

**ARIZONA**  
**MONTHLY FISCAL HIGHLIGHTS**  
**August 2006**

**Summary**

July General Fund revenue collections were \$658.9 million, which was an increase of 6.6% from July 2005. This amount was \$(2.7) million below the forecast for the month. The forecast comparison is based on projected FY 2007 revenues from the enacted budget.

Of the major tax categories, July sales tax grew at a rate of 12.3%, and corporate collections increased 10.6%. While these are healthy growth rates, they are slower than the high rates of growth experienced over the prior year. Individual income tax collections for the month were only 4.0% above last year, due in part to higher refunds, and an increase in withholding tax collections of only 5.4%. Additional months of data are needed to see if this lower rate of growth is a trend.

As noted in the July 2006 report, the FY 2006 General Appropriations Act requires any revenues above the May 2005 forecast to be deposited into the Budget Stabilization Fund (BSF), subject to the 7% cap on the BSF balance. JLBC Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) reported in July that, based on preliminary numbers, \$146.7 million in excess revenues from the second half of FY 2006 would be deposited into the BSF. Based on revised FY 2006 revenue estimates, JLBC and OSPB subsequently reported on August 21<sup>st</sup> that the BSF deposit would be increased by \$1.3 million to a total of \$148.0 million. This will bring the FY 2006 BSF balance to \$649.6 million, which represents 7% of the revised FY 2006 General Fund revenue estimate.

In other fiscal news this month, the JLBC and the JCCR met on August 24<sup>th</sup>. A summary of the meetings can be found on page 5. The August Monthly Fiscal Highlights also includes a summary of recent statutory reports submitted to JLBC (*see page 6*).

Finally, this month's Monthly Fiscal Highlights includes a summary of emergency expenditures made in June 2006 from the Governor's Emergency Fund as well as from the Health Crisis Fund. In total, the Executive spent approximately \$1.1 million on various emergency expenditures in June 2006. Expenditures included monies to combat winter storms in Northern Arizona to dollars allocated to Pima County for flash flood damage. A complete cataloging of end of year expenditures is included on page 7.

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**State of Arizona**  
**General Fund Revenue: Change from Previous Year and June Forecast**  
**July 2006**

	Current Month					FY 2007 YTD (One Month)				
	Actual	Change From		Revised Forecast		Actual	Change from		Revised Forecast	
		July 2006	July 2005	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	390,460,231	\$42,838,902	12.3 %	\$11,704,731	3.1 %	\$390,460,231	\$42,838,902	12.3 %	\$11,704,731	3.1 %
Income - Individual	232,882,593	8,929,404	4.0	(10,380,721)	(4.3)	232,882,593	8,929,404	4.0	(10,380,721)	(4.3)
- Corporate	39,033,242	3,755,217	10.6	(1,238,458)	(3.1)	39,033,242	3,755,217	10.6	(1,238,458)	(3.1)
Property	302,318	16,590	5.8	2,318	0.8	302,318	16,590	5.8	2,318	0.8
Luxury	5,011,427	(111,272)	(2.2)	(613,573)	(10.9)	5,011,427	(111,272)	(2.2)	(613,573)	(10.9)
Insurance Premium	32,395,952	(3,545,876)	(9.9)	395,952	1.2	32,395,952	(3,545,876)	(9.9)	395,952	1.2
Estate	76,407	(749,091)	(90.7)	(23,593)	(23.6)	76,407	(749,091)	(90.7)	(23,593)	(23.6)
Other Taxes	67,960	5,461	8.7	2,835	4.4	67,960	5,461	8.7	2,835	4.4
<b>Sub-Total Taxes</b>	<b>\$700,230,130</b>	<b>\$51,139,335</b>	<b>7.9 %</b>	<b>(\$150,509)</b>	<b>(0.0) %</b>	<b>\$700,230,130</b>	<b>\$51,139,335</b>	<b>7.9 %</b>	<b>(\$150,509)</b>	<b>(0.0) %</b>
<b>Other Revenue</b>										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	2,006,895	198,622	11.0	(543,305)	(21.3)	2,006,895	198,622	11.0	(543,305)	(21.3)
Interest	(132,446)	143,457	(52.0)	267,554	(66.9)	(132,446)	143,457	(52.0)	267,554	(66.9)
Sales and Services	1,859,479	344,060	22.7	(595,521)	(24.3)	1,859,479	344,060	22.7	(595,521)	(24.3)
Other Miscellaneous	687,387	(318,621)	(31.7)	(164,713)	(19.3)	687,387	(318,621)	(31.7)	(164,713)	(19.3)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	158,621	38,092	31.6	(1,541,379)	(90.7)	158,621	38,092	31.6	(1,541,379)	(90.7)
<b>Sub-Total Other Revenue</b>	<b>4,579,936</b>	<b>405,610</b>	<b>9.7 %</b>	<b>(2,577,364)</b>	<b>(36.0) %</b>	<b>4,579,936</b>	<b>405,610</b>	<b>9.7 %</b>	<b>(2,577,364)</b>	<b>(36.0) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$704,810,066</b>	<b>\$51,544,945</b>	<b>7.9 %</b>	<b>(\$2,727,873)</b>	<b>(0.4) %</b>	<b>\$704,810,066</b>	<b>\$51,544,945</b>	<b>7.9 %</b>	<b>(\$2,727,873)</b>	<b>(0.4) %</b>
<b>One-Time Revenue</b>										
Urban Revenue Sharing	(45,935,888)	(10,500,144)	29.6	0	0.0	(45,935,888)	(10,500,144)	29.6	0	0.0
'05 Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
'07 Disproportionate Share	0	0	--	0	--	0	0	--	0	--
'06 In-Lieu Transfer	0	0	--	0	--	0	0	--	0	--
<b>Sub-Total Transfers In</b>	<b>(45,935,888)</b>	<b>(10,500,144)</b>	<b>29.6 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(45,935,888)</b>	<b>(10,500,144)</b>	<b>29.6 %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL REVENUE</b>	<b>\$658,874,178</b>	<b>\$41,044,801</b>	<b>6.6 %</b>	<b>(\$2,727,873)</b>	<b>(0.4) %</b>	<b>\$658,874,178</b>	<b>\$41,044,801</b>	<b>6.6 %</b>	<b>(\$2,727,873)</b>	<b>(0.4) %</b>

**JULY REVENUES**

**Sales Tax** collections were \$390.5 million in July, or 12.3%, above July of last year. This amount was \$11.7 million above the forecast for the month. The following table displays the July growth rates for the major categories:

	<u>July</u>
Retail	6.7%
Contracting	22.0%
Utilities	13.9%
Use	21.4%
Restaurant & Bar	8.8%

Both the retail and restaurant and bar categories exhibited slower growth rates than those of the last few months. Contracting and use tax collections continued the strong growth rates seen throughout the last fiscal year.

**Individual Income Tax** collections were \$232.9 million in July, a 4.0% increase from last year. Total revenues were \$(10.4) million below the forecast for the month. The following table displays the July growth rates for the individual income tax categories:

	<u>July</u>
Withholding	5.4%
Estimated + Final Payments	16.5%
Refunds	42.9%

The smaller than expected growth was partially due to higher than anticipated refunds for the month. In addition, the 5.4% withholding tax income growth was less than the forecasted increase of 9.2% for the month. Additional months of data are needed to see if July's collections signal a trend. For example, withholding tax collections averaged a 12.8% increase for the 3 months prior to July.

**Corporate Income Tax** collections were \$39.0 million in July, which was 10.6% above last year. This amount was \$(1.2) million below the forecast for month.

**RECENT ECONOMIC INDICATORS**

The advance estimate from the Bureau of Economic Analysis (BEA) shows that **U.S. Gross Domestic Product (GDP)** increased at a 2.5% annual rate in 2006's 2<sup>nd</sup> quarter, less than half the growth rate reported for the 1<sup>st</sup> quarter. Consumption expenditures for services, inventory investment, non-residential construction, exports, and state and local government spending were among the stronger categories, while residential construction made a negative contribution to overall growth. BEA also released revisions dating back to the beginning of 2003 that reflected somewhat slower economic growth than previously reported.

The **U.S. Index of Leading Economic Indicators** dipped (0.1)% in July, following a revised 0.1% improvement in June and a (0.5)% decline in May. Half of the 10 components were negative influences in July, including building permits, unemployment insurance claims, interest rates, manufacturers' new orders, and the money supply.

The Conference Board's **U.S. Consumer Confidence Index** climbed 1.0% in July. While the assessment of current conditions held steady and the labor market outlook showed little change, the expectations component of the index registered some improvement.

The 3-month moving average for the **U.S. Consumer Price Index (CPI)** increased 0.3% in July and stood 4.2% higher than a year ago. Energy costs jumped 2.9% in July and fueled the rising inflation rate, while food prices advanced 0.2%. Excluding food and energy prices, the core CPI rose 0.2% in July and was up 2.7% from a year ago.

**U.S. semiconductor billings** (3-month moving average) increased 0.3% in June to \$3.54 billion and were 11.4% above the level from June 2005. While unit volume was very strong, competitive pressures kept prices in check and tempered overall sales growth. In a separate report, the Semiconductor Industry Association (SIA) reported an industry-wide capacity utilization rate of 91.2% for the 2<sup>nd</sup> quarter of 2006 compared to 89.2% in the year's 1<sup>st</sup> quarter.

Arizona's total **non-farm employment** continued to shrink

	<u>FY 2007 Collections</u>	<u>Difference From Forecast</u> <sup>1/</sup>	<u>Difference From FY 2006</u>
July	\$ 658.9	\$ (2.7)	\$ 41.0

<sup>1/</sup> Enacted FY 2007 budget (June 2006)

due to seasonal factors in July but remained 117,200, or 4.8%, above the level from a year ago. Manufacturing bucked the seasonal trend by adding 200 jobs in July while the construction industry added another 2,500 workers during the month. The state’s mines, which had been paring payrolls for years, have added 2,500 workers during the last 12 months, a 30.5% increase. The statewide unemployment rate rose 0.3% to 4.7% in July but remained slightly below the 4.8% U.S. average.

**The Arizona Index of Leading Economic Indicators** dropped (0.6)% in June. The decline was driven by a sharp drop in manufacturing hours worked, but since this series is unusually volatile and subject to large revisions, it is too soon to conclude that the state may be headed for a recession.

However, in July the **Arizona Business Conditions Index** increased 1.1% to 54.4 and remained above the mark of 50 associated with an expanding economy. Delivery times and materials inventories made positive contributions, while new orders and new purchases deteriorated.

The Behavior Research Center’s **Arizona Consumer Confidence Index** increased 0.3% to 102.7 in 2006’s 3<sup>rd</sup> quarter. While expectations for the next 6 months improved, the number of consumers reporting that jobs are now “hard to find” was rising. The report also showed that consumer sentiment was much stronger in the Phoenix and Tucson areas than in the rural regions of the state.

The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home price** retreated from its record high of \$267,000 in June to \$264,900 in July, a (0.8)% decline. The year-over-year gain was just 3.9%. The **townhouse-condominium median price** reached a record high of \$179,000 in July and stood 14.7% higher than a year ago. Meanwhile, the combined number of resales for the year to date through July 2006 plummeted (37.0)% from the first 7 months of 2005.

The **Department of Corrections’ inmate population** increased by an average of 214 inmates per month from May through July. The total population increased by 2,057 inmates

**Table 5**

**RECENT ECONOMIC INDICATORS**

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate	July	4.7%	0.3%	(0.1)%
- Jobs	July	2.58 million	(0.5)%	4.8%
- Contracting Tax Receipts (3-month average)	May-Jul	\$83.0 million	13.6%	23.7%
- Retail Sales Tax Receipts (3-month average)	May-Jul	\$169.1 million	5.7%	11.0%
- Residential Building Permits - (3-month moving average)				
Single-unit	Apr-Jun	5,881	(2.5)%	(20.5)%
Multi-unit	Apr-Jun	1,056	(9.8)%	17.2%
- Greater Phoenix Existing Home Sales				
Single-Family	July	5,545	1.6%	(45.6)%
Townhouse/Condominium	July	1,125	8.7%	(40.9)%
- Greater Phoenix Median Home Sales Price				
Single-Family	July	\$264,900	(0.8)%	3.9%
Townhouse/Condominium	July	\$179,000	2.5%	14.7%
- Arizona Tourism Barometer	June	106.9	3.0%	4.9%
- Phoenix Sky Harbor Air Passengers	June	3.61 million	1.0%	1.1%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	May	\$6.97	1.0%	1.3%
- Leading Indicators Index	June	118.1	(0.6)%	(1.6)%
- Business Conditions Index (>50 signifies expansion)	July	54.4	1.1%	(13.6)%
- Consumer Confidence Index	3 <sup>rd</sup> Quarter 2006	102.7	0.3%	2.4%
- Business Leaders Confidence Index	3 <sup>rd</sup> Quarter 2006	49.6	(14.5)%	(16.1)%
- Arizona Personal Income	1 <sup>st</sup> Quarter 2006	\$186.8 billion	1.9%	7.6%
- Arizona Population	July 1, 2005	5.94 million	3.5%	3.5%
- AHCCCS Recipients	August	1,031,213	(0.4)%	(2.0)%
- TANF Recipients	June	85,858	(1.5)%	(11.8)%
- DOC Inmate Growth (3-month average)	May-Jul	34,788	214 inmates	2,057 inmates
<b>United States</b>				
- Gross Domestic Product (seasonally adjusted annual growth rate)	2 <sup>nd</sup> Quarter 2006	\$11.4 trillion	2.5%	3.5%
- Consumer Confidence Index	July	106.5	1.0%	2.8%
- Leading Indicators Index	July	138.1	(0.1)%	0.9%
- U.S. Semiconductor Billings (3-month moving average)	Apr-Jun	\$3.54 billion	0.3%	11.4%
- Consumer Price Index (3-month moving average)	May-Jul	203.0	0.3%	4.2%

from a year ago.

**The number of TANF recipients** decreased (1.5)% to 85,858 in June and was (11.8)% below the level from June 2005. The **AHCCCS caseload** decreased (0.4)% in August from the prior month and was (2.0)% below the level from a year ago.

### JLBC MEETING

At its July August 24<sup>th</sup> meeting, the Joint Legislative Budget Committee considered the following issues:

**Department of Administration – Review of Risk Management Deductible** – The Committee gave a favorable review to the Department of Administration’s (DOA) continuation of the current \$10,000 deductible charged to agencies for property, liability or worker’s compensation losses.

**Department of Transportation – Review of Third Party Quality Assurance Report** – The Committee gave a favorable review to the Department of Transportation’s Third Party Quality Assurance Report, and requested ADOT to include the status of the 118 third parties that had previously been listed on the waiting list. The Third Parties Program includes 2 types of entities, both of which are commonly called third parties. First are entities who fall under the third party statutes and serve as contract agents in doing MVD work, such as title and registration transactions, driver license applications, driver license examiners, vehicle inspections, and 1 internet and telephone interactive voice response system provider (ServiceArizona). The second type of third parties are entities for whom MVD provides oversight of work that is not MVD work, such as driver training schools and traffic survival schools.

**Department of Economic Security – Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase** – The Committee gave a favorable review to the Department of Economic Security’s plan for distributing a developmental disabilities provider rate increase totaling about \$8.2 million General Fund and \$21.8 million in Total Funds. According to the plan, all rates meet the requirements of the General Appropriation Act and will be at least 100% of the DES revised benchmark rates. The Committee further requested that DES 1) notify the Committee of all future statewide provider rate adjustments in advance of their implementation, along with information on the budgetary impact; and 2) report to the Committee by October 31, 2006 on its recommendations for an inflationary index to be used when adjusting the benchmarks.

**Department of Economic Security – Review of Long Term Care Capitation Rate Changes** – The Committee gave a favorable review to the Department of Economic Security’s capitation rate adjustments in the federal Title XIX Long Term Care (LTC) Program with the provision that the favorable review does not constitute an endorsement of a supplemental request. The proposed rates are 5.8% above FY 2006 rates and could potentially cost the General Fund between \$3

million to \$4 million in FY 2007. Caseloads for this population are below appropriated levels, and further reductions could offset this potential cost.

**Department of Public Safety– Quarterly Review of the Arizona Public Safety Communications Advisory Commission** – The Committee gave a favorable review to the Department of Public Safety’s (DPS) FY 2006 fourth quarter expenditures and progress report for the statewide interoperability design project. Fourth quarter expenditures totaled approximately \$200,000. Of the amounts expended, approximately \$170,000 was on personal services and employee related expenditures.

### JCCR MEETING

At its August 24, 2006 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

**Arizona State University Academic Renovations and Deferred Maintenance Bond** – The Committee favorably reviewed the issuance of \$10.0 million in system revenue bonds for Phase IIA of academic renovations and deferred maintenance projects. Phase IIA includes 11 renovations and maintenance projects, covering 62,386 square feet, and costing \$9.2 million (including \$1.7 million for project contingencies).

Of the 11 projects, the per square foot costs of the School of Earth and Space Exploration project is by far the most expensive, at over \$1,100 per square foot (the average cost for all 11 projects is \$148 per square foot). The high costs associated with the project will be partially offset by indirect costs that can be charged to research grants of new faculty that will occupy the renovated space. The research grants associated with the School of Earth and Space Exploration project allow up to 20% of the grant to be utilized for certain indirect costs, including construction and maintenance expenditures.

**Arizona Department of Transportation Land Purchase** – The Committee approved the use of \$1,779,000 to purchase 6.2 acres of land for the new Surprise MVD Service Center with the provision that the purchase price not exceed the appraised value. The new 14,500 square foot MVD Service Center, which will cost an average of \$286,900 per acre, will replace the current 6,200 square foot facility.

**Arizona Department of Administration Rent Exemption for the Structural Pest Control Commission** – The Committee favorably reviewed the \$8,800 rent exemption requested for the Structural Pest Control Commission (SPCC). The rental exemption was authorized so as to reflect actual space used by the SPCC.

### SUMMARY OF RECENT AGENCY REPORTS

**Corporation Commission – Report on Corporations Division Filings** – Pursuant to a footnote in the General Appropriation Act, the Corporation Commission submitted a quarterly report

on the status of reducing processing delays in its Corporations Division.

For expedited filings, the amount of time required to process the filings fell from an average of 42 business days on March 25, 2005 to 3.8 business days on June 30, 2006. At the end of the third quarter of FY 2006, the turnaround time was 4.6 business days. The commission's goal for processing expedited filings is 5 business days or less.

For regular filings, the amount of time required to process the filings fell from an average of 103 business days on March 25, 2005 to 23 business days on June 30, 2006. At the end of the third quarter of FY 2006, the turnaround time was 28 business days. The commission's goal for processing regular filings is 30 business days or less.

**Department of Corrections – Report on Community Accountability Pilot Program** – A.R.S. § 41-1609.05 required the Arizona Department of Corrections to establish a Community Accountability Pilot Program. Statute authorizes the department to contract with a private or non-profit entity to provide supervision and treatment services for eligible offenders who have violated the terms and conditions of community supervision.

The department awarded the contract to Redman Investment Group and the program began on April 13, 2006. As of July 2006, a total of 31 eligible offenders were referred to the Community Accountability Pilot Program since program inception. Of those referred, 12 offenders, or 38.7%, were terminated from the program due to committing new crimes, failed urinalysis tests, absconding, or failure to report to parole officers. To date, the program has provided 12,222 hours of electronic monitoring and program participants have spent 299.5 hours in programming and counseling services.

**Department of Corrections – Report on Transition Release Program** – Pursuant to A.R.S. § 31-285B, the Arizona Department of Corrections (ADC) is required to submit a quarterly report that details the cost reductions to the department from an inmate early release Transition Program. Statute requires ADC to contract with a private or nonprofit entity to provide eligible drug offenders with transition services.

The ADC Transition Release Program began in March 2004. From April 1 through June 30, 2006, the department reports that 118 inmates successfully completed the Transition Program and their term of community supervision. As a result, there were 9,410 bed days saved and \$159,970 in savings. Since program inception, a total of 618 inmates, or 58.6% of program participants, successfully completed the Transition Release Program and their term of community supervision with savings of 67,014 bed days and \$1,139,238.

**Department of Education – Final FY 2006 Shortfall Report** – The Arizona Department of Education (ADE) recently provided its final appropriation status report for FY 2006,

which indicates that ADE experienced a net \$1.3 million surplus for formula-based programs for FY 2006. That net amount includes a \$7.4 million surplus for special education vouchers, a \$(6.6) million shortfall for Basic State Aid, and a \$0.5 million surplus for other programs. ADE does not anticipate substantial further revisions to FY 2006 data, although districts and charter schools have until June 30, 2007 to make upward revisions to them.

**Department of Emergency and Military Affairs – Report on Camp Navajo Fund** – Pursuant to A.R.S. § 26-152, the Department of Emergency and Military Affairs (DEMA) is required to submit an annual report describing the activity in the Camp Navajo Fund by August 31 of each year. The Camp Navajo Fund pays for the National Guard to operate a regional training site and storage facility located at Bellemont. The fund's revenues consist of monies received from federal and other government sources for storage of government commodities and services provided by the camp. DEMA reports that the Camp Navajo Fund received revenues of \$7.2 million and had expenditures of \$7.3 million in FY 2006. This left a fund balance of \$2.8 million at the end of the fiscal year. In FY 2005, the Camp Navajo Fund received revenues of \$6.7 million and had expenditures of \$7.9 million.

**Department of Juvenile Corrections – FY 2006 Report on Restitution Fund** – Pursuant to A.R.S. § 41-2826(F), the Arizona Department of Juvenile Corrections (DJC) is required to submit an annual report detailing all revenues and expenditures made from the department's Restitution Fund. The DJC submitted its latest report on August 15, 2006.

These monies are used to pay restitution and monetary assessments on behalf of youth working in the Committed Youth Work Program who were unable to make these court-ordered payments when they were originally sentenced to DJC. As of August 15, 2006, the DJC reports that Restitution Fund revenues and expenditures for FY 2006 totaled \$40,780.

**Arizona State Parks Board – Report on Park Operating Expenditures** – Pursuant to a FY 2006 General Appropriation Act (Laws 2005, Chapter 286) footnote, the Arizona State Parks Board is providing the park operating expenditure report for FY 2006.

Operating expenditures for the 28 state parks and 3 regional offices totaled \$12,328,200 for FY 2006. Of this amount, \$9,760,800, or 79%, was spent on Personal Services and Employee Related Expenditures. Kartchner Caverns State Park represented approximately 19% of the total operating expenditures, with no other park representing more than 6.3%. The State Parks Enhancement Fund provided \$10,035,700, or 81.4% of the total operating expenditures.

**Commission for Postsecondary Education – Report on Postsecondary Education Fund** – A.R.S. § 15-1853 requires the Commission for Postsecondary Education to report quarterly on its Postsecondary Education Fund.

Total revenues to the fund in FY 2006 were \$2,121,900. A large portion of this amount comes from intergovernmental revenue, a combination of federal Leveraging Educational Assistance Partnership (LEAP) funding and institutional matching funds, which totals \$1,587,400.

Total expenditures from the fund in FY 2006 were \$2,191,800. Of that total, the Commission allocated \$347,700 to its operating budget. The remaining \$1,844,100 was allocated to the programs administered by the Commission. Of these remaining monies, the Commission spent \$1,075,500 on LEAP, a program which provides financial aid to students at an Arizona postsecondary educational institution.

**Department of Racing – Annual Report on Boxing Events and Revenue** – Pursuant to a General Appropriation Act footnote, the Department of Racing is required to report annually on the number of boxing events, gross receipts, state revenues, and license fee collections. The department submitted its FY 2006 annual report on July 19, 2006.

During FY 2006, a total of 35 boxing events were held in Arizona. During that period the total gross tax receipts, fines and license fee collections were \$52,328, and the state received \$24,000 of additional revenue by way of Intergovernmental Agreement with Indian tribes.

**EMERGENCY EXPENDITURES**

**Governor’s Emergency Fund**

The Governor is authorized by A.R.S. §35-192 to declare emergencies in response to major disasters. This section also allocates \$4 million from the General Fund to the Governor’s Emergency Fund every fiscal year for liabilities, expenses, and reimbursements arising from these disasters, and allows the Governor to allocate a total of \$200,000 for any single emergency. Any emergency which requires an amount above \$200,000 must be approved by the State Emergency Council.

In June 2006, the Governor’s Emergency Fund showed activity for 8 emergency proclamations, which are included in *Table 6* and described in detail later in this report. Descriptions for these disasters are from the State Emergency Council agendas and minutes.

It should be noted that some emergencies occurred prior to FY 2006. The Department of Emergency and Military Affairs (DEMA) explains that there can be several reasons why payments for disasters aren’t released for a year or longer following the emergency:

- Payments are reimbursements: Local governments must submit damage claims based on actual work performed following an emergency
- Emergency declaration limit: Governor’s emergency declarations can contain funding up to \$200,000. Any

amount above this threshold must be added by the Arizona State Emergency Council at a public meeting.

- The State Emergency Council typically meets twice a year. It is possible that the first time the Council meets following a declared emergency can be 6 months or longer following the original emergency.
- The Governor’s Emergency Fund has \$5 million in current liabilities. The fund receives an annual allocation of \$4 million each year, and must leave some amount in reserve as a contingency. This means that some costs associated with emergencies must be defrayed into future years so some amount of funding can be allocated to every declared emergency.

**Brins Wildfire Emergency**

On June 18, 2006, the Brins Fire ignited in the Coconino National Forest near the communities of Sedona and Oak Creek Canyon. Most of Oak Creek Canyon was evacuated; fire suppression resources responded from federal, state and local governments. The situation necessitated the activation of the AZ211 call center and the Governor declared an emergency on June 19, 2006. Included in the declaration was an allocation of \$25,000.

**Table 6**

<b>Governor’s Emergency Fund June Activity and Description</b>		
<u>Transfer</u>	<u>Amount</u>	<u>Date</u>
Brins Wildfire Emergency	\$ 25,000	06/21/06
Clifton Flash Flood Emergency	(33,035)	06/29/06
Operation Good Neighbor	(700,000)	06/29/06
Glassy-Winged Sharpshooter	200,000	06/30/06
Northern AZ Winter Storm - '04-'05	450,000	06/30/06
February 2005 Winter Storm & Flooding	450,000	06/30/06
LaPaz County Summer Monsoon – 8/05	250,000	06/30/06
Pima County Flash Flood – 8/05	250,000	06/30/06
Northern AZ Winter Storm	<u>58,035</u>	06/30/06
<b>TOTAL</b>	<b>\$950,000</b>	

**Clifton Flash Flood Emergency**

On August 11, 2005, heavy rains and flash flooding caused significant damage to public infrastructure in the Town of Clifton. Roads were damaged and sewer lines that serve Wards Canyon residents were damaged and the significant flows in washes have caused bank erosion. This emergency was terminated on July 23, 2006.

Total Allocation	\$ 75,000
Total Expenditures	<u>41,965</u>
Balance	\$533,035

**Operation Good Neighbor**

On September 3, 2005, the Governor declared a state of emergency in support of Hurricane Katrina, Arizona’s Operation Good Neighbor. DEMA stated that the Governor was requested by the Federal Emergency Management Agency (FEMA) to assist with the national state of emergency

due to the catastrophic consequences of Hurricane Katrina. The state provided evacuees with food, shelter, transportation, health and medical services, schools for the children, job training, jobs and other assistance with their short-term and long-term needs. The first evacuees arrived in Arizona on September 4, 2005. Currently, there are approximately 2,800 registered households living in Arizona.

The actual costs for Operation Good Neighbor were tracked and submitted to FEMA for a 100% reimbursement. The Governor’s declaration included an allocation of \$200,000. The Council allocated \$750,000 on September 12, 2005 and has received most of the reimbursements from FEMA. A minimal amount of Arizona’s expenditures are not eligible for reimbursement from FEMA. DEMA is coordinating for the final reimbursements from FEMA.

Allocations to date	\$950,000
June 2006 Transfer	<u>(700,000)</u>
Remaining funds	\$250,000

Glassy Winged Sharpshooter Emergency

On June 23, 2006, the Governor declared a state of emergency for the Glassy-Winged Sharpshooter Emergency for Cochise County. The Glassy-Winged Sharpshooter is an insect which is a known carrier of bacteria that can cause plant diseases. The Governor’s declaration allocated \$200,000 for this emergency in June of 2006.

The Glassy-Winged Sharpshooter has been detected in Arizona in a small isolated location in the city of Sierra Vista in Cochise County. As of July 17, 2006, over 100 adult Glassy-Winged Sharpshooters have been found within a 3-mile square region in Sierra Vista. The Arizona Department of Agriculture has been placing detection traps, monitoring and eradicating the Sharpshooter. The eradication effort is ongoing in the Sierra Vista area, and they are conducting statewide surveys and detection activities.

The Arizona Department of Agriculture has requested an additional \$528,000 to continue this program through June 30, 2007. If approved, this would provide a total of \$728,000 for this emergency. This work will include sustaining expanded detection trapping in all locations in the state capable of sustaining a reproducing population of glassy-winged sharpshooter. The detection-trapping rate in selected areas will be approximately 5 traps per square mile, but could be higher in some high-risk areas. This will include purchasing additional trapping supplies, hiring, training and equipping seasonal labor.

Northern Arizona Winter Storm Emergency

The Northern Arizona Winter Storm Emergency was a series of strong winter storms lasting from December 28, 2004 through January 12, 2005. On December 29, 2005, the Governor declared a state of emergency for Coconino County, which was followed by 3 amendments to include Yavapai, Gila, Navajo, Apache, Maricopa, and Mohave Counties.

At its June 23, 2006 meeting, the Arizona State Emergency Council allocated an additional \$450,000 to the Northern Winter Storm Emergency. Total funding to this emergency is shown below:

Total State Obligation	\$2,167,266
Allocations to date	<u>950,000</u>
Balance	\$1,217,266
June 2006 Allocation	<u>450,000</u>
Remaining Obligation	\$ 767,266

February 2005 Winter Storms and Flooding Emergency

On February 16, 2005 the Governor declared a state of emergency due to the February 2005 winter storms and flooding throughout central and eastern Arizona. The counties of Gila, Graham, Greenlee, Pinal and Yavapai, along with the Town of Wickenburg (Maricopa County) were included in the Governor’s declaration. On March 8, 2005, this declaration was amended to include all of Maricopa County and Mohave County.

At its June 23, 2006 meeting, the Arizona State Emergency Council allocated an additional \$450,000 to the February 2005 Winter Storms and Flooding Emergency. Total funding to this emergency is shown below:

Total state obligation	\$5,371,226
Total allocations to date	<u>1,820,000</u>
Balance	\$3,551,226
June 2006 Allocation	<u>450,000</u>
Remaining Obligation	\$3,101,226

La Paz County Summer Monsoon Emergency

From August 1, 2005 through August 23, 2005, heavy rains from monsoon storms caused significant damage to public infrastructure in areas around La Paz County, resulting in damage to numerous roads, some of which were closed and impassable. On September 16, 2005, the Governor declared an emergency for La Paz County and directed \$100,000 to be made available for this emergency.

At its June 23, 2006 meeting, the Arizona State Emergency Council allocated an additional \$250,000 to the La Paz County Summer Monsoon Emergency. Total funding to this emergency is shown below:

Total state obligation	\$776,208
Total allocations to date	<u>100,000</u>
Balance	\$676,208
June 2006 Allocation	<u>250,000</u>
Remaining Obligation	\$426,208

Pima County Flash Flood Emergency

On August 14, 2005 and August 23, 2005, heavy rains caused significant damage to public infrastructure throughout Pima County. The severe runoff resulted in damages to numerous roads, traffic lights, water well fields, berms, crossings, and police vehicles.

On September 16, 2005, the Governor declared an emergency for the Pima County Flash Flood Emergency and allocated \$100,000 to the emergency. Current state share cost estimates for this emergency are \$349,045. All the work is complete for this emergency and the 2 applicants are in the audit process.

At its June 23, 2006 meeting, the Arizona State Emergency Council allocated an additional \$250,000 to the Pima County Flash Flood Emergency to cover the state share of this emergency. Total funding to this emergency is shown below:

Total state obligation	\$349,045
Total allocations to date	<u>100,000</u>
Balance	\$249,045
June 2006 Allocation	<u>250,000</u>
Remaining Obligation	\$ 0

### Health Crisis Fund

The Health Crisis Fund receives up to \$1,000,000 annually from the Medically Needy Account of the Tobacco Tax and Health Care Fund. The Governor may declare a health crisis or a significant potential for a health crisis and authorize monies from the Health Crisis Fund for the emergency.

The Executive declared 2 health crises on June 26, 2006:

- Executive Order 2006-10 authorized \$50,000 for measures to combat the outbreak of Coccidioidomycosis (Valley Fever) in Arizona. According to Executive Order, the number of cases has increased steadily since at least 1997 and spiked in 2006.
- Executive Order 2006-11 authorized \$75,000 for measures to reduce the number of Rocky Mountain Spotted Fever Infections. These infections are caused by a bacteria which is spread through tick infestations. The Executive Order called for joint efforts with tribal and federal agencies to implement response plans and increase public awareness of the infection.

In total, DHS is expected to expend approximately \$580,000 from the Health Crisis Fund in FY 2006. In addition to the expenditures referenced above, the Executive also expended monies on whooping cough (\$190,000), pneumococcal vaccines (\$100,000), and supplemental drug coverage during the Medicare Part D transition (\$150,000).