

## OFFICIAL STATEMENT

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: Moody's: "Aa1"  
Standard & Poor's: "AA+"

**\$159,460,000**  
**ARIZONA TRANSPORTATION BOARD**  
**TRANSPORTATION EXCISE TAX REVENUE BONDS**  
**(MARICOPA COUNTY REGIONAL AREA ROAD FUND)**  
**2011 SERIES**

**Dated: Date of Delivery**

**Due: July 1 as shown on the inside cover page hereof**

The Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) 2011 Series (the "2011 Series Bonds") are being issued by the Arizona Transportation Board (the "Board") as a separate series of fully registered bonds in denominations of \$5,000 or any integral multiple thereof.

Interest on the 2011 Series Bonds is payable on each January 1 and July 1, commencing January 1, 2012, accrues from their Date of Delivery, and is payable on each Interest Payment Date by the paying agent, initially U.S. Bank National Association (the "Paying Agent"), to the registered owners thereof as of the 15th day next preceding each Interest Payment Date or by wire transfer upon request of registered owners of \$1,000,000 or more aggregate principal amount, as described herein.

The maturities, interest rates, and prices or yields of the 2011 Series Bonds are shown on the reverse side of this cover page.

The 2011 Series Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2011 Series Bonds. Purchases of beneficial interests in such 2011 Series Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing their ownership interests in the 2011 Series Bonds. So long as the 2011 Series Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of the principal of and interest on the 2011 Series Bonds will be made directly by the Paying Agent to Cede & Co., as nominee of DTC.

The 2011 Series Bonds will be issued as Senior Bonds (as defined herein) under the Bond Resolution (as defined herein) on a parity as to security and source of payment with the 2007 Series Bonds (as defined herein), the 2009 Series Bonds (as defined herein) and the 2010 Series Bonds (as defined herein), which are currently outstanding in the aggregate principal amount of \$877,845,000. Additional Senior Bonds could be subsequently issued pursuant to the Bond Resolution on a parity with the 2007 Series Bonds, 2009 Series Bonds, 2010 Series Bonds and the 2011 Series Bonds (collectively, the "Senior Bonds"). Proceeds of the 2011 Series Bonds are intended to be used to pay (i) the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona (the "County"); and (ii) the costs of issuing the 2011 Series Bonds.

The 2011 Series Bonds are subject to optional redemption prior to their respective maturity dates on or after July 1, 2021, as more fully described under "The 2011 SERIES BONDS – Redemption Provisions" herein.

The 2011 Series Bonds are special obligations of the Board. The 2011 Series Bonds and any other Senior Bonds are payable solely from and secured solely by amounts on deposit in the Bond Account (as defined herein), which are derived from the Transportation Excise Tax (as defined herein) revenues collected by the Arizona Department of Revenue and in certain other accounts specified in the Bond Resolution (collectively, the "Pledged Funds"), all as described herein. **The 2011 Series Bonds are not obligations, general, special, or otherwise, of the State of Arizona or the County, do not constitute a legal debt of the State of Arizona or the County and are not enforceable against the State of Arizona or the County out of any moneys other than such Pledged Funds, as specified in the Bond Resolution.**

In the opinion of Squire, Sanders & Dempsey (US) LLP, Bond Counsel to the Board, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the 2011 Series Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the 2011 Series Bonds is exempt from Arizona state income tax. Interest on the 2011 Series Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of tax aspects, see "TAX MATTERS" herein.

*This cover page contains only a brief description of the 2011 Series Bonds and the security therefor. It is not a summary of material information with respect to the 2011 Series Bonds. Investors should read this entire Official Statement to obtain information necessary to make an informed investment decision.*

The 2011 Series Bonds are offered when, as and if issued, subject to the approval of legality by Squire, Sanders & Dempsey (US) LLP, Bond Counsel, and certain other conditions. It is expected that the 2011 Series Bonds in book-entry-only form will be available for delivery through DTC on or about October 13, 2011.

Dated: September 27, 2011

**ARIZONA TRANSPORTATION BOARD  
TRANSPORTATION EXCISE TAX REVENUE BONDS  
(MARICOPA COUNTY REGIONAL AREA ROAD FUND)  
2011 SERIES**

**MATURITY SCHEDULE**

**\$159,460,000**

<b>Year (July 1)</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Yield (a)</b>	<b>CUSIP (b) 040649</b>
2012	\$10,225,000	2.00%	0.23%	LE3
2013	8,495,000	5.00%	0.55%	LF0
2014	8,920,000	5.00%	0.69%	LG8
2015	9,370,000	5.00%	0.86%	LH6
2016	9,830,000	5.00%	1.30%	LJ2
2017	10,330,000	5.00%	1.44%	LK9
2018	10,840,000	5.00%	1.68%	LL7
2019	11,385,000	5.00%	1.95%	LM5
2020	11,955,000	5.00%	2.17%	LN3
2021	12,555,000	5.00%	2.32%	LP8
2022	13,180,000	3.00%	2.48%*	LQ6
2023	13,575,000	4.00%	2.66%*	LR4
2024	14,115,000	4.00%	2.85%*	LS2
2025	14,685,000	3.00%	3.00%	LT0

\* Priced to the July 1, 2021 first optional redemption date.

- (a) Reoffering yields are furnished by the Purchaser of the 2011 Series Bonds. See "SALE OF THE 2011 SERIES BONDS." The Board and the Department do not take any responsibility for the accuracy thereof.
- (b) Copyright 2011, American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers are provided for information only. The Board, the Department, and the Financial Consultant (as defined herein) take no responsibility for the accuracy of such numbers.

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*Governor*

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**STATE OF ARIZONA DEPARTMENT OF TRANSPORTATION**

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John Bogert  
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*Intermodal Transportation Division*

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*Planning and Policy*

Stacey Stanton  
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*Motor Vehicle Division*

Terry Conner  
*Assistant Director*  
*Enforcement and Compliance Division*

John Fink  
*Assistant Director*  
*Finance and Accounting*

Jennifer Toth  
*Assistant Director*  
*Multimodal Planning Division*

John Nichols  
*Assistant Director*  
*Administrative Services Division*

Lisa Danka  
*Deputy Chief Financial Officer*

**FINANCIAL CONSULTANT**

RBC Capital Markets, LLC  
Phoenix, Arizona

**BOND COUNSEL**

Squire, Sanders & Dempsey (US) LLP  
Phoenix, Arizona

**CONTACT PERSONS CONCERNING THIS OFFERING:**

Arizona Department of Transportation  
John Fink  
Lisa Danka  
(602) 712-7441

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, including the cover page, inside front cover page and Appendices attached hereto, in connection with the offering described herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Arizona, the Arizona Transportation Board (the “Board”), or the State of Arizona Department of Transportation (the “Department”). This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) 2011 Series (the “2011 Series Bonds”) offered hereby or an offer to sell or solicitation of offers to buy, nor shall there be any sale of the 2011 Series Bonds, by any person in any jurisdiction where such offer or solicitation or sale would be unlawful.

The information contained in this Official Statement has been obtained from the Board, the Department and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a promise by, any of the foregoing. The presentation of such information, including tables of receipts from taxes and other sources, is intended to show recent historical information and is not intended to indicate future or continuing trends. No representation is made that the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representations of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. This Official Statement contains projections and forecasts which are forward looking statements concerning facts which may or may not occur in the future. All such forward looking statements may not be realized and must be viewed with an abundance of caution. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Arizona, the Board, or the Department since the date hereof.

The information in APPENDIX E – “Book-Entry-Only System” attached hereto has been furnished by The Depository Trust Company and no representation has been made by the Board, the Department or any of their counsel or agents, as to the accuracy or completeness of such information.

A wide variety of other information, including financial information, concerning the Board and the Department is available from publications, and websites of the Board, the Department, and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted herein.

IN CONNECTION WITH THIS OFFERING, THE PURCHASER OF THE 2011 SERIES BONDS (HEREIN, THE “PURCHASER”) MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS, AND THE PURCHASER MAY OVERALLOT OR ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE 2011 SERIES BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET IN ORDER TO FACILITATE THEIR DISTRIBUTION. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The 2011 Series Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency has passed upon the accuracy of this Official Statement.

The Board has undertaken to provide continuing disclosure with respect to the 2011 Series Bonds as required by Rule 15c2-12 of the Securities and Exchange Commission. See “CONTINUING DISCLOSURE UNDERTAKING” and APPENDIX D – “Form of Continuing Disclosure Undertaking” herein.

The CUSIP (Committee on Uniform Securities Identification Procedures) numbers set forth on the inside front cover page of this Official Statement have been assigned by an organization not affiliated with the Board, the Department, or U.S. Bank National Association, as paying agent (the “Paying Agent”), and such parties are not

responsible for the selection or use of the CUSIP numbers. CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of the CUSIP numbers listed herein. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Board, the Department, or the Paying Agent, has agreed to, nor is there any duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers listed on the inside front cover of this Official Statement. CUSIP is a registered trademark of the American Bankers Association.

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# OFFICIAL STATEMENT

relating to

**\$159,460,000**

## **ARIZONA TRANSPORTATION BOARD TRANSPORTATION EXCISE TAX REVENUE BONDS (MARICOPA COUNTY REGIONAL AREA ROAD FUND) 2011 SERIES**

### INTRODUCTION

*This Introduction is not a summary of the Official Statement, but is only a brief description of and a guide to, and is qualified by, more complete information contained in the entire Official Statement including the cover page and appendices hereto, and the documents described herein.*

This Official Statement (including the cover page, inside front cover page and Appendices attached hereto) provides certain information in connection with the original sale and issuance by the Arizona Transportation Board (the “Board”) of its Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) 2011 Series (the “2011 Series Bonds”) in the aggregate principal amount of \$159,460,000. The 2011 Series Bonds are issued pursuant to the Regional Area Road Fund Bond Law, Title 28, Chapter 17, Article 1, Arizona Revised Statutes, as amended, and Title 28, Chapter 21, Article 2, Arizona Revised Statutes, as amended (collectively, the “Act”), and under and pursuant to the Master Resolution, adopted by the Board on September 21, 2007, as thereafter supplemented, including by the Fourth Supplemental Resolution adopted by the Board on August 18, 2011, as amended on September 16, 2011, authorizing the 2011 Series Bonds (such Master Resolution, as so supplemented and as subsequently supplemented in accordance with its terms, being hereinafter collectively referred to as the “Bond Resolution”).

Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in APPENDIX C.

Under the terms and provisions of the Act, the Board is authorized to issue bonds: (i) to pay the costs of design, right-of-way purchase, or construction related to new, or improvements to, freeways and other routes in the state highway system that are included in the regional transportation plan of Maricopa County, Arizona (the “County”) and that are accepted into the state highway system; (ii) to pay the costs of design, right-of-way purchase or construction related to new, or improvements to, major arterial streets and intersections that are included in the regional transportation plan of the County; (iii) to fund reserves; (iv) to pay fees and expenses related to Bond Related Obligations; and (v) to pay interest on such bonds and Bond Related Expenses.

The proceeds of the 2011 Series Bonds are expected to be used to pay (i) the costs of design, right-of-way purchase, or construction of certain freeways and other routes within the County and (ii) the costs of issuing the 2011 Series Bonds.

The 2011 Series Bonds will be issued as Senior Bonds under the Bond Resolution. After issuance of the 2011 Series Bonds, \$1,037,305,000 aggregate principal amount of Senior Bonds will be outstanding. The 2011 Series Bonds, the 2010 Series Bonds, the 2009 Series Bonds and the 2007 Series Bonds, together with any Additional Senior Bonds and Senior Refunding Bonds that may be subsequently issued by the Board on a parity therewith, as to security and source of payment, are hereinafter collectively referred to as the “Senior Bonds.” For additional information relating to the conditions precedent to the issuance of Additional Senior Bonds and Senior Refunding Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 SERIES BONDS – Additional Senior Bonds.”

The Board has not issued any Subordinated Bonds under the Bond Resolution. Any Subordinated Bonds and Refunding Subordinated Bonds that may be subsequently issued by the Board are hereinafter collectively referred to as the "Subordinated Bonds." Any subsequently issued Subordinated Bonds will be subordinated to the Senior Bonds.

The Senior Bonds are special obligations of the Board. The principal of, premium, if any, and interest on (collectively, "Debt Service") the Senior Bonds are payable solely from, and secured solely by a pledge of, the (1) amounts on deposit in the Bond Account of the Maricopa County Regional Area Road Fund created in the Bond Resolution and held by the State Treasurer and (2) amounts on deposit in the Bond Proceeds Account and unobligated amounts on deposit in the Construction Account (collectively, the "Pledged Funds"), all as provided in the Bond Resolution and as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 SERIES BONDS."

Amounts deposited in such Bond Account consist of the Transportation Excise Tax (as defined in APPENDIX C) revenues and investment income thereon. Pursuant to Title 42, Chapter 6, Article 3, Arizona Revised Statutes, as amended (the "County Excise Tax Act"), voters of the County at a November 4, 2004 election approved the levy within the County of an excise tax for various transportation purposes (the "2004 Excise Tax Authorization") for a 20-year period ending December 31, 2025. The 2004 Excise Tax Authorization is levied by the County upon persons engaging in business activities within the County who are subject to the State of Arizona (the "State") transaction privilege tax (including retail sales tax) (the "State Sales Tax") at a rate equal to 10% of the State Sales Tax rates in effect as of January 1, 1990 and is collected by the Department of Revenue of the State on behalf of the County. The Transportation Excise Tax revenues allocated by the County Excise Tax Act to the Maricopa County Regional Area Road Fund are equal to 66.7% of the collections from the 2004 Excise Tax Authorization; therefore the Transportation Excise Tax pledged to the payment of the 2011 Series Bonds is levied at an effective rate of approximately 6.67% of the State Sales Tax rates in effect as of January 1, 1990. For information relating to the Transportation Excise Tax, see "SOURCES OF TRANSPORTATION EXCISE TAX REVENUES."

**The 66.7% of the collections from the 2004 Excise Tax Authorization, as described above, when deposited into the Maricopa County Regional Area Road Fund are the "Transportation Excise Tax" revenues referred to herein. Only the Transportation Excise Tax collections deposited into the Maricopa County Regional Area Road Fund are pledged to pay the Bonds, including the 2011 Series Bonds. The remaining 33.3% of the collections from the 2004 Excise Tax Authorization are not a source of payment of or security for the Bonds, including the 2011 Series Bonds.**

The Act provides, and in the Bond Resolution, the Board as agent for the State has agreed with the Holders of the Bonds, that the State will not limit or alter the Transportation Excise Tax in such a way as to adversely affect the rights of the Holders of the Bonds, or limit or alter the authority of the County in such a way as to prevent the imposition of a sufficient Transportation Excise Tax to fulfill the terms of the Bond Resolution or any agreement made with the Holders of the Bonds or in any way impair the rights and remedies of the Holders of the Bonds until all Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Holders of the Bonds, are fully met and discharged. Under the Act, the County has no authority to lower or terminate the Transportation Excise Tax.

**The Bonds are not obligations, general, special or otherwise, of the State or the County, do not constitute a legal debt of the State or the County and are not enforceable against the State or the County, nor shall payment thereof be enforceable out of any funds of the State or the County, other than the Pledged Funds, as specified in the Bond Resolution.**

Payments of Debt Service on the Bonds are not subject to annual appropriation by the Legislature of the State nor are such payments on the Bonds subject to any constitutional or statutory limitation on expenditures.

This Official Statement describes the terms of and security for the 2011 Series Bonds and the use of proceeds of the 2011 Series Bonds. Also included are summaries of certain provisions of the Bond Resolution and of certain State statutes. These descriptions and summaries do not purport to be comprehensive or definitive. All



references herein to the Bond Resolution are qualified in their entirety by reference to the definitive form thereof and all references to the 2011 Series Bonds are qualified by the form thereof contained in the Bond Resolution and are further qualified in their entirety by reference to bankruptcy and other laws and principles of equity relating to or affecting the enforceability of creditors' rights. Copies of the Bond Resolution may be obtained as set forth under "MISCELLANEOUS."

## **THE 2011 SERIES BONDS**

### **General Description**

The 2011 Series Bonds are issuable as fully registered bonds. The 2011 Series Bonds will bear interest from their date of delivery and at the rates, will mature on the dates and in the amounts, all as set forth on the inside front cover page hereof. As described in APPENDIX E – "Book-Entry-Only System," the 2011 Series Bonds will be registered in the name of Cede & Co., as registered Owner and nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, Cede & Co., is registered Owner of all of the 2011 Series Bonds, all payments on the 2011 Series Bonds will be made directly to DTC.

So long as Cede & Co. is the registered Owner of the 2011 Series Bonds, references herein to "Holders" or "Registered Owners" of the 2011 Series Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the owners of book-entry interests in the 2011 Series Bonds as described in APPENDIX E (the "Beneficial Owners"). When notices are given under the Bond Resolution, they shall be sent by the Board or the paying agent or bond registrar, initially U.S. Bank National Association (and its successors the "Paying Agent" or "Bond Registrar") to DTC only, as the Holder. When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes.

The 2011 Series Bonds initially will be dated as shown on the cover page and will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the 2011 Series Bonds will be payable on each January 1 and July 1, commencing January 1, 2012 (each such date is referred to herein as an "Interest Payment Date"). Interest on the 2011 Series Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on the 2011 Series Bonds will be payable on the Interest Payment Date by the Paying Agent to the Holders thereof as shown on the registration books maintained by the Bond Registrar at the address appearing therein, at the close of business of the Bond Registrar on the 15<sup>th</sup> day next preceding each Interest Payment Date (the "Regular Record Date"). So long as the 2011 Series Bonds are registered in the name of Cede & Co., payments of the principal and interest on the 2011 Series Bonds will be made directly by the Paying Agent to Cede & Co.

### **Redemption Provisions**

#### *Optional Redemption*

The 2011 Series Bonds maturing on or prior to July 1, 2021, are not subject to optional redemption prior to maturity. The 2011 Series Bonds maturing on and after July 1, 2022 are subject to optional redemption, prior to maturity, at the election of the Board, in whole or in part, at any time, on or after July 1, 2021, at a redemption price equal to the principal amount of the 2011 Series Bonds to be redeemed plus accrued interest to the date fixed for redemption, but without premium.

#### *Purchase in Lieu of Redemption.*

If any 2011 Series Bond is called for optional redemption in whole or in part, the Board may elect to have such 2011 Series Bond purchased in lieu of redemption as follows. No notice of the purchase in lieu of redemption shall be required to be given to the Bondholders other than the required notice of redemptions as described below under "-Notice of Redemption."

The Authorized Board Representative may direct the Paying Agent, or another agent appointed by the Authorized Board Representative to make such purchase, to purchase all or such lesser portion of the 2011 Series Bonds called for optional redemption. Any such direction must be in writing; if less than all of the 2011 Series Bonds called for redemption are to be purchased, identify those 2011 Series Bonds to be purchased by maturity date and outstanding principal amount in authorized denominations; and be received by the Paying Agent no later than 12:00 noon one Business Day prior to the scheduled redemption date thereof. If so directed, the Paying Agent shall purchase such 2011 Series Bonds on the date which otherwise would be the redemption date of such 2011 Series Bonds. Any of the 2011 Series Bonds called for redemption that are not purchased in lieu of redemption shall be redeemed as otherwise required on such redemption date. On or prior to the scheduled redemption date, any such direction to the Paying Agent may be withdrawn by the Authorized Board Representative by written notice to the Paying Agent and the scheduled redemption of such 2011 Series Bonds shall not occur.

If such purchase is directed by the Authorized Board Representative, the purchase shall be made for the account of the Board or its designee. The purchase price of the 2011 Series Bonds shall be equal to the outstanding principal of, accrued and unpaid interest on and the redemption premium, if any, which would have been payable on such 2011 Series Bonds on the scheduled redemption date for such redemption. The Paying Agent shall not purchase the 2011 Series Bonds if, by no later than the redemption date, sufficient moneys have not been deposited with the Paying Agent or such moneys are deposited, but are not available.

#### *Notice of Redemption.*

The Bond Registrar shall give notice by mail of the redemption of the 2011 Series Bonds, not less than 30 days prior to the redemption date, to the Holders (Cede & Co., so long as the Book-Entry-Only System is in effect, see APPENDIX E) of any 2011 Series Bonds or portions thereof to be redeemed at their last address appearing on the bond register of the Board. Such notice shall specify: the maturities of the 2011 Series Bonds to be redeemed; the redemption date; the place or places where amounts due upon such redemption will be payable; and, if less than all of the 2011 Series Bonds of like maturity are to be redeemed, the particular 2011 Series Bonds or portions thereof to be redeemed. Any defect in the notice to the Holder of any 2011 Series Bond which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other 2011 Series Bond. Any notice of redemption which is mailed shall be presumed to be given, whether or not such notice is received. Any failure on the part of a nominee of a Beneficial Owner of a 2011 Series Bond to notify the Beneficial Owner shall not affect the validity of the redemption of such 2011 Series Bond.

So long as the 2011 Series Bonds are held under the Book-Entry-Only System, notice of redemption shall be sent to Cede & Co., as the Holder. If on the redemption date, money for the redemption of the 2011 Series Bonds or portions thereof to be redeemed, together with accrued interest thereon to the redemption date, is held by the Paying Agent and is available to pay the redemption price of the 2011 Series Bonds or portions thereof to be redeemed on the redemption date, and if notice of redemption has been given as described in the preceding paragraph, then, from and after the redemption date, interest on the 2011 Series Bonds or portions thereof so called for redemption shall cease to accrue.

If at the time of mailing of notice of an optional redemption of the 2011 Series Bonds there has not been deposited with the Paying Agent moneys sufficient to redeem all the 2011 Series Bonds called for optional redemption, then such notice shall state that the optional redemption is conditional upon the deposit of moneys sufficient for the redemption with the Paying Agent not later than the redemption date, and such notice will be of no effect and such 2011 Series Bonds shall not be optionally redeemed unless such moneys are so deposited.

So long as the 2011 Series Bonds are registered in book-entry-only form in the name of a nominee of DTC, where a portion of a maturity of the 2011 Series Bonds will be redeemed, selection of which bonds of a maturity will be redeemed will be determined by DTC in accordance with DTC's procedures.

#### **Exchange and Transfer**

If the Book-Entry-Only System is discontinued, the following provisions will apply. The registration of any 2011 Series Bond may be transferred upon the bond register of the Board by the Holder thereof, in person or by

his or her duly authorized attorney, upon surrender of such 2011 Series Bond at the designated corporate trust office of the Bond Registrar accompanied by a written instrument of transfer satisfactory to the Bond Registrar and duly executed by the Holder or by his or her duly authorized attorney. Any 2011 Series Bond may be exchanged at the designated corporate trust office of the Bond Registrar for new 2011 Series Bonds of any authorized denominations, of the same aggregate principal amount and maturity as the surrendered 2011 Series Bond. The Bond Registrar will not charge for any new 2011 Series Bond issued upon any exchange or transfer, but may require the Holder requesting such exchange or transfer to pay any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to exchange or transfer any 2011 Series Bond during the period commencing on the Regular Record Date and ending on the subsequent Interest Payment Date.

### **Defeasance**

If the Board pays or causes to be paid, or there is otherwise paid, to the Holders of all outstanding 2011 Series Bonds or 2011 Series Bonds of a particular maturity or a particular 2011 Series Bond within a maturity, the principal and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Bond Resolution, such 2011 Series Bonds will cease to be entitled to any lien, benefit, or security under the Bond Resolution, and all covenants, agreements, and obligations of the Board to the Holders of such 2011 Series Bonds will thereupon cease, terminate, and become void, and be discharged and satisfied.

Subject to the provisions of the Bond Resolution, any Outstanding 2011 Series Bonds will be deemed to have been paid within the meaning and with the effect expressed in the foregoing paragraph if there has been deposited with an escrow agent appointed for such purpose either money in an amount which will be sufficient, or certain Defeasance Securities as prescribed in the Bond Resolution, the principal of and the interest on which, when due, will provide money which, together with the money, if any, deposited with the escrow agent at the same time, will be sufficient to pay when due the principal and interest due and to become due on such 2011 Series Bonds on the maturity date or redemption date thereof. For a description of the Defeasance Securities in which such funds may be invested, see “Defeasance” in APPENDIX C.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2011 SERIES BONDS**

### **General**

Debt Service on the 2011 Series Bonds and all other Senior Bonds is payable solely from, and is secured solely by a pledge of, the Pledged Funds, which are: (1) amounts on deposit in the Bond Account of the Maricopa County Regional Area Road Fund, and (2) amounts on deposit in the Bond Proceeds Account and unobligated amounts on deposit in the Construction Account, all as provided in the Bond Resolution and described herein. Amounts deposited into the Bond Account consist of the Transportation Excise Tax revenues held by the State Treasurer. For a discussion of the sources of the Transportation Excise Tax revenues, see “SOURCES OF TRANSPORTATION EXCISE TAX REVENUES.”

The voters of the County in November 2004 authorized the levy of the Transportation Excise Tax for a 20-year period commencing January 1, 2006 through December 31, 2025. The effective rate of the Transportation Excise Tax is approximately 6.67% of the base State Sales Tax rate in effect as of January 1, 1990. See “INTRODUCTION” and “SOURCES OF TRANSPORTATION EXCISE TAX REVENUES – Authority for Levy of Transportation Excise Tax.”

All money deposited in the Bond Account of the Maricopa County Regional Area Road Fund shall be held by the State Treasurer in trust for the registered Owners of the Senior Bonds, and any subsequently issued Subordinated Bonds or Third Lien Debt (see “Subordinated Bonds and Third Lien Debt” below), and shall be used solely: to pay debt service on the Senior Bonds, any Subordinated Bonds and any Third Lien Debt; to pay any Bond Related Expenses; to pay any related interest rate swaps and other Financial Products Agreements; and for transfer to the Construction Account, in the order and subject to the priorities in the Bond Resolution, as described under

“MARICOPA COUNTY REGIONAL AREA ROAD FUND - Application of Transportation Excise Tax Revenues.”

If any Event of Default with respect to the 2011 Series Bonds or other Senior Bonds or Financial Products Agreements related thereto, if any, shall have occurred and be continuing, the Holders of Outstanding Senior Bonds and the Qualified Counterparties under such Financial Products Agreements shall be entitled to receive payment in full of all Debt Service on all Senior Bonds then due and the Qualified Counterparties under any Financial Products Agreements related to Senior Bonds shall be entitled to receive payment of Regular Swap Payments that relate to such Senior Bonds, in each case before the Holders of any Subordinated Bonds or Third Lien Debt and related Qualified Counterparties are entitled to receive from the Pledged Funds any accelerated payments of Debt Service on such Subordinated Bonds or Third Lien Debt or accelerated payments under any Financial Products Agreements related thereto.

Neither the Board nor the State of Arizona Department of Transportation (the “Department”) has entered into any Financial Products Agreements, nor has any current plans to do so, but may determine to do so in the future.

### **Special Obligations**

The 2011 Series Bonds are special obligations of the Board and are payable solely from the Pledged Funds, as provided in the Bond Resolution.

**The 2011 Series Bonds are not obligations, general, special or otherwise, of the State or the County, do not constitute a legal debt of the State or the County and are not enforceable against the State or the County, nor shall payment thereof be enforceable out of any funds of the State or the County other than the Pledged Funds, as specified in the Bond Resolution.**

### **Senior Debt Service Subaccount**

The Bond Resolution establishes a Senior Debt Service Subaccount in the Bond Account of the Maricopa County Regional Area Road Fund. Amounts on deposit in the Senior Debt Service Subaccount have been pledged solely to the payment of the Senior Bonds, including the 2011 Series Bonds. See “MARICOPA COUNTY REGIONAL AREA ROAD FUND - Application of Transportation Excise Tax Revenues” and APPENDIX C – “Use of Senior Debt Service Subaccount” for further discussion of such Subaccount.

### **Additional Senior Bonds**

The Board has previously issued Senior Bonds under the Bond Resolution of which \$877,845,000 are currently outstanding. The Board may issue additional Senior Bonds. See “- Issuance of Additional Bonds” below.

Pursuant to the Bond Resolution, the Board may issue, from time to time, additional Series of Senior Bonds (“Additional Senior Bonds”) in unlimited amounts for any lawful purposes permitted under the Act, which are payable from and secured by the Pledged Funds on a parity with the then outstanding Senior Bonds upon satisfaction of the requirements of the Bond Resolution before such issuance. These requirements include that the Board: (i) fund the Debt Service Reserve Requirement, if any, for the Senior Bonds at the times and in the amounts required under the Bond Resolution (the Bond Resolution does not currently require funding any such requirement); and (ii) certify that the amount of (a) Transportation Excise Tax collections deposited into the Maricopa County Regional Area Road Fund in any 12 consecutive months out of the 18 months immediately preceding the date of proposed issuance plus (b) any other moneys deposited in the Maricopa County Regional Area Road Fund during the period described in (a) which have been pledged by the Board to the payment of indebtedness or obligations payable from the Bond Account (exclusive of proceeds of indebtedness of the Board) is (1) not less than 200% of the maximum aggregate combined Adjusted Debt Service for all Outstanding Senior Bonds and (2) (solely for the benefit of Holders of Subordinated Bonds) not less than 120% of the maximum aggregate combined Adjusted Debt Service for all Outstanding Senior Bonds and Outstanding Subordinated Bonds, in each case in the then current or any subsequent Bond Year, including the Adjusted Debt Service on the Additional Senior Bonds proposed to be

issued but excluding, in the case of a series of Additional Senior Bonds issued for refunding purposes, the Adjusted Debt Service on the Senior Bonds and Subordinated Bonds to be refunded. In the event an increase in the rate of the Transportation Excise Tax or an expansion of the transactions subject to the Transportation Excise Tax levied by the County becomes effective at any time subsequent to the beginning of such 12 consecutive months, the Authorized Board Representative shall estimate and use for purposes of the above-described certification, the amount of Transportation Excise Tax collections which would have been received and deposited in such 12 month period if such increased rate or such expansion of the transactions had been in effect for the entire 12 consecutive month period.

The Board may also issue, from time to time, for the purpose of refunding in whole or in part any Senior Bonds Outstanding under the Bond Resolution or other obligations as permitted by law, a Series of Senior Bonds payable from and secured by the Pledged Funds on a parity with the Senior Bonds (“Senior Refunding Bonds”), provided that the Board certifies that either: (1) the combined Adjusted Debt Service in the then current and any future Bond Year for all Senior Bonds Outstanding under the Bond Resolution after the issuance of the Senior Refunding Bonds, including the Adjusted Debt Service on the Senior Refunding Bonds proposed to be issued, will not be increased by more than five percent (5%) or (2) the test described in the preceding paragraph is satisfied with respect to such Senior Refunding Bonds.

### **Subordinated Bonds**

The Board has not issued any Subordinated Bonds under the Bond Resolution, but may do so in the future. See “- Issuance of Additional Bonds” below.

Pursuant to the Bond Resolution, the Board may issue, from time to time, Subordinated Bonds, the payment of which is subordinate to the Senior Bonds, in unlimited amounts for any lawful purposes permitted under the Act, which are payable from and secured by the Pledged Funds, upon satisfaction of requirements of the Bond Resolution before such issuance. All such Subordinated Bonds will be payable from the Subordinated Debt Service Subaccount only after payment of Debt Service due on the Senior Bonds is paid. These requirements in the Bond Resolution include that the Board certifies that the sum of: (a) the amount of Transportation Excise Tax collections deposited into the Maricopa County Regional Area Road Fund in any 12 consecutive months out of the 18 months immediately preceding the date of issuance of the Subordinated Bonds proposed to be issued plus (b) the amount of any other moneys deposited in the Maricopa County Regional Area Road Fund during the period described in (a) which have been pledged by the Board to the payment of indebtedness or other obligations of the Board payable from amounts on deposit in the Bond Account (exclusive of the proceeds of indebtedness of the Board), is not less than 120% of the maximum aggregate combined Adjusted Debt Service in the then current or any future Bond Year on all Bonds then Outstanding including the Adjusted Debt Service on the Subordinated Bonds proposed to be issued but excluding, in the case of a Series of Subordinated Bonds issued for refunding purposes, the Adjusted Debt Service on the Senior Bonds and Subordinated Bonds to be refunded. In the event an increase in the rate of Transportation Excise Tax or an expansion of the transactions subject to the Transportation Excise Tax levied by the County becomes effective at any time subsequent to the beginning of such 12 consecutive months, for purposes of the foregoing calculation, the Authorized Board Representative shall estimate and use for purposes of the above-described certification, the amount of Transportation Excise Tax collections which would have been received and deposited in such 12 month period if such increased rate or such expansion of the transactions had been in effect for the entire 12 consecutive month period.

The Board may also issue, from time to time, for the purpose of refunding in whole or in part any Subordinated Bonds Outstanding under the Bond Resolution or other obligations permitted by law, a Series of Subordinated Bonds payable from and secured by the Pledged Funds on a parity with the Subordinated Bonds (“Subordinated Refunding Bonds”), provided that the Board certifies that either: (1) the combined Adjusted Debt Service in the then current or any future Bond Year on all Subordinated Bonds Outstanding after the issuance of such proposed Subordinated Refunding Bonds, including the Adjusted Debt Service on the Subordinated Refunding Bonds proposed to be issued, will not increase by more than five percent (5%) or (2) the test described in the preceding paragraph is satisfied with respect to such Subordinated Refunding Bonds.

### **Third Lien Debt**

The Board may from time to time, upon satisfaction of requirements of the Bond Resolution, issue debt which is subordinate to both the Senior Bonds and the Subordinated Bonds (“Third Lien Debt”) in unlimited amounts for any lawful purposes permitted under the Act. The Board has not issued, and currently has no plan to issue, Third Lien Debt.

### **Issuance of Additional Bonds**

The Board currently anticipates that it will issue additional Bonds under the Bond Resolution during the period the Transportation Excise Tax is levied, which could be significant. See “REGIONAL TRANSPORTATION PLAN FOR MARICOPA COUNTY – Five-Year Capital Program.” The additional Bonds are anticipated to be issued as either Senior Bonds or Subordinated Bonds.

## **MARICOPA COUNTY REGIONAL AREA ROAD FUND**

### **Establishment of Fund and Accounts**

Title 28, Chapter 17, Article 1, Arizona Revised Statutes, as amended, establishes the Maricopa County Regional Area Road Fund and further establishes within the Maricopa County Regional Area Road Fund, a Bond Account, a Bond Proceeds Account, and a Construction Account.

Pursuant to the Bond Resolution, the Board has established within the Bond Account the following subaccounts: a Senior Debt Service Subaccount, a Senior Bond Related Obligations Subaccount, a Senior Reserve Subaccount, a Subordinated Debt Service Subaccount, a Subordinated Bond Related Obligations Subaccount, a Subordinated Reserve Subaccount, and a Third Lien Debt Service Subaccount.

### **Application of Transportation Excise Tax Revenues**

All Transportation Excise Tax revenues collected by the Department of Revenue of the State are transferred to the State Treasurer for deposit into the Maricopa County Regional Area Road Fund. See “SOURCES OF TRANSPORTATION EXCISE TAX REVENUES – Authority for Levy of Transportation Excise Taxes” below for discussion of Transportation Excise Tax revenues.

As soon as practicable each month after the deposit of the Transportation Excise Tax revenues to the Maricopa County Regional Area Road Fund, the State Treasurer shall transfer such deposited funds in the following order of priority:

- (i) Into the Senior Debt Service Subaccount, the amount equal to the Monthly Deposit (defined below) for Senior Bonds and any Regular Swap Payments related to Senior Bonds (the Board has not entered into any swap agreements); provided that, for the purposes of making such deposit into said Subaccount, there shall be excluded the amount, if any, set aside therein which was deposited therein from Bond proceeds to be applied in accordance with the Bond Resolution to the payment of interest accrued and unpaid on Senior Bonds and to accrue to the next interest payment date; provided further that the amount specified in this subparagraph (i) shall be (A) reduced by amounts received under all Financial Products Agreements relating to Senior Bonds and deposited in such Subaccount and (B) increased by the amount of any Swap Monthly Deposit for Senior Bonds; and then
- (ii) Into the Senior Bond Related Obligations Subaccount, at such times and in such amounts, if any, specified in any Supplemental Resolution for payment to the provider of any Bond Related Obligation for any Senior Bonds (no such requirements currently exist); and then

- (iii) Into the Senior Reserve Subaccount, at such times and in such amounts, if any, as may be subsequently specified in any Supplemental Resolution for deposit therein (the Bond Resolution currently does not require any deposits into this Subaccount); and then
- (iv) Into the Subordinated Debt Service Subaccount, the amount, if any, equal to the Monthly Deposit for Subordinated Bonds (no such Subordinated Bonds currently exist) and any Regular Swap Payments related to Subordinated Bonds (the Board has not entered into any swap agreements); provided that, for the purposes of making such deposit into said Subaccount, there shall be excluded the amount, if any, set aside therein which was deposited therein from Bond proceeds to be applied in accordance with the Bond Resolution to the payment of interest accrued and unpaid on Subordinated Bonds and to accrue to the next interest payment date; provided, further, the amount specified in this subparagraph (iv) shall be (A) reduced by amounts received under all Financial Products Agreements relating to Subordinated Bonds and deposited in such Subaccount and (B) increased by the amount of any Swap Monthly Deposit for Subordinated Bonds; and then
- (v) Into the Subordinated Bond Related Obligations Subaccount, at such times and in such amount, if any, specified in any Supplemental Resolution for payment to the provider of any of Bond Related Obligation for any Subordinated Bonds (no such requirements currently exist); and then
- (vi) Into the Subordinated Reserve Subaccount, at such times and in such amounts, if any, as may be subsequently specified in any Supplemental Resolution for deposit therein (the Bond Resolution currently does not require any deposits into this Subaccount); and then
- (vii) To the Paying Agent or such other person designated in a certificate of the Authorized Bond Representative, the amount set forth and ordered to be paid in such certificate to the specified Qualified Counterparty, representing any Termination Payments then due: First under a Financial Products Agreement relating to Senior Bonds; and then under a Financial Products Agreement relating to Subordinated Bonds, as provided in the Supplemental Resolution providing for the payment of such Financial Products Agreement (no such requirements currently exist); and then
- (viii) Into the Third Lien Debt Service Subaccount, the amount specified in any Supplemental Resolution authorizing Third Lien Bonds for deposit therein (no such Third Lien Bonds currently exist); and then
- (ix) Into the Construction Account, the balance.

For a description of lien priority and use of accounts (ii) through (ix) in the event of a deficiency in the Senior Debt Service Subaccount for the Senior Bonds, see “*Use of Bond Account*,” below.

“*Monthly Deposit*” shall mean, with respect to Outstanding Bonds of each Series, for each month an amount not less than:

- (1) One-sixth of the aggregate semi-annual amount of interest becoming due and payable on such Series (except for Variable Interest Rate Bonds) during the next ensuing six months (excluding any interest for which there are moneys deposited in the applicable Subaccount in the Bond Account from the proceeds of any Series of Bonds or other sources and reserved as Capitalized Interest to pay such interest during said next ensuing six months), until the requisite semi-annual amount of interest on all such Series is on deposit in the applicable Subaccount in the Bond Account; provided that from the date of delivery of a Series of Bonds until the first interest payment date with respect to such Series, the amounts so paid with respect to such Series shall be sufficient, on a monthly pro rata basis, to pay the aggregate amount of interest becoming due and payable on the first interest payment date with respect to such Series; plus
- (2) For Variable Interest Rate Bonds, the aggregate amount of interest to accrue during that Month, calculated at the Maximum Interest Rate for the period during the Month when the actual rate of

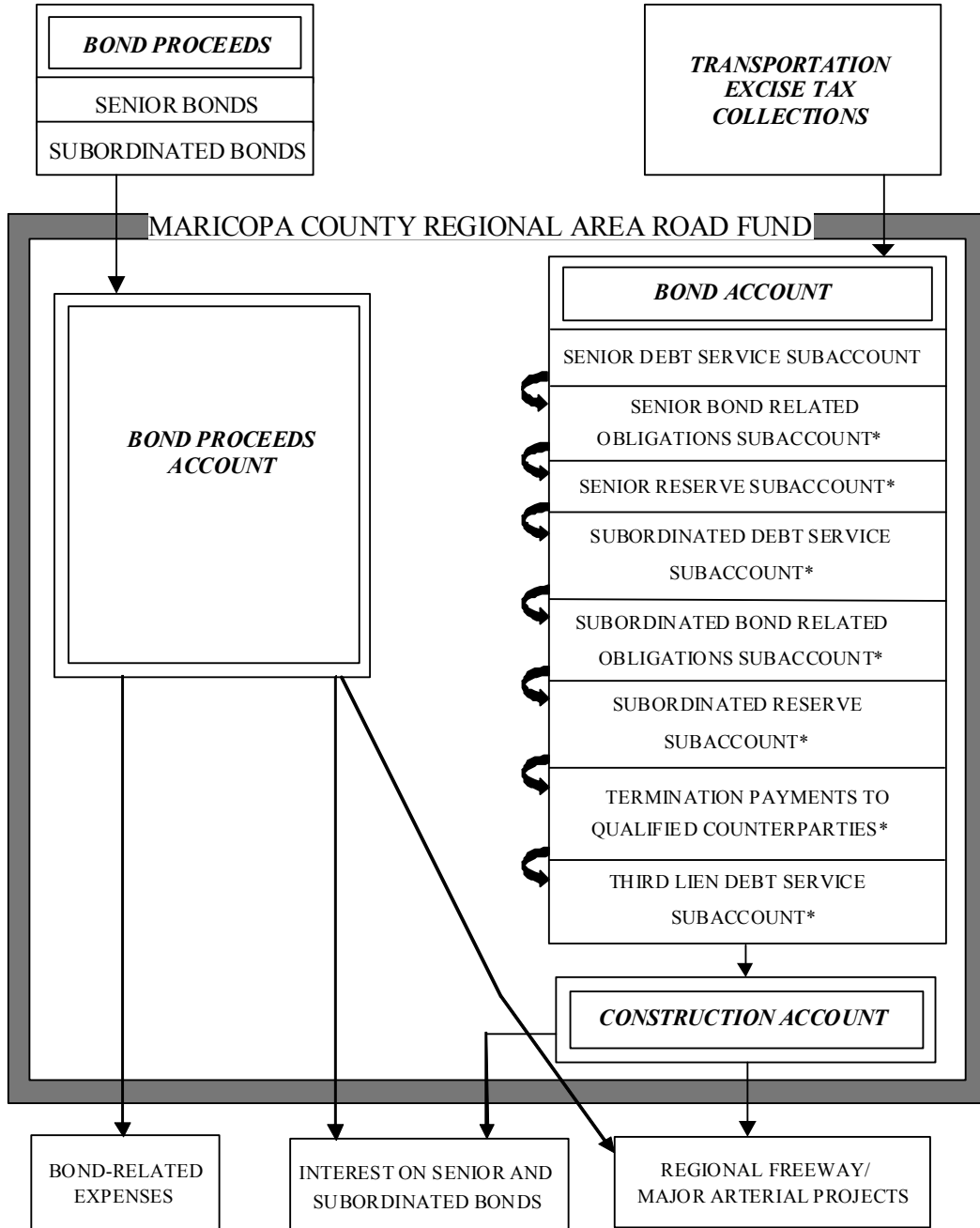
interest is not known; provided, however, that the amount of such Monthly Deposit for any Month may be reduced by the amount by which the Monthly Deposit in the prior Month exceeded the actual amount of interest accrued during that prior Month on such Variable Interest Rate Bonds; and further provided that the amount of such Monthly Deposit for any Month shall be increased by the amount by which the Monthly Deposit in the prior Month was less than the actual amount of interest accruing during that prior Month on Variable Interest Rate Bonds; plus

- (3) One-sixth of the aggregate semiannual amount of Principal Installments becoming due and payable on such Series having semiannual principal payments within the next six months; plus
- (4) One-twelfth of the aggregate annual amount of Principal Installments becoming due and payable on such Series having annual principal payments within the next twelve months.

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## MARICOPA COUNTY REGIONAL AREA ROAD FUND FLOW OF FUNDS



\* As no monies are currently required to be deposited to or paid from these subaccounts, the subaccounts are not currently in use.

## **Use of Bond Account**

### *Use of Senior Debt Service Subaccount.*

All moneys on deposit in the Senior Debt Service Subaccount shall be applied by the State Treasurer only to the payment of the Debt Service on all Senior Bonds outstanding under the Bond Resolution and payment of Regular Swap Payments under Financial Products Agreements relating to Senior Bonds, if any, as the same shall become due.

In the event of a deficiency in the Senior Debt Service Subaccount to pay Debt Service on the Senior Bonds and Regular Swap Payments under Financial Products Agreements relating to Senior Bonds (the Board has not entered into any swap agreements), when due, the Bond Resolution requires the State Treasurer to transfer money from the following Subaccounts of the Bond Account, to the extent any money is on deposit therein, to make up such deficiency in the following order of priority:

- (1) From the Senior Reserve Subaccount, if any;
- (2) From the Senior Bond Related Obligations Subaccount;
- (3) From the Third Lien Debt Service Subaccount for the Third Lien Debt, if any;
- (4) From the Subordinated Reserve Subaccount, if any, for the Subordinated Bonds;
- (5) From the Subordinated Bond Related Obligations Subaccount for the Subordinated Bonds;
- (6) From the Subordinated Debt Service Subaccount;
- (7) From the unobligated amount in the Construction Account; and
- (8) From the Bond Proceeds Account.

For a further discussion of these requirements, see APPENDIX C – “Summary of Certain Provisions of the Bond Resolution – Use of Senior Debt Service Subaccount,” “– Use of Senior Bond Related Obligations Subaccount,” “– Use of Senior Reserve Subaccount,” “– Use of Subordinated Debt Service Subaccount,” “– Use of Subordinated Bond Related Obligations Subaccount,” “– Use of Subordinated Reserve Subaccount,” “– Use of Third Lien Debt Service Subaccount,” “– Construction Account,” and “– Bond Proceeds Account.”

### *Use of Senior Bond Related Obligations Subaccount.*

Money, if any, on deposit in the Senior Bond Related Obligations Subaccount will be applied only to the payment of Bond Related Obligations with respect to Senior Bonds and of Debt Service on Senior Bonds. Bond Related Obligations include any Credit Enhancement, Liquidity Facility, and any other agreement or contractual relationships between the Board and any bank, trust company, insurance company, surety bonding company, pension fund, or other financial institution providing increased credit on, or security for, any Senior Bonds or liquidity for secondary market transactions.

### *Use of Bond Proceeds Account.*

The Board shall cause the State Treasurer to deposit into the Bond Proceeds Account of the Maricopa County Regional Area Road Fund the proceeds resulting from the issuance of all Senior Bonds, Subordinated Bonds and Third Lien Debt and any other amounts required to be paid into the Bond Proceeds Account by the provisions of the Bond Resolution and the Act. Money on deposit in the Bond Proceeds Account shall be applied to the payment of: (i) Bond Related Expenses; (ii) all fees, charges, and expenses incurred with respect to Bond Related Obligations; (iii) to the extent not paid from amounts on deposit in the Construction Account, all costs, expenses, and liabilities paid or incurred or to be paid or incurred in connection with the design, right-of-way purchase or construction related to new, or improvements to, freeways and other routes on the state highway system and that are included in the regional transportation plan for the County; (iv) to the extent not paid from amounts on deposit in the Construction Account, all costs, expenses and liabilities paid or incurred in connection with the design, right-of-way purchase or construction related to new, or improvements to, major arterial streets (as defined in the Bond Resolution) and intersections that are included in the regional transportation plan of the County; and (v) such other costs, fees, charges, and expenses or otherwise which may be incurred pursuant to the Act and payable from the Bond Proceeds Account.

In the event money on deposit in the Bond Account and the Subaccounts therein and the unobligated money in the Construction Account is insufficient to pay: (1) Debt Service on the Senior Bonds and Regular Swap Payments related to Senior Bonds; (2) Debt Service on Subordinated Bonds and Regular Swap Payments related to Subordinated Debt; (3) Termination Payments under Financial Product Agreements relating to Senior Bonds and Subordinated Bonds; (4) and Debt Service on Third Lien Debt, when due, respectively, then the State Treasurer shall transfer to the appropriate Subaccount in the Bond Account from the Bond Proceeds Account money on deposit therein in order to make up the deficiency in such order of priority.

*Use of Construction Account.*

The State Treasurer will deposit in the Construction Account of the Maricopa County Regional Area Road Fund each month all Transportation Excise Tax revenues remaining after making the required deposits in the Subaccounts of the Bond Account, as described under “-Application of Transportation Excise Tax Revenues” above. The State Treasurer shall create within the Construction Account the “Freeway and Other Routes Subaccount” and the “Major Arterial Streets and Intersection Subaccount.” The Authorized Board Representative shall direct, from time to time, the State Treasurer what amount of Pledged Funds shall be deposited by the State Treasurer into the Freeway and Other Routes Subaccount and into the Major Arterial Streets and Intersections Subaccount, in order to comply with the provisions of the Act. The Authorized Board Representative may direct, from time to time, the State Treasurer to re-allocate money between the Subaccounts in the Construction Account, as permitted under State law. The Board, at its option, may deposit into either Subaccount of the Construction Account any moneys received by the Board from any other source, unless required to be otherwise applied as provided by the Bond Resolution or the Act.

Amounts in the Construction Account will be applied to the payment of: (i) all costs, expenses and liabilities paid or incurred or to be paid or incurred in connection with the design, right-of-way purchase or construction related to new, or improvements to, freeways and other routes on the state highway system and that are included in the regional transportation plan for the County; (ii) all costs, expenses, and liabilities paid or incurred or to be paid or incurred in connection with the design, right-of-way purchase or construction related to new, or improvements to, major arterial streets and intersections that are included in the regional transportation plan of the County; (iii) all payments required to be made by the State Treasurer pursuant to Section 28-6305, Arizona Revised Statutes, as amended, to the public transportation fund and to the regional planning agency for the County to be used for planning and administration of the regional transportation plan and for certain other lawful purposes; and (iv) any other lawful costs, fees, charges and expenses or otherwise that may be incurred pursuant to the Act and payable from the Construction Account.

If other moneys on deposit in the Bond Account are insufficient to pay: (1) Debt Service on the Senior Bonds and Regular Swap Payments related to Senior Bonds; (2) Debt Service on Subordinated Bonds and Regular Swap Payments related to Subordinated Debt; (3) Termination Payments under Financial Product Agreements relating to Senior Bonds and Subordinated Bonds; (4) and Debt Service on Third Lien Debt, when due, respectively, then the State Treasurer shall transfer to the Bond Account from the Construction Account unobligated money on deposit therein in order to make up the deficiency in such order of priority.

## **SOURCES OF TRANSPORTATION EXCISE TAX REVENUES**

### **Authority for Levy of Transportation Excise Taxes**

In 1985, the State Legislature enacted legislation that authorized an increase in the resources committed to transportation in the State. Such legislation permitted each Arizona county to seek voter approval for a transportation excise tax to be levied in such county in an amount up to 10% of the base State Sales Tax rates (which transportation excise tax at the 10% level is approximately \$.005 on each \$1.00 purchase). Pursuant to such legislation, County voters, at an October 1985 election, approved Proposition 300 which levied a County transportation excise tax to finance the construction of certain controlled-access highways in the County, which initial excise tax was in effect for 20 years ending December 31, 2005.

Pursuant to the County Excise Tax Act, the County voters at a November 4, 2004 election approved the levy within the County of the 2004 Excise Tax Authorization for an additional 20 years ending December 31, 2025. As with the initial Proposition 300 transportation excise tax in the County, the 2004 Excise Tax Authorization is levied at a rate generally equal to 10% of the base State Sales Tax rates that were in effect as of January 1, 1990.

Revenues from the 2004 Excise Tax Authorization are collected by the Department of Revenue of the State with the State Sales Tax and are transferred monthly to the State Treasurer. Pursuant to the County Excise Tax Act, the State Treasurer is required to deposit the collections from the 2004 Excise Tax Authorization as follows:

- 66.7% into the Maricopa County Regional Area Road Fund consisting of:
  - 56.2% to the Maricopa County Regional Area Road Fund for freeways and routes on the state highway system, including design, right-of-way, construction, maintenance of, and Debt Service related to, projects included in the regional transportation plan for the County; and
  - 10.5% to the Maricopa County Regional Area Road Fund for major arterial streets and intersection improvements, including Debt Service, capital expense and implementation studies.
- 33.3% to a public transportation fund (the “Public Transportation Fund”) that is restricted by State statute to be used only for capital costs, maintenance and operation of public transportation classifications along with capital costs and utility relocation costs associated with a light rail public transit system.

The Department is responsible for administering the Maricopa County Regional Area Road Fund and the Maricopa County Regional Public Transportation Authority (the “RPTA”) is responsible for administering the Public Transportation Fund.

**The 66.7% of the collections from the 2004 Excise Tax Authorization, as described above, when deposited into the Maricopa County Regional Area Road Fund are the “Transportation Excise Tax” revenues referred to herein. As 66.7% of the 2004 Excise Tax Authorization constitutes Transportation Excise Tax revenues, the effective rate of the Transportation Excise Tax is approximately 6.67% of the base State Sales Tax rates. Only the Transportation Excise Tax collections deposited into the Maricopa County Regional Area Road Fund are pledged to pay the Bonds, including the 2011 Series Bonds. The remaining 33.3% of the collections from the 2004 Excise Tax Authorization which are deposited into the Public Transportation Fund, as noted above, are not a source of payment of or security for the Bonds, including the 2011 Series Bonds.**

The Bond Resolution requires the State Treasurer to deposit the Transportation Excise Tax collections into certain subaccounts in the Bond Accounts, as described above under “MARICOPA COUNTY REGIONAL AREA ROAD FUND – Application of Transportation Excise Tax Collections.”

As described above, the Transportation Excise Tax is levied upon business activities within the County at an effective rate equal to 6.67% of the base State Sales Tax rates that were in effect as of January 1, 1990, which applied to each person engaging or continuing in a business taxed under Title 42, Chapter 5, Article 1, Arizona Revised Statutes, as amended. The State Sales Tax is measured by the amount or volume of business transacted by persons on account of their business activities, and in the amounts to be determined by the application of tax rates against values, gross proceeds of sale, or gross income, as the case may be, as shown in the “State Sales Tax Rates” table that follows herein.

The Act provides, and the Board as agent for the State under the Bond Resolution has agreed with the Holders of the Bonds, that the State will not limit or alter the Transportation Excise Tax in such a way as to adversely affect the rights of the Holders of the Bonds, or limit or alter the authority of the County in such a way so as to prevent the imposition of a sufficient Transportation Excise Tax to fulfill the terms of the Bond Resolution or

any agreement made with the Holders of the Bonds, or in any way impair the rights and remedies of such Holders until all Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Holders of the Bonds, are fully met and discharged. The County has no authority to lower or terminate the Transportation Excise Tax.

Under the Bond Resolution, there is no requirement that the Transportation Excise Tax be collected in excess of amounts necessary to make deposits into the Bond Account.

The following table reflects the base State Sales Tax rates in effect as of January 1, 1990. There have been, and may continue to be, changes enacted to the level of State Sales Tax rates since the rates in effect as of January 1, 1990. However, pursuant to State law, the State Sales Tax rates as of January 1, 1990 are used as the basis for calculating the Transportation Excise Tax rate.

**STATE SALES TAX RATES  
(as of January 1, 1990)**

<u>Nature of Business Activity</u>	<u>Rate</u>
Retail sale of tangible personal property (commonly known as sales tax).....	5.000%
Prime contracting and dealership of manufactured buildings .....	5.000%
Operating as an owner-builder .....	5.000%
Producing and furnishing or furnishing to consumers of electricity, natural or artificial gas and water.....	5.000%
Operating restaurants.....	5.000%
Leasing or renting real property .....	5.000%
Hotels and motels .....	5.500%
Leasing or renting tangible personal property.....	5.000%
Operating amusement places .....	5.000%
Intrastate telecommunication services, including publication of directory of subscribers .....	5.000%
Job printing, engraving, embossing and copying .....	5.000%
Publication of newspapers, magazines and other periodicals and publications.....	5.000%
Intrastate transportation of persons, freight or property.....	5.000%
Intrastate operation of pipelines for oil or natural or artificial gas .....	5.000%
Intrastate operation of private car lines .....	5.000%
Mining, oil and gas .....	3.125%

## Historical Transportation Excise Tax Revenues

The following table presents the Transportation Excise Tax collections received by the Department for each of the fiscal years indicated, subject to the slight adjustments shown in the immediately following table.

### MARICOPA COUNTY REGIONAL AREA ROAD FUND TRANSPORTATION EXCISE TAX COLLECTIONS (a) FISCAL YEAR 2002 THROUGH FISCAL YEAR 2011

Fiscal Year Ended June 30								66.7% of Transportation Excise Taxes Collected in the	
	Retail Sales (b)	Contracting (c)	Utilities (d)	Restaurant & Bar	Property Rental (e)	Other (f)	Total	Percentage Change	County (g)
2002	\$131,393,323	\$41,217,803	\$18,431,792	\$21,748,268	\$38,457,728	\$16,314,429	\$267,563,343	1.07%	\$178,464,750
2003	133,922,028	38,893,686	18,484,778	22,645,998	38,581,924	16,192,486	268,720,901	0.43	179,236,840
2004	144,816,883	43,523,844	19,979,852	24,806,732	39,794,062	15,678,427	288,599,800	7.40	192,496,067
2005	158,179,314	52,325,393	20,813,151	27,190,928	41,933,242	16,363,535	316,805,562	9.77	211,309,311
2006	182,377,935	64,822,303	23,600,464	30,655,980	46,871,797	19,308,918	367,637,396	16.05	245,214,144
2007	187,816,622	73,864,335	26,697,238	33,073,445	51,451,565	19,548,401	392,451,606	6.75	261,765,221
2008	177,844,654	66,045,770	28,629,604	33,021,064	53,716,588	20,807,875	380,065,555	(3.16)	253,503,725
2009	153,681,000	46,865,099	28,510,606	30,762,755	51,227,302	17,138,956	328,185,718	(13.70)	218,899,874
2010	143,204,938	28,952,861	29,385,406	30,557,645	47,807,669	19,115,032	299,023,551	(8.90)	199,448,709
2011	152,002,580	28,012,067	29,511,098	31,728,534	47,337,046	20,642,647	309,233,972	3.41	206,259,059

Source: Arizona Department of Transportation.

- (a) Prior to January 1, 2006, all transportation excise taxes collected in the County under Proposition 300 were transferred to the Maricopa County Regional Area Road Fund. As of January 1, 2006, only 66.7% of the revenues collected in the County under the 2004 Excise Tax Authorization are transferred to the Maricopa County Regional Area Road Fund and upon such transfer become Transportation Excise Tax Revenues pledged to the Bonds. The breakdown of transportation excise tax collections into business categories is based on actual collections by business category.
- (b) Includes retail sales of tangible personal property, excluding food sales.
- (c) Includes prime contracting and dealership of manufactured buildings and operating as an owner-builder.
- (d) Includes producing and furnishing or furnishing to consumers of electricity, natural or artificial gas and water.
- (e) Includes leasing or renting real property, hotels, motels, and tangible personal property.
- (f) Includes collections from all other business activities. See "STATE SALES TAX RATES" above.
- (g) The figures shown in this column represent 66.7% of total transportation excise tax collections within the County for fiscal years 2002 through 2011.

The 66.7% Transportation Excise Taxes Collections shown in the table above includes revenues from the previous excise tax for transportation levied in the County under Proposition 300, which amounts do not constitute Transportation Excise Tax revenues and are not pledged to the Bonds. The table below summarizes the amounts of revenue from the previous Proposition 300 excise tax for each year since 2006.

**TRANSPORTATION EXCISE TAX COLLECTIONS  
NET OF PROPOSITION 300 MONIES  
FISCAL YEARS 2006 THROUGH 2011**

<b>Fiscal Year</b>	<b>Total Transportation Excise Tax Revenues</b>	<b>Proposition 300 Revenues</b>	<b>2004 Excise Tax Authorization Revenues</b>	<b>66.7% of 2004 Excise Tax Authorization Revenues</b>
2006	\$367,637,396	\$214,045,397	\$153,591,999	\$102,445,863
2007	392,451,606	1,497,652	390,953,954	260,766,287
2008	380,065,555	715,371	379,350,184	253,026,572
2009	328,185,718	797,117	327,388,601	218,368,197
2010	299,023,551	671,246	298,352,305	199,000,987
2011	309,233,972	859,919	308,374,053	205,685,493

Note: Only revenues from the 66.7% of the 2004 Excise Tax Authorization constitute Pledged Revenues.

Source: Arizona Department of Transportation.

As a result of the recession and general economic conditions nationally, as well as within the County, the Board and the Department experienced a substantial decline in Transportation Excise Tax revenues over the period from fiscal year 2008 through fiscal year 2010. The past fiscal year showed a stabilization of revenue collections as economic conditions improved. The following table sets forth the amount of Transportation Excise Tax revenues received during each of the past eight quarters and the changes in such amounts from the corresponding period in the prior year.

**MARICOPA COUNTY REGIONAL AREA ROAD FUND  
QUARTERLY TRANSPORTATION EXCISE TAX REVENUES  
FISCAL YEAR 2010 THROUGH FISCAL YEAR 2011**

<b>Quarter Ended</b>	<b>Quarterly Receipts</b>	<b>Change From Same Period Prior Year</b>	<b>Rolling Twelve Months Receipts</b>	<b>Change From Same Period Prior Year</b>
September 30, 2009	\$49,887,294	(13.57%)	\$210,533,700	(14.78%)
December 31, 2009	48,241,827	(12.29)	203,772,727	(14.69)
March 31, 2010	49,730,269	(8.16)	199,354,669	(12.97)
June 30, 2010	51,141,597	(0.69)	199,000,987	(8.87)
September 30, 2010	48,054,076	(3.67)	197,167,769	(6.35)
December 31, 2010	49,428,293	2.46	198,354,236	(2.66)
March 31, 2011	53,807,964	8.20	202,431,930	1.54
June 30, 2011	54,395,160	6.36	205,685,493	3.36

Source: Arizona Department of Transportation

The Transportation Excise Tax revenues for a quarterly period are based on taxable sales activity generally occurring in the last two months of the previous quarter and the first month of the current quarter. For example, for the quarter ended June 30, 2011, according to cash basis accounting, Transportation Excise Tax revenues were

approximately \$54.4 million, which revenues generally reflected taxable sales activity occurring in February, March, and April of 2011.

### **Forecast of Transportation Excise Tax Revenues**

In 1986, the Department retained economic consultants from Arizona State University to develop an econometric model for forecasting Transportation Excise Tax revenues. The model relied on the estimation of certain independent variables to forecast future revenues by revenue category. The key variables incorporated in the model were: (i) County personal income, (ii) County population, (iii) County building permit activity, and (iv) air passenger arrivals.

In 1992, the Department expanded the capabilities of the model by retaining economic consultants to introduce a risk analysis process into the forecast development effort, thereby providing a means of dealing with the uncertainty concerning future values for the critical model variables. This procedure provides a range of the potential future revenues to be received in each fiscal year through the termination of the Transportation Excise Tax, and the probability (expressed as a percentage) of the forecasted revenues being achieved in each year. Utilizing this process, the Department annually develops and publishes a revenue forecast which is certified by the Director of the Department as the official revenue forecast of the Department. The current official forecast uses estimates of revenue with associated probabilities of being achieved at the 50% probability level.

In 1996, the Department, working with an economic consulting firm and representatives of Arizona State University, engaged in an update of the 1986 econometric model. This update included a consolidation of the model structure, re-estimation of the economic equations, and extensive testing of the model's forecasting ability. As a result of this update, a new forecasting model was developed. The new model, which incorporates the previously described risk analysis process, reduced the number of distinct revenue categories forecast. The new model also employed several different independent variables in the forecasting of future revenues than those in the 1986 model described above. The new model variables include (i) County real per capita personal income growth, (ii) County population growth, (iii) County construction employment growth, (iv) change in the Phoenix Consumer Price Index, and (v) prime interest rates.

In September 2005, the Department engaged a consultant to re-examine the structure of the 1996 model and re-evaluate the set of explanatory variables used in the production of the Maricopa County Transportation Excise Tax revenue forecasts. Three new variables (U.S. housing starts, Phoenix Sky Harbor Airport passenger traffic, and Maricopa County total non-farm employment growth) were added to the existing list of variables used in the 1996 model.

Prior to January 1, 2006, all transportation excise taxes collected in the County were transferred to the Maricopa County Regional Area Road Fund. As of January 1, 2006, only 66.7% of the revenues collected in the County under the 2004 Excise Tax Authorization are transferred to the Maricopa County Regional Area Road Fund, as described above under “- Authority for Levy of Transportation Excise Taxes.”

The table below indicates the percentage variance for each of the last six fiscal years between forecasted revenues and the actual receipt of such revenues. The revenue forecasts were generated by the Department at the beginning of each fiscal year based on utilization of the econometric models described above.



**TRANSPORTATION EXCISE TAX COLLECTIONS  
FORECASTED VERSUS ACTUAL REVENUES  
FISCAL YEARS 2006 THROUGH 2011  
(Millions of Dollars)**

<u>Fiscal Year</u>	<u>Forecast Revenues</u>	<u>Actual Revenues</u>	<u>66.7% of Forecast Revenues</u>	<u>66.7% of Actual Revenues</u>	<u>Percentage Variance</u>
2006	\$339.6	\$367.6	\$226.5	\$245.2	8.3%
2007	397.1	392.5	264.8	261.8 (a)	(1.2)
2008	408.7	380.1	272.6	253.5 (a)	(7.0)
2009	380.5	328.2	253.8	218.9 (a)	(13.7)
2010	315.3	299.0	210.3	199.4 (a)	(5.2)
2011	301.0	309.2	200.8	206.3 (a)	2.7

Source: Arizona Department of Transportation.

- (a) Includes revenues from the previous excise tax for transportation levied in the County under Proposition 300 which does not constitute Transportation Excise Tax revenues and are not pledged to the Bonds. See "Transportation Excise Tax Collections, Net of Proposition 300 Monies" table above.

The following table sets forth 66.7% of the Department's current official forecast of 2004 Excise Tax Authorization revenues, such amounts being the official forecast of Transportation Excise Tax revenues anticipated to be collected and deposited into the Maricopa Regional Area Road Fund for each of the four fiscal years ending June 30, 2015. This current official forecast was certified by the Director of the Department in September 2010.

The Department is currently undertaking the development of a new official forecast, working with numerous economic analysts and employing the model's risk analysis process. A new official forecast is expected by the Department to be presented to the Board in November or December 2011.

**MARICOPA COUNTY REGIONAL AREA ROAD FUND  
FORECAST OF TRANSPORTATION EXCISE TAX COLLECTIONS  
FISCAL YEARS 2012 THROUGH 2015  
(Certified in September 2010)**

<u>Fiscal Year Ending June 30</u>	<u>2004 Excise Tax Authorization</u>							<u>66.7% of Forecasted Excise Tax Collections (a)</u>
	<u>Retail Sales</u>	<u>Contracting</u>	<u>Utilities</u>	<u>Restaurant &amp; Bar</u>	<u>Property Rental</u>	<u>Other</u>	<u>Total</u>	
2012 (b)	\$159,600,000	\$30,500,000	\$29,800,000	\$32,800,000	\$47,800,000	\$21,100,000	\$321,600,000	\$214,507,200
2013	160,000,000	32,500,000	30,600,000	33,300,000	50,600,000	20,300,000	327,300,000	218,309,100
2014	171,400,000	36,600,000	31,600,000	35,200,000	53,300,000	21,100,000	349,200,000	232,916,400
2015	184,800,000	40,500,000	32,600,000	37,400,000	57,000,000	21,900,000	374,200,000	249,591,400

Source: Arizona Department of Transportation.

- (a) Figures in this column represent 66.7% of the total forecasted 2004 Excise Tax Authorization revenues, which amounts represent Transportation Excise Tax revenues.
- (b) For planning purposes, in advance of the development of the new official forecast, the Department has revised its 2012 forecast to reflect recent fiscal trends.

The prospective financial information included in this Official Statement has been prepared by, and is the responsibility of, the Department. In the view of the Department, the forecast included herein was prepared on a reasonable basis utilizing the methodology described in this section and the paragraph immediately above the table represents the Department's current expectations of Transportation Excise Tax revenues to be deposited in the Maricopa County Regional Area Road Fund. However, this information is not fact and should not be relied upon as

being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on this forecast financial information.

Neither the Department’s independent auditors, nor any other independent accountants or any other persons, have compiled, examined, or performed any procedures with respect to the forecasted financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the forecasted financial information. **In addition, the actual Transportation Excise Tax revenues which will be collected and deposited into the Maricopa County Regional Area Road Fund in any fiscal year may vary from the forecast because of fluctuating economic conditions and other variables affecting Transportation Excise Tax collections which cannot be predicted with certainty. Such fluctuations could be material.**

**Collection of Transportation Excise Tax Revenues**

The Transportation Excise Tax is collected by the Department of Revenue of the State on the 20<sup>th</sup> day of each month. There is a grace period that extends through the working day prior to the last business day of the month for mailed transmittals postmarked no later than the 25<sup>th</sup> of the month. The tax collections are deposited with the State Treasurer on a daily basis. The State Treasurer distributes the Transportation Excise Tax collections to the Maricopa County Regional Area Road Fund monthly, following the close of business for the previous month.

**DEBT SERVICE REQUIREMENTS**

The Debt Service requirements on Outstanding Senior Bonds and the 2011 Series Bonds are set forth below.

Ending July 1	Transportation Excise Tax Collections (1)	Outstanding Senior Bonds Total Debt Service	2011 Series Bonds			Senior Bonds Total Debt Service	Historical Senior Bonds Coverage(3)
			Principal	Interest (2)	Total		
2011	\$207,186,443						
2012		\$88,467,307	\$10,225,000	\$4,896,303	\$15,121,303	\$103,588,609	2.00x
2013		88,468,757	8,495,000	6,627,550	15,122,550	103,591,307	2.00x
2014		88,465,307	8,920,000	6,202,800	15,122,800	103,588,107	2.00x
2015		88,466,307	9,370,000	5,756,800	15,126,800	103,593,107	2.00x
2016		88,470,132	9,830,000	5,288,300	15,118,300	103,588,432	2.00x
2017		88,464,882	10,330,000	4,796,800	15,126,800	103,591,682	2.00x
2018		88,471,182	10,840,000	4,280,300	15,120,300	103,591,482	2.00x
2019		88,468,932	11,385,000	3,738,300	15,123,300	103,592,232	2.00x
2020		88,467,932	11,955,000	3,169,050	15,124,050	103,591,982	2.00x
2021		88,463,869	12,555,000	2,571,300	15,126,300	103,590,169	2.00x
2022		88,466,919	13,180,000	1,943,550	15,123,550	103,590,469	2.00x
2023		88,466,919	13,575,000	1,548,150	15,123,150	103,590,069	2.00x
2024		88,469,919	14,115,000	1,005,150	15,120,150	103,590,069	2.00x
2025		88,466,669	14,685,000	440,550	15,125,550	103,592,219	2.00x

- (1) Represents Pledged Revenues received in the twelve-month period ended August 31, 2011.
- (2) The first interest payment date on the 2011 Series Bonds is January 1, 2012.
- (3) Reflects the ratio of actual Transportation Excise Tax collections for Fiscal Year 2011 to total Debt Service on Senior Bonds to be outstanding after the issuance of the 2011 Series Bonds. Does not reflect Debt Service requirements on additional Bonds the Board currently anticipates issuing under the Bond Resolution during the period the Transportation Excise Tax is levied, which could be significant.

Pursuant to the Bond Resolution, the Board may issue Additional Senior Bonds, Subordinated Bonds or Third Lien Debt subject to meeting certain ratios of historical Transportation Excise Tax collections to Adjusted Debt Service. For additional information concerning these ratios, see “SECURITY AND SOURCES OF

PAYMENT FOR THE 2011 SERIES BONDS - Additional Senior Bonds,” “- Subordinated Bonds,” and “-Third Lien Debt.”

## **REGIONAL TRANSPORTATION PLAN FOR MARICOPA COUNTY**

### **Overview**

The current regional transportation plan for the County (the “Regional Transportation Plan”) includes approximately 1,300 lane miles of new and expanded facilities to be funded in large part with moneys on deposit in the Bond Proceeds Account and the Construction Account of the Maricopa County Regional Area Road Fund.

The current Regional Transportation Plan is illustrated on the map shown on the inside back cover of this Official Statement. All freeways and other routes in the State highway system to be funded by moneys on deposit in the Maricopa County Regional Area Road Fund have been accepted into the State highway system as State routes. The construction of the Regional Transportation Plan is being phased in over the approximately 20-year period from 2006 to 2025, taking into account available funding.

### **Life Cycle Process**

In order to effectively manage the Regional Transportation Plan, the Department has implemented a comprehensive life cycle management process. The process is designed to match available funding with program requirements and gives policy makers the ability to program available funds to the highest priority projects over the entire life of the Transportation Excise Tax. As part of this process, revenues and costs for the Regional Transportation Plan are certified by the Department on a semi-annual basis.

### **Five-Year Capital Program**

Each year, the Board adopts a five-year transportation program (the “Five-Year Capital Program”) for highway facilities throughout the State, including the Regional Transportation Plan projects for which the Board is responsible.

The development of the Five-Year Capital Program by the Board is a multi-step process through which the highway and aviation project needs within the State are identified, prioritized, and allocated funding. After all highway and aviation projects have been prioritized and matched with available funding based on Board policies and objective measures, the Board conducts public hearings on the Five-Year Capital Program prior to final adoption. In addition, the Board, the Maricopa Association of Governments (“MAG”), and the Citizens Transportation Oversight Committee (“CTOC”) hold a special joint public hearing on the Regional Transportation Plan annually. CTOC is a seven person board appointed by the Maricopa County Board of Supervisors and the Governor. The Five-Year Capital Program is updated each year and is subject to modification from time to time by the Board. The Regional Transportation Plan projects that are included in the Five-Year Capital Program will be financed primarily with moneys on deposit in the Bond Proceeds Account and the Construction Account within the Maricopa County Regional Area Road Fund.

In allocating funds for the Regional Transportation Plan, the Board takes into consideration the recommended priorities as adopted by MAG. The MAG Regional Council consists of representatives of all of the incorporated cities and towns in the County, two Board members residing in the County, a member representing the County, tribal representation from the Gila River Indian Community, the Salt River Pima Maricopa Indian Community, the Fort McDowell Yavapai Nation, and the chair of CTOC. The MAG Regional Council is charged with, among other duties, the responsibility of developing a recommended regional transportation plan for the County. The Regional Transportation Plan and progress on the Regional Transportation Plan is subject to periodic review. Specifically, Section 28-6313, Arizona Revised Statutes, as amended, requires the State Auditor General to conduct a performance audit, as defined by Section 41-1278, Arizona Revised Statutes, as amended, of the Regional Transportation Plan beginning in 2010 and each fifth year thereafter of the overall implementation period.

Preliminary work on the first such performance audit began in September 2010, with a final report expected late in calendar year 2011.

Highway user-related revenues, highway revenue bonds, federal funds, interest income, and other legally available funds will finance the balance of the Five-Year Capital Program. The Board's highway revenue bonds are payable from and secured by money deposited in the Arizona State Highway Fund, such money being derived from fees and taxes relating to the registration, operation, and use of motor vehicles on public highways of the State and from motor vehicle fuel tax revenues. No portion of such moneys constitute a source of payment of Bonds, including the 2011 Series Bonds, and the highway revenue bonds payable from such revenues are not secured by or payable from Pledged Funds.

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## MANAGEMENT OF STATE HIGHWAY PROGRAM

### Arizona Transportation Board

The Board consists of seven members, with two members appointed from Transportation District 1 (the County) and one member from each of the other transportation districts within the State. Each member of the Board is appointed by the Governor of the State, subject to confirmation by the State Senate, for a term of six years expiring on a staggered basis on the third Monday in January. The Board is responsible, among other duties, for: (i) issuing bonds for State highway purposes; (ii) establishing a complete system of State highway routes; (iii) determining which State highway routes or portions thereof will be accepted into the State highway system, and which will be improved; (iv) establishing, opening, relocating, altering, vacating, or abandoning any portion of a State route or State highway; (v) determining priority program planning with respect to highway transportation facilities and monitoring the status of such programs; and (vi) distributing money appropriated from the State Aviation Fund for planning, design, development, acquisition of interests in land, and construction and improvement of publicly owned and operated airport facilities in the counties, cities and towns of the State.

The following sets forth information with respect to each member of the Board:

<u>Name and Transportation District Represented</u>	<u>City of Residence</u>	<u>Term Expires January</u>
Bill Feldmeier, Chair Transportation District 6 Yavapai, Yuma, Mohave, and La Paz Counties	Prescott	2012
Barbara Lundstrom, Vice Chair Transportation District 3 Cochise, Greenlee, and Santa Cruz Counties	Nogales	2013
Felipe Andres Zubia, Member Transportation District 1 Maricopa County	Avondale	2012
Victor Flores, Member Transportation District 1 Maricopa County	Phoenix	2014
Stephen W. Christy, Member Transportation District 2 Pima County	Tucson	2015
Kelly O. Anderson, Member Transportation District 4 Gila, Graham, and Pinal Counties	Maricopa	2016
Hank Rogers, Member Transportation District 5 Apache, Coconino, and Navajo Counties	Eagar	2017

## **Arizona Department of Transportation**

### *General.*

The Department was established by the State Legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the State Department of Aeronautics (originally established in 1952). The Department's mission is to provide products and services for a safe, efficient, and cost-effective transportation system that links Arizona to the global economy, promotes economic prosperity, and demonstrates respect for Arizona's environment and quality of life.

### *Responsibilities and Organization.*

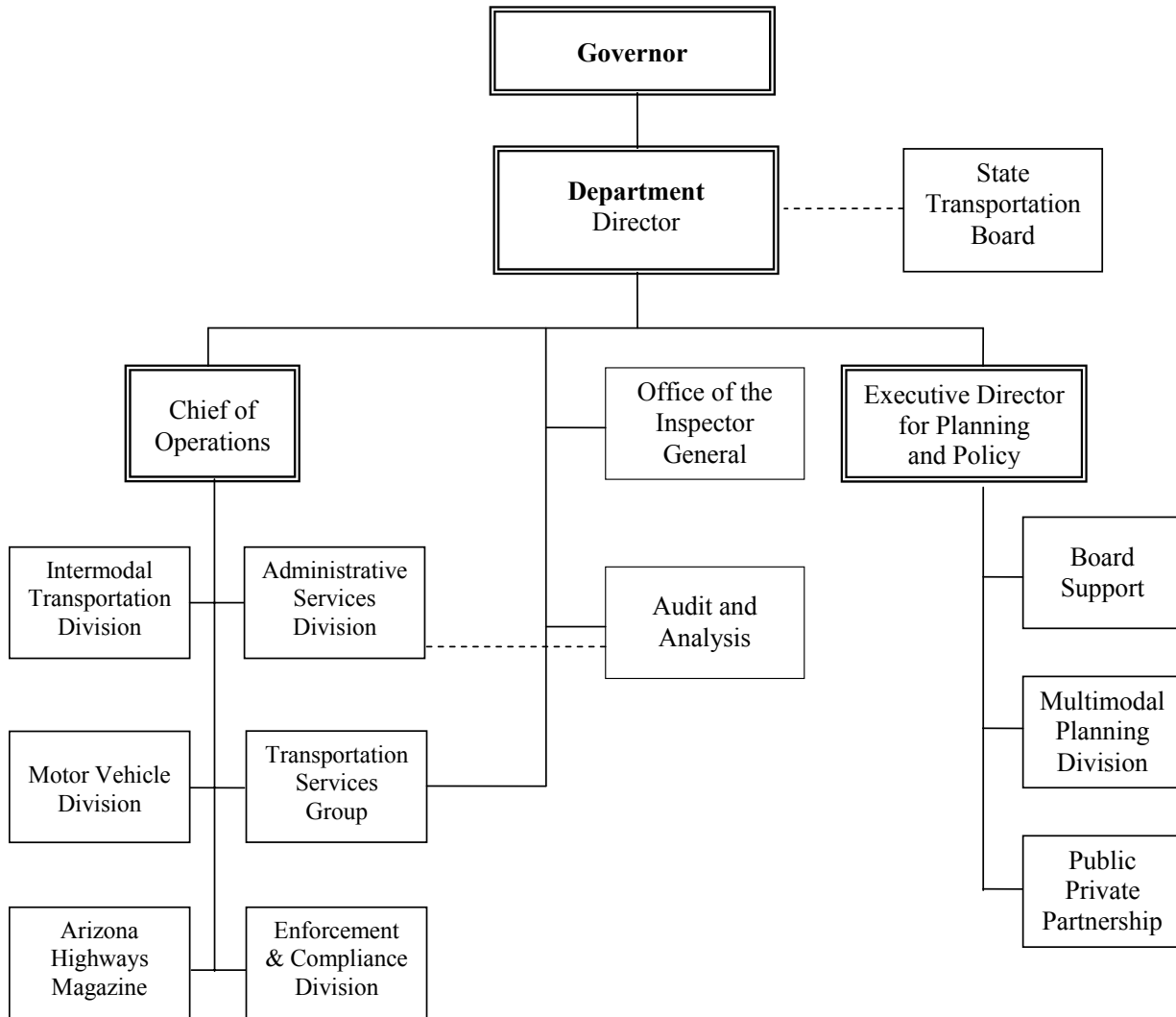
The Department administers the State highway system. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements for both highway and aviation transportation modes; (iii) design and construction of transportation facilities in accordance with a priority plan; (iv) maintenance and operation of the State highway system; and (v) research and evaluation of new transportation systems and cooperative efforts with and advice to local governments concerning the development and operation of public transit systems.

The Department's operating budget and capital outlay budget for buildings are reviewed by the Governor's office and funds for these purposes are appropriated by the State Legislature. The Department's capital outlay budget for the acquisition of land and the development, construction, and improvement of the State highway system is approved by the Board. The recommended budgeting of funds for the Maricopa County Regional Transportation Plan Freeway Program is determined by the Department taking into consideration the priorities recommended by the Maricopa Association of Governments. The funds are allocated by the Board as part of the statewide Five-Year Capital Program.

The Director of the Department serves as the Chief Executive Officer of the Department. The Director is appointed by the Governor and confirmed by the Senate, and is directly responsible to the Governor. The Department has organized itself into five divisions: Intermodal Transportation Division, Motor Vehicle Division, Enforcement and Compliance Division, Multimodal Planning Division, and Administrative Services Division. In addition, the Transportation Services Group under the direction of the Chief of Operations contains units for Financial Management, Budget and Strategic Planning, Human Resources, Civil Rights, Information Technology, and Training. The Transportation Services Group supports the Department's operating and planning divisions.

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The Department's table of organization and a brief description of each of the divisions is set forth below:



*Intermodal Transportation Division.* The Intermodal Transportation Division is the largest of the five divisions of the Department. The Intermodal Transportation Division is responsible for the management and maintenance of the existing State highway system and related facilities as well as the location, design, and construction of new highways and facilities that are a part of the State highway system.

*Motor Vehicle Division.* The Motor Vehicle Division regulates motor vehicles and drivers in the State through registration and licensing. The Motor Vehicle Division also collects various fees and taxes including: motor vehicle registration, motor carrier, motor vehicle operators' license and non-operating identification cards, aircraft registration, and miscellaneous fees and revenues. The Motor Vehicle Division annually processes millions of motor vehicle registrations and records, issues certificates of title for motor vehicles, and processes drivers' license applications while maintaining oversight of over 50 offices and more than 150 authorized third parties.

*Multimodal Planning Division.* The Multimodal Planning Division is responsible for the planning of the statewide transportation system including highways, transit, rail, and airports. Its functions include traffic and travel studies and projections, five-year construction programming studies, and coordination with local and regional

transportation planning agencies. The Multimodal Planning Division produces an annually updated Five-Year Capital Program, from which the Board establishes the priorities for highway and airport projects within the State. The Multimodal Planning Division also distributes Federal funding for planning, operational, and capital acquisitions for transit programs in smaller cities, towns, and rural areas, administers Federal grants for transit planning in metropolitan areas, and performs state regulatory safety oversight for the light rail system in Maricopa County. The Multimodal Planning Division also coordinates general aviation in the State and is responsible for administering the Local Airports Grant Program.

*Enforcement and Compliance Division.* The Enforcement and Compliance Division (ECD) is comprised of the Enforcement Services Section, Executive Hearing Office, and the Office of the Inspector General. The programs of ECD include responsibility for the states 23 ports of entry, commercial vehicle weight enforcement, fuel tax enforcement, collection of various fees, registration compliance, various administrative hearings, criminal investigations involving license and title fraud, and internal affairs.

*Administrative Services Division.* The Administrative Services Division provides Department-wide support functions including Audit and Analysis, Equipment Services, Facilities management, The Grand Canyon Airport, Procurement, Office of Environmental Services, and Safety and Health.

*Staff of the Department.*

Information concerning the primary administrative personnel of the Department is set forth below:

**JOHN HALIKOWSKI**

*Director*

Mr. Halikowski was appointed Director of the Department in February 2009 to lead Arizona's transportation agency responsible for planning, building, and operating a multi-modal system in one of the historically fastest growing areas of the country; collecting and distributing transportation revenue; and providing title, registration, and driver license services. Prior to his appointment he served for twelve years as the Director of Research at the Arizona House of Representatives where he was responsible for drafting, presenting, researching, and working with affected constituencies on transportation related legislation. He was deeply involved in major legislation that included the Maricopa County Transportation plan, State Highway Construction Acceleration, Privatization, DUI, Transportation Finance, and Graduated Driver Licensing. He also previously spent six years at the Department serving in various capacities including Deputy Director and Operations Chief of the Department's Motor Vehicle Division. Mr. Halikowski has completed the American Association of State Highway Transportation Officials (AASHTO) Leadership Academy. In addition, he presently chairs the AASHTO Standing Committee on Research and is a member of the AASHTO Climate Change Steering Committee.

Mr. Halikowski received his Bachelor of Arts Degree in Communications and graduated summa cum laude, from Arizona State University. He has also completed the Wharton Transportation Executive Program.

**JOHN BOGERT**

*Chief of Operations*

Mr. Bogert joined the Department in 1989 as chief auditor. He was appointed Chief of Staff of the Department in 2000 and Chief of Operations in 2009. Prior to joining the Department, Mr. Bogert was vice president of internal audit for Del Webb Corporation. His prior experience includes nine years with national and local public accounting firms and three years of teaching at Arizona State University and Fort Lewis College.

As Chief of Operations, Mr. Bogert oversees the Intermodal Transportation Division, Motor Vehicle Division, Enforcement and Compliance Division, Administrative Services Division, and the Transportation Services Group. In addition, Mr. Bogert assists the Director in the day-to-day operations of the Department and is responsible for establishing administrative and program policy in support of the Department's strategic plan.



Mr. Bogert obtained a Bachelor of Business Administration degree in Accounting from Eastern New Mexico University and a Master's degree in Accounting from Arizona State University, and is a Certified Public Accountant.

**FLOYD ROEHRICH, JR.**

*State Engineer*

Mr. Roehrlich was appointed State Engineer of the Department in August 2008. Mr. Roehrlich has been with the Department since 1989, with the exception of a two year period where he worked for a private engineering consulting firm in the Phoenix Area. In his position as State Engineer, Mr. Roehrlich oversees the pre-construction, construction, and maintenance of more than 6,700 miles of highways and 4,000 bridges across the state. Prior to his appointment as State Engineer, Mr. Roehrlich served as Deputy State Engineer, Valley Transportation Program overseeing the urban highway system within the County. Since starting as a roadway design team leader in 1989, Mr. Roehrlich has held technical and management positions in various Department groups, to include Roadway Design, Local Government Engineer, Phoenix Construction District, and Valley Project Management.

Mr. Roehrlich is an Arizona registered professional civil engineer and holds a Bachelor of Science (Civil Engineering) degree from North Dakota State University. Mr. Roehrlich retired in 2004 with the rank of Colonel from the Army National Guard.

**JOHN MCGEE**

*Executive Director for Planning and Policy*

Mr. McGee has been with the Department since 1988 and currently serves as Executive Director for Planning and Policy. As such, he is responsible for all transportation planning and Public/Private Partnership activities within the Department. He also serves as the primary liaison between the Department and the Board, and assists the Director in various policy matters.

From May 1999 through November 2008, Mr. McGee served as the Department's Chief Financial Officer, where he had oversight responsibility for the financial management of the Board's capital and financing programs, as well as responsibility for all accounting and financial activities of the Department. Prior to joining the Department, Mr. McGee was employed for sixteen years in various financial and managerial positions with Del Webb Development Company.

Mr. McGee holds a Bachelor's degree in Accounting from Brigham Young University and a Master's degree in Business Administration from Arizona State University.

**JOHN FINK**

*Assistant Director for Finance and Accounting*

Mr. Fink joined the Department in October 2001. He was appointed Assistant Director for Finance and Accounting in November 2008. As such, Mr. Fink is the Department's chief financial officer and is responsible for all financial, accounting, revenue and fuel tax administration, and risk management activities within the Department. Prior to this appointment, Mr. Fink served as the Department's Finance Administrator, where he had day-to-day responsibility over the Board's bond financing programs and was responsible for management of the state infrastructure bank program and resource administration. Prior to joining the Department, Mr. Fink managed the state infrastructure bank and bond financing programs for the Oregon Department of Transportation.

Mr. Fink holds a Bachelor of Science degree in Chemical Engineering from the University of Michigan and a Master's degree in Business Administration from Vanderbilt University. In addition, Mr. Fink has completed the Wharton Transportation Executive Program.

**LISA DANKA**

*Deputy Chief Financial Officer*

Ms. Danka joined the Department in November 2009 and is responsible for overseeing the State's federal-aid highway funding program, cash management, and tracking the State Transportation Board's Five Year Construction Program budget. Prior to joining the Department, Ms. Danka was the Assistant Deputy Director for Finance and Investment at the Arizona Department of Commerce. In this capacity, she oversaw eight business tax credit, grant, and loan programs, the State's private activity bond program, and served as the Executive Director of the Greater Arizona Development Authority. Ms. Danka also has over ten years of experience in government relations and lobbying the Arizona Legislature.

Ms. Danka holds a Bachelor of Arts degree in Political Science from Western Illinois University and a Master's degree in Business Administration from Bradley University. Ms. Danka has also completed the Wharton Transportation Executive Program.

**JENNIFER TOTH, P.E.**

*Multimodal Planning Division Director*

Ms. Toth was appointed Director of the Multimodal Planning Division in July 2009. Ms. Toth has been with the Department since 1997, with the exception of a three-year period where she worked as an Associate Vice-President for a private engineering consulting firm in the Phoenix Area. In her position as Director of the Multimodal Planning Division, Ms. Toth is responsible for regional and statewide multimodal planning, transportation programming, traffic data collection and analysis, transportation research, and cooperative planning with Native American Tribes and Metropolitan Planning Organizations. Since starting with the Department, Ms. Toth has held various technical and management positions in various departments throughout the Department.

Ms. Toth obtained a Bachelor of Science Degree in Civil Engineering from the University of Houston and a Master's degree in Civil Engineering (Construction Management) from the University of Houston and is a registered professional engineer in Arizona.

**JOHN NICHOLS**

*Administrative Services Division Director*

Mr. Nichols was appointed Director of the Administrative Services Divisions in December 2009. In this capacity, he is responsible for various support functions including Audit and Analysis, Equipment Services, Facilities Management, Grand Canyon Airport, Procurement, Office of Environmental Services, and Safety and Health. Mr. Nichols has been with the Department since 1997 and has held various other positions including Central Region Equipment Manager, Maintenance Operations Manager and, most recently, Physical Plant Administrator. Prior to joining the Department, Mr. Nichols was Fleet Manager for Arizona State University, and he has completed a 21-year career with the United States Air Force.

**STACEY STANTON**

*Motor Vehicle Division Director*

Ms. Stanton was appointed Director of the Motor Vehicle Division ("MVD") in December 1999, having been named interim Director in August of the same year. Ms. Stanton's prior experience at the Department includes having served as MVD Deputy Director; MVD Assistant Director for Policy and Legislative Support and MVD Assistant Division Director Metro Program. She also served as the Deputy Director for Maricopa County Auto License Department and spent more than eight years in the State Senate as Aide to the Senate President and Arizona State Senate Transportation Analyst.

Ms. Stanton holds a Bachelor of Science degree in Political Science from Arizona State University and is a Certified Public Manager. Additionally, Ms. Stanton sits on the American Association of Motor Vehicle Administrators (AAMVA) International and Region IV Boards of Directors.

## **TERRY W. CONNER**

*Enforcement and Compliance Division Director*

Mr. Conner was appointed Director of the newly formed Enforcement and Compliance Division in July, 2010. Prior to his appointment, Mr. Conner served for over 30 years with the Arizona Department of Public Safety (DPS). During his career with the DPS, Mr. Conner served in a number of command and executive level assignments including Criminal Investigations, Agency Support, and Highway Patrol. Mr. Conner was instrumental in the development of the Arizona Counter Terrorism and Information Center and was the homeland security coordinator for DPS prior to his retirement.

Mr. Conner has an extensive background in highway safety issues at both the local and national level. He served a year long assignment with the National Highway Traffic Safety Administration in Washington DC, where he developed and implemented a comprehensive program for police executives on occupant protection issues. Mr. Conner also served as the law enforcement representative from the International Association of Chiefs of Police, to the National Committee on Uniform Traffic Control Devices.

### *Funding the Department*

The Department has several major sources of revenue available for financing its capital program and day-to-day operations. The operating budget, which is appropriated by the State Legislature, is funded primarily by the Department's share of revenues deposited in the Arizona Highway User Revenue Fund. Included in the highway operating budget are maintenance, general engineering activities, administrative functions, and all other highway related operating expenses.

The Board's Five-Year Capital Program is funded from three primary sources: Federal highway apportionments, highway user revenues, and the revenues generated by the Transportation Excise Tax. Debt financing supplements these three sources of revenues to ensure timely and cost effective accomplishment of the Five-Year Capital Program. The Five-Year Capital Program identifies the improvements to be made by the Department to the State Highway System during the next five fiscal years and contains detailed information about each project including location, description, estimated cost, and timing. Improvements are scheduled based primarily upon project priority, funding availability, and engineering and construction considerations.

The Five-Year Capital Program is updated annually by the Board in accordance with a statutorily defined and scheduled process designed to assure that the improvements to the State Highway System that are of highest priority to the State are made and funded in an orderly way, consistent with statutory guidelines and Board policies. Initially, a preliminary Five-Year Capital Program is developed by the Director of the Department based upon the Board's guidelines and input from transportation professionals at the state and local level, from state and local elected officials, and from the general public. Also considered in determining the priority of the projects to be included in the Five-Year Capital Program are user benefits, public need, land use, safety, road conditions, continuity of improvements, and availability of funds. Each update to the Five-Year Capital Program includes projects to be scheduled for the fifth year of the forthcoming five year period as well as modifications to the Program dictated by changing priorities, funding availability, and other considerations. The Board adopts the revised Five-Year Capital Program on or before June 30 of each year following a series of public meetings throughout the State.

### **Sunset Laws**

In order to encourage systematic legislative review of State agencies and statutes, State statutes provide for automatic termination of State agencies and statutes pursuant to a statutory schedule unless the State Legislature takes affirmative action to continue the existence of the agencies or statutes. These State statutes are commonly known as "Sunset Laws." Under the State Sunset Laws, the Department and the Board are scheduled for termination on July 1, 2016, and Title 28, Arizona Revised Statutes, is scheduled for termination on January 1, 2017. Title 28 contains most of the transportation laws of the State, including the Act authorizing the 2011 Series Bonds, the provisions relating to the Transportation Excise Tax and the Maricopa County Regional Area Road Fund.

The State Sunset Laws provide a system for automatic committee and legislative review of agencies and statutes prior to their termination. Since the enactment of the Sunset Laws, the Department's existence and authority; the Act and the statutes relating to the fees and taxes pertaining to the registration, operation, and use of motor vehicles; and motor vehicle fuel taxes have been reviewed three times and all were continued.

While there can be no assurance that the State Legislature will continue the Department after July 1, 2016, the Department is not aware of any matters which would cause the State Legislature to terminate the existence of the Department or the Board or to repeal Title 28 or to amend Title 28 in a manner detrimental to the holders of the 2011 Series Bonds.

The State Sunset Laws provide that if Title 28 is repealed pursuant to the Sunset Laws, so long as there are any outstanding debts or other obligations, such as the 2011 Series Bonds, payable from the Maricopa County Regional Area Road Fund and provision has not been made for payment of those debts or obligations, the provisions of Title 28 relating to the Maricopa County Regional Area Road Fund shall remain in full force and effect until those debts or other obligations have been fully paid and satisfied (or provision is made therefor). In the opinion of Bond Counsel, in the event that the State Legislature fails, prior to the final maturity of the 2011 Series Bonds, to take affirmative action to continue the existence of the Department, the Board or the Act on or prior to their effective termination dates, the State would be obligated to make payments on the 2011 Series Bonds when due from the sources provided in the Bond Resolution.

### **CERTIFICATION CONCERNING OFFICIAL STATEMENT AND FINAL OFFICIAL STATEMENT**

The closing documents will include a certificate confirming that, to the best of the knowledge, information and belief of the Department's Director, the statements contained in the Preliminary Official Statement at the time of acceptance of the bids, and in the final Official Statement (excluding information regarding the initial reoffering prices or yields on the 2011 Series Bonds, the Purchaser's gross compensation and DTC and its book-entry-only system, as to which no view will be expressed) at the time of closing, were true and correct in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein contained, in light of the circumstances under which they were made, not misleading. In the event the Official Statement or the final Official Statement is supplemented or amended, the foregoing certification shall encompass such supplements and amendments thereto.

### **LITIGATION**

There is no litigation or administrative action pending in any court or, to the best knowledge of the Department and the Board, threatened, which would restrain or enjoin the issuance, sale, or delivery of the 2011 Series Bonds or in any way contest or affect the validity of the 2011 Series Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the 2011 Series Bonds or the levy or application of Transportation Excise Tax, or the pledge and application of any funds provided for their payment, or which contests the powers of the State, including the Department and the Board, with respect to the foregoing.

The Office of the Attorney General of the State has reviewed the status of pending lawsuits affecting the State and the Department in connection with their operations, and has reported that there are several proceedings in which the Department is either a plaintiff or defendant and which are generally incidental to the operations of the Department. The ultimate disposition of such pending legal proceedings cannot be predicted or determined at present. With regard to such pending litigation, it is the opinion of the Office of the Attorney General of the State that such pending litigation will not be finally determined so as to result, individually or in the aggregate, in a final judgment against the State or the Department which would materially and adversely affect the Department, its ability to pay Debt Service on the Bonds, including the 2011 Series Bonds, and its continued operations or its financial position.

## LEGAL INVESTMENT

To the extent governed by Arizona law, the Act provides that the 2011 Series Bonds are securities in which all public officers and bodies of the State and all municipalities and political subdivisions of the State; all insurance companies and associations and other persons carrying on an insurance business; all banks, bankers, trust companies, savings banks, and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business; all administrators, guardians, executors, trustees and other fiduciaries; and all other persons authorized to invest in bonds or other obligations of the State, may properly and legally invest money, including capital in their control or belonging to them. The 2011 Series Bonds are also securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and political subdivisions of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

## TAX MATTERS

### General

In the opinion of Squire, Sanders & Dempsey (US) LLP, Bond Counsel, under existing law: (i) interest on the 2011 Series Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on the 2011 Series Bonds is exempt from Arizona state income tax. Bond Counsel expresses no opinion as to any other tax consequences regarding the 2011 Series Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Board and the Department contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the 2011 Series Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the certifications and representations of the Board and the Department, or the continuing compliance with the covenants by the Board and the Department.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the 2011 Series Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Board or the Department may cause loss of such status and result in the interest on the 2011 Series Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the 2011 Series Bonds. The Board and the Department have each covenanted to take the actions required of it for the interest on the 2011 Series Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the 2011 Series Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2011 Series Bonds or the market value of the 2011 Series Bonds.

A portion of the interest on the 2011 Series Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the 2011 Series Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a

federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income; deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security, and Railroad Retirement benefits; those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations; and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the 2011 Series Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the 2011 Series Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a 2011 Series Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the 2011 Series Bonds. There can be no assurance that legislation enacted or proposed or actions by a court after the date of issuance of the 2011 Series Bonds will not have an adverse effect on the tax status of interest on the 2011 Series Bonds or the market value of the 2011 Series Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the 2011 Series Bonds from gross income for federal or state income tax purposes.

For example, on September 12, 2011, President Obama's administration announced a legislative proposal it called the American Jobs Act that could, among other things, result in additional federal income tax for tax years beginning after 2012 on taxpayers that own tax-exempt bonds, including the 2011 Series Bonds, if they have incomes above certain thresholds.

Prospective purchasers of the 2011 Series Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the 2011 Series Bonds at other than their original issuance at the respective prices indicated on the inside front cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the 2011 Series Bonds ends with the issuance of the 2011 Series Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Board or the owners of the 2011 Series Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the 2011 Series Bonds, under current IRS procedures, the IRS will treat the Board as the taxpayer and the beneficial owners of the 2011 Series Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the 2011 Series Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the 2011 Series Bonds.

### **Original Issue Premium**

Certain of the 2011 Series Bonds ("Premium Bonds") as indicated on the inside front cover page of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period, and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption

at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside front cover page of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

**Owners of Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of bond premium properly accruable or amortizable in any period with respect to the Premium Bonds and as to other federal tax consequences and the treatment of bond premium for purposes of state and local taxes on, or based on, income.**

### **INDEPENDENT AUDITORS**

The financial statements of the Maricopa County Regional Area Road Fund as of and for the year ended June 30, 2010 included in APPENDIX B to this Official Statement have been audited by Heinfeld, Meech & Co., P.C., independent auditors, as stated in their report appearing herein. The Department neither requested nor obtained the consent of Heinfeld, Meech & Co., P.C. to include their report and Heinfeld, Meech & Co., P.C. has performed no procedures subsequent to rendering their opinion on the financial statements.

### **CONTINUING DISCLOSURE UNDERTAKING**

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the Board and the Department will execute a written Continuing Disclosure Undertaking, dated as of the date of closing of the 2011 Series Bonds (the "Disclosure Undertaking"), substantially in the form set forth as APPENDIX D, wherein the Board and the Department will agree, for the benefit of the Beneficial Owners of the 2011 Series Bonds, to provide, or cause to be provided, as therein provided, certain annual financial information and operating data that is generally consistent with the information contained under the heading "SOURCES OF TRANSPORTATION EXCISE TAX REVENUES - Historical Transportation Excise Tax Revenues" herein, and notice of the occurrence of certain events or failures to take certain required actions with respect to the 2011 Series Bonds.

The Board and the Department may from time to time choose to provide notice of the occurrence of other events, in addition to those required in the Disclosure Undertaking, but the Board and the Department do not undertake to commit to provide any notice of the occurrence of any event except those events listed in the Disclosure Undertaking, if material.

The obligations of the Board and the Department described in the Disclosure Undertaking will remain in effect until the 2011 Series Bonds are no longer outstanding (within the meaning of the Bond Resolution) or the Rule no longer applies to the 2011 Series Bonds. The Disclosure Undertaking may be amended or waived as provided therein.

A Beneficial Owner of a 2011 Series Bond may seek to enforce the undertakings of the Board and the Department in the Disclosure Undertaking by an action for specific performance in any court of competent jurisdiction in Phoenix, Arizona after providing the Board and the Department with 30 days prior written notice of its failure to perform. Any failure of the Board or the Department to comply with any of its obligations in the Disclosure Undertaking shall not be a default or Event of Default with respect to the 2011 Series Bonds under the Bond Resolution.

The Board and the Department are in material compliance with each and every disclosure undertaking into which they have entered pursuant to the Rule.

## **RATINGS**

The 2011 Series Bonds have been rated “Aa1” and “AA+,” respectively, by Moody’s Investors Service and Standard & Poor’s Rating Service, a division of the McGraw-Hill Companies, Inc.

Such ratings reflect only the respective views of the rating organizations, and any explanation of the meaning or significance of the ratings and any outlook associated with the ratings should be obtained from the respective rating agency. The Board and the Department furnished to the rating agencies certain information and materials, some of which have not have been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies, and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be revised, lowered, or withdrawn entirely by a rating agency if in its judgment circumstances so warrant. Any lowering, suspension or withdrawal of a rating, or other actions of a rating agency relating to its rating on the 2011 Series Bonds, may have an adverse effect on the marketability or market price of the 2011 Series Bonds.

The Board and the Department expect to furnish each rating agency with information and materials that it may request. The Board and the Department, however, assume no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of the debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the 2011 Series Bonds.

## **FINANCIAL CONSULTANT**

RBC Capital Markets, LLC is employed as the Financial Consultant to the Board in connection with the issuance of the 2011 Series Bonds. The fees for Financial Consultant are contingent upon the issuance, sale, and delivery of the 2011 Series Bonds.

The Financial Consultant is not obligated to undertake, and has not undertaken to make, an independent verification and does not guarantee the accuracy, completeness, or fairness of the information in this Official Statement.

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the issuance of the 2011 Series Bonds and with regard to the exclusion of interest from gross income for federal income tax purposes (see “TAX MATTERS”) are subject to the legal opinion of Squire, Sanders & Dempsey (US) LLP, Bond Counsel to the Board and the Department, whose legal services have been retained by the Department. The signed legal opinion, dated and premised on law in effect as of the date of original delivery of the 2011 Series Bonds, will be delivered to the Board at the time of original delivery. The text of that opinion will be printed on the 2011 Series Bonds.

The proposed text of the legal opinion of Bond Counsel is set forth as APPENDIX A. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date.

In its capacity as Bond Counsel, Bond Counsel has participated in the preparation of, and has reviewed those portions of, this Official Statement pertaining to the 2011 Series Bonds, the Bond Resolution and the tax-exempt status of interest on the 2011 Series Bonds contained under the captions “INTRODUCTION,” “THE 2011 SERIES BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 SERIES BONDS,” “MARICOPA COUNTY REGIONAL AREA ROAD FUND,” “SOURCES OF TRANSPORTATION EXCISE TAX REVENUES - Authority for Levy of Transportation Excise Tax” (excluding the percentages), “LEGAL INVESTMENT,” “TAX MATTERS” and “CONTINUING DISCLOSURE UNDERTAKING” (excluding the last paragraph thereunder), “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION” contained in



APPENDIX C, and “FORM OF CONTINUING DISCLOSURE UNDERTAKING” contained in APPENDIX D hereto. Bond Counsel, however, has not been retained to pass upon, and will not express any opinion upon, any other information in this Official Statement or any other information pertaining to the 2011 Series Bonds or the Board or the Department that may be made available to the prospective purchasers of the 2011 Series Bonds or to others.

In addition to rendering the legal opinion, Bond Counsel will assist in the preparation of and advise the Board and the Department concerning documents for the bond transcript.

### **SALE OF THE 2011 SERIES BONDS**

The 2011 Series Bonds were sold at competitive bid on September 27, 2011. The 2011 Series Bonds were awarded to Bank of America Merrill Lynch (the “Purchaser”), who submitted the lowest true interest cost bid, at a purchase price of \$179,867,795.60. Under the terms of its bid, the Purchaser will be obligated to purchase all of the 2011 Series Bonds if any are purchased, and its obligation to make such purchase is subject to receipt of the legal opinion of Bond Counsel and certain other conditions to be satisfied by the Board.

The Purchaser has certified the reoffering prices or yields for the 2011 Series Bonds set forth on the inside front cover page of this Official Statement, and the Board takes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the original issue premium on the reoffering of the 2011 Series Bonds is \$20,734,785.55, and the Purchaser’s gross compensation (or “spread”) is \$326,989.95. The Purchaser may offer and sell 2011 Series Bonds to certain dealers and others at prices lower than the offering prices stated on the inside front cover page. The offering prices may be changed from time to time by the Purchaser.

### **MISCELLANEOUS**

The Department and the Board have furnished the information in this Official Statement relating to the Department, the Board, and the Maricopa County Regional Area Road Fund.

Copies of the Bond Resolution may be obtained from the Department’s Assistant Director for Finance and Accounting, located at 206 South 17th Avenue, Phoenix, Arizona 85007 (telephone: 602-712-7441). All communications concerning this offering should be directed to Mr. John Fink.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly stated to be such, are intended as such and not as representations of fact or certainty and no representation is made that any of those statements have been or will be realized. The agreements of the Board and the Department are fully set forth in the Bond Resolution and neither this Official Statement nor any statements that may have been or that may be made orally or in writing is to be construed as a contract or agreement between the Board or the Department and the purchasers, Holders or Beneficial Owners of any of the 2011 Series Bonds.

This Official Statement is submitted in connection with the original sale and issuance of the 2011 Series Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Board and the Department and duly executed and delivered on their behalf by the officials signing below.

ARIZONA TRANSPORTATION BOARD

/s/ Bill Feldmeier  
Bill Feldmeier, Chairman

ARIZONA DEPARTMENT OF TRANSPORTATION

/s/ John S. Halikowski  
John S. Halikowski, Director

## APPENDIX A

### PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

We have served as bond counsel to our client the Arizona Transportation Board (the “Board”) and not as counsel to any other person in connection with the issuance by the Board of its \$159,460,000 Arizona Transportation Board Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Bond Fund, 2011 Series (the “2011 Series Bonds”), dated the date of this letter.

The 2011 Series Bonds are issued pursuant to Title 28, Chapter 17, Article 1, and Title 28, Chapter 21, Article 2, Arizona Revised Statutes, as amended (the “Act”), and the Master Resolution relating to Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund), adopted by the Board on September 21, 2007, as supplemented by a First Supplemental Resolution, adopted by the Board on September 21, 2007, a Second Supplemental Resolution, adopted by the Board on April 17, 2009, a Third Supplemental Resolution, adopted by the Board on September 16, 2010 and a Fourth Supplemental Resolution, adopted by the Board on August 18, 2011 as amended by the Board on September 16, 2011 (collectively, the “Resolution”). Capitalized terms not otherwise defined in this letter are used as defined in the Resolution.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the 2011 Series Bonds, a copy of the signed and authenticated 2011 Series Bond of the first maturity, the Resolution and such other documents, matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The 2011 Series Bonds and the Resolution are valid and binding obligations of the Board, enforceable in accordance with their respective terms.
2. The 2011 Series Bonds constitute special obligations of the Board, and the principal of and interest and any premium on (collectively, “debt service”) the 2011 Series Bonds, together with debt service on any additional Senior Bonds and certain other obligations issued and outstanding on a parity with the 2011 Series Bonds, as provided in the Resolution, are payable solely from, and secured solely by the pledge of, amounts on deposit in the Pledged Funds held by the State Treasurer, which include the Bond Account, all as defined and provided in the Resolution. The 2011 Series Bonds and the payment of debt service on the 2011 Series Bonds is not secured by an obligation or pledge of any money raised by taxation other than the Pledged Funds as described in the Resolution, and the 2011 Series Bonds do not represent or constitute a general obligation or a pledge of the faith and credit of the Board, the State of Arizona or any of its political subdivisions, including Maricopa County, Arizona.
3. Interest on the 2011 Series Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, portions of the interest on the 2011 Series Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. The interest on the 2011 Series Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the 2011 Series Bonds.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined and (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the Board.

In rendering those opinions with respect to treatment of the interest on the 2011 Series Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Board. Failure to comply with certain of those covenants subsequent to issuance of the 2011 Series Bonds may cause interest on the 2011 Series Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the 2011 Series Bonds and the enforceability of the 2011 Series Bonds and the Resolution are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the 2011 Series Bonds has concluded on this date.

Respectfully submitted,

**APPENDIX B**

**ARIZONA DEPARTMENT OF TRANSPORTATION  
MARICOPA COUNTY REGIONAL AREA ROAD FUND  
AUDITED FINANCIAL STATEMENTS FOR  
YEAR ENDED JUNE 30, 2010**

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*Annual Financial Report*

***Arizona Department of Transportation  
Maricopa County Regional Area Road Fund***

*Fiscal Year Ended June 30, 2010*

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Annual Financial Report  
Fiscal Year Ended June 30, 2010

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## INDEPENDENT AUDITORS' REPORT

Director  
Arizona Department of Transportation

We have audited the financial statements of the governmental activities and each major fund of the Maricopa County Regional Area Road Fund (Fund), a major special revenue fund of the Arizona Department of Transportation (Department), as of and for the year ended June 30, 2010, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Arizona Department of Transportation. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Maricopa County Regional Area Road Fund are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities and the major fund of the Arizona Department of Transportation that is attributable to the Maricopa County Regional Area Road Fund. They do not purport to, and do not, present fairly the financial position of the Arizona Department of Transportation, as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maricopa County Regional Area Road Fund, a major special revenue fund of the Arizona Department of Transportation, as of June 30, 2010, and the respective changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010 on our consideration of the Maricopa County Regional Area Road Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



HEINFELD, MEECH & CO., P.C.  
Certified Public Accountants

October 28, 2010

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Management's Discussion and Analysis  
June 30, 2010

As management of the Arizona Department of Transportation, Maricopa County Regional Area Road Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements and the accompanying notes to the basic financial statements.

### **Financial Highlights**

- The assets of the Fund at the close of the fiscal year were \$455,351,598, compared to \$819,365,303 for fiscal year 2009, a decrease of \$364,013,705 (or 44.4 percent). The decrease in assets is due to the spending down of the bond proceeds from the prior issues of Transportation Excise Tax Revenue Bonds, and no new bonds being issued during the year.
- For fiscal year 2010, the Fund distributed \$551,390,690 of capital assets to the Arizona Department of Transportation, compared to \$425,840,127 for fiscal year 2009, an increase of \$125,550,563 (or 29.5 percent). The increase is attributable to the American Recovery and Reinvestment Act (ARRA) and other construction projects currently underway.
- Maricopa County Transportation Excise Tax collections totaled \$299.0 million, a decrease of 8.9 percent compared to fiscal year 2009 and 5.2 percent below the forecast. However, the Transportation Excise Tax distributed to the Fund was \$199,672,233 compared to \$219,165,314 for fiscal year 2009, a decrease of \$19,493,081 (or 8.9 percent). The decreases of the transportation excise tax revenues and distributions are attributable to the continued weak housing and credit markets, and slower employment and population growth.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the Fund's basic financial statements. The Fund's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

**Government-wide Financial Statements** The government-wide financial statements are designed to present an overall picture of the financial position of the Fund. These statements consist of the statement of net assets and the statement of activities and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets combines and consolidates the Fund's current financial resources with capital assets and long-term obligations. This statement includes all of the Fund's assets and liabilities. Net assets are the difference between the Fund's assets and liabilities, and represent one measure of the Fund's financial health.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Management's Discussion and Analysis (continued)  
June 30, 2010

The statement of activities focuses on both the gross and net cost of various activities; the Fund's general tax and other revenues pay these costs. This statement summarizes the cost of providing specific Fund services, and includes all current year revenues and expenses. The Fund's basic services are reported here. Taxes and federal grants finance most of these activities.

**Fund Financial Statements** The Fund's activities are reported in governmental funds. Reporting for these funds focuses on how financial resources flow into and out of the funds, and the amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Fund's general governmental operations and the basic services it provides. This information should help determine whether there are more or less current financial resources available for the Fund's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Fund maintains three individual governmental sub-funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the Special Revenue Fund, Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds.

**Notes to Financial Statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 14 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Fund's financial health. The following tables and analysis discuss the financial position and changes to financial position for the Fund as a whole as of and for the fiscal year ended June 30, 2010.

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Management's Discussion and Analysis (continued)  
 June 30, 2010

The following table reflects the net assets as of June 30:

	Governmental Activities	
	2010	2009
Assets:		
Receivables:		
Accrued interest	\$ -	\$ 1,451,457
Other	2,365,747	4,045,007
Due from US Government	12,623,485	6,052,219
Deferred charges-issuance costs	3,943,715	4,085,383
Restricted cash on deposit with the State Treasurer	436,418,651	803,731,237
Total assets	455,351,598	819,365,303
Liabilities:		
Accrued payroll and other accrued expenditures	116,870	598,120
Contracts and retainage payable	34,072,334	37,445,258
Non-current liabilities:		
Due within one year	38,787,070	38,057,474
Due in more than one year	808,695,268	821,407,303
Total liabilities	881,671,542	897,508,155
Net assets:		
Unrestricted	<426,319,944>	<78,142,852>
Total net assets	\$ <426,319,944>	\$ <78,142,852>

The purpose of the Fund is to provide a funding source for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system in Maricopa County. To be able to construct these roads, the Fund collects excise taxes and issues bonds. The total assets of the Fund were \$455.4 million, while the liabilities were \$881.7 million, resulting in net assets of <\$426.3> million. The decrease in assets from fiscal year 2009 was due to the payment of the liabilities on the Transportation Excise Tax Revenue Bonds and the payment for construction projects. The Fund distributes all capital assets to the Department of Transportation when the Fund comes into possession of capital assets. As a result, the net assets of the Fund will typically be a deficit whenever there are bonds outstanding.

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Management's Discussion and Analysis (continued)  
 June 30, 2010

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Fund's net assets have changed during the year:

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 78,444,263	\$ 62,858,626
General revenues:		
Transportation excise taxes	199,672,233	219,165,314
Income from investments	4,731,367	8,949,157
Other	599,845	15,715,317
Total revenues	283,447,708	306,688,414
Expenses:		
Administration	625,976	341,062
Highway	185,018	2,281,629
Distributions to other state agencies	595,549,451	476,827,882
Interest on long-term debt	35,264,355	15,196,798
Total expenses	631,624,800	494,647,371
Changes in net assets	<348,177,092>	<187,958,957>
Net assets - July 1	<78,142,852>	109,816,105
Net assets - June 30	\$ <426,319,944>	\$ <78,142,852>

The total revenues of the Fund were \$283.4 million, while the expenses were \$631.6 million, resulting in the change in net assets of <\$348.2> million. The decrease in revenues was the result of the decline in the sales tax at the local level due to the protracted economic recession and the overall reduction in return on investments.

The increase in expenses of \$137.0 million (or 27.7 percent) was due directly to the increase in payments for construction projects and interest on long-term debt.

**Non-Current Liabilities (See Note 4 to the financial statements for additional information):**

The Fund's non-current liabilities as of June 30, 2010, amount to \$847.5 million, a decrease of \$12.0 million from the previous fiscal year. Compensated absences resulted from the assignment of the liability to the Fund. Previously, no employees were specifically assigned to the Fund. The increase in advances and notes payable in governmental activities was due to an increase in

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Management's Discussion and Analysis (continued)  
 June 30, 2010

advances from several cities within the State to accelerate projects in the Five-Year Transportation Facilities Construction Program.

	2010	2009
<b>Governmental Activities:</b>		
Bonds:		
Transportation Excise Tax		
Revenue Bonds	\$ 743,815,000	\$ 777,130,000
Premium on bonds	56,736,565	60,519,003
Total bonds	800,551,565	837,649,003
Compensated absences	202,634	-
Advances and notes payable	46,728,139	21,815,774
Total	\$ 847,482,338	\$ 859,464,777

All bonds outstanding as of June 30, 2010, are scheduled to mature on various dates, but not later than July 1, 2025. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and are not obligations of the State of Arizona.

The Department's Transportation Excise Tax Revenue Bonds are rated AA+/Aa2 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17<sup>th</sup> Avenue, Phoenix, Arizona, 85007, or by visiting our web site at [www.azdot.gov/Inside\\_ADOT/FMS/PDF/rarfin10.pdf](http://www.azdot.gov/Inside_ADOT/FMS/PDF/rarfin10.pdf).

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Statement of Net Assets  
 June 30, 2010

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**Assets**

Receivables:

Other	\$ 2,365,747
Due from U.S. Government for reimbursable construction costs	12,623,485
Deferred charges - issuance costs	3,943,715
Restricted cash on deposit with the State Treasurer	<u>436,418,651</u>
Total assets	<u>455,351,598</u>

**Liabilities**

Accrued payroll and other accrued expenses	116,870
Contracts and retainage payable	34,072,334
Non-current liabilities (Note 4):	
Due within one year	38,787,070
Due in more than one year	<u>808,695,268</u>
Total liabilities	<u>881,671,542</u>

**Net assets**

Unrestricted	<u>&lt;426,319,944&gt;</u>
Total Net Assets	<u><u>\$ &lt;426,319,944&gt;</u></u>

*The notes to the financial statements are an integral part of this statement.*



Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Statement of Activities  
 For the fiscal year ended June 30, 2010

Functions/Programs	Program Revenues				Net <Expenses> Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Administration	\$ 625,976	\$ -	\$ -	\$ -	\$ <625,976>
Highway	185,018	-	-	78,444,263	78,259,245
Distributions to other state agencies	595,549,451	-	-	-	<595,549,451>
Interest on long-term debt	35,264,355	-	-	-	<35,264,355>
Total governmental activities	\$ 631,624,800	\$ -	\$ -	\$ 78,444,263	<553,180,537>
General revenues:					
Transportation excise taxes (Note 6)					199,672,233
Income from investments					4,731,367
Other					599,845
Total general revenues					205,003,445
Change in net assets					<348,177,092>
Net assets - July 1					<78,142,852>
Net assets - June 30					\$ <426,319,944>

*The notes to the financial statements are an integral part of this statement.*

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Balance Sheet - Governmental Funds  
 June 30, 2010

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Assets</b>				
Receivables:				
Other	\$ 2,365,747	\$ -	\$ -	\$ 2,365,747
Amounts due from U.S. Government	12,623,485	-	-	12,623,485
Restricted cash on deposit with the State Treasurer	<u>332,858,823</u>	<u>232,633</u>	<u>103,327,195</u>	<u>436,418,651</u>
Total assets	<u><u>347,848,055</u></u>	<u><u>232,633</u></u>	<u><u>103,327,195</u></u>	<u><u>451,407,883</u></u>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accrued payroll and other accrued expenditures	116,870	-	-	116,870
Contracts and retainage payable	<u>34,072,334</u>	-	-	<u>34,072,334</u>
Total liabilities	<u>34,189,204</u>	-	-	<u>34,189,204</u>
Fund balances:				
Reserved for:				
Debt service	-	232,633	-	232,633
Capital projects	<u>313,658,851</u>	-	<u>103,327,195</u>	<u>416,986,046</u>
Total fund balances	<u>313,658,851</u>	<u>232,633</u>	<u>103,327,195</u>	<u>417,218,679</u>
Total liabilities and fund balances	<u><u>\$ 347,848,055</u></u>	<u><u>\$ 232,633</u></u>	<u><u>\$ 103,327,195</u></u>	<u><u>\$ 451,407,883</u></u>

*The notes to the financial statements are an integral part of this statement.*

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Assets  
 June 30, 2010

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**Total fund balances - governmental funds (Exhibit 3)** \$ 417,218,679

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 3 A1).

<843,538,623>

**Net assets of governmental activities (Exhibit 1)**

\$ <426,319,944>

*The notes to the financial statements are an integral part of this statement.*

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the fiscal year ended June 30, 2010

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Revenues:</b>				
Transportation excise taxes (Note 6)	\$ 199,672,233	\$ -	\$ -	\$ 199,672,233
Federal grants and reimbursements (Note 8)	71,664,278	-	-	71,664,278
Reimbursements from Arizona counties and cities	6,779,985	-	-	6,779,985
Income from investments	2,328,315	198,798	2,204,254	4,731,367
Rental income	542,852	-	-	542,852
Total revenues	<u>280,987,663</u>	<u>198,798</u>	<u>2,204,254</u>	<u>283,390,715</u>
<b>Expenditures:</b>				
Current:				
Administration	184,560	16,169	222,613	423,342
Highway	185,018	-	-	185,018
Distributions to other state agencies (Note 5)	208,649,097	-	387,287,900	595,936,997
Debt Service:				
Principal	-	33,315,000	-	33,315,000
Interest	559,070	38,224,801	-	38,783,871
Bond issuance costs	-	-	121,254	121,254
Total expenditures	<u>209,577,745</u>	<u>71,555,970</u>	<u>387,631,767</u>	<u>668,765,482</u>
Excess <deficiency> of revenue: over <under> expenditures	71,409,918	<71,357,172>	<385,427,513>	<385,374,767>
<b>Other financing sources &lt;uses&gt;:</b>				
Transfers in	-	71,210,234	-	71,210,234
Transfers out for debt service	<71,210,234>	-	-	<71,210,234>
Debt issuance	24,912,365	-	-	24,912,365
Sale of capital assets	444,539	-	-	444,539
Total other financing <uses> sources:	<u>&lt;45,853,330&gt;</u>	<u>71,210,234</u>	<u>-</u>	<u>25,356,904</u>
Net change in fund balances	25,556,588	<146,938>	<385,427,513>	<360,017,863>
Fund balances - July 1	<u>288,102,263</u>	<u>379,571</u>	<u>488,754,708</u>	<u>777,236,542</u>
<b>Fund balances - June 30</b>	<u>\$ 313,658,851</u>	<u>\$ 232,633</u>	<u>\$ 103,327,195</u>	<u>\$ 417,218,679</u>

*The notes to the financial statements are an integral part of this statement.*

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Reconciliation of the Statement of Revenues,  
 Expenditures and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the fiscal year ended June 30, 2010

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**Net change in fund balances - total governmental funds (Exhibit 4)** \$ <360,017,863>

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2)  
 are different because:

Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 3 B1).	<24,912,365>
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (Note 3 B1).	36,955,770
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (Note 3 B2).	<202,634>

**Change in net assets of governmental activities (Exhibit 2)** \$ <348,177,092>

*The notes to the financial statements are an integral part of this statement.*

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Notes to Financial Statements  
June 30, 2010

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Maricopa County Regional Area Road Fund (Fund) is a part of the Arizona Department of Transportation (Department) and is not a legally separate entity. The Fund was established under Title 28, Chapter 17, Article 1 of the Arizona Revised Statutes. The Fund has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of state highway routes and approving all highway construction contracts.

The Fund is responsible for funding the construction and distribution of assets to the Department by issuing revenue bonds and by the collection of an excise tax. The Fund cooperates with various governmental entities within Maricopa County in the construction and maintenance of roads.

The financial statements present only the funds comprising the Fund and are not intended to present fairly the financial position or results of operations of the Department. The accounting policies of the Department conform to generally accepted accounting principles in the United States of America (GAAP) as applicable to governmental units.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by federal reimbursement, taxes, and intergovernmental revenues.

The **Statement of Net Assets** presents the reporting entity's assets and liabilities, with the difference reported as net assets.

*Restricted net assets* result when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Notes to Financial Statements (continued)  
June 30, 2010

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**Fund Financial Statements**

Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Transportation excise taxes are recognized as revenues in the year they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the fiscal year (e.g. federal revenue reimbursements and transportation excise taxes.) Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable.

**Financial Statement Presentation**

The Fund reports the following major governmental funds:

*The Special Revenue Fund* receives a portion of the Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are expended for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system, which are included in the Maricopa County Regional Transportation Plan, after the monthly debt service requirements are fully satisfied.

*The Debt Service Fund* administers the payment of principal and interest on all bonds outstanding under the bond resolutions.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Notes to Financial Statements (continued)  
June 30, 2010

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*The Capital Projects Fund* administers the use of the net proceeds of any bonds issued pursuant to the bond resolutions. The bond proceeds are applied to the payment of certain bond related expenditures and construction expenditures.

Amounts reported as *program revenues* include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally-dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, the Fund generally expends the restricted resources first, and then unrestricted resources, as they are needed to maintain appropriate cash balances and finance the construction program.

The expenditures of the Fund are not governed by appropriations of the state legislature, and therefore, are not subject to the limitations of a legally adopted budget.

The Transportation Board annually approves the Five-Year Transportation Facilities Construction Program for the Special Revenue and Capital Projects Funds. This program lists all planned construction projects for the next five years and the related program budget. Debt service payments are made in accordance with the requirements under the relevant bond resolutions.

**D. Assets, Liabilities, and Net Assets**

***Deposits and Investments***

The Fund's cash includes bank accounts and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements, obligations of the U.S. Government, and other permitted investments. All investments are carried at fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, classification because they are included in the state's investment pool.

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV



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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2010, the state's investment pools were not rated.

State statutes require the State Treasurer to maintain separate investment accounts for the portion of the Maricopa Regional Area Road Fund Bond Proceeds relating to the Transportation Excise Tax Revenue Bond issues. These funds may be invested by the Treasurer in the state's investment pool.

The Fund's investments are included in the state investment pool and these investments are not shown in the Fund's name. From the perspective of the Fund, the pool functions as both a cash management pool and a demand deposit account. Therefore, the Fund presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and carries the investments at amortized cost, which approximates fair value.

The Fund has restricted cash for payment of capital projects and for future debt service payments.

***Receivables and Payables***

Outstanding balances between the Fund, the Department and Arizona counties, cities, and other state agencies are reported as other receivables. All balances between the Fund and the US Government are reported as due to/from due.

Notes receivable represents loans made to parties who purchased assets previously owned by the Fund for highway construction purposes.

***Restricted Assets***

Proceeds of the Fund's governmental revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or state statutes. The debt service fund is used to report the resources set aside for payment of future debt service payments. The revenue bonds proceeds are deposited in the capital projects fund for the cost of design, right-of-way purchase, or construction of certain freeways and routes within Maricopa County.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Notes to Financial Statements (continued)  
June 30, 2010

**NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Capital Assets*

When the Fund comes into possession of capital assets, the assets are distributed to the Arizona Department of Transportation.

*Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations also include amounts that other governmental entities advance the Fund for highway road construction projects.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Advances from other governmental entities are recorded as debt issuance in other financing sources.

*Compensated Absences*

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits. There is no liability for unpaid accumulated sick leave. All vacation pay is accrued when incurred in the proprietary fund financial statements. A liability for these amounts is reported as non-current liabilities.

Effective July 1, 1998, state employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from state service. The benefit value is calculated by taking the state hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is \$30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Notes to Financial Statements (continued)  
June 30, 2010

**NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for uncovered employees) which is paid when vacation is taken or upon termination of employment at the individual's then-current rate of pay.

*Net Assets/Fund Balance*

The difference between assets and liabilities is “Net Assets” on the government-wide statements and “Fund Balance” on the governmental fund statements.

*Reservations*

In the fund financial statements, governmental funds report the reservation of fund balance for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose. The reservation includes restriction for the purchase of right-of-way or construction of controlled access highways.

**E. Revenues and Expenditures/Expenses**

**Other Financing Sources <Uses>**

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond issuance, sale of capital assets, and transfers from other funds. Other financing uses are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

**NOTE 2–STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The expenses of the Fund are not governed by appropriations of the state legislature and therefore are not subject to the limitations of a legally adopted budget.

**NOTE 3–RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Assets**

The governmental funds Balance Sheet includes reconciliation between total fund balances – governmental funds and net assets of governmental activities as reported on the government-wide Statement of Net Assets. The following explanations are necessary to clarify these

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Notes to Financial Statements (continued)  
June 30, 2010

**NOTE 3–RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

differences between the governmental fund Balance Sheet and the government-wide Statement of Net Assets:

1. Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the current period on the fund statements. The detail for the difference is as follows:

Debt obligation	\$ <743,815,000>
Premium on debt	<56,736,565>
Compensated absences	<202,634>
Intergovernmental advance	<46,728,139>
Deferred charges-issuance costs	<u>3,943,715</u>
	<u>\$ &lt;843,538,623&gt;</u>

**B. Explanations of Reconciling Items of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net assets of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to clarify these differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

1. The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, the government reports the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The details of this difference are as follows:

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Notes to Financial Statements (continued)  
 June 30, 2010

**NOTE 3—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

Debt issued or incurred:

Intergovernmental advances	\$ <24,912,365>
	<u>\$ &lt;24,912,365&gt;</u>

Principal repayment

Transportation Excise Tax Revenue Bonds	\$ 33,315,000
Amortization of premium and discount	3,903,692
Amortization of bond issuance costs	<u>&lt;262,922&gt;</u>
	<u>\$ 36,955,770</u>

2. Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. The details are as follows:

Compensated absences	\$ <u>202,634</u>
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**NOTE 4—NON-CURRENT LIABILITIES**

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) issued by the Transportation Board. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$777,130,000.

On September 21, 2007, the Transportation Board adopted a Master Resolution relating to Transportation Excise Tax Revenue Bonds. On April 17, 2009, the Transportation Board adopted the Second Supplemental Resolution authorizing the issuance of the second series of bonds under the Master Resolution in an amount not to exceed \$440,000,000. No debt service reserve is required for the outstanding bonds.

All Transportation Excise Tax Revenue Bonds mature no later than July 1, 2025. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.0% - 5.25%	\$ 743,815,000

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Notes to Financial Statements (continued)  
 June 30, 2010

**NOTE 4–NON-CURRENT LIABILITIES (continued)**

Annual debt service requirements to maturity for the Transportation Excise Tax Revenue Bonds are as follows:

Fiscal year ending June 30	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2011	\$ 35,000,000	\$ 36,537,938	\$ 71,537,938
2012	36,485,000	35,050,988	71,535,988
2013	38,210,000	33,330,938	71,540,938
2014	40,080,000	31,457,238	71,537,238
2015	41,960,000	29,576,238	71,536,238
2016-2020	242,400,000	115,294,110	357,694,110
2021-2025	309,680,000	48,007,450	357,687,450
	<b>\$ 743,815,000</b>	<b>\$ 329,254,900</b>	<b>\$ 1,073,069,900</b>

Bonds aggregating \$404,805,000 are subject to redemption prior to their maturity dates at the option of the Transportation Board in whole or in part, at any time, on or after July 1, 2017. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Bonds aggregating \$339,010,000 are not subject to redemption.

The Department has pledged future transportation excise taxes to repay \$743,815,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$1.1 billion. Principal and interest paid for the current year and total pledged revenues were \$71.5 million and \$199.7 million, respectively. The annual principal and interest payments on the bonds required 35.8 percent of the pledged revenues.

Intergovernmental advances

Intergovernmental advances represent construction loans (advances) from Arizona counties and cities to advance the construction of certain projects. These advances are recorded as the Fund draws monies from an escrow account, usually held by the State Treasurer, and are evidenced by a Joint Project Agreement (JPA). The advances are payable according to the terms of the JPA and occur as funds become available in the Five-Year Transportation Facilities Construction Program.

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Notes to Financial Statements (continued)  
 June 30, 2010

**NOTE 4–NON-CURRENT LIABILITIES (continued)**

Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Retirements /Refundings	Balance June 30, 2010	Due Within One Year
Transportation Excise Tax Revenue Bonds:					
2007 Series	\$ 337,130,000	\$ -	\$ 14,445,000	\$ 322,685,000	\$ 15,095,000
2009 Series	440,000,000	-	18,870,000	421,130,000	19,905,000
Premium on bonds	60,519,003	121,254	3,903,692	56,736,565	3,782,438
Intergovernmental advances	21,815,774	24,912,365	-	46,728,139	-
Compensated absences	-	202,634	-	202,634	4,632
	<u>\$ 859,464,777</u>	<u>\$ 25,236,253</u>	<u>\$ 37,218,692</u>	<u>\$ 847,482,338</u>	<u>\$ 38,787,070</u>

Bonds issued by the Fund require compliance with a number of covenants. The Fund believes that it is in compliance with all such covenants. In addition, certain of the Fund’s obligations are subject to Internal Revenue Service regulations pertaining to issuance of tax-exempt debt by governmental entities. The Fund does not have and has not accrued a liability under these regulations.

Bonds payable at June 30, 2010, related to the Maricopa County Regional Area Road Fund Arizona Transportation Board Transportation Excise Tax Revenue Bonds are comprised of the following individual issues:

2007 Series, issued by the Transportation Board on November 1, 2007, due in varying annual installments plus semiannual interest at rates ranging from 4.0 percent to 5.0 percent, through July 1, 2025.	\$ 322,685,000
2009 Series, issued by the Transportation Board on June 23, 2009, due in varying annual installments plus semiannual interest at rates ranging from 2.0 percent to 5.25 percent, through July 1, 2025.	421,130,000
	<u>\$ 743,815,000</u>

**NOTE 5–DISTRIBUTIONS**

The distributions to the Department primarily represent the distributions when the Fund comes into possession of capital assets.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Notes to Financial Statements (continued)  
June 30, 2010

**NOTE 5–DISTRIBUTIONS (continued)**

Distributions to the Department and other state agencies for the year ended June 30, 2010, were as follows:

	<u>2010</u>
Distribution to Arizona Department of Transportation	\$ 551,778,236
Distributions to Arizona counties and cities	35,416,377
Distribution to Regional Public Transit Authority	<u>8,742,384</u>
Total	<u>\$ 595,936,997</u>

**NOTE 6–TRANSPORTATION EXCISE TAX**

The Maricopa County Transportation Excise Tax, often referred to as the “1/2 cent sales tax,” is a tax which may equal up to ten percent of the State transaction privilege tax rates. This transportation excise tax is levied upon business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. Under Proposition 300 (passed by the voters in 1985 becoming effective on January 1, 1986), the transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF) which is administered by the Arizona Department of Transportation. The revenues deposited into the RARF account are the principal sources of funding for the Regional Freeway System in Maricopa County and are dedicated by statute to the purchase of right-of-way, design, and construction of controlled access highways. In addition, these revenues were an important source of funding for the Regional Public Transportation Authority and were dedicated through December 31, 2005.

In November 2004, Maricopa County’s voters approved Proposition 400, Maricopa County Transportation Excise Tax, which became effective January 1, 2006, and extends the “1/2 cent sales tax” for another 20 years through December 31, 2025. The sales tax extension will be used for construction of new freeways and other routes, improvements to existing freeways and other routes, improvements to the arterial street system, regional bus service, and high capacity transit services such as light rail. The collections of the Maricopa County Transportation Excise Tax will be distributed as follows: freeways and other routes 56.2%, public transportation 33.3%, and arterial streets 10.5%. Only the portion of the tax revenues that relate to freeways and other routes, and arterial streets is deposited into the Fund; the remaining portion is sent directly to the Regional Public Transportation Authority.



Arizona Department of Transportation  
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 Notes to Financial Statements (continued)  
 June 30, 2010

**NOTE 7–COMMITMENTS**

The Fund had outstanding commitments, primarily for construction contracts, of \$285,896,153 at June 30, 2010.

	Expenditures To Date	Remaining Commitment
Construction Contracts:		
Rural Roadways	\$ 27,002,773	\$ 23,182,107
Small Urban Roadways	133,034,138	47,280,667
Urban Roadways	18,775,910	15,918,892
Large Urban Roadways	310,125,083	149,887,302
Sub-total	488,937,904	236,268,968
Design Contracts	88,926,908	4,201,730
Other Commitments	57,122,613	45,425,455
Total	\$ 634,987,425	\$ 285,896,153

No construction in progress is recorded in the Fund. All capital assets are transferred to the Arizona Department of Transportation’s General Fund (State Highway Fund).

**NOTE 8–CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Fund expects such amounts, if any, to be immaterial.

**NOTE 9–INTERFUND TRANSFERS**

The Special Revenue Fund made transfers of \$71,210,234 to the Debt Service Fund to pay bond debt service.

**NOTE 10–SUBSEQUENT EVENTS**

On September 16, 2010, the Transportation Board adopted the Third Supplemental Resolution authorizing the issuance of the third series of bonds under the Master Resolution in an amount not to exceed \$180,000,000.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Notes to Financial Statements (continued)  
June 30, 2010

**NOTE 10—SUBSEQUENT EVENTS (continued)**

On October 14, 2010, the Transportation Board issued \$180,000,000 in Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) 2010 Series to pay (i) the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona and (ii) the costs of issuing the 2010 Series Bonds. The 2010 Series Bonds were issued as senior lien bonds and mature from July 1, 2011 through July 1, 2025. Net proceeds totaled \$206,424,108 (after receipt of \$26,424,108 reoffering premium and payment of \$1,136,496 in underwriting fees and costs of issuance). The bonds were rated AA+ and Aa1 by Standard & Poor's Ratings services and Moody's Investors Service, respectively.

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

**The following is a summary of certain provisions of the Bond Resolution. This summary does not purport to be a full statement of the terms of the Bond Resolution and, accordingly, is qualified by reference thereto and is subject to the full text thereof.**

**Capitalized terms not defined in this summary or in the Official Statement shall have the respective meanings set forth in the Bond Resolution.**

#### Definitions

*“Accreted Value”* shall mean with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond (determined on the basis of the principal amount per \$5,000 at maturity thereof) plus the amount assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation Bond and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce \$5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Bond shall mean the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds and as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

*“Act”* shall mean the Regional Area Road Fund Bond Law, Sections 28-7561 through 28-7573 and Sections 28-6301 through 6313, Arizona Revised Statutes, as amended.

*“Adjusted Debt Service”* for any period shall mean, as of any date of calculation by the Authorized Board Representative and with respect to any Series of Bonds Outstanding an amount equal to the sum of (a) the interest accruing during such period on such Series of Bonds, and (b) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series or, if there should be no preceding Principal Installment due date, from a date one year (or such lesser period as shall be appropriate if Principal Installments shall become due more frequently than annually) preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever is later; but taking into account the following adjustments:

(i) With respect to Interim Bonds, the Adjusted Debt Service thereon shall be determined as if each Series of Interim Bonds were payable (A) with level annual Bond Service Charges commencing the date on which such Series is anticipated by the Board to be refinanced or refunded (but not more than 5 years from original issuance of such Interim Bonds) with final maturity not later than one month prior to the expiration of the Transportation Excise Tax, and (B) with interest at The Bond Buyer’s 11 Bond Index (or any successor or, if discontinued, a similar index selected by the Authorized Board Representative) published on any date during the 90 day period prior to the date of calculation.

(ii) With respect to Variable Interest Rate Bonds, the interest rate thereon shall be calculated on the assumption that such Bonds will bear interest during such period at The Bond Buyer’s 11 Bond Index published on any date during the 90 day period prior to the date of calculation; provided that, if on such date of calculation the interest rate on such Variable Interest Rate Bonds shall then be fixed for a specified period, the interest rate used for such specified period shall be such actual interest rate.

(iii) With respect to Option Bonds, the Bond Service Charges thereon shall not include amounts payable upon mandatory or option tender, and shall not be based upon the terms of any reimbursement obligation to the provider of any Bond Related Obligations, except to the extent and for periods during which payments are required to be made pursuant to such reimbursement obligation due to such provider advancing funds.

(iv) With respect to Bonds that have Credit Enhancement, the Adjusted Debt Service thereon shall not include any periodic payments to the provider of the Credit Enhancement, and shall not be based upon the terms of any reimbursement obligation to the provider of the Credit Enhancement, except to the extent and for periods during which payments are required to be made pursuant to such reimbursement obligation due to such provider advancing funds.

(v) With respect to Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Income Bonds, the principal and interest portions thereof becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments in such manner and during such period of time as is specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds or Deferred Income Bonds.

(vi) With respect to Crossover Refunding Bonds, the Bond Service Charges thereon until the Crossover Refunding Bonds Break Date shall be disregarded.

(vii) The Adjusted Debt Service on any Bonds for any period shall not include any interest which is payable from Capitalized Interest (defined below) which is deposited into the applicable Subaccount in the Bond Account at or prior to the time of such computation for the period in question, and which is available and is to be applied under the applicable Supplemental Resolution to make interest payments on such Bonds when due. "*Capitalized Interest*" means that portion of the proceeds of any Series of Bonds that is restricted to be used to pay interest due or to become due on such Bonds, including funds held in connection with Crossover Refunding Bonds.

(viii) If the Authorized Board Representative certifies to the Paying Agent that the Board has entered into a Financial Products Agreement relating to any specified portion of Senior Bonds, Subordinated Bonds or Third Lien Debt (the "*Swapped Debt*"), then the interest on such Swapped Debt for any period of time while such Financial Products Agreement is in effect shall, at the option of the Authorized Board Representative, be deemed to bear interest at a net interest rate which takes into account: (A) the interest rate or rates stated in such Swapped Debt, plus (B) the Regular Swap Payments made by the Board pursuant to such Financial Products Agreement, minus (C) the scheduled receipts received by the Board pursuant to such Financial Products Agreement; provided that in no event shall any calculation made pursuant to this subsection (viii) result in a number less than zero being included in net interest expense of Swapped Debt; and provided further, if the actual interest rate on such Swapped Debt or the actual amount of Regular Swap Payments to be made by the Board under, or of scheduled receipts to be received pursuant to, such Financial Products Agreement cannot be determined for any portion of the period of time for which the net interest expense on such Swapped Debt is being calculated, then the amount of net interest expense during such period on such Swapped Debt shall be determined by the Authorized Board Representative by applying the (I) average interest rate per annum which was in effect on such Swapped Debt, or (II) the average of the Regular Swap Payments which were made, or the average scheduled receipts which were received, as the case may be, pursuant to the Financial Products Agreement, in each case for any twelve (12) consecutive calendar months specified in a certificate of the Authorized Board Representative during the eighteen (18) calendar months immediately preceding the date of calculation (or, if such Swapped Debt or Financial Products Agreement, as applicable, was not Outstanding during all of such 18 month period, which would have been in effect during such 18 month period, as determined by the Authorized Board Representative in his reasonable judgment); and provided, further, if the Authorized Board Representative certifies that any portion of Swapped Debt is subject to a Financial Products Agreement that effectively converts the interest rate on such Swapped Debt from a variable rate of interest to a fixed rate of interest, then the rate of interest on such Swapped Debt shall be deemed to be the fixed rate of interest specified in such Financial Products Agreement.

*“Appreciated Value”* shall mean with respect to any Deferred Income Bond to the Interest Commencement Date, an amount equal to the principal amount of such Deferred Income Bond (determined on the basis of the principal amount per \$5,000 at the Interest Commencement Date thereof) plus the amount, assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Deferred Income Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce \$5,000 at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Deferred Income Bond shall mean the amount set forth for such date in the Supplemental Resolution authorizing such Deferred Income Bonds and as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (i) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (ii) the difference between the Appreciated Values for such Valuation Dates.

*“Authorized Board Representative”* shall mean the Chairman of the Board, the Director of the Department, the Chief Financial Officer, or any other person or persons at the time designated to act on behalf of the Board by written certificate furnished to the Bond Registrar and the Paying Agent containing the specimen signatures of such person or persons and signed on behalf of the Board by its duly authorized agent.

*“Bond”* or *“Bonds”* shall mean any Senior Bonds, Subordinated Bonds or Third Lien Debt issued or incurred under and Outstanding pursuant to the Bond Resolution.

*“Bond Related Expenses”* shall mean all printing, publication or advertising expenses with respect to the sale and issuance of any Bonds; all fees, expenses and costs of registrars and paying agents retained by the Board; all fees, expenses and costs of attorneys, accountants, feasibility consultants, computer programmers or other experts employed to aid in the sale and issuance of the Bonds, all other costs, fees and expenses incurred or reasonably related to the issuance, sale and administration of the Bonds; and any other lawful fees, charges and expenses or otherwise that may, pursuant to the Act, be paid with respect to the Bonds.

*“Bond Related Obligations”* shall mean any Credit Enhancement, Liquidity Facility and any other agreement or contractual relationships between the Board and any bank, trust company, insurance company, surety bonding company, pension fund or other financial institution providing increased credit on, or security for, any Bonds or liquidity for secondary market transactions.

*“Bond Service Charges”* shall mean, for any applicable time period or date, the Principal Installment, premium, if any, and interest thereon, accruing for that period or due and payable on that date. In determining Bond Service Charges accruing for any period or due and payable on any date, mandatory Sinking Fund Installments accruing for that period or due on that date shall be included.

*“Bond Year”* shall mean the 12 month period commencing at 12:00 a.m. on July 2 of each year and ending at 12:00 a.m. the succeeding July 2, or, in the discretion of the Board, any other 12 month period.

*“Business Day”* shall mean any day other than a Saturday, Sunday, legal holiday in the State or a day on which either the Department, Bond Registrar, the Paying Agent, the State Treasurer, or any provider of applicable Credit Enhancement or of applicable Liquidity Facility, is legally authorized to close.

*“Capital Appreciation Bonds”* shall mean any Bonds as to which interest is payable only at the maturity or prior redemption of such Bonds. For the purposes of (a) receiving payment of the Redemption Price, if any, of a Capital Appreciation Bond that is redeemed prior to maturity, (b) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default as provided in the Bond Resolution, or (c) computing the principal amount of Bonds held by the Holder of a Capital Appreciation Bond in giving any notice, consent, request, or demand pursuant to the Bond Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

“*Construction Account Costs*” shall mean, to the extent not paid from amounts on deposit in the Bond Proceeds Account, any costs, fees, charges and expenses or otherwise that may be paid from the Construction Account pursuant to Section 28-6305, Arizona Revised Statutes.

“*County*” shall mean Maricopa County, Arizona.

“*Credit Enhancement*” shall mean any agreement with a bank, trust company, insurance company, surety bonding company, pension fund or other financial institution that provides increased credit on or security for any Series (or portion thereof) of Bonds.

“*Crossover Refunding Bonds*” shall mean a Series of Bonds the proceeds of which (a) are deposited in a segregated subaccount in the Bond Proceeds Account established for such purpose, (b) cannot be applied to the purpose for which such Crossover Refunding Bonds are to be issued until the Crossover Refunding Bonds Break Date, (c) must be certified by an Authorized Board Representative to be sufficient, together with the investment income thereon after the payment of Bond Related Expenses, to pay the principal and interest coming due on such Crossover Refunding Bonds on and prior to such Crossover Refunding Bonds Break Date and (d) other than paying or providing for the payment of Bond Related Expenses, cannot be used for any purpose other than the payment of principal and interest on such Crossover Refunding Bonds on and prior to the Crossover Refunding Bonds Break Date.

“*Crossover Refunding Bonds Break Date*” shall mean the date specified in the Supplemental Resolution authorizing a Series of Crossover Refunding Bonds as the date upon which the proceeds of such Crossover Refunding Bonds can be applied to the purpose for which such Crossover Refunding Bonds are to be issued upon the satisfaction of certain conditions, which conditions shall be set forth in such Supplemental Resolution.

“*Defeasance Securities*” shall mean:

(a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed as to full and timely payment of principal and interest by, the United States of America, and the obligations issued by the Resolution Trust Corporation;

(b) direct and general obligations of any state of the United States of America or any political subdivision thereof to the payment of the principal of and interest on which the full faith and credit of such state or political subdivision are pledged, or any bonds or other obligations which are unconditionally guaranteed as to full and timely payment of principal and interest by such state or political subdivision, provided that at the time of their purchase such obligations are rated in the highest Rating Category by the Rating Agencies;

(c) obligations issued by the following agencies which are backed by the full faith and credit of the United States of America: U.S. Export-Import Bank (Eximbank) Direct obligations or fully guaranteed certificates of beneficial ownership; Farmers Home Administration (FmHA) Certificates of beneficial ownership; Federal Financing Bank; General Services Administration Participation certificates; U.S. Maritime Administration Guaranteed Title XI financing; U.S. Department of Housing and Urban Development (HUD), Project Notes, Local Authority Bonds, New Communities Debentures – U.S. government guaranteed debentures; and U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds;

(d) certificates or other instruments that evidence ownership or the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that (i) such obligations shall be held in trust by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, and (ii) that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to credit enhancement provided by, one or more financial institutions or insurance companies or associations which shall be rated at the time of purchase thereof in the

highest Rating Category by the Rating Agencies, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated at the time of purchase in the highest Rating Category by the Rating Agencies;

(e) certificates or other instruments that evidence ownership or the right to payments of principal or interest on obligations of the character described in clauses (a), (b), (c) or (d) or specified portions thereof, provided that (i) such obligations shall be held in custody of a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, (ii) the owner of the investment is the real party in interest and has the right to proceed directly against the obligor of the United States obligations and (iii) the obligations are not available to satisfy any claim of the custodian of the underlying obligation or any person claiming through the custodian or to whom the custodian may be obligated; and

(f) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality, local governmental unit or political subdivision of any such state (i) which are (x) not callable prior to maturity or (y) as to which irrevocable instructions have been given by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (ii) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clauses (a), (b) and (c), which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (iii) as to which the principal of and interest on the bonds and obligations of the character described in clauses (a), (b) and (c) above, which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay, without reinvestment, principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (f) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (y) of this clause (f), as appropriate.

*“Deferred Income Bonds”* shall mean any Bonds issued under the Bond Resolution as to which accruing interest is not paid prior to the Interest Commencement Date specified in the Supplemental Resolution authorizing such Bonds and the Appreciated Value for such Bonds is compounded on the Valuation Date for such Series of Deferred Income Bonds.

*“Depository”* shall mean any bank, trust company, national banking association, savings and loan association, savings bank or other banking association selected by the Board as a depository of moneys and securities held under the provisions of the Bond Resolution, and may include the Bond Registrar.

*“Escrow Agent”* shall mean the State Treasurer and any bank or trust company appointed to hold funds for purposes of Section 1301 of the Bond Resolution and meeting the qualifications of a successor Paying Agent pursuant to Section 1008 of the Bond Resolution.

*“Federal Direct Payment Bonds”* shall mean any Bond issued by the Board which (a) constitutes a Build America Bond or Recovery Zone Facility Bond under the American Recovery and Reinvestment Tax Act of 2009, as it may be amended, or (b) qualifies under any other State or federal law providing for the payment by the United States of America (or by the State from revenues that are not a part of Pledged Funds), to the Board or the Department or the designee of either, of amounts of money related to all or a portion of the interest (or principal, as applicable) payable on such Bond.

*“Financial Products Agreement”* shall mean an interest rate swap, exchange, cap, collar, floor, forward, futures, option (e.g. a call, put, cap floor or collar), or any other hedging agreement, arrangement or security, however denominated, identified to the Paying Agent in a certificate of the Authorized Board Representative as having been entered into by the Board with a Qualified Counterparty for the purpose of managing interest rate risks, including, without limitation, converting the Board’s interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, from a variable rate exposure to a fixed rate exposure, or from a variable rate

exposure to a different variable rate exposure, on all or a portion of one or more Series of Bonds, which certificate shall identify those Bonds to which the Financial Products Agreement relates.

*“Insurer”* shall mean any nationally recognized company engaged in the business of insuring bonds which may from time to time insure the payment of the principal of and interest on all or a portion of the Bonds of any Series.

*“Interest Commencement Date”* shall mean, with respect to any particular Deferred Income Bonds, the date specified in the Supplemental Resolution authorizing such Bonds (which date must be prior to the maturity date for such Bonds) after which interest accruing on such Bonds shall be payable, with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

*“Interest Credit Payments”* shall mean, with respect to Federal Direct Payment Bonds, the amount of money during each Bond Year which the United States of America (or the State, as applicable) is obligated to pay with respect to the interest (or principal, as applicable) payable on any Federal Direct Payment Bond.

*“Interim Bonds”* shall mean any Bonds issued by the Board which are declared by the Board prior to the issuance thereof either (a) to be issued in anticipation of being refinanced or refunded with other Bonds or obligations of the Board, or (b) to be intended to be paid with moneys that are not Pledged Funds.

*“Investment Securities”* shall mean and include any of the following securities, if and to the extent the same are at that time legal for investment of the Board’s funds:

(a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed as to full and timely payment of principal and interest by, the United States of America;

(b) bonds, debentures, or other evidences of indebtedness issued or guaranteed by the following United States government sponsored agencies: Federal Home Loan Mortgage Corporation, Farm Credit System, Federal Home Loan Banks, Federal National Mortgage Association, Student Loan Marketing Association, Financing Corporation, Resolution Trust Corporation, Resolution Funding Corporation or any other government-sponsored agencies which are not backed by the full faith and credit of the U.S. government which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United State of America;

(c) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (ii) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clauses (a) and (b) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this clause (c), as appropriate, and (iii) as to which the principal of and interest on the bonds and obligations of the character described in clauses (a) and (b) above, which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (c) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this clause (c), as appropriate;

(d) project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;



(e) obligations of any state of the United States of America or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision which shall be rated at the time of their purchase hereunder in one of the two highest Rating Categories by the Rating Agencies;

(f) certificates that evidence ownership of the right of payments of principal or interest on obligations described in clauses (a) to (e), provided that such obligations shall be held in custody by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$50,000,000;

(g) certificates of deposit, whether negotiable or non negotiable, and banker's acceptances, of any bank or trust company in the United States which are rated at the time of purchase in one of the two highest Rating Categories by the Rating Agencies;

(h) any repurchase agreements collateralized by securities described in clauses (a) to (e) above with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank has uninsured, unsecured and unguaranteed obligations rated (an "unsecured rating") at the time of purchase thereof at least "Prime 1" or "A" by Moody's and at least "A 1" or "A" by S&P, provided (i) a specific written agreement governs the transaction; (ii) the securities are held by a depository acting solely as agent for the State Treasurer, and such third party is (A) a Federal Reserve Bank, or (B) a bank which is a member of the Federal Deposit Insurance Corporation and with combined capital, surplus and undivided profits of not less than \$25 million, and the State Treasurer shall have received written confirmation from such third party that it holds such securities; (iii) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the State Treasurer; (iv) the repurchase agreement has a term of 1 year or less, or the collateral securities will be valued no less frequently than monthly and will be liquidated if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; (v) the repurchase agreement matures at least ten days (or other appropriate liquidation period) prior to an interest payment date; and (vi) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%;

(i) investment agreements which represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution, in either case that has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest Rating Categories by the Rating Agencies;

(j) commercial paper rated, at the time of purchase, "Prime 1" by Moody's and "A 1" or better by S&P;

(k) any State administered pooled investment fund in which the Board is permitted or required to invest;

(l) any other investment permitted by State law that is rated at the time of purchase in one of the two highest Rating Categories by the Rating Agencies; and

(m) shares of an Investment Company, organized under the Investment Company Act of 1940 as amended, which invests its assets exclusively in obligations of the type described in clauses (a) to (l).

*"Liquidity Facility"* shall mean a letter of credit, line of credit, standby bond purchase agreement or other similar agreement of a financial institution or insurance company or association, which provides for the payment of the purchase price of Option Bonds upon the tender thereof in the event remarketing proceeds are insufficient therefor.

*"Opinion of Counsel"* shall mean an opinion signed by a firm of attorneys of recognized standing in the field of law relating to municipal bonds selected by the Board.

“*Option Bonds*” shall mean Bonds which by their terms may be tendered by and at the option of, or required to be tendered by, the Holder thereof for payments or purchased by the Board or another party prior to stated maturity thereof and require that such Bonds be purchased if properly presented.

“*Outstanding*” shall mean, when used with reference to Bonds, as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Bond Resolution except:

- (a) Bonds cancelled pursuant to the Bond Resolution at or prior to such date;
- (b) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Amount thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Bond Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given or provision satisfactory to the Board shall have been made for the giving of such notice as provided in Article IV of the Bond Resolution;
- (c) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article IV or Section 506 or Section 1206 of the Bond Resolution;
- (d) Bonds deemed to have been paid as provided in Section 1301(b) of the Bond Resolution; and
- (e) Option Bonds deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Bonds on the applicable purchase date, if the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Bond Resolution.

“*Pledged Funds*” shall mean (a) all the moneys deposited into the Bond Account of the Regional Area Road Fund, and the unobligated monies in the Construction Account and in the Bond Proceeds Account of the Regional Area Road Fund, including Investment Securities and investment income thereon held in any such Accounts, but subject to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution, together with all proceeds and revenues of the foregoing and (b) to the extent permitted by law, any other moneys, securities or funds that the Board, by Supplemental Resolution adopted by the Board, may subsequently pledge for the payment of the Bond Service Charges on the Bonds in accordance with the terms and provisions of the Bond Resolution, provided, however, Pledged Funds shall not include any money in the Bond Account or the Construction Account derived from excise taxes levied pursuant to Section 42-6104, Arizona Revised Statutes.

“*Principal Installment*” shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding (a) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established (b) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (c) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any; provided, however that any Financial Products Agreements shall be considered to have a zero Principal Installment.

“*Qualified Counterparty*” shall mean any financial institution, including an insurance company, bank indemnity company or company related to a financial institution, which is a party to a Financial Products Agreement if (a) the unsecured long-term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company, if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Financial Products Agreement), or (b) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated in

one of the three highest Rating Categories by the Rating Agencies, at the time of the initial execution and delivery of the Financial Products Agreement.

*“Regional Area Road Fund”* shall mean the Maricopa County Regional Area Road Fund created pursuant to the Act.

*“Regular Swap Payments”* shall mean the regularly scheduled payments required to be made by the Board to a Qualified Counterparty under any Financial Products Agreement.

*“Senior Bonds”* means the 2007 Series Bonds, the 2009 Series Bonds, the 2010 Series Bonds, the 2011 Series Bonds and any bonds, notes or other evidence of indebtedness thereafter authenticated and delivered under and Outstanding pursuant to Article II of the Bond Resolution and any Senior Bonds thereafter authenticated and delivered in lieu of or in substitution for such Senior Bonds pursuant to Article IV or Section 506 or Section 1206 of the Bond Resolution.

*“Series”* shall mean all of the Bonds authenticated and delivered on original issuance and identified pursuant to a Supplemental Resolution authorizing such Bonds as a separate Series of Bonds, and Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

*“Sinking Fund Installment”* shall mean, with respect to any Series of Bonds, an amount so designated which is established pursuant to the Supplemental Resolution authorizing such Bonds.

*“Subordinated Bonds”* shall mean any bonds, notes or other evidence of indebtedness, which is subordinated to the Senior Bonds, authenticated and delivered under and Outstanding pursuant to the Bond Resolution and any Subordinated Bonds thereafter authenticated and delivered in lieu of or in substitution for such Subordinated Bonds pursuant to the terms of the Bond Resolution.

*“Supplemental Resolution”* shall mean any resolution supplemental to or amendatory of the Bond Resolution adopted by the Board in accordance with the terms of the Bond Resolution.

*“Swap Act”* shall mean Sections 35-1001 through 35-1005, Arizona Revised Statutes, or any other provision of Arizona law, authorizing the Board to enter into Financial Products Agreements.

*“Termination Payments”* shall mean payments required to be paid to a Qualified Counterparty by the Board pursuant to a Financial Products Agreement in connection with the termination thereof, tax gross-up payments, expenses, defaulted interest, and any other payments or indemnification obligations to be paid to a Qualified Counterparty by the Board under a Financial Products Agreement, which payments are not Regular Swap Payments.

*“Third Lien Debt”* shall mean bonds, notes, other evidence of indebtedness or other obligations of the Board, which are subordinated to Senior Bonds and to Subordinated Bonds, and which are issued or incurred pursuant to and complying with the provisions of Section 304 of the Bond Resolution.

*“Transportation Excise Tax”* shall mean the transportation excise tax (a) levied by the County pursuant to Section 42-6105, Arizona Revised Statutes, which was approved by a majority of the electors of the County voting at the November 2, 2004 election and (b) the collections of which are required by Section 42-6105(E)(1) and (2), Arizona Revised Statutes, to be deposited into the Regional Area Road Fund.

*“Valuation Date”* shall mean (a) with respect to any Capital Appreciation Bonds, the date or dates set forth in the Supplemental Resolution authorizing such Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds and (b) with respect to any Deferred Income Bonds, the date or dates prior to the Interest Commencement Date set forth in the Supplemental Resolution authorizing such Bonds on which specific Appreciated Values are assigned to the Deferred Income Bonds.

“*Variable Interest Rate*” shall mean a variable interest rate or rates to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds. The method of computing such variable interest rate shall be specified in the Supplemental Resolution authorizing such Series of Bonds.

“*Variable Interest Rate Bonds*” for any period of time, shall mean Bonds which during such period bear a Variable Interest Rate, provided that Bonds the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be Variable Interest Rate Bonds.

### **Issuance of Senior Bonds**

Upon satisfaction of the requirements set forth in the Bond Resolution, the Board may issue one or more Series of Senior Bonds at any time or from time to time for any lawful purpose under the Act, including to refund any Outstanding Bonds and any other obligations of the Board as permitted by law. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 SERIES BONDS – Additional Senior Bonds.”

### **Issuance of Subordinated Bonds**

Upon satisfaction of the requirements set forth in the Bond Resolution, the Board may issue one or more Series of Subordinated Bonds at any time or from time to time for any lawful purpose under the Act, including to refund any Outstanding Bonds and any other obligations of the Board as permitted by law. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 SERIES BONDS –Subordinated Bonds.”

### **Issuance of Third Lien Debt**

Upon satisfaction of the requirements set forth in the Bond Resolution, the Board may issue or incur one or more Series of Third Lien Debt at any time or from time to time for any lawful purpose under the Act, payable from, and which may be secured by a pledge of Pledged Funds; *provided that*:

(a) Such pledge shall be, and shall be expressed to be, subordinate and junior in all respects to the lien and pledge created by the Bond Resolution as security for the Senior Bonds and Financial Products Agreements relating thereto, and also subordinate and junior in all respects to the lien and pledge created by the Bond Resolution as security for the Subordinated Bonds and Financial Products Agreements relating thereto.

(b) The Supplemental Resolution authorizing the Third Lien Debt to be issued or incurred shall contain provisions which require that the Transportation Excise Tax, or other amounts deposited in the Regional Area Road Fund and pledged to the payment of indebtedness or other obligations of the Board, be deposited into the subaccounts in the Bond Account created pursuant to the Bond Resolution to make-up any deficiencies in the deposits required into the subaccounts in the Bond Fund prior to any deposit being made to the Third Lien Debt Service Subaccount for payment of any Bond Service Charges or other payments relating to Third Lien Debt.

### **Establishment of Regional Area Road Fund, Accounts and Subaccounts**

Pursuant to the Act, the State Treasurer is required to maintain the Regional Area Road Fund for the County, which Fund consists of a Bond Proceeds Account, a Bond Account and a Construction Account. Pursuant to the Bond Resolution, the Board has directed the State Treasurer to create within the Bond Account the following subaccounts: Senior Debt Service Subaccount, Senior Bond Related Obligations Subaccount, Senior Reserve Subaccount, Subordinated Debt Service Subaccount, Subordinated Bond Related Obligations Subaccount, Subordinated Reserve Subaccount, and Third Lien Debt Service Subaccount.

### **The Pledge Made by the Bond Resolution; Limited Obligation**

The Senior Bonds are special obligations of the Board payable solely from, and secured as to the payment of the Bond Service Charges thereon solely by, the Pledged Funds, in accordance with the provisions of the Bond Resolution. Pursuant to the Bond Resolution the Board has pledged the Pledged Funds as security for the payment

of the Bond Service Charges on the Senior Bonds, in accordance with their terms and the provisions of the Bond Resolution.

The Subordinated Bonds will be special obligations of the Board payable solely from, and secured as to the payment of Bond Service Charges thereon, in accordance with the provisions of the Bond Resolution and, to the extent not required to pay Bond Service Charges on Senior Bonds and Regular Swap Payments related to Senior Bonds, solely by the Pledged Funds. The Board has pledged as security for the payment of the Bond Service Charges on the Subordinated Bonds, in accordance with the provisions of the Bond Resolution, all amounts on deposit in the Bond Account (exclusive of the Senior Debt Service Subaccount, Senior Bond Related Obligations Subaccount and Senior Reserve Subaccount) and unobligated moneys on deposit in the Construction Account and Bond Proceeds Account, as may from time to time be available therefor, which pledge is subject to, and subordinate and junior in all respects to, the pledge of the Pledged Funds pursuant to the Bond Resolution to secure Senior Bonds and Regular Swap Payments related to Senior Bonds.

As provided in the Act, all Pledged Funds, when deposited in the Bond Account, Bond Proceeds Account or Construction Account, are immediately subject to the lien of such pledge without any future physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all persons having claims of any kind in tort, contract or otherwise against the Board, irrespective of whether such persons have notice thereof.

The Bonds are special obligations of the Board and are payable from and secured by the pledge of the Pledged Funds, as provided in the Bond Resolution, and from no other assets of the Board. The Board shall not be obligated to pay Bond Service Charges on the Bonds except from Pledged Funds in accordance with the provisions of the Bond Resolution, and no recourse shall be had for the payment of Bond Service Charges against any other property, revenue or income whatsoever. The Bonds are not obligations, general, special or otherwise, of the State or the County, do not constitute a legal debt of the State or the County, and are not enforceable against the State or the County nor is payment of the Bond Service Charges on the Bonds enforceable out of any moneys, other than the Pledged Funds as provided in the Bond Resolution.

### **Bond Proceeds Account**

There shall be paid into the Bond Proceeds Account the proceeds resulting from the issuance of all Bonds (except for Refunding Bonds) and any other amounts required to be paid into the Bond Proceeds Account by the provisions of the Bond Resolution and the Act. Amounts in the Bond Proceeds Account shall be applied to the payment of Bond Proceeds Account Costs, in the manner provided by the Bond Resolution.

To the extent that other moneys are not available in the Bond Account and the Construction Account to make the following payments, moneys in the Bond Proceeds Account (other than the proceeds of Crossover Refunding Bonds) shall be transferred by the State Treasurer in the following order of priority: (i) first, to the Senior Debt Service Subaccount of the Bond Account, to be applied by the State Treasurer to the payment of Bond Service Charges on the Senior Bonds and Regular Swap Payments relating to Senior Bonds, when due; (ii) second, to the Subordinated Debt Service Subaccount of the Bond Account, to be applied by the State Treasurer to the payment of Bond Service Charges on Subordinated Bonds and the Regular Swap Payments related to Subordinated Bonds, when due; and (iii) third, to the Third Lien Debt Service Subaccount of the Bond Account, to be applied by the State Treasurer to the payment of Bond Service Charges on the Third Lien Debt and the Regular Swap Payments related to Third Lien Debt, when due.

Proceeds of Crossover Refunding Bonds and investment income thereon shall, on and prior to the Crossover Refunding Bonds Break Date, be applied by the State Treasurer, after payment of the Bond Related Expenses for such Bonds, solely to the payment of the Bond Service Charges on such Crossover Refunding Bonds unless otherwise permitted by the Act and the Supplemental Resolution authorizing the Crossover Refunding Bonds.

## **Deposits of Transportation Excise Tax Collections into the Bond Account**

(a) Prior to the issuance of any Subordinated Bonds, the provisions of (f)(iv), (v) and (vi) below may be amended. Prior to the issuance of any Third Lien Debt, the provisions of (f)(viii) below may be amended.

(b) As required by the Act, all Transportation Excise Tax collections shall immediately be transferred to the State Treasurer, who shall deposit them in the Regional Area Road Fund, and the State Treasurer shall hold monies in the Regional Area Road Fund as trustee for the County.

(c) The Board has ordered the State Treasurer to make all deposits of Transportation Excise Tax collections in accordance with (f) below.

(d) As used in subsection (f) below, "*Monthly Deposit*" shall mean, with respect to Outstanding Bonds of each Series, for each Month an amount not less than:

(i) One-sixth of the aggregate semi annual amount of interest becoming due and payable on such Series (except for Variable Interest Rate Bonds) during the next ensuing six months (excluding any interest for which there are moneys deposited in the applicable Subaccount in the Bond Account from the proceeds of any Series of Bonds or other sources and reserved as Capitalized Interest to pay such interest during said next ensuing six months), until the requisite semi-annual amount of interest on all such Series is on deposit in the applicable Subaccount in the Bond Account; provided that from the date of delivery of a Series of Bonds until the first interest payment date with respect to such Series, the amounts so paid with respect to such Series shall be sufficient, on a monthly pro rata basis, to pay the aggregate amount of interest becoming due and payable on the first interest payment date with respect to such Series; plus

(ii) For Variable Interest Rate Bonds, the aggregate amount of interest to accrue during that Month, calculated at the Maximum Interest Rate for the period during the Month when the actual rate of interest is not known; provided, however, that the amount of such Monthly Deposit for any Month may be reduced by the amount by which the Monthly Deposit in the prior Month exceeded the actual amount of interest accrued during that prior Month on such Variable Interest Rate Bonds; and further provided that the amount of such Monthly Deposit for any Month shall be increased by the amount by which the Monthly Deposit in the prior Month was less than the actual amount of interest accruing during that prior Month on Variable Interest Rate Bonds; plus

(iii) One-sixth of the aggregate semiannual amount of Principal Installments becoming due and payable on such Series having semiannual principal payments within the next six months; plus

(iv) One-twelfth of the aggregate annual amount of Principal Installments becoming due and payable on such Series having annual principal payments within the next twelve months.

Provided, however, that for each Series of Bonds the Month in which the initial payment for Principal Installments shall be paid with respect to such Series shall be set forth in the authorizing Supplemental Resolution and the monthly amounts paid with respect to such Series shall be sufficient, on a monthly pro rata basis, to pay the aggregate initial Principal Installment due on such Series.

(e) If the Board secures Regular Swap Payments under a Financial Products Agreement by a pledge of Pledged Revenues, then the Board shall: (i) in the Supplemental Resolution authorizing such Financial Products Agreement, provide how the monthly deposit shall be calculated for such Regular Swap Payments (the "*Swap Monthly Deposit*") and (ii) furnish, or cause the Authorized Board Representative to furnish, to the State Treasurer directions to make monthly deposits of Transportation Excise Tax collections into the related Subaccount in the Bond Account for payment of such Regular Swap Payments, as contemplated in (f) below.

(f) As soon as practicable in each Month after the deposit of Transportation Excise Tax collections into the Regional Area Road Fund, but in any case no later than the 15th day of each Month, the State Treasurer shall transfer to the following Subaccounts in the Bond Account, and to the Construction Account, or directly to the

Paying Agent, as applicable, in the following order of priority, the amounts set forth below, but only if the amount in the Regional Area Road Fund shall be sufficient therefor:

(i) Into the Senior Debt Service Subaccount, the amount, if any, equal to the Monthly Deposit for Senior Bonds and any Regular Swap Payments related to Senior Bonds; provided that, for the purposes of making such deposit into said Subaccount, there shall be excluded the amount, if any, set aside therein which was deposited therein from Bond proceeds to be applied in accordance with the Bond Resolution to the payment of interest accrued and unpaid on Senior Bonds and to accrue to the next interest payment date; provided further that the amount specified in this subparagraph (i) shall be (A) reduced by amounts received under all Financial Products Agreements relating to Senior Bonds and deposited in such Subaccount and (B) increased by the amount of any Swap Monthly Deposit for Senior Bonds; and then

(ii) Into the Senior Bond Related Obligations Subaccount, at such times and in such amounts, if any, specified in any Supplemental Resolution for payment to the provider of any Bond Related Obligation for any Senior Bonds; and then

(iii) Into the Senior Reserve Subaccount, at such times and in such amounts, if any, specified in any Supplemental Resolution for deposit therein; and then

(iv) Into the Subordinated Debt Service Subaccount, the amount, if any, equal to the Monthly Deposit for Subordinated Bonds and any Regular Swap Payments related to Subordinated Bonds; provided that, for the purposes of making such deposit into said Subaccount, there shall be excluded the amount, if any, set aside therein which was deposited therein from Bond proceeds to be applied in accordance with the Bond Resolution to the payment of interest accrued and unpaid on Subordinated Bonds and to accrue to the next interest payment date; provided, further, the amount specified in this subparagraph (iv) shall be (A) reduced by amounts received under all Financial Products Agreements relating to Subordinated Bonds and deposited in such Subaccount and (B) increased by the amount of any Swap Monthly Deposit for Subordinated Bonds; and then

(v) Into the Subordinated Bond Related Obligations Subaccount, at such times and in such amount, if any, specified in any Supplemental Resolution for payment to the provider of any of Bond Related Obligation for any Subordinated Bonds; and then

(vi) Into the Subordinated Reserve Subaccount, at such times and in such amounts, if any, specified in any Supplemental Resolution for deposit therein; and then

(vii) To the Paying Agent or such other person designated in a certificate of the Authorized Bond Representative, the amount set forth and ordered to be paid in such certificate to the specified Qualified Counterparty, representing any Termination Payments then due: first under a Financial Products Agreement relating to Senior Bonds; and then under a Financial Products Agreement relating to Subordinated Bonds, as provided in the Supplemental Resolution providing for the payment of such Financial Products Agreement; and then

(viii) Into the Third Lien Debt Service Subaccount, the amount specified in any Supplemental Resolution for deposit therein; and then

(ix) Into the Construction Account, the balance.

The Board pledges, as additional Pledge Funds to secure Bonds, any Interest Credit Payments received by the Board or Department from the United States of America (or State, as applicable) on any Federal Direct Payment Bonds which the Board may issue. The Board covenants to promptly deposit, upon receipt, all Interest Credit Payments into the Senior Debt Service Subaccount, Subordinated Debt Service Subaccount, or Third Lien Debt Service Subaccount, as applicable, relating to such Federal Direct Payment Bonds. This pledge of any Interest Credit Payments shall continue in effect unless and until the proposed amendment to the definition of Adjusted Debt Service, described at pages C-2 and C-3 hereof, becomes effective, at which time this pledge shall no longer be in effect.

(g) If there is a deficiency in the required deposit to any of the Subaccounts or for paying any Termination Payments, as provided in (f), and unless the Board uses lawfully available unobligated Pledged Funds on deposit in the Construction Account or other lawfully available moneys to cure such deficiency, all additional Transportation Excise Tax collections deposited into the Regional Area Road Fund shall be used to make up such deficiencies in the required deposits into such Subaccounts or for paying Termination Payments, but only in the priority of deposit set forth in (f), prior to making any deposits to any lower priority Subaccounts.

(h) If at any time the amount on deposit in the Senior Debt Service Subaccount is sufficient to pay all Bond Service Charges on the Senior Bonds on the next scheduled interest payment date thereof and any Regular Swap Payments related to Senior Bonds prior to the next scheduled interest payment date on Senior Bonds, then no further deposit into such Subaccount shall be made for interest until the Month in which such Bond Service Charges are paid on Senior Bonds or such Regular Swap Payments are paid.

If at any time the amount on deposit in the Subordinated Debt Service Subaccount is sufficient to pay all Bond Service Charges on the Subordinated Bonds on the next interest payment date thereof and any Regular Swap Payments related to Subordinated Bonds prior to the next scheduled interest payment date on Subordinated Bonds, then no further deposit into such Subaccount shall be made for interest until the Month in which such Bond Service Charges are paid on the Subordinated Bonds or such Regular Swap Payments are paid.

#### **Use of Senior Debt Service Subaccount**

All moneys at any time paid or transferred to the Senior Debt Service Subaccount (i) shall be kept separate and apart from all other moneys held by the State Treasurer, (ii) shall be held in trust for the benefit of the Holders of the Outstanding Senior Bonds and of Qualified Counterparties under any Financial Products Agreements relating to Senior Bonds entitled to be paid therewith, and (iii) shall be used as provided herein solely for the purpose of paying the Bond Service Charges on the Outstanding Senior Bonds and payments of Regular Swap Payments under such Financial Products Agreements, as the same become due and for no other purpose. Neither the Board, the State, nor any tort or contract claimant nor Holder of Subordinated Bonds or of Third Lien Debt nor any Qualified Counterparty under any Financial Products Agreement related to any Subordinated Bonds or Third Lien Debt shall ever have any claim upon or beneficial interest in any of the moneys in the Senior Debt Service Subaccount.

Pursuant to the Bond Resolution, the Board has ordered the State Treasurer to pay out of the Senior Debt Service Subaccount: (i) Bond Service Charges on the Senior Bonds; and (ii) Regular Swap Payments related to Senior Bonds, all in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the Bond Resolution.

Amounts accumulated in the Senior Debt Service Subaccount with respect to any Sinking Fund Installment for Senior Bonds may, and if so ordered by the Authorized Board Representative shall, be applied by the State Treasurer, on or prior to the 35th day next preceding the due date of such Sinking Fund Installment, to (i) the purchase of Senior Bonds of the Series and maturity for which such Sinking Fund Installment was established or (ii) the redemption at the applicable sinking fund Redemption Price of such Senior Bonds, if then redeemable by their terms. All purchases of any Senior Bonds described in this paragraph shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Senior Bonds plus accrued interest, and such purchases shall be made by an agent of the Board. The Board shall receive a credit for any such Senior Bonds so purchased as provided in the Bond Resolution.

In the event of the refunding of any Senior Bonds, the Board may order the State Treasurer to withdraw from the Senior Debt Service Subaccount all, or any portion of, the amounts accumulated therein with respect to Bond Service Charges on such Senior Bonds being refunded and deposit such amounts with the Escrow Agent to be held for the payment of Bond Service Charges on such Senior Bonds being refunded; provided that such withdrawal may not be made unless (i) immediately thereafter the Senior Bonds being refunded shall be deemed to have been paid pursuant to the Bond Resolution and (ii) the amount remaining in the Senior Debt Service Subaccount, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the requirements of such Subaccount pursuant to the Bond Resolution.



### **Use of Senior Bond Related Obligations Subaccount**

Moneys, if any, in the Senior Bond Related Obligations Subaccount shall be used by the State Treasurer to pay Bond Related Obligations, when due, with respect to Senior Bonds as provided in the Supplemental Resolution authorizing any Series of Senior Bonds, upon written direction from the Authorized Board Representative.

To the extent moneys in the Senior Debt Service Subaccount are insufficient to pay, when due, Bond Service Charges on the Senior Bonds and Regular Swap Payments under Financial Products Agreements relating to Senior Bonds (collectively, "*Senior Bonds Payment Deficiency*"), the State Treasurer shall use moneys in the Senior Bond Related Obligations Subaccount, after use of moneys in the Senior Reserve Subaccount, to pay such Deficiency, except as otherwise provided in the Supplemental Resolution authorizing any such Series of Senior Bonds; provided the Senior Reserve Subaccount shall not be used to pay Regular Swap Payments.

### **Use of Senior Reserve Subaccount.**

Moneys, if any, in the Senior Reserve Subaccount shall be used by the State Treasurer (a) to pay any Senior Bonds Payment Deficiency (but excluding any deficiency in paying Regular Swap Payments); and then (b) to the extent moneys in the Senior Bond Related Obligations Subaccount are insufficient to pay, when due, the Bond Related Obligations with respect to a Series of Senior Bonds (a "*Senior Bond Related Obligations Deficiency*"), to pay any remaining Senior Bond Related Obligations Deficiency, except as otherwise provided in the Supplemental Resolution authorizing such Series of Senior Bonds.

### **Use of Subordinated Debt Service Subaccount.**

All moneys at any time paid or transferred to the Subordinated Debt Service Subaccount shall be kept separate and apart from all other moneys held by the State Treasurer. Subject to the provisions of the Bond Resolution, moneys in the Subordinated Debt Service Subaccount shall be held in trust for the benefit of the Holders of the Outstanding Subordinated Bonds and of Qualified Counterparties under any Financial Products Agreements relating to Subordinated Bonds entitled to be paid therewith, and shall be used solely for the purpose of paying the Bond Service Charges on the Outstanding Subordinated Bonds and payments of Regular Swap Payments under such Financial Products Agreements, as the same become due and for no other purpose. Neither the Board, the State nor any tort or contract claimant nor Holder of any Third Lien Debt nor any Qualified Counterparty under any Financial Products Agreement related to Third Lien Debt shall ever have any claim upon or beneficial interest in any of the moneys in the Subordinated Debt Service Subaccount.

Moneys in the Subordinated Debt Service Subaccount shall be used by the State Treasurer: (i) after use (in the following order) of the Senior Reserve Subaccount, the Senior Bond Related Obligations Subaccount, the Third Lien Debt Service Subaccount, the Subordinated Reserve Subaccount and the Subordinated Bond Related Obligations Subaccount to pay any Senior Bonds Payment Deficiency, to pay any remaining Senior Bonds Payment Deficiency; and then (ii)(A) on or before each interest payment date for any Subordinated Bonds, to the Paying Agent for the Subordinated Bonds the amount required for interest payable on such date; (B) on or before each date any Regular Swap Payments related to Subordinated Bonds are payable, to the related Qualified Counterparties the amount required for such payment on such date; (C) on or before each Principal Installment due date for Subordinated Bonds, to the Paying Agent for the Subordinated Bonds the amount required for the Principal Installment payable on such date; and (D) on or before any Redemption Date for Subordinated Bonds, to the Paying Agent for the Subordinated Bonds the amount required for payment of interest on the Subordinated Bonds then to be redeemed.

Amounts accumulated in the Subordinated Debt Service Subaccount with respect to any Sinking Fund Installment for Subordinated Bonds may, and if so ordered by the Authorized Board Representative shall, be applied by the State Treasurer, on or prior to the 35th day next preceding the due date of such Sinking Fund Installment, to (i) the purchase of Subordinated Bonds of the Series and maturity for which such Sinking Fund Installment was established or (ii) the redemption at the applicable sinking fund Redemption Price of such Subordinated Bonds, if then redeemable by their terms. All purchases of any Subordinated Bonds pursuant to this subsection (d) shall be made at prices not exceeding the applicable sinking fund Redemption Price of such

Subordinated Bonds plus accrued interest, and such purchases shall be made by an agent of the Board. The Board shall receive a credit for any such Subordinated Bonds so purchased as provided in the Bond Resolution.

In the event of the refunding of any Subordinated Bonds, the Board may order the State Treasurer to withdraw from the Subordinated Debt Service Subaccount all, or any portion of, the amounts accumulated therein with respect to Board Service Charges on such Subordinated Bonds being refunded and deposit such amounts with the Escrow Agent to be held for the payment of Bond Service Charges on such Subordinated Bonds being refunded; provided that such withdrawal shall not be made unless (i) immediately thereafter Subordinated Bonds being refunded shall be deemed to have been paid pursuant to the Bond Resolution and (ii) the amount remaining in the Subordinated Debt Service Subaccount, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the requirement of such Subaccount pursuant to the Bond Resolution.

#### **Use of the Subordinated Bond Related Obligations Subaccount**

Moneys, if any, in the Subordinated Bond Related Obligations Subaccount shall be used by the State Treasurer: (a) after use (in the following order) of the Senior Reserve Subaccount, the Senior Bond Related Obligations Subaccount, the Third Lien Debt Service Subaccount and the Subordinated Reserve Subaccount to pay any Senior Bonds Payment Deficiency, to pay any remaining Senior Bonds Payment Deficiency; and then (b) after use (in the following order) of the Senior Reserve Subaccount, the Third Lien Debt Service Subaccount and the Subordinated Reserve Subaccount to pay any Senior Bond Related Obligations Deficiency, to pay any remaining Senior Bond Related Obligations Deficiency; and then (c) after use (in the following order) of the Third Lien Debt Service Subaccount and the Subordinated Reserve Subaccount to pay any deficiency in the Senior Reserve Subaccount (a "*Senior Reserve Fund Deficiency*"), to pay any remaining Senior Reserve Fund Deficiency; and then (d) to the extent moneys in the Subordinated Debt Service Subaccount are insufficient to pay, when due, Bond Service Charges on Subordinated Bonds and Regular Swap Payments under Financial Products Agreements relating to Senior Bonds (collectively, "*Subordinated Bonds Payment Deficiency*"), and after use of the Subordinated Reserve Subaccount, to pay any remaining Subordinated Bonds Payment Deficiency; provided the Subordinated Reserve Subaccount shall not be used to pay Regular Swap Payments; and then (e) to pay the Bond Related Obligations when due, with respect to Subordinated Bonds as provided in the Supplemental Resolution authorizing any Series of Subordinated Bonds, upon written direction from the Authorized Board Representative.

#### **Use of the Subordinated Reserve Subaccount.**

Moneys, if any, in the Subordinated Reserve Subaccount shall be used by the State Treasurer: (a) after use (in the following order) of the Senior Reserve Subaccount, the Senior Bond Related Obligations Subaccount, the Third Lien Debt Service Subaccount to pay any Senior Bonds Payment Deficiency, to pay any remaining Senior Bonds Payment Deficiency (but excluding any deficiency in paying Regular Swap Payments); and then (b) after use (in the following order) of the Senior Reserve Subaccount and the Third Lien Debt Service Subaccount to pay any Senior Bond Related Obligations Deficiency, to pay any remaining Senior Bond Related Obligations Deficiency; and then (c) after use (in the following order) of the Third Lien Debt Service Subaccount to pay any Senior Reserve Subaccount Deficiency, to pay any remaining Senior Reserve Subaccount Deficiency; and then (d) to pay any Subordinated Bond Payment Deficiency (but excluding any deficiency in paying Regular Swap Payments); and then (e) to the extent moneys in the Subordinated Bond Related Obligations Subaccount are insufficient to pay, when due, the Subordinated Bond Related Obligations (the "*Subordinated Bond Related Obligations Deficiency*"), to pay any remaining Subordinated Bond Related Obligations Deficiency.

#### **Use of Third Lien Debt Service Subaccount.**

All moneys at any time paid or transferred to the Third Lien Debt Service Subaccount shall be kept separate and apart from all other moneys held by the State Treasurer. Subject to the provisions of the Bond Resolution, moneys in the Third Lien Debt Service Subaccount shall be held in trust for the benefit of the Holders of the Outstanding Third Lien Debt entitled to be paid therewith and of Qualified Counterparties under any Financial Products Agreements relating to Third Lien Debt entitled to be paid therewith, and shall be used solely for the purpose of paying the Bond Service Charges on the Outstanding Third Lien Debt and, as provided in the

applicable Supplemental Resolution, payments due on Financial Products Agreements related thereto, as the same become due and for no other purpose. Neither the Board, the State nor any tort or contract claimant shall ever have any claim upon or beneficial interest in any of the moneys in the Third Lien Debt Service Subaccount.

Moneys in the Third Lien Debt Service Subaccount shall be used by the State Treasurer: (i) after use (in the following order) of the Senior Reserve Subaccount and the Senior Bond Related Obligations Subaccount, to pay any Senior Bonds Payment Deficiency, to pay any remaining Senior Bonds Payment Deficiency; and then (ii) after use (in the following order) of the Subordinated Reserve Subaccount and the Subordinated Bond Related Obligations Subaccount, to pay any Subordinated Bonds Payment Deficiency, to pay any remaining Subordinated Bonds Payment Deficiency; and then (iii) to pay Termination Payments in the order set forth in the Bond Resolution; and then (iv) to pay Bond Service Charges on the Third Lien Debt, as provided in the applicable Supplemental Resolution authorizing the Third Lien Debt.

### **Construction Account**

The State Treasurer shall create within the Construction Account the “Freeway and Other Routes Subaccount” and the “Major Arterial Streets and Intersection Subaccount.” The Authorized Board Representative shall direct, from time to time, the State Treasurer what amount of Transportation Excise Tax collections shall be deposited by the State Treasurer into the Freeway and Other Routes Subaccount and into the Major Arterial Streets and Intersections Subaccount, in order to comply with the provisions of the Act. The Authorized Board Representative may direct, from time to time, the State Treasurer to re-allocate money between the Subaccounts in the Construction Account.

The Board, at its option, may deposit into either Subaccount of the Construction Account any moneys received by the Board from any other source, unless required to be otherwise applied as provided by the Bond Resolution or the Act. Amounts in the Subaccounts of the Construction Account shall be disbursed to pay Construction Account Costs, in the manner provided in the Bond Resolution.

Payments from the Construction Account, except payments and withdrawals described in the paragraph immediately following, shall be made in the amounts, at the times, in the manner, and on the other terms and conditions as the Director shall direct.

Notwithstanding any other provision of the Bond Resolution, to the extent that other moneys are not available therefor in the Bond Account, unobligated moneys in the Construction Account shall be applied, as provided in the Bond Resolution, to the payment when due and in the following order of priority: (i) payment of Bond Service Charges on Senior Bonds and Regular Swap Payments related to Senior Bonds; (ii) then to the payment of Bond Service Charges on Subordinated Bonds and Regular Swap Payments related to Subordinated Bonds; (iii) then to the payment of Termination Payments under Financial Products Agreements related to Senior Bonds and then to Termination Payments under Financial Products Agreements related to Subordinated Bonds; and (iv) then to the payment of Bond Service Charges on Third Lien Debt.

## **Financial Products Agreements**

Pursuant to the Swap Act, the Board may enter into one or more Financial Products Agreements and may provide in a Supplemental Resolution authorizing each such Financial Products Agreement that the Board's payment obligations under such Financial Products Agreement for Regular Swap Payments be secured by and payable from Pledged Funds on a parity, as provided in the Bond Resolution, with the Board's obligation to pay Bond Service Charges on the Bonds relating to such Financial Products Agreements; provided, however, any Financial Products Agreement secured by Pledged Funds shall be deemed Outstanding under the Bond Resolution solely for the purpose of receiving payment from Pledged Funds, as provided in the Bond Resolution, and for the purposes of any voting, approval or other rights under the Bond Resolution which are based on the principal amount of Bonds, the principal amount of a Financial Product Agreement shall be deemed to be zero; provided further, that the Qualified Counterparty may enforce its contractual rights under the applicable Financial Products Agreement to payment of Regular Swap Payments and other payments due thereunder if not paid, when due; provided further, that any Termination Payments due under any Financial Products Agreement shall be subordinate to all payments due on all Senior Bonds and Subordinated Bonds.

If a Financial Products Agreement is secured by Pledged Funds, then the Board shall deposit money received from the Qualified Counterparty under such Financial Products Agreement into the Senior, Subordinated or Third Lien Debt Service Subaccount in the Bond Fund, as applicable.

## **Investment of Accounts**

Any moneys held as a part of any of the Accounts and subaccounts held under the Bond Resolution shall be invested or reinvested by the State Treasurer in Investment Securities, at the oral or written request of the Authorized Board Representative. Subject to the provisions set forth below, the State Treasurer shall follow the directions of the Authorized Board Representative with respect to the type, amount and maturity of those investments and whether those investments should be sold, surrendered or exchanged or another disposition should be made of them; provided that in any case, the maturities or availability of the investments shall coincide with the respective dates as of which payments are required to be made from the respective Accounts and subaccounts held under the Bond Resolution.

Investments shall be held by or under the control of the State Treasurer and shall be deemed at all times to constitute a part of the Accounts and subaccounts from which they shall have been made. Except as provided otherwise in any Supplemental Resolution, any earnings and profit realized from those investments shall be credited, and any loss resulting therefrom shall be charged, to the respective Accounts and subaccounts from which the investments shall have been made.

For the purpose of determining the amount on deposit to the credit of any Account and subaccount, the value of obligations in which money shall have been invested shall be computed at market value or the amortized cost thereof, whichever is lower.

## **Particular Covenants of The Board**

**Payment of Bonds.** The Board shall duly and punctually pay or cause to be paid, but solely from the Pledged Funds, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds and the Bond Resolution, according to the true intent and meaning thereof.

**Creation of Liens.** The Board shall not issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature or other obligations, other than the Bonds and Financial Products Agreements, payable out of or secured by a pledge, lien or assignment of the Pledged Funds or other moneys, securities or funds held or set aside by the State Treasurer or by any Fiduciaries under the Bond Resolution and shall not create or cause to be created any pledge, lien or charge equal to or superior to the lien of the Bonds and Financial Products Agreements on the Pledged Funds, or such moneys, securities or funds, except as provided in the Bond Resolution.

**Accounts and Reports.** The Board shall cause the Department to keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Transportation Excise Tax and each Account and subaccount established under the Bond Resolution and which shall at all times be subject to the inspection of the Holders of an aggregate of not less than 15% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

**State Agreement of Non-Impairment.** Pursuant to the authority contained in Section 28-7569, Arizona Revised Statutes, the Board, as agent for the State, pursuant to the Bond Resolution, has pledged and agreed with the Holder or Holders of the Bonds that the State will not limit or alter the Transportation Excise Tax in a way that adversely affects the rights of the Holders of the Bonds, limits or alters the authority of the County to levy the Transportation Excise Tax in a way that prevents the imposition of sufficient Transportation Excise Tax to fulfill the terms of any agreements made with the Holders of the Bonds, or in any way impairs the rights and remedies of the Bondholders, until all Bonds issued under the Bond Resolution, interest on the Bonds, interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceedings by or on behalf of the Bondholders are fully met and discharged.

### **Events of and Remedies Upon Default**

The following events shall constitute an Event of Default under the Bond Resolution:

(i) if default shall be made in the due and punctual payment of the Principal Installment or Redemption Price or Sinking Fund Installment of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise;

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or of any Regular Swap Payment; or

(iii) if default shall be made by the Board in the performance or observance of any other of the covenants, agreements or conditions on its part in the Bond Resolution, and such default shall continue for a period of 60 days after written notice thereof to the Board by the Holders of not less than 25% in principal amount of the Bonds Outstanding, subject to the "Rights of Insurer" described below; provided, that if such default cannot with due diligence be cured within 60 days but is capable of being cured, the failure of the Board to remedy such default within such 60-day period shall not constitute an Event of Default under the Bond Resolution is the Board shall promptly upon receipt of such notice commence with due diligence the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence.

If an Event of Default affecting the Senior Bonds has occurred and shall not have been remedied, unless the principal of all the Senior Bonds has already become due and payable, the Holders of not less than 40% of principal amount of the Senior Bonds Outstanding by notice in writing to the Board and the State Treasurer, may declare the principal of all the Senior Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable.

If an Event of Default affecting the Subordinated Bonds has occurred and shall not have been remedied, unless the principal of all the Subordinated Bonds shall have already become due and payable, the Holders of not less than 40% of the principal amount of the Subordinated Bonds Outstanding, , subject to the "Rights of the Insurer" described below, by notice in writing to the Board and the State's Treasurer, may declare the principal of all the Subordinated Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable.

If an Event of Default affecting the Third Lien Debt has occurred and shall not have been remedied, unless the principal of all the Third Lien Debt shall have already become due and payable, the Holders of not less than 40% of the principal amount of the Third Lien Debt Outstanding, subject to the "Rights of the Insurer" described below, by notice in writing to the Board and the State Treasurer, may declare the principal of all Third Lien Debt

then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable.

Provided, however, the right of the Holders of not less than 40% in principal amount of the affected Senior Bonds, the affected Subordinated Bonds or the affected Third Lien Debt Outstanding, as applicable, to make any such declaration as aforesaid, is subject to the condition that: if at any time after such declaration of acceleration, but before the Senior Bonds or Subordinated Bonds or Third Lien Debt, as applicable, shall have matured by their terms, all overdue installments of interest upon such Bonds or Debt, together with interest on such overdue installments of interest to the extent permitted by law and all other sums then payable by the Board under the Bond Resolution and under the Financial Products Agreements related thereto then due (except the (i) principal of and interest accrued on the Bonds or Debt since the next preceding interest payment date and (ii) payments next due under Financial Products Agreements related thereto, in each case payable solely by virtue of such declaration of acceleration, collectively the “*Accelerated Amounts*”) shall either be paid by or for the account of the Board or satisfactory provisions shall be made for such payment, and all other defaults under the Bonds, under the Bond Resolution and under the Financial Products Agreements related thereto (other than such Accelerated Amounts) shall be made good or be secured or adequate provisions shall be made therefor, then such declaration of acceleration shall ipso facto be deemed to be rescinded and any such default shall ipso facto be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereto.

#### **Application of Pledged Funds After Default**

During the continuance of an Event of Default, the State Treasurer is ordered to apply (i) any moneys in the Pledged Funds (but only in the priority and for the uses set forth in the Bond Resolution, and (ii) any other available money, including any moneys, securities and funds received by the State Treasurer pursuant to any right given or action taken under the provisions of Article VIII of the Bond Resolution, as follows and in the following order of priority:

(i) **Expenses of Fiduciaries** - to the payment of the reasonable and proper fees (including reasonable attorneys’ fees), charges, expenses and liabilities of the Fiduciaries;

(ii) **Bond Service Charges on Senior Bonds** - to the payment of the Bond Service Charges then due on the Senior Bonds or Regular Swap Payments then due relating to Senior Bonds, as follows:

(a) Unless the principal of all of the Senior Bonds shall have become or have been declared due and payable,

First: Interest and Regular Swap Payments - To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Senior Bonds theretofore called for redemption, the payment of such Regular Swap Payments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal or Redemption Price - To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Senior Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Senior Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Senior Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Senior Bonds and such Regular Swap Payments, without preference or priority of principal over interest or of interest

over principal, or over any such Regular Swap Payments or of any Senior Bond over any other Senior Bond, ratably, according to the amounts due respectively for principal and interest and such Regular Swap Payments, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Senior Bonds and such Regular Swap Payments.

(iii) **Bond Service Charges on Subordinated Bonds** -- to the payment of the Bond Service Charges then due on the Subordinated Bonds and Regular Swap Payments then due relating to Subordinated Bonds, as follows:

(a) Unless the principal of all of the Subordinated Bonds shall have become or have been declared due and payable,

First: Interest and Regular Swap Payments -- To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Subordinated Bonds theretofore called for redemption, the payment of such Regular Swap Payments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal or Redemption Price -- To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Subordinated Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Subordinated Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto without any discrimination or preference.

(b) If the principal of all of the Subordinated Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Subordinated Bonds and such Regular Swap Payments, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest or over any such Regular Swap Payments, or of any Subordinated Bond over any other Subordinated Bond, ratably, according to the amounts due respectively for principal and interest and such Regular Swap Payments, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinated Bonds and such Regular Swap Payments.

(iv) **Termination Payments and other payments relating to any Financial Products Agreements relating to Senior Bonds or to Subordinated Bonds, then due, in the following order of priority:** First to such payments under Financial Products Agreements relating to Senior Bonds; and then to such payments under Financial Products Agreements relating to Subordinated Bonds.

(v) **Bond Service Charges on Third Lien Debt** -- to the payment of the Bond Service Charges then due on the Third Lien Debt and Regular Swap Payments then due relating to Third Lien Debt, as follows:

(a) Unless the principal of all of the Third Lien Debt shall have become or have been declared due and payable,

First: Interest and Regular Swap Payments -- To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Third Lien Debt theretofore called for redemption, the payment of such Regular Swap Payments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the

same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal or Redemption Price -- To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Third Lien Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Third Lien Debt due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Third Lien Debt shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Third Lien Debt and such Regular Swap Payments, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest or over any such Regular Swap Payments, or of any Third Lien Debt over any other Third Lien Debt, ratably, according to the amounts due respectively for principal and interest and such Regular Swap Payments to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Third Lien Debt and such Regular Swap Payments.

### **Unconditional Obligation**

Nothing in the Bond Resolution or in the Bonds contained shall affect or impair the obligation of the Board, which is absolute and unconditional, to pay from the Pledged Funds as provided in the Bond Resolution at the respective dates of maturity and places therein expressed the Bond Service Charges on the Bonds to the respective Holders thereof from Pledged Funds, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of its Bond when due.

### **Effect of Waiver and Other Circumstances**

No delay or omission of any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by the Bond Resolution to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Bondholders.

Prior to the declaration of acceleration of the Senior Bonds, the Subordinated Bonds or the Third Lien Debt as provided in the Bond Resolution, the Holders of not less than a majority in principal amount of the Senior Bonds, the Subordinated Bonds or the Third Lien Debt, as applicable, at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of such applicable Holders waive any default under the Bond Resolution that affects them and its consequences, except a default in the payment of Bond Service Charges on any of the Senior Bonds or Subordinated Bonds or Third Lien Debt, as applicable. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto.

### **Relationship of Subordinated Bonds and Third Lien Debt to the Senior Bonds**

If any Event of Default with respect to the Senior Bonds or Financial Products Agreements relating thereto shall have occurred and be continuing, the Holders of all the Outstanding Senior Bonds and the Qualified Counterparties under such Financial Products Agreements shall be entitled to receive payment in full of all Bond Service Charges on all the Senior Bonds and of all payments due under such related Financial Products Agreement, before the Holders of the Subordinated Bonds, Third Lien Debt and related Qualified Counterparties, are entitled to receive from the Pledged Funds, unobligated moneys in the Bond Proceeds Account or unobligated moneys in the Construction Account, any accelerated payment of Bond Service Charges upon the Subordinated Bonds or Third Lien Debt or accelerated payments under any related Financial Products Agreement.



No Holder of the Senior Bonds and related Financial Products Agreements shall be prejudiced in his right to enforce subordination of the Subordinated Bonds and Third Lien Debt and related Financial Products Agreements, by any act or failure to act on the part of the Board or any other party.

### **Relationship of Third Lien Debt to the Subordinated Bonds**

If any Event of Default with respect to the Subordinated Bonds or Financial Products Agreements relating thereto shall have occurred and be continuing, the Holders of all the Outstanding Subordinated Bonds and the Qualified Counterparties under such related Financial Products Agreements shall be entitled to receive payment in full of all Bond Service Charges on all the Subordinated Bonds and of all payments due under such related Financial Products Agreement, before the Holders of the Third Lien Debt and related Qualified Counterparties are entitled to receive from the Pledged Funds, unobligated moneys in the Bond Proceeds Account or unobligated moneys in the Construction Account, any accelerated payment of Bond Service Charges upon the Third Lien Debt or accelerated payments under any related Financial Products Agreement.

No Holder of the Subordinated Bonds and no Qualified Counterparties under related Financial Products Agreements shall be prejudiced in their rights to enforce subordination of the Third Lien Debt and related Financial Products Agreements, by any act or failure to act on the part of the Board or any other party.

### **Supplemental Resolutions Without Consent of Bondholders**

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the Board may be adopted without the consent of or notice to any Holders, which, when adopted, shall be fully effective in accordance with its terms:

- (1) Prior to the issuance of any Subordinated Bonds, to amend the provisions of the Bond Resolution relative to Subordinated Bonds, so long as such changes do not adversely affect the rights or security of Holders of Senior Bonds then Outstanding;
- (2) Prior to the issuance of any Third Lien Debt, to amend the provisions of the Bond Resolution relative to Third Lien Debt, so long as such changes do not adversely affect the rights or security of Holders of Senior Bonds then Outstanding or of Holders of Subordinated Bonds then Outstanding;
- (3) to cure any ambiguity, inconsistency or formal defect or omission in the Bond Resolution;
- (4) To close the Bond Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Bond Resolution on, the authentication and delivery of Bonds or the entering into Financial Products Agreements;
- (5) To add to the covenants and agreements of the Board in the Bond Resolution, other covenants and agreements to be observed by the Board which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;
- (6) To add to the limitations and restrictions in the Bond Resolution, other limitations and restrictions to be observed by the Board which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;
- (7) To authorize a Series of Senior Bonds or Subordinated Bonds and, in connection therewith, specify and determine any matters and things referred to in the Bond Resolution, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;
- (8) To authorize one or more Series of Third Lien Debt and, in connection therewith, specify and determine the provisions thereof, and also any other matters and things relative to such Third Lien Debt which

are not contrary to or inconsistent with the Bond Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Third Lien Debt;

(9) Notwithstanding any other provisions of the Bond Resolution, to authorize Bonds of a Series having terms and provisions different than the terms and provisions theretofore provided in the Bond Resolution, including but not limited to provisions relating to the timing of the payment of interest, maturity amounts and valuation as of a given time, and authorizing the form of Bond for such Series of Bonds and otherwise to provide amendments or modifications of provisions of the Bond Resolution relative to such Series; provided that neither the authorization and issuance of such Series of Bonds nor any such amendments or modifications shall in any manner impair or adversely affect the rights or security of the Holders of Bonds then Outstanding under the Bond Resolution;

(10) To secure a Financial Products Agreement as permitted by the Bond Resolution, and also to make other provisions relative to such Financial Product Agreement which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect, or to amend, modify, or rescind any such authorization, specification or determination at any time prior to the first execution and delivery of a Financial Product Agreement;

(11) To confirm, as further assurance, any pledge under, and the subjection to any pledge created or to be created by, the Bond Resolution of the Pledged Funds and to pledge as Pledged Funds any additional revenues, moneys, securities or agreements as may be permitted by law;

(12) To comply with the provisions of any federal or state securities law, including, without limitation, the Trust Indenture Act of 1939, as amended, or to comply with Section 103 of the Internal Revenue Code of 1954, as amended, replaced or substituted;

(13) To preserve the exclusion of the interest on any Bonds from gross income for purposes of federal or State income taxes and to preserve the power of the Board to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized hereby) the interest on which is likewise exempt from federal and State income taxes;

(14) To provide for the refunding or advance refunding of any Bonds, including the right to establish and administer an escrow fund and to take related action in connection therewith;

(15) To make provisions and amendments applicable only to Bonds issued and sold on the basis of the effectiveness of those provisions and amendments with respect to those Bonds, or applicable only to Bonds issued and subject to tender by their terms when the Holders of such Bonds are given at least 30 days notice of the proposed provisions or amendments and the opportunity to tender their Bonds for purchase at the tender price prior to the effective date of the provisions or amendments;

(16) To conform to the requirements of any Depository for any Series of Bonds, to provide for a Depository for any Series of Bonds or to remove any Depository for any Series of Bonds, so long as such action is not inconsistent with the provisions and requirements of this Resolution;

(17) To appoint a successor Paying Agent for any Series of Bonds, to appoint a successor Bond Registrar and to conform to the requirements of any Paying Agent or Bond Registrar, so long as such action is not inconsistent with the provisions and requirements of this Resolution;

(18) To make changes or modifications necessary to provide a Financial Products Agreement, Credit Enhancement, Liquidity Facility or other form of credit support, for any one or more Series of Bonds, including without limitation the creation of, or modification of, rights commonly afforded to Insurers and providers of letters of credit and similar credit facilities, such as the rights of a provider to receive notices and information, and to act, in lieu of Holders of the Bonds that are credit enhanced, to control the exercise of remedies and to give consent to amendments to this Resolution; or

(19) To modify any of the provisions of the Bond Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof.

(20) To make the Board or Department eligible, or to continue to qualify, to receive Interest Credit Payments for Federal Direct Payment Bonds.

### **Supplemental Resolutions with Consent of Bondholders**

At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders, as described below, and subject to the “Rights of the Insurer” described below, and, if applicable, an Insurer, in accordance with and subject to the provisions of the Bond Resolution, which Supplemental Resolution, upon the filing with the Bond Registrar of a copy thereof certified by an Authorized Board Representative and upon compliance with the provisions of the Bond Resolution, shall become fully effective in accordance with its terms.

Any modification or amendment of the Bond Resolution and of the rights and obligations of the Board and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given (i) of the Holders of at least a majority in principal amount of the Bonds affected by such amendment, which are Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, provided however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds or any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment shall (1) permit a change in the terms of redemption (including Sinking Fund Installments) or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, (2) prefer or give priority to any Senior Bond over any other Senior Bond or any Subordinated Bond over any other Subordinated Bond, or any Third Lien Debt over any other Third Lien Debt, without in each case the consent of the Holders of each such Bond then Outstanding not receiving such preference or priority, (3) reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or (4) change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

A Series shall be deemed to be affected by a modification or amendment of the Bond Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Board may in its discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Bond Resolution and any such determination by the Board shall be binding and conclusive on the Holders of the Bonds.

### **Rights of the Insurer**

The Insurer (currently there are no Insurers), and not the Holders thereof, shall be deemed to be the Holder of Bonds of any Series as to which it is the Insurer at all times for the purpose of giving any (a) notice, direction or approval upon the occurrence of an Event of Default; or (b) any approval or consent to the execution and delivery of any Supplemental Resolution or any amendment, change or modification of the Bond Resolution which, as specified above, requires the written approval or consent of the Holders of at least a majority in aggregate principal amount of Bonds of such Series at the time Outstanding.

Any provision of the Bond Resolution regarding consents, approvals, directions, appointments or requests by an Insurer shall be deemed to not require or permit such consents, approvals, directions, appointments, requests or notices to the Insurer, and shall read as if the Insurer were not mentioned therein during any time in which: (i) the Insurer is in default in its obligation to make any payments under its bond insurance policy, (ii) its bond insurance

policy shall at any time for any reason cease to be valid and binding on the Insurer, or shall be declared to be null and void, or the validity or enforceability of any provision thereof is being contested by the Insurer or any governmental agency or the Board, or if the Insurer is denying further liability or obligation under its bond insurance policy, (iii) a petition has been filed and is pending against the Insurer under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and has not been dismissed within 90 days of filing, or (iv) the Insurer has filed a petition, which is still pending, in voluntary bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consented to the filing of any petition against it under any such law.

## **Defeasance**

If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the Bond Service Charges due or to become due thereon and to the Qualified Counterparties all payments due or to become due under the related Financial Products Agreements, at the times and in the manner stipulated in the Bonds, in the Bond Resolution and the Financial Products Agreements, then the pledge of the amounts on deposit in the Bond Account, Bond Proceeds Account and Construction Account and any other moneys and securities, if any, pledged under the Bond Resolution and all covenants, agreements and other obligations of the Board to such Holders and all obligations of the Board under the Bond Resolution to such Qualified Counterparties, shall thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Bond Resolution, any Outstanding Bonds shall be deemed to have been paid and are not entitled to the lien, benefit and security of the Bond Resolution whenever the following conditions are met: if (i) in case any Bonds are to be redeemed on any date prior to their maturity, the Board shall have given to the Bond Registrar instructions accepted in writing by the Bond Registrar to mail as provided in the Bond Resolution notice of redemption of such Bonds (other than Bonds which have been purchased or otherwise acquired by the Board and delivered to the Bond Registrar as provided in the Bond Resolution prior to the mailing of such notice of redemption) on said date, (ii) there shall have been deposited with an Escrow Agent appointed for such purposes either moneys in an amount which shall be sufficient, or Defeasance Securities (including any Defeasance Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Escrow Agent at the same time, shall be sufficient (without regard to further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, which earnings are to be held likewise in trust and so committed, except as provided in the Bond Resolution) to pay when due the Bond Service Charges due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Board shall have given the Bond Registrar in form satisfactory to it instructions to mail a notice to the Holders of such Bonds within 15 days of the date on which the Bonds are deemed to be paid and discharged stating that the deposit required by (ii) above has been made with the Escrow Agent and that said Bonds are deemed to have been paid in accordance with the Bond Resolution and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the Bond Service Charges on said Bonds (other than Bonds which have been purchased or otherwise acquired by the Board and delivered to the Bond Registrar as provided in the Bond Resolution prior to the mailing of the notice of redemption referred to in clause (i) above); (iv) the Board shall have received a report of an independent nationally recognized firm of certified public accountants or a financial consulting firm of recognized standing in the field of municipal bonds to the effect that the amount of moneys and the principal of and interest when due on the Defeasance Securities deposited at the same time with the Escrow Agent shall be sufficient to pay when due the Bond Service Charges due and to become due on said Bonds on or prior to the redemption or maturity date thereof, as the case may be; and (v) if the Bonds deemed paid with Defeasance Securities were issued as obligations the interest on which was excluded from gross income for federal tax purposes, then the Board shall furnish to the Escrow Agent and Opinion of Counsel to the effect that such provision for paying such Bonds will not, by itself, cause such Bonds to lose such exclusion.

If, in connection with a redemption of all or any part of the Bonds, or in connection with providing for payment of all or any part of the Bonds, moneys and/or Defeasance Securities are deposited with the Escrow Agent sufficient to pay Bond Service Charges on all or a portion of the Defeased Bonds to any date after the first date on which such Defeased Bonds may be redeemed, the Board may expressly reserve and retain the right to subsequently

change the date on which any such Defeased Bonds for which such an escrow has been established are to be redeemed. The Board may further reserve and retain the right to restructure the moneys and/or Defeasance Obligations in the escrow and to apply any of the proceeds available following such restructuring for any lawful purpose.

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## APPENDIX D

### FORM OF CONTINUING DISCLOSURE UNDERTAKING

#### CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING (“Undertaking”), dated \_\_\_\_\_, 2011, is executed and delivered by the ARIZONA TRANSPORTATION BOARD (the “Board”) and the DEPARTMENT OF TRANSPORTATION (the “Department” which, together with the Board, is referred to as the “Issuer”), in connection with the issuance by the Board of its \$159,460,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund), 2011 Series, dated \_\_\_\_\_, 2011 (the “2011 Series Bonds”).

The Board and the Department each covenant and agree as follows:

Section 1. Purpose of this Undertaking. This Undertaking is executed and delivered by the Issuer, as of the date set forth below, in accordance with the Rule (defined below) for the benefit of the Beneficial Owners of the 2011 Series Bonds.

Section 2. Definitions. The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

“*Annual Information*” means, for the most recent Fiscal Year, the type of financial information set forth under the heading “SOURCES OF TRANSPORTATION EXCISE TAX REVENUES - Historical Transportation Excise Tax Revenues” in the final Official Statement, dated September 27, 2011, for the 2011 Series Bonds.

“*Audited Financial Statements*” means the audited financial statements of the Maricopa County Regional Area Road Fund (“RARF”) of the Department, prepared in conformity with generally accepted accounting principles.

“*Beneficial Owner*” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2011 Series Bonds including persons holding 2011 Series Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2011 Series Bonds for federal income tax purposes.

“*EMMA*” means the Electronic Municipal Market Access system of the MSRB. Information regarding submissions to EMMA is available at <http://emma.msrb.org>.

“*Filing Date*” means the first day of the eighth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day), beginning February 1, 2012.

“*Fiscal Year*” means the 12-month period beginning on July 1 of each year or such other 12-month period as the State shall adopt as its fiscal year.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*Rule*” means Rule 15c2-12(b)(5), as adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

“*SEC*” means the Securities and Exchange Commission.

“*Specified Event*” means the occurrence of any of the events with respect to the 2011 Series Bonds set forth in Sections 4(a) and (b) below.

“*State*” means the State of Arizona.

Section 3. Filing of Annual Information and Audited Financial Statements. The Issuer is the only Obligated Person (as defined in the Rule) for the 2011 Series Bonds. The Issuer hereby agrees to provide or cause to be provided to the MSRB, in a format and with identifying information prescribed by the MSRB:

(a) Annual Information for the preceding Fiscal Year and unaudited financial statements of the Department for the preceding Fiscal Year if Audited Financial Statements are not provided at the same time, not later than the Filing Date for each Fiscal Year; and

(b) Audited Financial Statements for the preceding Fiscal Year, not later than the later of the Filing Date for each Fiscal Year or 30 days after receipt thereof by the Department.

Currently, the MSRB requires filing such information electronically through EMMA. Audited Financial Statements are expected to be available together with the Annual Information. The Issuer is required to deliver, or cause to be delivered, such information in such manner and by such time so that the MSRB receives the information on or before the date specified.

Section 4. Notice of Specified Events and Failure to Provide Annual Information.

(a) The Issuer agrees to provide to the MSRB, in a format and with identifying information prescribed by the MSRB, notice of the occurrence of any of the following events (1) through (9) with respect to 2011 Series Bonds, in a timely manner not in excess of ten business days after the occurrence of the following events:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties<sup>1</sup>;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties<sup>2</sup>;
- (4) Substitution of credit or liquidity providers, or their failure to perform<sup>2</sup>;
- (5) Adverse tax opinions, the Issuance by the Internal Revenue Service of proposed or final determination of taxability or of Notices of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes; or
- (9) Bankruptcy, insolvency, receivership or similar event of the Issuer.

*Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or*

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<sup>1</sup> The 2011 Series Bonds are not secured by a debt service reserve as of the date of issue.

<sup>2</sup> No credit enhancement has been obtained for the 2011 Series Bonds as of the date of issue.



*if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.*

(b) The Issuer agrees to provide to the MSRB, in a format and with identifying information prescribed by the MSRB, notice of the occurrence of any of the following events (10) through (16) with respect to 2011 Series Bonds, in a timely manner not in excess of ten business days after the occurrence of the following events, if material:

- (10) Unless described in subparagraph (a)(5) above, other material notices or determinations by the Internal Revenue Service with respect to the tax status of 2011 Series Bonds or other material events affecting the tax status of 2011 Series Bonds;
- (11) Modification to rights of security holders;
- (12) Bond calls;
- (13) Release, substitution or sale of property securing repayment of 2011 Series Bonds;
- (14) Non-payment related defaults;
- (15) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
- (16) Appointment of a successor or additional trustee or the change of name of a trustee for the 2011 Series Bonds.

(c) The Issuer acknowledges that it must make a determination whether a Specified Event listed in subsection (b) is material under applicable federal securities laws in order to determine whether a filing is required under subsection (b).

(d) The Issuer agrees to provide to the MSRB and in a format and with identifying information prescribed by the MSRB, notice of the Issuer's failure to file the Annual Information on or prior to the applicable Filing Date.

(e) Notwithstanding the foregoing, notice of the Specified Event described in subsection 4(b)(12) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2011 Series Bonds pursuant to the Resolution (as defined in the 2011 Series Bonds).

(f) Currently, the MSRB requires filing of notice of Specified Events electronically through EMMA.

Section 5. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information or providing notice of the occurrence of an event, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information from any document or notice of occurrence of an event in addition to that which is

specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such information or include it in any future Annual Information or notice of Specified Events.

Section 6. Failure to Perform. The Issuer agrees that its agreements set forth in Sections 3 and 4 of this Undertaking are intended to be for the benefit of the Beneficial Owners from time to time of the 2011 Series Bonds. Any Beneficial Owner of a 2011 Series Bond may enforce the Issuer's obligation to provide or cause to be provided a filing that is due in accordance with Section 3 or 4 hereof by commencing an action in a court of competent jurisdiction in Phoenix, Arizona to seek specific performance by court order to compel the Issuer to make such filings; provided that any Beneficial Owner seeking to require the Issuer to comply with this Undertaking shall first provide at least 30 days' prior written notice to the Board and the Department of the Issuer's failure, giving reasonable detail of such failure, following which notice the Issuer shall have 30 days to comply. The right of a Beneficial Owner to enforce any provision of this Undertaking shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder, and no person or entity shall be entitled to recover monetary damages under this Undertaking, and provided further that any failure of the Issuer to comply with any provisions of this Undertaking shall not be a default or an Event of Default with respect to the 2011 Series Bonds under the Resolution.

Section 7. Amendments; Waiver. The Board reserves the right to amend this Undertaking, and noncompliance with any provision of this Undertaking may be waived, as may be necessary or appropriate to (a) achieve its compliance with any applicable federal securities law or rule, (b) cure any ambiguity, inconsistency or formal defect or omission and (c) address any changes in circumstances arising from a change in legal requirements, change in law or change in the identity, nature or status of the Board. Any such amendment or waiver shall not be effective unless the Undertaking (as amended or taking into account such waiver) would have materially complied with the requirements of the Rule at the time of the primary offering of the 2011 Series Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the Board shall have received either (i) a written opinion of bond counsel or other qualified independent special counsel selected by Board that the amendment or waiver would not materially impair the interests of Holders or Beneficial Owners or (ii) the written consent to the amendment or waiver of the Holders of at least a majority of the principal amount of the Bonds then outstanding.

In the event of any amendment or waiver of a provision of this Undertaking, the Issuer shall describe such amendment in the Annual Information or Audited Financial Statements, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be following in preparing Audited Financial Statements, (1) notice of such change shall be given in the same manner as Section 3, and (ii) the Annual Information or the Audited Financial Statement for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the Audited Financial Statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Termination of Undertaking. This Undertaking shall terminate when (a) the 2011 Series Bonds are no longer outstanding (within the meaning of the Resolution) or (b) the Rule no longer applies to these 2011 Series Bonds.

Section 9. Dissemination Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 10 Beneficiaries. This Undertaking shall inure solely to the benefit of the Issuer and the Beneficial Owners from time to time of the 2011 Series Bonds and shall create no rights in any other person or entity.

Section 11. Recordkeeping. The Issuer shall maintain records of all Annual Information and notice of Specified Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 12. Governing Law. This Undertaking shall be governed by the laws of the State.

(Remainder of this page left blank)

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Undertaking to be executed and delivered by their duly authorized officers as of this \_\_\_\_ day of \_\_\_\_\_, 2011.

ARIZONA TRANSPORTATION BOARD

By: \_\_\_\_\_  
Name: William J. Feldmeier  
Its: Chairman

ARIZONA DEPARTMENT OF TRANSPORTATION

By: \_\_\_\_\_  
Name: John Halikowski  
Its: Director

(Signature page of Continuing Disclosure Undertaking)

## APPENDIX E

### BOOK-ENTRY-ONLY SYSTEM

THE INFORMATION PROVIDED IN THIS APPENDIX HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE BOARD, THE DEPARTMENT, BOND COUNSEL, THE FINANCIAL CONSULTANT OR THE PURCHASER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

DTC will act as securities depository for the 2011 Series Bonds. The 2011 Series Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the 2011 Series Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of 2011 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011 Series Bonds on DTC's records. The ownership interest of each actual purchaser of each 2011 Series Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2011 Series Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2011 Series Bonds, except in the event that use of the book-entry system for the 2011 Series Bonds is discontinued.

To facilitate subsequent transfers, all 2011 Series Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2011 Series Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2011 Series Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011 Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2011 Series Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2011 Series Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2011 Series Bond documents. For example, Beneficial Owners of 2011 Series Bonds may wish to ascertain that the nominee holding the 2011 Series Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2011 Series Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2011 Series Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2011 Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the 2011 Series Bonds will be made by the Paying Agent to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2011 Series Bonds at any time by giving reasonable notice to the Paying Agent or the Board. Under such circumstances, in the event that a successor depository is not obtained, 2011 Series Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2011 Series Bond certificates will be printed and delivered to DTC.

**NONE OF THE BOARD, THE DEPARTMENT, THE BOND REGISTRAR AND PAYING AGENT WILL HAVE RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2011 SERIES BONDS UNDER THE BOND RESOLUTION; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2011 SERIES BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE 2011 SERIES BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2011 SERIES BONDS; OR (6) ANY OTHER MATTERS.**

So long as Cede & Co. is the registered owner of the 2011 Series Bonds, as nominee for DTC, references herein to owner of the 2011 Series Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such 2011 Series Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Board or the Bond Registrar to DTC only.