

DRAFT
MINUTES OF THE
ARIZONA STATE TRANSPORTATION BOARD
STUDY SESSION
10:00 a.m., Thursday, February 5, 2009
Arizona Department of Transportation (ADOT) Auditorium
206 S. 17th Ave.
Phoenix, AZ 85007

CHAIRMAN HOUSEHOLDER: I'd like to call the Study Session together at this time. It's good to see that so many people out there are interested in the economic recovery package.

We'll begin with the Pledge of Allegiance, led by Felipe Zubia.

[The Pledge of Allegiance is recited.]

CHAIRMAN HOUSEHOLDER: At this time, Director Victor Mendez will give us an overview of the economic recovery package, and then we'll have the Call to the Audience.

I'll now ask Mary Currie to call the roll.

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

ITEM 1: Review of the Federal Economic Recovery Package and delivery of transit, aeronautics, and road projects on a statewide basis.

VICTOR MENDEZ: Thank you, Mr. Chairman, and good morning to everyone.

As you're all aware, we've had a great deal of discussion about economic recovery and stimulus programs. About one year ago, there was discussion of a stimulus package, and ADOT created a list of projects that we shared with people in terms of a potential package. The end result is that Congress and then-President Bush came up with a stimulus package that, in essence, sent \$600 checks to families. However, that was when ADOT began to prepare for a potential second wave of recovery funding. We've been working on this for close to a year now, studying the issues for which, should there be funding available, ADOT would be prepared to deploy federal funds. So that's the basis of where we are.

In the last three months or so, discussing economic recovery has gone beyond extracting information and preparing ourselves. There's been a lot of discussion at the national level, and a lot of discussion with the individual states.

This is a map we crafted to show an updated version of what we first prepared about a year ago. We've never stopped looking at where we could use these Federal infusions. So this is our list of projects, updated over the last two months with very minor changes to the list. Keep in mind that this is only the highway portion, and I'll take you through additional information with respect to aviation and some locally funded projects that may be available for economic recovery funding.

In the last few months, it's become a bit more real that there will be an economic recovery package. Of course, you're all aware, through the national news, that this is still being debated in Congress; a lot of the information I present today will be based on items we're already aware of, but I'd ask you to keep in mind that nothing is finalized, so we had to incorporate assumptions into our process of preparing ourselves for when this package comes through.

Over the past few months, we've met with our Arizona Congressional Delegation to brief them on our understanding of the recovery package, and how it will be prepared. We have met with the delegation as part of a working group, the Rural Transportation Advisory Committee and other major stakeholders, including Associated General Contractors and some of the non-profit organizations, MPOs and COGs that are also engaged in those discussions. It's important for us to know that we're communicating with our delegation at various levels of government, and with the private sector as well.

One issue that's been a recurring theme, and a message back to our delegation, is that given the levels of funding for infrastructure, we don't believe they are adequate. Our message has been consistent: we could use an additional level of funding beyond some of the numbers I'll be sharing with you. But again, that's simply been our message, and so far we haven't seen a corresponding change in the levels of funding.

Additionally, we've had a lot of discussions with national organizations: for example, the Department of Transportation and some of the MPOs have been discussing the same issue with their national associations. A couple of weeks ago, at the rural transportation summit, the Executive President of [NARC?] showed up at the session and gave us a briefing on what's happening in Washington.

We've been engaged with the various MPOs and COGs, and with the Federal Highway Administration, to try and prepare ourselves for this package. I think all of you have heard that there will be many criteria and constraints that we'll have to abide by; one of the bigger criteria is that the projects have to be ready to go. We need to be able to execute them quickly. Ultimately, the desired result is to create jobs immediately. We're all aware that the world economic condition is fairly dire, and I think here in the U.S., we hear about thousands of layoffs every week. So the intent here is to create jobs, and to do so as soon as possible.

The only way those of us involved in infrastructure can help from that perspective is to have our projects ready to go as soon as Congress and the President agree on a bill. I think what we've heard throughout our discourse, throughout the entire state, are

questions about why some projects were chosen over others, and the bottom line is that we've looked at the projects that are ready to go.

For example, if we had a project in the fifth year of one budget program, we probably won't be discussing it today. We'll get to it probably two or three years from now, but since it won't be ready to go and we won't be able to turn it over in two months, we'd still have to design it and examine environmental clearances and things like that. Our development process does take time, so I'd ask you to keep in mind that as you look at the maps and lists of projects today, remember that we were focused on projects that were "shovel-ready." That's basically what we're looking at today.

As I mentioned, we've had a lot of discussions with COGs, MPOs, and the Federal Highway Administration, as well as our District Engineers, to ensure that we stay up-to-date on any process and delivery items that they hear about, as they stay in touch with their headquarters. It's important for us to stay in touch, and to understand the tweaks and possibly even changes that occur in the development process that we may have to deal with when we get an infusion of funding and have to deliver this quickly. I have to tell you that FHWA has been very good to work with here in Arizona. We've had three major teleconferences that included MPOs, COGs, and ADOT, and some other stakeholders, to make sure we were all getting the same information and staying up to speed with the information they may have.

As I mentioned, the House and Senate are still trying to negotiate the economic package. We don't know what it looks like; some of us were heartened, earlier this week, that maybe our message had gotten through and they might increase the level of funding for infrastructure, but unfortunately that has been rejected by the Senate in the last two to three days. So we may not see any increase in the infrastructure portion at all.

In order to prepare you for the upcoming press, we have a lot of information for the public and for the Board. We've tried to stay on top of this, but sometimes being that far away from Washington, D.C., it's difficult to get any information up to the last minute. The final vote seems to tell us that the Senate is debating their portion of the bill; the understanding that I have is it's still a contentious issue, so we'll see what happens.

Here's just our estimation of what we believe will be happening. Again, things could change dramatically at any date, so this is just our opinion of how we believe a 90-day timeline would look, so we could actually begin turning dirt. All the discussion at the national level centers on a recovery package passed by Friday, February 13, 2009, and assuming that happens, we then believe this is what the timeline would look like. You, as a Board, would need to prioritize your portion of the package on the State Highway System; we believe it would then require an official Board meeting for you to take action on it. We would advertise projects beginning the week of February 23, 2009, and request that bids come in by March 16. Then we would review the bids through April 6, and hopefully award projects the week of April 20, 2009. The intent would be that whenever you all approve these, the majority of the projects would be turning dirt by the middle of May.

Again, this is just our take, given what we know today and what could occur if there is a bill approved by the 13th of February. Obviously we may need to tweak this as we learn more. My suggestion to all of you is, we will probably have to have special Board meetings to award projects if things shift, and we'll just have to be flexible. We'll work with you to schedule these accordingly, and some of you may have to participate by teleconference, which is OK too. I ask you to keep this in mind and remain as flexible as possible with scheduling.

Any questions so far? Feel free to jump in and ask. This is only a study session, so it's an informal discussion here.

SI SCHORR: As you go through the explanation, it might be helpful to members of the audience, and perhaps some of us on the Board as well, to tell us what some of those acronyms and initials mean.

VICTOR MENDEZ: All right. If I miss one, feel free to stop me.

With respect to transportation funding, given our understanding to date and with regard to the information that potentially affects Board members, we're looking at three components of infrastructure: aviation, transit, and of course highways, roads, and streets.

In the aviation arena, there are still a lot of issues that we don't fully understand. We believe nationally, this component will probably receive about \$20 billion. Given what we understand right now, we anticipate that Arizona will receive somewhere between \$80-\$100 M of this \$20 billion. There are a lot of projects that are available for the FAA to look at; we anticipate that it will be a grant program.

We've been working with the Arizona Airports Association to develop a list of what we can support in terms of project needs out there in aviation. Again, I think this approach is similar to what we did about three or four months ago, if you recall – we worked closely with the aviation stakeholders to come back to you with a program supported by those stakeholders and by you as part of the ADOT program.

There are a lot of issues still outstanding that might be problematic, and we haven't been able to clarify potentially – for example, there might be a 5% match for a lot of these grants, and given the economic conditions we read about every day, it's possible that some of the local and municipal airports may not be able to participate with a 5% matching component. So we've been sending that message back, that this should be 100% federally funded. At this point, however, our understanding is that there's still a matching requirement, so hopefully that will change.

BOB MONTROYA: Director Mendez, when we talk about matching funds, has that been conveyed to the Governor, since we know that she swept the Aviation Fund, and had we had those funds we might be able to match the situation?

VICTOR MENDEZ: The discussion is exactly what you just mentioned – a year or so ago, we would have had money in the Aviation Fund, and could have participated with a match. Currently, as you're aware, there have been dramatic sweeps in the Aviation Fund, and there isn't a balance there to participate in that requirement. That's why we've been so adamant in sending back the message, not only for aviation but for the local roads and streets, but because of economic conditions, a lot of municipalities and local airports don't have a funding source that's able to make that happen.

By the way, it's not just an Arizona concern. I hear this from my peers everywhere else.

BOB MONTOYA: Does that jeopardize us that the Feds may crack the funds and we don't get them?

VICTOR MENDEZ: Potentially, it could, if that matching requirement remains in the bill and there is no funding, I presume if you don't have matching funds, then yes, it would be jeopardized.

SI SCHORR: To Mr. Montoya's point, have there been ongoing communications with the Governor's office, to make them aware of the terms the state might not meet?

VICTOR MENDEZ: Yes, we've had discussions with various high-level members, and also members in the Legislature, to convey similar information, at least what we know and have prepared.

BOB MONTOYA: Is there a mechanism we could put in place, a restriction of that type, that could prohibit us from being able to advance funds to airports?

VICTOR MENDEZ: Mr. Montoya, I think we would have to research that, but off the top of my head, I'd say using roadway funds for aviation would probably not work legally, not to mention that those funds are actually declining. With declining revenues, I'm not sure that there's funding available. But if you like, we could certainly take a look at that from a legal perspective, so if it's a potential option we would at least have a backup strategy.

BOB MONTOYA: I would suggest that that would make sense, just so we don't jeopardize our funds if there's any type of legal research that shows some way we could obtain a loan. I'm not suggesting we do anything with the roadway funds, but if there's some way the Aviation Department could borrow money from some sources, let's make sure that we're able to qualify for funding.

VICTOR MENDEZ: We'll take a look at that and see what kind of answers we get. Given the economic conditions and the budget constraints, however, I simply don't know where the sources would be. But we'll look into that.

Moving on to the transit component, we again are a little up in the air regarding the actual details of the grants and funding that would go to the state and to local municipalities. We do know that funding would bring anywhere between \$5-\$15 billion on rail and transit on a national basis. We believe potentially all of that would be discretionary, possibly through some of the already existing grant programs out there. At this point, it's rather sketchy as to how this will actually work, and I'm sure all the transit advocates are out there trying to figure out specific details too.

Let's now move into the roadway and highway portion.

SI SCHORR: Before you move on, what's your understanding of how these monies would flow? For example, in the field of aviation, let's assume that there's no requirement of matching funds. Would that \$100 M be distributed to the state of Arizona Treasurer's Office, to ADOT, to local airport authorities, to counties – how would the money flow?

VICTOR MENDEZ: I think the options are still pretty open –

RICHARD TRAVIS: It appears from our discussions that the Federal government wants to use as many already existing formulas and delivery mechanisms as possible, and technically that would mean money would be available for us to draw down, whether that would be from the road side or the aviation side. That's an important distinction, because if the money comes with a "use it or lose it" clause attached, it's very easy for the Federal government to take it back if that money isn't spent down.

SI SCHORR: So your answer is, it would flow, then, to ADOT, then to aeronautics?

RICHARD TRAVIS: I don't think we know specifically yet. The discussion has been that it could come as a lump sum or it could come earmarked. From my discussions with Barclay Dick, those are the two possibilities that are being discussed for the aviation dollars.

SI SCHORR: When you say "earmarked," does that mean earmarked for projects or earmarked for delivery purposes?

RICHARD TRAVIS: Earmarked for projects.

SI SCHORR: And with respect to transit, would it be the same?

RICHARD TRAVIS: There seems to be discussion giving greater latitude to transit.

SI SCHORR: And the objects being what?

RICHARD TRAVIS: There's some material that makes the Transit Grant Program the most likely delivery mechanism for those dollars.

SI SCHORR: As we get into state highways, could you also deal with that, Director Mendez, as to how those funds will be drawn?

VICTOR MENDEZ: If you'll give me a few minutes, I'll get to that.

On the highways and local roads and streets, we anticipate that \$30 billion nationally will be distributed among the states, using the existing formulas for Federal funding. If that is in fact the case, we estimate that Arizona will receive about \$590 M for, again, highways, roads, and streets. We've had a lot of discussion somewhere in the \$600 M range, but for purposes of today's report have settled on \$590 M.

I'll take you next to Mr. Schorr's point about how this money will be distributed.

CHAIRMAN HOUSEHOLDER: Victor, let's take a brief recess.

[Board takes brief recess.]

VICTOR MENDEZ: All right, moving on – going back to Mr. Schorr's earlier question, with regard to distribution of funds, there are a couple of elements that we should think about and discuss, and this is one area where you may have a lot of questions. Given the House bill, we believe that 45% of the funding will be allocated through the Surface Transportation Program. The state and local municipalities are then sub-allocated funding from this 45%.

The House bill also allocates the remaining 55% directly to the states. It provides us with discretion on how to prioritize the projects – in other words, they're not going to earmark projects, but are asking states to identify their own priorities at the local levels, and act accordingly. There's some discussion about encouraging geographic distribution, but I don't believe it's a requirement; however, it's something that needs to be considered.

I've got a bullet point here – again, I've mentioned at past Board meetings that in the absence of any specific direction, here in Arizona, what has been employed for about a decade now is a distribution through the Casa Grande Accord. You're all very familiar with that, as there's been debate and discussion for over a decade on this. So I'd ask both the Board and the audience to keep in mind that all I'm presenting to you today in this study session are scenarios I'll present to you as food for thought. Then as we begin to work out a final recommendation, today's dialogue will help us craft that, including input from the audience.

So I'll present to you potential scenarios, and I may choose to use the Casa Grande Accord approach, or some other approach to your liking. Ultimately, the final decision will rest with the Board. I'll present to you what we believe is a rational approach, given that it's been an appropriate use for programming processes in the past.

Here's one potential scenario: as I mentioned, we're assuming a baseline of \$590 M coming to the state. One of the stipulations in the bill is that there's a sub-allocation of

the 45%: 10% of that would go to the Transportation Enhancement Program, which means right off the top; you'd remove \$27 M from that 45%. If you look at the numbers shown here, you actually begin with \$563 M that's available.

We then will subtract \$152 M that would go to the local communities or municipalities, which is their portion of the 45%. Let me talk through this: after you remove 10% of the 45% for the Transportation Enhancement Program, which is about \$27 M, the remainder is then split, so 62.5% goes to the state and 37.5% goes to local municipalities.

What would occur with ADOT funding is when you begin with the \$563 M, you subtract the amount of \$152 M that goes to local municipalities. That would provide the Board with \$411 M to distribute according to your liking.

What I'm proposing here, again, is just a scenario: for that \$411 M, if you apply the Casa Grande Accord, you see the appropriate numbers here – 50% goes to Greater Arizona, 37% goes to the Maricopa Association of Governments, and 13% goes to the Pima Association of Governments. So those are the numbers that would be the result of that allocation of the \$411 M.

Then \$152 M will go to the local units and municipalities, based on Federal formulas for that funding. Its distribution is shown here, on the light blue part of the screen. [unintelligible, background noise] percent and 22%.

BOB MONTOYA: Is there a formula that you applied here? Why does it differ so much from the first one?

VICTOR MENDEZ: There is a formula, based upon the [unintelligible] Formula, which I believe includes population and various other factors. When you apply it through the Arizona component, those are the numbers.

BOB MONTOYA: By population?

VICTOR MENDEZ: Several factors, but population is one of them.

BOB MONTOYA: Is it policy, or can we vary from that formula?

VICTOR MENDEZ: I believe it's a Federal requirement.

We move to the dark blue section at the bottom, which is a compilation of how the \$563 M actually totals out. When you add the green section to the light blue section, you get the dark blue section. You would end up with Greater Arizona receiving just under \$22 M, the Maricopa Association of Governments with \$6.4 M, and the Pima Association of Governments with \$8.7 M, for a grand total of \$563 M.

Also, keep in mind there's still \$27 M in enhancements that's still hanging out there. We don't have a very clear picture yet of how that will be distributed.

SI SCHORR: What do we mean by “enhancements”?

VICTOR MENDEZ: If you recall, there’s a Transportation Enhancement Program that provides funding for improvements above and beyond what we normally do with transportation. Normally, we’ll widen a road, add a lane, build a bridge – the enhancements are just that, such as adding sidewalks and pedestrian walkways. The Transportation Enhancement Review Committee, whose chairman is here today, prioritizes these dollars in concert with the MPOs and the COGs.

SI SCHORR: So it’s synonymous with HURF?

VICTOR MENDEZ: Exactly. So that’s one potential scenario. Again, I want to emphasize here that you would apply the Casa Grande distribution to the ADOT share.

Let me take you to another potential scenario: you would apply the Casa Grande distribution to the entire \$563 M. If this is done, the \$152 going to local municipalities is subtracted. You will still have \$411 M to distribute, but the funding amounts are very different. That’s because you’re applying the Casa Grande Accord distribution to the total amount. Again, this is only a scenario and you may choose to do whatever you like on your final decision.

SI SCHORR: Can we have a discussion about that alternative you just presented? [unintelligible] precluded from using that formula by virtue of Federal highway regulations.

VICTOR MENDEZ: I think once we get a final bill, assuming there are no changes, we have discretion. We still have the 55%-45% sub-allocation. But in terms of prioritizing at the state level, it’s still left up to the states and local municipalities.

These are just a couple of scenarios, based on the Casa Grande Accord again. From a rational perspective, it’s what you’ve been doing throughout the past decade. It will be your call.

One thing we’ve discussed over the past few months is the avid infusion of new funding that we didn’t anticipate six months ago. What will be its impact? We’ve talked about a cascading effect, which means if we’re able to accelerate a project with the program three years from now, with an estimated cost of \$10, with this infusion, you’re able to build this project today. So you bring forward a \$10 project, and now you’ve freed up \$10 on the back end to program additional projects. We call that the cascade effect.

We have very high hopes of that, and believe it would be good for the state of Arizona. However, as you then look at what’s really going on with the economy, and our revenues trending downward, we believe the cascade effect may become more and more marginalized. As I mentioned, our transportation revenues have declined, so at some point we’ll need to consider a program and we’ll have lower revenues than we anticipated

when we approved the 2009 program. I believe that's something you'll have to contend with as we move forward.

We had hoped the amount of Federal recovery dollars would be much higher than \$563 M, and we've been sending messages back, saying it's simply not enough. The critical needs here in Arizona are incredible.

With regard to the number of projects to be funded by recovery dollars, they aren't as many as we would have liked. As we look to the future, toward the amount of infusion along with diminishing revenues, things will be canceling each other out, and we'll just have to contend with that until the economy recovers. You've been receiving John Fink's monthly reports on our revenues, and so you're pretty well aware of what's happening with them.

Let me take you through the steps we've undergone to prepare ourselves for delivery. One stipulation in the bill, we believe, will be a "use it or lose it" stipulation. It can take various forms, so at this point I'm not sure I'm prepared to talk about the exact timing, but I think the end result will be if the states or local municipalities don't use their funding within a certain period of time – if the funds aren't obligated and turning dirt hasn't yet begun – the money would revert back either to the state, or for redistribution on a national basis.

There are various scenarios behind this, which I've tried to explain, although they're complicated. At the end of the day, the issue is that if you don't use your funding, it will be reverted to somewhere for redistribution. So our primary focus has been on ensuring that we're ready to go and that the state doesn't receive any reverted funding at any level.

Given that as our primary focus, we've undertaken a lot of discussion and a lot of steps to ensure we can deliver on our projects. We've taken a look at all our projects in the state highway system, to ensure that their scopes are what they're intended to be, that we're addressing critical needs, and we may have to accelerate the design to ensure we'll be ready when funding does come through. We've expedited the design process and had project team meetings to be sure the projects are ready to be advertised.

Within ADOT, we've also had a tracking mechanism on the status of the projects, and the project management techniques, to ensure that we deliver the projects. Throughout the organization and the State Engineer's office, and many other offices, we've made these projects a high priority.

We've added more supplemental positions to our contracts and specifications section, which is the area that actually puts together the contract. They prepare a contract package with plans and specifications. We've added resources there to ensure that they're getting the work done and moving it out the door.

We've transferred in engineering positions to our utility and river work sections, to ensure that utility clearances are getting done as well.

We've done a lot of planning with FHWA, because if you look at the bill, a lot of the existing Federal laws and requirements aren't being eased. We're still going to have to go through amendments to the Transportation Improvement Program at the local and state levels. So even though this is being fast-tracked, a lot of the existing regulations are not relaxed and probably won't be. So we're having to accelerate within given constraints.

We've also worked with the Associated General Contractors, to ensure that they understand what's on the list and on the map, because at least for the ADOT projects, they're the ones who will be delivering the projects. They've also been engaged in the creation of the list of projects, including the local municipalities, and will be key to the delivery of these projects as well.

I mentioned earlier that you may have to call special Board meetings and such. We're basically establishing an expedited process to advertise and award the projects, and then we've asked a lot of our ADOT employees that work within this realm to voluntarily cancel their further leave at this time, as we're very busy and are going to be delivering projects right away.

SI SCHORR: Dropping back for a moment, what part of the \$563 M would go to maintenance? Fixing potholes, either small or major? We've had several discussions over the past two years about the heavy price we pay for deferred maintenance – what portion of that larger number goes toward this problem?

VICTOR MENDEZ: Probably the best way to answer that is to refer to the map. Within the map, there are two levels of maintenance: routine maintenance that we within ADOT undertake, such as potholes and damaged guardrails. If this is what you're referring to, the answer is zero.

Also, however, we have Pavement Preservation Projects, seen as red lines on the map. Those are also considered maintenance, at a higher level, since you're actually replacing the pavement, so it's not the kind of work that ADOT does. There are many reasons for this, one of which is we cannot legally do maintenance beyond \$189,000, an amount that was increased just a couple of years ago. Another reason is simply that it's contracting work. A lot of this will be executed by the private sector.

SI SCHORR: Could you quantify that?

VICTOR MENDEZ: I don't have the figure right now, but we can certainly sort by –

SI SCHORR: Can you give a ballpark percentage?

VICTOR MENDEZ: I'd be guessing if I did. Maybe someone on Staff could add it up very quickly?

UNIDENTIFIED SPEAKER: Mr. Chairman and members of the Board, the emphasis on pavement preservation is an effort to hit those areas where we've been deferring a lot of pavement maintenance. Out of approximately a billion dollars' worth of projects we have in there, you're probably looking at about \$350-\$400 M for pavement preservation.

SI SCHORR: When we talked earlier about cascading effects, to the extent that we do pavement preservation, we do create a cascading effects by freeing up funds that would have been spent for that purpose.

VICTOR MENDEZ: Mr. Schorr, you're correct – however, I'd just caution that the opposite is in the declining revenues. As we move through the rest of the five-year program, separate from this issue, we're going to be met with declining revenues. So at least the way I'm looking at this, the cascading effect is being minimized much more than I would have anticipated.

BOB MONTOYA: I'd like to follow up on Mr. Schorr's question, specifically: could this Board, when we've been given a list of projects, from pavement preservation to road widening to bridge replacement, decide that a majority of this money would be used for pavement preservation? This would be bringing the infrastructure up to a better level, as best we can.

As you stated earlier in the discussion, as we drive the roads and see how bad our infrastructure really is, we've been emphasizing a lot of work on new projects over the years that I've been on the Board. And as we've discussed in the past, in order for us to maintain the infrastructure we already have, we'd need to invest \$300 M a year. As we're only allocated \$530 M, we've got a shortfall of \$270 M a year.

I guess the question is: can this body decide to identify those projects that are pavement preservation and infrastructure maintenance?

VICTOR MENDEZ: The short answer is "yes," it would be at your discretion. I think what we'll ask the Board to keep in mind is, we're working with Congress to try and gather economic data on types of projects. In other words, if you go back to the overall objective of the economic recovery package, it's to create jobs. So what we want to get a handle on is, given the types of projects, which ones create the most jobs?

The other thing I'd ask you to contemplate and deliberate amongst yourselves is that given the level of funding, we will be looking at a potential balance between geographic distribution of this job creation. That will also be at your discretion. If in fact you decide to concentrate on major projects in a certain area, you would use up most of the funding in creating most of the job in a region or localized area, and I'm sure you would hear from constituents about the [unintelligible]. So you're going to have to strike a balance between job creation and the actual improvement projects that are out there.

I would agree with you that there's a debate nationally because we're all facing the same thing: to what degree can you begin to back off on adding new projects when in fact you aren't maintaining the existing assets? This is a debate on a national basis.

SI SCHORR: Are there any statistics that you're aware of, with respect to job creation? Does a pavement preservation contract create more or less jobs than the building of a new system?

VICTOR MENDEZ: Mr. Schorr, we're trying to get a handle on actual data. The discussion anecdotally, with experts and contractors, has led to my understanding that pavement preservation projects don't create as many jobs as major [unintelligible] projects, because theoretically it uses a lot of material but less labor. If you had a different major project, such as building a bridge, you have a different skill set and a bigger labor force. So these are choices we're going to have to make.

SI SCHORR: Another question – are you going to cover the projects, Director Mendez, or are you going to open it up for us to discuss [unintelligible, background noise]

VICTOR MENDEZ: Mr. Chairman, Mr. Montoya, I wasn't planning on it. There are many projects, and I think [unintelligible] pretty well done. It's a very long list. Unless you want me to ask about specific projects – I've got the Staff here who might be able to answer specific questions on individual projects.

SI SCHORR: As I look through the list you've provided – which I appreciate very much – several questions come to mind. For one, which projects listed here are in the Statewide Transportation Acceleration Needs (STAN) program? Are they designated as regular program projects, or are they under STAN project funding?

VICTOR MENDEZ: What we were planning on doing – I haven't looked at the list – I-10 from Loop 303 to Verrado Way would be one of the STAN projects.

RICHARD TRAVIS: If you look in the first half, it's 98 and 99. 98 is listed as a \$46 M program and 99 is listed as a \$33 M program.

BOB MONTOYA: I'm looking at those two projects that are under the STAN program – they're ongoing right now?

VICTOR MENDEZ: There is a technicality error – the STAN funds were swept, so technically they're not STAN projects any more. The funding is gone.

BOB MONTOYA: What does that mean? Are the projects going to stop? They're in process now, aren't they?

VICTOR MENDEZ: They are not under construction.

BOB MONTOYA: When were they scheduled to be in the program?

VICTOR MENDEZ: They were scheduled for fiscal 2009.

BOB MONTOYA: What happens to those projects?

VICTOR MENDEZ: Here is the theory as I understand it: given that the funds were swept, the acceleration is no longer an option. I forget where they were originally located in the MAG program. My understanding is that MAG is working to ensure that these projects become high-priority projects with the infusion of economic recovery dollars, but that still has to run through the MAG prioritization process before it can happen.

SI SCHORR: What other projects are funded by STAN?

RICHARD TRAVIS: There were several projects funded by STAN that are all either complete or under construction, like the I-10 widening that's still underway. These two projects were not commenced. There was one right-of-way acquisition that [unintelligible]

BOB MONTOYA: I guess my question is, the only two projects with STAN funding are 98 and 99, then?

RICHARD TRAVIS: The third project that was to be funded by STAN, which doesn't appear here, is the right-of-way acquisition. Our reading of the requirements for recovery funds for construction projects was that right-of-way projects do not appear in there.

BOB MONTOYA: That, for our information, is \$79 M?

SI SCHORR: I'm looking at the information I downloaded last evening, which I assume is the same as what we have in the book here, and I went through "all counties sorted by Transportation Board member, looking for the projects in Pima County. How were these projects arrived at? Was this information that you got from the Councils of Government, for example, in Pima County? Or is it information you received otherwise?

VICTOR MENDEZ: Mr. Schorr, as I mentioned, we had criteria that were pretty specific: "ready to go within the time frame" seems to have changed somewhere between 90 days to 120 days to 180 days. So we took what was in the five-year program that we had prioritized, and worked with our District Engineers and our Development Engineers to identify projects that will be ready to go inside that time frame of 90-180 days.

SI SCHORR: I understand the criteria you're using, but my question is, is this information you got from MAG or the District Engineer? What was the process by which the information that appears in the book was garnered?

VICTOR MENDEZ: Internally, we were looking at the criteria. We have projects that are under design, so we've worked with our Design Engineers and our District Engineers, and we actually had discussions with the MPOs and the COGs on the projects. Again, the

list itself – I should have mentioned this earlier – is not a prioritized list. It's just a numbering scheme, not a priority number.

Going back to your question, we've worked internally with our District Engineers and Development Engineers, and everyone in the environmental group to make sure we have those clearances, and we've worked with the MPOs to ensure that we're on the same page.

SI SCHORR: Was this given to the Pima Association of Governments for their perusal and for their comment?

VICTOR MENDEZ: I believe we did.

RICHARD TRAVIS: District Engineers and MPO's were consulted extensively throughout the process.

SI SCHORR: For example, in going over this list, in Pima County there's about \$74 M, and I noticed that of the \$74 M, six of the projects, about half the total, are going to SR-86. If you took a consensus of Pima County, I believe you'd find that SR-86 is not a leading road in that area that needs improvement or help. It needs a lot of help, certainly, but not 50%. I'm questioning how we came to these conclusions and how, after we look at these numbers, they should be reexamined to see how they work out in the real world. I think there are PAG people here today to address and focus on it. So I'm sure we can figure out, given the limited nature of the relief we'll get, how we best allocate relief within each District.

VICTOR MENDEZ: We will take that into account. I think we've had a lot of discussions with major stakeholders.

VICTOR FLORES: Mr. Chairman, I've got a couple of questions on my list too. We received a map with projects identified in one particular list a week ago, and the one that was faxed to me, the one I believe is being discussed today, is different from the first map. Is Staff going to reconcile this and come up with one recommended final list?

My second question is, with regard to defining "shovel-ready," are there any provisions for [unintelligible], which is basically a state of constructing?

VICTOR MENDEZ: The first question – the list you have today is the final list. We've made modifications up until a week ago. Before that, some items were not in this list because they were part of the STAN program, but the STAN funding was swept, so those were added back into the list. The list you have as of today is the final list.

With respect to the procurement issue, Mr. Roehrich may need to help me here – I know a design bill is still part of the acceptable procurement. I don't believe construction management is at risk, as it's allowable.

FLOYD ROEHRICH (?): Mr. Chairman and Mr. Flores, the issue we're up against is a special delivery method that still requires approval from the FHWA, which means we'd have to submit a request and justify it. Given the time frame we want, the 90-120 day criteria, we felt that using that risk approach would delay delivery of projects and jeopardize use of funds. So our goal has always been to advertise these projects as the surest way we can get to that shovel-ready criteria.

VICTOR FLORES: I don't know if I totally agree that you can't have a CMAT risk project that would take more than 90-120 days. Obviously there's not enough money to cover the projects we've got now, so you come up with other methods. I appreciate your answer.

CHAIRMAN HOUSEHOLDER: Any more questions for Director Mendez?

FELIPE ZUBIA: There have been some great questions asked and I'd like to build on a couple of them. First off, if you can help put something in perspective for the Board and the audience – a perspective on the amount of money in comparison to what we've done in the past. I think the most immediate comparison is the STAN fund. If I recall, the first infusion of cash into STAN was about \$307 M, and the second was about \$150 M. That's \$400-and-some M dollars. What we're talking about is \$563, which isn't much more, so in all honesty we're talking about a small amount of money that's going to go very quickly, regardless of how we distribute it.

VICTOR MENDEZ: That's correct, but we'll take it. Like I said, we've had this discussion many times, with a lot of people trying to influence the level of funding that we find to consistently be inadequate. But at the same time, when the bill is signed, we'll put it to good use.

FELIPE ZUBIA: On that note, taking it and putting it to good use, I think part of this work session, as Board members, should be to give some clear direction as to what the priorities should be before we get a list. I understand pavement preservation is important, but one of the things we didn't spend STAN money on was pavement preservation.

To Mr. Montoya's point, there is a lot out there that could be done, but if you take – just looking at the list that's on the map here, there should be some prioritization given to different types of projects. For instance, projects that add capacity, new bridges or bridge enhancements, lighting and signage – to my mind, these fall down into the category of pavement preservation. I saw some projects in here that list \$1 M of pavement preservation, and I'm struggling to figure out how many jobs that can create. Also, is there some sort of minimum that we want to wipe off this altogether to save us the trouble in dealing with it.

So this is a great start, and great information, but again, I think we as a Board should give a little more general direction to what we think are the biggest priorities, rather than looking at specific routes.

SI SCHORR: I think Mr. Zubia's point is excellent, and I wonder – in all the calculations that were done, and whoever put this together did a fine job – is there any way of ascribing values to these projects other than numerical ones? I think that's what Mr. Zubia was getting at: how do you put values on these projects, over and above what the numbers tell you, or is that something that will have to be done subjectively by the Board when we vote on this?

VICTOR MENDEZ: There are a couple of components and factors in terms of values. We're still trying to get a handle on economic figures that might be pertinent, so we can get a sense – When I say a major project creates more jobs than pavement preservation, is that by a factor of 10 or a factor of one? That's what we're trying to get a handle on, given the experts that are out there.

The other factors are really based on technical data, because even though it may be just a red line on a map, one road may be much more deteriorated than another. So I think we need to also consider what may be in more need of repair.

I think Mr. Schorr and Mr. Zubia are on the right track – we need to get a sense from you as to what you want to take control [unintelligible] Do you want to reach a balance between maintenance projects and capacity-adding projects? Do you want to have geographic distribution purely from a job-creating basis or from a dollar basis? That's the kind of information I need.

I do want to go back to Mr. Zubia's point about the perspective on \$590 M. It's really about one year's work with Federal funding [unintelligible] They basically doubled our Federal funding for one year.

I would also mention to you, considering perspective, that right now we have, under contract, \$1.2 billion underway throughout the entire state. When you think about that in terms of the economy and jobs that are being created now, we're going to add another 50% to that \$1.2 billion, which is pretty significant, given the economic conditions.

FELIPE ZUBIA: Going back to a couple of other general questions, with the overall bill – I think I recall seeing in the House bill a separate amount of money for transportation projects on Indian lands. Is that factored into this figure, and if not, can we go back and see where we may qualify?

VICTOR MENDEZ: Those dollars for the Indian reservation roads are taken off the top and aren't part of the \$590 M.

FELIPE ZUBIA: So those would be done through a separate process then, if we qualify for any funds?

VICTOR MENDEZ: Since those will go to the IRR, they will probably be going to the Bureau of Indian Affairs.

FELIPE ZUBIA: So, for instance, if we look at projects 19 and 61 on the map, which I believe are on the Navajo reservation, does it make sense, if they do fall within the severely deteriorated condition criteria, to fund that instead through the BIA?

VICTOR MENDEZ: I believe I see what your question is. These are state highways and you are responsible for those, and the Indian community is not.

FELIPE ZUBIA: So you're saying that the BIA money that's set aside is only for BIA roads?

VICTOR MENDEZ: That is my understanding. I'm sure we could pursue some level of partnership. Their funding, on a national basis, is, I believe, \$300 M, and when it's distributed among the Nations, it isn't very much.

FELIPE ZUBIA: So that's a totally separate process, which we won't be involved in, between the BIA and the Indian communities?

VICTOR MENDEZ: That's right.

FELIPE ZUBIA: That answers my question, then.

SI SCHORR: May I jump in on that? Even though it's a separate project and separately funded, we would do well to be aware of them, so we can see any synergistic impact it might have on what we're doing.

JOE ACOSTA: This is Joe Acosta, Jr. with the Attorney General's office. This item is not listed for action, so I just wanted to caution the Board that while you can ask for information from the Director or Staff, that's within your area of expertise. Let's not get into deliberations of what the Board may actually do. We haven't approached that point yet, but with Mr. Zubia's question in particular, we could be getting a little close there.

CHAIRMAN HOUSEHOLDER: We're not planning to take any action, I assure you.

FELIPE ZUBIA: Going back, then, to Victor Flores' comment on design build construction manager at risk, and then going specifically to a couple of the projects, those being the two STAN projects referenced in Maricopa County – if I understand correctly, my regional council tried to protect at least a portion of those funds. As a part of that motion, it was actually indicated that those would remain STAN projects and would remain a priority within MAG, if I read the motion correctly. So with that in mind, getting to the cost that's reflected in there, are those actual construction costs, or are they acceleration costs for [unintelligible]

VICTOR MENDEZ: They are the actual costs.

FELIPE ZUBIA: So then, getting into Mr. Flores' question and expanding it a little more – since these are ready to go, does it make sense to leverage the amount of money

available to see if they can be accelerated, and instead, money used to pay the interest, and the bonds are floated to pay for those projects instead of using the Federal money? Does that make sense?

VICTOR MENDEZ: I didn't follow it completely. You want to leverage Federal dollars -- ?

FELIPE ZUBIA: What if we just accelerate the two STAN projects and use the Federal money to pay the interest on those bonds, so we're not using the full amount to fund those projects? In my mind, they're perfectly situated for that, they're ready to go, and they seem to me a logical way to deal with that money. Again, it would have to go through MAG, but if, for instance, MAG gets a certain amount of money, it's a way for them to further stretch out the money they could get.

CHAIRMAN HOUSEHOLDER: With the recovery money, we can't pay interest. That's not bringing any jobs forward, paying interest on STAN projects.

FELIPE ZUBIA: I don't think there's any restriction on paying interest, I think the concept is to create jobs. In fact, if the bonds are floated, it's creating the jobs. I haven't read it closely, but it doesn't seem to me that it would be prohibited.

CHAIRMAN HOUSEHOLDER: I would think it would be, but I don't know.

FELIPE ZUBIA: Maybe we could ask a MAG representative to respond to that?

ERIC ANDERSON: Thank you, members of the Board, I am Eric Anderson, Transportation Director, Maricopa Association of Governments. The I-10 project from Sarival to Verrado was being paid for by STAN funds, so there was no financing involved at all. The financing was for the section of I-10 to 101, and the interest being reimbursed from that is part of the STAN reimbursement from the 2007 legislative session. So there is no interest. My understanding is also that stimulus funds cannot be used for interest expenses in any way, as typical with federal transportation funds.

FELIPE ZUBIA: That helps a lot, but if we can get a firm clarification that that is in fact [unintelligible, background noise] it would be a non-issue in my mind. I know it's not part of the stimulus bill, but is there any intent to deal with the Highway Trust Fund issue after this is done?

VICTOR MENDEZ: A lot of things are up in the air. One of the things we do anticipate is that the Highway Trust Fund may actually go negative once again. At the end of the Federal fiscal year, September 30, 2009, the Highway Bill actually [unintelligible] And so the debate will continue on how transportation can be funded in the future.

There will be a lot of discussions with regard to levels of funding and different types of funding. We've had several talks about public-private partnerships, and how that may

play into the equation. So it's my opinion that a lot of that will get wrapped up into the discussion of reauthorization.

The key in my mind is, at the end of the day, the bottom line is the bottom line. That's what will drive a lot of the debate: how do you get to a higher level of funding with various scenarios?

I'd also mention to you, regarding the discussion on environmental issues, specifically climate change and its interrelation to transportation, I believe, will be a major topic in that transportation debate.

FELIPE ZUBIA: That wraps up my questions, as it were, but for the record, as far as priorities are concerned, do you believe that adding capacity should be a priority, or bridge improvements, road widening, and other things of that nature? And less so, that being pavement preservation? Unless you can come up with some sort of category, ranking whether a road is 50% or 30% deteriorated, whatever the case may be – some litmus test that assigns a priority. In lighting and signage, I don't know how [unintelligible]

So that's my thought on what our direction should be.

VICTOR MENDEZ: And that's what I'm looking for.

CHAIRMAN HOUSEHOLDER: Would anyone else on the Board want to ask Director Mendez any questions?

BOB MONTOYA: When I look at the list of projects marked "yes," it doesn't reflect where in the plan they are. Should those be prioritized? They're already in the plan, so are they in jeopardy of being excluded --? I guess I'm looking at the "no" more than the "yes" – in my mind, the programs are going to have funds allocated in the next five years for the projects, so I'm trying to get a clear understanding of how we prioritize those. Should they be included in the stimulus package, or --?

That goes for the cascade effect, too. If we continue down this road with the economic downturn, we may be looking at \$100 M less in the program over the next couple of years, per year. So I'd like to know how that would impact those projects that are [unintelligible]

VICTOR MENDEZ: I think you're right on point, and that's why we have that column. We didn't have the time when [unintelligible] Just like you stated, you already have understood these are priorities. If it says "yes," you have made it a priority for the programming and planning process. I think the other aspect to this, when you asked if that means we're going to get them anyway, I believe you answered the question yourself. Because of the declining revenues, we simply don't know. They're still in the program, but as we continue to update the program and the revenue forecast, some of those may fall off, simply because the revenues aren't there.

CHAIRMAN HOUSEHOLDER: Are there any other questions for Director Mendez?

If not, we'll have the Call to the Public. If anyone would like to speak on the matter at hand, please fill out the form and you'll have three minutes to address the Board.

Eric Anderson?

ERIC ANDERSON: Thank you, Mr. Chairman and members of the Board. I have three things I'd like to share today that are relative to this topic. First, I'd like to thank ADOT and FHWA for their extreme cooperation. The stimulus package has been a "moving target," to say the least, and we've been in constant communication with both entities. The effort that ADOT has made to get ready for a potential stimulus bill has been outstanding.

Secondly, I'd like to say that "option 2," in terms of the funding allocation that was presented as part of the study session is really inconsistent with the Casa Grande Accord. The Casa Grande Accord's 37% allocated to the MAG region for the discretionary program assumes that the SEP direct allocations are also made. So if the second formula assumes 37%, that is not consistent with the [unintelligible] formula at all. The first option is consistent with that.

The third item I'd like to share with you is, of the \$104 M that was swept from STAN, \$94 M of that was from projects that were in Maricopa County. Two of those projects had been ready to bid since October 2008, and if those bids had been advertised, that money could not have been swept. In that context, one option I would urge you to consider is having the \$94 M restored off the top in the MAG region. Then the allocations [unintelligible]

CHAIRMAN HOUSEHOLDER: Thank you. Chris Clonts?

CHRIS CLONTS: I'd like to make two comments. One is about the added value of the direct construction costs? So one of the things I'd like you to think about, as you consider this, is what the approved land uses are around some of the infrastructure that you're looking to improve. Specifically, the client I represent has [unintelligible] on the I-10 at [unintelligible] Boulevard, and that might be one of the interchanges on your list. Around that interchange is already-approved retail and industrial zoning along the railway. Not only would money spent on that interchange create jobs to actually build the interchange, but after it's complete, there would be retail and industrial development that can occur, which would create even more sustainable jobs around that interchange.

Thanks for looking at some of these projects, and I urge you to look at the land use around the infrastructure and what it might lead to after the construction is done. Thank you.

CHAIRMAN HOUSEHOLDER: Thank you. Cherie Campbell?


CHERIE CAMPBELL: I'm Cherie Campbell, Transportation Planning Director from the Pima Association of Governments. I'd also like to thank ADOT for moving so expeditiously on this, and for working with us and FHWA to develop ways we can take advantage of the funding available.

I also would like to indicate our support for the first option of the formulation that we're addressing here. It's consistent with the Federal allocation of funds directly to the region, and we would like to move that proposal forward.

Third, regarding the project list -- we've done some work directly with the ADOT Staff here in Phoenix, and the District Engineer, but there are still some differences between the project list that you have in your packet and what the region has identified as its priorities. However, we do have projects on SR-86 as a high priority, as there are some safety issues there. By moving those projects forward, we will be able to [unintelligible] funds for other projects in the region. However, there are three projects on your list that are not on ours, and four projects on our list that are not reflected on the ADOT list. I'm sure we can work together to prioritize these projects and determine how [unintelligible]

CHAIRMAN HOUSEHOLDER: Would anyone else like to address the Board? If not, this meeting is adjourned.

[Meeting is adjourned at 11:44 a.m.]



Delbert Householder, Chairman
State Transportation Board



Victor Mendez, Director
Arizona Department of Transportation