

**MINUTES**  
**STATE TRANSPORTATION BOARD STUDY SESSION**  
**9:00 a.m., Tuesday, January 31, 2017**  
**Human Resource Development Center (HRDC)**  
**Grand Canyon Room**  
**1130 N. 22<sup>nd</sup> Avenue**  
**Phoenix, AZ 85009**

**Pledge**

The Pledge of Allegiance was led by Board member Jack Sellers.

**Roll call by Board Secretary Linda Hogan**

**In attendance:** Deanna Beaver, William Cuthbertson, Joe La Rue, Jack Sellers, Michael Hammond, Steve Stratton and Jesse Thompson.

**Absent:** None.

There were approximately 35 people in the audience.

**Title VI of the Civil Rights Act**

Floyd Roehrich reminded all attendees to sign in and fill in the survey cards to assist our Civil Rights Department. He added information regarding an evacuation plan for the HRDC building and provided instructions on how to proceed in the event of an emergency. Floyd then introduced and welcomed the new board member Jesse Thompson from District 5.

**Call to the Audience:**

There were no members of the public requesting to address the Board.

**Opening Remarks**

Mr. Thompson asked if he could tell the Board a little about himself in lieu of no public comment and after a bit of discussion it was agreed that he could proceed. Mr. Thompson proceeded to express his appreciation of having been appointed to the Board and gave a brief background of where he has come from and appreciated the welcome he has received.

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1 (Beginning of excerpt.)

2 CHAIRWOMAN BEAVER: Okay. With no call to the  
3 audience, then we will move on to item public private  
4 partnership, the P3 update. That is Gail Lewis.

5 (Inaudible conversation.)

6 MR. HALIKOWSKI: Madam Chair, I was just giving  
7 Ms. Lewis the option of just sitting here and talking in a more  
8 informal setting. She decided to stand.

9 CHAIRWOMAN BEAVER: Maybe that microphone would  
10 work better than this.

11 MS. LEWIS: (Inaudible.)

12 Well, thank you. Thank you, Madam Chair, and  
13 members of the board for asking for an update on public private  
14 partnerships and how we are using them at a (inaudible) also  
15 been some thoughts about what might be happening nationally. I  
16 want to talk about P3s being in use from the standpoint of the  
17 new administration and their interest in doing some additional  
18 infrastructure development (inaudible). So I threw in a couple  
19 of extra slides about that, too, and hope that you'll find that  
20 helpful or feel free to ask questions (inaudible).

21 (Inaudible) a new board member and some others  
22 who haven't been here to hear this in the past, so let me just  
23 give you some real brief history about the P3 program in  
24 Arizona. Our enabling legislation, which is in Title 28 and is  
25 therefore specific to ADOT and is a statewide P3 enabling

1 authority for other agencies, although other agencies may have  
2 this authority to some degree, but it's very ADOT (inaudible)  
3 specific. It has a very broad definition of transportation  
4 facilities. So it lets us work not only on highways, but also  
5 on rail transit and facilities which (inaudible) buildings that  
6 may be in support of ADOT's mission, as well as ancillary  
7 facilities like lighting and rest areas and other things that  
8 aren't pavement but that help the highway system function.

9 From -- it's very flexible in terms of the type  
10 of partnerships you can use, and I'll go into what these mean a  
11 little bit later to give you everything from design, build all  
12 the way to using private finance for projects. It exempts --  
13 our P3 legislation exempts ADOT from the procurement code. That  
14 means that we can use best value determinations and not just low  
15 bid, but it does not exempt us from the competitive procurement  
16 process. So everything we do does need to be publicly procured  
17 in a competitive environment.

18 It also allows us to seek unsolicited projects as  
19 well to solicit -- as well as to begin projects from within the  
20 agency. So that means that outside entities can come to us,  
21 suggest projects, and that we will analyze those projects and  
22 consider using elements of those unsolicited proposals going  
23 forward, and in fact, we have done that.

24 It gives ADOT the authority to enter into all  
25 kinds of negotiations and agreements, and also the ability to

1 use outside counsel and outside consulting teams to help us. So  
2 when we sit down across the table to negotiate with a large  
3 multi-national contracting team, we have the ability to have our  
4 own outside legal counsel as well as help from the Attorney  
5 General's office. And it allows us to use the number of  
6 (inaudible), including traditional bond -- traditional bonding,  
7 revenue bonds, (inaudible) anticipation as well as tolls and  
8 fees.

9           And then in 2012 we added some language that will  
10 give the agency the ability to actually enforce tolls and fees  
11 should we ever have the need to set those up. So we do have the  
12 ability to establish a tolling authority or to concession that  
13 out to an outside entity, and also to collect and enforce tolls  
14 and fees. So our -- the legal authority to do all that work is  
15 in place. (Inaudible.)

16           When you think about setting up a program, a P3  
17 program in a state agency, there are a variety of ways to do it.  
18 We've chosen at ADOT to do it with the programmatic elements at  
19 first. So we have a P3 program office. We have a consulting  
20 team that supports us on a programmatic basis. That is they  
21 work for us on every project that we do, but they can have the  
22 ability to seek some additional help if we don't have adequate  
23 expertise.

24           So over time what this allows us to do is to  
25 establish some policies that are applicable over a variety of

1 different kinds of projects and different approaches to projects  
2 rather than doing them sort of one off as a project comes up.  
3 We do that one project (inaudible) take it programmatically.

4           And then you'll see projects are -- the small  
5 square kind of at the top of the triangle -- it takes a lot of  
6 capability to begin to move P3 projects through the -- a large  
7 agency, especially because it's such a new way to approach  
8 projects. And so we see that the bulk of the work is the  
9 foundation at the bottom, and then eventually you would get to  
10 the project development phase, and that's where we are right  
11 now.

12           So how do P3s differ? And I apologize. Some of  
13 these slides are very wordy, but I thought you might want to  
14 refer back to them, so I -- I made them wordy and didn't worry  
15 too much about the pretty pictures. So I apologize. It's not  
16 very visually pleasing, but the information's all there for you.

17           So the first thing when they (inaudible) and the  
18 public sector has substantial control. We always have the  
19 ability to end a concessionaire agreement and to move to a  
20 different (inaudible) if that turns out to be more appropriate.  
21 So we do own it and control it, and that is the case.

22           But there are other things that can be quite  
23 different. It allows you to engage with the private partner  
24 over the long haul. For example, on the South Mountain Freeway,  
25 we have a 30-year maintenance deal. So that's a long-term

1 relationship (inaudible). I think that's different from what  
2 you would do in a normal design, build and -- or even at regular  
3 design, build (inaudible) project.

4           Traditional procurement generally forces you to  
5 focus on a single factor, such as price. Public private  
6 partnerships allow you to do a best value procurement in which  
7 you can consider price, the quality and capability of the  
8 management team, the long -- their long-term capability to  
9 maintain the project over time or to manage the operation of a  
10 project. So it allows you to configure a number of things when  
11 you're selecting them and not price only. It allows you to  
12 consider the contractor's experience and reputation, as well as  
13 their financial capability, as well as their understanding of  
14 your long-term goals and objectives with the project.

15           And finally, it allows you to shift risk,  
16 removing all the risk within the agency to be able to shift some  
17 of the risks for project delivery and long-term maintenance off  
18 to the private sector.

19           P3s can be used for a variety of things.  
20 Obviously, we're here today to talk primarily about  
21 transportation, but since you're hearing a lot from the new  
22 administration about infrastructure, remember that  
23 infrastructure's really quite a broad series of activities.  
24 There have been P3s done around the country successfully for  
25 both water and wastewater treatment, (inaudible) for highways

1 and rail, also for public services related to highways, such as  
2 in the Michigan, the Detroit area has upgraded all of its lights  
3 in metro Detroit to LEDs. That was done through the Department  
4 of Transportation, but it's been a straight highway project.

5           It allows -- and it allows for housing options.  
6 All of the dorms that you see along Apache in Tempe, all that  
7 new housing that's been put up for our students at ASU has all  
8 been done using public private partnerships. That is the built  
9 by the private sector, the private sector (inaudible) sector,  
10 but the University retains ownership, and they are -- the  
11 private developers are repaying using the price that those  
12 people paid (inaudible). So it's being used around the country.  
13 There's actually a whole campus at the University of California,  
14 the Town of Merced (inaudible) using a public private  
15 partnership. So it's being used around the country for lots of  
16 different (inaudible).

17           So again, the types of P3s, straight  
18 design-build. That is you combine the design and construction  
19 of a project, and you combine those two phases, and generally  
20 that results in a cost savings (inaudible) from being able to  
21 work (inaudible) together.

22           You can also take your existing facilities and  
23 contract out the long-term operations and maintenance, which is  
24 an approach that ADOT took with its rest areas. We had the rest  
25 areas already, but they were being managed individually, one off

1 at a time. We took them, combined them into a system, and then  
 2 contracted out the long-term operations and management to a  
 3 private provider as a public private partnership.

4           You can combine a design, build with long-term  
 5 operations and maintenance. So at the beginning, the project is  
 6 procured as a design, build contract, but with the understanding  
 7 that there will be a long-term operations and maintenance  
 8 component. That way when the contractors bid the projects up  
 9 front, they're thinking not only about the design, build aspect,  
 10 but also about having to take care of it over a 30-year period.  
 11 So the hope is that they will build it differently knowing that  
 12 they are also on the hook for maintenance.

13           And then the last one is the DBFOM, where you do  
 14 the design, build, where you're allowed to do the operations and  
 15 maintenance, but there's also a finance element. That is the  
 16 finance of the project comes from someone other than (inaudible)  
 17 public entity, but also from the private sector. Sometimes in  
 18 the form of equity, and often in the form of an equity  
 19 investment and investment (inaudible). And sometimes on a large  
 20 project, it can be all three. You can have equity and private  
 21 debt as well as (inaudible).

22           I borrowed this slide from (inaudible). It's  
 23 just a nice visual graphic of the way design, build, finance,  
 24 operate and maintain a project would actually look, the way it  
 25 would work. So at the end, you have customers who pay for the

1 services provider -- provided. They either pay for those from  
 2 new fees that may be specific to this project, or they pay  
 3 through (inaudible) that they already pay through. For example,  
 4 they already pay their water bill. They already pay gas taxes.  
 5 So something that they're currently paying can be shifted into  
 6 partial repayment for a project like this.

7           The public entity procures the contract, sets and  
 8 collects the -- or sets the rates for the project, conducts the  
 9 procurement. They take long-term ownership, and -- but also, I  
 10 put that one in red so you'll see -- it actually pays the  
 11 services to the private entity, that include not only a  
 12 repayment for the project itself, but also a payment for  
 13 long-term operations and maintenance, and some sort of ability  
 14 to repay them for the up-front capital that they have made --  
 15 that they may have put into the project.

16           So they are being repaid. They're being repaid  
 17 by the private sector -- or by the public sector, and the  
 18 question is what are the sources of funds that you may pay them  
 19 with. And again, it may be an outside lender who would provide  
 20 financing by debt to the entity, the build -- the  
 21 design, build, finance operations contractor.

22           In the case of the South Mountain freeway, there  
 23 was no financing that was a part of that, but in every other  
 24 way, it -- the structure looks very much like this. And that  
 25 entity in the middle, the design, build, finance operations and

1 maintenance, in the case of the South Mountain and in most large  
 2 projects around the country, that is a special purpose vehicle.  
 3 That is these companies come together. They form a team that is  
 4 created, a legal entity that is created for the purpose of that  
 5 one project, and that is the entity that is the project manager,  
 6 and usually the ongoing relationship is between the public  
 7 entity and that special purpose vehicle (inaudible).

8           So how to get to a P3. Some way or another a  
 9 project comes to light, and generally the things that -- it  
 10 comes from the outside. Someone suggests P3 projects. It comes  
 11 from the inside. Generally, the things that you look at as  
 12 alternative -- as whether it's viable for alternative  
 13 procurement includes size, complexity and the long-term nature  
 14 of the project. So the bigger the project, the more likely it  
 15 is to be a good candidate for P3. The more complex it is, the  
 16 more likely it is to be a good candidate, and especially if it  
 17 involves things like multiple jurisdiction or if you're trying  
 18 to bundle some small projects together (inaudible) placed  
 19 several hundred bridges (inaudible), several hundred bridges.  
 20 They bundled those together into a single contract, and one  
 21 entity did the work on those multiple bridges. So any kind of a  
 22 structure like that where it's large, complicated, lends itself  
 23 very nicely to a P3 contracting methodology.

24           So honestly, at the beginning you do, just as we  
 25 do for every project, we look to see whether there's a need,

1 what the scope is, whether there's public support for the  
 2 project. You define the scope and status, determine whether  
 3 there's going to be funding at some point in the future, how  
 4 the funding looks compared to the expected cost of the project.  
 5 Then you move into the issues that I've just discussed. Is it  
 6 viable for public procurement? Is (inaudible) or a P3  
 7 procurement? Is it large enough? Is it complicated enough? Is  
 8 there some reason why this would work especially well as a P3?

9           If there's a revenue component involved, you  
 10 would do what we call a sketch level traffic and revenue study.  
 11 That's a very basic look at -- at traffic today, anticipated  
 12 traffic tomorrow, the overall cost of the project. It includes  
 13 the cost of running tolling infrastructure, which is not cheap,  
 14 and then determines whether you can achieve a partial or  
 15 complete (inaudible) completely paying for revenues from tolls  
 16 anymore, but determines how much you might be able to repay of  
 17 the upright cost using tolling, and then that lets you know  
 18 whether it's available to continue to study that project as a P3  
 19 or whether you should take the tolling option off the table at  
 20 least for the time being and move ahead (inaudible) kind of  
 21 analysis.

22           If it is worth additional analysis, then you do  
 23 what is called a value for money comparison. That is you kind  
 24 of look side by side at procuring the project traditionally  
 25 using straight design, bid, build completely, publicly financed,

1 and that's kind of your benchmark, and then you see whether it  
2 can use alternative procurement or alternative finance or some  
3 combination of the two. Whether it's more viable to be able to  
4 complete the project in a reasonable time period.

5           And if, in fact, it appears that there is a way  
6 to generate enough interest, enough revenue from the project to  
7 be vital as a P3, then you would move into the next step, which  
8 is to continue the analysis and run -- perhaps do what we call  
9 market founding, checking the market out to see if they're  
10 interested in this project, doing a request for information,  
11 getting feedback from the potential proposers to determine the  
12 level of interest. And at every point along the way, if you  
13 decide this is just not going to work, then you can always pull  
14 the plug and put it back into the kind of traditional projects  
15 stream for future analysis.

16           So these are the projects we have (inaudible)  
17 right now. This infographic includes both ADOT P3 projects  
18 and also projects being done through our innovative projects  
19 group, which is where basically projects that have a revenue  
20 source attached to them, somebody's willing to pay a fee, they  
21 may or not -- may or may not be procured completely under P3,  
22 but there's a revenue opportunity.

23           So this is a combined list. It's basically the  
24 things that we -- that are on our radar screen right now. There  
25 is another group of projects that are so speculative, they

1 didn't even make the speculative list yet, they're so far out  
2 there, but there are other projects waiting to come down the  
3 pipe.

4           So we have two fully in operation right now.  
5 That's our rest area maintenance project. As I said, which took  
6 all of our rest areas and combined them into a single system;  
7 and also sponsorships for the new MVD driver's manuals. That's  
8 basically a revenue producer for the agency, to help cover the  
9 cost of producing those, those manuals.

10           We have two sort of underway right now, one that  
11 -- one that everybody knows probably the most about is the South  
12 Mountain Freeway. That is under constructions right now as a P3  
13 without a finance element, so it's design, build, operate and  
14 maintain.

15           And then also looking at putting Arizona Lottery  
16 machines in our MVD offices. Again, that is more of a revenue  
17 producer where the share of Lottery sales at the MVD offices  
18 will come back to ADOT.

19           We have one project under procurement development  
20 right now. (Inaudible) quite far long. That's a Flagstaff --  
21 project up in Flagstaff to swap land so that we can get new  
22 facilities, new district office space, new MVD in Flagstaff, in  
23 exchange for giving our property on Milton Road in Flagstaff,  
24 which is very valuable property, to a private developer. The  
25 City of Phoenix is also involved in that because they would like



1 a portion of that land to do some highway improvements, and they  
 2 also have some land adjacent to ours that we are throwing into  
 3 the deal. So it's quite a complicated structure. Can't imagine  
 4 anybody could have done this without our public private  
 5 partnership law, but it's turning out very well. We're  
 6 basically just running some numbers on that (inaudible) for the  
 7 value of our land and some -- yes, sir.

8 MR. HALIKOWSKI: Well, you said City of Phoenix.

9 MS. LEWIS: I'm sorry.

10 MR. HALIKOWSKI: I want to make -- the City of  
 11 Flagstaff.

12 MS. LEWIS: I'm sorry.

13 MR. HALIKOWSKI: City of Flagstaff.

14 MS. LEWIS: (Inaudible.)

15 MR. HALIKOWSKI: Phoenix has nothing to do with  
 16 this project.

17 MS. LEWIS: (Inaudible.)

18 MR. HALIKOWSKI: I'm pretty sure.

19 (Unintelligible conversation.)

20 MS. LEWIS: City of Flagstaff.

21 And we -- our -- it looks right now that for the  
 22 value of our land on Milton, which is about \$4.6 million, plus  
 23 the cost of moving and putting in furniture and pictures, which  
 24 is about two and a half million dollars. So for a little over  
 25 \$7 million, it looks like we will get a completely repurposed

1 facility, basically a build to spec. It's a remodel to spec, I  
 2 guess, would be a better word. We're in the current (inaudible)  
 3 looks like about \$22 million for that (inaudible). So we think  
 4 that's a good (inaudible) but not an impossible (inaudible).

5 And then we have several other things that are in  
 6 various stages. I will mention one in particular, because I  
 7 know it's of interest, and that is to do what the Michigan DOT  
 8 did in Detroit, and that is to upgrade our freeway lights,  
 9 including the Deck Park Tunnel in the metro Phoenix area as a --  
 10 with -- as a P3 to upgrade to LED light to provide substantial  
 11 additional lighting at long-term (inaudible).

12 MR. LA RUE: Madam Chair, Gail, so one of the  
 13 projects that we've talked about briefly is the SR-30. Is that  
 14 back over in that later tidal pool?

15 MS. LEWIS: It is. It is on the list of --  
 16 initial value, in initial evaluation, that kind of dark green  
 17 color.

18 MR. LA RUE: Oh, there it is. I see it. I got  
 19 it.

20 MS. LEWIS: Along with the North South Freeway.  
 21 (Inaudible) who's very interested in (inaudible).

22 (Inaudible) North South Freeway (inaudible) I-17  
 23 (inaudible) that project, and the SR-30. So those are the three  
 24 highway projects that we are looking at doing some additional  
 25 tolling and revenue to take a look at the viability of those

1 projects using a toll, the toll option.

2           And yeah, that's just -- it's just a study. It  
3 just tells us that the snapshot right now, looking into the  
4 future, as best as our crystal ball will allow us, to determine  
5 whether there could be enough revenue generated from that to  
6 perhaps speed up the construction of the process, to make it  
7 viable sooner than (inaudible).

8           MR. LA RUE: Thank you.

9           MS. LEWIS: So those are both -- those are  
10 underway right now. The tolling revenue studies are underway  
11 right now. The SR-30, we don't have any initial feedback yet  
12 from our consultant. They're in there running it through  
13 computer models and all that stuff that they do.

14           We do have -- we did -- from the North South  
15 Freeway, we did the same study three years ago now. It  
16 determined that we could build the North South revenue, but that  
17 with about 40 percent of the costs could be covered by tolling,  
18 which would be a really good answer if we had the other 60  
19 percent of the money. But since we don't, that -- that was  
20 determined not to be viable at that time.

21           As we move forward, as traffic numbers change and  
22 as Pinal County contemplates their own half cent sales tax that  
23 they have some additional revenue to put on the table from the  
24 local communities, it will be time to go back and take a look at  
25 that again. We do those numbers and check the viability

1 (inaudible) change in circumstances.

2           MR. LA RUE: Thank you.

3           MS. LEWIS: And again, (inaudible) team  
4 management was another issue. We did do the sketch level  
5 traffic and revenue. We have a draft, a draft report, but  
6 (inaudible) sent this to people, so I won't hesitate to say to  
7 you. It basically shows that there's almost no toll revenue to  
8 be gained by doing those -- that managed lane as a HOT lane  
9 project. It's such expensive construction, and although I'm  
10 sure those of you who drive it regularly feel like it's always  
11 backed up, when you look at the traffic flow, actually, the  
12 traffic flow numbers generally are pretty good. So except for  
13 Sunday night and Friday night, there's really just not a lot of  
14 (inaudible) to gain by a HOT lane at this point in time.

15           So we're going back, looking (inaudible) go back,  
16 taking a look at some different exceptions and taking a look at  
17 some different options for tolling of the HOT lane project and  
18 also at -- doing the project without a toll or a fee attached to  
19 it and see whether that offers some more viable solutions. But  
20 at least initially, that's not a good approach, but over time,  
21 (inaudible) change.

22           So Floyd mentioned to me that a lot of you had  
23 been asking about the proposed trunk infrastructure plan and  
24 what it might look like and how -- and his -- he is suggesting  
25 private investment in P3s as a way to help finance this plan to

1 just maybe educate a little bit with what might -- and again,  
2 nobody knows -- but what might end up being possible as part of  
3 this plan.

4           So one idea that seemed to come up over and over  
5 again with the new stories is the idea of somewhere between 125  
6 to 275 billion in tax credits that would help to not fund  
7 private equity investment, but that would be an incentive for  
8 people to do more private equity investments.

9           The tax credits would be paid through -- paid  
10 back to the Treasury, because if the Treasury doesn't collect  
11 that money, obviously that's a shortfall to the Treasury. So  
12 the Treasury would be paid through the additional taxes that  
13 might be generated by some of these larger projects, that is  
14 (inaudible) revenues from additional wages, from the jobs that  
15 would be created, and that the contracts -- the profits made by  
16 the contractor, produced by the contractor and the  
17 subcontractor, that they would pay profit from their revenue,  
18 that there would be sales tax generated from the additional sale  
19 of construction materials, and that that -- those monies would  
20 help to repay the Treasury.

21           So tax credits are -- they're not common,  
22 although there are several of them in use around the country and  
23 here in Arizona. You can take some of them when you do your own  
24 personal income taxes. It's basically a dollar --  
25 dollar-per-dollar reduction on the income tax (inaudible), and

1 it credits -- it's a direct reduction off the bottom line of  
2 what you owe. It doesn't depend on what rate -- what rate of  
3 taxation you fall into.

4           Sometimes tax credits can be sold or traded on  
5 the open market. So if you can't use them, you can sell them to  
6 someone else who can use them. This is -- you as a human being  
7 cannot do this, but corporate entities can do this with other  
8 corporate entities. So if they have other ways that have  
9 limited their tax liability and they have no need for the  
10 credits, those can be sold on the open market. That provides  
11 revenue to the seller, and also provides a tax credit to the  
12 buyer that they may not have had otherwise. That's pretty much  
13 how the renewable energy market works.

14           Tax credits, if we were to do a solar project to  
15 ADOT, we could at this point still get federal tax credits for  
16 doing a solar project. We can't use those tax credits. We're a  
17 public entity. We don't pay taxes to start with, but we can  
18 sell them to someone else, and that sale helps to fund the  
19 capital cost of putting in the renewable infrastructure, the  
20 revenue that comes in from that sale.

21           So it can -- sounds a little bit like talking  
22 about derivatives (inaudible). It's a little high finance, but  
23 making a sale -- salable tax credits can make the program more  
24 vital. I don't think we know enough yet about the proposed  
25 trunk program to know whether, in fact, this is the right level

1 of credits, whether they'll be able to be resold. None of that,  
2 to my knowledge, has been worked out (inaudible).

3           So an infrastructure tax credit might allow  
4 investors to receive a tax credit or to sell that tax credit and  
5 receive the money for something like 80 percent of an equity  
6 investment that maybe (inaudible) infrastructure project. And  
7 again, from everything I've seen so far, the definition of  
8 infrastructure is that very broad definition that includes not  
9 only highways, rail transit, maritime, airports, but also water,  
10 wastewater, utilities, regular public utilities. So it seems  
11 like they're all -- that's a very broad definition from  
12 everything that we know so far, which is not much.

13           So there are some issues that this brings up, of  
14 course. Some infrastructure investments such as in utilities,  
15 publicly-traded utilities are already profitable. So would this  
16 make them more profitable? Would tax credits still be used for  
17 investments that are already profitable for equity investors?  
18 That's unclear.

19           Tax credits generally have a limit. There are  
20 very few tax credits in any state that allow you to reduce your  
21 tax by (inaudible) below zero, that is where you can either  
22 carry that forward or where the government actually owes you  
23 money from making the investment. So depending on who the  
24 investor is, that may be a limitation, meaning if they can't use  
25 all the tax credits, if they're not resalable, it's unclear how

1 much of an incentive that will be.

2           Tax credits don't do anything to induce  
3 non-profit investors. Lots of the investments being made in  
4 infrastructure, being made by police and fire pension funds, for  
5 example, those are not-for-profit entities that cannot take  
6 advantage of the tax credit. So again, if it's not salable, a  
7 lot of the capital that's out there would not be (inaudible) by  
8 the tax credits.

9           And then there's the fact that unemployment's  
10 quite low right now. So the idea -- first of all, it's unclear  
11 how many people would actually be available to do these jobs if  
12 there were a massive infrastructure program. But secondly,  
13 these aren't new jobs (inaudible) from one, one job to a  
14 construction job. Is that really going to be a net gain to the  
15 Treasury? If they're already employed and you're just shifting  
16 them, what's the payment structure for that, for just shifting  
17 them from one place to another?

18           The idea of repayment coming from contractor  
19 profits is sure to cause some concerns in the contractor  
20 community, how company investors get big tax credits or profits  
21 for doing the work (inaudible) taxed. So (inaudible) read a  
22 little bit of rumblings out there in the contractor world about  
23 this.

24           The other issue is that equity is usually only  
25 part of an investment structure. There's almost always debt

1 attached. Certainly there would continue to be public debt for  
 2 many of these projects, but also private debt. How does the  
 3 debt get repaid? The infrastructure only goes toward the -- the  
 4 tax credits only go toward the equity payments. And then the  
 5 bottom one is that tax credits can certainly be an enhancement  
 6 to encourage additional private investment, but (inaudible)  
 7 revenue.

8           The public sector debt, the private sector debt  
 9 and at least a portion, at least 20 percent, of the equity that  
 10 would not be helped by the tax credits still being a repayment  
 11 source, and that those who would make the investment are  
 12 (inaudible) to expect a return in addition to the tax credit.  
 13 So it's not really a substitute for revenue (inaudible) and it  
 14 continues to be an issue. So that's a very cursory look at  
 15 what's being proposed. Nobody really knows right now, but  
 16 (inaudible).

17           And that concludes my presentation, and I would  
 18 be more than happy to (inaudible).

19           CHAIRWOMAN BEAVER: Board Member Hammond.

20           MR. HAMMOND: I think this might be a question  
 21 you can answer, Gail. It may not be designated for processing  
 22 by everything they do, but I've heard some kind of rumblings  
 23 from pretty credible contractors on the handling of unsolicited  
 24 projects, that, you know (inaudible) something ADOT does  
 25 (inaudible) machine (inaudible) works because it's your machine.

1 When somebody comes in with an unsolicited project, you know,  
 2 does the process really give them kind of a fair venting on that  
 3 project, or how is that handled?

4           MS. LEWIS: Thank you, Madam Chair, Mr. Hammond.

5           I appreciate that question, and I think it's a  
 6 valid concern. We've only had two unsolicited proposals, so  
 7 it's not like we have a wealth of experience to draw on in  
 8 (inaudible). However, both of the projects that did commence an  
 9 unsolicited proposal have, in fact, been procured as P3  
 10 projects. So we certainly listen to the private sector when  
 11 they have those good ideas and see if it can be adapted into  
 12 ADOT's process.

13           In the -- in the South Mountain Freeway, which I  
 14 think is the one (inaudible), and I think there are a couple of  
 15 things that work in that (inaudible) not having viewed them  
 16 (inaudible). For one thing, it was brand-new the first time  
 17 (inaudible) ever had an unsolicited proposal. So at least by  
 18 definition, you're making it up as you go along, even if you  
 19 have procedures in place. Or you've had procedures -- you  
 20 thought you had procedures in place and then you found out it  
 21 really wasn't until you actually do one (inaudible) the best  
 22 procedures possible.

23           Secondly, remember that that project was tied up  
 24 in lawsuits for a long, long, long time, and so we were trying  
 25 to make a decision on a project that was still in some flux in

1 terms of the -- when and if we could actually begin the process.  
2 So I think that also contributed to the slowness of the  
3 response.

4           And also, we went -- on the South Mountain, we  
5 went from nine individual design, bid, build projects to one  
6 22-mile project at a cost of close to \$2 billion. I think that  
7 that's such a large, complicated project and such a different  
8 way of doing business than ADOT had ever done it before. I'm  
9 just not sure there would have been much of a way to speed that  
10 review process up and come out with a conclusion that actually  
11 ended up being what I think is a (inaudible) great conclusion, a  
12 conclusion that's going to speed up the project substantially  
13 and save us several hundred million dollars.

14           So I think, although I'm very sensitive to the  
15 time and the money that the contractors spend up front on the  
16 project, I do think the end result, I think, speaks very well  
17 for the process that we have, and now that we have done it once,  
18 I think we'll be able to address it more quickly in the future.  
19 I think everyone at ADOT, not just my office, but everyone  
20 (inaudible) and in the financing, everybody else at ADOT that  
21 has to make a decision and feel comfortable about moving this  
22 process along, I think, now has one under their belts and is  
23 going to feel a lot more comfortable and confident in moving  
24 through a review process. (Inaudible.)

25           MR. ROEHRICH: Madam Chair, if I could, there's

1 one thing I want to make sure. We say you make it up as you go  
2 along. What we -- it wasn't necessarily made up as we went  
3 along. It is based foundationally as well, along with what's in  
4 statute, what's within our procedures manual, but as you did  
5 find, you -- we did have to do some give and make some  
6 adjustments as we started before, because of the uniqueness of  
7 that project, the size of it and some of the things.

8           So it wasn't necessarily made up as we went  
9 along, but there were adjustments made along during that process  
10 because of the compliance and the given nature of that type of  
11 project.

12           MR. HAMMOND: (Inaudible.)

13           CHAIRWOMAN BEAVER: Mr. Hammond.

14           MR. HAMMOND: (Inaudible.)

15           CHAIRWOMAN BEAVER: Well, it was for -- I'm just  
16 basically saying your names for the transcriber of the minutes,  
17 so...

18           MR. HAMMOND: Okay. (Inaudible.)

19           Trust me, I know anybody that does not get a  
20 project has reasons and it's not their fault. So I appreciate  
21 that. But I do think as a state we should kind of try to be a  
22 leader in encouraging unsolicited projects so that we get  
23 engaged in a more broad level the opportunity to use the P3s  
24 offered. And anything, you know, that ADOT can do to ensure  
25 that those projects feel like they've been fairly vetted --

1 which I'm not saying that they don't feel that way now. As you  
2 say, there's only been two. But we do need, I think, as a  
3 state, to be really encouraging this method of financing and  
4 unsolicited is a -- broadens that reach very much. (Inaudible.)  
5 Thank you.

6 MR. STRATTON: Madam Chair.

7 CHAIRWOMAN BEAVER: Chair Member Stratton.

8 MR. STRATTON: I have a two-part question.

9 Referring to the I-17 project, how long will it take to evaluate  
10 that to see if there is a way to do it and get a payback on it?  
11 Do you have an estimate of time?

12 MS. LEWIS: Madam Chair, Mr. Stratton, I -- there  
13 are a lot more people than me involved at this point. We did  
14 our preliminary traffic and revenue study based on the  
15 exemptions that we had at the time, and it definitely showed  
16 that it would not make a positive contribution to the  
17 financing element of the project. However, there are other  
18 pieces sometimes (inaudible) management. But it certainly  
19 wouldn't help financially.

20 So I believe now the process moving this forward,  
21 although we will continue to evaluate it as a P3, I believe  
22 there are a lot of other conversations (inaudible) had now about  
23 whether a reversible lane is really the right way to go, whether  
24 there are other design integrations that should be put in the  
25 mix for a future evaluation. So I think that (inaudible) might

1 be a better person to answer that question.

2 MR. STRATTON: Madam Chair, the part B of the  
3 question then is if it were to prove out that it would be a  
4 viable P3 option, then it came out as a solicited project,  
5 approximately what time frame would that take?

6 MS. LEWIS: I'm not sure I can answer that  
7 question.

8 MR. ROEHRICH: Madam Chair, Mr. Stratton, let me  
9 take a handle on that. I think what's important to remember at  
10 this time as we study the potential for P3s and as we look at  
11 the deliberate method, again, as far as how is the project being  
12 paid back, you know, if you talk about a P3 and it does bring in  
13 a toll or a fee, that's a new thing from the State, and that's  
14 definitely something that we would have to deal very strongly  
15 with developing public and political support for that.

16 I don't necessarily know that we have come to any  
17 conclusion that there is that strong support for any type of  
18 facility at this time. At this point we're studying them so we  
19 can bring it into the discussion as we talk about delivery, and  
20 when people say a priority project like I-17 needs to be done,  
21 then how do you fund it? And so I think we want to be able to  
22 talk intelligently and have information about that. But  
23 Mr. Stratton, to make a decision that -- how quickly is that  
24 going to happen, I don't think it's anything that's going to  
25 happen in, you know, months or maybe even a few years from now.

1 We still have to get through the general discussion of is a fee  
2 and a toll facility something politically, publicly we could get  
3 accepted.

4 CHAIRWOMAN BEAVER: Thank you.

5 Is there any other questions?

6 MR. THOMPSON: Madam Chair, I'm thinking here --

7 CHAIRWOMAN BEAVER: Mr. Thompson.

8 MR. THOMPSON: I indicated I'm from the road  
9 commission, and Ms. Lewis, I'm trying to figure out how can we  
10 make this appealing to the smaller communities? That's what I'm  
11 thinking right now.

12 MS. LEWIS: I think, Madam Chair, Board Member  
13 Appointee -- is that --

14 CHAIRWOMAN BEAVER: Thompson. Thompson.

15 MR. THOMPSON: Yeah.

16 MS. LEWIS: Thank you. (Inaudible). I don't  
17 know if I could call you board member (inaudible).

18 MR. ROEHRICH: You can call him Mr. Thompson.

19 MR. THOMPSON: Yeah.

20 MS. LEWIS: We -- P3s in small communities are  
21 challenging but not (inaudible). Small communities have big  
22 needs sometimes, and the question really at -- throughout,  
23 throughout rural Arizona and around the country is really  
24 mostly related to revenue in every way, whether we're talking  
25 about traditional financing or whether you're talking about P3

1 financing. If you're going to use fees or tolls or some sort of  
2 user-generated fee to do a project, you have to make sure that  
3 there are enough users --

4 MR. THOMPSON: Uh-huh.

5 MS. LEWIS: -- and that they have the willingness  
6 and ability to pay the level of fees that would be required to  
7 have that fee a portion of the (inaudible) financing. And so in  
8 small communities or in rural highways, that's a problem. Those  
9 roads are often widely used.

10 MR. THOMPSON: Uh-huh. Right.

11 MS. LEWIS: And (inaudible) used and then they  
12 not generate the level of traffic. Even I-17 between Phoenix  
13 and Prescott didn't generate enough, didn't have enough traffic  
14 to generate a viable toll project, at least at this point, for  
15 the kind of project that was projected.

16 So again, it's really a matter of (inaudible) we  
17 have enough public revenue to be able to use and leverage  
18 private funding for the projects when they are viable, and I  
19 think it -- I can say that one advantage of being able to use  
20 them in the urban areas is that it may then free up some  
21 additional help with revenues to be used for all the projects  
22 for which P3s don't work, both urban and rural projects for  
23 which P3s are not going to be viable. So the hope is that it  
24 would generate -- it would leave a little money, extra public  
25 money left over that might be able to use -- be used for one of



1 those projects.

2 But in terms of screening them for viability as a  
3 P3, we would absolutely screen. And smaller projects and rural  
4 projects for P3s to see if they were available, and the idea of  
5 using a P3 structure without financing, design, build or a  
6 design, build, maintain, the ability to do that in rural  
7 communities or in rural Arizona is absolutely viable, and many  
8 of the projects that are on our list are, in fact, outside of  
9 the metropolitan areas to look at these possible P3s. So  
10 there's definitely a way to use this. I think hopefully  
11 procurement methodology for projects of all sizes.

12 MR. THOMPSON: Madam Chair, Gail, thank you very  
13 much.

14 CHAIRWOMAN BEAVER: Ms. Lewis, with regard to the  
15 tax credit which you were speaking of up there, and as an option  
16 to everything, can I just have some clarification? Within the  
17 state of Arizona, the legislature has not yet authorized  
18 something like that, so right now it's just more a conversation  
19 than it is actual something that could be implemented? Am I  
20 right?

21 MS. LEWIS: Madam Chair, what is being proposed  
22 by the administration apparently right now with the federal tax  
23 credits. So those would be tax credits that would be used  
24 against our federal tax liability. There are tax credits in  
25 Arizona for other things, but investment in infrastructure is

1 not one of them.

2 CHAIRWOMAN BEAVER: Thank you.

3 Is there any other question?

4 Thank you.

5 MS. LEWIS: (Inaudible.)

6 CHAIRWOMAN BEAVER: I'm kind of going because I  
7 didn't get other one -- than the one I had. So is the next  
8 thing the tentative five-year? I also -- there was a -- or is  
9 this --

10 MR. ROEHRICH: Madam Chair, the Item 2 is the  
11 state freight plan update.

12 CHAIRWOMAN BEAVER: Okay. I -- thank you.

13 Thank you. Mr. Kies.

14 MR. KIES: Thank you, Madam Chair and members of  
15 the board. Welcome to (inaudible). I'm Mike Kies from the  
16 Planning Division (inaudible). I'm here to give you an overview  
17 on the state freight plan that ADOT has been working on for over  
18 a year-and-a-half, and we are starting to get to the point where  
19 we're wrapping up some of the conclusions.

20 What I wanted to go over with you today was what  
21 is the state freight plan and why are we doing it, our approach,  
22 some of the results of the analysis that was done based on the  
23 needs, and then at the last item, that's, I think, the most  
24 important is implementation strategy that we're talking about to  
25 be documented in the freight plan.

1           So the reason that I thought it was important to  
 2 come to the board and talk about the freight plan is first, it  
 3 is required and now with the passing of the FAST Act, which was  
 4 passed in December of 2015, every state needs to produce a  
 5 freight plan and submit it to FHWA within two years after the  
 6 FAST Act was passed. So it's due to FHWA December of 2017. And  
 7 one of the requirements in this freight plan is that it includes  
 8 a project investment plan, which is a prioritized list of  
 9 projects that is fiscally constrained against the new program  
 10 that was included in the FAST Act, which is this national  
 11 highway freight program.

12           So if you recall when the FAST Act was passed, we  
 13 talked about the new freight program, and it brings about \$21  
 14 million -- in the range of \$20 to \$25 million, it steps up, each  
 15 year in the FAST Act. But it's in that range each year of  
 16 funding that is now available through that FAST Act or through  
 17 that program.

18           Starting in federal fiscal year '18, we need a  
 19 freight program to be compliant with the FAST Act and accepted  
 20 by FHWA to continue to spend those funds that are provided in  
 21 this program. So that's the main issue is to -- one of the  
 22 reasons why we're doing a freight plan, and also why I think  
 23 it's important for you, the Board, to understand what's being  
 24 documented in that freight plan.

25           Another requirement that came out of the FAST Act

1 was that each state should have a Freight Advisory Committee.  
 2 We already had formed a Freight Advisory Committee before the  
 3 FAST Act, but that Freight Advisory Committee now provides  
 4 advice to the DOT on freight issues.

5           So talking about the Freight Advisory Committee,  
 6 who is on our Freight Advisory Committee? Well, it's a mix of  
 7 freight interests, including cities, our planning partners, like  
 8 the metropolitan planning organizations and the Council of  
 9 Governments, but then you also see on the list things like major  
 10 railroads, Union Pacific, BNSF. You see port authorities. You  
 11 see trucking companies like Knight Transportation. One thing  
 12 I'd like to point out is that the Port of Los Angeles feels that  
 13 our freight plan is important to them that they've committed to  
 14 serving on our Freight Advisory Committee.

15           And so this committee has been formed, and their  
 16 main role to date has been to provide advice on the freight  
 17 plan. We are hoping to finalize the freight plan in the next  
 18 six months or so. At that time, our thought is to reestablish  
 19 the Freight Advisory Committee with a new role as providing  
 20 advice as how we implement the plan from there on instead of  
 21 just providing input on the plan itself.

22           So really briefly, I was going to go over the  
 23 approach that we took to the freight plan. These are all of the  
 24 steps. And you don't need to understand all of those steps, but  
 25 it was broken into three major elements going over the goals

1 first, then an analysis of our needs, and then lastly,  
2 prioritization of projects, and the last step that we haven't  
3 completed yet is (inaudible).

4 MR. HALIKOWSKI: Madam Chair, I'm glad we don't  
5 need to understand those, because I can't read them anyway.

6 MR. KIES: That's sort (inaudible). As soon as I  
7 noticed you couldn't read it, I (inaudible). I do believe we  
8 have copies of the --

9 MR. ROEHRICH: You can't read the copies either.

10 MR. KIES: Oh, I'm sorry. Well, then I'm double  
11 sorry. We'll -- I'll get a copy to everybody.

12 MR. HALIKOWSKI: Thanks.

13 CHAIRWOMAN BEAVER: We will trust you right now.

14 MR. LA RUE: But verify.

15 CHAIRWOMAN BEAVER: Yeah. Trust but verify.  
16 Right.

17 MR. KIES: (Inaudible.)

18 UNIDENTIFIED SPEAKER: (Inaudible.)

19 MR. LA RUE: Yeah.

20 MR. KIES: (Inaudible.)

21 MR. LA RUE: Where's that bell? Where's the  
22 gong?

23 MR. ROEHRICH: I need the bell. I better get  
24 the bell.

25 MR. LA RUE: Bring the gong.

1 MR. HALIKOWSKI: Why don't you just walk us  
2 through it, Mike?

3 MR. KIES: All right.

4 MR. HALIKOWSKI: If that's okay.

5 MR. LA RUE: Yeah.

6 MR. KIES: So the goal phase of the plan includes  
7 a series of goals that --

8 MR. ROEHRICH: Slide 6? Is that -- I just want  
9 to make sure. Look on the bottom right. You're on Slide 6.

10 MR. KIES: So Slide No. 7. Slide 7. We'll go to  
11 Slide No. 7. It's a -- there's a pyramid-shaped graphic that  
12 shows our set of goals.

13 Well, what I liked about this was that we  
14 structured this as so the pinnacle goal that the freight plan is  
15 looking to do is improve Arizona's economic competitiveness.  
16 That's what freight is all about. However, the way we  
17 structured these goals is that we have the low-hanging fruit at  
18 the bottom, is how I refer to it, and then we work up the  
19 pyramid shape leading to economic competitiveness.

20 So at the bottom of the -- of the graphic, we see  
21 some of those low-hanging fruit as working in partnership,  
22 increasing the effectiveness of our performance monitoring,  
23 ensuring that the system is preserved. Those are -- those are  
24 the first items that could be tackled with the freight plan.

25 Then the next level is where we start really

1 programming meaningful projects that increase mobility, increase  
2 safety and the reliability of our freight system, and all of  
3 that is driving us towards economic competitiveness.

4           If we move on to Slide 8, some of that  
5 low-hanging fruit that was identified in the plan includes these  
6 six strategies of policy decisions, keeping focused on our key  
7 commerce corridors, which we've talked about in a lot of  
8 discussions previously, we're -- number 2 there is to the  
9 freight plan suggest that we focus on preservation first, then  
10 move on to modernization where we improve some of the safety  
11 features of our system and then focus on expansion as some of  
12 the later (inaudible).

13           If we go on to the system analysis and needs,  
14 (inaudible) Slide 10, which it looks like we might have  
15 (inaudible).

16           So Slide 10, this is the national freight  
17 movement by truck across the country. I think everybody  
18 realizes that -- has an exposure to the freight industry. In  
19 Arizona, we have a pivotal role nationally. There's -- you can  
20 see major corridors crossing our state, I-40, I-10, Interstate  
21 15 that provide those critical links from the eastern part of  
22 the U.S. to the L.A. basin and the Port of Long Beach and L.A.

23           When we decided to do this freight plan, we  
24 understand that there's this national movement of freight  
25 through/across the state. But we don't -- we didn't want the

1 freight plan to focus on as a national freight plan. It is  
2 Arizona state -- Arizona's freight plan. We understand the  
3 movement across the state, but we wanted to focus on what is  
4 important to Arizona to increase our competitiveness and improve  
5 our freight movements in the state.

6           With that, the team looked at the top ten  
7 economic sectors in this state that are influenced by freight  
8 movements. You can see them there, things like agriculture,  
9 mining, high-tech manufacturing, and really go deep into these  
10 sectors to understand their supply chains, where -- how trade  
11 moves in these sectors. This is just an example map some of the  
12 analysis that was done. If you look at natural resources, which  
13 is in the bottom left-hand map here, you can see a lot of  
14 interaction with Mexico, with our copper industry and some of  
15 our sand and gravel movements. The manufacturing is the top  
16 right. Looking at a lot interaction between Mexico and  
17 California, which are our two biggest trading partners.

18           With all that said, when you put all of those top  
19 ten sectors together and you subtract out the (inaudible)  
20 freight, and so this map now takes away those movements of  
21 freight that are, let's say, from California to New Mexico or --  
22 and across the state, you can see that I-40 really is downgraded  
23 as a route that provides as much (inaudible) to the state of  
24 Arizona itself, and you see I-10 west of Phoenix really becoming  
25 that main tether to California, and the ports of L.A. and Long

1 Beach that really fuel a lot of our economy. And so when this  
2 analysis was done, we really see that I-10, I-17 and parts of  
3 I-40 become those critical key commerce corridors that support  
4 our freight movements in Arizona.

5 With that said, we moved on to prioritization of  
6 projects.

7 CHAIRWOMAN BEAVER: Mr. Kies. Board Member La  
8 Rue.

9 MR. LA RUE: Thank you, Madam Chair.

10 Mike, back on the map that you showed. Yes. So  
11 is that a snapshot in time map on a particular year? Is that --

12 MR. KIES: No. Well, the year that our analysis  
13 was done, the data was from 2014. (Inaudible) newer than that.  
14 But this is showing those ten sectors that I showed before, and  
15 the compilation of all of the movements within the state of  
16 Arizona on our highway system and where those ten sectors most  
17 -- rely mostly on movement of freight.

18 MR. LA RUE: Okay. That helps, because I think  
19 the national map you showed us was a snapshot in time of 2007, I  
20 believe, and then a forecast in 2040, which I'm happy to see you  
21 got away from, because I wanted to pick it apart, but then when  
22 I saw that you had already picked it apart and gone much  
23 further. So I think here, this is nice to have a snapshot in  
24 time, but as you think about the growth of the state, between  
25 now and 2040 and what that looks like, you know, that would also

1 be interesting, because that's -- we're building to the future,  
2 in addition to taking care of the present.

3 MR. KIES: Correct. And Board Member La Rue, but  
4 the team did look into -- I just didn't put that map in.

5 MR. LA RUE: Okay.

6 MR. KIES: So there is -- there is a 20 -- I  
7 think they were using 2035 as their design year, and they did  
8 predict out the movement of these sectors.

9 MR. LA RUE: Perfect. Excellent. Thank you.

10 MR. KIES: So what this map shows is that I  
11 mentioned the Freight Advisory Committee earlier that was  
12 brought -- has been providing advice throughout the study. Our  
13 team brought a whole list of projects that was compiled from  
14 needs from Maricopa Association of Government, Pima Association  
15 of Governments, the State's DQAZ, which is the long-term vision  
16 for the State of Arizona, and used the Freight Advisory  
17 Committee and some criteria like freight reliability or travel  
18 time or freight movements to come to a prioritization of the top  
19 20 freight improvement projects for the state, and this map  
20 shows them, you know, in red, those notes are where -- are those  
21 projects (inaudible) can't read it, but then the big yellow  
22 circles represents how much those projects cost. So you can see  
23 the bigger yellow circles are the more expensive projects,  
24 versus the little yellow circles are less expensive.

25 However, there is one glaring omission in this

1 map is that there are no yellow circles shown on the Phoenix  
2 metro area. When we started the freight plan, we worked with  
3 our COGs and MPOs to come up with a scope of work. And at that  
4 time the Maricopa Association of Governments had already decided  
5 and already had underway a straight freight plan, and they are  
6 going on a parallel path to the State's freight plan. As we  
7 start to wrap up our freight plan, they are not at the point  
8 that we are in their process.

9           So what I'm showing you here is what I would call  
10 our plan B. We have a date where this freight plan is due to  
11 Federal Highways by December of 2017. We are moving forward to  
12 document all of the information in the freight plan  
13 acknowledging that MAG is on a separate path. So we are showing  
14 the top 20 priorities. We're prioritizing projects still with  
15 the expectation that MAG is going to be coming along with us;  
16 however, those projects aren't on the list yet.

17           So what I'm calling it, this is plan B where  
18 we've prioritized all the projects that we know outside of the  
19 MAG area, and we've included a list of projects from the MAG  
20 area that are freight important, like the SPINE, I-17, I-10,  
21 US-60, the COMPASS corridor that MAG did.

22           However, plan A would be that by the time we wrap  
23 up this plan, we have fully evaluated the MAG projects just like  
24 all of these projects.

25           So the slides that I'm showing you from here on

1 out are prioritization and ranking of projects, again, with  
2 those MAG projects not included.

3           CHAIRWOMAN BEAVER: Mr. Kies.

4           MR. KIES: Yes.

5           CHAIRWOMAN BEAVER: With regard to the freight  
6 carrier, is this inclusive, or is it just strictly the roads?  
7 Does it also include freight traveled by rail?

8           MR. KIES: This list of projects is purely for  
9 highway, highway movements. The freight plan did look at rail,  
10 did look at air cargo, but the requirements of the FAST Act is  
11 that we -- because there's this national highway freight  
12 program, which is through FHWA, funding program primarily for  
13 highways, we focused the plan of projects on highways. And so  
14 that's (inaudible).

15           CHAIRWOMAN BEAVER: With regard to our  
16 responsibility to airports, would that not need to be -- I mean,  
17 is this something that can be -- we can submit an initial one,  
18 but can you update it as, you know, additional information comes  
19 along, just as in the case with MAG, if MAG cannot be added into  
20 it, or is it once it's submitted, it's fixed?

21           MR. KIES: Madam Chair, I apologize. I probably  
22 should have clarified.

23           The freight plan covers all modes of freight. It  
24 covers rail. It covers air cargo. There was an analysis  
25 similar to what I showed, you know, about the movement of the

1 different sectors of freight. And there's also an indication of  
 2 the needs for the air cargo and rail side of the house; however,  
 3 I would move forward to the listing of the projects, and that's  
 4 where the freight plan really focuses on highways.

5 So the air cargo and rail is included in the  
 6 plan, and it doesn't need to be added in later. However, we did  
 7 not (inaudible) the board to prioritize projects. Now, that --  
 8 as you asked, we have a State Aviation Fund and we have an  
 9 aviation group in ADOT. They do do a statewide aviation plan,  
 10 and those projects should be coming out of that plan.

11 CHAIRWOMAN BEAVER: Board Member Hammond.

12 MR. HAMMOND: I wasn't clear on the plan A, plan  
 13 B scenario. If MAG doesn't come up with something by that date  
 14 in 2017, we submit the plan without Maricopa County ever being  
 15 included? Or if they do come up with a plan, do we incorporate  
 16 that plan into ours? Are we the ones tasked with submitting or  
 17 can they submit separately? What -- how do those plan A and  
 18 plan B get reconciled?

19 MR. KIES: So plan B would be that -- well, is  
 20 what you're seeing in front of you. And separate from this list  
 21 that I'm going to show you, there is a list of projects  
 22 identified in the MAG area that are freight sensitive  
 23 (inaudible). So plan B would be that -- yes, there's a list of  
 24 projects that relate to the MAG area, but they're not  
 25 prioritized. They do go through a ranking of criteria and

1 analysis, because we are partnering with MAG to do that work for  
 2 us. So -- and we believe that that's still compliant with the  
 3 FAST Act that those projects that are listed on the MAG area are  
 4 -- would still be able to be eligible for that freight funding  
 5 that's part of the FAST Act.

6 So plan B, in my opinion, meets everything except  
 7 that when you look at lists and maps like this of priorities of  
 8 projects, the MAG projects are not included on the list as  
 9 prioritized.

10 MR. HAMMOND: I don't know that you answered my  
 11 question. So if -- are they going to submit a separate freight  
 12 plan, or does everything go through ADOT? And if everything  
 13 goes through ADOT, and we submit it because -- without MAG, do  
 14 we add it later? I mean, what -- I mean, I (inaudible) would  
 15 want to submit a state plan with MAG's projects included.

16 MR. KIES: Right.

17 MR. HAMMOND: It would seem far short of ideal to  
 18 submit it without it. So how do we get it? And if we don't get  
 19 it, how does it get put back in later?

20 MR. KIES: So yes, it's the State that submits  
 21 the freight plan to FHWA. I do not believe, unless Karla, you  
 22 could correct me, and I do not believe there's an option for  
 23 MPOs to submit a separate freight plan and be FAST Act  
 24 compliant.

25 MS. PETTY: I believe you're correct, Mike.

1 MR. KIES: Okay.

2 MS. PETTY: (Inaudible.)

3 MR. KIES: With either plan A -- or what I'm  
4 calling plan A or plan B, MAG's projects are included in the  
5 freight plan. Both options, they're included. One option, they  
6 would be prioritized, and MAG projects may be shown as a high  
7 priority in the freight plan. The other option, they're just a  
8 list of projects that are in the freight plan and acknowledged  
9 that they're projects that should be considered for funding.

10 Does that answer your question?

11 MR. HAMMOND: Yeah.

12 CHAIRWOMAN BEAVER: Mr. Kies, have you done this  
13 presentation for MAG yet?

14 MR. KIES: Well, I haven't personally, but MAG is  
15 on our Freight Advisory Committee. They're on our Technical  
16 Advisory Committee, which (inaudible). We've -- in preparation  
17 for preparing this presentation, people in my group have been  
18 talking directly to MAG to, you know, get an update on where  
19 they are in their study, when we're going to go able to get  
20 together and bring their projects in the fold. So this is not  
21 new news to (inaudible).

22 MR. LA RUE: Madam Chair, if I may.

23 CHAIRWOMAN BEAVER: Board Member La Rue.

24 MR. LA RUE: And I would really defer to  
25 Mr. Sellers, because he's probably been awake at the MAG

1 meetings more than I have, but my -- no, I'm awake, but I --  
2 maybe not have clued into this as keenly as I should have, but I  
3 think the key distinction here -- and to me, I guess it's not  
4 alarming for me as I sit here is on this board -- is that the  
5 projects, to my understanding, will get submitted into a plan.  
6 It's just that the Maricopa County projects through MAG may not  
7 have a priority (inaudible). And as you can imagine at MAG, you  
8 know, there is a very deliberate process. There is a process  
9 that goes through, and there's many jurisdictions that sit  
10 around that table, you know, in this process to look at how they  
11 rank projects. So I would not be surprised if they don't get to  
12 where it's a prioritized list in the right time frame.

13 But I would think what is helpful as we do get a  
14 list of projects that gets included into the statewide freight  
15 plan and gets submitted, and then how MAG creates priorities to  
16 that would be, you know, MAG's purview. And Jack, I defer to  
17 you if you've got more insight on that.

18 MR. SELLERS: Well, I guess really my only  
19 comment on that is that the statewide plan that's before you is  
20 the only thing that makes sense. You know, I understand why we  
21 work on the MAG issues as a separate entity, but certainly  
22 having integrated into a statewide plan is the only thing that  
23 makes sense in the long run.

24 MR. ROEHRICH: Madam Chair, if I could.

25 CHAIRWOMAN BEAVER: Yes. Mr. Roehrich.



1 MR. ROEHRICH: Mike, is it fair to say that when  
 2 we submit the initial plan in December of this year, as you  
 3 said, you want to bring this freight advisory team back together  
 4 but -- and start talking about implementation. We'll have the  
 5 ability to adjust implementation over time, whether that's at a  
 6 yearly basis or some annual basis, just like when you develop a  
 7 five-year program, just like when we develop a (inaudible) or  
 8 whatever. So that priority can be adjusted as MAG finishes  
 9 their process, as we, the State, continue to look at  
 10 developments and planning for the future, we will be adjusting  
 11 that plan. So it's not we submit it December, you know, we're  
 12 just locked in. It's a point in time. It's a way to keep the  
 13 process moving. But we will be able to keep adjusting it and  
 14 follow the process, some process of what (inaudible) developed  
 15 for this, just like we do all our other programs. Is it fair to  
 16 say that?

17 MR. KIES: That's fair to say. Yes. Thank you,  
 18 Floyd.

19 CHAIRWOMAN BEAVER: Mr. Hammond.

20 MR. HAMMOND: One final question on this issue.  
 21 How relevant is it to talk about the 12 top priorities, because  
 22 I assume the MAG input would have a huge (inaudible) if not a  
 23 majority. So is there -- what kind of value is this 12  
 24 priorities (inaudible)?

25 MR. KIES: Well, thank you, Mr. Hammond, and

1 that's really why I wanted to make that point, because we're  
 2 getting to the point where we want to wrap up the freight plan.  
 3 We want to meet the December deadline, so we want to have a plan  
 4 that meets all the requirements, which one of the requirements  
 5 is to have a prioritized list. So that's why I refer to it as  
 6 plan A and plan B.

7 We don't want to go forward -- we would rather  
 8 not go forward with plan B, but right now that's how we're  
 9 setting up the plan, so that if we need to, we can submit it to  
 10 FHWA. We would like to go forward with plan A, which would then  
 11 probably change this list of projects, because we could imagine  
 12 I-17, especially in the urban area, coming up with a very high  
 13 project. So that's really why I wanted to make that statement  
 14 and make that clear before we got to the table, because one  
 15 might say to themselves where are all the Phoenix metro projects  
 16 (inaudible).

17 MR. SELLERS: Madam Chair, if I could, I'd just  
 18 make one --

19 CHAIRWOMAN BEAVER: Mr. Sellers.

20 MR. SELLERS: -- comment on this, and that is  
 21 that if you look at the Freight Advisory Committee for ADOT, a  
 22 lot of the same people are on the MAG Transportation Policy  
 23 Committee and Regional Council.

24 MR. THOMPSON: Madam?

25 CHAIRWOMAN BEAVER: Yes. Mr. Thompson.

1 MR. THOMPSON: Madam Chair, I'm assuming that  
2 just similar to the ADOT project five-year plan, that this plan  
3 will also be reviewed periodically, every so often.

4 MR. KIES: Yes, Mr. Thompson. That's true. So  
5 FHWA requires that we do it once every five years, but there's  
6 nothing that stops us from doing it every year or on a more  
7 timely basis than five years, but the requirement is once every  
8 five years.

9 MR. THOMPSON: Right.

10 MR. KIES: But I can imagine us doing it more  
11 often.

12 MR. THOMPSON: Thank you.

13 CHAIRWOMAN BEAVER: I think, Mr. Kies, one of the  
14 questions that I would have, if these are placed for the freight  
15 improvement priority, how does this factor in to the statewide  
16 funds that we have that we're -- you know, there's that  
17 distribution between MAG and PAG and the statewide. How do the  
18 funding -- like, if this all seems to lend itself more to an  
19 urban area, is that going to come out of the statewide?

20 MR. KIES: So there's a couple things here, and  
21 thank you for asking that. That's one of the main reasons that  
22 I thought it would be helpful to present this information to the  
23 Board, is because this is one element of a prioritization  
24 technique to feed into our five-year program.

25 When we talk about our five-year program, we talk

1 about all the priorities, preservation, safety, and freight is  
2 one of those elements. And so this plan is sort of one data  
3 point in that prioritization process, which you call P2P,  
4 planning to programming, for all of the projects coming into the  
5 five-year program. So I felt that the Board should understand  
6 what's going into the freight aspect so that when we talk about  
7 the five-year program, it's one layer of what we consider.

8 And then second, as far as funding, again, this  
9 plan creates projects that are eligible for that freight  
10 funding. If you recall, when the FAST Act was originally  
11 passed, we had a conversation with the Board (inaudible) there's  
12 this new program called freight funding. And when we talk about  
13 the Casa Grande accord, about dividing it between Greater  
14 Arizona, Phoenix metro, or MAG, and Tucson metro, the conclusion  
15 was that we take it off the top and it be available statewide.

16 So this plan helps us see if there's places in  
17 the state where that funding makes the most sense over and above  
18 the Casa Grande accord division.

19 Does that answer your question?

20 CHAIRWOMAN BEAVER: Yes. Somewhat, yes.

21 MR. KIES: Okay.

22 MR. ROEHRICH: Well, Madam Chair, Mike, if I  
23 could, some -- I wanted to make sure --

24 CHAIRWOMAN BEAVER: Mr. Roehrich.

25 MR. ROEHRICH: -- that I understand. I wanted to

1 make sure that I understand that.

2           Really, as you said, this is a freight plan that  
3 prioritizes projects that have a nexus to freight.

4           MR. KIES: Right.

5           MR. ROEHRICH: But one part of what the project  
6 would be. If you look -- because if you look at these -- a lot  
7 of these projects are either in the program (inaudible) planning  
8 them. This looks strictly from a freight perspective, but these  
9 projects still have to go through our regular programming  
10 process. They still have to come to the Board for priority  
11 within the five-year program or within our development program.

12           So even though -- if one method of analyzing  
13 projects to meet the requirement for freight and about the 20  
14 plus million a year that we have that might go to this, that  
15 could only be a partial funding for any of these. They still  
16 have to be fully funded, fiscally constrained and brought into  
17 the five-year program. So you take freight out, these are just  
18 improvement projects that are going to come through the  
19 programming process, but it's eligible to use those freight  
20 funds that the FAST Act put aside.

21           MR. KIES: Sure. That's a (inaudible) --

22           MR. ROEHRICH: But the fact -- and those are  
23 limited funds to the, whatever, the 25 million. So it will only  
24 be a portion of what any of (inaudible) projects would be.

25           MR. KIES: Yeah. The freight program represents

1 (inaudible) percent of the total federal aid program.

2           MR. ROEHRICH: Right.

3           MR. KIES: Which is about \$700 million each year.

4           So based on the performance criteria, which was  
5 travel time of freight, reliability, those type of criteria,  
6 this is what the team came up with and the Freight Advisory  
7 Committee endorsed as a ranking of projects. However, the  
8 Freight Advisory Committee felt that there should be one more  
9 (inaudible) of priority given to this list, which was which of  
10 these projects when you take the amount of freight that it --  
11 that each project benefits.

12           And I -- the way that I would explain that is  
13 let's say I-10 between SR-85 and Loop 303, that project provides  
14 benefit to the freight, but it also provides a lot of benefit to  
15 the other traveling public, like commuters and people on  
16 vacation going to California and things like that. So the  
17 Freight Advisory Committee asked the team to say -- do one more  
18 level of screening and say which of these projects provide the  
19 biggest benefit purely to freight, for a lack of a better way to  
20 describe it, and they chose to use a criteria of what percentage  
21 of the traffic is being benefited -- what percentage of the  
22 traffic is freight, and therefore, is benefiting from this --  
23 this project.

24           And that's where you'll see that this is -- the  
25 list that I showed you, this table is the pure priority list,

1 but then the Freight Advisory Committee said, okay, from a  
2 freight perspective, let's give a bonus to those that are higher  
3 proportion of freight traffic. And we get I-40 at US-93, 55  
4 percent freight. I-10 at US-191, 54 percent freight. And that's  
5 where in the freight plan you'll see that -- the ultimate  
6 priority, at least with the list we have now is that these two  
7 projects come up as number one and two. And the number two  
8 project there, I-10 at US-191 is already funded in the program.  
9 So it's already moving forward, and therefore, there's a lot of  
10 emphasis on I-40 at US-93. Not to take away from the emphasis  
11 on these other projects that are being funded by other -- by the  
12 rest of the program.

13 Any questions or concerns about...

14 CHAIRWOMAN BEAVER: Well, it presents another  
15 question with regard to these top 12. I-17 is not identified in  
16 here at all, when, in fact, on the statewide map, it identified  
17 it as being high priority for freight.

18 MR. KIES: That's correct. And again, this goes  
19 back to the MAG issue, is that those I-17 projects are primarily  
20 from the center of Phoenix, up towards Anthem and Sunset Point,  
21 and those projects are going to be prioritized when the MAG  
22 information comes forward, so... So they're on -- I-17 is on a  
23 list. It's just not on the prioritized (inaudible).

24 CHAIRWOMAN BEAVER: Okay. A follow-up to that.  
25 The next question would be with regard to these 12 priority, had

1 those MAGs been included in it, would that maybe have skewed  
2 this a little bit?

3 MR. KIES: I believe it would definitely change  
4 it. Again, that's why (inaudible) calling this plan B.  
5 (Inaudible.)

6 Really quickly, the last item that is being  
7 included in the freight plan is definition of the national  
8 freight network, which is a -- which is something that federal  
9 highways has defined in relation to the freight funding that's  
10 available, and FHWA provided for us the primary freight network,  
11 which includes all of our principal interstates, which is the  
12 map that you see on this slide.

13 Part of the freight network is all the  
14 interstates that are not on the primary freight network, which  
15 is I-8, which is included in this freight network. But then the  
16 states and MPOs are given the task to identify critical urban  
17 and critical rural freight corridors up to a certain level of  
18 mileage, which is 10 percent of our primary freight network,  
19 which we have 1,000 miles on the primary freight network. So  
20 we'd have 100 miles in urban areas to assign and 200 miles in  
21 rural areas.

22 Currently, MAG and PAG are going on a process to  
23 identify those critical urban corridors in their areas so I can  
24 show you how the analysis came out of the rural state corridors,  
25 which is 205 miles. And when we went through some analysis and

1 looked at freight movements and tonnage and values, and this is  
2 the freight corridors that are in addition to the primary  
3 freight network. So this is off the interstate system.

4           The recommendation in the freight plan is that we  
5 add 189 in the Nogales area, SR-85 between Gila Bend and  
6 Buckeye, and the entire stretch of US-93 from north of  
7 Wickenburg to Nevada as additions to our freight network, as our  
8 critical rural freight network. And then the last element of  
9 the plan is to add in the critical urban corridors, which we're  
10 partnering with MAG and PAG on that at this time.

11           With that said, that's the information I have  
12 that overviews the freight plan. Again, it's our intention to  
13 integrate MAG freight projects, which primarily include a lot of  
14 things that are coming out of the SPINE study and the US-60  
15 COMPASS study that MAG is (inaudible) and has already completed  
16 the US-60 COMPASS study. And then we are having a Freight  
17 Advisory Committee meeting to go over the recommendations in the  
18 freight plan in March, and then (inaudible) leading to a  
19 submittal that is due to FHWA before December 2017. We are  
20 hoping to do it before that time frame. If everything came  
21 together correctly, we would hope to submit it at least by the  
22 end of this summer. So with that, that's all the information I  
23 have (inaudible).

24           CHAIRWOMAN BEAVER: Mr. La Rue.

25           MR. LA RUE: Thank you, Madam Chair.

1           And Mike, if I could, I want to re-attempt  
2 Deanna's question, because I listened to your answer, and I  
3 still couldn't -- it didn't sink in quite right.

4           So if I go back to slide 13, which is where you  
5 showed, you know, that nice map which I like, and to me it's --  
6 you know, it's really kind of, you know, arteries or veins,  
7 whatever you want to call it, running through, carrying the  
8 lifeblood, and you see the I-17 corridor lights up a little bit  
9 there today.

10           Then if you go over to the priorities page, which  
11 Diana pointed out -- Deanna pointed out, said there is no I-17  
12 project, and then she asked that question, you mentioned MAG and  
13 MAG's study, which, you know, I was awake long enough to know  
14 that we are studying, you know, the I-17 SPINE from -- through  
15 Phoenix up to Black Canyon phenomenally. But MAG is not  
16 studying, to my knowledge, from Black Canyon City north where  
17 your map really shows. And so I took Deanna's question really  
18 to be more where is this I-17 even hitting in here north of  
19 Phoenix, forgetting about MAG? I mean --

20           CHAIRWOMAN BEAVER: Uh-huh. Exactly.

21           MR. LA RUE: At least that's the way I received  
22 your question.

23           CHAIRWOMAN BEAVER: (Inaudible.)

24           MR. KIES: And I agree with you, it would make  
25 sense that that be on the list, and I would ask the team and --

1 it is sort of interconnected with MAG, but the analysis of  
2 freight reliability coming out of the metro area all the way up  
3 through Cordes Junction and splitting (inaudible) Prescott and  
4 Flagstaff. So the team wants to handle that as one corridor  
5 (inaudible).

6           Yeah. We could do an independent analysis. So  
7 that -- so again, so the projects all the way to Sunset Point  
8 are on the list that's going to be included. We do hope that  
9 before we submit this that we (inaudible).

10           When we do get to the five-year program  
11 presentation, you will see that from a staff level, we are  
12 putting a high emphasis on I-17. And, you know, again, like  
13 Floyd said, freight is one of those aspects as to why a project  
14 is a priority to the five-year program, but you'll hear a lot  
15 more about I-17 before the morning is over.

16           CHAIRWOMAN BEAVER: Could I just add one  
17 additional thing? With it not being identified at all in those  
18 top 12, would that make them -- it not eligible for the 21.3  
19 million in federal funding that would be available?

20           MR. KIES: So our interpretation, and we've  
21 checked with the FHWA freight office, and I'll look -- I'll see  
22 if Karla gives me a funny face, but is that -- as long as we  
23 provide a list of projects that we believe are freight important  
24 projects in the state, that that is the bar to be eligible for  
25 the freight program. (Inaudible.)

1           MR. ROEHRICH: So Mike, if you identify the top  
2 12, but your whole list, you may have a list of 100. I don't  
3 know what it is. You didn't (inaudible).

4           MR. KIES: Sure.

5           MR. ROEHRICH: And so in that would be 17, and  
6 other corridors, probably other segments of 40, even other  
7 segments of 10 and I-8, whatever, that's in the whole list that  
8 it has a freight component, but it didn't make the top 12?

9           MR. KIES: Correct. We have a --

10           MR. ROEHRICH: But as long as it's on that list,  
11 it's eligible.

12           MR. KIES: That is our interpretation, and with  
13 the head nod from Karla, I'm confirming that it's correct.

14           We have a list of projects that totals up to \$3.5  
15 billion that is included in the freight plan. That freight  
16 program money that's allocated to Arizona, I think, adds up to  
17 about 170 million. So 170 million versus --

18           MR. ROEHRICH: Over five -- over five years.

19           MR. KIES: Over five years.

20           MR. HALIKOWSKI: Madam Chair, to that point.

21           CHAIRWOMAN BEAVER: Okay.

22           MR. HALIKOWSKI: I'm sorry. Mr. Stratton.

23           CHAIRWOMAN BEAVER: Mr. Halikowski.

24           MR. HALIKOWSKI: Mike, some of these projects, as  
25 I'm looking at it, we're doing anyway.

1 MR. KIES: Uh-huh.

2 MR. HALIKOWSKI: In spite of the freight  
3 prioritization. So under that 3.5 billion, it would be  
4 interesting to see how much overlap there is, because you're  
5 likely going to fund those anyway without the freight  
6 prioritization.

7 MR. KIES: Correct. And I think that's one of  
8 the reasons why the Freight Advisory Committee felt like there  
9 needed to be another (inaudible) level for -- because your  
10 (inaudible) a lot of these projects are going forward anyway, so  
11 based on general need and they wanted to put a higher emphasis  
12 on freight projects that had a higher freight benefit. And that  
13 -- I believe that's why the Freight Advisory Committee had us go  
14 through (inaudible), so that (inaudible), but this is the most  
15 important freight project.

16 CHAIRWOMAN BEAVER: Okay. Mr. Sellers, and then  
17 Mr. Stratton will have a question for you.

18 MR. STRATTON: Madam Chair, thank you.

19 We just had a presentation last week on the  
20 proposed idea of reversible lanes between Black Canyon City and  
21 Sunset Point with an estimated cost of \$125 million. I guess my  
22 assumption would be that that would not have been looked at in  
23 this study at this point because it's too new a project.

24 MR. ROEHRICH: Well, Madam Chair, Mr. Sellers, we  
25 had looked at that reversible lane before we started this to, in

1 fact, look at what happens with the congestion when there are  
2 incidences along I-17 that has caused those longer backups.

3 So I think the nexus for that reversible lane  
4 study was more traffic congestion, management, flow of traffic,  
5 as opposed to just a flow of freight. But it has a freight  
6 component, because freight will use that if we divert traffic  
7 over to that.

8 MR. HALIKOWSKI: So we've been looking at I-17,  
9 as Floyd said, for a number of years, because the weekend  
10 phenomenon, as we call it, is alive and well, and you see that  
11 happening every weekend. So really, what you see here, 25  
12 million, you're talking about, when you're looking at a billion  
13 dollar program, I mean, every little bit helps, but the size of  
14 this freight prioritization in the overall program is relatively  
15 small. So mostly I-17, we were looking at from the prior  
16 perspective is to relieve that traffic congestion, but that  
17 occurs mostly on the weekends, which is why it's difficult, as  
18 Gail was saying, from a P3 perspective, to generate enough  
19 traffic and actually pay through private funds and tolling for  
20 additional lanes.

21 So essentially, we're looking at 17 as a  
22 multi-use corridor, commercial, non-commercial, how you keep  
23 both of those traffic modes flowing without impeding either one  
24 since they're both important. But again, I keep going back to  
25 this, and I don't want to get too caught up in the freight

1 prioritization, because these are projects we know we're going  
2 to have to do anyway, and this just gives you an idea that,  
3 well, there's another added point or two in the ranking when  
4 you're looking at the five-year plan that it's also a priority  
5 for freight.

6 CHAIRWOMAN BEAVER: Mr. Stratton.

7 MR. STRATTON: Thank you, Madam Chair.

8 Mike, should I assume then that once you receive  
9 the MAG program integrated into this that you'll then bring it  
10 back to the Board for input prior to submitting to the FHWA?

11 MR. KIES: If that's the Board's pleasure, yes,  
12 I'd be happy to.

13 MR. STRATTON: I would like for that to happen.

14 And also, it appears it would be after the five-  
15 year plan is adopted. So I would also like the projects that  
16 are going to be done in the five-year plan anyway be identified  
17 on this plan so that we can see which ones (inaudible), so to  
18 speak.

19 MR. HALIKOWSKI: Uh-huh.

20 MR. STRATTON: Thank you.

21 CHAIRWOMAN BEAVER: Thank you.

22 Do we have any other questions?

23 Okay. Thank you.

24 MR. KIES: Thank you, Madam Chair.

25 CHAIRWOMAN BEAVER: (Inaudible) sort of be up

1 next anyway.

2 Okay. The next item on the agenda is the  
3 2018-2022 Tentative Five-Year Transportation Facilities  
4 Construction Program Review. Ms. Ward.

5 So you're the one that brings the money to the  
6 table, and then somebody else will bring a project to the table  
7 and then (inaudible) bring a project.

8 MS. WARD: (Inaudible.)

9 UNIDENTIFIED SPEAKER: Good morning.

10 MS. WARD: (Inaudible.)

11 So we're starting off with money. (Inaudible).  
12 That's where the development of the program begins. Defining  
13 just how many -- how much we have available in the funding that  
14 can then, once identified, provide those numbers to the  
15 Multi-Modal Planning Division, and then they begin the  
16 programming process.

17 So what we'll go over this morning is funding  
18 sources that fold into the program. We will (inaudible) the  
19 Highway User Revenue Fund numbers where we closed out in '16 and  
20 what the forecasts are saying for the Regional Area Road Fund  
21 (inaudible) forecasts are. We'll then move to federal aid  
22 availability, and then financing mechanisms that will be  
23 available to (inaudible) support '18 to '22 program. And then  
24 I'll let you know what the actual adjustments are (inaudible).

25 So starting off with HURF. Okay. So in '16, we



1 ended about -- we ended up with 5.1 percent growth, and a little  
 2 under the \$1.4 billion in revenue flowing to HURF; 1 billion 356  
 3 million, this is -- it was a little above forecast, about 25  
 4 million. But keep in mind if you look at the blue bars on that  
 5 chart, you will note some of these presentations I start out  
 6 with "happy new year," "welcome to 2007," because we are still  
 7 -- we have still not achieved the revenue levels in HURF that we  
 8 achieved back in 2007. So it's just below the line, and we  
 9 should in 2017 finally -- (inaudible) get back to the revenue  
 10 (inaudible) 2007.

11 In terms of the conversation of the revenue flow  
 12 in HURF, they have not changed much. We're still holding at 80  
 13 percent of the revenue flow into HURF coming from fuel taxes,  
 14 representing about 51 percent, and then VLT, vehicle license  
 15 tax, representing approximately 29 percent, as you can see on  
 16 the pie chart.

17 In terms of when we go into some more detail on  
 18 fuel taxes, you can see the gas gallons sold per year reflected  
 19 in the bars on this chart, and (inaudible) on the handouts that  
 20 were provided, the specifics of the data. If you look at 2007  
 21 compared to where we end in 2016, again, we still have not  
 22 reached 2007 levels, even though gas prices in 2016 are about 41  
 23 cents lower.

24 The use fuel, pretty much the (inaudible) same  
 25 story. (Inaudible). We haven't reach 2006 levels, and even

1 though the prices are 31 cents cheaper, we experienced in -- I  
 2 apologize. Going back to gas. We experienced growth rates in  
 3 2016 of about (inaudible). 4.3 percent growth over our  
 4 preceding year. Understand the reason I go back to emphasize  
 5 that is these numbers that I provide to you, the picture that  
 6 I'm trying to provide you, the FY '16 numbers form the base on  
 7 which forecasts -- the forecasts are developed. So the growth  
 8 rates that we experience in that -- in FY '16, they feed into  
 9 the overall forecast in the process. That's why I wanted to go  
 10 back there.

11 MR. HALIKOWSKI: Kristine, I'm not sure  
 12 everybody's familiar with the definition of "use fuel." I use  
 13 that term, you get asked about it, so...

14 MS. WARD: You got me. Yes. "Use fuel," same as  
 15 "diesel." They are used interchangeably. I guess I've been  
 16 here at ADOT long enough now that I've converted over to using  
 17 acronyms and words that no one knows.

18 Moving on to vehicle license tax and the revenue  
 19 that we have been experiencing, we (inaudible) congratulate  
 20 ourselves. We have caught up to 2007 levels. We experienced  
 21 7.1 percent growth over -- in 2016, over the 2015 levels, and  
 22 finally reached \$396 million, whereas in 2007 we were about \$393  
 23 million.

24 So let's just talk a minute about our  
 25 forecasting process. So the way we develop our forecasts is I

1 feel quite fortunate, I walked into a very sound and solid  
 2 process when I came into this job, and the process for  
 3 developing those forecasts is that the (inaudible) gathers a  
 4 series of (inaudible) and other transportation experts around --  
 5 from around the state, and it's comprised of a panel called the  
 6 RAP panel, risk analysis -- called our risk analysis process.  
 7 And it's comprised of about 12 to 15 (inaudible). They provide  
 8 us with growth rates associated with a series of variables. For  
 9 example, those variables would be things like population growth,  
 10 employment growth, personal income growth. And those variables  
 11 are then provided to a contractor (inaudible) they put them in a  
 12 model, run a series of simulations that output, and what they  
 13 provide us is a -- estimates of -- based on the probability, the  
 14 probability of various growth rates being realized.

15           So from that, with FY '16 as the base for those  
 16 forecasts, those forecasts were completed. Now, in that process  
 17 of interacting with the -- that group, that team of about 10 to  
 18 15 folks, some of the comments that we got back during the  
 19 session were they were not anticipating a recession over this  
 20 next period, which was interesting, because technically,  
 21 historically, we would be (inaudible) for another recession,  
 22 it's been five to seven years since the last. They did have a  
 23 repeated -- repeatedly commented on local uncertainty.

24           But one thing that is interesting here is that  
 25 panel met in August, and it was prior to the election. And I'd

1 be very interested to know what their comments would be  
 2 post-election in terms of how that might influence. But this is  
 3 where -- this is where they ended up, and for HURF, they  
 4 forecasted -- we got forecast (inaudible) growth rate of  
 5 approximately 3.6 percent over the next five- to six-year  
 6 period.

7           To put that in perspective, HURF annual growth  
 8 historically, prior to the Great Recession, ran between 4 and 6  
 9 and a half percent. So we are still not achieving what we  
 10 achieved pre-Great Recession in terms of growth rates.

11           Overall, what does that -- what does all of that  
 12 data mean? It means that if you compare our last year's  
 13 forecasts from September of '15 to this year's forecasts,  
 14 September of '16, what this does is it -- it adds \$323 million  
 15 over that six-year period into the program, and that is what you  
 16 will -- that is what you will see as we -- when this all  
 17 culminates as to dollars flowing (inaudible) now keeping in mind  
 18 that this is HURF. Highway User Revenue Fund. This is not the  
 19 State Highway Fund. So on that \$323 million, the State Highway  
 20 Fund (inaudible) 47 percent of those dollars will flow in and --  
 21 to the State Highway Fund, and therefore flow in to support the  
 22 (inaudible).

23           Are there any questions at this juncture?

24           (Inaudible conversation.)

25           MS. WARD: No questions are good.

1 All right. So in terms of Regional Area Road  
2 Fund, for 2015 we experienced about 3.8 percent growth. Retail  
3 had stable growth, about 6.2 percent. Restaurant and bar, about  
4 5.7. One thing to note here that will be reflected later on  
5 that you might have a question about is note that our actuals  
6 that we experience in 2016 were below our estimates. And so the  
7 forecasts that you will be seeing here in a moment will be  
8 growing off of a lower base. So therefore, you will actually  
9 see the dollars were -- the forecaster actually gave you some  
10 dollars out of the program (inaudible) Regional Transportation  
11 Fund. But you'll see that here in a moment.

12 Another component here that you'll -- that  
13 impacted that (inaudible) actual growth is that we experienced  
14 in terms of contracting, we actually experienced a negative  
15 growth due to a legislative change, but that should be working  
16 itself out now. I think (inaudible).

17 In terms of retail sales, (inaudible) 12-month  
18 rolling, we finally eclipsed 2007 and the retail sales tax grew  
19 about 6.2 percent over -- over 2015. We are still, of course,  
20 below -- we still -- we just got over 2007. So we got about  
21 \$214 million in 2016 out of retail.

22 This, however, is where (inaudible) revenues,  
23 what this slide depicts. Contracting revenues are nowhere close  
24 to 2007 models. You will note that the revenues from 2007  
25 compared to 2016, 2016 is about half, half the revenue amount

1 that we experienced in revenue levels of 2007.

2 I guess that's all I have to say about that. Any  
3 questions?

4 Okay. So based on that forecasting process that  
5 I described to you, we provided the RAP panel's figures to the  
6 contractor, and what they came up with was at a 50 percent  
7 competence interval, we anticipate a compound growth rate of  
8 about 5.1 percent for the remaining life of the tax. And you'll  
9 see some of the growth figures here. Over, the -- I'm sorry.

10 UNIDENTIFIED SPEAKER: (Inaudible.)

11 CHAIRWOMAN BEAVER: Mr. Hammond.

12 MR. HAMMOND: I'm sorry. Going back to that  
13 contracting slide, wasn't there a change in the way the State  
14 collected contracting revenues? Is that the result, or is this  
15 strictly the result of lower production?

16 MS. WARD: Madam Chair Beaver, Mr. Hammond, the  
17 -- this is the result of we are seeing the growth rates  
18 diminished in that -- in 2016 (inaudible) change in the  
19 (inaudible), you are correct. But the overall revenues that  
20 have been coming from contracting, it has literally not  
21 recovered from the 2007 level. We had over \$70 million -- you  
22 can see via that blue bar in 2007, over \$70 million in  
23 contracting revenues, whereas in 2016, we're below -- we're  
24 around the \$35 million range.

25 Madam Chair, Mr. Hammond, does that answer your

1 question?

2           So as I mentioned, when you would take those  
3 forecasts and compare them to the 2016 forecasts and compare  
4 them to the 2015 forecasts, the result is about \$138 million  
5 coming out of the overall (inaudible). And if you'll recall,  
6 the Regional Area Road Fund revenues go through December 31st of  
7 2025. So that's why you're seeing in 2026 that significant  
8 change in revenue (inaudible).

9           Moving on to federal funding. So what this chart  
10 depicts is the estimated federal formula funding being provided  
11 to Arizona between '17 -- through the federal fiscal year '17  
12 through federal fiscal year '20. The reason you only see it  
13 through '20 is because the FAST Act expires in 2020, and for the  
14 purposes of development of this program, this five-year program,  
15 what we've done is since the program goes through 2022, we have  
16 assumed federal funding levels just remaining flat (inaudible).

17           Apportionments. In the FAST Act, grow at about  
18 2.2 to 2 and a half percent for the life of the FAST Act.  
19 (Inaudible.) We then take those federal dollars, and a portion  
20 of them are available to the statewide program and a portion of  
21 them are yet distributed to -- our local -- distributed to the  
22 locals.

23           So not all of the federal funds that were  
24 provided to the State are available to the statewide program.  
25 What this chart shows is the distribution of -- between the

1 locals and the statewide program. That statewide, the large  
2 blue, dark blue section, is what becomes available. And if --  
3 in a future (inaudible) rolls into the five-year program, and  
4 (inaudible) beyond FY 2020, we have assumed that the revenues  
5 from the federal (inaudible) remain flat (inaudible).

6           Moving on to financial mechanisms. (Inaudible.)  
7 So what we have (inaudible), the '18-'22 program is estimated  
8 bonding of approximately over a billion dollars. 505 million of  
9 that is for the statewide program, and then there's an  
10 additional 520 million that will be issued in (inaudible) bonds  
11 for the MAG program.

12           You might note that there are limited -- you  
13 might note that there are limited -- each color there represents  
14 a different -- one of our (inaudible) and ground represent --  
15 that brown block represents dollars that we -- HURF bonds that  
16 we would be forecasting (inaudible).

17           You might note that there's not a lot of  
18 (inaudible) up there, and the reason for that is the department  
19 used to experience coverage levels. We used to have coverage  
20 levels that ranged between five and six times coverage.  
21 (Inaudible) more capacity. And that was the recommended levels  
22 to maintain our rating with the rating agency.

23           We haven't had the joy of experiencing those  
24 coverage levels for some time, and so we are trying to fill  
25 those coverage levels back up some, and so that's why you see

1 HURF primarily (inaudible) here, and we're leveraging our  
2 federal revenues early on -- that's what the green bars  
3 represent -- (inaudible), which is bonding against our federal  
4 (inaudible). Overall, like I said, a million 25 is (inaudible)  
5 that anticipated. That will ultimately depend on cash flow.

6 (Inaudible conversation.)

7 UNIDENTIFIED SPEAKER: (Inaudible.)

8 MS. WARD: There we go. So moving on to  
9 (inaudible) -- there we are.

10 So we're moving on to the actual program itself,  
11 and I believe Mike mentioned earlier the cost of (inaudible).  
12 So once the funding is determined, the department begins the  
13 process by identifying the amount of funds that will be the  
14 program (inaudible).

15 If you'll recall, in 1999 the Casa Grande accord  
16 took place where transportation stakeholders from across the  
17 state got together and agreed upon the percentages of ADOT  
18 resources that would be programmed into each region. Part of  
19 that agreement was regarding (inaudible) certain facilities  
20 (inaudible) where a certain facility has statewide benefit. So  
21 there are dollars that are taken off the top. And after those  
22 dollars are taken off the top, then these outpatients -- these  
23 percentages are applied. So on the MAG region, 37 percent of  
24 the funding identified is programmed in the MAG region. 13  
25 percent of the funding identified for the (inaudible) is

1 programmed in the PAG region, and 50 percent is programmed in  
2 Greater Arizona.

3 CHAIRWOMAN BEAVER: Just from a historical note,  
4 could you just for the benefit of our newest board member, could  
5 you kind of explain the Casa Grande accord and what -- what  
6 caused that to come about?

7 MS. WARD: Well, I can't speak precisely to the  
8 events that happened at -- preceding the Casa Grande accord, but  
9 the basis of it was that the -- coming to what is the  
10 appropriate -- how do we allocate our limited fund -- limited  
11 fund (inaudible), and what region (inaudible) what should each  
12 region be allocated in terms of when we program the five-year  
13 program.

14 When we say, "Okay. Here's all these projects."  
15 Well, how do you determine what -- how much each region gets in  
16 terms of those projects? So there had to be -- the Casa Grande  
17 accord came about because they were looking -- those various  
18 regions came together to determine what was appropriate and to  
19 negotiate what was appropriate for each of their regions based  
20 on various variables like population. Do you program more in  
21 the urban centers and less in the rural centers, or more in  
22 rural areas and less in the urban, knowing that (inaudible) get  
23 in and out of those regions? So it came down to how did you  
24 reallocate to what (inaudible) allocate are limited  
25 transportation fund dollars.

1 MR. ROEHRICH: Madam Chair, if I can also add to  
2 that. It wasn't just the COGs and MPOs that got together. It  
3 was also a combination of board members as well as ADOT senior  
4 staff that sat down, as Kristine said, and really looked at what  
5 the overall needs were of the system compared to the regional  
6 needs and how you'd balance that funding, because the funds that  
7 are generated are not generated equally around the state.  
8 Obviously they're collected in the major urban areas, but yet  
9 you've got a whole statewide system and a need. So this was a  
10 way to come together cooperatively through this group and  
11 establish these funding levels for this region that would allow  
12 them, the department, State Transportation Board, to spread  
13 those funds -- within those regions throughout the state to  
14 address the system as a whole.

15 CHAIRWOMAN BEAVER: Thank you.

16 MS. WARD: So in terms of the process (inaudible)  
17 what this process is called is a resource allocation process,  
18 and so the first step in that process, as I mentioned, is FMS,  
19 financial management services within ADOT provides the figures,  
20 the revenue available -- the available revenue numbers to MPD.  
21 MPD then takes those -- takes those items that have (inaudible)  
22 off the top items, and then the remaining funds are distributed  
23 -- are programmed according to the rack percentages.  
24 (Inaudible) then provides some estimates in MVD with regard to  
25 subprogramming, and then NPD develops the rest of the program.

1 So there's a lot of numbers on this page. So I  
2 have tried to add arrows to point out the things that are most  
3 important to (inaudible). So all of the revenue sources that I  
4 had the financing mechanisms that I just reviewed with you are  
5 what ultimately fold in and provided a total (inaudible) revenue  
6 as depicted by that green arrow.

7 And there are other -- a couple of other  
8 additional items that I want to cover with you here, and what  
9 you -- what I want to point out is in this year, it is the first  
10 year that we do not have a line for operating tax requirements.  
11 Now, you will recall that -- the board members that have been  
12 here a few years will recall that over the last few years, we  
13 have had to actually hold some dollars back in order to reach  
14 adequate operating cash levels. Our balances (inaudible) when  
15 it started, actually, they were under a million dollars, and our  
16 payroll runs about \$11 million. So that was a little bit of a  
17 problem. So looking -- we have finally, after many years,  
18 reached the operating cash levels that we need to achieve in  
19 order to provide the programs. So that's that very top purple  
20 arrow you see.

21 The next thing in this program that is new is the  
22 -- in achieving those operating cash levels, we are now able to  
23 reinstitute the HURF swap program. And those two arrows that  
24 you see are kind of a shaded or a light purple represent the  
25 HURF swap program reinstated beginning in federal fiscal year

1 2018. We are meeting actually later this week with FHWA to work  
 2 through some final little items, and then we will soon be  
 3 meeting and rolling it out to the locals over the next six to  
 4 eight months.

5 And lastly, if you'll look -- actually, two more  
 6 things. If you'll note, also, that we've got FASTLANE grants  
 7 captured in these numbers, as well as General Fund  
 8 appropriations that (inaudible).

9 CHAIRWOMAN BEAVER: Ms. Ward, with the HURF swap,  
 10 is that something you're going to be kind of reporting to us as  
 11 it's rolled out, or are you going to be giving us an update on  
 12 it or can you?

13 MS. WARD: Yes, ma'am. I certainly can.

14 MR. HALIKOWSKI: Madam Chair, Mike, thank you for  
 15 pointing that out. I mean, we announced this without much  
 16 fanfare that we're going to reinstitute their swap program, but  
 17 believe me for our county and local governments that have been  
 18 forced to use federal funds all these years with all of the  
 19 federal strings and attachments, rolling out the HURF swap  
 20 program this year is a big event for us, because we'll be able  
 21 now again to streamline and save money on those local projects,  
 22 and so be able to use state dollars instead of federal. So  
 23 Kristine, thank you for the management you've done all these  
 24 years as we've tried to save up enough money to get this  
 25 reinstated.

1 MR. LA RUE: Madam Chair, if I may.

2 CHAIRWOMAN BEAVER: Yes, Mr. La Rue.

3 MR. LA RUE: So Kristine, can I -- so on page 20  
 4 is your debt -- planned debt, and it shows some proceeds, and  
 5 how do I map it to this page to show where it's dropped in, or  
 6 can I?

7 MS. WARD: Okay. So if you go to financing  
 8 mechanisms, so you'll see on that previous slide a \$75 million  
 9 issue in FY '18.

10 MR. LA RUE: Yeah.

11 MS. WARD: And what you see here is a 64 million  
 12 (inaudible). That's net of debt service.

13 MR. LA RUE: Okay. So the billion you've showed  
 14 me (inaudible) we've got to take out from that. And so really,  
 15 we're only (inaudible) the 400.

16 MS. WARD: This -- so if you'll recall, that  
 17 billion broke down into two components.

18 MR. LA RUE: Right.

19 MS. WARD: One for the statewide, one for MAG  
 20 RTP.

21 This chart, what this reflects is the  
 22 statewide --

23 MR. LA RUE: Oh, statewide only.

24 MS. WARD: (Inaudible.) They didn't get us from  
 25 (inaudible). So I -- perhaps I could make this a little more

1 clear. What you see here is the statewide debt issuance net of  
2 debt service.

3 MR. LA RUE: Okay. I was losing some money  
4 somewhere, and I just didn't know where I was losing it. So  
5 thank you.

6 MS. WARD: (Inaudible.)

7 MR. LA RUE: But you've got it.

8 MS. WARD: (Inaudible.)

9 MR. ROEHRICH: Kristine, I (inaudible) the RARF  
10 bonds are not in here though.

11 MS. WARD: They are not (inaudible) released.

12 MR. ROEHRICH: Okay. Just wanted to make that  
13 clear.

14 MR. LA RUE: Thank you, Madam Chair.

15 MS. WARD: Anything else on that (inaudible)?

16 CHAIRWOMAN BEAVER: I think we're good right now.

17 MS. WARD: All right.

18 CHAIRWOMAN BEAVER: Moving along.

19 MS. WARD: So in terms of where that leaves us  
20 for funding for the tentative five-year program, '18 through  
21 '22, the revenues (inaudible) support of making some adjustments  
22 to (inaudible) some of the years that have already -- you  
23 already approved in the '17 to '21 program. So modifications in  
24 that program (inaudible) see where that one arrow is pointing.  
25 84 million in '18. That, of course, is made up of that \$54

1 million FAST grant as well as (inaudible) on the general  
2 (inaudible). That's next year's (inaudible). So in '19, we  
3 adjust the program by 85 million in increased funding. In  
4 (inaudible) in FY 20-21, 75 million, and the new fifth year is  
5 \$775 million.

6 So with any forecast, there are assumptions and  
7 there are risks. And so we currently -- we have the session,  
8 the legislative session starting. One can never be assured  
9 exactly what will come from it. So we have got risks associated  
10 with legislative action. Right now, the executive budget holds  
11 HURF and State Highway Fund harmless. It's kept funding  
12 levels -- DPS funding levels at the same level as preceding  
13 years.

14 We do not yet know the legislative proposal.  
15 This -- these forecasts assume that the special distributions to  
16 the cities and the counties of approximately \$30 million will  
17 indeed as stat- -- as current statute provides will not go  
18 beyond 2018. And then, of course, we've got, you know, risk.  
19 We've got new administration, and we don't know how Congress  
20 will behave in terms of the FAST Act expiring during this five-  
21 year program. And then, of course, we have our regular economic  
22 risks of recession and of inflation and (inaudible).

23 With that, I would be happy to take your  
24 questions.

25 CHAIRWOMAN BEAVER: No questions? Thank you.



1 MS. WARD: Thank you very much.

2 CHAIRWOMAN BEAVER: Mr. Kies.

3 MR. KIES: Thank you, Madam Chair.

4 So Kristine gave all the details about the  
5 funding side. Now what I wanted to cover was the levels of  
6 project spending that we intend -- or we recommend that the  
7 board consider for the upcoming five-year program.

8 With that, the contents of the staff's  
9 recommendation for the five-year program include projects that  
10 are divided into three categories of expansion, modernization  
11 and preservation. The previous five-year program, when we --  
12 this is the entire state, which includes the programs in the MAG  
13 region and the PAG region, plus Greater Arizona, which is  
14 outside Phoenix and Tucson, was -- preservation was funded at 41  
15 percent of the program, and expansion at 44 percent.

16 This five-year program, we're looking at  
17 preservation at 36 percent of the program, expansion at 52  
18 percent, and then modernization at 12 percent. This does not  
19 mean that we're suggesting that a lot of the spending on  
20 preservation to go down. It just -- as Kristine talked about,  
21 some of the revenue forecasts are going up. We've added more  
22 revenue from the FASTLANE grant, from two disbursements from the  
23 legislature for I-10 and 189.

24 And also, the MAG region is going through a  
25 rebalancing program, as they see their revenues going up. So

1 I'll show you the details of the preservation spending, but even  
2 though it's less of the entire program, it is -- we are asking  
3 the Board to consider raising the amount of money that we spend  
4 on preservation.

5 With that said, when we just look at Greater  
6 Arizona -- and the rest of this presentation now is about  
7 Greater Arizona without talking about MAG region and the PAG  
8 region in Phoenix from Tucson -- but those two groups are going  
9 through an independent process of looking at their five-year  
10 program, and in February, I'll be able to bring information  
11 about Greater Arizona, MAG and PAG all together.

12 But for Greater Arizona, outside of Maricopa and  
13 Pima Counties, the recommendation is that we spend about 59  
14 percent of that program on preservation and 21 percent of  
15 expansion, with the remainder on modernization. The last five-  
16 year program, again, we had 61 percent of the program going to  
17 preservation, and only about 14 percent to expansion. Again,  
18 we've got added revenues that are available for expansion, and  
19 that's why you're seeing some of the difference, difference in  
20 the program.

21 So what I'd like to present to you is the five-  
22 year program in these bar charts, which represent each of the  
23 five years of the five-year program, starting in '18 and going  
24 to '22. Green being the amount of funding that we recommend to  
25 spend towards preservation; red, modernization; blue, the

1 expansion program. And then you see some other colors that are  
2 representing the amount of cost to develop the projects, and  
3 then the gold bar is the amount of funding to plan the program  
4 and plan projects across the state.

5           So what this slide shows is taking advantage of  
6 some of those revenues that are increasing that Kristine talked  
7 about, making some adjustments in the preservation program, the  
8 number that we've always been shooting for for the five-year  
9 program has been a consistent spending level of \$260 million.  
10 And in this five-year program, we believe that we can keep that  
11 average pretty much at 260 million per year across all five  
12 years, and you see that for the last five-year program, we've  
13 made some adjustments where preservation's gone up 12 million in  
14 '18. You see 30 million increase in '21 to get us right up to  
15 that 260 number. A 10 million increase from what we've seen in  
16 the development program previously in '22 to get us to that 260  
17 number. And so we feel that this -- this spending level will  
18 make some advances in our preservation condition over this five  
19 years.

20           With that said, that kind of leaves the rest of  
21 the program, then, for us to look at the priorities. You can  
22 see the modernization program that we are rapidly increasing to  
23 about a level of 90 million per year, and what I want to want to  
24 focus on, the rest of the program is what is contained in the  
25 expansion program, which is what projects are represented in

1 blue as we go across and what are those funding amounts that we  
2 recommend.

3           So the first year is 2018. We are -- we have two  
4 main projects in the expansion program. US-93 Carrow to  
5 Stephens. That's 35 and a half million, and then I-10, which is  
6 a group of several projects that we've talked about. 85 million  
7 at SR-87 in Picacho. 40 million for Early to I-8, and then 12  
8 million for a dust detection system, which is all grouped  
9 together, being partially funded by the FASTLANE grant that we  
10 were awarded. So for fiscal year '18, we proposed 172 million  
11 of expansion improvements to (inaudible) projects.

12           With that said, we'll move on to fiscal year '19.  
13 Fiscal year '19, as you recall, over the summer we talked about  
14 some adjustments in the five-year program with the opportunity  
15 for the FASTLANE grant and some legislative money that was  
16 provided to us during the last session. We suggested with --  
17 and you -- you concurred that we should accelerate the 189  
18 project in fiscal year '19. So this is what we're proposing in  
19 the five-year program. That represents 69 million of this 94  
20 million of expansion money in fiscal year '19.

21           You might ask the number keeps growing a little  
22 bit on 189. It used to be 64 million. Then it was 65 million.  
23 Now it's 69 million. In the previous five-year program, we did  
24 have 4 million of -- identified in fiscal year '18 for design of  
25 189. We now propose to combine that together. So it's

1 design, build together in fiscal year '19, and that's where the  
2 number of 69 million comes from. 65 for construction and 4 for  
3 design.

4           We do propose 25 million additional to the  
5 expansion program in '19 for some design efforts of upcoming  
6 projects, including two on US-93, one at Cane Springs and one --  
7 it's called the West Kingman TI, which was that number one  
8 freight priority that -- I don't want to bring up the freight  
9 program again, but that was where that project came in as a  
10 number one priority on the freight plan. And then \$15 million  
11 of design money towards the projects that we recommend later in  
12 the program for I-17 from Anthem to Sunset Point.

13           Moving on to the third year, 2020, again, as we  
14 talked about over the summer, talking about the funding  
15 adjustments, we had talked about the Gap project, which is near  
16 Wickenburg in -- on US-93. That is proposed as a \$41 million  
17 project in the future, 2020. And the other 20 million for  
18 expansion projects are, again, some design efforts on US-93 at  
19 Big Jim Wash, a design effort on SR-260 at Lion Springs, and  
20 then advancing that West Kingman TI project to its right-of-way  
21 phase in fiscal year '20.

22           That gets us to the last two -- two years of this  
23 plan. Fiscal year '21 and '22. Staff's recommendation is that  
24 we focus both of those fiscal years, the amount of money that  
25 remains for expansion projects on Interstate 17 somewhere

1 between Anthem and Sunset Point. That represents \$128 million  
2 that's available in the statewide five-year program.

3           Also, with the rebalancing effort that MAG has  
4 been doing, they have proposed that up -- \$250 million could be  
5 proposed to this corridor through their funding, which brings us  
6 to a total of 178 million that we feel is available for I-17 in  
7 those -- in these several fiscal years.

8           So what does that mean? Well, the goal for I-17  
9 would be that -- to add additional capacity, and probably a lane  
10 in each direction on I-17 between Anthem and Sunset Point  
11 eventually. The Board -- you did see last month a presentation  
12 on a reversible lane option between Black Canyon City and Sunset  
13 Point. That is an option of a way that capacity could be added  
14 to I-17. So all of these are ideas that are on the table.

15           If we go to the next slide, what I wanted to  
16 bring to the attention of the Board is that we are -- in  
17 combination with MAG, we are showing that there could be as much  
18 as \$178 million available for I-17 in this five-year program.  
19 However, if you look at the planning level cost estimates of  
20 what it would take to get a third lane in each direction all the  
21 way from Anthem to Cordes Junction, which is the main junction  
22 between Prescott and Flagstaff, it adds up to \$447 million. In  
23 round numbers, at staff level, we've been calling it \$500 just  
24 because it rolls off the tongue easier.

25           So just wanted to bring to the Board's attention

1 that this 178 million is a lot of funding, but it doesn't --  
2 doesn't complete a third lane in each direction in the corridor.  
3 However, this is a corridor that projects can be implemented  
4 (inaudible). A third lane could be added in a certain location  
5 with coming back later with more funding to add that lane or the  
6 reversible lanes that you saw last month, could be done in one  
7 section and lanes could be added in another section.

8 Gail Lewis also mentioned that we're currently in  
9 an analysis of if there are an opportunity to add another  
10 revenue source such as tolls in some way to this corridor, how  
11 would that -- how much revenue would that bring to the equation?  
12 So our recommendation is that we continue to develop this  
13 corridor with the anticipation to spend at these funding levels  
14 during this -- this five-year program. However, it does not  
15 fully address all of the issues along I-17 between Anthem and  
16 Cordes Junction.

17 Any questions or concerns about that?

18 I'll move on then to the development program,  
19 which is the next five years of the program, from 2023 to 2027.  
20 Again, we're looking at an opportunity in the development  
21 program to raise the amount of money that's spent towards  
22 preservation. We're currently updating our long-range plan, and  
23 we just did an analysis of the needs over the next 25 years for  
24 our highway system. And yet, again, preservation is looked at  
25 as needing more funding in the future. And so our new number

1 that we want to start growing towards is 320 million in here.  
2 And you see here in the development program how we are proposing  
3 to gradually climb up from the 260 number in the five-year  
4 program to a \$320 million a year spending in the development  
5 program.

6 With that said, then you can see the  
7 modernization spending, roughly about 90 million a year, and  
8 then we have the expansion money left over for the projects that  
9 you see on the top, the construction of US-93 at Cane Springs  
10 and Lion Springs, on 260 and 23. Two other 93 projects in  
11 fiscal year '24 and '25, improvements along I-19 at Rio Rico and  
12 Ruby, which is what we have talked about in previous development  
13 programs in '26, and then a new priority coming forward in the  
14 development program that has a lot of conversation that's going  
15 around.

16 The section of I-10 from Casa Grande to Loop 202,  
17 which is the crossing of the Gila River Indian Community, and  
18 staff feels that we really need to start putting attention and  
19 funding towards that corridor. This \$33 and a half million is  
20 nowhere near, again, what the funding levels that would be  
21 needed for that section, but again, that section of -- could be  
22 (inaudible) corridor where, again, segments of lane could be  
23 added or interchange could be improved.

24 MR. HAMMOND: Madam Chair.

25 CHAIRWOMAN BEAVER: Yes, Mr. Hammond.

1 MR. HAMMOND: Mike, is it correct to say this  
2 slide shows probably better than any the decreasing funding for  
3 expansion if we don't come up with additional revenue sources?  
4 That top line is clearly going to disappear in about two years  
5 (inaudible).

6 MR. KIES: Madam Chair, Mr. Hammond, that's a  
7 great observation. In fact, update of the long-range plan  
8 suggests that (inaudible) fully fund our preservation program  
9 from -- between now and 2040, we should be spending in the range  
10 of \$385 million. And if we took the results of our long-range  
11 plan at face value and just adjusted our numbers, then that blue  
12 bar would have disappeared. And so this is sort of a compromise  
13 between fully funding whatever long-range plan (inaudible)  
14 preservation and still allowing some opportunity for expansion  
15 projects.

16 CHAIRWOMAN BEAVER: Based on the dollar amount,  
17 the yellow bar will be gone, too.

18 MR. KIES: Yeah.

19 With that said, I want to move on to the airport  
20 program, which is, again, (inaudible) focus for the federal  
21 board meetings about the level of funding in our Aviation Fund  
22 and the amount of projects that can move forward.

23 For the Board's information, I wanted to review  
24 the spending levels that were proposed -- that were approved for  
25 the previous five-year program in fiscal year '17. Again, this

1 was in advance of the legislature sweeping \$15 million from the  
2 Aviation Fund, and we all know where that led us to. You can  
3 see that the various programs that the aviation group manages,  
4 and it was anticipated the total program spending of \$29  
5 million.

6 For fiscal year '18, it's been proposed to pull  
7 that back quite a bit to allow the funds to recover from the  
8 sweep, fully pay our commitments out of the Aviation Fund. As  
9 you can see, the suggestion from the aviation group on the  
10 amount of funding that's spent -- that's dedicated to '18, 3 and  
11 a half million dollars for the federal project match, which is,  
12 if I go back to '17, very close to what we've been allocating  
13 that continued the federal aid part of the aviation program to  
14 go forward as fully expected. But then you can see zero dollars  
15 for the State program, which is grants that are just funded out  
16 of State money out of the Aviation Fund. A much less number for  
17 the Pavement Preservation Fund, and then a reduction in the  
18 planning services. So a commitment of only 5 and a half million  
19 dollars of new funding for fiscal year '18 to the Aviation Fund.

20 Now, as we've had discussion at the staff level,  
21 again, the five-year program is a plan, and plans change, and if  
22 the Aviation Fund seems to have recovered and revenues are  
23 increasing at any time during fiscal year '18, we could go back  
24 out to our sponsors and say, "Hey, we would like to start  
25 entertaining state grants," and open that program back up again.

1 But right now, for the five-year program, this is what the  
2 aviation staff recommends as (inaudible).

3 MR. THOMPSON: Madam Chair.

4 CHAIRWOMAN BEAVER: Yes. Mr. Thompson.

5 MR. THOMPSON: On the over all aviation funding,  
6 where is the consideration for tribal projects?

7 MR. KIES: So Madam Chair, Mr. Thompson, the  
8 Aviation Fund is a competitive ran program in its entirety.

9 MR. THOMPSON: Right. Right. Uh-huh.

10 MR. KIES: And the tribal airports are equally  
11 eligible to compete for -- to state grants and also federal  
12 funding. So tribal airports are included in the opportunity to  
13 compete for these funds.

14 MR. THOMPSON: Thank you very much. I'd like to  
15 know more about that.

16 MR. KIES: Okay.

17 MR. THOMPSON: Maybe -- not today. Maybe later  
18 on. Thank you, Madam Chair.

19 MR. KIES: We can have that, that conversation.

20 MR. THOMPSON: Yeah.

21 MR. KIES: With that said, the next step for the  
22 five-year program is -- so this was to create a dialogue about  
23 staff's recommendation for the funding levels in this five-year  
24 program and the development program. We will come back to you  
25 at the February board meeting, based on your comments today,

1 with a tentative program that we would ask you to approve, which  
2 would then go forward into public comment. So public -- there  
3 would be then public hearings in March, April and May, in  
4 association with the -- with your board meetings.

5 We would then compile all those comments and come  
6 back to you at a study session in May, and we would show you the  
7 proposed changes to the tentative program to become the final  
8 program and have a conversation about that, then bring the final  
9 program back to you in June for your approval so that it can be  
10 delivered to the governor's office before June 30th; therefore,  
11 starting our new fiscal year '18 in -- on July 1st.

12 With that, that's all I had. You may see some  
13 additional slides in the handout, which is anticipating  
14 (inaudible) questions that you have. (Inaudible.)

15 CHAIRWOMAN BEAVER: Well, Mr. Kies, I have one,  
16 and it's just based on Mr. Hammond's question about those bars  
17 going away, and I guess my question is preservation's important  
18 because we don't like potholes. But at the same time, if we put  
19 everything into preservation, I mean, and we do away with the  
20 planning aspect and some of those precursors that you have to  
21 do, and you know, or even the design in order to have projects  
22 sort of in the pipeline -- I guess the old term was shovel  
23 ready, so I don't know what the new term's going to be -- but  
24 that seems a little bit unhealthy. So where is the healthy  
25 balance?

1 MR. KIES: Well, Madam Chair, from staff's  
2 perspective, we believe this is a healthy balance to establish  
3 getting the spending level and preservation within the next 10  
4 years up to 320 million. Again, as Mr. Hammond pointed out, it  
5 does not provide a lot of room for expansion projects, but it is  
6 a level that would not deteriorate our existing system at a rate  
7 that we don't (inaudible). But it still would not be funding on  
8 a level that fully encompasses all (inaudible).

9 CHAIRWOMAN BEAVER: But it seemed like the dollar  
10 amount that was being discussed would be far greater than just  
11 what is allowed in that tenth year.

12 MR. KIES: Well, you mean -- is your comment  
13 referring to preservation? The long-range plan?

14 CHAIRWOMAN BEAVER: Well, yeah. Yes. As the  
15 preservation increases, the funding for it, we have to do away  
16 with, say, expansion, but it seems like the dollar amount -- I'm  
17 sorry. I didn't capture that -- but the dollar amount that you  
18 had mentioned when you were discussing with Mr. Hammond exceeded  
19 that 33,5. So if that went away, something else is going to go  
20 away, too. So if we're just going to restrict preservation --

21 MR. KIES: Correct. So the number I mentioned to  
22 Mr. Hammond was that our long-range plan had identified a  
23 spending level to be fully funded until 2040 for our  
24 preservation level, raises that number up to 385. So that's \$65  
25 million additional above that 320, and you're absolutely

1 correct, Madam Chair. The 33 and a half that's shown in that  
2 last year for expansion would be part of that, but yes, other  
3 priorities such as modernization or planning activities or the  
4 development activities would have to be cut back too to get to  
5 that full level. Staff doesn't believe that that's a -- that  
6 that's a prudent thing to do. That's why we're showing this  
7 compromise of raising preservation to 320 and still funding  
8 modernization at 90 million and allowing about 30 million or so  
9 for expansion opportunities.

10 CHAIRWOMAN BEAVER: Okay. So when you were  
11 projecting out that 385, that's just saying how much would be  
12 needed. It's not necessarily how it would look on one of  
13 these --

14 MR. KIES: Correct. Yes.

15 CHAIRWOMAN BEAVER: -- charts.

16 MR. STRATTON: Madam Chair.

17 CHAIRWOMAN BEAVER: Yes. Mr. Stratton.

18 MR. STRATTON: This is more of a comment to the  
19 board and the staff rather than a question, and then I've  
20 actually had this conversation with Mike. Over the past years,  
21 the board has changed, the staff has changed and priorities will  
22 change, but as ADOT has jumped around the state doing projects,  
23 whether it be on 93 or 260 or wherever, doing some improvements,  
24 it causes another problem where you go from four lanes to two  
25 lanes to four lanes. We have created bottlenecks, and therefore

1 other problems, and the citizens in those communities or those  
 2 areas that use those highways (inaudible) a lot of comments from  
 3 me, I don't know about the rest of you have, but I believe that  
 4 we should focus on cleaning up some of that in a timely manner  
 5 to where we complete those projects, and those problems go away,  
 6 and then we can move to other projects, too. So I think we  
 7 should be considering some of these 93 and 260 and the others  
 8 earlier in the (inaudible).

9 CHAIRWOMAN BEAVER: Mr. Stratton, I would say  
 10 with regard to that, this I-17 thing, based on the segment,  
 11 doing it in segments, I could see that that would be problematic  
 12 there, also, where again, you get into the bottleneck, you know.  
 13 And that was the issue over there by Cottonwood and Camp Verde  
 14 area, you know. You've got it wider, then it goes narrower,  
 15 so...

16 MR. STRATTON: And the same issue exists in  
 17 Graham County on 191, from I-10 going into Safford (inaudible).

18 CHAIRWOMAN BEAVER: Mr. Hammond.

19 MR. HAMMOND: I'm certainly not going to  
 20 (inaudible) in favor of bottlenecks, but it's interesting how  
 21 the choice to do I-10 between Tucson and Phoenix actually  
 22 worked, where if the alternative was to have not done the  
 23 expansion that was done five, six years ago in the name of not  
 24 creating a bottleneck, (inaudible) promptly (inaudible)  
 25 situation. The stretches that aren't done actually flows fairly

1 well. The two -- when you get up to the Gila River, it gets  
 2 scary there on occasion, but yeah. My guess is as a board we  
 3 always make choices, so -- but cleaning up -- yeah. I mean, if  
 4 we've made messes out there, we certainly need to address them.  
 5 But the idea of maybe doing nothing on some of these areas and  
 6 putting it all over onto others, I am not sure, Board Member  
 7 Stratton, that's really what you meant, but I just wanted to  
 8 make my point on how well I-10 has functioned in spite of the  
 9 fact that it still has those two bottlenecks (inaudible).

10 CHAIRWOMAN BEAVER: Mr. Stratton.

11 MR. STRATTON: Thank you, Madam Chair, Board  
 12 Member Hammond.

13 I was not suggesting in any way that we eliminate  
 14 or not look at other areas. I'm just saying that I believe we  
 15 need to look at the areas where we have caused problems and see  
 16 where we can put those projects in at the earliest possible  
 17 date.

18 CHAIRWOMAN BEAVER: Anything further?

19 MR. THOMPSON: Madam.

20 CHAIRWOMAN BEAVER: Mr. Thompson.

21 MR. THOMPSON: Madam Chair, Mike, members, I do  
 22 feel, too that preservation is very important. But if we wait  
 23 any longer, it's going to be costing us more money to make those  
 24 repairs. And the other thing is that I also have the same  
 25 concern. (Inaudible) we be completing the I-17 projects, how



1 would we begin to think about pulling plans together to complete  
2 what we have planned and to do on that I-17 segment? So...

3 MR. KIES: Madam Chair, Mr. Thompson, that was  
4 essentially what I was trying to point out with the slide that  
5 shows the planning level costs that would fully build out one  
6 new lane in each direction all the way to Cordes Junction far  
7 exceeds the amount of money that we're seeing available for the  
8 I-17 corridor. So right now, at this point in time, we don't  
9 have -- we do not have a plan to fully -- what we intend to do  
10 is look at where are the most critical needs in this section of  
11 I-17. Where do the accident numbers show that another lane  
12 would provide (inaudible) to future accidents? You know, how do  
13 we relieve the weekend crunch, as the director had mentioned,  
14 you know, up the hill at -- to Sunset Point? And again, as we  
15 get into 93 and some other corridors like 260, we focused on  
16 those higher -- with limited funding, we focus on the highest  
17 need first, and then anticipating the future to come back to  
18 complete the corridor.

19 CHAIRWOMAN BEAVER: This is more of a comment,  
20 but I just see we're kind of in a catch-22. We can't afford to  
21 do complete projects, and so when we break it up into segments,  
22 then we get these bottlenecks, and then we have -- we have  
23 people wanting us to do these full improvements, which are way  
24 too costly that we can't even afford them. Yet when we try to  
25 do it in segments, then it comes to our attention, well, now

1 you've got a bottleneck there. But it -- you know, then the  
2 alternative is to do nothing, I guess, and leave it as is and  
3 continue with the, you know, outcry that we have. So we're  
4 darned if we do, darned if we don't.

5 MR. KIES: (Inaudible) Madam Chair, that we feel  
6 from that level, this is the best recommendation that we can  
7 make to you based on the money levels we have. Again, if  
8 there's any suggestions about how we could reprioritize or  
9 change that, well, we would -- we would take your comments and  
10 then formulate the tentative program in February around those  
11 discussions.

12 MR. STRATTON: Madam Chair.

13 CHAIRWOMAN BEAVER: Mr. Stratton.

14 MR. STRATTON: Is there any list of the  
15 preservation projects that you are proposing within the five-  
16 year plan?

17 MR. KIES: We do. I didn't bring it with me, but  
18 yeah, we have a spreadsheet of all the preservation projects.  
19 And when we do the tentative plan in February, we will provide  
20 that to you ahead of time, but we can provide it now if you  
21 would like to see it in its draft state.

22 MR. STRATTON: No. Prior to February would be  
23 fine.

24 MR. KIES: Okay.

25 CHAIRWOMAN BEAVER: Well, just out of fairness, I

1 know over on my side of the state, preservation is very  
2 important, you know, where there's been erosion --

3 MR. THOMPSON: Uh-huh.

4 CHAIRWOMAN BEAVER: -- with the roads and things  
5 like that. So -- again, and potholes, and you know, things like  
6 that, but there is an importance to it. I just think sometimes  
7 the general public -- and I don't know what we could do to  
8 better state our case publicly in terms of the fact when we do  
9 things in segments, we realize, you know, you know, if we could  
10 have, you know, whatever our perfect picture is, you know, we  
11 would do the whole thing. But from a dollar standpoint, we  
12 can't afford to. So by doing it in segments, we are going to  
13 have these bottlenecks from time to time. I know these that  
14 we're talking about on 93 have actually been in the plan, taken  
15 out of the plan, put back in the plan, you know. So -- and  
16 those, too, are bottlenecks, situations out there on the 93.

17 So I don't know. I guess if I was to say one  
18 thing, if we could maybe look at how we can better communicate  
19 with the public that we're aware of this situation when we do  
20 these segmented-type projects, but at the same time, from a  
21 financial standpoint, that's the best way that we can move  
22 forward.

23 MR. KIES: Thank you, Madam Chair.

24 And to Board Member Stratton's comment, we --  
25 this map that was provided on Slide No. 3 does at least map out

1 all the preservation projects that are anticipated to be in the  
2 five-year program. So all the purple colored lines (inaudible).

3 MR. STRATTON: I did see those. It's a little  
4 hard to identify exactly where they were.

5 CHAIRWOMAN BEAVER: (Inaudible) some of us are  
6 visually impaired.

7 MR. KIES: (Inaudible).

8 CHAIRWOMAN BEAVER: Mr. La Rue.

9 MR. LA RUE: Madam Chair, thank you.

10 And Mike, you know, once again, a good  
11 presentation, and maybe if you go back to Slide 10, which really  
12 highlights, I think this -- this cycle maybe more so than any  
13 cycle that I've been on the Board, but I'm probably overstating,  
14 is one that -- you know, in the prior -- prior cycles when we've  
15 gone out in the greater community, we really connected the  
16 stakeholders in the rural Arizona and those things, and it's  
17 very important. It's very important again this year, but I  
18 think this year even more so it's going to be very important to  
19 connect with the MPOs and those, because you know, like this --  
20 just this segment here, you know, this is a MAG on the south  
21 end. It's a Greater Arizona on the north end.

22 These numbers are just mind blowing. There's no  
23 way given what we see here that that's, you know, ever going to  
24 fit in in my lifetime, but I think it's one where we need to  
25 really work together with everybody to say what is the right

1 investment at the right time to alleviate the traffic.

2           And given because so much of it is in the MAG  
3 region that impacts, we need to -- I see the same thing on I-10.  
4 I think what surprises me, I like -- I'm glad to see that I-10  
5 piece in the six through ten, but when I think ten years out  
6 we're going to get relief down there, where every time there is  
7 a fatal accident, it has -- basically chokes the traffic between  
8 here and Tucson, Tucson to Phoenix. I know people that -- many  
9 businesses have places in Tucson now, much like many in Tucson  
10 have in Phoenix. I hear from executives all the time that say  
11 they get the traffic map, and they'll have dinner in Tucson if  
12 there's a fatal accident, or they'll delay their departure in  
13 Phoenix to Tucson just because of what's happening on the  
14 roadway. And while that's a great workaround in the short-term,  
15 now to go tell these guys, you know, you're going to do that  
16 work around for the next ten years, that's an interesting  
17 thought.

18           But again, it's -- it's, I think, working very  
19 closely with MAG and PAG on those issues, because it's really  
20 benefiting the motoring public and those constituencies. And  
21 while I feel for Greater Arizona and some of the smaller  
22 regions, Steve -- and I do travel. I travel a lot these last 60  
23 days. There's a lot of preservation needs everywhere. We've  
24 created some bottlenecks. I -- and I know it's important to  
25 them. I just don't know if it's rising to the level of the

1 freight and commerce and the stuff that's happening on these  
2 major corridors, and it's going to be a tough year to balance as  
3 I see some of these projects. But again, I think these numbers  
4 are unbelievable. So I have no question. Just more of a  
5 comment and a thank you.

6           CHAIRWOMAN BEAVER: Mr. Stratton.

7           MR. STRATTON: I'd just like to say I do agree  
8 with Board Member La Rue that we do need to listen to the COGs  
9 and the MPOs and to staff, and I also agree with Board Member  
10 Thompson on the preservation, having been in that role before --  
11 it is necessary to save those dollars for the future. If you do  
12 it now, it costs one dollar. In the future, it's going to cost  
13 you five to eight dollars. So it's very important that we do  
14 that, too. There is a balancing act, but the Board and the  
15 staff over the years that I've seen has done a tremendous job  
16 listening to the citizens and to the COGs and the MPOs, and I  
17 think this year will be very important as we travel around to  
18 public hearings.

19           MR. LA RUE: You know, and if I could (inaudible)  
20 as my thoughts, you know, what I -- what I'm hearing kind of  
21 from Gail's presentation and the finance presentation and Mike's  
22 is really this thought that a P3 is going to come in and cure  
23 everybody's problem. Just ain't going to happen. And so what I  
24 did -- what I heard in Gail, and I also heard elsewhere, which I  
25 like, is we're really looking at what are the other alternatives

1 that we can implement on this corridor that gets us where we  
2 need to be in the short term, which really that is not only our  
3 staff. It's really listening to the stakeholders, and it's  
4 listening to the others that are impacted, like you said,  
5 because we -- those alternatives, which end up being interim  
6 fixes, impacts, you know, everybody. So I think that's the path  
7 we're probably headed down. In this next decade, assuming  
8 nothing happens in Washington and this -- you know, billions of  
9 dollars doesn't rain from the sky...

10 CHAIRWOMAN BEAVER: Mr. Halikowski.

11 MR. HALIKOWSKI: Yeah. I would just like to talk  
12 about billions of dollars raining from the sky. As much as I  
13 would wish for that, there are systemic things that I think the  
14 Board needs to be aware of, which I talked about at Valley  
15 Partnership last week when I was on the panel there. And that  
16 is because we've been starved for State dollars since I  
17 essentially started as ADOT director in 2009 when the crash hit,  
18 we don't have these big projects designed, environmentally  
19 cleared and sitting on the shelf. So if billions of dollars  
20 were to rain down and you had to spend it very quickly, like we  
21 did with the stimulus money, within a year, we'd be doing a lot  
22 of preservation. And unfortunately, until we are able to  
23 generate sufficient State dollars and pull them away from  
24 maintenance and preservation, we're forced to use federal  
25 dollars to do these kind of studies. But as we know, based on

1 fiscal constraint, I can't environmentally clear the project to  
2 completion unless we have reasonable funding to show that we can  
3 pay for it when the study's done.

4 So it's kind of a double whammy on us right now,  
5 because we don't have a lot of these sitting on the shelf ready  
6 to go. And I'm concerned that if dollars do come forth and you  
7 get into that competition for projects, those projects that are  
8 shovel ready are going to be the ones that get funded.

9 So we need to be cognizant of the fact it's not  
10 just about having money in the future. It's having these things  
11 studied and environmentally cleared, because the longest part of  
12 the five-year program is getting your project into the five-year  
13 program.

14 CHAIRWOMAN BEAVER: Thank you. It just  
15 reinforces all the staff's work is very important.

16 MR. KIES: Well, Madam Chair, if there are no  
17 other questions or comments or revisions, we would -- staff  
18 would move forward with the five -- this concept of a five-year  
19 program, put that together as a tentative program that we'd  
20 bring back to you in February, and then previous to the February  
21 meeting is when we would provide you the book, which includes  
22 the list of all projects that are envisioned to be a part of the  
23 tentative program and ask you for your approval in February.

24 CHAIRWOMAN BEAVER: Are we okay with that?

25 UNIDENTIFIED SPEAKER: Uh-huh.

1 CHAIRWOMAN BEAVER: Okay. Thank you.

2 MR. KIES: Great. Thank you.

3 (End of requested excerpt.)

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**Adjournment**

***Chairwoman Beaver gaveled the meeting to a close adjourning at 11:48 am.***

**Meeting adjourned at 11:48a.m. MST.**



Deanna L. Beaver, Chairwoman  
State Transportation Board



John S. Halikowski, Director  
Arizona Department of Transportation