

**STATE TRANSPORTATION BOARD
MEETING MINUTES
9:00a.m., Thursday, September 16, 2010
Town of Eagar Council Chambers
22 W. 2nd Street
Eagar, Arizona 85925**

Pledge

The Pledge of Allegiance led by Chairman Montoya.

Roll Call

Roll call by Board Secretary, Mary Currie.

In attendance: Bob Montoya, Bill Feldmeier, , Bobbie Lundstrom, Victor Flores (absent), Felipe Zubia (absent), Steve Christy, and Kelly Anderson.

Opening Remarks - Chairman Montoya.

Thank you very much for hosting this ADOT Board Meeting in Eagar. Special thanks to Mr. Husted and the Town of Eagar for hosting our meeting, it is always a pleasure to visit the community. I apologize that I was unable to attend the dinner last night. Again thank you very much for having us here.

Call to the Audience

Mayor Holaway - Good morning, on behalf of the town of Eagar it is my pleasure to welcome all of you here. We are very honored that you chose our town to host your Board Meeting and we also hope that you will come back at another time when you can enjoy our snowy weather or our beautiful springs or the summer or of course in the fall with the changing of the leaves which will be probably in about two weeks. Thanks for coming and it was nice to meet all of you last night and this morning as well. I hope you have a good meeting.

Steve Stratton, Public Works Director, Gila County - Thank you Mr. Chairman, the Board and, staff. I am here to share some good things about the ADOT staff that have happened lately. Item 3n on your Consent Agenda today is something that Gila County has worked on for a long time. If it wasn't for Dallas and Sam walking us through the process that would not have happened this year, which would have caused me a lot of grief from my Board of Supervisors. I would like to commend them and thank them. Also, on the paving project in Pine we had some problems. Greg Gentsch worked with me very closely through all the problems to the satisfaction of our Board of Supervisors. I want to thank you for your time.

ITEM 1: District Engineer's Report – Dallas Hammit, Deputy State Engineer

We are without a District Engineer in the Globe District, as well as the Yuma District. We are moving forward to fill both positions. We have asked members of both the northern half of the district and the southern half. One from each elected staff from Navajo and Gila County to help us through that process. We have the communities' input and our new leaders. That process is moving forward. The current leadership in the Globe District is Matt Moul who is running the Maintenance and

Development district and two Senior Resident Engineer's, Luis Chavez and Elaine Leavens. Most of you know most of the Globe District consists of parts of the Navajo and Apache County, part of Gila County and Pinal County with construction offices in Show Low and Globe and Maintenance offices in Show Low, Springerville, St. Johns, and Globe. Some of their recent projects or current projects:

- SR 77, this project is a widening realignment project with extensive rock quality mitigation and laid back slopes and moved a lot of rock. They are in the final stages of this project.
- US 60 through the town of Miami is complete.
- Rainbow Lake - Retaining wall repairs.
- Community of Lakeside – an enhancement project for lighting and landscaping and an art project enhancement in the town show.
- Various emergency drainage and rock wall projects on US 60, SR 188 and SR 288
- San Carlos River Bridge, US 70 going between Globe and Safford.
- Apache Trail - Retaining wall work
- US 60, Silver King segment - Two years ago we completed the Gonzalez Pass, widening. This will pick up where that left off and go to the Town of Superior and then the next project on Superior Street will pick up from that point and move forward. All of these projects are under design at the current time.
- Two projects in the Globe District in the DCR phase: One big one is between Superior and Globe, what corridor do we take to get there. The last sculpting project is again on 260 between Heber and Show Low to add capacity in the future. Right now we are in the design concept phase.

John Halikowski - Just as clarification, on the Emergency Relief projects, what is the source of money to pay for those?

Dallas Hammit - It comes out of our cash flow but we will be reimbursed 100% from Federal Highways, but we have to front the money for future years to get reimbursed.

John Halikowski - What is the window for reimbursement and how long is our cash tied up?

Dallas Hammit - We have had some reimbursements come very quickly; SR 87 was within a year, and others that have taken multiple years.

Chairman Montoya – Does that affect our budget or the projects that are scheduled?

John Halikowski - No Mr. Chairman, my point simply was that when we do emergency work it does come out of state funds while we wait for federal reimbursement. It does sometimes tend to take more than one year to receive reimbursement.

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

Thank you Mr. Chairman, I will quickly run through my comments. We reopened 5 rest areas in July, we expect to have all but three opened by the end of September. We are moving forward on that and hope that the budget economic situation will not impact our plans in the future. This is a critical safety issue. Sedona lights, as we reported during the study session, should be done and negotiated and is being headed up by Mr. McGee. He is working with Sedona City staff for a potential turn back

agreement either for that portion of 89A or the entire portion that is within the city limits of Sedona. The Team met on September 1st, and it was reported to be a good meeting and I think that the follow up letter sent to the Board and to the Mayor clarified a few points from my previous letter.

On Building a Quality Arizona, I am happy to inform you that Jennifer Toth and her team won an award from the Arizona Planning Association and will be submitting it for a National Planning Association Award. AzTA, our Arizona Transit Association submitted the application with our help. I think we are showing a great partnership here with the transit community.

There is an effort going on that I am participating in. I was in New York last week at the Rockefeller Foundation. Roughly 14 states have gotten together under what we call a Smart State Transportation initiative, and the Rockefeller Foundation has joined us in providing some grants as we are trying to work through issues revolving around the next transportation reauthorization pertaining to livability, sustainability, and performance measurements. The states are a little bit in the dark as to what those mean. There are two states that they are auditing. Pennsylvania and Washington state who seem to have very good programs. What will come out of this is that Arizona and North Carolina will be the control states and when the audits are completed for Washington and Pennsylvania, they will look at our practices and see where there are gaps. Then we will adjust our practices accordingly. This is being paid through the grant and it is a good way for the Department to take a complete look at its business operations.

We have created a new Enforcement Compliance Division within MVD by splitting some of the Motor Vehicle functions.

The Federal Government recently enacted a \$2.2B rescission. Arizona's share of that was \$45M. Mr. Fink will be happy to update you on that in his report as to what funds are affected.

We are continuing to meet on I-11 with the Can Do Coalition. We are trying to see if we can develop an agreement that would give the department a significant amount of right of way. I am working with Mr. McGee on that team. The investment we had to put in at this point seems nominal for preliminary planning activities and our hope is that we can develop an agreement, and through this foster some economic growth.

Bill Feldmeier - The target date to completion the conversation with Sedona is when?

John Halikowski - In the letter we sent to Sedona, we wanted to reach agreement by January 15th. Hopefully we will be able to reach an agreement prior to that.

Mr. McGee - Everyone recognizes that the date is January 15th but I think that we should also recognize that we would like to get there sooner.

Steve Christy - What does is the status of the Hoover Dam Bypass?

John Halikowski - I believe that the opening celebration is October 14th, . Everything is still on schedule and budget.

ITEM 3: Consent Agenda

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Motion by Mr. Anderson, a second by Ms. Lundstrom. In a voice note, the motion carries.

ITEM 4: Financial Report - John Fink

John Fink - I left at your places our year end reports for FY2010 for both Highway User Revenue Funds and the Regional Area Road Fund. In your books, there are two months of HURF reports since we did not have a meeting in August. I am only going to cover August this morning. August HURF results are \$99M. That is up 8.5% compared to last year's \$91.3M and 1.2% when compared to our estimate. For the first two months of FY2011, HURF is at \$199.4M. That is up 5.5% compared to last year and up 1.6% compared to the estimate. One thing I would like to note is that this year's HURF results include \$2M reversion of funding that was transferred to DPS in prior years. Essentially we transferred money to them out of HURF for their operating budget. They did not use it all for prior years and reverted \$2M to us so that was included in other revenues in July. If you factor that out, this changes the results a little bit and this is clearly a one time thing.

Gas tax revenue for the year is now at \$74.6M. That is up 2.1% compared to last year but it is down almost 1% compared to our estimate. Use Fuel tax revenue is at \$28.5M. That is up 6% compared to last year and about 2.5% when compared to our estimate.

The weakness continues in Vehicle License Tax Revenues for the first two months for \$57.1M. That is down 5.4% compared to last year and down 3.7% compared to our estimate. New car sales continue to be weak and average VLT continues to decline. The average VLT is now down to \$133 when just a couple of years ago it was about \$150. That is a significant decline and in fact August car sales were down 12% compared to last August.

It appeared that gas tax revenues were clearly stabilizing. Now it appears to be starting to increase. While it is not a huge increase, this is at least a good sign. VLT continues to be weak. We are seeing again maybe some slowing in the rate of decline but still no evidence of stabilization.

Regional Area Road Fund -

- We do not have August results yet so I am only going to present July. July results were \$24.6M, that is down 4.5% compared to last year and down to 5.2% compared to our estimate.
- By category retail sales were \$11 million. That is no change compared to last year and it is down 4.5% compared to our estimate.
- Contracting revenue continues to be the weakest spot in the RARF results. Contracting revenues were down 23.3% compared to last July and down 11% compared to our estimate. When we did our estimate for this year, I thought I was being extremely conservative with regard to contracting revenues but apparently not conservative enough. Other categories are also continuing to exhibit weaknesses and only Rental of Real Property was above our estimate.

I wanted to update you on what our forecast is for FY2011. We started our process for developing our new official forecast with the Risk Analysis Panel on August 27th. They provided all of their inputs and commentary for the new forecast. That process will be run through our model and we will do some evaluation. I will probably come back to you in November or December to present the new

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official forecast. We did develop a forecast for FY2011 for both HURF and RARF. Our forecast for HURF FY2011 is total revenues of \$1.205B. That is just slightly above last years actuals. Last years actuals was \$1.194B so it represents less than 1% growth rate, however, any kind of positive growth and our HURF would reverse three consecutive years in decline. One thing I wanted to highlight though is that our official forecast for FY2011 that was adopted just in September 2009 was for revenues of \$1.265B. That is a drop of \$59M in just one year. ADOT's share of that would be about \$25M. MAG's and PEG's share would be about \$4.6M. So the cities and towns share would be about \$18.1M and the counties share would be about \$1.2M. So we are talking about significant impacts from that forecast change.

It is the same way for RARF. Our forecast for FY2011 is \$301M that compared to the actuals for 2010 of \$209M. Also less than 1% growth but again if we see any growth in that category it would reverse three consecutive years of declines. Our official forecast for 2011 again that were adopted just last September was \$321.9M which is down about \$21M. The freeways share is a decline of about \$11.7M. Arterial streets show that is about \$2.2M and the public transportation funds share show a decline to be of about \$7M. Again we are talking some pretty significant impacts in just one year.

Aviation Fund:

- We do not have August revenues yet. I can only cover July. Aviation fund revenues tend to be lower in the first half of the year so again there is not a whole lot going on here. July's revenue was \$549,000. That is down about 69% compared to last year and down about 60% compared to our estimate. However last July included a couple of one time or non-recurring items that really impacted last July's results, so they are not really comparable.
- We received a large Federal Grant last July that we did not receive this July so that led to a significant decline and also on property taxes.

HELP cash balance as of August 31st was about \$70M. We currently have four loans that are outstanding totalling \$5.8M. As I have indicated previously to you, at some point, I expect I will come back and recommend that we reactivate this program and get it started again. One of the reasons why I have not been able to do that previously is because of significant staffing issues and we really have not had the staff to be able to devote time to this program. I expect that that is going to be changing fairly soon. Again, I will be expecting to be coming in and asking for approval to reactivate that program.

I wanted to give you an update on where we are at with the Federal Aid Program. The director alluded to the rescission that we just had to comply with. I wanted to talk a little bit about that and a couple of other items. We are in the process of closing out both our regular Federal Aid Program and the Stimulus Act Funding. This must be completed by the end of the federal fiscal year which is September 30th. We are on track to fully obligate all of our Federal Funds this year barring any unforeseen developments. We were able to do this despite a couple of complications. As we have already discussed, there is a \$45.1M rescission of unobligated balances of apportionments. Congress actually passed this rescission in the beginning of August. We did not receive final notification of the categories from which we could take the rescission from until August 18th, and then we had to submit our response by August 25th which did not leave much time to respond. However, we did an internal evaluation of the categories that had balances that we could spare. Lisa Danka of my staff talked to every single COG and MPO to discuss the rescission with them and what we were thinking, and get their input. As it turned out, we had no single categories that we could spare apportionments from and still be certain that we would be able to close out the federal fiscal year. So we had to spread it across

virtually every program. Amounts were rescinded from Interstate Maintenance, National Highway System, Surface Transportation Program, Transportation Enhancements, Planning Funds, and then some funds that are available for recreational trails. I may be missing a couple of things but we had to take several programs off the table. We could not rescind any funds from any of the safety programs, for instance, and from Safe Routes to Schools. We were able to do it without impacting any projects and so that was good. Again, we did consult with stakeholders before we submitted our plan.

On Monday of this week, we received notification from FHWA that Arizona had been granted an additional \$21.7M of obligation authority through the annual redistribution of funds. Of course these funds have to be obligated by the end of the federal fiscal year so we have a very tight time frame for doing that. Fortunately we had anticipated that we would likely get an amount close to the \$21.7M so we have planned for it. We planned to make sure that projects that would be available to utilize the funds and it looks like we will be able to do that. If you are not really involved in the day to day aspects of the Federal Aid Program, you may not fully appreciate all the work that everyone had to do to get out our Federal Aid Program this year. Floyd and Sam's folks really did an outstanding job in delivering the Federal Aid Program. Jennifer's people did an outstanding job in making sure that all the projects were programmed. FHWA is significantly behind processing everything because of the amount of work that we have sent their way.

John Halikowski - Everyone has done a tremendous job about getting the Federal Aid Program delivered including the Stimulus project. It is hard to understand if you are not involved in it daily. Mr. Fink and Mr. Roehrich and their teams have shown that the goal has been where we will not turn back any Federal Grant and spend every dollar we get. They have spent many hours to make this happen. My thanks to them for doing that and making us look good.

ITEM 5: Financing Program – John Fink

We are getting ready to price the 2010 Series RARF Bonds during the week of September 27th with the closing on October 14th. I am planning to head back to New York for the pricing assuming that you pass the authorizing resolution at this meeting. You have at your place a current draft of the preliminary official statement. We are planning to print and mail the preliminary official statement tomorrow. We have made a few changes in the last days since I printed and copied these but there are no significant changes. We are currently planning a retail order period on Monday September 27th and institutional pricing on Tuesday September 28th. The issue size is expected to be \$180M with a final maturity on July 1, 2025. We have now received confirmation of the ratings from the rating agencies. Moody's has rated the issue Aa1 and S&P has rated the issue AA+. I will be asking you to approve the authorizing resolution in the next agenda item. I included in your books today a preliminary timetable for Series 2011A Grant Anticipation Notes. We are planning to price and close this issue in January and I am currently thinking that it will be about \$170M. The direction to proceed for this issue is on your agenda as Item #7.

ITEM 6: Adoption of Authorizing Resolution, Transportation Excise Tax Revenue Bonds, 2010 Series – John Fink

This morning I am asking your approval for the third Supplemental Resolution authorizing the issuance of up to \$180M of the Regional Area Road Fund Bonds, 2010 Series. This supplements the Master Resolution that the Board adopted on September 21, 2007. The resolution was prepared by Squire, Sanders, and Dempsey. It has been reviewed by RBC Capital Markets, our financial advisory

and my staff. The only significant change in this resolution from prior resolutions is that this resolution would allow the issuance of Build America Bonds; however, we currently are not planning to issue any of the 2010 Series RARF bonds as Build America Bonds. I am requesting your approval of this resolution.

Motion by Ms. Lundstrom and a second by Mr. Anderson. In a voice note, the motion carries.

ITEM 7: Direction to Proceed: Grant Anticipation Notes – John Fink

The last item is the Directions to Proceed for planned issuance of Grant Anticipation Notes, 2011A Series. As I indicated, we are currently planning a \$170M issue. We are planning to price and close in January although that is subject to change at this point based on cash flow needs. We have grant agreements totalling roughly \$300M right now and we will probably select amongst those for projects to fund for proceeds of this note issuance.

Motion by Mr. Feldmeier and a second by Mr. Anderson. In a voice note, the motion carries.

ITEM 8: Multimodal Planning Division Report – Scott Omer

I would like to talk a little bit today about a couple of Items in the ARRA Highway or Roadway projects. These are some specific transit projects that have been done with ARRA and Stimulus Funds of the state and you can see a lot of the capital improvements that have been purchased. We purchased a lot of new vehicles to sell, 33 vehicles. We constructed three new transit facilities, we expanded some facilities and over 17 different agencies across the state have received 100% of the amounts that they needed from the Stimulus funds. The first one I would like to talk with you about is a transit facility in Coolidge, Arizona called the Cotton Express Facility that was completed in July with ARRA funds and currently behind it there is a maintenance facility that is under construction today. The total cost of that using 100% ARRA funds was \$1.8M. The next one is called the Verde Valley Transit facility in Cottonwood. It was completed in January of this year at a total cost of \$2.5M. All of these projects were really needed in the local communities and in the rural areas of Arizona especially that there is no way that they could come up with the funding to complete these types of facilities. The Navajo Transit Facility combined FTA Tribal ARRA Funds as well as Arizona Rural Area funds. The contract has been signed and the project is ready to move forward for the cost of \$3.5M. A couple of weeks ago, our transit people were up at the Navajo Center and they were literally maintaining their facilities in an open field laying on top of plywood underneath their buses changing the oil and trying to maintain the equipment. Mr. Mike Norman said that he did not understand how they could even back the buses in the facility because it was so small and so tight. It is really a benefit to Rural Arizona the way that these are happening. The last project is called the Four Seasons connection. Construction is to begin in October and it is an expansion of an existing facility and will cost about \$400K. Again we thought that these were important to bring up to you. You usually hear about the roadway side of this but these were really important for the transit community. They were actually paid for with partially with those funds.

State-rail plan is out for public comment. It is to be finalized by the end of the year and we will be bringing it to you in early 2011 hopefully in January. The Phoenix – Tucson intercity rail alternative analysis is kick off of the study. We are hoping to have it by the end of October and will be working very extensively with the Federal Rail Administration and Federal Transit Administration. This has been a very long process but finally the consultant's election process is complete. There have been

multiple awards to four different firms and they have been selected and notified and we are starting that process of negotiating contracts with the four firms. One will be a management consultant and the other three will be supporting the management consultant so we have taken the root of using four separate firms for different reasons. One because it was letting us spread the work around so where they all had really great strengths. If we could have chosen four #1's, we really would have chosen four #1's. This is actually very competitive. In the alternate analysis, they will be looking at 8 conceptual quarters that they brought up on previous studies and also will be used by the systems approach to the study which what it is going to do is be combining the alternative analysis and the rest. It is not only going to be looking not only at your inner city rail but along with the commuter rail in metro phoenix area as well as in Tucson and how to tie in inner city rail with the rail in the Valley and the Tucson street car was also tied into it. That will be all part of the overall study itself. As we said earlier, we are hoping to have that kicked off towards the end of October.

John Halikowski - If we do not have the State Rail plan would we be on the National Rail plan?

Scott Omer – It is my understanding that we would not be. We are required to have the State Board to recommend to even being eligible.

John Halikowski - The money that we are using for this study is Federal grand money?

Scott Omer – Yes.

John Halikowski - I just wanted to point out Mr. Chairman is that what we are trying to do with this plan is to get is keep Arizona's options open. I know there are people out there that are worried that we are going to run out and build a railroad and how we are going to pay for operations and maintenance. We are not even there yet, but are looking at options. As we look at our transportation and economics future without some consideration of a Rail Plan here for the state, there is no way to get on the National Rail Plan and access to that money that the Federal Rail Administration has been given and probably will continue to get. We are trying to stay in the queue, if in fact Arizona decides to build. A thanks goes to Jennifer and her team, they really are continuing to raise the bar for planning and turning this into a multimodal operation.

ITEM 9: Priority Planning Advisory Committee (PPAC) – Scott Omer

Item 9a is a reprogramming of the FY2010 Subprogram Balances. It happens every year, we have some of our Subprograms that are not completely expended do roll over to the following fiscal year. The majority of that is being rolled into the ITD Statewide Development program which Mr. Maroufkhani manages. The funds are being consolidated so that they can be shifted through the other subprograms and we can continue to utilize those funds. I am asking for approval of Item 9a.

Motion by Mr. Anderson and a second by Ms. Lundstrom to approve Item 9a. In a voice note, the motion carries.

Item 9b is the Approval of Recommended Projects from the 2010 Safe Routes to School Program. Back in May, we brought a list of 12 or so programs for the Safe Routes to School program across the state. At that time, the PPAC as well as the Board had directed the staff to see if there was the ability to utilize some of the extra funds that we had available and we had \$5.5M a year portioned for Safe Routes to School. The team went back and they found 6 additional Safe Routes to School projects on

the infrastructure side and one additional on the design infrastructure side. By doing this, it is an additional \$1.2M in funds that we can spend down and that reduces our balance to less than \$900,000

Motion by Mr. Feldmeier and a second by Mr. Anderson. In a voice note, Item 9b carries.

We feel that we can combine Item 9c – 9l, They range from pavement preservation projects across the state to some widening projects.

Motion to approve Item 9c – 9l by Ms. Lundstrom and a second by Mr. Anderson. In a voice note, the motion carries.

Items 9m – 9ae are Airport Facility Grant Programs. This year we have quite a few as you can see but we are utilizing the existing Airport Subprograms for these and again these are what we generally do every year. All 19 projects are for airports throughout the state of Arizona and all have FAA Grants plus the State match and Sponsor match included in the costs of it.

Motion to approve Item 9m – 9ae. In a voice note, the motion carries.

ITEM 10: State Engineer's Report – Floyd Roehrich

The first item I have is a briefing that I have put together at the request of Mr. Zubia last month. that looked at the program for the last few years and the size of the program in relation to our staffing levels and our reliance upon consultants. Mr. Zubia absent today, if you concur, I will move this to the next month and present it.

Board Members agree to defer briefing until the next Board Meeting

I would like to point out that we have 156 projects under construction, a little over \$1B contracted but left to perform under than is only about \$220M. What you are seeing is a large number of projects due to the local program of ARRA coverage requests of smaller magnitude but there was a greater number of those. As we start to move into more of those projects under award and in construction of those projects, we are seeing a greater number of projects with a smaller dollar value. As Mr. Fink had pointed out previously though, we did commit that all of our obligations and funds on top as well as the total FY2010 project closeout. So as the next few months as we finalize those awards and bring them the Board we are going to see a large increase in the dollar amount. It looks like we have a large program with projects number wise but there is smaller dollar value and everyone is good. It has helped that small firms and other firms continue to keep working as we work through the financial challenges that we have had. We are really looking forward to a much larger program in the next few months as we move forward with those advertisements. If there are no questions I would like to move on to Item 11 which is the ARRA update.

Steve Christy - I would like to interject a question, is the widening of I-10 between Picacho and SR87 is going?

Floyd Roehrich – That project from SR87 to I-8, has been awarded to Fisher Contracting. That project has started and is underway. He is on schedule and told me specifically as well as his staff is telling our staff out there that he expects he is going to finish that project ahead of schedule. We will continue to work with him on that and I think that we are going to see a successful project.

Steve Christy – When do you think that we might be getting to work on it?

Floyd Roehrich – They are starting to mobilize and bring in equipment. He has been doing some preliminary clearing and setting up traffic control, so he is going through various stages. He will be going very significantly over the next 30-60 days.

ITEM 11: American Recovery and Reinvestment Act (ARRA) 2009 Update – Floyd Roehrich

We have completed all the obligations on the ARRA projects. We have lost no funds. We were able to complete some projects very early and roll those big savings into additional projects. On Statewide side, there have been about another 8 projects, in the MAG region 7 – 8 projects as well, on the other side we have been able to capture some additional improvements within the jurisdictions and are able to closeout some of their projects. I am very pleased and as he said it took a great effort by everyone, our staff, his staff, and working with the Federal partners, and all the local governments and our stakeholders out there to deliver those ARRA projects. The project list has not changed. We are ready to closeout the ARRA program as we finalize these last projects and the last project closeouts.

Chairman Montoya – Thank you to your staff and everyone involved. They did a superlative job especially with the challenges of reduced workforce and all the other things that have come up so congratulations.

Floyd Roehrich – Thank you Mr. Chairman, I will be sure to pass your comments on along to my staff and I know other people at Mr. Fink and his staff in Financial Services were there every step of the way to make sure we had that. I will let the Highway Administration know that. I will express our appreciation to them as well. Everything came back through the Board, so thank you for that support.

ITEM 12: Construction Contracts – Floyd Roehrich

We have 7 contracts to be awarded, you awarded 5 of them on the Consent Agenda. There were two that were just outside of the Board Criteria that would require separate action and I am going to ask that the Board address both of those at the same time. I will give you a quick overview. The first one is project up on SR 77. It is a box culvert extension, flattening slopes, pavement marking, and scenic project. It is a part of a State project to provide a more recovery area along the adjacent roadway. Although the project bids did come out a little under the Department's estimate of 15%, we do feel that it is a competent bid and we are very pleased with the great number of bidders on this project, 15 think it is a competent bid. The second project that we have is a little specialty project. It is scraping of steel girders of 9 bridges around the state and this project is significant in that these bridges that have had strikes with them with over height vehicles. Our maintenance people have been out there to preliminary patch and inspection to ensure that there is no structural damage that would require anymore significant impact on that bridge and we will come back through and just make final repairs to ensure that we have full competency of those structures. This Item did come almost 15% over the Department's estimate but again in reviewing the bids and given the specialty nature of this award and the fact that it is spread out over certain areas, I feel that re-evaluating the bids, we may not have covered enough for the inefficiencies of multiple locations and that the additional costs are justified and these are competent bids. With your discretion, Mr. Chairman, I will ask that the Board award Items 12a and 12b as presented.

Motion by Mr. Christy and a second by Mr. Feldmeier to award Items 12a and 12b. In a voice note, the motion carries.

ITEM 13: Public Private Partnership (P3) Update – John McGee

I did want to take a few minutes to update the Board on the P3 program. I think that we are making great success. I like to tell people we are moving quickly but deliberately with respect to the Program. I like to tell people that we have one chance to do this right and a lot of chances to do it wrong and my goal is to do it right and I think that the direction that we are preceding is the right direction. If you think about putting together a program like this, there are a number of steps that you really have to go through in order to make it successful. We have developed what we call our subP3 designation to describe how we are going about putting this program together. If you think of a triangle, the base of that triangle really represents all the work we are doing on a programmatic basis starting with the law itself, development of guidelines to support the law showing how we are going to actually operate the program, setting up the web site to disseminate that information, pulling together our consulting team. All that really is baseline programmatic things that have to be done in order to make our P3 program function correctly. HB 2396 became effective less than one year ago and all the programmatics that I just talked about are in place. We have hired two program managers, Jacob's and HDR and they are both doing an excellent job for us. We hired the predominant legal firm in P3's in the country, Nossaman, and we just recently hired Public Financial Management as financial managers for this program. We still have a couple more firms that we will be hiring in the future.

The next level after you get the programmatic infrastructure developed is policy, and we are right in the middle of that. A lot of states that have implemented P3 programs have done it differently. Some jump right into projects without developing this programmatic basis to support putting those projects together and have pretty well failed. Others have put that programmatic base in place and then jumped into projects. Those failed because they did not go through the second step which is policy development at the local and state level. What has happened in a lot of states, as I said, is that they jumped up to the projects but they did not really sit down and have a very serious public policy discussion about how tolling in particular would work within their particular region. I am trying to avoid that mistake. We have been partnering with MAG. We are beginning the same process with CAAG and also planning the same process with PAG, those three contiguous regions through the state where about 80% of the population resides have probably the best opportunity for some sort of tolling facility. We are going to be partnering with all three of those regions to do two major things. First, we will work with their elected officials to educate them on tolling, different approaches to tolling, how tolling projects can help financially and in terms of traffic management, and how this tool is being utilized successfully in other areas of the country. MAG has had their second meeting. They are very enthusiastic about going through this process. I am told that it was a very good meeting. They are moving forward with authorizing a study of hot lane network in the MAG region. We believe that a hot lane network wide program in the MAG region is a very feasible tolling concept for that region and can help manage traffic and help bring in revenues to offset some of the significant revenue reductions that they have seen in that region. MAG transportation policy committee seems to share that view at this point. They are going to be moving forward with this study probably over the next 5 – 6 months. We are going to be working with them on other educational aspects.

Steve Christy - Can you conceptualize, or give a description of how that hot lane works. What is it as far as tolling?

John McGee – Essentially hot lanes are tolled lanes that utilize HOV lanes and the additional capacity that is available in HOV lanes. This concept has been used very successfully again in a number of regions.

Steve Christy - So someone accesses it through a toll booth or some kind of a system and gets on the HOV lane and pays for the right to utilize it?

John McGee – That is correct. Most HOV systems have some amount of excess capacity and so in order to utilize that capacity and make money off that capacity, drivers are willing to pay a fee as a single occupant vehicle in an HOV lane and pay for that privilege.

Steve Christy - What would happen if that utilization became so popular that the HOV lane which is only a single lane became maxed out?

John McGee – Most hot lane projects are configured as two HOV lanes, not all of them but most of them are. Generally the way that you get around that is you have what is called a dynamic variable pricing so that as you are driving in that lane, as it starts to fill up, the price starts going up until it gets to the point that you say, well this was worth 50 cents a mile back but now it is getting so crowded it is up to a dollar, that I am going to get off. So you pay the price on the volume on that lane. It actually works quite well.

Kelly Anderson - Is the Native American community involved in dialogue and other stakeholders within that region? They think that they have a key in terms of I-10 widening and also with P3 and tolling.

John McGee – This is really the reason we are going through this process. What we have found in a number of cases throughout the country where P3 programs in their entirety in some cases and P3 projects specifically have failed is because they have been very top driven. The State goes into a region and says that we really think it would be great to have a toll road over here. We are the state and we are going to put a toll road in over here and the elected officials and the citizens of that region say, we do not want that toll road. All of a sudden you have the state and the regions butting heads. We believe that the better way to do this, the more successful way to do it is to have the regions become educated and bring in their elected officials, poll their constituencies, and through that process ultimately develop a Public Policy statement that says this is how we see tolling in this region. This is what is acceptable to us. For example, in the MAG region, they may come up with a policy that says that we think the hot lane program is entirely acceptable and our people seemed to think that a hot lane program is entirely acceptable and we then as a state can assist in the development of a hot lane P3 program in that region. If that is where the elected officials in the region come out, then I think as a state, we need to respect that. We believe that it is going to be a much more successful program long term if we go through this policy process and let the regions really talk about and debate this in a very open manner and ultimately develop those kinds of policy statements to guide the development of these kinds of facilities in their region. That process may take 6 – 10 months but I think it is going to be time very well spent. That does not mean that we are sitting around and waiting for that to happen. First we are going to be supporting those regions as they go through that discussion. Ultimately after we get through MAG, CAAG, and PAG we will probably also be working with the Yavapai region and kind of that whole Sun Corridor region. While that discussion is going on we will have a parallel process going on with both HDR and Jacob's, our two program managers. We have assigned HDR the primary responsibility for being the lead on any highway featured projects including rest areas and we

have assigned Jacob's to be the lead on everything else, maintenance, transit, and rail. On the Highway side we are working with HDR right now, they are literally going through the entire 5 year program, MAGs entire 20 year RTP program, And they are going through the major corridor and major projects that were designated long term as part of bqAZ and they are putting together information on every one of those projects. Next they will go through a criteria selection process to do a first cut of those projects that they think have the most long term potential as a P3 project. What we are hoping to do here is go through that very technical process which is about a 3 step process. Ultimately ending with a selection process that is going to very similar as to what we do on the revenue side with our risk analysis where we would be bringing in a group of people who have expertise in P3 and the transportation projects and do a final prioritization of projects out there . Our hope is that by the time that process is done, we will have the results of the Public Policy discussion. We will then be able to sort of marry those two processes together. Because we will know from the various regions and what they see as potentially acceptable projects and approaches and then we will have a prioritization of projects that we believe would be good candidates. Then you marry those two together and where those two efforts come together, those would be the projects that we would pursue first. We think that this is an approach that is kind of unique. As we have talked to other people in other regions who have gone through the P3 process, they think that it is a very good approach. So that is the direction that we are currently preceding. As I said, we have talked to MAG. MAG is in their process. We had a very good meeting the other day with CAAG. They are very excited about going through this process over the next 6 - 7 months and we are setting up a meeting to go in and talk to the people at PAG. We have had a preliminary discussion with them on the phone. They also believe that this would be a very good effort to go through. We are utilizing Mary Peters as sort of a point person. She is probably one of the top P3 policy people in the Country. She is part of our team and will be working with all three regions through the development of these policy statements.

Bill Feldmeier - Is there anything new on rest areas?

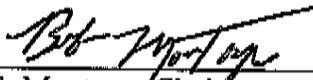
John McGee - We have had a firm recently approach us with a concept for doing something on the rest areas and we cannot say much more at this time until they represent us a proposal. They have been out and looked at all of our rest areas. They see some real potential out there for doing something on a prioritization basis and I believe that we have had two meetings with them so far. I believe that we have a third meeting set up with them for early to mid October. Our guidelines state that if you have an idea, come and talk to us, we will have 3 - 4 meetings to discuss your concept and then we will give you an answer as to whether or not we really think it is a concept that we and the Board would be interested in. If we think it is then we will tell them go ahead and submit a formal unsolicited proposal if they so desire. If we think it is a concept that we are not particularly interested in they still can go ahead. We are not going to tell them they cannot, but we are probably going to give the reasons why we do not think we would be interested. Nevertheless, if they think that we got it wrong and by developing an unsolicited proposal on a formal basis and sending it to us that they can convince us otherwise, they have every right to do that. We are at that first stage with one firm and have had two meetings. I suspect that we may have one to two meetings after that before we would tell them that we would like to see submitted as an unsolicited proposal.

John Halikowski - We met with the Arizona Trucking Association President last week. It is not so much that the truckers oppose privatization of rest stops, it is the Association of Truck Stop Owners. The truckers themselves they had some concerns about their community about using some of the truck stops because of what they say are issues that involve crime, prostitution, and drugs, at some of those areas. They are looking for a safe place for their trucks to stop and for the drivers to rest. They are

concerned that their CDL standard trucking rules that are going to be put into effect within the next year that will probably up the amount of hours the trucker has to be off duty. Essentially, they will need more places to rest. We have had several interviews with national publications. I spoke with the National Engineering Publication about privatization. They think that we are taking business away by advancing this idea from existing truck stops; that we will put people out of work and that we are essentially trying to develop, in their mind, some sort of a problem with truck stop ownership. I will state emphatically that this is not the case. We are going to sit down with that organization to see if there is middle ground to work out a good balance between the two. We continue to work with AASHTO is to work through congress.

Item 14: Comments and Suggestions - None.

Motion made by Ms. Lundstrom and a second by Mr. Christy to adjourn the meeting. In a voice note, the motion passed.



Bob Montoya, Chairman
State Transportation Board



John Halikowski, Director
Arizona Department of Transportation