

**MINUTES OF THE
STATE TRANSPORTATION BOARD PUBLIC HEARING
10:00 a.m., Friday, May 8, 2009
Arizona Department of Transportation (ADOT) Auditorium
206 S. 17th Ave.
Phoenix, AZ 85007**

PLEDGE

[The Pledge of Allegiance is recited.]

ROLL CALL

CHAIRMAN HOUSEHOLDER: I'd like to ask Mary Currie to call roll.

MARY CURRIE: Delbert Householder, Bob Montoya [absent], Felipe Zubia, Bill Feldmeier, Bobbie Lundstrom [absent], Victor Flores [absent], Si Schorr [telephonic].

OPENING REMARKS

CHAIRMAN HOUSEHOLDER: The only thing I can think about is I'm proud of the ADOT people that work here, how dedicated they are for getting the job done and doing the extra work for less pay, and we really appreciate it. And I'm sure glad Felipe showed up so we could have a quorum. I changed the Call to the Audience as last, but I want to have a Call to the Public right now.

CALL TO AUDIENCE

CHAIRMAN HOUSEHOLDER: I don't have any slips. Did anybody want to talk to the Board? We'll go on then; nobody wants to visit with the Board, so we'll go with Item A.

Presentation of FY 2010-2014 ADOT Tentative 5-Year Transportation Facilities Construction Program Recommendations (Including FY 2009 Modifications)

**ITEM A: FY 2010-1014 Statewide Subprograms
(For information and discussion only - Rakesh Tripathi and
John Fink-Finance)**

RAKESH TRIPATHI: Mr. Chairman, members of the Board. This is the public hearing for the ADOT Tentative 5-Year Transportation Facilities Construction Program. I will give you a program overview and our Chief Financial Officer, John Fink, is going to talk about the financial situation with respect to adjustments and our various programs, the Greater Arizona Program, the Regional Program. Then Mr. Steve Hull is going to talk about what it means to the MAG Regional Program. And after that Mr. Michael Klein is going to cover the Aeronautics

Programs. Before I start, I would like to see if Director Halikowski would want to make an opening comment.

The 5-Year Construction Program is codified in the Arizona Revised Statute and it asks the Director to develop a Program according to the policies established by the Board. The 5-year Construction Program shall do certain things as prescribed by the Arizona Revised Statute to set forth the projects, the expenditures; the engineering, right-of-way, and construction costs; detail information with respect to location description, and the reason for the project: why it is needed. It also lists the project as per priority and groups them in various fiscal periods during which it is estimated that construction can begin.

It also requires that the first year of the Program have projects that, by every kind of reasonable certainty, are ready to be advertised for construction. It also requires that the Board institute a mechanism for the public to provide input through public hearings and take the comments that our citizens have on this program before the Board adopts this program.

Traditionally, whenever we have come to you in this kind of a scenario, we have had the 5th year of the Program with new, significant projects. This year we don't have any significant projects, what we are trying to do is expand our existing program over a five year time period, deferring a lot of our projects from one year to the other year trying to balance the budget.

There are also some tough decisions that are in front of you to consider and those are, especially for 2009 programs, we have had to look at reducing the size of the program by nearly \$150 M and also with respect to the bigger frameworks of the new 5-Year Program, looking at reducing a lot of sub-programs. Having said that, the news is not good, but again, that is pretty much consistent with everything else that's going on with the economy and with the State.

I would like to invite our Chief Financial Officer to give you a quick overview of the financial situation that we face with respect to this program and then I'll come back and talk to you about the consequences of that.

JOHN FINK: Good morning Mr. Chairman, members of the Board. We've been through a little bit of detail previously, so I won't dwell on it too much. I'd like to hit a couple of highlights though. Our fiscally-constrained program for 2009 through 2013 has actually declined by about \$86 M. Our estimated program revenues for the same time period have declined by about \$602 M. We've highlighted all of the components of that \$602 M change on this slide. I won't go through the details of that, but if anybody has any questions about any of the components of that change, I would be glad to address those.

I will note that the legislature is currently in the process of discussing the State budget and as more details come out of that we may have more information in which to adjust some of these numbers, but these are the same numbers you've seen previously. We may come back on that later, but we don't have any changes at the current time.

This summarizes the yearly changes in the \$602 M reduction in the estimate. You can see for fiscal year 2009 we have reduced the estimate by \$144 M; for 2010 by \$86 M; 2011, \$100 M; 2012, \$179 M; 2013, \$93 M. Our estimate of the funding available for fiscal year 2014 is \$613

M. The reason that is so much higher than 2010 through 2013 is, by 2014, we expect that we'll have funding available again, so we've included \$195 M in the estimate for 2014.

This summarizes the adjustments needing to be made to each year of the program, from 2009 through 2013; those adjustments total \$520 M. The Stimulus Package did result in an increase of \$221 M in 2009 allowing us to keep the 2009 Program, after considering the reductions, fairly neutral. The net impact over the five years -- the \$520 M reduction plus the addition of the Stimulus Package is a net change of about a \$300 M reduction in the program for those years.

This slide and the following slide summarize some of the major projects and the adjustments that needed to be made in terms of the timing of those projects. Most of the projects were delayed by about a year; one project, the I-10, from I-8 to the Town of Chuichu had been scheduled for 2010 of \$126 M. A portion of that project was being completed through the Stimulus Package; the remainder of the project was moved completely out of the program. However, it is a project that has been submitted for discretionary funding through the Highway Administration.

This slide continues with the major projects that are deferred as a result of the program adjustments.

That concludes my remarks. Are there any questions?

BILL FELDMEIERS: By some strange anomaly and the world flips in another direction in six months and the financial condition is much better, what is our plan to deal with this windfall?

JOHN FINK: We will continue to monitor the revenue situation and as information becomes available to us, we'll continue to adjust our estimates of the funding available to the program and if the world changes and we believe that would a change that we could maybe move some of the projects back or to move them forward, we can make those adjustments in the future. However, the program does have to be fiscally constrained and, based on our current funding estimate, these adjustments are necessary.

BILL FELDMEIERS: So, the Board has the ability to revisit the issue throughout the fiscal year, and based on the approval that we give for the next 5-Year plan? So we have that flexibility to move them in or maybe move them further back if it gets worse as well; am I correct?

JOHN FINK: That's correct, because things could get worse in terms of our funding estimate. I wouldn't expect that that would happen, but again, the Legislature is currently in session and discussing the State's budget and, depending on the outcome of that, for example if maybe between now and the time that you adopt the final program, the Legislature has adopted a budget that isn't nearly as bad for the program as we would have assumed here, then we could make adjustments at that time.

BILL FELDMEIERS: If everything else stays the same and the projections are right on, we still would have the authority to adjust internally and move the money around as the Board sees fit?

JOHN FINK: That's correct.

JOE ACOSTA: You do have the authority at any time to revisit the Plan so long as adequate notice is given and the proper proceedings followed.

FELIPE ZUBIA: You mentioned that you're projecting to add an additional \$195 M in bond capacity, is that in keeping with our historical experience we've put on ourselves as far as our limits are concerned?

JOHN FINK: Yes, that's correct. The reason we have essentially adjusted all bonding capacity out of the Program from 2009 through 2013 is that we can't meet the established debt service coverage that the Board has established for that Program. By 2014, we expect that that situation will have changed and that we will again have capacity within those covenants.

FELIPE ZUBIA: So, within that, we're not maxing out our capacity?

JOHN FINK: I believe that the \$195 M is about all of the capacity that we'll have in 2014. I'd have to go back and look at the numbers, but I don't think that we held much back in terms of capacity.

FELIPE ZUBIA: Can you double check that though and get back because I don't think that -- and maybe I'm wrong, but I don't think we're maxed out at bonding capacity.

JOHN FINK: I can check.

- ITEM B: FY 2010-2014 Statewide Highway Construction Program
(Excluding MAG and PAG)
(For information and discussion only - Rakesh Tripathi)**
- ITEM C: FY 2010-2014 Regional Highway Construction Program
(For information and discussion only - Rakesh Tripathi)**

RAKESH TRIPATHI: Having heard that, there are some tough choices in front of you with respect to this 5-Year Construction Program and just to give you a snapshot, we'll go through some of the subprogram changes that are recommended.

For example, Port of Entry, for fiscal year 2010-2014, it is a recommended decrease of \$1 M per year; pavement preservation decreases in 2012 from \$125 M to \$115 M; and we hope in 2014, it increases from \$135 M to \$140 M, but in the short range it does have an affect on our pavement preservation program.

The deck replacement, district minor programs, design and construction, archeological studies, right-of-way plans, right-of-way access management, right-of-way contingency -- a lot of these are highly technical subprogram categories, but at the end of the day if you don't do all of these things, the project is not progressing towards readiness. For example, if you don't do a lot of these functions, then you pretty much don't have a project development scenario with your projects; they're not ready in the future, similarly with development support, the engineering development. So everything is getting reduced in trying to fit into our new fiscal reality. The Rural Intelligent Transportation System, the preservation money, the design and construction money is all going down as well.

Again, this is all recommendations to fit into the new fiscal reality as you can see. Sign rehabilitation is going down as well. The State's Park Program that has been discussed a lot at this meetings, the fiscal year 2011 through fiscal year 2014, the decrease is recommended for \$1 M a year. The Rest Area Program is also going through a similar scenario. There is a reduction of funding for that. Slope Management and Rock Fall Containment is getting decreased in 2012 from \$4 M to \$2 M. All of these have consequences. If we have landslides or things of that nature, things will be very difficult. There will be some tough decisions to be made. Utility Location Services met a similar decrease.

With respect to Greater Arizona Subprograms, Major Project Design is going down from \$6 M to \$3 M in 2012. Corridor Studies are going down in 2012 from \$3 M to \$1.5 M. Again, it all ties to if you don't do all of these things today, you will not have a ready project tomorrow. These have consequences.

I'm going to go through the Board Districts and what it means in terms of projects in those Districts.

Starting out with District 4, Pinal, Gila, and Graham; the blue dots and blue lines are all the projects in the program. The story is that other than very few minor projects, we don't have any new projects and most of the projects are getting deferred from one year to the other year just to make sure that we stretch the Program to fit our fiscal boundaries there.

All of this information is on the website and can be accessed through AZDOT.gov.

District 5, again, the situation is similar. Most of the projects, under the fiscal year column go from, for example, Sanders Port of Entry, is now going to be scheduled for letting in 2013. The projects are not being cut, but they are being deferred with this Program and as, Chief Financial Officer Fink has said, assuming that next year or a year after the economic situation gets better, the forecast will be different and a lot of these deferrals could be brought back to the original years if that happens, which most of us believe is rather a long shot at this point.

For District 6, the map and project in the 5-Year Program is there. Going through the list, in green are two projects that are mentioned as new projects, but they are reallocations of an existing project to those two new projects. There is a project that has been reduced in funding.

Board District 3, again, the story is similar in this District. The first project is getting deferred from 2009 to a year outside the 5-Year Program. It is not deleted; it just goes beyond the 5-Year Program framework. The second project was supposed to be let in 2011, now the anticipation is that it will be let in 2013. These are all recommendations from the staff to fit this Program towards the fiscal situation as Mr. Fink has mentioned.

With respect to PAG Major Project Recommendations, you see those projects on the slide there. Again, the situation there also is similar. When you look at the fiscal year column there, things that were supposed to be started in 2012 are now going to wait until 2014; things that were thought be starting in 2010, for example, the Ina Road Traffic Interchange is going to be delayed to 2011. Those are the things we are looking at with respect to the Board Districts.

I am going to call on Mr. Steve Hull to give you a brief overview as to what's happening with the MAG Program.

**ITEM D: FY 2010-2014 MAG Regional Highway Construction Program
(For information and discussion only - Steve Hull)**

STEVE HULL: Mr. Chairman, members of the Board, members of the public, good morning. I'm Steve Hull with the ADOT Regional Freeway Office. I'm going to talk about the MAG Freeway Program for the coming 5-Year Program. It is a tentative program. As with the Statewide Program, revenue is a big factor in what's happening in this year's program. Revenue is down for the MAG Proposition 400 revenue collections, the sales tax money, down for the statewide collections that also contribute to the MAG area -- all of that is down.

Costs have risen over the last few years. Right-of-way costs and constructions costs have risen faster than the growth in revenue, so there is a disconnect with rising costs first and now revenue is down. The MAG area lost about \$94 M that was taken back by the Legislature to help balance the State budget. The MAG area did benefit by the Stimulus Program; the American Recovery Act of 2009 brought about \$130 M into the MAG area. Overall there is still less revenue to work with in the next five years than what we have had previously.

The one thing that's different for the MAG area right now in the 5-Year Program is that there is still bonding capacity because we are relatively early in the life of Proposition 400. Using that bonding capacity allows us to construct a 5th year of the program, unlike Statewide where they have to take four years and spread it over five because there is no bond capacity. So, that's a big difference for the MAG area.

The tentative program we show and have been working with MAG on developing does fit within the 5-year cash flow of availability, but there is a big "if" with the MAG program -- by the year 2026, there will be a deficit between in revenue and cost somewhere in the neighborhood of \$5 B to \$6 B. For five years, we're okay; after that, the MAG program goes into a gap between revenue and cost that by 2026 is substantial.

Because of that, MAG members and ADOT are working together to find a way to rebalance the program. It is likely to mean delaying or deferring some projects. It may mean some changes in scope. There are no answers that can be given at this point. It's a process that MAG is beginning and they're not to a point yet where we can put into our 5-Year Program what those changes might become. It's a case of MAG will work through this process and probably it will not be until November or December of this year that they have a 5-Year Program. So, the program that the Board adopts in June for the next five years will, in all likelihood, require some revision later to adjust it to fit within the new program that MAG comes up with later this year.

The 5-Year Program as it stands now, and it's tentative and most likely will change later as MAG goes through their process. The 5-Year Program does total almost \$3.8 B. That is about \$100 M more than it was last year and again; we preserve the program by using that bonding capacity.

There are differences from one year to the next in total dollars that are programmed because in some years we have large construction projects going out to bid. Those projects typically span two years of construction, so it averages from one year to the next for cash flow.

Changes in the first four years of the program, 2010 - 2013, are not substantial changes. There are a lot of changes I would call "bookkeeping" changes to repackage three corridors to match the studies that have been accomplished. Where a corridor was done initially in one large study, once the study is complete, then we break it into smaller segments for design and construction. So, there's a lot of bookkeeping changes to repackage three corridors; those do not affect dollars. It's just a matter of redefining the project limits.

There are updates to design schedules, right-of-way schedules, and construction schedules to match current project status. Minor moving of one project from one year to the next, but not significant changes.

There are similar kinds of updates to the program just to update costs to match current project estimates.

There are two new right-of-way projects in the program being added. One of those is the I-10 Perryville Road TI and the other is Loop 303 from State Road 801 to I-10. There's a right-of-way being added there. There's a new TI project added to the first four years of the program for the intersection of Avondale Boulevard with I-10. It's a project important to Avondale. They're reconstructing their arterial roadway and ADOT is contributing \$2 M towards that project. There's also an addition to the program to establish the MAG Proposition 400 Noise Wall Project that does not require new funds. It's taking money already in the program scattered over a number of years, collecting it, and putting it into one particular project.

So, those are changes to the first four years of the program which totals about a \$100 M increase, which is not a large percentage compared to the total cost of those four years.

The tentative program for 2014 involves five major construction projects, right-of-way for four new projects, and design for five projects. The total of the proposed tentative projects is \$613 M, approximately the amount programmed for new projects last year at this time. Again, we are able to do this for MAG using the bond revenue that the Statewide does not have available to add a 5th year of the program.

A quick over of the projects:

- I-10 Maricopa Corridor - There is construction of the local express lanes around the Broadway curve; Phase 2 of that project scheduled for 2014 at \$131 M.
- US60-Grand Avenue Corridor - There will be a project for design and right-of-way for spot improvements totaling \$5 M.
- State Road 74 Corridor and State Road 101 Pima Corridor - On 74, right-of-way protection for future improvements at a total of \$1 M.
- State Road 801 - Project for construction of general purpose lanes totaling \$102 M; design and right-of-way are in the first four years of the program.
- 202 South Mountain - There is a project for construction of a portion of South Mountain in 2014; the total is \$111 M. There is also a project for design and right-of-

way for the portion of South Mountain from I-10 (Van Buren Street) down to Salt River; and also, design and right-of-way for the Salt River Bridge that would go with the first segment of road work.

- 202 Red Mountain and 202 Santan Corridors - Construction of general purpose lanes of \$65 M; design of HOV lanes at \$2.5 M.
- State Road 303, State Road 801, State Road 802 - There is construction at the Grand Avenue TI amounting to about \$50 M.
- State Road 101 - All that is going on in 2014 is right-of-way protection.
- State Road 802 - Santan to Ellsworth Road, there is design of new freeway at \$12.2 M; the City of Mesa is looking for ways to accelerate that project perhaps using bonding capacity of their own, but as of today it's still in 2014.

**ITEM E: FY 2010-2014 Airport Development Program
(For information and discussion only - Mike Klein)**

MIKE KLEIN: What we have is a program that is fundamentally unique within ADOT. The ADOT's Aeronautics Division issues grants to publicly-owned airports across the State. Our program is composed of potential grants that will be issued to public agencies across the State to develop their aviation facilities. In the quest of doing that, we began by looking at fiscal year 2008's revenue sources; \$25 M was brought in during that fiscal year. The graphic demonstrates our heavy reliance on flight property taxes. Over half of the fund's health is predicated on one source of income. The Division has no abilities to bond or generate revenues of any other type, so the program is exclusively dependent upon the health of the Aviation Fund. The second largest portion is aircraft registrations fees; another one-third of the project. Two revenue sources which make up the fundamental basis.

Following the current fiscal year, we have a beginning balance of \$16 M. Revenues during this fiscal year is planned to be about \$24 M. That number is beginning to dwindle as flights in and out of Phoenix and Tuscan and other commercial service airports are being rescheduled and we are seeing the affect on flight property tax. It is not substantial yet, but flight property tax is a two-year sequence. What happens now, this moment, will affect the fund in two years.

Our expenses for this current fiscal year are \$40 M. Of that, over half is the sweep the Legislature has accomplished on our fund dramatically affecting our abilities to issue programs. We are currently projecting this fiscal year to end with \$21,000 in the Aviation Fund. Our monthly operation fees are something close to a quarter of a million dollars, so we begin fiscal year 2010 very tenuously.

In accomplishing this particular feat of good news, we ask every year that airports provide us their desires and their needs for airport improvements that are fundable by the State and by the Federal Aviation Administration. There are 93 public use airports in our State system that could apply. This year 58 came with 780 projects for about \$1.5 B worth of projects.

For fiscal year 2010 considerations, we looked at 17 projects for \$6.8 M. This \$6.8 M is exclusive to what we call state/local grants. This is our relationship to airports directly; this does not involve federal funding. Because of the fund's health, we are looking at basically approving no projects for fiscal year 2010. There just aren't any funds.