

**STATE TRANSPORTATION BOARD
MEETING MINUTES
9:00 a.m., Friday, November 20, 2009
206 South 17th Avenue
Arizona Department of Transportation Auditorium
Phoenix, Arizona 85007**

OPENING REMARKS

CHAIRMAN HOUSEHOLDER: I'd like to welcome everybody out to our meeting this morning. We have a lot of good people out there that are interested in the projects that we're going to be talking about today. I'd like to recognize Page Gonzalez, the Governor's Policy Advisor for Transportation and Local Government. I sure don't like where we are having to lay people off. We've got to have people working making money so they can pay their taxes to get us out the hole. I want to thank our staff here for the hard work they've been doing. They have been working overtime and we're not paying them quite like they should be paid. But, that's just part of the job now. But, we really do appreciate what the staff has done and how they have worked on behalf of the Transportation Board.

PLEDGE

[The Pledge of Allegiance is recited]

ROLL CALL

MARY CURRIE: Delbert Householder, Bob Montoya, Bill Feldmeier (late), Felipe Zubia (late), Bobbie Lundstrom, Victor Flores, and Steven Christy.

CALL TO THE AUDIENCE

CHAIRMAN HOUSEHOLDER: Pete Rios; he use to be a legislator and now he's a supervisor at Pinal County.

PETE RIOS: Mr. Chairman, members of the Board, I'm here to speak on the interstate end project which is the improvements of SR 87 to I-8. Thank you for reopening this issue for discussion and possible consideration. Mr. Chairman, I just wanted to especially acknowledge you for the good job that you've done in representing my county and my sister county as well. We sincerely appreciate that. And why I am here speaking to that particular project? There are several reasons, Mr. Chairman and Members; because I found that this is very very important to Pinal County.

It is an interstate that handles approximately 40K vehicles on a daily basis and a section that serves many of our rural communities in Pinal County such as Casa Grande, Punia, Red Rock and Arizona City. Even the Native American community of Gila River benefits extremely from this area. A couple of days ago we helped them pass and approve our Comprehensive Plan for the next ten years. Not too long ago, we finished paving a connection of the communities of Oracle north of Junction to I-10. So, they will be benefitting immensely from this project as well. A few days ago we passed and approved our Comprehensive Plan for the next ten years. There is a lot of planning, development, and growth in

that particular area. So, that's another reason why this is very important to us. The Pinal County Board of Supervisors passed a resolution:

"Whereas Pinal County and the State of Arizona experienced unprecedented growth creating transportation needs for the public using I-10 through Pinal County and Pinal County supports the development of a safe and efficient transportation system acceptable to the State of Arizona and Pinal County in accordance with State and local planning concepts for Arizona and Pinal County. Whereas increasing the width of Interstate 10 from two lanes to three lanes from SR 87 to Interstate 8 will improve safety and mobility thereby benefitting the public traveling I-10 in rural Pinal County. Now therefore be it resolved that the Chairman of the Board and Members of Pinal County may request the Arizona State Board of Transportation to reinstate the widening of I-10 from SR 87 to interchange with I-8 to the list of high priority projects to be considered for construction upon reading through the American Recovery and Reinvestment Act of 2009." And with that I conclude my remarks and I thank you.

CHAIRMAN HOUSEHOLDER: I appreciate that. Jack Kramer, City Manager of Kingman.

JACK KRAMER: Good morning, Chairman Householder, Board Members, Mr. Halikowski. I'd just like to take this time to thank you for the much needed pavement job that was just completed through I-40 through Kingman. It's being striped at this time and it is very nice. The Rattlesnake TI is on the 5-Year plan; it has been renamed and is now called the Santa Fe Parkway TI. This is going according to the 5-Year plan and has also been submitted as a TIGER grant from the Federal government. Thank you again for all your hard work and dedication.

CHAIRMAN HOUSEHOLDER: Okay, Jack. Joe Husband?

JOE HUSBAND: Mr. Chairman and members of the Board. I'm Joe Husband representing the Arizona Airport Association. The one thing I did want to comment on is that I had an opportunity between this meeting and the last to respond to Mr. Christy's questions and provided him with some information that I know that SAF adopted as well and hope that that met your needs with that and we'd be happy to provide anything further.

Also, our leadership, the Arizona Airport Association Leadership met in conjunction with staff of ADOT. Jennifer Toth met with FAA's Western Pacific Region to talk about some of the processes in communications that are grants, the federal grants and the state grants and how they collaborate. I just wanted to show our appreciation for Jennifer Toth and her support and assistance.

We continue planning the Aviation Day event which will be Aviation Day at the State Capitol on the January 20th. You are invited to come out and have lunch with us and meet with the legislature. It showcases the benefits of aviation in all of its forms throughout the state.

I'd like to work with staff to talk a little bit about the Arizona Airport Association's and Arizona Airport's perspective with the recent completed State Aviation System Plan and those recommendations and also in conjunction with the Governors' Advisory Council on Aviation. A couple of years ago the Governor put together that report and those recommendations and sort of how they fit together and where airport development is going in the state. So, we'd be happy to contact staff and see if that's possible and if it is we look forward to it. If not, we certainly understand.

CHAIRMAN HOUSEHOLDER: Thank you, Joe. We've got our Board Members Bill Feldmeier and Felipe Zubia. We're glad to have them here with us today. Would anybody else like to speak to the Board or address the Board? Okay. District Engineer, Rob Samour.

FLOYD ROEHRICH: Mr. Chairman and Members of the Board, Mr. Halikowski. I want to update the Board on some personnel changes at the State Engineers' Office. Rob was the previous District Construction Engineer here in the Phoenix District, but we had a vacancy at the Deputy State Engineer position overseeing the Valley Program since I was promoted into the State Engineer over a year ago. With the hiring freeze that sat vacant for awhile. When we finally got the approval to fill the position and through the selection process, Mr. Samour was selected to fill that position. He recently was promoted and moved to the State Engineers Office, which left a vacancy in the District Engineer position. We will continue to work to fill that. But, I just wanted to make sure that Mr. Zubia and Mr. Flores know that we finally filled that position in the Valley.

Rob will oversee the development, construction, and maintenance activities within the MAG region. Eventually we will hopefully get the approval to fill the District Engineer position, so he'll be doing double duty for awhile like a number of us are given the current state of our budget and hiring position. I would also extend to Mr. Zubia and Mr. Flores an opportunity that is convenient to you all, we'll set something up and maybe the four of us meet together and have a more informal discussion with Rob and continue to focus on the MAG Region.

ROB SAMOUR: Good morning, Mr. Chairman, members of the Board and Director Halikowski. Thank you very much for this opportunity to present an overview of the Phoenix Construction District and some good things that we're doing. In spite of the challenges this State is facing, we are making some significant progress in the current program.

I'll start with a brief overview of the Phoenix Construction District which consists of 14 offices throughout the Valley; eight construction field offices, an FMS intelligent traffic construction office, landscape survey, two area labs, and a district headquarters. We have 144 FTEs out of the 208 funded positions. We're running roughly 64 vacancies currently. We back-filled those vacancies with temporary technicians that are available through the local consultant market, and currently have in the fiscal year 2009 and they averaged about 41 a month. We also have five full service projects and then we supplement the big design build on a Loop 202 which we'll go over shortly with about an additional 20 staff. So, 40 temp techs, 80 full service, and backfills for the design build. We have approximately 260 people working in the district on any one day. In fiscal year 2009, we average \$32M a month in contractor payments for a total of about \$390M in the program.

We're going to start with East Valley. We have the big design build project that is currently underway. We're working on approximately 22 structures and ramps towards the downtown area around 24th, 32nd, 40th, and 44th Street. The contractor is on schedule to complete this next summer. We have an HOV project just east of there. The contractor has just completed the westbound and started the median barrier. In April, we'll turn around and complete the eastbound and we are looking for a late spring opening of that facility. We recently had a success with the completion of the HOV project on 101 from the Santan Freeway up to the Loop 202 which completed the 101 HOV projects up and around to the Loop 51.

We also have a project widening US 60 adding an additional lane and reconstructing ramps. Various ramps are under construction as we speak. That project will wrap up later this spring. Some of these spring completions that you are going to see throughout this update are related directly to the rubber overlays and we will do our best to deliver lanes in advance of those overlays if possible to go back under restrictions and pave them.

Moving to the West Valley, we have the first project that we are going to review, Verrado and Sarival. This is one additional general purpose lane being constructed. Work is currently underway on all the cross street bridges and some of the mill and overlay required on the far west end. This is another ARRA project that has about a two year duration.

We're about to wrap up the Sarival to 101. This is an HOV and general purpose lane. This is going to actually open all lanes probably by the end of the year. So, you'll see significant improvement on the west side of town or I-10 to approximately 303.

We have another project that has just broken ground, 83rd to 99th. This is our latest project on Grand Avenue to add additional capacity. The contractor has the road restricted as part of construction phasing to begin the widening. We also have a project that just started out on SR 85. This is the first segment that will deliver part of the main line between I-10 and Southern. On previous projects we built the frontage roads which set the template for the main line construction.

Moving further into the central area and north we have some projects on Cactus, Waddell, and Bell. This was a STAN funded project that was CMR. This project is currently concentrating its efforts on cross street construction at Bell and the bridge. This project did get off to a slow start, but all indications are that this delivery method is going to be very successful for us and we are looking for opportunities to use CMR in the 303 corridor for future projects.

Lake Pleasant Happy Valley - we are working now on the main line 303 from 17 back towards Grand. This project is well underway with bridges being constructed throughout the corridor. Our milestone opening at Lake Pleasant was accomplished October 1st. We do have the next goal of opening Happy Valley back to full capacity by the end of this year and we look like we are well on our way to accomplish that. The contractor has moved a significant amount of dirt and should begin the paving probably this spring.

At I-17, we have a project, currently earth work and structures throughout the corridor -- these two projects represent the first 14 miles of the Loop 303.

We have an ARRA project at I-17, SR-74, Anthem Way. This project is scheduled for July of next summer although we will be opening lanes sooner than that towards the end of the year and then we'll come back in the spring to do the rubber overlay including a section up to New River for some paving preservation.

The I-17 Jomax Road to 74 project is nearly complete and we do plan sometime today to open the additional 3rd and 4th lane to Dove Valley, reducing it down to three from Dove Valley to Carefree and then down to the existing two lanes at Carefree. We are hoping to open those northbound lanes today, southbound will be delivered sometime around Christmas.

Moving further south, the Jomax to 101 widening; that facility is now open. The rubber pavement is down and motorists are able to use those lanes; that occurred about two weeks ago. The Dove Valley interchange is currently scheduled for approximately January completion. The contractor is paving the ramps and working on one of the ramp bridges. The bridge over I-17 is also under construction.

We have a couple of projects that have either been awarded or in the mid-stage. We did just have a kickoff for the outside widening that will be on I-10 Sarival to Dysart adding one additional general purpose lane. We also have selected our contractor for the SR 303/99th bid opening. The bid opening was in October to continue adding additional capacity to Grand Avenue. We are also planning to start the Beardsley Union Hills TI and Frontage Road that was awarded in October.

In the MAG Region, we do have a passing lane on SR 74 that will bring a small project to be administered by the Prescott District. Any questions?

CHAIRMAN HOUSEHOLDER: Any questions for Rob?

BOB MONTOYA: Mr. Samour, on behalf of myself, and the state corridors north of Maricopa and County Line, Yavapai County, Coconino County, all the people that are coming to Phoenix thank you for getting this project done. We'll look forward to additional help.

ROB SAMOUR: Thank you, we will pass that on to the staff.

STEVE CHRISTY: Is there any place that you are not having a project?

ROB SAMOUR: No, and that's why I started the presentation by saying we are doing a lot of good things here in the Valley. We have a program that seems to be as busy as it ever has been. We appreciate your support and we'll continue to deliver that 5-year Program despite the challenges.

FELIPE ZUBIA: I agree with Board Member Montoya's comments and, in fact, he kind of said before I could get to it, a lot of compliments. But, in the spirit of "no good deed goes unpunished" I have a few questions dealing with the lack of traffic control oversight over one of the past weekends here. If you could give me a little more detail or at least some explanation as to what happened on I-17, one of the weekends I guess there was a problem. The traffic control barriers were not taken down. There was one lane of traffic; there was not any construction going on. Given the fact that we hope to get a lot more construction going on here in the near future with hopefully more federal stimulus dollars, has that been worked out? Is that just an oversight on the contractor's part?

BOB SAMOUR: Mr. Chairman and members of the Board, one of the things that we tried to implement after our five pave projects was the Phoenix construction district had the luxury or I guess in some cases the challenge of putting rubberized asphalt full width freeways and we chose to do that using closures. But, as we moved outside of the Valley further north on 17 and you are going to see this as we move west on I-10, we decided to implement a procedure or a strategy similar to what the rural districts were doing, where they do mill and overlays and allow the facility to be open. That was new to our contractors. So, what we elected to do was tell the contractors through his specifications, that he must pave on track. In the Valley, we would typically just close the freeway. On I-17 there's not a very good detour, so what we elected to do was using a work zone that was already established in our

construction, put down two lanes of asphalt under the existing restriction and then on that weekend put traffic over on those two lanes and pave rubber.

The challenge we have is we are putting crews and delivery trucks in that mix of traffic if we don't restrict them down to one lane and give ourselves that 12 foot buffer. So, the contractor took the two lanes that were available, narrowed it to one to give him that little extra room to work, paved the rubber, and the mistake that was made is they assumed they needed the buffer during the cure period. They paved rubber during the day, but we can't actually open it to traffic until it cools. They should have gone back and added that second lane back that had previously been paved and only use as a safety buffer.

On the subsequent weekend we implemented that approach by having crews on standby that would allow those barricades to be moved. The typical scheduling would be to bring crews out, set that work zone, and then if it was a Friday through Monday then pick it up. In this case we kept crews on standby to give us those lanes back as soon as the pavers had passed and it was safe to reopen the lane. We did recognize that as a challenge. But, again as far as the strategy, during the development of the project it's a toss-up whether you do a full closure, get in and get out, or you try to leave those lanes open. If that strategy is something that we need to talk about more, we certainly can do that. We were going to continue to move forward with paving under traffic. So, we recognize we could have done some things better, but there actually was a plan, and the plan was to take them down to one lane to pave.

FELIPE ZUBIA: I appreciate the explanation. I certainly don't raise that as any criticism, just a program explanation. I think what further complicated that was it was a holiday weekend, I believe, or at least I thought it was a long weekend.

ROB SAMOUR: Columbus weekend?

FELIPE ZUBIA: Yes. I think there was a lot of traffic coming back from the north which exacerbated the problem. So, maybe it was just a timing issue also. Nonetheless, again you guys have done a tremendous job out there.

ROB SAMOUR: We did recognize the challenges of that first weekend and I think we did a better job the second weekend and we'll take the criticism and use that to improve in the future.

FELIPE ZUBIA: Great, thank you.

JOHN HALIKOWSKI: Rob, I've been asked the same question by a number of legislators as to why we chose the weekend to do that -- rubberize asphalt. And my understanding is you've got some temperature restrictions when you're putting that down and we were getting close on the window of not being able to do that. So we had to go when the temperature was right.

ROB SAMOUR: Yes. Mr. Chairman and Members of the Board and Director Halikowski, we do have limited windows of temperature. So, in the fall particularly you can't predict whether you're going to have a long summer or an early winter. We went with contractor for paving surface temperatures and those are normally achieved during daylight hours. So, as we move into those fall windows particularly we have to pave during daylight. So, the strategy implemented upon I-17 for the section from the 101 to Jomax was to pave the newly-widened lanes that were still behind barrier or behind barricades during

the day during the week and then on the weekend complete the two lanes that were added to the median that could not be reached under traffic. But we're going to continue to implement strategies similar to that as we widen I-10 west and I-17 to the north. Those lanes that I mentioned we are going to get back here towards the end of the year on I-17. We still need to put rubber down on those and we will implement that and push the traffic to the left or push the traffic to the right and pave under traffic strategies so that motorists can use the facility and we can accomplish the goal to put the rubberized asphalt. Temperature is what governs when we work with that material.

CHAIRMAN HOUSEHOLDER: Any other questions for Rob? Now I would like to have a Director's Report.

ITEM 1: Director's Report (John Halikowski)

JOHN HALIKOWSKI: I've got to say like I said before the Governor gave me the best agency. What Rob brings to the podium, I think, is very important that we try to explain to the public, as Mr. Christy pointed out, there is construction going on throughout the State and a lot of it here in the Valley. Folks are asking me, with all of that construction going on, why are you laying off people? What's going on? Don't you have enough money? The problem we're facing is that we don't have the State money that we need for operations of certain parts of this organization. We've got plenty of federal money out there to do these construction projects. You can fund the construction and some of the people working on it, but our State highway funds, as we've talked about before, because of the decline in gasoline, vehicle license tax, and the fact that the legislature has a \$3B hole they're trying to fill, when you remove the VLT from the department what we wind up with is a negative balance in our State highway fund. That means divisions like motor vehicle, some of our admin support staff, and others in the department that are funded by state highway funds are going to be impacted. You've seen the impact at rest stops and in reduced maintenance. We're trying to work a snow plan that keeps everybody safe and as much open as we can, but those are State funds.

In the last few months we had one day in the State highway fund where we had a positive balance. Most of the time our bank account is running in the negative while we're waiting for reimbursements and new revenue to come in. The public didn't see a lot of that in '09 because most of the things we did were internal. But, we've exhausted all of those options if you will as far as money and now it's impacting operations.

Construction is going on and we're trying to charge off as much as we can to those Federal projects to keep our staff intact and working. But, with the State highway funds and the operations of the funds, that's where we're running into trouble. And that's why you have seen in the newspapers that we've had to begin separating employees in the motor vehicle division and we're planning to separate 115 of our limited positions and original probation folks. We need to watch the revenue picture very carefully through the year because right now our expenditures and revenues are not matching up and that's why we've got to reduce because we have to make it through to the end of the fiscal year. It's gotten to a point where we've had to tell folks there are some things that we just can't continue to do. But, we are trying and we have a number of initiatives in the department to mitigate the impact to our customers.

There's no immediate impact to the department from the legislation we've seen, but come January as they try to deal with the continuing deficit, we have to keep a very close eye on our VLT Funds. As you've seen in the past, those get dipped into to fund other general funds needs that the legislature has.

With our tentative fiscal year 2011-2015 construction program, we're in the process of developing that program right now. A major step will be the determination of the estimated funding levels for that program for the new fifth year. Mr. Fink will explain later that he's estimated that we can program up to \$700M of construction in that year. The Resource Allocation Advisory Committee (RAAC) met earlier this month and recommended the allocation of 13% of bank region, 37% for management, and 50% for Greater Arizona be applied to a new fund.

We have a Study Session planned on December 7th here in Phoenix. It's a very important meeting. Both MAG and PAG will be reporting with results of their framework studies and a regional transportation study. Our Multi-Mobile Planning Division Director, Jennifer Toth, will be presenting her recommended scenario to the Board and this will give you a chance to see all three of those framework plans.

ADOT staff including myself, we've been meeting on the I-11 concept. We've participated in several meetings this month with various organizations that are backing that Interstate 11 concept. We believe it's a very interesting long term concept. Both ADOT and the I-11 representative, we're trying to find common ground as we move forward with this. There's a new 501-C-6 organization called Connecting Arizona and Nevada Delivering Opportunities (CAN DO).

We would like to brief the Board on the I-11 concept in the study session in the near future. The National Council for Public Private Partnerships being held here in Phoenix, it was held over the last days, it's winding up today. Shannon Scutari, our Rail Planner, asked to give presentations both on three P3 programs and possible P3 opportunities.

In addition, the NCPPP honored Governor Brewer last night at their annual banquet with an award recognizing her support of legislation and building P3s. And we have seen that there is a significant amount of interest both here in the State and nationally on these P3 concepts. John McGee is heading up that group and he's working with Gail Lewis. We have retained the services of Wilbur Smith and Associates to help us develop the financial and legal issue and we are hoping to be ready to look at unsolicited proposals early next year.

We've also participated in the meeting with the Federal Aviation Association. We are strengthening relationships with FAA. Like other organizations within this department, the Aeronautics Division has undergone some restructuring. We have had to streamline because of declines and sweeps of the aviation fund. Both our Director and Deputy Director of the Aviation Division are no longer with us as we have flattened out that organization and Mike Klein who has been with us for some time who has aeronautics experience in several states is a certified pilot and pilot's instructor is now directing the aviation program.

So, we're trying to keep very active in that area and make sure that we keep in touch with our folks in the airport industry because agencies work with the framework studies. It is very important that we put general aviation into what we call that inter-modal transportation plan.

CHAIRMAN HOUSEHOLDER: Any questions for John? Okay Bill.

BILL FELDMEIER: John, 90 employees, that's a devastating cut, but then you mentioned 115. Are you talking about an additional 115 or added to the 90?

JOHN HALIKOWSKI: The total in this round was 115. The first 90 we let go were limited and original probation employees. The other positions we're talking about are permanent positions and we need final departmental administration approval before we can separate those folks.

BILL FELDMEIERS: Are you thinking that beyond the 115 there may be additional cuts?

JOHN HALIKOWSKI: That's correct. A lot will depend on the revenue picture. As Mr. Fink, will tell you we are tracking that very very closely. But with the negative highway fund balances, I will tell you that the operation right now is extremely tight.

BILL FELDMEIERS: Were offices literally closed?

JOHN HALIKOWSKI: Not at this time. These are folks that are in existing offices that we have pulled out of the line. We do have a request to the Department of Justice to close 12 MVD offices. If DOJ gives approval to close those offices, we would then ship those employees to other offices that are open.

BILL FELDMEIERS: I noticed in Prescott that there were at least two private sector operations that do work for ADOT. Is there a chance that we could be expanding those relationships with private vendors that still supply the service?

JOHN HALIKOWSKI: Mr. Chairman, Mr. Feldmeier, that is an excellent point and it goes back to why MVD was so heavily impacted in this round, is that we have other methods of service delivery that we can turn to. We now have 140 third party vendors who offer title and registration and drivers license service, not to mention Service Arizona which a lot of our transactions are currently done on the internet and we also have the Arizona Auto Dealers Association who is doing an ever increasing amount of work for their members. So, the answer to that is not only are we trying to expand our use of private vendors for MVD services, we also have roughly 15 different initiatives coming within the Motor Vehicle Division to reduce what customers have to do with us.

I'll give you one example. Every time a vehicle comes into this State that is titled and registered elsewhere, we've done a level one vehicle inspection. We inspect the vehicle number on it and match it with the title. We've done that since 1935. Given the state of the electronics today and the computer network tie-ins we have with other states, we can eliminate many of those level one inspections if there's no question when the vehicle comes in from another state. That will save us 19 positions that can be used elsewhere. So, we're critically looking at every business function in the Motor Vehicle Division to mitigate the impact of the losses.

BILL FELDMEIERS: As critical as it is and as difficult as these decisions are, I also see them as opportunities to review what we do and how we do it; to provide a reduced number because technology has offered us this opportunity and at the same time opened up those responsibilities to the private sector to allow them to have a better, stronger relationship with ADOT and still perform the same service at the right level.

JOHN HALIKOWSKI: And I think that's what you and the Board are going to see over the next year is that, because of the financial situation we're in, this agency not only has to reduce in certain areas, but it has to right size itself in other critical areas. You're going to see movement within the agency. You've

already seen some and you'll see others whether it comes with collecting more carrier taxes because let's face it the big drivers in the highway fund are gasoline and VLT and those are the big sources of our budget. We need to focus on maximizing revenue collections there. So there needs to be shifting, a hard look at what we do. We need to take care of our customer, but we also need to take care of construction because the mission I've given this agency is that -- because of 80 cents of every dollar we spend on construction going through the private sector, we will not return one dollar of federal money. We are going to use everything and if we have to shift resources within the agency to accomplish that, then that is what that is.

STEVE CHRISTY: I hate to bring it up because it's so difficult with all these human factors of the layoffs and everything, but one of the more visible elements of ADOT are roadside rest stops and just to share this with you, I was at a meeting last week and the most visible part as I say is the rest stops to the public and I was given the question, does it really impact the ADOT budget to close these rest stops, if this is significant? Frankly, I didn't know how to respond to that and I'm looking to you as to how can I tell people what the impact of that does on the overall budget strategy.

JOHN HALIKOWSKI: I'll be happy to go into that in more depth, but let me give you a thumbnail sketch. Our rest stops in this State, some of them are up to 45 years old. When they were designed, they were designed for a much lower traffic count. Rest stops are like small cities; they run septic, they run water, they run electricity. They are expensive when the infrastructure gets that old to maintain because, as you know, we have to use State funds to maintain those rest stops. Federal money doesn't cover it. So, it has to come out of the very same State highway fund which is paying for the Motor Vehicle Division and other state operations within ADOT including plowing snow.

We had to make a choice, since we can't improve that infrastructure, to decide which rest stops we can keep open. I'll use McGuireville as an example. We are getting violation notices from DEQ because of the septic system in McGuireville. It requires us to pump the septic once a month. It is \$100K in expense. We can't keep that open and maintain that expense and be subject to prosecution by DEQ because of the way the septic system is working there. So, we had to make tough choices as to what we could keep open and what we had to close.

To minimally operate the rest stops it costs us about \$3M a year. Folks will say, well you know, if your operating budget this year is \$320M, can't you find that \$3M in State money? And I'll say this, as revenues continue to decline what we thought we had to operate in July that 320, is now down to more like 300. The maintenance budget has gone from \$130M down to a \$100M. So, when you're running a negative balance in the State highway funds and somebody asks you how much or how important is \$3M? Well, if I had \$3M in there, we'd be dancing in the hallways. And so it becomes very important, when you start putting all of these costs together, to make a decision how you're going to maintain the core of the agency until the next fiscal year without knowing what your revenues are going to be for the rest of the year, whether they're going to decline and bump along the bottom or whether the legislature is going to siphon off more ADOT. So we have to be conservative in our estimates to run the agency. I will tell you that a million dollars equates roughly to 20 employees. So for every million dollars, I'd say that's about 20 employees at \$50K a year.

So there are choices that have to be made. I believe that the State Engineer has done an excellent job in identifying which rest areas to close because I don't believe that between private entities out there that provide services and rest areas we have much distance of more than 80 miles between those. So, we

tried to strategically choose those to close that have either some sort of private area where folks could use the facilities or a rest area.

STEVE CHRISTY: Out of all the rest stops in the State, what percentage have we closed?

JOHN HALIKOWSKI: I believe we've closed 13 out of 18.

BOBBIE LUNDSTROM: Chairman, Mr. Halikowski, living in Nogales, I've had a lot of complaints on that I-19 corridor and that rest area is relatively new. My concern is that we have so much truck traffic and the rest areas are a big huge safety net for many people. I'm seeing a lot of people now getting into the meridians, using the facilities right there. To me it is going to cause also a health hazard because when you start closing these rest areas where are people going to use the bathrooms? There are people also resting in the median right after the rest stop when you're coming out of Casa Grande and you're coming into the Valley. I've seen people parked, taking out lounge chairs and sitting in the medians. That is also going to be a problem and I don't know if especially in long distances could we -- I know you're saying 50 miles, but 50 miles is a long way especially if you've been traveling and you're thinking I've got a designated stop where I always stop, I can make it and those places are closed. We're going to have a lot of other issues, safety as well as health, that we're going to have to be dealing with.

JOHN HALIKOWSKI: Unfortunately, we have done the best we can to mitigate what we are doing with expenses. The fact is that we have put out a lot of publicity; we've got our internet site with the rest stops that are closed and those that are open. We're trying to provide a lot of information to the public to plan your trip. As you know, truck drivers have to rest every twelve hours. And now they have to be more cognizant than ever where that next truck stop or rest area is going to be. Arizona, like other states, is very concerned about safety, but like other states we have closed some of our rest areas. Virginia is going through the same thing. A number of the other states have.

I was in Washington D.C. visiting with our delegation several weeks ago and brought this issue up to them and said I need flexibility. Federal maintenance funds don't pay for rest areas and if you're concerned about safety, then we need flexibility with federal funds because our state funds are not covering it anymore. Can you give us flexibility in the law that prohibits us to privatize rest areas on the interstates? And frankly they said, "Yes, we will look at it," but I have to tell you I'm not expecting any action anytime soon.

So, the other problem I face is that I understand the problems we're facing in Nogales, but I have mayors from the northern part of the State who are very concerned about snow removal this year. Again, those are two competing fundings from the state highway costs. And that safety issue is the snowplow when it comes to folks who have medical emergencies or traffic accidents or any other type of emergency where they need to have the roads open. We have to begin to weigh these things. Fifty miles may seem like a long way between, but as we get other comparisons to other states, we found that some of our distances are actually much more favorable.

BOBBIE LUNDSTROM: I appreciate all your efforts because I'm sure it's very difficult from where everybody sits in your administration. Have you thought about maybe pay-per-use like they do in Europe? You know you go in and even in Mexico and European countries, you have to pay for the roads that you use, whether it be toll or you go into a rest area and you actually have to go inside the gas

station where they will give you a token -- you're basically maintaining the bathrooms or the rest areas because you are using them.

JOHN HALIKOWSKI: We have looked at a number of different financing options. I don't believe that statutorily we can start just charging for rest area use. I'm not sure how much support that would get at the legislature to begin doing that, but we have been looking at other funding options. Unfortunately, when it comes to State highway funds it's either gasoline tax or a portion of the vehicle license tags. And so far we haven't gotten warm support for raising taxes at this point to fund rest areas or other State highway operations. It seems that what folks are asking us to do is to shrink our footprint, but wear bigger shoes.

BOBBIE LUNDSTROM: Well, we just have to think outside the box because there's too many people using the freeways and highways and none of us have the money anymore. So, I think it is important that we all contribute to what we use.

JOHN HALIKOWSKI: And I will tell you that Mr. McGee has met with the Trucking Association and the Department of Public Safety on the closings and he stated there is great concern there. One of the things we asked the Trucking Association in thinking outside the box, would you be willing to sponsor a rest area? Would you be willing to pony up a couple hundred grand a year to help us keep a rest area open of your choosing? And I don't think we had any offers on that. I know there is concern out there, but I will tell you there is a lot of thinking going on outside the box, but we are welcome to other suggestions.

ITEM 2: Consent Agenda

CHAIRMAN HOUSEHOLDER: The next one, item number 2 is the consent agenda. Is there is anything you want to hold out of the consent agenda? If not, I'll entertain a motion to accept the consent agenda.

Motion made by Felipe Zubia, seconded by Bobbie Lundstrom, to approve Item 2. In a voice vote, the motion passed unanimously

ITEM 3: Legislative Report - Kevin Biesty

KEVIN BIESTY: Good morning Members of the Board and Director Halikowski. In the last legislative session we did put a provision on our Omnibus bill that allowed the Department to pursue doing an oasis program at the rest areas. The federal program passed a couple of years ago and Utah is utilizing it, and Mr. McGee's area is pursuing that and hoping to roll that out soon. We are doing everything we can to think outside the box and work with our partners in addressing these problems. As the Director pointed out, we were in DC a couple of weeks ago and we were very straightforward with our delegations. The challenge Arizona is facing, as the other states, is we need flexibility. We need the ability to maneuver through this storm. I can assure you that we're doing everything we can both at the State and Federal level to notify the powers that be that we need help.

As far as a State update, the legislature is in their 4th Special Session to address the budget shortfall. The bills that they're considering were vetoed in the last go around. A lot of other agencies have bigger stakes in it than ADOT does at this point and let me just give you a couple of items that are

transportation-related. One of the provisions of the bill allows the Director to establish the rates and adjust the duplicate driver's license fee, which is currently in statute at \$4.00. Is it going to address our budget shortfall? No, but a lot of our fees haven't been adjusted since the 70's and 80's.

MVD has been doing a comprehensive fee analysis of all the fees that ADOT and MVD collect. They are hoping to work from there to address some of these issues. One of the budget bills also transfers \$2.3M from Local Transportation Assistance Fund (LTAF) and \$990K from LTAF2 to the general public. LTAF is lottery monies that go to locals to help provide transit; LTAF2 goes to ADOT which is allocated according to population to locals for local transportation and transit. If you recall last year, they implemented a 5-year VLT. Basically, they had one year where you could register your vehicle for one year. You have a two year bi-annual. Now they have a five year. So, if you you want to register your vehicle for five years at a time, there is that opportunity. What they did in this budget was put in language at our request that the money for only the additional three years would go into the general fund. So, if somebody does register their vehicle for five years, they don't take that whole five years and deposit into the general fund. We will get the two year, because that's the bi-annual allowance, and then anything above that would go into the general fund.

Also we are working with stakeholders in the Governor's office on legislative proposals to give the department more flexibility in weathering through this storm. Once that becomes more solidified, we'll share that with you. On the federal level, it's healthcare. The 2010 appropriations and the surface transportation authorization which includes both roads and transit are on a continuing resolution until December 18th. The aviation authorization, again, is on a continuing resolution as it has been for the past two or three years. That is set to expire December 31st. There is a chance for a debate and a vote on Saturday in the Senate on healthcare.

We were in D.C. and again, we were really talking to folks about the flexibility option. As they discuss their authorization of the highway and transit and aeronautics funds, the more flexibility the State has, the more we're able to weather these storms. With that, are there any questions?

STEVE CHRISTY: On your five year VLT plan, what is the savings to the customers? For instance is it \$200 a year?

JOHN HALIKOWSKI: In any legislation where they put out more than four years of VLT, here are the options to the customers. If you want to pay five years theoretically you can finance that. Whether that makes a good financial decision or not for an individual, I don't know. But, I would expect that there is fairly heavy interest rate when you're doing that. The other thing is they save the \$8.00 per year registration. So, instead of paying five years times eight, they'll be paying once.

STEVEN CHRISTY: My question is, let's say if it's every year it's \$300. So, it always goes down every year. So, if you went annually and you spread it out and you did it once a year for five years, you are probably looking at \$1,500 over the course of five years if you did it annually. If you opted for the five year plan, that \$1,500 would be reduced to what? If I went for the one year plan at three hundred dollars or the two year plan at two sixty-five, what is the equation at five year plan?

JOHN HALIKOWSKI: What happens is when you go for your two year VLT, you'll pay your first year VLT in full and then you'll pay your second year VLT minus 2.4%. So, they combine those two and you're not saving anything on the VLT.

STEVE CHRISTY: So, there is no savings at all.

KEVIN BIESTY: You're saving on the registration fee. We had this conversation with the legislature. This is a public policy decision. If anybody determines that this is a good idea for them, they'll have the opportunity to do that.

ITEM 4: Financial Report – John Fink

JOHN FINK: Good morning Mr. Chairman, Members of the Board, and Director Halikowski. I sent out these slides a little earlier in the week. I'm sure you all had an opportunity to study them over. I will try to go through them very briefly today. October HURF results we were at \$97.6M; that was down 2.7% compared to last year and down 0.7% compared to our estimate. For the first four months of the year, HURF totaled \$389.2M. That's down 9.1% compared to last year. However, last year did include a \$10M one time revenue adjustment. So, factoring out that adjustment, last year's total would have actually been \$418M. So, the comparison is a decline of 6.9% and we're down about 3.8% compared to our estimate. Year to date we're now down about \$15M compared to our estimate. Almost that entire decline occurred in July and August. In September and October the net amount of those, one was a positive and one was a negative compared to the estimate. The net amount of that was almost a wash. So really after July and August things have stabilized a little bit. We'll see where we go from here. If we stayed on our estimate for the remainder of the year, we'd still be down about \$15M.

By category for the first four months gas tax was at \$147.5M, that's down 2.9% compared to last year and 2% below the estimate. As I indicated in my remarks last month, gas tax revenue does appear to be stabilizing somewhat and the October results for gas tax seems to confirm that. Use tax revenue was at \$55M that's down 11.9% compared to last year and down 3.2% compared to our estimate.

Then VLT was at \$168.6M, that's down 10.5% compared to last year and down 8.7% compared to our estimate. October new cars were down 22.5% compared to last year basically indicating that new car market continues to be very soft. The average VLT so far this year was \$138 versus \$150 last year which is down 7.6%. And, finally, new to Arizona registrations have been down 31.5% so far this year, confirming what we all know that in-migrations to the State are definitely slowing.

We do not have October RARF results yet, so I'll be discussing September. RARF was \$24.7M, that's down 13.7% compared to last year, which is the third consecutive month now that we have seen a decline at right around 13.7%. It's quite an anomaly; I'm not sure what the explanation for that is. We are down 3.8% compared to our estimate. For the first three months, RARF revenue was \$74.9M; that's down 13.7% compared to last year and it's down 1.8% compared to our estimate. So far this year we're down about \$1.4M in total compared to our estimate.

By category for the first three months, retail sales were \$34.6M; that's down 12.5% compared to last year and down 2% compared to our estimate. Contracting revenue for the first three months was \$8.5M which is down 39.9% compared to last year and down 16.6% compared to our estimate. Only the utilities and real property categories are ahead of last year and ahead of the estimate, and I would note that contracting has historically been the second largest category and it has now dropped to the fourth largest category at least for the first three months.

With this month's report, I'm going to be starting to include slides detailing results for the Aviation Fund. Through October, Aviation Fund revenues totaled \$4.8M; that's up 17% compared to last year, but it's 12.1% below the estimate. Most of the Aviation Fund revenue is derived from flight property taxes and registrations. Flight property tax is typically deposited in November/December timeframe and in the May/June timeframe. The aircraft registration tax is generally received in February and March. So, the results of the Aviation Fund are somewhat -- I'll use a technical finance term "lumpy."

Our investment report for the month of October: The average monthly invested balance was \$1.26B. Our earnings for the month were \$1.36M. That was a yield of 1.28%. For the first four months, our earnings were \$6.6M and that's an annualized yield of 1.4%.

Health Report: Our cash balance at the end of October was \$50.7M. We currently only have seven loans outstanding and those total about \$24M. I believe we are now at a point where we can begin accepting applications into that program again. I expect that at a future board meeting we will come back to you with a recommendation in that regard.

The Director referenced my State Highway Fund cash balance slide; this shows our State Highway Fund low cash balance by month going back to July 2006. This does not represent all the funds deposited in the State Highway Fund, but represents monies that we have historically called "discretionary funds" or the funds that we have available to ADOT for use. The primary balances of the State Highway Fund right now are MAG and PAG control access funds and that currently totals roughly \$160M to \$170M. The State Highway Fund low cash balance shows the lowest balance that is achieved in each of the months, again, going back to July 2006. You'll see in the last couple of months the balance has dropped fairly rapidly. That is primarily due to the decline of revenues that we are seeing and also the amount of diversions to DPS and to the State general fund that we have to use State highway funds for. In October, the low balance was about a negative \$43M. There was one day in the month of October that that balance was actually positive. We have been monitoring this on a daily basis for the last several months and we've seen the length of time that the State Highway Fund balance is negative increasing. In the June and July timeframe, it was typically only three or four days during the month that the State Highway Fund balance would be negative. We're now to the point where again in October it was all but one day. Those are my remarks for Item 4. I'll be glad to take any questions. I don't have any remarks for Item 5.

ITEM 6: Multimodal Planning Division - Jennifer Toth

JENNIFER TOTH: Mr. Chairman, Members of the Board, and Director Halikowski, good morning. I want to highlight some items that Mr. Husband and the Director also talked about that we were out in LA meeting with the FAA earlier this week along with our partners with the Arizona Airport Association. We had some really good conversations about communication and improvements on our grant processes and how we can all collaboratively work together. Collaborative decision-making process are going to be resulting from that executive board meeting we held there, and continuing throughout the year. I would be more than happy to present to the Board the State Airport System Plan that Mr. Husband referenced. We are pushing that out across all avenues. We produced a DVD for the State Airport System Plan. I usually speak in acronyms -- the "SASP" is what we call it. I would be more than happy to do that and, as I mentioned, we have been pushing that out through DVDs and also presentations throughout the State.

What I also want to concentrate on today is the bqAZ project and give you a status update on that. We are really excited. We just held three open houses across the State; one in the Tucson area, one in Phoenix, and one in Flagstaff. I want to play a little video to give you a break from all the presentations and make it a little more exciting. This video we presented at each of the open houses and it is online at bqAZ.gov. We were trying to create a theater-type atmosphere and then an open house where people could walk through. A tremendous amount of creativity went into the displays that were presented at the open house and I would encourage you to go to bqAZ.gov and take a look at that.

In addition we are looking at placing those displays in the State Capitol December through January so that we can get more publicity. We are really looking forward to presenting at the Board's Study Session in December and presenting the recommendation similar to how that was presented in the open house.

[Video was then shown to the Board.]

JENNIFER TOTH: I think that really shows what we're trying to do with bqAZ; take a look at what can the future really bring to Arizona. We are very excited to be completing this effort and presenting at the Board study session in December and then launching into the Long Range Transportation plan which will start getting into programmatic investment strategies on how we can take that vision build on it. So we are really looking forward to that and I appreciate your time. Any questions?

ITEM 7: Priority Planning Advisory Committee (PPAC) - Jennifer Toth

JENNIFER TOTH: I would recommend that the Board refer to Item 7A - 7M which all relate to the highway construction program as one item. Item 7A is in relation to the Transportation Enhancement Review Committee recommendations of round 17. There are 9 out of 23 State transportation enhancement projects recommended for approval and then there are 22 local transportation enhancements out of 32 recommended for approval. Item 7B relates to a subprogram that was overlooked and moving that balance of \$860K forward into the fiscal year 2010 program for the recreation trails program. And then Item 7C -7M are various changes to the highway construction program. So I would recommend approval of Item 7A through 7M.

*Motion made by Felipe Zubia, seconded by Victor Flores, to approve Items 7A through 7M
In a voice vote, the motion passed unanimously.*

JENNIFER TOTH: Then Item 7N - 7W relate to airport development program. All of these are matches to the FAA grants. These will help maintain the viability of federal dollars especially for the smaller airports and I recommend approval of Item 7N - 7W.

*Motion made by Felipe Zubia, seconded by Bob Montoya, to approve Items 7N through 7W
In a voice vote, the motion passed unanimously.*

[A 10-minute break was then taken.]

ITEM 8: State Engineer's Report - Floyd Roehrich

FLOYD ROEHRICH: Good morning Mr. Householder, Members of the Board, John Halikowski. I just want to run through a quick update on where we're at on the construction program. We still have a pretty good robust program and as Rob Samour identified in the Valley, it is going on strong. We are seeing that around the statewide system as well. Currently we have 112 projects under contract for just under \$1.6B. We have about \$440M left to perform, so we are well on our way to delivering a great number of projects. Out of that 112, five are local government projects that we're administering. The remaining 97 are statewide projects. We continue to close out projects. We closed out 16 more in October, which brings our total for the year to 39. The construction program, given where we're at, we're still a very good program. I do want to clarify just one thing that the Director said earlier "We got plenty of federal money." We don't have plenty of federal money. We got just enough to keep things going. I just want to make sure we got that on the table before somebody read into the record, Arizona's got plenty of money.

Within the ADOT portion of the Recovery Act, previously 59 projects were identified. We have advertised and awarded together 58 of those projects. They last couple are under advertisement we are going to go ahead and move those forward down to our very last Statewide project. That was the original distribution list. We have been working on the bid savings list for MAG and PAG in Greater Arizona. There are two actions that we're going to ask the Board to consider today in regard to that. We are well on our way to delivering the recovery, but we are coming up against a time crunch. The one year deadline for the obligation of all the ARRA funds, whether it's the State or local portion is March 2nd of next year. We're at a point now where we are hoping to be able to finalize the State ADOT portion and move forward with 100% concentration on the local government portion.

Within the State ADOT portion, there are two actions that we're asking the Board to consider today. One of them is a revisiting of the Interstate 10 project from Interstate 8 to SR-87 which was in the October Board meeting was approved to be eliminated from the Statewide recovery project listing. The overall project list it's on page 217 of the Agenda.

Within the Statewide Greater Arizona area, I see the agenda item was put back on to revisit the I-10 project. I would like to ask the Board to reconsider their decision to eliminate that project and the reason why I'm asking you to reconsider that is, as identified with moving forward with the delivery of the recovery funds, we're down to the last three months or so in order to obligate those funds.

I'm going to give an update on the local government program in just a little bit. But, that program has blown up in size and magnitude of project listing and is really causing our staff a hard burden on them to try to deliver all the local government projects.

ITEM 9: American Recovery and Reinvestment Act (ARRA) 2009 Update - Floyd Roehrich

I would like the Board to reconsider adding I-10 from I-8 to SR-87 back into the recovery project, make it the next project and fund it to use up all the Greater Arizona bid savings. This will allow us to clear out that portion from our program and focus our resources on the local government program to ensure that we deliver all ARRA funds without having them revert back to the Federal Highway Administration for distribution to other states. So at this time I would ask the Board if they would want to open the discussion on that I-10 project.

BOB MONTOYA: This project has been deleted from the priority list. Do we jeopardize the \$55M because you can't perform the other projects or they're not ready to go, and where, if we were to delete this or it stayed deleted, where in the program would it come back?

FLOYD ROEHRICH: Mr. Chairman, Mr. Montoya, the first part is the \$55M. We will do everything we can within our ability to not lose any of those funds, but it also means a commitment to not just deliver ADOT portion, but the local government's portion. If the I-10 project stays deleted that \$55M will get spread on down into approximately 17 additional projects that have to be delivered. Going down the prioritized list, those projects are in preliminary states of finalizing to get them out the door, get them advertised, and get the funds obligated. It is going to take a big effort on staff to do that. But, we are not going to lose our funds. But it is going to put in jeopardy the possibility of us moving our people over to keep working on the local program given the magnitude of that program.

I've got a concern and I've expressed it to the Director and this is why I'm glad the Chairman asked to bring this back. I've got concern that overall delivery of the recovery funds, if we try to put out that volume of Statewide projects as well as the local government program, our resources are going to be challenged to delivery that and there's a possibility we could let something slip and we might lose some funds -- not \$55M, but it could be some funds and I don't think anybody, whether it is the Statewide or local government, want to revert any funds.

If the I-10 project stays off the list, then we will look at the existing program and look for an opportunity to bring it in and fund it out of the regular Federal aid for fiscal year 2010 that really have until basically mid-September to be obligated to Federal fund that. Converse to that, that funding that would be available to fund those next 17 plus projects on the recovery fund that would not be covered by this, would be funded by that amount of existing Federal aid. What it does, is relieve the pressure of having those projects now obligated before March 2nd. It allows us the rest of the year up until, basically September, to obligate those projects and get them out to construction. But there is funding in the program to fund this project or those other projects through our regular Federal aid. It's a question of timing; can I put all the recovery funds in the one project, get it out by March 2nd, so I can focus resources on the local government program and get those 94 projects out the door and delivered? This is becoming a real critical factor for us. Or do I set this project aside and work on 17 or 18, whatever the number sets out to finally be, of additional Statewide projects as well as deliver the 94 on the other projects? So, it's a difference of delivering 110 projects or 95 projects in the year. It's a big impact on resources right now. But, we have a funding strategy to fund I-10 or these other projects. It just depends on how they are delivered and when they are delivered.

BOB MONTOYA: So, if I heard you correctly, if we reinstate the I-10 project, those funds that are available would then go to this list? Because this is the ARRA list. I just want to clarify that because on this list there are projects that are not program here. When would those fall back in the queue?

FLOYD ROEHRICH: The projects that were developed to be shovel-ready, were projects in the program or projects out of the program. The ones out of the program they wouldn't come through forward action of the program; those prior to us obligating them. They are under design right now and we're putting some effort into developing those. It would take a Board action and a future Board action for us to come back and put them in the program and then advertise those projects. But again using our fiscal year 2010 Federal aid to do those gives me time to go through all that later on. In this case, after

March we'll go back to start working on those because that's when I'll have the local program out and I'll have the MAG and PAG and all of the other ADOT projects will be obligated.

Those projects will still have to come through a PRB and PPAC programming action. We'll have time to do that and then we'll have time to finish the design, clearances, and get those projects out before September of next year when those funds are available.

There's been a number of projects beyond this I-10 in the neighborhood of probably nearly a dozen that's on that list that have already been awarded because it has used the regular Federal aid because they were ready to go and we got them out the door. We've continued to work on this whole project or this whole list, but I am now looking the availability of scheduling and resources. I'd like to focus on the local program by putting all the State stuff behind us, like going to I-10, one project, and get it out and then put resources when the local program is delivered after March and we get back on the rest of these projects and deliver them with regular Federal aid throughout the fiscal year.

JOHN HALIKOWSKI: It's a two-pronged issue; one is the timeframes of the ARRA. But what Mr. Montoya asked is what assurances does the Board have that we're going to bring back those projects that are not in the program now? You have a list there in front of you and the Board, as I understand it, wants assurances that if they approve I-10, whatever is on that list is coming back to them for approval and inclusion into the program. Is that correct, sir?

BOB MONTOYA: That is correct.

JOHN HALIKOWSKI: That's the question is how do we make everybody feel comfortable that we are going to do that?

FLOYD ROEHRICH: Mr. Householder, Mr. Halikowski, if the Board would like, I can summarize that in a follow-on memo to the Board from myself outlining the strategy project by project if you like. I did that last month and it got to be a pretty long memo. I can do another one of those; it would be a lot of information. But if the assurance needs to be, where are these projects in the program going to be funded and the projects not in the program, how they're going to get into the program to be funded, what's the strategy, I can do a memo to the Chairman and the Board Members outlining the exact strategy by project.

STEVE CHRISTY: Can you give us that assurance verbally now and follow up with a memo later?

FLOYD ROEHRICH: Absolutely I can give that assurance.

STEVE CHRISTY: The assurance you're giving us is?

FLOYD ROEHRICH: The assurance that I am presenting to the Board today is continuing to move along with the development of the Federal aid program. The program projects that we have on the list that are programmed or not programmed have a funding strategy for over 90% of those. Those will be delivered in the next Federal fiscal year that ends September of 2010.

STEVE CHRISTY: And that means that will occur should we decide to reinstate the I-10 project?

FLOYD ROEHRICH: That is correct.

BILL FELDMEIERS: Everybody is asking really good questions and I appreciate that. I need to ask a question in a way that I'm sure that I completely understand what you're saying. Let's assume that we reverse ourselves and we reinsert I-10. What you talked about is that we had enough money when we pulled Item No. 40, the I-10. What was this 90% of those projects that we just heard?

FLOYD ROEHRICH: If you look at the whole list of Greater Arizona projects it goes all the way up to 77 projects. Because we have gutted that list to show that it was basically shovel-ready and we could deliver it within a quicker period of time, we are focusing our efforts to get all those projects. And there are a few exceptions; there are some of them that were running up against the environmental issues that may not be ready this year, approximately 10% of that list. But our goal is to deliver 90% of those.

BILL FELDMEIERS: So, you're talking about 90% of the 72 total projects that were given to us at some point in the past?

FLOYD ROEHRICH: That's correct.

BILL FELDMEIERS: But you have the capacities to take care of number 41 through 57 which is the next 17?

FLOYD ROEHRICH: That's correct. But the capacity within -- my goal would be within the fiscal year, not within the next 90 days.

BILL FELDMEIERS: Tell me if that is including these next 17, because some of them, as Mr. Montoya pointed out are not programmed, will impact those that are programmed in any way?

FLOYD ROEHRICH: No, they will not.

BILL FELDMEIERS: So, that stays exactly the same?

FLOYD ROEHRICH: That's correct.

JOHN HALIKOWSKI: So, Mr. Chairman and Floyd, what we need to do is bring back those projects into our program to the Board for approval.

FLOYD ROEHRICH: Any project that is not in the program we'd have to bring forward and we've done that previously with some of the 59 that we already delivered having come forward through PRB for approval. We always have to get the Board's approval to amend the STIP in order to get that project done.

JOHN HALIKOWSKI: I think all the Board wants to know is, are we bringing those back in for approval and does it impact anything else that we do?

FLOYD ROEHRICH: We will bring them back to this Board and those projects will not impact the other projects that are currently in the program.

BILL FELDMEIERS: Just a couple ancillary questions and it's a question not a statement. ADOT is responsible for taking care of all the legal requirements, Federal requirements related to the local project, is that right?

FLOYD ROEHRICH: We're responsible to oversee all those projects. Approximately a quarter of them of the 94 projects that are on the local projects are agency certification acceptance. They will take the lead in delivering those projects. We have an oversight and an audit after-the-fact to insure they comply. The other 75% we are taking the lead, by our agreement with the use of Federal aid, we have to take the lead in developing, advertising, and administering those projects. So, of the 94, approximately 25 or so are certification acceptance projects. Other entities that have the approval will deliver. The other 70 plus we have responsibility to deliver.

BILL FELDMEIERS: When you say you have a responsibility to deliver, does that mean that you have to see that project through from physically through ADOT employees from point A to Z; that none of that could be contracted out with any consultants that could pick up some of that load?

FLOYD ROEHRICH: We have hired and part of the local update which I'm prepared to give, there's a separate presentation based upon Mr. Zubia's question last month. We've hired five consulting firms to work with us on a local program. So, they are augmenting our staff, but it is still ADOT's responsibility, and I'll get into that in our presentation to show we have lead people in every function area that has to be involved because it is our responsibility to provide that oversight. We did augment staff with consultants, but you can't hand the program off to them. We have to stay ultimately involved in all functional areas.

CHAIRMAN HOUSEHOLDER: I'll entertain a motion to put the I-10 project; I-8 to SR 87.

BOBBIE LUNDSTROM: Mr. Chairman, I would like to make the following motion with respect to Agenda Item 9. I recommend that the State Transportation Board amend the ARRA of 2009 prioritization table shown on page 219 of the November 2009 Agenda by adding to the prioritization list as priority number 40 the project on I-10, I-8 to SR-87, which was deleted from the prioritization list at the Board's October 16th meeting 2009.

STEVE CHRISTY: I'll second.

CHAIRMAN HOUSEHOLDER: Steve seconded it. Are there any questions?

VICTOR FLORES: Mr. Chairman, I would ask that the motion include that you would accept a friendly amendment to include assurance that the projects that were at one time assured -- that the 17 projects or whatever they are equal to this amount that is now being reinserted would be included in the next fiscal year for completion.

CHAIRMAN HOUSEHOLDER: What I would rather do is go ahead with this motion and then make another motion to do what you're saying.

VICTOR FLORES: I did ask, but I guess if I don't get a second --

BILL FELDMEIERS: You've got a second, I'll second that.

JOHN HALIKOWSKI: I think what you are asking for is that any of those projects in the list of 17 that are not programmed be brought back to the Board for programming approval and within a certain time.

BILL FELDMEIERS: And just for my clarification also, that we're talking about making this list whole all the way through number 57 without impacting in any negative way the existing 5-year plan.

FLOYD ROEHRICH: We're stuck on 17, but what I'd like to say is we'll deliver a number of projects that equal that amount because if you look at the list, we've already delivered between projects 41 and 57. We've already awarded 4 projects, we got them out with regular Federal aid in the fiscal year '09. There are a couple of projects that we are not going to physically be able deliver because we are running up against environmental issues that may impact that. So, the point is, and the assurance I'm giving is the \$55M that would go into this project, the number of projects that it would fund that's available on the next list will get delivered through the regular Federal aid program for the fiscal year. But it's not tied to any specific number, because that list is continuously fluxing based upon already delivered projects and other projects that we run into a non-delivery issue.

VICTOR FLORES: I guess in a nutshell that is what I'm trying to accomplish. I don't know how we can state that, but it would include assurances from staff that the projects that they would recommend or are available equal to the \$55M or whatever that amount is would be taken care of in the next fiscal year.

CHAIRMAN HOUSEHOLDER: I don't think we ought to limit it to the first 17. Joe, can we go ahead with the motion on the 9 and then come back with another motion on the other -legally?

JOE ACOSTA, JR.: Mr. Chairman and Members of the Board, the motion that the Board can make probably at this time would be to adopt a particular set of projects. If the Board wishes to direct the Agency to prepare a plan of whatever type the Board wants to do, I would recommend that be a separate action, but it could be included here -- the direction to the department to present such a plan to the Board. But at this time the Board is not prepared because other prerequisites have to occur to adopt something that would require a specific list of projects to be included on some list.

VICTOR FLORES: Mr. Chairman that's not what I'm suggesting and I don't think there is anything incorrect about procedure for asking that the motion include an assurance as was discussed by staff that the projects following are equal to the \$55M whatever they are would be addressed. I guess I get stuck on the language on this thing. But I believe it can be done in a motion if the present amendment is accepted, the second is accepted.

JOE ACOSTA JR.: What I'm saying to the Board is that your action can include directing the staff to present a strategy that would allow the Board at some future time to go back to the ARRA and consider projects further down the list for Federal funding. In other words, you can direct ADOT to give you whatever information you want or you can just ask for it and it doesn't need to be official action.

VICTOR FLORES: I guess that's what I'm asking. We have a motion and included I would ask that we include the discussion that took place with regard to the assurance that the projects that are equal to the \$55M will be next in line. I guess that that's the way you put it or whatever.

JOHN HALIKOWSKI: You could say the staff shall be directed to present a planned strategy for an option for those projects next in line at the next Board meeting.

CHAIRMAN HOUSEHOLDER: Okay Bobbie said she would.

Motion made by Bobbie Lundstrom to with respect to Agenda Item 9. "I recommend that the State Transportation Board amend the ARRA of 2009 prioritization table shown on page 219 of the November 2009 Agenda by adding to the prioritization list as priority number 40 the project on I-10, I-8 to SR-87, which was deleted from the prioritization list at the Board's October 16th meeting 2009. The motion additionally included directing ADOT staff to present a planned strategy for an option for those projects next in line at the next board meeting. Seconded by Steve Christy, to approve Item 9. In a voice vote, the motion passed unanimously.

FLOYD ROEHRICH: Thank you, Mr. Chairman and Members of the Board. The next action to be considered, it's the MAG portion of the ARRA. MAG action has already started actioning on additional project lists to be included in there -- a prioritized list for use of the additional bid savings. If you look at the very bottom spreadsheet or table on page 216, you'll see an additional five projects that MAG actioned. At this time I'd ask the Board to concur with those projects. Their concurrence on those projects will move those into the MAG region for delivery with the bid savings on the recovery funds. It doesn't require a amendment to the approval list -- certification list by the Governor. But those are the next projects approved by MAG in cooperation with ADOT for use of their bid savings.

Motion made by Felipe Zubia, seconded by Bob Montoya, to approve. In a voice vote, the motion passed unanimously.

FLOYD ROEHRICH: Thank you, Mr. Chairman and Members of the Board. The next quick update on the ARRA is the transportation enhancements. We originally had identified five of those. All five have been advertised, four already rewarded. We are at the solicitation for the last project. Those projects will be delivered and there is still a pretty good enhancement program out there with possibly opportunities for some other funding that we are pursuing. So, the enhancement portion is well on its way to meeting all the requirements and we see no problems there.

The last segment within the ARRA, I did want to give a quick update on, and that was on the local government program. There were 94 projects identified by the local governments for the use of the discretionary funds. To this date, we've advertised and awarded three. We've got a real big effort going on with the department as well as the management consultants we've hired in cooperation with the local governments. It's really become a pretty large program. As previously identified on the 94 projects, approximately a quarter of those our agency got certification acceptance and they will take lead in delivering. We have a responsibility to insure they are in compliance with the federal requirements. So, we have more of an oversight role and maybe an audit role at the end of the time. But the other approximately 70 projects are ADOT administered. We're taking the lead on the development, advertisement, and the construction administration of those projects.

At this time and based upon the request from Mr. Zubia, I would like to take just a few minutes and give you a quick update on how the local government program has been going. Within the ADOT's website, www.azdot.gov, there is the link to the Recovery Act and the update on the status on a Statewide basis.

This program is on there as well as the information that's been developed by the Federal Highway Administration to assist the local government program in support of theirs. There has been a number of workshops that have been held regionally with local agencies. We've also been conducting one-on-one discussions with the locals. But the effort to deliver the local program has taken quite a bit more effort than the normal statewide program. We're working with a lot of agencies that do not normally use Federal aid. In the past our HURF program has been so successful a lot of agencies would give their Federal aid back to the state and then take the state funds that deliver it on not so quite a stringent regulation for time frame.

The local program for ARRA has really shown a lot of interest in using the funds, but a lot of education in use of those that has taken a lot of effort by the Federal Highway Administration and working with our local government staff to just go out and educate people. So, to that, we really have been focusing lately on the local government program. We've got a March 2nd deadline to obligate all those funds and we seem to be on track to do that. Sam Maroufkhani for ADOT has been leading the oversight of that. He holds weekly meetings with staff as well as the local governments and others in order to keep the focus on the delivery and ensure that we're in compliance. It has been quite a challenge to get the team together and to respond to these 90 projects.

We currently have about 112 projects under contract. This year between the local government program as well as the regular Federal aid program, we're going to double that number. It is the largest total number of projects in dollar amount that this agency has put out in a lot of years. We have contracted with five management consultant teams to come in and split them up regionally to give them areas of responsibilities to continue to move those forward with supporting the program.

We have organized a team within ADOT who have responsibility to the functional areas. So we were able to put together a very comprehensive review team in order to focus on this effort. A lot of these people were working on the ADOT portion of the recovery. I started to transition those over under Sam's guidance into the local government program and we're really focusing on delivering that portion. But, the local government program with the use of recovery funds is the same as ADOT requirement. We have all the same Federal requirements to follow. We have all the same clearances, all the same development and compliance issues that we have regardless of whether the project is \$50K or \$1M. When you look at the project list there is quite a disparity of the cost. About 30% of the funds were sub-allocated down to the regions or about \$156M. There's the distribution there; Greater Arizona within their list got just over \$17M.

These projects all have to be certified by the Governor. All the authorizations and clearances have to be developed and approved through the Federal Highway Administration and they have as well a one year timeframe to obligate those funds, again March 2nd of next year. Like the other programs, if these funds get unobligated they revert back to the Department of Transportation Federal Highway Administration for distribution to other states. We lose those funds. And I said previously, they follow the same full complement of regulations and requirements as we follow on all our projects in order to clear them to the Federal standard. So we continue to move that forward.

They have to go through the TIP amendment process in order to get it approved at the STIP level. We're continuing to work through those actions. A lot of the local governments like the Transportation Board, set agendas, set meeting timeframes. We've had to work very hard and look very closely at timing these and sequencing these with the local governments to insure we can meet those timeframes

and not fall behind in delivery of that. It's been a very extensive and thorough process and if you're doing it with an additional 94 projects it really has added a lot of time to the staff.

I just wanted to quickly give you a flavor of the type of projects that we're looking at within the locals. Again, because of the timeframe necessary to design the projects to clear it, you're going to see a lot of local governments focused in on a similar program as we did. A little bit on new construction, quite a bit on pavement preservation, quite a bit on projects that were in their program that they could convert over in order to get it obligated under the Federal requirement. But, you will also see throughout the State they have made an effort to insure that through their MPO and COG that they had something for everybody. Somebody got something to help them out given their economic situation and their need for infrastructure.

Here is what's going on in the Yuma area. Within PAG, Gila County area and out east of Apache Junction, Superior, you are going to continue to see great focus on some operational improvements such as traffic signals as well as the surfacing reconstruction pavement preservation. What SEAGO did was really look at two big projects that were already in their program and focused their funds on those projects in order to deliver those realizing that if it could free up some other money they could distribute to the other projects. But within the timeframe that they had, they again did not want to fall behind with the delivering of a lot of little projects that may impact that.

NACOG again, a lot pavement preservation, a lot of effort with the inclement weather, they go through and the need for that. They're really working at trying to put effort into that.

Within the City of Flagstaff itself, FMPO, they've got another preservation project. Our friends up in the Prescott area and Yavapai County, they are looking at this project which if you look at it, this is one of the local government projects that's already been delivered. We did it under telephonic Board session to move this forward for the inclement weather, to do their work on the Glassford Hill project. That is under construction to move forward. WACOG, we can continue to see out in the western area. A lot of effort on pavement preservation and some overlays and a little bit of operational work.

MAG has put quite an effort into moving their projects forward from all of their local governments and big efforts on operational issues as well as pavement preservation continuing to move those forward. Just continues to be a lot of effort spread throughout the region at various sizes and various types of projects; PAG down in the Tucson County area continue to look at some bridgework here, some bridge preservation.

Again a lot of investment in infrastructure given the age of the local government's infrastructure, it is probably very similar in status as to what the State was. And just like the Transportation Board, they looked at where they could get the biggest bang for their buck.

FELIPE ZUBIA: Floyd, thank you for that update and you are actually very thorough and I appreciate it. I want to thank the Board for reconsidering the last item because that was really wrapped up around this concern here. Between now and March though can you just give us in your engineering report like next month and subsequent months just an update as to the number of projects in that local section that have been obligated? Just so we are continued to be advised of those projects making progress.

FLOYD ROEHRICH: I do that now and I will continue to provide that monthly to insure that we're on track to get all those funds obligated and we don't lose a dollar of those Federal funds.

FEILPE ZUBIA: It doesn't have to be a long review, just some numbers.

CHAIRMAN HOUSEHOLDER: Any other questions for Floyd?

FLOYD ROEHRICH: Real quick, we do have little bit on construction contracts. There were four projects this month. You awarded project 2M with the consent agenda and I thank you for that. The next project that we have to look at is on US-60 which is the Grand Avenue widening project, one lane in each direction with pavement preservation of the existing pavement and we are doing some drainage work which involves some signal and lighting work. This project was originally estimated \$21.6M; the low bid came in at \$17.9M. In fact most of the bidders were under the State's estimate. We feel it's a very competitive bid. The areas that we saw bid savings on continue to be certain supplies such as asphalt, concrete products. It's a contractor that has done a significant amount of work around the Valley and is very efficient at doing it. As I said we evaluated the bids and feel this is a competent bid and I'm recommending that we award this project.

CHAIRMAN HOUSEHOLDER: That's Item 17?

FLOYD ROEHRICH: It would be Item 10A.

CHAIRMAN HOUSEHOLDER: 10A, do I have a motion to award that?

***Motion made by Felipe Zubia, seconded by Bobbie Lundstrom, to approve Item 10A.
In a voice vote, the motion passed unanimously.***

FLOYD ROEHRICH: The next two projects, 10B and 10C; one is a government project, one is another project with the bridge scour project on the San Pedro River bridge. Both of these projects I'm asking the Board to postpone action on. On Item 10B, the project in Graham County which is Safford and Bryce Road project. In opening bids we evaluated the apparent low bidder of the project and there is some question of the prequalification or ability of this contractor to do the work. In addition, there was a protest filed by the second low bidder. So, I am requesting postponement of this project so we can conduct an inquiry into the contractor's prequalification and responsiveness as well as time to address the protest filed by the second low bidder.

And then the second project, project 10C which is a San Pedro River Bridge project out in Cochise County, this project when opening the bids we had a contractor who in evaluating his bid, we've got some question on the responsiveness of this bid and possible unbalancing of this bid. I've instructed staff to do an inquiry and analysis into the contractor's bid and set a meeting with the contractor so we can evaluate it. We have not had time to finish that. So, on Items 10B and C I'm going to ask the Board to postpone those for one month to allow us to finish our inquiries and analysis into those projects before we come back with the recommendation to award or some other action on those projects.

STEVE CHRISTY: Just a quick question. When you say responsiveness, what does that mean?

FLOYD ROEHRICH: Mr. Chairman, Mr. Christy, part of our bidding process is a contractor has to be responsive in submitting the bid, meaning that he's bid it fairly competitively and that he hasn't manipulated the bid either mathematically or unbalanced in some way.

STEVE CHRISTY: So, it's the quality of the bid initially?

FLOYD ROEHRICH: It's the quality and the accuracy of the bid and the completeness of the bid. We have a presentation that we sometimes have presented to the Board. I would like to offer up, Mr. Christy, whether we come to your office or maybe at a future Board meeting that we get together a little early, we've got background that talks about the bidding process. I'd like to do that as a way to inform you of that. But, in this case, what we have is a contractor who bid a zero amount in an item of work that we don't know how he can bid zero in an item of work and expect to get the item of work unless he intends to do something like request to delete it or do something to manipulate it and in this case we need him to respond formally on what the issue is.

CHAIRMAN HOUSEHOLDER: Floyd, can this be put on our December 7th meeting so we don't waste a whole lot of time?

FLOYD ROEHRICH: Mr. Chairman, I would like to say we could do that. My concern is with the short week next week and the responsiveness that we have been dealing with those two contractors, is if we'll have it done by the week after that. We will push to do that and if we can then we will ask to be added to that agenda. If not, then we'll put it on the next time. So, I'd like to amend my recommendation to the Board based on that question. Let's postpone these two projects to come back for future action by the Board for when we are prepared to present a recommendation.

JOHN HALIKOWSKI: Can we put it on the agenda for update and possible action in case we are ready?

FLOYD ROEHRICH: Absolutely. Yes, sir.

Motion made by Bob Montoya, seconded by Bobbie Lundstrom, to postpone Item 10B and 10C. In a voice vote, the motion passed unanimously.

ITEM 11: Public Private Partnership (P3) and Rest Area Update - John McGee

JOHN MCGEE: Thank you, Mr. Chairman. I will be brief. Gail is representing ADOT at the National Council of Public Private Partnerships Annual Meeting that they are holding here in Phoenix Wednesday, Thursday, and today. Arizona was the host for that annual meeting. It has been a great meeting. The Director reported on it a little bit earlier today. So, I will give the P3 update today.

I will just say we're continuing to make very significant progress on developing our P3 program, working with our consultant Wilbur Smith. We now have up and running -- and I invite all Board members to go and look at it, on www.azdot.gov under "Doing Business with ADOT" there's an area for public/private partnerships. There's a lot of information there. There's going to be a lot more information posted over the next couple of months. There is an overall description of the program, our

guiding principles, a lot of frequently asked questions, links to a number of P3 resources, a very high level process chart on how we intend to handle P3 projects, and a number of other items.

Over the course of the next couple of months, we will be adding a number of guidelines that are being developed working with our consultant. Guidelines on everything from unsolicited proposals, what they have to contain, how they will be handled, how we'll handle solicited proposals, and any number of other items, conflict of interest policies and those sorts of things.

We are just about ready to go out into the market with the issuance of a number of Requests for Proposals for our external resource team, which will include a project manager; legal, financial, technical advisors; traffic and revenue advisors, and others. So, we are making a lot of progress in that area.

On the rest area front, we have also made some significant progress, I believe, over the last month or so. Gail and I and Lonnie Hendricks had a very good conversation with folks up in Utah about their program, how they structured it, how it works, what their agreements look like. We've gotten copies of all that information. We are gathering information on possible oasis program sites around the State to see if they will be interested in participating in this program. And we're also looking at a lot of other alternatives with respect to the rest areas.

We have hosted here in the Valley within the last month, two very important P3 conferences. The NCP3 conference is going on right now. The Alliance for Construction Excellence, ACE, out of Arizona State University hosted a major conference about three weeks ago. There is a great deal of interest in Arizona and Arizona's P3 program, not only nationally but internationally. Everybody is very interested in seeing what we are doing. As we meet with other states, other consultants, and potential consultants, we keep hearing pretty much the same message which is that, at least at this point, Arizona is doing it right, is doing it the way that many of them didn't. That is, we're taking some time before we start actually looking at specific projects to put in place an infrastructure, a process, guidelines, get our resources together so that we have a process and a team in place, so that when we do start receiving unsolicited proposals or going out with our own solicitations, we're going to be prepared to handle those appropriately and professionally.

We've been told time after time by states that didn't do it that way, that just jumped right in the project and had a great deal of difficulty using that approach, "We wish we had done it the way that you're doing it." So, it's taking a few months, but remember the bill only became effective the end of September. We figure we'll probably be in a position in January, probably the end of January, that we could start entertaining unsolicited proposals when they start coming our way. And we will start looking at potential solicited proposals. I think we're doing it the right way. I think we'll have a program ultimately that the department and the Board will be proud of that will work for the State of Arizona. I'd be happy to answer any questions.

BILL FELDMEIERS: John, explain to me about unsolicited proposals.

JOHN MCGEE: An unsolicited proposal is a proposal from a firm or a group of firms to do a P3 project. In other words, we don't go out and solicit it. They come to us. They say, "We've got this great idea, this is what it is, this is what can be done legally, this is why we think it would work financially," and then we sit down and we look at that proposal and we determine whether or not we

agree that it's a good project. If ultimately we do agree that it is a good project, then we take that concept out and we solicit proposals to do that project. Even though someone brought it to us, they still then have to bid on that project. The people who bring it to us may be the successful bidders or they may not and most P3 laws throughout the country require that on a non-solicited proposal, you still have to go out and get competing proposals for that project. So, that is what an unsolicited proposal is.

And frankly, there is a lot of discussion in P3 circles about whether unsolicited proposals are a good thing or a bad thing. Generally they are not something that we cannot control because anybody can bring us a proposal at any time. We're going to have very specific guidelines on what has to be contained in those proposals so that people aren't just throwing something on the back of a cocktail napkin and saying, "Well what do you think about this?" and we burn up lots and lots of time and effort trying to figure out what it is. They have to come to us with a fully flushed out proposal, a true proposal of what it is that they are proposing to do. And the guidelines will tell them exactly what has to be contained in that proposal and they will pay the costs for us to evaluate that proposal. So, if somebody wants to bring us an idea, it's going to be on their dime.

Unsolicited proposals I believe are extremely important to a P3 program. We have a lot of good and very talented people who work in the agency. Sometimes we're maybe a little too close to the process. We don't get out around the country and around the world like a lot of other folks do and so, I believe some of the most innovative concepts that may come to us through this program will come through unsolicited proposals. So, that's why we want to make sure that they are a part of the process.

BILL FELDMEIERS: I just wanted to make a quick comment relative to your remarks. Undoubtedly we are in a whole new era of how government is going to be dealing with very real infrastructure issues. I think that we are going to be dealing with a paradigm shift here from the way we have talked about doing projects in the past. I don't think we're ever going to return to the same kind of funding mechanisms and be able to depend upon them to any degree of success in the near future. I think the future is in these P3s whether solicited or non-solicited. It's going to open up a whole new avenue of intriguing possibilities for us to be able to take care of these issues. We're not going to get it from sales tax or property, gas tax, or VLT; it's not coming back.

JOHN MCGEE: I would absolutely agree.

JOHN HALIKOWSKI: And to that point, Mr. Chairman, what we are telling the Board is that we are trying to get ahead of the curveball on these P3s as much as we possibly can. We work intimately involved as a department and we have told the vendors out there, do not mistake caution for lack of enthusiasm. We have a duty to protect the taxpayer. As we see from other states, if you get into one of these deals and you don't have the pieces of it worked out right, the taxpayer can really wind up being hit hard with it. So, we're going through this deliberately, but also as rapidly as possible so that next year we can be ready to go. We agree we have to be on point on this.

JOHN MCGEE: And we will be working with the Board Chairman to hopefully in January, maybe February as part of a study session to go through with the Board exactly how we're outlining this program. So we can get all the input we can from the Board. I would also say one of the keys to this program, one of the hallmarks of this program is going to be transparency. Many states have had great problems because they were not transparent with their process, with the projects, what they were thinking about. I think we are developing some very innovative approaches here to our program that we

want to share with the Board once we've got it in a form that we are able to do that. But in the meantime, everything that we're doing, as it's done, whether it is guidelines or anything else, we are posting it on the website. We are telling everybody look at what we are posting out there when it comes to guidelines and process and everything else. If you have questions or if you have comments, send those to us so we can talk about it. Again, we want this to be very transparent, so I would invite the Board to look at that, look at everything, look there regularly at what we're posting. You'll have a really good idea of the direction we're going with this thing.

FELIPE ZUBIA: As you know, I've said on a number of times I'm a big proponent of P3s. The concern that I have is a recent concern. It's that the banks still aren't lending money. And these projects are going to come under a lot of scrutiny. In particular a couple of cases that I'm familiar with, one in California where the state has been required to come back and acquire a private facility. And another state, I forget which one, where the bank had to come back and take the project over. So, those are going to be big concerns. I'm glad to hear we are going to have a more in-depth study session blocked off to discuss that.

CHAIRMAN HOUSEHOLDER: Any other questions for John?

ITEM 12: State Transportation Board Bonding Program - John Fink

JOHN FINK: Mr. Chairman, Members of the Board, this first slide is just a summary of your three bonding programs. I am going to refer to some of the information that is on here as I go through the rest of my presentation. I want to highlight just a couple of items. First of all, for all three programs there are no statutory limits on the amount of bonds that can be issued. HURF is the only of our programs that has a statutory coverage at 3 to 1 time coverage. We have coverage tasks for the other two programs by resolution. It is 2 to 1 on a senior basis, 1.2 times on the subordinate basis. And again, it is based on our Federal authorizations. For the HURF, we have a resolution coverage time of coverage ratio of 4 times on the senior basis and 3 times on the subordinate basis.

I would point out that your Board policies do provide that the Board can establish higher coverage ratios and, in fact, you have for the HURF program which is 5 times on the senior basis and 4 times on the subordinate basis. Despite everything we've heard about in the credit arch, just recently there is still strong demand for high quality credits like the Board's bonds. There is significant investor interest in long term bonds. There is currently now a new capability of the issuer called "Build America" bonds. I'll talk about those in a little bit. And municipal interest rates are at or near all time lows and as indicated since 1986 rates have only been lower 4% of the time.

Our credit rating update as you can imagine in the current economic climate there is significant pressure on all ratings even for governmental issuers where defaults are very low. To date, none of the Board's bonds have been downgraded or at least underlying ratings on any of the Board's bonds.

The program that is probably most in jeopardy of any kind of rating action is the HURF program. As you heard me talk about earlier, revenues are down. There has been significant diversions off the top of HURF and from the State Highway Fund. State Highway Fund balances are at historical low levels and all of this leads to lower coverage ratios which ultimately can have an impact on ratings.

On the refunding side, ADOT staff and the Board's financial advisor, RBC Capital Markets, are always looking for the potential to refund outstanding bonds for debt service savings. Currently there are limited refunding opportunities available. There is really no potential on any of the bonds or GANS to do a refund to the debt service savings. There is some limited potential on the HURF bond side; we estimate that we currently can do a refunding -- a relatively small refunding that would save about \$4.5M on a present value basis. The issue associated with doing something like that is, first of all, it's a relatively small amount of money when you're talking about a \$6B capital program. But secondly, doing a refund of these bonds could impact our ability to refunding or restructuring in the future.

I was going to talk a little bit about Build America Bonds. Most or all of the bonds that we've issued to date have been tax exempt bonds, which basically means that the interest income from those bonds for holders of those bonds is exempt from Federal and state income taxes.

The American Recovery and Reinvestment Act of 2009 created a new type of federally subsidized bonds that were known as Build America Bonds or BABs. These can be issued in lieu of tax exempt bonds. They are issued as taxable bonds, but the issuer of the bonds can give a subsidy of 35% of the interest paid on it or it can be done as a tax credit to the bond holder. Currently BABs can only be issued through January 1, 2011. However, there has been considerable talk in Washington about extending this date. Forty billion of these have been issued since April and one of the key features of these bonds is that it expands the investor base for governmental issuers. There's a whole different market for taxable bonds and that really has opened up by using the Build America Bonds.

This table summarizes the debt that we have planned under the current program. It totals about \$2.06B over the next five years. This slide summarizes our debt-to-revenue ratio. Basically what this is doing is comparing total debt to total revenues. You can see that the ratio was fairly flat in the 2001-2007 timeframe and then will increase fairly rapidly beginning of 2007 and that's the result of two things. One is we're rapidly ramping issuance of debt for the regional transportation plan; and two, with the revenues being under pressure it has reduced the amount of revenues that we have available when we do this calculation.

This is really what I wanted to talk about today. This is a slide that goes through a calculation and shows the amount of HURF bond capacity that you have available in that program. The second column on this slide shows our estimate of pledged revenues over the next five years. The third column shows the current maximum annual debt service on all of our existing HURF bonds. The fourth column is the estimated coverage ratio, and you can see that we started in 2010 and we're at about 3.24 times, by 2014 that increases to about 4.19 times. I showed that the resolution requirement for the HURF program was 4 times on the senior base and 3 times on the subordinate basis and also indicated that by policy you had established coverage ratios of 5 times on a senior basis and 4 times on the subordinate basis. So you can see that even without issuing any additional debt it wouldn't be until 2013 that we would exceed 4 times on a combined basis.

In the second to the last column on this slide, we calculated what projected additional bond capacity would be and you can see 2010, 2011 and 2012 there is no additional HURF bond capacity. By the time we get to 2013, there is only about \$80M and we did not program any of that. By 2014, that additional capacity was up to about \$205M and we have programmed \$195M of that.

I've done the same kind of calculation for the RARF program. In this case we're comparing to the resolution coverage limits. You can see in 2010, we have about \$2.3B of capacity. If you go down that column you'll see that by the time we get to 2014 where we have \$240M of capacity in a program of \$235M, that we will have exhausted all of our RARF bond capacity by 2014. The question is what could be done to increase capacity. The economy could improve such that revenue growth is higher than forecast. That would apply to both the HURF and RARF program. If the revenues are actually higher than we forecast then there could be some additional capacity to create it.

The second bullet talks about reducing the amount of money that is taken off the top of HURF for DPS and for other transfers. That really relates to HURF, but if the amount that had been taken off the top of HURF for DPS was reduced down to the statutory amount that would create a significant increase in pledged revenues and resulting in higher coverage ratios.

The third bullet refers to restructuring of existing HURF debt. We could do a restructuring that would lower our maximum annual debt service under all of the debt that we have currently outstanding. Doing so would potentially create additional capacity. However, there's a significant present value of cost associated with doing this. We recently looked at the numbers and the cost of doing this is in the range of \$80M to \$100M. So, it's not an insignificant cost. We would have to think long and hard about doing something like that.

And then the fourth bullet is the Board policy has been to maintain a higher coverage ratio than is required under the resolution. You could change that policy. The likely outcome of doing that would be to downgrade of the Board's rating of the bonds.

CHAIRMAN HOUSEHOLDER: Any questions?

FELIPE ZUBIA: John, I appreciate that. I think it's good that we get those updates like that periodically. My position at this time is that we don't make any changes for a couple of different reasons. The first being the reauthorization that it is going to be going on here at the Federal level. We don't know what sort of revenue sources are going to be out there. It seems to be premature to start messing with those type of policies. And the second issue is, the previous Governor made a major policy decision a couple of years back when we went from a 20-year to a 30-year bond which was really just a one time bump and now we're having to service 30-year bonds versus 20. At this time, I think we should stand back.

CHAIRMAN HOUSEHOLDER: Any other questions? John Bogert.

ITEM 13: Diversity Study Update - John Bogert

JOHN BOGERT: I've been asked to talk about our Disparity in a study that we have underway and to do that I really have to talk about the Dissipated Business Enterprise program. First off, just from background standpoint the DBE program is a Department of Transportation Federal U.S. program. It has been around for a number of years and ADOT has had such a program and since the '70s. That program is designed to address buyers and current disparity in contracting within the construction realm. Congress established that program primarily because they believed there were issues that had to be addressed and essentially are basically saying that public funds shouldn't be spent to promote discriminatory practices. ADOT had a very successful program and had continued to do that up until the

time that we had the Western States Paving vs. Washington DOT. That case basically said that if you are going to go ahead and have a program, you need to have a fact-based, evidenced-based evidence of discrimination or disparity in your contracting in order to justify the goals. That case was in 2005 and as a result of that we were requested by the Federal Highway Administration to suspend race conscious goals in January of 2006. Because we did not have that type of evidence to comply with the Western States case requirements. In July 2007, we went ahead and hired NGT of America to actually perform this disparity study, which they did. They then issued their final report in March 2009. That study basically concluded there was evidence both from a statistical standpoint as well as a normal standpoint that there was disparity within the contracting in Arizona and, as a result, we have taken that study and its recommendations proposed to the Federal Highway Administration reestablishment of goals on our construction contracts. We submitted that to the USDOT in June of this year. They came back with a series of questions regarding the study and the goal setting process and we responded to those questions in October. We have subsequently received another set of questions which, as of today, we're preparing responses to. But the responses required us to get together with MGT to address some of the issues that the Federal Highway Administration had with the report.

It seems fairly long and involved, but I think there is a general feeling that what we are trying to accomplish here is to ensure the success of the implementation of those goals. As far as a timetable goes, I don't have one right now. We are going to try to get the letter out to the Federal Highway Administration today. How long they will take to respond back to it or if they will approval it, I don't have that timeline, but it will hopefully be in the near future. That gives a quick overview of the status of where we are with respect to the DBE program the Disparity Study and the goal setting process.

STEVE CHRISTY: Is ADOT exposed quite a bit in this whole thing; are there possibilities for lawsuits being filed against the ADOT for these types of things?

JOHN BOGERT: Yes, I would say there is. There is always exposure in this area and my understanding is that other states have had legal challenges to the goal setting process. We are trying to make sure that we cover all of our bases in this process and have a strong a position as possible.

VICTOR FLORES: I asked for this to be put on the agenda. Fortunately it was not any more comprehensive than this succinct presentation in this short time, but I would like to know more about the specifics perhaps during a study session so we would know more about what was discovered. I don't know if we're talking about a volume of paperwork, but I would like to know more specifics and perhaps do it in a public setting in a study session. I appreciate your getting this on the agenda.

JOHN HALIKOWSKI: Are there further questions that perhaps we can answer today?

VICTOR FLORES: No, this is fine. I'd like to see the report. I'm assuming there will be some questions once I saw it. I was aware that it had been completed, but Mr. Director, you did, in fact, make me aware that there was this process of responding. So, again, I appreciate that you at least did this succinct presentation, but I would like to see more of the report and perhaps at that point a presentation.

JOHN BOGERT: We can certainly make copies of the report available.

ITEM 14: 2110 Draft Board Meeting & Public Hearing Dates and Locations

CHAIRMAN HOUSEHOLDER: I know that all these people that volunteer their place, COGs and MPOs and cities and counties, we really appreciate you stepping forward and having these meetings for the Board and I think it helps a lot because they get to see your country and see your needs, and when there is money then they can help you. We really want to thank you for stepping forward. Okay I'll entertain a motion to accept these meetings.

Motion made by Bob Montoya, seconded by Felipe Zubia, to approve Item 14. In a voice vote, the motion passed unanimously.

ITEM 15: Comments and Suggestions

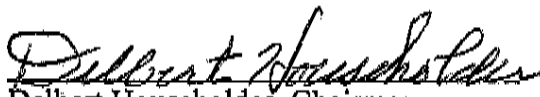
CHAIRMAN HOUSEHOLDER: Board members have anything we need to talk about on our next Board meeting agenda?

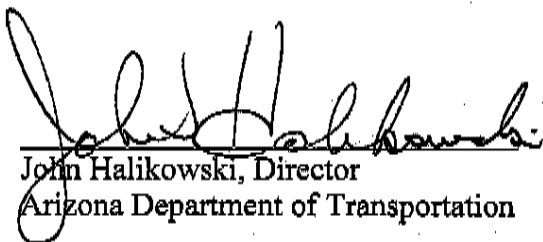
JOHN HALIKOWSKI: Mr. Chairman, Jennifer Toth has a comment about the DVD. She wanted to say something about it.

JENNIFER TOTH: I wanted to make sure that our CCP Division received full credit for that video. They were the actors and actresses in the video and our creative services area actually shot the video as well.

ITEM 16: Adjournment

Motion made by Felipe Zubia, seconded by, Steven Christy, to adjourn meeting.


Delbert Householder, Chairman
State Transportation Board


John Halikowski, Director
Arizona Department of Transportation