

THE INDICATOR

A PUBLICATION OF THE COCHISE COLLEGE CENTER FOR ECONOMIC RESEARCH



By Robert Carreira
Director, Center for
Economic Research

Gap narrows between county and state wages

The Arizona Department of Commerce recently released its occupational employment and wage estimates for 2007. The estimates are based on data collected through the Occupational Employment Statistics survey, a partnership program between the U.S. Bureau of Labor Statistics and state workforce agencies, including ADOC.

The average hourly wage in Cochise County last year was \$17.43 or \$36,263 annually. This was the fourth highest of Arizona's 15 counties, behind Greenlee, Maricopa, and Pima counties. The statewide average wage last year was \$18.06 per hour, or \$37,560 per year.

Wages in Cochise County increased 5.3 percent in 2007, nearly twice the rate of inflation, which was 2.8 percent. In 2007, Cochise County wages grew faster than the statewide average, which was 3.7 percent. Wage growth in Cochise County was the fourth highest of Arizona's 15 counties. Wages grew at faster rates only in Apache, Greenlee, and Mohave counties.

In 2007, the gap narrowed considerably between wages in Cochise County and the statewide average. In 2006, Cochise County wages were 4.9 percent below the state average. This gap narrowed to 3.5 percent in 2007. Three years prior, in 2004, Cochise County wages were 8.9 percent below the statewide average

Since 2000, Cochise County wages have increased by 28.4 percent, compared to 20.4 percent inflation during the same period. This reflects real wage growth (an increase in the purchasing power of wages) of 8 percent. Statewide, real wages grew by only 1.4 percent between 2000 and 2007, barely keeping ahead of inflation.

In 2007, the largest wage increase in Cochise County went to utility meter readers, whose average wage jumped 59.5 percent from \$10.83 to \$17.27 per hour. The second largest increase went to mixing and blending machine setters, operators, and tenders, whose average hourly wage jumped 57.2 percent from \$10.29 to \$16.18. Third were truck drivers, light or delivery services, whose average wage climbed 49 percent from \$8.82 to \$13.14. The fourth-highest wage increase went to surveying and mapping technicians, whose wages were up 48.9 percent from \$13.65 to \$20.33. Fifth were chief executives, whose average hourly wage increased by 37.1 percent from \$59.51 to \$81.58.

The largest drop in wages in Cochise County was for physical therapist

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FALL 2008

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GAP NARROWS
BETWEEN
COUNTY AND
STATE WAGES

assistants, whose average wage dropped 38.8 percent from \$25.75 to \$15.77 per hour. The second largest wage decrease went to tile and marble setters, whose average hourly wage fell 31.3 percent from \$14.57 to \$10.01. Third were parts salespersons, whose average wage dropped 29.4 percent from \$15.88 to \$11.21. The fourth-largest drop in wages went to computer programmers, whose wages declined 23.6 percent from \$23.29 to \$17.80. Fifth were physicians and surgeons, all other, whose average wage decreased by 23.5 percent from \$60.63 to \$46.37 per hour.

The highest-paying occupation in Cochise County in 2007 was chief executives, with an average wage of \$81.58 per hour. Second were general dentists, who earned an average of \$78.94. The third highest-paying occupation was engineering managers, who earned an average of \$56.08. Fourth were physicians and surgeons, all other, who earned \$46.37. The fifth highest-paid workers in Cochise County were computer and information systems managers, who earned an average of \$43.13 per hour.

The lowest-paid workers in Cochise County in 2007 were waiters and waitresses, who earned an average of \$7.29 per hour. Second were hotel, motel, and resort desk clerks, who earned \$7.39. The third lowest-paid workers

were bartenders, who were paid an average hourly wage of \$7.41. Fourth were crop, nursery, and greenhouse farmworkers and laborers, who were paid \$7.45. The fifth lowest-paid occupation in Cochise County was team assemblers, who were paid an average of \$7.50 per hour.

Top Paying Occupations in
Cochise County, 2007

OCCUPATION	AVERAGE HOURLY WAGE
Chief Executives	\$81.58
Dentists, General	\$78.94
Engineering Managers	\$56.08
Physicians and Surgeons, All Other	\$46.37
Computer and Information Systems Managers	\$43.13
Electronics Engineers, Except Computer	\$43.11
Pharmacists	\$42.83
Electrical Engineers	\$40.22
Computer and Information Scientists, Research	\$40.05
Engineers, All Other	\$39.41

Source: U.S. Bureau of Labor Statistics, Arizona Department of Commerce, and Cochise College Center for Economic Research.

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Optimism, with a bit of caution



By Steve Pauken
Bisbee City Manager

Caution. That's a word many of us are using in Arizona these days. Let's face it; we're in a recession in this state, brought on mostly by the housing crunch and the mortgage foreclosure crisis. The collapse of unbridled growth has turned this state from a horn of plenty to a beggar on the street corner. The State of Arizona, with its \$3 billion deficit, has looked to the cities and towns, among others, to balance its budget. The result has been cuts in the state's allocation to the cities and towns from the state's sales tax, income tax, and gas tax funds, along with attempts at billing the cities for use of the Crime Lab and billing the cities for a "contribution" to the state budget. While the state has attempted to bill Bisbee for almost \$40,000 for the Crime Lab and the "contribution," it has also hit us with a reduction of \$31,000 in State Shared Revenues and an additional \$160,000 in Public Safety Pension costs. When the total General Fund is \$6.86 million, these kinds of cuts and additional costs can be very challenging to Bisbee's General Fund operations.

CONTINUED **Optimism.** Despite the recessionary times we are living in, the City of Bisbee's revenues collected locally are holding their own. Our tax revenues are breaking even with last year, and our receipts from fees and charges are equal to, or better than, last year. What this means is that our local efforts at revenue generation have paid off, along with the fact that our base economy has not deteriorated. Bisbee has not been a high-growth city in the past, a fact that is working to our advantage in the current recession. Additionally, Bisbee has focused on its tourist trade over the last three years, and our efforts are paying off. While our tourist numbers are continuing to increase, we have noticed that the demographics are changing. While we are seeing a lower number of visitors from other states, the number of visitors from Arizona and foreign countries is increasing. This is a result of the weakening of the dollar on world markets along with the increase in gasoline prices in this country. Bisbee and Cochise County have been working on attracting foreign and Arizona visitors for several years now, and our efforts are paying off at the most opportune time.



At this point, the year is young. While we already know that our base economy is holding steady, we are anxiously awaiting our tourist season, which runs from late November through the end of April. We've set the stage for success over the last three years, and we're ready to succeed in the coming months. With cautious optimism, Bisbee is moving forward with our many assets despite the challenges that face us.

OPTIMISM,
WITH A BIT OF
CAUTION

Existing home sales down, but show signs of improvement

By Robert Carreira

In the first half of 2008, sales of existing homes in Cochise County were down 27.3 percent compared to the same period last year. From January through June, 559 homes were sold, down from 769 in the same period of 2007. Sales data include only those homes listed on the Southeast Arizona Multiple Listing Service and include site-built, manufactured, and mobile homes, as well as townhouses and condominiums.

The median price of a home sold in Cochise County in the first half of 2008 was \$188,550, down 3.6 percent from \$195,681 in the first half of 2007. The average price per square foot was down 1.7 percent from \$115.61 to \$113.61. In the first half of this year, the average home sold for 95.6 percent of the asking price, down from 96.3 percent in the same period last year. Homes that sold were on the market for an average of 153 days, up from 136 days in the first half of 2007.

Although home sales were down considerably, there were signs of improvement in the second quarter. In the first quarter, sales were down 34.1

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THANK YOU TO ALL WHO HAVE SUPPORTED THE CER.

FALL 2008

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EXISTING HOME SALES DOWN, BUT SHOW SIGNS OF IMPROVEMENT



percent, from 384 to 253, when compared to the first quarter of 2007. In the second quarter, sales were down by a comparatively lower 20.5 percent, from 385 to 306.

While sales in the first half of 2007 were split evenly between the first and second quarters; in 2008 sales saw a marked increase from the first to the second quarter. Sales in the first quarter totaled 253, while second quarter sales were 20.9 percent higher at 306.

The median price in the second quarter was \$185,250, down 2 percent from \$189,000 in the first quarter. The average price per square foot was down 0.4 percent from \$113.84 to \$113.42. The average home in the second quarter of this year sold for 95.9 percent of the asking price, up from 95.1 percent in the first quarter. Homes that sold in the second quarter were on the market for an average of 149 days, down from 158 days in the first quarter.

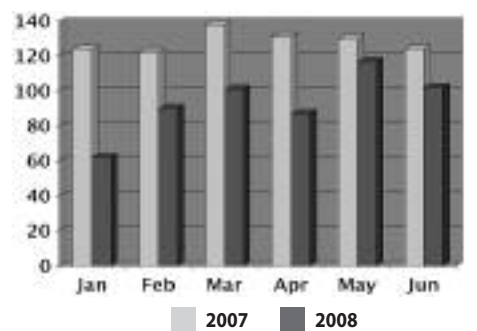
As of July 30, there were 1,103 active listings in Cochise County on SAMLs. This is approximately an 11 month supply based on the amount of time it took to sell the previous 1,103 homes. The average number of days on market for active listings as of July 30 was 146.

In Southwest Cochise County, which includes Sierra Vista, Tombstone, Huachuca City, Hereford, Palominas, Whetstone, and surrounding areas, there were 446 homes sold in the first half of 2008. This was down 26.8 percent from 609 in the first half of last year.

The median home price in Southwest Cochise County in the first half of 2008 was \$202,250, down 2.6 percent from \$207,750 in the first half of last year. The average price per square foot was down 2 percent from \$121.23 to \$118.81. The average home sold for 95.8 percent of the asking price, down from 96.7 percent. Homes in Southwest Cochise County that sold in the first half of this year were on the market for an average of 151 days, up from 135 days in the first half of 2007.

As of July 30, there were 786 active listings in Southwest Cochise County on SAMLs. This is approximately a 10 month supply based on the amount of time it took to sell the previous 786 homes. The average number of days on market for active listings in Southwest Cochise County as of July 30 was 135.

Cochise County home sales



In Southeast Cochise County, which includes Douglas, Bisbee, Double Adobe, Elfrida, McNeal, Naco, Pirtleville, and surrounding areas, there were 87 homes sold in the first half of 2008, down 26.9 percent from 119 in the first half of last year. The median price was \$112,000, up 1.8 percent from \$110,000. Although the median price was up slightly, the average price per square foot was down 0.4 percent from \$88.16 to \$87.78, indicating the increase in the median price was due in part to a greater share of larger homes included in

CONTINUED the mix of homes sold.

EXISTING HOME
SALES DOWN,
BUT SHOW
SIGNS OF
IMPROVEMENT

The average home in Southeast Cochise County in the first half of this year sold for 94.7 percent of the asking price, up from 93.7 percent in the first half of last year. Homes were on the market for an average of 166 days, up considerably from 125 days in the first half of 2007.

As of July 30, there were 262 active listings in Southeast Cochise County on SAMLs. This is approximately a 16 month supply based on the amount of time it took to sell the previous 262 homes. The average number of days on market for active listings in Southeast Cochise County as of July 30 was 183.

In Northern Cochise County, which includes Benson, Willcox, Bowie, Cascabel, Cochise, Dragoon, Dos Cabezas, Kansas Settlement, Pearce, Pomerene, Portal, San Simon, St. David, Sunsites, and surrounding areas, there were 26 homes sold in the first half of 2008, down 36.6 percent from 41 in the first half of 2007. The median price was \$154,000, down 17.9 percent from \$187,500. The average price per square foot was down 2.3 percent from \$111.92 to \$109.29, indicating that much of the decrease in the median price was due to a greater share of smaller homes included in the mix of homes sold.

The average home in Northern Cochise County in the first half of this year sold for 94.3 percent of the asking price, down considerably from 98 percent in the first half of last year. Homes were on the market for an average of 145 days, down considerably from 183 days in the first half of 2007. It's important to note that several realtors in Northern Cochise County list properties exclusively on the Tucson Area MLS, rather than SAMLs; thus, this area of the county is underrepresented in this analysis.

As of July 30, there were 55 active listings in Northern Cochise County on SAMLs. This is approximately a 13 month supply based on the amount of time it took to sell the previous 55 homes. The average number of days on market for active listings in Northern Cochise County as of July 30 was 140.

While new home construction has picked up in several parts of the county since the beginning of the year, most notably in Sierra Vista and Benson, the second quarter data show the first signs of a turnaround in the existing home market. New home construction countywide seems to have bottomed out last year. The most recent data on existing homes suggest this portion of the market may hit bottom this year and begin recovering later in the year or in early 2009.



Flash Point

In July, the CER conducted a fiscal impact study of the proposed ACT Call Center in Douglas. The report, which was briefed to the Douglas Mayor and City Council, is posted to the CER's website at www.cochise.edu/cer. Also, see the related article in this issue of *The Indicator*.

Cochise County Home Sales, Jan-Jun 2008

AREA	SALES	CHANGE	MEDIAN PRICE	MEDIAN PRICE CHANGE	AVERAGE SOLD/ASK PRICE	AVERAGE PRICE PER SQ FT	AVERAGE PRICE PER SQ FT CHANGE	AVERAGE DAYS ON MARKET
COCHISE COUNTY	559	-27.3%	\$188,550	-3.6%	95.6%	\$113.61	-1.7%	153
SOUTHWEST COCHISE COUNTY	446	-26.8%	\$202,250	-2.6%	95.8%	\$118.81	-2.0%	151
SOUTHEAST COCHISE COUNTY	87	-26.9%	\$112,000	1.8%	94.7%	\$87.78	-0.4%	166
NORTHERN COCHISE COUNTY	26	-36.6%	\$154,000	-17.9%	94.3%	\$109.29	-2.3%	145

Note: Includes site-built, manufactured, and mobile homes, as well as townhouses and condominiums; includes only those homes listed on the Southeast Arizona Multiple Listing Service. Comparisons are to the same period 1 year prior. Source: Southeast Arizona Multiple Listing Service and Cochise College Center for Economic Research.

CER Services

The CER provides economic and demographic information, analysis, and forecasting to help community leaders in the public, private, and nonprofit sectors make informed decisions. The CER hosts economic outlook luncheons each year in Benson, Bisbee, Douglas, and Sierra Vista. The Center also produces four major publications annually as part of its Cochise County Economic Outlook Publication Series: *Benson Economic Outlook*, *Bisbee Economic Outlook*, *Douglas Economic Outlook*, and *Sierra Vista Economic Outlook*. The CER provides personnel to serve on community projects, committees, and task forces, providing technical expertise in research methodology and serving as a community resource. The CER also prepares weekly press releases that are published in newspapers countywide providing insight into issues affecting Cochise County. The CER also produces the *Cochise County Economic Update*, a biweekly compilation of links to online newspaper articles relevant to the local economy, which is emailed to everyone on the CER's distribution list. The CER's website (www.cochise.edu/cer) provides economic news, information, analyses, forecasts, and studies. In addition, the CER is a state data center affiliate, receiving and disseminating U.S. Census Bureau data to users at no charge or on a cost-recovery or reimbursable basis.

Douglas call center a break-even project for city coffers

By Robert Carreira

The Cochise College Center for Economic Research recently conducted a study for the City of Douglas on the fiscal impact of a proposed call center. The study provided an analysis of the cost vs. revenue to city coffers of the project, proposed by Advanced Call Center Technologies, LLC. ACT projects the call center will create 692 new jobs in the city over the next four years, becoming the largest private sector employer in the city.

The project involves an investment by the City of Douglas of \$6.5 million to remodel the old Bayless grocery store in the city's San Antonio Commercial District, and \$2.5 million for the information technology infrastructure necessary to get the call center started. Building costs will be financed over 20 years, with an estimated nominal interest rate of 6.5 percent. IT equipment will be financed at 6.5 percent for 5 years.

The overall cost to the city, in today's dollars, is estimated at \$11.4 million over 20 years. The projected revenue to the city is \$12.7 million, as follows: \$7.8 million in rental income from ACT over 15 years; \$2.8 million in salvage value upon return of the building to the city in year 16 of the project; \$174,000 in projected residential property tax revenue over 15 years, derived from new residents lured to the city as a result of increased job opportunities; \$485,000 in projected sales tax revenue over 15 years, resulting from the increased purchasing power of current residents who move from public assistance and unemployment compensation income to fulltime employment income; \$1.3 million in projected sales tax revenue over 15 years, from call center employees who are new residents lured to the area as a result of increased job opportunities; and \$195,000 in projected tax revenue from indirect and induced economic activity related to the call center over 15 years.

The projected net revenue to the city is \$1.3 million over the 20-year loan period. This is an average of approximately \$65,000 per year. However, this net revenue is not evenly distributed over each year of the loan period. The project will run annual deficits ranging from \$242,000 to \$577,000 in its first 5 years. In years 6-10, the call center is projected to yield net annual revenue for the city ranging from \$172,000 to \$219,000.



Year 16 will see \$2.8 million in net revenue, based on the estimated salvage value of the building, returned at the end of the 15-year lease. The estimated salvage value is more than double the combined annual deficits projected for the final 4 years of the project, which range from \$317,000 to \$350,000 in today's dollars.

To deal with the projected deficits in the first 5 years, the city passed a sales tax increase of three-tenths of one percent, raising its general sales tax rate from 2.5 to 2.8 percent, beginning on September 1 of this year and continuing through August 31, 2013. The tax hike should raise about \$600,000 a year for the city, which will more than cover the projected deficits in the first 5 years. The sales tax increase is equal to about \$50 to \$100 per year for each Douglas household, with a significant portion being raised by residents of areas outside the city limits, including those in Agua Prieta who shop within the city limits.

Overall, the return on investment for the city is projected to be 11.3 percent of the overall investment amount, after inflation, over the entire 20-year

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**DOUGLAS CALL
CENTER A BREAK-
EVEN PROJECT FOR
CITY COFFERS**

period; or 0.6 percent per year after inflation. Although the point estimate is positive, the estimate is based on a model, which is subject to modeling errors. If it were possible to construct a confidence interval to estimate the precision of the point estimate, this interval would include a net revenue impact of zero, as well as a negative net impact.

Based on preliminary analysis of some of the modeling errors, it is the sense of the CER that this is essentially a break-even project in terms of government costs vs. revenue, and that the primary benefits to the city are more societal than fiscal. Societal benefits include increased quality of life, lower crime, and a stronger community and family structure resulting from lower unemployment and movement from public assistance and unemployment compensation to earned income.

The study considered a variety of projected costs and revenue, but it did not measure all economic and fiscal impacts of the project. The study projected the additional population that might be lured to the city due to increased job opportunities, and property tax revenue that might be generated by these new residents. The study did not, however, measure increased state shared revenue; increased fines, fees, and charges for services; or the costs associated with providing government services to new residents, including public safety, transportation, parks and leisure, and other infrastructure costs that arise as the result of an increasing population. Also, the study did not measure the economic impact of rents that may be paid by new residents who are not homeowners; while much of this amount may leave the area through mortgage payments by the actual property owners, there is likely to be some local effect, for example: private rental homes without mortgages, whose owners reside in the Douglas area.

The study also did not measure the economic impact of the construction/remodeling activity necessary to establish the call center. This impact will depend on such factors as the extent to which local workers are used in the construction, and whether non-local workers will be housed in area hotels, motels, and other temporary lodging, and the extent to which they purchase local goods and services, such as meals at restaurants, gasoline, etc. The economic impact of construction will also depend on the extent to which building supplies and materials are purchased locally.

Also not included is the economic impact of purchasing and installing the IT equipment, which will depend on the extent to which IT equipment is purchased locally; the extent to which local IT workers are used in the installation; whether non-local IT workers will be housed in area hotels, motels, and other temporary lodging; and the extent to which non-local IT workers purchase local goods and services, such as meals at restaurants, gasoline, etc.

The study also does not measure associated societal benefits that may arise



**THE STUDY...DOES
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DOUGLAS CALL
CENTER A BREAK-
EVEN PROJECT FOR
CITY COFFERS

from reduced unemployment, including lower crime and reduced incidents of domestic violence, strained family relationships, drug and alcohol abuse, mental and emotional illnesses and conditions, and other ill societal effects associated with higher levels of unemployment.

The analysis in the study was based on project information provided by the City of Douglas. The study assumes the project is successful as described in terms of the interest rate obtained on the borrowed money, jobs created, wages paid and other factors; and that the call center remains in business for the entire 15-year lease period. A copy of the study is posted to the CER's website at www.cochise.edu/cer.

The layperson's guide to Fannie and Freddie

By Robert Carreira

Fannie Mae was established as a government agency in 1938, during the Great Depression, to help make mortgages less expensive and more available. In 1968, Fannie was transformed into a government sponsored enterprise, which meant investors could now buy shares. Although partially privatized, it was widely regarded that the government would back Fannie if necessary. Several economists have referred to this as the privatization of profit and the socialization of risk.

Freddie Mac was established by the national government in 1970 and given a similar mission: to expand home ownership by making mortgages less expensive and more widely available. Both Fannie and Freddie purchase and guarantee mortgages. Combined, the two own or guarantee about half of all mortgages in America.

To guarantee mortgages, Fannie and Freddie buy the mortgages from lenders. They then bundle mortgages with similar interest rates and sell them to investors, guaranteeing the principal and interest payments at a rate typically about one quarter of a percentage point below the actual rates of the loans. They then pocket the difference to cover costs, including defaults.

By guaranteeing mortgages, Fannie and Freddie lower the cost of a mortgage – or the interest rate – by providing an insurance policy for investors against default. This increases the security of the investments, so investors are willing to accept a lower rate of return, which is passed along to homebuyers in the form of lower mortgage rates.

Fannie and Freddie also “own” loans that they purchase but don't resell. This provides a source of income, presuming the interest they earn is sufficient to cover costs, including defaults.

Several things went wrong. Higher default rates meant Fannie and Freddie had to pay more to cover the loans they guaranteed. The spread they earned from the resale of mortgages was no longer sufficient to cover the cost of defaults. Also, there were likely some unwise management issues, including excessive spending on lobbying to keep legislators from tightening regulatory controls.

As financial conditions of both enterprises began to deteriorate, investors became nervous about buying Fannie and Freddie guaranteed mortgages. As a result, investors demanded higher rates of return on those investments, which put upward pressure on mortgage rates. Also, the prices of shares of Fannie and Freddie began to decline, which meant revenue streams began to decline; and the increased risk kept some investors away. This reduced the supply of money available for mortgage lending, placing upward pressure on mortgage interest rates. As a result, efforts by the Federal Reserve over the



In July, CER director Robert Carreira completed his work as an advisory council member for an ASU internship study that examined the economic development potential of the Douglas Port of Entry. See the related article by ASU intern Kimberly Hill in this edition of *The Indicator*.

CONTINUED past year to lower interest rates didn't make their way into mortgage markets.

**THE
LAYPERSON'S
GUIDE TO
FANNIE AND
FREDDIE**

In July, Congress authorized the U.S. Treasury to buy Fannie and Freddie shares and securities, to grant loans to the struggling enterprises, and to place them in a conservancy if agreed to by the leadership of the enterprises. The Treasury wasn't granted authority to take over the enterprises unless the Federal Housing Finance Agency – the regulator of both enterprises – determined they were insolvent, meaning they could no longer meet their obligations. In September, the leadership of both enterprises agreed to hand over reigns to the government in exchange for financial help.

Treasury Secretary Henry Paulson placed Fannie and Freddie in a conservancy, under the management of the FHFA, and began injecting money into the enterprises through loans and the purchase of shares. New chief executives were appointed who are now looking at restructuring the enterprises to restore them to financial viability.

There are several reasons for the takeover. One was to restore faith in the Fannie and Freddie guaranteed mortgages. While it's always been implied that the government would bail them out, there's been uncertainty over the timing and extent of a bailout. By clearing this up, investment in the mortgages guaranteed by Fannie and Freddie has become more secure. The almost immediate result was a drop in mortgage rates by nearly one percentage point. The added security has the effect of increasing the number of investors and investor dollars. It also lowers the rate of return on investments as a tradeoff for the added security – the lower rates are then passed along to homebuyers.

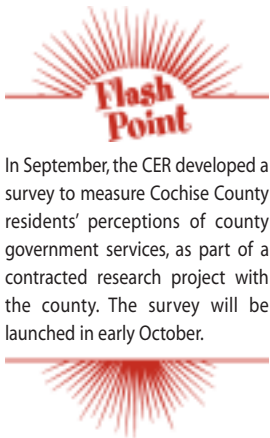
So who pays for all this? You guessed it – the taxpayer. If the government makes loans to Fannie and Freddie that they cannot pay, then taxpayers will take the loss. If the government buys Fannie and Freddie guaranteed mortgages and those mortgages default – and Fannie and Freddie can't cover them – taxpayers will cover it.

This doesn't mean we'll see a tax increase we can point to and say "this is because of the Freddie-Fannie takeover." The more immediate effect will be an increase in the public debt. The government has decided to keep the Fannie-Freddie transactions off-budget, which means the spending won't show up in official deficit or national debt figures. The perceived transient nature of the takeover has been cited as the reason for keeping the bailout off-budget; but it was probably also motivated by the fact that the deficit is already at record highs, and raising it could hurt the value of the dollar on the foreign exchange, as well as draw increased public scorn at home.

Most economists are of the opinion that Freddie and Fannie were too big to let fail. Most criticism of the takeover is not necessarily that this is the wrong thing to do at the wrong time. Instead, it goes back to the wisdom of public-private enterprise to begin with, since it has always been implied that the government would back up Fannie and Freddie to keep them from failing. This removed the incentive for wise investment, allowing these enterprises to become as large as they did. Also, lobbying prevented the expansion of regulation of the two enterprises, and their status as government sponsored enterprises provided exemption from many of the reporting requirements to which other publicly traded companies are subject.

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In September, the CER developed a survey to measure Cochise County residents' perceptions of county government services, as part of a contracted research project with the county. The survey will be launched in early October.

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THE LAYPERSON'S GUIDE TO FANNIE AND FREDDIE

Who is helped by the takeover? Most immediately are those in the housing and real estate market, including homebuyers, builders, realtors, and lenders. The added security of Fannie and Freddie led to an immediate drop in mortgage rates, stimulating this market. This could, however, be a double-edged sword. It was lower mortgage rates that got us into the mess we're in now, because the lower rates meant a lowering of the standards for lending, which then led to higher defaults. Now, the lower rates could mean more risky loans; and thus mean more Fannie and Freddie losses, which now must be borne by taxpayers. The bailout could merely prolong the current market correction and could, in the longer term, add to the woes of the housing market by creating a new wave of defaults to be dealt with further down the road. There'll likely be some measures undertaken by the new Fannie and Freddie leadership to help keep people in their homes; but the cost of these measures will be borne by taxpayers.

Who is hurt? Most immediately are those holding Fannie and Freddie shares. One of the first actions of the takeover was to suspend payment of dividends. For many large investors, this accounted for a considerable amount of steady income, which will now be turned off in the midst of other economic problems. This is not necessarily the direct outcome of the takeover; rather, the takeover merely sped things up. As Fannie and Freddie's financial condition worsened, it was only a matter of time before their stock prices would fall and dividends would be threatened.

Also hurt are taxpayers. While taxpayers won't see an immediate tax increase to pay for all this, there will be an increase in the national debt – notwithstanding that the increase will be accounted for off-budget. This means servicing the debt will become more expensive and there'll be less money left over for other government spending. This may lead to cuts in federal spending for other projects, including grant funding for programs at the state and local levels. This could lead to the curtailment or elimination of some programs, or tax increases at the state and local levels to fill the gap. If the national government chooses to finance the takeover through an expansion of the money supply; then that will stoke inflation, which is already a major concern, and the impact will be felt by American households who are already struggling with higher prices.

Economic development of the Douglas port of entry

By Kimberly M. Hill

This article is adapted from a study conducted by Ms. Hill as a student intern with Arizona State University's ASU for Arizona. CER director Robert Carreira served on the advisory council for the study. The complete study, "Douglas, Arizona: Characterization and Possibilities/Problems for Economic Development of the Port of Entry" is available online at www.asu.edu/asuforaz.

As Douglas continues to pursue various economic development strategies, including port of entry development, it is necessary to collect information about the port and the city, and to identify information and infrastructure gaps. A study was initiated in September 2007 to serve as a source of

CONTINUED information for the developing Douglas International Port Authority and to identify knowledge gaps for future research. Addressing these knowledge gaps will improve the outlook for economic development in Douglas and surrounding areas.

**ECONOMIC
 DEVELOPMENT
 OF THE
 DOUGLAS PORT
 OF ENTRY**

The study addressed several aspects of economic development in Douglas, including the status of the city's economy and that of its sister city Agua Prieta, Mexico; trade flows through the Douglas region; the nature of Douglas' transportation and telecommunications infrastructure; and a comparison with the structure, goals, and services of other port authorities (Nogales and San Luis-Yuma) to identify best practices.

The Douglas economy relies heavily on government employment – nearly 50 percent of the jobs in the area are provided by government agencies, including the Arizona State Prison, U.S. Customs and Border Protection, the Douglas Unified School District, and the City of Douglas. In nearly every other sector, Douglas remains underdeveloped. In sectors important to port growth (e.g., transportation and warehousing, accommodation and food service, retail trade, wholesale trade, and manufacturing), Douglas' employment numbers are significantly lower than Nogales, but on par with Yuma and San Luis, both of which are heavily agriculture-based. Agua Prieta, Sonora, located adjacent to Douglas, is on par with Yuma-San Luis in export-oriented sectors relevant to port growth and economic development.

Current trade flows are highly regional. Most exports originate in Arizona (76 percent in 2007) and terminate in Sonora (87 percent in 2007). About half of all imports end up in Arizona. The Douglas Department of Economic Development intends to market the port in Chihuahua and Coahuila, though export trade with those Mexican states is low (0.8% and 3% in 2007 respectively).

For 2006 and 2007, imports into the United States through the Douglas Port of Entry were heavily natural-resource based. Approximately 41 percent of the import trade in 2006 and 52 percent in 2007 relied on refined copper wire, molybdenum ores, gold bullion, silver bullion, and copper cathodes. Exports to Mexico are largely manufactured products or natural resources for use in the state of Sonora.

Douglas lags behind both Nogales and San Luis-Yuma in terms of infrastructure capacity and expansion plans for the port. Both Nogales and Yuma have received funding for a General Services Administration (GSA) port of entry redesign (a feasibility study for the Douglas port was completed in January 2008). Nogales and Yuma also have active port authorities, resulting in development of industrial space in San Luis, the opening of a second port of entry in San Luis, and transportation development projects to improve the efficiency of Nogales' two ports of entry and to develop a highway from San Luis/Yuma to U.S. Interstate 10.

The Port of Douglas is entirely truck-based, with no air freight in either Douglas or Agua Prieta, despite two functioning airports in Douglas. Agua Prieta has a rail system, but it is seldom used for international trade. The



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proximity of Tucson (120 miles), Nogales (112 miles), and Phoenix (233 miles) makes Douglas viable as a trucking port.

In a set of five interviews conducted with local businesspeople involved with the Douglas Port of Entry, and a questionnaire distributed to local port users, the state of local highways in both Mexico and Arizona were identified as transportation infrastructure concerns; however, a comparison of the telecommunications infrastructure found no appreciable difference between Douglas, Yuma-San Luis, and Nogales. Ten organizations responded to the Douglas Port of Entry Development Questionnaire. Seven of the 10 replied they would use a daily air freight flight out of Bisbee-Douglas International Airport or Douglas Municipal Airport. Port users reported they were satisfied with the current infrastructure of the port. However, port users unanimously identified improvement of wait times, the development of FAST or SENTRI lanes, and lobbying in Sonora as roles they want the Douglas International Port Authority to play. Eight of 9 respondents opined that the Port Authority should also pursue lobbying in the United States, Mexico, and Arizona; that it should pursue government funding for infrastructure and other improvements; and that it should improve road infrastructure in both Mexico and Cochise County.

The study identified several information gaps. First, the economic impact of the port of entry on the local economy of Douglas and more broadly Cochise County has not been quantified. Nationwide, no publicly available studies on the economic impact of rural land ports of entry have been identified. An economic impact study may be useful for purposes of economic development and the acquisition of funding for port of entry and surrounding infrastructure development.

For marketing purposes, the origins of commodities and products going through the Douglas Port of Entry are poorly defined and subject to debate. A broad-based study to identify key originating markets in Mexico and internationally, as well as potential markets, would be useful.

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The current physical infrastructure of the Douglas Port of Entry can handle additional traffic, based on local sources. The GSA, which administers the physical infrastructure of border ports of entry, has identified Douglas to undergo a port redesign during the next several years. Local port users and operators can take an active role in determining the course of the port redesign; however, specific objectives wanted by port users and operators have not been defined. Based on the results of the questionnaire administered in spring 2008, additional information about the concerns and wants of local port users is needed to better develop and design the Douglas International Port Authority to both retain existing businesses and attract new businesses.

Several infrastructure gaps were also identified. Based on the economic base studies conducted, Douglas is underdeveloped in most sectors of its economy, specifically those that are export-oriented. For trade expansion at the port and economic development purposes, specific infrastructure needs for the city and the port must be identified. Also, transportation infrastructure gaps in both the city and county should be identified and addressed. Plans are underway locally to expand local roads in anticipation of the Douglas Port of Entry redesign. Based on the needs of local port users, the development of

CONTINUED FAST or SENTRI lanes, lobbying in the State of Sonora, and the improvement/maintenance of wait times, reported anecdotally to be less than one hour, should be investigated.

ECONOMIC DEVELOPMENT OF THE DOUGLAS PORT OF ENTRY The report identified several strategic objectives. First, Douglas should pursue avenues to develop and diversify its economy by identifying sectors of potential economic growth; creating plans to develop those identified sectors of economic growth; and implementing necessary infrastructure

improvements to attract new businesses and retain existing businesses. According to local sources, as well as the Action Plan provided by the City of Douglas Department of Economic Development, sectors identified for expansion include call center/back office operations, warehouse/logistics, border security technologies, agro/biotechnology, food processing, retail, and tourism from retirees. A call center that will employ several hundred people is in the process of setting up operations in Douglas, improving employment in the service sector. New businesses are attracted through prospect visits and trade shows.

Douglas and its port of entry, ranked second among the three major ports of Arizona in terms of total trade value, have the potential for economic expansion under current conditions; however, it remains an under-represented highly regional port. Therefore, one strategic objective of the nascent Douglas International Port Authority should be to develop several options to increase the volume of traffic through the port and, more generally, economic activity in the area. Options that could be considered include possible cooperation with the ports in Nogales to develop Douglas as a reliever port during times of heavy traffic; development of a marketing plan to attract traffic from the interior of Mexico; and continuing outreach to companies and development of prospects to relocate in Douglas/Agua Prieta.



In September, CER director Robert Carreira gave a presentation on the national and local economy to members of the Sierra Vista Economic Development Foundation at a retreat in Rio Rico.

Local business leaders bleak on economic outlook

By Robert Carreira

Over the past couple years, the Cochise College Center for Economic Research has worked in partnership with Compass Bank and the Economic and Business Research Center at the University of Arizona to bring the Business Leaders Confidence Index® to Cochise County. For the third quarter of 2008, we had 13 participants in the BLCI from Cochise County. While this is considerably below the level we'd like to see, it gives us a place to start collecting valuable information on the views of local leaders regarding the future direction of the national and state economies, as well as economic conditions and trends impacting their specific industries.

Regarding participants' expectations of industry sales in the third quarter, 38.5 percent of Cochise County participants expected a moderate decrease, 30.8 percent expected a moderate increase, 23.1 percent expected no change, and 7.7 percent expected a strong decrease. None of the participants from Cochise County expected a strong increase in sales in the third quarter.

With respect to profits, 38.5 percent of participants in Cochise County expected a moderate increase, while an equal number expected a moderate decrease. A total of 15.4 percent expected a strong decrease in profits, while 7.7 percent expected no change. None of the participants from Cochise County expected a strong increase in profits in the third quarter.

Regarding hiring, 38.5 percent expected no change, 30.8 percent expected a moderate decrease, and 15.4 percent expected a strong decrease. Only 15.4 percent

**Find out why more
and more people
are visiting the CER
website.**

Visit our website at www.cochise.edu/cer to find statistics on the local economy; information on upcoming events; sponsorship information; CER economic outlook publications; PowerPoint slides from CER presentations; special studies; press releases; the *Cochise County Economic Update*, a compilation of links to online newspaper stories of economic interest from across Cochise County; the CER's quarterly newsletter, *The Indicator*; and links to websites relevant to the local, state, and national economy.

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expected a moderate increase and none expected a strong increase in hiring.

When asked about capital investments within their industries, 46.2 percent expected a moderate decrease, while 23.1 percent expected a strong decrease. A total of 15.4 percent expected no change, while an equal number expected a moderate increase. None of the participants in Cochise County expected a strong increase in capital investment in the third quarter.

Regarding the outlook of the statewide economy, 61.5 percent of Cochise County leaders participating in the survey expected the state's economy to get somewhat worse, while 23.1 percent expected it to get much worse. A total of 7.7 percent expected no change in the statewide economy, while an equal number expected things to get somewhat better. None of the Cochise County participants expected Arizona's economy to get much better in the third quarter.

With regard to the national economic outlook, 30.8 percent of Cochise County participants expected things to remain the same, 61.5 percent expected economic conditions to get somewhat worse, and 7.7 percent expected the national economy to get much worse. None of the Cochise County participants expected the national economy to get somewhat better or much better in the third quarter.

When asked, "How is your business responding to rising energy prices," 83.3 percent responded they were trying to save as much money on energy as they could, and 33.3 percent responded they were tracking their energy use to try to raise awareness of the need to conserve. The survey question allowed for multiple responses. None of the Cochise County participants responded that they have created incentives to reward employees for cutting energy use, or that they've adopted (or were considering adopting) renewable energy sources. Of Cochise County participants, 16.7 percent responded that their businesses weren't significantly impacted by rising energy prices.

When asked who was taking a leadership role in encouraging energy-efficient solutions in Arizona, 42.9 percent of Cochise County participants responded that the local, state and/or federal government was taking a leadership role; 42.9 percent responded that the private sector was doing so; 42.9 percent responded that utility companies were taking a leadership role; and 28.6 responded that colleges and universities were assuming a leadership role. This question also allowed for multiple responses.

When asked how eager their employees were to conserve energy, 28.6 percent responded that employees were very eager to conserve energy and seek solutions for better energy use; 42.9 responded that their employees were slightly eager to conserve energy and seek solutions for better energy use; and 14.3 percent responded that their employees were not interested in conserving energy or seeking solutions for better energy use. A total of 14.3 percent responded that, because their customers, partners, outside investors, and/or other stakeholders were urging them to save energy, their employees were exploring solutions.

It's important to keep in mind that the results of the third quarter BLCI survey reflected the outlook of only 13 participants. It is the hope of the CER that we can generate increased interest and participation in the BLCI to allow us to obtain an expanded view of the expectations of business and community leaders in Cochise County.

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Although the BLCI includes components on sales and profits, government leaders are invited to participate as well. In fact, the BLCI questionnaire contains a public administration category where it asks for the industry of the respondent. While the sales and profits components won't apply, public sector leaders can provide valuable input regarding their expectations of the future direction of the national and state economies, as well as public sector hiring and capital expenditures.

If you're a business or community leader in Cochise County, please sign up to become a BLCI panelist. To sign up, or to learn more about the BLCI, please visit the BLCI website at www.blc.com. Once you sign up, you'll receive an email each quarter inviting you to participate in the survey. The survey is very brief and takes only a few minutes to complete.

2007-2008 COCHISE COUNTY EMPLOYMENT AND UNEMPLOYMENT STATISTICS

		AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
UNITED STATES	UNEMP. RATE (SA)	4.7%	4.7%	4.8%	4.7%	5.0%	4.9%	4.8%	5.1%	5.0%	5.5%	5.5%	5.7%	6.1%
ARIZONA	LABOR FORCE*	3,020.9	3,047.4	3,051.9	3,070.2	3,067.4	3,075.4	3,063.2	3,066.4	3,053.7	3,057.4	3,085.8	3,100.0	3,106.2
	UNEMPLOYMENT*	118.9	119.7	121.5	122.6	131.9	138.9	121.8	119.8	111.1	125.4	153.9	168.2	181.4
	UNEMP. RATE	3.9%	3.9%	4.0%	4.0%	4.3%	4.5%	4.0%	3.9%	3.6%	4.1%	5.0%	5.4%	5.8%
	UNEMP. RATE (SA)	3.7%	3.8%	3.9%	4.1%	4.2%	4.3%	4.0%	4.0%	3.9%	4.4%	4.8%	5.1%	5.6%
	EMPLOYMENT*	2,902.1	2,927.7	2,930.4	2,947.5	2,935.5	2,936.5	2,941.5	2,946.6	2,942.6	2,932.0	2,931.9	2,931.8	2,924.8
COCHISE COUNTY	LABOR FORCE	57,450	57,950	57,875	57,775	57,575	58,325	57,625	57,775	57,450	57,600	59,050	58,925	58,450
	UNEMPLOYMENT	2,250	2,275	2,375	2,475	2,800	2,925	2,625	2,500	2,225	2,350	2,950	3,150	3,175
	UNEMP. RATE	3.9%	3.9%	4.1%	4.3%	4.9%	5.0%	4.6%	4.3%	3.9%	4.1%	5.0%	5.3%	5.4%
	UNEMP. RATE (SA)	4.0%	4.1%	4.3%	4.5%	4.9%	4.4%	4.3%	4.2%	4.0%	4.5%	5.0%	5.1%	5.6%
	EMPLOYMENT	55,175	55,650	55,500	55,300	54,775	55,400	55,025	55,250	55,250	55,250	56,125	55,750	55,275
BENSON	LABOR FORCE	2,364	2,384	2,384	2,384	2,387	2,421	2,383	2,384	2,362	2,373	2,451	2,452	2,435
	EMPLOYMENT	2,196	2,215	2,208	2,200	2,180	2,204	2,189	2,200	2,198	2,198	2,233	2,219	2,199
	UNEMPLOYMENT	168	169	176	184	207	217	194	184	164	175	218	233	236
	UNEMP. RATE	7.1%	7.1%	7.4%	7.7%	8.7%	9.0%	8.1%	7.7%	6.9%	7.4%	8.9%	9.5%	9.7%
	UNEMP. RATE (SA)	7.3%	7.5%	7.8%	8.1%	8.7%	7.9%	7.6%	7.5%	7.1%	8.1%	8.9%	9.1%	10.1%
BISBEE	LABOR FORCE	3,315	3,344	3,340	3,336	3,326	3,369	3,329	3,335	3,316	3,325	3,412	3,406	3,379
	EMPLOYMENT	3,170	3,198	3,188	3,177	3,147	3,182	3,161	3,176	3,174	3,174	3,224	3,204	3,175
	UNEMPLOYMENT	145	146	152	159	179	187	168	159	142	151	188	202	204
	UNEMP. RATE	4.4%	4.4%	4.6%	4.8%	5.4%	5.6%	5.0%	4.8%	4.3%	4.5%	5.5%	5.9%	6.0%
	UNEMP. RATE (SA)	4.5%	4.6%	4.8%	5.0%	5.4%	4.9%	4.7%	4.7%	4.4%	4.9%	5.5%	5.7%	6.2%
DOUGLAS	LABOR FORCE	6,090	6,143	6,143	6,137	6,137	6,222	6,133	6,137	6,089	6,112	6,298	6,297	6,250
	EMPLOYMENT	5,717	5,766	5,750	5,728	5,675	5,739	5,700	5,727	5,723	5,723	5,813	5,777	5,725
	UNEMPLOYMENT	373	377	393	409	462	483	433	410	366	389	485	520	525
	UNEMP. RATE	6.1%	6.1%	6.4%	6.7%	7.5%	7.8%	7.1%	6.7%	6.0%	6.4%	7.7%	8.3%	8.4%
	UNEMP. RATE (SA)	6.3%	6.4%	6.7%	7.0%	7.5%	6.9%	6.6%	6.5%	6.2%	7.0%	7.7%	8.0%	8.7%
HUACHUCA CITY	LABOR FORCE	924	932	932	930	930	943	930	931	923	927	954	954	947
	EMPLOYMENT	871	878	876	872	864	874	868	872	871	871	885	880	872
	UNEMPLOYMENT	53	54	56	58	66	69	62	59	52	56	69	74	75
	UNEMP. RATE	5.7%	5.8%	6.0%	6.2%	7.1%	7.3%	6.7%	6.3%	5.6%	6.0%	7.2%	7.8%	7.9%
	UNEMP. RATE (SA)	5.8%	6.1%	6.3%	6.5%	7.1%	6.4%	6.3%	6.2%	5.7%	6.6%	7.2%	7.5%	8.2%
SIERRA VISTA	LABOR FORCE	18,189	18,346	18,312	18,265	18,159	18,382	18,203	18,262	18,198	18,226	18,615	18,542	18,388
	EMPLOYMENT	17,762	17,915	17,863	17,797	17,631	17,830	17,708	17,793	17,780	17,781	18,061	17,948	17,788
	UNEMPLOYMENT	427	431	449	468	528	552	495	469	418	445	554	594	600
	UNEMP. RATE	2.3%	2.3%	2.5%	2.6%	2.9%	3.0%	2.7%	2.6%	2.3%	2.4%	3.0%	3.2%	3.3%
	UNEMP. RATE (SA)	2.4%	2.4%	2.6%	2.7%	2.9%	2.6%	2.5%	2.5%	2.4%	2.6%	3.0%	3.1%	3.4%
TOMBSTONE	LABOR FORCE	868	875	873	871	866	878	868	871	867	869	889	885	878
	EMPLOYMENT	845	852	849	846	838	848	842	846	845	845	859	853	846
	UNEMPLOYMENT	23	23	24	25	28	30	26	25	22	24	30	32	32
	UNEMP. RATE	2.6%	2.6%	2.7%	2.9%	3.2%	3.4%	3.0%	2.9%	2.5%	2.8%	3.4%	3.6%	3.6%
	UNEMP. RATE (SA)	2.7%	2.7%	2.8%	3.0%	3.2%	3.0%	2.8%	2.8%	2.6%	3.1%	3.4%	3.5%	3.7%
WILLCOX	LABOR FORCE	1,881	1,897	1,897	1,896	1,895	1,922	1,894	1,896	1,881	1,888	1,945	1,945	1,931
	EMPLOYMENT	1,767	1,782	1,777	1,771	1,754	1,774	1,762	1,770	1,769	1,769	1,797	1,786	1,770
	UNEMPLOYMENT	114	115	120	125	141	148	132	126	112	119	148	159	161
	UNEMP. RATE	6.1%	6.1%	6.3%	6.6%	7.4%	7.7%	7.0%	6.6%	6.0%	6.3%	7.6%	8.2%	8.3%
	UNEMP. RATE (SA)	6.3%	6.4%	6.6%	6.9%	7.4%	6.8%	6.5%	6.4%	6.2%	6.9%	7.6%	7.9%	8.6%

SA=Seasonally Adjusted. *Data in thousands. Source: The State of Arizona Department of Commerce, Research Administration (ADOC/RA), Arizona Workforce Informer website, www.workforce.az.gov and Cochise College Center for Economic Research. Determined by monthly household surveys in the LAUS program. County estimates are independently calculated. Sub-county figures are calculated by ADOC using a census share methodology; sub-county SA rates calculated by the Cochise College Center for Economic Research. Employment and unemployment estimates for cities, towns, and areas are a fixed ratio, derived from the 2000 Census of the county figures. Note: In cases where the year-end average does not equal the average of the 12 months shown, or when seasonally adjusted averages do not equal unadjusted averages, discrepancies are due to rounding.

Cochise College Center for Economic Research 7th Annual Bisbee Economic Outlook Luncheon

BISBEE

economic outlook luncheon 2008



COCHISE COLLEGE

- An Economic Overview of Bisbee
- Thursday, December 4, 11:30 a.m., Doors open at 11 a.m.
- Turquoise Valley Golf, Restaurant, & RV Park, Naco, AZ
1794 W. Newell Street, Naco, AZ

The Cochise College Center for Economic Research will host an economic outlook luncheon for business and community leaders, students, and members of the general public. The program will provide an overview of the national, state, and local economy, with a focus on the economy of Bisbee. Attendees will receive a copy of the 2008 *Bisbee Economic Outlook*, published by the Center for Economic Research. The publication

provides a review and forecast of the local economy. One unit of Continuing Professional Education will be offered in each of the following areas: accounting, financial planning, and real estate.



ROBERT CARREIRA

Speakers:

Robert Carreira, Director of the Center for Economic Research, will provide a review of the past year's economy and a forecast for the coming year.

Stephen Pauken, Bisbee City Manager, will give a presentation on current and planned projects within the city.

Cost is \$40 per person or \$280 for a table seating eight.

Pre-registration and pre-payment are required.

Reservations are accepted by mail, email at cer@cochise.edu, or fax at (520) 515-5343. For Visa®, MasterCard®, Discover®, or American Express® payments, telephone (520) 515-5486. All meals are vegetarian; please indicate if there are any other special dietary restrictions or accommodations necessary.



STEPHEN PAUKEN

Deadline for reservations: November 26, 2008.

BISBEE ECONOMIC OUTLOOK LUNCHEON 2008 REGISTRATION FORM

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Business Name: _____

Mailing Address: _____

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Email: _____

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Make checks payable to: **Cochise College CER**

Reserve _____ seat (s) at \$40 a seat \$ _____

Reserve _____ table(s) for eight at \$280 \$ _____

Total \$ _____

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Please mail registration form with payment to:
Cochise College Center for Economic Research
901 N. Colombo Ave.
Sierra Vista, Arizona 85635

Anyone needing an accommodation in order to attend should contact the Disability Services Office, (520) 515-5337 or (520) 417-4023 at least 72 hours in advance.

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Robert Carreira, Director



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