

**STATE TRANSPORTATION BOARD MEETING MINUTES**  
**9:00 a.m. Friday, July 15, 2011**  
**Town of Hayden Council Chambers**  
**520 Velasco Avenue**  
**Hayden, Arizona 85235**

**Pledge**

The Pledge of Allegiance was led by Member Flores.

**Roll Call**

Roll call by Chairman Feldmeier.

In attendance: Kelly Anderson, Stephen Christy (telephone), Felipe Zubia, Bobbie Lundstrom (telephone), Bill Feldmeier, Victor Flores, and Hank Rogers.

**Opening Remarks**

Chairman Feldmeier: He thanked everyone for putting on a great gathering for them last night at the Dream Manor Inn. This is the first time as an Arizona native to be in this part of the State so he is thankful for this opportunity.

Victor Flores: He is a native to this area. His dad was also born just west between Hayden and Kearny. His brother, sister, and he were all raised in the house that they will occupy this afternoon after they play golf. It is a wonderful Community. The flood took half of Winkelman but it was a very vibrant Community. He personally appreciates that the Board selected Hayden and Winkelman as one of the locations for the meetings.

Chairman Feldmeier: The Board's responsibility is for all of Arizona, urban as well as rural, and part of that charge is to get out and see the State highways as they interconnect rural parts of Arizona. It is a real honor for the Board to be here to see this Community. Where he lives in Yavapai County, his old Supervisor District has the Town of Bagdad, a mining town. They were always great to him as their representative on the Board of Supervisors there. There is a common interconnection between mining Communities across the State and the strong history they had. They helped make Arizona an important economic force in this country and the world.

**Call to the Audience**

Gloria Beltran: Deputy Town Clerk. She welcomes the Board to Gila County and the Town.

Manny Aguirre: Mayor, Town of Winkelman. He is very happy that the Board made it to this Community and happy that they fixed SR77 north of Winkelman. That was a very good project after it was all done.

Casey Denny: Member of Arizona Airports Association (AAA). He gave a brief update on what is happening in the world of airports. Just a few miles from here is the Kearny Airport named Arizona Airport of the year in 2003. This is a great example of just how efficient a few thousand feet of Hayden can be for the Community with access to the national transportation system. For several years the AAA have been working with ADOT on the State Transportation Board Policy update and he hopes to bring the document for consideration to the next monthly Board meeting. They are also working with ADOT staff reviewing the Governor's Advisory Council on Aviation report last issued in 2007 that listed recommendations on issues for the airport system. It has been four years now so they have embarked with ADOT's staff on the review of that report to see how those recommendations were carried out. He wants to recognize the Aeronautics Department as they are starting a series of meetings with the Federal Aviation Administration this month to go over the yearly planning program. Sometimes it takes a little bit of pressure on the FAA to get them to participate. The Aeronautics staff has worked hard to get them to participate. They fund a lot of airports in this State and it is important to have them take part in this planning. August 19<sup>th</sup> is National Aviation Day; please go by your local airport to see what aviation is doing in your community. On October 18<sup>th</sup>, everyone is invited to the AAA Fall Conference in Gilbert, Arizona. It is a one day conference and they will talk about aviation issues and what is happening in the State. Right now in Mesa, Arizona, they are celebrating the 70<sup>th</sup> anniversary of the ground breaking of Mesa-Falcon Field and Phoenix-Mesa which used to be the former Williams Air Force Base.

Brent Billingsley: Development Services Director, City of Maricopa. He thanked the Board and members of the ADOT staff, especially Todd Emory and his staff from the Tucson District for all the partnerships over the years and continued partnership on projects. This Board has passed some very difficult items in this economy with the budget and has handled it with grace and fairness. The City of Maricopa in particular has benefited from the relationship and there are a lot of positive things going on in partnership with ADOT and the City of Maricopa. One item is the ongoing procurement for the design concept report for the bridge crossings for the City of Maricopa. They really appreciate the ability to work with ADOT on that project. Yesterday, they had a project kick off meeting for an asphalt maintenance project on the SR238 that will begin next week. They are working with ADOT on a project on SR347 that was on the last Board Agenda for award of contract. The primary reason he is here has to do with Item 11. Another important project for the City of Maricopa in the future has to do with the Amtrak station in the City of Maricopa. He is sure that this Board realizes that Maricopa County's Amtrak station is actually located in Pinal County. In the City of Maricopa, there was damage done to the branch in the early 1990's and ADOT, Amtrak, and others of Pinal County made an action to find a place to relocate the station so that Amtrak service would not be lost to the Phoenix Metro area. Maricopa was the location that was chosen and that was very positive for Pinal County. It was a challenge to put it together quickly. There was a very narrow window to provide some improvements and very narrow area to provide improvements. A platform was built. Pinal County provided a rail guard which was featured in a Hollywood movie. Amtrak put some portable buildings in there and built a platform. This station needs to be moved

because it is adjacent to SR347 that sees in excess of 50,000 vehicles a day. That crossing location has about 36,000 vehicles a day and over 100 school buses that cross at that location. The at-grade crossing is no longer a viable solution to cross that amount of traffic for safety and more for operational reasons from the Amtrak perspective. The platform is so short that when they come through with their three car trains, they can only load and unload one car at a time. That crossing is closed for about 15 – 20 minutes every time the Amtrak train goes through. Because of that delay and the problems it causes operationally on SR347, those trains come through in the middle of the night starting sometime between midnight and 2:30 a.m. Every once in a while, they are delayed and they do not come through Town until 5 – 6:00 a.m. When that occurs traffic backs up from there to Stanfield and backs up substantially towards the Phoenix Metroplex on SR347. For safety and operational reasons, the City of Maricopa has made a commitment to try and move that platform by purchasing a piece of property to enable the platform to be moved. The Council has generously budgeted a considerable amount of money in this year and next years budget to try and foster the ability to work with ADOT, UPRR, and Amtrak to move that platform and eliminate some of these issues as they go forward. Item 11 has to do with supporting Maricopa in this effort and solving some of these problems as it relates to State highways. He thanks the Board for having Item 11 on the Agenda.

### **ITEM 1: District Engineer's Report – Rod Lane, Globe District Engineer**

He thanks everyone for coming to Globe District. They have approximately 2700 miles within Gila, Apache, Graham, Greenlee, Pinal, Maricopa and Navajo counties. There are five maintenance facilities in Globe, Roosevelt, Show Low, St. John and Springerville. There are four satellite maintenance camps in Superior, Indian Pine, Young and Flying V on US60 near the Salt River Canyon. There is a total of 362.6 miles of scenic and historic highways ranging from the low Sonoran Desert to the White Mountains.

Construction projects in the Globe District: The District is divided into two construction areas, North and South with the following projects:

Ice House Canyon, Bridge replacement that was just completed.

Gateway, a project they are administering for the City of Globe.

US60 (Top of The World), that has been shut down right now – MP 225-236.

US60, mill and fill project at MP 199.36-211.20. They are helping the Phoenix District and it is just getting started now.

US70, the San Carlos Bridge replacement just kicked off.

White Mountains:

New Lone Pine Dam Bridge, they are administering for Navajo County is about 75% complete.

SR260, out by the Greer Rodeo Grounds a chip seal just being wrapped up.

SR260, passing lane construction west of Show Low.

SR260, at Old Linden traffic signal and ADA ramps.

SR260, Pinetop to Hon Dah spot repair project.

US60, from Springerville to the State Line R&R 2" AC = ACFC that is just starting off.

The biggest happening in the District for over a month is the Wallow Fire. It started in the beginning of June and has pretty much impacted everything. He showed a map of the fire, produced by the Forest Service. It started at the Bear Wallow and progressed north affecting many routes: SR260, US180, US191, SR261 and SR273. They had about 14 days of 24 hour closures there where their staff performed perimeter control. They also had a significant number of staff evacuated because of the fire; their Maintenance Office in Springerville had to be transferred to Show Low because the Town evacuated. It was a significant event for them. They are now concerned about the next phase – flooding that they will have with all the material burned off the ground. They did have some flooding on US191 that is adjacent to one of the severely burned areas. They are expecting to see more issues between Nutrioso, Alpine and US191 south. SR261 is still closed because of the burned guard rail. A significant amount of guard rail has been burned, about 3,500 – 3,600 linear feet. The forest is still closed up there. The Forest Service is concerned with trees falling onto the roadway so they are going in and removing them along SR261. He showed some slides of the ditches and how the flooding will affect the system.

Material damage:

Guard Rail, there has been about 3,600 linear feet of guard rail lost.

Fencing, they have lost roughly about 37 miles of fencing. The challenge with the fencing is that it appears intact but once the cold weather comes it is going to snap. They will end up replacing a lot of fencing.

Signs, there are 150 signs.

Paving, a little bit of roadway surface had trees fall over the roadway they burned and melted the pavement.

These costs do not include the costs for the road blocks for those 14 days. That went under a separate system called Suppression Costs where they submitted the bills directly to the Forest Service as the work was occurring. They had to make the initial payments but they are expecting to get reimbursed. There is a whole system set up on the Emergency Response System.

The funding sources they are looking to for reimbursement are:

The Suppression Fund, cover what happens during the fire. Will pay for all the road blocks and man power.

The Burned Area Emergency Recovery (BAER) Fund is typically paid for by the Forest Service. It includes things that will prevent issues with drainage. For example, the Forest Service is removing their culverts on their dirt roads. This fund also pays for all of the felling of the trees on the side of the roads.

Emergency Response Funds (ER) from the Federal Highway Department.

Federal Funds from the Federal Lands. A lot of the roadways up there, US180, SR261 and 273 are all on Federal Land. ADOT maintains them but they are owned by the Federal Government. The States regular insurance from Arizona Department of Administration (ADOA).

Steve Christy: When there are multiple agencies involved, what is the chain of command?

Rod Lane: In a response situation, there is an Incident Commander. In this situation it was a Forest Service employee. They run the fire operations. ADOT has an Emergency Response person that is an Emergency Response Liaison. That person communicates with the Incident Commander and then communicates with the ADOT staff. They have their own internal

Incident Commander usually an Org Supervisor. They all have the training. All the communication goes through that one funnel. For instance, the Incident Commander for the Forest Service will call up the Emergency Response Liaison and say they need a road block over here. The Emergency Liaison will call up the Supervisor and he will get all the men and equipment and get them out there and do it. That same Emergency Liaison person will also be setting up the pooling and the funding because typically when you set up the Incident Command center, there is a financial system, a resource system. They will start the billing process right away so everyone is in tune as to how it all is going to be paid for.

Hank Rogers: He would like to clarify something that Rod said. They are having a terrible time up there letting people know that they can come up and enjoy the beautiful White Mountains again. Some of the areas are closed and that is what Rod was speaking to but they need to get that message out that they are open for business. They just opened up everything north of SR260. This message needs to get out to people that they can come up to cool off up there.

Rod Lane: They have access to Big Lake via SR273.

## **ITEM 2: Director's Report – John Halikowski, Director**

Arizona wild fires: 14 ADOT families had to be evacuated because of the fires. In the spirit of helping them out, ADOT employees pulled together for “Beat the Burn” day. They had bake sales, sold hamburgers and hot dogs, and people came together across the State. They raised over \$8,000 for those 14 families. A couple of weeks ago they traveled to Springerville and Sierra Vista and distributed those funds to those families to help them with moving expenses and losses that they incurred during the fire. It was a good morale booster for everyone. They are continuing to assess the fire damage to the State highways and the primary concern will be the condition of the drainage and erosion control systems. He wants to assure the Board and the public that this is not the first time around for the Agency. They have Emergency Situation Reports generated and they go all the way up to him and to the rest of the senior staff so that they are on top of it. Right now, they have heavy equipment crews positioned across the State and will keep in mind the rains. This is similar to what they do during winter storm season to make sure that they keep the roads open. They are going to patrol the areas where there is potential for flooding and will be out there in order to assist the motorists and address any issues that arise. They are preparing road embankments along US191, 20 miles south of Alpine. They have the Monument Fire crews that are maintaining culverts and drainage areas along SR92 from the Horseshoe Fire and for maintaining culverts and drainage along SR181 and 186 in Cochise County. From the Schultz Fire, they just completed \$2.3M in safety and drainage improvements along US89 in the area that experienced flooding last summer with channel expansion, additional culverts and shoulder widening. He thinks they are in good shape, at least on ADOT's part and they will need to keep the roads open from the fire.

Reauthorization: Congressman Mica is proposing a 6 year Reauthorization Bill which they find is good for them and that gives them some stability. As the Board knows, they have been operating under a series of Continuing Resolutions which makes it very difficult for them to plan. Congressman Mica's Bill would put out \$230B over the 6 years to ensure that the states are not spending more than the highway trust fund takes in from the gasoline tax. It would be an

austere Bill in comparison to the \$286B that they had for SAFETEA-LU over the past 6 years. The Bill that the Congressman is proposing though does provide them with some flexibility. It eliminates nearly 70 highway programs and does not require states to fund non-highway activities. It will streamline the environmental process by setting hard deadlines for Federal Agency decisions and delegating more authority to the states. It distributes nearly all the funds to the states through formula programs. At the bottom line, although it is austere, it supports flexibility for the states by consolidating or eliminating many of the small programs and allowing ADOT to focus on its core program and will support streamline changes in the process. He adds that given the debt ceiling argument that Congress is currently engaging in, the transportation argument has sort of fallen by the wayside. They are still very concerned about what is going to happen in the debt ceiling argument which has overshadowed pretty much everything. Whether a six year Bill or any Bill will come out this year on transportation remains to be seen.

Bullhead City: They have a number of letters and testimony from the Mayor and residents of Bullhead City regarding construction activity on the Nevada side and Boulder City and concern about truck traffic going back through Bullhead City. They have had a series of meetings and conference calls with the Bullhead City Mayor, staff and with Nevada DOT. They have a workable resolution on the construction for US93 from Hoover Dam. They are not going to put any restriction on commercial vehicles northbound on US93 and Nevada has agreed to that. When they met with their District Engineer and the Nevada people, it was pretty apparent that the traffic on SR68 is mostly northbound traffic. If they do not put any restrictions on US93 in Boulder City then they will not have that traffic going through Bullhead. Over dimensional vehicles will be restricted from the work zones so they will have to deal with those. They will be trying to work with Nevada on the southbound traffic commercial vehicles so that they have enforcement out there during peak times. In addition, they are conducting enforcement details through portable scales on SR68 to ensure that when trucks are coming down the hill in Bullhead City, they have the proper weight, the brakes are good and other safety items on the truck are being checked out. They are going to put some regulatory signs up and will be working with Boulder City training for truck safety. Nevada Highway Patrol will coordinate on their side for overall compliance and ADOT and DPS will coordinate on our side to ensure safety in Bullhead City. They feel that they have a good solution. The Mayor and the City seemed to be satisfied at this point that we are doing all we can.

### **ITEM 3: Consent Agenda**

*Motion to approve Consent Agenda made by Kelly Anderson and a second by Hank Rogers, in a voice vote, motion carries.*

### **ITEM 4: Financial Report – John Fink**

No report for June RARF as he does not have the figures in at this time.  
June HURF report:

- June HURF was \$102.2M. Down about 0.4% compared to last year and down about 1.6% compared to the estimate. They have had two months in a row where they were down compared to last year and compared to the estimate.
- For the year, they finished at \$1.205B. That is up 0.9% compared to last year and is exactly even with the estimate.
- While this is a modest increase over last years results, HURF revenues remained back at FY2004 levels. For FY2012, they have revisited the forecast and they have revised it slightly downward. They are now looking at a forecast for FY2012 of \$1.216B which would represent roughly a 1% increase over FY2011.
- HURF by category: Five of the 6 categories are up over last year.
  - Gas Tax Revenue for the year was \$456.3M. That is up 0.2% compared to last year, but down about 1.1% compared to the estimate. He went back and looked at Gas Tax Revenue over the last 10 years or so and Gas Tax Revenue has been flat for three consecutive years now.
  - Use Fuel Tax Revenue for the year was \$178.7M. That is up 4.3% compared to last year and is up 0.3% compared to the estimate.
  - Vehicle License Tax (VLT) Revenue for the year was \$322M. That is down 2.4% compared to last year and down 0.9% compared to the estimate. The positive relative to VLT is that for FY2011 new car registrations actually increased by about 10% for the year versus FY2010. That is clearly good news. New to Arizona registrations increased by 3% in FY2011. They have finally seen reversal of what they have seen over the last couple of years relative to both new car registrations and new to Arizona registrations. The negative is that the average VLT continues to drop. In FY2011, the average VLT now stands at \$125. That is a drop from \$130 in FY2010 and at the peak, average VLT was about \$150.
- FY2011, there is a slight uptick which ends the trend that they have seen over the last several years of declines. It is going to take a number of years to erase those three years of declines if the magnitude is looked at in 2008, 2009, and 2010. They would need to see fairly significant growth going forward to reverse that trend. As was indicated earlier, they still remain back at 2004 levels.

#### Investment report for May:

- The average invested balance in May was \$1.25B.
- Interest received in May was \$863,000 for an annualized yield of 0.81%.
- Year-to-date interest received was \$8.359M for an annualized yield of 0.79%.

#### HELP Fund:

- The balance at June 30<sup>th</sup> was \$71.7M. They currently have four loans outstanding totaling about \$4.4M.

They have received a letter from the US Department of Transportation confirming that the State has met its maintenance of effort requirements relative to ARRA. That means that they will be able to share in the August redistribution of funds. Last year for the August redistribution, ADOT received about \$20M. That is clearly good news. There was a requirement in ARRA that states had to certify their maintenance of effort and the amount of state funding that would

be spent on transportation and for those states that fail to meet it they were going to be prohibited or excluded from sharing in the August redistribution of funds. Again, they have received a letter indicating that they did meet that requirement. That is good news. He is not sure if that will mean that they will receive an additional share of funds because he has not seen the list of states that may or may not have met the requirement. At least in the preliminary list there were a number of states that had not met the requirement but he has not seen the final list to know if there is going to be additional funding that they might receive.

Victor Flores: How do they select this? Everyone has an excess of projects that were not successful with the funding.

John Fink: Usually the way that this works is some time in August which is why it is called the August Redistribution, they will receive a notice from Federal Highway Administration asking them to submit a list of projects that they could use additional obligation authority on if it was available. They submit that list like every other state does and they generally submit a very long list like every other state does. Typically, those lists add up to billions of dollars well more than the amount of obligation authority that is available for redistribution. Usually what happens is that they get a share of the August redistribution that is almost identical to the percentage share of obligation authority that they receive through the normal distribution which is roughly about 2% of the national total.

#### **ITEM 5: Financing Program – John Fink**

With regard to Agenda Item 5, in the books there are two items. First of all there is a timetable for the RARF issue that they are planning to price later this calendar year. At the June meeting, the Board approved the Direction to Proceed for the 2011 series RARF bonds. They are planning a \$185M issue with pricing and closing in the September-October timeframe and they have developed a timetable for that issue. From that timetable, they contemplate pricing this issue competitively. They have not sold bonds competitively since 1999. Since it has been so long ago he wants to give a quick presentation on the background of the two primary methods of selling municipal bonds and the background on why they believe that it is prudent to proceed with a competitive sale of bonds for this particular issue.

Typically, in a competitive sale, they are offering bonds to the lowest bidder and that is typically done using some kind of electronic bidding platform. It is a true competition that works best when the issuer has a strong reputation in the market, it is a very strong credit and it is not a very complicated Bond structure.

Because it is a true competition, in that the bond issue is awarded to the lowest bidder, it can produce the lowest overall borrowing cost in certain market conditions and it is basically an open and fair process. Some of the disadvantages though are that there is less flexibility in the structuring and timing of the issue. Basically, the structure is put out there for firms to bid on, and there is very limited ability then to change that structure as they go forward. Some of the other issues associated with this are that if there is a market that is very unstable or if there is a

credit that is new or has a very complicated structure, it may be very difficult to sell those bonds competitively.

In a negotiated sale, that works best when the issuer needs more structuring flexibility. It allows the issuer the opportunity to make last minute changes. It is generally best for very large issues or for issues that are just too small to make a lot of sense to do competitively. There is just more flexibility to make last minute changes to change the structure to take advantage of the market, etc. That is one of the primary reasons why they typically sell bonds on a negotiated basis.

Other advantages and disadvantages of doing negotiated sales. Advantages are that there are a number of pre-marketing efforts that are done relative to this that takes into consideration the fact that there may be special structures, there is much more flexibility in terms of timing and structuring. In terms of the disadvantages, there is clearly more work for the issuer involved in this process. It does not necessarily result in the best pricing under certain market conditions.

Mr. Fink reported on what has been happening volume-wise in the municipal bond market over the last 10 years. This is actually quite remarkable when the volume is looked at. So far this year it is only \$115B which is only 25% of what they have seen over the last several years and in fact is at levels that were last seen back in 2000. There is really not much in supply out there in terms of issues coming to market, and significantly lower volume in the market. Most people are expecting volume for the year may pick up as they move through the year. It is still going to be very light relative to what they have seen recently.

He also would like to highlight the percentage breakdown between negotiated and competitive issues. As was seen back in 2000, 2001 and 2002, competitive issues represented more than 20% of sales in the municipal market and since that time, it has trended down and had reached a low point in 2008 of about 13.7%. It has started trending up since then and through the first six months of 2011 it is now up to about 22.8%. Issuers are clearly starting to move back in that direction.

He showed a sample list of competitive issues that have been done this year. In May, Virginia Transportation Board did a \$600M competitive issue with ratings that would be very similar to what they are expecting for this RARF financing. The State of Georgia did a \$920M issue in June. Florida Department of Transportation recently did a \$150M issue that was sold competitively. While they would not necessarily expect to have seen issues of this size in the past done competitively, they are definitively seeing them now.

They are currently planning to do the 2011 series RARF bonds as a competitive issue. He has been discussing this with Mr. Kurt Freund, ADOT's financial advisor for several months now. They have been looking at the market and trying to assess the situation. They have been looking at the data to determine what the best approach is. Competing issues are expected to remain low. The rate environment is expected to remain stable. These bonds will have a very simple structure. They expect that they will have a very strong credit quality. As mentioned, the last time they did a competitive issue was in 1999. They also did a competitive issue in 1991. The good news is that they are preparing the documents in a manner that if necessary, they can always switch to a negotiated sale if market conditions warrant.

Felipe Zubia: He appreciates the timeline that was provided as it relates to the questions that he had last month. The Attorney General's office expertly answered his questions and he really appreciated this. Hopefully, the rest of the Board received a copy of that memo regarding his questions last month. With regard to competitive versus negotiated, at what point do they need to make that decision? He knows that they are preparing documents to go either way but at what point do they need to make that decision?

John Fink: He anticipates having a finalized decision in August when they bring the Authorizing Resolution to the Board.

Felipe Zubia: What is the bond rating as a state, as a borrower today - during this meeting?

Kurt Freund: He is with RBC Capital Markets. The State issues annually appropriated certificates of participation. The State's general credit rating is in the AA category.

Felipe Zubia: Has that been affected lately based on the State's budget, like a lot of other states?

Kurt Freund: Absolutely, the State has been downgraded as it has gone through fiscal situations: the State is faced with lower tax revenues coming in and deficits that they have been running.

Felipe Zubia: Does that rating effect what ADOT can borrow at?

Kurt Freund: Absolutely no. ADOT's ratings are based on ADOT's credit, so what the rating agencies look at is if it is gas tax or HURF Bonds, they look at gas tax revenues and what is going on from that stand point. In the case of the RARF program, it is a sales tax bond so they look at the credit strength of the sales tax in that particular case to determine what the ratings are. State government does not issue sales tax bonds for general state government. Local government's issue sales tax bonds - definitively putting pressure on the credit of sales tax bonds across the country and in this State. In looking at ADOT's RARF program, there is probably a little bit less pressure because of the amount of debt that has been issued thus far under the program, has not been that great. So coverage levels are still pretty high even with declining sales tax revenues.

Felipe Zubia: The fact that there is pressure on revenue in the MAG region, it will not reverse the effect of what they can borrow after that RARF issuance?

Kurt Freund: Correct, the belief is no. Again, the bonds are backed by a lean against the gross sales tax revenues and so - how does the program work. First dollars go to pay debt service and other dollars go for project costs. There are no administrative costs with RARF. That is covered by gas tax and HURF moneys.

Felipe Zubia: He really appreciates nailing this down for him. To what extent does the current national discussion on debt ceiling affect their issuance and what they can borrow at? Obviously that issue is going to be resolved but to the extent that it affects it, how will it affect it?

Kurt Freund: A very smart individual, John McGee, told him that all bets are off if they do not deal with the debt ceiling. In all seriousness, the belief generally is that they will deal with it. If they do not, it will create a lot of dislocation in the market place. If you downgrade treasuries and downgrade the US Government, that is going to chase a lot of people generally speaking away from treasuries. Personally he thinks that it will be beneficial to high grade municipal bonds, such as ADOT's, because people will look for a safe place to go. The average gold prices will go up because people will look to invest in gold. They will look for other alternatives that feel safe. The next best thing today, after US Treasuries, is state and local government debt if they are a high grade state and local government issuer. If they are a lower credit quality state or local issuer, it becomes a lot more difficult and interest costs for those people will go up.

Felipe Zubia: Looking at the timeline that was provided, it seems to him that based on what he knows as to the deadline of resolving the debt ceiling issue; this will be resolved before they have to make a decision?

Kurt Freund: That is correct. It is the belief that August 2<sup>nd</sup> is the date the US Treasury Secretary talked about. They will see what happens over the next week on that front but he really does believe that they will come up with some resolution because the impact to the US economy and global economy is going to be too great.

Felipe Zubia: One last question regarding reauthorization. With the cuts that are going to take place to get the debt ceiling raised; to what extent does that affect the rates that they can borrow at in either the RARF region or Statewide?

Kurt Freund: For the ADOT credit, that can be looked at individually; there are Gas Tax Bonds and HURF Bonds secured by Gas Tax Revenues and Vehicle Registration Revenues. There are Sales Tax Bonds and those are the RARF funds secured by sales taxes. Each of those will be looked at separately. The third program that they have is GANS or Grant Anticipation Notes which is a form of borrowing against Federal dollars that are received. That is where it has the biggest impact in terms of a lack of Reauthorization Bill or a lower Reauthorization Bill from a bonding and credit standpoint. Clearly from a programmatic standpoint that they would be spending money on, less Federal dollars clearly affects the programmatic values that can be done.

Felipe Zubia: Specifically, a lower reauthorization or any cuts will not affect what is being talked about here with regard to conditions.

Kurt Freund: He does not believe that it will affect the credit rating on these bonds.

John Fink: If he can add to the reauthorization question and the debt limit issue. Moody's this week did put out a credit piece relative to the issue of the US debt ceiling and they put the US Government on review and part of that did indicate that GARVEE Bonds could be impacted if US Government debt was downgraded.

Bobbie Lundstrom: How long is the debt ceiling good for? How do they do that?

John Fink: He honestly does not know the answer to that question. He supposes that they establish a debt ceiling and it is however long it takes them to get to whatever the new ceiling is.

#### **ITEM 6: Multimodal Planning Division Report – Scott Omer**

They are wrapping up the Long Range Plan and they will present it to the Board in the next two to three months for approval. Last month, the Board adopted the 2012 – 2016 Five Year Program and they appreciate that. They have already started the cycle for the 2013 – 2017 Five Year Program, which starts July 1<sup>st</sup> of the following year. It is a year long cycle. As they continue throughout the year, they will provide the Board with updates.

The Research Center and the Library is finally moved in and open. It is on the main campus where the old Roadrunner Cafe was. If you are in the ADOT facilities and would like a tour, contact Anne Ellis and she will gladly show you around. They will eventually have a meeting or Study Session there. It is a positive thing for the Department to actually have the Library onsite so the staff can use it and they are hoping that it is used regularly for ADOT's staff as well as their partners.

#### **ITEM 7: Priority Planning Advisory Committee (PPAC) – Scott Omer**

He would like to take Item 7a, 7b, and 7h together. They all occur within Maricopa County. Item 7a is a new project request to replace the Breakaway Cable Terminals throughout the Phoenix Construction District for a total amount of \$1.75M. The project was approved by the MAG Regional Council on June 29<sup>th</sup>. The next project is on US 60 in Maricopa County. The project was also approved by the MAG Regional Council on June 29<sup>th</sup>. It is a transportation enhancement project that added about \$1.9M of safety funds for the dual left turn lane. The project is on US60 on Vulture Mine Road to Los Altos Drive. Item 7h, was also approved by the MAG Regional Council on June 29<sup>th</sup>. It is a new project as well on SR71 for pavement preservation job that runs from US60 to the Yavapai County line.

*Motion to approve Items 7a, 7b, and 7h made by Felipe Zubia and a second by Victor Flores, in a voice vote, motion carries.*

He asks if the Board will take Item 7c, 7d, 7e, 7f, and 7g together. They are in Greater Arizona as well as the PAG region. Item 7c is a new project request in Pinal County, Tucson District. It is using the HSIP funding to supply some safety improvements. The project has new shoulder installation and some turn lanes along several locations on SR87 with rumble strip and removal of trees; so it is cleaning up the general area and is a safety project. Item 7d is a new project in Apache County in the Holbrook District. It is constructing a new traffic signal at the intersection of IR102 and US191. In hindsight, they wish this project would have been ready to approve last month while they were up in Chinle. Item 7e is a new project request in Mohave County in the Kingman District. It is the Lake Havasu State Park, design of the parking lot and boat ramp. These funds are Arizona State Parks funds. ADOT is required to administer those for them. Item 7f is in the Yuma District. It is a new sign rehabilitation project on I-8 at milepost 19.

The last sign rehabilitation project in that area was completed about 14 years ago and is a much needed project to bring those signs back up to current standards. Item 7g is a project in the Tucson District. It is a pavement preservation job that will be deleted. It was set up as a procurement type project and it will be taken out for bid.

***Motion to approve Items 7c, 7d, 7e, 7f, and 7g made by Victor Flores and a second by Kelly Anderson, in a voice vote, motion carries.***

Chairman Feldmeier: He has one quick question relating to 7e. The item shows that it is entirely funded through the JPA State Parks. There is no funding coming from ADOT. If there are staff charges will ADOT be reimbursed?

Scott Omer: He will check on staff charges and review the JPA.

### **ITEM 8: State Engineer's Report – Floyd Roehrich**

They have 120 current projects going on around the State. Although it shows a billion dollar program were in the finishing stages on quite a number of those and they have actually less than \$300M worth of work left to do. They are at a point where the construction industry in this State has a lot of capacity and they really need to work again as they look for long-term transportation solutions. They have an industry that is ready to step up and move forward. The Board will award about \$260M this month which is one of the biggest months in years and will almost double the amount of work that is going on. This is really a great boost for the industry. There is still quite a bit of capacity left. ADOT is continuing to focus on finalizing projects. ADOT finalized another 4 recently that brings to date 118 for this fiscal year which is one of the most productive years in closing all projects and taking any extra funds and moving those forward. Of significance in closing out these 118 projects is the wrapping up a lot of the ARRA projects that have been done and closing those out so they can finalize that program.

### **ITEM 9: Construction Contracts – Floyd Roehrich**

Contract awards on the Consent Agenda. The Board awarded nearly \$260M with the Consent Agenda and he appreciates that. They have two additional contracts that are outside the Board policy for award. They are relatively minor contracts, one on I-40 and one on SR82. He asks for both projects to be taken together. The first one is a pavement preservation project and although it is 20% over the Department's estimate at \$211,000 they have been able to identify a material source issue and the remoteness of this project. They underestimated what it was going to take for mobilization costs and some of the local procurement costs for the concrete and asphalt products associated with the improvements. The second project on SR82 is a scour project under a local bridge. Again, given the remote nature of that project, it is down close to the border, they underestimated the mobilization costs which put it up at about 15% over. He recommends that the Board awards Items 9a and 9b at the dollar amounts that are listed.

*Motion to approve Items 9a and 9b made by Felipe Zubia and a second by Hank Rogers, in a voice vote, motion carries.*

**ITEM 10: Public Private Partnerships (P3) Update – John McGee**

He would like to give an update on the progress of the P3 program since he last reported in February. They have made some really good progress on several fronts. First of all, each of the Board members should have two handouts on the potential P3 highway projects, one for I-15 and one for SR189. There should also be two letters to Nevada and Utah regarding I-15. As he reported at the May Board Meeting, the Department has identified these two projects along with I-11 and the North-South Corridor in Pinal County as the first four potential P3 projects in the State. I-15 and SR189 as more near term projects while the I-11 and North-South Corridor are probably a little bit longer term at least in terms of potential construction.

I-15 had a lot happening on this project in the last couple of months. Each of the Board members were given a one page document that includes a brief overview of the scope of the project and the discussion as to why ADOT believe funding the project as a P3 makes sense. The Department's staff, working with HDR as project manager, has begun developing an expression of interest to FHWA to apply for one of three interstate tolling demonstration projects that were allowed under SAFETEA-LU. Former Transportation Secretary Mary Peters is assisting in this effort. They believe that the document will be ready to submit within the next two to three weeks. They have also been working closely with the Governor's office on this project. They have been in discussions with the Governor's policy advisor on transportation issues and the Governor herself was briefed on these two projects earlier this week. In addition, the Director recently sent letters to the DOT Directors of Nevada and Utah and he has given the Board copies of those letters asking for a meeting to discuss the proposal and to gauge their possible interest in expanding the scope of the project into their respective states. He and the Director have been able to schedule a meeting with both Nevada and Utah DOT Directors to discuss this subject on July 26<sup>th</sup> in Salt Lake City.

They have been working closely with the local FHWA office on this project. They have had a number of discussions with the FHWA Washington D.C. office and they have also been talking to their counterparts in Nevada and Utah. Director Halikowski has discussed this matter directly with FHWA Administrator Mendez, members of the Congressional Delegation, and key members of the State Legislature. They are looking at scheduling a 6 party meeting of the three states DOT's and the local FHWA office in each state after the July 26<sup>th</sup> meeting with the Nevada and Utah DOT Directors. They are also working on a TIGER grant to fund whatever amount of money they can get under it for this project. They have discussed this with Nevada and they will also discuss it with Utah. They are working towards having a coordinated TIGER grant application with all three states. Nevada has already expressed an interest in doing that and again this is a topic that he and the Director plan on addressing at the July 26<sup>th</sup> meeting with the DOT directors of Nevada and Utah. He thinks that they have made a lot of progress on this in the last couple of months. The project manager, HDR, has completed a step by step GANT chart on what it would take to get this project ready to go with the goal of having all the improvements complete by 2017.

With respect to SR189, they have also begun work on this project. The environmental work on this project has already begun. The project manager HDR has developed a preliminary project development timeline for this project, which would result in the opening of a new facility in mid 2015. In order to meet this short timeline, the following critical steps would have to be accomplished. FHWA would have to issue a record of decision on the environmental work by October 2012, ADOT would submit a TIFIA loan application (if they determine that a TIFIA loan might be needed as part of this P3 project) by October 2012. ADOT would release a request for proposals for the project by June 2013. ADOT would award a contract under the RFP request by October 2013 and the project would start construction in May 2014 and be completed by June 2015. That is a very tight schedule. Everything would have to fall in place very quickly in order to have that happen. They have been working with Board Member Lundstrom to schedule a meeting with the Produce Association in Nogales. They have briefed both the Governor's staff and the Governor on this project.

He made one comment with respect to all of these projects. There has been an awful lot of buzz about P3's and toll roads over the last several years. He does not want to give anyone the impression that these things are easy to do or that they are quick to do or that their chances of being successfully done are extremely high. They intend to go forward and do their best with both of these projects, but he points out that Infra-Americas, a big P3 organization, had their annual meeting about a month ago. They reported that this year there were a total of 5 major highway P3 projects done in the entire country. That was down from 15 – 20 the year before. They were five relatively large (about \$5B) projects but looking at the vast number of projects that are done every year in this country and the number of dollars that goes into highway projects, P3's are still a very small piece of that pie.

He also is happy to report that they have received their first unsolicited proposal. Last week they received an unsolicited proposal from a company called ICA which stands for Infrastructure Corporation of America. The proposal would involve ICA in the operation and maintenance of Arizona's rest areas with the goal of reducing ADOT's roughly \$3.2M per year operating costs to something below that level. He cannot go into any of the details of that proposal because its contents are confidential until such time as the solicitation is complete. ADOT's staff is currently reviewing the proposal to make sure that it contains everything that is required of an unsolicited proposal under the current guidelines. If it is determined that it meets the filing requirements, copies will be distributed to key ADOT personnel and the P3 consulting team to review the proposal and determine if the proposal's concept appears to be in the best interest of the State. This process may involve meeting with the proposer to clarify any required aspects of the proposal. If after a proper evaluation it is determined that the proposed concept is in the best interest in the State, the Department will issue a solicitation for competing proposals. Once any competing proposals are received, they will be evaluated and a final decision will be made. They do not know if it will ultimately prove to be a concept and a benefit that is in the best interest of the State overall but they are excited that it is the first proposal that they received under the P3 program.

Finally, he would like to address a very important issue regarding two significant changes to the current P3 law that they are going to be asking the Legislature to address at the next session. First is the Tax Refund provision of the P3 law which they believe needs to be repealed.

They have researched every state in the union and no state has a refund provision that is as broad as that contained in Arizona law. In fact they only found two states out of 30 that have P3 laws that refund any amount of taxes for people who use the toll road and in both cases, they are very nominal amounts, nothing nearly as broad as the Arizona law currently requires. They believe that if the P3 program is going to produce the kind of economic impact for transportation that is needed, this provision must be repealed. Secondly, the P3 law has no provision to allow for the enforcement of tolls. This would not be a particular problem if all toll road users were required to go through an old fashioned toll booth and physically pay their tolls before entering the toll road. That is not how modern toll roads work. Most new toll road facilities have no physical toll collecting booths. They are operated by electronic toll booths with scanners similar to what is seen in the grocery store only larger. They scan credentials and determine that the person has properly paid to use the facility. If someone has not paid, they must have the ability to issue a bill and ultimately a civil citation to collect those tolls. Without such authority a very high percentage of anticipated tolls, some estimate as high as 30% will be lost making most of these toll facilities not financially feasible.

We have begun meeting with Legislators, stake holders, and elected officials to discuss the need for these changes. They are going to be holding additional meetings for the remainder of this year until the beginning of the Legislative Session. They are hopeful that they will be able to get the needed Legislative changes in this upcoming session. If not, frankly it could jeopardize both the schedule and the feasibility of both the I-15 and SR189 projects.

Hank Rogers: If they put a toll road in there with Utah and Nevada will this state be the toll collector?

John McGee: That is one of the reasons that they are going out to talk to Nevada and Utah. They and California have a significantly higher stake in I-15 as a corridor than Arizona. It is an important corridor for California. Nevada is very concerned about the future of I-15 and how it is going to be funded in terms of future maintenance and capacity enhancements. They are so concerned about it that they have formed a coalition of the states of Utah, Arizona, California, and Nevada. They are funding this coalition to try to figure out how that corridor is going to be funded over time. We see this as a potential opportunity to engage both Utah and Nevada in this project and perhaps if they are interested or willing perhaps even extend the termini of the projects in both states so that both states could also benefit economically from having a toll facility. They believe that if that were to happen it would give this project a higher potential success of being approved by FHWA because now it is not just a single state project, it is a regional project. That really is the major reason they want to have that discussion with Utah and Nevada's DOT Directors.

John Halikowski: When a request to toll an interstate is turned down by the US DOT, it seems to be for one of two. The first one is that if the interstate is tolled, any revenue that is generated has to go back into the construction and maintenance of that facility. Pennsylvania for example, wanted to toll I-95 and found that putting money into transit and other transportation facilities would not be allowed by the US DOT. As they talk to Nevada and Utah, if there is interest from them, the toll revenues could go back into improving not just the Arizona portion through the Virgin River Gorge but other portions of I-15 to facilitate traffic. The other condition is that the

Secretary of Transportation said that you have to add to capacity to the interstate if it will be tolled. By that, they mean new lanes. One of the things that they talked about with Congressman Mica's staff is that that is not a good one size fits all for the Federal Government to make because they cannot add lanes in the Virgin River Gorge. It is one of the most environmentally sensitive areas in this country. They can replace the bridge decks but they cannot go in and modify those piers to begin adding more lanes to that. They need an exception to that if they are going to get those bridges fixed. As he has explained to people in D.C., they have to pull from the rural program if they are going to fix that facility and the State gets no economic benefit from that. They need the exception to be able to toll that facility without adding capacity.

**ITEM 11: Resolution of Support – Kelly Anderson**

For the Maricopa Rail Depot. About 10 years ago he attended the ribbon cutting for the Amtrak station in Maricopa. He remembers thinking while standing there watching the ceremony - how close the rail is to the highway and one day it will be a problem. In October of 2003 Maricopa became a city and developers found cheap land in Maricopa and started building houses and the rat race was on. 50,000 cars pass by every day and there are schools on both sides of the road. They have congestion on SR347 at the intersection and with the railroad. The station platform needs to be moved.

*Motion to approve Resolution of Support by Kelly Anderson and a second by Steve Christy, in a voice vote, motion carries.*

**ITEM 12: Comments and Suggestions**

*Motion to adjourn the meeting, in a voice vote, motion carries.*



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Bill Feldmeier, Chairman  
State Transportation Board



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John S. Halikowski, Director  
Arizona Department of Transportation