

MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK

**SPECIAL SESSION
October 15, 2007**

The Board of Supervisors of Maricopa County, Phoenix, Arizona, convened in Special Session at 8:30 a.m., October 15, 2007, in the Board of Supervisors' Auditorium, 205 W. Jefferson, Phoenix, Arizona, with the following members present: Fulton Brock, Chairman, District 1; Don Stapley, District 2 and Mary Rose Wilcox, District 5. Absent: Andrew Kunasek, Vice Chairman, District 3 and Max W. Wilson, District 4. Also present: Fran McCarroll, Clerk of the Board; Liz Evans, Minutes Coordinator; David Smith, County Manager and Victoria Mangiapane, Deputy County Attorney. Votes of the Members will be recorded as follows: aye-nay-absent-abstain.

OPENING REMARKS

Chairman Brock welcomed everyone and introduced various officials who were in attendance. He then introduced Bob Robb as the moderator for the event. Mr. Brock gave a brief account of Mr. Robb's career, including his column in the Arizona Republic and weekly commentary on the Horizon program on public television. Mr. Robb thanked Chairman Brock and explained the process for this event.

TOPICS

The following topics were presented by Elliot Pollack, Elliot J. Pollack and Company; Jay Butler, Director of Reality Studies, Arizona State University; and Dennis Hoffman, Professor of Economics, Arizona State University.

- An Analysis of Commercial and Residential Real Estate
- Taxes in 2007-2008
- 2008 Economic Trends

FEATURED SPEAKERS AND PANELISTS

Mr. Pollock reported that the consensus of the National Blue Chip Panel in September 2007 regarding the odds of a recession was about 32 percent. He said that while the economy is slow, it is in fact still growing. Mr. Pollack explained that recessions only happen for very specific reasons or conditions that do not really exist at this time, such as a decline in real incomes, excessive business debt, inflation and/or bad tax or monetary policies. Currently, employment and real incomes are still growing, business is flush with cash, inflation appears to be under control and the Federal Reserve has reacted well.

Mr. Pollack further explained that weakening economies are more sensitive to shocks, for example, unexpected oil supply disruption or oil price escalation or terrorist events. This year's shock has been the decline in housing prices and the effect on mortgage backed securities. As a result, liquidity has dried up and the market is re-pricing risk.

Mr. Pollack defined a "credit crunch" as when banks and others significantly curtail their lending to all sectors. The current credit crunch is primarily limited to highly leveraged sectors such as mortgage backed bonds, buyout loans and junk bonds. Mr. Pollack maintained that a full-blown credit crunch is driven by fear and uncertainty, but that is not the current reality. Some characteristics of a limited credit crunch, as in the present economy, are that banks are still lending, credit card agencies are still issuing credit and mortgage lenders are still lending to qualified buyers. Mr. Pollack asserted that this credit crunch will end when banks see stability.

Mr. Pollack outlined what has been happening locally. In 2006, Arizona was first in the nation in both population and job growth. This year, Arizona is ranked fourth in job growth. More than 76 percent of

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the new jobs in Arizona over the last 10 years have been in the Phoenix metropolitan area. Mr. Pollack said that while both population and job growth rate in the greater Phoenix area has and will continue to slow over the next few years, it is still growth. However, there is an excess supply of housing in the Phoenix area that may take a few years to absorb. He commented that the real estate market has slowed nationally, and people who are unable to sell their homes in other places will be unable to buy homes in Phoenix.

Mr. Butler spoke about the real estate market in the Phoenix area. He stated that he believes that the market has rebounded. Mr. Butler agreed with Mr. Pollack that there are about 25,000 excess properties in the Valley. Mr. Butler noted that many of the excess properties are investor-owned, not owner-occupied. Mr. Butler maintained that the market is structurally okay and is behaving as it should. He said that Phoenix will probably not experience a recession, but may experience a real estate depression. Mr. Butler clarified that there has been a drop in the affordability of homes because net incomes have not increased proportionate to the increase in prices. He said there are sub-markets around the Valley that have seen bigger price drops than others.

Mr. Hoffman discussed the economy and its effect on government finance. Mr. Hoffman contended there is a relationship between the rate of retail sales spending, primarily large ticket items such as automobiles, furniture, etc., and the rate of overall economic activity.

~ Supervisor Wilcox entered the meeting ~

Mr. Hoffman said that retail sales growth tends to align itself with income growth. However, there have been periods over the years when retail sales growth has surpassed income growth. This happens when people are buying large ticket items such as cars. He reported that the growth rate of the Transaction Privilege Tax has slowed this year, but the population is growing at about three percent.

QUESTION AND ANSWER PERIOD

Mr. Bob Robb led the question and answer period. He asked Mr. Pollack whether it was true that the Phoenix metro area was vulnerable because of a lack of diversity in the economic base. Mr. Pollack replied that not only was it a myth, but that Phoenix has one of the most diverse economic bases in the country.

Mr. Robb directed his next question to Mr. Butler. Mr. Robb suggested that it seemed that prices in the housing market should adjust quickly when there is excess supply over demand. He said that the estimates are that it will take two or three years for prices to adjust and asked Mr. Butler whether he agreed or whether it might be sooner. Mr. Butler responded that the real effect has not been seen yet and that the market is acting properly. Mr. Robb then asked why it would take two to three years to clear the inventory of excess properties. Mr. Butler explained that some of the problem is the number of sub-prime loans that are now in troubled status.

Mr. Hoffman said that a number of factors are acting as a drag on the economy, such as the price of oil and sluggish auto sales, which have changed consumption patterns.

Mr. James Thompson, from the audience, directed his question to Mr. Butler. He asked for an assessment of the retiree-housing subset. Mr. Butler said that there are really two demographic shifts relative to housing that need to be considered. The first is the expanding Hispanic market which makes up about 30 percent of the population base and is of the median age of 25. The second shift is the

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baby-boomer generation. Mr. Butler stated that retirees have more financial burden such as increased healthcare costs and caring for their own aging parents that will tend to prevent them from purchasing new housing and moving away from other family members to retire. Mr. Butler said he does not believe that there will be a big influx of baby-boomers into the valley that will rescue the housing market.

Mr. Eduardo Alvarez asked Mr. Pollack to comment on the tax environment and economic incentives for small businesses. Mr. Pollack said that we are very competitive on some taxes and less competitive on others. Personal property taxes are an area that tends to be over-taxed, especially for hi-tech manufacturers. Mr. Hoffman commented that business taxes are uneven in terms of existing businesses and that fiscal strategy is kind to individuals but not businesses. Mr. Hoffman asserted that growth in this state depends on key investments made today for things like education and infrastructure that attract business.

Mr. Marty Schultz asked Mr. Hoffman to expand on the types of infrastructure we should be investing in. Mr. Hoffman replied that in addition to education, infrastructure encompasses things like transportation systems, sustainable energy sources, water, and communication systems. He stated that private utilities and public entities need to invest in infrastructure. Mr. Pollack remarked that much of the infrastructure investment should be in the private sector because they are better suited to handle it economically.

It was Mr. Robb's contention that new housing construction seems to just leap up assuming that infrastructure will follow and he asked Mr. Butler to comment. Mr. Butler responded by saying that not only is more infrastructure needed to keep up with growth, but replacing and maintaining aging existing infrastructure is of greater concern. He said that about 30 percent of existing housing is more than 40 years old.

Ms. Claudia Walters, Mesa Vice-Mayor asked for comments regarding the investment in infrastructure versus the investment in human capital. Mr. Hoffman replied that there is a large amount of data that shows that there is a link between a productive, educated workforce to high standards of living and prosperous economies. He said that Arizona has some challenges in the area of education because, despite the proportion of undocumented immigrants in the valley, we still have a below average education attainment for individuals under the age of 50 years old. Mr. Hoffman stated that key investments in education need to be made in order to attract and retain quality firms to the Valley.

Ms. Walters also asked whether it was a myth or reality that the construction business hasn't deteriorated because of growth in commercial construction. Mr. Pollack responded that there has been a boom in commercial construction but he does not expect that to continue over the next year or two. Mr. Butler explained that most of commercial construction activity has been in the condo and retail sales markets, but that activity has slowed as well.

Mr. Robb asked what impact the legislation proposing employer sanctions for hiring illegal workers could have on our economy. Mr. Pollack said that it could create a void in the labor market that would result in higher prices in markets that rely on low-paid workers, such as the hotel, restaurant and construction industries, making us less competitive. Mr. Hoffman said that without making a statement about worker exploitation, the supply of low-paid workers has been an important ingredient of the Arizona economy for decades. He surmised that removing a low-cost labor source could cause a major shock to our economy. Mr. Butler commented that it could also be very difficult on small businesses. Mr. Pollack made the point that this legislation would not be as much of an issue for Arizona's economy if it were national because there would be no reason for businesses to avoid or leave the state to escape an "Arizona only" law.

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Mr. Andres Chagolla asked about positive areas for private investment. Both Mr. Pollack and Mr. Butler said that real estate can still be a good investment as long as one is prepared to wait for the market to correct itself in order to realize a profit.

CLOSING REMARKS

Chairman Brock thanked the panelists for their presentations. He also thanked a number of County staff members for their work in putting the forum together.

MEETING ADJOURNED

There being no further business to come before the Board, the meeting was adjourned.

Fulton Brock, Chairman of the Board

ATTEST:

Fran McCarroll, Clerk of the Board