

OFFICIAL STATEMENT

NEW ISSUE – Book-Entry-Only

RATINGS: See “RATINGS” herein

\$62,465,000

ARIZONA TRANSPORTATION BOARD GRANT ANTICIPATION NOTES SERIES 2019A

Dated: Date of Delivery

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

The Grant Anticipation Notes, Series 2019A (the “Series 2019A Notes”) are being issued by the Arizona Transportation Board (the “Board”) only as fully registered notes under a book-entry-only system.

Interest on the Series 2019A Notes is payable on January 1 and July 1 of each year (each an “Interest Payment Date”), commencing July 1, 2019, by the paying agent, initially U.S. Bank National Association (the “Paying Agent”). Interest accrues from the date of delivery of the Series 2019A Notes.

The maturities, interest rates and prices or yields of the Series 2019A Notes are shown on the inside front cover page. The Series 2019A Notes are subject to redemption prior to their respective maturity dates as described herein. See “THE SERIES 2019A NOTES – Redemption Provisions.”

The Series 2019A Notes will be registered initially 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 Series 2019A Notes. Purchases of beneficial interests in the Series 2019A Notes will be made in book-entry-only form in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interests in the Series 2019A Notes. So long as the Series 2019A Notes are registered in the name of DTC, or its nominee, payments of the principal of and interest on the Series 2019A Notes will be made directly by the Paying Agent to DTC which, in turn, is obligated to remit such payments to its participants for subsequent distribution to beneficial owners of the Series 2019A Notes, as described herein.

The Series 2019A Notes are being issued to (i) pay a portion of the costs of the Series 2019A Project (as defined herein) and (ii) pay costs of issuing the Series 2019A Notes. See “SERIES 2019A PROJECT” herein.

The Series 2019A Notes are limited obligations of the Board. The Series 2019A Notes, together with Outstanding Notes previously issued by the Board and with any Additional Notes that are subsequently issued on a parity therewith (collectively, “Notes”), are payable from, and secured solely by a pledge of, amounts on deposit in the Grant Anticipation Note Fund and Note Proceeds Account (collectively, the “Pledged Funds”) created under the Note Resolution (as defined herein) and held by the Arizona State Treasurer. The Board is required by the Note Resolution to deposit revenues received from the Federal Highway Administration under certain Grant Agreements into the Grant Anticipation Note Fund. Under certain conditions, the Board is also required to deposit other available Federal Aid Revenues and certain available other revenues of the Arizona Department of Transportation (the “Department”) into the Grant Anticipation Note Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE NOTES” herein. **The Series 2019A Notes are not obligations, general, special or otherwise, of the State of Arizona (the “State”), do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any monies of the State, the Board or the Department, other than from the Pledged Funds.**

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2019A Notes 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, and (ii) interest on the Series 2019A Notes is exempt from Arizona state income taxes. Interest on the Series 2019A Notes may be subject to certain federal taxes imposed only on certain corporations. For a more complete discussion of the tax aspects, see “TAX MATTERS” herein.

This cover page contains only a brief description of the Series 2019A Notes and the security therefor. It is not a summary of material information with respect to the Series 2019A Notes. Investors should read this entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 2019A Notes are offered when, as and if issued, subject to an opinion on certain legal matters relating to their issuance of Squire Patton Boggs (US) LLP, Bond Counsel to the Board and Department, and certain other conditions. Certain legal matters will be passed on for the Underwriters by Greenberg Traurig, LLP. It is expected that the Series 2019A Notes in book-entry-only form will be available for delivery through the facilities of DTC on or about April 11, 2019.

Wells Fargo Securities

Citigroup

J.P. Morgan

March 26, 2019

\$62,465,000
ARIZONA TRANSPORTATION BOARD
GRANT ANTICIPATION NOTES
SERIES 2019A

MATURITY SCHEDULE

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP (a) (040647)
2020	\$2,890,000	5.00%	1.53%	ES4
2021	3,040,000	5.00	1.55	ET2
2022	3,195,000	5.00	1.57	EU9
2023	3,360,000	5.00	1.59	EV7
2024	3,520,000	5.00	1.67	EW5
2025	3,690,000	5.00	1.74	EX3
2026	3,880,000	5.00	1.82	EY1
2027	4,070,000	5.00	1.89	EZ8
2028	4,270,000	5.00	1.95	FA2
2029	4,495,000	5.00	2.03	FB0
2030	4,715,000	5.00	2.13 (b)	FC8
2031	4,955,000	5.00	2.23 (b)	FD6
2032	5,195,000	5.00	2.30 (b)	FE4
2033	5,455,000	5.00	2.35 (b)	FF1
2034	5,735,000	5.00	2.39 (b)	FG9

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- (b) Yield calculated to the July 1, 2029 first optional redemption date.

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Governor

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Michael S. Hammond
Vice Chairman

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Member

Jesse Thompson
Member

Sam Elters
Member

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*Deputy Director for Transportation
and State Engineer*

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Transportation Systems Management
and Operations*

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Executive Officer

Lisa Danka
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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 (the “Official Statement”), in connection with the offering contained 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 securities offered hereby or an offer to sell or solicitation of offers to buy, nor shall there be any sale of the Grant Anticipation Notes, Series 2019A (the “Series 2019A Notes”), 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, the Federal Highway Administration (the “FHWA”) 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 the FHWA and other sources, is intended to show recent historic 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, the Department or the Federal Aid Highway Program 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 is made by the Board, the Department or the underwriters identified on the cover page (the “Underwriters”), 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 and 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 UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM THE INITIAL PUBLIC OFFERING PRICES SHOWN ON THE INSIDE FRONT COVER HEREOF TO DEALERS AND OTHERS, AND THE UNDERWRITERS MAY OVERALLOT OR ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE SERIES 2019A NOTES 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 Series 2019A Notes 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 and the Department have undertaken to provide continuing disclosure with respect to the Series 2019A Notes 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 Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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OFFICIAL STATEMENT

relating to

\$62,465,000

Arizona Transportation Board Grant Anticipation Notes Series 2019A

INTRODUCTION

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document.

This Official Statement (including the cover page, inside front cover page and Appendices attached hereto) provides certain information in connection with the initial issuance by the Arizona Transportation Board (the “Board”) of its Grant Anticipation Notes, Series 2019A (the “Series 2019A Notes”) in the aggregate principal amount of \$62,465,000. The Series 2019A Notes are issued pursuant to the State of Arizona’s Grant Anticipation Note law, Title 28, Chapter 21, Article 3, Arizona Revised Statutes (the “Act”), and under and pursuant to a resolution adopted by the Board on June 9, 2000, as supplemented to date, including by a supplemental resolution adopted on January 18, 2019, and as it may be subsequently amended in accordance with its terms.

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

The Board establishes policy for the State of Arizona Department of Transportation (the “Department”) and issues bonds and notes to finance the highway program of the State of Arizona (“Arizona” or the “State”). The Department administers the State highway program. Under the Act, the Board is authorized to issue notes in anticipation of the receipt of revenues under one or more grant agreements between the Department and the Federal Highway Administration (“FHWA”). The Department has entered into grant agreements with the FHWA (collectively, the “Series 2019A Grant Agreement”) relating to the construction by the Department of U.S. highways and State routes within the State, and improvements related thereto. The Series 2019A Notes are being issued for the purpose of (i) paying a portion of the costs of the Series 2019A Project (as defined herein) and (ii) paying the costs of issuing the Series 2019A Notes. See “PLAN OF FINANCE.” The Department expects to use revenues received under the Series 2019A Grant Agreement to pay the Debt Service on the Series 2019A Notes.

The Series 2019A Notes are limited obligations of the Board. The Debt Service on the Series 2019A Notes, together with the Debt Service on Outstanding Notes previously issued by the Board and any Additional Notes that may be subsequently issued by the Board on a parity with the Series 2019A Notes (collectively, the “Notes”), are payable from, and secured solely by a pledge of, amounts on deposit in the Grant Anticipation Note Fund and Note Proceeds Account created under the Note Resolution and held by the State Treasurer. After the issuance of the Series 2019A Notes, there will be \$239,885,000 aggregate principal amount of Series 2011A, Series 2016, Series 2017A and Series 2019A Notes Outstanding. The Note Resolution requires the Board to deposit all Federal Aid Revenues received from the FHWA under all Grant Agreements relating to Notes into the Grant Anticipation Note Fund (unless sufficient amounts have already been deposited in such Fund from other sources), which Fund shall only be used to pay Debt Service on Notes. Under certain conditions, the Board is also required to deposit into the Grant Anticipation Note Fund other available Federal Aid Revenues and certain other available revenue of the Department. See “SECURITY AND SOURCES OF PAYMENT FOR THE NOTES – Deposits and Uses of Grant Revenues and Federal Aid Revenues” and “– Deposits of Certain Other Revenue into Grant Anticipation Note Fund.” Payment of Debt Service on the Series 2019A Notes is not subject to annual appropriation by the Legislature of the State and such payments comply with all applicable constitutional or statutory limitations on expenditures.

The primary source of Federal Aid Revenues is amounts distributed to the Department by the federal government pursuant to the then current Federal Aid Authorization, which means Title 23 (defined below), any extension of Title 23, or any successor to Title 23 authorizing federal funding of state highways. The current Federal Aid Authorization, “Fixing America’s Surface Transportation Act” (the “FAST Act”) became law on December 4, 2015 and is scheduled to expire on September 30, 2020. See “INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS.” **Although Congress has provided multi-year authorizations and short-term extensions for transportation programs in the past, no assurances can be made that Congress will extend the current Federal Aid Authorization upon its expiration or will enact a new Federal Aid Authorization which will provide Federal Aid Revenues to the Department sufficient to pay Debt Service on the Notes when due.**

The Series 2019A Notes are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any monies of the State, the Board or the Department, other than from the Pledged Funds.

This Official Statement describes the terms of and security for the Series 2019A Notes and the use of proceeds of the Series 2019A Notes. Also included are summaries of certain provisions of the Note Resolution, the Grant Agreements relating to the Notes and Title 23 of the United States Code, entitled “Highways” (“Title 23”), and other provisions of federal law which govern the Federal Aid Highway Program. These descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Note Resolution and the Grant Agreements are qualified in their entirety by reference to the definitive form thereof, all references to federal laws and the Act are qualified in their entirety by reference to the complete statutes, regulations and interpretations by federal officials, and all references to the Series 2019A Notes are qualified by the forms thereof contained in the Note Resolution and are further qualified in their entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors’ rights. Copies of the Note Resolution and the Grant Agreements may be obtained as set forth under “MISCELLANEOUS.”

SERIES 2019A PROJECT

The Series 2019A Project consists of portions of certain controlled-access highways, U.S. highways and State routes within the State to be constructed by the Department, and for which the Series 2019A Grant Agreement has been executed with the FHWA (the “Series 2019A Project”). The Department may also use the proceeds of the Series 2019A Notes to pay a portion of the construction costs of other controlled-access highway, U.S. highway and State route projects as and if additional grant agreements are executed with the FHWA.

The FHWA has authorized portions of the Series 2019A Project as an advance construction project under Title 23 and has determined that the Series 2019A Project is eligible for Federal Aid Revenues under Title 23. The FHWA has agreed under the Series 2019A Grant Agreement to make payments to the Department in amounts equal to the Debt Service on the Series 2019A Notes, when due. Such payments may be used by the Department under Title 23 and the terms of the Series 2019A Grant Agreement to pay Debt Service on the Notes, including the Series 2019A Notes. As required by Title 23, the Series 2019A Project has been included by the Board in the transportation improvement program of the State. See “INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS.” Under the Note Resolution, the Department has covenanted, to the extent permitted by State law, to comply with applicable law and the Series 2019A Grant Agreement to the extent required to receive all revenues from the FHWA under the Series 2019A Grant Agreement.

PLAN OF FINANCE

Approximately \$75,000,000 of the proceeds (comprised of the par amount of the Series 2019A Notes plus a portion of original issue premium on the Series 2019A Notes) received from the sale of the Series 2019A Notes will be used to pay a portion of the costs of the Series 2019A Project, and the balance of the proceeds will be used to pay the costs of issuing the Series 2019A Notes.

THE SERIES 2019A NOTES

General Description

The Series 2019A Notes will be issued in the principal amounts and with the maturity dates shown on the inside front cover page of this Official Statement. The Series 2019A Notes will accrue interest from the date of their delivery and will bear interest from such date, payable on January 1 and July 1 of each year, commencing July 1, 2019 (each, an “Interest Payment Date”). Interest will be calculated based on a year of 360 days and twelve 30-day months.

As described in Appendix E – “BOOK-ENTRY-ONLY SYSTEM,” the Series 2019A Notes, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). So long as DTC, or its nominee Cede & Co., is the registered owner of all the Series 2019A Notes, all payments on the Series 2019A Notes will be made directly to DTC.

The principal of the Series 2019A Notes will be payable in lawful money of the United States of America at the designated corporate trust office of the Paying Agent. U.S. Bank National Association will initially serve as paying agent (the “Paying Agent”) and note registrar (the “Note Registrar”) for the Series 2019A Notes. Payment of the interest on any Series 2019A Note shall be made to the person whose name appears on the note registration books of the Note Registrar as the registered owner thereof (the “Owner”) as of the close of business on the 15th day of the month preceding the Interest Payment Date (the “Record Date”). Interest will be paid to the Owner at the address shown on such registration books. At the option of any Owner of at least \$1,000,000 in aggregate principal amount of the Series 2019A Notes, principal and interest will be paid by wire transfer to a bank account located in the continental United States, at the expense of such Owner, if such Owner has made such request in writing to the Note Registrar prior to the Record Date. As long as the DTC book-entry-only system is in effect, Cede & Co. is the Owner and will receive all payments of Debt Service.

Any such interest not so punctually paid or duly provided for will cease to be payable to the Owner on such Record Date and will be paid to the person in whose name the Series 2019A Note is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Paying Agent, notice whereof being given to the Owners not less than 10 days prior to such special record date.

Redemption Provisions

Optional Redemption.

The Series 2019A Notes maturing on or prior to July 1, 2029, are not subject to optional redemption prior to maturity. The Series 2019A Notes maturing on and after July 1, 2030 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, 2029, at a redemption price equal to the principal amount of the Series 2019A Notes to be redeemed plus accrued interest to the date fixed for redemption, but without premium.

Purchase in Lieu of Redemption.

If any Series 2019A Note is called for optional redemption in whole or in part, the Board may elect to have such Series 2019A Note purchased in lieu of redemption as follows. No notice of the purchase in lieu of redemption shall be required to be given to the Owners other than the required notice of redemptions as described below under “-Notice of Redemption.”

The Authorized Officer of the Board may direct the Paying Agent, or another agent appointed by the Authorized Officer, to purchase all or some lesser portion of the Series 2019A Notes called for optional redemption. Any such direction must: be in writing; if less than all of the Series 2019A Notes called for redemption are to be purchased, identify those Series 2019A Notes 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 Series 2019A Notes on the date which otherwise would be the redemption date of such Series 2019A Notes. Any of the Series 2019A Notes 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 Officer by written notice to the Paying Agent and the scheduled redemption of such Series 2019A Notes shall not occur.

If such purchase is directed by the Authorized Officer, the purchase shall be made for the account of the Board or its designee. The purchase price of the Series 2019A Notes 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 Series 2019A Notes on the scheduled redemption date for such redemption. The Paying Agent shall not purchase the Series 2019A Notes 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 Note Registrar shall give notice by mail of the redemption of the Series 2019A Notes, not less than 30 days prior to the redemption date, to the Owners (Cede & Co., so long as the Series 2019A Notes are registered in book-entry-only form in the name thereof, as nominee of DTC, see Appendix E) of any Series 2019A Notes 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 Series 2019A Notes 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 Series 2019A Notes of like maturity are to be redeemed, the particular Series 2019A Notes or portions thereof to be redeemed. Any defect in the notice to the Owner of any Series 2019A Note which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other Series 2019A Note. 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 Series 2019A Note to notify the Beneficial Owner shall not affect the validity of the redemption of such Series 2019A Note.

So long as the Series 2019A Notes are held under the Book-Entry-Only System, notice of redemption shall be sent to Cede & Co., as the Owner. If on the redemption date, money for the redemption of the Series 2019A Notes 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 Series 2019A Notes 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 Series 2019A Notes 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 Series 2019A Notes there has not been deposited with the Paying Agent moneys sufficient to redeem all the Series 2019A Notes called for optional redemption, then such notice shall state that the optional redemption is subject to 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 Series 2019A Notes shall not be optionally redeemed unless such moneys are so deposited.

So long as the Series 2019A Notes are registered in book-entry-only form in the name of a nominee of DTC, where a portion of a maturity of the Series 2019A Notes will be redeemed, selection of which Series 2019A Notes of a maturity will be redeemed will be determined by DTC in accordance with DTC's procedures.

Exchange and Transfer

If the Series 2019A Notes are not in book-entry-only form, the following paragraph will be applicable.

The registration of any Series 2019A Note may be transferred upon the note register of the Board by the Owner thereof, in person or by his or her duly authorized attorney, upon surrender of such Series 2019A Note at the designated office of the Note Registrar accompanied by a written instrument of transfer satisfactory to the Note Registrar and duly executed by the Owner or by his or her duly authorized attorney. Any Series 2019A Note may be exchanged at the designated office of the Note Registrar for new Series 2019A Notes of any authorized denomination, in the same aggregate principal amount and maturity as the surrendered Series 2019A Note. The Note Registrar will not charge an administrative fee for any new Series 2019A Note issued upon any exchange or transfer, but may require the Owner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Note Registrar is not required to exchange or transfer any Series 2019A Note during the period commencing on June 15 and December 15 of each year and ending on the subsequent July 1 or January 1, respectively.

Defeasance

If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all Outstanding Series 2019A Notes or Series 2019A Notes of a particular maturity or a particular Series 2019A Note 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 Note Resolution, such Series 2019A Notes will cease to be entitled to any pledge, benefit or security under the Note Resolution, and all covenants, agreements and obligations of the Board to the Owners of such Series 2019A Notes will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Note Resolution, any Outstanding Series 2019A Notes 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 Defeasance Obligations as prescribed in the Note 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 Series 2019A Notes on or prior to the maturity date thereof. See "Defeasance" in Appendix C.

SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

Limited Obligations and Legal Authority

The Series 2019A Notes are limited obligations of the Board and are payable from the Pledged Funds specified in the Note Resolution and described below. The Series 2019A Notes are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any monies of the State, the Board or the Department, other than from the Pledged Funds.

The Act authorizes the Board to issue a Series of Notes to finance one or more highway projects after the Department has entered into a grant agreement with the FHWA to reimburse the Department for the Federally-eligible costs of such projects. The Department has entered into the Series 2019A Grant Agreement relating to the Series 2019A Project. Pursuant to the Act, the Board will issue the Series 2019A Notes in anticipation of the receipt by the Department of the Grant Revenues from the FHWA under the Series 2019A Grant Agreement.

The Series 2019A Grant Agreement expressly states that it does not constitute a commitment, guarantee or obligation on the part of the United States to provide for the payment of Debt Service on the Series 2019A Notes nor does it create any right of a third party against the United States for payment under the Series 2019A Notes.

Creation of Pledged Funds

Under the Note Resolution, the Board has established: (1) the Grant Anticipation Note Fund as a special separate fund held by the State Treasurer and (2) the Note Proceeds Account as a separate account in the State Highway Fund held by the State Treasurer. Under State law, public moneys of the State are held by the State Treasurer.

The Board pledges in the Note Resolution to the payment of the Debt Service on the Series 2019A Notes, the Outstanding Notes and any Additional Notes that may be subsequently issued by the Board on a parity therewith (see “Additional Notes” below), Grant Revenues, Federal Aid Revenues and other moneys on deposit in the Grant Anticipation Note Fund and the Note Proceeds Account (such funds so deposited being the “Pledged Funds”), subject to the permitted use by the Department of moneys in the Note Proceeds Account to pay Project Costs. The funds in the Grant Anticipation Note Fund shall only be used to pay Debt Service on any Outstanding Notes. After issuance of the Series 2019A Notes, there will be \$239,885,000 aggregate principal amount of Notes Outstanding.

The Department and State Treasurer have agreed in the Note Resolution to deposit Grant Revenues when received from the FHWA under Grant Agreements relating to Notes into the Grant Anticipation Note Fund. See “-Deposits and Uses of Grant Revenues and Federal Aid Revenues” below.

The Note Resolution constitutes a contract between the Board and the Owners from time to time of the Notes, and the pledge, covenants and agreements of the Board and Department set forth in the Note Resolution are for the equal benefit, protection and security of the Owners of any and all of the Notes, all of which, regardless of the time or times of their issuance or maturity, will be of equal rank without preference, priority or distinction of any of the Notes over any other Note, except as expressly provided in or permitted by the Note Resolution. The pledge by the Board of the Pledged Funds is irrevocable so long as any Notes are Outstanding under the terms of the Note Resolution.

Deposits and Uses of Grant Revenues and Federal Aid Revenues

The Note Resolution defines “Grant Revenues” as any and all revenues the Department receives under a Grant Agreement relating to the Notes, the proceeds of the Notes and the income and gain from the investment of the Funds and Accounts held under the Note Resolution. The Note Resolution defines “Federal Aid Revenues” as revenues or funds received by or on behalf of, or available to, the Department pursuant to “Federal Aid Authorization,” which means Title 23, any extension of Title 23, or any successor to Title 23 authorizing federal funding of state highways (including, without limitation, Grant Revenues received pursuant to any Grant Agreement), which revenues or funds are not restricted under Federal Aid Authorization in a way that prohibits the Board from using them to pay Debt Service on Notes.

The Department entered into the Series 2011A, Series 2017A and Series 2019A Grant Agreements with the FHWA relating to the Series 2011A, Series 2016, Series 2017A and Series 2019A Notes. Under the provisions of these Grant Agreements, the FHWA has agreed to make payments to the Department for eligible project costs, to the extent federal funds are available, of Grant Revenues in amounts equal to the Debt Service, when due, on the Series 2011A, Series 2016, Series 2017A and Series 2019A Notes. The FHWA has determined that the projects under such Grant Agreements are eligible for Federal Aid Revenues under Federal Aid Authorization. Under the Note Resolution, the Department has covenanted, to the extent permitted by State law, to comply with applicable law and such Grant Agreements to the extent required to receive all Federal Aid Revenues from the FHWA under such Grant Agreements.

Pursuant to the Note Resolution, the Department has agreed that all Grant Revenues under any Grant Agreement relating to the Notes received by the Department shall on the day of receipt be deposited by the Department with the State Treasurer and the State Treasurer has agreed to deposit such Grant Revenues directly into the Grant Anticipation Note Fund, until the amount on deposit equals the aggregate of Debt Service on the Outstanding Notes, except as set forth in the last paragraph under this heading.

Only after Grant Revenues, other Federal Aid Revenues and certain other revenues (see “-Deposits of Certain Other Revenue into Grant Anticipation Note Fund” below) are deposited into the Grant Anticipation Note Fund do they become Pledged Funds.

The Act prohibits an Owner of a Note from compelling FHWA to pay Grant Revenues to the Department. Federal Aid Authorization and the Series 2011A, Series 2017A and Series 2019A Grant Agreements expressly state that such Grant Agreements (1) do not create any right in any party (other than the Department) against the FHWA and (2) do not constitute a commitment, guarantee or obligation on the part of the United States to provide for the payment of Debt Service on the Series 2011A, Series 2016, Series 2017A and Series 2019A Notes.

For a discussion of Federal Aid Revenues and Federal Aid Authorization see “INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS” and for a discussion of the amount of Federal Aid Revenues received by the Department see “FEDERAL AID REVENUES.” The primary source of Federal Aid Revenues is amounts distributed to the Department by the federal government pursuant to Federal Aid Authorization. The current Federal Aid Authorization through the FAST Act became law on December 4, 2015 and is scheduled to expire on September 30, 2020. See “INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS – FAST Act.” **Although Congress has provided multi-year authorizations and short-term extensions for transportation programs in the past, no assurances can be made that Congress will extend the current Federal Aid Authorization upon its expiration or will enact a new Federal Aid Authorization which will provide Federal Aid Revenues to the Department sufficient to pay Debt Service on the Notes when due.**

The Note Resolution also establishes the Federal Aid Revenues Subaccount in the State Highway Fund and the Federal Aid Revenues Subaccount in the Construction Account of the Regional Area Road Fund, which Subaccounts will be held by the State Treasurer and will be used by the Department as provided in the Note Resolution and as described below. *Monies in the Federal Aid Revenues Subaccounts are not Pledged Funds.* All Federal Aid Revenues (excluding Grant Revenues received under any Grant Agreement, which are required to be deposited directly into the Grant Anticipation Note Fund, as described above) received by the Department shall on the day of receipt be deposited with the State Treasurer and the State Treasurer shall (except under circumstances described in the third succeeding paragraph) deposit such revenues into the Federal Aid Revenues Subaccount in the State Highway Fund or in the Federal Aid Revenues Subaccount in the Construction Account of the Regional Area Road Fund, as required by State law.

Federal Aid Revenues held in the Federal Aid Revenues Subaccounts and State moneys in the State Highway Fund and Regional Area Road Fund may be used at any time by the Department for any purpose permitted by State law, including, without limitation, paying costs of highways or operating expenses of the Department. The Department has programmed the use of moneys in the Federal Aid Revenues Subaccounts and State moneys in the State Highway Fund and Regional Area Road Fund for those purposes.

As discussed in prior paragraphs, there can be no assurance that any moneys will be in the Federal Aid Revenues Subaccounts, the Note Proceeds Account, the State Highway Fund or the Construction Account in the Regional Area Road Fund at times and in amounts necessary to cure any deficiency in the Grant Anticipation Note Fund to pay Debt Service on the Notes when due. Debt Service on the Notes is not subject to acceleration if there is a default in the payment of Debt Service, when due. See “Uses of Monies in the Regional Area Road Fund” below for a discussion of eligible uses of monies in such Fund, including in the Federal Aid Revenues Subaccount in the Construction Account of such Fund.

On or before October 15 of each Federal Fiscal Year (which commences on October 1) (“Federal Fiscal Year” or “FFY”) in which Debt Service on any Note is payable, the Director shall file with the State Treasurer and the Board a certificate calculating the Debt Service Coverage Ratio for such Federal Fiscal Year. The Debt Service Coverage Ratio is defined in the Note Resolution as (a) the amount of Federal Aid Revenues that the Department estimates will be available to pay Debt Service on all Outstanding Notes payable during such Federal Fiscal Year, divided by (b) the Annual Debt Service due on all Outstanding Notes during such Federal Fiscal Year. If the Debt Service Coverage Ratio shown in such certificate is less than 1.30 (or for so long as the Director fails to file such certificate for each such Federal Fiscal Year), then the Note Resolution requires the State Treasurer from and after October 16 of each such Federal Fiscal Year to deposit all Federal Aid Revenues (including Grant Revenues received under Grant Agreements and all other Federal Aid Revenues) received by the State Treasurer directly into the Grant Anticipation Note Fund, until the amount on deposit in the Grant Anticipation Note Fund shall equal the aggregate of: (1) the amount of interest on all Outstanding Notes payable during such Federal Fiscal Year and (2) the amount of principal of all Outstanding Notes payable during such Federal Fiscal Year. If the Director’s certificate shows the

Debt Service Coverage Ratio is at least 1.30, then Federal Aid Revenues (which do not constitute Grant Revenues) shall be deposited into the Federal Aid Revenues Subaccounts as described above.

Uses of Monies in the Regional Area Road Fund

Pursuant to Arizona law, Federal Aid Revenues and State monies in the Regional Area Road Fund, including in the Construction Account of such Fund or in the Federal Aid Revenues Subaccount of the Construction Account of such Fund, may only be expended to pay the costs related to freeways and other routes in the state highway system that are included in the regional transportation plan of Maricopa County, Arizona (the “County”) or the costs related to major arterial streets and intersections included in the regional transportation plan of the County. At the current time, none of the projects funded or planned to be funded with the proceeds of any outstanding Notes, including the Series 2019A Notes, are eligible for funding from monies in, or to be deposited in, the Regional Area Road Fund, including any accounts and subaccounts therein such as the Federal Aid Revenues Subaccount in the Construction Account. If the currently intended use of proceeds of the Series 2019A Notes is modified by the Department to include expenditure on one or more projects eligible for funding from the Regional Area Road Fund, in such case Federal Aid Revenues and State monies deposited in the Regional Area Road Fund would be available for paying expenses of such project, including paying debt service on the portion of any such Notes that funded such eligible project.

Deposits of Certain Other Revenue into Grant Anticipation Note Fund

On the fifth Business Day prior to any date on which Debt Service on any Note is payable, the Note Resolution requires the State Treasurer to transfer into the Grant Anticipation Note Fund, to the extent required in order to pay Debt Service payable on the Outstanding Notes on such date, moneys from the following sources and in the following priority: First from the Federal Aid Revenues Subaccounts, Second from the Note Proceeds Account, Third from other accounts of the State Highway Fund (exclusive of any moneys therein pledged to State highway revenue bonds) and Fourth from the Construction Account in the Regional Area Road Fund (to the extent the proceeds of Notes were used for projects eligible to be paid from such Fund). See “Uses of Monies in the Regional Area Road Fund” above for a discussion of eligible uses of monies in such Fund, including in the Federal Aid Revenues Subaccount in the Construction Account of such Fund.

There can be no assurance that there will be moneys in these Accounts and Funds, described above, available to be transferred to the Grant Anticipation Note Fund in amounts necessary to pay Debt Service on Outstanding Notes when due. Only after such moneys are deposited into the Grant Anticipation Note Fund do such moneys become Pledged Funds.

If revenues that are not Grant Revenues are deposited into the Grant Anticipation Note Fund, then the Director may direct the State Treasurer in writing to deposit a specified amount of Grant Revenues received by the Department after such deposit (up to the amount of such deposit) into the fund or account (a) from which such deposit was transferred, or (b) into which such deposit would have been deposited in accordance with State law, as applicable.

Use of Pledged Funds

The State Treasurer is required by the Note Resolution to pay out of the Grant Anticipation Note Fund to the Paying Agent:

- (1) on or before each Interest Payment Date for any Notes, an amount required for the interest payable on such date; and
- (2) on or before each Principal Payment Date for any Notes, an amount required for the principal payment on such date; and
- (3) on or before any optional redemption date for any Notes, an amount required for the payment of the redemption price on the Notes then to be optionally redeemed.

The Note Resolution provides that moneys in the Note Proceeds Account shall be used as follows: (a) to pay Project Costs; (b) to pay issuance costs; and (c) if any deficiency remains in the Grant Anticipation Note Fund, then

the State Treasurer shall transfer moneys from the Note Proceeds Account to cure such deficiency, as described above. The State Treasurer shall make payments from the Note Proceeds Account to pay Project Costs upon direction of the Department.

Covenants Concerning Federal Aid Revenues

In the Note Resolution, the Department and Board each covenant to take all actions permitted by State law that may be required of the Department and the Board to receive an amount of Federal Aid Revenues sufficient to pay Debt Service when due, less only amounts on deposit in the Grant Anticipation Note Fund.

As soon as practicable after the start of each Federal Fiscal Year in which Debt Service is payable, the Note Resolution requires the Department and Board to take all actions, to the extent permitted by State law, required of them to obligate under the Federal Aid Authorization an amount of Federal Aid Revenues sufficient to pay, when due, the Debt Service on any Outstanding Notes payable in such Federal Fiscal Year (less only the amount on deposit at the start of such Federal Fiscal Year in the Grant Anticipation Note Fund and available to pay such Debt Service). The Board and the Department each covenant that until the Department has so obligated Federal Aid Revenues, it shall not obligate any Federal Aid Revenues for any other purpose in any Federal Fiscal Year in which Debt Service is payable. The Department and Board have each specifically covenanted in the Note Resolution to take all actions, to the extent permitted by State law, required of them under federal and State law, necessary to convert any Project which is an advance construction project under the Federal Aid Authorization, to a regular federal aid project in an amount sufficient to obligate Federal Aid Revenues in the amount required by this paragraph.

The Department has complied with all provisions of the current Federal Aid Authorization applicable to the Department necessary to be eligible to receive and continue to receive Federal Aid Revenues that both (a) may be used pursuant to the Federal Aid Authorization to pay Debt Service on the Notes and (b) are sufficient to pay Debt Service, when due, during the term of the Federal Aid Authorization, except the requirements on an annual basis in each future year to obligate Federal Aid Revenues as discussed in the prior paragraph. The Note Resolution requires the Department, to the extent permitted by State law, to comply with and satisfy all requirements which may be imposed by the FHWA upon the Department that are necessary to continue to receive Federal Aid Revenues under the Federal Aid Authorization (including, without limitation, Grant Revenues under the Grant Agreements) in amounts sufficient to pay all Debt Service when due (less amounts of Debt Service paid from other sources).

For a discussion of how the Federal Aid Revenues are obligated under the Federal Aid Authorization and other requirements of federal law that must be satisfied before the FHWA pays Grant Revenues and other Federal Aid Revenues to the Department, see “INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS – Federal Aid Funding Procedures” herein.

Additional Notes

The Board shall not issue any grant anticipation notes, bonds, debentures, other notes or other evidence of indebtedness that are payable out of, or secured by a pledge of, the Pledged Funds on a basis senior to the Notes.

The Board may issue, from time to time, one or more Series of Additional Notes in unlimited principal amounts for any lawful purpose permitted under the Act, which are payable from and secured by the Pledged Funds on a parity with the Series 2019A Notes, the Outstanding Notes and any Additional Notes that may be subsequently issued, upon satisfaction of the requirements of the Note Resolution before such issuance. Those requirements include that an Authorized Officer of the Board certify that:

(1) the amount of Federal Aid Revenues either (i) anticipated to be received by the Department during the Federal Fiscal Year in which the proposed Series of Additional Notes are to be issued, or (ii) received by the Department in either of the two prior Federal Fiscal Years preceding the authentication and delivery of the Series of Additional Notes then proposed to be issued, was not less than:

- one hundred fifty percent (150%) of the Annual Debt Service in any Federal Fiscal Year that ends on or before the expiration date of the Federal Aid Authorization then in effect, which includes any extension(s) or successors thereto, and

- three hundred percent (300%) of the Annual Debt Service in any Federal Fiscal Year that ends after the expiration date of the Federal Aid Authorization then in effect, which includes any extensions(s) or successors thereto, and
- in either case, including the Annual Debt Service on the Series of Additional Notes proposed to be issued, but excluding, in the case of a Series of Additional Notes issued for refunding purposes, the Annual Debt Service on the Notes to be refunded; and

(2) the Department has no information which indicates that Federal Aid Revenues will not be available to the Department during the term of the Federal Aid Authorization then in effect and any extension(s) thereto in amounts sufficient to pay, when due, Debt Service on the Notes to be Outstanding during such term.

The Board will comply with the requirements noted in the preceding paragraphs (1) and (2) as of the issuance and delivery of the Series 2019A Notes.

The requirements of paragraphs (1) and (2) above may be revised or eliminated upon the Board's receipt of written evidence from each Rating Agency then maintaining an uninsured rating on the Outstanding Notes, to the effect that such revision or deletion will not by itself result in the withdrawal or reduction of any such uninsured rating by such Rating Agency.

The Board may also issue Additional Notes without complying with paragraphs (1) and (2) above for the purpose of refunding in whole or in part any Notes Outstanding under the Note Resolution, provided that the Board certifies that: (a) the Annual Debt Service for all Notes Outstanding immediately after the issuance of such proposed Refunding Notes for the current and each future Federal Fiscal Year to and including the Federal Fiscal Year of the latest maturity on any Notes then Outstanding is no greater than (b) the Annual Debt Service for all Notes Outstanding immediately prior to such issuance during the same Federal Fiscal Years. If the Board cannot satisfy the requirement of the preceding sentence, the Board may nevertheless issue Additional Notes for the purpose of refunding Notes upon compliance with the test described in the preceding paragraphs (1) and (2).

The Board may issue Additional Notes in the future and the Fiscal Year 2019-2023 Five Year Transportation Facilities Construction Program of the Board includes the issuance of \$255.0 million of Additional Notes after the issuance of the Series 2019A Notes. This program is re-evaluated at least annually and can change depending on project needs and revenue performance. The actual amount of any Additional Notes to be issued in the future will depend upon, among other considerations, market conditions, cash flow requirements of the Board for construction, and other sources of funding available to meet such requirements.

For discussion of the Board's authority to issue Subordinated Notes in any principal amount, see "Subordinated Notes" in Appendix C.

Other Covenants for Benefit of Note Owners

All moneys and Investment Securities held in the Grant Anticipation Note Fund and Note Proceeds Account shall be held by the State Treasurer on behalf of the Board and for the benefit and security of the Owners of the Notes, as provided in the Note Resolution.

The Department shall keep 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 Federal Aid Revenues and the Pledged Funds, which records and accounts shall at all times be subject to the inspection of the Owners of an aggregate of not less than 10% in principal amount of the Notes then Outstanding or their representatives duly authorized in writing.

The Board is not required to pay Debt Service from any funds other than the Pledged Funds which includes deposits to the Grant Anticipation Note Fund as described under "– Deposits and Uses of Grant Revenues and Federal Aid Revenues" and "– Deposits of Certain Other Revenue into Grant Anticipation Note Fund." The Board or Department may also choose to pay Debt Service from sources other than the Pledged Funds, to the extent legally

available for that purpose. Such other sources may include funds on deposit in the State Highway Fund and in the Regional Area Road Fund.

INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS

The Federal Aid Highway Program

The Federal Aid Highway Program (“FAHP”) is an “umbrella” term that encompasses most of the federal programs providing highway funds to the states. The major funding for the FAHP is made available in seven core programs: the National Highway Performance Program (the “NHPP”), the National Highway Freight Program, the Surface Transportation Block Grant Program, the Congestion Mitigation and Air Quality Program, the Railway-Highway Crossings Program, Metropolitan Planning and the Highway Safety Improvement Program. The FHWA is the federal agency within the U.S. Department of Transportation responsible for administering the FAHP. The FAHP is financed from the transportation user-related revenues deposited in the Federal Highway Trust Fund (the “Highway Trust Fund” or “HTF”). The primary source of revenues in the Highway Trust Fund is derived from the federal excise taxes on motor fuels. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes.

The FAHP is a reimbursement program. Once projects are approved by the FHWA and funds are obligated, the federal government makes payments to the states for costs as they are incurred on projects, which may include debt service on obligations issued to finance a project. With few exceptions, the federal government does not pay for the entire cost of a federal-aid project. Federal reimbursements are typically to be matched with state and/or local funds. The maximum federal share is specified in the federal legislation authorizing the program. Most projects have an 80 percent federal share, while Interstate construction and maintenance projects typically have been funded with a 90 percent federal share. Because Arizona is a “public lands” state (a state with a high ratio of public lands to total area), it qualifies for certain sliding scales for the percentage of federal participation. For most projects in Arizona, the federal share has been 94.3 percent.

The FAHP must be periodically reauthorized by Congress. The current multi-year authorization through the FAST Act became law on December 4, 2015 and is scheduled to expire on September 30, 2020. See “FAST Act” below. **Although Congress has provided multi-year authorizations and short-term extensions for transportation programs in the past, no assurances can be made that Congress will extend the FAST Act upon its expiration or will enact a new Federal Aid Authorization which will provide Federal Aid Revenues to the Department sufficient to pay Debt Service on the Notes when due.**

THE TERMS AND CONDITIONS OF PARTICIPATION IN THE FAHP AS DESCRIBED HEREIN ARE THOSE IN THE FAST ACT AND ARE SUBJECT TO CHANGE AT THE DISCRETION OF CONGRESS. THERE CAN BE NO ASSURANCE THAT THE LAWS AND REGULATIONS NOW GOVERNING THE FAHP WILL NOT BE CHANGED IN THE FUTURE IN A MANNER THAT MAY ADVERSELY AFFECT THE ABILITY OF THE DEPARTMENT TO RECEIVE FEDERAL AID REVENUES SUFFICIENT TO ENABLE THE BOARD TO PAY DEBT SERVICE ON THE NOTES.

Although the FHWA provides funding for eligible highway projects, federal-aid highways are under the administrative control of the state or local government responsible for their operation and maintenance.

Funding under the FAHP is provided to states through a multi-step funding cycle that includes: 1) *multi-year authorization* by Congress of the funding for various highway programs; 2) *apportionment and allocation* of funds to the states each FFY according to statutory formulas or, for some funding categories through administrative action; 3) *obligation* of funds, which is the federal government’s legal commitment (or promise) to pay or reimburse states for the federal share of a project’s eligible costs; 4) *appropriations* by Congress specifying the amount of funds available for the year to liquidate obligations; 5) *program implementation* which covers the programming and authorization phases; and 6) *reimbursement* by the federal government of the eligible project costs. Each of these steps is described in more detail under “– Federal Aid Funding Procedures” below.

Title 23 entitled “Highways”, includes most of the laws that govern the FAHP arranged systematically or codified. Generally, Title 23 embodies those substantive provisions of highway law that Congress considers to be

continuing and which need not be reenacted each time the FAHP is reauthorized. Periodically, sections of Title 23 may be amended or repealed through surface transportation acts.

The Federal Highway Trust Fund

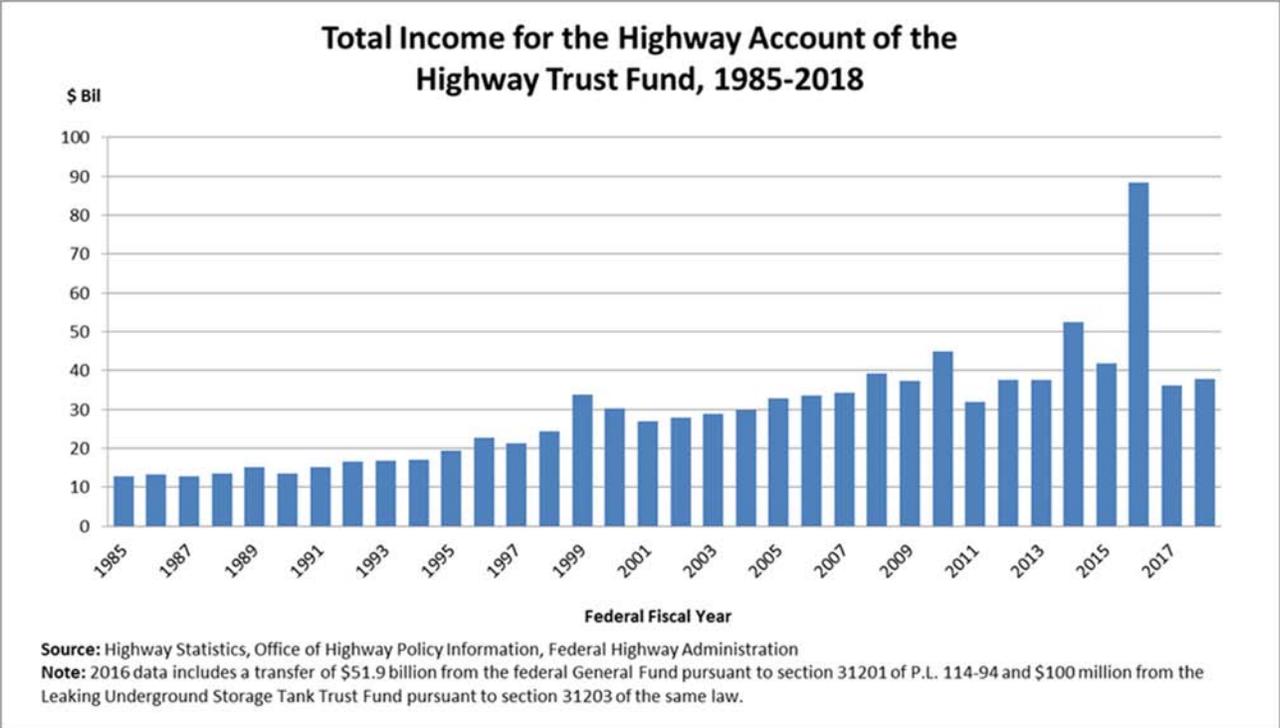
The Highway Trust Fund provides the primary funding for the FAHP. Funded by a collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a fund established by federal law to hold dedicated highway-user revenues that are used for reimbursement of a state's cost of eligible transportation projects (which may include debt service on obligations issued to finance a federal-aid project), including highway projects. The HTF is composed of two accounts: the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel revenues, with the remaining share of such revenues deposited in the Mass Transit Account.

The HTF was created by Congress in 1956 as a user-supported fund. The revenues of the HTF were intended for financing highways, with the taxes dedicated to the HTF paid by the users of the highways. This principle is still in effect, but the tax structure has changed since it was initially adopted in 1956. Major revisions occurred as a result of the Surface Transportation Assistance Act of 1982 ("STAA") and the Deficit Reduction Act of 1984. These acts increased the motor-fuel taxes for the first time since 1959. STAA also established a special Mass Transit Account in the HTF to receive part of the motor-fuel tax. A number of changes impacting the Highway Trust Fund were adopted in the American Jobs Creation Act of 2004, which replaced the reduced tax rates that applied to gasohol with a credit paid from the General Fund of the Treasury (the "General Fund") and ended the retention of a portion of the tax on gasohol by the General Fund. These actions, coupled with a number of provisions to reduce tax evasion, provided increased tax revenues to the HTF. The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

The imposition of the taxes that are dedicated to the HTF, as well as the authority to place the taxes in the HTF and to expend moneys from the HTF, all have expiration dates which must be extended periodically. The life of the HTF has been extended several times through multi-year authorizations since its inception, most recently by the FAST Act. The passage of the FAST Act authorized funding expenditures from the HTF through September 30, 2020. In addition, the FAST Act extended the imposition of most of these taxes and the transfer of these taxes to the HTF through September 30, 2022. Provisions for full or partial exemption from highway user taxes were also extended. Additionally, provision for deposit of almost all of the highway user taxes into the HTF was also extended through September 30, 2022. **No assurances can be made that Congress will further extend the FAST Act upon its expiration or will enact a new Federal Aid Authorization for the HTF which will provide Federal Aid Revenues to the Department sufficient to pay Debt Service on the Notes when due.**

Federal law not only regulates the imposition of the taxes for, but also their deposit into and expenditure from, the HTF. Federal gasoline excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including 15.44 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account.

The following table shows annual Total Income for the Highway Account for the FFYs 1985 through 2018.



Various proposals are being considered to address the HTF’s future funding. There can be no assurance that any such proposals will be enacted by Congress.

Reauthorizations and Extensions

The FAHP must be periodically reauthorized by Congress, and has historically been authorized under multi-year authorizing legislation. Recent multi-year authorization bills are described below. In periods between multi-year authorizations, Congress and the FHWA have found ways to avoid disruptions to state highway programs and have been able to maintain the flow of federal revenues to states in each instance.

TEA-21

The Transportation Equity Act for the 21st Century (“TEA-21”) was enacted into law on June 9, 1998. TEA-21 authorized nearly \$218 billion for highway, highway safety, transit, and other surface transportation programs over the six-year period from FFYs 1998 through 2003. This total reflected a 40 percent increase over the levels in the last major authorizing legislation, the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”). TEA-21 was scheduled to expire on September 30, 2003 but was the subject of multiple interim reauthorization extensions until the enactment of SAFETEA-LU (as defined herein). See “SAFETEA-LU” below.

The State received an average of \$432.8 million in Obligation Authority (as described below) of Federal Aid Revenues per FFY over the six year duration of TEA-21. This total compares to an average of \$235 million of Federal Aid Revenues received annually under ISTEA. See “FEDERAL AID REVENUES” herein.

A limitation on obligations and the process for distribution was included for each of the years in TEA-21. Through the limitation on obligations, Congress controlled the program and made it more responsive to prevailing budget and economic policy. The obligation ceilings set in TEA-21 for FFY’s 1998 through 2003 were based on a protected level of spending for transportation (as discussed below).

A significant change in the FAHP introduced by TEA-21 was the attempt to maintain funding levels for transportation through reduced incentives to divert such funds to other uses (i.e. reductions in highway or transit

spending as a result of federal deficit reduction legislation will not allow increased spending in other non-transportation programs) as further discussed below.

Protected Funding

New budget categories were established under TEA-21 for highway and transit discretionary spending, effectively establishing a budgetary “firewall” between each of those programs and all other domestic discretionary programs. Prior to TEA-21, the highway and transit discretionary programs competed for annual budgetary resources with other domestic programs. The new categories are still subject to budget constraints, but reductions in highway or transit spending will not allow increased spending in other non-transportation programs. This removes the principal incentive for Congress to limit highway or transit spending.

The highway firewall “protects” the obligation limitation for federal-aid highways, the motor carrier, and other highway safety programs that have contract authority. The firewall amount for highways is tied to the projected receipts of the Highway Account of the Highway Trust Fund and beginning with FFY 2000 was adjusted each year during development of the President’s budget as new receipt projections and actual receipts became available. The adjustment of authorizations is called Revenue Aligned Budget Authority (“RABA”). RABA distributions to the states are formula driven and are somewhat unpredictable. For example, in FFYs 2003 through 2006 there were no RABA distributions, but in FFY 2007, approximately \$842 million was distributed to the states, of which the State received approximately \$15.6 million. Since FFY 2008 no RABA funds have been distributed and no future distributions are anticipated.

Highway Funding Equity-Minimum Funding

The minimum protected funding provision of TEA-21 was designed to ensure that each state have a minimum return on the tax contributions from that state into the Highway Account of the Highway Trust Fund. Under this provision, each state’s share of apportionments was at least 90.5 percent of its percentage share of contributions to the Highway Account, based on the latest data available at the time of apportionment under TEA-21.

Surface Transportation Extension Act of 2004

The Surface Transportation Extension Act of 2004, Part V (“STEA04-V”) was enacted into law on September 30, 2004. The bill completed the authorization process for FFY 2004, provided an 8-month extension of the FAHP for FFY 2005, and authorized contract authority for FFY 2005. STEA04-V also authorized such sums as necessary for a “Supplemental Minimum Guarantee” for FFY 2004. This was calculated in the same manner as the Minimum Guarantee under TEA-21, and resulted in an additional \$2.7 billion in contract authority for FFY 2004. FFY 2004 highway contract authority, except for the portion of the Supplemental Minimum Guarantee exempted from the obligation limitation, was subject to a 0.59 percent across-the-board reduction based on the Consolidated Appropriations Act, 2004.

STEA04-V also distributed the full amount of remaining obligation limitation (\$1,952,480,770 less the 0.59 percent across-the-board cut) for FFY 2004. This additional obligation limitation was available through the end of FFY 2005, except when other provisions provided for longer availability. STEA04-V also paved the way for the distribution of the additional obligation limitation provided by the FFY 2005 Department of Defense Appropriations Act in accordance with that Act.

For FFY 2004 only, STEA04-V redirected to the Highway Account of the Highway Trust Fund the 2.5 cents per gallon of the gasohol tax retained by the General Fund. This was expected to provide over \$800 million in receipts to the Highway Account for FFY 2004.

SAFETEA-LU

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), passed the Congress and was signed into law by the President on August 10, 2005 and authorized a total of \$286.4 billion for the federal surface transportation programs in FFYs 2004 through 2009. This represented a 38% increase in authorization over TEA-21. The core FAHP was authorized to be funded at the following levels: \$34.4

billion (FFY05), \$36.0 billion (FFY06), \$38.2 billion (FFY07), \$39.6 billion (FFY08) and \$41.2 billion (FFY09). After the original expiration of SAFETEA-LU on September 30, 2009, Congress passed multiple program extensions, continuing resolutions and appropriations acts which continued the funding for SAFETEA-LU at essentially the FFY 2009 level through June 30, 2012.

SAFETEA-LU retained the firewall and equity bonus (formerly called the minimum guarantee) provisions of TEA-21, increasing each state's minimum rate of return of HTF contributions from 90.5% in TEA-21 to 92% by 2008. All states were also guaranteed a total six-year average highway funding increase of at least 19 percent, when compared to the state's six-year TEA-21 funding total. As a "donor" state, Arizona received funds under the minimum rate of return provisions.

As part of its annual budget forecast issued on January 24, 2007, the nonpartisan Congressional Budget Office ("CBO") reported that if Congress adhered to the highway and safety spending levels authorized in SAFETEA-LU, absent other measures, the Highway Account of the HTF would go into deficit early in FFY 2009, before SAFETEA-LU expired. The CBO baseline projected that if the SAFETEA-LU spending levels were maintained for FFYs 2007-2009, there would be a deficit in the Highway Account at the end of FFY 2009 in the amount of \$3.616 billion.

On September 5, 2008, the FHWA notified the states that, as a result of record high fuel prices and a slowing economy, receipts flowing into the Highway Account of the HTF had slowed considerably. As a result, the FHWA announced that, absent Congressional action, the cash balance in the Highway Account would probably be insufficient to fully pay all reimbursement requests from the states beginning the week of September 8, 2008.

In response to the projected shortfalls, Congress enacted two separate laws to maintain a positive balance in the HTF through the end of FFY 2009 (September 30, 2009). The first, H.R. 6532, enacted on September 15, 2008, transferred \$8.017 billion from the General Fund to the Highway Trust Fund to cover the then-anticipated shortfall for FFY 2009. These funds restored revenues that had been shifted from the Highway Trust Fund to the General Fund as a result of federal budget negotiations in 1998. The second, H.R. 3357, enacted on August 7, 2009 transferred an additional \$7 billion from the General Fund to the HTF to cover an additional shortfall through the remainder of FFY 2009.

On September 30, 2009, SAFETEA-LU expired without enactment of a new multi-year reauthorization program. In order to avoid a halt in the Federal Aid Highway Program, Congress passed ten (10) program extensions and fourteen (14) continuing resolution/appropriations acts until the passage of the Moving Ahead for Progress in the 21st Century Act on July 6, 2012.

MAP-21

The Moving Ahead for Progress in the 21st Century Act ("MAP-21") was signed into law on July 6, 2012 and authorized a total of over \$105 billion for the federal surface transportation programs in FFYs 2013 and 2014. MAP-21 extended SAFETEA-LU for the remainder of FFY 2012, with new provisions for FFYs 2013 and beyond, effective October 1, 2012. MAP-21 funding levels were maintained at FFY 2012 levels, plus minor adjustments for inflation as follows: \$40.4 billion from the HTF for FFY 2013, and \$41.0 billion for FY 2014. These levels were expected to exceed forecasted receipts from the highway-user taxes deposited in the HTF. To supplement the tax revenues, MAP-21 authorized the following additional transfers to the accounts of the HTF:

- \$2.4 billion from the Leaking Underground Storage Tank Trust Fund to be deposited in the Highway Account upon enactment;
- \$6.2 billion from the General Fund of the Treasury to be deposited in the Highway Account in FFY 2013;
- \$10.4 billion from the General Fund of the Treasury to be deposited in the Highway Account in FFY 2014; and
- \$2.2 billion from the General Fund of the Treasury to be deposited in the Mass Transit Account in FFY 2014.

MAP-21 retained the firewall originally introduced in TEA-21. MAP-21 also introduced a new approach to funding formulas which differed substantially from SAFETEA-LU and earlier authorization acts. Prior to MAP-21 each apportioned program was generally funded by a separate authorization and then distributed among the states

based on factor data such as lane miles, vehicle miles traveled, fatalities data, and other metrics. Under MAP-21, for each Federal Fiscal Year, a lump sum was authorized for all apportioned programs and distributed among the states based on each State's total FFY 2012 apportionments. For FFY 2014, the amount was adjusted to guarantee a 95% return of each State's dollar contribution to the Highway Account of the HTF prior to distribution. Each state's share was then further distributed among the various programs contained in MAP-21.

MAP-21 restructured the core FAHP programs to include the following: NHPP, Surface Transportation Program, Congestion Mitigation and Air Quality Improvement Program, Highway Safety Improvement Program, Railway-Highway Crossings, and Metropolitan Planning.

On March 22, 2013, FHWA notified the states that a portion of NHPP funding was impacted by a sequestration order issued on March 1, 2013. The sequestration was required pursuant to the Balanced Budget and Emergency Deficit Control Act, as amended (the "Deficit Control Act"). The order, which the President issued in accordance with the Deficit Control Act, required that budgetary resources in each non-exempt budget account be reduced by the amount calculated by the Office of Management and Budget ("OMB") in its report to Congress entitled *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013*. Pursuant to the sequestration report, NHPP funds authorized for FFY 2013 which were exempt from obligation limitation (discussed later) were subject to the sequestration at a rate of 5.1 percent. As a result, the \$639,000,000 in NHPP funds exempt from obligation limitation available for FFY 2013 was reduced by a total of \$32,589,000. The FFY 2013 impact to Arizona of the sequester of NHPP funds was a reduction of \$607,175.

On October 1, 2013, the FHWA notified the states of the impact to NHPP funding of continued sequestration in FFY 2014. The *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014* resulted in a sequestration order from the President requiring a reduction of the \$639,000,000 in FFY 2014 NHPP funds which were exempt from obligation limitation at a rate of 7.2 percent, for a total reduction of \$46,008,000. The FFY 2014 impact to Arizona of the sequester of NHPP funds was a reduction of \$848,781.

On August 14, 2015, the FHWA notified the states of the impact to NHPP funding of continued sequestration in FFY 2015. The *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2015* resulted in a sequestration order from the President requiring a reduction of the \$639,000,000 in FFY 2015 NHPP funds which were exempt from obligation limitation at a rate of 7.3 percent, or a total of \$46,647,000. The FFY 2015 impact to Arizona of the sequester of NHPP funds was a reduction of \$860,569.

After the original expiration of MAP-21 on September 30, 2014, Congress passed several program extensions, continuing resolutions and appropriations acts which continued the funding for MAP-21 at essentially the FFY 2014 level until the passage of the FAST Act.

FAST Act

The FAST Act became law on December 4, 2015 and authorized a total of \$226.3 billion in budget authority for Federal-aid highway programs in FFYs 2016 through 2020. This represents an 11% increase in funding over MAP-21. The federal-aid highway program is authorized at the following levels: \$43.1 billion (FFY 2016), \$44.0 billion (FFY 2017), \$45.0 billion (FFY 2018), \$46.0 billion (FFY 2019) and \$47.1 billion (FFY 2020). The FAST Act also authorized another \$1.1 billion (over those five years) that is subject to appropriation.

As with MAP-21, these funding levels are expected to exceed forecasts of receipts from the highway-user taxes deposited in the HTF over the term of the FAST Act. To supplement the tax revenues, the FAST Act authorized the following additional transfers to the HTF:

- From the General Fund of the Treasury—
 - \$51.9 billion to be deposited in the Highway Account, effective upon enactment of the FAST Act; and
 - \$18.1 billion to be deposited in the Mass Transit Account, effective upon enactment of the FAST Act.

- From the Leaking Underground Storage Tank Trust Fund, to be deposited in the Highway Account—
 - \$100 million, effective upon enactment of the FAST Act;
 - \$100 million on October 1, 2016; and
 - \$100 million on October 1, 2017.

In addition, the FAST Act dedicates the proceeds of certain motor vehicle safety penalties to the Highway Account. The FAST Act also includes other provisions and revenue raisers to offset the cost of the transfers made to the HTF:

- Increased civil penalties allowable for National Highway Traffic Safety Administration: \$0.423 billion
- Passport revocation for delinquent taxpayers: \$0.395 billion
- Allowing the Internal Revenue Service to hire private tax collectors: \$2.408 billion
- Indexing Customs user fees for inflation: \$5.188 billion
- Transfer from the capital surplus account of the Federal Reserve: \$53.334 billion
- Dividend reductions for the Federal Reserve's member banks: \$6.904 billion
- Sale of 66 million barrels of crude oil from the Strategic Petroleum Reserve: \$6.2 billion
- Royalty overpayment correction under the Office of Natural Resources revenue: \$0.32 billion

The FAST Act retains the firewall originally introduced in TEA-21. The core programs authorized by the FAST Act include the NHPP, the Surface Transportation Block Grant Program, the Highway Safety Improvement Program, the Congestion Mitigation and Air Quality Improvement Program, the Rail-Highway Crossings, Metropolitan Planning, and the National Highway Freight Program. As with MAP-21, the FAST Act provides a single amount for each year for all the programs combined. That amount is distributed among the states and then each state's share is divided among the individual programs. FHWA makes adjustments if necessary to ensure that the amount received by each state is at least 95% of the dollar amount of its contributions to the Highway Account of the Highway Trust Fund in the most recent year for which data are available.

On January 8, 2016, FHWA notified the states that a portion of NHPP funding was impacted by a sequestration order issued on February 2, 2015. The sequestration was required pursuant to the Deficit Control Act. The order, which the President issued in accordance with the Deficit Control Act, required that budgetary resources in each non-exempt budget account be reduced by the amount calculated by the OMB in its report to Congress entitled *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2015*. Pursuant to the sequestration report, NHPP funds authorized for FFY 2016 which were exempt from obligation limitation were subject to the sequestration at a rate of 6.8 percent. As a result, the \$639,000,000 in NHPP funds exempt from obligation limitation available for FFY 2016 was reduced by a total of \$43,452,000. The FFY 2016 impact to Arizona of the sequester of NHPP funds was a reduction of \$801,626.

On October 3, 2016, FHWA notified the states that a portion of NHPP funding was impacted by a sequestration order issued on February 9, 2016. The sequestration was required pursuant to the Deficit Control Act. The order, which the President issued in accordance with the Deficit Control Act, required that budgetary resources in each non-exempt budget account be reduced by the amount calculated by the OMB in its report to Congress entitled *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2017*. Pursuant to the sequestration report, NHPP funds authorized for FFY 2017 which were exempt from obligation limitation are subject to the sequestration at a rate of 6.8 percent. As a result, the \$639,000,000 in NHPP funds exempt from obligation limitation available for FFY 2017 was reduced by a total of \$44,091,000. The FFY 2017 impact to Arizona of the sequester of NHPP funds was a reduction of \$808,092.

On October 2, 2017, FHWA notified the states that a portion of NHPP funding was impacted by a sequestration order issued on May 23, 2017. The sequestration was required pursuant to the Deficit Control Act. The order, which the President issued in accordance with the Deficit Control Act, required that budgetary resources in each non-exempt budget account be reduced by the amount calculated by the OMB in its report to Congress entitled *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2018*. Pursuant to the sequestration report, NHPP funds authorized for FFY 2018 which were exempt from obligation limitation are subject to the sequestration at a rate of 6.6 percent. As a result, the \$639,000,000 in NHPP funds exempt from obligation limitation

available for FFY 2018 was reduced by a total of \$42,174,000. The FFY 2018 impact to Arizona of the sequester of NHPP funds was a reduction of \$774,267.

On October 1, 2018, FHWA notified the states that a portion of NHPP funding was impacted by a sequestration order issued on February 12, 2018. The sequestration was required pursuant to the Deficit Control Act. The order, which the President issued in accordance with the Deficit Control Act, required that budgetary resources in each non-exempt budget account be reduced by the amount calculated by the OMB in its report to Congress entitled *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2019*. Pursuant to the sequestration report, NHPP funds authorized for FFY 2019 which were exempt from obligation limitation are subject to the sequestration at a rate of 6.2 percent. As a result, the \$639,000,000 in NHPP funds exempt from obligation limitation available for FFY 2019 was reduced by a total of \$39,618,000. The FFY 2019 impact to Arizona of the sequester of NHPP funds was a reduction of \$729,824.

Federal Aid Funding Procedures

The FAHP continues to enable the construction of an extensive national transportation system through reimbursement of a large percentage of state expenditures for approved highway projects. The financial assurance provided by the FAHP is unusual among federal programs in that:

- (a) the FAHP is largely funded by dedicated revenues, from a user-tax source, deposited in a special trust fund (the Highway Trust Fund);
- (b) the contract authority of the FHWA is established by a multi-year authorization act rather than through annual appropriation acts; and
- (c) contract authority is not at risk during the annual appropriations process (as budget authority is in most other federal programs), although an appropriations act is required in order to liquidate obligations.

The following summarizes the major steps in funding the FAHP.

Authorization

The first and most important step in funding the FAHP is the development and enactment of authorizing legislation. Authorizing legislation extends the life of the FAHP and the collections that fund the HTF, sets FAHP objectives, and provides formulas for determining the distribution of apportionment of available funding among states. Authorizing legislation for highways began with the Federal-Aid Road Act of 1916 and the Federal Highway Act of 1921. These acts provided the foundation for the FAHP as it exists today. Since that time, the FAHP has been continued or renewed mostly through the passage of multi-year authorization acts (typically of four or more years). There is no guarantee, however, that reauthorization of the FAHP will occur on a multi-year basis and, in fact, in recent periods many short-term program extensions and continuing appropriations have been used to bridge the period between multi-year authorization acts as described under “Reauthorizations and Extensions” above. The current reauthorization (the FAST Act) is through the period ending September 30, 2020. **No assurances can be made that Congress will extend the FAST Act upon its expiration or will enact a new authorization to fund the FAHP which will provide Federal Aid Revenues to the Department sufficient to pay Debt Service on the Notes when due.** The current practice of establishing a minimum return to each state of the taxes paid by highway users in that state began in 1982 with the passage of the STAA.

The federal authorization act not only shapes and defines programs, but also sets upper limits (authorizations) on the funding for programs and includes provisions related to the operation of the Highway Trust Fund. Once Congress has established authorizations, the next step involves how funds are made available to states. Typically, federal programs operate using appropriated budget authority which means that funds, although authorized, are not available until passage of an appropriations act. However, most programs within the FAHP do not require this two-step process. Through what is termed “contract authority” (a special type of budget authority), authorized amounts become available for obligation according to the provisions of the authorization act without further legislative action. For the FAHP, funds authorized for a FFY are available for distribution through apportionments or allocations. The

use of contract authority gives the states advance notice of the level of federal funding at the time an authorization act is enacted, eliminating much of the uncertainty associated with the authorization-appropriation sequence.

Apportionment and Allocations

For most components of the FAHP, the authorization act sets the distribution of contract authority to be apportioned and/or allocated to the states. The authorized amount for a given FFY is distributed to the states through apportionments and allocations.

- (a) **Apportionments.** The distribution of funds using a formula provided in law is called an apportionment. Most federal-aid funds are distributed to states, the District of Columbia, and Puerto Rico through apportionments. Each FFY, the FHWA has responsibility for apportioning authorized funding for the various highway programs among the states according to formulas established in the authorizing statute. Apportionment factors include items such as lane miles, vehicle miles traveled, taxes paid into the HTF and diesel fuel usage. Each highway program has a unique set of factors that determine the apportionments to the states. Annual apportionments are generally made on the first day of the FFY.
- (b) **Allocations.** Some categories do not have a legislatively mandated distribution formula. When there are no formulas in law, the distributions of funds are termed “allocations” which may be made at any time during the FFY. In most cases, allocated funds are divided among states with qualifying projects applying general administrative criteria provided in the law.

Federal-aid highway apportionments are available to states for use for more than one year. Their availability does not terminate at the end of the FFY, as is the case with most other federal programs. In general, apportionments are available for three years plus the year that they are apportioned. Consequently, when new apportionments are made, the amounts are added to a state’s carryover apportionments from the previous year. Should a state fail to obligate a year’s apportionments within the period of availability (usually a total of four years) specified for a given program, the funds will lapse.

Obligation

Obligation is the legal commitment (or promise) of the federal government to pay, through reimbursement to a state, the federal share of an approved project’s eligible costs, which may include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. Once an obligation is made, the federal government is to reimburse the states when bills or payments become due. However, Congress places a restriction or “ceiling” on the amount of federal assistance that may be promised (obligated) during a specified time period. The obligation limitation is the amount of authorized funding that Congress allows states to obligate in an individual year. This is a statutory budgetary control that does not affect the apportionment or allocation of funds. Rather, it controls the rate at which these funds can be used.

Once Congress establishes an overall obligation limitation, the FHWA distributes Obligation Authority (“OA” or “Obligation Authority”) to states proportionately based on each state’s share of apportioned and allocated revenues. The actual ratio of OA to apportionment and allocations may vary from state to state, since some federal-aid programs are exempt from the obligation limitation. During the FFY, states submit requests to the FHWA to obligate funds, representing the federal share of specific projects. As a state obligates funds, its balance of OA is reduced. A state’s OA (unlike its apportionments and allocations of authorized funding) must be used before the end of the FFY for which it is made available; if not, it will be distributed to other states to ensure that the total limitation nationwide will be used. A state may receive additional OA through a redistribution process each year in August which reallocates OA from states or programs unable to fully obligate their share to other states that are able to obligate more than their initial share. The State typically uses all of its OA in each FFY and historically also receives additional OA that has been redistributed by the FHWA.

Although a ceiling on obligations restricts how much funding may be used in a FFY, the state has flexibility within the overall limitation to mix and match the type of program funds it obligates, based on its individual needs, as

long as it does not exceed the ceiling in total. Also, the unobligated balance of apportionments or allocations that the state has remaining at the end of any FFY is carried over for use by that state during the next FFY.

The HTF was not among the discretionary funding sources impacted by the federal government shutdown during the period December 22, 2018 through January 25, 2019. In the absence of an appropriations act or a Continuing Resolution, the overall limitation on obligations was based on the levels authorized in the FAST Act. As a result, FHWA did not shut down and there was no lapse in FAHP reimbursements to the states. The Department received all FAHP reimbursements requested during this period.

In general, the FHWA operates under special budget authority known as “contract authority” authorized by the FAST Act. Through contract authority, authorized amounts are available for obligation according to the provisions of the authorization act (in this case, the FAST Act) and accordingly, a lapse in annual appropriations does not materially disrupt operations. This is in contrast to programs that require appropriated budget authority, and therefore need both an authorization act and an appropriations act before any funds can be obligated.

As such, the failure of Congress to enact an annual appropriation prior to the start of a FFY, which would result in a “government shutdown,” typically does not impact FHWA operations. Further, FHWA has sufficient liquidated cash to continue operations due to a lapse in annual appropriations. However, any lapse in annual appropriations or a partial-year budget can reduce the amount of Obligation Authority that would otherwise be made available to the State.

Highway Program Implementation

In order to receive federal reimbursements for transportation projects, states are required to develop long-range transportation plans that are based on realistic projections of state and federal funding. Projects are not eligible for federal reimbursements unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans and are included in the four-year State Transportation Improvement Program (“STIP”) which lists all projects proposed for financing in that four-year period. The STIP requires FHWA approval.

States are required to follow federal fiscal management procedures as they implement projects that are included in the STIP. These fiscal management processes ensure that the process is managed efficiently from project authorization to actual payment of FHWA reimbursements to the state. Further, states are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states.

States may request FHWA approval for eligible projects either through the traditional process or through the advance construction procedure as discussed below:

(a) **Traditional Approach.** Under the traditional highway funding approach, a state obligates the full federal share of the funding for a construction project at the beginning of the project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funds on a project. The project sponsor submits plans, specifications and estimates (“PS&Es”) for a project to the FHWA Division Office, and requests that the FHWA approve the use of federal funding for the appropriate federal share of the project. The project must be in the STIP and PS&Es must identify the category of federal funding that will be used.

The FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements. Provided that all requirements are satisfied, the FHWA authorizes federal participation on the project, and obligates the federal share of project costs. By obligating the funds, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of the state’s OA, and also sets aside an equivalent amount of apportionments by program. Accordingly, the state must have sufficient OA to cover the level of federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. The state awards the contract to the lowest responsive bidder and submits a request to the FHWA asking for any necessary adjustments to federal obligations to reflect the actual bid amount. If approved, the amounts agreed to are included in a project agreement which identifies the funds that will be encumbered by the state, and the amount that will be reimbursed by the federal government.

(b) Advance Construction Approach. Advance construction (“AC”) and partial conversion of advance construction are two key fiscal management techniques that facilitate federal-aid project funding and provide states additional flexibility in managing their OA and cash flow.

The AC approach for authorizing projects allows states to finance projects that are eligible for federal aid without obligating the full federal share of costs at the beginning of the project. This allows states to begin a project before accumulating all of the apportionments and OA needed to cover the federal share of the project. Similar to the traditional approach, the state submits PS&Es to the FHWA and requests project authorization. Under AC, however, the FHWA is asked to authorize the project without obligating federal funds. The state will provide the up-front financing for the project and then at a later date “convert” the advance construction project to a regular federal-aid project and obligate the full federal share of the project costs when sufficient OA is available. At the time of conversion, the state can be reimbursed for the federal share of costs incurred up to the point of conversion.

Partial conversion of AC is a form of advance construction in which the state converts, obligates, and receives reimbursement for only a portion of its funding of an AC project in a given year. This removes any requirement to wait until the full amount of OA for the project is available. The state can therefore obligate varying amounts for the project’s eligible cost in each year, depending on how much of the state’s OA is available. Using the technique to partially convert the federal share makes bond and note financing more viable and federal-aid funds available to support a greater number of projects. The National Highway System Act of 1995 (the “NHS Act”) provided additional flexibility in the use of advance construction by allowing partial conversion of advance construction as implemented through a Federal Register Notice dated July 19, 1995.

Reimbursement

The FAHP is a reimbursement program. As work progresses on a federal-aid highway project, a state will pay the contractor for completed work from available state funds. The state electronically transmits vouchers for the federal share of completed work and certifies to the FHWA that the claims for payment are in accordance with the terms of the project agreements, and applicable state and federal laws or regulations. After review and approval by the FHWA Division office, payment is scheduled for the date requested by the state. Payment is transferred directly from a Federal Reserve Bank to the state’s financial institution account by wire transfer, and is generally scheduled to be made within two days of the submission of the state’s electronic bill.

Lapsing of Authorization

All federal programs must be authorized through legislation enacted by Congress that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary in order to create budget authority. For most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the FAHP, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually has been able to continue to provide OA by administrative action.

Though recent federal surface transportation legislation has been authorized for two to five years at a time, there occasionally have been periods in which the previous authorizing legislation had expired and future multi-year legislation had yet to be enacted. In such circumstances, Congress and/or the FHWA have historically found ways to avoid disruptions to state highway programs and have been able to maintain the flow of federal revenues to states in each instance. Two mechanisms in particular have been used in more recent periods to keep revenues flowing:

- Continuing Resolutions and Short Term Authorizations: MAP 21 expired on September 30, 2014 and until approval of the FAST Act on December 4, 2015, no new long-term authorization legislation was

enacted. Despite the lack of long-term authorizing legislation, states were provided with OA through passage of various Continuing Resolutions. In addition, Congress passed multiple short term program authorizations to ensure continuation of the imposition of taxes and the transfer of the taxes to the HTF.

A similar situation occurred when SAFETEA-LU expired on September 30, 2009 without enactment of a new multi-year reauthorization program. In order to avoid a halt in the FAHP, Congress enacted ten program extensions and fourteen continuing resolution/appropriations acts to extend SAFETEA-LU until the passage of MAP-21.

- General Fund and Other Fund Transfers: In response to projected shortfalls in the HTF, Congress has approved multiple transfers from the federal General Fund and other funds to the HTF, totaling \$63.5 billion since 2012. This funding is in addition to the transfers authorized by the FAST Act.

ALTHOUGH THESE MEASURES HAVE BEEN ENACTED BY CONGRESS IN THE PAST, NO ASSURANCE CAN BE GIVEN THAT SUCH MEASURE WILL BE ENACTED IN THE FUTURE TO MAINTAIN THE FLOW OF FEDERAL-AID FUNDING UPON EXPIRATION OF THE FAST ACT OR TERMINATION OF A SUBSEQUENT AUTHORIZATION PERIOD.

Should a situation occur where the FHWA cannot fully reimburse states due to a shortfall in the HTF, the FHWA has indicated it may take some or all of the following actions: switch from daily to weekly reimbursements to states, align reimbursements with HTF deposits (twice monthly), make proportional payments to states based on available HTF cash, or take other actions, depending on the nature of the shortfall.

Special Federal Provisions Relating to Debt-Financed Projects

The NHS Act made several changes affecting the financing of federal-aid highway projects, including AC procedures, as previously discussed, and payments to states for debt financing.

Section 311 of the NHS Act significantly expanded the eligibility of bond, notes and other debt instrument financing costs for federal-aid reimbursement. This change to the FAHP was codified into permanent highway law as an amendment to Section 122 of Title 23 of the United States Code. Under section 122, various debt-related costs are eligible for reimbursement, including principal and interest payments, issuance costs, insurance, and other costs incidental to a financing.

The FHWA has issued guidelines for debt-financed projects. Key provisions of these guidelines are as follows:

- The project must be approved as a federal-aid, debt-financed (bond, certificate, note or other debt instrument) project in order to receive payments for eligible debt-related costs under Section 122. Once a project is selected for debt financing, the project is submitted to the appropriate FHWA Division Office for approval as an AC project under Section 115 of Title 23. The AC designation ensures that the project follows federal-aid procedures and preserves the eligibility to reimburse debt-related costs through future federal-aid fund obligations.
- Debt-financed projects are subject to requirements of the Federal Clean Air Act and federal air quality conformity requirements.
- At the time the project agreement is signed, a state may elect to seek reimbursement for debt service and/or related issuance costs in lieu of reimbursement for construction costs. If a state elects to receive debt service reimbursements, a debt service schedule will be included in the project agreement. If multiple projects are funded with the proceeds of a debt issue, each project will be assigned a prorated share of the debt-related costs.
- To comply with the intent of the fiscally constrained planning process, the federal share of the debt-related costs (e.g., interest and principal payments, associated issuance costs, and on-going debt servicing

expenses) anticipated to be reimbursed with federal-aid funds over the life of the debt obligations should be designated as AC. The planned amount of federal-aid reimbursements (AC conversion) should be included in the STIP, in accordance with FHWA procedures.

- Periodic debt service payments (federal-aid reimbursements) on the debt obligations would represent partial conversions of designated AC amounts to federal aid. A state can obligate such federal aid annually over the life of the permanent financing or a state can make the conversion in one lump sum upon project completion to help take out construction financing. A state would follow the normal procedures for conversion of an advance construction project.
- A state may seek federal-aid reimbursements for eligible debt-related costs as these costs are incurred. Issuance costs, debt service payments, and incidental costs represent costs incurred that may be reimbursed with federal-aid funds to the extent such costs are deemed eligible.
- A state may make arrangements with the FHWA Division Office regarding the procedures under which it would submit a billing to the FHWA for debt-related costs. A request for debt service payment is timed so that reimbursements will be received shortly before the debt service payment date.
- A state may designate a trustee or other depository to receive federal-aid debt service payments directly from the FHWA.

FEDERAL AID REVENUES

The following tables identify actual and estimated Apportionments, Obligation Authority and Receipts of Federal Aid Revenues by the Department from FFY 1998 through FFY 2019.

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE ARIZONA DEPARTMENT OF TRANSPORTATION
 FEDERAL AID AUTHORIZATION PERIOD
 (Transportation Equity Act for the 21st Century)
 Federal Fiscal Years 1998 Through 2003**

<u>Federal Fiscal Year</u>	<u>Apportionments</u>	<u>Obligation Authority</u>	<u>Actual Receipts</u>
1998	\$ 352,565,695	\$ 318,639,756	\$ 259,394,779
1999	433,407,164	384,609,615	432,737,810
2000	475,048,758	418,113,461	412,173,350
2001	521,578,989	466,560,234	459,056,486
2002	546,097,028	514,412,037	459,409,075
2003	468,201,715	494,189,012	460,654,075
Totals	<u>\$2,796,899,349</u>	<u>\$2,596,524,115</u>	<u>\$2,483,425,575</u>

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE ARIZONA DEPARTMENT OF TRANSPORTATION
 FEDERAL AID AUTHORIZATION PERIOD
 (Surface Transportation Extension Act of 2004, Part V)
 Federal Fiscal Year 2004**

<u>Federal Fiscal Year</u>	<u>Apportionments</u>	<u>Obligation Authority</u>	<u>Actual Receipts</u>
2004	\$535,913,033	\$524,702,519	\$416,954,003

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE ARIZONA DEPARTMENT OF TRANSPORTATION
 FEDERAL AID AUTHORIZATION PERIOD
 (Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users)
 Federal Fiscal Years 2005 Through 2009**

Federal Fiscal Year	Apportionments	Obligation Authority	Actual Receipts
2005	\$ 600,156,301	\$ 587,105,795	\$ 472,988,762
2006	647,507,598	601,928,889	408,438,371
2007	696,659,693	668,847,370	410,390,890
2008	714,764,393	705,031,817	579,336,692
2009 (a)(b)	734,702,687	690,763,728	556,443,510
Totals	<u>\$3,393,790,672</u>	<u>\$3,253,677,599</u>	<u>\$2,427,598,225</u>

- (a) Does not include rescissions of unobligated balances of apportionments enacted in 2009.
- (b) On December 23, 2011, the FHWA notified states of a calculation error made in 2009 resulting in a revision of previously reported apportionments and Obligation Authority for Federal Fiscal Year 2009. The figures reported above for these items reflect a revision from that filed prior to the date of notification from FHWA.

On February 17, 2009, President Obama signed the \$787 billion American Recovery and Reinvestment Act (“ARRA”) of 2009 (Public Law Number 111-5). The law appropriated approximately \$26.66 billion to the states for highway infrastructure investment. The State was apportioned \$521,958,401 of ARRA funds for investment in state and local highway projects. The apportionments required no state match, and came with 100% Obligation Authority. The apportionments and Obligation Authority under ARRA were in addition to the apportionment and Obligation Authority amounts shown in the tables above and below.

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE ARIZONA DEPARTMENT OF TRANSPORTATION
 FEDERAL AID AUTHORIZATION PERIOD
 (Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users)
 Under Extensions Enacted For Federal Fiscal Years 2010 through 2012 (a)**

Federal Fiscal Year	Apportionments	Obligation Authority	Actual Receipts
2010 (b)	\$749,060,035	\$706,891,731	\$509,909,143
2011	759,261,430	712,957,546	727,004,396
2012 (c)	708,704,000	656,395,000	815,764,108
Totals	<u>\$2,227,230,472</u>	<u>\$2,119,350,918</u>	<u>\$2,052,677,646</u>

- (a) Data does not include rescissions of unobligated balances of apportionments enacted in 2010 or 2011, or the 2010 restoration of a portion of the unobligated apportionments rescinded in 2009.
- (b) On December 23, 2011, the FHWA notified states of a calculation error made in 2009 resulting in a revision of previously reported apportionments and Obligation Authority for Federal Fiscal Year 2010. The figures reported above for these items for 2010 reflect a revision from that filed prior to the date of notification from FHWA.
- (c) Obligation Authority for 2012 includes exempt equity bonus funds retained by SAFETEA-LU in the amount of \$17,933,745.

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE ARIZONA DEPARTMENT OF TRANSPORTATION
 FEDERAL AID AUTHORIZATION PERIOD
 (Moving Ahead For Progress In The 21st Century)
 Federal Fiscal Years 2013 and 2014**

Federal Fiscal Year	Apportionments	Obligation Authority	Actual Receipts
2013	\$ 698,059,392	\$ 685,310,014	\$ 802,872,591
2014	705,333,282	708,231,606	688,058,266
Totals	\$1,403,392,674	\$1,393,541,620	\$1,490,930,857

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE ARIZONA DEPARTMENT OF TRANSPORTATION
 FEDERAL AID AUTHORIZATION PERIOD
 (Moving Ahead For Progress In The 21st Century)
 Under Extensions Enacted For Federal Fiscal Year 2015**

Federal Fiscal Year	Apportionments	Obligation Authority	Actual Receipts
2015	\$720,453,760	\$713,523,776	\$795,944,361

Source: Arizona Department of Transportation.

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE ARIZONA DEPARTMENT OF TRANSPORTATION
 FEDERAL AID AUTHORIZATION PERIOD
 (Fixing America's Surface Transportation Act)
 Federal Fiscal Years 2016 through 2019**

Federal Fiscal Year	Apportionments	Obligation Authority	Actual Receipts
2016	\$ 750,843,578	\$ 766,915,910	\$ 998,287,774
2017	742,320,500	757,701,882	718,069,166
2018	773,185,693	768,094,877	786,070,325
2019	790,164,053	712,741,942(a)	221,048,648 (b)
Totals	\$3,056,513,824	\$3,005,454,611	\$2,723,475,913

- (a) Does not include additional Obligation Authority the Department may receive in August 2019 when unused Obligation Authority in other states is redistributed.
- (b) Actual Receipts are for the period from October 1, 2018 through February 28, 2019.

Source: Arizona Department of Transportation.

DEBT SERVICE REQUIREMENTS ^(a)

The Debt Service requirements on the Outstanding Series 2011A, Series 2016 and Series 2017A Notes, together with the Debt Service requirements on the Series 2019A Notes, are set forth below:

Fiscal Year Ended June 30	Series 2011A, Series 2016 and Series 2017A Notes Debt Service Requirements	The Series 2019A Notes		Total Notes Debt Service Requirements
		Principal	Interest (b)	
2019	\$24,837,700		\$694,056	\$25,531,756
2020	24,840,700	\$2,890,000	3,123,250	30,853,950
2021	23,949,550	3,040,000	2,978,750	29,968,300
2022	23,956,250	3,195,000	2,826,750	29,978,000
2023	23,958,250	3,360,000	2,667,000	29,985,250
2024	23,951,250	3,520,000	2,499,000	29,970,250
2025	23,958,500	3,690,000	2,323,000	29,971,500
2026	23,952,000	3,880,000	2,138,500	29,970,500
2027	6,085,000	4,070,000	1,944,500	12,099,500
2028	6,088,000	4,270,000	1,741,000	12,099,000
2029	6,089,500	4,495,000	1,527,500	12,112,000
2030	6,089,000	4,715,000	1,302,750	12,106,750
2031	6,086,000	4,955,000	1,067,000	12,108,000
2032	6,090,000	5,195,000	819,250	12,104,250
2033		5,455,000	559,500	6,014,500
2034		5,735,000	286,750	6,021,750

- (a) Figures may not total due to rounding.
(b) First interest payment date is July 1, 2019.

Pursuant to the Note Resolution, the Board may issue Additional Notes subject to meeting certain ratios of historical Federal Aid Revenue to Annual Debt Service, or for refunding purposes to decrease Debt Service without regard to those ratios. For additional information concerning these conditions, see "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES – Additional Notes."

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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 (Maricopa County) and one member from each of the other five 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>
Jack Sellers, Chair Transportation District 1 Maricopa County	Chandler	2020
Michael S. Hammond, Vice Chair Transportation District 2 Pima County	Tucson	2021
Sam Elters, Member Transportation District 1 Maricopa County	Phoenix	2024
Vacant Transportation District 3 Cochise, Greenlee, and Santa Cruz Counties		
Steven E. Stratton, Member Transportation District 4 Gila, Graham and Pinal Counties	Globe	2022
Jesse Thompson, Member Transportation District 5 Apache, Coconino and Navajo Counties	Window Rock	2023
Gary Knight, Member Transportation District 6 Yavapai, Yuma, Mohave and La Paz Counties	Yuma	2024

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 a safe, efficient, and cost-effective transportation system for the State.

Responsibilities and Organization.

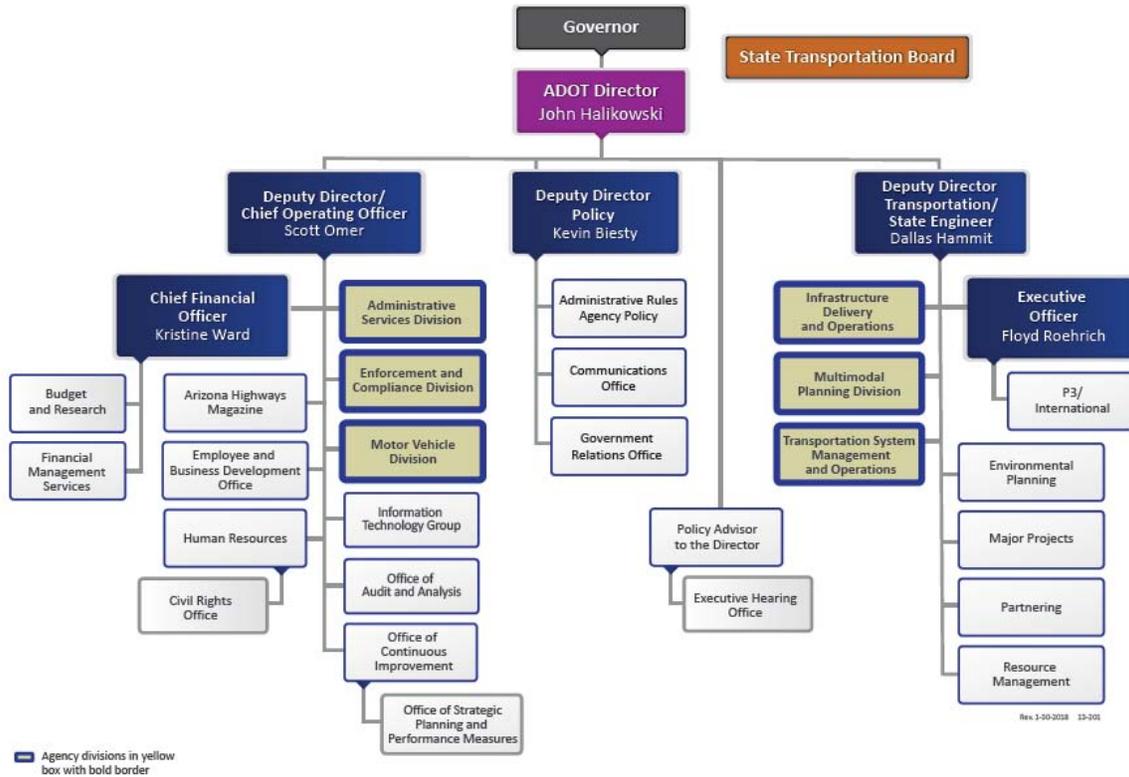
The Department administers the State highway system. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements 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 final list of projects in the Five-Year Capital Program is approved by the Board.

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 six divisions: Infrastructure Delivery and Operations Division, Transportation System Management and Operations Division and Multimodal Planning Division, all directed by the Deputy Director for Transportation/State Engineer, as well as the Motor Vehicle Division, Enforcement and Compliance Division, and Administrative Services Division. The Deputy Director for Transportation/State Engineer also directs Environmental Planning, Major Projects, Partnering and Resource Management. The Department is also supported by certain other operational and business units under the direction of the Deputy Director/Chief Operating Officer, including Human Resources; Information Technology; Office of Continuous Improvement; Employee and Business Development; Audit and Analysis; and Arizona Highways Magazine. The Chief Financial Officer directs the Budget and Research and Financial Management Services units. The Executive Officer is the primary liaison to the Board and oversees the Office of Public-Private Partnerships and International Affairs.

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



Infrastructure Delivery and Operations Division. The Infrastructure Delivery and Operations Division is responsible for the location, design, construction and maintenance of the State highway system. The Infrastructure Delivery and Operations Division manages bridge inspections, environmental mitigation, project design, right-of-way acquisition, construction, federal regulatory compliance and highway maintenance.

Transportation Systems Management and Operations Division. The Transportation Systems Management and Operations Division is responsible for a variety of traffic safety and operational programs, including roadway safety improvements, traffic signal systems, pavement conditions and crash response. The Transportation Systems Management and Operations Division also manages the State’s network of highway traffic-flow sensors, overhead message boards and closed-circuit cameras operated from the Department’s Traffic Operations Center in Phoenix.

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 systems. 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 is comprised of the Enforcement Services Section and the Office of the Inspector General. The Enforcement and Compliance Division is responsible for the State’s 23 ports of entry, commercial vehicle weight and fuel tax enforcement, collection of various fees, registration compliance, criminal investigations involving license and title fraud, and internal affairs.

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.

Administrative Services Division. The Administrative Services Division provides Department-wide support functions including Equipment Services, Facilities Management, the Grand Canyon National Park Airport, Procurement, and Safety and Risk Management.

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, and reappointed in 2015, to lead the agency responsible for planning, building and maintaining the State's multimodal transportation system, managing transportation revenue, and providing motor vehicle title, registration and driver license services.

Prior to his appointment, Mr. Halikowski 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, Driving Under the Influence, 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 currently co-chairs the Arizona Transportation and Trade Corridor Alliance and is the chairman of the American Association of State Highway and Transportation Officials (AASHTO) Standing Committee on Research. He is a past member of the Transportation Research Board (TRB) Executive Committee, the Advisory Board of the Eno Center for Transportation, and past president of the Western Association of State Highway and Transportation Officials.

Mr. Halikowski received a Bachelor's Degree in Communications and graduated summa cum laude from Arizona State University. He has completed the Wharton Transportation Executive Program and the AASHTO National Transportation Leadership Institute.

SCOTT OMER

Deputy Director and Chief Operating Officer

Mr. Omer was appointed Deputy Director for Operations in 2015 and Deputy Director/Chief Operating Officer in 2018. He oversees the Department's daily operations, delivery of results and performance, the Administrative Services Division, Enforcement Compliance Division, Motor Vehicle Division, Financial Management Services, Human Resources and Civil Rights, Information Technology, Office of Continuous Improvement/Strategic Planning and Performance, Audit and Analysis, and the Arizona Highways magazine. Prior to these appointments, he served as the Department's Director of the Multimodal Planning Division from 2011-2014.

Mr. Omer has over 25 years of transportation experience, including planning, programming, project management, project development, and agency operations. Mr. Omer served in the United States Marine Corps and is a veteran of Operation Desert Shield/Desert Storm.

Mr. Omer has a Bachelor's degree in Business Management and is certified as a professional transportation planner (PTP) and a certified public manager (CPM). He has also completed the AASHTO National Transportation Leadership Institute and the Harvard John F. Kennedy School of Executive Education.

KEVIN BIESTY

Deputy Director for Policy

Mr. Biesty joined the Department in 2000 and was appointed Deputy Director for Policy in 2015. In this role, Mr. Biesty is responsible for the Department's administrative rules and policy, the Communications Office, Public Affairs Office, and all federal and state Government Relations activities. Previously, Mr. Biesty was the Department's Assistant Director for Communications, Government Relations and Policy Development and also served as the Motor Vehicle Division's legislative liaison. Prior to joining the Department, he served as Legislative Liaison for the Arizona Department of Economic Security and on the staff of the Arizona State Senate.

Mr. Biesty currently serves on the Board of Directors for the Intelligent Transportation Society of America.

Mr. Biesty received a Bachelor's Degree in Business Management from the University of Phoenix. He has completed the Wharton Transportation Executive Program, the AASHTO National Transportation Leadership Institute, and is a graduate of the Senior Executive in State and Local Government program at the Kennedy School of Government at Harvard.

FLOYD ROEHRICH, JR., P.E.

Executive Officer

Mr. Roehrich serves as the primary liaison to the Board, oversees the Office of Public-Private Partnerships and International Affairs, assists the Director on various policy matters and works with Arizona's metropolitan planning organizations, councils of government, the Federal Highway Administration (FHWA) and other stakeholders. He was previously the State Engineer of the Department from August 2008 through September 2011.

Mr. Roehrich 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. During his career with the Department, Mr. Roehrich served as Deputy State Engineer of the Valley Transportation Program, overseeing the urban highway system within Maricopa County. He served as the State Engineer from 2008 to 2011 and Deputy Director of Policy from 2011-2015. In addition, Mr. Roehrich has held technical and management positions in various Department groups including Roadway Design, Local Government Engineer, Phoenix Construction District, and Valley Project Management.

Mr. Roehrich holds a Bachelor's degree in Civil Engineering from North Dakota State University and is a registered Professional Engineer in the State of Arizona. He has completed the Wharton Transportation Executive Program and the AASHTO National Transportation Leadership Institute. Mr. Roehrich retired from the Army National Guard in 2004 with the rank of Colonel.

DALLAS HAMMIT, P.E.

Deputy Director for Transportation and State Engineer

Mr. Hammit was appointed Deputy Director for Transportation and the State Engineer in 2014. He oversees the Multimodal Planning Division, Infrastructure Delivery and Operations Division, Transportation Systems Management and Operations Division, Environmental Planning Group, Major Projects, Partnering, Resource Management and the Office of Public-Private Partnerships and International Affairs.

Mr. Hammit joined the Department in 1999, and has served as the District Engineer in both the Yuma and Prescott Districts. He also worked for a private engineering consulting firm for ten years. Mr. Hammit was promoted to Deputy State Engineer for Operations in 2009, responsible for statewide operations. He was promoted to Senior Deputy State Engineer for the Department in 2012.

Mr. Hammit received a Bachelor's degree in Mechanical Engineering from the University of Wyoming and is a registered Professional Engineer in the State of Arizona. Mr. Hammit has also completed the AASHTO National Transportation Leadership Institute.

KRISTINE WARD

Chief Financial Officer

Ms. Ward was appointed Chief Financial Officer in December 2011. She is responsible for all financial, accounting, budget, and revenue and fuel tax administration functions of the Department. Ms. Ward also serves on the Steering Committee of the AASHTO Committee on Funding and Finance, and is a member of the Steering Committee of the Western Road Usage Charge Consortium.

Prior to joining the Department, Ms. Ward served as the Deputy Director of the Department of Revenue from 2005-2011, and was responsible for the Department's fiscal and tax processing operations. Before the Department of Revenue, Ms. Ward served three Arizona Governors in the Governor's Office of Strategic Planning and Budgeting in various roles including Director and Deputy Director.

Ms. Ward holds a Bachelor of Science degree in Business with a concentration in Finance from Bowie State University and a Master's degree in Public Administration from Arizona State University. Ms. Ward has also completed the AASHTO National Transportation Leadership Institute.

SONYA HERRERA

Assistant Director, Administrative Services Division

Ms. Herrera serves as Assistant Director for the Administrative Services Division and manages five work groups handling equipment services, facilities management, Grand Canyon National Park Airport, procurement, and safety and risk management. She has been with the Department since 2001, serving as the Director of the Office of Safety and Risk Management and as the Occupational Safety Administrator. In these positions, she directed the development of the Department's safety processes and loss prevention programs that ensured overall safety compliance for more than \$1 billion of construction projects and maintenance activities.

Prior to joining the Department, Ms. Herrera worked in safety management positions for private-sector companies in the United States and Kuwait. Ms. Herrera served in the United States Army and is a veteran of Operation Desert Storm.

Ms. Herrera earned a Bachelor's degree from Auburn University and has completed Arizona State University's Institute for Public Executives program.

THOMAS LANE

Assistant Director, Enforcement and Compliance Division

Mr. Lane serves as Assistant Director for the Enforcement and Compliance Division and oversees the Office of the Inspector General and Commercial Vehicle Enforcement activities at the State's 23 ports of entry.

Prior to joining ADOT in May 2013, Mr. Lane held a variety of positions of increasing responsibility in law enforcement in Arizona, rising to the rank of commander at the Arizona Department of Public Safety (ADPS). After 30 years of service, he retired from ADPS in 2009 and joined the FHWA where he served as the Law Enforcement and Public Safety Liaison Program manager in Washington, D.C. In that role, Mr. Lane worked with senior transportation and public safety executives on advancing the goals of Traffic Incident Management around the nation.

Mr. Lane is certified as a full authority peace officer by the Arizona Post Police Officer Standards and Training Board. He holds a Bachelor of Science degree in Public Safety Administration from Grand Canyon University and has also completed the FHWA Operations Academy.

STEVE BOSCHEN, P.E.

Assistant Director, Infrastructure Delivery and Operations

Mr. Boschen currently serves as the Assistant Director for the Infrastructure Delivery and Operations Division, which oversees all statewide project delivery, including Department and Local Public Agency projects, and statewide operations and maintenance. He is responsible for Project Management, Operations, Project Delivery, Contracts and Local Public Agency areas of the Department, which include a total of 20 groups and districts. This includes the development, construction, maintenance and operation of more than 6,000 miles of interstate and state highways in Arizona.

Mr. Boschen previously worked for the Department from 1985-1992. He rejoined the Department in October 2012 as a Deputy State Engineer for Project Delivery after a 20-year consulting engineer career, including five years as principal of a local firm.

Mr. Boschen holds a Bachelor's degree in Civil Engineering from the University of Arizona and is a registered Professional Engineer in the State.

ERIC JORGENSEN

Director, Motor Vehicle Division

Mr. Jorgensen joined the Department in 2015, overseeing the Motor Vehicle Division. He is responsible for the operations of approximately 50 offices and 180 authorized third parties engaged in the licensing and registration of motor vehicles in Arizona.

Mr. Jorgensen has worked for the State since 2004. Prior to joining the Department, he served as the Deputy Director for Administration at the Arizona Department of Child Safety (DCS), where he oversaw the separation of the DCS from the Department of Economic Security and the creation of the administrative structure for the new agency. Previously, he served as Chief Financial Officer for the \$800 million self-insured state employee benefit program and as Assistant Director for the Arizona Joint Legislative Budget Committee.

Mr. Jorgensen holds a Bachelor's degree in International Political Science from Brigham Young University, and a Master's degree in International Affairs with an emphasis on Economic Policy from Columbia University.

GREGORY D. BYRES, P.E.

Assistant Director, Multimodal Planning Division

Mr. Byres was appointed as the Assistant Director for the Multimodal Planning Division in 2017. The division oversees all statewide planning, State and local programming activities, data and analysis, transit and airport grants programs, Asset Management, and the Research Center.

Mr. Byres worked in the private sector for over 25 years prior to joining the Department. He operated his own consulting firm which provided engineering and consulting services for transportation and infrastructure. Mr. Byres joined the Department's Infrastructure Delivery and Operations division in 2014 as a Senior Project Manager, and later took over the Roadway Group as a Group Manager and Assistant State Engineer.

Mr. Byres graduated from New Mexico State University with a Bachelor's degree in Civil Engineering Technology and is a registered Professional Engineer in the State.

BRENT CAIN, P.E.

Division Director, Transportation Systems Management and Operations

Mr. Cain serves as the Division Director for the Transportation Systems Management and Operations Division, leading efforts to optimize performance of existing infrastructure. The functions of the division include traffic safety and traffic incident management; travel and roadway weather information services; freeway, work-zone

and freight management; connected and automated vehicles; traffic-signal systems and coordination; managed lanes; emergency management; wrong-way driver detection; and rapidly evolving new technologies. He was previously the Deputy State Engineer for Urban Operations, which included overseeing the Phoenix construction and maintenance districts, Traffic Operations Center, Tucson district, and statewide maintenance.

Mr. Cain has over 30 years of experience in transportation engineering and planning. He holds a Bachelor's degree in Civil Engineering from the University of Missouri-Rolla and is a registered Professional Engineer in the State. He has also completed the AASHTO National Transportation Leadership Institute.

LISA DANKA

Debt Management and Compliance Administrator

Ms. Danka joined the Department in November 2009, and is currently responsible for management and compliance of the Department's debt programs, including Transportation Excise Tax Revenue Bonds, Highway Revenue Bonds, Grant Anticipation Notes and the Highway Expansion and Extension Loan program. Previously, Ms. Danka oversaw the Department's federal-aid highway funding program, cash management, and the 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, and was responsible for overseeing eight business tax credit, grant and loan programs, the State's private activity bond volume cap, and served as the Executive Director of the Greater Arizona Development Authority.

Ms. Danka holds a Bachelor's 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.

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 Arizona Highway User Revenue Funds, which revenues are deposited in the State Highway Fund. Included in the highway operating budget are maintenance, general engineering activities, administrative functions, and all other highway related operating expenses.

The Five-Year Capital Program is funded from three primary sources: FAHP funds, highway user revenues, and the revenues generated by the transportation excise tax deposited into the Maricopa County Regional Area Road Fund. 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 funding availability, project priority, 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 funding availability, user benefits, public need, land use, safety, road conditions, and continuity of improvements. 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 funding availability, changing priorities, 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, 2024, and Title 28, Arizona Revised Statutes, is scheduled for termination on January 1, 2025. Title 28 contains most of the transportation laws of the State, including the Act authorizing the Notes, the provisions relating to the fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes, the Arizona Highway User Revenue Fund and the State Highway Fund, the Act, as well as traffic laws of the State.

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 the statutes related to motor vehicle fuel taxes have been reviewed and continued four times. While there can be no assurance that the State Legislature will continue the Department after July 1, 2024, 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 Owners of the Series 2019A Notes.

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 Series 2019A Notes, payable from either the Arizona Highway User Revenue Fund or the Regional Area Road Fund and provision has not been made for payment of those debts or obligations, the provisions of the Act regarding the Arizona Highway User Revenue Fund and 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 Series 2019A Notes, 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 Series 2019A Notes, when due, from the sources provided in the Note Resolution.

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 Series 2019A Notes or in any way contest or affect the validity of the Series 2019A Notes, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 2019A Notes or the performance of the Grant Agreements or the pledge and application of any funds provided for the payment of the Series 2019A Notes, 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 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. It is the belief 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 Department which would materially and adversely affect the Department, its ability to pay Debt Service on the Series 2019A Notes, its continued operations or its financial position.

TAX MATTERS

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law: (i) interest on the Series 2019A Notes 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; and (ii) interest on the Series 2019A Notes is exempt from Arizona state income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2019A Notes.

The opinion on federal 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 contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2019A Notes 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 Board's certifications and representations or the continuing compliance with the Board's covenants.

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 Series 2019A Notes 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 may cause loss of such status and result in the interest on the Series 2019A Notes being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2019A Notes. The Board has covenanted to take the actions required of it for the interest on the Series 2019A Notes 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 Series 2019A Notes, 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 Series 2019A Notes or the market value of the Series 2019A Notes.

Interest on the Series 2019A Notes 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 Series 2019A Notes. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2019A Notes, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2019A Note 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.

Bond Counsel's engagement with respect to the Series 2019A Notes ends with the issuance of the Series 2019A Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the Board or the owners of the Series 2019A Notes 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 Series 2019A Notes, under current IRS procedures, the IRS will treat the Board as the taxpayer and the beneficial owners of the Series 2019A Notes 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 Series 2019A Notes 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 Series 2019A Notes.

Prospective purchasers of the Series 2019A Notes upon their original issuance at prices other than the respective prices indicated on the inside cover of this Official Statement, and prospective purchasers of the Series 2019A Notes at other than their original issuance, should consult their own tax advisors regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Risk of Future Legislative Changes and/or Court Decisions

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 Series 2019A Notes. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2019A Notes will not have an adverse effect on the tax status of interest on the Series 2019A Notes or the market value or marketability of the Series 2019A Notes. 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 Series 2019A Notes from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, federal tax legislation that was enacted on December 22, 2017 reduced corporate tax rates, modified individual tax rates, eliminated many deductions, repealed the corporate alternative minimum tax, and eliminated the tax-exempt advance refunding of tax-exempt bonds, among other things. Additionally, investors in the Series 2019A Notes should be aware that future legislative actions might increase, reduce or otherwise change (including retroactively) the financial benefits and the treatment of all or a portion of the interest on the Series 2019A Notes for federal income tax purposes for all or certain taxpayers. In all such events, the market value of the Series 2019A Notes may be affected and the ability of holders to sell their Series 2019A Notes in the secondary market may be reduced.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

Original Issue Premium

All of the Series 2019A Notes (for purposes of this section, “Premium Notes”) were offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes note premium. For federal income tax purposes, note premium is amortized over the period to maturity of a Premium Note, based on the yield to maturity of that Premium Note (or, in the case of a Premium Note 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 Note), compounded semiannually. No portion of that note premium is deductible by the owner of a Premium Note. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Note, the owner’s tax basis in the Premium Note is reduced by the amount of note premium that is 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 Note for an amount equal to or less than the amount paid by the owner for that Premium Note. A purchaser of a Premium Note in the initial public offering who holds that Premium Note to maturity (or, in the case of a callable Premium Note, to its earlier call date that results in the lowest yield on that Premium Note) will realize no gain or loss upon the retirement of that Premium Note.

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

INDEPENDENT AUDITORS

The basic financial statements of the Department as of and for the year ended June 30, 2018 included in this Official Statement in Appendix B have been audited by CliftonLarsonAllen, LLP, independent auditors, as stated in their report appearing therein. The Department neither requested nor obtained the consent of CliftonLarsonAllen, LLP to include their report and CliftonLarsonAllen, LLP 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 Board and the Department will execute a written Continuing Disclosure Undertaking, dated as of the date of delivery of the Series 2019A Notes (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 Series 2019A Notes, to provide or cause to be provided, certain annual financial information that is generally consistent with the information contained under the heading “FEDERAL AID REVENUES” herein for the prior Federal Fiscal Year, and notice of the occurrence of certain events or failures to take certain required actions with respect to the Series 2019A Notes. Pursuant to the Rule, such disclosures are to be provided to the Municipal Securities Rulemaking Board (“MSRB”) in a format prescribed by the MSRB. Currently, the MSRB requires filing such disclosures in electronic format through the Electronic Municipal Market Access website (“EMMA”).

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 certain events listed in the Disclosure Undertaking. Such notices will be provided through EMMA.

The obligations of the Board and the Department described in the Disclosure Undertaking will remain in effect until the Series 2019A Notes are no longer Outstanding or the Rule no longer applies to the Series 2019A Notes. The Disclosure Undertaking may be amended or waived upon receipt by the Board and the Department of an opinion of independent counsel to the effect that the amendment or waiver would not, in and of itself, cause the Disclosure Undertaking to violate the Rule.

A beneficial owner of a Series 2019A Note 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 Series 2019A Notes under the Note Resolution.

On January 28, 2016, the Department filed through EMMA a Notice of Failure to Timely File Audited Financial Statements for the Department and for the Maricopa County Regional Area Road Fund due to a delay in completing the audited financial statements for the fiscal year ended June 30, 2015 resulting from a change in accounting software and systems. Such Audited Financial Statements were subsequently filed on April 27, 2016 and on June 21, 2016, respectively.

RATINGS

Fitch Ratings Inc., Moody’s Investors Service, Inc. and S&P Global Ratings, a division of Standard and Poor’s Financial Services LLC have assigned the Series 2019A Notes ratings of “AA,” “Aa2” and “AA+,” respectively.

A rating is not a recommendation to buy, sell or hold securities, and reflects only the views of the rating organizations; any explanation of the meaning or significance of any rating may only 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, relating to the Series 2019A Notes and the Board and the Department. 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 lowered or withdrawn entirely by a rating agency if in its judgment circumstances so warrant. Any lowering or withdrawal of a rating or other actions of a rating agency relating to its rating on the Series 2019A Notes may have an adverse effect on the marketability or market price of the Series 2019A Notes.

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 Series 2019A Notes.

UNDERWRITING

The underwriters identified on the cover page (collectively, the “Underwriters”) have jointly and severally agreed, subject to certain conditions, to purchase the Series 2019A Notes from the Board at a price of \$75,305,276.83 (being the aggregate principal amount of \$62,465,000.00 plus original issue premium of \$12,972,941.80 and less an Underwriters’ discount of \$132,664.97, plus accrued interest. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2019A Notes to dealers (including dealers depositing the Series 2019A Notes into investment trusts) and others at prices lower than such initial public offering prices. The Underwriters will be obligated to purchase all of the Series 2019A Notes if any are purchased.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters for the Series 2019A Notes, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Series 2019A Notes. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2019A Notes with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series 2019A Notes. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Citigroup Global Markets Inc., an underwriter of the Series 2019A Notes, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, “Fidelity”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original price through Fidelity. As part of this arrangement Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC (“JPMS”), one of the underwriters of the Series 2019A Notes, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of CS&Co. and LPL will purchase Series 2019A Notes from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2019A Notes that such firm sells.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the issuance of the Series 2019A Notes and the tax-exempt status of interest on the Series 2019A Notes (see “TAX MATTERS”) are subject to the legal opinion of Squire Patton Boggs (US) LLP, Bond Counsel to the Board and the Department. The signed legal opinion of Bond Counsel, substantially in the form attached hereto as Appendix A, dated and premised on law in effect as of the date of issuance, will be delivered on the date of issuance of the Series 2019A Notes.

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 Series 2019A Notes, the Note Resolution, the Act and the tax-exempt status of interest on the Series 2019A Notes (except for the outstanding principal amounts of the Notes), contained under the captions “INTRODUCTION,” “PLAN OF FINANCE,” “THE SERIES 2019A NOTES,” “SECURITY AND SOURCES OF PAYMENT FOR THE NOTES”, “TAX MATTERS,” “CONTINUING DISCLOSURE UNDERTAKING” (excluding the last paragraph thereunder), “PROPOSED FORM OF OPINION OF BOND COUNSEL” contained in Appendix A, “SUMMARY OF CERTAIN PROVISIONS OF THE NOTE RESOLUTION” contained in Appendix C, and “FORM OF CONTINUING DISCLOSURE UNDERTAKING” contained in Appendix D hereto. Bond Counsel 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 Series 2019A Notes or the Board or the Department that may be made available to the prospective purchasers of the Series 2019A Notes or to others.

Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP. All the legal opinions to be delivered concurrently with the delivery of the Series 2019A Notes express the professional judgment of the attorneys rendering the opinions or advice regarding the legal issues and other matters expressly addressed therein. By rendering a legal opinion or advice, the giver of such opinion or advice does not become an insurer or guarantor of the result indicated by that opinion or advice, or the transaction on which the opinion or advice is rendered, or of the future performance of parties to the transaction. Nor does the rendering of an opinion or advice guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as the Financial Advisor to the Board in connection with the issuance of the Series 2019A Notes. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Series 2019A Notes.

The Financial Advisor 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.

MISCELLANEOUS

The Department and the Board have furnished the information in this Official Statement relating to the Department and the Board.

Copies of the Note Resolution and the Grant Agreements discussed herein may be obtained from Ms. Lisa Danka, the Department’s Debt Management and Compliance Administrator, located at 206 South 17th Avenue, Phoenix, Arizona 85007 (telephone: 602-712-7441). All communications concerning this offering should be directed to Ms. Danka.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such opinions or the like will be realized. The agreements of the Board and the Department are fully set forth in the Note Resolution in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the Board or the Department and the purchasers or Owners of any of the Series 2019A Notes.

This Official Statement is submitted in connection with the sale of the Series 2019A Notes 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/ Jack Sellers
Jack Sellers, Chairman

ARIZONA DEPARTMENT OF TRANSPORTATION

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

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APPENDIX A
PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

To: Arizona Transportation Board
Phoenix, Arizona

We have served as bond counsel to our client the Arizona Transportation Board (the “Issuer”) in connection with the issuance by the Issuer of its \$62,465,000 aggregate principal amount of Arizona Transportation Board Grant Anticipation Notes, Series 2019A (the “Series 2019A Notes”), dated the date of this letter.

The Series 2019A Notes are issued pursuant to the provisions of Title 28, Chapter 21, Article 3, Arizona Revised Statutes, as amended (the “Act”) and the Resolution adopted by the Issuer on June 9, 2000, as supplemented and amended to date, including as supplemented by the Eleventh Supplemental Resolution adopted by the Issuer on January 18, 2019 (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 Series 2019A Notes, a copy of the signed and authenticated Series 2019 Note 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 Series 2019A Notes and the Resolution are valid and binding obligations of the Issuer, enforceable in accordance with their respective terms.
2. The Series 2019A Notes constitute special obligations of the Issuer, and the principal of and interest and any premium on (collectively, “debt service”) the Series 2019A Notes, together with debt service on any other obligations issued and outstanding on a parity with the Series 2019A Notes, as provided in the Resolution, are payable from and secured solely by the pledge of amounts on deposit in the Grant Anticipation Note Fund, the Note Proceeds Account and from certain other funds, all as defined and provided in the Resolution. Under the Resolution, the Arizona Department of Transportation is required to deposit into the Grant Anticipation Note Fund: (a) the Grant Revenues, (b) certain Federal Aid Revenues, and (c) certain other revenues, all as defined and provided in the Resolution. The payment of debt service on the Series 2019A Notes is not secured by a pledge of any money raised by taxation, and the Series 2019A Notes do not represent or constitute a general obligation or a pledge of the faith and credit of the Issuer, the State of Arizona or any of its political subdivisions.
3. Interest on the Series 2019A Notes 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. The interest on the Series 2019A Notes is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Series 2019A Notes.

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 Issuer.

We express no opinion herein regarding the priority of the lien on Pledged Funds or other funds created by the Resolution.

In rendering those opinions with respect to treatment of the interest on the Series 2019A Notes 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 Issuer. Failure to comply with certain of those covenants subsequent to issuance of the Series 2019A Notes may cause interest on the Series 2019A Notes to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the Series 2019A Notes and the enforceability of the Series 2019A Notes and the Resolution are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer, and other laws relating to or affecting the rights and remedies of creditors generally; to the application of equitable principles, whether considered in a proceeding at law or in equity; to the exercise of judicial discretion; and to limitations on legal remedies against public entities.

No opinions other than those expressly stated herein are implied or shall be inferred as a result of anything contained in or omitted from this letter. The opinions expressed in this letter are stated only as of the time of its delivery and we disclaim any obligation to revise or supplement this letter thereafter. Our engagement as bond counsel in connection with the original issuance and delivery of the Series 2019A Notes is concluded upon delivery of this letter.

Respectfully submitted,

APPENDIX B

ARIZONA DEPARTMENT OF TRANSPORTATION AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED JUNE 30, 2018

The information in this Appendix B is presented for background information only. As described under "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES", the Series 2019A Notes are special and limited obligations of the Board payable from, and are secured by a pledge solely of, the Pledged Funds, which Pledged Funds are not segregated or identified in Appendix B.

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INDEPENDENT AUDITORS' REPORT

The Honorable Douglas A. Ducey
Governor of the State of Arizona

Members of the Arizona State Legislature
Arizona Department of Transportation
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The Honorable Douglas A. Ducey
Governor of the State of Arizona

Members of the Arizona State Legislature
Arizona Department of Transportation

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

During the fiscal year ended June 30, 2018, the Department adopted the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of GASBS No. 75, the Department reported a restatement for the change in accounting principle (See Note 5.G.). Our auditors' opinion was not modified with respect to the restatement.

As discussed in Note 1, the financial statements present only the Arizona Department of Transportation and do not purpose to, and do not present fairly the financial position of the State of Arizona as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, information about infrastructure assets reported using the modified approach, and the Department's proportionate share of the net pension liability and contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

The Honorable Douglas A. Ducey
Governor of the State of Arizona

Members of the Arizona State Legislature
Arizona Department of Transportation

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arizona Department of Transportation's basic financial statements. The accompanying supplementary information, the Introductory Section and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 21, 2018, on our consideration of the Department'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 solely 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 effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 21, 2018

**Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

As management of the Arizona Department of Transportation (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the [Letter of Transmittal](#) and the Department's [basic financial statements](#), with the accompanying [notes](#) and [Required Supplementary Information \(RSI\)](#).

Financial Highlights

Government-Wide

- The net position of the Department at the close of the fiscal year is \$20.8 billion, compared to \$20.0 billion for fiscal year 2017, an increase of \$839.6 million. Of this amount, \$(28.6) million represents the *unrestricted* component as compared to \$(67.7) million at the end of 2017.
- The Department's capital assets are \$22.4 billion, compared to \$21.7 billion for fiscal year 2017, an increase of 3.1%. This increase is attributable to the results of highway construction activity. The Department's *net investment in capital assets* is \$20.0 billion, compared to \$19.1 billion for fiscal year 2017, an increase of 4.5%.
- The Department's total liabilities are \$3.2 billion, compared to \$3.3 billion in 2017. The Department had \$96.5 million less in bonds outstanding in 2018 than in 2017. During fiscal year 2018, road construction bonds of \$62.6 million were issued and \$159.0 million in bonds were retired.

Fund Level

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of \$1.2 billion, as compared to \$1.1 billion in 2017.
- The total restricted fund balance is \$878.2 million; the majority of this amount is restricted for capital projects. Inventories of \$53 thousand represent the nonspendable portion of fund balance while \$343.0 million represents the committed fund balance portion.
- The enterprise funds reported net position at year-end of \$30.5 million, as compared to \$60.0 million in 2017.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction of the Department's basic financial statements. The Department's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other Required Supplementary Information, in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the Department as a Whole)

The government-wide financial statements are designed to present an overall picture of the financial position of the Department. These statements consist of the Statement of Net Position 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.

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The Statement of Net Position combines and consolidates the Department's current financial resources with capital assets and long-term obligations. This statement includes all of the Department's assets and liabilities.

Net position is the difference between the Department's assets and deferred outflows of resources less liabilities and deferred inflows of resources, and represents one measure of the Department's financial health.

- An increase or decrease in the Department's net position from one year to the next is an indicator of whether its financial health is improving or declining.
- Other indicators of the Department's financial health include the condition of its roads and bridges (infrastructure) and economic trends affecting the Department's future tax revenues.

The Statement of Activities focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by the Department's general tax and other revenues. This statement summarizes the cost of providing specific Department services and includes all current year revenues and expenses.

The Statement of Net Position and the Statement of Activities divide the Department's activities into two types:

Governmental Activities-The Department's basic services are reported here, including administration, highway, highway maintenance, and motor vehicle. Taxes, fees, and federal grants finance most of these activities.

Business-type Activities-Activities for which the Department charges a fee to customers to pay for most or all of the costs of the services it provides are reported as business-type activities. The Department's Highway Expansion and Extension Loan Program (HELP) is reported here.

The government-wide financial statements can be found in the [Basic Financial State Financial Statements](#) section of this report.

This report includes two schedules (Exhibit 3.1 and Exhibit 4.1) that reconcile the amounts reported on the governmental fund financial statements (prepared using the modified accrual basis of accounting and current financial resources measurement focus) with governmental activities (prepared using the accrual basis of accounting and economic resources measurement focus) on the appropriate government-wide statements. The following summarizes the impact of utilizing Governmental Accounting Standards Board Statement 34 (GASB 34), as amended, reporting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term assets that are not available to pay for current period expenditures are not reported on governmental fund statements.
- Internal service fund activities are reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Debt service principal payments are reported as expenditures in the funds, but reduce long-term liabilities in the government-wide Statement of Net Position
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, bonds, notes payable, and others only appear as liabilities on the

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government-wide statements.

- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

Fund Financial Statements (Reporting the Department's Major Funds)

The fund financial statements provide detailed information about the major individual funds. A fund is an accounting entity with a self-balancing set of accounts that the Department uses to keep track of specific sources of funding and spending for a particular purpose. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into two categories: governmental and proprietary.

Governmental Funds—A majority of the Department's activities are reported in governmental funds. Reporting of these funds focuses on how financial resources flow in and out of the funds, and 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 Department'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 Department's programs. The reconciliations following the fund financial statements explain the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Department maintains fourteen individual governmental 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 General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Debt Service Fund, and Capital Projects Fund, which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements in the [Supplementary Information](#) of this report.

The legislature appropriates an annual budget from the Department's General Fund (State Highway Fund). The Budgetary Comparison Schedule – General Fund (State Highway Fund) has been provided to demonstrate compliance with this budget and is presented as Required Supplementary Information. The governmental funds financial statements can be found within the [Basic Financial Statements](#) section of this report.

Proprietary Funds: When the Department charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting, the same method used by most private sector businesses. Enterprise funds report activities that provide goods and services to outside customers, to other agencies, or to other divisions of the Department. The Department's enterprise fund is the Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's

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other programs and activities and other state agencies. The Equipment Revolving Fund is the Department's only internal service fund. Internal service fund activities are reported as governmental activities on the government-wide statements. The proprietary funds financial statements can be found within the [Basic Financial Statements](#) section of this report.

Notes to the 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 in the [Notes to Financial Statements](#) section of this report.

Required Supplementary Information

In addition to the basic financial statements, including accompanying notes, this section presents certain Required Supplementary Information including the Department's Budgetary Comparison Schedule – General Fund (State Highway Fund), the modified approach to reporting infrastructure assets, and the Pension Liability and Pension Contributions as per GASB statement 68, as amended. Required Supplementary Information can be found in the [Required Supplementary Information](#) section of this report.

Supplementary Information

Other Supplementary Information includes the combining statements for the nonmajor governmental funds and is presented immediately following the Required Supplementary Information. Combining fund statements and schedules can be found in the [Supplementary Information](#) section of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Department's financial health. The following tables, graphs, and analysis address the net position and changes to net position for the Department as a whole as of and for the fiscal years ended June 30, 2018 and 2017.

The Department's combined net position increased by \$839.6 million, or 4.2%, over the course of this fiscal year's operations. The increase in combined net position is net of a prior period adjustment of governmental activities net position of \$(66.2) million due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The net position of the governmental activities increased by \$869.0 million, or 4.4%; and business-type activities decreased by \$29.4 million, or (49.1)% over the previous year. The business-type activities decrease was due to a \$30.0 million legislative distribution to Arizona counties and cities from the Highway Expansion and Extension Loan Program Fund (HELP). The overall increase in the Department's net position was due primarily to an increase in the Department's infrastructure.

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The following table reflects the condensed Statements of Net Position as of June 30, 2018 and 2017:

**Condensed Statements of Net Position
As of June 30,**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 1,529,889,220	\$ 1,457,270,795	\$ 30,520,459	\$ 59,950,798	\$ 1,560,409,679	\$ 1,517,221,593
Capital Assets	22,385,270,388	21,702,383,527	—	—	22,385,270,388	21,702,383,527
Total Assets	23,915,159,608	23,159,654,322	30,520,459	59,950,798	23,945,680,067	23,219,605,120
Deferred Outflows of Resources						
	121,008,932	149,415,092	—	—	121,008,932	149,415,092
Liabilities						
Current liabilities	286,774,390	276,787,963	—	—	286,774,390	276,787,963
Noncurrent liabilities	2,891,196,625	3,042,626,656	—	—	2,891,196,625	3,042,626,656
Total liabilities	3,177,971,015	3,319,414,619	—	—	3,177,971,015	3,319,414,619
Deferred Inflows of Resources	48,152,381	48,605,334	—	—	48,152,381	48,605,334
Net Position						
Net investment in capital assets	19,987,899,408	19,118,586,178	—	—	19,987,899,408	19,118,586,178
Restricted	881,309,835	890,204,150	—	59,950,798	881,309,835	950,154,948
Unrestricted	(59,164,099)	(67,740,867)	30,520,459	—	(28,643,640)	(67,740,867)
Total net position	\$20,810,045,144	\$19,941,049,461	\$ 30,520,459	\$ 59,950,798	\$20,840,565,603	\$20,001,000,259

The total assets of the Department (excluding deferred outflows of resources) were \$23.9 billion, while total liabilities (excluding deferred inflows of resources) were \$3.2 billion, resulting in a net position balance of \$20.8 billion. The majority of the Department's net position, \$20.0 billion (95.9%), was invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

The governmental activities reported an increase in capital assets with the largest increase being in the area of infrastructure.

More detailed information regarding beginning net position restatements is in [Note 5G](#).

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The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net position changed during the year, compared to the prior year:

**Condensed Statements of Activities
For the Years Ended June 30,**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for services	\$ 182,218,638	\$ 164,873,442	\$ —	\$ —	\$ 182,218,638	\$ 164,873,442
Operating grants and contributions	149,779,148	158,155,857	—	—	149,779,148	158,155,857
Capital grants and contributions	744,854,224	714,607,678	—	—	744,854,224	714,607,678
General revenues						
Motor vehicle registration, title, and related taxes	1,142,560,728	1,135,060,082	—	—	1,142,560,728	1,135,060,082
Fuel and motor carrier taxes and fees	838,823,494	777,314,966	—	—	838,823,494	777,314,966
Transportation excise taxes	295,100,385	274,552,523	—	—	295,100,385	274,552,523
Flight property taxes	13,011,635	10,364,980	—	—	13,011,635	10,364,980
Income from investments	17,264,216	10,511,853	569,661	657,455	17,833,877	11,169,308
Other	5,954,590	5,880,469	—	—	5,954,590	5,880,469
Gain (loss) on sale of capital assets	2,662,973	3,792	—	—	2,662,973	3,792
Total revenues	<u>3,392,230,031</u>	<u>3,251,325,642</u>	<u>569,661</u>	<u>657,455</u>	<u>3,392,799,692</u>	<u>3,251,983,097</u>
Expenses						
Distributions to Arizona counties and cities	1,307,529,826	1,276,426,939	—	—	1,307,529,826	1,276,426,939
Noncapital, including asset preservation	319,869,666	253,205,042	—	—	319,869,666	253,205,042
Distributions to other state agencies	224,220,584	210,332,916	—	—	224,220,584	210,332,916
Highway	133,914,884	138,399,501	—	—	133,914,884	138,399,501
Highway maintenance	97,196,657	102,172,637	—	—	97,196,657	102,172,637
Local governmental assistance	127,400,215	127,027,745	—	—	127,400,215	127,027,745
Motor vehicle	110,516,024	112,118,811	—	—	110,516,024	112,118,811
Interest on long-term debt	58,873,649	78,480,922	—	—	58,873,649	78,480,922
Administration	77,547,136	74,515,675	—	—	77,547,136	74,515,675
Highway Expansion and Extension Loan Program	—	—	30,000,000	—	30,000,000	—
Total expenses	<u>2,457,068,641</u>	<u>2,372,680,188</u>	<u>30,000,000</u>	<u>—</u>	<u>2,487,068,641</u>	<u>2,372,680,188</u>
Changes in net position	<u>935,161,390</u>	<u>878,645,454</u>	<u>(29,430,339)</u>	<u>657,455</u>	<u>905,731,051</u>	<u>879,302,909</u>
Net position, beginning, as restated (Note 5G)	<u>19,874,883,754</u>	<u>19,062,404,007</u>	<u>59,950,798</u>	<u>59,293,343</u>	<u>19,934,834,552</u>	<u>19,121,697,350</u>
Net position, ending	<u>\$ 20,810,045,144</u>	<u>\$ 19,941,049,461</u>	<u>\$ 30,520,459</u>	<u>\$ 59,950,798</u>	<u>\$ 20,840,565,603</u>	<u>\$ 20,001,000,259</u>

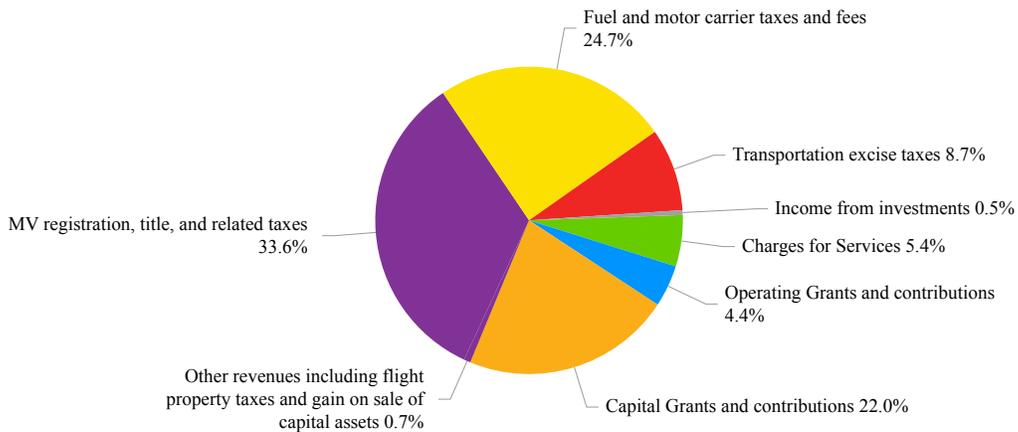
For additional information on the difference between fiscal year 2017 ending net position and fiscal year 2018 beginning net position, see [Note 5G](#).

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Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2018:

**Revenues – Governmental Activities
\$3,392,230,031**



Of the Department's revenues, \$2.7 billion (or 80.4%) are from the following three revenue sources:

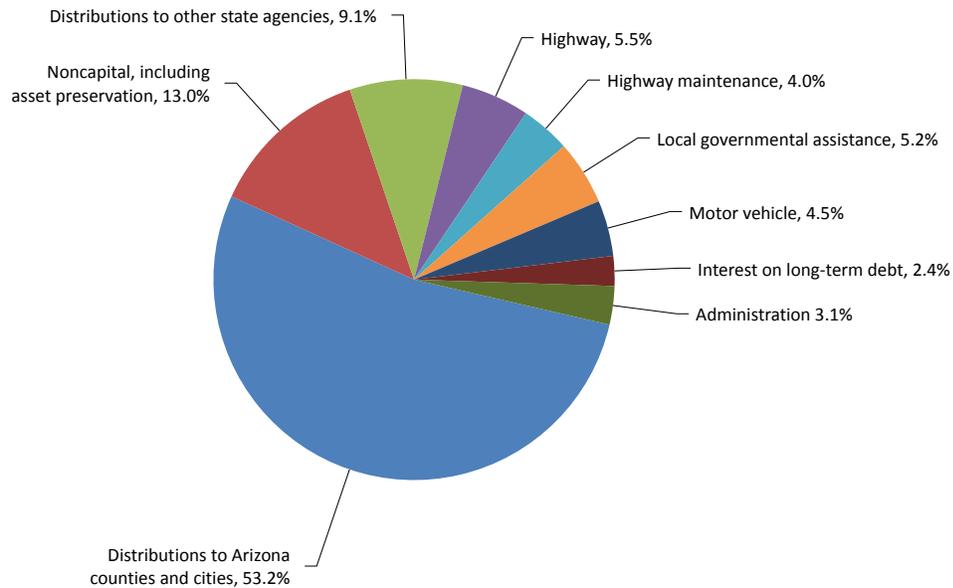
- Motor vehicle registration, title, license, and related taxes comprise the Department's largest revenue source of \$1.1 billion (33.6%).
- Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of \$838.8 million (24.7%).
- Capital grants and contributions represent the Department's third largest revenue source of \$744.9 million (22.0%).

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The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax, posted positive year-results in fiscal year 2018. HURF collections totaled approximately \$1.5 billion, 3.6% above fiscal year 2017 and 3.6% below the forecast. Maricopa County Transportation Excise Tax collections totaled \$436.1 million, an increase of 6.0% over fiscal year 2017 and 1.0% above the Department's estimate. The Transportation Excise Tax distribution to the Department was \$295.1 million compared to \$274.6 million for fiscal year 2017.

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2018:

**Expenses – Governmental Activities
\$2,457,068,641**



Of the Department's expenses, \$1.9 billion (or 75.4%) were for the following:

- Distributions to Arizona counties and cities comprise the Department's largest expense of \$1.3 billion (53.2%).
- Noncapital, including asset preservation, represents the Department's second largest expense of \$319.9 million (13.0%).
- Distributions to other state agencies represent the Department's third largest expense of \$224.2 million (9.1%).

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Distributions to Arizona counties and cities increased in fiscal year 2018 as compared to fiscal year 2017 due to an increase in gas and fuel tax revenue collections. The distributions to other government entities equal \$1.5 billion (62.3%); making up more than half of the expenditures for fiscal year 2018.

Business-type Activities

Net position for business-type activities decreased by \$(29.4) million in fiscal year 2018. Total revenues were \$570 thousand, all of which came from income from investments. There were no operating expenses for business-type activities during the year, however, a special distribution of \$30.0 million was made to counties and cities within the State of Arizona in fiscal year 2018.

The Highway Expansion and Extension Loan Program did not approve or disburse any loans in Fiscal Year 2018.

Financial Analysis of the Department's Funds

As previously mentioned, the Department uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental Funds: The focus of the Department's governmental funds financial statements ([Governmental Funds financial statements](#)) is to provide information on near-term inflows, outflows, and balances of spendable resources. All major governmental funds are discretely presented on these financial statements, while the nonmajor governmental funds are combined into a single column. Combining statements for the nonmajor governmental funds may be found in the [Supplementary Information](#) section of this report.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$1.2 billion, an increase of \$62.5 million over the previous fiscal year. The majority of this amount is restricted for capital projects.

The General Fund (State Highway Fund) is the primary operating fund of the Department. At the end of the current fiscal year, the nonspendable fund balance was \$53 thousand; the restricted fund balance was \$430.2 million; and the committed fund balance was \$312.8 million.

The Maricopa Regional Area Road Construction Fund is a major special revenue fund that receives a portion of Maricopa County Transportation Excise Tax monies that are used 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 within Maricopa County. Total revenues collected in the fund in fiscal year 2018 were \$629.2 million; Transportation Excise Tax revenue of \$290.9 million (or 46.2%) was significant revenue source. The remaining revenue was mainly federal revenue and excess land sales.

The Debt Service Fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the governmental funds. Other financing sources totaled \$253.0 million. This amount was transferred in from the General Fund (State Highway Fund) \$130.4 million, Maricopa Regional Area Road Construction Fund \$99.1 million, and Grant Anticipation Notes Fund \$23.5 million.

The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities in the governmental funds. Issuance of Grant Anticipation Notes produced \$75.4 million in other financing sources during the year. In fiscal year 2018, the Capital Projects Funds' expenditures were \$54.0 million. Non-capital, including asset preservation expenditures of \$28.3 million (52.5%) and Capital outlay expenditures of \$25.2 million (46.8%) accounted for the majority of the expenditures in the

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Capital Projects Fund. Capital outlay expenditures for the acquisition and construction of new highways was converted to capital assets on the government-wide statements.

Budget Variances

The Department's appropriated operating budget from the General Fund (State Highway Fund) increased by about \$13.0 million from fiscal year 2017 to fiscal year 2018. The increase was primarily due to the increased cost to maintain and operate new lane miles. In fiscal year 2017, the Department spent 94.6% of its budget and in fiscal year 2018 the Department spent 93.1% of its budget. Ultimately, the Department spent about \$6.7 million more in fiscal year 2018 than in fiscal year 2017 from its appropriated operating budget from the General Fund (State Highway Fund). Reference the budgetary comparison schedule in the [Required Supplementary Information](#) section of this report.

Capital Assets (See Note 5A to the financial statements for additional information)

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$22.4 billion (net of accumulated depreciation), a \$682.9 million increase over the previous fiscal year.

Capital Assets June 30, 2018

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 3,485,414,860	\$ 3,395,722,150	\$ —	\$ —	\$ 3,485,414,860	\$ 3,395,722,150
Infrastructure	16,301,538,413	16,189,651,156	—	—	16,301,538,413	16,189,651,156
Construction in progress	2,422,073,888	1,915,814,443	—	—	2,422,073,888	1,915,814,443
Buildings and improvements	88,431,448	103,381,489	—	—	88,431,448	103,381,489
Improvements other than buildings	15,034,868	18,403,647	—	—	15,034,868	18,403,647
Machinery and equipment	7,685,287	8,837,266	—	—	7,685,287	8,837,266
Mobile fleet and aircraft	65,091,625	70,573,376	—	—	65,091,625	70,573,376
Total	<u>\$22,385,270,389</u>	<u>\$21,702,383,527</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$22,385,270,389</u>	<u>\$21,702,383,527</u>

As provided by accounting principles generally accepted in the United States (GAAP), the Department has elected to record its infrastructure assets using the modified approach, as defined in GASB Statement 34, as amended. Assets accounted for under the modified approach include 6,775 center line miles of roads (21,532 travel lane miles) and 4,855 bridges that the Department is responsible for maintaining.

The Five-Year Transportation Facilities Construction Program (the "Program") is a dynamic program and adjustments are made to the annual plans based on the needs of the Department to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the Department. The Program is updated annually and adjustments are made monthly during the fiscal year, as circumstances may require.

The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The Department's serviceability rating

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goal is 3.23 for the overall system. The Department's most recent assessment indicated that an overall rating of 3.57 was achieved for fiscal year 2018.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). To comply with Federal standards, the Department is expected to maintain its Bridges to a condition where not more than 10.0% are classified as poor. The Department's most recent assessment indicated that 1.4% of the bridges were so classified for fiscal year 2018.

Noncurrent Liabilities (See Note 5E to the financial statements for additional information)

The Department's noncurrent liabilities for its governmental and business-type activities as of June 30, 2018, amount to \$2.9 billion, a decrease of \$219.8 million million from the previous fiscal year.

	2018	2017
Governmental Activities		
Bonds and notes		
Highway revenue bonds	\$ 1,359,500,000	\$ 1,435,625,000
Transportation excise tax revenue bonds	575,040,000	643,310,000
Grant anticipation notes (GARVEE bonds)	177,420,000	129,475,000
Unamortized Premium on bonds	344,153,009	389,859,991
Total bonds and notes	<u>2,456,113,009</u>	<u>2,598,269,991</u>
Capital leases	24,251,680	33,791,479
Compensated absences	17,783,919	18,049,500
Advances and notes payable	—	22,178,643
Accrued relocation costs	29,783,142	31,863,296
Total governmental activities	<u>\$ 2,527,931,750</u>	<u>\$ 2,704,152,909</u>
	2018	2017
Net pension liability	\$ 296,900,511	\$ 321,346,418
Net OPEB obligation	\$ 66,364,364	\$ 85,453,232

The Department has issued revenue bonds in 39 separate issues since 2000. During 2018 the Department issued Grant Anticipation Notes, Series 2017A. All outstanding bonds as of June 30, 2018, are scheduled to mature on various dates with none later than July 1, 2038. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (the "Transportation Board") and are not obligations of the State of Arizona.

Standard & Poor's Ratings Services and Moody's Investors Service have respectively rated the Senior lien Highway Revenue Bonds as AAA/Aa1 and subordinate lien Highway Revenue Bonds as AA+/Aa2; Transportation Excise Tax Revenue Bonds as AA+/Aa1; and the Grant Anticipation Notes as AA+/Aa2/AA with the additional rating of AA from Fitch Ratings.

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Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Department'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. 17th Avenue, Phoenix, Arizona, 85007, or by visiting our website at: <http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/financial-reports>.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements – includes a statement of net position and a statement of activities. These statements report the overall Department activities. The statements also distinguish between the Department’s government and business-type activities. These statements are prepared utilizing the accrual basis of accounting for financial reporting.

Governmental and Proprietary Fund Financial Statements – provides information about the Department’s funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Notes to the Financial Statements – provide additional information that is essential for the full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position – combines and consolidates the Department’s current financial resources with capital assets and long-term obligations. This statement includes all of the Department’s non-fiduciary assets and liabilities.

Statement of Activities – focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by the Department’s general tax and other revenues. This statement summarizes the cost of providing specific Department services and includes all current year revenues and expenses.

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Exhibit 1

Statement of Net Position June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Unrestricted cash on deposit with State Treasurer	\$ 257,592,636	\$ 30,520,459	\$ 288,113,095
Receivables			
Taxes and fees	67,273,493	—	67,273,493
Notes and loans	2,647,078	—	2,647,078
Other, net of allowance for doubtful accounts	11,438,514	—	11,438,514
Due from U.S. government	85,602,669	—	85,602,669
Inventories	2,853,552	—	2,853,552
Restricted cash on deposit with State Treasurer	1,098,337,461	—	1,098,337,461
Restricted cash with fiscal agents	4,143,817	—	4,143,817
Capital assets not subject to depreciation (Notes 5A)	22,209,027,161	—	22,209,027,161
Capital assets subject to depreciation, net of accumulated depreciation, (Notes 5A)	176,243,227	—	176,243,227
Total assets	<u>23,915,159,608</u>	<u>30,520,459</u>	<u>23,945,680,067</u>
Deferred Outflows of Resources			
Relating to pensions (Note 6C)	34,289,936	—	34,289,936
Relating to OPEB	2,025,158	—	2,025,158
Loss on debt refundings	84,693,838	—	84,693,838
Total deferred outflows of resources	<u>121,008,932</u>	<u>—</u>	<u>121,008,932</u>
Liabilities			
Accounts payable and other current liabilities	97,804,887	—	97,804,887
Accrued payroll and other accrued expenses	11,009,157	—	11,009,157
Due to other state agencies	13,484,019	—	13,484,019
Tax and refunds payable	32,206,311	—	32,206,311
Due to Arizona counties and cities	130,620,747	—	130,620,747
Unearned revenue	1,649,269	—	1,649,269
Non-current liabilities (Note 5E):			
Due within one year	217,213,330	—	217,213,330
Due in more than one year	2,310,718,420	—	2,310,718,420
Net OPEB obligation	66,364,364	—	66,364,364
Net pension liability (Note 6C)	296,900,511	—	296,900,511
Total liabilities	<u>3,177,971,015</u>	<u>—</u>	<u>3,177,971,015</u>
Deferred Inflows of Resources			
Relating to pensions (Note 6C)	32,166,986	—	32,166,986
Relating to OPEB	15,985,395	—	15,985,395
Total deferred inflows of resources	<u>48,152,381</u>	<u>—</u>	<u>48,152,381</u>
Net Position			
Net investment in capital assets	19,987,899,408	—	19,987,899,408
Restricted:			
Capital projects	881,309,835	—	881,309,835
Unrestricted (deficit)	(59,164,099)	30,520,459	(28,643,640)
Total net position	<u>\$ 20,810,045,144</u>	<u>\$ 30,520,459</u>	<u>\$ 20,840,565,603</u>

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation

Exhibit 2

Statement of Activities For the Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expenses) Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Administration	\$ 77,547,136	\$ 12,679,257	\$ 3,241,701	\$ 4,535,495	\$ (57,090,683)
Highway	133,914,884	2,639,556	33,671,723	740,318,729	642,715,124
Highway maintenance	97,196,657	6,529,659	—	—	(90,666,998)
Motor vehicle	110,516,024	146,720,166	—	—	36,204,142
Noncapital, including asset preservation	319,869,666	13,650,000	—	—	(306,219,666)
Distributions to other state agencies	224,220,584	—	—	—	(224,220,584)
Distributions to Arizona counties and cities	1,307,529,826	—	—	—	(1,307,529,826)
Local government assistance	127,400,215	—	112,865,724	—	(14,534,491)
Interest on long-term debt	58,873,649	—	—	—	(58,873,649)
Total governmental activities	<u>\$ 2,457,068,641</u>	<u>\$ 182,218,638</u>	<u>\$ 149,779,148</u>	<u>\$ 744,854,224</u>	<u>\$ (1,380,216,631)</u>
Business-type activities					
Highway Expansion and Extension Loan Program	30,000,000	—	—	—	(30,000,000)
Total business-type activities	<u>30,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(30,000,000)</u>
Total primary government	<u>\$ 2,487,068,641</u>	<u>\$ 182,218,638</u>	<u>\$ 149,779,148</u>	<u>\$ 744,854,224</u>	<u>\$ (1,410,216,631)</u>
			Governmental Activities	Business-type Activities	Total
Net (expenses) revenues			\$ (1,380,216,631)	\$ (30,000,000)	\$ (1,410,216,631)
General revenues					
Transportation excise taxes			295,100,385	—	295,100,385
Motor vehicle registration, title, and related taxes			1,142,560,728	—	1,142,560,728
Fuel and motor carrier taxes and fees			838,823,494	—	838,823,494
Flight property taxes			13,011,635	—	13,011,635
Income from investments			17,264,216	569,661	17,833,877
Gain on sale of capital assets			2,662,973	—	2,662,973
Other			5,954,590	—	5,954,590
Total general revenues			<u>2,315,378,021</u>	<u>569,661</u>	<u>2,315,947,682</u>
Changes in net position			935,161,390	(29,430,339)	905,731,051
Beginning net position, as restated (Note 5G)			<u>19,874,883,754</u>	<u>59,950,798</u>	<u>19,934,834,552</u>
Ending net position			<u>\$ 20,810,045,144</u>	<u>\$ 30,520,459</u>	<u>\$ 20,840,565,603</u>

The accompanying notes are an integral part of these financial statements.

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

MAJOR FUNDS

General Fund (State Highway Fund) – This fund is used to account for all financial transactions applicable to the general operations of the Department. The fund receives money from the Highway User Revenue Fund including vehicle registration, title, license, and related fees and fuel and motor carrier taxes. Reimbursements for certain construction expenditures are received from the federal government, Arizona cities and counties, and other state agencies. The fund also receives interest and other revenues. The fund disburses money primarily for the design, construction, and maintenance of state highways, parts of highways forming state routes, and highways under cooperative agreements with the United States and day-to-day operating expenses.

Maricopa Regional Area Road Construction Fund – This fund receives certain Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial streets within Maricopa County.

Motor Vehicle Division Clearing Fund – This fund accounts for the collection and disbursement of Motor Vehicle Division revenues.

Highway User Revenue Fund – This fund receives all revenues collected by the Department and its agents that are not designated for other purposes. The revenues include: motor fuel taxes, a portion of vehicle license tax, vehicle registration fees, driver license fees, dealer fees, permits, and other miscellaneous fees. These monies are distributed to the General Fund (State Highway Fund), the Department of Public Safety, the Economic Strength Project Fund, incorporated cities, counties, and other legislatively appropriated entities.

Debt Service Fund – This fund is used to administer all payments of principal and interest on bonds and notes issued by the Arizona Transportation Board for Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes (GARVEE bonds).

Capital Projects Fund – This fund is used to administer bond proceeds for Arizona Transportation Board Highway Revenue Bonds, Arizona Transportation Board Transportation Excise Tax Revenue Bonds, Grant Anticipation Notes (GARVEE bonds). These monies are expended for the construction of projects in the Five-Year Transportation Facilities Construction Program.

NONMAJOR FUNDS

Other Governmental Funds are the nonmajor funds and are all special revenue funds. These funds can be found on Exhibit 8 and Exhibit 9.

Arizona Department of Transportation
Balance Sheet — Governmental Funds
June 30, 2018

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
Assets			
Unrestricted cash on deposit with the State Treasurer	\$ 230,504,905	\$ —	\$ —
Receivables			
Interfund	109,053,603	—	15,137,006
Taxes and fees	—	—	3,020,844
Notes and loans	—	—	—
Other, net	3,540,948	238,085	400,131
Amounts due from U.S. government	41,901,056	39,228,441	—
Inventories	52,995	—	—
Restricted cash held by fiscal agents	4,143,817	—	—
Restricted cash on deposit with the State Treasurer	426,059,769	443,281,091	75,049,149
Total assets	<u>\$ 815,257,093</u>	<u>\$ 482,747,617</u>	<u>\$ 93,607,130</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 42,490,720	\$ 31,417,684	\$ —
Accrued payroll and other accrued expenditures	10,146,587	223,684	708
Tax and refunds payable	—	—	17,551,902
Interfund payables	3,654,983	—	55,504,014
Amounts due to			
Other state agencies	5,768,888	—	6,748,489
Arizona counties and cities	8,467,143	—	21,930,440
Unearned revenue	1,649,269	—	—
Total liabilities	<u>72,177,590</u>	<u>31,641,368</u>	<u>101,735,553</u>
Deferred inflows of resources			
Unavailable revenue	—	28,085,503	—
Fund balances			
Unassigned	—	—	(8,128,423)
Nonspendable	52,995	—	—
Restricted	430,203,586	423,020,746	—
Committed	312,822,922	—	—
Total fund balances (deficits)	<u>743,079,503</u>	<u>423,020,746</u>	<u>(8,128,423)</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 815,257,093</u>	<u>\$ 482,747,617</u>	<u>\$ 93,607,130</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 3

Special Revenue Funds					Total Nonmajor Governmental Funds (See Exhibit 8)	Total Governmental Funds
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund				
\$ —	\$ —	\$ —	\$ —	\$ 22,346,281	\$ 252,851,186	
50,292,271	—	—	—	683,402	175,166,282	
64,252,649	—	—	—	—	67,273,493	
—	—	—	—	2,647,078	2,647,078	
1,798	—	—	—	5,439,010	9,619,972	
—	—	—	—	4,473,172	85,602,669	
—	—	—	—	—	52,995	
—	—	—	—	—	4,143,817	
116,561,705	590,547	27,492,466	—	9,302,734	1,098,337,461	
<u>\$ 231,108,423</u>	<u>\$ 590,547</u>	<u>\$ 27,492,466</u>	<u>\$ —</u>	<u>\$ 44,891,677</u>	<u>\$ 1,695,694,953</u>	
\$ —	\$ —	\$ 3,078,052	\$ —	\$ 20,655,012	\$ 97,641,468	
—	—	—	—	137,321	10,508,300	
14,654,409	—	—	—	—	32,206,311	
115,264,208	—	—	—	30,599	174,453,804	
966,642	—	—	—	—	13,484,019	
100,223,164	—	—	—	—	130,620,747	
—	—	—	—	—	1,649,269	
<u>231,108,423</u>	<u>—</u>	<u>3,078,052</u>	<u>—</u>	<u>20,822,932</u>	<u>460,563,918</u>	
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>28,085,503</u>	
—	—	—	—	(6,065,149)	(14,193,572)	
—	—	—	—	—	52,995	
—	590,547	24,414,414	—	—	878,229,293	
—	—	—	—	30,133,894	342,956,816	
—	590,547	24,414,414	—	24,068,745	1,207,045,532	
<u>\$ 231,108,423</u>	<u>\$ 590,547</u>	<u>\$ 27,492,466</u>	<u>\$ —</u>	<u>\$ 44,891,677</u>	<u>\$ 1,695,694,953</u>	

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2018**

Exhibit 3.1

Fund balances – total governmental funds (Exhibit 3)	\$ 1,207,045,532
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 4 B1).	22,316,834,728
Certain receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds (Exhibit 3).	28,085,503
Internal service funds are used by management to charge the costs of equipment rentals to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position (Exhibit 5).	58,606,502
Deferred outflows of resources are not reported in the funds (Notes 4 B2).	119,371,905
OPEB liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds (Note 4 B3).	(63,099,237)
Pension liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds (Note 4 B4).	(283,629,058)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 4 B5).	(2,527,242,696)
Deferred inflows of resources are not reported in the funds (Note 4 B6).	(45,928,035)
Net position of governmental activities (Exhibit 1)	<u><u>\$ 20,810,045,144</u></u>

The accompanying notes are an integral part of these financial statements.

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Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in
Fund Balances — Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
Revenues			
Transportation excise taxes	\$ —	\$ 290,948,987	\$ —
Vehicle registration, title, license, and related taxes and fees	310,604,558	—	599,722,311
Fuel and motor carrier taxes and fees	408,832,093	—	—
Flight property taxes	—	—	—
Reimbursement of construction expenditures – federal aid	409,830,913	315,849,356	—
Other federal grants and reimbursements	—	—	—
Reimbursements from Arizona counties and cities	17,335,455	409,195	—
Distributions from other state agencies	27,346,623	—	—
Interest on loans receivable	16,927	—	—
Income from investments	8,437,369	5,778,535	—
Sales and charges for services	9,628,707	13,650,000	—
Grand Canyon National Park Airport	—	—	—
Rental income	1,362,054	1,716,808	—
Other	3,854,649	891,590	—
Total revenues	1,197,249,348	629,244,471	599,722,311
Expenditures			
Current			
Administration	68,075,262	2,057,187	1,947,877
Highway	128,098,135	5,444,647	—
Highway maintenance	93,301,936	1,287,518	—
Motor vehicle	105,197,352	—	—
Total current expenditures	394,672,685	8,789,352	1,947,877

The accompanying notes are an integral part of these financial statements.

Exhibit 4

Special Revenue Funds						
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit 9)	Total Governmental Funds		
\$	—	\$	—	\$	4,151,398	\$ 295,100,385
	365,671,719		—		13,282,306	1,289,280,894
	428,680,281		—		1,311,120	838,823,494
	—		—		13,011,635	13,011,635
	—		—		24,859,655	750,539,924
	—		—		106,303,843	106,303,843
	—		—		6,561,881	24,306,531
	—		—		226,298	27,572,921
	—		—		95,390	112,317
	826,813	1,561,446	525,866		134,187	17,264,216
	—		—		—	23,278,707
	—		—		1,015,446	1,015,446
	—		—		266,654	3,345,516
	1,191,726		—		16,625	5,954,590
	796,370,539	1,561,446	525,866		171,236,438	3,395,910,419
	5,230,738		—		2,163,699	79,474,763
	—		—		101,652,308	235,195,090
	—		—		406,879	94,996,333
	679,402		—		3,714,940	109,591,694
	5,910,140		—		107,937,826	519,257,880

The accompanying notes are an integral part of these financial statements.

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
Expenditures - continued			
Intergovernmental			
Distributions to other state agencies	\$ 42,581,057	\$ —	\$ 66,321,081
Distributions to Arizona counties and cities	55,923,807	32,666,508	531,453,353
Debt service			
Principal	22,937,419	22,178,643	—
Interest	614,237	—	—
Bond issuance costs	—	—	—
Noncapital, including asset preservation	195,368,143	9,630,022	—
Capital outlay	321,468,945	447,153,878	—
Total expenditures	<u>1,033,566,293</u>	<u>520,418,403</u>	<u>599,722,311</u>
Revenues over (under) expenditures	<u>163,683,055</u>	<u>108,826,068</u>	<u>—</u>
Other Financing Sources (Uses)			
Transfers in	—	—	—
Transfers out	(130,371,894)	(99,116,991)	—
Sale of capital assets	1,766,230	1,712,090	—
Insurance recovery	6,529,659	—	—
Debt issuance	—	—	—
Premium from debt issuance	—	—	—
Total other financing sources (uses)	<u>(122,076,005)</u>	<u>(97,404,901)</u>	<u>—</u>
Net change in fund balances	41,607,050	11,421,167	—
Fund balances (deficits), beginning of year	701,472,453	411,599,579	(8,128,423)
Fund balances (deficits), end of year	<u>\$ 743,079,503</u>	<u>\$ 423,020,746</u>	<u>\$ (8,128,423)</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 4 - continued

Special Revenue Funds				Total Nonmajor Governmental Funds (See Exhibit 9)	Total Governmental Funds
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund			
\$ 111,482,435	\$ —	\$ —	\$ 3,836,011	\$ 224,220,584	
678,977,964	—	—	35,551,827	1,334,573,459	
—	159,045,000	—	—	204,161,062	
—	108,362,322	—	—	108,976,559	
—	—	424,971	—	424,971	
—	—	28,317,911	—	233,316,076	
—	—	25,246,368	85,333	793,954,524	
796,370,539	267,407,322	53,989,250	147,410,997	3,418,885,115	
—	(265,845,876)	(53,463,384)	23,825,441	(22,974,696)	
—	252,973,994	—	—	252,973,994	
—	—	—	(23,485,109)	(252,973,994)	
—	—	—	45,630	3,523,950	
—	—	—	—	6,529,659	
—	—	62,595,000	—	62,595,000	
—	—	12,839,361	—	12,839,361	
—	252,973,994	75,434,361	(23,439,479)	85,487,970	
—	(12,871,882)	21,970,977	385,962	62,513,274	
—	13,462,429	2,443,437	23,682,783	1,144,532,258	
\$ —	\$ 590,547	\$ 24,414,414	\$ 24,068,745	\$ 1,207,045,532	

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018**

Exhibit 4.1

Net change in fund balances – total governmental funds (Exhibit 4)	\$	62,513,274
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
Capital outlays are reported as expenditures in governmental funds (Note 4 C1).		684,791,213
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net position. Governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 4 C2).		(62,089,285)
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 position (Note 4 C2).		254,688,943
Internal services funds are used by management to charge the cost of equipment rentals to individual funds. The change in net position of the internal service funds is reported with governmental activities (Note 4 C3).		764,302
Pension contributions are reported as expenditures in the governmental funds (Note 4 C4).		17,640,452
OPEB Contributions are reported as expenditures in governmental funds, however, the change in net OPEB obligation is reported in the Statement of Activities (Note 4 C4)		2,822,389
Some items reported in the statement of activities do not require the use of, or provide current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (Note 4 C5).		(25,969,898)
Change in net position of governmental activities (Exhibit 2)	\$	935,161,390

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

MAJOR FUND

Highway Expansion and Extension Loan Program Fund – This fund is an innovative financing mechanism to administer monies designated to provide loans and credit enhancement assistance to the Department and to sponsors of local transportation projects.

NONMAJOR FUND

Internal Service Fund – The Equipment Revolving Fund is primarily funded by the charges it collects from the Department of Transportation, other state agencies, and local organizations to support the repair and maintenance of vehicles and equipment.

Arizona Department of Transportation
Statement of Net Position
Proprietary Funds
June 30, 2018

Exhibit 5

	Business-type Activities – Enterprise Fund	Governmental Activities- Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	
Assets		
Current assets		
Unrestricted cash on deposit with the State Treasurer	\$ 30,520,459	\$ 4,741,450
Receivables		
Other, net allowance for doubtful accounts	—	1,818,542
Inventories	—	2,800,557
Total current assets	30,520,459	9,360,549
Noncurrent assets		
Capital assets subject to depreciation, net of accumulated depreciation	—	68,435,660
Total noncurrent assets	—	68,435,660
Total assets	30,520,459	77,796,209
Deferred Outflows of Resources		
Relating to pensions	—	1,537,389
Relating to OPEB	—	99,638
Total deferred outflows of resources	—	1,637,027
Liabilities		
Current liabilities		
Accounts payable	—	163,419
Accrued payroll and other accrued expenses	—	500,857
Interfund payables (Note 5C)	—	712,478
Compensated absences	—	689,054
Total current liabilities	—	2,065,808
Noncurrent liabilities		
Net OPEB obligation	—	3,265,127
Net pension liability	—	13,271,453
Total noncurrent liabilities	—	16,536,580
Total liabilities	—	18,602,388
Deferred Inflows of Resources		
Relating to pensions (Note 6C)	—	1,437,864
Relating to OPEB	—	786,482
Total deferred inflows of resources	—	2,224,346
Net Position		
Net investment in capital assets	—	68,435,660
Unrestricted	30,520,459	(9,829,158)
Total net position	\$ 30,520,459	\$ 58,606,502

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation
Statement of Revenues, Expenses, and Changes in
Fund Net Position – Proprietary Funds
For the Year Ended June 30, 2018

Exhibit 6

	Business-type Activities – Enterprise Fund		Highway Expansion and Extension Loan Program Fund	Governmental Activities- Internal Service Fund
Operating Revenues				
Sales and charges for services	\$	—	\$	25,375,595
Other		—		178,840
Total operating revenues		—		25,554,435
Operating Expenses				
Publication and promotional cost		—		49,750
Repair and maintenance		—		2,445,009
Fuel and lubricants		—		8,399,768
Salaries and related benefits		—		11,846,662
Shipping and postage		—		9,222
Supplies		—		181,640
Equipment purchase and rental		—		215,348
Professional and outside Services		—		646,574
Travel		—		64,721
Depreciation		—		15,609,358
Other		—		731,798
Total operating expenses		—		40,199,850
Operating loss		—		(14,645,415)
Nonoperating Income (Expenses)				
Income from investments		569,661		59,210
Gain on sale/disposal of capital assets		—		11,276
Distributions to Arizona counties and cities		(30,000,000)		—
Total nonoperating revenue (expenses)		(29,430,339)		70,486
Capital contributions		—		15,339,231
Change in net position		(29,430,339)		764,302
Net position, beginning of year, as restated (Note 5G)		59,950,798		57,842,200
Net position, end of year	\$	30,520,459	\$	58,606,502

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2018**

Exhibit 7

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	
Cash flows from operating activities:		
Receipts from other Funds	\$ —	\$ 25,389,354
Payments to suppliers	—	(13,041,704)
Payments to employees	—	(12,528,186)
Other receipts	—	178,840
Net cash (used in) operating activities	—	(1,696)
Cash flows from non-capital financing activities		
Distribution to other state agencies	(30,000,000)	—
Net cash used in non-capital financing activities	(30,000,000)	—
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	—	1,645,501
Net cash provided by capital and related financing activities	—	1,645,501
Cash flows from investing activities:		
Income from investments	569,661	59,210
Net cash provided by investing activities	569,661	59,210
Net increase <decrease> in cash	(29,430,339)	1,703,015
Cash - July 1	59,950,798	3,038,435
Cash - June 30	\$ 30,520,459	\$ 4,741,450

The accompanying notes are an integral part of these financial statements.

**Arizona Department of Transportation
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2018**

**Exhibit 7
- continued**

	Business-type Activities - Enterprise Fund	
	Highway Expansion and Extension Loan Program Fund	Governmental Activities - Internal Service Fund
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	\$ —	\$ (14,645,415)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	—	15,609,358
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources		
Other receivables	—	13,759
Inventories	—	(525,191)
Deferred outflows of resources	—	1,003,223
Accounts payable	—	162,596
Accrued payroll and other accrued expenses	—	325,029
Compensated absences	—	35,161
Net OPEB liability	—	(939,172)
Net pension liability	—	(1,092,732)
Deferred inflows of resources	—	51,688
Total adjustments	—	14,643,719
Net cash (used in) operating activities	\$ —	\$ (1,696)
Non-cash capital and financing activities:		
Certain vehicles were contributed to the Equipment Revolving Fund by the General Fund	—	\$ 15,339,231

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements



**Arizona Department of Transportation
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June 30, 2018**

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Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

1) Summary of Significant Accounting Policies

The accounting and reporting policies of the Arizona Department of Transportation (the “Department”) conform in all material respects to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB’s *Codification of Governmental and Financial Reporting Standards* (GASB Codification). Following is a summary of the Department’s significant accounting policies.

A. Reporting Entity

The Department is a department of the State of Arizona (the “State”) and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Executive Officer and is directly responsible to the governor. The governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (the “Transportation Board”), which has responsibility for establishing a complete system of state highway routes, approving all highway construction contracts, and distributing monies for local airport facilities’ projects through a grant program.

The Department is responsible for the construction and maintenance of all state highways. The Department cooperates with the various cities and counties within the State in the construction and maintenance of state roads and with the Federal Highway Administration in the construction and maintenance of interstate and other highways. Assistance in the development of local airports, registering motor vehicles and aircraft, licensing drivers, certain law enforcement activities, and the publishing of the *Arizona Highways Magazine* are also responsibilities of the Department.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the government. Governmental activities, which normally are supported by federal reimbursement, taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Position presents the reporting entity’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and is reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted results 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.

Unrestricted consists of those assets which do not meet the definition of the two preceding categories. Unrestricted often are designated to indicate that management

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

does not consider them to be available for general operations. The unrestricted component often has constraints on resources which are imposed by management, but can be removed or modified by management or the Transportation Board.

When both restricted and unrestricted resources are available for use, the Department 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 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: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and grants and contributions that are restricted to meeting the operational or 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

Separate statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements, with nonmajor funds being reported in a single column.

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 *full accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year they are levied for transportation excise, aircraft licensing, aviation and motor fuel, flight property, and underground storage tanks. Motor carrier and vehicle license taxes are recognized when received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 Department considers revenues to be available if they are collected within 60 days of the end of the fiscal year, e.g., federal revenue reimbursements, vehicle license taxes, and highway user revenue 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 Department reports the following major governmental funds:

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

The *General Fund*, known as the State Highway Fund, is the primary operating fund. It accounts for all financial resources except for those required to be accounted for in another fund. Expenditures are reported for general operations of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering, and administration. Revenues are received from the following primary sources: fuel and motor carrier taxes and fees; vehicle registrations, titles, licenses and related fees; and federal grants. In 2018, management elected to report the Arizona Highways Magazine in the General fund.

The *Maricopa Regional Area Road Construction Fund* is a special revenue fund that receives a portion of Maricopa County Transportation Excise Tax monies collected by the 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.

The *Motor Vehicle Division Clearing Fund* is a special revenue fund which accounts for the collection and disbursement of certain Motor Vehicle Division revenues (e.g., vehicle registration, title, license, and related taxes and fees, and fuel and motor carrier taxes and fees).

The *Highway User Revenue Fund* is a special revenue fund which collects motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the General Fund (State Highway Fund), the Department of Public Safety, the Economic Strength Project Fund, incorporated cities, towns, counties, and other legislatively appropriated entities.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payments of, general long-term debt principal and interest of the governmental funds.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities in the governmental funds.

The Department reports the following major proprietary fund:

The *Highway Expansion and Extension Loan Program Fund* is an innovative financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects.

Additionally, the Department reports the following fund:

The *Internal Service Fund*, which accounts for purchases and maintenance of equipment and materials to be used by divisions in the Department and other government agencies. The Equipment Revolving Fund is the Department's only internal service fund.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services by the Equipment Revolving Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating revenues* and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for services, interest on loan receivables and other revenues intended to recover the cost of services. Operating expenses for the enterprise fund and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, and Net Position/Fund Balance

Deposits and Investments

The Department's cash includes petty cash 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, or 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 Arizona Revised Statutes, §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 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, 2018, the State's investment pool 2, pool 3, and pool 4 were not rated. The weighted average maturity at year-end for investment pool 2 was 6.15 years while for investment pool 3 it was 1.40 years, and for investment pool 4 it was 4.95 years.

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

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

The Department's investments are included in the State investment pool and these investments are not shown in the Department's name. From the perspective of the Department, the pool functions as both a cash management pool and a demand deposit account. Therefore, the Department 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 fair value.

The Department has restricted cash for payment of capital projects for Maricopa and Pima Counties, for future debt service payments, and for the Statewide Transportation Acceleration Needs account.

At June 30, 2018, the carrying amount of the Department's cash on deposit with the State Treasurer (unrestricted and restricted) totaled \$1,386,450,556. Of this amount, \$1,225,315,409 was invested in the State Agency's pool number 2, pool number 3 and pool number 4. The remaining \$161,135,147 is operating cash, and was not invested in the State's pools, but was held by the State Treasurer as demand deposit accounts. These pools are valued at the pool's share price multiplied by the number of shares the Department held. The fair value of a participant's position in the pools approximate the value of that participant's shares. The funds are invested in accordance with the Investment Policy of the Arizona State Treasurer's office.

Receivables, Payables and Advances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. All other outstanding balances between the U.S. Government, Arizona counties and cities, and other state agencies are reported as due to/from. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

The subscriptions receivable allowance for doubtful accounts is the portion of any receivable greater than 90 days that has been recognized as revenue. The remainder of the subscriptions receivable that has not been recognized is still unearned.

Advances between funds, as reported in the fund financial statements, are classified as nonspendable fund balance in the General Fund (State Highway Fund) to indicate that they are not available for appropriation and are not expendable available financial resources. The other receivables are shown net of allowance for doubtful accounts. Other receivable amounts include funds held by third parties on behalf of the agency. For other receivables comprising recoverable insurance claims, the amount reserved for doubtful accounts is comprised of 100% of balances sent to the Attorney General's Office for collection.

Notes receivable represents loans made to parties purchasing assets previously owned by the Department for highway construction purposes.

Inventories

The governmental activities inventory is valued at cost, which approximates market, using the moving average method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used. The fund financial statement reports inventory as nonspendable for the like amount indicating it does not constitute available expendable resources.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

Costs of the internal service fund’s inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost methods.

Restricted Assets

Certain proceeds of the Department’s governmental revenue bonds, as well as certain resources of the General Fund (State Highway Fund) are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by applicable bond covenants, constitutional mandates, or voter initiatives. State law, in conjunction with cooperative agreements with local governments, require 12.6% of the revenues allocated each year to the General Fund (State Highway Fund) from the Highway User Revenue Fund be allocated for design, purchase of right-of-way, or construction of controlled-access highways, arterial streets, and local highways that are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). State Transportation Board policy further allocates 2.6% of the revenues for the same purpose as listed above. The debt service fund is used to report the resources set aside for payment of future debt service. Bond proceeds deposited in the capital projects fund and are restricted by bond covenants for acquisitions of right-of-way and construction of federal, state, and local highways.

Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, mobile fleet and aircraft, infrastructure, and construction in progress, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Purchased capital assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at acquisition value at time of donation.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized. Outlays for capital assets are capitalized at the time of the purchase or, in the case of infrastructure, at the time of final acceptance by the Department from the contractor. Accumulated costs of infrastructure prior to final acceptance by the Department are reported as Construction in Progress. Asset preservation costs are expensed as incurred. The Department depreciates non-infrastructure capital assets on a straight-line basis using the following estimated useful lives:

Capital Assets	Useful Life
Buildings and improvements	20-40 years
Improvements other than buildings	20-40 years
Machinery and equipment	5-15 years
Mobile fleet and aircraft	5-7 years

Infrastructure was capitalized for the first time in fiscal year 2002. The infrastructure assets are reported in the governmental activities column of the Statement of Net Position. The Department’s infrastructure assets consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated.

Arizona Department of Transportation
Notes to the Financial Statements
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In order to utilize the modified approach, the Department is required to maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets, perform condition assessments of eligible assets and summarize the results using a measurement scale, estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department, and document that the assets are being preserved approximately at or above the established condition level.

Unearned/Unavailable Revenues

In the government-wide statements and proprietary fund financial statements, unearned revenues are recorded when cash, receivables, or other assets are received prior to revenue being recognized. Unearned revenue in the Governmental Activities represents subscription revenue received in advance of delivery of the related subscriptions. Additionally, in the governmental funds, unavailable revenue is reported as deferred inflows of resources, until such revenue is available to liquidate liabilities of the current period. Unearned revenues are reported in the government-wide statements for the governmental activities and in the fund statements for the governmental funds. In the fund statements, for the Maricopa Regional Area Road Fund, unavailable revenue represents a receivable from the Federal Highway Administration for un-reimbursed accrued relocation cost for various infrastructure projects.

Compensated Absences

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits as well as compensatory time. There is no liability for unpaid accumulated sick leave for the Department. All vacation pay and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements.

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 employee's 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% for 500 hours to a maximum of 50% for 1,500 hours. The maximum benefit value is \$30,000. Per Arizona Revised Statute 38-615D, the benefit shall be paid either in a lump sum or in installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Most employees accrue vacation time which is paid when taken or upon termination of employment at the individual's then current rate of pay. Additionally, some employees may earn compensatory time in lieu of overtime pay, which is paid in the same manner as vacation time. To limit the Department's liability, employees are allowed to carry forward a maximum of 240 hours of vacation time if covered and 320 hours if uncovered at the end of each calendar year. Compensatory time accrual is capped at 240 hours at any time, however the agency policy has been to evaluate and pay quarterly to keep this accrual low. The liabilities for vacation and compensatory time outstanding as of June 30 for both the governmental and proprietary funds are reported on the Statement of Net Position.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

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 premium or discount. Gains and losses related to refunding of debt are reported as deferred inflows of resources and deferred outflows of resources, respectively. Debt issuance costs are expensed in the current period. Other long-term obligations also include amounts that other governmental entities advance the Department 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.

Net Position/Fund Balance

The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is “Net Position” on the government-wide and proprietary statements and “Fund Balance” on the governmental fund statements.

Fund balances for governmental funds may be reported in classifications that comprise a hierarchy based primarily on the extent to which the Department is bound to honor constraints on the specific purposes for which amounts in those fund can be spent. Five classifications are available:

Nonspendable fund balance – describes that portion that cannot be spent because of its form (inventories, prepaid amounts, etc.) and are not expected to be converted to cash.

Restricted fund balance – describes that portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions (voter initiatives, court orders, etc.).

Committed fund balance – describes that portion which can be used only for specific purposes pursuant to constraints imposed by a formal action of the Department’s highest level of decision-making authority. This formal action is the passage of law by the Legislature creating, modifying or rescinding fund balance commitments.

Assigned fund balance – describes that portion of that reflects the Department’s intended use of resources for a specific purpose, but are neither restricted nor committed.

Unassigned fund balance – is the residual classification for the general fund and includes all spendable amounts not reported in other classifications. Also, deficits in fund balances of other governmental funds are reported as unassigned.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

The Department's highest level of Authority is the Arizona State Legislature where the legislative appropriations are determined, identifying the uses of funds for specific purposes. The Arizona State Legislature also grants authority to other Boards and Commissions to authorize fund uses.

When practicable, the Department segregates restricted funds from unrestricted funds using existing chart of account elements. As a result, an assumption as to the order of how monies are spent is unnecessary for those restricted funds so segregated. In cases where it is impractical to segregate restricted from unrestricted funds, expenditures incurred for purposes for which restricted, committed and unassigned fund balance is available, the Department considers restricted, committed and unassigned amounts to have been spent in that order.

E. Revenues and Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., Administration, Highway). Additionally, revenues are classified between program and general revenues. Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes and income on investments.

In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., administration, distributions to Arizona counties and cities, distributions to other state agencies, debt service, capital outlay).

The distributions to Arizona counties and cities and distributions to other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds, loans, advances, board funding obligations, and capitalized leases. Capital outlay includes expenditures for real property or infrastructure (i.e., bridges and roads).

Revenues and expenses of proprietary funds are classified as operating and nonoperating and are sub-classified by the type of expense (e.g., salaries, equipment rental, depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

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, capital leases where the leased asset(s) reside(s) in that fund, insurance recovery, 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.

F. Interfund Activity and Balances

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are activities between the funds reported as governmental

**Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018**

activities and the funds reported as business-type activities (e.g., the transfer of the gain or loss from the Equipment Revolving Fund).

Interfund Balances

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, deferred inflows of resources, and net position, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/ expenditures during the reporting period. Actual results could differ from those estimates.

2) Funds by Classification

Funds

The following table lists all of the funds whose balances are reflected in this financial report.

FUND TYPES	
MAJOR FUNDS	NONMAJOR FUNDS
<i>Governmental Funds</i>	<i>Special Revenue Funds</i>
General Fund (State Highway Fund)	State Aviation Fund
Special Revenue Funds:	Safety Enforcement and
Maricopa Regional Area Road	Transportation Infrastructure Fund
Construction Fund	Motor Vehicle Liability Insurance
Motor Vehicle Division Clearing Fund	Enforcement Fund
Highway User Revenue Fund	Motor Vehicle Inspection and Title
Debt Service Fund	Enforcement Fund
Capital Projects Fund	Motor Carrier Safety Revolving Fund
<i>Proprietary Funds</i>	Economic Strength Project Fund
Enterprise Fund:	Grant Anticipation Notes Fund
Highway Expansion and Extension	Local Agency Deposits Fund
Loan Program Fund	Internal Service Fund:
	Equipment Revolving Fund

The Underground Storage Tank Fund was reported as a non-major special revenue fund in fiscal year 2017, and has been reclassified to the General Fund (State Highway Fund) in fiscal year 2018. There was no effect on beginning fund balance in either the non-major special revenue funds or the General Fund (State Highway Fund).

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

3) Budgeting, Budgetary Control and Legal Compliance

An annual budget for the operating expenditures of the General Fund (State Highway Fund) is submitted to the governor in accordance with state law. The budget is legally enacted as appropriations after approval by the state legislature and signature of the governor. The legal level of control for operating expenditures is set at the agency level and expenditure budgets are appropriated using special line-item appropriations for highway maintenance, vehicles and construction equipment, other capital expenditures, and Attorney General legal services. Expenditure details for personal services, employee-related expenditures, and all other operating expenditures are specifically allocated within all divisions. In certain divisions, other specific programs are allocated in addition to these categories. Revenue budgets are developed internally by the Department and are not part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation, the allocation of funds between personal services, employee-related expenditures, and other operating expenditures is an internal decision. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Expenditures may not exceed appropriations in total. All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the prior fiscal year's budget. The Department's appropriations lapse at fiscal year-end unless exempted by the legislature.

In addition, budgets for capital outlay, including land, building, and improvements for the State Highway Fund and State Aviation Fund, are also submitted to the governor in accordance with state law. The capital outlay appropriation includes state highway construction and land, building, and improvements for the State Highway Fund. A legal limitation is adopted for land, building, and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board.

4) Accounting Pronouncements and Reconciliation of Government-Wide and Fund Financial Statements

A. New Accounting Pronouncements

For the year ended June 30, 2018, the Department implemented the provisions of the following GASB pronouncements:

- ◆ GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.
- ◆ GASB Statement No. 81, *Irrevocable Split Interest Agreements* - The requirements of this pronouncement did not impact the Department's financial statements.

Arizona Department of Transportation
Notes to the Financial Statements
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- ◆ GASB Statement No. 85, *Omnibus 2017* – to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).
- ◆ GASB Statement No. 86, *Certain Debt Extinguishment Issues* – to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt.

The implementation of the above GASB Statements did not have a material effect on the Department's financial statements.

B. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Position

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

1. Capital assets are not included on the fund statements, but are included on the government-wide statement as follows:

Capital assets not subject to depreciation	\$	22,209,027,161
Capital assets subject to depreciation		176,243,227
		22,385,270,388
Less: Internal Service Fund (Equipment Revolving Fund) assets		(68,435,660)
	\$	22,316,834,728

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2. Deferred outflows of resources are not reported in the governmental funds, but are reported in the government-wide Statement of Net Position. The detail for the difference is as follows:

Deferred outflows of resources related to pensions	\$	34,289,936
Less: Internal Service Fund (Equipment Revolving Fund) deferred outflows of resources related to pensions		(1,537,389)
		32,752,547
Deferred outflows of resources-loss on debt refunding		84,693,838
	\$	117,446,385
Deferred outflows of resources relating to OPEB	\$	2,025,158
Less: Internal Service Fund (Equipment Revolving Fund) deferred outflows of resources related to OPEB		(99,638)
		1,925,520
	\$	1,925,520

3. OPEB liabilities are as follows:

Net OPEB obligation	\$	(66,364,364)
Less: Internal Service Fund (Equipment Revolving Fund) net OPEB obligation		3,265,127
	\$	(63,099,237)

4. Pension liabilities are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. The detail for the difference is as follows:

Net pension liability	\$	(296,900,511)
Less: Internal Service Fund (Equipment Revolving Fund) net pension liability		13,271,453
	\$	(283,629,058)

5. 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:

Bonds payable (including unamortized premium)	\$	(2,456,113,009)
Capital leases		(24,251,680)
Compensated absences		(17,094,865)
Accrued relocation costs		(29,783,142)
	\$	(2,527,242,696)

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6. Deferred inflows of resources are not reported in the governmental funds. The detail for the difference is as follows:

Deferred inflows of resources related to pensions	\$	(32,166,986)
Less: Internal Service Fund (Equipment Revolving Fund) deferred inflows of resources related to pensions		1,437,864
		(30,729,122)
		\$ (15,198,913)
Deferred inflows of resources related to OPEB	\$	(15,985,395)
Less: Internal Service Fund (Equipment Revolving Fund) deferred inflows of resources related to OPEB		786,482
		(15,198,913)
		\$ (15,198,913)

C. 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 position 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. Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, these costs are removed; some costs are capitalized as assets while other costs are expensed as follows:

Capital outlay	\$	793,954,524
Assets removed from service, net of accumulated depreciation		(87,424,398)
Capitalized relocation costs for the South Mountain Project accrued as a long term liability		29,783,142
Less: depreciation expense - governmental funds		(8,403,668)
Less: Prior Year Relocation Costs and Condemnation Judgment - government wide		(43,128,218)
Miscellaneous		9,831
		684,791,213
		\$ 684,791,213

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2. 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 position. Also, the government reports the effect of 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:

Debt issued or incurred:	
Issuance of Grant Anticipation Notes	\$ (62,595,000)
Premium on debt issued	(12,839,361)
Net Change in Accrued relocation costs	2,080,154
Net Change in Accrued right-of-way condemnation judgments	11,264,922
	<u>\$ (62,089,285)</u>
Principal repayments	
Highway Revenue Refunding Bonds	\$ 76,125,000
Transportation Excise Tax Revenue Refunding Bonds	68,270,000
Grant Anticipation Notes	14,650,000
Amortization of premium and discount	58,546,343
Amortization of deferred losses on refunding	(8,018,462)
Repayment of advances and notes payable	22,178,643
Repayment of capital leases	22,937,419
	<u>\$ 254,688,943</u>

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3. The Internal Service Fund (Equipment Revolving Fund) is used by the Department to charge the cost for purchases and maintenance of equipment and material to be used by other funds and state agencies. The gain /(loss) in the Internal Service Fund (Equipment Revolving Fund) represents over/(under) billing and must be eliminated from the government-wide Statement of Activities for the governmental activities.

Internal Service Fund (Equipment Services Revolving Fund)

Changes in net position	\$	<u>764,302</u>
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4. Pension and OPEB contributions are reported as expenditures in the governmental funds in the fiscal year contributed. However, current year contributions are reported as deferred outflows of resources in the government-wide Statement of Net Position because the reported net pension liability and net OPEB obligation is measured a year before the Department's current fiscal year-end financial statements. Pension and OPEB expense, which is the change in net pension liability/net OPEB obligation adjusted for changes in deferred outflows and inflows of resources related to pensions and OPEB, is reported in the Statement of Activities:

Pension contributions	\$	18,397,625
Pension expense		<u>(757,173)</u>
		<u>\$ 17,640,452</u>
OPEB expense, net of Internal Service Fund	\$	<u>2,822,389</u>

5. Some items reported in the Statement of Activities do not provide or require the use of current financial resources and, therefore, are not reported in the governmental funds. The details are as follows:

Land sales are financed with Notes Receivable, which are not available to pay current expenditures, and are, therefore, deferred inflows of resources in the governmental funds. The entire land sale is recognized in the year of sale for government-wide reporting. However, for fund level reporting loan repayments are recognized as revenue is received	\$	(288,612)
Net change in Accrued relocation/condemnation reimbursement revenue does not provide current financial resources, and, therefore, is not reported in the funds		(12,584,408)
Compensated absences		300,742
Assumption of Bank of America lease by Highway fund from Equipment Services fund		<u>(13,397,620)</u>
	\$	<u>(25,969,898)</u>

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5) Detailed Notes on All Funds and Activities

A. Capital Assets

Capital assets activity for the year ended June 30, 2018, was as follows:

	July 1, 2017				June 30, 2018
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<i>Governmental Activities</i>					
Capital assets, not being depreciated					
Land	\$ 3,395,722,150	\$ 157,205,726	\$ (67,513,016)	\$ —	\$ 3,485,414,860
Infrastructure	16,189,651,156	7,295,682	—	104,591,575	16,301,538,413
Construction in progress	1,915,814,443	610,851,020	—	(104,591,575)	2,422,073,888
Total capital assets, not being depreciated	<u>21,501,187,749</u>	<u>775,352,428</u>	<u>(67,513,016)</u>	<u>—</u>	<u>22,209,027,161</u>
Capital assets, being depreciated					
Buildings and improvements	213,870,487	9,451	(5,553,731)	—	208,326,207
Improvements other than buildings	35,354,583	2,407,840	(3,766,434)	—	33,995,989
Machinery and equipment	44,579,470	2,588,547	(4,768,382)	—	42,399,635
Mobile fleet and aircraft	186,062,115	17,169,225	(15,609,133)	—	187,622,207
Total capital assets, being depreciated	<u>479,866,655</u>	<u>22,175,063</u>	<u>(29,697,680)</u>	<u>—</u>	<u>472,344,038</u>
Less accumulated depreciation for					
Buildings and improvements	(110,488,998)	(9,405,762)	—	—	(119,894,760)
Improvements other than buildings	(16,950,936)	(2,010,185)	—	—	(18,961,121)
Machinery and equipment	(35,742,204)	(3,216,037)	4,243,893	—	(34,714,348)
Mobile fleet and aircraft	(115,488,739)	(18,529,227)	11,487,384	—	(122,530,582)
Total accumulated depreciated	<u>(278,670,877)</u>	<u>(33,161,211)</u>	<u>15,731,277</u>	<u>—</u>	<u>(296,100,811)</u>
Total capital assets, being depreciated, net	<u>201,195,778</u>	<u>(10,986,148)</u>	<u>(13,966,403)</u>	<u>—</u>	<u>176,243,227</u>
Governmental activities capital assets, net	<u>\$ 21,702,383,527</u>	<u>\$ 764,366,280</u>	<u>\$ (81,479,419)</u>	<u>\$ —</u>	<u>\$ 22,385,270,388</u>

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Capital asset additions are not included on the fund statements, but are included on the government-wide Statement of Net Position, as follows:

Capital asset additions not subject to depreciation	\$	775,352,428
Capital asset additions subject to depreciation		22,175,063
		797,527,491
Add: Accrued relocation costs (long-term liability) added in prior fiscal year		31,863,296
Accrued condemnation judgments (government-wide liability) added in prior fiscal year		11,264,922
Other adjustments		2,038,019
Less: Internal Service Fund (Equipment Services Fund) asset additions		(18,956,060)
Accrued relocation costs (long-term liability)		(29,783,142)
Total capital outlay	\$	793,954,526

Depreciation expense was charged to functions/programs as follows:

<i>Governmental activities</i>		
Administration	\$	1,594,175
Highway		2,705,981
Highway maintenance		1,905,111
Motor vehicle		2,198,401
		8,403,668
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets		15,609,358
Total depreciation expense	\$	24,013,026

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B. Construction Commitments

The Department's outstanding commitments for contracts at June 30, 2018, were \$2.1 billion. In fiscal year 2017, the Department significantly changed its methodology for disclosing commitments. Roadway area designations have been replaced with classifying commitments first by segregating between local government assistance and State Highway construction and related phases commitments, and then further classifying commitments by phase of construction, as presented in the following table.

	Remaining Commitment
Local government assistance	\$ 148,730,761
State highways	
Construction	1,158,337,494
Design	189,265,512
Right of way	207,412,307
Utilities	42,811,321
Planning and research	59,596,492
Other	330,606,323
	\$ 2,136,760,210

C. Interfund Receivables, Payables, Advances, and Transfers

The balances of current interfund receivables and payables as of June 30, 2018, were:

Receivables	Payables	Amount
Governmental activities		
General Fund (State Highway Fund)	Highway User Revenue Fund	\$ 101,448,407
	Motor Vehicle Division Clearing Fund	6,892,718
	Equipment Services Fund	712,478
Highway User Revenue Fund	General Fund (State Highway Fund)	2,364,378
	Motor Vehicle Division Clearing Fund	47,927,893
Motor Vehicle Division Clearing Fund	General Fund (State Highway Fund)	1,320,886
	Highway User Revenue Fund	13,815,800
Nonmajor Governmental Funds	Motor Vehicle Division Clearing Fund	683,402
	Nonmajor Governmental Funds	320
		\$ 175,166,282

The General Fund (State Highway Fund) receivable of \$101.4 million is an accrual for fuel taxes and vehicle license tax imposed in fiscal year 2018 from the Highway User Revenue Fund that will be collected in fiscal year 2019.

The Highway User Revenue Fund receivable of \$47.9 million is an accrual for vehicle license taxes due in fiscal year 2018 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2019.

The Highway User Revenue Fund receivable of \$13.8 million is an accrual for vehicle license taxes due in fiscal year 2018 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2019.

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Interfund transfers for the year ended June 30, 2018, consisted of the following:

	Transfers To
	Debt Service Fund
<u>Transfers from</u>	
General Fund (State Highway Fund)	\$ 130,371,894
Maricopa Regional Area Road Fund	99,116,991
Non-major Governmental Funds	23,485,109
Total Debt Service Fund	\$ 252,973,994

Transfers from the General Fund (State Highway Fund), Maricopa Regional Area Road Fund, and the Non-major Governmental Fund (GANS) into the Debt Service Fund are to pay bond debt service.

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D. Leases

Capital Leases

The Department has entered into lease agreements as lessee for financing the acquisition of various vehicles, equipment, and modular buildings. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 110,897,599
Less accumulated depreciation	(59,819,669)
Total	\$ 51,077,930

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, are as follows:

Year Ending June 30	Governmental Activities
2019	\$ 8,919,990
2020	7,435,244
2021	4,063,317
2022	3,244,089
2023	2,125,442
Total minimum lease payments	25,788,082
Less amount representing interest	(1,536,402)
Present value of minimum lease payments	\$ 24,251,680

E. Noncurrent Liabilities

Arizona Transportation Board Highway Revenue Bonds

The Transportation Board has issued Senior and Subordinate Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1,435,625,000.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes of the General Fund (State Highway Fund). On September 21, 2006, House Bill 2206 became effective and eliminated the restriction that limited the principal amount of Highway Revenue Bonds that could be outstanding at any time to \$1.3 billion. Also, during fiscal year 2007, the Transportation Board received legislative authority to begin issuing Highway Revenue Bonds with maturities up to 30 years in length, replacing the 20-year maturity requirement that had been in place since 1980.

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Highway Revenue Bonds currently outstanding are as follows:

**Outstanding Highway Revenue Bonds
As of June 30, 2018**

Maturity (7/1)	Series 2011A		Series 2011B		Series 2013A		Series 2013B		Series 2015		Series 2016	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2019	\$ 600,000	4.000%	\$ 10,435,000	3.024%			\$ 28,245,000	1.831%				
2019	39,390,000	5.000%										
2020	200,000	4.000%			\$ 7,000,000	3.500%	27,940,000	2.179%				
2020	33,315,000	5.000%			13,050,000	5.000%						
2021	200,000	4.000%			36,020,000	5.000%						
2021	48,465,000	5.000%										
2022	53,210,000	5.000%			35,710,000	5.000%						
2023	13,475,000	5.000%			53,430,000	5.000%			\$ 24,745,000	5.000%		
2024	30,170,000	5.000%			40,080,000	5.000%			25,985,000	5.000%		
2025	30,885,000	5.000%			32,880,000	5.000%			27,280,000	5.000%		
2026					49,950,000	5.000%			28,650,000	5.000%	\$ 6,605,000	5.000%
2027					32,635,000	5.000%			30,085,000	5.000%	18,615,000	5.000%
2028					14,500,000	4.000%			31,585,000	5.000%	19,545,000	5.000%
2028					19,765,000	5.000%						
2029					2,100,000	4.000%			33,160,000	5.000%	20,530,000	5.000%
2029					33,740,000	5.000%						
2030					20,000,000	4.000%			34,820,000	5.000%	21,550,000	5.000%
2030					17,610,000	5.000%						
2031									36,565,000	5.000%	22,625,000	5.000%
2032	4,220,000	4.000%							38,385,000	5.000%	19,535,000	5.000%
2032												
2033									40,305,000	5.000%	24,905,000	5.000%
2033												
2034											26,150,000	5.000%
2035					18,035,000	5.000%					10,205,000	5.000%
2036					18,935,000	5.000%					10,715,000	5.000%
2037					19,885,000	5.000%						
2038					20,880,000	5.000%						
Totals	\$ 254,130,000		\$ 10,435,000		\$ 486,205,000		\$ 56,185,000		\$ 351,565,000		\$ 200,980,000	

Annual debt service requirements to maturity for Highway Revenue Bonds are as follows:

Fiscal year ending June 30,	Highway Revenue Bonds		
	Principal	Interest	Total
2019	\$ 78,670,000	\$ 65,562,333	\$ 144,232,333
2020	81,505,000	62,736,113	144,241,113
2021	84,685,000	59,556,050	144,241,050
2022	88,920,000	55,323,800	144,243,800
2023	91,650,000	50,877,800	142,527,800
2024-2028	439,215,000	185,985,500	625,200,500
2029-2033	370,050,000	82,094,950	452,144,950
2034-2038	124,805,000	17,776,000	142,581,000
	<u>\$ 1,359,500,000</u>	<u>\$ 579,912,546</u>	<u>\$ 1,939,412,546</u>

The Department has pledged future motor vehicle and related fuel fees and taxes to repay \$1.36 billion in outstanding Highway Revenue Bonds issued since 2011. Proceeds from the bonds finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program, and to refund certain maturities of outstanding Highway Revenue bond issues. The bonds are

**Arizona Department of Transportation
Notes to the Financial Statements
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payable solely from motor vehicle and related fuel fees and taxes and are payable through 2038. The total principal and interest remaining to be paid on the bonds is \$1.9 billion. Principal and interest paid for the current year and total pledged revenues were \$144.2 million and \$624.9 million, respectively. The annual principal and interest payments on the bonds required 23.1% of the pledged revenues.

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa Regional Area Road Construction Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$643.3 million.

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

Maturity (7/1)	2009 Series		2010 Series		2011 Series		2014 Series		2016 Series	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2019	\$ 6,700,000	4.250%	\$ 2,370,000	2.500%	\$11,385,000	5.000%	\$ 19,400,000	5.000%		
2019	22,020,000	5.000%	9,775,000	5.000%						
2020	340,000	3.500%	5,250,000	4.000%	11,955,000	5.000%	20,365,000	5.000%	\$ 29,490,000	5.000%
2020			7,445,000	5.000%						
2021					12,555,000	5.000%	53,065,000	5.000%	12,465,000	5.000%
2022					13,180,000	3.000%	55,720,000	5.000%	13,085,000	5.000%
2023							58,505,000	5.000%	26,135,000	5.000%
2024							76,800,000	5.000%	13,015,000	5.000%
2025					14,685,000	3.000%	63,675,000	5.000%	15,660,000	5.000%
Totals	<u>\$29,060,000</u>		<u>\$24,840,000</u>		<u>\$63,760,000</u>		<u>\$347,530,000</u>		<u>\$ 109,850,000</u>	

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

Fiscal year ending June 30,	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2019	\$ 71,650,000	\$ 28,027,600	\$ 99,677,600
2020	74,845,000	24,554,600	99,399,600
2021	78,085,000	20,869,950	98,954,950
2022	81,985,000	16,965,700	98,950,700
2023	84,640,000	13,130,050	97,770,050
2024-2025	<u>183,835,000</u>	<u>13,305,350</u>	<u>197,140,350</u>
	<u>\$ 575,040,000</u>	<u>\$ 116,853,250</u>	<u>\$ 691,893,250</u>

The Department has pledged future transportation excise taxes to repay \$575.0 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2009. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County and to refund certain maturities of various outstanding Transportation Excise Tax Revenue bond issues.

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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 \$691.9 million. Principal and interest paid for the current year and total pledged revenues were \$99.7 million and \$290.9 million, respectively. The annual principal and interest payments on the bonds required 34.3% of the pledged revenues.

Arizona Transportation Board Grant Anticipation Notes

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of Grant Anticipation Notes issued in prior years and outstanding at the start of the fiscal year was \$129.5 million.

Grant Anticipation Notes currently outstanding are as follows:

Maturity (7/1)	Series 2011A		Series 2016		Series 2017A	
	Principal	Coupon	Principal	Coupon	Principal	Coupon
2019	\$ 2,800,000	4.000%			\$ 3,075,000	5.000%
2019	10,125,000	5.000%				
2020	260,000	4.000%			3,230,000	5.000%
2020	13,285,000	5.000%				
2021	270,000	4.000%	\$ 13,060,000	5.000%	3,390,000	5.000%
2022			14,000,000	5.000%	3,560,000	5.000%
2023			14,700,000	5.000%	3,740,000	5.000%
2024			15,430,000	5.000%	3,925,000	5.000%
2025			16,205,000	5.000%	4,125,000	5.000%
2026			17,015,000	5.000%	4,325,000	5.000%
2027					4,540,000	5.000%
2028					4,770,000	5.000%
2029					5,010,000	5.000%
2030					5,260,000	5.000%
2031					5,520,000	5.000%
2032					5,800,000	5.000%
Totals	\$ 26,740,000		\$ 90,410,000		\$ 60,270,000	

Annual debt service requirements to maturity for Grant Anticipation Notes are as follows:

Fiscal year ending June 30,	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2019	\$ 16,000,000	\$ 8,837,700	\$ 24,837,700
2020	16,775,000	8,065,700	24,840,700
2021	16,720,000	7,229,550	23,949,550
2022	17,560,000	6,396,250	23,956,250
2023	18,440,000	5,518,250	23,958,250
2024-2028	70,335,000	13,699,750	84,034,750
2029-2032	21,590,000	2,764,500	24,354,500
	\$ 177,420,000	\$ 52,511,700	\$ 229,931,700

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The Department has pledged federal revenues to repay \$177.4 million in outstanding Grant Anticipation Notes. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona and to refund certain maturities of various outstanding Grant Anticipation Notes. The bonds are payable solely from federal revenues and are payable through 2032. The total principal and interest remaining to be paid on the bonds is \$229.9 million. Principal and interest paid for the current year and total pledged revenues were \$23.5 million and \$786.1 million, respectively. The annual principal and interest payments on the bonds required 3.0% of the pledged revenues.

Bond Issuance

On September 20, 2017, the Transportation Board issued \$62.6 million of Grant Anticipation Notes Series 2017A, with an interest rate of 5.0% and serial maturities ranging from 2019 to 2032. Net proceeds amounted to \$75.0 Million, after receipt of \$12.8 million of original issue premium and payment of \$425.0 thousand of issuance costs and Underwriter's discount. GAN proceeds are being used to fund I-40 and I-10 projects in the Board's 5-Year Capital Plan.

Refunded Bonds Deposited with Escrow Agents

In the prior fiscal years, the Transportation Board refinanced various bond issues through refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for these legally defeased bonds are not reflected in the financial statements of the Department.

Advances and Notes Payable

The Department had a \$22.2 million of notes payable outstanding at the start of the fiscal year. This note was fully retired in fiscal year 2018.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

Changes in Noncurrent Liabilities

The activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Due Within One Year
<i>Governmental activities</i>					
Bonds and notes					
Highway Revenue bonds	\$ 1,435,625,000	\$ —	\$ (76,125,000)	\$ 1,359,500,000	\$ 78,670,000
Transportation Excise Tax Revenue bonds	643,310,000	—	(68,270,000)	575,040,000	71,650,000
Grant Anticipation notes	129,475,000	62,595,000	(14,650,000)	177,420,000	16,000,000
Unamortized premium on bonds	389,859,991	12,839,361	(58,546,343)	344,153,009	31,168,501
Total bonds and notes	2,598,269,991	75,434,361	(217,591,343)	2,456,113,009	197,488,501
Capital leases	33,791,479	13,397,620	(22,937,419)	24,251,680	8,242,082
Compensated absences	18,049,500	11,217,166	(11,482,747)	17,783,919	11,482,747
Advances and notes payable	22,178,643	—	(22,178,643)	—	—
Accrued relocation costs	31,863,296	29,783,142	(31,863,296)	29,783,142	—
Total governmental activities	<u>\$ 2,704,152,909</u>	<u>\$ 129,832,289</u>	<u>\$ (306,053,448)</u>	<u>\$ 2,527,931,750</u>	<u>\$ 217,213,330</u>

Accrued relocation costs represent expenditures to relocate displaced individuals and businesses resulting from eminent domain proceedings related to the South Mountain Freeway project. Such expenditures will be paid out over several years, and, therefore, are accrued as a long-term liability.

The Internal Service Fund predominantly serves the governmental funds. Accordingly, long-term liabilities for that fund are included as part of the above totals for governmental activities. At year-end, \$689 thousand of the Internal Service Fund's compensated absences is included in the above amounts.

The capital leases will be liquidated by the General Fund (State Highway Fund). The General Fund (State Highway Fund) has paid compensated absences in the past while the notes payable was repaid with funds from the General Fund (State Highway Fund) and the Maricopa Regional Area Road Construction Fund.

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

Arizona Department of Transportation
Notes to the Financial Statements
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F. Fund Balances

The fund balance classifications of the governmental funds as of June 30, 2018, were as follows:

	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Debt Service Fund	Capital Projects Funds	Non-major Governmental Funds	Total
Fund Balances							
Nonspendable							
Inventories	\$ 52,995	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 52,995
Total nonspendable	52,995	—	—	—	—	—	52,995
Restricted for							
Highway	305,433,216	325,472,162	—	—	24,414,414	—	655,319,792
Debt Service	88,621,437	71,617,412	—	590,547	—	—	160,829,396
Aid to local governments	36,148,933	25,931,172	—	—	—	—	62,080,105
Total restricted	430,203,586	423,020,746	—	590,547	24,414,414	—	878,229,293
Committed to							
Administration	—	—	—	—	—	21,243,302	21,243,302
Highway	306,284,923	—	—	—	—	—	306,284,923
Highway maintenance	6,537,999	—	—	—	—	—	6,537,999
Motor vehicle	—	—	—	—	—	8,890,592	8,890,592
Total committed	312,822,922	—	—	—	—	30,133,894	342,956,816
Unassigned	—	—	(8,128,423)	—	—	(6,065,149)	(14,193,572)
Total fund balances	<u>\$ 743,079,503</u>	<u>\$ 423,020,746</u>	<u>\$ (8,128,423)</u>	<u>\$ 590,547</u>	<u>\$24,414,414</u>	<u>\$ 24,068,745</u>	<u>\$ 1,207,045,532</u>

The \$(8.1) million in the unassigned portion of the fund balance is due to Arizona Revised Statutes, §28-6542 (B), which prohibits adjustments more than 24 months after the original distribution. The \$(6.1) million in unassigned fund balance is due to adjustments posted in fiscal year 2018.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

G. Accounting Changes

Fund Financial Statements

Net Position has been restated as follows:

	Proprietary Funds
	Internal Service Fund
Net Position, as previously reported	\$ 61,112,967
Prior period adjustment	
Implementation of GASB 75:	
Net increase in OPEB liability (measurement date as of June 30, 2016)	(3,377,049)
Deferred outflows - benefit payments during fiscal year 2017	106,282
Net Position, as restated	\$ 57,842,200

Government-wide Financial Statements

Government-wide net position has been restated as follows:

	Governmental Activities
Net Position, as previously reported	\$ 19,941,049,461
Prior period adjustment	
Implementation of GASB 75:	
Net increase in OPEB liability (measurement date as of June 30, 2016)	(68,325,903)
Deferred outflows - benefit payments during fiscal year 2017	2,160,196
Net Position, as restated	\$ 19,874,883,754

Prior Period Adjustment

Beginning net position has been restated for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

6) Other Information

A. Loop 202 South Mountain Freeway Project

On February 26, 2016 the Department entered into a design-build-maintain contract with Connect 202 Partners (private partner) for the design, construction, and 30 year maintenance of the Loop 202 South Mountain Freeway totaling \$1.25 billion. The South Mountain Freeway is a 22 mile, 8 lane freeway that will complete the Loop 202 and Loop 101 freeway system. This is the largest highway project in Arizona history. Pre-construction activities, including geotechnical, utility work, property acquisition and preparation, have been underway since spring 2015. Construction began in summer 2016 with an anticipated project completion of late 2019. The capital asset replacement and routine maintenance contract is for 30 years.

Cost and Funding Sources

The anticipated cost of this project is approximately \$2.0 billion, not including financing costs. Right-of-way cost estimates are not contractually committed, but are necessary costs to complete the project. The significant cost components of this project are as follows:

Developer Design and construction	\$	937,191,676
Construction Management, Other Utilities & Contingency		105,490,840
Preliminary engineering and right of way		617,346,923
Capital asset replacement (30-year Period)		128,720,443
Routine maintenance (30-year period)		208,810,234
Total anticipated cost of project	<u>\$</u>	<u>1,997,560,116</u>

Actual costs incurred by the Department through June 30, 2018 for this project is \$1,043,739,095.

Anticipated funding for the Loop 202 South Mountain Freeway Project will be provided from the following sources (in millions): (*Estimates provided below are only for the costs associated with Construction, Design, and Right of Way of the South Mountain Freeway. Since the capital replacement and routine maintenance predominantly extended outside the RTPFP lifecycle, program fund source estimates are not included).

Regional Area Road Fund (1/2 - cent sales tax)	\$	343
Federal Funds		702
Regional Area Road Fund Bonds		295
Highway User Revenue Fund Bonds		120
State Highway User Revenue Funds		200
Total funding by source	<u>\$</u>	<u>1,660</u>

Maintenance Services – 30-Year Period

Upon completion of the construction phase of the project, Connect 202 Partners will maintain the freeway corridor for a period of 30 years. The average annual maintenance cost to the Department is approximately \$2,932,045. The actual amount paid to Connect 202 Partners in a given year will be escalated or reduced based on changes in the Consumer Price Index (CPI). Over the course of the 30 year maintenance period, Connect 202 Partners is expected to spend an additional \$103,192,057 on capital asset replacement. The actual amount given to Connect 202 Partners in a given year will be escalated or reduced based on changes in the Construction Cost Index (CCI).

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Notes to the Financial Statements
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The current estimates assume CCI at 3% and CPI 2% annually, actual CCI and CPI will vary thus increasing or decreasing the routine asset and capital asset obligations for the contract.

B. Contingent Liabilities

Risk Management Insurance Losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the State's self-insurance program and, in the opinion of the Department's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona's Comprehensive Annual Financial Report.

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department.

Grants

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 Department expects such amounts, if any, to be immaterial.

Light Rail Transit System

Arizona Revised Statutes, §28-9201, requires the Department to establish, implement, and enforce minimum safety standards for light rail transit systems. If a violation of the safety standards is discovered, the Department shall report the violation in writing to the Federal Transit Administration. Furthermore, the organization that operates a light rail transit system shall include a safety oversight function and pay the Department's costs resulting from administration.

C. Pension and Other Postemployment Benefits

Arizona State Retirement System

Plan Descriptions – Employees of the Department participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple- employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB). The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its

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Notes to the Financial Statements
June 30, 2018

financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to received benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survival benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.50% (11.34% for retirement and 0.16% for long-term disability) of the members' annual covered payroll, and the Department was required by statute to contribute at the actuarially determined rate of 11.50% (10.90% for retirement, 0.44% for the health insurance premium benefit, and 0.16% for long-term disability) of the active members' annual covered payroll. In addition, the Department was required by statute to contribute at the actuarially determined rate of 9.49% (9.26% for retirement, 0.10% for health insurance premium benefit, and 0.13% for long-term disability) of annual covered payroll of retired members who worked for the Department in positions that would typically be filled by an employee who contributes to the ASRS. The Department's contributions to the pension plan for the year ended June 30, 2018, were \$19,263,324.

During the fiscal year ended June 30, 2018, the Department paid for ASRS pension and OPEB contributions as follows: 89.5% from the General Fund (State Highway Fund), 2.7% from major funds, and 7.8% from other non-major funds.

The Department's total covered payroll for fiscal year 2018 was \$176,727,743. The System is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits, health care benefits, and long term disability benefits are

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June 30, 2018

obligations of the System and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2018 was \$19,263,324 each by both the employees and the Department.

Presentation of Deferred Outflows and Deferred Inflows of Resources

Deferred outflows and inflows of resources are reported in the basic statements of net position in a separate section following assets and liabilities, respectively. The Department elected the optional statement of net position presentation.

The Department recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. The deferred outflows of resources are related to the Department's pension plan.

The Department recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. The deferred inflows of resources relate to the Department's pension plan.

Retirement Plans

The Department contributes to the Arizona Statement Retirement System plan described below. The plan is a component unit of the State of Arizona. At June 30, 2018, the Department reported the following amounts related to the pension plan to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension liabilities	\$ 296,900,511
Deferred outflows of resources	34,289,936
Deferred inflows of resources	32,166,986
Pension expense	1,573,469

Changes in the Department's net pension liability during the fiscal year ended June 30, 2018, were as follows:

	Governmental Activities
Beginning balance	\$ 321,346,418
Increases	175,618,100
Decreases	<u>(200,064,007)</u>
Ending balance	<u>\$ 296,900,511</u>

Pension Liability – At June 30, 2018, the Department reported a liability of \$296.9 million for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumptions related to changes in loads for future potential benefit increases.

The Department's reported liability at June 30, 2018, decreased by \$24.4 million from the prior year liability of \$321.3 million because of changes in the ASRS' net pension liability and the

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Department's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The Department's proportion of the net pension liability was based on the Department's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017. The Department's proportion measured as of June 30, 2017, was 1.91%, which was a decrease of 0.08% from its proportion measured as of June 30, 2016.

The net liabilities measured as of June 30, 2018 will reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the Department's net liabilities as a result of these changes is not known.

The Department reported OPEB liabilities and related deferred outflows and inflows of resources in the accompanying financial statements in conjunction with the implementation of GASB 75. The OPEB liability is not significant in relation to the Department's total liabilities and net position. As a result, footnote disclosures related to OPEB have been omitted.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2018, the Department recognized pension expense for ASRS of \$1.6 million. At June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	—	8,902,718
Change in Assumptions	12,895,071	—
Change in Assumptions	—	8,877,858
Difference between projected and actual earnings on pension plan investment earnings	2,131,541	—
Changes in proportion and differences between proportionate share of contributions and State contributions and share of contributions	—	14,386,410
Contributions subsequent to the measurement date	19,263,324	—
Total	34,289,936	32,166,986

The \$19,263,324 reported as deferred outflows of resources related to ASRS pensions resulting from the Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense
2019	\$ (20,322,154)
2020	7,238,852
2021	2,772,525
2022	(6,829,597)

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Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	6/30/2016
Actuarial roll forward date	6/30/2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 to 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.70% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	3.87%
Fixed income	25%	0.91%
Multi-asset	2%	0.08%
Real estate	10%	0.42%
Commodities	5%	0.17%
Total	<u>100%</u>	<u>5.45%</u>
Inflation		<u>3.25%</u>
Total long-term expected rate of return		<u>8.70%</u>

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.70%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Department’s proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Department’s

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2018

proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Proportionate share of the net pension liability	\$381,076,970	\$296,900,511	\$226,563,875

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910, by calling (602) 240-2000 or (800) 621-3778 or visiting the website at www.azasrs.gov/content/annual-reports.

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D. Subsequent Events

On August 23, 2018 the Department issued \$262.010 million in Transportation Excise Tax Revenue Bonds, Series 2018 (the Series 2018 Bonds), with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2019 to 2025. Net Proceeds totaled \$289.969 million, after receipt of original issue premium of \$28.476 million and payment of \$1.3 million of issuance cost and underwriter's discount. Proceeds from the Series 2018 Bonds are intended to be used to pay the cost of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona. The 2018 Series Bonds are not subject to redemption prior to their respective maturity dates.

On November 15, 2018, Standard & Poors (S&P) notified ADOT that it had changed the long-term rating on the Transportation Board's Senior Lien Highway Revenue Refunding Bonds to 'AA+' from 'AAA'. The change in rating reflects the application of S&P's revised "Priority Lien" criteria, published on October 22, 2018. S&P did not make any changes to the Subordinate Lien Highway Revenue Bonds, which retain their 'AA+' rating.

REQUIRED SUPPLEMENTARY INFORMATION (OTHER THAN MD&A)

Budgetary Comparison Schedule – General Fund (State Highway Fund)

Note to Required Supplementary Information

Information about Infrastructure Assets Reported Using the Modified Approach

Pension Liability and Pension Contributions

**Arizona Department of Transportation
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**Budgetary Comparison Schedule
General Fund (State Highway Fund) – Budgetary Basis
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Actual Positive (Negative)
	Original	Final		
Expenditures appropriated by State legislature in 2018 budget				
Department of Transportation	\$ 361,130,800	\$ 361,130,800	\$ 336,100,299	\$ 25,030,501
Timing differences:				
Prior-year appropriation expenditures expended in current budget			10,728,291	
Basis differences:				
Net increase (decrease) from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes			2,753,203	
Entity differences:				
Funds not appropriated, but included for financial reporting purposes			29,104,356	
Perspective differences:				
Expenditures on modified accrual basis and not recognized on budgetary basis:				
Capital outlay and asset preservation			516,837,088	
Distributions to Arizona counties and cities			47,456,664	
Distributions to other state agencies			42,581,057	
Interest expense			614,237	
3rd Party MVD fees			24,453,679	
Principal repayment of debt			<u>22,937,419</u>	
Total expenditures as reported on the Statement of Revenues, Expenditures, and				
Changes in Fund Balances - Governmental Funds (General Fund) - Exhibit 4			<u>\$ 1,033,566,293</u>	

The accompanying notes to required supplementary information is an integral part of this schedule.

**Arizona Department of Transportation
Required Supplementary Information
June 30, 2018**

Note to Required Supplementary Information

1. Budgets and Budgetary Accounting

An annual budget for the operating expenditures of the General Fund (State Highway Fund) is submitted to the governor in accordance with state law. The budget is legally enacted as appropriations after approval by the state legislature and signature of the governor. The legal level of control for operating expenditures is set at the agency level and expenditure budgets are appropriated using a lump-sum by agency format. Revenue budgets are developed internally by the Department and are not part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation by agency, the allocation of funds between personal services, employee- related expenditures, and other operating expenditures is an internal decision. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Expenditures may not exceed appropriations. All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the prior fiscal year's budget. The Department's appropriations lapse at fiscal year-end unless exempted by the legislature.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for the operations of the General Fund (State Highway Fund) that is subject to legislative appropriation.

In addition, budgets for capital outlay, including land, building, and improvements for the General Fund (State Highway Fund) and State Aviation Fund, are also submitted to the governor in accordance with state law. The capital outlay appropriation includes state highway construction and land, building, and improvements for the General Fund (State Highway Fund). A legal limitation is adopted for land, building, and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board.

The accompanying notes to required supplementary information is an integral part of this schedule.

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Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), as amended, the Arizona Department of Transportation (the “Department”) reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,775.36 center line miles (21,532 travel lane miles) of roads and 4,855 bridges that the Department is responsible to maintain.

In order to utilize the modified approach, the Department is required to:

- Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department.
- Document that the assets are being preserved approximately at or above the established condition level.

As adopted by the Transportation Board of the State of Arizona Department of Transportation (the “Transportation Board”) on an annual basis, the Five-Year Transportation Facilities Construction Program (the “Program”) contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2018 and beyond was adopted by the Transportation Board on June 16, 2017.

This Program is a dynamic instrument and adjustments are made to the annual plans based on the needs of the Department to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the Department. In addition, not only are adjustments made during the life of the Program, circumstances may require that refinements to the individual components of the Program be made during the fiscal year.

In comparing Estimated to Actual Expenditures in the tables that follow, significant variances can occur. These variances are primarily due to the methodology used in the preparation of the Program. In this Program, the Estimated Expenditures for the current year are based on “programmed” projects which may or may not be spent in the current year of the Program. Programmed expenditures consist of those items that are planned for the future, with contracts that have not yet been awarded. Furthermore, the Actual Expenditures will include projects that were programmed for a prior year’s Estimated Expenditures, but which did not occur, or were not completed, in the prior year.

The following information pertains to the condition assessment and maintenance of infrastructure assets and reflects the Department’s success in achieving condition levels that exceed the established levels.

Roads

The mission of the Department’s Pavement Management Section (PMS) is to develop and provide a cost effective pavement rehabilitation construction program that preserves the state’s investment in its highway system and enhances public transportation and safety. The requirements of GASB 34 and the PMS both work toward the same basic goal, the efficient, effective management of the Department’s assets to produce long-term benefits while minimizing expenditures.

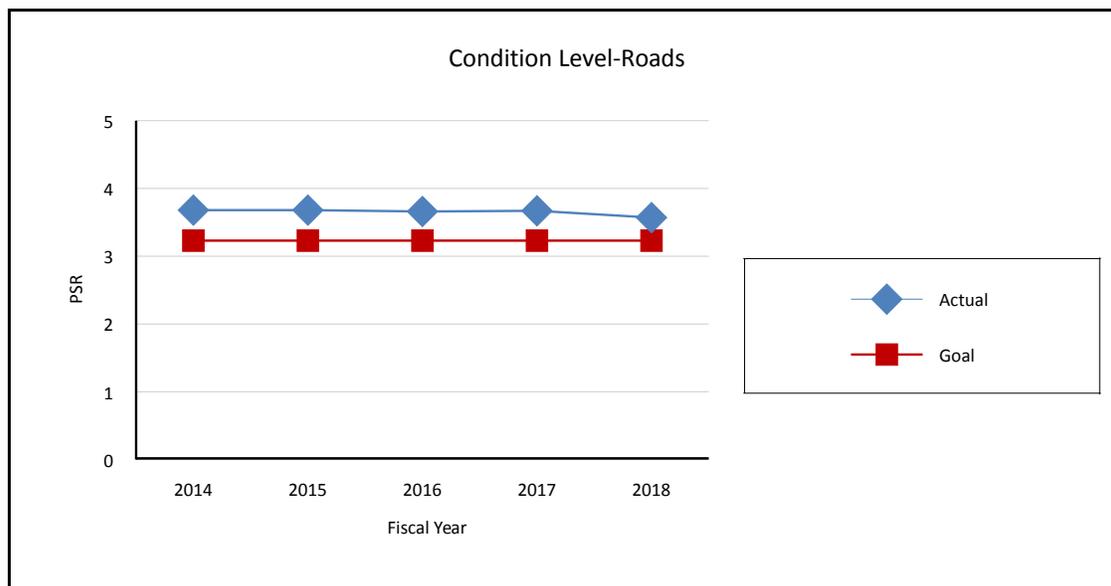
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The PMS has developed performance goals for the condition level of the pavement in the state highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called “Serviceability” which can be defined as the ability of a pavement to serve the traveling public (as documented in 1961 after American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement. Many surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this number is called Present Serviceability Rating and abbreviated as PSR. PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

Numerical Rating	PSR	Weaver/AASHTO Scale
5	Excellent	Perfect
4	Good	Very Good
3	Fair	Good
2	Poor	Fair
1	Very Poor	Poor
0	Impassable	Very Poor

The goal of the Department is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the state highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2018, an overall rating of 3.57 was achieved, as shown in the following graph:

Figure 1



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Preservation of the roads is accomplished through programs managed primarily by the Department’s PMS, as well as other units within the Department. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2014 through 2018 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2014	\$271.2	\$287.2
2015	\$249.5	\$300.6
2016	\$272.0	\$317.0
2017	\$322.4	\$186.4
2018	\$375.0	\$218.0

Bridges

The Department’s bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2018, the Department owned and maintained 4,855 bridges with an approximate total deck area of 44,079,903 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in AASHTOWare™ Bridge Management software (BrM). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, BrM is used for reporting bridge inventory and condition, on an annual basis, to the Federal Highway Administration (FHWA).

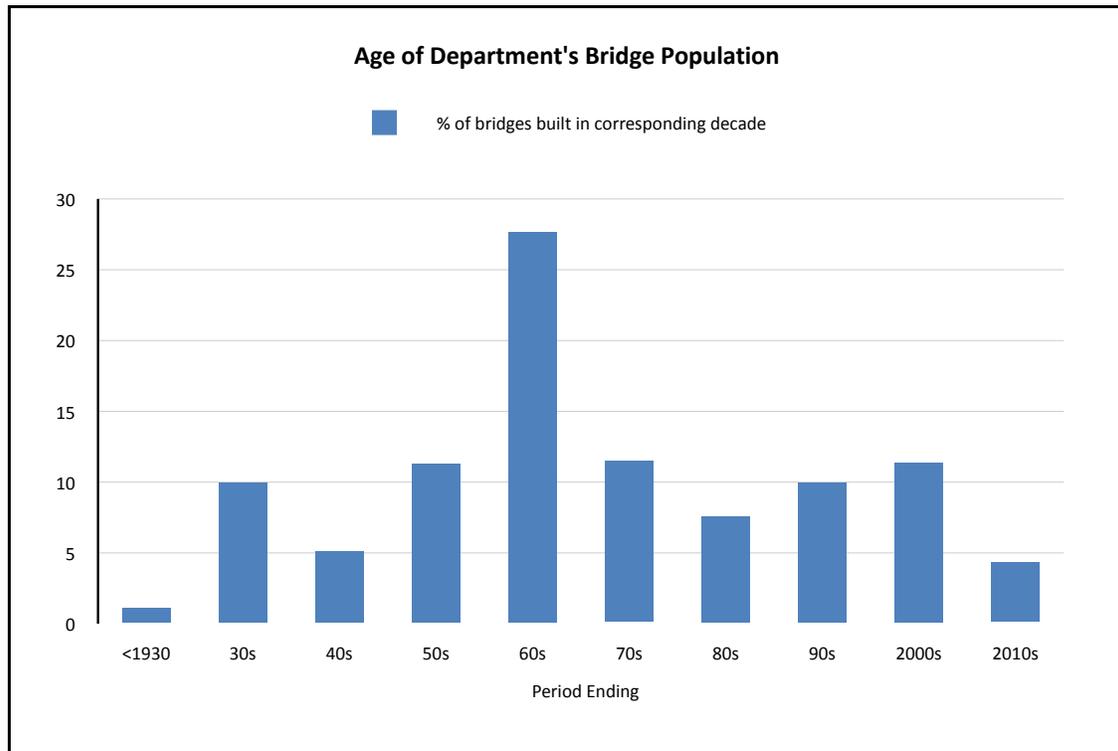
Historically, a Condition Rating Index (CRI) has been used to track the condition of the bridge network. The CRI was based on four selected bridge inspection condition ratings, which in turn were based on standards established in the FHWA’s “Recording and Coding Guide for the Structural Inventory of the Nation’s Bridges.”

In 2015, FHWA issued new rules which have had the effect of replacing CRI as the summary statistic for bridge condition. Instead, the Departments of Transportation of the various States are expected to maintain their bridges so that no more than 10% are classified as Poor. Financial sanctions are held against States that do not comply with this standard. Management of the bridge inventory is a major function of the Department’s Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. In fiscal year 2018, 1.4% of bridges maintained by the Department were classified as Poor.

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Bridges represent a major public investment, and their inspection and maintenance is an essential function of the Department in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 2 indicates that approximately 55% of the bridges in the state were constructed prior to the 1970s while only 16% have been constructed since 2000.

Figure 2



Each bar represents the percentage of bridges built in corresponding decade.

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2014 through 2018 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2014	\$21.2	\$20.5
2015	\$13.7	\$21.9
2016	\$11.6	\$39.8
2017	\$28.8	\$23.4
2018	\$26.4	\$15.3

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Pension Liability and Pension Contributions

In 2015, the Department implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. Required supplementary information as a result of this implementation is:

Schedule of the Proportionate Share of the Net Pension Liability

For the last four fiscal years ended ⁽¹⁾

	Fiscal Year (Measurement Date)		
	2018 (2017)	2017 (2016)	2016 (2015)
Proportion of the net pension liability	1.91%	1.99%	2.07%
Proportion share of the net pension liability	\$296,900,511	\$321,346,418	\$322,028,132
Covered- payroll	\$178,648,729	\$186,117,539	\$190,570,110
Proportion share of the net pension liability as a percentage of its covered- payroll	166.19%	172.66%	168.98%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%

Schedule of Pension Contributions

For the last four fiscal years ended ⁽¹⁾

	2018	2017	2016	2015
Statutorily required contribution	\$19,263,324	\$19,258,333	\$20,193,753	\$20,753,085
Contributions in relation to the statutorily required contribution	19,263,324	19,258,333	20,193,753	20,753,085
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Covered- payroll	\$176,727,743	\$178,648,729	\$186,117,539	\$190,570,110
Contributions as a percentage of covered- payroll	10.90%	10.78%	10.85%	10.89%

(1) The Department implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE NOTE RESOLUTION

Below is a brief description of certain provisions of the Note Resolution in its current form. This description does not purport to be comprehensive or definitive, and is qualified in its entirety by reference to the Note Resolution as it may be amended as described below. Copies of the Note Resolution are available as described under "MISCELLANEOUS." Capitalized words and terms not otherwise defined herein shall have the same meanings as in the Note Resolution.

DEFINITIONS

"Additional Notes" shall mean any Series of Notes or other obligations that may be subsequently issued by the Board pursuant to applicable law, in accordance with the Note Resolution, on a parity (as provided in the Note Resolution) with the Notes then Outstanding.

"Annual Debt Service" shall mean, for the applicable Federal Fiscal Year, the aggregate Debt Service required to be made during such Federal Fiscal Year on the Outstanding Notes; provided that interest payable on a Series of Notes in any Federal Fiscal Year shall be excluded from the determination of Annual Debt Service in such Federal Fiscal Year to the extent that amounts are on deposit in the Grant Anticipation Note Fund and available to pay such interest on such Series.

"Authorized Officer" shall mean the Chair or Vice-Chair of the Board, the Director of the Department, the Assistant Director for Finance and Accounting of the Department or any other person or persons at the time designated to act on behalf of the Board by written certificate furnished to the Note Registrar and the Paying Agent containing the specimen signatures of such person or persons and signed on behalf of the Board by its Chair or other duly authorized agent.

"Bond Counsel" shall mean a firm of attorneys of national reputation experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds, which is selected by the Board.

"Business Day" shall mean any day other than a Saturday, Sunday, legal holiday in the State or a day on which either the Note Registrar, the Paying Agent, the State Treasurer or the Department is closed.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, the Treasury Regulations (whether temporary or final) under that Code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, reference to a Section means that Section of the Code, including any applicable successor section or provision and such applicable Treasury Regulations, rulings, announcements, notices, procedures and determination pertinent to that section.

"Debt Service" shall mean, for any applicable time period or date, the scheduled principal of and premium, if any, and interest on the Notes accruing for that period or due and payable on that date.

"Debt Service Coverage Certificate" shall mean a certificate of an Authorized Officer that sets forth, for the Federal Fiscal Year therein specified, (a) the Department's estimate of the amount of Federal Aid Revenues that will be available to the Department for the payment when due of Debt Service payable in such Federal Fiscal Year, (b) the Annual Debt Service due on the Outstanding Notes during such Federal Fiscal Year and (c) the ratio of (a) to (b) (which is the Debt Service Coverage Ratio).

"Debt Service Coverage Ratio" shall mean the ratio set forth in the applicable Debt Service Coverage Certificate.

“Defeasance Obligations” shall mean the following: (a) Cash; (b) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGs”); (c) Direct obligations of the United States Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (d) The interest component of Resolution Funding Corp. (REFCORP) strips which have been stripped by request of the Federal Reserve Bank of New York in book entry form; (e) Pre-refunded municipal bonds described in clause (c) of definition of “Investment Securities,” and (f) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: 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, U.S. Public Housing notes and bonds - U.S. government guaranteed public housing notes and bonds.

“Department” shall mean the Arizona Department of Transportation and any successor to its functions.

“Depository” shall mean any bank, trust company, national banking association, savings and loan association, savings bank or other banking association selected by the State Treasurer as a depository of moneys and securities held under the provisions of the Note Resolution, but not including the Note Registrar or Paying Agent or the Escrow Agent.

“Director” shall mean the Director of the Arizona Department of Transportation.

“Escrow Agent” shall mean the State Treasurer and any bank or trust company appointed to hold funds for purposes of defeasance of Notes and meeting the qualifications of a successor Paying Agent under the Note Resolution.

“Federal Aid Authorization” shall mean, as applicable, (a) Title 23, (b) any extension of Title 23, or (c) any successor to Title 23 authorizing Federal funding of state highways.

“Federal Aid Revenues” shall mean revenues or funds received by or on behalf of, or available to, the Department pursuant to Federal Aid Authorization (including, without limitation, Grant Revenues received pursuant to the Grant Agreement) which revenues or funds are not restricted under Federal Aid Authorization in a way that prohibits the Board to use them to pay Debt Service.

“Federal Aid Revenues Subaccount” shall mean, collectively, the Federal Aid Revenues Subaccount established under the Note Resolution in the State Highway Fund and in the Regional Area Road Fund.

“Federal Direct Payment Notes” shall mean any Note 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 Note.

“Federal Fiscal Year” shall mean the 12 month period beginning on October 1 of each year or such other 12-month period as the Federal government shall adopt as its fiscal year for purposes of Federal Aid Revenues.

“Federal Highway Administration” shall mean the U.S. Department of Transportation, Federal Highway Administration (“FHWA”) and any successor to its functions.

“Fiduciary” shall mean the Depository and any Note Registrar, Paying Agent or Escrow Agent for any Note.

“Fiscal Year” shall mean 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.

“Funds and Accounts” shall mean, collectively, the Grant Anticipation Note Fund and any accounts created therein and the Note Proceeds Account and any subaccounts created therein.

“Grant Agreements” shall mean, collectively, (a) the Grant Agreements, between the FHWA and the Department, relating to the Series 2011A Project therein described, with the following Federal Aid Projects Nos.: 017-B(210), 010-D(013), 053-2(043), 093-B(202), 093-B(202), 093-B(203), 089-D(201) and other Federal Aid Projects as subsequently identified; (b) the Grant Agreements, between the FHWA and the Department, relating to the Series 2017A Project therein described, with the following Federal Aid Projects Nos.: 010-D(205) and 040-C(225); (c) the Grant Agreements, between the FHWA and the Department, relating to the Series 2019A Project therein described, with the following Federal Aid Projects Nos.: 008-B(213), 040-B(226), 040-D(236), 060-D(207), 072-A(203) and 093-(A205); and (d) for a subsequent Series of Additional Notes and if required by the Act, the Federal-aid project agreement or agreements (or similar agreement or agreements relating to receiving Federal Aid Revenues for the Project or Projects that is the subject of such agreement), entered into between the FHWA and the Department relating to the Project or Projects to be financed thereby and identified in the Supplemental Resolution authorizing such Series, as each may be amended in accordance with its terms.

“Grant Anticipation Note Fund” shall mean the Grant Anticipation Note Fund created by the Act and established in the Note Resolution.

“Grant Revenues” shall mean any and all revenues the Department receives under the Grant Agreement, the proceeds of the Notes and the income and gain from the investment of the Funds and Accounts held under the Note Resolution.

“Interest Credit Payments” shall mean, with respect to Federal Direct Payment Notes, the amount of money during each Note 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 Note.

“Interest Payment Date” shall mean (a) each January 1 and July 1 for the Series 2011A Notes, the Series 2016 Notes and the Series 2017A Notes, (b) for the Series 2019A Notes, each January 1 and July 1, commencing July 1, 2019, and (c) for a Series of Additional Notes, the dates identified in the Supplemental Note Resolution authorizing such Series.

“Investment Securities” shall mean and include any of the following securities, if and to the extent the same are at the time the investment is purchased legal under State law for investment for the Funds and Accounts:

(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 States of America;

(c) certain refunded 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 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;

(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) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase hereunder such obligations are rated in one of the three highest Rating Categories by any Rating Agency;

(f) 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 three highest Rating Categories by any Rating Agency;

(g) direct and general obligations of the State to the payment of the principal of and interest on which the full faith and credit of the State are pledged or any bonds or other obligations which as to principal and interest are unconditionally guaranteed by the State, provided that at the time of their purchase hereunder such obligations are rated in one of the three highest Rating Categories by any Rating Agency;

(h) certificates or other instruments that evidence ownership of 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 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, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed as to payment pursuant to a credit support arrangement provided by one or more financial institutions or insurance companies or associations which shall be rated at the time of purchase thereof in one of the three highest Rating Categories by any Rating Agency, or, in the case of an insurer providing municipal bonds 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 so rated at the time of purchase hereunder;

(i) certificates that evidence ownership of the right of payments of principal or interest on obligations described in clauses (a) to (g), 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;

(j) 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 three highest Rating Categories by any Rating Agency;

(k) any repurchase agreements collateralized by securities described in clauses (a) to (g) 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, 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 one 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%;

(l) 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 three highest Rating Categories by any Rating Agency;

(m) commercial paper which is rated at the time of purchase thereof at least "Prime" by Moody's;

(n) Bond, debentures, notes or other evidences of indebtedness which are issued by entities organized in doing business in the United States which are rated, at the time of purchase, in one of the three highest Rating Categories by any Rating Agency;

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

(p) 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 (o).

“Note Insurance Policy” shall mean for a Series of Additional Notes, the insurance policy or other instrument providing credit enhancement, if any, issued by the Note Insurer insuring or otherwise guaranteeing the payment when due of the principal of and interest on such Series, as provided therein.

“Note Insurer” shall mean with respect to any Series of Additional Notes, the bond insurer, if any, named in the applicable Supplemental Note Resolution.

“Note Issuance Costs” shall mean all printing, publication or advertising expenses with respect to the sale and issuance of the Notes; all fees, expenses and costs of Note Registrar and Paying Agent in connection with the issuance of Notes; all fees, expenses and costs of attorneys, Bond Counsel, financial advisor, accountants, feasibility consultants, computer programmers or other experts employed to aid in the sale and issuance of the Notes, and all other costs related thereto; premiums and other expenses of obtaining a Note Insurance Policy; and all other costs, fees and expenses incurred or reasonably related to the issuance and sale of the Notes that may under the Act be paid from proceeds of the Notes.

“Note Proceeds Account” shall mean the Note Proceeds Account in the State Highway Fund established in the Note Resolution.

“Note Registrar” shall mean (a) for the Series 2011A Notes, Series 2016 Notes, Series 2017A Notes and Series 2019A Notes, U.S. Bank National Association, and (b) for a Series of Additional Notes, the institution set forth in the Supplemental Note Resolution authorizing such Series, and its successor or successors hereafter appointed in the manner provided herein.

“Note Resolution” shall mean the Original Resolution and the Supplemental Note Resolution.

“Notes” shall mean collectively (a) the Series 2011A Notes, (b) the Series 2016 Notes, (c) the Series 2017A Notes, (d) the Series 2019A Notes, and (e) Additional Notes issued subsequently under the Note Resolution.

“Original Resolution” shall mean the Resolution adopted by the Board on June 9, 2000 establishing the Grant Anticipation Note financing program.

“Outstanding” with reference to Notes or “Notes Outstanding” shall mean, as of the applicable date, all Notes which have been authenticated and delivered, or which are being authenticated and delivered under the Note Resolution, except: (a) Notes canceled upon surrender, exchange or transfer, or canceled after purchase in the open market or because of payment at or redemption prior to maturity; (b) any Note (or any portion thereof) (i) for the payment or redemption of which there shall be held in trust under the Note Resolution and set aside for such payment or redemption, moneys and/or Defeasance Obligations (not callable at the option of the issuer thereof) maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Defeasance Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or redemption price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Note (or any portion thereof) to be redeemed prior to maturity, the notice of the redemption of which shall have been irrevocably given in accordance with the Note Resolution or provided for in a manner satisfactory to the Note Registrar; (c) Notes deemed paid pursuant to the provisions of the Note Resolution; and (d) Notes in lieu of which others have been authenticated under the Note Resolution.

“Owner” shall mean any person in whose name any Note is registered on the note register maintained by the Note Registrar.

“Paying Agent” shall mean (a) for the Series 2011A Notes, Series 2016 Notes, Series 2017A Notes and Series 2019A Notes, U.S. Bank National Association, and (b) for a Series of Additional Notes, the institution set forth in the Supplemental Note Resolution authorizing such Series, and its successor or successors hereafter appointed in the manner provided herein.

“Pledged Funds” shall mean all Grant Revenues, Federal Aid Revenues and other moneys that are deposited into the Grant Anticipation Note Fund or Note Proceeds Account, including Investment Securities and investment income thereon held in such Fund and Account.

“Principal Payment Dates” shall mean each date upon which the principal of any Series of the Notes shall be payable, whether by stated maturity or mandatory sinking fund redemption.

“Project” shall mean, collectively, (a) for the Series 2011A Notes, the Series 2011A Project described in the Grant Agreements relating to such Series of Notes, (b) for the Series 2017A Notes, the Series 2017A Project described in the Grant Agreements relating to such Series of Notes, (c) for the Series 2019A Notes, the Series 2019A Project described in the Grant Agreements relating to such Series of Notes, and (d) for any Series of subsequent Additional Notes, the project or projects described in the Grant Agreement or Agreements, if any, related thereto or otherwise described in the Supplemental Note Resolution authorizing such Series.

“Project Costs” shall mean, without limiting the use of proceeds of the Notes permitted under the Act, (a) all Note Issuance Costs, (b) all amounts necessary to create and fund reserve funds, to pay Debt Service on the Notes or to provide credit enhancement or liquidity for the Notes, (c) all costs, expenses and liabilities paid or incurred or to be paid or incurred in connection with the design, right-of-way acquisition or construction of the Project, (d) costs for which the Director shall be entitled to receive reimbursement pursuant to the Grant Agreement, and (e) such other costs, fees, charges and expenses or otherwise which may be paid under the Act from proceeds of Notes.

“Rating Agency” shall mean Moody’s Investors Service, Inc. (“Moody’s”) or S&P Global Ratings, a division of Standard and Poor’s Financial Services LLC (“S&P”), or Fitch, Inc. (“Fitch”), or any or all, as applicable, or their successors or assigns.

“Rating Categories” shall mean the rating as published by a Rating Agency in its written compilations of ratings and any written supplement or amendment thereto and any such rating shall be determined on the generic rating without regard to any modifiers and shall be long term ratings unless otherwise provided herein.

“Regional Area Road Fund” shall mean the Regional Area Road Fund created in Section 28-6302, A.R.S., for Maricopa County.

“Series” shall mean the separate Series of Notes identified as such under the Supplemental Note Resolution authorizing the same.

“Series 2011A Notes” shall mean the Series 2011A Notes authorized as a Series of Additional Notes under the Note Resolution.

“Series 2016 Notes” shall mean the Series 2016 Notes authorized as a Series of Additional Notes under the Note Resolution.

“Series 2017A Notes” shall mean the Series 2017A Notes authorized as a Series of Additional Notes under the Note Resolution.

“Series 2019A Notes” shall mean the Series 2019A Notes authorized as a Series of Additional Notes under the Note Resolution.

“State Highway Fund” shall mean the State Highway Fund created in Section 28-6991, A.R.S.

“Subordinated Notes” shall mean notes or other obligations described under “Subordinated Notes” in this Appendix C.

“Supplemental Note Resolution” shall mean, collectively, any resolution of the Board which (a) shall supplement or amend the Original Resolution, including the amendments in the Resolution adopted by the Board on April 18, 2003, and (b) may be adopted by the Board in accordance with Article X of the Original Resolution and with reference to determining the terms of the Series 2011A Notes, shall mean the Resolution adopted by the Board on December 17, 2010, with reference to determining the terms of the Series 2016 Notes, shall mean the Resolution adopted by the Board on March 18, 2016, with reference to determining the terms of the Series 2017A Notes, shall mean the Resolution adopted by the Board on June 16, 2017 and with reference to determining the terms of the Series 2019A Notes, shall mean the Resolution adopted by the Board on January 18, 2019 together with the applicable Certificate of Award for each Series.

“Title 23” shall mean Chapter 1 of Title 23, United States Code, as amended and supplemented from time to time, and regulations, rules, policies and procedures thereunder and any successor or replacement provision of law.

Issuance of Additional Notes

No additional notes or other obligations of the Board payable on a priority senior to the pledge of the Pledged Funds for the payment of the Notes shall be created or incurred without the prior written consent of the Owners of 100% of the Outstanding Notes.

Additional notes or other obligations of the Board payable on a parity with the Notes out of the Pledged Funds may be created or incurred, but only if a certificate of an Authorized Officer, dated the date of issuance, certifies as follows:

a. All payments required by the Note Resolution to be made into the Grant Anticipation Note Fund as of the date of issuance of such Additional Notes have been made in full;

b. No Event of Default shall have occurred and be continuing under the Note Resolution; unless such Event of Default will cease to continue upon the issuance of the Additional Notes and the application of the proceeds thereof;

c. The amount of Federal Aid Revenues either (i) anticipated to be received by the Department during the Federal Fiscal Year in which the proposed Series of Additional Notes are to be issued, or (ii) received by the Department in either of the two prior Federal Fiscal Years preceding the issuance of the proposed Series of Additional Notes, was not less than:

- 150% of the Annual Debt Service in any Federal Fiscal Year that ends on or before the expiration date of the Federal Aid Authorization then in effect; and
- 300% of the Annual Debt Service in any Federal Fiscal Year that ends after the expiration date of the Federal Aid Authorization then in effect; and
- in either case, including the Annual Debt Service on the Series of Additional Notes proposed to be issued, but excluding, in the case of a Series of Additional Notes issued for refunding purposes, the Annual Debt Service on the Notes to be refunded; and

d. the Department has no information which indicates that Federal Aid Revenues will not be available to the Department during the term of the Federal Aid Authorization then in effect in amounts sufficient to pay, when due, Debt Service on the Notes to be Outstanding during such term.

The requirements of paragraphs (c) and (d) above may be revised or deleted upon the Board’s receipt of written evidence, from each Rating Agency then maintaining an unsecured, underlying rating on the Outstanding Notes, to the effect that such revision or deletion will not itself result in the withdrawal or reduction of any such underlying, unsecured rating on the Outstanding Notes by such Rating Agency.

The proceeds of the Additional Notes may be used: (a) to pay Note Issuance Costs; (b) to refund Notes or other obligations of the Board or Department as permitted by law; (c) to pay Project Costs, (d) for any other purpose permitted by law, or (e) any combination thereof.

The Board may also issue Additional Notes, from time to time, for the purpose of refunding in whole or in part any Notes Outstanding under the Note Resolution, provided that the Director certifies that: (a) Annual Debt Service for all Notes Outstanding immediately after the issuance of such proposed Refunding Notes for the current and each future Federal Fiscal Year to and including the Federal Fiscal Year of the latest maturity on any Notes then Outstanding is no greater than (b) the Annual Debt Service for all Notes Outstanding immediately prior to such issuance during the same Federal Fiscal Years as in (a). If the Board cannot satisfy the requirement of the preceding sentence, the Board may nevertheless issue Additional Notes for the purpose of refunding Notes upon compliance with the test described in the preceding paragraphs.

Nothing in the Note Resolution prohibits the payment of Debt Service on any Series of Additional Notes from being otherwise (i) secured and protected from sources or by instruments not applicable to other Series of Notes, or (ii) not secured and protected from sources or by instruments applicable to other Series of Notes.

Subordinated Notes

The Board may, in accordance with the terms of the Note Resolution, issue or incur Subordinated Notes payable out of, and secured by a pledge of, moneys in subordinated subaccounts in the Grant Anticipation Note Fund remaining after all deposits to the Grant Anticipation Note Fund for the Notes have been made in accordance with the Note Resolution; provided, however, that such pledge shall be subordinate to the pledge created by the Note Resolution in the Grant Anticipation Note Fund as security for the Notes.

Proceeds of the Subordinated Notes shall not be used to pay, or as security for the payment of, the Notes and proceeds of the Notes shall not be used to pay, or as security for the payment of, the Subordinated Notes. The Supplemental Resolution authorizing such Subordinated Notes shall contain the following (or less favorable to the holders thereof) provisions:

(1) If any Event of Default with respect to the Notes is continuing, the Owners of all Notes Outstanding shall be entitled to receive payment in full of all Debt Service on the Notes before the holders of the Subordinated Notes are entitled to receive any accelerated payments from the subordinated account in the Grant Anticipation Note Fund.

(2) No Note Owner can be prejudiced in their right to enforce the subordination by any act or failure to act by the Board or any other party.

(3) The Subordinated Notes may provide that the above provisions are solely for the purpose of defining the relative rights of the Owners of all Notes and holders of Subordinated Notes and nothing therein shall impair the obligation of the Board under such Subordinated Resolution or prevent the holders of the Subordinated Notes from exercising all remedies permitted by applicable law subject to the rights of the Owners of Notes listed in (1) and (2) above.

Any issue of Subordinated Notes may have such rank or priority with respect to other Subordinated Notes as may be provided in the Supplemental Resolution authorizing such issue of Subordinated Notes.

Security for Notes; Pledged Funds

The Notes are special and limited obligations of the Board and are payable solely from a pledge by the Board of amounts on deposit in the Grant Anticipation Note Fund and Note Proceeds Account and the moneys and investments on deposit in such Fund and Account shall constitute Pledged Funds. Such pledge by the Board shall be irrevocable so long as any Notes are Outstanding under the terms of the Note Resolution. The Board may withdraw moneys from the Note Proceeds Account to pay Project Costs. Moneys in the Grant Anticipation Note Fund shall be used solely to pay Debt Service on Notes, when due.

The Board is not obligated to pay Debt Service from any funds other than the Pledged Funds; provided that the Board and Department are not prohibited, in their sole and absolute discretion, from making payments of Debt Service from sources other than Pledged Funds, to the extent legally available for that purpose; provided, the Department shall be obligated to deposit all Grant Revenues and Federal Aid Revenues as required by the Note Resolution, and the State Treasurer shall be obligated, as required by the Note Resolution, to transfer lawfully available moneys from the State Highway Fund, the Regional Area Road Fund and the Note Proceeds Account to the Grant Anticipation Note Fund.

The Board shall not issue any grant anticipation notes, bonds, debentures, other notes or other evidences of indebtedness that are payable out of, or secured by a pledge of, the Pledged Funds on a basis senior to the Notes or on a parity with the Notes except for Additional Notes as described above under "Issuance of Additional Notes". The Board may issue other grant anticipation notes, bonds, other notes or other obligations under applicable law secured by revenue and funds other than the Pledged Funds.

All moneys and Investment Securities held in the Grant Anticipation Note Fund and Note Proceeds Account shall be held by the State Treasurer on behalf of the Board and for the benefit and security of the Owners of the Notes to the extent provided in the Note Resolution.

Investment of Grant Anticipation Note Fund and Note Proceeds Account

Except as provided in the Note Resolution, the State Treasurer shall invest, at the request of an Authorized Officer, any moneys held as a part of the Grant Anticipation Note Fund and Note Proceeds Account in Investment Securities. Subject to the provisions described below, the State Treasurer shall follow the directions of the Authorized Officer with respect to the type, amount and maturity of those investments and whether those investments should be sold, surrendered or exchanged; 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 Fund and Account. Such 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 Fund or Account from which they shall have been made.

Any earnings and profit realized from those investments shall be credited, and any loss resulting therefrom shall be charged, to the Grant Anticipation Note Fund.

The State Treasurer shall sell and reduce to cash a sufficient portion of investments, whenever the cash balance in the Fund or Account is insufficient to pay the current requirements from that Fund or Account. The State Treasurer shall sell or redeem investments credited to the Fund or Account to produce moneys which are sufficient at the times required for the purposes of paying principal and interest on the Notes. The State Treasurer shall not be responsible (i) for any of the investments credited to the Fund or Account made in accordance with the Note Resolution; (ii) for accepting any Investment Securities deposited thereto by the Board; or (iii) for liquidating an amount of the investments credited to any Fund or Account which is greater than the amount which may be necessary for the purposes hereof.

The Board shall not authorize or make any investment which would violate any provisions of State or Federal law including the Federal tax code.

Note Insurer as Owner

Except as otherwise provided in a Supplemental Note Resolution and subject to the next paragraph, for purposes of determining whether (a) pursuant to the Note Resolution the requisite percentage in aggregate principal amount of Notes of any Series then Outstanding shall have directed the time, method and place of conducting any remedy or proceeding described therein or shall have waived any Event of Default or its consequences or (b) pursuant to any other provision of the Note Resolution (except for certain amendments to the Note Resolution, which shall require the consent of the Owners of the Notes affected) the requisite percentage in aggregate principal amount of Notes of any Series then Outstanding shall have requested, demanded or consented to, the taking of action or the failure to take action described in such provision, the Note Insurer, upon behalf of the Owners of the Series of Notes insured by its Note Insurance Policy, shall have the right to give such consents, approvals, directions or requests for and upon behalf of the Owners of such Series.

Any provision regarding consents, approvals, directions, appointments or requests by a Note Insurer, upon behalf of the Owners of the Notes insured by its Note Insurance Policy or for itself, shall be deemed to not require or permit such consents, approvals, directions, appointments, requests or notices to such Note Insurer during the time in which (a) such Note Insurer is in default in its obligation to make payments under its Note Insurance Policy, (b) its Note Insurance Policy shall at any time for any reason cease to be valid and binding on such Note Insurer, or shall be declared to be null and void, or the validity or enforceability of any provision thereof is being contested by such Note Insurer or any governmental agency or authority, or if such Note Insurer is denying further liability or obligation under its Note Insurance Policy, (c) a petition has been filed and is pending against such Note 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 60 days after such filing, or (d) such Note 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.

Particular Covenants of the Board

Pledged Funds. The Board has not made a pledge of the Pledged Funds, except as set forth in the Note Resolution to secure the Notes. The Board shall at all times, to the extent permitted by law, enforce, defend, preserve and protect the pledge of the Pledged Funds and all the rights of the Owners under the Note Resolution against all claims and demands of all persons whomsoever.

Payment of Notes. The Board shall duly and punctually pay or cause to be paid the principal and interest on every Note, at the dates and places and in the manner and from the sources provided in the Note Resolution.

Creation of Other Pledges. The Board shall not (i) issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature, payable out of or secured by a pledge of the Pledged Funds or other moneys, securities or funds held or set aside by the State Treasurer or by any Fiduciaries under the Note Resolution, except Additional Notes and Subordinated Notes and (ii) create or cause to be created any pledge, lien or charge equal to or superior to the pledge of the Notes on the Pledged Funds, or such moneys, securities or funds without the prior written consent of the Owners of 100% of the Outstanding Notes affected by such pledge.

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 Federal Aid Revenues and each Fund and Account established under the Note Resolution, which records and accounts shall at all reasonable times be subject to the inspection of the Owners of an aggregate of not less than 10% in principal amount of the Notes then Outstanding or their representatives duly authorized in writing.

Offices for Servicing Notes. The Board shall maintain one or more agencies or offices where Notes may be presented for payment, registration, transfer or exchange, for the service upon the Board of notices, demands and other documents, and for the performance of other services as provided in the Note Resolution.

The Board has appointed the Note Registrar to maintain an agency for the registration, transfer or exchange of Notes, for the service upon the Board of such notices, demands and other documents, for the mailing of notice to Owners of Notes for certain purposes, and for the performance of other services as provided in the Note Resolution, and the Note Registrar shall continuously maintain or make arrangements to provide such services.

The Board has appointed the Paying Agent as its agent to maintain such agency for the payment or redemption of Notes.

Further Assurance. At any and all times the Board shall, as far as it may be authorized by law and to the extent not inconsistent with the Note Resolution, comply with any reasonable request of the State Treasurer or of the Owners of at least 25% of the principal amount of the Outstanding Notes, to pass, make, do, execute, acknowledge and deliver, all and every further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may

be necessary or desirable for the better assuring, pledging and confirming all and singular the rights, moneys, securities and funds hereby pledged, or intended so to be pledged.

The Board shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Board under the provisions of the Act and the Note Resolution, including ordering the State Treasurer and Department to perform all acts and things required to be done or performed by the State Treasurer and Department under the provisions of the Act and the Note Resolution.

Substitution, Addition and Amendment of Series 2011, Series 2017A and Series 2019A Grant Agreements

At any time prior to or after the issuance of the Series 2011A, Series 2016, Series 2017A and Series 2019A Notes, the Department may add additional Grant Agreements or substitute for the existing Series 2011A, Series 2017A or Series 2019A Grant Agreements, replacement Grant Agreements, so long as:

(a) after giving effect to such substitution, the aggregate of the payments scheduled to be made under the Series 2011A, the Series 2017A or Series 2019A Grant Agreements by the Federal Highway Administration is at least equal to the aggregate scheduled Debt Service on the Outstanding Series 2011A, Series 2016, Series 2017A or Series 2019A Notes, as applicable, when due;

(b) the additional or substituted Grant Agreement qualifies as a “Grant Agreement” under the Act; and

(c) the applicable representations and warranties of the Board and, as appropriate, the Department, concerning the Series 2000A Grant Agreements and the Series 2000A Project contained in the Note Resolution shall also apply to, and shall be deemed to expressly include, such additional or substitute Series 2011A, Series 2017A or Series 2019A Grant Agreements and the Series 2011A, Series 2017A or Series 2019A Project therein described.

The Department may amend any Series 2011A, Series 2017A or Series 2019A Grant Agreements (including, without limitation, amending the timing and amount of the payments scheduled to be made thereunder by the Federal Highway Administration) so long as, after giving effect to such amendment, the aggregate of the payments scheduled to be made under all the Series 2011A, Series 2017A or Series 2019A Grant Agreements by the Federal Highway Administration is at least equal to the aggregate scheduled Debt Service on the Outstanding Series 2011A, Series 2016, Series 2017A or Series 2019A Notes, as applicable, of such series when due.

Events of and Remedies Upon Default

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

(a) if default shall be made in the due and punctual payment of the principal or redemption price of any Note when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise;

(b) if default shall be made in the due and punctual payment of any installment of interest on any Note, when and as such interest installment shall become due and payable;

(c) if default shall be made by the Board, Director or Department in the performance or observance of any other of the covenants, agreements or conditions on its part in the Note Resolution or in the Notes contained, and such default shall continue for a period of 60 days after written notice thereof to the Board and Director by the Owners of not less than 25% in principal amount of the Notes Outstanding; provided, however, if the failure stated in the notice can be cured within a period of time not materially detrimental to the rights of the Owners of Notes but cannot be cured within the applicable 60-day period, then the 60-day period shall be extended if corrective action is instituted by the Board, Department or Director, as applicable, within the 60-day period and diligently pursued until the failure is corrected; and provided, further, that if by reason of force majeure, the Board, the Department or Director, as applicable, is unable to carry out the agreements on its part herein contained, the Board, Department or Director, as applicable, shall not be deemed in default under this paragraph (iii) during the continuance of such inability (but force majeure shall not excuse any other Event of Default); or

(d) any warranty, representation or other statement by or on behalf of the Board, the Department or Director, as applicable, contained in the Note Resolution is false or misleading in any material respect.

Upon the occurrence and continuation of an Event of Default under Subsection (a) or (b) above, any Owner of a Note on which payment of Debt Service has not been paid when due shall have the right to institute any action permitted under State law to enforce such payment as provided in the Note Resolution.

Upon the occurrence and continuation of any other Event of Default, the Owners of at least 10% of the principal amount of the Notes Outstanding affected by such Event of Default shall have the right to institute any action permitted under State law as a result of such Event of Default to enforce compliance with the provisions of the Note Resolution.

Application of Pledged Funds After Default

During the continuance of an Event of Default, the Board shall order the State Treasurer to apply the Pledged Funds and any other available moneys, including any moneys, securities and funds received by the State Treasurer pursuant to any right given or action taken under the provisions of the Note Resolution, as follows and in the following order:

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

(b) Debt Service - to the payment of the interest and principal or redemption price then due on the Notes, as follows:

First: Interest - 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 Notes theretofore called for redemption, 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 Notes 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 Notes 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;

Unconditional Obligation. Nothing in the Note Resolution or in the Notes contained shall affect or impair the obligation of the Board, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the Debt Service on the Notes to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Note in accordance with its terms. A judgment requiring a payment of money entered against the Board may be satisfied only from Pledged Funds.

Effect of Waiver and Other Circumstances. No delay or omission of any Owner 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 under the Note Resolution to the Owners may be exercised from time to time and as often as may be deemed expedient by the Owners.

The Owners of not less than a majority in principal amount of the Notes at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Notes waive any past default under the Note Resolution and its consequences, except a default in the payment of Debt Service on any of the Notes before any such waiver shall be effective. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Remedies Not Exclusive. No remedy by the terms of the Note Resolution conferred upon or reserved to the Owners of a Series of Notes is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Note Resolution or, except as otherwise provided in the Note Resolution, existing at law or in equity or by statute on or after the date of execution and delivery of the applicable Series of Notes.

Rights of Note Insurer upon Default. (a) Except in certain situations, the applicable Note Insurer shall be entitled, but not obligated, to act on behalf of all Owners of the series of Notes that are insured by its Note Insurance Policy in the exercise of all rights and remedies upon an Event of Default including, but without limitation, control, institution and direction of legal proceedings and the granting of any waivers with respect to the foregoing upon behalf of such Owners; and (b) the Owners of the applicable Series of Notes shall not have the right or be permitted to exercise any of the rights or remedies granted or permitted to them upon an Event of Default without the express written consent of the Note Insurer (if any) insuring such Series.

Supplemental Resolutions Without Consent of Owners.

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 amending or supplementing the Note Resolution, without notice to or consent of any Owner, which Supplemental Resolution, when adopted, shall be fully effective in accordance with its terms:

(a) to cure any ambiguity, inconsistency or formal defect or omission in the Note Resolution or to make changes permitted in the definition of “Federal Fiscal Year”;

(b) to add to the covenants and agreements of the Board or Department in the Note Resolution, other covenants and agreements to be observed by the Board or Department which are not contrary to or inconsistent with the Note Resolution as theretofore in effect;

(c) to add to the limitations and restrictions in the Note Resolution, other limitations and restrictions to be observed by the Board or Department which are not contrary to or inconsistent with the Note Resolution as theretofore in effect;

(d) to confirm, as further assurance, any pledge under, and the subjection to any pledge created or to be created by, the Note Resolution of the amounts on deposit in the Grant Anticipation Note Fund and Note Proceeds Account and to pledge any additional revenues, moneys, securities or agreements as may be permitted by law for deposit in the Grant Anticipation Note Fund and Note Proceeds Account or for the payment of Debt Service;

(e) notwithstanding any other provisions of the Note Resolution, to authorize, in compliance with all applicable laws, a Series of Additional Notes having terms and provisions different than the terms and provisions theretofore provided in the Note Resolution including, but not limited to, provisions relating to a Note Insurance Policy insuring such Series, the timing of the payment of interest and principal, authorizing the form of Notes for such Series of Additional Notes and otherwise to provide amendments or modifications of provisions of the Note Resolution relative to a Series of Additional Notes; provided that neither the issuance of such Additional Notes nor any such amendments or modifications shall in any manner impair or adversely affect the rights or security of the Owners of a Series of Notes then Outstanding or other persons under the Note Resolution;

(f) to authorize one or more Series of Subordinated Notes and, in connection therewith, specify and determine the provisions thereof, and also any other matters and things relative to such Subordinated Notes which are not contrary to or inconsistent with the Note 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 Subordinated Notes;

(g) 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 the Code or to comply with the Federal Aid Authorization;

(h) to make any amendments with the prior written confirmation from each Rating Agency then maintaining an uninsured, underlying rating on the Notes, that such amendments will not, in itself, result in such uninsured, underlying rating on the Notes following such amendment being lower than such rating on the Notes immediately prior to such amendment;

(i) to modify any of the provisions of the Note Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Notes 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 Subordinated Notes of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Subordinated Notes issued in exchange therefor or in place thereof; and

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

The provisions of subparagraph (g) shall not be deemed to constitute a waiver by the Board or Owners of any right, remedy or power which it may have in the absence of those provisions to contest the application to the Resolution or the Notes of any change in law.

Supplemental Resolutions Requiring Consent of Owners

(a) Exclusive of Supplemental Resolutions described above and subject to the terms and provisions contained in this paragraph and not otherwise, with the consent of the applicable Note Insurer, the Owners of not less than a majority in aggregate principal amount of the Notes Outstanding and affected by the Supplemental Resolution, shall have the right, from time to time, anything contained in the Note Resolution to the contrary notwithstanding, to consent to and approve, as provided in the Note Resolution, the adoption by the Board and the effectiveness of such other Supplemental Resolutions as shall be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Note Resolution.

(b) Notwithstanding any provision of subsection (a) to the contrary, the applicable Note Insurer, upon behalf of Owners of the applicable Series of Notes affected by the Supplemental Resolution, shall have the right to give the consents and approvals required of the Owners of the Notes of such Series, for any amendment to the Note Resolution under subsection (a) affecting such Owners, exclusive of any Supplemental Resolution described in (c), which Supplemental Resolution described in clause (c) shall require the consent of the Owners described in (a) above and of the Note Insurer.

(c) Nothing herein shall permit, or be construed as permitting, (i) an extension of the maturity of the principal of, or the interest on, any Note issued hereunder, or (ii) a reduction in the principal amount of, or redemption premium on, any Note or the rate of interest thereon, or (iii) a privilege or priority of any Note or Notes over any other Note or Notes, or (iv) a reduction in the aggregate principal amount of the Notes required for consent to such Supplemental Resolutions, or (v) permit the creation of any pledge ranking prior to the pledge granted under the Note Resolution on the Pledged Funds or any part thereof, or (vi) deprive the Owner of any Note then Outstanding of the pledge created hereunder on the Pledged Funds, without the prior consent of 100% of the Owners of the Notes affected by such Supplemental Resolution.

Defeasance

Subject to the provisions of the Note Resolution, any Outstanding Notes shall be deemed to have been paid and are not entitled to the lien, benefit and security of the Note Resolution if: (i) in case any of said Notes are to be redeemed on any date prior to their maturity, the Board shall have given to the Note Registrar instructions accepted in writing by the Note Registrar to mail as provided in the Note Resolution notice of redemption of such Notes (other than Notes which have been purchased or otherwise acquired by the Board and delivered to the Note Registrar as hereinafter provided prior to the mailing of such notice of redemption, (ii) there shall have been deposited with an Escrow Agent appointed by the Board for such purposes under an irrevocable escrow agreement, in trust for the Owners of such Notes, (A) moneys (including moneys withdrawn and deposited pursuant to the Note Resolution) in

an amount which shall be sufficient, and/or (B) noncallable Defeasance Obligations (including any Defeasance Obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the 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 herein) to pay when due the Debt Service due and to become due on said Notes on or prior to the redemption date or maturity date thereof, as the case may be; (iii) in the event said Notes are not by their terms subject to redemption within the next succeeding 60 days, the Board shall have given the Note Registrar in form satisfactory to it instructions to mail, first class postage prepaid, a notice to the Owners of such Notes as of the close of business on the date on which the Notes are deemed to be paid and discharged at its address as it appears on the note register on that date on which the Notes are deemed to be paid and discharged, (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 Obligations deposited at the same time with the Escrow Agent shall be sufficient to pay when due the Debt Service due and to become due on said Notes through the redemption or maturity date thereof, as the case may be; and (v) the Board shall furnish to the Escrow Agent an opinion of Bond Counsel to the effect that such provision for paying such Notes (assuming compliance by the Board and the Escrow Agent with their duties under the escrow agreement) will not, by itself, cause such Notes to be included in gross income for Federal income tax purposes. The notice of defeasance shall: (1) state the numbers of the Notes deemed to be paid and discharged; (2) that the deposit required by (ii) above has been made with the Escrow Agent and that said Notes are deemed to have been paid in accordance with this paragraph; and (3) state such maturity or redemption date upon which the moneys are expected to be available for the payment of the Debt Service on said Notes (other than Notes which have been purchased or otherwise acquired by the Board and delivered to the Note Registrar as hereinafter provided prior to the mailing of the notice of redemption referred to in clause (1) hereof.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

\$62,465,000

**ARIZONA TRANSPORTATION BOARD
GRANT ANTICIPATION NOTES
SERIES 2019A**

CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING (“Undertaking”), dated [Closing Date], 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 \$62,465,000 aggregate principal amount of notes designated the Arizona Transportation Board, Grant Anticipation Notes, Series 2019A, dated [Closing Date] (the “2019A Notes”).

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 2019A Notes.

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 Federal Fiscal Year, the type of financial information set forth under the heading “FEDERAL AID REVENUES” in the final Official Statement, dated March 26, 2019, for the 2019A Notes.

“*Audited Financial Statements*” means the audited financial statements 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 2019A Notes (including persons holding 2019A Notes through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2019A Notes 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>.

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

“*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, 2020.

“*Financial Obligation*” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“*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 2019A Notes 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 2019A Notes. 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 Federal 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 (10) with respect to the 2019A Notes, 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 difficulties¹;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties²;
- (4) Substitution of credit or liquidity providers, or their failure to perform²;
- (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;

¹ The 2019A Notes are not secured by a debt service reserve as of the date of issue.

² No credit enhancement has been obtained for the 2019A Notes as of the date of issue.

- (8) Rating changes;
- (9) Bankruptcy, insolvency, receivership or similar event of the Issuer; or
- (10) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.

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 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 (11) through (18) with respect to the 2019A Notes, in a timely manner not in excess of ten business days after the occurrence of the following events, if material:

- (11) Unless described in subparagraph (a)(5) above, other material notices or determinations by the Internal Revenue Service with respect to the tax status of the 2019A Notes or other material events affecting the tax status of the 2019A Notes;
- (12) Modification to rights of security holders;
- (13) Note calls;
- (14) Release, substitution or sale of property securing repayment of the 2019A Notes;
- (15) Non-payment related defaults;
- (16) 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;
- (17) Appointment of a successor or additional trustee or the change of name of a trustee for the 2019A Notes; or
- (18) The incurrence of a Financial Obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders, if material.

(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) 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 2019A Notes. Any Beneficial Owner of a 2019 Note 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 2019A Notes 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 the Rule or any other 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 2019A Notes, 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 Owners or (ii) the written consent to the amendment or waiver of the Owners of at least a majority of the principal amount of the 2019A Notes 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 followed 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 2019A Notes are no longer outstanding (within the meaning of the Resolution) or (b) the Rule no longer applies to these 2019A Notes.

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 2019A Notes 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.

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 [Date of Closing].

ARIZONA TRANSPORTATION BOARD

By: _____
Name: Jack Sellers
Its: Chairman

ARIZONA DEPARTMENT OF TRANSPORTATION

By: _____
Name: John Halikowski
Its: Director

(Signature page of Continuing Disclosure Undertaking)

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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 ADVISOR OR THE UNDERWRITERS 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 Series 2019A Notes. The Series 2019A Notes 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 Note certificate will be issued for each maturity of the Series 2019A Notes with the same interest rate, 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" and, together with the Direct Participants, "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.

Purchases of Series 2019A Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2019A Notes on DTC's records. The ownership interest of each actual purchaser of each Series 2019A Note ("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 Series 2019A Notes 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 Series 2019A Notes, except in the event that use of the book-entry system for the Series 2019A Notes is discontinued.

To facilitate subsequent transfers, all Series 2019A Notes 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 Series 2019A Notes 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 Series 2019A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2019A Notes 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 Series 2019A Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2019A Notes, such as redemptions, tenders, defaults, and proposed amendments to the Series 2019A Note documents. For example, Beneficial Owners of Series 2019A Notes may wish to ascertain that the nominee holding the Series 2019A Notes 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 Note 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 Series 2019A Notes 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 Series 2019A Notes 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 Series 2019A Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Series 2019A Notes 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 Series 2019A Notes 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, Series 2019A Note 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, Series 2019A Note certificates will be printed and delivered to DTC.

NONE OF THE BOARD, THE DEPARTMENT, THE NOTE REGISTRAR AND PAYING AGENT WILL HAVE RESPONSIBILITY OR OBLIGATION TO THE BENEFICIAL OWNERS 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 SERIES 2019A NOTES UNDER THE NOTE 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 SERIES 2019A NOTES; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE SERIES 2019A NOTES; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2019A NOTES; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Series 2019A Notes, as nominee for DTC, references herein to Owner of the Series 2019A Notes (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2019A Notes.

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 Note Registrar to DTC only.

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