The Honorable Jane Dee Hull  
Governor, State of Arizona  

The Honorable Brenda Burns  
President, Arizona State Senate  

The Honorable Jeff Groscost  
Speaker, House of Representatives  

Members of the Legislature, and  
Citizens of the State of Arizona  

In accordance with the requirements of HB 2488, I am pleased to transmit the 1998 Annual Report of the Highway Expansion and Extension Loan Program Advisory Committee.

This is the first annual report for the Committee which was established under the provisions of HB 2488, effective August 21, 1998. This significant legislation established a new program of financial assistance for highway projects in Arizona through a revolving loan mechanism. This innovative financing approach will enhance funding for transportation, generate economic benefits, and enable the State to better meet its highway infrastructure needs.

The Committee looks forward to fully implementing the new program in the year ahead. Given the significant gap in Arizona between highway needs and available revenues, the new Highway Expansion and Extension Loan Program is expected to make an important contribution to Arizona's transportation future.

Sincerely,

Mary E. Peters  
Chairperson  
Highway Expansion and Extension Loan Program Advisory Committee
1. INTRODUCTION

HB 2488, enacted into law on August 21, 1998, establishes a comprehensive loan and financial assistance program for eligible highway projects in Arizona. The new program designated as Highway Expansion and Extension Loan Program or HELP provides communities in Arizona a new financing mechanism to stretch limited transportation dollars and helps bridge the gap between the needs and available revenues. A 1995 statewide needs study identified an $8.8 billion funding shortfall for state highways, country roads, and city streets over the ten year period from 1995 - 2005.

This new mechanism, often referred to as a State Infrastructure Bank (SIB), was initially authorized by Congress under the provisions of the National Highway System Designation Act of 1995. SIBs operate much like a bank, providing financial assistance in the form of loans or credit enhancement for eligible projects. Under the Federal program, the SIB can be capitalized with both Federal and state dollars, providing the equity capital for loans. As borrowers repay principal and interest on loans, the bank is replenished and monies can be reloaned so that the SIB becomes a self-sustaining mechanism to fund critical transportation projects. There is also the potential of attracting private capital through this financing mechanism. Over time a state's financing capacity is permanently increased through interest on loans and bank balances.

Arizona was one of the first states approved by the Secretary of Transportation to participate in the pilot program. As a pilot state, Arizona was authorized to allocate up to 10 percent of its apportioned Federal funds in certain categories for fiscal year 1996 and 1997 to capitalize the bank. HB 2488 incorporates the Federal SIB requirements.

It is important to note that, although state legislation was not enacted in 1996 at the time Arizona was selected to participate in the Federal SIB pilot program, the Attorney General’s Office determined that the Arizona Department of Transportation (ADOT) had sufficient authority to implement a SIB with certain limitations. For the long term, it was recognized that State specific legislation would be needed for Arizona to fully realize the benefits of this new financing mechanism and to provide local communities expanded access to the program.
2. KEY PROVISIONS OF HB 2488

HB 2488 was significant legislation for Arizona as it will enable highway projects to be built sooner, more effectively utilize existing resources, make more projects viable, and contribute to economic development.

HB 2488 includes the following key provisions:

- Authority for cities, towns, counties, Indian tribes, and state agencies (including ADOT) to enter into loan agreements.
- Authority in state law for HELP (or SIB) program. No additional bonding at either the state or local level is authorized.
- Places program under authority of State Transportation Board. ADOT has administrative responsibility for the program. A seven-member Advisory Committee is established with appointments made by the Governor, Speaker of the House, and President of the Senate. The Director of ADOT or designee serves as chairperson for the Advisory Committee.
- Defines eligible projects to include projects that are both: (a) state highways, or state routes, or are on the federal aid system, or on the national highway system, and (b) in the state highway construction plan, or transportation plan of a regional association of governments.
- Establishes criteria to be considered in evaluating proposed projects. Preference would be given for local or private participation.
- Provides that the HELP monies could be used to make eligible project loans; subsidize interest rates; provide other financial assistance subject to the Transportation Board’s approval; and pay costs to administer the fund.
- Requires that all loans advanced with General Fund monies, if such monies are appropriated and available, be repaid within five years of opening a highway to traffic. Loans made under the Federal provisions would have a 10 year repayment period.
- Permits communities to advance funds to ADOT to accelerate project construction.
- Requires an Annual Report
3. PROGRAM IMPLEMENTATION HISTORY

Given its designation as a pilot state and the benefits to the state in terms of the ability to accelerate highway construction through loans and other forms of financial assistance, ADOT pursued implementation of the SIB program on a limited basis. The first step in the implementation process was to enter into a cooperative agreement with the United States Department of Transportation (USDOT) to charter the Arizona SIB. This agreement was effective as of September 24, 1996. This positioned Arizona for receiving $6.7 million in additional federal monies from a special U.S. General Fund appropriation of $150 million.

The next steps taken were the establishment and capitalization of the bank with federal funds and state matching monies, as authorized under federal law. The bank was first capitalized in October 1996. To date, Arizona’s bank has been capitalized with $35.1 million in federal funds and $2.4 million in state matching monies. With interest earnings of $2.2 million, the SIB account as of October 31, 1998 reflected a balance of $39.7 million. See Section 6 for additional financial details.

With the bank established and capitalized, ADOT proceeded with developing preliminary loan parameters and strategies for project selection. A phased approach to project implementation was developed. In the first phase, to demonstrate the benefits of the program, it was decided to provide financial assistance in the form of loans to advance the construction of two or three high priority projects that would generate economic benefits.

While ADOT did not establish a formal selection process in this first phase of SIB implementation, there were limitations on project eligibility under existing law. First, since ADOT’s SIB was established as an account in the State Highway fund, SIB loans could be made only for projects on the state highway system. Second, under Federal requirements, the first round of SIB loans was limited to projects on the Federal aid system. Another important factor in the award of the first SIB loans was project readiness. The Federal Highways Administration (FHWA) had advised states that they needed to have firm loan commitments in place during FY 1998, otherwise they could risk losing the additional General Fund monies that had been received.

In response to outreach efforts, the cities of Chandler and Mesa expressed interest in SIB loans to advance needed freeways in their respective areas. Working with ADOT staff, two projects (see description below) were identified for advancement with SIB loans. An important consideration in the evaluation of these two projects was the fact that they met the system eligibility criteria. Also both projects would generate economic benefits and provide enhanced mobility and congestion relief. Finally, Chandler and Mesa were willing to financially participate in the projects by sharing in the interest costs. It should be noted that the Chandler project attracted private sector capital with a portion of Chandler’s interest payments paid by a major developer. The State Transportation Board approved these first two "pilot" program loans on March 20, 1998.

The Chandler project is on the Price Freeway between Warner Road and Frye Road. An agreement was negotiated with the City of Chandler to fund the construction of the project using a SIB loan not to exceed $26 million. The Project will begin in 1999 and will be completed by the end of 2000, one year earlier than currently programmed.

The Mesa project is on the Red Mountain Freeway between Country Club and Gilbert. This project is being advanced two years using a SIB loan for $24 million to advance right-of-way and design. The City of Mesa plans to provide a $36.4 million loan with local monies to fund the construction phase of the project, representing a majority share of the total project cost. The loans for the Red Mountain project may be restructured due to slippage in the schedule for approval of the Environmental Impact Statement (EIS).

See Section 5 for current information on the status of these projects.
4. PROGRAM AUTHORITY AND ADMINISTRATION

The Highway Extension and Expansion Loan Program is under the authority of the State Transportation Board. The Transportation Board has the following major responsibilities:

- Make loans or provide financial assistance for eligible projects
- Enter into loan repayment agreements
- Approve application form/guidelines and prescribe application procedures
- Provide for a financial audit
- Enter into contracts and agreements to carry out the program

HB 2488 established the Highway Expansion and Extension Loan Program Advisory Committee of seven members. The members serve staggered four-year terms. The Advisory Committee has the following major responsibilities:

- Develop the application form and guidelines for Transportation Board approval
- Review loan and other financial assistance requests
- Make recommendations to the Transportation Board on loans and financial assistance requests
- Submit an annual report on or before December 1

Subsequent to the effective date of August 21, 1998, the designated governing bodies appointed the following public members to the Highway Expansion and Extension Loan Advisory Committee.

<table>
<thead>
<tr>
<th>Name</th>
<th>Locale</th>
<th>TERM</th>
<th>Appointed By</th>
</tr>
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<tbody>
<tr>
<td>Mary Peters</td>
<td>Director, ADOT</td>
<td>Chairperson</td>
<td>Legislation</td>
</tr>
<tr>
<td>Bruce Hilby</td>
<td>Phoenix</td>
<td>8/31/2000</td>
<td>Senate President</td>
</tr>
<tr>
<td>Gary Magrino</td>
<td>Yuma</td>
<td>10/1/2002</td>
<td>Governor</td>
</tr>
<tr>
<td>Jeff Martin</td>
<td>Mesa</td>
<td>10/1/2002</td>
<td>House Speaker</td>
</tr>
<tr>
<td>Cliff Potts</td>
<td>Payson</td>
<td>10/1/2000</td>
<td>Governor</td>
</tr>
<tr>
<td>Tami Ryall</td>
<td>Gilbert</td>
<td>10/1/2000</td>
<td>House Speaker</td>
</tr>
<tr>
<td>Paul Schwartz</td>
<td>Sun City</td>
<td>8/31/2002</td>
<td>Senate President</td>
</tr>
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The first meeting of the newly established HELP Advisory Committee was held on November 2, 1998. At the first meeting, the Committee addressed organizational matters and developed a preliminary implementation plan for the program. The first step in the plan is the development of an application package and selection process. Plans are to publish loan guidelines in January 1999.

The Department of Transportation provides staff for the Advisory Committee and administers the HELP program.
On March 20, 1998 the State Transportation Board approved the first two loans under the new SIB/HELP financing mechanism. The first loan, as discussed in Section 3 of this report, advances the Country Club to Gilbert section of the Red Mountain Freeway. The second loan accelerates the construction of the Warner to Frye Road section of the Price Freeway. Under the provisions of HB 2488, any loans prior to the effective date of the legislation were not subject to the application and selection process prescribed in the new legislation. The following chart highlights the key parameters of the loans at the time of Board approval:

<table>
<thead>
<tr>
<th>Description</th>
<th>Red Mountain</th>
<th>Price Freeway</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Country Club to Gilbert</td>
<td>Warner Road to Frye</td>
</tr>
<tr>
<td>Original Schedule</td>
<td>June 2002</td>
<td>January 2000</td>
</tr>
<tr>
<td>Start/Complete</td>
<td>December 2003</td>
<td>December 2001</td>
</tr>
<tr>
<td>Advanced Schedule</td>
<td>April 2000</td>
<td>March 1999</td>
</tr>
<tr>
<td>Start/Complete</td>
<td>January 2002</td>
<td>October 2000</td>
</tr>
<tr>
<td>SIB Loan</td>
<td>$24,000,000</td>
<td>$26,000,000</td>
</tr>
<tr>
<td>($1.9 million Design, $22.1 million Right of Way)</td>
<td>(All Construction)</td>
<td></td>
</tr>
<tr>
<td>Length of Loan</td>
<td>20 months</td>
<td>1 year</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>3.7 percent</td>
<td>3.6 percent</td>
</tr>
<tr>
<td>Interest Payments (est.)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Share**</td>
<td>$201,395</td>
<td>$703,274</td>
</tr>
<tr>
<td>Regional Freeway Share</td>
<td>$869,650</td>
<td>$486,959</td>
</tr>
<tr>
<td>City Loan to ADOT</td>
<td>$36,441,000</td>
<td>-</td>
</tr>
</tbody>
</table>

*Interest payments will be based on actual loan drawdown.

**The total interest cost for the City of Mesa is estimated at $1,770,070, which includes Mesa’s share of the interest for the construction phase.

The interest rate for the loans was set at 70 percent of the U. S. Treasury rate for securities of the same duration. This methodology was used to establish a rate that approximated tax-exempt borrowing rates. Since both projects are on the State Highway System, the loan agreements are between the Department of Transportation and the State Transportation Board.

On November 20, 1998, the State Transportation Board awarded the construction contract for the Warner to Frye Road project. Construction of this 2.7 mile segment will begin in January 1999 and is scheduled for completion in December 2000. The construction start is three months ahead of the expected date at the time the Transportation Board approved the loan in March 1998. The first loan drawdown is expected in February 1999.

The Country Club to Gilbert project is still on track for a construction start in the Spring of 2000 with completion by January 2002. However, the delay in the Environment Impact Analysis has impacted the right-of-way acquisition schedule. The Department is working with the City of Mesa to restructure the loan.
6. FINANCIAL CONDITION

HB 2488 established a Highway Expansion and Extension Loan Program fund, which constitutes a State Infrastructure Bank under the Federal program. The legislation also provided for the transfer of all monies in the SIB account of the State Highway Fund to the new HELP Fund, following the effective date of the bill.

The following chart highlights the flow of funds to and from the HELP Fund.

As reflected on the following table, the HELP program fund balance was $39.7 million as of October 31, 1998. Federal deposits to date total $35.2 million. Also included in the fund balance is the state matching amount of $2.4 million, which was transferred to the SIB in October 1996 when the bank was first capitalized. Interest earnings to date total $2.2 million. It should be noted that States are limited in the maximum Federal amount they can use to capitalize a SIB, based on a Federal drawdown schedule.
The Federal deposits to date account for about 70 percent of the maximum Federal capitalization amount under the Federal pilot program in accordance with the provisions of the National Highway System (NHS) Act of 1995. Based on the Federal drawdown schedule, the State Transportation Board has approved in its Five-Year Program additional Federal capitalization amounts of $10.8 million for the period FY 2000 – 2004 which will bring the total of Federal deposits to $45.9 million in FY 2004.

7. PROJECT BENEFITS

Given revenue constraints affecting highway projects in Arizona, the new HELP/SIB financing mechanism is proving to be a useful tool to advance needed highway construction. The acceleration of the two projects on the Maricopa Regional Freeway System would not have been feasible without the financial assistance of the new loan program.

The Warner to Frye segment of the Price Freeway was identified by the City of Chandler as a critical project, given the major industrial and commercial development located along the corridor. Intel, Motorola, Microchip and Allied Signal, as well as several other high-tech firms, are directly served by this section of the freeway. Thousands of scheduled trips per day are generated by employees of these companies. The advancement of this project by one year through a SIB loan improved mobility for the area and generated economic benefits in terms of retail activity, job creation, and new commercial development.

The two-year acceleration of the Country Club to Gilbert project is also expected to generate benefits to the citizens of the region, relieving traffic congestion through improved access to the Red Mountain Freeway and facilitating development in the area.

By enhancing mobility both projects will have a positive impact on air quality. In addition, the travel time savings for commercial traffic and commuters translates into economic productivity gains. Further, by building sooner there is the potential of offsetting higher construction costs.
8. OUTREACH EFFORTS

Since its designation to participate in the Federal pilot program, the Arizona Department of Transportation has been involved in ongoing outreach efforts to local communities across the state. Outreach efforts to date have consisted of one-on-one meetings with communities, briefings to metropolitan planning organizations and participation in statewide conferences.

As part of this outreach effort, ADOT held a SIB workshop on January 23, 1998 for key transportation stakeholders. The purpose of this workshop was to gather information from the participants on the parameters for project evaluation and selection. Approximately 50 stakeholders participated in this workshop. The product of the workshop was a draft evaluation and selection framework document. This document will be used by the Advisory Committee in developing the loan application package and project selection process.

Feedback from the outreach efforts over the last two years indicates strong demand for this program. Based on program interest to date, current available resources for project financial assistance are anticipated to fall short of meeting demand.

9. SUMMARY

The HELP Advisory Committee is moving forward with full implementation of the program. An important element of implementation will be extensive outreach to local communities to ensure access to the program.

Arizona has already realized benefits from its SIB initiative. First, the establishment of the program has generated additional dollars for state highway projects in interest earnings and the award of $6.7 million in Federal General Revenue funds as part of the $150 million nationwide allocation to SIB states. If Arizona had not moved forward with this new concept, these dollars would not have been available. Also the advancement of the two Regional Freeway System projects demonstrated the benefits of this new financing concept and built support for the program.

Looking ahead, the new HELP program will serve as an important financing mechanism to advance highway projects and generate economic benefits. Given the significant unfunded transportation needs in Arizona, the new HELP program is expected to make an important contribution to Arizona’s transportation future. The Advisory Committee looks forward to 1999 and the first round of loans under the new legislation. There are plans to pursue legislation during the 1999 session to increase the program’s capitalization.

With the significant gap that exists in Arizona between highway needs and available revenues, the new Highway Expansion and Extension Loan Program will enhance funding for transportation and will enable the State to better meet its infrastructure needs.