

**MINUTES
OF THE
STATE TRANSPORTATION BOARD
STUDY SESSION**

Tuesday, February 3, 2004. 1:30 p.m.

**The Manning House
450 West Paseo Redondo
Tucson, Arizona 85701**

The State Transportation Board met in official session for a regular meeting at 1:30 p.m., Tuesday, February 3, 2004, with Chairperson Jeffers presiding. Other Board members present included: Vice Chairperson Rusty Gant, Dick Hileman, Delbert Householder, Joe Lane, Jim Martin and Si Schorr. Also present were Director Victor Mendez; Debra Brisk, Deputy Director; Bill Higgins, State Engineer; John McGee, Chief Financial Officer, Administrative Services Division; Dale and Buskirk, Director, Planning Division. There were approximately 60 people in the audience.

OPENING REMARKS AND PLEDGE

Chairperson Jeffers led the audience in the Pledge of Allegiance and thanked the City of Tucson for their hospitality. He introduced dignitaries in the audience.

Issues Associated with State Routes in Pima County

Mr. Pein presented background information on State Routes within Pima County. He explained the State Highway System includes interstates, U.S. routes and state routes for which ADOT controls the right-of-way. He said planning routes are routes for which ADOT does not control the right-of-way. He stated in 1986 there was a request to bring several Tucson routes into the system to be developed as a future highway system. He said the Board passed two different actions, one that utilized the Pima County share of the 15 percent funds for the highway system in Pima County and a second that called for joint funding of Tangerine Road, Golf Links, Sahuarita, and Houghton Road. He explained a change to the law allowed 12.6 funding in PAG to be used on arterial streets or the State Highway System, whereas discretionary funds are used on the State Highway System and 2.6 funds are used on the State Highway System or the State Route system for planning purposes. He stated, according to state law, a state route cannot be taken over or designated as a state highway until monies for its improvement are provided in the budget of the department. He said the PAG region currently receives \$9 to \$10 million per year to maintain the entire system within Pima County. Mr. Pein reported counties within the region sent a letter to Boardmember Schorr requesting a discussion be initiated regarding their concerns for the state routes and ADOT taking the Sahuarita Corridor, Tangerine Corridor and Houghton/Golf Links/Alvernon/Swan corridor into the system. He noted the letter did not come through the PAG system, stating, therefore, it is not necessarily a PAG recommendation to the Board. He stated one of the concerns mentioned in the letter was that all of the money was going to the interstate system, explaining they have an obligation to maintain the functionality of the

system. He pointed out, however, they have also spent just under \$300 million on State Routes in Pima County over the last 15 years.

Mr. Pein said a study has been initiated to look at the loop road system, noting the study is being managed by PAG and funded by ADOT. He stated the PAG Region and ADOT are also doing a design study on Tangerine Road and the Transportation Planning Division is conducting a study on Oracle Road. He said they continue to develop Board policy on the designation of State Routes into the System, noting four stakeholder meetings will be scheduled in Tucson, Phoenix, Parker and Flagstaff.

John Liasatos, PAG, pointed out the letter was signed by all of the jurisdictions within and including Pima County. He said the letter asked that a process be initiated to expand the highway system and acknowledged the need for local governments to contribute.

Mike Reuwsaat, Town Manager, Town of Marana, submitted a letter from the Mayor of Marana. He said the letter from the jurisdictions was a preliminary effort to talk about regional transportation needs. He stated it was an attempt for each entity to commit to the concept and move it forward to the State Transportation Board. He said Marana supports the concept fully and firmly believes the establishment of Tangerine Road and El Camino de Manana as State Highway facilities will serve as a major step toward the creation of the regional transportation system needed to maintain the safe and efficient movement of people and goods throughout the Tucson area.

John Brunow, Deputy County Administrator, stated the letter succinctly expressed their concern about the need for additional state highway miles in the Pima County area. He expressed his opinion the Sahuarita Corridor in the south part of the county and the Tangerine Corridor in the north part of the county are very logical connections between existing state highways. He said, while he agrees there is a need for additional studies, given the natural constraints and development patterns in the community it is logical to conclude the proposed routes are good candidates. He stated the sooner action is taken to designate the corridors as state routes the better, given the lead time necessary to secure funding and to develop the projects.

Steve Wayjo, City of Tucson, stated the City of Tucson also feels very strongly that they need to be in the planning mode. He said they are looking for a process that will generate discussions about turnbacks and having the proposed routes considered. He stated the routes all have a significant amount of traffic and they believe the Houghton Road/Golf Links/Alvernon Way/Swan connection will be vital to development in the south part of the county.

Bill Johnson, Oro Valley, read a statement on behalf of Paul Loomis, Mayor of the Town of Oro Valley. A copy of the statement was submitted for the record. He said they support making Tangerine a safe highway with certain conditions related to the ongoing agreements with ADOT and work that is already underway. He characterized Tangerine Road as a vital link in the regional transportation network of Pima County, providing the only direct connection from Oracle Road to I-10 in southern Pinal and northern Pima Counties. He said the road carries considerable truck traffic between I-10 and Oracle Road and the mines to the north. He stated the development of thousands of homes in southern Pinal County will result in a substantial

increase in traffic on Oracle and Tangerine Roads, therefore, funding for construction and maintenance of Tangerine Road is vitally important.

Mr. McGee said they hope to establish a working group that will look at the process and 12.6 and 2.6 funding.

Mr. Mendez noted ADOT is supporting the RTA legislation. He said it is important to differentiate between limited or controlled access facilities and streets and arterials. He stated there also need to be a process for going from the 1986 plan to the new plan.

Mr. Huckelberry pointed out the rarity of having multiple jurisdictions join together in support of anything and asked the Board to support the plan.

Mr. Schorr stated the letter has been accurately characterized as a rare opportunity for the community to move forward on these issues as part of the overall regional transportation plan. He said he has been impressed with the thought and efforts that have gone into the plan.

Transportation Issues of Concern to the Tucson/Pima County Regional Community.

Mr. Pein recognized the people who were instrumental in developing the region and presented a list of transportation issues of concern to the Tucson/Pima County Regional Community. He said ADOT absolutely supports the Regional Transportation Authority and looks forward to working with the organization in developing both the regional transportation and statewide plans. He stated PAG is in the process of developing a long range plan and ADOT is looking for ways to bring the PAG plan into the statewide plan. He reported the Southeast Area Development Study is currently underway and another development study was recently completed in the MAG region that looked at the impact of growth in Pinal County. He said ADOT has committed to the I-10 rural section as a strategic corridor and will work to ensure continuity when developing its infrastructure. He stated there 93 at-grade railroad crossings in Pima County, 13 of which are located on major arterials. He said the railroad is in the process of double tracking, which will result in over 100 trains at the at-grade crossings per day. He stated they also have to find ways to bring in additional funds, noting there is a \$4 million gap between need and projected revenue in the PAG region alone.

Steven Farley and Tom McGovern, on behalf of the Pima County Regional Transportation Dialog, said they recognize the need to work together to achieve the type of comprehensive multi-modal system they all want in Pima County. Mr. Farley identified members of the organization, stating they have reached consensus endorsing the Regional Transportation Authority and will continue working on transportation issues. He also read the organization's mission statement. Mr. McGovern commented on the rarity of multiple organizations voluntarily coming together and reaching common ground.

The meeting recessed for a short break.

SR 260, Yavapai County Proposal for Intergovernmental Agreement

Mr. McGee discussed the potential inclusion and acceleration of three projects on SR 260 through a financial arrangement with Yavapai County. He said the county and ADOT both have the power to enter into intergovernmental agreements and ARS 28-7677 allows the department to enter into an agreement with a political subdivision or Indian tribe for accelerated right-of-way acquisition and the design or construction of an eligible project. He explained ARS 28-7677 allows for the advancement of funds by a political subdivision or Indian tribe for project acceleration, with repayment of funds and interest by ADOT within five years from the date of the advance. He said repayment must also be based on a mutually agreed upon repayment schedule.

In response to a member's question, Mr. McGee said the department can make any kind of repayment arrangements, including repayment of all funds, repayment of funds plus interest, or repayment of only a portion of the funds.

Mr. McGee noted ADOT has borrowed funds from cities on at least two occasions in order to advance major construction projects. He said the three projects proposed under the agreement are estimated to cost a total of \$41.25 million. He said \$4.25 million is currently programmed in FY 2007-2008, however, acceleration of the projects would require \$9 million in FY 2010, \$13.2 million in 2011 and \$14.8 million in 2012. He explained the amount of available funding for the Thirteen Other Counties over the past three years has averaged \$88 million per year. He said, based on that average, the amount needed to be programmed in FY 2010 to 2012 represents about 14 percent of total funding for each fiscal year. He stated the IGA would have the county pay all interest and costs of issuance associated with the advancement or, should the Board find additional funding that would allow the projects to be brought forward without the County having to issue debt, the county would guarantee a minimum investment in the project of \$5 million of either interest costs or direct contribution. He noted investment costs are anticipated to total \$7.2 million.

Mr. Martin asked what would each party's responsibility be should the project not be able to be completed. Mr. McGee explained the IGA allows either party to cancel the agreement with 30 days notice. He said the county would simply not advance funding if ADOT chose to cancel the agreement before any contracts had been let, however, they have a responsibility to fund any contracts that have been let. He said the agreement specifies periodic payments to ADOT as each project progresses and the Board would have no legal obligation to move forward if the County failed to bring forth such funding.

Mr. Martin asked about cost overruns. Mr. McGee said ADOT and the County would jointly review significant cost overruns to determine if the project has to be altered, however, he believes Yavapai County would accept responsibility for relatively minor overruns. Mr. Martin expressed concern that they will run into archeological sites. Mr. Buskirk said they would conduct surveys to identify archeological sites.

Mr. Buskirk reviewed the programming history for SR 260 from Cottonwood to Camp Verde. He said the subject projects were first identified and defined in the SR 260 Corridor Study completed in June 2000. He said Segments 1 and 2 design projects were included in the FY 1999-2003 Highway Construction Program and construction of Segments 1A and 1B were considered for programming in the FY 2000-2004 program update. He explained, however, the construction projects were not included in the program because of the lack of funds available to the program. With regard to the current construction program, he reported a \$4.1 million project to construct the westbound roadway is included in FY 2008, a \$150,000 passing lane design project is included in FY 2007 and \$828,000 is included in FY 2004 for right-of-way acquisition.

Mr. Higgins stated design of the four lane divided roadway is currently at 95 percent and is anticipated to cost \$60 million. He said, should the Board agree to proceed, it will take approximately six months to modify their design to construct a parallel 2-lane roadway and another nine to 12 months to update the environmental assessment. He stated it will take 18 to 20 months to obtain the necessary right-of-way and another six to nine months for utility relocations. He said, overall, advertisement should occur in about two to two-and-a-half years.

Ms. Brisk stated SR 260 needs the proposed improvements, pointing out it is Project 12 on the statewide listing. She said the proposed funding will get the project to the customer sooner which will enhance customer satisfaction. She confirmed the project is a priority for Yavapai County. She stated the project sets a priority, commits the future Board in FY 2010-2012, and could set a precedent for future projects.

Chip Davis said they were cautious in developing the IGA so as not to set a precedent by identifying certain components of the project that make it unique such as 1) design of the project is 95 percent complete, 2) the access management plan is complete, and 3) the project has been in the five year plan for design. He stated they have tried to identify and incorporate the Board's concerns in trying to keep projects running throughout the state.

Mr. Martin stated an analysis of whether to proceed with Project 3 would be conducted if significant cost overruns have occurred. He pointed out \$4 million will be provided up front to allow ADOT to aggressively pursue right-of-way and utility relocations. He said repayment has been pushed back one year so that no repayments will be required in the fifth year of the plan.

Tom Foster explained the IGA will allow the County and ADOT to do business and is flexible enough to let them deal with issues as they arise. He reported utility relocations and right-of-way acquisitions will slow them down, however, they are committed to working with property owners and other agencies to help facilitate the plan.

Mr. Schorr questioned whether a four page agreement is sufficient to protect the Board. He suggested they have the department's legal counsel review the agreement and look at all of the ramifications of the agreement. Ms. Brisk stated the Attorney General's Office has already reviewed the agreement and found no issues. Mr. Davis noted they have done similar agreements in the tri-city area in the past. Ms. Brisk pointed out the Board could do a resolution to add to the agreement. Mr. Mendez suggested the Board communicate back to staff any specific concerns or questions they have concerning the agreement.

Enhancement Program Overview

Mr. McGee presented an overview of the financial status for the current Five Year Program and the forecasted funding estimate for FY 09. He explained the RAAC looked at all outstanding ADOT projects that had not yet been obligated for rounds one through ten and made their best determination as to the year each project would be ready to be obligated. He said, as a result of that analysis, there are about \$23.5 million in projects, \$7 million of which will be ready for obligation in this fiscal year, \$4.8 million next year and \$3.7 million in 2006. He stated, based on approximately \$18.1 million in revenue, they are about \$5.3 million short of funding projects in rounds one through 10. Mr. McGee said the Board previously discussed using Project of Opportunity funds to help alleviate the shortfall. He explained, generally, they have about \$2 million per year for FY 2005-2008, but there were a few projects in FY 2005 and 2006 that had to be funded with those monies. He said that leaves about \$9.2 million in uncommitted funds for future Project of Opportunity projects, resulting in a positive balance of \$3.9 million. He stated Round 11 projects are estimated to total \$4.6 million, leaving a \$717,453 shortfall. He said the shortfall, coupled with the estimated project costs for Round 12 and 13 projects results in an \$8 million deficit, most of which occurring in FY 2004. He stated they believe they can fund interest for 2004 through contingency funds.

Mr. McGee reviewed local project funding projections assuming no project of opportunity dollars are set aside, stating Round 11 projects will result in a deficit of \$9.9 million. He said the Round 12 and 13 projects will increase the deficit to \$23 million, with the majority of the shortage occurring in the first four years. He explained they resolve the shortfall by assuming they would give the cumulative balance back to the locals in each of those fiscal years.

Mr. Duarte said cost overruns caused projects to back up and it took too long for enhancement projects to get developed. He stated, in an effort to correct the problems, Cheryl Banta was hired to manage the Enhancement Projects program. He said they have established a policy and procedure manual and will take 20 percent off the top for design and 10 percent off the top for contingency. He stated the five year planning process for local projects is crucial and the financial arrangements have to be adjusted to allow projects in their last stages of development to be swapped out with projects that are lagging behind. He said they also need to work closely with the COGs to get the projects out in a timely manner.

Ms. Banta said she contacted COGs who have since contacted the local communities to determine if any projects currently being scoped or developed should be canceled. She stated she also asked what year the local communities thought projects would develop and go to bid and found many were ready to go and awaiting funding.

Mr. Jeffers asked that consideration of the Round 11 projects be placed on the Board's next agenda.

Financial Overview – Mid Fiscal Year Status

Mr. McGee presented a financial update for FY 2004-2009. He said compared to last year and the year before, they are in a much better financial position and are seeing strengthening revenues in HURF and RARF. He noted the projected General Fund deficit for 2005 is anticipated to be \$300 million, whereas the estimate was closer to \$1 billion a year ago. He said, however, there continue to be some uncertainties, including reauthorization and cash flow. He explained they look at the funding estimate three times each year, in July at which time they get an estimate of the new fifth year, in January with respect to what the Governor and Legislature may be proposing, and just before the Board approves the Five Year program to ensure it is fiscally constrained and feasible. He said their analysis, as presented to the RAAC, estimated \$2.714 billion in gross revenues for FY 2005-2009 and \$611 million in gross revenue for FY 2009. He said, however, because of cash flow issues, they recommended that they only look at programming \$570 million for the new fifth year.

Mr. McGee reviewed State Highway funding changes, noting all changes are based on the Governor's recommended budget proposal. He said the Governor is proposing a one time \$118 million VLT transfer; that DPS be funded to the extent of \$82 million, but that all funding come off the top of HURF; an \$11 million increase in ADOT's operating budget; and a \$2 million LB&I budget. He said none of the numbers include a proposed employee pay package, noting, however, there is talk at both the Legislative and Executive levels about some sort of compensation package for FY 2005. He stated, based on the changes, they have: 1) increased the estimated State Highway funds from HURF by \$24 million, 2) increased the estimated State Highway Funds from the MVD distribution by \$6 million, 3) lowered the DPS Transfers from HURF by \$5 million; 4) increased the Operating Program and LB&I by \$3 million; and 5) increased Other funding by \$49 million. He said, consequently, they are anticipating approximately \$87 million more in State Highway funds than they initially expected in August.

Mr. McGee discussed federal funding changes, stating they increased the base level federal funding estimate by \$9 million over the next five years and reduced enhancement projects funding by \$22 million. He said, ultimately, they are looking at a \$13 million decrease in federal funding. He compared the Senate, House and Administration funding proposals, stating they found the Administration's proposal to be the most conservative, giving ADOT \$2.29 billion. He explained that they did not have to borrow as much in 2004 to fund the program because they did not lose the \$128 million in VLT. He said those amounts were split between 2005 and 2007 to give the additional HURF bonding needed in each year. He said, as a result, they estimate having about \$74 million in additional funding over last August's forecast. Mr. McGee stated, however, they are obligating projects at higher levels than ever before, projects are being built faster, and they continue to accelerate projects forward in the program, all of which have negative impacts on cash flow. He pointed out the 2005-09 Program Payout Curve calls for 34 percent of all cash to go out in the first year and 90 percent to go out within the first two years. He stated, based on the updated revenue projections, the estimated ending cash balances in FY 2006 and beyond will not cover the \$130-140 million minimum cash balance they are required to maintain. He presented four options to address the variance, adjusting the inflation factor, delaying projects, assuming higher federal funding levels, and issuing a Grant Anticipation Note.

Mr. McGee expressed his opinion they will end up with higher than currently estimated federal funding once reauthorization happens, however, he is not as optimistic as he was before attention shifted to the president and the current size of the budget deficit. He recommended, therefore, they continue to use the most conservative forecast in terms of federal funding and that they balance the program through a GAN issuance. He suggested any federal funding received in excess of the forecast be used to offset GANs. He cautioned the Board to resist project accelerations without some sort of offsetting funding acceleration.

Aeronautics Financial Forecast and Update


Mike Kline presented an overview of the financial forecast for the Aeronautics Five Year Program. He explained the Aviation Fund is the source of all of their projects in the subprogram, noting 90 sponsors could avail themselves to federal and state dollars. He said state programs are funded on a 90/10 or 95/5 percent basis and they looked at funding a special pavement preservation program. He explained their loan program has been inactive because of the reduction of Flight Property Tax revenues. He identified classic sources of revenue to the Aviation Fund, including the Flight Property Tax, Aircraft License Tax, Aviation Fuel Tax, and Grand Canyon Revenue as well as other miscellaneous revenue and investment interest. He said they have done \$12 to \$13 million per year for the last three years, with approximately 45 percent of funding coming from the Flight Property Tax. He stated sponsors have not asked for as many projects because they know funding is not available. He said they are projecting closing FY 2004 with a balance of \$3.7 million and FY 2005 with a balance of \$7.6 million, stating the Flight Property Tax is expected to return in full in FY 2005. He stated they hope to increase their funding of grants and activities at the Grand Canyon Airport beginning in FY 2005. He pointed out the All Other revenue category increases considerably in FY 2005, explaining the increase reflects significant federal grants they are receiving for the Grand Canyon Airport. Mr. Kline stated they, too, are concerned about cash flow, explaining they had a decrease in the Aviation Fund as a result of a \$1.5 million lawsuit and the \$4 million sweep by the Legislature. He said they currently have about \$8 million in the fund, although he is unable to explain the higher than expected balance. He stated the state/local funding projects in the FY 2000-2004 had \$20 million, however, that amount has been reduced to \$7 million, with more than half of that amount going to pavement preservation and a large portion of the remaining amount going to federal/state/local projects. He said they believe state/local funding will reach \$15.9 million if the flight property tax is returned, explaining federal laws have changed lowering their required match to 95 percent. He reported the FY 2003-2007 program had 961 projects, the current fiscal year program has 824 projects and the FY 2005-2009 program is expected to fund 1,108 projects. He noted 29 project requests totaling \$3.2 million were not funded because of unavailability of funds. He said he will have to find a way to reduce the FY 2005-2009 program to \$8 million if the Flight Property Tax remains at 50 percent.

Mr. Lane asked if they have projected the future additional costs to sponsors should they have to cut back on the pavement preservation program. Mr. Kline explained the pavement preservation program was initiated because the sponsors were not doing pavement maintenance, stating he does not believe that will change. He said their intent is to keep the state/local and pavement preservation programs intact regardless of the Flight Property Tax, pointing out, however, it will be at the expense of the loan program.

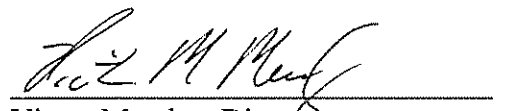
ADJOURN

Board Action: A motion to adjourn was made by Mr. Lane seconded by Mr. Gant and passed unanimously.

The meeting adjourned at 4:45 p.m.



Bill Jeffers, Chairperson
State Transportation Board



Victor Mendez, Director
Arizona Department of Transportation

*Denotes items approved in the consent agenda.