

**MINUTES OF A STUDY SESSION OF THE
ARIZONA STATE TRANSPORTATION BOARD
1:00 p.m., Friday, April 17, 2009
Town of Marana Council Chambers
11555 W. Civic Center Drive
Marana, AZ 85653**

CHAIRMAN HOUSEHOLDER: Mary, would you give us the roll call, please?

MARY CURRIE: Delbert Householder, Bob Montoya, Bill Feldmeier, Bobbie Lundstrom, Victor Flores, and Si Schorr are present. Felipe Zubia is absent.

CHAIRMAN HOUSEHOLDER: I'm not going to make any opening remarks today. We have some very important things to do this afternoon, so I'll ask Staff to try and keep this meeting to 45 minutes.

JOHN HALIKOWSKI: Thanks, Mr. Chairman. I'll pass on the opening comments as well and we'll move on to a presentation from Mr. Tripathi.

RAKESH TRIPATHI: I'll be giving you a quick overview of the Five-Year Plan, and after that, Mr. Fink will give the Financial Report. Then I'll talk about program adjustments and projects, such as how the present financial situation translates into the adjustments we'll have to make in the Five-Year Plan. Then Mr. Hull will talk to you about the Maricopa Association of Governments Regional Transportation Program, and Director Dick will discuss the Aeronautics Program. Then we'll bring everything together and Director Halikowski will give the closing comments.

FIVE-YEAR PROGRAM OVERVIEW – Rakesh Tripathi

RAKESH TRIPATHI: The Five-Year Transportation Facilities Construction Program is codified in the Arizona Revised Statutes, and asks the Department of Transportation and its Director to develop a Five-Year Program according to the policy that you, the Board, set. It's your program and you are its final arbiter.

Some of the Five-Year Plan's fundamentals are that the expenditures by project, with respect to engineering, right-of-way, construction, and other considerations, have to be clearly laid out. Detailed information must be provided. The reason a project is in the Plan must also be provided, as does the order of priority, and the reasons for that order. A reasonable certainty that a given project will be ready for bid in the first year of the Program is also necessary.

This Five-Year Program is in a very special situation. You've heard more than once, from Mr. McGee and Mr. Fink, that we are in a terrible financial situation, and the program reflects that reality. I believe that reality is being dealt with by all of us in the Department's every endeavor, whether it is a Department employee who is taking a 10% pay cut, or a revenue downfall with

respect to the funds we bring into the system. So I'd like to introduce Mr. Fink, who will give you a brief overview of our financial situation.

FINANCIAL OVERVIEW – John Fink

JOHN FINK: Good afternoon. This is a slide presentation we sent you earlier in the week; I'll just go over some of the highlights here.

The fiscally constrained program that you adopted at the beginning of this year was approximately \$2.9 M; we currently stand at about \$2.8 M in the Program, so it has actually gone down several thousand dollars during the year. The Program revenue, however, has gone down by roughly \$602 M, which is a net change of \$560 M. I'll come back to reference that number later.

We have summarized the components of that \$602 M funding change. Some of the highlights include a decrease of about \$377 M in the State Highway Fund; we've increased our estimate of VLT transfers by \$194 M and increased our estimate in DPS transfers by \$132 M. Because we have no HURF buying capacity, we've lowered our estimate of the amount of HURF bonds available during the Program by \$410 M.

Those reductions have been offset by some funding increases, most notably an increase in the estimate of our operating budget by \$366 M for the next five years. This contributes to the net decrease of \$602.

This next slide shows the revenue changes by fiscal year. You'll see that when we started this fiscal year, we estimated the revenue available for the year at \$724 M; we're now estimating \$580 M, a loss of \$144 M. Similarly, in 2010-2013, we see reductions in 2012. The amount of the reduction goes all the way to \$179 M. Again, that adds into the \$602 M previously mentioned.

We've also summarized the change in available revenues, which is the result of a loss of HURF funding. At the beginning of this year we estimated that we would issue \$300 M in HURF bonds for the year; we've issued \$180 M, but have no ability to issue any additional HURF bonds this year. So we've lost \$120 M that we expected to be able to issue. We also had some bonding planned for 2010-2013, so the total impact of that change is \$410 M.

One item I've included is our estimated 2014 funding level, which is \$613 M. The reason it's so much higher than the 2012 and 2013 levels is that by 2014, we expect some of our HURF bonding capacity to have been restored. The first bonding planned in that funding phase is \$195 M. It was determined by our cash flow analysis of revenues. In 2009 and 2010, we have a reduction of \$200 M. We expect to be able to "pick up" \$120 M in 2011; in 2012 it will be a loss of \$240 M. The total of these reductions is \$520 M. As you remember, on the first slide, we showed a net change of \$516 M [unintelligible] the reduction, the size of the program, and the loss of available funding. \$516 and \$520 are approximately equal.

The one positive in this picture is that the stimulus package from the ARRA added \$221 M for fiscal 2009, so the net program change was about \$300 M. The next two slides show some of the projects for which we recommended deferment as a result of the funding reductions. Although this only shows projects over \$15 M, I won't go through those because they'll be discussed in greater detail during some of the other presentations. With that, I'll be glad to take any questions.

PROJECT ADJUSTMENTS AND PROJECTS

RAKESH TRIPATHI: So as you can see, we are in a tough situation on two counts: the first count is the year 2009, since we only have a few months left in the year but have an enormous hole left in our program. Toward resolving that, we're looking at cutting \$150 M for the rest of 2009. That includes many subprograms that would be cut, all over the State – MAG and PAG regions and everywhere in Arizona. So that's something that will have a tremendous impact on us.

We're talking about taking a Four-Year Program and stretching it out into a fifth year. Normally we say for the new fifth year of the Five-Year Program, we have a certain amount of funding, and we have to weigh several projects and prioritize them. This year, however, this opportunity doesn't exist, because they're trying to stretch the projects from one year to the next. Let me say this before going on: whatever we're presenting today is our recommendation to the Board, and you have the opportunity to listen to the citizens of Arizona and to think about these changes and give feedback on what you think.

Just to give you a quick overview, in your Board packet you have all the details previously sent to you. For example, ports of entry funding will be decreased by \$1 M a year from 2010 to 2014. Pavement preservation for 2012 will be decreased from \$125 M to \$115 M. 24 Phoenix is actually increasing, as we have a slight buffer there, and we're trying to bring more money in to this very critical subprogram.

The bridge program is decreasing by \$500,000; the bridge scour program is decreasing by \$1 M; debt replacement is decreasing by \$500,000 every year. District construction is decreasing; so are minor design work, archaeological studies, access management, contingencies, development support, and preservation will also decrease.

This morning you discussed the State Parks Program, and the Staff's recommendation was, considering our financial situation, to decrease the funding from \$2 M to \$1 M annually. The rest area program is also slated for a decrease. Slope management will have to be revisited. Simply, the "footprint" of the program must remain realistic, and you will have to make some difficult choices.

With respect to the Greater Arizona subprograms, we're looking at major project design, which will decrease. Four of these studies will decrease as well. This refers to great deal of engineering and development work we do to make a project shovel-ready. Many of these activities would not be done that move a project along to this point.

Regarding various work Districts, you may be interested in seeing some of the Districts and the effect of this recommended adjustment. Many projects are being deferred, such as I-10 in District 4, which will remove \$126 M from the budget and deferred to years beyond the scope of this Five-Year Program. You see many of the projects being deferred for a year or two, and when this balancing act is done, you can also see the opportunity to introduce some small projects that are critically necessary on the local level. The direction we've received from the Board is to consider local projects "of a critical nature," despite our current financial goals.

With respect to District 5, the Counties of Coconino, Navajo, and Apache, we're looking at a similar story there. There were many deferrals from one year to the next and they're basically trying to stretch these projects.

What I want to make clear is that these projects have not lost priority. We're not saying they aren't important. It's just that we don't have money to pay for them, and have to defer them further until things improve. This program is a living document that's revisited by the Board on a regular basis, and next year when Mr. Fink comes in and tells us the economy is taking a positive turn, we can feel comfortable in forecasting better economic times. Suddenly a project that was deferred by two years can be pulled back and done. So we're not canceling many of the projects, only deferring them, although there have been some cancellations.

In District 6, we've made some recommendations on program adjustments. There are new projects, but they are not really new – we've reduced the amount of one of the projects in light of our conversation with the local communities and a Board member, ascertaining what local priorities are at that time. We agreed to allocate resources to these two new projects, but again, it's not new money. We've reduced the amount of money on one project and shifted it to these two.

The same thing has happened in District 3, where you have deferrals from one year to the next, and in some cases, deferrals outside the Five-Year Program.

Moving on to a major project in District 2, again, we're looking at a similar situation. As you can see, it's the same story in every District and all around the State: we have to reduce the footprint of the program to fit our financial realities.

I'll turn things over to Mr. Steve Hull, who will talk to you about the MAG regional program, but first I'd like to mention one more thing. There's been some discussion about the stimulus money and how it fits into the Five-Year Program. The Five-Year Program has a huge hole in it, and the stimulus filled it, but it did not make things all right, it just decreased the financial pain slightly. It doesn't have a cascading effect and free up money; no funds were freed up to go anywhere else. Mr. Hull will now talk with you about the MAG program, and I'll be glad to take your questions now or later.

MAG REGIONAL PROGRAM: Steve Hull

STEVE HULL: My name is Steve Hull, and I'm "the new guy" in the regional office at ADOT. Before that, I spent two years with ADOT in the contracts and specs section, so I'm not entirely new; I also spent many years in the Indiana DOT. It's a pleasure to be here today.

The news I have on the MAG program is somewhat better than the statewide news, and I'll clarify that by saying we haven't had to cut the fifth year from our Five-Year Program. The only reason we can do this is due to the cash flow that's being generated from bonds. We're early enough in the tax life that there's still a lot of capacity out there for bonding, which is not available in the statewide programs at this point. So we have some reserves we can throw into our cash flow to keep our Five-Year Program afloat, and we're adding jobs into the fifth year in that program, just as we've done in the past, only somewhat scaled back.

That's the good news. However, the bad news is the bonds keep us through the Five-Year Program, at which point the MAG program goes deep into negative numbers, and by the end of the tax life in 2026, the discrepancy between our paying cost and estimated revenues is somewhere around \$5-\$6 M.

So what we have in front of you today is a work in progress. It's a Five-Year Program, a tentative one, that we're presenting to you because you're under a mandate to adopt a program July 1, 2009, while MAG is not quite at the same point. We worked with MAG in developing this Five-Year Program, so we're all on the same page right now, but MAG is looking at those future years to figure out how to solve that discrepancy. So what they present as their tentative program to their members in June may not be the same program you'll see today. They are on track, however, as far as getting this accomplished. So whatever changes must come about because of what happens to MAG, or from comments by you, or comments by the public or MAG – whatever happens regarding revenue changes over the next couple of years may have to reshape what goes on in the MAG program through the end of its life. But nobody has those answers, and we'll begin talking about it today, as this is a process that's just now developing with MAG and ADOT working together, along with all the partners in the process to figure out to resolve this future \$5-\$6 M deficit in the future.

The good news is, we have the cash flow to keep the program through FY 2014, so that's what we're planning at the moment. You should have received a handout on the MAG Regional Subprogram for FY 2010-2014, divided into three parts. The first part talks about the new projects for 2014, the fifth year in the program; the second part talks about changes to all the existing projects from the first four years, which are already in the program but are being adjusted due to changes in cost, schedules, and other considerations; and the third part is a detailed line-by-line listing of all the projects in the MAG area for the Five-Year Program.

With that, let's go through the slides fairly quickly. They follow roughly the same order as the information in your handout. With the projects for 2014, in the I-10 Maricopa Corridor, we have one major project that's coming up, which is I-10 from 32nd Street to Road 202. It's Phase II of construction for the local and express lanes around the Broadway curve, and the project costs

\$131 M, which we expect to come online in 2014. It covers approximately 10 miles, with most of the work extending from 40th Street to the Baseline Road in that corridor.

The next one is US-60, the Grand Avenue Corridor, where we have design and right-of-way for spot improvements. That corridor on the northwest side of the MAG area is having design, right-of-way, and roadway improvements. It's a fairly small amount, only \$5 M.

In the SR-74 Corridor, and the SR-101 Pima Corridor, we have two projects. The SR-74 project from US-60 to SR-303, is for right-of-way protection so that right-of-way is preserved for future construction. It's targeted at \$1 M. The other is on SR-101 to construct general purpose lanes from Shea Boulevard down to the 202, and it's \$102 M for roughly 11 miles of total project.

In the 202, South Mountain Corridor, this project is coming up for construction in 2014. It's the piece that rounds the corner between the east-west and north-south routes. That is targeted at a cost of \$111 M. We also have a piece of the 202 Corridor, from Salt River to Van Buren, which is for design starting in 2014. The cost is \$1.8 M for design and \$50 M for right-of-way. We also have the Salt River Bridge, which is adjacent to the last project. The design is \$4.5 M and the right-of-way is \$6.8 M.

202, on the Red Mountain Corridor, and on the Santan Corridors, has a project from SR-101 to Gilbert Avenue to construct general purpose lanes. That is approximately six miles with construction costs estimated at \$65.5 M. The other project in that area is SR-202 from Val Vista to Dobson Road, designing HOV lanes. This is targeted at \$2.5 M.

In the SR-303 Corridor, and also SR-801 and 802, there are also new projects coming up in 2014. The one on 303 is the TI with US-60, which targets at \$50 M for construction. We also have 801, which has only right-of-way protection going on in 2014, estimated at \$10 M, and 802, where we have design of new freeway from SR 202 to Ellsworth Road, out by Williams Gateway, at \$12.2 M. We continue to look for ways to advance and recover that project.

System-wide, there are always additional projects in MAG, such as maintenance, TI, right-of-way, and others. Those kinds of costs are just a continuation of what we've seen in past years. As far as program modifications, there are a lot of these between 2010 and 2013 in the program. A large part of those modifications is to repackage three segments. Those were broken into phases for initial study, and we're now taking those corridors and repackaging them into segments that will fit better for construction. So if we had, say, four segments we were originally studying, perhaps there are now five segments that will be designed and striped. So many of the changes you see in our program are simply deleting the old segments and replacing them with slightly different segments. There's no real change in dollars or in the total length of the corridors.

We also had changes in the program to update design, right-of-way, and construction costs based on the latest project estimates. We have adjusted design schedules to be aligned with study schedules, or aligned with right-of-way acquisition activities, just to get everything back in sync as far as project scheduling is concerned.

We have a few new things going on, two small projects have been added in the first four years of the Program. These include a new right-of-way project on I-10 at SR-303, and a new TI project on I-10 at Avondale Boulevard. On the second project, we're partnering with Avondale to share the cost, as it's important to their program as well.

We're deleting previous noise mitigation projects that were in the program as "placeholders" and are replacing them with specific projects for the MAG Prop 400 noise wall construction.

Overall, we have a \$102 M increase in our program. So unlike the statewide program, where a large cut was taken because of the decline in revenue, we've not only preserved our program but "bumped it up" a little. The Five-Year Program can vary from year to year due to the timing in awarding construction projects and cash flow issues such as bonds, but our total for five years is just \$100 M different than what we had in our previous Five-Year Program, which you saw last year.

So at least for today, we're in fairly good shape in the MAG area, but because of that future revenue issue, there may well be changes in the Program's last two or three years. This Five-Year Program is an issue that is still being studied at MAG and we have no answers to how it may shape up or when it may occur. It may take effect this year or it may be delayed until some other time.

AERONAUTICS PROGRAM: Barclay Dick

BARCLAY DICK: Good afternoon. I'm the Airport Development Administrator.

The Aeronautics Program is very different from the highways. We issue grants that get the work done. That means airport sponsors, the owners of the airports, initiate construction, pay those bills, and request reimbursement from us. In many cases, we match Federal grants to do the same thing. So in our world, we're paying sponsors after the fact. So when we refer to deferral, it means we're diverting payments, not projects. Sponsors are still moving forward with their own funds, and we come in after the fact. When we defer a project, we're deferring their reimbursement. This will become more important as we go along.

In 2008, we had \$25 M in revenue. That came primarily through property tax and airplane registration, which provided over 80% of our revenue. So far that's been reasonably stable, although it has reduced a little, but that's not our issue. The issue is managing the fund.

In fiscal 2009 we started the year out with \$16 M. Our revenues were \$24 M; of those funds, we spent \$15-\$16 M on administrative costs to run the Division, as well as airport grants, including the Grand Canyon Airport. We've faced challenges in the Aviation Fund reductions, as we've suffered sweeps of those funds.

Over \$22 M has been removed from the Fund in fiscal 2009 alone, \$18 M last year. Our expenditures have been relatively high. What this means is we anticipate finishing the fiscal year with less than one-tenth of one percent of what we had in the fund.

That makes 2010 a challenge, because unlike the Highway Fund, the numbers here are not being recorded in millions: I mean \$21,000 in our pocket at the end of this fiscal year, which is a little scary. We're struggling with this. We've worked with our Budget Director, and depending upon how the flight property tax comes in this month and the next, we'll determine whether or not that \$21,000 is accurate or if there's possibly a little more. The flight property tax has been coming in fairly strongly so far, but we're not assuming that it will be strong.

The difficulty in managing the fund is that flight property comes to us twice a year. It's coming in now, at the end of this fiscal year. We get nothing during the summer, possibly a little revenue from late payments from Grand Canyon Airport interest revenues. So during the summer months we have very little income to continue our operations.

In order to manage this system, we have to create a program that gets through the summer and try to maintain [unintelligible] program. As I mentioned earlier, we have all these airports that do their own projects; they apply to us. 93 airports are eligible. But this year, 58 applied, because they're having similar difficulties with their own budgets. These 58 airports asked for several projects, \$1.4 billion worth; 685 projects were for matching Federal and State dollars. 155 of these projects, totaling about \$62 M, were for 90% State dollars, and that's where we've done the most work.

For 2010, 17 projects were submitted -- we typically have 20 or 30 projects being submitted. So that was down. It was mentioned earlier that about 158 projects [unintelligible] about \$80 M. We put up about 2.5% of the sponsors' local share for those projects. For the 90% share, we have outstanding grant obligations of \$30 M, when funds are coming in amounts between \$.5-\$2 M per month in the form of grant reimbursements. We have to continue paying those, as they are all previously approved and required Board actions. So we have to pay those projects first.

Those deferrals I mentioned earlier begin to [unintelligible] in July. For example, with the Board's action today, those deferrals will continue out an additional three months. So we're deferring not only State and Local grants, but we have included Federal matching grants.

Airport sponsors who have Federal grants and want to get 2% from us in a legitimate grant will have to wait between six months to two years from now, in addition to anything they might be spending right now. In order to keep the Program reasonably intact, we're proposing that the first year of the Five-Year Program is nothing except matching dollars for Federal, State, and local grants. We prefer this to State loans, as State planning services are already being wrapped up with obligations. Some will go over, such as the Grand Canyon Airport with its capital improvements that are going on right now.

So next fiscal year, we're not planning anything except matching grants and working with sponsors to defer those \$78 M and \$30 M [unintelligible] The Five-Year Program is merely matching Federal grants [unintelligible] The rest of the Five-Year Program, hopefully, will be a little brighter, and we'll be adding in our revenues. I mentioned earlier that the 2009 Program started out with \$24 M in revenues; we'll be using that to make those deferred payments during 2010 and most of [unintelligible] Federal program lobby. Then we hope in 2011 to start

rejuvenating other programs, primarily pavement maintenance, and then some State and local programs.

We're going to have to re-grow the program, assuming [unintelligible] \$400 M was taken from various funds in ADOT. Today, there's \$7 M in a Department, \$4.5 will be swept, probably by the end of this month.

What will be proposed is a very austere program in 2010, and a slightly growing program, predicated on budget conditions, for the rest of the five years.

RAKESH TRIPATHI: We're five minutes under our set time here, and I'll be glad to answer any questions. Hearing none, I'd like to request that Mr. Halikowski make his closing comments.


CLOSING COMMENTS: John Halikowski

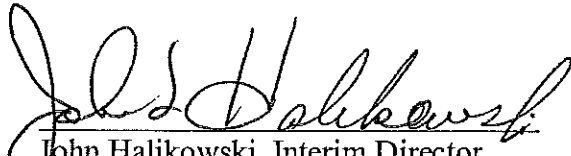
JOHN HALIKOWSKI: As you can see, we've done the initial work on this tentative Five-Year Program, and I'd like to stress that we spoke to each of the Board members. This is "the first take" on this Program, and there is still more comment, work, and obviously input before it can be accepted as put forward during these hearings.

CHAIRMAN HOUSEHOLDER: Would anyone like to comment? If not, I'll entertain a **motion** to adjourn the Study Session.

[The **motion**, moved by VICTOR FLORES and seconded by BOBBIE LUNDSTROM, carries unanimously in a voice vote.]

Adjourned 1:40 p.m.


Delbert Householder, Chairman
State Transportation Board


John Halikowski, Interim Director
Arizona Department of Transportation