

**STATE TRANSPORTATION BOARD  
STUDY SESSION MINUTES  
10:10 a.m., Tuesday, April 6, 2010  
Human Resource Development Center (HRDC) Grand Canyon Room  
1130 N. 22<sup>nd</sup> Ave.  
Phoenix, AZ 85009**

Board Attendees: Bob Montoya, Bill Feldmeier, Victor Flores, Kelly Anderson, Felipe Zubia, Steve Christy (telephonic), Bobbie Lundstrom (joined at 10:25 a.m., telephonic).

**Call to the Audience** – [No response]

**ITEM 1: Rail and Transit Update – Jennifer Toth**

Arizona has been ranked as one of the top five fastest growing states in each of the last six decades, and the Phoenix metro area is the greatest area of growth. Rail and transit are transportation choices that will help Arizona reach a sustainable transportation system. The “project and provide” method they have used has generated, rather than reduced, demand. Highway expansion programs have not necessarily reduced congestion to the degree anticipated. Transportation costs are high and although highways are the dominant mode of transportation for families, they are not the only mode. Today’s transportation outlook is shifting toward finding systems that contribute to livable, sustainable neighborhoods, helping communities rethink how they connect to people, goods, services, and to the destinations and needs they desire. Partnership opportunities abound for various agencies to develop livable communities.

The State Transportation Board was instrumental in creating this integration within Arizona through its support of bqAZ, and its systems are extremely connected. Rail cannot be successful without transit, and it almost cannot be successful without being compatible with land use, the economy and the movement of goods and people.

**Transit**

A brief overview of the functions of transit to the workforce, tourists, and residents. ADOT supports all of the transit functions through federal transit grant programs, and also a variety of special projects.

- The FY2009 funds administered through the transit group are \$32.4M, \$15M of which is the FTA formula and \$14M was in relation to the ARRA. There is also \$2.2M in STP flex funds, Federal Highway Administration funds that are flexed to Transit Administration, generally to be used for capital purchases. ADOT also supports light rail transit, plus LTAP II, which is a state funded program that has been eliminated for the balance of 2010 and into the future.

- Transit Planning and Programming is where the process starts. Feasibility studies are done first, and that leads to the entity being able to apply for rural transit funds to build and operate their systems. In western Arizona, the WACOG Tri-City Feasibility Study is underway. They have also funded the Pinal County Transit Feasibility Study, a key connection between northern Pinal County and the Phoenix metropolitan area.
- These studies lead to the next program, the Rural Transit Program. This provides funding and oversight for transit systems in rural communities under 50,000 in population and also in the tribal areas. There are 18 rural transit operators and 3 tribal operators. This funding supports administration, training needs, and capital costs for public transportation programs in small urban areas and rural areas, and it transports more than one million rural passengers each year.
- Tied to the Rural Transit Program is the Rural Transit Assistance Program. It provides funding and technical support and training, and planning assistance to the rural transit providers.
- In FY2009 the State administered about \$3.9M to The Elderly and Disabled Transit Program, which supports private nonprofit organizations, and public agencies as well as tribal agencies that provide transportation for the elderly and disabled citizens. It provides capital funding of the vehicles and supports equipment to about 150 agencies serving 75 different communities statewide. Currently, over 580 ADOT vehicles operate within those communities, in many cases being the only transit available.
- Another program is the Job Access and Reverse Commute Program (JARC) that assists the State and localities with expanded transportation services connecting lower income persons to jobs and other appointment-related services. Funds were awarded to 11 different agencies statewide within FY2009 and the JARC program was \$1M. Most of those agencies also receive the Elderly and Disabled Transit Program monies.
- The New Freedoms Program provides funding and support for public transportation targeted toward people with disabilities, and it goes beyond what is required by the ADA. An example would be a person needing additional space in a vehicle or needing extra assistance getting onto or off the vehicle. The money in this program is about \$500,000, and those funds supported 13 different agencies that combined funds with those from the Elderly and Disabled Transit Program.
- ADOT has been designated by the U.S. DOT as the State Safety Oversight Agency. This is an unfunded mandate placed on the Department. ADOT is charged with establishing safety standards for the light rail transit systems statewide. The systems are monitored by ADOT for compliance and reported on behalf of the Federal Transit Administration.
- The State administered about \$14.1M in federal transit projects, doubling the FY2009 program. ADOT is also providing technical assistance to the Navajo Transit with the design and procurement of a new maintenance and operation facility. Navajo Transit received the money directly, but Arizona is assisting them getting the project out and moving. Forty vehicles were purchased with \$4.6M of the \$14.1M ARRA money.
- Chair Montoya asked how many of those vehicles were alternate fuel vehicles. Mike Norman, Director of Grants and Community Services, replied that some of the vehicles purchased by NAIPTA in northern Arizona are hydro-electric buses, and he can supply more detailed information on other vehicles if desired.

[Ms. Lundstrom joined the meeting telephonically at 10:25 a.m.]

- The Verde Valley Maintenance Facility supports the Cottonwood and Sedona transit systems operated by NAIPTA. It provides 5,000 square feet of office maintenance space with solar panels over the bus parking area that feed electricity back into the power grid.
- The City of Coolidge Transit Center is a 6,000 square-foot facility providing office space and amenities for the Cotton Express Transit System. That facility was completed in December of 2009.

## **Rail**

Rail is a relatively new area of interest, especially now since the bqAZ study that did the Rail Framework Study and State Rail Plan is completed. Some of the benefits of rail in Arizona are: Over 70% of freight moving across Arizona is "through movement," so the State does not capture that 70%. Moving those freight trucks onto rail would help in terms of highway congestion.

- MAG and PAG are both studying the commuter rail systems within Phoenix and the Tucson area. If implemented, those systems could provide an additional load for commuters, reducing the need for roadway construction expansion.
- The inter-city rail between Phoenix and Tucson has been determined to be feasible. They are also looking to expand those inter-city rail connections to the Williams, Flagstaff and Nogales areas.
- Creating partnerships has been key to the success of rail in Arizona. The State has a role in developing the interdependency between passenger and freight rail in relation to the entire transportation system.
- The State Rail Framework Study was a rail development program that outlined specific rail investment opportunities, potential timing for their implementation, and identification of the responsibilities for initiating those rail implementations into the State that will support a healthy sustainable multi-modal transportation system for the movement of goods and people. That study provided the basis for moving forward with the State Rail Plan that will develop the priorities of what the State wants to pursue in terms of rail transportation. It is also the needed document in order to vie for federal funds, especially from the Federal Railroad Administration.
- They recently held five focus groups throughout the state, discussing the two major issues of funding and government.
- In terms of passenger rail opportunities, growth in the Sun Corridor Megapolitan region is going to lead to increased transportation demands for both passengers and freight. It will not be possible to solve the congestion by improving either roadways or rails alone. Construction of a passenger rail corridor that traverses the Sun Corridor will provide an alternative transportation option.
- The Phoenix/Tucson inter-city rail corridor will serve as the backbone of rail freight line, allowing the foundation for eventual high-speed rail connecting to different states. It will also demonstrate to other states, as well as to the federal government, the State's

commitment to passenger rail, thereby encouraging the federal government to invest in Arizona's portion of the high-speed rail connecting to other states.

Chair Montoya noted that rural areas are very interested in passenger rail, but he wondered if the usage in rural areas would justify the expense. Ms. Toth answered that the Department will start with the Phoenix/Tucson line, which will benefit the I-10 corridor connection and the Sun Corridor Megapolitan area. They know that growth is not going away and there have to be different transportation choices. Eventually the line could expand to the Flagstaff area, to Williams and the Grand Canyon, providing additional tourist options. Even further in the future, if the Department were to look at high-speed rail from Phoenix to Los Angeles and Las Vegas, those markets could really compete with the aviation industry for time savings, given the current airline safety restrictions.

Director Halikowski noted that right now ADOT is taking baby steps as far as rail is concerned, with a very small staff of three. This year at the legislature, the Department was looking to set off a small amount of VLT for funding. There is part of our gas tax sitting in Washington studying rail transit, and the Department does not have a way to get a federal match for that money. An attempt was made this year to get the remaining money but it did not succeed. Next year, they will try again and line up their support better.

Ms. Toth noted that AMTRAK is really interested in partnering with ADOT, and they want to see five-day-a-week service with a better service time.

Mr. Flores was curious what was meant by "strategies going forward." Director Halikowski responded that rail is a tough issue, especially light rail. He commented that the lessons they learned this year are that they need to engage others in the community sooner in the process. When he talked to members of the legislature, they were concerned that ADOT would spend the money on operations or capital. Mr. Feldmeier asked if the match was all federal, and Director Halikowski replied that what happens in their formula is that they send 18.4 cents per gallon in tax to Washington. Approximately 3 cents of that is set aside for transit. If Arizona does not use it, the feds can send it to other states that have matching money. Because of Arizona's lack of matching money, its money is currently going elsewhere.

Mr. Feldmeier asked if the amount of money the State can match up with is in proportion to how much money the State decides it wants to match with. Director Halikowski did not have the percentage committed to memory.

Mr. McGee responded that match rates can vary, from 1:1 to 4:1. The transit program, unlike the highway program, is done much more on a discretionary basis. It is not like the highway program where every state receives so much for this, so much for that. Most of the transit and most of the rail funds have to be applied for; otherwise they go to another state. ADOT sees it not only as an issue as providing alternate modes of transportation in the State that the citizens want and need, but also an ability to go after the funds that Arizona taxpayers are paying that we are not able to bring back into the state. ADOT is trying to find ways to obtain that money.

Mr. Zubia asked about the funding for light rail safety oversight, and wondered if ADOT was the sole funder. Ms. Toth replied that Metro puts in some funding to help by way of agreement. He asked if Tucson planned to pursue the same agreement, and Ms. Toth replied affirmatively. Mr. Zubia then commented since there is already an agreement with Metro, if they anticipate an agreement with PAG to do the light rail safety oversight, maybe there would be a way to formalize that through the State statute procedure. As part of that legislation, he suggested including that it would also be for future planning purposes. That would create the necessary matching funds and take care of both items.

Director Halikowski said he thought that was an intriguing idea, and they would add that to a list of potential legislation and start doing research on it.

- Ms. Toth continued with a discussion of freight rail endeavors. The State will need to establish a unified communication structure between the public entities and private rail companies to keep inventory of the rail assets, determine the appropriate level of public investment and be able to partner with railroads to plan and implement projects for public and private benefit. Also, there are more than 450 at-grade crossings in the Phoenix Metro area and 100 in the Tucson area. Both have experienced increased traffic with increasing accidents. Reducing the rail freight traffic in the Metro area and trying to relocate some of those operations would help improve the safety and also help transportation efficiency by reduction of backtracking on sidings and switchings in the metro areas.
- Both UP and BNSF are expanding their transcontinental routes to achieve greater capacity. Throughout Arizona these routes traverse communities, causing traffic delays and safety issues tied to the at-grade crossings. Mitigation measures as part of the railroad improvement can improve safety and circulation within the communities. Improvements to the rail infrastructure can also spur economic development by better serving businesses. Arizona would like to become a junction state, rather than a through state in terms of capturing the improvement money and retaining economic development within the State.
- The State Rail Plan will be finalized in the June-July timeframe. Ongoing coordination with MAG, PAG, bordering states and non-governmental institutions is also crucial to moving transportation issues forward. In addition, exploration of P3 opportunities within the State and other partnerships will be important steps.
- A new partnership is the DOT, HUD and EPA partnership for sustainable communities, which looks at housing transportation goals being met while protecting the environment. The FHWA's Office of Livability will help integrate and sustain livability into their efforts as well. This is an opportunity that can make Arizona relevant to what is going on nationwide. Otherwise, the State will either be left behind or have something forced upon them in terms of the federal bureaucratization.
- She spoke of the benefits of capturing through freight to the economy in terms of businesses, workers, tourists and residents. The most important thing she sees happening is reinforcing the Sun Corridor as a key economic activity on the national level and connecting it to other areas and states.

- The Department will be hosting a regional workshop for California, Arizona and Nevada regarding the DOT-HUD-EPA partnership with federal officials from those agencies. They will also be initiating a Freight-Rail Advisory Council. There are opportunities with ASHCO, who has contracted with the Rockefeller Foundation's Center for State Innovation to provide technical assistance, peer-to-peer exchanges between states, best practices, audits, and how to better improve sustainability and take advantage of the rail and transit opportunities here. She encouraged Board members to hear a presentation by Scott Bernstein with the Center for Neighborhood Technology on Thursday, April 15, 2010, in Tempe and also in Tucson the following day.
- The next steps are integration of the Rail Framework and State Rail Plan into the Long Range Transportation Plan. For more detailed information, Ms. Toth referred Board members to Mike Norman, Director of Transit and Grant Services, or Shannon Scutari, Director of Rail and Sustainability Services.

Mr. McGee emphasized to the Board that they are doing more in the transportation arena as a State agency than they have previously. He said that at the Roads and Streets Conference the previous week, there were presentations on aviation, bicycling, pedestrian and other modes of transportation, in addition to "streets and roads." This is emblematic of the change of vision in the Department as well as in the rest of the field.

**ITEM 2 (ADOT Debt Restructuring) was moved to later in the agenda, as Mr. Fink was not yet present.**

### **ITEM 3: Arizona Operations Academy – Floyd Roehrich**

The Arizona Transportation Operations Academy is a working summit of transportation professionals and elected officials from all levels of government and transportation agencies, in addition to policymakers such as the Board members.

At this meeting, they have the opportunity to address policy and guidance that crosses multi-jurisdictional governance lines and have a way to look at regional improvement to the transportation efficiency and safety of our system.

The Academy itself has defined purposes, many of which pertain to the ADOT mission statement. He then introduced Mr. Scott Nodes, Manager of the Transportation Technology Group. He also oversees the Transportation Operations Center. He is a senior leader involved in coordinating a lot of these operational issues not only at the local level but at national level as well. He has been instrumental in keeping ADOT involved in those issues.

AZTech Ops Academy started as five agencies in the mid-90s when ADOT and MCDOT had applied for a grant through the federal government and received funds as part of four sites chosen for the Phoenix area. AZTech became the offset of that original fund and is co-chaired by ADOT and MCDOT, and began bringing in other jurisdictions, groups and private interests that worked together. It started with the award the \$7.5M federal grant, and has funding through other sources including MCDOT since then. ADOT has contributed limited funding, given their financial limitations, but the Academy has had full contribution and involvement by staff.

AZTech, as well as the Transportation Academy, use a high-tech approach to find transportation solutions that improve the efficiency and maximize the available funding in order to use technology advancements through private industry and research organizations. They also try to standardize the approach toward establishing policy, and they cross governance lines through the region to ensure that the throughway transportation system is augmented and supports the local transportation systems.

Some early AZTech projects were:

- Traveler information system, using devices put into vehicles to communicate transportation issues with drivers
- Kiosks in certain areas to get transportation information
- Integration of throughway management system such as closed circuit TV's, ramp metering, and a speed monitoring system with the local systems including signals
- Automated vehicle location equipment installed in buses providing real-time information on status of bus routes

At this time, AZTech is expanding as other local and transportation agencies get more involved in reviewing transportation issues in the MAG region. It may expand into the Tucson area. It is co-chaired by Director Halikowski and MCDOT's Director of Transportation Mr. John Hauskins. When Director Halikowski is not available, Mr. Nodes represents ADOT.

Some AZTech issues led to the Academy formation. They submitted the idea last fall to the Federal Highway Administration in order to bring the cooperative summit of leaders together and the Highway Administration agreed to that. The emphasis of the summit will be to set priorities and policies that will get maximum benefit from available funding. To this point, AZTech worked as a cooperative effort between staff and senior managers within the various transportation organizations. Now it has become necessary to formalize a strategic plan that provides the opportunity to set policy and guidance for expansion, especially in the use of technology. The Academy provides an opportunity to move beyond staff feedback and recommendations into a larger vision.

It will be a three-day summit held at the Sheraton Crescent Hotel in Phoenix. The General Session is May 11-12, and May 13 is the Executive Summit. Two days of General Session targeting transportation professionals and addressing basic areas. The third day is the Executive Summit when elected policy leaders meet, take information that staff sees as the baseline and use that information to provide higher level policy guidance to professionals to move forward in a regional approach.

There will be senior representatives from MCDOT, MAG, and the Federal Highway Administration as well as Director Halikowski from ADOT. He expressed his hope that Board members would be able to attend, stating that he is looking forward to a highly productive session.

**ITEM 4: State Furlough Program – John McGee**

Part of the FY2011 budget package signed by the Governor included issues that will impact State employees: the removal of State performance pay and imposition of furlough days. The law requires six unpaid furlough days for all State employees in FY 2011 and six more in FY 2012. There is also a possibility of one furlough day yet this year. The State is trying to coordinate furlough days among as many agencies possible, so that the State government can effectively shut down on those days.

Out of the six days selected for FY2011, there is only one that impacts Board activities and that is Friday, September 17, 2010, which is the scheduled Board meeting in Eagar. Ms. Currie has contacted the City of Eagar to see if it might be possible to reschedule to Thursday the 16<sup>th</sup> of September and the activity to Wednesday, September 15. Eagar has agreed and Mr. McGee asked Board members to see if a Wednesday-Thursday schedule would work for them for the September Board meeting. If not, please contact Ms. Currie. If there are too many Board members who cannot attend, they will figure out an alternate plan.

Mr. Christy asked Mr. McGee what budgetary savings are projected by the use of furlough days. Mr. McGee remarked that the overall savings of the furlough days is estimated to be about 2.5%. For ADOT, the dollar amount would be about \$4-5M, and the savings for the State as a whole would be about \$50M.

**ITEM 5: Red Rock National Scenic Area Act of 2010 – Eileen Colleran**

Ms. Colleran started with a brief overview of a recently introduced bill to provide a National Scenic Designation for NSA for the Sedona area.

NSAs are part of special management areas designated by Congress and those areas refer to any of the National Forest land, Wild and Scenic Rivers and National Trail System areas that are given a special designation through Congress. There are 25 special management areas in the National Forest, including National Recreation Areas, National Scenic areas and National Monuments. The designations are given by Congress to have the Forest Service emphasize those areas. There are currently only four National Scenic Areas in the United States, and each Area has its own specific statutory language related to their destination and how they are managed. The Secretary of Agriculture is the responsible party for increasing public awareness, managing the areas, making them highly visible and providing management over and above what is done for the Forest areas.

House Bill 4823 (Scenic Red Rock National Scenic Area Act of 2010) was introduced on March 11, 2010. It establishes the Sedona Red Rock National Scenic Area in the Coconino Forest. It restricts exchanges of land involving National Forest System Land included in the Scenic Area and also requires managing the National Forest System Land as provided in the Land and Resource Management Plan for the Coconino National Forest. This gives the force and effect of law to the Plan.

Of interest to ADOT would be the following language in the bill: it guarantees that there will be no effect on local government discretion to seek the resolution of encroachments and infrastructure for land use needs involving the National Forest System Land within the Scenic Area. The governing bodies affected are state, county, municipalities, fire and school districts, along with utilities serving the public. Ms. Colleran reported that the State Attorney General's office has commented that the language of the bill looks good, but it can also have unintended consequences such as designating the Area as 4F, which would then require a lot of additional work if ADOT needs to go in and make improvements or perform safety work.

Director Halikowski asked for clarification of what "seek the resolution of encroachments" means. Ms. Colleran replied that if ADOT needs encroachments for additional land that it should not, in theory, be impacted by the Scenic Area designation. Ms. Colleran stated that was the intention at least. It would also apply to condemnation and other accepted procedures. Mr. Feldmeier was curious if it would create any additional steps they would have to go through and Ms. Colleran replied that it would not.

Mr. Roehrich commented that this gives the area a higher environmental sensitivity that creates more difficult mitigation components as part of the NEPA process. An entity can seek to resolve this as a governing body, but what is not defined is how difficult that process may be. He wondered how extensively the Department would have to look at options to avoid or mitigate problems.

Ms. Colleran continued that since the bill was recently introduced on March 11, and has been assigned to the National Resource Committee in the House, no hearing has yet been scheduled. Once the Committee hears it, they will "report out" on it. If they report in favor of it, it goes to hearing on the floor, and if the House agrees to it, it will then go to the Senate where it will be assigned to committee, most likely Energy and Natural Resource Committee. If that committee is in favor of the bill, it will be heard on the Senate floor. If there are no changes between the Senate and House versions, it will go to the President. If there are amendments, it will first go to a Conference Committee. What happens with this bill to a large part depends on how much people talk about it who are really vested in it.

She explained that the purpose of the letter in their packet was to see if the Board has interest in providing information to the bill's sponsor relaying their concerns about the legislation, particularly guarding against any change in wording.

Mr. McGee remarked that last summer they received a letter from Representative Kirkpatrick's office indicating she was looking at potentially sponsoring this designation and was looking for input. The Director did respond with a letter similar. Now that the bill has been introduced, the Board can choose to make a resolution, draft a letter or whatever they feel comfortable doing as a body.

Mr. Zubia suggested that the board should know a lot more about it; he believes that we need to know how the bill will impact the area in question. He would like to see a copy of the bill, and would like to see the board communicate its support or concerns.

Mr. Flores commented that the Board should collaborate with other stakeholders, and be kept abreast on how the bill progresses.

Mr. Feldmeier wondered if any of the other four Scenic Areas have been impacted by needed road improvements as a result of this. Ms. Collieran said she could do some research on that. He also stated he was interested in hearing the opinions of their attorney.

Chair Montoya added that he would like to know how many other applications have been made for this type of designation and what are the reasons they were not approved. Ms. Collieran said there were about 20 other areas that had requested designations over the years. Many probably failed due to lack of a hearing or interest. The other issue that either delays or kills an application is when there are very vocal parties both for and against the designation. Chair Montoya agreed with Mr. Flores' suggestion to get the issue out to the stakeholders.

[The Board recessed for 45 minutes.]

Chair Moutoya reconvened the study session at 12:30 p.m. All previous members present, with Bobbie Lundstrom joining by telephone approx. 1:00 p.m.

## **ITEM 2: ADOT Debt Restructuring – John Fink**

Mr. Fink apologized for his earlier absence, explaining that he was at the legislature on ADOT business. He stated that this presentation was a follow-up to two prior presentations, the first in November that was regarding the status of all bonding programs, and the second being a funding update in early January.

To date, the Board has issued \$3.7B of HURF bonds in 25 issues, going back to 1980. Currently there is \$1.74B of HURF bonds outstanding, with the final maturity of those bonds being July 1, 2033. The maximum annual debt service on these bonds is \$156M, occurring in FY2013.

In the calendar year 2008, several bonds were issued, Series 2008A and Series 2008B. Currently there are still about \$120M in proceeds available, and those are the only HURF bonds that were not re-issued since 2008. Right now, HURF bond revenues are the only source available for a match on federal aid projects in the statewide program. Also, the HURF proceeds need to be used for certain projects and subprograms that are in the Five Year Program. At current usage rates, the \$120M HURF bond proceeds currently available will last sometime into FY 2012.

He referred to a slide showing an overview of the HURF debt parameters. He detailed the three debt service coverage tests. Out of these, the one that the Board established is the highest, which is five times on a senior lien basis and four times on a subordinate lien basis. The maximum bond term is 30 years, set by statute, and HURF bonds are very highly rated.

The coverage test is relevant because when new bonds are issued, there are additional bonds tests that are applied, and the new bonds can only be issued if they meet the debt service coverage requirements. The coverage is calculated by taking pledged revenues divided by the maximum annual debt service and that is expressed as times covered.

For senior lien bonds, the pledged revenues for the preceding 12 month period, prior to the issuance of the bonds, would be divided by the maximum annual debt service. He emphasized that it does not relate to the fiscal year, but to the 12 month period prior. For subordinate bonds, the test is a little less stringent in that 12 consecutive months can be selected out of the prior 18 months. When revenues are stagnant or declining, the 12 month period selected might not be the most recent 12 months. In this case, the maximum annual debt service is calculated using all existing additional senior liens and subordinate bonds.

The policy coverage on a combined basis is four times, and it is not until 2014 that the four times is exceeded. There is no capacity based on the policy coverage ratios until 2014. He recalled that there are only proceeds to last until 2012, so potentially there may be a one or two year period when there are no bond proceeds.

Chair Montoya wondered how Arizona compares to other states, and Mr. Fink replied that other states have various coverage ratios. He added that the ADOT policy is among the more conservative of all the states, but there is a correlation between the conservatism in this program and a higher rating. If ADOT were to lower its coverage ratio, they would probably see a corresponding dip in bond ratings. Mr. McGee contributed that there are many factors that contribute to ratings, and coverage is just one. It is a subjective process that also considers the strength of the pledges, revenues, the management team, and the Board's willingness in tough times to go in and do what has to be done to keep the program fiscally constrained.

Mr. Fink continued with his next slide, which was a graphical representation of the current debt service. He noted that the debt service begins to drop off around 2020 to 2027, and then is fairly stable through 2033. The agency has not issued any 30-year bonds yet.

The concept of restructuring is to take the debt service that currently is relatively high and that then drops off dramatically, and level it out. It can be leveled out as far as 2040. Theoretically, the annual debt service could be lowered to about \$115M per year. If that was done, even with existing revenues, it would lower the coverage to 4.38 times, which is above the policy level. At that time, they could issue down to the policy level which would create about \$170M of new capacity. If issued down to the statutory level of 3 times, that would generate about \$800M. The downside is the cost. This would be a restructuring done to level out debt service and provide additional capacity, not one for refinancing or economic reasons, and under current market conditions, the cost would be in the range of \$80-90M on a present value basis. The cost would be spread out over 30 years.

He showed a slide of a graphical representation of the two examples of debt restructuring mentioned above. Mr. Flores wondered where the cost comes from. Mr. Fink answered that the debt service goes up because the bond has been pushed out for a longer term and a higher rate

has to be paid. Mr. McGee added that it is not so much that an underwriter or attorney is being paid, but it is the stretched out time limit, much like comparing a 20-year to a 30-year mortgage.

Mr. Fink commented that his analysis is based on where ADOT is at this time revenue wise. If the economy improves dramatically, the problem could be solved with additional revenues. He does not see that type of growth occurring. Secondly, the calculations are based on his expectations for the amount of DPS funding taken off the top of HURF, and on other sweeps and transfers that might occur. The State budget is going to be significant over the upcoming years and it is highly unlikely that there would be less pressure to take revenues off the top of HURF for DPS. He expects the transfers will continue to occur at a fairly high level.

Director Halikowski wondered what the consequences would be if the sales tax increase is not approved by the voters. Mr. Fink said it would depend on how they did it. He emphasized that capacity freed up through restructuring has to be protected to prevent further transfers or sweeps. One way of doing that would be to issue a new capacity at the same time. Another option would be to use capacity available in other programs until HURF capacity becomes available. He informed the Board he is not coming forward to them with any recommendations at this time, but may in the future.

Mr. Feldmeier asked about the current bond market as it relates to interest rates. Mr. Fink responded that rates are at historical low rates.

Chair Montoya was curious what the advantages of restructuring the debt in order to complete needed projects. Mr. McGee said it is probably not something the Department would want to look at now. The biggest concern is utilizing FY2010 federal funding, particularly if the Department receives additional ARRA funding. Once a few fiscal years go by and revenues are not rising, and there are some critical projects that will need funding, it may be looked at as an alternative. All these financial decisions are made on a very 'point in time' basis.

Director Halikowski wondered what would happen if they ran out of HURF proceeds in 2012 and were in need of federal matching funds [inaudible]. Mr. Fink replied that to match federal funds on an annual basis, and for the other things that the Department critically needs to use these bond funds for, probably totals about \$60M a year. He added that if there is no match for federal aid, there is no State program. He said he would have a better idea by this time next year regarding a recommendation.

Mr. Zubia was curious if this would be a one-time restructuring. Mr. Fink said they have the ability at this time to issue for 30 years but so far they have only issued for 25 years. If they had the capacity right now, they would probably issue out to 30 years. Mr. McGee added that the Board has never issued any kind of policy acknowledging the statute, but when the legislation was passed in 2007 raising the bond issue to 30 years, one of the concerns was that there might be a negative impact on bond ratings. Since the Board has not made a policy statement saying they only want to issue bonds for 20 years, then staff can restructure the bonds to 30 years. Mr. Zubia wondered if the restructuring of the HURF bond debt service to produce \$115M through 2040, referred to what is currently issued. Mr. Fink stated that they could do restructuring

without issuing additional capacity and reduce the annual debt service from \$155M to \$115M, but the new debt would go out to 2040, not 2033. Mr. Zubia then asked what that money would be spent on today, expansion or maintaining our current service level. Mr. McGee responded that the Board would have to look at whether they wanted to do a "preservation" program, or do something like restructuring to produce some major capacity programs in Greater Arizona. In essence, the restructuring would tide them over for several years.

Mr. Zubia brought up the subject of revenue sharing with MAG and PAG. Maricopa County complains that they are contributing to the pool, but not getting their fair share, as they have the center of population. He posed the question as to when everyone else will step up to the plate and start contributing to matching revenues. He wondered at what point do they fix the problem instead of putting a band aid on it. He then related that scenario to the topic of this discussion about taking money from the future to use today to maintain the status quo. Mr. McGee responded that additional capacity is one element of the equation. Another element is that if two or three years down the road there is not enough money to match \$700M of federal aid, then the Board may have to look seriously to restructuring to avoid losing ADOT's share of federal aid. He said that the decision point would probably be survivability of the federal aid program.

Director Halikowski echoed Mr. McGee's statement that the Department cannot lose the \$700M in federal aid. If the Department were to spend money on projects, obviously the dollars are worth more today than in the future. When it comes to rail and some of the other projects discussed, the Department has to make some shifts, because someone has to lead the State to the next level of rail and transit, sustainability, livability, and say "here is how it is done." The Board needs to have this conversation, as part of the Department's mandate is to lead the State's transportation effort. At some point, ADOT has to say to others that Pima County and Maricopa County cannot carry this alone.

Mr. Zubia suggested there might be certain thresholds the Board might consider as points when the restructuring would need to be done. That way, the Board would not be faced with having to make a sudden decision. He pointed out that those funds are not currently available for expenditures on rail, but that may change. Director Halikowski commented that he would still see those funds as a match. The Department needs to take the vision that it has created and put it into a plan. Mr. Zubia referred to the subject of the governance structure. Director Halikowski responded that MAG took some preliminary steps to pull Maricopa, Pinal, and Pima Counties together, but does not know the current status. He sees the Board as the unifier to pull the State Plan together. Otherwise perhaps the three largest counties will come together into some kind of governance group.

Mr. Fink suggested he could bring the restructuring discussion back from time to time, and Mr. McGee said it was important that they got the ball rolling at this meeting so the Board would understand the concept and the numbers involved. Chair Montoya noted that it is important the Board understands that they need to be prepared to look at this type of vehicle so as not to lose federal funds.

## **ITEM 6: State of Arizona Open Meeting Laws – Lisa Maxie-Mullins**

Ms. Mullins introduced herself, mentioning she is with the Arizona Attorney General's office, and will be speaking about the details of compliance with the State of Arizona's Open Meeting Laws.

The underlying principle of the Open Meeting Laws is "openness." The public body's decision making should be open to the public, so the public can be knowledgeable of the actions and dealings of the public body.

There are certain mechanisms and tools to keep public bodies on track. These are:

- Notice of agenda
- Minutes
- Call to public

She noted that Arizona law specifically states that if a body is in doubt about openness, it must act in favor of openness at all times. The Open Meeting Law is applicable to the ADOT Board because it is a public body created by statute, and if there is a meeting of the Board, then that meeting is subject to the Open Meeting Law. A meeting occurs if there is a quorum to discuss a legal action, propose legal action, deliberate or take legal action.

Areas where Boards may experience pitfalls are:

- Notice requirements. A 24-hour notice is required for each meeting to inform the public of the date, time, and location of the meeting. Some exceptions are:
  - True emergencies, when the notice can be posted after the meeting
  - If the Board has to recess and resume a meeting at a different location, time or date
- Discussion of issues or items not listed on the agenda. The agenda is very important, as it allows the public to make an informed choice about whether or not to attend a meeting. Also, if a Board takes legal action on an item not on the agenda, the action will be declared null and void.
- Agendas containing general references without specific details. An example would be if an agenda stated only "Old Business" or "New Business" with nothing else to provide information to the public. The law requires a specific reference to what will be discussed. Exceptions to this reference requirement are:
  - Executive sessions
  - Current events summary. This allows the Chief Administrator and members of the Board to give an update to the Board.
    - The Current Events Summary has to be listed on the agenda.
    - There can be no discussion regarding the items presented during the Summary.
- Failure of Board to keep accurate meeting minutes. Minutes are required and may be written or recorded. Certain items must be included and it is recommended that speakers identify themselves when they approach the podium so that the public knows who is

speaking. Minutes must be available to the public within three days after the meeting, and they could be in draft form or not approved. Chair Montoya asked where those minutes would be housed and it was noted that the Secretary of the Board would keep the minutes.

- Board members responding to issues raised during the Call to the Public. The Call is optional; the public only has the right to attend, listen and record the meeting. After a public member has spoken, the Board can respond to criticism, direct staff to review the issues raised, or request staff to put issues on a future agenda. No discussion is allowed unless it is a matter already listed on the agenda.
- Executive Sessions are typically for the Board to go into closed session for legal advice. Executive Sessions must be noted on the agenda, be by a majority vote, and the minutes of the Executive Session must be kept, but they are confidential. Having a lawyer present is “not enough.” A Board member must ask a legal question and the lawyer will respond with legal advice.
- Discussing matters with other Board members outside of the Board when there is no quorum. That includes telephones and social networking sites. There is a situation called serial communications or splitting the quorum, when a series of phone calls or emails actually provides a quorum even though they are not in the same place at the same time. This is a serious issue with one instance recently being reviewed by the Attorney General’s office.
- Sub-committees. Advisory or sub-committees, if appointed by the Board or the Chief Officer of the Board, must comply with the Open Meeting Law. This has come about because a lot of real discussion takes place at that level and the public might be left out, only hearing the final recommendation.
- Consequences for violating the Open Meeting Law are:
  - If you vote on an action not listed on the agenda, the action could be considered null and void.
  - The Board could be investigated if there is an alleged violation by the State or County Attorney General’s office. If the violation was unintended, there may be a recommendation for training. Otherwise, fines and fees may be assessed.
  - Embarrassment and loss of public trust. This could be one of the more severe consequences of a violation.

Mr. Feldmeier asked who is allowed into Executive Sessions besides Board members. Ms. Mullins responded that the law states whoever is “reasonably necessary.” Examples would be a presenter on the specific topic, or someone to take minutes. The Board would make that determination.

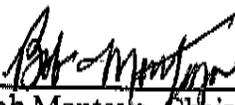
Director Halikowski brought up a situation where the Board takes legal action and then later a question arises if there was a violation of the Open Meeting Law. He wondered who would make that decision. Ms. Mullins replied that Open Meeting Law Enforcement Team (OMLET) could make that decision if they are investigating. She said that if a situation did arise where there was a difference of opinions amongst Board members as to a violation, the best course of action would be to consult an attorney. It does not necessarily have to be self-reported to

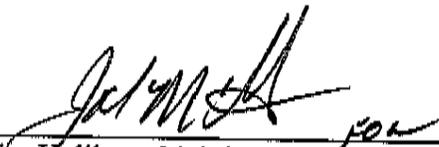
OMLET, because in some situations the Attorney's office can make the determinations and go through the steps toward compliance.

Mr. Christy wondered if they go into Executive Session and a member of the Attorney General's office is in that session, does that remove any potential liability on Board action in the Executive Session. Secondly, he had a question regarding agenda items. If, for example, the Director is giving his general report and there is a question that only the Director can answer, is it appropriate to ask him that question even though he may not have broached the subject during his report. To his first question, Ms. Mullins replied that the Attorneys are not an automatic blanket of protection. Secondly, if the matter is not at all related, it would be better to place it as an agenda item for the future. If the Director's report is essentially a current events summary, then it would follow those guidelines.

Chair Montoya thanked Ms. Mullins for her presentation.

***Motion by Mr. Zubia, seconded by Mr. Flores to adjourn the meeting at 1:50 p.m. In a voice vote, the motion passed unanimously.***

  
\_\_\_\_\_  
Bob Montoya, Chairman  
State Transportation Board

  
\_\_\_\_\_  
John Halikowski, Director  
Arizona Department of Transportation