

# **Strategic Program Area Review**

## **Substance Abuse Debt and Third Party Financing**

Governor's Office of Strategic Planning and Budgeting  
and  
Joint Legislative Budget Committee

December 2007



# **STATE OF ARIZONA**

## **2008 ARIZONA STRATEGIC PROGRAM AREA REVIEW (SPAR) EXECUTIVE SUMMARY**

A.R.S. § 41-1275 establishes the Strategic Program Area Review (SPAR) process. The SPARs provide an opportunity for the Governor and the Legislature to evaluate the effectiveness and efficiency of programs crossing state agency lines. Pursuant to statute, the Joint Legislative Budget Committee selected program areas for review during the 2008 legislative session: Substance Abuse and Debt and Third Party Financing. The President of the Senate and the Speaker of the House of Representatives are required to assign these SPARs to the Appropriations Committees and may additionally assign the SPARs to an appropriate standing committee. The assigned standing committees or the Appropriations Committees shall hold at least one public hearing to receive public input and to develop recommendations whether to retain, eliminate, or modify the program subject to the SPAR process.

### **Substance Abuse**

In FY 2007, 12 agencies received public finding for substance abuse programs, and the state spent an estimated \$172.0 million on substance abuse efforts. Of this amount, \$58.4 million (34%) came from the state General Fund and \$84.9 million (49%) came from federal monies.

*JLBC Staff Findings* – The JLBC Staff made 4 findings regarding Arizona’s current substance abuse efforts:

- The framework for coordination has improved in the past decade due to the receipt of a federal grant and the formation of Arizona Substance Abuse Partnership (ASAP). Anecdotal information suggests that actual coordination efforts may have improved, but it remains difficult to quantify these efforts.
- There is no set of “best practices” available for state substance abuse coordination efforts.
- Additional measures establishing the effectiveness of substance abuse programs are still needed, but progress has been made since the last program review in 1998.
- The Drug and Gang Prevention Resource Center should be responsible for compiling an ongoing annual report which includes substance use-related data, resources, and strategies for both substance abuse prevention and treatment.

*OSPB Findings* – The OSPB Staff made the following findings regarding Arizona’s current substance abuse efforts:

- The Department of Economic Security’s Arizona Families F.I.R.S.T. program is very effective at reducing the incidence of substance abuse treatment in participating families; continue to expand the program in the future, as funds are available.
- The Arizona Criminal Justice Commission’s Residential Substance Abuse Treatment program is effective at increasing the number of inmates who remain drug-free after being released.

- While the Courts' drug program is successful in helping participants stay substance use free during their participation, overall the program has not graduated that many people.
- The Department of Corrections, Department of Juvenile Corrections, and Drug and Gang Prevention Resource Center programs should be continued.
- The Department of Health Services successfully provides and participates in programs that measure the performance and effectiveness of substance abuse treatment services; however, improvement is still needed in the area of measuring the effectiveness of prevention programs.

### **Debt and Third Party Financing**

In total, 8 state agencies and bonding authorities issue state debt. According to the Arizona Department of Revenue's most recent annual Report of Indebtedness, state agencies' level of debt was \$5.2 billion in FY 2006. Beyond these obligations, outstanding debt associated with state authorities that can issue debt on behalf of local governments or other entities was \$3 billion in FY 2006.

OSPB Findings – The OSPB Staff made 3 findings regarding state debt and third party financing:

- Department of Revenue Report of Indebtedness is effective, but could be improved.
- Allow the Housing and Finance Authority to retain interest earnings through a new fund for administrative costs.
- State Funds should be utilized to finance debt service for the School Facilities Board as opposed to providing a cash outlay at the beginning of a project.

JLBC Staff Findings – The JLBC Staff made 2 findings regarding state debt and third party financing:

- The state could benefit from having a third party review debt-related financial transactions that come before the Joint Committee on Capital Review.
- The Legislature may wish to consider requiring a Debt Affordability Report (DAR).

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December 21, 2007

The Honorable Janet Napolitano, Governor  
The Honorable Timothy Bee, President of the Senate  
The Honorable Jim Weiers, Speaker of the House  
Arizona State Capitol  
1700 W. Washington  
Phoenix, AZ 85007

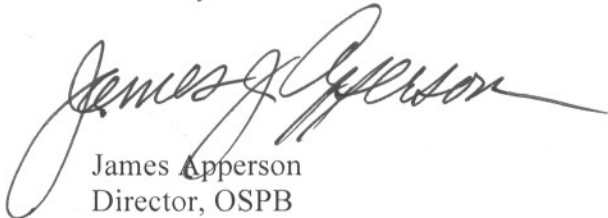
Dear Governor Napolitano, President Bee, and Speaker Weiers:

We are transmitting the Strategic Program Area Review (SPAR) report required by A.R.S. § 41-1275. In accordance with this legislation, the Joint Legislative Budget Committee (JLBC) Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) have completed our review of two strategic program areas: 1) Substance Abuse and 2) Debt and Third Party Financing. The offices collaborated on writing the program background section for each report, while each office independently developed findings and recommendations.

The attached SPAR report contains the following information: 1) an Executive Summary of the two SPAR reports, 2) the SPAR report for each program area, and 3) each agency's response to our review. These reports are also available through the websites of the JLBC Staff (<http://www.azleg.gov/jlbc.htm>) or OSPB (<http://www.ospb.state.az.us/>).

If you have any questions, please feel free to contact Stefan Shepherd of the JLBC Staff at 926-5491 or Bill Greeney of OSPB at 542-5381.

Sincerely,

  
James Apperson  
Director, OSPB

  
Richard Stavneak  
Director, JLBC Staff

**STRATEGIC PROGRAM AREA REVIEW  
2008 Legislative Session**

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## INTRODUCTION

**Overview** - A.R.S. 41-1275 establishes the Strategic Program Area Review (SPAR) process, which is intended to review issues that often involve multiple agencies and evaluate the efficiency, effectiveness, and necessity of selected program areas. This process was established by Laws 1999, Chapter 148 and replaced the Program Authorization Review (PAR) process established by Laws 1995, Chapter 283. The two program areas and associated agencies are identified in *Table 1*.

**Table 1**

### SPAR Programs/Agencies

#### **Substance Abuse**

Department of Corrections  
 Administrative Office of the Courts  
 Arizona Criminal Justice Commission  
 Drug and Gang Prevention Resource Center  
 Department of Economic Security  
 Department of Education  
 Governor's Office  
 Department of Health Services  
 Department of Juvenile Corrections  
 Arizona Medical Board  
 Arizona State Board of Pharmacy  
 Department of Public Safety

#### **Debt and Third Party Financing**

Arizona Department of Administration  
 Department of Commerce  
 Greater Arizona Development Authority  
 Arizona Health Facilities Authority  
 Arizona Department of Housing  
 Arizona Housing Finance Authority  
 Arizona School Facilities Board  
 Arizona Department of Transportation  
 Arizona Board of Regents  
 Arizona State University  
 Northern Arizona University  
 University of Arizona  
 Water Infrastructure Finance Authority

The Joint Legislative Budget Committee (JLBC) Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) have jointly published a composite report. This composite report includes all of JLBC/OSPB's SPAR reports for the two programs. The SPAR reports are also available on the websites for JLBC Staff (<http://www.azleg.gov/jlbc.htm>) and OSPB (<http://www.ospb.state.az.us/>). Following is a more complete description of the SPAR process and attached reports.

**SPAR Process** - The SPAR process consists of three phases:

- **Agency Authored Self-Assessment** - The first phase requires each of the agencies responsible for a program subject to SPAR to conduct a Self-Assessment of its program. This assessment answers specific questions relating to background information, program performance and program management. Pursuant to statute, agency Self-Assessments were due to OSPB and JLBC Staff by June 1. In addition to answering standard questions in the Self-Assessment, most participating agencies were asked additional questions specific to their SPAR subject. These questions were answered after June 1.
- **JLBC/OSPB Review and Report** - In the second phase of the SPAR process, JLBC Staff and OSPB reviewed the agency materials and gathered additional information, as appropriate, to validate the agency's submission. We then prepared reports of our

findings and recommendations for each of the program areas. Both offices agreed to the contents of the “Program Background” sections of each SPAR. The “Findings and Recommendations” sections were written separately by each office. Each agency was given a chance to review and comment on the reports during mid-November and December. The final agency responses are included in the published reports. As required by law, the JLBC Staff and OSPB are publishing the final joint SPAR reports by January 1, 2008.

- Legislative Review - In the third phase, the Speaker of the House of Representatives and the President of the Senate assign SPARs to Appropriations Committees. They may also assign the SPARs to a standing committee. These committees are to hold at least one public hearing for the purpose of receiving public input and recommending whether to retain, eliminate, or modify funding and related statutory references for the strategic program areas under review. If standing committees hold the public hearing, their recommendations shall be made to the Appropriations Committees.

**SPAR Composite Report Organization** - The SPAR report includes, after this Introduction, each JLBC/OSPB SPAR report and an Agency Response section.

1. JLBC/OSPB SPAR Report (on lavender paper). This narrative includes the background section and each of the two offices’ findings and recommendations on the program based upon the agency Self-Assessment. The “Program Background” section includes a brief description of the program along with a program funding summary. The “Findings and Recommendations” sections provide each office’s findings regarding the program area and/or recommendations for the area. These findings appear in bold.
2. Agency Response to the JLBC/OSPB SPAR Report (on white paper). Each agency involved in the SPAR process was invited to submit an agency response.

**Further Information** - Copies of the individual SPAR reports are available through the websites for JLBC Staff (<http://www.azleg.gov/jlbc.htm>) and OSPB (<http://www.ospb.state.az.us/>). Copies of this report may also be obtained by contacting Stefan Shepherd at the JLBC Staff office (602-926-5491) or Bill Greeney at the OSPB office (602-542-5381). These two persons can respond to general questions about the SPAR process. For additional information about the specific program subject to SPAR, readers may want to contact the appropriate person from JLBC Staff or OSPB. These contacts are listed in *Table 2*.

<b>Table 2</b>		
<b>SPAR Contacts</b>		
<b><u>SPAR</u></b>	<b><u>JLBC Analyst</u></b>	<b><u>OSPB Analyst</u></b>
Substance Abuse	Amy Upston	Chris Hall
Debt and Third Party Financing	Leah Ruggieri	Patrick Makin

## Substance Abuse Strategic Program Area Review

**Program Description** — The state's substance abuse programs fall into 2 broad categories: treatment and prevention. Approximately 84,300 people received substance abuse treatment services from the state in FY 2006. The Department of Health Services (DHS) treats the majority of these people through the Division of Behavioral Health Services. This is primarily funded through Federal Title XIX and Title XXI funds and matching General Fund monies for persons eligible under the Arizona Health Care Cost Containment System (AHCCCS). The Department of Economic Security (DES) serves a similar population with treatment monies provided through the General Fund and the Temporary Assistance for Needy Families (TANF) Block Grant. The State Department of Corrections (DOC) and the Department of Juvenile Corrections (DJC) treat incarcerated persons, while the Administrative Office of the Courts assists probationers and the Medical Board and Board of Pharmacy maintain programs serving licensees. The Arizona Criminal Justice Commission administers monies for treatment services that are passed through to DOC, DJC, and the Maricopa County Sheriff's Office.

In addition to the treatment services outlined above, prevention services are provided by DHS, the Department of Education (ADE), the Governor's Office, the Arizona Drug and Gang Prevention Resource Center, DOC, and the Department of Public Safety. ADE and DHS oversee most local programs, which have a broad range of goals and methods. Some, such as those administered by ADE, also incorporate crime and violence prevention into their efforts. Many also tailor their approach to target specific, at-risk populations, such as youth. The Joint Legislative Budget Committee staff is currently unaware of a reliable estimate of the number of individuals receiving prevention services.

The Arizona Substance Abuse Partnership (ASAP) is the state's current means of coordinating the efforts of these programs. ASAP was formed by Executive Order 2007-12 on June 13, 2007 in response to recommendations put forth by the Governor's Methamphetamine Task Force to empower a single statewide coordinating council to coordinate resources and strategies across the state, identify best practices, and recommend specific policies based on its findings. When the Executive Order was signed, the existing advisory council for the federal Strategic Prevention Framework State Incentive Grant became ASAP. It is composed of state agency directors and deputy directors involved in substance abuse treatment and prevention, as well as representatives of relevant community organizations and federal entities. Its standing subcommittees include the Co-Occurring Policy Advisory Team, the Epidemiology Workgroup, the Emerging Issues Subcommittee, the Underage Drinking Committee, the Methamphetamine Task Force, and the Workforce Development Committee.

In 1998, the Joint Legislative Budget Committee (JLBC) and Governor's Office of Strategic Planning and Budgeting (OSPB) completed a Program Authorization Review (PAR) of state substance abuse programs, primarily focusing on the 2 largest recipients of substance abuse monies: DHS and ADE. This PAR process was the predecessor to the SPAR process, and it led to a number of findings. Two of these addressed the substance abuse system as a whole:

- The system is very complex and uncoordinated, with a large number of funding sources managed by 13 different entities and a very large number of contracted providers.



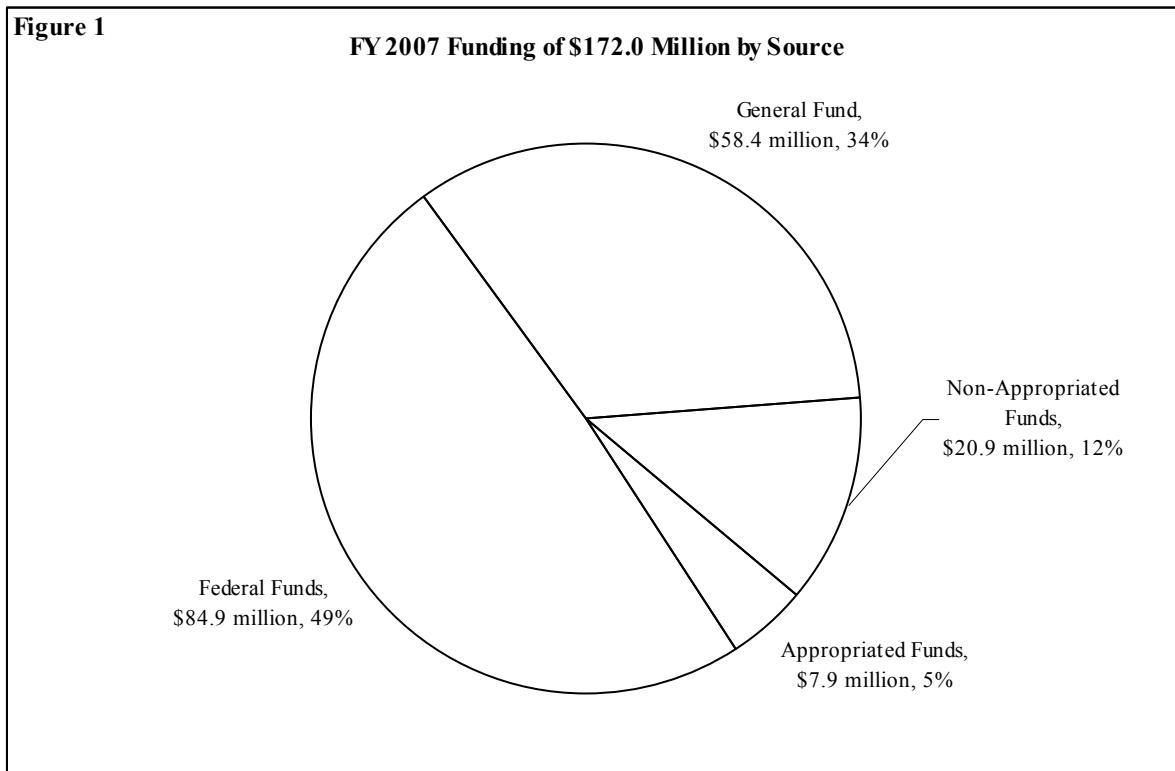
- Despite expending \$59.9 million for substance abuse services statewide, data demonstrating the impact of these individual programs are not systematically collected or evaluated.

Additional findings specific to DHS included a lack of performance data related specifically to Arizona and inadequate performance measures incorporated into the Regional Behavioral Health Authority (RBHA) contracts. The ADE findings included a lack of clarity for ADE's "Chemical Abuse" program, the absence of documentation of strategies being used in school districts, and the absence of evaluation of school district programs. However, the findings did acknowledge that many of the aspects of the programs are federally mandated and, therefore, out of the state's control. A complete list of findings can be found in *Appendix A*.

**Program Funding** — According to participating agencies, the state spent an estimated \$172.0 million on substance abuse treatment and prevention in FY 2007. Of this amount, \$58.4 million (34%) came from the state General Fund and \$84.9 million (49%) came from federal monies. *Figure 1* shows the breakdown of FY 2007 funding by agency, and *Figure 2* depicts each agency's share of total FY 2007 funds. Treatment programs are expected to have cost \$135.4 million, while prevention efforts cost \$36.6 million. This equates to 79% and 21% of total spending, respectively. DHS programs expended 68% of total funding and ADE 12%. The funds spent by DHS go primarily to treatment services, while ADE exclusively funds prevention programs. *Table 1* lists expenditures by agency more fully.

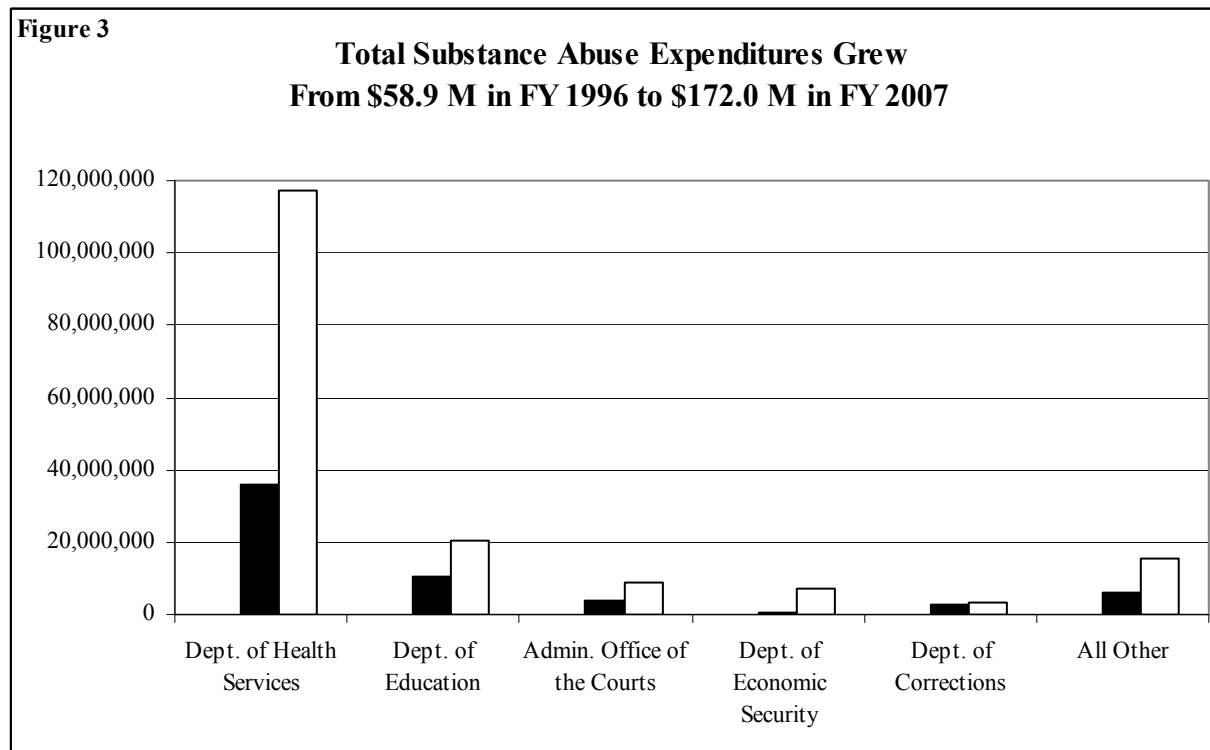
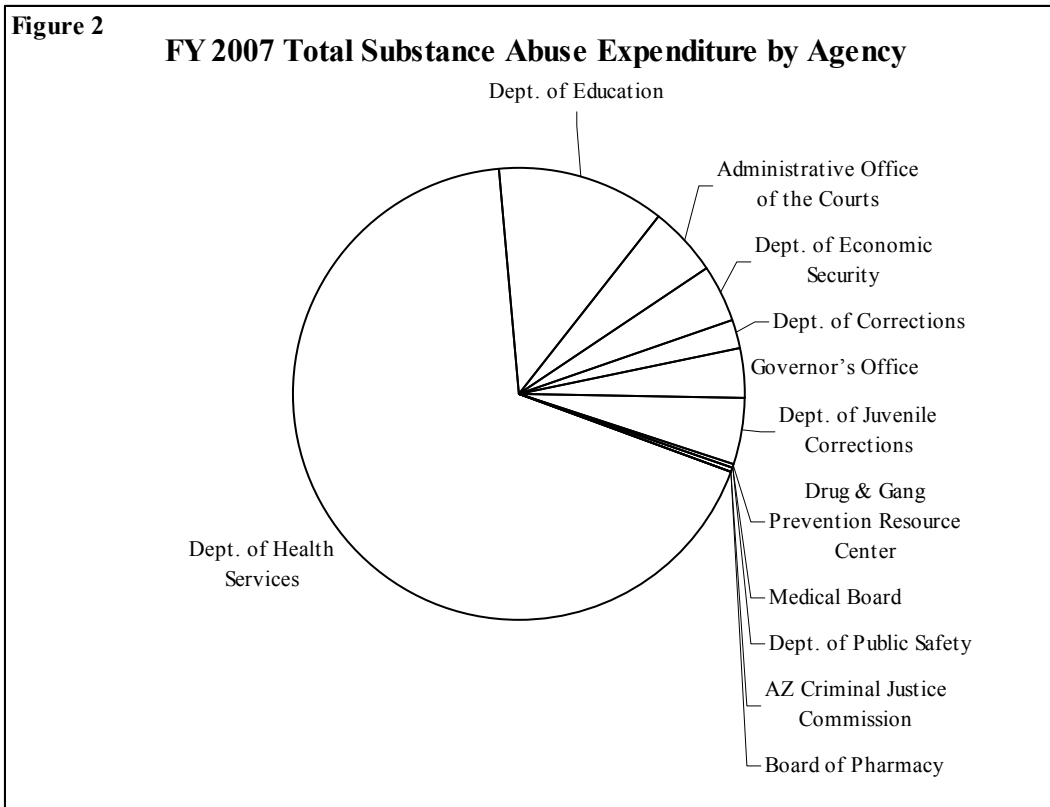
<b>Agency</b>	<b>Year</b>		
	<b>FY 1996 Expenditures (Actual)</b>	<b>FY 2007 Expenditures (Estimated)</b>	<b>FY 2006 Number Served (Treatment)</b>
Dept. of Health Services	\$36,208,700	\$117,136,200	60,105
Dept. of Education	10,495,900	20,336,100	-
Administrative Office of the Courts	3,701,400	8,862,900	14,976
Dept. of Juvenile Corrections	1,518,500	8,161,000	970
Dept. of Economic Security	665,200	7,224,500	4,727
Governor's Office	1,925,900	6,208,400	-
Dept. of Corrections	2,657,200	3,115,800	2,600
Drug & Gang Prevention Resource Center	--	435,500	-
Medical Board	--	200,400	100
Dept. of Public Safety	356,100	130,000	-
AZ Criminal Justice Commission	250,600	116,000	796
Board of Pharmacy	--	106,500	42
Other	2,101,100	--	-
<b>Total</b>	<b>\$59,880,600</b>	<b>\$172,033,200</b>	<b>84,316</b>

In FY 1996, expenditures from all sources totaled \$59.9 million. From FY 1996 to FY 2007, the population in Arizona grew by 45%<sup>1/</sup> and inflation by 32%<sup>2/</sup>. Had FY 1996 funding been adjusted only for inflation and population growth, total expenditures would have been approximately \$112.8 million. Total FY 2007 spending is estimated at \$172.0 million, an increase of 52% above the amount adjusted for inflation and population growth. This increase over the inflation-adjusted FY 1996 expenditures is due primarily to the expansion of publicly funded treatment services through the provisions of Proposition 204 passed in 2000. Medicaid funding constituted only 12% of DHS substance abuse funding in FY 1996. In FY 2007, it increased to 60% of DHS funds and 42% of total substance abuse funds. *Figure 3* illustrates the growth over the past 10 years.



<sup>1/</sup> According to the U.S. Census Bureau, the July 1, 1996 population estimate for Arizona was 4,432,308. The Department of Economic Security estimates the July 1, 2007 Arizona population at 6,432,007.

<sup>2/</sup> Inflation was derived using the Consumer Price Index.



**Coordination Efforts** — Since 1990, 2 official statewide efforts have attempted to bring state agencies together to improve the efficiency and effectiveness of substance abuse efforts. In 1990, the Legislature formed the Drug and Gang Policy Council, composed of the director or representatives from state agencies which receive federal or state monies for substance abuse prevention and treatment. The Council's objective was to foster cooperation among state and local entities, neighborhood groups, community organizations, and private groups to ensure the optimal delivery of substance abuse treatment and prevention programs. It was tasked with recommending the basis for effective coordination of all state programs, conducting an annual inventory of publicly supported prevention and treatment programs, evaluating the results achieved by publicly supported substance abuse programs, and overseeing the Drug and Gang Prevention Resource Center. The statutory language detailing the membership and role of the Council can be found in *Appendix B*. The Council and its statutory authority sunset on July 1, 2005, but the Center continued and is described in more detail in the next section.

Less than a year before the Council sunset, the Governor's office received the Strategic Prevention Framework State Incentive Grant. This federal grant provides \$11.75 million over a 5-year period. The purpose of the grant is to build a comprehensive system to target substance abuse problems throughout the state and to focus efforts where they will have the greatest impact. The grant required that the state form an advisory council and many members of the Drug and Gang Policy Council became members of this council.

In addition to establishing an advisory council, the grant required a state-level needs assessment to be conducted. An epidemiology workgroup was formed to work on this project, and the results were published in 2005. After compiling this data, the workgroup determined that the grant should focus on 2 substance abuse areas: problematic drinking and youth illicit drug use. Funds would be distributed through an open competitive bidding process. During this time, additional workgroups were formed and began working on other significant issues such as methamphetamine and underage drinking.

In June 2007, the advisory group was formalized as the Arizona Substance Abuse Partnership (ASAP) as a result of Executive Order 2007-12. The existing subcommittees under the Advisory Council and other outside committees were pulled under this umbrella organization, and new ones were created. ASAP includes the directors or deputy directors of state agencies which receive public substance abuse funding, along with representatives from relevant community organizations. Its responsibilities are similar to those of the Drug and Gang Policy Council; ASAP's mission, however, does not specifically include gang prevention, and they are not charged with overseeing the Drug and Gang Prevention Resource Center. A complete listing of required members of ASAP and its duties can be found in *Appendix C*. Presently, there are 5 subcommittees underneath ASAP: the Co-Occurring Policy Advisory Team, the Emerging Issues Subcommittee, the Underage Drinking Committee, the Methamphetamine Task Force, and the Workforce Development Committee.

**Agency Descriptions** — In FY 2007, 12 agencies were involved with the delivery of substance abuse prevention and/or treatment. Following is a listing of these agencies, a description of the services they provide, their statutory requirement, the number of persons served, and the amount of funding they receive. Funding is delineated by General Fund monies (GF), Other Appropriated Funds (OF), Non-Appropriated Funds (NA), and Federal Funds (FF).

### ***Administrative Office of the Courts***

*FY 2007 Estimated Expenditures:* \$6,570,543 for treatment, \$2,292,389 for prevention;

*FY 2007 Funding Sources:* \$3.1 million (35%) GF, \$447,500 (5%) OF, \$4.6 million (52%) NA, \$690,100 (8%) FF;

*Direct Treatment Population (FY 2006):* 12,712 adult offenders and 2,264 youths.

Four substance abuse-related treatment programs are administered through the Juvenile Justice Services and Adult Probation Services Divisions of the Arizona Supreme Court.

- A.R.S. § 8-322 authorizes the establishment of the Juvenile Probation Services Fund which is used, in part, to provide residential treatment; full or half day intensive care; group, family, and home-based counseling; and cognitive substance abuse for juveniles.
- A.R.S. § 12-299 establishes the Community Punishment Program to provide increased conditions of probation and community-based programs through halfway houses, detoxification centers, inpatient treatment, psychological, medical, and vocational services, as well as diagnostic evaluations, counseling, and urine screening. The program served 3,840 individuals in FY 2005 and 1,805 in FY 2006. Monies are dispensed to the counties, which are responsible for evaluating the program.
- A.R.S. § 13-3422 authorizes the drug court program for the purpose of prosecuting, adjudicating, and treating drug dependent persons. Drug court participants sentenced under A.R.S. § 13-901.01 for drug abuse offenses are mandated to attend treatment. Additional participants are required to attend treatment by order of the drug court judge. While some of the drug courts were initially established with federal funds, General Fund support was first added in FY 2007; the agency is still in the process of developing performance measures. The Drug and Gang Enforcement Account, established by A.R.S. § 41-2402, provides adult probationers with a variety of services, including court case processing, drug testing, and funding of staff for adult drug courts. During the first half of FY 2007, participating drug courts served 1,610 persons.
- A.R.S. § 13-901.02 establishes the Drug Treatment and Education Fund (DTEF). DTEF monies are distributed to 15 Superior Court adult probation departments to help fund drug education and treatment programs. In FY 2006, 5,150 probationers received residential or outpatient treatment, 940 received drug education, and 2,480 were assessed or provided other services.

### ***Department of Corrections***

*FY 2007 Estimated Expenditures:* \$2,880,844 for treatment, \$234,909 for re-entry initiative;

*FY 2007 Funding Sources:* \$1.6 million (50%) GF, \$984,200 (32%) OF, \$409,600 (13%) NA, \$163,400 (5%) FF;

*Direct Treatment Population (FY 2006):* 1,960 inmates in moderate treatment and 640 in intensive treatment.

A.R.S. § 41-1602 authorizes the DOC to provide rehabilitation for all adult offenders, which enables the department to offer substance abuse treatment and education while offenders are in prison. Inmates may also be eligible for aftercare while on community supervision. Guidelines for the transition program are found in A.R.S. § 31-281. Education and treatment for DWI/DUI offenses are mandated by A.R.S. § 31-255, with a curriculum approved by the Department of Health Services.

DOC also coordinates with the Department of Health Services (DHS) for the Correctional Officer/Offender Liaison (COOL) program. The COOL program provides substance abuse and behavioral health services to high-risk offenders who remain on parole upon leaving prison and expedites the eligibility screening for offenders to receive DHS-provided services. To avoid double counting, funding for this program is displayed with DHS.

Four private prisons house DOC inmates and all 10 state correctional facilities provide substance abuse services. However, substance abuse costs and number treated within the 4 private prison facilities was not available. As a result, the department's spending may not accurately reflect the magnitude of substance abuse treatment efforts.

DOC identifies 90% of incoming offenders as requiring some intervention or treatment. Of this identified population, 19% are classified as low-need and 81% are moderate or high-need. Programming is established commensurate with risk and need level and takes place near the end of sentences. In FY 2006, 1,960 moderate-need offenders participated in the 6-month group therapy program, while 640 high-risk, high-need offenders participated in the 12-month therapy program.

To help gain a better understanding of the effectiveness of the program, the department measures the percentage of individuals who pass randomly-administered urine analysis tests. In FY 2006, 96% of all inmates and 99% of those in a formal treatment program at the time of testing were drug free. Additionally, the department measures the percentage of individuals who graduate from treatment programs. In FY 2006, 87% of those who entered treatment completed the treatment curriculum.

Recidivism is defined as a new felony conviction within 3 years of release from Department. The department regularly reports recidivism rates every 10 years. Its most recent study of releases between 1990 and 2000 established a recidivism rate of 36% for substance abusers. In comparison, the recidivism rate for non-substance abusers was 22.7%. A follow up study determined there was a noted reduction in recidivism from 36% to 28.2% over a 2-year period when inmates who were substance abusers received and completed substance abuse programming.

### ***Arizona Criminal Justice Commission***

*FY 2007 Estimated Expenditures:* \$115,979 for treatment;

*FY 2007 Funding Sources:* \$29,000 (25%) GF, \$87,000 (75%) FF;

*Direct Treatment Population (FY 2006):* 796 jail inmates in Maricopa County.

A.R.S. § 41-2405 allows the Arizona Criminal Justice Commission (ACJC) to evaluate and gather information concerning programs designed to effect community crime prevention through

citizen participation and disseminate that information to the public, political subdivisions, law enforcement agencies and the legislature. The Governor has designated the ACJC as the agency responsible for allocating several U.S. Department of Justice federal grant programs, including the Residential Substance Abuse Treatment (RSAT) program.

The RSAT program was designed to address the high rates of substance abuse among inmates incarcerated in state and county facilities. Offenders must enter the program voluntarily and are isolated from the general correctional population to avoid relapse. Participants are involved with group therapy and may be eligible for aftercare services. Substance abuse treatment services are not legally mandated for this population, but the federal government provides a 3:1 match for the RSAT program.

RSAT funds passed onto DOC and DJC are reflected in that department's expenditures. The expenditures and population served listed above are solely for the Maricopa County Sheriff's Office Jail's Alpha program. Inmates in this program receive a one-on-one psychological interview, as well as group counseling sessions.

ACJC uses several performance measures in evaluating this program including the amount of services provided, number of offenders entering treatment, cost of treatment, recidivism and drug use, and the number entering the aftercare program and their success rate. In Federal Fiscal Year (FFY) 2006, 78.5% RSAT participants who completed the program remained drug-free during the aftercare program. Recidivism rates are included among the factors which determine grant contract renewals.

### ***Arizona Drug and Gang Prevention Resource Center***

*FY 2007 Estimated Expenditures:* \$435,500 for education;

*FY 2007 Funding Sources:* \$295,900 (68%) OF, \$139,600 (32%) FF.

*Direct Treatment Population (FY 2006):* None.

The Arizona Drug and Gang Prevention Resource Center is a statutorily independent entity, which acts as a statewide clearinghouse for drug and gang prevention and substance abuse prevention information. Staff members provide information, technical assistance, and grant-writing help for those interested in prevention programs. Additionally, they collaborate with a wide variety of organizations to encourage prevention programs with effective strategies. Members of their staff serve on several of the ASAP subcommittees.

Initially, the Center was overseen by the Arizona Drug and Gang Policy Council, which was established in 1990 through A.R.S. § 41-617. The Council was allowed to sunset on July 1, 2005. Prior to its sunset, the Council was statutorily required to compile an annual inventory of publicly supported education, prevention, and treatment programs related to substance abuse and criminal street gangs in Arizona. The Council had delegated this task to the Center.

The Center's performance measures include service requests completed, pieces of materials disseminated, library items checked out, and grant proposals which they help write. Additionally, they attempt to determine the number of individuals who are directly or indirectly impacted by their services, the value of the grants which are received due to their assistance, and customer satisfaction rating.

## ***Department of Economic Security***

*FY 2007 Estimated Expenditures:* \$7,224,500 for treatment;

*FY 2007 Funding Sources:* \$5.2 million (72%) GF, \$2 million (28%) FF;

*Direct Treatment Population (FY 2006):* 4,727 individuals.

A.R.S. § 8-881 et seq. authorizes the Joint Substance Abuse Treatment Fund to provide a statewide treatment program, known as Arizona Families FIRST (AFF), for substance abusing families who take part in the child welfare system or receive TANF Cash Assistance. The purpose of AFF is to develop government and community partnerships to assist families heavily involved in substance abuse. These services are delivered through DHS' Regional Behavioral Health Authorities, domestic violence agencies, social service agencies and faith-based organizations. Statute requires provision of the following: substance abuse screening and assessment, treatment referral, treatment services, aftercare, and service coordination.

A.R.S. § 8-812 establishes the Child Protective Services Expedited Substance Abuse Treatment Fund for DES to provide substance abuse treatment services to non-Title XIX eligible parents. Expedited treatment funds are now integrated into AFF.

DES measures program effectiveness through: 1) abstinence from illicit drugs, 2) substantiated Child Protective Services (CPS) reports of abuse and neglect, and 3) reunification of children to their parents after engaging in the program. The 2006 annual evaluation of the program reported that 60% of persons were free of drugs while on the program (as verified by drug screening tests), there were fewer cases of abuse and neglect compared to state averages, and 25% of all children of AFF clients achieved permanency in 2006 (an increase of 9% over 2005).

## ***Department of Education***

*FY 2007 Estimated Expenditures:* \$20,336,073 for prevention;

*FY 2007 Funding Sources:* \$7.4 million (36%) GF, \$8.5 (42%) NA, \$4.4 million (22%) FF;

*Direct Treatment Population (FY 2006):* None, but public school students and employees receive prevention services.

A.R.S. § 15-345 allows local school districts to create and adopt policies regarding substance abuse prevention programs with the assistance of students, district personnel, and the community at large. Funding and criteria for substance abuse prevention instruction is detailed in A.R.S. § 15-712, which places emphasis on conveying the harmful effects of dangerous drugs. The Chemical Abuse Program was created in 1943 to provide instruction about alcohol and narcotics and their effects on the human body. As of 1995, substance abuse education is no longer mandated by the state, although school districts still have the option of providing substance abuse education in their course of study.

A.R.S. § 15-154 establishes the School Safety program with the purpose of providing funding for full-time school resource or juvenile probation officers. Because these officers are not primarily focused on substance abuse prevention, the \$14.2 million in General Fund and proposition 301 monies for this program only indirectly go towards prevention efforts.



All programs, strategies, and activities are approved in a combined Chemical Abuse/Title IV application, and schools are allocated funds on a formula basis. In compliance with the Safe and Drug-Free Schools and Communities Act (Title IV), all applications must follow the U.S. Department of Education's *Principles of Effectiveness*. Each district is responsible for assessing its own needs and then either developing a program that meets expectations or choosing a "proven-effective" prevention program.

### ***Governor's Office***

*FY 2007 Estimated Expenditures:* \$6,208,407 for prevention;

*FY 2007 Funding Sources:* \$2.7 million (43%) OF, \$3.5 million (57%) FF;

*Direct Treatment Population (FY 2006):* None.

Two divisions within the Governor's Office allocate resources for substance abuse prevention. The Division of Substance Abuse Policy, a component of the Governor's Division for Children, Youth and Families, staffs a number of prevention efforts. It oversees the distribution of state money allocated to the Arizona Parents Commission, which is funded by the Drug Treatment and Education Fund. It also administers the federal Strategic Prevention Framework State Incentive Grant and the federal Co-Occurring Disorder State Incentive Grant. The Division staffs the Parents Commission on Drug Education and Prevention, the Arizona Substance Abuse Partnership, the Underage Drinking Prevention Committee, the Prisoner Re-Entry Task Force, and the Methamphetamine Task Force. The 3 largest efforts are discussed in more detail below:

- The Arizona Parents Commission on Drug Education and Prevention Fund was established by the passage of Proposition 200 in 1996 to increase and enhance parental involvement and increase education about the health problems caused by the abuse of alcohol and controlled substances. The Commission is comprised of Arizona citizens who are chosen by the Governor to serve 2-year terms. The Governor's Division assists the Commission in developing education, prevention, and parental involvement strategies. Approximately \$12 million is set aside annually from alcohol taxes. Of this \$12 million, approximately one-third is distributed to each of the following: The Parents Commission, the Administrative Office of the Courts, and Arizona Department of Corrections. The commission is responsible for distributing funds to programs which increase parental involvement and provide educational and prevention efforts.
- The Governor's Office also oversees the distribution of the 5-year Strategic Prevention Framework State Incentive Grant which is designed to help the state develop a comprehensive system to target substance abuse problems. This grant led to the formation of the Arizona Substance Abuse Partnership and other subcommittees involving intrastate coordination. This grant is described in greater detail in the previous section.
- On September 20, 2007, the Governor's Office announced that it was awarded an \$8.3 million federal Access to Recovery grant, to be distributed over the next 3 years, to support the expansion of methamphetamine treatment and recovery services through drug courts.

In addition to the Office of Substance Abuse expenditures, the Governor's Office of Highway Safety provides federal funds for the prevention and education on substance abuse as it relates to

highway/traffic safety and youth alcohol issues. These funds are distributed only after the projects and programs are approved by the National Highway Traffic Safety Administration and the U. S. Department of Justice (these are the 2 federal agencies from which the Office of Highway Safety currently receives funding).

There are no state dollars in the Governor's Office of Highway Safety that are specifically earmarked for substance abuse programs. However, in FY 2007, the Office of Highway Safety passed through \$1.7 million in federal monies to non-profit, local, and state agencies, as well as expending some of these funds on substance abuse education projects.

### ***Department of Health Services***

*FY 2007 Estimated Expenditures:* \$110,127,717 for treatment, \$7,008,505 for prevention;

*FY 2007 Funding Sources:* \$34.3 million (29%) GF, \$2.5 million (2%) OF, \$7.2 million (6%) NA, \$73.1 million (62%) FF;

*Direct Treatment Population (FY 2006):* 60,105 individuals.

The Department of Health Services (DHS) is the largest recipient of substance abuse monies, accounting for approximately 68% of total funds. Its primary role, as established by A.R.S. § 36-2001, is the administration and oversight of state funded substance abuse treatment. DHS contracts with 4 Regional Behavioral Health Authorities (RBHAs) and 5 Tribal Contractors to provide substance abuse treatment, along with all other aspects of behavioral health, in 6 geographic areas and 5 reservations.

State coverage of substance abuse treatment, as well as funding, has increased substantially in the past 15 years. In 1995, substance abuse treatment became a covered service under the state's Title XIX (Medicaid) program. Over the next decade, several programs began which further expanded the number of persons eligible for substance abuse treatment. During 1998, the Legislature enacted KidsCare, also known as the Children's Health Insurance Program (CHIP), to allow uninsured children up to 200% of the Federal Poverty Level to qualify for government assisted health care, including substance abuse treatment. In 2000, Arizona voters passed Proposition 204 which provides health care coverage to most uninsured adults who earn up to 100% of the Federal Poverty Level. Coverage for parents was expanded even further in FY 2003 when KidsCare Parents was enacted, adding coverage to parents who are uninsured and made between 100% and 200% of the Federal Poverty Level.

Although the oversight of Title XIX and Proposition 204 monies is the department's primary role, DHS also receives federal funding through the Substance Abuse Prevention and Treatment Block Grant. Although these monies are distributed to DHS, it has contracted with the RBHAs to provide the prevention and treatment services. The RBHAs, in turn, either provide services directly or contract with local non-profit agencies.

DHS also assists with some programs run primarily by other agencies, specifically the Correctional Officer/Offender Liaison (COOL) program and Arizona Families FIRST program. (For more information on these programs, see the description for the Department of Corrections and Department of Economic Security.)

To measure the effectiveness of the programs, DHS tracks the following performance measures: access to care, symptomatic and functional improvement, overall satisfaction with services, coordination of care with AHCCCS plans, cultural competency, and member/family involvement in treatment. DHS participates in the federal National Outcome Measures database, which collects data on alcohol use, drug use, employment, criminal justice activity, and stable housing. These items are measured both before and after treatment.

In FY 2005, DHS saw an increase of 2.7% in employment, an increase of 6.9% in abstinence from alcohol, and an 8.9% increase in drug abstinence. Homelessness and arrests both declined during that year at a rate of (0.3)% and (6.6)%, respectively. Substance abuse prevention programs are required to evaluate programs annually, and the RBHAs are required to report outcomes to DHS annually. In FY 2006, 83% of prevention programs reported outcomes. DHS estimates that approximately 212,473 individuals received prevention services in FY 2006.

### ***Department of Juvenile Corrections***

*FY 2007 Estimated Expenditures:* \$8,160,960 for treatment;

*FY 2007 Funding Sources:* \$6.7 million (82%) GF, \$685,300 (8%) OF, \$763,400 FF (10%);

*Population Served (FY 2006):* 970 youths.

A.R.S. § 41-2816 authorizes the Department of Juvenile Corrections (DJC) to provide rehabilitative services to committed youth. This is to be accomplished through an individual treatment plan based on a diagnostic psychological evaluation and educational assessment, as detailed in A.R.S. § 41-2815. Substance abuse problems are assessed for each youth when they arrive at DJC. As of July 31, 2007, the department has assessed 1,062 of the 1,088 currently committed youth. Of these, 91% have been diagnosed with a substance abuse disorder.

The majority of these youth are treated through the New Freedom program. For those with severe abuse issues, DJC also has 4 specialty substance abuse units funded partially through the Residential Substance Abuse Treatment (RSAT) program. Per the RSAT grant requirements, this program must separate participants from the general correctional populace and focus primarily on the substance abuse problems of the inmate. In FY 2006, 690 youth completed treatment plans addressing substance abuse and 135 were admitted to the RSAT program.

A number of objectives are tracked to help DJC evaluate the effectiveness of their program: 1) the percentage of youth promoted to the next level of behavior management each month; 2) the number of incident reports each month; 3) the percentage of youth completing treatment work assigned; 4) the percentage of youth having a negative urine analysis; and 5) the percentage of youth who articulate their plan for handling high risk situations for relapse in their monthly meeting. Juveniles released in 2005 had a 12-month recidivism rate of 36%. Those released in 2003 had a 36-month recidivism rate of 48%. DJC is in the process of working with a national expert to make program improvements.

### ***Arizona Medical Board***

*FY 2007 Actual Expenditures:* \$200,412 for treatment;

*FY 2007 Funding Sources:* \$200,400 (100%) OF;

*Population Served (FY 2007):* 108 physicians and physician assistants.

A.R.S. § 32-1452 allows the Arizona Medical Board to establish a confidential program for the treatment and rehabilitation of physicians and physician assistants who are impaired by drug or alcohol abuse. The program shall include education, intervention, therapeutic treatment, and post-treatment monitoring and support. The Monitored Aftercare Program (MAP) typically provides follow-up care for a period of 5 years. This care includes services such as weekly relapse prevention programs, facilitation of attendance at 12-step programs, regular face-to-face interviews with participants to evaluate the recovery process, and random biological fluid or other drug testing.

A private firm is contracted by the Board to administer the program. They are required by contract to facilitate relapse prevention groups in at least Maricopa, Pima, and Coconino Counties and to select a drug testing laboratory to collect specimen samples throughout Arizona. The Board dedicates one staff person to oversight of the contract.

The Board's performance measures include participant success rate, relapse rate, and recidivism. Because Arizona's self-report rate was substantially lower than nationwide, in FY 2007, the Board implemented a strategy to encourage physicians to self report their substance abuse problems. In FY 2006, all performance measures were met, with the exception of the MAP participant relapse rate, which fell short by 1%. The relapse rate in FY 2006 was 6%.

### ***Arizona State Board of Pharmacy***

*FY 2007 Estimated Expenditures:* \$106,450 for treatment;

*FY 2007 Funding Sources:* \$106,500 (100%) OF;

*Population Served (FY 2006):* 42 pharmacists and pharmacy technicians.

A.R.S. § 32-1931.01 allows the Arizona State Board of Pharmacy to establish a confidential program for the treatment and rehabilitation of pharmacists who are impaired by drug or alcohol abuse. The program shall include education, intervention, therapeutic treatment, and post-treatment monitoring and support. The statute further stipulates that the Board may allocate up to \$20 for each biennial license renewal to help subsidize the program. Currently, the per renewal contribution to the program is \$12.42.

The Pharmacists Assisting Pharmacists in Arizona program provides treatment to impaired pharmacists and pharmacy interns. The Board contracts service delivery to a private firm. The firm is tasked with identifying and incorporating "best practices" and evaluating the effectiveness of the program. The firm reports a recidivism rate of 20% for the program. The Board does not receive any other information regarding the effectiveness of the program.

The program also provides continuing education programs to professionals and the general public at least twice a year, and sponsors 2 \$1,000 scholarships to students who wish to attend the Utah School on Alcoholism and Other Drug Dependencies.

### ***Department of Public Safety***

*FY 2007 Estimated Expenditures:* \$130,000 for prevention;

*FY 2007 Funding Sources:* \$130,000 (100%) NA;

*Population Served:* None, but 13,090 youths receive prevention services.

A.R.S. § 13-2314.01(E) and A.R.S. § 13-2314.03(E) permit law enforcement agencies to use anti-racketeering monies for substance abuse prevention and education programs. The use of asset forfeiture monies to fund substance abuse programs is intended to put criminal proceeds to productive use by reducing the demand for illegal drugs and to improve the health and safety of local communities. DPS focuses its funding efforts on youth substance abuse prevention and education programs.

These programs are administered by non-profit organizations. Of the funding passed through to these non-profits, 90%, or \$442,500, has been given to the Boys and Girls Club Smart Moves program. After DPS funding of this program was implemented, participation increased by 4,436 youth. In FY 2006, the Smart Moves program served a total of 13,090 youth. DPS chose the Smart Moves program, in part, because it is identified as one of the “best practice” programs by the U.S. Department of Justice. The remaining 10% goes to a variety of other prevention programs targeted at youth.

**National Comparison** — Since 1971, the federal government has collected data on the use of illegal drugs by the U.S. population through an interviewing process<sup>3/</sup>. *Table 2* shows the most recent results of this survey, including the following:

- Compared to other states, Arizona residents had a lower drug use rate for all age groups, but a higher use rate for those aged 12-17. Rates of dependence on either illicit drugs or alcohol are higher in Arizona than nationally.
- Arizona had the second highest rate of residents 25 years or older who needed, but did not receive treatment for alcohol, and the second highest rate of 12-17 year olds who needed, but did not receive treatment for illicit drugs.

<b>Table 2</b>			
<b>Selected Arizona Illicit Drug and Alcohol Use Rates, 2005</b>			
<b>Category</b>	<b>Arizona (Percentage)</b>	<b>National Average</b>	<b>Arizona Ranking</b>
Illicit Drug Use in Past Month (All Ages)	7.33	8.02	36
Illicit Drug Use in Past Month (12-17)	11.16	10.25	14
Dependence on Drugs or Alcohol In Past Year (All Ages)	10.31	9.25	9
Dependence on Drugs or Alcohol in Past Year (12-17)	10.51	8.44	7
Needing, but not receiving treatment for drugs (All Ages)	2.67	2.67	25
Needing, but not receiving treatment for drugs (12-17)	6.3	4.69	2
Needing, but not receiving treatment for alcohol (All Ages)	8.58	7.35	8
Needing, but not receiving treatment for alcohol (12-17)	6.83	5.51	9
Needing, but not receiving treatment for alcohol (25+)	7.17	5.93	2

Substance Abuse and Mental Health Services Administration, Office of Applied Studies. *State Estimates of Substance Use from the 2004-2005 National Surveys on Drug Use and Health*. <<http://www.oas.samhsa.gov/2k5/State/AppB.htm>>.

In addition, 2005 data showed that 932 people per 100,000 in Arizona were admitted into substance abuse treatment programs, 198 more than the national rate of admission<sup>4/</sup>. If adjusted for race, ethnicity and gender, the state’s admissions would be 1,001 per 100,000 Arizona residents, 339 more than the national rate.

<sup>3/</sup> Substance Abuse and Mental Health Services Administration, Office of Applied Studies. *State Estimates of Substance Use from the 2004-2005 National Surveys on Drug Use and Health*. <<http://www.oas.samhsa.gov/2k5/State/Ch1.htm>>

<sup>4/</sup> US Substance Abuse and Mental Health Services Administration, *Treatment Episode Data Set (TEDS): 1995-2005*. <<http://www.dasis.samhsa.gov/teds05/TEDSAd2k5Tbl4.6a.htm>>

There is little data on total substance abuse spending across states; however, the Office of National Drug Control Policy (ONDCP) collects data on the spending of single state authorities, as designated for the purposes of the Substance Abuse Block Grant. Their most recent inventory details expenditures from 2003<sup>5/</sup>. The Department of Health Services' Division of Behavioral Health Services (DHS/DBHS) serves as Arizona's single state authority for substance abuse. While this data does not perfectly capture substance abuse spending, DHS/DBHS oversaw 68% of Arizona's total substance abuse funds in FY 2007.

Based on data provided by the ONDCP, Arizona was ranked 20<sup>th</sup> for the highest amount of substance abuse expenditures per capita. DHS spent \$14.10 on substance abuse per capita, compared to the national per capita amount of \$13.50. State funds made up 19% of the total expenditures, compared to 42% nationally. Prevention made up 7.9% of DHS' total expenditures, while on average other single state authorities spent 13.7% of their budget on prevention. Administration costs constituted 1.2% of total expenditures, instead of the national average of 4%. The average cost of treatment per patient was \$1,243, 20% less than the average cost of delivery in other states.

### **Findings and Recommendations – JLBC Staff**

**The framework for coordination has improved in the past decade due to the receipt of a federal grant and the formation of the Arizona Substance Abuse Partnership. Anecdotal information suggests that actual coordination efforts may have improved, but it remains difficult to quantify these efforts.**

The 1998 Substance Abuse Program Authorization Review (PAR) found that “the system is very complex and uncoordinated with a large number of funding sources managed by 13 different entities and a very large number of contracted providers.” A decade later, there are 12 agencies involved in this complex system. Several changes have occurred, however, leading to a better framework for coordination and the possibility of collaboration. The largest change resulted from the receipt of the federal Strategic Prevention Framework Incentive Grant, which led to the formation of the Arizona Substance Abuse Partnership (ASAP). With the exception of the Arizona Medical Board and the Arizona State Board of Pharmacy, all state agencies that receive public substance abuse funding are currently active in ASAP. One of ASAP's collaborative efforts includes the compilation of a statewide epidemiology report and needs assessment. Another outcome is the 2007 strategy for reducing methamphetamine use entitled “*A Plan for Action: Addressing the Methamphetamine Crisis in Arizona.*”

Other coordination efforts since 1998 include the Correctional Officer/Offender Liaison (COOL) program and the Arizona Families FIRST program. The COOL program began in 1998 and is a collaboration between the Department of Health Services (DHS) and the Department of Corrections. COOL provides substance abuse and behavioral health services to high-risk offenders who remain on parole upon leaving prison and expedites the eligibility screening for offenders to receive DHS-provided services. The Arizona Families FIRST program, established in FY 2001, is a partnership between DHS and the Department of Economic Security (DES) that addresses substance abuse in families participating in the child welfare system or receiving cash

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<sup>5/</sup> Office of National Drug Control Policy. *Inventory of State Substance Abuse Prevention and Treatment Activities and Expenditures (2006)*.  
<<http://www.whitehousedrugpolicy.gov/publications/inventory/>>

aid. DES clients receive services through DHS, and DES pays for services not reimbursed by DHS.

Despite the progress, collaboration gaps still exist, particularly with prevention efforts where multiple agencies serve potentially overlapping clientele. Adolescents, for example, may receive substance abuse education at school with funds from the Department of Education or through the Boys and Girls Clubs funded by either the Department of Public Safety or DHS. Because each agency determines separately how to utilize prevention monies, and a statewide strategic plan has not been developed, prevention efforts may overlap or miss populations altogether. On the other hand, treatment programs serve specifically defined groups, diminishing the likelihood of overlap with treatment.

Agencies may also find it beneficial to share performance measures and consider collecting uniform measures for similar treatment and prevention programs. Such coordination activities would allow for comparison of similar programs.

**There is no set of “best practices” available for state substance abuse coordination efforts.**

States use a variety of collaborative methods to improve the effectiveness of substance abuse treatment and prevention services, and many states have only recently begun collaborative efforts. New Mexico and Washington State are 2 examples of collaboration efforts in other states.

In 2005, New Mexico began managing mental health and substance abuse services provided by state agencies through a single statewide entity. The statewide entity provides many of the same services as each Arizona Regional Behavioral Health Authority (RBHA), but its role goes considerably beyond that of a RBHA; it oversees the services that are provided by or funded by 12 separate state agencies.

Unlike New Mexico, which has focused its efforts on service coordination, Washington State’s efforts have focused on data coordination. All agencies that receive publicly funded monies for alcohol and drug treatment must provide information to their “Target” substance abuse database. The data is then used to demonstrate costs savings in other areas including emergency room visits, medical costs, arrests, and convictions.

**Additional measures establishing the effectiveness of substance abuse programs are still needed, but progress has been made since the last program review in 1998.**

All agencies should collect and report information on prevention and treatment programs. The 1998 Substance Abuse PAR found that “despite expending \$59.9 million for substance abuse services statewide, data demonstrating the impact of these individual programs are not systematically collected or evaluated.” Although many agencies have improved in this area, some gaps continue to exist.

One example is in the Department of Education (ADE) prevention programs. The 1998 PAR found an absence of documentation on both drug prevention strategies and the effectiveness of each strategy for these programs. The PAR further concluded that the performance measures did not measure the effectiveness of the program. For the most part, these 1998 findings remain the

same. One aspect that has improved, however, is that schools are now required to use best practice programs.

Another gap occurs with the Administrative Office of the Courts, which only receives information on the number of clients served in its Drug Court Program, Juvenile Justice Services Division, and the Drug Treatment and Education Fund program. The agency does not collect data on recidivism or other outcome measures. Additionally, no internal or external evaluations have recently been performed.

The Arizona State Board of Pharmacy's program is also difficult to evaluate. The Board contracts with a private entity to administer the program. The private entity is responsible for identifying "best practices" and adopting these methods, creating strategic plan goals, and evaluating its program. With the exception of the number of participants in the program, the board does not receive information that can help them adequately assess the effectiveness of the program and help determine whether to renew the private program's contract.

The Department of Health Services (DHS) has made some progress with program evaluation since 1998. Regional Behavioral Health Authorities (RBHAs) are now required to submit data annually on prevention programs to DHS. Only 83% of prevention programs submitted this information for FY 2006. The relevance of this data could be further improved if similar prevention programs used the same performance measures, thus allowing for comparison between the programs.

DHS has also made advancements with measuring treatment efforts. Additional performance measures have been added regarding employment, criminal activity, and drug and alcohol abstinence. RBHAs do not provide information to DHS, however, on recidivism. Tracking recidivism rates would allow DHS to compare each RBHA's performance. It could provide further insight into the most cost efficient practices if it was tracked along with the type of treatment one receives (inpatient, outpatient, etc.) and the cost of that treatment.

**The Drug and Gang Prevention Resource Center should be responsible for compiling an ongoing annual report which includes substance use-related data, resources, and strategies for both substance abuse prevention and treatment.**

In addition to improving the collection of agency-specific information, Arizona should have a mechanism for collecting information across all agencies in order to gain a "big picture" understanding of substance abuse prevention and treatment programs and funding. Information could include descriptions of all programs, spending by each agency, and performance measures.

Prior to FY 2006, that the Drug and Gang Prevention Resource Center was required to compile an annual inventory of publicly funded substance abuse programs. The sunset of the Drug and Gang Policy Council eliminated this responsibility. Consequently, this information was not compiled in 2006. In 2007, the Center's inventory was included in the *Arizona Statewide Substance Abuse Epidemiology Report*, but ASAP members decided that the Center's inventory should be limited to prevention efforts. The epidemiology report was the result of Executive Order 2007-12 which required ASAP to "conduct an annual analysis and report of all substance use-related data, resources, and strategies at the state level to identify gaps in service and delineate effective resource allocation."



Continuation of the annual inventory beyond the expiration of the federal Strategic Prevention Framework Incentive Grant would provide beneficial information that could be used to improve Arizona's substance abuse system. The collection of additional information would enhance the inventory's usefulness. These enhancements could include the addition of treatment programs, more thorough explanations of funded programs, system-wide strategies for prevention and treatment efforts, and information on how agencies are coordinating their efforts. Because of their past experience of compiling these substance abuse surveys, the Drug and Gang Prevention Resource Center could complete the annual report as part of its formal responsibilities.

## **Findings and Recommendations – OSPB Staff**

### ***Department of Economic Security***

#### Findings:

Overall, the Arizona Families F.I.R.S.T. program is very effective at reducing the incidence of substance abuse treatment in participating families. Families that have left the program are easy to re-engage, and the program has proven that long-term treatment is preferable to one-time treatment. Furthermore, children that had once been removed from their homes are likely to be reunited with their families more quickly than those who do not participate with the program.

#### Recommendations:

Continue to expand the JSAT program in the future, as funds are available, in order to include more families. The average total *one-time* cost per family is \$1,100, which is minimal when compared to the expense of caring for a child that has been removed from the home. Those costs can range as high as \$6,000 per child, *per month*.

### ***Arizona Criminal Justice Commission***

#### Findings:

The RSAT program is effective at increasing the number of inmates who remain drug-free after being released. The program focuses on treatment of the participants' substance abuse problems and provides them with vocation training and the tools to avoid relapse. As a result, approximately 79% of participants remain drug-free after their release and go on to obtain employment or attend school.

#### Recommendations:

Continue the RSAT program. The average cost for the RSAT program per participant across all institutions is \$938. Since approximately 85% of participants remain arrest-free after being released, the cost of the program is lower than if those individuals were released without treatment and then were re-arrested.

### ***Administrative Office of the Courts***

#### Findings:

The Drug Court program focuses on preventing continued substance use/abuse by providing individual and group therapy sessions and educational programs. During the first half of FY 2007, 98% of the drug tests administered to program participants came back negative.

Unemployment among participants also fell, as 60% of drug court participants were employed during the program.

Recommendations:

Modify the drug court program. While the program is successful in helping participants stay substance use free during their participation, overall the program has not graduated that many people. Since the program's inception through 12/31/06, only 23% of program participants have graduated from the drug court program. During the first half of FY 2007, only 6% of drug court participants graduated from the program, while 12% were terminated from the program due to revocation/violation of probation.

***Department of Corrections***

Findings:

The Department offers a variety of programs for the treatment and prevention of substance abuse to its inmates. In addition to the statutorily mandated DWI/DUI curriculum approved by the Department of Health Services the Department provides education, treatment, and 12-step programs. For offenders on Community Corrections the Department provides other programs to ease the transition into the community, ensure they continue to be substance free and additional prevention resources. Inmates who participated in the Women in Recovery or Men in Recovery programs in FY 2006 had a 94% negative urine analysis test rate 90 days following their release into the community.

Recommendations:

The Department's efforts so far have generated positive results. Inmates who have participated in any of the substance abuse programs are staying substance free at a greater rate than those who do not participate. The Department should continue substance abuse treatment and prevention programs to the extent possible.

***Department of Juvenile Corrections***

Findings:

The Department offers primarily two different treatment programs. One, funded partially through the RSAT grant provides a specific housing unit for those individuals who are substance dependent and for those that do not meet the RSAT eligibility requirements the New Freedom program. The RSAT Recovery program and the New Freedom program have produced 100% negative tests results for their participants in 2006.

Recommendations:

The programs offered by the Department have had success in treating their substance using population. As the Department has such a good success rate with their RSAT Recovery and New Freedom Programs they should continue to the extent possible.

### ***Arizona Drug and Gang Prevention Center***

#### **Findings:**

The Center acts as a community resource and not as a substance abuse treatment provider. They have a comprehensive inventory of various treatment programs and prevention materials relating to both drugs and gangs.

#### **Recommendations:**

The Center is a valuable resource for the community and should be continued to the degree possible.

### ***Department of Health Services***

#### **Findings:**

The Arizona Department of Health Services successfully provides and participates in programs that measure the performance and effectiveness of substance abuse treatment services; however, improvement is still needed in the area of measuring the effectiveness of prevention programs.

The products provided by programs that measure the performance of treatment services include reports on the medical care provided, outcomes of targeted performance improvement projects, and results of satisfaction surveys. The Department also monitors specific incentive-linked performance measures, which included access to care, cultural competency, and member/family involvement in treatment. Moreover, the Department participates in the National Outcome Measures, which are administered by the U.S. Department of Health and Human Services and provide real-world outcomes on the effectiveness of treatment and prevention services.

To measure the performance of prevention programs, the Department allows programs to submit individualized evaluations, unless the program serves community coalitions, parents or adolescents. In these cases, the programs must use one or more of a set of five standard evaluation instruments. Due to a lack of an adequate database, which is in development, the Department has not been able to collect the data from each prevention site for statewide analysis.

#### **Recommendations:**

To better measure the performance and effectiveness of substance abuse prevention programs, the Arizona Department of Health Services should continue to develop and implement a database that will allow a statewide analysis of the evaluations submitted by the several programs. Moreover, the department should ensure that each program reports as required. Finally, it is recommended that the department require all prevention programs to submit comparable evaluations.

## **Appendix A: Findings from the 1998 PAR**

### *Overall Substance Abuse Services*

- The system is very complex and uncoordinated with a large number of funding sources managed by 13 different entities and a very large number of contracted providers.
- Despite expending \$59.9 million for substance abuse services statewide, data demonstrating the impact of these individual programs are not systematically collected or evaluated.

### *Department of Health Services*

- The Substance Abuse Services program's statutory responsibility to provide statewide coordination overlaps the statutory responsibility of the Arizona Drug and Gang Policy Council.
- Substance Abuse Services has been in existence for 24 years, yet the program's effectiveness cannot be established due to the lack of performance data related specifically to Arizona.
- The contracts with the RBHAs do not include adequate program performance or service quality measures as contract compliance criteria.
- Studies in other states have shown that substance abuse treatment results in cost savings in other areas such as crime reduction.

### *Department of Education*

- The focus of the "Chemical Abuse" program is unclear, since it also incorporates both drug and violence prevention activities funded by the Safe & Drug-free Schools and Communities Act (Title IV), while excluding the State School Safety Program.
- There is no documentation on the various drug prevention strategies being used by Arizona schools and the effectiveness of each strategy. The department provides technical assistance to school districts in implementing a comprehensive health program that includes chemical abuse prevention, but does not document and evaluate different prevention strategies.
- The department's performance measures have improved over the years, but the current performance measures still do not measure the effectiveness of the program.
- Many aspects of the program are federally mandated and thus out of the state's control. More importantly, local school districts are subject to a maintenance-of-effort requirement in order to be eligible for Title IV funding.

## **Appendix B: Statutory Language for the Arizona Drug and Gang Policy Council (Repealed)**

A.R.S. § 41-617. Arizona drug and gang policy council; duties

- A. An Arizona drug and gang policy council is established which shall consist of members as follows:
  - 1. The Governor, who shall serve as Chairman.
  - 2. The Attorney General.
  - 3. The Director of the Department of Public Safety.
  - 4. The Director of Health Services.
  - 5. The Director of the Department of Economic Security.
  - 6. The Director of the State Department of Corrections.
  - 7. The state Superintendent of Public Instruction.
  - 8. A representative from the Board of Regents appointed by its President.
  - 9. A representative from the Arizona Board of Regents appointed by its President.
  - 10. A member of the Criminal Justice Commission appointed by its Chairman.
  - 11. A representative from the business community appointed by the Governor.
  - 12. A representative from the League of Arizona Cities and Towns appointed by the Governor.
  - 13. The Administrative Director of the Courts.
  - 14. The Director of the Arizona Health Care Cost Containment System Administration.
  - 15. The Director of the Department of Juvenile Corrections.
  - 16. A representative, appointed by the Governor, from a local community group or neighborhood group that is actively involved in community substance abuse issues.
- B. The council shall meet and organize by electing from among its members such other officers as are deemed necessary or advisable. The council shall meet at least once during each calendar quarter and additionally as the Chairman deems necessary. Staff and support services needed for the administration of the council's activities will be supplied from those state agencies represented on the council at the direction of the Governor.
- C. The objective of the council is to foster cooperation among all state and local government entities, neighborhood groups, community organizations and private groups to ensure the optimal delivery of educational, treatment and prevention programs that will reduce the incidence of substance abuse or participation in criminal street gangs as defined in A.R.S. § 13-105 by children, youth and families.
- D. The Arizona drug and gang policy council shall:
  - 1. Recommend the basis for effective coordination of all state programs and expenditures, including federal monies, for education, prevention and treatment relating to alcohol and drug abuse and participation in criminal street gangs as defined in A.R.S. § 13-105.
  - 2. Provide a liaison to community groups and private sector programs involved in substance abuse gang education, prevention, and treatment.
  - 3. Conduct an annual inventory of publicly supported education, prevention, and treatment programs related to substance abuse and participation in criminal street gangs in operation in this state to be submitted by October 31 of each year to the Governor, the President of the Senate and the Speaker of the House of Representatives to be made available to the general public through the Arizona Drug and Gang Prevention Resource Center. The report shall include:
    - i. The name, the location, and a description of each program.

- ii. The amount of sources of funding for each program.
  - iii. The agency that administers each program.
  - iv. The type of substance abuse or gang activity addressed by each program.
  - v. The gender of clientele served by each program and whether the program serves children or adults, or both.
- 4. Evaluate the results achieved by publicly supported education, treatment and prevention programs and make recommendations to the Governor and the Legislature for revisiting programs or redirecting expenditures to achieve better use of public resources.
- 5. Evaluate the results achieved by publicly supported education, prevention and treatment programs that are related to drug related gang activity in this state and make recommendations to the Governor and the Legislature for revisiting programs or redirecting expenditures to achieve better use of public resources.
- 6. Oversee the operation of the Arizona Drug and Gang Prevention Resource Center which shall be established and maintained at the direction of the Arizona Drug and Gang Policy Council for collection, storage, and distribution of information relating to substance abuse prevention and treatment programs, gang education and prevention and treatment programs and which shall serve as a referral agency for law enforcement activities.
- 7. Communicate regularly with the statewide Chemical Abuse Prevention Interagency Committee to collect statewide lay and professional recommendations for prevention, education, and treatment programs.
- 8. Communicate regularly with the Arizona Criminal Justice Commission so that programs for education, treatment and prevention are coordinated with enforcement and related efforts undertaken within the criminal justice system.
- E. The Arizona Drug and Gang Prevention Resource Center shall be operated with full cooperation of all agencies and entities involved in the organization and maintenance of publicly supported education, prevention and treatment programs related to substance abuse and gangs.

## **Appendix C: Members and Duties of the Arizona Substance Abuse Partnership**

Excerpt from Executive Order 2007-12: Establishing the Arizona Substance Abuse Partnership.

NOW THEREFORE, I, Janet Napolitano, Governor of the State of Arizona, by virtue of the authority vested in me by the constitution and laws of the state hereby order and direct the following:

1. There is hereby established the Arizona Substance Abuse Partnership (“ASAP”).
2. The membership of ASAP shall be comprised of no fewer than 19 and no more than 25 members who shall be appointed by, and serve at the pleasure of, the Governor. To the extent practical, they shall include the following:
  - a. The Governor or a designee to serve as chair.
  - b. One representative from each of the following community organizations or federal entities:
    - i. Business Leaders
    - ii. Substance Abuse Coalition
    - iii. Tribal government in Arizona
    - iv. Substance Abuse Treatment Service Provider
    - v. Recovery Community (individuals who have completed substance abuse treatment)
    - vi. Local Law Enforcement
    - vii. Drug Enforcement Administration, residing in Arizona
  - c. The Director of the following government entities:
    - i. Attorney General’s Office
    - ii. Governor’s Office for Children, Youth and Families
    - iii. Department of Corrections
    - iv. Department of Juvenile Corrections
    - v. Department of Education
    - vi. Administrative Office of the Courts
    - vii. Department of Economic Security
    - viii. Department of Health Services
    - ix. Arizona Health Care Cost Containment System
    - x. Department of Liquor License Control
    - xi. Department of Public Safety
  - d. The Governor may appoint ex-officio members as deemed necessary or appropriate, which may include representation from the Substance Abuse and Mental Health Services Administration.
3. Members of ASAP may, with the Governor’s permission, send designees to serve on ASAP; provided, however, that such designees shall have been delegated by the member with full authority to vote and otherwise act on behalf of the member.
4. With the approval of the Governor, ASAP may form:
  - a. A Community Advisory Board to provide ASAP with perspective on community-specific issues throughout Arizona. The board will focus primarily on rural communities and seek input from each of the fifteen counties and tribes.
  - b. An epidemiological workgroup subcommittee to collect and report substance-related data and resource information.
  - c. Additional substance-specific or issue-specific subcommittees as necessary.
5. ASAP shall have duties and responsibilities, including but not limited to, the following:

- a. Conduct an annual analysis and report of all substance use-related data, resources, and strategies at the state level to identify gaps in service and delineate effective resource allocation;
- b. Develop and utilize a shared planning process that encourages state and local partnerships to maximize existing resources and build capacity of local communities to meet identified needs;
- c. Identify effective practices to integrate strategies across systems that will leverage existing funding and increase access to services at the community level;
- d. Recommend specific drug- and alcohol-related legislation and budget line items for consideration by the Arizona Legislature;
- e. Analyze current state and federal laws and programs governing substance use prevention, treatment, and enforcement and recommend any changes that would enhance the effectiveness of these laws or programs;
- f. Review evaluation and research reports to ensure the most effective and evidence-based program, policies, and practices are being utilized across the state and make recommendations for modifications as needed.



# Arizona Drug and Gang Prevention Resource Center

542 East Monroe Street, Mercado D100  
Phoenix, Arizona 85004-2352  
Phone: (602) 496-1320  
Fax: (602) 496-1337



December 17, 2007

Mr. Richard Stavneak, Director  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, Arizona 85007

Dear Mr. Stavneak:

Thank you and your staff for providing us with the opportunity to comment on the report issued on the Substance Abuse Strategic Program Area Review (SPAR). As one of the participating agencies we were able to discuss our responsibilities and find that they have been appropriately articulated in the final report.

The Arizona Drug and Gang Prevention Resource Center (ADGPRC) staff analyzed the data compiled for the 2006 EPI Profile *Assessment of Community Assets and Resource* and serves on the SPF-SIG Advisory Team Epidemiology (EPI) Work Group and the Workforce Development Task Force.

The ADGPRC would like to continue to offer our experience and expertise for the continuation of the data collection and analysis and would be happy to offer any incite on how the data are collected.

Sincerely,

A handwritten signature in black ink, appearing to read "C. A. Larsen".

Cassandra A. Larsen  
Associate Director



**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano  
Governor

Tracy L. Wareing  
Director

**DEC 18 2007**



Mr. James Apperson  
Director, Governor's Office of Strategic Planning and Budgeting  
1700 West Washington  
Phoenix, Arizona 85007

Mr. Richard Stavneak  
Director, Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, Arizona 85007

Dear Mr. Apperson and Mr. Stavneak:

The Department of Economic Security appreciates the opportunity to respond to the final draft of the Strategic Program Area Review (SPAR) of substance abuse programs.

As noted in the SPAR, the Department is primarily responsible for the operation of the Arizona Families F.I.R.S.T. (Families In Recovery Succeeding Together – AFF). The AFF is an invaluable tool in the child welfare system. A significant majority of cases referred to Child Protective Services (CPS) involve, to some degree, substance abuse issues. It is therefore imperative that the Department have resources that will provide families the treatment services they need to keep children in their own homes or reunify families more quickly.

Independent annual evaluations demonstrate the efficacy of the program. The Center for Applied Behavioral Healthy Policy within Arizona State University's College of Human Services conducted the fiscal year 2007 evaluation. Highlights from this evaluation include:

- 98 percent of AFF clients have no substantiated CPS reports of recurrent abuse or neglect after their enrollment in the program
- Over 570 children, representing 25 percent of all children of AFF clients, achieved permanency
- 82 percent of these children were safely reunified with parents or caregivers, with the median length of time in out-of-home placement at 44 days. By comparison, for all children exiting out-of-home care in the six-month period ending March 31, 2007, 50 percent were reunified with parents or caregivers

Mr. James Apperson  
Mr. Richard Stavneak  
Page 2

The findings and recommendations from the staffs of the Governor's Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) are consistent with the principles of AFF.

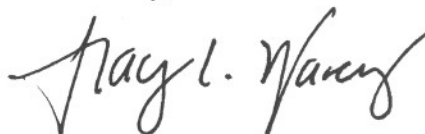
The JLBC notes that statewide coordination has improved since 1998, which preceded the creation of AFF, but that there are additional opportunities for deeper collaboration. As noted in the JLBC's finding, AFF exists as a partnership between the Departments of Economic Security and Health Services. In fact, coordination is one of the hallmarks of AFF. The annual evaluation states that "the majority of individuals participating in the AFF program are exposed to a comprehensive and coordinated array of wraparound services" and that "AFF clients are provided with a seamless system of care that ensures timely access to those services needed to make their children safe, to stabilize their families, and to achieve permanency for children through reunification with their parents and families." Further, the Department recognizes the importance of collaboration not only among state agencies, but also with contracted providers. The annual evaluation highlights one of the Department's efforts to strengthen these relationships, the co-location of one provider, TERROS, in eight CPS offices. This collaboration has improved communication, case coordination, and, ultimately, services for clients.

The JLBC also notes the importance of incorporating best practices in the operation of substance abuse services and measuring outcomes to ensure effectiveness. AFF incorporates research-based best practices, such as the wraparound service model, while allowing for the implementation of innovative, often community-based practices. Additionally, the program's annual independent evaluation demonstrates the Department's commitment to evaluating outcomes.

Due to these successes, the Governor's Office and Legislature have supported increased funding for AFF in recent years. The OSPB's SPAR recommendation recognizes the importance of maintaining this momentum by continuing the investment in this proven, cost-effective program. The Department's fiscal year 2009 budget requests a \$2.5 million funding increase that will allow AFF to serve an additional 2,250 families per year. The Department appreciates the support that the program has received in recent years and looks forward to working with the Governor's Office and Legislature to expand this progress in the coming years.

If you have any questions, please contact Stephen Pawlowski, Financial Services Administrator, at (602) 542-3786.

Sincerely,

A handwritten signature in black ink, reading "Tracy L. Wareing". The signature is fluid and cursive, with the first name "Tracy" being more prominent and the last name "Wareing" following in a similar style.

Tracy L. Wareing  
Director



State of Arizona  
Department of Education

Tom Horne  
Superintendent of  
Public Instruction



December 18, 2007

Mr. Richard Stavneak, Director  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, AZ 85007

Mr. James Apperson, Director  
Office of Strategic Planning and Budgeting  
1700 West Washington, Suite 500  
Phoenix, AZ 85007

Dear Mr. Stavneak and Mr. Apperson:

Enclosed are the Arizona Department of Education's comments on the final version of the Substance Abuse Strategic Program Area Review (SPAR). Our comments correct three conclusions in the SPAR that are based on erroneous information.

Please contact us if you have any questions or need further clarification on the information provided.

Sincerely,

Handwritten signature of Jean Ajamie.

Jean Ajamie, Director  
School Safety & Prevention  
Arizona Department of Education  
(602) 542-8734

Handwritten signature of Kathy Rice.

Kathy Rice, Safe & Drug-Free Schools Coordinator  
School Safety & Prevention  
Arizona Department of Education  
(602) 542-8713

**Substance Abuse Strategic Program Area Review (SPAR)  
Comments from ADE**

1. The SPAR indicates that ADE is the second largest recipient of substance abuse monies (Table 1, page 2; Figure 2, page 4; Figure 3, page 4; Agency Description - Department of Education, page 9). **This is incorrect.**

Table 1 indicates that ADE had \$20,336,100 in estimated substance abuse expenditures in FY2007. It is unclear as to why the School Safety Program (\$14,375,331) was included in this amount since

- the School Safety Program is **not** a substance abuse prevention program,
- the School Safety Program was **not** included in the 1998 PAR process,
- the School Safety Program is **not** included anywhere else in the scope of this SPAR review process, and
- the School Safety Program has its own sunset review process that was successfully completed this year.

In addition, the SPAR even states, "Because these officers are not primarily focused on substance abuse prevention, the \$14.2 million in General Fund monies for this program only indirectly go towards prevention efforts." **Please note, many personnel on school grounds are indirectly providing substance abuse prevention efforts but to include their salaries as part of ADE's substance abuse expenditures would be terribly misleading and inaccurate.**

The goals of the School Safety Program were developed by the School Safety Program Legislative Oversight Committee and are **not** specific to substance abuse prevention. The goals of the School Safety Program are:

1. To contribute to an orderly, purposeful atmosphere, which promotes the feeling of safety conducive to teaching and learning, and
2. To teach Law-Related Education that promotes a safe, orderly environment, and good citizenship.

Even though there are opportunities for collaboration and coordination between the Chemical Abuse Program and the School Safety Program (as there are with many other programs), **the School Safety Program is not a substance abuse prevention program and therefore should not be included in ADE's substance abuse expenditures.**

The accurate amount of ADE's substance abuse expenditures is as follows (and should also be corrected on page 9):

**FY 2007 Estimated Expenditures: \$5,253,353 for prevention;  
FY 2007 Funding Sources: \$803,424 (15%) GF (Chemical Abuse Program),  
\$4,449,929 million (85%) FF (Safe and Drug-Free Schools);  
Population Served (FY 2007): 868,296**

An additional point for clarification, when the \$14.2 million dollars that represented the School Safety Program was added into the substance abuse expenditures, it was incorrectly stated that it all came from the General Fund. Proposition 301 funding supplies \$7.8 million of the \$14.2 million dollars.

2. The SPAR indicates that ADE's substance abuse expenditures grew from FY 1996 to FY 2007 (Table 1, page 2; Figure 2, page 4; Figure 3, page 4). **This is incorrect.**

The ADE's substance abuse expenditures have **decreased** since FY 1996. The following table is based upon information provided on page 21 of the original ADE SPAR response submitted June 1, 2007 as well as information found on page SAADE-3 of the 1998 PAR:

	FY 1996-1997			FY 2006-2007		
	Funding to Districts	Per Pupil	Total Funding (including Admin and TA)	Funding to Districts	Per Pupil	Total Funding (including Admin and TA)
Chemical Abuse Program	\$667,613	\$0.94	\$849,900	\$620,813	\$0.73	\$803,424
Safe & Drug-Free Schools (Title IV)	\$4,643,794	\$6.02	\$5,150,972	\$4,137,555	\$4.77	\$4,449,929
State Tobacco Prevention	\$1,181,443	\$1.66	\$1,250,000	0	0	0
<b>Total:</b>	<b>\$6,492,850.00</b>	<b>\$8.62</b>	<b>\$7,250,872.00</b>	<b>\$4,758,368.00</b>	<b>\$5.50</b>	<b>\$5,253,353.00</b>

3. The SPAR states that there has been a lack of progress in the Department of Education (ADE) in the documentation of drug prevention strategies and their effectiveness since the 1998 PAR. The PAR further concluded that the performance measures did not measure the effectiveness of the program. The SPAR concluded that for the most part, the 1998 findings remain the same. (Findings and Recommendations - JLBC Staff, page 16). **This is incorrect.**

In the past decade, there have been vast improvements in the quality of prevention program development, implementation, and evaluation by the school districts that apply for Chemical Abuse Prevention and Safe & Drug-Free School funding, in spite of the decline in funding levels. One significant change that has occurred since 1998 and is noted in the SPAR, is that districts are now held to developing their programs based on the US Department of Education's *Principles of Effectiveness*. The *Principles of Effectiveness* were the basis for the Arizona Logic Model – developed by interagency concurrence through the organization that preceded the ASAP and required to be utilized by substance use prevention providers.

The *Principles of Effectiveness* require districts to design and implement prevention programs, strategies, and activities that are based on research or evaluation that provide evidence that they prevent or reduce drug use, violence or disruptive behavior. If the district is not using a “proven-effective” packaged prevention program, a combination of effective strategies may be utilized providing the district evaluates strategies to determine the impact on the desired behavior change. Districts applying for funds, report to ADE annually on the progress of their measurable outcome objectives and the results are used for continuous program improvement.

For a list of the objectives addressed by districts with Chemical Abuse Prevention and Safe & Drug-Free Schools funding, see page 16 of the initial ADE SPAR response. For a list of the programs, strategies and activities that are being implemented to achieve these objectives, see page 17 of the initial ADE SPAR response. For documentation on the previous year’s outcomes of the substance abuse-related objectives, see page 32 of the initial ADE SPAR response.

The current state-level performance measures that address the percentage of students that are offered, sold, or given an illegal drug on school property; the percentage of students that carried a weapon on school property; and the percentage of students who engaged in physical fights were selected based on recommendations from the US Department of Education, which has oversight of the Safe and Drug-Free School (Title IV) grant. These performance measures were agreed upon by the state-level Prevention Advisory Council. It was important to this council that the measures address both violence and substance abuse as well as behavior occurring on school grounds. Since ADE utilizes a combined Title IV and Chemical Abuse Prevention application and promotes combines planning for the two grants, it is logical to package the performance indicators in this manner.

The main difference between the performance measures of 2007 and those stated in the 1998 PAR is the fact that all three 2007 performance measures are outcome based whereas three of the four performance measures indicated in the 1998 PAR were process measures. To go from measuring how many students have had drug education in their schools to measuring how many students were offered, sold or given an illegal drug on school property is a significant step.





STATE OF ARIZONA

JANET NAPOLITANO  
GOVERNOR

GOVERNOR'S OFFICE FOR CHILDREN, YOUTH AND FAMILIES

IRENE S. JACOBS  
EXECUTIVE DIRECTOR

December 18, 2007



Richard Stavneak  
Director, Joint Legislative Budget Committee  
1716 W. Adams  
Phoenix, AZ 85007

Dear Director Stavneak:

I am writing on behalf of the Governor's Office For Children, Youth and Families-Division For Substance Abuse Policy to provide you with feedback on the latest SPAR findings and recommendations. We are specifically concerned with two findings and recommendations on pages 16 and 17.

Firstly, although we agree with the overall findings stated on page 16, I think it is important to note that agencies are now sharing prevention performance measures and developing protocol and screening to identify "best practices" for both prevention and treatment programs statewide through the collaborative efforts of the Workforce Development Committee. This is a sub-committee of the Arizona Substance Abuse Partnership (ASAP). Several agencies represented on this committee, including the Governor's Office and the Department of Health Services must report on "best practice" programs as a requirement for federal grant funding.

Secondly, I would like to provide feedback on the recommendation on page 17; **"The Drug and Gang Prevention Resource Center should be responsible for compiling an ongoing annual report which includes substance abuse use-related data, resources, and strategies for both substance abuse prevention and treatment."** While the Drug and Gang Prevention Resource Center has collected and reported this information for state agencies in the past, the ASAP now oversees the development and dissemination of bi-annual substance abuse use-related and yearly snapshot reports through the work of its Substance Abuse Epidemiology Work Group. The Epidemiology Work Group recently released the **2007 Substance Abuse Epidemiology Profile and Impact of Substance Abuse: Arizona Snapshot** reports.

Thank you for this opportunity to submit feedback on the SPAR document. I look forward to the release of the official SPAR and subsequent recommendations it will provide.

Sincerely,

Kim O'Connor  
Director, Division for Substance Abuse Policy



**Arizona  
Department of  
Health Services**

***Office of the Director***

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(602) 542-1062 FAX

JANET NAPOLITANO, GOVERNOR  
SUSAN GERARD, DIRECTOR



December 13, 2007

Richard Stavneak  
Director  
Joint Legislative Budget Committee  
1716 West Adams  
Phoenix, Arizona 85007

James Apperson  
Director  
Office of Strategic Planning and Budgeting  
1700 West Washington, Suite 500  
Phoenix, Arizona 85007

Re: Substance Abuse Strategic Program Area Review


Dear Director Stavneak and Director Apperson:

Thank you for allowing the Department of Health Services (DHS) to participate in the Substance Abuse Strategic Program Area Review. The report findings and recommendations prove to be both enlightening and practical.

DHS agrees with the recommendation to improve the evaluation of substance abuse prevention activities statewide. DHS is in the process of developing an evaluation database to facilitate statewide analysis of the effectiveness of substance abuse prevention programs with an anticipated completion in July, 2008.

The opportunity to take part in the Substance Abuse Strategic Program Area Review is appreciated. DHS plans to utilize the report's valuable content to advance the coordination of substance abuse prevention and treatment activities throughout Arizona.

Sincerely,

  
Susan Gerard  
Director

## Debt and Third Party Financing Strategic Program Area Review

**Overview** — In the state of Arizona, several state agencies and authorities issue debt as a means to pay for a variety of capital projects such as highway construction and design, new schools and university buildings, infrastructure improvements, and health care facilities. In contrast to pay-as-you-go financing, which requires state agencies to pay the entire cost of a capital project up front, the use of debt financing allows state agencies to spread payments over a longer period of time. The primary issuers of debt are the Universities, the Arizona Department of Administration (ADOA), the School Facilities Board (SFB), and the Arizona Department of Transportation (ADOT). The authorities that may issue debt on behalf of local governments or other entities include the Water Infrastructure Finance Authority (WIFA), the Arizona Health Facilities Authority (AHFA), the Arizona Housing Finance Authority (AzHFA), and the Greater Arizona Development Authority (GADA). In addition, the Arizona Department of Commerce (ADOC) administers the state's Private Activity Bond program.

### *Universities*

The state universities issue system revenue bonds and Certificates of Participation (COPs) to finance various academic and student related buildings and facilities. Statute requires the universities' issuance of bonds or COPs to be reviewed by the Joint Committee on Capital Review (JCCR). Under revenue bond financing, the statutes define the revenues that are required to be pledged as security for the bonds, which generally include tuition, registration fees and other student related fees. Under COP financing, which is a form of lease-purchase financing, the repayment is based on the commitment of the university to make the scheduled payments, generally either from university funds or from State appropriated monies. In addition, the COPs are secured by the asset being financed. If default on the payments occurs, holders of the COPs take possession of the asset and any unspent proceeds from the issuance.

A.R.S. § 15-1683 allows each state university to incur a projected annual debt service for bonds and COPs of up to 8.00% of each institution's total projected annual expenditures. This calculation is known as the debt ratio. The current debt ratios for Arizona State University (ASU), the University of Arizona (UA), and Northern Arizona University (NAU) are 5.46%, 5.44%, and 6.27% respectively.

The universities also enter into capital leases, in which ownership of the property may revert to the universities at the end of the lease term. For example, in 2003 ASU entered into a 30-year lease agreement with Arizona State University Foundation, LLC, a non-profit organization and component unit of the university, for four floors in the Fulton Center and related parking structure. At the end of the lease for the four floors and termination of the underlying ground lease, the entire property will revert to the ownership of ASU.

In addition to these traditional debt financing methods, the universities have, in the last 7 years, used indirect debt or third party financing for several capital projects. (*See discussion on pages 6-7.*) This approach is similar to the third-party, lease-to-own financings that the Arizona Department of Administration and other state agencies have used for state office facilities.

### ***School Facilities Board***

From FY 2003 to FY 2005, the SFB issued COPs to provide K-12 school districts with funds for new schools facilities, including land acquisition, related infrastructure, fixtures, furnishings, and equipment. The bonds are paid for by General Fund appropriations for debt service. These COP issuances required JCCR review. In addition, SFB issued revenue bonds to correct deficiencies in existing schools prior to FY 2007. The bonds are paid by pledged revenues from the 0.6% increase in the transaction privilege tax (TPT) approved under Proposition 301 in the 2000 general election and proceeds from the leasing or sale of state trust lands.

### ***Arizona Department of Transportation***

ADOT issues Highway User Revenue Fund (HURF) bonds to design and construct highways, and to meet the costs of acquiring right of way for highways. The revenue source for these bonds are several transportation related licenses, taxes, fees, and penalties. ADOT also administers the Highway Expansion and Extension Loan Program (HELP) to provide loans and financial assistance for eligible highway projects in Arizona. For this same purpose, ADOT's State Transportation Board can issue nonnegotiable Board Funding Obligations (BFOs) for purchase by the Arizona State Treasurer. Lastly, ADOT issues Grant Anticipation Notes (GANs) that pay the federal share of projects in advance of the actual receipt of federal highway funding.

### ***Arizona Department of Administration***

ADOA has engaged in privatized lease-to-own (PLTO) and COP arrangements to purchase property and construct buildings that house state departments. As with capital leases, PLTO agreements entail a lease for a set number of years, at the end of which the lessee (the state) has the option to own the leased facility. PLTO arrangements are not considered to be state debt. ADOA has also used COP financing to pay for the Human Resources and Payroll System (HRIS) and third-party financing for the more than \$150 million Business Reengineering-Integrated Tax System (BRITS).

### ***Greater Arizona Development Authority***

GADA issues Infrastructure Revenue Bonds on behalf of local governments to allow them to finance public infrastructure development. Borrowers secure these bonds through the use of excise taxes, user revenue streams, general obligation pledges, and other types of pledges not including state monies. In the event of non-payment, GADA is held liable, but can intercept the borrower's state shared revenue funds to fulfill the bond obligation. Pursuant to A.R.S. § 41-1554.08, the bonds do not constitute a legal debt of this state and are not enforceable against this state. GADA generally purchases bond insurance to achieve an AAA rating, allowing borrowers to access lower rates than otherwise available to them.

### ***Water Infrastructure Finance Authority***

WIFA issues Water Quality Bonds to fund low interest loans for the construction of drinking water and wastewater (clean water) facilities and related projects. Bond proceeds also supplement the 20% state match dollars for the federal drinking and clean water capitalization grants that WIFA receives each year from EPA.

### ***Arizona Housing Finance Authority***

AzHFA uses its share of the Private Activity Bond (PAB) allocation to help promote home ownership and multi-family residential development in rural Arizona. (*See discussion of PAB program below.*) PABs are tax-exempt, allowing borrowers to secure lower rates of interest. AzHFA acts as a conduit between borrower and lender and is not liable for any debt resulting from the transactions. As of the beginning of FY 2007, total outstanding principal was \$69.7 million.

### ***Arizona Health Facilities Authority***

AHFA issues qualified 501 (c)(3) bonds for projects that improve health infrastructure and facilities in Arizona. The bonds issued by AHFA are not subject to the Private Activity Bond allocation. AHFA acts as a conduit issuer between borrower and lender and neither AHFA nor the state is liable for the debt. As of the beginning of FY 2007, total outstanding principal was \$2.1 billion.

### ***Department of Commerce – Private Activity Bond Program***

Private Activity Bonds (previously referred to as industrial development bonds) can be issued to finance manufacturing or industrial projects, mortgages, residential rental housing units, student loans, or for other private projects that provide a public benefit. The bonds are exempt from federal income tax, and the federal government annually determines each state's overall PAB limit based on state population. Industrial development authorities, AzHFA, and student loan organization are the issuing entities. The private sector recipient of the funds, however, is the party legally responsible for paying off the bonds.

The Department of Commerce is charged with administering Arizona's allocation of PAB's from the federal government. In 2006, the federal government granted \$475 million in PAB authority to Arizona, all of which was allocated. The allocation process is accomplished following the procedures outlined in A.R.S. § 35-901 through 35-913. Allocations made from the statutorily designated subcategories, or pools, of the overall state bond allocation are made on a first come, first serve basis pursuant to state statute. According to the Department of Commerce, the allocation included:

- Mortgage Revenue Bonds or Mortgage Credit Certificate Programs – \$94 million
- Student Loans – \$95 million
- Residential Rental Projects – \$79 million
- Manufacturing and Other Projects – \$208 million

**Existing Debt and Structure** — The table on the following page includes information on outstanding debt by state agency and authority, as reported by the Arizona Department of Revenue in its annual Report of Indebtedness. According to the most recent report, state agencies' level of debt was \$5.2 billion in FY 2006. This amount is \$2 billion higher than the FY 2002 level of debt.

The increase in outstanding debt from FY 2002 to FY 2006 was largely due to new SFB and University issuances supported by state General Fund appropriations. From FY 2003 through FY 2005, SFB received \$900 million in cash from COP agreements to fund the costs of K-12 new school construction. In addition, since 2001 the agency issued about \$1.1 billion in revenue bonds, consisting of \$854.8 million in School Improvement Revenue Bonds and \$247.4 million in State Land Trust Revenue Bonds, to finance the cost of correcting existing deficiencies in schools. The Universities issued approximately \$480 million for research infrastructure projects, as authorized by Laws 2003, Chapter 267, as well as certain other debt authorized by the Legislature which is fully funded from state appropriations and Proposition 301 monies.

The \$5.2 billion amount represents outstanding obligations that must be repaid by the state. Beyond these obligations, there are certain state authorities that can issue debt on behalf of local governments or other entities. In these instances, the local government or other entity, not the state, is the party responsible for making the debt service payments. In FY 2006, the outstanding debt associated with these state authorities was \$3 billion, which was a \$2.1 billion increase from FY 2002. The primary cause of increase was a substantial amount of debt incurred by AHFA.

Outstanding Debt: State Agencies and Authorities (\$ in millions)			
<u>State Agency</u>	Outstanding Debt		
	<u>FY 2002</u>	<u>FY 2006</u>	<u>\$ Change</u>
ADOA	\$ 212.8	\$ 192.6	\$ (20.2)
SFB	439.1	1,703.6	1,264.5
ADOT	1,519.3	1,548.9	29.6
Universities	<u>1,000.8</u>	<u>1,725.5</u>	<u>724.7</u>
<i>Total: State Agencies</i>	<i>\$ 3,172.0</i>	<i>\$ 5,170.6</i>	<i>\$ 1,998.6</i>
<u>State Authorities</u>			
GADA	\$ 35.1	\$ 291.5	\$ 256.4
AHFA	617.6	2,098.5	1,480.9
AzHFA	0	69.7	69.7
WIFA	<u>241.9</u>	<u>577.0</u>	<u>335.1</u>
<i>Total: State Authorities</i>	<i>\$ 894.6</i>	<i>\$ 3,036.7</i>	<i>\$ 2,142.1</i>

Additional information important for an understanding of debt structure in Arizona includes measures of state debt relative to other factors. For instance, state debt as a percentage of personal income is a measure sometimes used by ratings agencies for their analysis of debt issuance. Two of those measures as of the latest available data include:

State Debt as a % of Total Debt	22.8%
State Debt as a % of Personal Income	4.54%

**Arizona Debt Ranking** — The following table displays Arizona’s debt position relative to other states. The data was taken from the U.S. Census Bureau, and reflects the rankings as of FY 2004. (Census data is not comparable to the earlier table as the Census Bureau uses a different methodology to measure debt. Census data is included as it is the only available source for state by state comparisons.) Higher rankings indicate more debt.

<u>Category</u>	<u>Amount</u>	<u>Rank</u>
Total State Debt	\$6.8 Billion	26 <sup>th</sup>
Total State and Local Debt	\$29.8 Billion	20 <sup>th</sup>
State Debt Per Capita	\$1,179	46 <sup>th</sup>
State and Local Debt Per Capita	\$5,196	30 <sup>th</sup>
State and Local Debt as a % of Personal Income	19.9%	23 <sup>rd</sup>

As shown by the table, Arizona tends to rank comparatively lower to other states if only state debt is being measured, but increases its ranking when both state and local government debt is included.

**Debt Affordability Reports** — Some states use a Debt Affordability Report (DAR) to track their total debt burden and the potential fiscal impact. DARs are an instrument for reporting and forecasting debt that enables states to better coordinate the authorization and retirement of debt. The DAR typically only addresses bonds supported by tax-derived revenues, or bonds that are paid from the General Fund. The applicable debt is usually categorized by agency, division of principal and interest, and duration.

DARs incorporate forecasts of debt authorization and issuance based on statute and a review of prior year debt issuances and payments. These trends are used in conjunction with revenue forecasts to clarify the feasibility of approving various amounts of debt. To give the report a greater degree of explanatory power, most states incorporate debt ratio measures that compare General Fund revenues to debt service, debt to personal income, and debt per capita.

Arizona does not produce a DAR. Statute instead requires the Department of Revenue (DOR) to annually publish a Report of Indebtedness. The DOR report includes information on all state agencies, cities, counties, school districts, community college districts, special districts (such as flood control or fire districts), and “other” jurisdictions (such as the Salt River Project). For each of these entities the report details:

- total outstanding debt as of the beginning of the fiscal year;
- the amount of principal paid off over the last year;
- the debt limit of the jurisdiction (if applicable), and how much of the limit is being used;
- the amount of new debt issued over the past year; and
- for certain political subdivisions, their per capita debt level.

As opposed to a DAR, the DOR Report of Indebtedness only includes a picture of existing debt levels. The DOR report does not include a projection of future revenue collections or debt issuances, nor does it attempt to estimate the ability of the state to enter into new debt obligations.

**Credit Ratings** — Another way to assess a state or an agency’s capacity to issue additional debt is to look at its credit rating. In the bond market, credit ratings are designed to measure the likelihood that a government entity will repay a debt it incurs. The ratings are not required by law, but are standard for all financings undertaken by state agencies.

There are three nationally recognized ratings agencies (Standard and Poor’s, Moody’s, and Fitch), each with its own ratings system. The ratings categories for each agency are shown below. The ratings are displayed from highest to lowest, with AAA (or Aaa) being the highest achievable rating and C the lowest rating.

<b>Table 2</b>		
	<u><b>Adequate</b></u>	<u><b>Below Average</b></u>
<b>S&amp;P</b>	AAA, AA, A, BBB	BB, B, CCC, CC, C
<b>Moody's</b>	Aaa, Aa, A, Baa	Ba, B, Caa, Ca, C
<b>Fitch</b>	AAA, AA, A, BBB	BB, B, CCC, CC, C

Debt issuances in the top four categories reflect the opinion of the rating agency that the issuer has sufficient capacity to meet its obligation. In addition to the above ratings, if payments are not made by the due date and the issuer is in default, the issuance can be assigned a D rating.

A rating can be modified to give a further indication of the issuance’s standing. For example, Standard and Poor’s (S&P) and Fitch may append a plus or minus sign to the rating, while Moody’s will add a 1, 2, or 3 (1 indicating a higher ranking). In addition, the potential for a change to the rating over the short to medium term is assessed. A positive outlook indicates that the rating may be raised in the future; a negative outlook indicates the rating may be lowered. A stable outlook indicates the rating is unlikely to change.

Based on the most recent SFB lease-purchase issuance, Moody’s has assigned Arizona an A1 rating with a stable outlook for lease-purchase debt, while S&P has assigned Arizona a AA- with a stable outlook. Since the debt service payments for SFB lease-purchase issuances are made from a General Fund appropriation, the ratings serve as an overall assessment of Arizona’s ability to meet its debt obligations that are subject to annual appropriation and paid from the General Fund. According to their own classification systems, both S&P and Moody’s have characterized Arizona’s capacity to meet these types of debt obligations as “strong.” The pledge of a revenue stream and the associated legal structure of a revenue bond versus a COP finance arrangement are factors that will be expected to, but not necessarily, result in a higher credit rating for state agency debt issuance.

The criteria used to assign a rating for lease-purchase and General Obligation (GO) bond issuances are similar across all three ratings agencies. In addition to providing information on the risk associated with a particular security, the rating can also serve as an assessment of the

general financial health of the governmental entity. The ratings are generally based on an assessment of the following:

- Performance of the local and national economies;
- Financial performance of the issuing entity;
- Existing debt levels; and
- Management or organizational strength of the issuing entity.

The above criteria apply to lease-purchase, GO bond debt issuances and revenue bond issuances. Whereas the debt payments for lease-purchase or GO bond debt are typically paid from general government receipts, a specific revenue stream is pledged as security for repayment of the revenue bond debt. The credit rating assigned to a revenue bond, therefore, depends to a greater extent on the capacity of the selected revenue stream.

**Indirect and Third Party Financing** — Beyond the traditional means of issuing bonds discussed above, the universities, ADOA and other state agencies have in more recent years used indirect debt or third party financing in several of their capital projects. State statutes define indirect debt as ones in which a private developer or non-profit organization (which may include a component unit of the university) executes bonds or lease-purchase agreements for a capital project on university property or that houses any university activities. Projects financed with indirect or third party financing do not count against the universities' statutory debt ratio. The rating agencies do, however, consider any indirect debt in determining the rating for the state or any of its agencies.

Accounting rules defines components units as entities whose relationship with ABOR or a university is significant enough that the exclusion of that entity from ABOR or university financial statements would be misleading or incomplete. For example, the University of Arizona Alumni Association is a legally separate, tax-exempt, nonprofit corporation governed by an independent Board of Directors, but it is still listed as a component unit in the University's annual financial statement because its economic resources are almost entirely for the direct benefit of the University.

The universities have increased the use of indirect and third party financing over the past 7 years as a means to address capital infrastructure needs due to student enrollment growth, maintenance needs for existing capital assets, and capital requirements associated with a research mission. As a result, Laws 2006, Chapter 352 and Laws 2007, Chapter 265 required indirect or third party financed projects meeting specified criteria receive JCCR review. ADOA and other state agencies have also increased their use of this financing approach over the same period, subject to legislative authorization.

In the past 7 years, the university system as a whole has engaged in 15 indirect or third party financing projects:

- 7 self-supporting residence halls;
- 3 energy delivery or management type projects developed and managed by a specialty energy firm;



- 2 real estate investment projects by the ASU Foundation;
- 1 specialized research facility;
- 1 medical facility, also known as the UA-Medical School Phoenix;
- 1 conference center and parking structure.

While the use of indirect or third party financing agreements allowed the universities, ADOA and other state agencies to transfer upfront construction or renovation costs to a third party, the annual operating and maintenance costs may be the responsibility of either the state or the third party. For example, the University of Arizona formed a third party financing agreement with DESCO, a private development corporation, to convert the former Phoenix Union High School building into the new joint UA-ASU Phoenix Medical Campus. The University, however, operates the facility. In some cases, the third party will actually operate the project. The Barrett College and South Campus Academic Village student residence developments at the ASU Tempe campus, for instance, will be constructed and operated by the private developer American Campus Communities (ACC). ASU's agreement with ACC includes minimum standards for operations and the ability to comment on proposed student rental rates.

In some of the indirect financing arrangements in which the third party actually operates the project, the university's agreement with the third party involves revenue sharing from the project and minimum performance standards. In 2007, for example, ASU entered into a third party agreement with American Campus Communities (ACC) to construct and operate a new dorm for students at the Downtown Phoenix Campus. According to the agreement, ACC will retain dorm fee revenues and meet minimum performance standards for the operation.

<b>Findings and Recommendations – JLBC Staff</b>
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**The state could benefit from having a third party review debt-related financial transactions that come before the Joint Committee on Capital Review.**

A third party review of debt-related financial transactions would be similar in concept to the Legislature's previous decision to contract with actuarial firms in FY 2006 to conduct independent reviews of state-contracted actuarial services.

A third party evaluation of state debt issuances would provide greater clarity as to the feasibility of proposed debt and the reliability of the intended revenue streams. In some cases, annual bond payments fluctuate from year to year, and it is unclear if the structure of the bond repayment period is optimal for minimizing interest costs and accounting for fluctuations in a bond's dedicated revenue source. Furthermore, a third party may provide greater insight into the feasibility of the use of indirect debt or third party financing for capital projects, as these proposals are often complex financial transactions.

The third party opinion may not change the way the agency structures a debt issuance. In addition, a third party evaluation may need to be conducted quickly as agencies may be looking to go to market with their debt issuance as soon as possible so as to capitalize on the current interest rate conditions.

### **The Legislature may wish to consider requiring a Debt Affordability Report (DAR).**

A DAR allows for a centralized analysis of the debt burdens of state agencies. This data is given further context by including revenue forecasts to better predict and control the course of state debt burdens and the feasibility of subsequent capital projects.

Florida, Texas, and North Carolina already produce a DAR. These documents typically include a revenue, debt service, and an economic forecast that allow the reader to see how current or future debt loads will impact an agency or state's ability to meet mandatory spending targets or discretionary spending goals. Most DARs also outline the impact of the state's credit rating on debt service and use debt ratios as a means of comparison against other states.

Currently, the Department of Revenue annually produces a debt report for all state and local government agencies. While this is a useful tool for determining outstanding debt per agency, it does not include interest payment information. Therefore, the full impact of the state's outstanding debt is not reflected. In addition, the report might provide legislators with a clearer understanding of the debt situation if it were to include the potential impact of economic conditions, proposed legislation, forecasted debt issuance, and estimated revenue streams. This would allow legislators to better guide the infrastructure development within Arizona and oversee the feasibility of projects based on the forecasted fiscal conditions.

Additionally, for those agencies issuing debt that are not required to come before JCCR for review, the Legislature may wish to require them to provide information relating to their credit rating so as to provide a clearer picture of the state's debt burden.

<b>Findings and Recommendations – OSPB Staff</b>
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### **Department of Revenue Report of Indebtedness is effective, but could be improved.**

The Report of Indebtedness currently issued by the Department of Revenue provides a reasonably accurate snapshot of debt levels statewide. This report compiles information received from political subdivisions and special taxing districts that issue debt. However, each year a number of jurisdictions fail to report debt issuance pursuant to A.R.S. § 35-501 & 35-502.A, thus hindering the report's overall accuracy. Currently potential repercussions to political subdivisions that violate these statutory reporting requirements include: jurisdictions in question can be prohibited from issuing new debt; individuals knowingly committing such failure-to-report offenses could face Class 2 misdemeanors charges.

It is crucial that the Department receive accurate and timely information of new debt issuance in order to provide political decision makers the highest quality product. This effort would be assisted if statutory authority were provided to the Department to issue fines against political subdivisions and special taxing districts up to \$5,000 per annum for violations of A.R.S. § 35-501 & 35-502.A. Additional language may be required to clarify annual reporting requirements

of political subdivisions. Statute requires the Department to compile information for their annual Report of Indebtedness but is not clear with respect to the requirements of state agencies and political subdivisions. Language should be explicit in statute with respect to reporting requirements of such agencies and subdivisions for the annual report.

The alternative debt reporting instrument used by a small number of states, the debt affordability report, forecasts debt issuance and debt capacity, particularly of the General Fund, into the future. This is inappropriate for states such as Arizona where the majority of debt is outside the direct political control of the state but rather is instead controlled by political subdivisions or special taxing districts. Additionally, relative to the economic and demographic data compilation and forecasting often included in debt affordability reports, such information is already compiled and reported elsewhere in state government. Compilations and forecasts of this type are created by ratings agencies in direct correlation with debt issuance. In addition, JLBC and OSPB compile economic and demographic forecasts from outside private experts, university economists, and state agencies as part of the standard budgeting process.

**Allow the Housing and Finance Authority to retain interest earnings through a new fund for administrative costs.**

When the Housing Finance Authority (HFA) was created, the state neglected to set up a fund for it to administer its programs. The HFA must be self-sufficient, per statute, and cannot receive General Fund monies to offset its costs. The HFA is basically a Board of Directors and has no personnel to administer its programs. Because of this, the HFA contracts with the Department of Housing for program administration. An ISA Fund is used to transfer funds between the two separate entities and all monies currently reside in that fund.

When the HFA issues bonds, monies are placed in the ISA Fund. Interest generated from this fund is reverted to the General Fund, instead of the HFA for administration costs.

The establishment of a new fund that would allow interest income to remain with the HFA would address this issue. The fiscal impact to the General Fund would be between \$85,000 and \$200,000; depending on the fund balance and interest rates. This will allow the Housing Finance Authority to be reimbursed for the administrative costs of managing the bonds.

**State Funds should be utilized to finance debt service for the School Facilities Board as opposed to providing a cash outlay at the beginning of a project.**

Public policy is advanced when the cash outlays for infrastructure such as schools and roads match as nearly as possible the expected benefits of those projects. This requires linking the payments with the expected lifespan of the project. Whereas cash outlay at the initiation of a project to pay the entire cost places the financing burden on current taxpayers while the benefits will accrue across generations, debt financing is a more effective alternative. With debt financing for school construction, the cash outlay, and thus the burden to taxpayers, can be equitably spread out across time. Bond debt service is paid by current and future users of the facilities financed. State funds should therefore provide for debt servicing costs rather than cash outlay at initiation of school capital projects.



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*Arizona State University*

*Northern Arizona University*

*University of Arizona*

December 18, 2007

Richard Stavneak  
Executive Director  
Joint Legislative Budget Committee  
1716 W. Adams  
Phoenix, AZ 85007



James Apperson  
Director  
Governor's Office of Strategic Planning and Budgeting  
1700 W. Washington, Suite 500  
Phoenix, AZ 85007

Re: Debt and Third Party Financing Strategic Program Area Review Report

Dear Mr. Stavneak and Mr. Apperson:

Thank you for the opportunity to comment on the final report of the Debt and Third Party Financing Strategic Program Area Review (SPAR). We appreciate your consideration of the feedback provided earlier in the SPAR process.

Relative to the university financing process, we have the following observations on the report findings and recommendations:

Third Party Review of Debt-Related Financial Transactions

Each debt financing undertaken by the Board and the universities is reviewed and evaluated by a number of independent, third-party entities (as many as 13 different entities as shown on the enclosed list) prior to issuing the debt. All of these various third-parties are represented by professionals with specific expertise in debt financing by governmental entities. In addition, these professionals are further governed, and subject to review, by the Securities and Exchange Commission and a number of other regulatory agencies such as the National Association of Securities Dealers, the

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*Board Members:* **President Fred T. Boice**, Tucson   **Robert B. Bulla**, Scottsdale   **Ernest Calderón**, Phoenix  
**Dennis DeConcini**, Tucson   **Fred P. DuVal**, Phoenix   **Anne L. Mariucci**, Phoenix  
**Christina A. Palacios**, Phoenix   **Gary L. Stuart**, Phoenix  
**Governor Janet Napolitano**   **Superintendent of Public Instruction Tom Horne**  
*Student Regents:* **Mary Venezia**, NAU   **David Martinez III**, UA  
*Executive Director:* **Joel Sideman**

Municipal Securities rulemaking Board and others. In addition, any debt issue is also extensively reviewed by the Board of Regents and its staff, as well as by staff at each of the universities who are knowledgeable concerning debt financing.

Given the level of independent, third-party review that is already employed on any debt financing, we believe adding another third-party review could be unnecessarily redundant for university transactions. In addition, such a review would likely lengthen the time by which a university could bring an issue to market which, in certain cases, could result in higher debt service costs to the state. Delays could also translate into additional construction costs as well as creating the possibility of missing construction timelines scheduled around the academic calendar year. Past experiences with construction delays have resulted in cost increases of up to 2% per month related to both general construction cost escalations, and continuation of contractor and university overhead for additional months. Lastly, costs would be incurred in hiring another third party to conduct the review, which generally would be significant in order to duplicate the in-depth review already being done by numerous professionals.

We do recognize the Legislature's legitimate concern with having sufficient information to analyze and review any proposed debt issuance. Our alternative thoughts to address these concerns are to have the Board and the universities provide additional information on the extensive analyses that are already conducted by the various entities involved in these transactions. It is very likely these analyses already produce the information the third-party review recommendation is trying to address. In addition, the submission to JCCR can include an indication of the expected independent credit rating that is expected to be obtained for the proposed financing.

#### Debt Affordability Report

The majority of information items related to the debt issued by the Board and the universities for a debt affordability report are already generated by the universities. This information is provided to the Board as part of its oversight responsibilities, and to many of the third party professionals that review any debt issue of the universities. As noted in the SPAR report, the rating agencies (and bond insurers) specifically review the economic, demographic and financial trends of the State and the universities when assigning ratings on any university debt issue. Other market participants also perform similar types of reviews and analyses and much of this information is also presented in the offering prospectus for the financing for potential investors to review.


We would be able to make the information available to the agency responsible for coordinating the report.

Mr. Stavneak and Mr. Apperson  
December 18, 2007  
Page Three

We hope this information is helpful and that we have the opportunity to continue to work with the Legislature and staff to address the intent of the recommendations in the most efficient, cost effective, and least disruptive manner.

Thank you again for the opportunity to provide feedback on the final report.

Sincerely,

A handwritten signature in cursive script that reads "Joel Sideman".

Joel Sideman  
Executive Director

Enclosure

c:  
President Fred T. Boice  
President Michael Crow  
President John Haeger  
President Robert Shelton

## ATTACHMENT 1

The list of third-party professionals reviewing each university debt financing issued by the Board of Regents and the universities generally includes:

- a legal bond counsel firm that must provide an opinion that the debt is legally and validly issued under State law and, when applicable, that the interest on the debt is exempt from income tax payments
- a financial advisory firm that reviews all aspects of the debt transaction on behalf of the Board and the university
- bond underwriting firms that also review all aspects of the transaction to determine if they can sell the debt to investors
- a legal disclosure/underwriters' counsel firm that reviews the transaction and provides an opinion that all material information regarding the debt issue and the issuing entity is being disclosed to investors
- 2 bond rating agency firms who review all aspects of the transaction in order to provide their opinion as to the creditworthiness of the transaction over its financing term
- 4 to 6 bond insurance firms who review all aspects of the transaction to determine if they will insure the timely debt service payments on the debt being issued
- a bank trustee firm who reviews all aspects of the transaction in their role as a fiduciary holding funds under and pursuant to the legal documents for the financing
- a bank trustee's legal counsel firm who reviews the transaction on behalf of, and in conjunction with, the bank trustee
- analysts employed by institutional investors who undertake their own independent review of all aspects of the transaction in determining whether to buy or invest in the debt securities being offered