

MINUTES
STATE TRANSPORTATION BOARD STUDY SESSION
9:00 a.m., Tuesday, February 12, 2013
Human Resource Development Center (HRDC)
Grand Canyon Room
1130 N. 22nd Ave.
Phoenix, Arizona 85009

Pledge

The pledge was recited by Chairman Victor Flores.

Roll Call

Roll call by Board Secretary, Lila Trimmer

In Attendance: Victor Flores, Kelly Anderson, Joe La Rue, Bobbie Lundstrom (telephonic), Steve Christy (arriving 10 minutes after initial roll call)

Absent: Hank Rogers

Call to Audience

Citizens addressed various issues:

1. Paul Casertano, PAG re: transportation funding
2. Patty Lasker, Council Member/City of Prescott; CYMPO, re: Highway 89
3. James MacAdam, policy advisor/Office of Mayor, Tucson, re: ADOT 5-Year Plan
4. David Wessel, manager/Flagstaff MPO, re: ADOT 5-Year Plan

ITEM 1: Financing – ADOT Bonding 101; Moving Ahead for Progress in the 21st Century Act (MAP-21) Financial Overview

Kristine Ward introduced Kevin Freund. He gave the presentation to the Board on the Bonding Process.

Responsibilities and Typical Timetable

Direction to Proceed	Board, ADOT	2-3 months prior to pricing
Approval of Resolution	Board, ADOT	1 month prior to pricing
Appointment of Underwriters	Board, ADOT	1 month prior to pricing
Close Issue and Receive Funds	All Parties	2-3 weeks after pricing

Board Member Joe La Rue noted that once the Board approves the Direction to Proceed, but before that, there is another process that talks about analyzing what we have out in the market, what the market is doing, and what capacity ADOT has. He assumes there is a Board policy that helps direct that analysis.

Kevin Freund stated that Mr. La Rue is correct and that Staff takes all the financial and fiscal data and looks at that and projects out for the 5-year plan. Kristine Ward gives a monthly revenue report on HURF and RARF at the Board meetings. It is a fundamental issue of what ADOT is about and there is an ongoing process of how much can be borrowed and how much can be appropriated.

Types of Bonds

Direct Debt: Source of payment is general taxes and revenues, i.e., General Obligation (G.O.) Bonds, Leases, and Certificates of Participation.

Revenue Debt: Source of payment is specific revenues or taxes pledged for payment, i.e., sales taxes, highway user revenues, and federal grants

Pledge of specific revenue or tax, must meet covenants set forth in Arizona Statutes and in Bond Resolution. Covenant to maintain the revenue or tax at a level sufficient to pay bonds.

There is a limit on additional bonds. There are provisions that allows Senior vs. Subordinate Bonds.

Bond Programs Summary

Statutes	HURF	RARF	GAN
Maximum Amount:	None	None	None
Coverage Test:	3:1	None	None
Maximum Maturity:	30 years	Lesser of: 20 years or expiration of tax	None
Refunding Bonds:	Yes	Yes	Yes
Variable Rates:	Yes	Yes	Yes
Sale Type:	Competitive/Negotiated	Competitive/Negotiate	Competitive/Negotiated
Subordinated Debt:	Yes	Yes	Yes

Resolution

Coverage Test:	4:1 (Senior)	2:1 (Senior)	1.5:1 (Current Authorization)
	3:1 (Subordinate)	1.2:1 (Subordinate)	3:1 (Future Authorization)
		1:1 (Third Lien)	

Tax-Exempt Bonds: Interest is exempt from federal and state income tax for individuals and some corporations, broad market acceptance. The limits and restrictions are private use, investment earnings are subject to rebate to US Treasury. There are limits on advance refunding. Occasionally, taxable bonds are issued when tax-exemption is not available. ADOT's bonds are highly rated. There are no problems selling them.

ADOT's Current Ratings

	Moody's	S&P	Fitch
HURF – Senior	Aa1	AAA	-
Subordinate	Aa2	AA+	-
RARF – Senior	Aa1	AA+	-
GAN	Aa2	AA	AA

Note: The outlook on all ratings is "Stable."

History of Disclosure: Securities Act of 1933 & SEC Act of 1934—Both were enacted with broad exemptions for municipal securities from registration with SEC. However, SEC requirements do prohibit fraud; cannot employ any device, scheme or artifice to defraud; cannot make any material statement of untrue fact or omit a statement that is a necessary material fact; cannot engage in any act, practice or course of business which operates as a fraud or deceit in connection with the purchase or sale of a security.

Disclosure Responsibility: Issuers are primarily responsible for the content of their disclosure documents and may be held primarily liable under the federal securities laws for misleading disclosure. The SEC and other regulatory authorities have increased their focus on the content and quality of disclosure in primary offering documents and have brought enforcement actions against municipal issuers. ADOT staff, financial advisor, bond counsel, underwriters and underwriters' counsel all review the offering documents. It is important for Board members to receive and review a copy of the offering prospectus before it goes out to market.

SEC RULE 15C2 - 12: Adopted in 1989 and broadened in 1995—In response to consistently slow dissemination of information related to municipal security offerings. The rule applies to underwriters and broker-dealers, not to issuers; however, an underwriter cannot purchase or sell municipal securities in a primary offering unless the issuer has committed in writing to provide to the Municipal Securities Rulemaking Board (MSRB) on their Electronic Municipal Market Access (EMMA) system, audited financial statements and specified offering document updates by a set date annually. Timely notice of listed events specified in the Rule (e.g. payment and other defaults, rating changes, bond calls, failure to file the required annual report, etc.).

Internal Team Duties

Identify need, select and assign duties to outside finance team, select the method of sale, negotiate business points of the transaction, ensure proper disclosure, oversight of the process, and interface with State Transportation Board.

Duties Of The Financial Advisor

Assists with capital planning, develops structuring alternatives in consultation with internal staff and identifies potential refunding opportunities, assists with selection of other team members, assists with preparation and review of documents, coordinates with the rating agencies, advises internal team during process and negotiations, prepares post-sale market memorandum, prepares timetable and distribution lists.

Duties of the Bond Counsel

Provides opinion that issuer has the legal authority to issue bonds under State and other laws and under Bond Resolution. Provides opinion that bonds are exempt from federal and state taxes. Monitors compliance with federal, state and local laws. Drafts certain bond documents including Resolution and closing documents.

Other Participants

Registrar and paying agent, keeps record of registered holders of bonds, makes timely payments to bondholders from issuer's funds, underwriters' counsel, works on behalf of the underwriters, prepares Bond Purchase Agreement and other documents, escrow agent, and administers refunding proceeds for refunding transactions.

Competitive Sale

Advantages: Achieves lowest borrowing cost among bids received, possible to realize a below market borrowing cost in certain circumstances, appearance of an open and fair process.

Disadvantages: Less flexibility in structuring and timing, possible "risk premium" and increased financing cost in unstable markets or with new or unusual credits, less control over demand and interest rates, and no control over the distribution of bonds.

Negotiated Sale

Advantages: Pre-marketing efforts prepare the market for unusual structure, size, or special disclosure, flexibility in timing and structuring, control of underwriting syndicate and bond allocations, consistently results in an "at market" borrowing cost.

Disadvantages: Issuer must spend more resources (time) to manage the process and exercise care in preparing for negotiations.

Underwriter

An underwriter is a broker-dealer that purchases a new issue of municipal securities for resale to investors. The underwriter acts in an arm's length transaction with ADOT. The underwriters' interests are not the same as ADOT's interests. Underwriters may acquire the bonds either by negotiation with the issuer or by award on the basis of a competitive bid.

How Underwriters Set Yields

Bond yields are predominantly market driven based on the supply of municipal bonds in the market and the demand to purchase bonds by investors. When pricing a bond issue, underwriters initially set yields to offer bonds to investors in the market based on comparable debt offerings in the primary and secondary markets. The final yields are then established by the specific level of investor orders to purchase or invest in the bonds.

Selection of Underwriters

Important factors in selecting underwriters to achieve the best results for ADOT; distribution capabilities of firm (e.g., number and location of salespeople; investors covered, etc. Capital base to underwrite unsold balances on large financings, particularly in difficult market periods. Their experience and capability to underwrite large financings. Knowledge and expertise concerning State transportation agencies and their issues.

Bond Pricing (prior to sale)

Develop marketing plan to institutional and retail investors, determine the priority for filling orders received, determine how orders will be filled and credited among the underwriting team. Make preliminary structure, decisions, couponing strategy, serial vs. term bonds, call options, etc., determine preliminary interest rates and reoffering levels to offer to potential investors.

Bond Pricing (day of sale)

Approve interest rate and reoffering yield levels, terms of order period, and takedown.

Order period begins

Underwriter informs issuer about order status progress. Order period ends: underwriter reports orders by maturity and confidence about the orders; decisions: re-pricing (can improve or get worse), extend order period, agree to terms, underwriter makes offer to purchase the bonds; issuer and underwriters execute Bond Purchase Agreement.

ITEM 1: Financing – ADOT Bonding 101; Moving Ahead for Progress in the 21st Century Act (MAP-21) Financial Overview

Lisa Danka gave a presentation to the Board on the Federal Aid Overview, Federal Highway Trust Fund Status, and MAP 21 and Arizona Federal Aid.

Federal Aid Overview

The Federal Aid Highway Program is funded from the Federal Highway Trust Fund (along with the Mass Transit Program and the Leaking Underground Storage Tank Trust Fund), revenues from the Federal highway user taxes/fees, fuel (gasoline, diesel, special fuels), tires, truck and trailer sales, heavy vehicle usage, and Federal General Fund deposits. Reimbursement Program—requires a State or local match, which is 5.7% for Arizona (only Nevada has a lower match at 5%). Funding is distributed to States pursuant to a federal transportation program authorization (apportionments) and annual budget bills (obligation authority).

Apportionments vs. Obligation Authority

Apportionments (checks), \$709 million, amount set in program authorization bill, represents upper annual limit, and broken into various categories via formula, earmarks and allocations. Obligation Authority (cash), \$699 million, and ratio results in “excess” apportionments, \$10 million. Amount is set annually in budget bills, generally 90-95% of apportionments. An equal amount of both are required to fund projects.

Federal Highway Trust Fund

February 2013 — Projection for Highway Account of the Federal Highway Trust Fund: General Fund Transfers of \$17 Billion for Federal Fiscal Years 2013 through 2015. A Cumulative Shortfall of \$92 Billion for Federal Fiscal Years 2015 through 2023.

MAP-21 Overview

Moving Ahead for Progress in the 21st Century Act (MAP-21) was passed in July 2012 after ten extensions of SAFETEA LU (expired on September 30, 2009); it authorizes the Federal Aid Highway Program through FFY 2014; extends Trust Fund taxes and ensures two years of solvency (via General Fund transfers); it simplifies and focuses the Federal program; and it accelerates project delivery and promotes innovation and establishes a performance-based Federal program.

MAP 21 Funding Distribution in Arizona

This is a draft and subject to SUBSTANTIAL change.

Region	SAFETEA LU	MAP 21	Difference
State	560,684,292	555,316,164	(5,368,127)
MAG	112,156,218	113,217,891	1,061,673
PAG	20,871,409	20,862,723	(8,685)
Greater AZ	14,987,829	17,051,764	2,063,935
Total	708,699,747	706,448,543	(2,251,204)

MAP 21 Outstanding Issues

Obligation Authority: There are only 178 days to date (Continuing Resolutions), three new MPOs and COG/MPO border revisions, Repeat Offender penalty, further interpretation and guidance from FHWA, review of population used in FHWA calculations, and transition to performance based funding.

MAP 21 Strong Formula Program

Apportionments*

	SAFETEA-LU Average * (FY 2005-2009)		MAP-21 Average * (FY 2013-2014)	
Apportioned by Formula	34,324.4	83.0%	37,704.4	52.6%
Earmarked by Congress	4,392.6	10.6%	0.0	0.0%
Allocated by USDOT	2,630.0	6.4%	3,012.1	7.4%
Total	41,347.0	100.0%	40,716.5	100.0%

SAFETEA-LU

Year	Interstate Maintenance	National Highway System	Bridge On System	Bridge Off System	Surface Transportation Program	Coordinated Border Infrastructure	Congestion Mitigation/Air Quality
2012	148,136,081	179,279,653	22,911,338	4,043,177	153,767,961	9,482,200	51,851,102

MAP 21

Year	National Highway Performance Program	Surface Transportation Program	Congestion Mitigation/Air Quality
2013	405,470,434	186,503,669	49,761,109
2104	408,893,950	188,078,379	50,181,258

*Based on initial FHWA estimates and is subject to change; it does not reflect takedowns for State Planning/Research, Rec Trails admin, penalties, etc. Funding in ADOT's 5 Year Program represents obligation authority and is, therefore, lower than amounts shown above.

SAFETEA-LU							
Year	Metro Planning	Highway Safety Improvement Program	Recreational Trails	Transportation Enhancements	Safe Routes to School	Equity Bonus	Total
2012	\$ 5,508,153	\$ 33,792,120	\$ 1,806,298	\$ 16,684,185	\$ 3,372,353	\$ 75,575,919	\$ 708,704,457
MAP 21							
Year	Metro Planning	Highway Safety Improvement Program	Transportation Alternatives			Equity Bonus	Total
2013	\$ 5,556,382	\$ 44,557,191	\$16,855,672			0	\$ 708,704,457
2104	\$ 5,603,296	\$ 44,933,401	\$17,087,845			0	\$ 714,778,129

[Floyd Roehrich requested the Study Session take a 10-minute break at 10:50 a.m. MST]

[Chairman Flores reconvened the Study Session at 11: 00 a.m. MST]

In Attendance: Victor Flores, Kelly Anderson, Joe La Rue, Steve Christy, Bobbie Lundstrom (telephonic)

Absent: Hank Rogers

Once reconvened, the Study Session proceeded as follows:

ITEM 2: 2014 – 2018 Tentative Five-Year Program Review

Scott presented a background overview of the five-year plan. It is developed as a team with Intermodal Transportation Division (ITD), Financial Management Services (FMS), Multimodal Planning Division (MPD), and local agencies. The five-year program demonstrates how federal and state dollars will be spent over the next five years and is approved annually and begins each July 1 of the fiscal year.

MAP 21: Federal Transportation Reauthorization; enacted October 1, 2012, Requires a National Highway Performance Program. "It is in the interest of the United States to focus the Federal-Aid highway program on the following National Goals" Safety Infrastructure Condition Congestion Reduction System Reliability Freight Movement and Economic Vitality Environmental Sustainability Preparation for Map-21 Performance Program ADOT's Long Range Plan Linking Planning to programming (P2P) Asset Management.

Scenario A: Focus on Preservation

Major projects programmed in Greater Arizona (excludes MAG and PAG) after 2014 will be removed, greatly increase funding for pavement preservation and bridges, reduction in several statewide subprograms, and maintains interstate highway assets at acceptable level to 2031.

Scenario B: Maintain Greater Arizona Projects

Maintaining major projects contained in the FY13-17 Program, reduction in most subprograms including preservation and bridges, and maintains the interstate highway assets at an acceptable level to 2017.

Scenario C: Preservation and Major Projects

Maintains several major projects in Greater Arizona contained in FY13-17 Program, major projects are selected based on priority and development status, a reduction in several statewide subprograms, and maintains interstate highway assets at acceptable level to 2022. Staff's recommends Scenario C in the FY 14 to FY 18 program (without MAG and PAG projects). Scenario C invests 84 percent into preservation, expansion at 15 percent and modernization at one percent. The recommended program summary is updated project costs, moving \$123 million in major projects out of the program with Greater Arizona and programming subprogram projects, and those FY 14-16 projects are line itemed in the Program.

Remaining in the Program:

- SR-89, Deep Well Ranch Road to Chino Valley (FY 14)
- US-95 Fortuna Wash Bridge (FY 15)
- I-10 Ehrenberg POE (FY 16)
- US-93 Carrow to Stephens (FY 17)

Deferring to Out Year:

- I-8, Mohawk Rest Area
- US-60, Silver King Section
- SR-89, Jct. 89A to Deep Well Ranch Road
- SR-260, Lion Springs Section

FY 14 to FY 18 Program PAG Regional Program is 2 percent into preservation, 93 percent expansion, and modernization at five percent. PAG appropriates their projects in collaboration with ADOT. PAG program their projects themselves and ADOT provides the revenue necessary to do so. Their overall program was reduced by \$35 million over two years.

Defer I-10, Ina Road TI (Construction) to FY 2017 from FY 2016; ADOT is working with PAG to make sure the RTA funds can be maintained in FY 2016.

Budget change defer I-19, Ajo Way TI (Construction) to FY 2018 from FY 2017 and reducing it by \$6 million; ADOT makes this recommendation in collaboration with PAG.

FY 14 to FY 18 Program MAG Regional Transportation Plan Freeway Program is 5 percent into preservation, 88 percent expansion, and modernization at seven percent. MAG's reduction was about \$87 million in the two years, FY 16 and FY 17. MAG invests heavily into the expansion of the system and uses RTA funds. Early in October and November 2012, ADOT and MAG worked cooperatively to develop the program. Some of the updated project costs and schedules affected are as follows:

Budget

- SR101L to I-17: Reduce \$73.2M
- 2. US60: Meridian Rd : TI Design, Increase \$120K

Schedule

- 1. SR85: Warner St, Bridge, Defer 1 Year
- 2. SR303/I-10 TI & Thomas to Camelback, Landscape Const., Defer 1 Year
- 3. I-10, SR101L to I-17, Utilities, Defer 1 Year
- 4. SR101L, Pima Rd, Extension, JPA, Defer 1 Year

Revised South Mountain Corridor based on current implementation plan

Budget and Schedule

SR202L: I-10 W to I-10 E, advertise FY 2015 – 2020

Established Traffic Interchange projects

- Grand Ave at Bell Rd
- Grand Ave at Thompson Ranch (Thunderbird)
- SR303L, El Mirage Rd

MAG Region System Wide

Increased Maintenance funds by \$400K in FY 14 to FY18 and Dynamic Message Signs at \$170K for posting travel times.

Arizona State Aviation Fund, Five-Year Development Program Assumptions

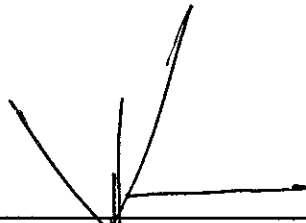
- All primary revenue streams will remain flat in growth.
- The 2012 Federal Aviation Administration Reauthorization of the Airport Improvement Program (AIP) will continue to be obligated to Arizona airports.
- Arizona airports receipt of federal funding will remain at approximately \$70 to \$80 million per year.
- The Arizona State budget will remain steady and will not require legislative sweeps of the Aviation Fund.

Ehrenburg Port of Entry (POE) Revenue Projections


Scott gave an overview of the Ehrenburg Port of Entry. The benefit of project cannot be measured in just revenue and increases in truck volume. Safety, efficiency, and operations have to be considered. There is not sufficient room to store all the trucks that enter the POE. There is not a safe commercial area for the trucks. Basically the gates are opened to allow the trucks through. By 2032, the situation worsens. The truck count in 2012 was 5,308 and projected for 2032, the count will triple to 15,488. At this time, without a port of entry that is operationally sufficient, the problem of overweight vehicles will continue to damage the roadways, the interstates, and the minor routes. This issue is not only at Ehrenburg but at the other ports of entry. There is not a method to capture the loss revenue without investing more in technology and the overall infrastructure in the ports of entry.

A motion to adjourn was made by Joe La Rue and seconded by Kelly Anderson. In a voice vote, the motion passed unanimously.

Meeting adjourned at 11:50 a.m. MST



Victor Flores, Chairman
State Transportation Board



Floyd Roehrich, Jr. Deputy Director for Policy
Arizona Department of Transportation