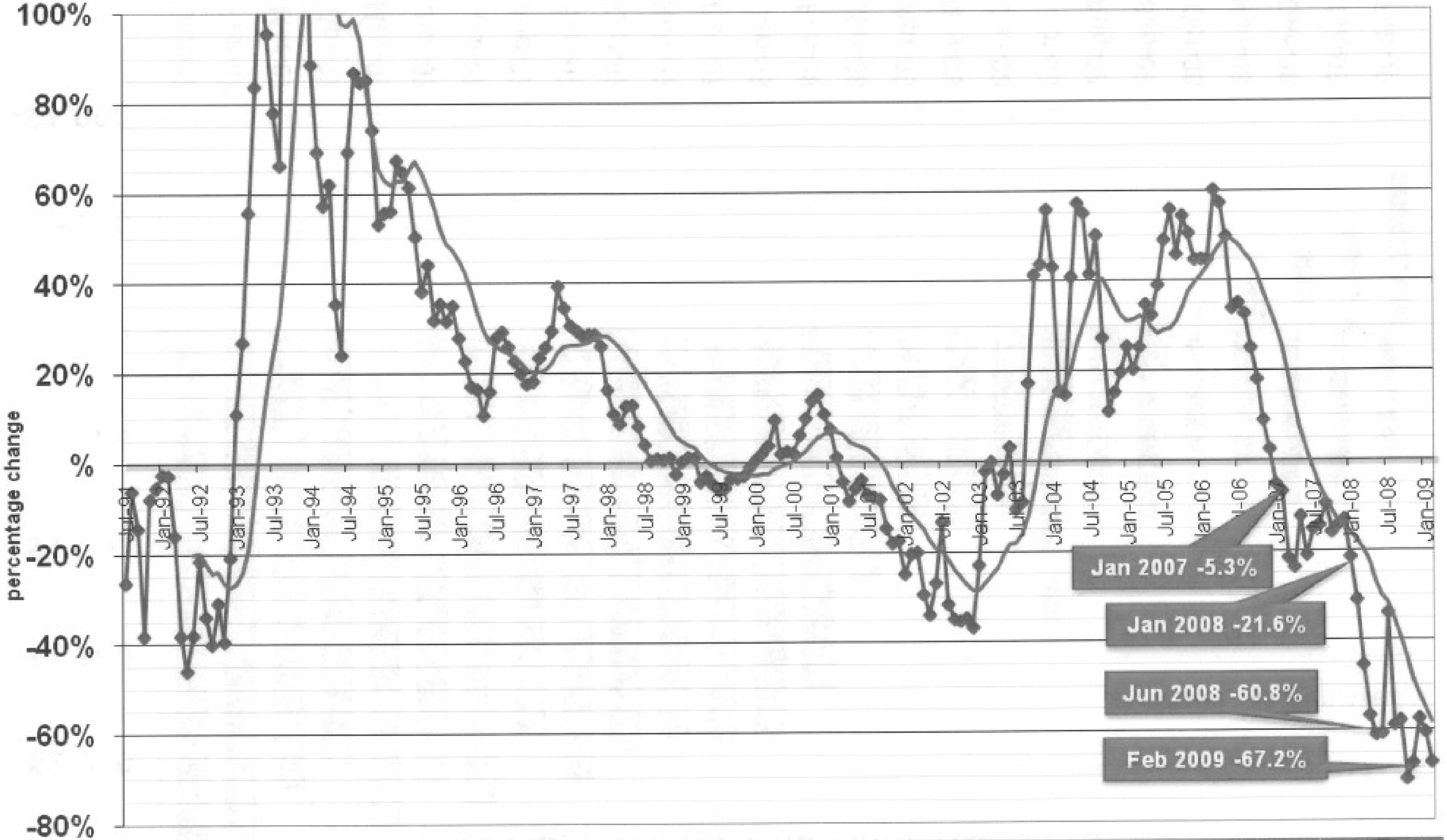
Attachment 2

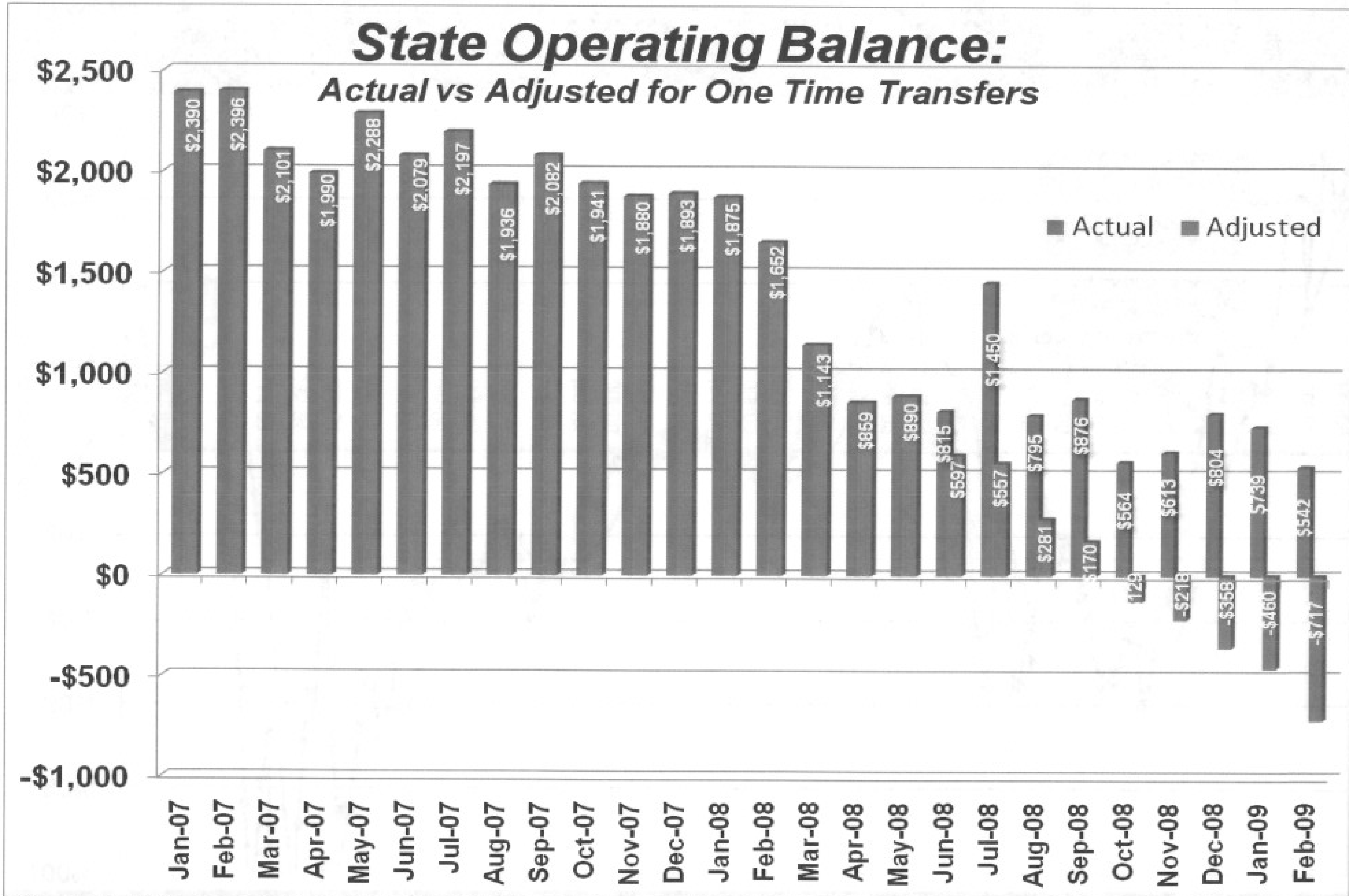
State Total Operating Account Average Monthly Balance
July 1990 to present



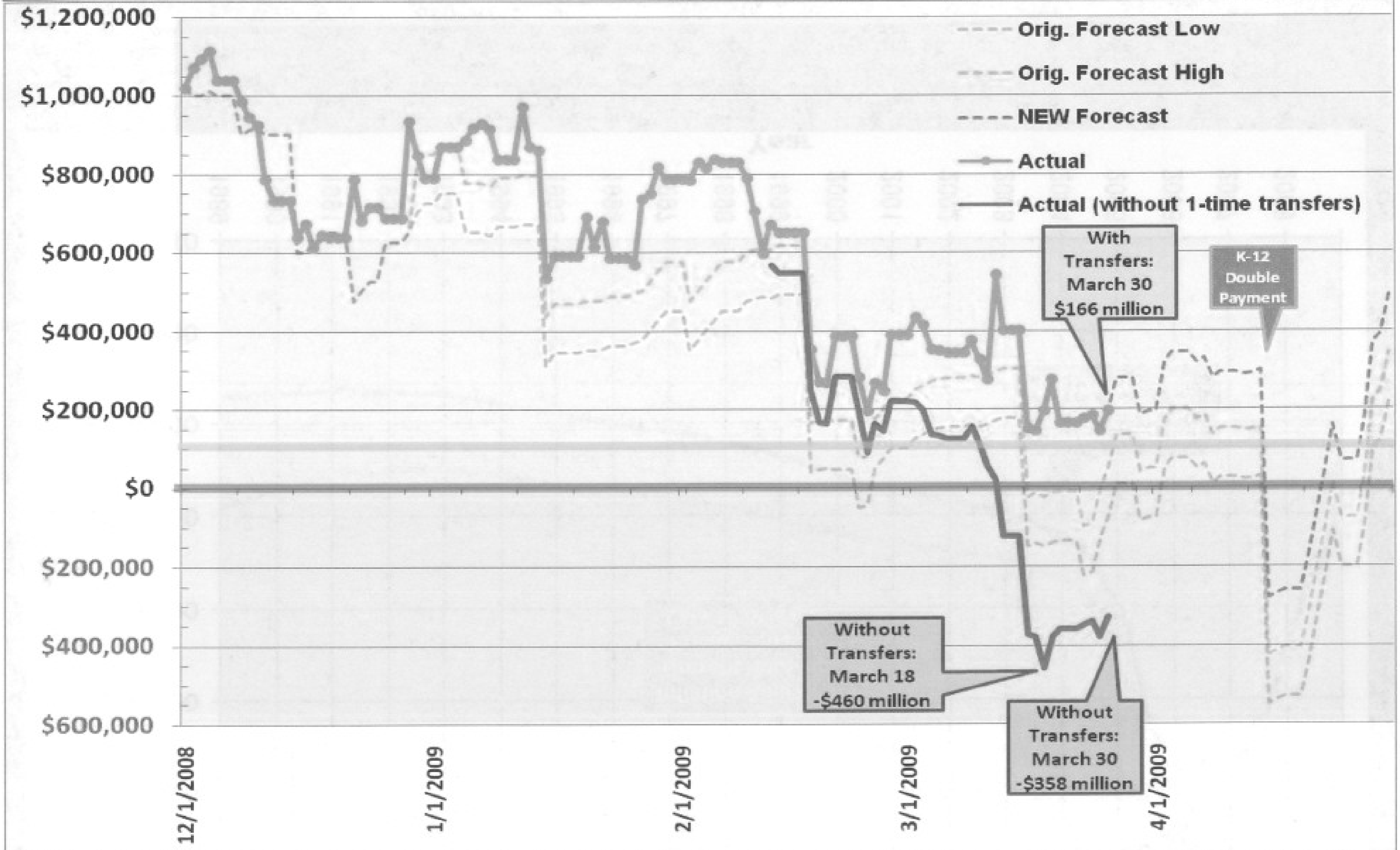
State of Arizona Operating Cash Balance On A Downward Trend

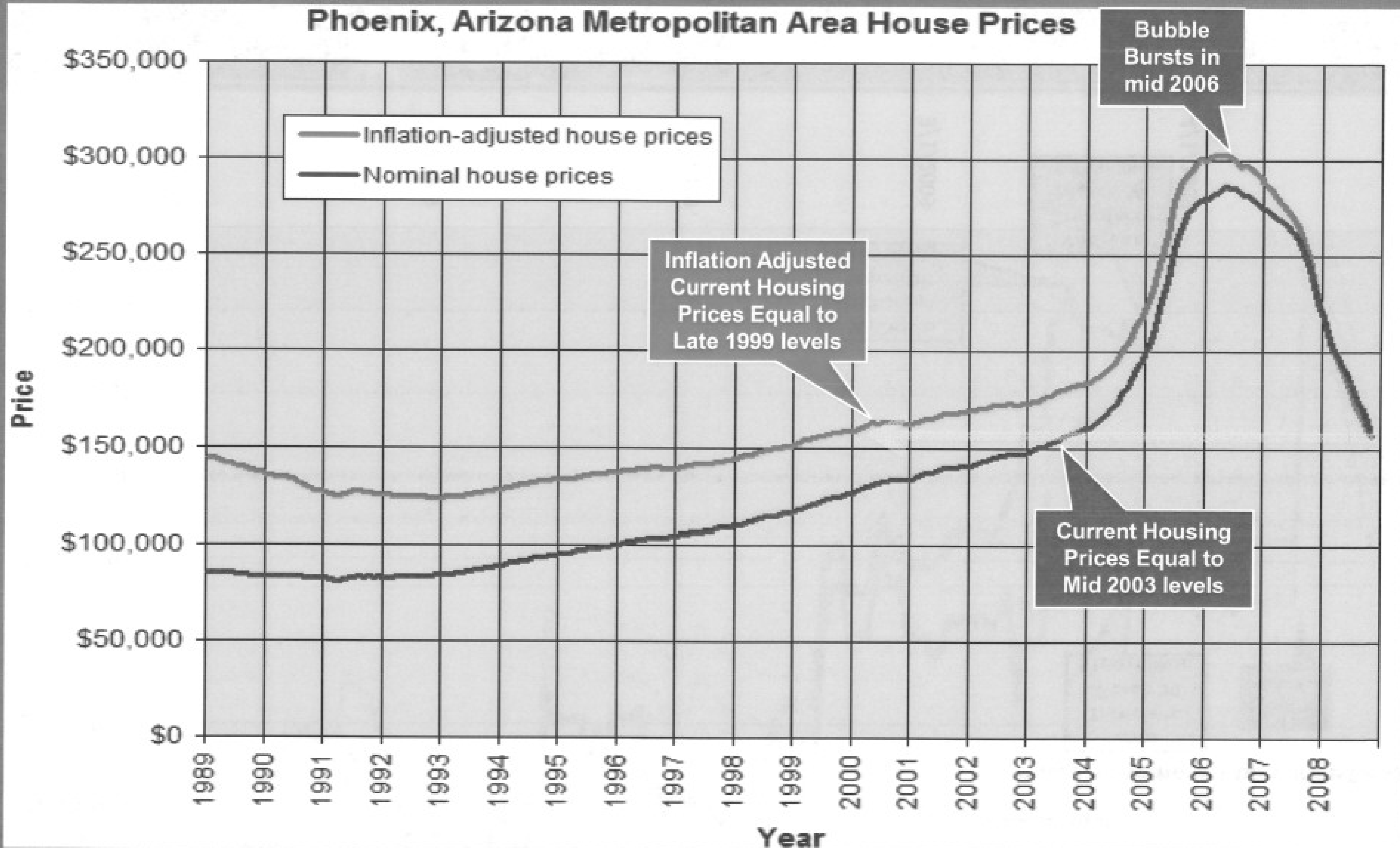
Percent Change in Operating Account Balance




State Operating Balance:
Actual vs Adjusted for One Time Transfers
$2,500
$2,000
$1,500
$1,000
$500
$0
-$500
-$1,000
Actual
Adjusted
$2,390
$2,396
$2,101
$1,990
$2,288
$2,079
$2,197
$1,936
$2,082
$1,941
$1,880
$1,893
$1,875
$1,652
$1,143
$859
$890
$815
$597
$1,450
$557
$795
$281
$876
$170
$564
-$129
$613
-$218
$804
-$358
$739
-$460
$542
-$717
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

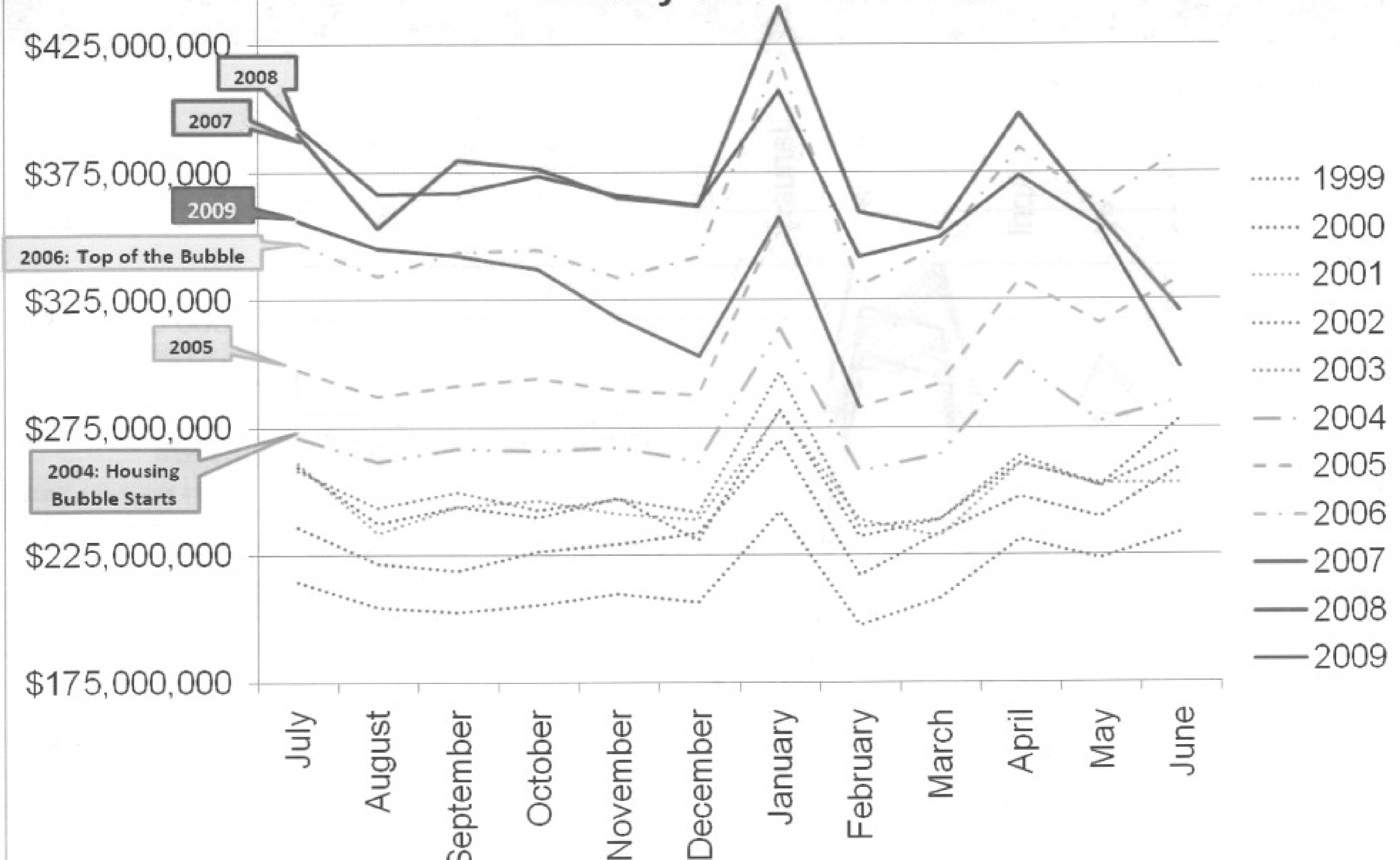
State of Arizona Operating Cash Balance



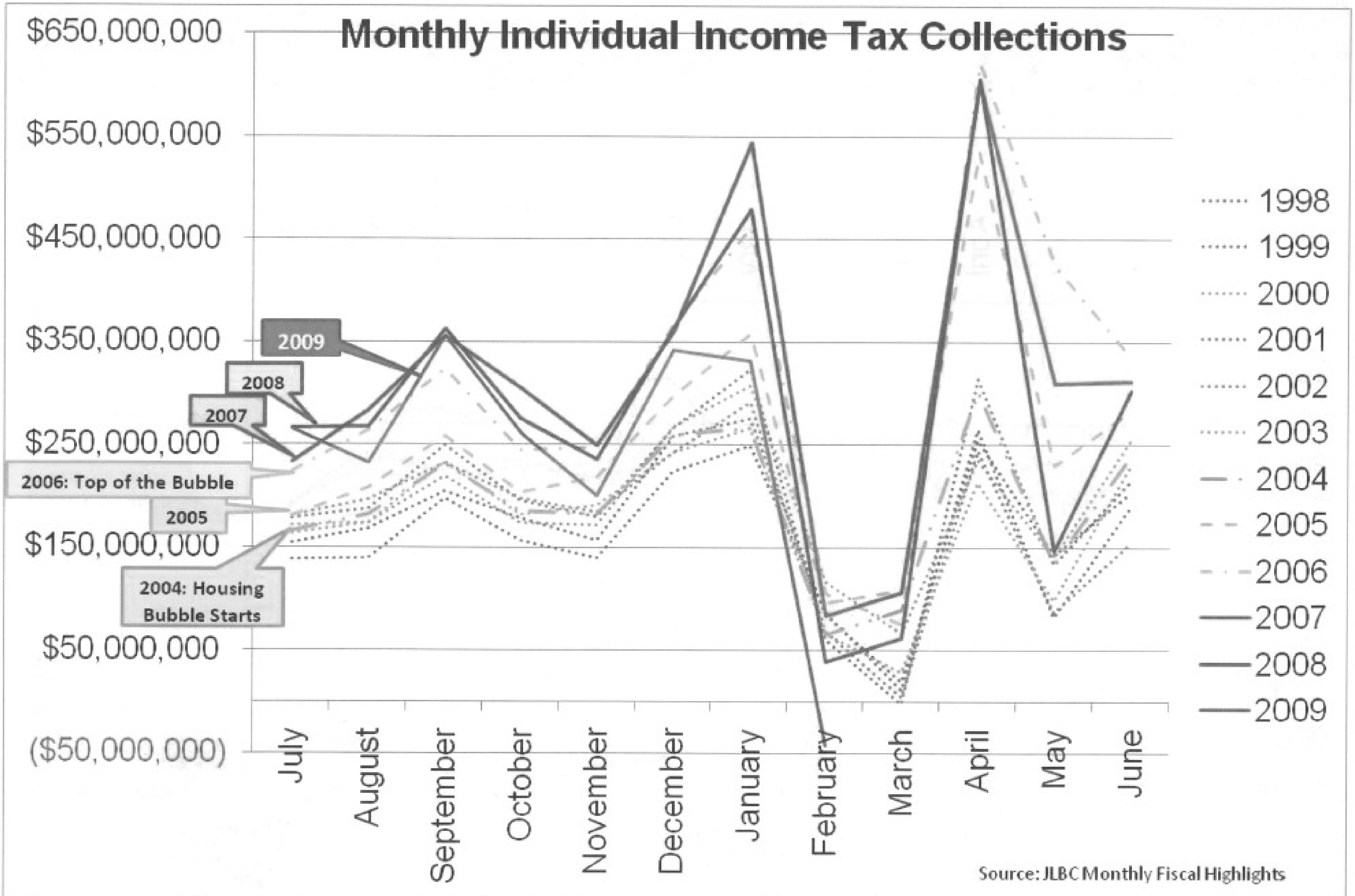


Latest quarterly, median, existing, single-family home price provided by the National Association of Realtors. Trailing house price index data provided by Standard & Poors.
Inflation data provided by the Federal Reserve Bank of Cleveland.
The chart on this page estimates the market value of today's median-priced 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://mysite.verizon.net/vzeqrguz/housingbubble/phoenix.html

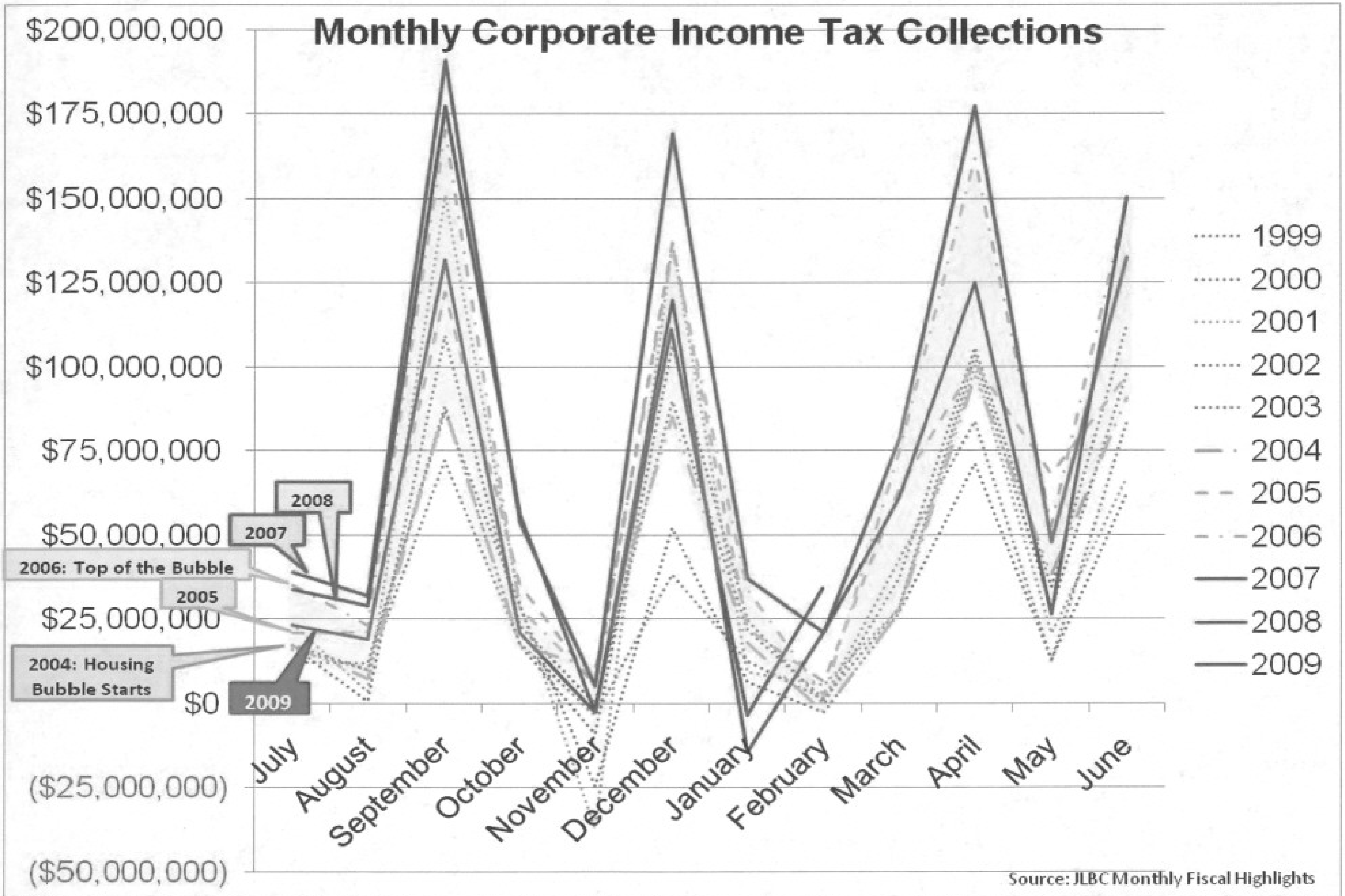
Monthly TPT Collections



Source: JLBC Monthly Fiscal Highlights



Monthly Individual Income Tax Collections
$650,000,000
$550,000,000
$450,000,000
$350,000,000
$250,000,000
$150,000,000
$50,000,000
($50,000,000)
2009
2008
2007
2006: Top of the Bubble
2005
2004: Housing Bubble Starts
July
August
September
October
November
December
January
February
March
April
May
June
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Source: JLBC Monthly Fiscal Highlights


Monthly Corporate Income Tax Collections
$200,000,000
$175,000,000
$150,000,000
$125,000,000
$100,000,000
$75,000,000
$50,000,000
$25,000,000
$0
($25,000,000)
($50,000,000)
July
August
September
October
November
December
January
February
March
April
May
June
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2008
2007
2006: Top of the Bubble
2005
2004: Housing Bubble Starts
2009
Source: JLBC Monthly Fiscal Highlights

"Nike" Whoosh Revenue Forecast