# OFFICIAL STATEMENT

**NEW ISSUE – BOOK-ENTRY-ONLY**

**Ratings: Standard & Poor's: "AA+"**
**Moody's: "Aa2"**
**See "Ratings" herein**

# $715,470,000
# ARIZONA TRANSPORTATION BOARD
# SUBORDINATED HIGHWAY REVENUE BONDS

| **$602,765,000<br>Tax-Exempt Series 2013A** | **$112,705,000<br>Taxable Series 2013B** |
|---|---|

**Dated: Date of Initial Delivery** **Due: July 1, as shown on the inside cover page hereof**

The Subordinated Highway Revenue Bonds, Tax-Exempt Series 2013A (the "Tax-Exempt Series 2013A Subordinated Bonds") and Subordinated Highway Revenue Bonds, Taxable Series 2013B (the "Taxable Series 2013B Subordinated Bonds") (together, the "Series 2013 Subordinated Bonds") are being issued by the Arizona Transportation Board (the "Board") pursuant to the Subordinated Bond Resolution described below. Initially, the Series 2013 Subordinated Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2013 Subordinated Bonds. Purchases of beneficial interests in the Series 2013 Subordinated Bonds 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 2013 Subordinated Bonds.

Interest on the Series 2013 Subordinated Bonds is payable until maturity or prior redemption semiannually on January 1 and July 1 of each year, commencing July 1, 2013, and principal of the Series 2013 Subordinated Bonds will be payable annually in accordance with the schedule set forth on the inside front cover. So long as the Series 2013 Subordinated Bonds are registered in the name of DTC, or its nominee, payments of the principal and interest on the Series 2013 Subordinated Bonds will be made directly by the paying agent, initially U.S. Bank National Association (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 2013 Subordinated Bonds, as described herein.

The maturities, interest rates, yields and CUSIP numbers of the Series 2013 Subordinated Bonds are shown on the inside front cover.

Certain of the Tax-Exempt Series 2013A Subordinated Bonds and all of the Taxable Series 2013B Subordinated Bonds are subject to redemption prior to maturity as more fully described herein.

The Series 2013 Subordinated Bonds are issued pursuant to the Board's 1991 Resolution (as defined herein), as supplemented (the "Subordinated Bond Resolution"), on a parity as to security and source of payment with the previously issued Tax-Exempt Series 2011A Subordinated Bonds, Taxable Series 2011B Subordinated Bonds, Series 2004B Subordinated Bonds and Series 2003A Subordinated Bonds of the Board to be outstanding after issuance of the Series 2013 Subordinated Bonds in the aggregate principal amount of $1,283,640,000, and any additional Subordinated Bonds subsequently issued on a parity therewith (collectively, the "Subordinated Bonds"). **The Subordinated Bonds are subordinate to, and not on parity as to security and source of payment with, the Senior Bonds (as defined herein) of the Board to be outstanding after the issuance of the Series 2013 Subordinated Bonds in the aggregate principal amount of $510,185,000 and any additional Senior Bonds subsequently issued on a parity therewith.**

Proceeds of the Series 2013 Subordinated Bonds are intended to be used for the purposes of (i) financing portions of the Board's Five-Year Capital Program in an approximate amount of $230,000,000; (ii) refunding certain of the Board's Outstanding Senior Bonds and Subordinated Bonds in advance of their respective maturity dates; and (iii) paying costs of issuing the Series 2013 Subordinated Bonds. See "PLAN OF FINANCE" and "PLAN OF REFUNDING" herein.

**The Series 2013 Subordinated Bonds and all other Subordinated Bonds are special obligations of the Board payable solely from and secured solely by a subordinate lien on and pledge of the Pledged Revenues (as defined herein), which consist of a portion of the moneys derived from fees, excise, or license taxes relating to registration, operation or use of vehicles on the public highways of the State of Arizona (the "State") and from motor vehicle fuel taxes, which are deposited into the State Highway Fund, subject to a prior lien and pledge for all payments required for the benefit of the Senior Bonds, all as described herein. The Series 2013 Subordinated Bonds 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 out of any moneys other than Pledged Revenues, as provided in the Subordinated Bond Resolution.**

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Tax-Exempt Series 2013A Subordinated Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (ii) interest on the Taxable Series 2013B Subordinated Bonds is not excluded from gross income for federal income tax purposes and (iii) interest on the Tax-Exempt Series 2013A Subordinated Bonds and the Taxable Series 2013B Subordinated Bonds is exempt from Arizona state income tax. Interest on the Tax-Exempt Series 2013A Subordinated Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

*This cover page contains only a brief description of the Series 2013 Subordinated Bonds and the security therefor. It is not a summary of material information with respect to the Series 2013 Subordinated Bonds. Investors should read this entire Official Statement to obtain information necessary to make an informed investment decision.*

The Series 2013 Subordinated Bonds are offered when, as and if issued, subject to the opinion on certain legal matters relating to their issuance of Squire Sanders (US) LLP, Bond Counsel to the Board, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP. It is expected that the Series 2013 Subordinated Bonds, in book-entry-only form, will be available for delivery to DTC or its agent, on or about January 29, 2013.

**J.P. Morgan** **Wells Fargo Securities**

**BofA Merrill Lynch** **Citigroup** **Morgan Stanley** **Stone & Youngberg, a Division of Stifel Nicolaus**

January 16, 2013

**$715,470,000**
**ARIZONA TRANSPORTATION BOARD**
**SUBORDINATED HIGHWAY REVENUE BONDS**

## MATURITY SCHEDULES

**$602,765,000**
**Tax-Exempt Series 2013A**

| Year (July 1) | Amount | Interest Rate | Yield[a] | CUSIP[b] 040654 | Year (July 1) | Amount | Interest Rate | Yield[a] | CUSIP[b] 040654 |
|---|---|---|---|---|---|---|---|---|---|
| 2020 | $7,000,000 | 3.50% | 1.37% | VX0 | 2029 | $2,100,000 | 4.00% | 2.76%* | VM4 |
| 2020 | 13,050,000 | 5.00% | 1.37% | WB7 | 2029 | 47,200,000 | 5.00% | 2.51%* | VZ5 |
| 2021 | 36,020,000 | 5.00% | 1.58% | VD4 | 2030 | 20,000,000 | 4.00% | 2.82%* | VN2 |
| 2022 | 35,710,000 | 5.00% | 1.80% | VE2 | 2030 | 31,740,000 | 5.00% | 2.57%* | WA9 |
| 2023 | 53,430,000 | 5.00% | 1.98%* | VF9 | | | | | |
| 2024 | 40,080,000 | 5.00% | 2.07%* | VG7 | 2031 | 14,835,000 | 5.00% | 2.63%* | VP7 |
| 2025 | 32,880,000 | 5.00% | 2.20%* | VH5 | 2032 | 15,580,000 | 5.00% | 2.69%* | VQ5 |
| 2026 | 49,950,000 | 5.00% | 2.32%* | VJ1 | 2033 | 16,360,000 | 5.00% | 2.75%* | VR3 |
| 2027 | 44,840,000 | 5.00% | 2.38%* | VK8 | 2034 | 17,175,000 | 5.00% | 2.81%* | VS1 |
| | | | | | 2035 | 18,035,000 | 5.00% | 2.86%* | VT9 |
| 2028 | 14,500,000 | 4.00% | 2.70%* | VL6 | 2036 | 18,935,000 | 5.00% | 2.88%* | VU6 |
| 2028 | 32,580,000 | 5.00% | 2.45%* | VY8 | 2037 | 19,885,000 | 5.00% | 2.94%* | VV4 |
| | | | | | 2038 | 20,880,000 | 5.00% | 2.96%* | VW2 |

* Priced to the July 1, 2022 first optional redemption date.

**$112,705,000**
**Taxable Series 2013B**

| Year (July 1) | Amount | Interest Rate | Yield[a] | CUSIP[b] 040654 |
|---|---|---|---|---|
| 2014 | $435,000 | 0.499% | 0.499% | UW3 |
| 2015 | 6,440,000 | 0.600% | 0.600% | UX1 |
| 2016 | 13,480,000 | 0.944% | 0.944% | UY9 |
| 2017 | 8,405,000 | 1.194% | 1.194% | VC6 |
| 2018 | 27,760,000 | 1.631% | 1.631% | UZ6 |
| 2019 | 28,245,000 | 1.831% | 1.831% | VA0 |
| 2020 | 27,940,000 | 2.179% | 2.179% | VB8 |

(a) The reoffering yields are furnished by the Underwriters of the Series 2013 Subordinated Bonds. The Board and the Department do not take any responsibility for the accuracy thereof.

(b) Copyright 2013, American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers are provided for information only. None of the Board, the Department, the Underwriters and the Financial Advisor (as defined herein) take responsibility for the accuracy of such numbers.

## STATE OF ARIZONA

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*Governor*

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*Vice Chair*

Kelly O. Anderson
*Member*

Joseph E. La Rue
*Member*

Barbara Ann Lundstrom*
*Member*

Hank Rogers
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* Serves until a new member is appointed by the Governor and confirmed by the Arizona State Senate.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement including the cover page, inside front cover page and Appendices attached hereto, in connection with the offering described herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Arizona, the Arizona Transportation Board (the "Board"), or the State of Arizona Department of Transportation (the "Department"). This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the Board's Subordinated Highway Revenue Bonds, Tax-Exempt Series 2013A (the "Tax-Exempt Series 2013A Subordinated Bonds") and Subordinated Highway Revenue Bonds, Taxable Series 2013B (the "Taxable Series 2013B Subordinated Bonds") (together, the "Series 2013 Subordinated Bonds") offered hereby or an offer to sell or solicitation of offers to buy, nor shall there be any sale of, the Series 2013 Subordinated Bonds, by any person in any jurisdiction where such offer or solicitation or sale would be unlawful.

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM THE INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS, AND THE UNDERWRITERS MAY OVERALLOT OR ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE SERIES 2013 SUBORDINATED BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET IN ORDER TO FACILITATE THEIR DISTRIBUTION. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2013 Subordinated Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency has passed upon the accuracy of this Official Statement.

The Board has undertaken to provide continuing disclosure with respect to the Series 2013 Subordinated Bonds as required by Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE UNDERTAKING" and "APPENDIX C – 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.

The CUSIP (Committee on Uniform Securities Identification Procedures) numbers set forth on the inside front cover page of this Official Statement have been assigned by an organization not affiliated with the Board, the Department, the Underwriters or U.S. Bank National Association, as paying agent (the "Paying Agent"), and such parties are not responsible for the selection or use of the CUSIP numbers. CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of the CUSIP numbers listed herein. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Board, the Department, the Underwriters or the Paying Agent, has agreed to, nor is there any duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers listed on the inside front cover of this Official Statement. CUSIP is a registered trademark of the American Bankers Association.

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Appendix D – Book-Entry-Only System

# OFFICIAL STATEMENT

**relating to**

**$715,470,000**
**ARIZONA TRANSPORTATION BOARD**
**SUBORDINATED HIGHWAY REVENUE BONDS**

| $602,765,000<br>Tax-Exempt Series 2013A | $112,705,000<br>Taxable Series 2013B |
|---|---|

## INTRODUCTION

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

This Official Statement (including the cover page, inside front cover page and Appendices attached hereto) provides certain information in connection with the original sale and issuance by the Arizona Transportation Board (the "Board") of its Subordinated Highway Revenue Bonds, Tax-Exempt Series 2013A (the "Tax-Exempt Series 2013A Subordinated Bonds") and Subordinated Highway Revenue Bonds, Taxable Series 2013B (the "Taxable Series 2013B Subordinated Bonds") (together, the "Series 2013 Subordinated Bonds").

Capitalized terms not defined herein shall have the meanings set forth in the Bond Resolutions (as defined below).

The Series 2013 Subordinated Bonds are issued pursuant to the State Highway Bonding Authorization Law, Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the "Act"), and under and pursuant to a resolution adopted by the Board on September 27, 1991 (the "1991 Resolution"), as supplemented to date, including by a supplemental resolution adopted on December 14, 2012 (the "2013 Subordinated Resolution") authorizing the Series 2013 Subordinated Bonds (collectively, the "Subordinated Bond Resolution").

Proceeds of the Series 2013 Subordinated Bonds are intended to be used for the purposes of (i) financing portions of the Board's Five-Year Capital Program in an approximate amount of $230,000,000; (ii) refunding certain of the Board's Outstanding Senior Bonds (as defined herein) and Subordinated Bonds (as defined herein) in advance of their respective maturity dates; and (iii) paying costs of issuing the Series 2013 Subordinated Bonds (see "PLAN OF FINANCE" and "PLAN OF REFUNDING").

The Series 2013 Subordinated Bonds are special obligations of the Board. The principal of, premium, if any, and interest (collectively, "Debt Service") on the Series 2013 Subordinated Bonds, and the Outstanding Subordinated Bonds, are payable solely from and secured solely by a subordinate pledge of and lien on the Pledged Revenues, as provided in the Subordinated Bond Resolution and as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 SUBORDINATED BONDS." Additional bonds may be issued on a parity with the Board's Outstanding Subordinated Bonds ("Additional Subordinated Bonds") under the conditions and in the manner provided in the Subordinated Bond Resolution and pursuant to Arizona statutes. The Series 2013 Subordinated Bonds, the Outstanding Subordinated Bonds and any Additional Subordinated Bonds are collectively referred to as the "Subordinated Bonds."

**The Series 2013 Subordinated Bonds 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 funds of the State, the Board, or the State of Arizona Department of Transportation (the "Department") other than the Pledged Revenues, as provided in the Subordinated Bond Resolution.**

The Series 2013 Subordinated Bonds are issued on a parity as to security and source of payment with the Board's Outstanding Subordinated Bonds, being the Subordinated Highway Revenue Bonds, Tax-Exempt Series 2011A (the "Tax-Exempt Series 2011A Bonds"), Subordinated Highway Revenue Bonds, Taxable Series 2011B (the "Taxable Series 2011B Bonds" and, together with the Tax-Exempt Series 2011A Bonds, the "Series 2011 Bonds"), Subordinated Highway Revenue Bonds, Series 2004B (the "Series 2004B Bonds") and Subordinated Highway Revenue Bonds, Series 2003A (the "Series 2003A Bonds"). The aggregate principal amount of Subordinated Bonds that will be outstanding immediately after delivery of the Series 2013 Subordinated Bonds will be $1,283,640,000.

The Series 2013 Subordinated Bonds, together with all other Subordinated Bonds, are issued subordinate to and not on a parity as to security and source of payment with all payments required by the Senior Bond Resolution (described below) for the benefit of the Board's Outstanding Highway Revenue Bonds, Series 2008B, Highway Revenue Bonds, Series 2008A, Highway Revenue Bonds, Series 2006, Highway Revenue Bonds, Series 2005B, Highway Revenue Refunding Bonds, Series 2005A, which together with any Additional Senior Bonds hereafter issued by the Board, are referred to collectively as the "Senior Bonds."

The Senior Bonds were authorized by a resolution adopted by the Board on May 1, 1980, as supplemented to date, which resolution, as supplemented and as it may in the future be further supplemented in connection with the issuance of Additional Senior Bonds or otherwise, is collectively referred to as the "Senior Bond Resolution." The Subordinated Bond Resolution and the Senior Bond Resolution are sometimes hereinafter referred to as the "Bond Resolutions."

**Senior Bonds are payable solely from and secured solely by a lien on and pledge of the Pledged Revenues which is senior in all respects to payments required for the benefit of the Owners of the Subordinated Bonds. The aggregate principal amount of Senior Bonds that will be outstanding immediately after the delivery of the Series 2013 Subordinated Bonds will be $510,185,000.**

The Board may finance highway projects in whole or in part by the issuance of bonds under the Act. The aggregate amount of Senior Bonds and Subordinated Bonds that will be outstanding immediately after the issuance and delivery of the Series 2013 Subordinated Bonds will be $1,793,825,000.

Payments on the Series 2013 Subordinated Bonds are not subject to annual appropriation by the Legislature of the State nor are payments on the Series 2013 Subordinated Bonds subject to any constitutional or statutory limitation on expenditures.

The Arizona Legislature has previously and may in the future amend the Act and other statutes that govern Pledged Revenues. However, any such amendments would be subject to the covenants of the Board in the Bond Resolutions that the State will not limit or alter the rights vested in the Board to collect such fees and taxes as may be necessary to produce sufficient revenues to fulfill the terms of such Bond Resolutions and any agreements made with the Owners of the Senior Bonds and the Subordinated Bonds or in any way impair the rights and remedies of such Owners until all Senior Bonds and Subordinated Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Owners, are fully met and discharged. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 SUBORDINATED BONDS – Pledged Revenues."

This Official Statement describes the terms of and security for the Series 2013 Subordinated Bonds and the use of proceeds of the Series 2013 Subordinated Bonds. Also included are summaries of certain provisions of the Bond Resolutions and of certain State statutes. These descriptions do not purport to be comprehensive or definitive. All references herein to the Bond Resolutions are qualified in their entirety by reference to the definitive forms thereof, all references to the Series 2013 Subordinated Bonds are qualified by the forms thereof contained in the

Bond Resolutions and are further qualified in their entirety by reference to bankruptcy and other laws and principles of equity relating to or affecting the enforceability of creditors' rights. Copies of the Bond Resolutions may be obtained as set forth under "MISCELLANEOUS."

## THE SERIES 2013 SUBORDINATED BONDS

### General Description

The Series 2013 Subordinated Bonds are issuable as fully registered bonds. The Series 2013 Subordinated Bonds will bear interest from their date of initial delivery, and at the rates, will mature on the dates and in the amounts, all as set forth on the inside front cover page hereof. As described in "Appendix D – BOOK-ENTRY-ONLY SYSTEM," the Series 2013 Subordinated Bonds will be registered in the name of Cede & Co., as registered Owner and nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, Cede & Co., is registered Owner of all of the Series 2013 Subordinated Bonds, all payments with respect to the Series 2013 Subordinated Bonds will be made directly to DTC.

So long as Cede & Co. is the registered Owner of the Series 2013 Subordinated Bonds references herein to "Owners" or registered owners of the Series 2013 Subordinated Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the owners of book-entry-only interests in the Series 2013 Subordinated Bonds as described in Appendix D (the "Beneficial Owners"). When notices are given under the Bond Resolutions, they will be sent by the Board or the paying agent or bond registrar, initially U.S. Bank National Association (and its successors the "Paying Agent" or "Bond Registrar") to DTC only, as the Owner. When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes.

The Series 2013 Subordinated Bonds initially will be dated as shown on the cover page, and will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2013 Subordinated Bonds will be payable on each January 1 and July 1, commencing July 1, 2013 (each such date is referred to herein as an "Interest Payment Date"). Interest on the Series 2013 Subordinated Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Series 2013 Subordinated Bonds will be payable by the Paying Agent on each Interest Payment Date to the Owners thereof as shown on the registration books maintained by the Bond Registrar at the address appearing therein, at the close of business of the Bond Registrar on the 15$^{th}$ day next preceding such Interest Payment Date (the "Regular Record Date"). So long as the Series 2013 Subordinated Bonds are registered in the name of Cede & Co., payments of the principal and interest on the Series 2013 Subordinated Bonds will be made directly by the Paying Agent to Cede & Co.

### Redemption Provisions

*Tax-Exempt Series 2013A Subordinated Bonds – Optional Redemption*. The Tax-Exempt Series 2013A Subordinated Bonds maturing on or prior to July 1, 2022 are not subject to optional redemption prior to maturity. The Tax-Exempt Series 2013A Subordinated Bonds maturing on and after July 1, 2023 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, 2022 at a redemption price equal to the principal amount of the Tax-Exempt Series 2013A Subordinated Bonds to be redeemed plus accrued interest to the date fixed for redemption, but without premium.

*Taxable Series 2013B Subordinated Bonds—Make Whole Optional Redemption*. All of the Taxable Series 2013B Subordinated Bonds are subject to optional redemption prior to maturity, at the election of the Board, in whole or in part, on any date at a redemption price equal to the greater of:

(1) 100% of the principal amount of the Taxable Series 2013B Subordinated Bonds to be redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of such Taxable Series 2013B Subordinated Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Taxable Series 2013B Subordinated Bonds are to be redeemed, discounted to the date on which such Taxable Series 2013B Subordinated Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (hereinafter defined) plus 25 basis points;

plus, in either case, accrued interest on such Taxable Series 2013B Subordinated Bonds to be redeemed to the redemption date.

"Treasury Rate" means, as of the redemption date, the yield to maturity as of such redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to maturity; provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The redemption price will be determined by an independent accounting firm, investment banking firm or financial consultant retained by the Board at the Board's expense and such redemption price shall be conclusive and binding on the owners of the Taxable Series 2013B Subordinated Bonds.

*Calculation of Redemption Price*. At the request of the Board or the Trustee, the redemption price of the Taxable Series 2013B Subordinated Bonds to be redeemed at the option of the Board will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Board at the Board's expense to calculate such redemption price. The Board and the Trustee may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

*Purchase in Lieu of Redemption*.

If any Series 2013 Subordinated Bond is called for optional redemption, in whole or in part, the Board may elect to have such Series 2013 Subordinated Bond purchased in lieu of redemption as follows. No notice of the purchase in lieu of redemption shall be required to be given to the Owner other than the required notice of redemption as described below under "–Notice of Redemption."

The Authorized Board Representative may direct the Paying Agent, or another agent appointed by the Authorized Board Representative, to purchase all or such lesser portion of the Series 2013 Subordinated Bonds called for optional redemption. Any such direction must be in writing; if less than all of the Series 2013 Subordinated Bonds called for redemption are to be purchased, identify those Series 2013 Subordinated Bonds to be purchased by maturity date and outstanding principal amount in authorized denominations; and be received by the Paying Agent no later than 12:00 noon one Business Day prior to the scheduled redemption date thereof. If so directed, the Paying Agent shall purchase such Series 2013 Subordinated Bonds on the date which otherwise would be the redemption date of such Series 2013 Subordinated Bonds. Any of the Series 2013 Subordinated Bonds called for redemption that are not purchased in lieu of redemption shall be redeemed as otherwise required on such redemption date. On or prior to the scheduled redemption date, any such direction to the Paying Agent may be withdrawn by the Authorized Board Representative by written notice to the Paying Agent and the scheduled redemption of such Series 2013 Subordinated Bonds shall occur.

If such purchase is directed by the Authorized Board Representative, the purchase shall be made for the account of the Board or its designee. The purchase price of the Series 2013 Subordinated Bonds shall be equal to the outstanding principal of, accrued and unpaid interest on and the redemption premium, if any, which would have been payable on such Series 2013 Subordinated Bonds on the scheduled redemption date for such redemption. The Paying Agent shall not purchase the Series 2013 Subordinated Bonds if by no later than the redemption date, sufficient available moneys have not been deposited with the Paying Agent.

*Notice of Redemption.*

The Bond Registrar shall give notice by mail of the redemption of any Series 2013 Subordinated Bonds, not less than 30 days prior to the redemption date, to the registered Owners of any Series 2013 Subordinated Bonds or portions thereof to be redeemed at their last address appearing on the bond register of the Board. Such notice shall specify the maturities of the Series 2013 Subordinated Bonds to be redeemed; the redemption date; the place or places where amounts due upon such redemption will be payable; and, if less than all of the Series 2013 Subordinated Bonds of a maturity are to be redeemed, the particular Series 2013 Subordinated Bonds or portions thereof to be redeemed. Any defect in the notice to the Owner of any Series 2013 Subordinated Bond which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other Series 2013 Subordinated Bond. Any notice of redemption which is mailed shall be presumed to be given, whether or not such notice is received. Any failure on the part of a nominee of a Beneficial Owner of a Series 2013 Subordinated Bond to notify the Beneficial Owner shall not affect the validity of the redemption of such Series 2013 Subordinated Bond.

So long as the Series 2013 Subordinated Bonds are held under the Book-Entry-Only System (See "Appendix D –BOOK-ENTRY-ONLY SYSTEM"), notice of redemption shall be sent to Cede & Co., as the registered Owner. If, on the redemption date, money for the redemption of the Series 2013 Subordinated Bonds or portions thereof to be redeemed, together with accrued interest thereon to the redemption date, is held by the Paying Agent and is available to pay the redemption price of the Series 2013 Subordinated Bonds or portions thereof to be redeemed on the redemption date, and if notice of redemption has been given as described in the preceding paragraph, then, from and after the redemption date, interest on the Series 2013 Subordinated Bonds or portions thereof so called for redemption shall cease to accrue.

If at the time of mailing of notice of an optional redemption of any Series 2013 Subordinated Bonds there has not been deposited with the Paying Agent or Escrow Agent moneys or Defeasance Securities (as defined below) sufficient to redeem all the Series 2013 Subordinated Bonds called for optional redemption, then such notice shall state that the optional redemption is conditional upon the deposit of moneys or Defeasance Obligations sufficient for the redemption with the Paying Agent or Escrow Agent not later than the opening of business on the redemption date, and such notice will be of no effect and such Series 2013 Subordinated Bonds shall not be optionally redeemed unless such moneys or Defeasance Obligations are so deposited.

So long as the Series 2013 Subordinated Bonds are registered in book-entry-only form in the name of a nominee of DTC, where a portion of a maturity of the Series 2013 Subordinated Bonds will be redeemed, selection of which bonds of a maturity will be redeemed will be determined by DTC in accordance with DTC's procedures.

**Exchange and Transfer**

If the Series 2013 Subordinated Bonds are not in book-entry-only form, the following paragraph will be applicable.

The registration of any Series 2013 Subordinated Bond may be transferred upon the bond register of the Board by the Owner thereof, in person or by his or her duly authorized attorney, upon surrender of such Series 2013 Subordinated Bond at the designated office of the Bond Registrar accompanied by a written instrument of transfer satisfactory to the Bond Registrar and duly executed by the Owner or by his or her duly authorized attorney. Any Series 2013 Subordinated Bond may be exchanged at the designated office of the Bond Registrar for new Series 2013 Subordinated Bonds of any authorized denomination, aggregate principal amount and maturity as the surrendered Series 2013 Subordinated Bond. The Bond Registrar will not charge an administrative fee for any new Series 2013 Subordinated Bond 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 Bond Registrar is not required to exchange or transfer any Series 2013 Subordinated Bond (i) during the period commencing on the Regular Record Date and ending on the subsequent Interest Payment Date, or (ii) called for redemption.

### Defeasance

If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all Outstanding Series 2013 Subordinated Bonds or Series 2013 Subordinated Bonds of a particular maturity or a particular Series 2013 Subordinated Bond within a maturity, the principal, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Subordinated Bond Resolution, such Series 2013 Subordinated Bonds will cease to be entitled to any lien, benefit or security under the Subordinated Bond Resolution, and all covenants, agreements and obligations of the Board to the Owners of such Series 2013 Subordinated Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Subordinated Bond Resolution, any Outstanding Series 2013 Subordinated Bonds will be deemed to have been paid within the meaning and with the effect expressed in the foregoing paragraph if there has been deposited with an escrow agent appointed for such purpose, moneys or Defeasance Securities or both. The maturing principal and interest income on such Defeasance Securities, if any, shall be sufficient without reinvestment, together with any cash (as evidenced by a report of an independent nationally recognized certified public accounting firm or financial consulting firm), to pay the principal of, and interest on such Series 2013 Subordinated Bonds to their maturity or to their prior redemption dates as may be specified by the Board. The moneys and Defeasance Securities shall be held irrevocably in trust for the Owners of such Series 2013 Subordinated Bonds, for the purpose of paying the principal of, and interest on such Series 2013 Subordinated Bonds, as the same shall mature, come due or become payable upon prior redemption. Upon such deposit, the Series 2013 Subordinated Bonds so provided for shall no longer be outstanding under the Subordinated Bond Resolution. *Defeasance Securities* are: (i) direct obligations of, or obligations fully guaranteed by, the United States of America; (ii) direct and general obligations of any state of the United States or any political subdivision thereof to the payment of the principal of and interest on which the full faith and credit of such state or political subdivision are pledged or any bonds or other obligations which as to principal and interest are unconditionally guaranteed as to full and timely payment of principal and interest by such state or political subdivision, provided that at the time of their purchase such obligations are rated in the highest rating category by both Standard & Poor's Financial Services LLC, a division of the McGraw-Hill Companies, Inc. ("S&P") and Moody's Investor Services ("Moody's"); (iii) certain certificates evidencing 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 the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to credit enhancement provided by a financial institution which shall be rated at the time of purchase thereof in the highest rating category by both S&P and Moody's; (iv) certain certificates evidencing ownership of the right to payments of principal or interest on obligations of the character described in clauses (i), (ii) and (iii); and (v) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clauses (i), (ii) and (iii).

## PLAN OF FINANCE

Approximately $230,000,000 of the proceeds received from the sale of the Series 2013 Subordinated Bonds are intended to be used to finance portions of the Board's Five-Year Capital Program discussed under "MANAGEMENT OF STATE HIGHWAY PROGRAM– Arizona Department of Transportation – Funding the Department." Such proceeds may also be used to pay interest on any bonds of the Board issued for highway purposes. Approximately $611,874,000 of the proceeds from the sale will be used to refund certain of the Board's Outstanding Senior Bonds and Subordinated Bonds as discussed under "PLAN OF REFUNDING." The remaining portion of the proceeds received from the sale of the Series 2013 Subordinated Bonds will be used for paying costs of issuing the Series 2013 Subordinated Bonds.

## PLAN OF REFUNDING

Approximately $611,874,000 of the proceeds received from the sale of the Series 2013 Subordinated Bonds will be placed in an irrevocable depository trust with The Bank of New York Mellon Trust Company, N.A. (the "Escrow Trustee"), and will be used to acquire certain United States Treasury obligations (the "Treasury Obligations"), the maturing principal of and interest income on which are calculated to be sufficient to pay, when due, the interest on and the principal of the following described Outstanding Senior Bonds and Subordinated Bonds (the "Bonds Being Refunded") to and on the redemption dates shown below.

**Senior Bonds**

| Dated Date | Bond Issue | Maturity (July 1) | CUSIP [a] (040654) | Principal Amount Outstanding | Principal Amount Refunded | Maturity or Redemption Date | Redemption Price |
|---|---|---|---|---|---|---|---|
| 7/1/2005 | Series 2005A | 2017 | NA9 | $12,060,000 | $12,060,000 | 7/1/2015 | 100.00% |
| | | 2018 | NB7 | 12,665,000 | 12,665,000 | 7/1/2015 | 100.00 |
| | | 2019 | NC5 | 13,295,000 | 13,295,000 | 7/1/2015 | 100.00 |
| | | 2020 | ND3 | 29,880,000 | 29,880,000 | 7/1/2015 | 100.00 |
| | | 2021 | NE1 | 15,870,000 | 15,870,000 | 7/1/2015 | 100.00 |
| | | 2022 | NF8 | 16,665,000 | 16,665,000 | 7/1/2015 | 100.00 |
| 11/1/2005 | Series 2005B | 2017 | NU5 | 7,695,000 | 7,695,000 | 1/1/2016 | 100.00% |
| | | 2018 | NV3 | 8,080,000 | 8,080,000 | 1/1/2016 | 100.00 |
| | | 2019 | NW1 | 8,480,000 | 8,480,000 | 1/1/2016 | 100.00 |
| | | 2020 | NX9 | 8,905,000 | 8,905,000 | 1/1/2016 | 100.00 |
| | | 2021 | NY7 | 9,350,000 | 9,350,000 | 1/1/2016 | 100.00 |
| | | 2022 | NZ4 | 9,820,000 | 9,820,000 | 1/1/2016 | 100.00 |
| | | 2023 | PA7 | 10,310,000 | 10,310,000 | 1/1/2016 | 100.00 |
| | | 2024 | PB5 | 10,825,000 | 10,825,000 | 1/1/2016 | 100.00 |
| | | 2025 | PC3 | 11,395,000 | 11,395,000 | 1/1/2016 | 100.00 |
| 10/1/2006 | Series 2006 | 2018 | PQ2 | 19,250,000 | 19,250,000 | 7/1/2016 | 100.00% |
| | | 2019 | PR0 | 20,250,000 | 20,250,000 | 7/1/2016 | 100.00 |
| | | 2020 | PS8 | 24,560,000 | 24,560,000 | 7/1/2016 | 100.00 |
| | | 2021 | PT6 | 25,790,000 | 25,790,000 | 7/1/2016 | 100.00 |
| | | 2022 | PU3 | 27,080,000 | 27,080,000 | 7/1/2016 | 100.00 |
| | | 2023 | PV1 | 28,430,000 | 28,430,000 | 7/1/2016 | 100.00 |
| | | 2024 | PW9 | 29,855,000 | 29,855,000 | 7/1/2016 | 100.00 |
| | | 2025 | PX7 | 31,345,000 | 31,345,000 | 7/1/2016 | 100.00 |
| | | 2026 | PY5 | 32,915,000 | 32,915,000 | 7/1/2016 | 100.00 |

[a] See footnote (b) on inside front cover.

**Subordinated Bonds**

| Dated Date | Bond Issue | Maturity (July 1) | CUSIP [a] (040654) | Principal Amount Outstanding | Principal Amount Refunded | Maturity or Redemption Date | Redemption Price |
|---|---|---|---|---|---|---|---|
| 10/1/2003 | Series 2003A | 2014 | LH6 | $ 9,840,000 | $ 9,840,000 | 7/1/2014 | N/A |
| | | 2015 | LJ2 | 10,355,000 | 10,355,000 | 7/1/2014 | 100.00% |
| | | 2016 | LV5 | 2,280,000 | 2,280,000 | 7/1/2014 | 100.00 |
| | | 2016 | LK9 | 8,590,000 | 8,590,000 | 7/1/2014 | 100.00 |
| | | 2021 | LW3 | 2,025,000 | 2,025,000 | 7/1/2014 | 100.00 |
| | | 2023 | LS2 | 15,260,000 | 15,260,000 | 7/1/2014 | 100.00 |
| 8/15/2004 | Series 2004B | 2014 | MH5 | 11,715,000 | 6,000,000 | 7/1/2014 | N/A |
| | | 2015 | MJ1 | 12,305,000 | 12,305,000 | 7/1/2014 | 100.00% |
| | | 2016 | MK8 | 12,920,000 | 12,920,000 | 7/1/2014 | 100.00 |
| | | 2023 | MS1 | 18,180,000 | 18,180,000 | 7/1/2014 | 100.00 |
| | | 2024 | MT9 | 19,085,000 | 19,085,000 | 7/1/2014 | 100.00 |

[a] See footnote (b) on inside front cover.

The moneys deposited in the depository trust will be held by the Escrow Trustee irrevocably in trust for the payment of the principal of and interest on the Bonds Being Refunded pursuant to the terms of an escrow agreement (the "Escrow Agreement") between the Board and the Escrow Trustee. Upon the deposit of such moneys, the Bonds Being Refunded will no longer be Outstanding under the applicable Bond Resolutions, and will be considered paid in accordance with their terms.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

Concurrently with the delivery of and payment for the Series 2013 Subordinated Bonds, Grant Thornton LLP, a firm of independent, certified public accountants, will deliver to the Board its verification report indicating that it has verified, in accordance with standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of certain computations relating to (a) the sufficiency of the anticipated receipts from the Treasury Obligations, together with the initial cash deposit, to pay, when redeemed, the principal of and interest on the Bonds Being Refunded and (b) the "yield" on the Treasury Obligations and the Series 2013 Subordinated Bonds. Such computations will be prepared using certain information provided by the Financial Advisor on behalf of the Board.

The report of Grant Thornton LLP will state that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in schedules provided to it by the Financial Advisor and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 SUBORDINATED BONDS

### Legal Authority

The Series 2013 Subordinated Bonds are special obligations of the Board issued pursuant to the Act and the Subordinated Bond Resolution. Under the terms and provisions of the Act, the Board is authorized to issue bonds for the payment of: highway obligations; the costs of construction, reconstruction, maintenance and repair of public highways and bridges; county, city and town roads and streets; acquisition of real properties for future highway needs; other related highway purposes; and for the refunding of any bonds previously issued.

The Series 2013 Subordinated Bonds, the Outstanding Subordinated Bonds and any Additional Subordinated Bonds that may subsequently be issued by the Board on a parity therewith pursuant to the Subordinated Bond Resolution, are subordinate to and not on a parity as to security and source of payment with all payments required for the benefit of the Board's Senior Bonds currently Outstanding and those that may be subsequently issued by the Board. Immediately after the delivery of the Series 2013 Subordinated Bonds, there will be $510,185,000 of Senior Bonds Outstanding and $1,283,640,000 of Subordinated Bonds Outstanding. The issuance of the Series 2013 Subordinated Bonds is permitted under the Senior Bond Resolution.

**General**

Payments of principal of and interest on the Series 2013 Subordinated Bonds and all other Subordinated Bonds are payable solely from and secured solely by a subordinate lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund (including the Subordinated Bond Fund therein, as provided in the Bond Resolutions). The lien on and pledge of Pledged Revenues for Subordinated Bonds is in all respects subordinate to the lien on and pledge of Pledged Revenues for all payments required for the benefit of the Senior Bonds. The Subordinated Bonds will be payable from the Subordinated Bond Fund only after payment of all debt service due on the Senior Bonds is paid. Pledged Revenues are the moneys deposited with the State Treasurer into the State Highway Fund that are derived from a portion of specified sources. Generally, such sources are motor vehicle fuel taxes, motor vehicle registration fees, motor carrier fees, motor vehicle license (in lieu) taxes, and motor vehicle operators' license fees and certain miscellaneous fees and revenues collected by the State. For a discussion of the sources of the Pledged Revenues, see "Pledged Revenues" and "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein.

As provided in the Act, all Pledged Revenues deposited into the State Highway Fund shall be immediately subject to the lien of the first pledge granted in the Senior Bond Resolution for the Senior Bonds, and the lien of the subordinate pledge granted in the Subordinated Bond Resolution for the Subordinated Bonds, without any future physical delivery or further act.

In addition to Pledged Revenues, the Senior Bonds, the Series 2013 Subordinated Bonds and all other Subordinated Bonds are also payable from, but are not secured by a pledge of, all moneys to be deposited into the Arizona Highway User Revenue Fund. Arizona statutes currently require that if there are defaults in amounts required by the Senior Bond Resolution and the Subordinated Bond Resolution to be deposited into the Bond Funds (as defined below), then the Department shall deduct from the revenues that otherwise would be deposited into the Arizona Highway User Revenue Fund, prior to their deposit, an amount sufficient to cure such default. For a discussion of the revenues that are deposited to the Arizona Highway User Revenue Fund, see "SOURCES AND APPLICATION OF PLEDGED REVENUES - Arizona Highway User Revenue Fund" herein.

The Senior Bonds and the Subordinated Bonds are not subject to acceleration under any circumstances.

The Board may issue Additional Senior Bonds on a parity with the Outstanding Senior Bonds as described under "Additional Bonds - *Additional Senior Bonds*" herein. The Board may also issue Additional Subordinated Bonds on a parity with the Series 2013 Subordinated Bonds and the Outstanding Subordinated Bonds as described under "Additional Bonds - *Additional Subordinated Bonds*" herein.

**Special Obligations**

**The Series 2013 Subordinated Bonds are special obligations of the Board and are payable solely from the sources specified in the Act and the Subordinated Bond Resolution. The Series 2013 Subordinated Bonds 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 funds of the State, the Board, or the Department other than the Pledged Revenues, as provided in the Subordinated Bond Resolution.**

## Pledged Revenues

The Series 2013 Subordinated Bonds, together with the Outstanding Subordinated Bonds and any Additional Subordinated Bonds that may be subsequently issued, are payable solely from and secured solely by a lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund, subordinate in all respects to payments required for the benefit of the Senior Bonds. The State Highway Fund is the operating fund of the Department from which the Department pays debt service on highway revenue bonds or other evidences of indebtedness, operational expenses of the Department and expenditures for highway construction and improvement and acquisition of rights of way. The State Highway Fund contains money derived from many sources. **Only the money in the State Highway Fund derived from certain sources as specified in the Bond Resolutions and the Act constitutes Pledged Revenues (described below and relating generally to motor vehicles).**

Certain specified revenues are deposited into the Arizona Highway User Revenue Fund. See “SOURCES AND APPLICATION OF PLEDGED REVENUES-Arizona Highway User Revenue Fund.” Each month, pursuant to Arizona statutes, 50.5% of moneys in the Arizona Highway User Revenue Fund (after making certain significant distributions pursuant to Arizona Statutes) are transferred to the State Highway Fund. In addition to the distribution from the Arizona Highway User Revenue Fund, certain other moneys are distributed to and deposited in the State Highway Fund. Only moneys from specified sources that are paid into and are on deposit in the State Highway Fund constitute “Pledged Revenues.” See “SOURCES AND APPLICATION OF PLEDGED REVENUES-Arizona Highway User Revenues” herein for a more detailed discussion of such revenues.

The State Legislature has previously altered and may in the future alter: (1) the type and/or rate of the taxes, fees and charges relating to motor vehicles which are deposited into the Arizona Highway User Revenue Fund; (2) the allocation of such moneys between (a) deposits into the State Highway Fund, certain of which upon such deposit become Pledged Revenues and (b) distributions to cities, towns and counties (or to other state funds); or (3) the type and/or rate of the taxes, fees and charges which are deposited directly into the State Highway Fund. For a discussion of certain recent changes made by the State Legislature, see “SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation” below.

The authority of the State Legislature to make changes in use of moneys deposited into the Arizona Highway User Revenue Fund is subject to the requirement of the State Constitution that revenues derived from fees or taxes related to the registration, operation or use of motor vehicles, excluding the State’s motor vehicle license (in lieu) tax, may only be used for highway-related purposes including, but not limited to, paying debt service on bonds issued under the Act. The Legislature’s right to make such changes is further restricted by the Bond Resolutions in which the Board, as agent for the State and pursuant to the Act, has pledged and agreed with the Owners of the Outstanding Senior Bonds and Subordinated Bonds that the State will not limit or alter the rights vested in the Board to collect such fees and taxes as may be necessary to produce sufficient revenues to fulfill the terms of the Bond Resolutions or any agreement made with the Owners of such Senior Bonds and Subordinated Bonds or in any way impair the rights and remedies of the Owners until all Senior Bonds and Subordinated Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Owners are fully met and discharged.

There is no requirement in the Bond Resolutions that amounts be deposited into the State Highway Fund in excess of the amounts necessary to make transfers to the Bond Funds, as described under “SOURCES AND APPLICATION OF PLEDGED REVENUES—Funds and Accounts and Application of Pledged Revenues.”

## Additional Bonds

The Board currently estimates that it may issue additional bonds under the Bond Resolutions in the aggregate principal amount of approximately $505 million over the remainder of the current Five-Year Capital Program (ending fiscal year 2017) to fund additional highway projects. Such additional bonds may be issued as either Additional Senior Bonds, Additional Subordinated Bonds, Second Subordinated Bonds (all as described below), or any combination thereof. The actual amount of additional bonds to be issued and whether they will be

Senior or Subordinated Bonds will depend upon, among other considerations, the ability of the Board to comply with the requirements for issuance of additional bonds found in the Bond Resolutions and the Arizona statutes, market conditions, cash flow requirements of the Board for construction, and other sources of funding available to meet such requirements.

***Additional Senior Bonds***. Pursuant to the Senior Bond Resolution, the Board has previously issued and there are Outstanding Senior Bonds in the aggregate principal amount of $510,185,000 after giving effect to the refunding of the Bonds Being Refunded. The Bond Resolutions provide that any Outstanding Senior Bonds enjoy a pledge of and a claim upon Pledged Revenues prior to the claim in favor of any Subordinated Bonds.

Under the Senior Bond Resolution, Additional Senior Bonds may be issued on a parity with the Outstanding Senior Bonds only when the Board certifies that:

(a) all the payments of the principal of and interest on the then Outstanding Senior Bonds are current; and

(b) the Pledged Revenues deposited with the State Treasurer into the State Highway Fund for the preceding 12-month period were not less than 400% of the highest annual principal and interest payments on all Outstanding Senior Bonds for the highest aggregate one-year period during the life of the Outstanding Senior Bonds, including the principal and interest payments on the Additional Senior Bonds proposed to be issued, but excluding the principal and interest on any Senior Bonds to be refunded that will not be outstanding immediately after the issuance of such proposed Additional Senior Bonds; and

(c) subject to (e) below, the Additional Senior Bonds to be issued shall be payable as to principal and interest on such date or dates as the Board shall designate; and

(d) the proceeds from the sale of the Additional Senior Bonds are to be used for any lawful highway purpose, including refunding any bonds; and

(e) all other requirements of law existing on the date such Additional Senior Bonds are issued have been met.

Under the Subordinated Bond Resolution, the Board has agreed for the benefit of the Owners of Subordinated Bonds that the Board will not issue Additional Senior Bonds unless the Pledged Revenues deposited with the State Treasurer into the State Highway Fund in any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted in the Subordinated Bond Resolution) were not less than 300% of the maximum aggregate Adjusted Debt Service Requirements (as defined in the Subordinated Bond Resolution) on all Outstanding Senior Bonds and Outstanding Subordinated Bonds, including the Additional Senior Bonds to be issued but excluding any Senior Bonds or Subordinated Bonds to be refunded that will not be outstanding immediately after the issuance of such Additional Senior Bonds, in the then current or any future Bond Year (as defined in the Subordinated Bond Resolution), during the life of the Outstanding Senior Bonds, including the proposed Additional Senior Bonds to be issued.

Under the Subordinated Bond Resolution, the Board has agreed for the benefit of the Owners of Subordinated Bonds that the Board will not issue Additional Senior Bonds for refunding purposes unless either the requirements described in the immediately preceding paragraph are met or unless the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Senior Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Senior Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements for any Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Senior Bonds.

In addition to the requirements of the Senior Bond Resolution and the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds,"* must be met in order for the Board to issue Additional Senior Bonds.

***Additional Subordinated Bonds***. Pursuant to the Subordinated Bond Resolution, the Board has previously issued and there will be Outstanding Subordinated Bonds in the aggregate principal amount of $1,283,640,000 after giving effect to the issuance of the Series 2013 Subordinated Bonds. Under the Subordinated Bond Resolution, Additional Subordinated Bonds may be issued on a parity with the Outstanding Subordinated Bonds only when the requirements of the Subordinated Bond Resolution have been met, including the requirement that the amount of Pledged Revenues deposited with the State Treasurer into the State Highway Fund during any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted under the Subordinated Bond Resolution) was not less than 300% of the maximum aggregate Adjusted Debt Service Requirements in the then current or any future Bond Year on the Outstanding Senior Bonds and the Outstanding Subordinated Bonds, including the proposed series of Additional Subordinated Bonds but excluding any Senior Bonds or Subordinated Bonds to be refunded that will not be outstanding immediately after the issuance of the Additional Subordinated Bonds.

Additional Subordinated Bonds may be issued at any time to refund in whole or in part any Outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds, provided that the Board certifies that the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Subordinated Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Subordinated Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements for any Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Subordinated Bonds. If the Board cannot satisfy the requirement of the preceding sentence, the Board may nevertheless issue Subordinated Bonds for the purpose of refunding in whole or in part any Outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds upon compliance with the test described in the preceding paragraph.

In addition to the requirements of the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds,"* must be met in order for the Board to issue Additional Subordinated Bonds.

***Second Subordinated Bonds***. The Board may, at any time, or from time to time, in accordance with the Bond Resolutions, issue or incur Second Subordinated Bonds for any of its lawful purposes, which shall be payable out of, and which may be secured by a pledge of and lien on, amounts of Pledged Revenues remaining after all deposits to the funds established for the Senior Bonds and Subordinated Bonds required by the Bond Resolutions have been made; provided, however, that such pledge of and lien on Pledged Revenues shall be, and shall be expressed to be, subordinate and junior in all respects to the lien and pledge created by the Senior Bond Resolution as security for the Senior Bonds and shall also be subordinate and junior in all respects to the lien and pledge created by the Subordinated Bond Resolution as security for the Subordinated Bonds (such bonds being referred to herein as "Second Subordinated Bonds"). There are currently no Second Subordinated Bonds outstanding nor any current plans to issue Second Subordinated Bonds.

In addition to the requirements of the Bond Resolutions, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds,"* must be met in order for the Board to issue Second Subordinated Bonds.

***Statutory Limitation on Issuance of Additional Bonds***. The aggregate principal amount of Senior Bonds and Subordinated Bonds that will be outstanding immediately after the delivery of the Series 2013 Subordinated Bonds will be $1,793,825,000. The Act presently provides that the Board may issue additional bonds, which may be Senior Bonds, Subordinated Bonds or Second Subordinated Bonds, if the moneys pledged to the payment of such bonds for the preceding 12 month period exceed by three times the highest annual principal and interest payments on all the outstanding bonds and the bonds to be issued for the highest one-year period during the life of both the outstanding bonds and the bonds to be issued. The Act also limits the maximum term of each series of such bonds to 30 years. In addition, for any additional bonds to be issued, the requirements of the applicable Bond Resolutions, described above, must also be met.

**Amendments to 2013 Subordinated Resolution**

The Board may amend the 2013 Subordinated Resolution pursuant to which the Series 2013 Subordinated Bonds are issued or other existing Subordinated Bond Resolutions without notice to or consent of the Owners for any of the following purposes: (1) to cure any ambiguity, inconsistency, formal defect or omission in the 2013 Subordinated Resolution or other existing Subordinated Bond Resolutions; (2) to grant to or confer upon the Owners of the Series 2013 Subordinated Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon them; or (3) to amend or supplement the 2013 Subordinated Resolution or other existing Subordinated Bond Resolutions in any other respect, provided such amendment or supplement is not materially adverse to the interests of the Owners of the Series 2013 Subordinated Bonds.

Exclusive of the amendments described above, the 2013 Subordinated Resolution or other existing Subordinated Bond Resolutions, and the rights and obligations of the Board and of the Owners of the Series 2013 Subordinated Bonds thereunder, may be amended by the Board only with consent of Owners of at least a majority in aggregate principal amount of the Outstanding Series 2013 Subordinated Bonds; provided, however, that no such modification or amendment shall, without the express written consent of the Owner of each Series 2013 Subordinated Bond affected, reduce the principal amount of or the interest rate payable thereon, advance the earliest redemption date, extend its maturity or the times for paying interest, nor shall any such modification or amendment reduce the percentage of consent required for amendment or modification.

Any act done pursuant to an amendment consented to as provided in the 2013 Subordinated Resolution shall be binding upon the Owners of all of the Series 2013 Subordinated Bonds.

To obtain any such consent, the Board shall cause the Bond Registrar to mail a notice, first-class postage prepaid, to the registered Owners (Cede & Co., so long as the book-entry-only system is in effect) of the Series 2013 Subordinated Bonds at their addresses appearing on the registration books, briefly describing the proposed amendment.

## SOURCES AND APPLICATION OF PLEDGED REVENUES

The Series 2013 Subordinated Bonds and all other Subordinated Bonds are payable solely from and secured solely by a lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund, subordinate in all respects to the lien on and pledge of Pledged Revenues for Senior Bonds. Moneys in the State Highway Fund that constitute Pledged Revenues consist primarily of certain moneys distributed from the Arizona Highway User Revenue Fund. The distribution of moneys to the State Highway Fund that constitute Pledged Revenues is more fully discussed below.

**Arizona Highway User Revenue Fund**

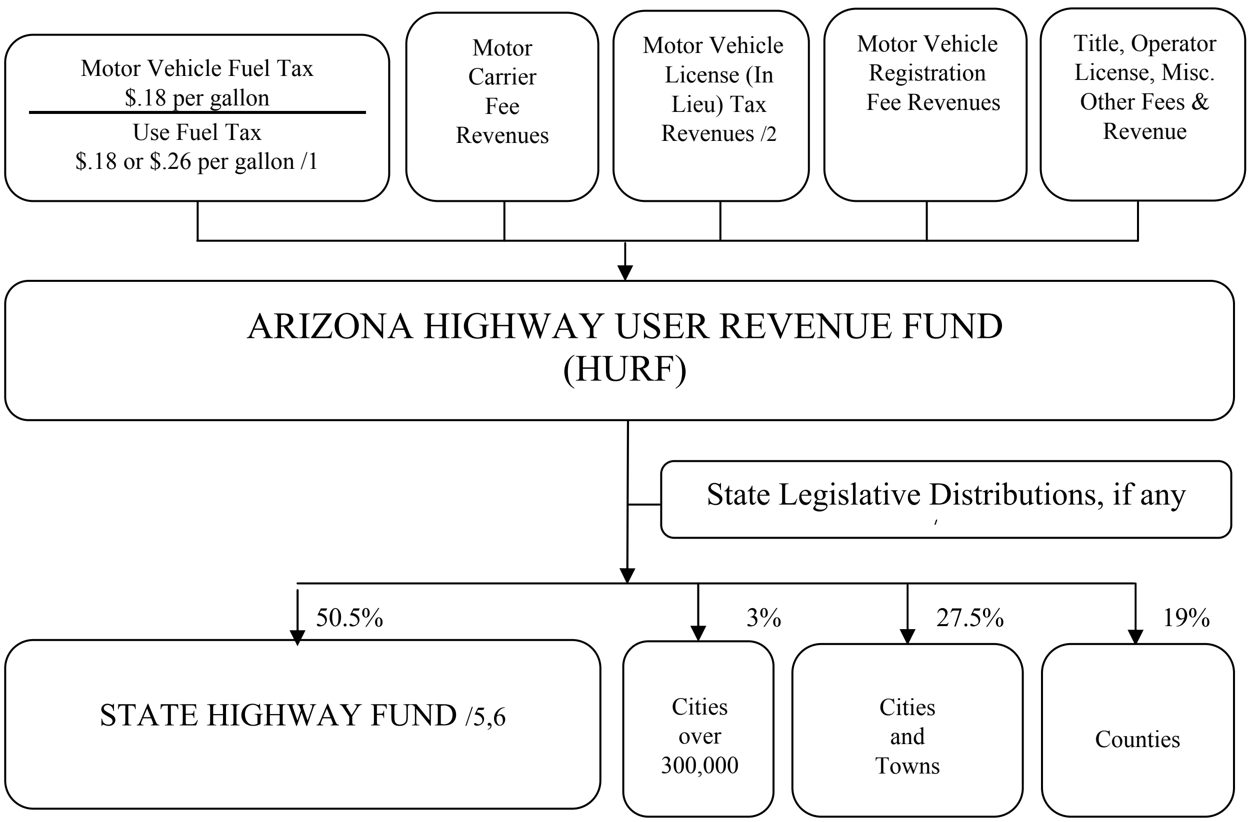
The State imposes motor vehicle fuel taxes and a variety of different types of taxes, fees and charges relating to the registration, operation and use of motor vehicles on the public highways of the State that are allocated by statute to the State Highway Fund and to the cities, towns and counties of the State, to finance highway improvements and other transportation-related expenses. These taxes, fees and charges are collected by various State officers and transferred to the Department for deposit to the Arizona Highway User Revenue Fund. Each month, in accordance with statute and after certain specified distributions enacted by the State Legislature which may be significant, the State Treasurer distributes revenues transferred to the Arizona Highway User Revenue Fund primarily to the State Highway Fund and to the appropriate cities, towns and counties. Only after moneys from certain specified sources are deposited to the State Highway Fund do they become Pledged Revenues.

See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 SUBORDINATED BONDS - Pledged Revenues" and "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein.

The taxes, fees and charges deposited to the Arizona Highway User Revenue Fund consist of all or a portion of (i) motor vehicle fuel taxes and use fuel taxes, (ii) motor vehicle registration fees, (iii) motor carrier fees, (iv) motor vehicle license (in lieu) taxes, and (v) motor vehicle operators' license fees and miscellaneous fees and revenues. These revenue sources are further described below.

The chart below illustrates the flow of the revenues into the Arizona Highway User Revenue Fund and the distribution of such revenues.

**Arizona Highway User Revenue Fund Flow**




Notes:

/1 The use fuel tax rate of $.18 per gallon applies to vehicles under 26,001 pounds and other qualifying vehicles. The use fuel tax rate for all other vehicles is $.26 per gallon.

/2 The Arizona Highway User Revenue Fund currently receives 44.99% of the Motor Vehicle License (In Lieu) Tax Revenues collected by the State. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Arizona Highway User Revenues" herein.

/3 For fiscal year 2013, the Arizona Legislature has authorized a distribution from the Arizona Highway User Revenue Fund (HURF) of $120.0 million for the Arizona Department of Public Safety for highway patrol expenditures. In prior fiscal years, the Arizona Legislature has authorized other distributions of moneys from HURF. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation." No assurances can be made that the Arizona Legislature will or will not authorize other distributions from the HURF in the future, and, if so, how much any such distributions might be.

/4 For fiscal year 2013, the Arizona Legislature has authorized the transfer from the HURF of $1.0 million to the Economic Strength Project Fund to be expended for highway projects that provide economic benefits to the State or a local jurisdiction and $0.6 million to the Motor Vehicle Division for its registration compliance program. No assurances can be made that the Arizona Legislature will or will not authorize other distributions from the HURF in the future, and, if so, how much any such distributions might be.

/5 In 2010, the Arizona Legislature authorized the transfer of certain fees collected on abandoned vehicles from the State Highway Fund share of HURF Motor Vehicle License (In Lieu) Tax Revenue to the State General Fund. This transfer was codified in statute and became permanent, beginning in fiscal year 2011 and beyond. The fiscal year 2013 transfer to the State General Fund is estimated to be $1.7 million.

/6 In 2010, the Arizona Legislature authorized a five-year vehicle registration option for certain vehicles and areas. For fiscal year 2011, the Legislature authorized a transfer of a portion of the revenues that resulted from this five-year option to the State General Fund. These transferred funds represent the revenues associated with years three through five of the five-year vehicle registration option. This transfer was codified in statute and became a permanent transfer, beginning in fiscal year 2012 and beyond. The fiscal year 2013 transfer to the State General Fund is estimated to be $1.2 million.

**Arizona Highway User Revenues**

The following is a summary of the sources of revenue that are deposited to the Arizona Highway User Revenue Fund under existing statutes. Recent legislative changes are also discussed below. This summary does not purport to be a complete description of each of these revenue sources and legislative changes and, accordingly, is qualified by reference to the Arizona Revised Statutes regarding these sources of revenue. The Arizona Legislature has in the past altered and may in the future alter the statutes governing these revenue sources and their allocation. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 SUBORDINATED BONDS - Pledged Revenues" and "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein.

*Motor Vehicle Fuel Tax Revenues.* Motor vehicle fuel tax revenues consist of motor vehicle fuel (gasoline) taxes and motor vehicle use fuel (primarily diesel) taxes. These are excise taxes imposed upon fuel used in the propulsion of a motor vehicle on the public highways of the State. The motor vehicle fuel (gasoline) tax is currently assessed at the rate of $.18 per gallon, and the use fuel (primarily diesel) tax is assessed at $.18 per gallon for vehicles under 26,001 pounds and other qualifying vehicles and $.26 per gallon for all other vehicles. The motor vehicle fuel tax is collected by the Department from licensed suppliers for each gallon of gasoline possessed, used or consumed in the State and the use fuel tax is collected by the Department from the supplier or paid by the user for the use of the highways in the State and remitted to the Department.

The following is a summary of the gallons of motor vehicle fuels imported into and consumed in the State, subject to the motor vehicle fuel tax (primarily gasoline fuel imported into the State) or motor vehicle use fuel tax (primarily diesel fuel consumed in the State), for each of the last ten fiscal years ended June 30, 2012.

**Motor Vehicle Fuels Imported or Consumed**
**Based on Revenue Gallonage**
**(000's Gallons)**

| Fiscal Year | Gasoline Fuel Imported (Net) | Diesel Fuel Consumed | Total | Percentage Change from Previous Year |
|---|---|---|---|---|
| 2012 | 2,526,497 | 765,708 | 3,292,205 | -0.2% |
| 2011 | 2,534,992 | 762,615 | 3,297,607 | 0.9% |
| 2010 | 2,530,200 | 736,806 | 3,267,006 | -0.6% |
| 2009 | 2,537,843 | 747,345 | 3,285,188 | -9.2% |
| 2008 | 2,736,313 | 882,391 | 3,618,704 | -1.0% |
| 2007 | 2,765,012 | 888,831 | 3,653,842 | 1.3% |
| 2006 | 2,717,115 | 890,000 | 3,607,115 | 3.4% |
| 2005 | 2,673,800 | 814,615 | 3,488,415 | 4.9% |
| 2004 | 2,575,172 | 750,962 | 3,326,133 | 4.3% |
| 2003 | 2,482,727 | 707,808 | 3,190,536 | 2.8% |

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning.

*Motor Vehicle Registration Fee Revenues.* Motor vehicles are required to be registered in the State on a staggered monthly registration basis. The fee for passenger vehicles and non-commercial pickup trucks is $8 and for motorcycles the fee is $9, of which $1 is paid to the motorcycle education fund. The fee for commercial motor vehicles, including trucks, buses and taxis, is $12, plus a graduated registration fee based upon the declared gross weight of the motor vehicle. Commercial motor vehicles that operate in several states may instead pay fees which are prorated based on the ratio of operating mileage in the State to the total fleet operating mileage in all states. All motor vehicle registration fees are deposited in the Arizona Highway User Revenue Fund.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten fiscal years ended June 30, 2012.

**Motor Vehicle Registrations**

| Fiscal Year | Passenger Vehicles | Trucks[/1] | Buses and Taxis | Trailers | Motorcycles | Other[/2] | Total | Percentage Change from Previous Year |
|---|---|---|---|---|---|---|---|---|
| 2012 | 4,771,799 | 473,041 | 4,128 | 755,549 | 267,634 | 703,257 | 6,975,408 | 1.98% |
| 2011 | 4,702,676 | 464,083 | 4,094 | 730,171 | 259,268 | 679,362 | 6,839,654 | 1.47% |
| 2010 | 4,662,449 | 465,633 | 3,932 | 704,287 | 251,761 | 652,468 | 6,740,530 | 0.71% |
| 2009 | 4,647,224 | 481,634 | 3,689 | 679,979 | 244,604 | 635,698 | 6,692,828 | -0.61% |
| 2008 | 4,668,525 | 503,420 | 3,958 | 654,516 | 226,544 | 676,641 | 6,733,604 | 1.89% |
| 2007 | 4,606,770 | 511,457 | 3,917 | 617,240 | 205,801 | 663,541 | 6,608,726 | 4.59% |
| 2006 | 4,434,327 | 493,440 | 3,911 | 576,321 | 182,312 | 628,091 | 6,318,402 | 6.28% |
| 2005 | 4,204,115 | 462,244 | 3,494 | 524,198 | 156,326 | 594,754 | 5,945,131 | 5.43% |
| 2004 | 4,008,189 | 443,920 | 3,506 | 482,845 | 141,379 | 558,960 | 5,638,799 | 6.16% |
| 2003 | 3,833,971 | 435,426 | 3,344 | 443,800 | 127,627 | 467,422 | 5,311,590 | 3.78% |

[/1] Includes commercial and non-commercial.
[/2] Other includes vehicles not assigned to a specific category.

Source: Arizona Department of Transportation, Office of Financial Planning.

*Motor Vehicle License (In Lieu) Tax Revenues*. The motor vehicle license (in lieu) taxes are based upon the value of the vehicle (according to a statutory formula) and are collected with the vehicle registration fees. Pursuant to current Arizona statutes, these license taxes are distributed as follows: (i) 44.99% to the Arizona Highway User Revenue Fund, (ii) 24.59% to the general fund of the county where the motor vehicle is registered, (iii) 24.59% to the cities and towns of the county where the motor vehicle is registered, and (iv) 5.83% to the counties for the same use as Arizona Highway User Revenue Fund purposes. The above distribution percentages are blended since the tax rates vary between new and renewal vehicles.

*Motor Carrier Fee Revenues.* The motor carrier fee is imposed on commercial motor vehicles, whether common, contract or private carriers, with a gross weight in excess of 12,000 pounds. The motor carrier fee increases as the declared gross vehicle weight of the vehicle increases. All motor carrier fee revenues are deposited to the Arizona Highway User Revenue Fund.

*Motor Vehicle Operators' License Fees and Miscellaneous Fees and Revenues.* The balance of the Arizona Highway User Revenue Fund revenues include motor vehicle operators' license fees and miscellaneous fees and revenues. The miscellaneous fees and revenues include certificates of title fees, oversize permit fees, inquiry fees, investment income on moneys held in the Arizona Highway User Revenue Fund, certain fines, penalties and other miscellaneous fees.

**Recent Legislation**

From time to time legislation is enacted that alters or modifies the deposits of monies into, and the distribution of monies from, the Arizona Highway User Revenue Fund and/or the State Highway Fund, or otherwise affects the Department's capital and financing programs. The information provided below reflects the more significant legislative enactments that have occurred since the Legislature's 2005 regular session.

During the 2006 regular session, legislation was enacted (HB 2206) that eliminated the statutory limit on the amount of highway revenue bonds that may be outstanding at any one time. Previously, the limit was $1.3 billion. HB 2206 also increased the debt service coverage requirement for the issuance of additional highway revenue bonds from two times to three times. Legislation was also enacted (HB 2863) that distributed $10.0 million from the Arizona Highway User Revenue Fund to the Department of Public Safety ("DPS") in fiscal year 2007, as specified in current statute, and which reduced the distributions to the State Highway Fund for fiscal year 2007 by $5.1 million.

During the 2007 regular session, legislation was enacted (HB 2793) that extended the maximum term of highway revenue bonds, such as the Series 2013 Subordinated Bonds, from 20 to 30 years. Legislation was also enacted (HB 2781) that distributed $10.0 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2008, as specified in current statute, and which reduced the distributions to the State Highway Fund for fiscal year 2008 by $5.1 million. Other legislation was enacted (HB 2783) that distributed $6.7 million from the Arizona Highway User Revenue Fund to the State Highway fund in fiscal year 2008 to construct two Motor Vehicle Division ("MVD") service centers and a Department multi-use facility.

During the 2008 regular session, legislation was enacted (HB 2209) that distributed $84.9 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2009 and that reduced the distribution to the State Highway Fund in fiscal year 2009 by $42.9 million. HB 2209 also required a transfer in fiscal year 2009 of $8.4 million to the State General Fund of the motor vehicle license (in lieu) tax revenues that otherwise would have been deposited in the State Highway Fund. Legislation was also enacted (SB 1468) that extended the termination date of the Department and the Board for an additional eight years to July 1, 2016 and extended the statutory provisions relating to the Department and the Board to January 1, 2017. See "MANAGEMENT OF STATE HIGHWAY PROGRAM – Sunset Laws" herein.

During the 2009 1st special session, legislation (SB 1001 and SB 1002) was enacted that required a transfer in fiscal year 2009 of $58.6 million to the State General Fund of the motor vehicle license (in lieu) tax revenues that otherwise would have been deposited in the State Highway Fund. During the 2009 regular session, legislation was enacted (SB 1188) that distributed $78.2 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2010 and that reduced the distribution to the State Highway Fund in fiscal year 2010 by $39.5 million. In addition, HB 2006 was enacted during the 3rd special session that required a transfer in fiscal year 2010 of $43.2 million to the State General Fund of the motor vehicle license (in lieu) tax revenues that otherwise would have been deposited in the State Highway Fund. Other legislation was enacted (SB 1001, 5th special session) that required a transfer in fiscal year 2010 of $0.7 million to the State General Fund of the motor vehicle license (in lieu) tax revenues that otherwise would have been deposited in the State Highway Fund.

During the 7th special session in 2010, legislation was enacted (HB 2001) that distributed $78.6 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2011 and that reduced the distribution to the State Highway Fund in fiscal year 2011 by $39.7 million. HB 2001 also required a transfer in fiscal year 2010 of $43.6 million to the State General Fund of the motor vehicle license (in lieu) tax revenues that otherwise would have been deposited in the State Highway Fund. Other legislation was enacted (HB 2012) that required the difference between the State Highway Fund share of the Arizona Highway User Revenue Fund motor vehicle license (in lieu) tax revenues generated from the new five-year registration program, and what would have been generated under a two-year registration program, be transferred from the State Highway Fund to the State General Fund in fiscal year 2011. HB 2012 also required that 90 percent of the fees collected under Arizona Revised Statutes, Title 28, Section 4802.A and 60 percent of the fees collected under Arizona Revised Statutes, Title 28, Section 4802.B, both related to motor vehicle license (in lieu) tax revenues, be transferred from the State Highway Fund to the State General Fund, which resulted in an additional $1.0 million transfer.

During the 2011 regular session, legislation was enacted (SB 1612) that distributed $123.2 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2012. This was an increased distribution of approximately $40.0 million over fiscal year 2011 and resulted in a reduced distribution to the State Highway Fund in fiscal year 2012 of approximately $20.2 million. This bill also distributed $88.7 million from the Arizona Highway User Revenue Fund to the Department for MVD operations in fiscal year 2012, which had the effect of reducing the distribution to the State Highway Fund in fiscal year 2012 by $43.9 million. However, prior to this legislation, all $88.7 million for MVD operations was paid from the State Highway Fund, so this legislative change resulted in a net gain of $43.9 million in fiscal year 2012 in the State Highway Fund. SB 1612 also required a transfer in fiscal year 2012 of $105.8 million to the State General Fund of the motor vehicle license (in lieu) tax revenues that otherwise would have been deposited in the State Highway Fund. Other legislation was enacted (SB 1616) that required a transfer of $4.1 million from the State Highway Fund (representing the State Highway Fund's share of Arizona Highway User Revenue Fund distribution) to the 10 least populated Arizona counties in fiscal year 2012. SB 1616 also made permanent the language in HB 2012 from the 7th special session in 2010 pertaining to the five-year motor vehicle license (in lieu) tax registration and the transfer from the State Highway Fund to the State General Fund which resulted in the transfer of approximately $1.2 million from the State Highway Fund in fiscal year 2012. In addition, approximately $2.1 million in fees collected pursuant to Arizona Revised Statutes, Title 28, Section 4802.A and Arizona Revised Statutes, Title 28, Section 4802.B was also transferred to the State General Fund.

The overall net effect of the legislative enactments described above was an estimated $125 million decrease from fiscal year 2011 in the deposits of Pledged Revenues to the State Highway Fund for fiscal year 2012. While the effect for fiscal year 2012 of the described legislative enactments was to reduce the Pledged Revenues deposited to the State Highway Fund when compared to the prior fiscal year, due to decreased operating expenditure requirements paid from the State Highway Fund, the changes decreased the funds available to the Department for paying debt service and operating costs from the State Highway Fund by less than $2.0 million. This net budgetary effect to the Department was primarily due to the legislation also reducing the funding of certain operating expenditures from the State Highway Fund in favor of funding such expenditures from the Arizona Highway User Revenue Fund.

During the 2012 regular session, legislation was enacted (SB 1523) that distributes $120.0 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2013, resulting in a reduced distribution to the State Highway Fund in fiscal year 2013 of $60.6 million. This is similar to the amount distributed in fiscal year 2012 under SB 1612 as described above. The bill also includes an additional $6.8 million distribution directly from the State Highway Fund to the DPS in fiscal year 2013. SB 1523 also reversed certain measures enacted as a part of SB 1612 in the 2011 regular legislative session. Specifically, SB 1523 moved the funding of MVD operations for fiscal year 2013 back to the State Highway Fund, from which MVD was funded in fiscal year 2011, instead of the Arizona Highway User Revenue Fund. For fiscal year 2013, the funding provided through the State Highway Fund for MVD operations is approximately $86.2 million. Lastly, legislation that was enacted for fiscal year 2012 that required the transfer to the State General Fund of $105.8 million of motor vehicle license (in lieu) tax revenues that otherwise would have been deposited to the State Highway Fund, and an additional $4.1 million distributed from the State Highway Fund to the 10 least populated counties in the State, was not continued or re-enacted beyond fiscal year 2012.

The overall net effect of the legislative enactments described above is an estimated $148.5 million increase in the projected deposits of Pledged Revenues to the State Highway Fund in fiscal year 2013.

As part of the Department's forecast of future deposits to the State Highway Fund, certain of the enactments are assumed to continue at various funding levels in future fiscal years. See "REVENUES AND DEBT SERVICE COVERAGE – Projected Revenues."

**Funds and Accounts and Application of Pledged Revenues**

The Senior Bond Resolution established for the payment of the principal of and interest on the Senior Bonds a Senior Bond Fund, containing a Principal Account, a Redemption Account and an Interest Account; a Senior Bond Related Costs Fund; and a Senior Bond Reserve Fund. In order to facilitate the administration of the deposit of Pledged Revenues into the funds relating to the Senior Bonds, the Subordinated Bonds and the Second Subordinated Bonds, if any, the Bond Resolutions also established a Subordinated Bond Fund, a Subordinated Bond Related Costs Fund, a Subordinated Bond Reserve Fund, and other similar funds for the Second Subordinated Bonds (all of the above-referenced funds are collectively referred to herein as the "Bond Funds").

Upon the issuance of the Series 2013 Subordinated Bonds, no amounts are required by the Bond Resolutions to be deposited or maintained in any of the funds referenced above other than the Senior Bond Fund and the Subordinated Bond Fund. Subsequent Bond Resolutions may require deposits to additional funds.

The Bond Resolutions require that all Pledged Revenues paid into the State Highway Fund shall be accounted for by the Board and State Treasurer and held by the State Treasurer and deposited with the State Treasurer into the Bond Funds in the following order and manner, subject to the rights, described below, of the Owners of the Senior Bonds in the event of a deficiency in the Senior Bond Fund:

(1) into the Interest Account in the Senior Bond Fund, on the first day of each month, an amount which in the aggregate is not less than one-fifth (1/5) of the amount of the next semiannual interest payment, net of any investment income deposited to such Account, coming due on the Outstanding Senior Bonds; and then

(2) into the Principal Account in the Senior Bond Fund, on the first day of each month, one-eleventh (1/11) of the amount of the principal of the Outstanding Senior Bonds coming due on the next principal payment date (whether by stated maturity or mandatory sinking fund redemption), net of any investment income deposited to such Account; and then

(3) into the account in the Highway Bond Proceeds Fund for any Outstanding Series of Additional Senior Bonds at such times and in such amounts as may be specified by the provisions of any subsequent Senior Bond Resolution, an amount equal to the unreimbursed amounts, if any, theretofore expended from such account for payment of principal of and interest on any Senior Bonds; and then

(4) into the Senior Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for payment of Bond Related Costs for any Additional Senior Bonds (the Bond Resolutions currently do not require any deposits to this Fund); and then

(5) into the Senior Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for deposit therein (the Bond Resolutions currently do not require any deposits to this Fund); and then

(6) into the Interest Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding an interest payment date on the Outstanding Subordinated Bonds, an amount equal to the interest payment due on such interest payment date on the Outstanding Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any series of Additional Subordinated Bonds; and then

(7) into the Principal Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding a principal payment date (whether at maturity or by mandatory sinking fund redemption) on the Outstanding Subordinated Bonds, an amount equal to the principal payment due on such principal payment date on the Outstanding Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any series of Additional Subordinated Bonds; and then

(8) into the Subordinated Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution, for deposit therein for payment of Bond Related Costs for any Additional Subordinated Bonds (the Bond Resolutions currently do not require any deposits to this Fund); and then

(9) into the Subordinated Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution for deposit therein (the Bond Resolutions currently do not require any deposits to this Fund); and then

(10) into the Second Subordinated Funds, at such times and in such amounts, if any, specified pursuant to any subsequent resolution of the Board authorizing Second Subordinated Bonds for deposit therein (the Bond Resolutions currently do not require any deposits to this Fund); and then

(11) the remaining Pledged Revenues, if any, may be used and expended by the Board for any other lawful use of the State Highway Fund.

The Bond Resolutions provide that, to the extent that moneys in the Senior Bond Fund, Senior Bond Related Costs Fund and Senior Bond Reserve Fund are insufficient to pay, when due, principal of and interest on the Senior Bonds, the Senior Bonds shall have a first claim on moneys in all Subordinated Funds for the payment of principal and interest on the Senior Bonds.

If there is a deficiency in the required deposit to any of the Bond Funds as provided above, and unless the Board uses lawfully available Pledged Revenues on deposit in the State Highway Fund or other lawfully available moneys to cure such deficiency, all additional Pledged Revenues deposited into the State Highway Fund shall be used to make up such deficiencies in such Bond Funds, but only in the priority of deposit set forth above, prior to making any deposits to any lower priority Bond Fund.

To the extent that investment earnings are credited to the Senior and Subordinated Bond Fund pursuant to the Bond Resolutions, subsequent deposits to the Senior and Subordinated Bond Fund shall be reduced by the amount so credited.

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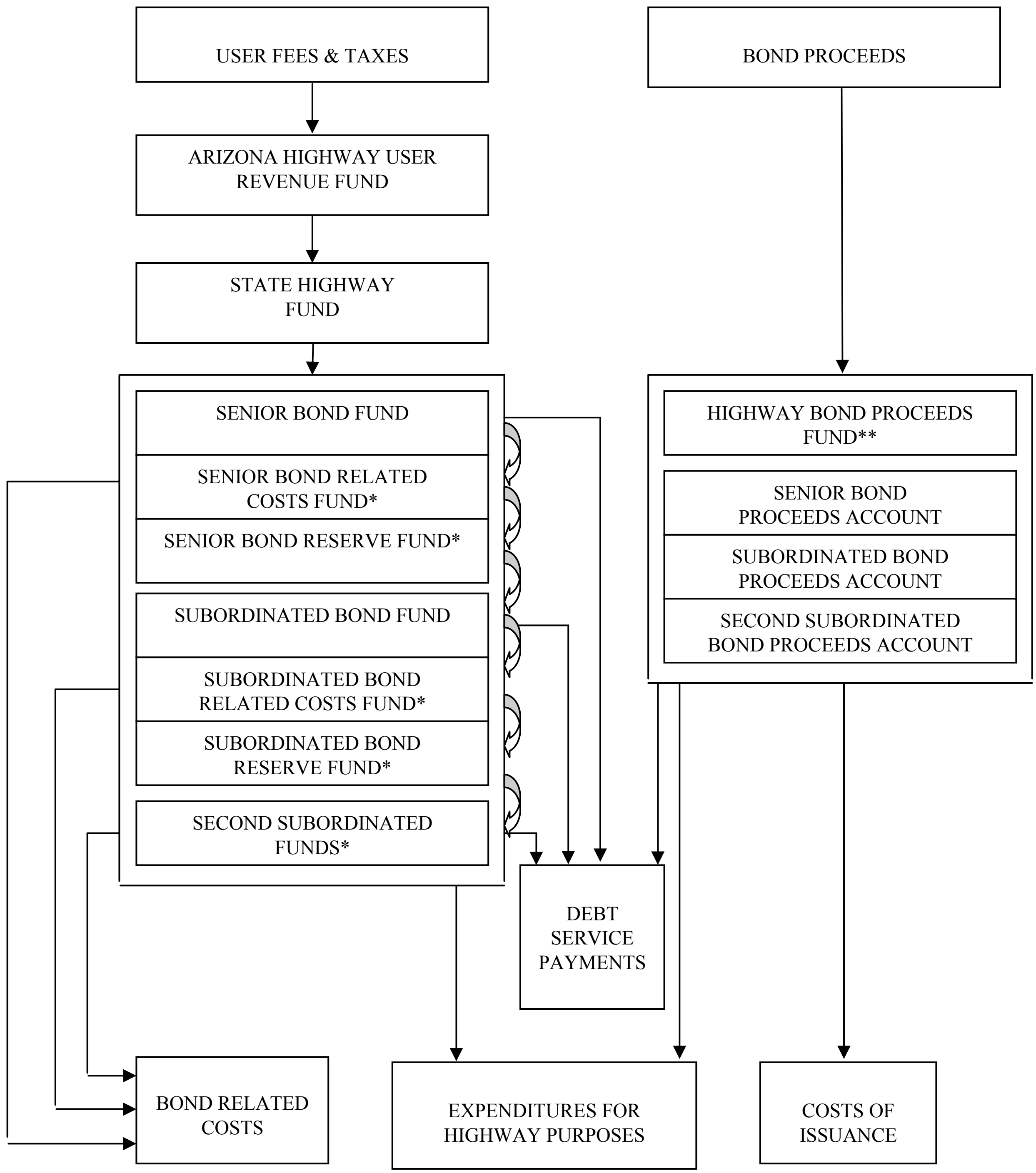
**HIGHWAY REVENUE BONDS**
**FLOW OF FUNDS**




* As no moneys are currently required to be deposited to or paid from these funds, these funds are not currently in use.

** Proceeds may also be deposited into an escrow fund to provide for payment of bonds being refunded, which is the case for the Series 2013 Subordinated Bonds. See “PLAN OF REFUNDING.”

# REVENUES AND DEBT SERVICE COVERAGE

## Historical Revenues

The following table sets forth the sources of revenues which were deposited into the Arizona Highway User Revenue Fund and the State Highway Fund for each of the last ten fiscal years ended June 30, 2012.

**Sources of Revenues Deposited in the**
**Arizona Highway User Revenue Fund and State Highway Fund**
**(000's)**

| Fiscal Year | Motor Vehicle Fuel Tax Revenues | Motor Vehicle Registration Fee Revenues | Motor Carrier Tax Revenues | Motor Vehicle Operators' License Fees and Misc. Fees and Revenues | Motor Vehicle License (In Lieu) Tax Revenues | Total Deposited to Arizona Highway User Revenue Fund | Percentage Change | Total Distributed to State Highway Fund/1 |
|---|---|---|---|---|---|---|---|---|
| 2012 | $635,012 | $158,124 | $37,350 | $59,122 | $320,979 | $1,210,586 | 0.46% | $369,826 |
| 2011 | 634,983 | 156,148 | 36,300 | 55,626 | 322,017 | 1,205,073 | 0.90% | 504,110 |
| 2010 | 626,744 | 152,236 | 35,807 | 49,714 | 329,915 | 1,194,417 | -4.30% | 500,768 |
| 2009 | 630,743 | 167,565 | 40,483 | 52,294 | 357,498 | 1,248,583 | -7.10% | 505,536 |
| 2008 | 700,395 | 162,765 | 40,177 | 55,953 | 385,186 | 1,344,477 | -2.75% | 650,900 |
| 2007 | 707,984 | 177,788 | 45,226 | 57,979 | 393,497 | 1,382,474 | 3.82% | 674,141 |
| 2006 | 702,541 | 158,805 | 40,504 | 55,911 | 373,864 | 1,331,625 | 6.91% | 623,040 |
| 2005 | 675,652 | 154,122 | 37,980 | 49,567 | 328,232 | 1,245,553 | 5.59% | 472,919 |
| 2004 | 642,533 | 146,638 | 34,617 | 43,510 | 312,262 | 1,179,561 | 6.15% | 561,131 |
| 2003 | 613,635 | 141,327 | 32,856 | 41,490 | 281,947 | 1,111,256 | 3.24% | 525,029 |

/1 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund that are required by State legislation and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein for a discussion of statutory changes resulting in changes to the deposits to the State Highway Fund for fiscal years 2007 through 2012.

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning.

## Projected Revenues

Recognizing the need for formal, well documented forecasts, the Department has developed a long-range forecasting model for revenues to be deposited to the Arizona Highway User Revenue Fund and distributed to the State Highway Fund. This model reflects underlying economic and energy-related trends. These trends are important in forecasting growth rates in personal income, motor vehicle fuel efficiency, employment, and population, all of which in turn are major components of the revenue forecast which follows.

The model uses a disaggregated structural regression-based econometric modeling approach. The use of this technique provides a framework that allows for the complex interaction of economic, demographic, and technological factors which influence collections over the long term. The key variables incorporated in the model which influence growth in Arizona Highway User Revenue Fund collections are: (i) Arizona population, (ii) Arizona real per capita income, (iii) Arizona non-farm employment, (iv) Arizona vehicle fuel efficiency, (v) Arizona gasoline price, and (vi) West Coast diesel price. Of these variables, Arizona population and Arizona real per capita income are the most important in projecting revenues.

In 1992, the Department expanded the capabilities of the model by retaining economic consultants to introduce a risk analysis process into the forecast development effort, which mitigates the uncertainty concerning future values for the critical model variables. This procedure provides information concerning the range of potential future revenues and their probability of occurrence.

In October 1996, the Department commissioned a consultant to update the forecasting model. The new model was designed to incorporate certain economic data generated over the prior ten years which was not included in the original model. In addition, the consultant was asked to evaluate the inclusion of certain independent variables absent from the original model to enhance the model's forecasting accuracy. The consultant also eliminated some independent variables that were either not significant to the model or were not readily available. The model update was completed in September 1997 and takes into consideration 1997 legislative changes. Subsequent model updates were completed in September 2000, September 2003 and July 2005.

Over the years the model has generally exhibited the ability to forecast revenues with a reasonably high degree of accuracy. For the 12-month periods ended June 30, 2012, 2011 and 2010, the forecast of collections to be deposited to the Arizona Highway User Revenue Fund which was made at the start of each such period, was within 0.5%, 0.0% and -4.3%, respectively, of actual collections in such periods.

The following table sets forth the Department's current forecast of revenues to be deposited to the Arizona Highway User Revenue Fund and the amounts to be distributed to the State Highway Fund for fiscal years 2013 through 2017. The forecast amounts reflect the Department's most recent official forecast, as of October 2012, of revenues anticipated to be deposited into the Arizona Highway User Revenue Fund for such years. Based on this official forecast of revenues to be deposited to the Arizona Highway User Revenue Fund, the Department then forecasts the amount that will be deposited to the State Highway Fund based on certain assumptions of legislative funding for other highway related purposes and activities. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation." The amounts shown below in the current forecast for fiscal years 2013 through 2017 reflect a number of such considerations and assumptions, including:

- Anticipated growth in the amount of revenues deposited to the Arizona Highway User Revenue Fund.
- Funding for the DPS from the Arizona Highway User Revenue Fund of $120.0 million per year.
- Funding for the DPS Parity Compensation Fund from the State Highway Fund of $2.5 million to $3.0 million per year.
- Transfers to the State General Fund from the State Highway Fund of $2.9 million per year, reflecting the transfer of certain registration fee revenues and certain motor vehicle license (in lieu) tax revenues as required by statute.
- Funding for the Motor Vehicle Division's registration compliance and third party programs from the Arizona Highway User Revenue Fund of $0.6 million per year.

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**Forecast of Revenues to be Deposited in the**
**Arizona Highway User Revenue Fund and State Highway Fund**
**Fiscal Years ending June 30, 2013 through June 30, 2017**
**(000's)**

| Fiscal Year | Motor Vehicle Fuel Tax Revenues | Motor Vehicle Registration Fee Revenues | Motor Carrier Fee Revenues | Motor Vehicle Operators' License Fees and Misc. Fees and Revenues | Motor Vehicle License (In Lieu) Tax Revenues | Total Deposited to Arizona Highway User Revenue Fund | Total Distributed to State Highway Fund/1, 2 |
|---|---|---|---|---|---|---|---|
| 2013 | $637,100 | $161,300 | $38,100 | $58,700 | $323,500 | $1,218,700 | $529,981 |
| 2014 | 647,400 | 163,700 | 40,800 | 61,500 | 331,500 | 1,244,900 | 542,688 |
| 2015 | 660,800 | 168,000 | 42,100 | 63,600 | 349,300 | 1,283,800 | 561,168 |
| 2016 | 675,800 | 172,700 | 43,700 | 66,100 | 372,300 | 1,330,600 | 583,298 |
| 2017 | 691,800 | 178,000 | 45,400 | 68,600 | 393,600 | 1,377,400 | 605,538 |

/1 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund as required by State legislation and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein.

/2 For a discussion of recent legislation and its impact on forecasted Pledged Revenues, see "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein.

Note: Totals may not add due to rounding

Source: Arizona Department of Transportation, Office of Financial Planning.

The prospective financial information included in this Official Statement under this heading has been prepared by, and is the responsibility of, the Department. In the view of the Department, the forecasts included herein were prepared on a reasonable basis utilizing the methodology described under this heading. The forecast reflects the best currently available estimates and judgments, and presents, to the best of the Department's knowledge and belief, the estimated future performance of, and estimated level of revenues flowing into the Highway User Revenue Fund and State Highway Fund under current law and the assumptions set forth above. However, these forecasts are not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on any prospective financial information.

Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

THE ACTUAL REVENUES THAT WILL BE DEPOSITED IN THE ARIZONA HIGHWAY USER REVENUE FUND AND THE STATE HIGHWAY FUND MAY VARY FROM THE FORECAST BECAUSE OF CHANGES IN THE ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS USED IN DEVELOPING THE FORECAST, CHANGES IN STATUTORY DISTRIBUTIONS AND OTHER CHANGES IN LAW, FLUCTUATING ECONOMIC CONDITIONS AND OTHER VARIABLES AFFECTING REVENUE GROWTH. SUCH VARIATIONS COULD BE MATERIAL.

### Debt Service Requirements, Forecasted Pledged Revenues and Projected Debt Service Coverage [1]

The debt service requirements of the Senior Bonds and Subordinated Bonds to be Outstanding after issuance of the Series 2013 Subordinated Bonds, and of the Series 2013 Subordinated Bonds, are set forth below. Based upon the Department's forecast of Pledged Revenues and debt service requirements, the projected debt service coverage of such Outstanding Senior Bonds and Subordinated Bonds and the Series 2013 Subordinated Bonds (assuming no issuance of Additional Senior Bonds or Additional Subordinated Bonds) is as follows:

| Twelve Months Ending July 1 | Forecasted Pledged Revenues [1] | Debt Service: Outstanding Senior Bonds[2] | Projected Debt Service Coverage on Senior Bonds[2] | Debt Service: Outstanding Subordinated Bonds[2] | Series 2013 Subordinated Bonds | | | Total Senior and Subordinated Debt Service Requirements[2][3] | Projected Total Debt Service Coverage[2][3] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Principal Payments | Interest Payments[3] | Total Debt Service | | |
| 2013 | $529,981,000 | $53,318,669 | 9.93x | $72,112,803 | | $13,306,085 | $13,306,085 | $138,737,557 | 3.82x |
| 2014 | 542,688,000 | 53,064,894 | 10.22x | 53,965,475 | $435,000 | 31,514,412 | 31,949,412 | 138,979,780 | 3.90x |
| 2015 | 561,168,000 | 57,700,544 | 9.72x | 43,325,294 | 6,440,000 | 31,512,241 | 37,952,241 | 138,978,079 | 4.03x |
| 2016 | 583,298,000 | 57,700,194 | 10.10x | 43,329,088 | 13,480,000 | 31,473,601 | 44,953,601 | 145,982,883 | 3.99x |
| 2017 | 605,538,000 | 37,936,994 | 15.96x | 68,294,029 | 8,405,000 | 31,346,350 | 39,751,350 | 145,982,373 | 4.14x |
| 2018 | | 18,669,494 | | 68,307,946 | 27,760,000 | 31,245,994 | 59,005,994 | 145,983,434 | |
| 2019 | | 18,669,494 | | 68,278,667 | 28,245,000 | 30,793,229 | 59,038,229 | 145,986,389 | |
| 2020 | | 18,669,494 | | 49,059,613 | 47,990,000 | 30,276,063 | 78,266,063 | 145,995,169 | |
| 2021 | | 18,669,494 | | 62,535,863 | 36,020,000 | 28,769,750 | 64,789,750 | 145,995,106 | |
| 2022 | | 18,669,494 | | 64,649,613 | 35,710,000 | 26,968,750 | 62,678,750 | 145,997,856 | |
| 2023 | | 45,129,494 | | 22,254,113 | 53,430,000 | 25,183,250 | 78,613,250 | 145,996,856 | |
| 2024 | | 45,130,313 | | 38,275,363 | 40,080,000 | 22,511,750 | 62,591,750 | 145,997,425 | |
| 2025 | | 45,129,563 | | 37,481,863 | 32,880,000 | 20,507,750 | 53,387,750 | 135,999,175 | |
| 2026 | | 45,129,563 | | 12,052,613 | 49,950,000 | 18,863,750 | 68,813,750 | 125,995,925 | |
| 2027 | | 45,131,813 | | 12,055,113 | 44,840,000 | 16,366,250 | 61,206,250 | 118,393,175 | |
| 2028 | | 45,132,563 | | 12,056,613 | 47,080,000 | 14,124,250 | 61,204,250 | 118,393,425 | |
| 2029 | | 45,127,750 | | 12,054,613 | 49,300,000 | 11,915,250 | 61,215,250 | 118,397,613 | |
| 2030 | | 45,129,750 | | 12,053,050 | 51,740,000 | 9,471,250 | 61,211,250 | 118,394,050 | |
| 2031 | | 45,133,250 | | 12,054,175 | 14,835,000 | 7,084,250 | 21,919,250 | 79,106,675 | |
| 2032 | | 45,128,750 | | 12,051,675 | 15,580,000 | 6,342,500 | 21,922,500 | 79,102,925 | |
| 2033 | | 45,127,000 | | 12,052,250 | 16,360,000 | 5,563,500 | 21,923,500 | 79,102,750 | |
| 2034 | | | | 12,056,500 | 17,175,000 | 4,745,500 | 21,920,500 | 33,977,000 | |
| 2035 | | | | 12,055,750 | 18,035,000 | 3,886,750 | 21,921,750 | 33,977,500 | |
| 2036 | | | | 12,054,000 | 18,935,000 | 2,985,000 | 21,920,000 | 33,974,000 | |
| 2037 | | | | | 19,885,000 | 2,038,250 | 21,923,250 | 21,923,250 | |
| 2038 | | | | | 20,880,000 | 1,044,000 | 21,924,000 | 21,924,000 | |

(1) From Department's revenue forecast for 2013 to 2017 described under "Projected Revenues" above. For a discussion of recent State legislation and its impact on forecasted Pledged Revenues, see "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein.

(2) Reflects defeasance of Bonds Being Refunded with the issuance of the Series 2013 Subordinated Bonds. Does not reflect debt service requirements on approximately $505 million of bonds the Board currently anticipates issuing under the Bond Resolutions through fiscal year 2017. The issuance of such bonds may result in a decrease in the projected debt service coverage figures shown. Such bonds may only be issued by the Board, however, subject to meeting certain requirements of the Act and the Bond Resolutions. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 SUBORDINATED BONDS - Additional Bonds" for a further discussion of such requirements.

(3) The first interest payment on the Series 2013 Subordinated Bonds is July 1, 2013.

## 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:

| Name and Transportation District Represented | City of Residence | Term Expires January |
|---|---|---|
| Victor Flores, Chair<br>Transportation District 1<br>Maricopa County | Phoenix | 2014 |
| Stephen W. Christy, Vice Chair<br>Transportation District 2<br>Pima County | Tucson | 2015 |
| Barbara Ann Lundstrom, Member*<br>Transportation District 3<br>Cochise, Greenlee and Santa Cruz Counties | Nogales | 2013 |
| Kelly O. Anderson, Member<br>Transportation District 4<br>Gila, Graham and Pinal Counties | Maricopa | 2016 |
| Hank Rogers, Member<br>Transportation District 5<br>Apache, Coconino and Navajo Counties | Eagar | 2017 |
| Joseph E. La Rue, Member<br>Transportation District 1<br>Maricopa County | Sun City | 2018 |
| Vacant, Member<br>Transportation District 6<br>Yavapai, Yuma, Mohave and La Paz Counties | | 2018 |

*Serves until a new member is appointed by the Governor and confirmed by the Arizona State Senate.

**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 funds are allocated by the Board as part of the statewide Five-Year Capital Program.

The Director of the Department serves as the Chief Executive Officer of the Department. The Director is appointed by the Governor and confirmed by the Senate, and is directly responsible to the Governor. The Department has organized itself into five divisions: Intermodal Transportation Division, Motor Vehicle Division, Enforcement and Compliance Division, Multimodal Planning Division, and Administrative Services Division. The Department also includes certain other operational and business units. The Transportation Services Group under the direction of the Deputy Director for Business Operations contains units for Financial Management; Budget, Planning and Research; Human Resources; Performance Measures; and Arizona Highways Magazine. The Transportation Services Group supports the Department's operating and planning divisions.

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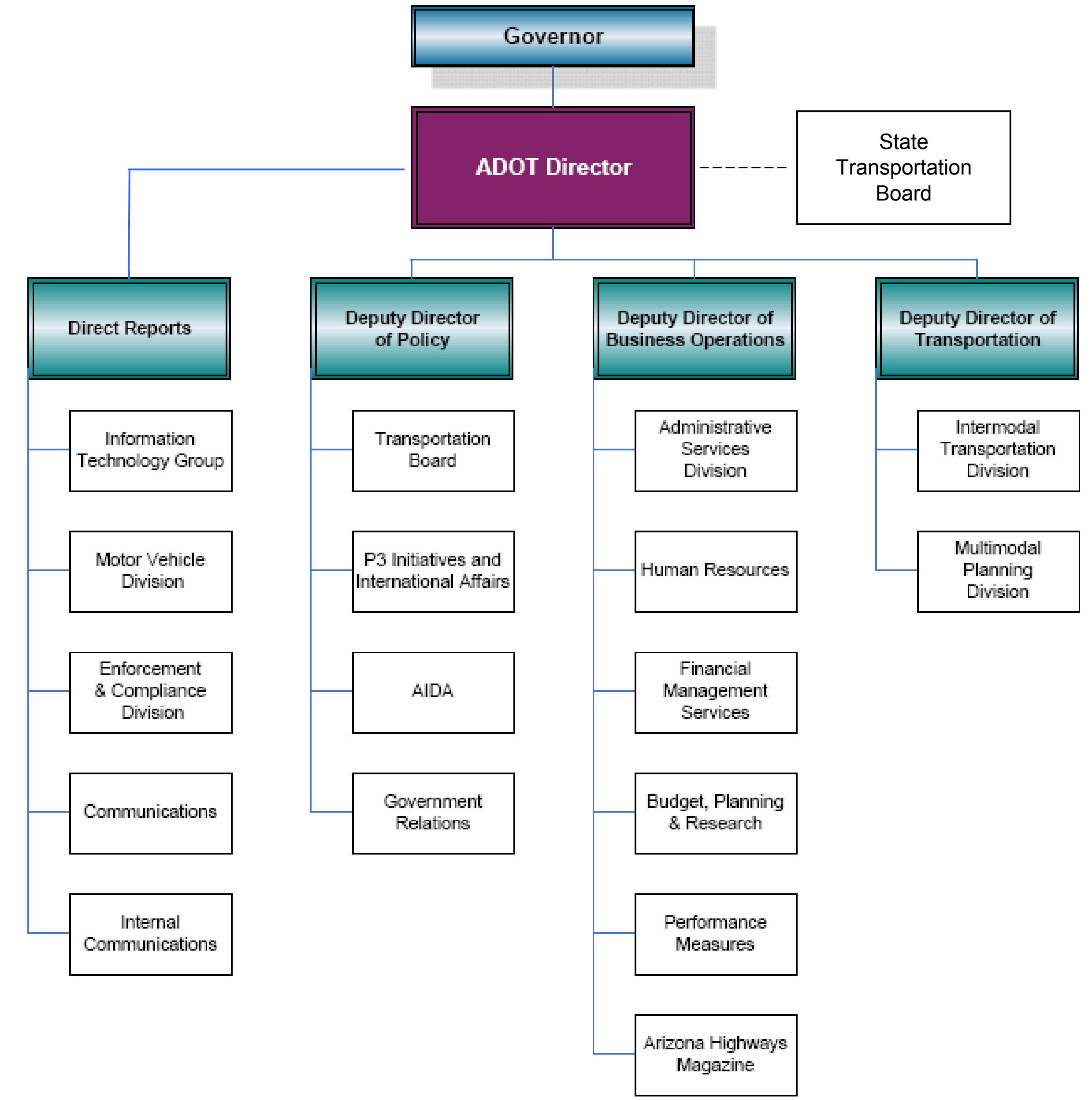
The Department's table of organization and a brief description of each of the divisions is set forth below:




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

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

*Multimodal Planning Division.* The Multimodal Planning Division is responsible for the planning of the statewide transportation system including highways, transit, rail, and airports. Its functions include traffic and travel studies and projections, five-year construction programming studies, and coordination with local and regional transportation planning agencies. The Multimodal Planning Division produces an annually updated Five-Year Capital Program, from which the Board establishes the priorities for highway and airport projects within the State. The Multimodal Planning Division also distributes federal funding for planning, operational, and capital acquisitions for transit programs in smaller cities, towns, and rural areas, administers federal grants for transit planning in metropolitan areas, and performs state regulatory safety oversight for the light rail system in Maricopa County. The Multimodal Planning Division also coordinates general aviation in the State and is responsible for administering the Local Airports Grant Program.

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

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

*Staff of the Department.*

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

**JOHN HALIKOWSKI**
*Director*

Mr. Halikowski was appointed Director of the Department in February 2009 to lead Arizona's transportation agency responsible for planning, building, and operating a multi-modal system in one of the historically fastest growing areas of the country; collecting and distributing transportation revenue; and providing title, registration, and driver license services. In addition to his duties as the Department's Director, Mr. Halikowski directly oversees all activities of the Information Technology Group, Motor Vehicle Division, Enforcement and Compliance Division, Communications and Internal Communications functions.

Prior to his appointment he served for twelve years as the Director of Research at the Arizona House of Representatives where he was responsible for drafting, presenting, researching, and working with affected constituencies on transportation related legislation. He was deeply involved in major legislation that included the Maricopa County Transportation plan, State Highway Construction Acceleration, Privatization, DUI, Transportation Finance, and Graduated Driver Licensing. He also previously spent six years at the Department serving in various capacities including Deputy Director and Operations Chief of the Department's Motor Vehicle Division. Mr. Halikowski has completed the American Association of State Highway Transportation Officials (AASHTO) Leadership Academy. In addition, he presently chairs the AASHTO Standing Committee on Research and is a member of the AASHTO Climate Change Steering Committee.

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

**JOHN NICHOLS**
*Deputy Director for Business Operations*

Mr. Nichols was appointed Deputy Director for Business Operations in December 2012. Prior to this appointment, he was the Department's Director of the Administrative Services Divisions since 2009. Mr. Nichols has been with the Department since 1997 and has held various other positions including Central Region Equipment Manager, Maintenance Operations Manager and Physical Plant Administrator. Prior to joining the Department, Mr. Nichols was the Fleet Manager for Arizona State University and had completed a 21-year career with the United States Air Force.

As Deputy Director for Business Operations, Mr. Nichols oversees the day-to-day business operations of the Department, including Human Resources; Financial Management Services; Budget, Planning and Research; Performance Measures; Arizona Highways Magazine; and the various units within the Administrative Services Division.

**FLOYD ROEHRICH, JR.**
*Deputy Director for Policy*

Mr. Roehrich was appointed Deputy Director for Policy in September 2011. In his position as Deputy Director for Policy, Mr. Roehrich is responsible for the Department's public/private partnership activities, the Arizona International Development Authority (AIDA), and all Government Relations activities. He also serves as the primary liaison to the Board and assists the Director on various policy matters. He was previously the State Engineer of the Department since August 2008. 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. Previously, Mr. Roehrich served as Deputy State Engineer, Valley Transportation Program overseeing the urban highway system within Maricopa County. Since starting as a roadway design team leader in 1989, Mr. Roehrich has held technical and management positions in various Department groups, to include Roadway Design, Local Government Engineer, Phoenix Construction District, and Valley Project Management.

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

**JENNIFER TOTH, P.E.**
*Deputy Director for Transportation*

Ms. Toth was appointed State Engineer in the Intermodal Transportation Division in September 2011 and in December 2012 was named Deputy Director for Transportation. She is responsible for all activities of the Intermodal Transportation Division and Multimodal Planning Division. She was previously the Director of the Multimodal Planning Division since July 2009. Ms. Toth has been with the Department since 1997, with the exception of a three-year period where she worked as an Associate Vice President for a private engineering consulting firm in the Phoenix area. In her position as Deputy Director for Transportation, Ms. Toth is responsible for overseeing the pre-construction, construction and maintenance of more than 6,700 miles of highways and 4,000 bridges across the State. Since starting with the Department, Ms. Toth has held various technical and management positions in various departments throughout the Department.

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

**KRISTINE WARD**
*Assistant Director for Finance and Accounting*

Ms. Ward was appointed Assistant Director for Finance and Accounting in December 2011. As such, Ms. Ward is the Department's chief financial officer and is responsible for all financial, accounting, and revenue and fuel tax administration within the Department. 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.

**LISA DANKA**
*Deputy Chief Financial Officer*

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

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

**STACEY STANTON**
*Motor Vehicle Division Director*

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

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

**TERRY W. CONNER**
*Enforcement and Compliance Division Director*

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

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

**SCOTT OMER**
*Multimodal Planning Division Director*

Mr. Omer was appointed Director for the Department's Multimodal Planning Division in September, 2011. He oversees the Department's development of multimodal plans and programs and is responsible for regional and statewide multimodal planning, transportation programming, traffic data collection and analysis, transportation research, and cooperative planning with Native American Tribes and Metropolitan Planning Organizations. He also oversees the research activity of the Department that enables innovation in transportation.

Mr. Omer first joined the Department's Yuma District in February 1993 and was assigned to Regional Traffic where he spent 13 years working in Traffic, Development and Operations. In 2006, Mr. Omer left the Department to work for the City of Yuma as a Capital Improvement Program Project Manager. He joined Parsons Brinckerhoff in April of 2007 as a Senior Project Manager, and was the Western Region Project Manager for Building a Quality Arizona, and the Program Manager for Local Government ARRA Projects in the Eastern Maricopa Association of Governments Region. In April 2010, he returned to the Department as the Director of the Planning and Programming Group in the Multimodal Planning Division. Mr. Omer is certified as a Professional Transportation Planner and a Certified Public Manager.

**KEVIN BIESTY**
*Government Relations and Policy Development Director*

Mr. Biesty joined the Department's Motor Vehicle Division in February of 2000 as the Division's legislative liaison. He is now serving as the Department's Government Relations and Policy Development Office Director. Prior to joining the Department, he served as Legislative Liaison for the Arizona Department of Economic Security and prior to that served on staff at the Arizona State Senate. Mr. Biesty received his Bachelors Degree in Business Management from the University of Phoenix.

**MATT BURDICK**
*Assistant Director for Communications*

Mr. Burdick has been part of the Department's communications group since 1996 and currently serves as the Assistant Director for Communications. As such, he is responsible for activities that support the delivery of the Department's transportation programs and services through communication, outreach and partnering. From 1996 to 2006, Mr. Burdick served as a Department media spokesperson and managed communication programs to inform and involve local governments, stakeholders and the public in the implementation of transportation projects.

Mr. Burdick holds two degrees from Arizona State University with a Master's degree in Mass Communication from the Walter Cronkite School of Journalism and a Bachelor's degree in Marketing from the W. P. Carey School of Business.

*Funding the Department*

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

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

The Five-Year Capital Program is updated annually by the Board in accordance with a statutorily defined and scheduled process designed to assure that the improvements to the State Highway System that are of highest priority to the State are made and funded in an orderly way, consistent with statutory guidelines and Board policies.

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

**Summary of Revenues, Expenditures and Changes in Fund Balances**

Set forth on the following pages is a table that summarizes certain information for the four fiscal years ended June 30, 2012, derived from the Department's audited financial statements. The information for the fiscal year ended June 30, 2012, should be read in conjunction with the audited basic financial statements of the Department for the fiscal year ended June 30, 2012, and the notes therein included as Appendix A.

*This information is presented as background information only. As described under* "SECURITY AND SOURCES OF PAYMENTS FOR THE SERIES 2013 SUBORDINATED BONDS," *the Series 2013 Subordinated Bonds are special obligations of the Board payable solely from a subordinate lien on Pledged Revenues, which Pledged Revenues are not segregated or identified in these tables.*

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**Arizona Department of Transportation**
**State Highway Fund**
**Summary of Revenues, Expenditures, and Changes in Fund Balances**
**Fiscal years ended June 30, 2009 through June 30, 2012**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Vehicle registration, title, license and related fees | $230,611,734 | $223,429,592 | $224,245,586 | $139,158,674(a) |
| Fuel and motor carrier taxes and fees | 295,460,829 | 303,007,465 | 304,669,062 | 361,456,432 |
| Reimbursement of construction expenditures – federal aid | 436,943,996 | 423,356,120 | 423,464,766 | 441,653,560 |
| Other federal grants and reimbursements | 58,843,310 | 64,668,966 | 50,302,930 | 71,510,313 |
| Reimbursements from Arizona counties, cities and other state agencies | 12,223,127 | 25,654,037 | 7,954,276 | 6,307,286 |
| Interest on loans receivable | 150,720 | 128,432 | 113,329 | 102,476 |
| Interest on investments | 13,214,885 | 4,923,202 | 3,039,740 | 3,011,762 |
| Other | 5,168,316 | 3,237,999 | 4,260,295 | 5,605,343 |
| Total revenues | 1,052,616,917 | 1,048,405,813 | 1,018,049,984 | $1,028,805,846 |
| **Expenditures:** | | | | |
| Current: | | | | |
| Transportation: | | | | |
| Administration | 45,269,038 | 49,267,671 | 79,232,477 | $67,902,634 |
| Highway | 112,717,590 | 31,646,470 | 34,222,358 | 40,479,111 |
| Highway Maintenance | 111,346,235 | 94,013,974 | 120,716,320 | 118,230,113 |
| Motor Vehicle Division | 120,041,930 | 89,743,287 | 85,956,241 | 104,039,377 |
| Total Transportation | 389,374,793 | 264,671,402 | 320,127,396 | $330,651,235 |
| Capital Outlay | | | | |
| Highway construction | 593,782,850 | 527,554,403 | 469,267,440 | 513,118,450 |
| Distributions to Arizona counties, cities and other state agencies | 198,755,117 | 86,268,860 | 74,969,377 | 43,894,994 |
| Debt Service[(b)] | 103,045,188 | 17,926,169 | 12,213,545 | 3,750,661 |
| Total Expenditures | 1,284,957,948 | 896,420,834 | 876,577,758 | 891,415,340 |
| Excess (deficiency) of revenues over (under) expenditures | ($232,341,031) | $151,984,979 | $141,472,226 | $137,390,506 |

(a) Reflects legislation enacted for fiscal year 2012 that altered the traditional distribution of motor vehicle license taxes to the State Highway Fund for such fiscal year. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein.

(b) Primarily reflects debt service on certain obligations internal to the Department or with other State agencies.

**Arizona Department of Transportation**
**State Highway Fund**
**Summary of Revenues, Expenditures, and Changes in Fund Balances**
**Fiscal years ended June 30, 2009 through June 30, 2012**
**(Continued)**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| **Other financing sources (uses):** | | | | |
| Transfers in | $16,750,902 | $3,474,182 | - | - |
| Transfers out other | (500,000) | - | ($2,400,000) | - |
| Debt service/2 | (134,085,483) | (142,352,452) | (154,458,652) | ($152,687,225) |
| Debt Issuance | 109,577,476 | 7,715,765 | 17,532 | - |
| Other | 2,579,886 | 4,407,921 | 6,241,267 | 3,632,751 |
| Total other financing (uses) | (5,677,219) | (126,754,584) | (150,599,853) | ($149,054,474) |
| Net change in fund balance | (238,018,250) | 23,230,395 | (9,127,627) | (11,663,968) |
| Fund balances, Beginning of year | 563,589,146 | 325,570,896 | 350,801,291 | 341,673,664 |
| **Fund balances, End of year** | **$325,570,896** | **$350,801,291** | **$341,673,664** | **$330,009,696** |

/2 Reflects debt service on the Senior Bonds and the Subordinated Bonds.

Source: Provided by the Arizona Department of Transportation, Financial Management Services. Derived from audited financial statements of the Department for fiscal years ended June 30, 2009 through June 30, 2012.

**Sunset Laws**

In order to encourage systematic legislative review of State agencies and statutes, State statutes provide for automatic termination of State agencies and statutes pursuant to a statutory schedule unless the State Legislature takes affirmative action to continue the existence of the agencies or statutes. These State statutes are commonly known as "Sunset Laws." Under the State Sunset Laws, the Department and the Board are scheduled for termination on July 1, 2016, and Title 28, Arizona Revised Statutes, is scheduled for termination on January 1, 2017. Title 28 contains most of the transportation laws of the State, including the 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 motor vehicle fuel taxes have been reviewed and continued three times.

While there can be no assurance that the State Legislature will continue the Department after July 1, 2016, the Department is not aware of any matters which would cause the State Legislature to terminate the existence of the Department or the Board or to repeal Title 28 or to amend Title 28 in a manner detrimental to the Owners of the Series 2013 Subordinated Bonds.

The State Sunset Laws provide that if Title 28 is repealed pursuant to the Sunset Laws, so long as there are any outstanding debts or other obligations, such as the Series 2013 Subordinated Bonds, payable from the Arizona Highway User Revenue 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, the pledge of revenues from that fund and the liens on that fund to pay the debts or other obligations will 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 2013 Subordinated Bonds, to take affirmative action to continue the existence of the Department, the Board or the Act on or prior to their effective termination dates, the State would be obligated to make payments on the Senior Bonds and the Subordinated Bonds, including the Series 2013 Subordinated Bonds, when due from Pledged Revenues under the terms and conditions for payment contained in the Bond Resolutions.

## 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 2013 Subordinated Bonds or in any way contest or affect the validity of the Series 2013 Subordinated Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 2013 Subordinated Bonds or the levy, pledge or application of Pledged Revenues, or the pledge and application of any funds provided for their payment, or which contests the powers of the State, including the Department and the Board, with respect to the foregoing.

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

## LEGAL INVESTMENT

To the extent governed by Arizona law, the Act provides that the Series 2013 Subordinated Bonds are securities in which all public officers and bodies of the State and all municipalities and political subdivisions of the State, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons authorized to invest in bonds or other obligations of the State, may properly and legally invest money, including capital in their control or belonging to them. The Series 2013 Subordinated Bonds are also securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and political subdivisions of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

## TAX MATTERS

### Tax Matters Generally - Tax-Exempt Series 2013A Subordinated Bonds

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law: (i) interest on the Tax-Exempt Series 2013A Subordinated Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on the Tax-Exempt Series 2013A Subordinated Bonds is exempt from Arizona state income tax. Bond Counsel expresses no opinion as to any other tax consequences regarding the Tax-Exempt Series 2013A Subordinated Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Board and the Department contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Tax-Exempt Series 2013A Subordinated Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the certifications and representations of the Board and the Department, or the continuing compliance with the covenants by the Board and the Department.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Tax-Exempt Series 2013A Subordinated Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Board or the Department may cause loss of such status and result in the interest on the Tax-Exempt Series 2013A Subordinated Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Tax-Exempt Series 2013A Subordinated Bonds. The Board and the Department have each covenanted to take the actions required of it for the interest on the Tax-Exempt Series 2013A Subordinated Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Tax-Exempt Series 2013A Subordinated Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Series 2013A Subordinated Bonds or the market value of the Tax-Exempt Series 2013A Subordinated Bonds.

A portion of the interest on the Tax-Exempt Series 2013A Subordinated Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Tax-Exempt Series 2013A Subordinated Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income; deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security, and Railroad Retirement benefits; those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations; and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Tax-Exempt Series 2013A Subordinated Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Tax-Exempt Series 2013A Subordinated Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Tax-Exempt Series 2013A Subordinated Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Bond Counsel's engagement with respect to the Tax-Exempt Series 2013A Subordinated Bonds ends with the issuance of the Tax-Exempt Series 2013A Subordinated Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Board or the owners of the Tax-Exempt Series 2013A Subordinated Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Tax-Exempt Series 2013A Subordinated Bonds, under current IRS procedures, the IRS will treat the Board as the taxpayer and the beneficial owners of the Tax-Exempt Series 2013A Subordinated Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Tax-Exempt Series 2013A Subordinated Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value or marketability of the Tax-Exempt Series 2013A Subordinated Bonds.

Prospective purchasers of the Tax-Exempt Series 2013A Subordinated Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Tax-Exempt Series 2013A Subordinated Bonds at other than their original issuance at the respective prices indicated on the inside front cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

**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 Tax-Exempt Series 2013A Subordinated Bonds. There can be no assurance that legislation enacted or proposed or actions by a court after the date of issuance of the Tax-Exempt Series 2013A Subordinated Bonds will not have an adverse effect on the tax status of interest on the Tax-Exempt Series 2013A Subordinated Bonds or the market value or marketability of the Tax-Exempt Series 2013A Subordinated Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Tax-Exempt Series 2013A Subordinated Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, recent presidential and legislative proposals would eliminate, reduce or otherwise alter the tax benefits currently provided to certain owners of state and local government bonds, including proposals that would result in additional federal income tax on taxpayers that own tax-exempt obligations if their incomes exceed certain thresholds. Investors in the Tax-Exempt Series 2013A Subordinated Bonds should be aware that any such future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Tax-Exempt Series 2013A Subordinated Bonds for federal income tax purposes for all or certain taxpayers. In such event, the market value of the Bonds may be adversely affected and the ability of holders to sell their Tax-Exempt Series 2013A Subordinated Bonds in the secondary market may be reduced. The Tax-Exempt Series 2013A Subordinated Bonds are not subject to special mandatory redemption, and the interest rates on the Tax-Exempt Series 2013A Subordinated Bonds are not subject to adjustment in the event of any such change.

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

**Original Issue Premium - Tax-Exempt Series 2013A Subordinated Bonds**

The Tax-Exempt Series 2013A Subordinated Bonds ("Premium Bonds") as indicated on the inside front cover page of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period, and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside front cover page of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

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

**Tax Matters Generally - Taxable Series 2013B Subordinated Bonds**

In the opinion of Squire Sanders (US) LLP, Bond Counsel, under existing law, interest on the Taxable Series 2013B Subordinated Bonds is exempt from Arizona state income tax. An opinion to those effects will be included in the legal opinion. Bond Counsel expresses no opinion as to any other tax consequences regarding the Taxable Series 2013B Subordinated Bonds. INTEREST ON THE TAXABLE SERIES 2013B SUBORDINATED BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. THE LEGAL DEFEASANCE OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS MAY RESULT IN A DEEMED SALE OR EXCHANGE OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS UNDER CERTAIN CIRCUMSTANCES; AND OWNERS OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL INCOME TAX CONSEQUENCES OF SUCH AN EVENT. PROSPECTIVE PURCHASERS OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL, AND FOREIGN TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS.

The following discussion is generally limited to “U.S. owners,” meaning beneficial owners of Taxable Series 2013B Subordinated Bonds that for United States federal income tax purposes are individual citizens or residents of the United States, corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), and certain estates or trusts with specific connections to the United States. ***Partnerships holding Taxable Series 2013B Subordinated Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Series 2013B Subordinated Bonds (including their status as U.S. owners).***

**Information Reporting and Backup Withholding - Taxable Series 2013B Subordinated Bonds**

General information reporting requirements will apply to payments of principal and interest made on a Taxable Series 2013B Subordinated Bond and the proceeds of the sale of a Taxable Series 2013B Subordinated Bond to non-corporate holders of the Taxable Series 2013B Subordinated Bonds, and “backup withholding” currently at a rate of 28% will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a Taxable Series 2013B Subordinated Bond that is a U.S. owner generally can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

**Non-U.S. Owners - Taxable Series 2013B Subordinated Bonds**

Under the Code, interest on any Taxable Series 2013B Subordinated Bond whose beneficial owner is not a U.S. owner are generally not subject to United States income tax or withholding tax (including backup withholding) if the non-U.S. owner provides the payor of interest on the Taxable Series 2013B Subordinated Bonds with an appropriate statement as to its status as a non-U.S. owner. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the non-U.S. owner conducts a trade or business in the United States and the interest on the Taxable Series 2013B Subordinated Bonds held by the non-U.S. owner is effectively connected with such trade or business, that interest will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding). The foregoing is a brief summary of certain federal income tax consequences to a non-U.S. owner. ***Non-U.S. owners should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Series 2013B Subordinated Bonds.***

**Circular 230 - Taxable Series 2013B Subordinated Bonds**

THE FOREGOING DISCUSSION IN "TAX MATTERS" WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS. THE FOREGOING DISCUSSION IN "TAX MATTERS" WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS. EACH PROSPECTIVE PURCHASER OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

## INDEPENDENT AUDITORS

The financial statements of the Department as of and for the year ended June 30, 2012 included in Appendix A to this Official Statement have been audited by Heinfeld, Meech & Co., P.C., independent auditors, as stated in their report appearing herein. The Department neither requested nor obtained the consent of Heinfeld, Meech & Co., P.C. to include their report and Heinfeld, Meech & Co., P.C. has performed no procedures subsequent to rendering their opinion on the financial statements.

## CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the Board and the Department will execute a written Continuing Disclosure Undertaking, dated as of the date of closing of the Series 2013 Subordinated Bonds (the "Disclosure Undertaking"), substantially in the form set forth as Appendix C, wherein the Board and the Department will agree, for the benefit of the Beneficial Owners of the Series 2013 Subordinated Bonds, to provide, or cause to be provided, as therein provided, certain annual financial information generally consistent with the information contained under the heading "REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues" herein, and notice of the occurrence of certain events or failures to take certain required actions with respect to the Series 2013 Subordinated Bonds. 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 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 2013 Subordinated Bonds are no longer outstanding (within the meaning of the Subordinated Bond Resolution) or the Rule no longer applies to the Series 2013 Subordinated Bonds. The Disclosure Undertaking may be amended or waived as provided therein.

A Beneficial Owner of a Series 2013 Subordinated Bond may seek to enforce the undertakings of the Board and the Department in the Disclosure Undertaking by an action for specific performance in any court of competent jurisdiction in Phoenix, Arizona, after providing the Board and the Department with 30 days prior written notice of its failure to perform. Any failure of the Board or the Department to comply with any of its obligations in the Disclosure Undertaking shall not be a default or Event of Default with respect to the Series 2013 Subordinated Bonds under the Subordinated Bond Resolution.

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

## RATINGS

The Series 2013 Subordinated Bonds have been rated “AA+” and “Aa2”, respectively, by S&P and Moody’s. Such ratings reflect only the views of the respective rating agency, and any explanation of the meaning or significance of the ratings 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. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be revised, lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering, suspension or withdrawal of a rating or other actions of a rating agency relating to its rating of the Series 2013 Subordinated Bonds may have an adverse effect on the marketability or market price of the Series 2013 Subordinated Bonds.

The Board and the Department expect to furnish each rating agency with information and materials that it may request. The Board and the Department, however, assume no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of the debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Series 2013 Subordinated Bonds.

## CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 2013 Subordinated Bonds and with regard to the exclusion of interest from gross income for federal income tax purposes (see “TAX MATTERS”) are subject to the legal opinion of Squire Sanders (US) LLP, Bond Counsel to the Board, whose legal services have been retained by the Board. The signed legal opinion with respect of each series of the Series 2013 Subordinated Bonds, dated and premised on law in effect as of the date of original delivery of the Series 2013 Subordinated Bonds, will be delivered on the date of issuance.

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

In its capacity as Bond Counsel, Bond Counsel has participated in the preparation of, and has reviewed those portions of, this Official Statement pertaining to the Series 2013 Subordinated Bonds, the Senior Bond Resolution, the Subordinated Bond Resolution and the tax-exempt status of interest on the Tax-Exempt Series 2013A Subordinated Bonds (except for outstanding amounts of Senior Bonds and Subordinated Bonds), contained under the captions “INTRODUCTION”, “THE SERIES 2013 SUBORDINATED BONDS”, “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 SUBORDINATED BONDS”, “SOURCES AND APPLICATION OF PLEDGED REVENUES” (excluding financial data), “LEGAL INVESTMENT”, “TAX MATTERS”, “CONTINUING DISCLOSURE UNDERTAKING” (excluding the last paragraph thereunder), “APPENDIX B – PROPOSED FORMS OF BOND COUNSEL OPINIONS” and “APPENDIX C – FORM OF CONTINUING DISCLOSURE UNDERTAKING” herein. Bond Counsel, however, has not been retained to pass upon, and will not express any opinion upon, any other information in this Official Statement or any other information pertaining to the Series 2013 Subordinated Bonds or the Board or the Department that may be made available to the prospective purchasers of the Series 2013 Subordinated Bonds or to others.

In addition to rendering the legal opinions, Bond Counsel will assist in the preparation of and advise the Board concerning documents for the bond transcript. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP.

The legal opinions and other letters of counsel to be delivered concurrently with the delivery of the Series 2013 Subordinated Bonds 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 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 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 2013 Subordinated Bonds. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Series 2013 Subordinated Bonds.

The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Series 2013 Subordinated Bonds.

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.

## UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2013 Subordinated Bonds from the Board at a price of $843,198,433.75. Based upon the initial offering yields of the Series 2013 Subordinated Bonds as shown on the inside cover hereof, the Underwriters will receive compensation of $1,134,078.75. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2013 Subordinated Bonds to dealers (including dealers depositing the Series 2013 Subordinated Bonds 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 2013 Subordinated Bonds if any are purchased.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2013 Subordinated Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, including the Series 2013 Subordinated Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Series 2013 Subordinated Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2013 Subordinated Bonds that such firm sells.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association (“WFBNA”). WFBNA, one of the Series 2013 Subordinated Bonds Underwriters, has entered into an agreement (the “Distribution Agreement”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the Series 2013 Subordinated Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2013 Subordinated Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the Series 2013 Subordinated Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of the Series 2013 Subordinated Bonds.

## MISCELLANEOUS

The Department and the Board have furnished the information in this Official Statement relating to the Department, the Board, the Arizona Highway User Revenue Fund and the State Highway Fund. The Independent Auditors' Report and management discussion and analysis included in the Department's financial statements contained in Appendix A refer to certain sections and schedules all of which are not included in this document.

Copies of the Senior Bond Resolution and the Subordinated Bond Resolution discussed herein may be obtained from Ms. Lisa Danka, the Department's Deputy Chief Financial Officer, 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 or certainty and no representation is made that any of those statements have been or will be realized. The agreements of the Board and the State with respect to the Series 2013 Subordinated Bonds are fully set forth in the Subordinated Bond Resolution and neither this Official Statement nor any statements that may have been or that may be made orally or in writing is to be construed as a contract or agreement between the Board, the Department or the State, and the purchasers, Owners or Beneficial Owners of any of the Series 2013 Subordinated Bonds.

This Official Statement is submitted in connection with the original sale and issuance of the Series 2013 Subordinated Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Board and the Department and duly executed and delivered on their behalf by the officials signing below.

ARIZONA TRANSPORTATION BOARD

*/s/ Victor Flores*
Victor Flores, Chair

ARIZONA DEPARTMENT OF TRANSPORTATION

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

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# APPENDIX A

# ARIZONA DEPARTMENT OF TRANSPORTATION
# FINANCIAL STATEMENTS
# YEAR ENDED JUNE 30, 2012
# WITH REPORT OF INDEPENDENT AUDITORS

The Independent Auditors' Report and management discussion and analysis included in the Department's financial statements contained in Appendix A, refer to certain sections and schedules all of which are not included in this Appendix A.

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HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

10120 N. Oracle Road
Tucson, Arizona 85704
*Tel* (520) 742-2611
*Fax* (520) 742-2718

**INDEPENDENT AUDITORS' REPORT**

The Honorable Janice K. Brewer
Governor of the State of Arizona

Members of the Arizona State Legislature

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, 2012, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Arizona Department of Transportation. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1.A, the financial statements of the Arizona Department of Transportation are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Arizona that is attributable to the Arizona Department of Transportation. They do not purport to, and do not, present fairly the financial position of the State of Arizona, as of June 30, 2012, and the changes in its financial position, and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 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, 2012, and the respective changes in its financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012 on our consideration of the Arizona Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14, budgetary comparison information on pages 53 and 54, and information about infrastructure assets reported using the modified approach on pages 55 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements as a whole. The accompanying supplementary information such as the Introductory Section, Supplementary Information, 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 financial statements. The Supplementary Information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 20, 2012

As management of the Arizona Department of Transportation (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, 2012. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal, which can be found on pages i-v, and the Department's basic financial statements, which begin on page 15, with the accompanying notes and Required Supplementary Information (RSI).

## Financial Highlights

**Government-wide:**

- The net assets of the Department at the close of the fiscal year are $16.7 billion, compared to $16.0 billion for fiscal year 2011, an increase of 3.9 percent. Of this amount, $107.8 million represents *unrestricted net assets* and may be used to meet the Department's ongoing obligations to citizens and creditors as compared to $126.1 million at the end of 2011.

- The Department's capital assets are $18.6 billion, compared to $18.0 billion for fiscal year 2011, an increase of 3.5 percent. This increase is attributable to the results of increased highway construction activity. The Department's *invested in capital assets, net of related debt*, is $15.8 billion, compared to $15.2 billion for fiscal year 2011, an increase of 4.2 percent.

- The Department's non-current liabilities are $3.3 billion, compared to $3.1 billion in 2011. The Department had $65.8 million more in bonds outstanding in 2012 than in 2011. During fiscal year 2012, there were $759.2 million in bonds issued, $180.4 million in bonds repaid, and $512.9 million in bonds refunded.

**Fund Level:**

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of approximately $1.2 billion, as compared to approximately $1.1 billion in 2011.

- The total restricted fund balance is $1.1 billion; the majority of this amount is restricted for capital projects. Inventories of $8.2 million represent part of the nonspendable portion of fund balance while $118.6 million represents the committed fund balance portion.

- The proprietary funds reported net assets at year-end of $77.7 million, as compared to $76.4 million in 2011.

## Overview of the 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 Assets and the Statement of Activities, and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets combines and consolidates the 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.

Net assets are the difference between the Department's assets and liabilities, and represent one measure of the Department's financial health.

- An increase or decrease in the Department's net assets 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 Assets 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 *Arizona Highways Magazine* and Highway Expansion and Extension Loan Program (HELP) are reported here.

The government-wide financial statements can be found on pages 15-16 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) 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.

- Bond issuance costs are capitalized and amortized to expense as governmental activities, but reported as expenditures in the governmental fund statements.

- 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 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 begin on page 17 and 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 three categories: governmental, proprietary, and fiduciary.

***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 fifteen 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 nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of combining statements elsewhere in this report.

The legislature appropriates an annual budget for 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 on pages 17-24 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 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 funds are the *Arizona Highways Magazine* Fund and the Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's 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 on pages 25-27 of this report.

***Fiduciary Funds*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs.

The fiduciary fund financial statement can be found on page 28.

**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 on pages 29-52 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) and the modified approach to reporting infrastructure assets. Required Supplementary Information can be found on pages 53-59 of this report.

**Supplementary Information** Other Supplementary Information includes the combining statements for the non-major governmental funds and agency funds, and is presented immediately following the Required Supplementary Information on budget and infrastructure assets. Combining and individual fund statements and schedules can be found on pages 60-65 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial health. The following tables, graphs, and analyses address the financial position and changes to financial position for the Department as a whole as of and for the fiscal years ended June 30, 2012 and 2011.

The Department's combined net assets increased by $618.6 million over the course of this fiscal year's operations, an increase of 3.9 percent. The net assets of the governmental activities increased by $617.2 million, or 4.0 percent, and business-type activities increased by $1.3 million, an increase of 1.7 percent over the previous year. The overall increase in the Department's net assets was due to an increase in the Department's infrastructure.

The following table reflects the condensed Statement of Net Assets as of June 30, 2012 and 2011:

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Assets** | | | | | | |
| Current and other assets | $ 1,514,737,093 | $ 1,401,025,969 | $ 80,112,945 | $ 79,028,924 | $ 1,594,850,038 | $ 1,480,054,893 |
| Capital assets | 18,607,570,621 | 17,975,953,546 | 43,102 | 53,658 | 18,607,613,723 | 17,976,007,204 |
| Total assets | 20,122,307,714 | 19,376,979,515 | 80,156,047 | 79,082,582 | 20,202,463,761 | 19,456,062,097 |
| **Liabilities** | | | | | | |
| Other liabilities | 283,094,516 | 291,218,260 | 2,258,198 | 2,508,827 | 285,352,714 | 293,727,087 |
| Non-current liabilities | 3,267,217,325 | 3,131,004,477 | 147,402 | 136,069 | 3,267,364,727 | 3,131,140,546 |
| Total liabilities | 3,550,311,841 | 3,422,222,737 | 2,405,600 | 2,644,896 | 3,552,717,441 | 3,424,867,633 |
| **Net assets** | | | | | | |
| Invested in capital assets, net of related debt | 15,796,384,864 | 15,159,085,525 | 43,102 | 53,658 | 15,796,427,966 | 15,159,139,183 |
| Restricted | 668,679,292 | 669,811,122 | 76,882,306 | 76,192,180 | 745,561,598 | 746,003,302 |
| Unrestricted | 106,931,717 | 125,860,131 | 825,039 | 191,848 | 107,756,756 | 126,051,979 |
| Total net assets | $ 16,571,995,873 | $ 15,954,756,778 | $ 77,750,447 | $ 76,437,686 | $ 16,649,746,320 | $ 16,031,194,464 |

In rounded figures, the total assets of the Department were $20.2 billion, while total liabilities were $3.6 billion, resulting in a net assets balance of $16.6 billion. The majority of the Department's net assets, $15.8 billion (95.0 percent), 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.

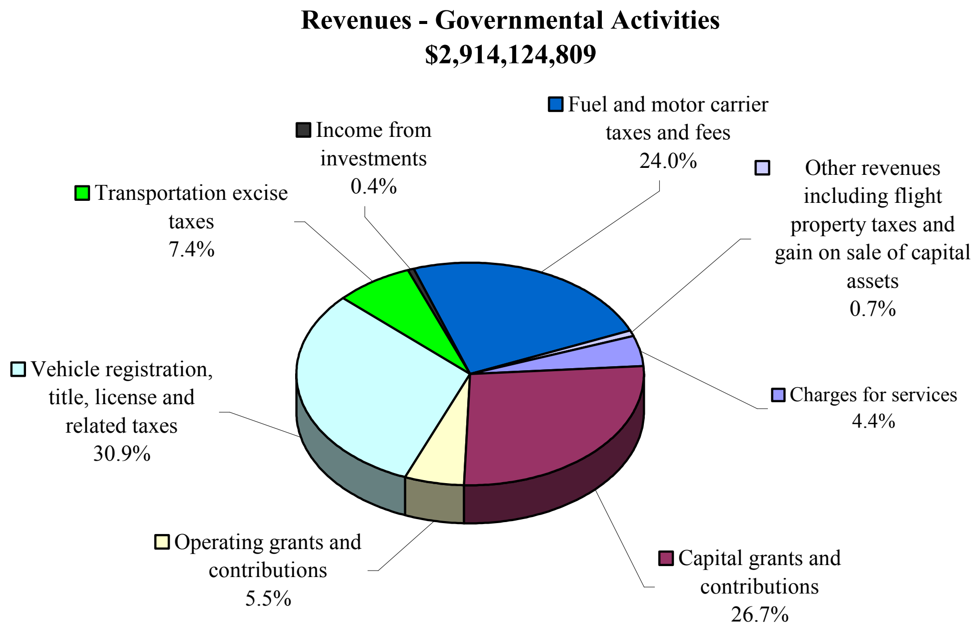
The governmental activities reported an increase in capital assets with the largest increase being in the area of construction in progress. The Department issued four new bonds in fiscal year 2012 which caused the non-current liabilities to increase for the governmental activities.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Revenues** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 127,347,062 | $ 133,661,283 | $ 5,582,832 | $ 5,772,911 | $ 132,929,894 | $ 139,434,194 |
| Operating grants and contributions | 161,992,343 | 220,759,085 | - | - | 161,992,343 | 220,759,085 |
| Capital grants and contributions | 776,813,570 | 743,718,082 | - | - | 776,813,570 | 743,718,082 |
| General revenues: | | | | | | |
| Transportation excise taxes | 216,280,983 | 206,545,412 | - | - | 216,280,983 | 206,545,412 |
| Vehicle registration, title, license and related taxes | 899,344,827 | 874,191,798 | - | - | 899,344,827 | 874,191,798 |
| Fuel and motor carrier taxes and fees | 700,619,599 | 704,726,732 | - | - | 700,619,599 | 704,726,732 |
| Flight property taxes | 10,735,000 | 9,798,513 | - | - | 10,735,000 | 9,798,513 |
| Income from investments | 11,387,628 | 9,414,904 | 783,353 | 554,941 | 12,170,981 | 9,969,845 |
| Gain <loss> on sale of capital assets | <895,030> | 3,604,096 | - | - | <895,030> | 3,604,096 |
| Other | 10,498,827 | 12,491,462 | - | - | 10,498,827 | 12,491,462 |
| Total revenues | 2,914,124,809 | 2,918,911,367 | 6,366,185 | 6,327,852 | 2,920,490,994 | 2,925,239,219 |
| **Expenses** | | | | | | |
| Administration | 94,074,541 | 93,040,027 | - | - | 94,074,541 | 93,040,027 |
| Highway | 39,631,797 | 37,069,567 | - | - | 39,631,797 | 37,069,567 |
| Highway maintenance | 125,330,823 | 129,699,887 | - | - | 125,330,823 | 129,699,887 |
| Motor vehicle | 116,095,447 | 99,948,875 | - | - | 116,095,447 | 99,948,875 |
| Non-capital, including asset preservation | 351,115,581 | 345,590,127 | - | - | 351,115,581 | 345,590,127 |
| Distributions to Arizona counties and cities | 1,005,113,813 | 1,024,756,349 | - | - | 1,005,113,813 | 1,024,756,349 |
| Distributions to other state agencies | 307,885,178 | 254,702,299 | - | - | 307,885,178 | 254,702,299 |
| Local governmental assistance | 93,557,474 | 163,035,322 | - | - | 93,557,474 | 163,035,322 |
| Interest on long-term debt | 164,081,060 | 128,768,466 | - | - | 164,081,060 | 128,768,466 |
| Arizona Highways Magazine | - | - | 4,978,502 | 5,664,153 | 4,978,502 | 5,664,153 |
| Highway Expansion and Extension Loan Program | - | - | 74,922 | 125,981 | 74,922 | 125,981 |
| Total expenses | 2,296,885,714 | 2,276,610,919 | 5,053,424 | 5,790,134 | 2,301,939,138 | 2,282,401,053 |
| Change in net assets before transfers | 617,239,095 | 642,300,448 | 1,312,761 | 537,718 | 618,551,856 | 642,838,166 |
| Transfers | - | <851,400> | - | 851,400 | - | - |
| Change in net assets | 617,239,095 | 641,449,048 | 1,312,761 | 1,389,118 | 618,551,856 | 642,838,166 |
| Net assets - July 1 | 15,954,756,778 | 15,313,307,730 | 76,437,686 | 75,048,568 | 16,031,194,464 | 15,388,356,298 |
| **Net assets - June 30** | $ 16,571,995,873 | $ 15,954,756,778 | $77,750,447 | $76,437,686 | $ 16,649,746,320 | $ 16,031,194,464 |

**Governmental Activities**

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2012:



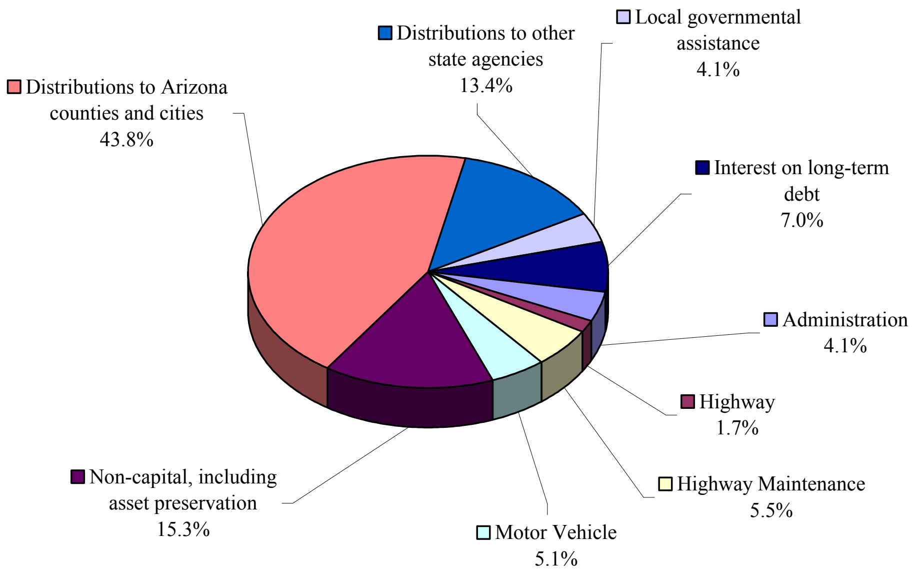

$2.4 billion (or 81.6 percent) of the Department's revenues are from the following three revenue sources:

- Vehicle registration, title, license, and related taxes comprise the Department's largest revenue source of $899.3 million (30.9 percent).
- Capital grants and contributions represent the Department's second largest revenue source of $776.8 million (26.7 percent).
- Fuel and motor carrier taxes and fees represent the Department's third largest revenue source of $700.6 million (24.0 percent).

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax, posted positive year-over-year growth in fiscal year 2012. HURF collections totaled approximately $1.2 billion, an increase of 0.7 percent over fiscal year 2011. Maricopa County Transportation Excise Tax collections totaled $324.2 million, an increase of 4.8 percent over fiscal year 2011, and 0.8 percent above the Department's estimate. The Transportation Excise Tax distribution to the Department was $216.3 million compared to $206.5 million for fiscal year 2011.

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2012:

**Expenses - Governmental Activities**
**$2,296,885,714**




$1.7 billion (or 72.5 percent) of the Department's expenses were for the following:

- Distributions to Arizona counties and cities comprise the Department's largest expense of $1.0 billion (43.8 percent).
- Non-capital, including asset preservation, represents the Department's second largest expense of $351.1 million (15.3 percent).
- Distributions to other state agencies represent the Department's third largest expense of $307.9 million (13.4 percent).

Distributions to Arizona counties and cities decreased in fiscal year 2012 as compared to fiscal year 2011. These decreases were due to the lack of legislative mandates to sweep funds and transfer excess fund balances from state agencies to the State General Fund.

The large decrease in operating grants and contributions expense was due primarily to less expenditures on American Recovery and Reinvestment Act (ARRA) projects.

**Business-type Activities**

Net assets for business-type activities increased by $1.3 million in fiscal year 2012. Total revenues were $6.4 million, with charges for services representing 87.7 percent and income from investments 12.3 percent. The total expenses for business-type activities were $5.1 million.

The Highway Expansion and Extension Loan Program had a increase in total revenues (operating and non-operating) of $66 thousand which was primarily due to the Department choosing not to loan money because the return on investment was not sufficient to merit the risk. Interest revenue increased this fiscal year due to the fund not issuing any new loans and receiving loan repayments, which increased average cash balances during the year.

The *Arizona Highways Magazine* had a decrease in operating revenues of $28 thousand primarily due to a reduction in the number of subscribers for the monthly publication; and a reduction in the purchases of related products such as calendars, books, and holiday gift catalog items. Typically magazine subscribers also purchase these related products. This decline in demand is consistent with industry trends for many other consumer periodicals with revenues based predominantly on annual subscriptions, as well as an overall weak economy, especially in Arizona where the majority of subscribers are located.

## 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 (pages 17-24) 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 non-major governmental funds are combined into a single column. Combining statements for the non-major governmental funds may be found on pages 60-63.

As of the end of the fiscal year, the fund balances of the governmental funds totaled $1.2 billion, an increase of $120.9 million over the previous fiscal year. Of the $1.2 billion balance, $8.2 million for inventories represents that portion of the fund balance that is nonspendable; $1.1 billion represents those funds that are restricted and used to pay for capital projects while $15.3 million represents those funds that are restricted and used to pay for debt service; and $118.6 million represents that portion of the fund balance that is committed.

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 $8.2 million; the restricted fund balance was $240.5 million; and the committed fund balance was $81.3 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 2012 were $477.1 million; Transportation Excise Tax revenue of $216.3 million (or 45.3 percent) was the bulk of the revenue. The remaining revenue was mainly federal revenue and income from investments.

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. The other financing sources of $330.9 million were transferred in from the General Fund (State Highway Fund) ($152.7 million), Maricopa Regional Area Road Construction Fund ($103.2 million), and Grant Anticipation Notes Fund ($75.0 million), and were used to pay the debt service.

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. During the fiscal year, the Department's expenditures were $163.9 million. Capital outlay expenditures of $141.7 million (86.5 percent) accounted for the majority of the expenditures in the

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

## Budget Variances

As a consequence of lower revenue collections, the Department reduced its fiscal year 2012 operating spending levels in order to ensure that there would be sufficient cash in the General Fund (State Highway Fund) to cover debt service, contractor payments, fund transfers, and daily operational expenses. Accordingly, actual expenditures for fiscal year 2012 were less than the Department's appropriated budget. Variances reflect personnel savings resulting from the statewide hiring freeze, operational savings from the elimination of non-mission critical overtime and travel; and deferred roadway equipment replacement, facility repair, and routine highway repair and maintenance. Reference the budgetary comparison schedule on page 54.

## Capital Assets and Debt Administration

### 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, 2012, amounts to $18.6 billion (net of accumulated depreciation), a $631.6 million increase over the previous fiscal year.

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land | $ 2,747,307,749 | $ 2,619,089,147 | $ 7,900 | $ 7,900 | $ 2,747,315,649 | $ 2,619,097,047 |
| Buildings and improvements | 108,712,313 | 110,771,178 | 23,678 | 35,069 | 108,735,991 | 110,806,247 |
| Improvements other than buildings | 24,475,649 | 25,532,416 | - | - | 24,475,649 | 25,532,416 |
| Mobile fleet and aircraft | 47,257,632 | 41,920,580 | - | - | 47,257,632 | 41,920,580 |
| Machinery and equipment | 13,332,478 | 12,089,608 | 11,524 | 10,689 | 13,344,002 | 12,100,297 |
| Infrastructure | 12,207,437,415 | 11,604,565,886 | - | - | 12,207,437,415 | 11,604,565,886 |
| Construction in progress | 3,459,047,385 | 3,561,984,731 | - | - | 3,459,047,385 | 3,561,984,731 |
| Total | $ 18,607,570,621 | $ 17,975,953,546 | $ 43,102 | $ 53,658 | $ 18,607,613,723 | $ 17,976,007,204 |

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. Assets accounted for under the modified approach include 6,751 center lane miles (21,440 travel lane miles) and 4,754 bridges that the Department is responsible for maintaining.

The Five-Year Transportation Facilities Construction Program (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 goal is 3.23 for the overall system. The Department's most recent assessment indicated that an overall rating of 3.69 was achieved for fiscal year 2012.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). The Department determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the Department to maintain a Condition Rating Index (CRI) of 92.5 percent or better. In fiscal year 2012, a CRI of 93.1 percent was achieved.

In addition to many smaller projects, the following major highway construction contracts in excess of $10 million were started during fiscal year 2012:

| Description | Contract Start Date | Contract Amount | Fiscal Year 2012 Construction Expenditures |
|---|---|---|---|
| Capacity additions and major widening on State Route 303L at Interstate 10 interchange in Maricopa County | 9/16/2011 | $ 133,909,898 | $ 43,199,841 |
| Capacity additions and major widening on State Route 303L Peoria Avenue to Mountain View Road in Maricopa County | 7/15/2011 | 128,777,023 | 52,691,559 |
| Capacity additions and reconstruction on Interstate 10, Ruthrauff Road to Prince Road in Pima County | 7/15/2011 | 76,438,548 | 21,655,651 |
| New facilities - construction of new roads on State Route 24 from State Route 202L to Ellsworth Road in Maricopa County (Phase I) | 2/17/2012 | 71,415,248 | 5,116,831 |
| Capacity additions and major widening on State Route 303L Glendale Avenue to Peoria Avenue in Maricopa County | 4/20/2012 | 65,104,896 | 1,532,077 |
| Construct interim roadway on Northern Avenue from US Route 60 to State Route 303L in Maricopa County | 7/20/2011 | 57,617,970 | 715,436 |
| System preservation and relocations on Interstate 17 at the Cordes Junction traffic interchange in Yavapai County | 7/15/2011 | 50,927,648 | 28,537,000 |
| Capacity additions and major widening on State Route 303L Thomas Road to Camelback Road in Maricopa County | 4/13/2012 | 31,450,018 | - |
| Capacity additions and major widening on La Canada Drive, River Road to Ina Road in Pima County | 9/28/2011 | 18,209,969 | - |
| Capacity additions and major widening on State Route 89 Fain Road in Yavapai County | 12/6/2011 | 16,267,842 | 6,234,028 |
| System preservation - bridge replacement on State Route 70, the Gila River Bridge at Bylas #2945 in Graham County | 11/18/2011 | 12,685,324 | 7,222,390 |
| System preservation-restoration/rehab/resurface in Interstate 15 Virgin River to Utah State Line in Mohave County | 4/20/2012 | 11,556,394 | - |

Furthermore, the following major highway construction projects had expenditures in excess of $15 million in fiscal year 2012. These project expenditures include payments made to construction contractors (as shown above) as well as utility, design, right-of-way, and landscaping costs:

| Location Description | 2012 Project Expenditures |
|---|---|
| State Route 303L from Peoria Avenue to Mountain View Boulevard in Maricopa County | $ 55,312,340 |
| State Route 303L Interstate10/State Route 303L Traffic Interchange in Maricopa County | 52,612,564 |
| State Route 101 Interstate 10 - Tatum Boulevard in Maricopa County | 50,329,156 |
| State Route 202L, Santan Freeway, Interstate 10 to Gilbert Road in Maricopa County | 33,105,368 |
| State Route 303L Camelback Road to Olive Avenue in Maricopa County | 32,107,363 |
| Interstate 17 Cordes Junction Traffic Interchange in Yavapai County | 32,623,584 |
| State Route 202L, Red Mountain Freeway, Higley Road to US Highway 60 in Maricopa County | 26,035,101 |
| Interstate 10 Ruthrauff Road to Prince Road in Pima County | 25,860,831 |
| Interstate 10 Val Vista Road to Early Road in Pinal County | 24,917,319 |
| Interstate 10 Salt River to Baseline Road in Maricopa County | 21,663,521 |
| Interstate 10 Interstate 8 to State Route 87 in Pinal County | 20,400,724 |
| Interstate 10 and State Route 90 Traffic Interchange in Cochise County | 16,620,141 |

**Non-Current Liabilities (See Note 5F to the financial statements for additional information)**

The Department's non-current liabilities for its governmental and business-type activities as of June 30, 2012, amount to $3.2 billion, an increase of $114.7 million from the previous fiscal year. The increase in capital leases was due to entering into new lease agreements in fiscal year 2012.

| Governmental Activities | 2012 | 2011 |
|---|---|---|
| Highway revenue bonds | $1,619,965,000 | $1,600,855,000 |
| Transportation excise tax revenue bonds | 981,845,000 | 877,845,000 |
| Grant anticipation notes (GARVEE bonds) | 335,230,000 | 392,495,000 |
| Premium on bonds | 227,329,835 | 180,225,182 |
| Compensated absences | 14,890,371 | 14,782,649 |
| Capital leases | 10,728,825 | 4,909,960 |
| Advances and notes payable | 55,666,442 | 59,891,686 |
| Total governmental activities | 3,245,655,473 | 3,131,004,477 |
| **Business-type Activities** | | |
| Compensated absences | 147,402 | 136,069 |
| Total business-type activities | 147,402 | 136,069 |
| Total non-current liabilities | $ 3,245,802,875 | $ 3,131,140,546 |

The Department has issued revenue bonds in 55 separate issues between 1980 and 2012. All bonds outstanding as of June 30, 2012, are scheduled to mature on various dates, but none later than July 1, 2036. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and are not obligations of the State of Arizona. This data was gathered from the various bond records on file from the 1980s to the present.

The senior lien Highway Revenue Bonds have been rated AAA/Aa1 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively. The Department's subordinate lien Highway Revenue Bonds are rated AA+/Aa2 The Department's Transportation Excise Tax Revenue Bonds are rated AA+/Aa1. The Department's Grant Anticipation Notes ("GARVEE bonds") are rated AA/Aa2/AA with the additional rating provided by Fitch Ratings.

## 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. 17$^{th}$ Avenue, Phoenix, Arizona, 85007, or by visiting our website at http://www.azdot.gov/Inside_ADOT/fms/PDF/CAFR12.pdf.

Exhibit 1

Arizona Department of Transportation

Statement of Net Assets

June 30, 2012

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| **Assets** | | | |
| Unrestricted cash on deposit with the State Treasurer | $ 31,059,989 | $ 2,263,107 | $ 33,323,096 |
| Receivables: | | | |
| Subscriptions, net of allowance for doubtful accounts | - | 59,562 | 59,562 |
| Accrued interest | - | 2,308 | 2,308 |
| Taxes and fees | 64,439,338 | - | 64,439,338 |
| Notes and loans | 5,871,601 | 530,450 | 6,402,051 |
| Other, net of allowance for doubtful accounts | 16,432,878 | 151,605 | 16,584,483 |
| Due from U.S. Government for reimbursable costs | 143,308,526 | - | 143,308,526 |
| Internal balances | <28,783> | 28,783 | - |
| Inventories | 11,733,437 | 379,503 | 12,112,940 |
| Other assets/prepaid items | 18,168,740 | 348,079 | 18,516,819 |
| Deferred charges | 14,850,684 | - | 14,850,684 |
| Restricted cash on deposit with the State Treasurer | 1,208,900,683 | 76,349,548 | 1,285,250,231 |
| Capital assets not subject to depreciation (Note 5A) | 18,413,792,549 | 7,900 | 18,413,800,449 |
| Capital assets subject to depreciation, net of accumulated depreciation (Note 5A) | 193,778,072 | 35,202 | 193,813,274 |
| Total assets | 20,122,307,714 | 80,156,047 | 20,202,463,761 |
| **Liabilities** | | | |
| Accounts payable and other current liabilities | 6,939,613 | 21,683 | 6,961,296 |
| Accrued payroll and other accrued expenses | 5,159,106 | 31,644 | 5,190,750 |
| Contracts and retainage payable | 153,052,510 | - | 153,052,510 |
| Due to other state agencies | 11,330,261 | - | 11,330,261 |
| Due to Arizona counties and cities | 106,613,026 | - | 106,613,026 |
| Unearned revenues (Note 5C) | - | 2,204,871 | 2,204,871 |
| Non-current liabilities (Note 5F): | | | |
| Due within one year | 193,444,934 | 145,686 | 193,590,620 |
| Due in more than one year | 3,073,772,391 | 1,716 | 3,073,774,107 |
| Total liabilities | 3,550,311,841 | 2,405,600 | 3,552,717,441 |
| **Net assets** | | | |
| Invested in capital assets, net of related debt | 15,796,384,864 | 43,102 | 15,796,427,966 |
| Restricted: | | | |
| Loans and other financial assistance | - | 76,882,306 | 76,882,306 |
| Debt service | 2,517,544 | - | 2,517,544 |
| Capital projects | 666,161,748 | - | 666,161,748 |
| Unrestricted | 106,931,717 | 825,039 | 107,756,756 |
| Total net assets | $ 16,571,995,873 | $ 77,750,447 | $ 16,649,746,320 |

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

Arizona Department of Transportation
Statement of Activities
for the fiscal year ended June 30, 2012

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net <Expenses> Revenues |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| Administration | $ 94,074,541 | $ 11,947,241 | $ - | $ 1,003,896 | $ <81,123,404> |
| Highway | 39,631,797 | 1,681,192 | 71,510,313 | 775,809,674 | 809,369,382 |
| Highway maintenance | 125,330,823 | 2,289,515 | - | - | <123,041,308> |
| Motor vehicle | 116,095,447 | 111,429,114 | - | - | <4,666,333> |
| Non-capital, including asset preservation | 351,115,581 | - | - | - | <351,115,581> |
| Distributions to other state agencies | 307,885,178 | - | - | - | <307,885,178> |
| Distributions to Arizona counties and cities | 1,005,113,813 | - | - | - | <1,005,113,813> |
| Local governmental assistance | 93,557,474 | - | 90,482,030 | - | <3,075,444> |
| Interest on long-term debt | 164,081,060 | - | - | - | <164,081,060> |
| Total governmental activities | 2,296,885,714 | 127,347,062 | 161,992,343 | 776,813,570 | <1,230,732,739> |
| **Business-type Activities** | | | | | |
| Arizona Highways Magazine | 4,978,502 | 5,581,304 | - | - | 602,802 |
| Highway Expansion and Extension Loan Program | 74,922 | 1,528 | - | - | <73,394> |
| Total business-type activities | 5,053,424 | 5,582,832 | - | - | 529,408 |
| Total | $2,301,939,138 | $132,929,894 | $ 161,992,343 | $776,813,570 | $ <1,230,203,331> |

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Net <expenses> revenues | $ <1,230,732,739> | $ 529,408 | $ <1,230,203,331> |
| General revenues: | | | |
| Transportation excise taxes | 216,280,983 | - | 216,280,983 |
| Vehicle registration, title, license, and related taxes and fees | 899,344,827 | - | 899,344,827 |
| Fuel and motor carrier taxes and fees | 700,619,599 | - | 700,619,599 |
| Flight property taxes | 10,735,000 | - | 10,735,000 |
| Income from investments | 11,387,628 | 783,353 | 12,170,981 |
| Loss on sale of capital assets | <895,030> | - | <895,030> |
| Other | 10,498,827 | - | 10,498,827 |
| Total general revenues | 1,847,971,834 | 783,353 | 1,848,755,187 |
| Change in net assets | 617,239,095 | 1,312,761 | 618,551,856 |
| Net assets - July 1 | 15,954,756,778 | 76,437,686 | 16,031,194,464 |
| **Net assets - June 30** | **$ 16,571,995,873** | **$ 77,750,447** | **$ 16,649,746,320** |

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

# 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, improvement, 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 street system 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, and Grant Anticipation Notes (GARVEE bonds). These monies are expended for the construction of projects in the Five-Year Transportation Facilities Construction Program.

## Non-Major Funds

**Other Governmental Funds** are the non-major funds and are all special revenue funds. These funds can be found on Exhibit 9 and Exhibit 10.

Arizona Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2012

| | General Fund (State Highway Fund) | Special Revenue Funds: Maricopa Regional Area Road Construction Fund | Special Revenue Funds: Motor Vehicle Division Clearing Fund | Special Revenue Funds: Highway User Revenue Fund |
|---|---|---|---|---|
| **Assets** | | | | |
| Unrestricted cash on deposit with the State Treasurer | $ - | $ - | $ - | $ - |
| Receivables: | | | | |
| Interfund (Note 5D) | 82,468,517 | - | - | 26,504,603 |
| Taxes and fees | - | - | 8,832,922 | 55,606,416 |
| Notes and loans | 1,910,694 | - | - | - |
| Other (net) | 4,572,135 | 4,496,394 | - | - |
| Amounts due from U.S. Government | 68,941,477 | 56,090,676 | - | - |
| Inventories | 8,235,030 | - | - | - |
| Land held for resale | 18,168,740 | - | - | - |
| Restricted cash on deposit with the State Treasurer | 240,480,792 | 392,042,197 | 36,230,945 | 82,197,312 |
| Total assets | $ 424,777,385 | $ 452,629,267 | $ 45,063,867 | $ 164,308,331 |
| **Liabilities and fund balances** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 5,135,993 | $ - | $ 825,919 | $ - |
| Accrued payroll and other accrued expenditures | 4,769,006 | 57,708 | - | 2,617 |
| Contracts and retainage payable | 78,629,517 | 53,601,380 | - | - |
| Interfund payables (Note 5D) | 1,515,053 | 268,190 | 28,105,833 | 78,334,505 |
| Amounts due to: | | | | |
| Other state agencies | 2,532,510 | - | 5,020,569 | - |
| Arizona counties and cities | - | - | 18,958,469 | 85,971,209 |
| Surety and rental deposits | 274,916 | - | 281,500 | - |
| Deferred revenue (Note 5C) | 1,910,694 | - | - | - |
| Total liabilities | 94,767,689 | 53,927,278 | 53,192,290 | 164,308,331 |
| Fund balances: (Note 5G) | | | | |
| Unassigned | - | - | <8,128,423> | - |
| Nonspendable | 8,235,030 | - | - | - |
| Restricted | 240,480,792 | 392,001,989 | - | - |
| Committed | 81,293,874 | 6,700,000 | - | - |
| Total fund balances | 330,009,696 | 398,701,989 | - | - |
| Total liabilities and fund balances | $ 424,777,385 | $ 452,629,267 | $ 53,192,290 | $ 164,308,331 |

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

| Debt Service Fund | Capital Projects Fund | Total Non-Major Governmental Funds (See Exhibit 9) | Total Governmental Funds |
|---|---|---|---|
| $ - | $ - | $ 30,425,235 | $ 30,425,235 |
| - | 267,916 | 2,849,461 | 112,090,497 |
| - | - | | 64,439,338 |
| - | - | 3,960,907 | 5,871,601 |
| - | - | 7,359,722 | 16,428,251 |
| - | - | 18,276,373 | 143,308,526 |
| - | - | - | 8,235,030 |
| - | - | - | 18,168,740 |
| 15,385,296 | 429,407,905 | 13,156,236 | 1,208,900,683 |
| $ 15,385,296 | $ 429,675,821 | $ 76,027,934 | $ 1,607,867,901 |
| | | | |
| $ 77,500 | | $ 328,880 | $ 6,368,292 |
| 3,153 | 10,130 | 92,757 | 4,935,371 |
| - | - | 20,821,613 | 153,052,510 |
| - | 3,829,137 | 64,828 | 112,117,546 |
| - | - | 3,777,182 | 11,330,261 |
| - | - | 1,683,348 | 106,613,026 |
| - | - | - | 556,416 |
| - | - | 3,960,907 | 5,871,601 |
| 80,653 | 3,839,267 | 30,729,515 | 400,845,023 |
| | | | |
| - | - | - | <8,128,423> |
| - | - | - | 8,235,030 |
| 15,304,643 | 425,836,554 | 14,645,827 | 1,088,269,805 |
| - | - | 30,652,592 | 118,646,466 |
| 15,304,643 | 425,836,554 | 45,298,419 | 1,207,022,878 |
| $ 15,385,296 | $ 429,675,821 | $ 76,027,934 | $ 1,607,867,901 |

Arizona Department of Transportation

Reconciliation of the Balance Sheet of Governmental Funds

to the Statement of Net Assets

June 30, 2012

| | |
|---|---|
| **Total fund balances - governmental funds (Exhibit 3)** | $ 1,207,022,878 |
| Amounts reported for governmental activities in the Statement of Net Assets (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). | 18,559,776,659 |
| 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 Assets (Exhibit 5). | 51,059,771 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds (Note 4 B2). | 5,871,601 |
| 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 B3). | <3,251,735,036> |
| **Net assets of governmental activities (Exhibit 1)** | $ 16,571,995,873 |

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

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Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the fiscal year ended June 30, 2012

| | General Fund (State Highway Fund) | Special Revenue Funds: Maricopa Regional Area Road Construction Fund | Special Revenue Funds: Motor Vehicle Division Clearing Fund | Special Revenue Funds: Highway User Revenue Fund |
|---|---|---|---|---|
| **Revenues** | | | | |
| Transportation excise taxes | $ - | $ 216,280,983 | $ - | $ - |
| Vehicle registration, title, license, and related taxes and fees | 139,158,674 | - | 511,321,159 | 347,008,081 |
| Fuel and motor carrier taxes and fees | 361,456,432 | - | 21,602,754 | 285,498,976 |
| Flight property taxes | - | - | - | - |
| Reimbursement of construction expenditures - federal aid | 441,653,560 | 256,008,366 | - | - |
| Other federal grants and reimbursements | 71,510,313 | - | - | - |
| Reimbursements from Arizona counties and cities | 4,465,092 | 108,917 | - | - |
| Distributions from other state agencies | 1,842,194 | - | - | - |
| Interest on loans receivable | 102,476 | - | - | - |
| Income from investments | 3,011,762 | 2,939,107 | - | 376,364 |
| Grand Canyon National Park Airport | - | - | - | - |
| Rental income | 1,853,533 | 1,241,972 | - | - |
| Other | 3,751,810 | 514,069 | - | 1,739,867 |
| Total revenues | 1,028,805,846 | 477,093,414 | 532,923,913 | 634,623,288 |
| **Expenditures** | | | | |
| Current: | | | | |
| Administration | 67,902,634 | 335,844 | 8,128,423 | - |
| Highway | 40,479,111 | 1,871,272 | - | - |
| Highway maintenance | 118,230,113 | - | - | - |
| Motor vehicle | 104,039,377 | - | 1,381,383 | 4,434,310 |
| Total current expenditures | 330,651,235 | 2,207,116 | 9,509,806 | 4,434,310 |

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

| Debt Service Fund | Capital Projects Fund | Total Non-Major Governmental Funds (See Exhibit 10) | Total Governmental Funds |
|---|---|---|---|
| $ - | $ - | $ - | $ 216,280,983 |
| - | - | 13,059,618 | 1,010,547,532 |
| - | - | 32,061,437 | 700,619,599 |
| - | - | 10,735,000 | 10,735,000 |
| - | - | 73,238,527 | 770,900,453 |
| - | - | 85,926,299 | 157,436,612 |
| - | - | 5,071,191 | 9,645,200 |
| - | - | - | 1,842,194 |
| - | - | 248,372 | 350,848 |
| 778,417 | 3,780,091 | 244,626 | 11,130,367 |
| - | - | 821,236 | 821,236 |
| - | - | - | 3,095,505 |
| - | - | 2,171,717 | 8,177,463 |
| 778,417 | 3,780,091 | 223,578,023 | 2,901,582,992 |
| 66,160 | 257,943 | 3,935,891 | 80,626,895 |
| - | - | 93,557,474 | 135,907,857 |
| - | - | - | 118,230,113 |
| - | - | 4,472,314 | 114,327,384 |
| 66,160 | 257,943 | 101,965,679 | 449,092,249 |

(continued)

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the fiscal year ended June 30, 2012

| | General Fund (State Highway Fund) | Special Revenue Funds: Maricopa Regional Area Road Construction Fund | Special Revenue Funds: Motor Vehicle Division Clearing Fund | Special Revenue Funds: Highway User Revenue Fund |
|---|---|---|---|---|
| **Expenditures (continued)** | | | | |
| Intergovernmental: | | | | |
| Distributions to other state agencies | $ 137,596 | $ - | $ 142,354,604 | $ 132,956,096 |
| Distributions to Arizona counties and cities | 43,757,398 | 65,506,549 | 389,187,926 | 497,232,882 |
| Debt service: | | | | |
| Principal | 3,536,603 | 12,366,560 | - | - |
| Interest | 214,058 | - | - | - |
| Bond issuance costs | - | - | - | - |
| Non-capital, including asset preservation | 213,277,218 | 52,147,365 | - | - |
| Capital outlay | 299,841,232 | 259,885,684 | - | - |
| Total expenditures | 891,415,340 | 392,113,274 | 541,052,336 | 634,623,288 |
| Excess <deficiency> of revenues over <under> expenditures | 137,390,506 | 84,980,140 | <8,128,423> | - |
| **Other financing sources <uses>** | | | | |
| Transfers in | - | - | - | - |
| Transfers out for debt service | <152,687,225> | <103,223,010> | - | - |
| Sale of capital assets | 1,814,772 | - | - | - |
| Insurance recovery | 1,817,979 | - | - | - |
| Debt issuance | - | 9,541,317 | - | - |
| Refunding debt issuance | - | - | - | - |
| Premium from debt issuance | - | - | - | - |
| Payment to refunded bond escrow agent | - | - | - | - |
| Total other financing sources <uses> | <149,054,474> | <93,681,693> | - | - |
| Net change in fund balances | <11,663,968> | <8,701,553> | <8,128,423> | - |
| Fund balances - July 1 | 341,673,664 | 407,403,542 | - | - |
| **Fund balances - June 30** | $ 330,009,696 | $ 398,701,989 | $ <8,128,423> | $ - |

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

| Debt Service Fund | Capital Projects Fund | Total Non-Major Governmental Funds (See Exhibit 10) | Total Governmental Funds |
|---|---|---|---|
| $ - | $ - | $ 29,769,482 | $ 305,217,778 |
| - | - | 9,083,730 | 1,004,768,485 |
| 180,435,000 | - | - | 196,338,163 |
| 136,998,783 | - | - | 137,212,841 |
| 1,917,566 | 1,124,624 | - | 3,042,190 |
| | 20,792,338 | - | 286,216,921 |
| - | 141,744,920 | 185,530 | 701,657,366 |
| 319,417,509 | 163,919,825 | 141,004,421 | 3,083,545,993 |
| <318,639,092> | <160,139,734> | 82,573,602 | <181,963,001> |
| 330,856,456 | - | - | 330,856,456 |
| - | - | <74,946,221> | <330,856,456> |
| - | - | - | 1,814,772 |
| - | - | - | 1,817,979 |
| - | 259,460,000 | - | 269,001,317 |
| 499,725,000 | - | - | 499,725,000 |
| 62,314,314 | 28,438,791 | - | 90,753,105 |
| <560,228,345> | - | - | <560,228,345> |
| 332,667,425 | 287,898,791 | <74,946,221> | 302,883,828 |
| 14,028,333 | 127,759,057 | 7,627,381 | 120,920,827 |
| 1,276,310 | 298,077,497 | 37,671,038 | 1,086,102,051 |
| $ 15,304,643 | $ 425,836,554 | $ 45,298,419 | $ 1,207,022,878 |

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 fiscal year ended June 30, 2012

| | |
|---|---|
| **Net change in fund balances - total governmental funds (Exhibit 4)** | $ 120,920,827 |
| 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). | 626,256,345 |
| Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 4 C2). | <856,543,829> |
| Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (Note 4 C2). | 729,804,921 |
| Internal service funds are used by management to charge the cost of equipment rentals to individual funds. The net loss of the internal service funds is reported with governmental activities (Note 4 C3). | 5,206,470 |
| Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (Note 4 C4). | <8,405,639> |
| **Change in net assets of governmental activities (Exhibit 2)** | $ 617,239,095 |

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

# Proprietary Funds Financial Statements

## Major Funds

**Arizona Highways Magazine Fund**
The fund consists of receipts generated from the sale of the *Arizona Highways Magazine* and other branded products. The fund provides for the production and sale of the *Magazine* and related products that promote the State of Arizona.

**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.

## Non-Major 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 Assets
Proprietary Funds
June 30, 2012

| | Business-type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Highway Expansion and Extension Loan Program Fund | Arizona Highways Magazine Fund | Total | Governmental Activities - Internal Service Fund |
| **Assets** | | | | |
| Current assets: | | | | |
| Unrestricted cash on deposit with the State Treasurer | $ - | $ 2,263,107 | $ 2,263,107 | $ 634,754 |
| Receivables: | | | | |
| Interfund | - | 26,571 | 26,571 | 478 |
| Subscriptions, net of allowance for doubtful accounts | - | 59,562 | 59,562 | - |
| Accrued interest | 2,308 | - | 2,308 | - |
| Loans | 530,450 | - | 530,450 | - |
| Other, net allowance for doubtful accounts | - | 151,605 | 151,605 | 4,627 |
| Inventories | - | 379,503 | 379,503 | 3,498,407 |
| Prepaid items | - | 348,079 | 348,079 | - |
| Restricted cash on deposit with the State Treasurer | 76,349,548 | - | 76,349,548 | - |
| Total current assets | 76,882,306 | 3,228,427 | 80,110,733 | 4,138,266 |
| Non-current assets: | | | | |
| Capital assets not subject to depreciation | - | 7,900 | 7,900 | - |
| Capital assets subject to depreciation, net of | | | | 47,793,962 |
| accumulated depreciation | - | 35,202 | 35,202 | - |
| Total non-current assets | - | 43,102 | 43,102 | 47,793,962 |
| Total assets | 76,882,306 | 3,271,529 | 80,153,835 | 51,932,228 |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable | - | 21,683 | 21,683 | 14,905 |
| Accrued payroll and other accrued expenses | - | 31,644 | 31,644 | 223,735 |
| Unearned revenues (Note 5C) | - | 2,204,871 | 2,204,871 | - |
| Compensated absences | - | 145,686 | 145,686 | 570,588 |
| Total current liabilities | - | 2,403,884 | 2,403,884 | 809,228 |
| Non-current liabilities: | | | | |
| Compensated absences | - | 1,716 | 1,716 | 63,229 |
| Total non-current liabilities | - | 1,716 | 1,716 | 63,229 |
| Total liabilities | - | 2,405,600 | 2,405,600 | 872,457 |
| **Net assets** | | | | |
| Invested in capital assets, net of related debt | - | 43,102 | 43,102 | 47,793,962 |
| Restricted for loans and other financial assistance | 76,882,306 | - | 76,882,306 | - |
| Unassigned | - | 822,827 | 822,827 | 3,265,809 |
| Total net assets | $ 76,882,306 | $ 865,929 | 77,748,235 | $ 51,059,771 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | 2,212 | |
| Net assets of business-type activities | | | $ 77,750,447 | |

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

Arizona Department of Transportation
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Proprietary Funds
for the fiscal year ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Highway Expansion and Extension Loan Program Fund | Arizona Highways Magazine Fund | Total | Governmental Activities - Internal Service Fund |
| **Operating revenues** | | | | |
| Sales and charges for services (net of write off $28,162) | $ - | $ 4,889,261 | $ 4,889,261 | $ 28,028,438 |
| Interest on loans receivables | 1,528 | - | 1,528 | - |
| Other | - | 692,043 | 692,043 | 72,072 |
| Total operating revenues | 1,528 | 5,581,304 | 5,582,832 | 28,100,510 |
| **Operating expenses** | | | | |
| Publication and promotional cost | - | 1,831,927 | 1,831,927 | - |
| Repair and maintenance | - | 10,802 | 10,802 | 1,694,730 |
| Fuel and lubricants | - | - | - | 12,416,564 |
| Salaries and related benefits | 16,645 | 1,571,889 | 1,588,534 | 11,489,199 |
| Shipping and postage | - | 633,517 | 633,517 | - |
| Supplies | - | 18,175 | 18,175 | 111,802 |
| Equipment purchase and rental | - | 26,274 | 26,274 | 148,771 |
| Professional and outside services | 12,875 | 606,551 | 619,426 | 36,728 |
| Travel | - | 14,113 | 14,113 | 49,046 |
| Depreciation | - | 14,254 | 14,254 | 7,489,883 |
| Other | - | 234,783 | 234,783 | 745,667 |
| Total operating expenses | 29,520 | 4,962,285 | 4,991,805 | 34,182,390 |
| Operating income <loss> | <27,992> | 619,019 | 591,027 | <6,081,880> |
| **Non-operating revenues <expenses>** | | | | |
| Income from investments | 763,520 | 19,833 | 783,353 | 22,550 |
| Investment expense | <44,902> | <1,205> | <46,107> | <1,224> |
| Gain <loss> on sale/disposal of capital assets | - | <1,912> | <1,912> | 83,117 |
| Insurance recoveries | - | - | - | 471,536 |
| Interest on capital leases | - | - | - | <34> |
| Distributions to other state agencies | <500> | <13,100> | <13,600> | <2,667,400> |
| Total non-operating revenues <expenses> | 718,118 | 3,616 | 721,734 | <2,091,455> |
| Capital contributions | - | - | - | 13,379,805 |
| Changes in net assets | 690,126 | 622,635 | 1,312,761 | 5,206,470 |
| Total net assets - July 1 | 76,192,180 | 243,294 | | 45,853,301 |
| **Total net assets - June 30** | $ 76,882,306 | $ 865,929 | | $ 51,059,771 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | - | |
| Change in net assets of business-type activities | | | $ 1,312,761 | |

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

Arizona Department of Transportation
Statement of Cash Flows
Proprietary Funds
for the fiscal year ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Highway Expansion and Extension Loan Program Fund | Arizona Highways Magazine Fund | Total | Governmental Activities - Internal Service Fund |
| **Cash flows from operating activities** | | | | |
| Receipts from customers | $ 110,214 | $ 4,788,657 | $ 4,898,871 | $ 16,765,742 |
| Receipts from other agencies, Arizona counties, and cities | 3,893,583 | - | 3,893,583 | 11,126,005 |
| Payments to suppliers | <12,875> | <3,248,988> | <3,261,863> | <15,478,254> |
| Payments to employees | <22,783> | <1,615,219> | <1,638,002> | <11,914,787> |
| Other receipts <payments> | <30,590> | 692,043 | 661,453 | 72,072 |
| Net cash provided <used> by operating activities | 3,937,549 | 616,493 | 4,554,042 | 570,778 |
| **Cash flows from non-capital financing activities** | | | | |
| Distributions to other state agencies | <500> | <13,100> | <13,600> | <2,667,400> |
| Transfers from <to> other funds | - | - | - | - |
| Net cash provided <used> by non-capital financing activities | <500> | <13,100> | <13,600> | <2,667,400> |
| **Cash flows from capital and related financing activities** | | | | |
| Proceeds from sale of capital assets | - | - | - | 684,847 |
| Acquisition of capital assets | - | <5,610> | <5,610> | <72,539> |
| Insurance recoveries | | | | 471,536 |
| Interest on capital leases | - | - | - | <34> |
| Net cash provided <used> by capital and related financing activities | - | <5,610> | <5,610> | 1,083,810 |
| **Cash flows from investing activities** | | | | |
| Income from investments | 763,520 | 19,833 | 783,353 | 22,550 |
| Investment expense | <44,902> | <1,205> | <46,107> | <1,224> |
| Net cash provided <used> by investing activities | 718,618 | 18,628 | 737,246 | 21,326 |
| Net increase <decrease> in cash | 4,655,667 | 616,411 | 5,272,078 | <991,486> |
| Cash - July 1 | 71,693,881 | 1,646,696 | 73,340,577 | 1,626,240 |
| **Cash - June 30** | **$ 76,349,548** | **$ 2,263,107** | **$ 78,612,655** | **$ 634,754** |
| **Reconciliation of operating <loss> income to net cash provided <used> by operating activities** | | | | |
| Operating <loss> income | $ <27,992> | $ 619,019 | $ 591,027 | $ <6,081,880> |
| Adjustment to reconcile operating <loss> income to net cash provided by operating activities: | | | | |
| Depreciation | - | 14,254 | 14,254 | 7,489,883 |
| Net changes in assets and liabilities: | | | | |
| Receivables | 4,002,269 | 48,091 | 4,050,360 | <5,105> |
| Inventories | - | 93,731 | 93,731 | <219,916> |
| Prepaid items | - | 43,966 | 43,966 | - |
| Accounts payable | - | <10,544> | <10,544> | <104,076> |
| Accrued payroll and other accrued expenses | <2,499> | <58,302> | <60,801> | <379,421> |
| Unearned revenues | - | <148,694> | <148,694> | - |
| Compensated absences | <3,639> | 14,972 | 11,333 | 2,879 |
| Due to Arizona counties and cities | <30,590> | - | <30,590> | - |
| Advance/interfund payable | - | - | - | <131,586> |
| Net cash provided <used> by operating activities | $ 3,937,549 | $ 616,493 | $ 4,554,042 | $ 570,778 |

**Non-cash capital and financing activities**

Certain vehicles were contributed to the Equipment Revolving Fund by the General Fund totaling $13,379,805.

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

# Fiduciary Funds Financial Statements

## Agency Funds

**Highway Properties – Privilege Tax Fund**
This fund collects monies from renters of properties previously acquired by the Department for use in future highway development. Monies collected are distributed to the Department of Revenue.

**Highway Properties – 24 Percent Fund**
This fund collects 24 percent of the Department's rental income from properties for use in future highway development. Monies collected are distributed to the local counties.

Arizona Department of Transportation
Statement of Net Assets
Agency Funds
June 30, 2012

| | |
|---|---|
| **ASSETS** | |
| Restricted cash on deposit with the State Treasurer | $ 413,045 |
| Total assets | $ 413,045 |
| **LIABILITIES** | |
| Due to Department of Revenue | $ 721 |
| Due to Arizona counties | 412,324 |
| Total liabilities | $ 413,045 |

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

Celebrating 100 Years of Arizona History 1912-2012

FISCAL YEAR 2012

Comprehensive Annual Financial Report

# Notes to the Financial Statements

ADOT

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Arizona Department of Transportation (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 (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 (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, 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 Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. 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 Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

> *Invested in capital assets, net of related debt* 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 net assets* result when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
>
> *Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified by management or the Transportation Board.

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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements, with non-major 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.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Department's enterprise funds follow GASB pronouncements and those Financial Accounting Standard Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The enterprise funds do not follow any FASB Statements and Interpretations issued after November 30, 1989.

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:

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.

*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 funds:

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.

The *Arizona Highways Magazine Fund* publishes and markets the *Arizona Highways Magazine* and various other products that promote the State of Arizona.

Additionally, the Department reports the following funds:

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

The *Agency Fund* is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Department has two agency funds: the Highway Properties – Privilege Tax Fund and the Highway Properties – 24 Percent Fund (neither are included in the government-wide statements).

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 *non-operating* 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 and magazine subscriptions. The Department also recognizes as operating revenues interest on loan receivables and other revenues intended to recover the cost of services. Operating expenses for the enterprise funds 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.

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.

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

Deposits and Investments

The Department's cash includes petty cash, bank accounts, and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements, obligations of the U.S. Government, 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, 2012, the State's investment pool 3 was not rated. The weighted average maturity at year end for investment pool 3 was 4.84 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.

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 amortized cost, which approximates 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.

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.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The other receivables and subscriptions receivable are shown net of allowance for doubtful accounts. For other receivables comprising recoverable insurance claims, the amount reserved for doubtful accounts is comprised of 100% of balances greater than six years old, 95% of balances from four to six years old, and a percentage of balances less than four years old. The subscriptions receivable allowance for doubtful accounts is equivalent to an estimated number of issues delivered on outstanding subscription payments past due more than 90 days.

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

Inventories and Prepaid Items

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. No reservation of net assets is shown in the government-wide statements for inventories.

The business-type activities' inventories are stated at the lower of cost or market. Costs of enterprise fund inventories consisting of resale products and supplies are generally determined by moving average cost and specific identification methods, respectively. 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Department's governmental revenue bonds, as well as certain resources of the General Fund (State Highway Fund) and the Highway Expansion and Extension Loan Program Fund (enterprise 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 or state statutes. State law requires 12.6 percent 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 percent of the revenues allocated each year to the General Fund (State Highway Fund) from the Highway User Revenue Fund for the design, purchase of right-of-way, or construction of controlled-access highways, that are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). The debt service fund is used to report the resources set aside for payment of future debt service. Bond proceeds are deposited in the capital projects fund and are restricted 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, 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 estimated fair value at the date 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. 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:

| Assets | Years |
|---|---|
| Buildings and improvements | 20-40 |
| Improvements other than buildings | 20-40 |
| Machinery and equipment | 5-15 |
| Mobile fleet and aircraft | 5-15 |

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 Assets. The Department's infrastructure assets consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated.

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.

Deferred/Unearned Revenues

In the government-wide statements and proprietary fund financial statements, deferred/unearned revenues are recorded when cash, receivables, or other assets are received prior to revenue being recognized. In the governmental funds, amounts are reported as deferred revenues until they are available to liquidate liabilities of the current period. Deferred/unearned revenues are reported in the government-wide statements for the business-type activities and in the fund statements for both the governmental and proprietary funds. In the government-wide statements, the unearned revenues relate to unearned subscription revenue for the *Arizona Highways Magazine*. Unearned subscription revenue is recorded when subscription orders are received and is amortized as revenue over the terms of the related subscriptions. Costs associated with the selling of subscriptions are expensed in the year incurred. In the fund statements for the General Fund (State Highway Fund), the deferred revenue represents the amount for the notes receivable for loans made to parties who purchased assets previously owned by the Department for highway construction purposes. For the Non-Major Governmental Funds, the deferred revenue represents loans to various local governments for airport capital improvements designed to generate airport revenues and/or related airport economic development efforts. Loans are typically for construction of aircraft storage hangars, fuel dispensing and storage facilities, and terminal buildings. Loan rates vary and are based on the Bond Buyer Index (BBI) for 25 year national revenue bonds. Loan periods are typically 10 to 25 years in length.

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 percent for 500 hours to a maximum of 50 percent 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, while compensatory time accrual is capped at 240 hours at any time. 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 Assets.

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. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations also include amounts that other governmental entities advance the 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 Assets/Fund Balance

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

Fund balances for governmental funds may be classified as nonspendable, restricted, committed, assigned, or unassigned in the fund financial statements. Nonspendable fund balance describes that portion of fund balance that cannot be spent because of its form; restricted fund balance describes that portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions; committed fund balance describes that portion which has self-imposed limitations; assigned fund balance describes that portion of fund balance that reflects a governments' intended use of resources; and unassigned fund balance represents net resources in excess of what can properly be classified in one of the other categories.

The State applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**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 non-operating and are sub-classified by object (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 non-operating.

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, 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 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 Assets, except for the residual amounts due between governmental and business-type activities.

## 2. FUNDS BY CLASSIFICATION

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

**FUND TYPES**

**MAJOR FUNDS**

Governmental Funds:
- General Fund (State Highway Fund)
- Special Revenue Funds:
  - Maricopa Regional Area Road Construction Fund
  - Motor Vehicle Division Clearing Fund
  - Highway User Revenue Fund
- Debt Service Fund
- Capital Projects Fund

Proprietary Funds:
- Enterprise Funds:
  - Arizona Highways Magazine Fund
  - Highway Expansion and Extension Loan Program Fund
- Internal Service Fund
  - Equipment Revolving Fund

**FIDUCIARY FUNDS**

Agency Funds:
- Highway Properties–Privilege Tax Fund
- Highway Properties–24 Percent Fund

**NON-MAJOR FUNDS**

Other Governmental Funds:
- Special Revenue Funds:
  - State Aviation Fund
  - Safety Enforcement and Transportation Infrastructure Fund
  - Motor Vehicle Liability Insurance Enforcement Fund
  - Motor Vehicle Inspection and Title Enforcement Fund
  - Motor Carrier Safety Revolving Fund
  - Underground Storage Tank Fund
  - Economic Strength Project Fund
  - Grant Anticipation Notes Fund
  - Local Agency Deposits Fund

## 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 a lump-sum by agency format with a special line-item appropriation for highway maintenance. 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. 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.

For fiscal year 2012, the General Appropriation Act (Laws 2011Chapter 24), appropriated operating funds from the Highway User Revenue Fund. It appears that this was a one-time shift in funding as the appropriation was returned to the Department's General Fund (State Highway Fund) in fiscal year 2013. For consistency in reporting, the Department has shown the operating revenues and expenditures associated with this appropriation as part of the Department's General Fund (State Highway Fund).

## 4. ACCOUNTING PRONOUNCEMENTS AND RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### A. New Accounting Pronouncements

Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

The objectives of this Statement are to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post-employment benefit (OPEB) plans (i.e., agent employers). In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. The Department has implemented this Statement as appropriate. There was no impact to the Department.

Statement No. 59 *Financial Instruments Omnibus*

The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The Department has implemented this Statement as appropriate. There was no impact to the Department.

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

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

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 | $ 18,413,792,549 |
| Capital assets subject to depreciation | 193,778,072 |
| | 18,607,570,621 |
| Less Internal Service Fund (Equipment Revolving Fund) assets | <47,793,962> |
| | $ 18,559,776,659 |

2. Deferred revenues for assets shown in the fund statements for the following funds:

| | |
|---|---|
| Governmental funds: | |
| General Fund (State Highway Fund) | $ 1,910,694 |
| State Aviation Fund | 3,960,907 |
| | $ 5,871,601 |

3. 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 | $ <3,185,931,687> |
| Deferred charges - bond issuance costs | 14,850,684 |
| Capital leases | <10,728,825> |
| Compensated absences | <14,256,554> |
| Advances and notes payable | <55,666,442> |
| Business activity share of Equipment Revolving Fund gain <loss> | <2,212> |
| | $ <3,251,735,036> |

**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 assets of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to clarify these differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

1. 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 | $ 701,657,365 |
| Reduction in construction in progress resulting from certain infrastructure projects being reclassified from capital outlay to non-capital | <35,074,585> |
| Change in net capital assets – Internal Service Fund (Equipment Revolving Fund) | <5,360,730> |
| Assets removed from service, net of accumulated depreciation | <19,847,667> |
| Other | 81,287 |
| Less depreciation expense – governmental funds | <7,709,442> |
| Less depreciation expense – Internal Service Fund (Equipment Revolving Fund) | <7,489,883> |
| | $ 626,256,345 |

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 assets. Also, the government reports the effect of debt issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The details of this difference are as follows:

| | |
|---|---|
| Debt issued or incurred: | |
| Issuance of Highway Revenue Bonds | $ <555,900,000> |
| Issuance of Transportation Excise Tax Revenue Bonds | <159,460,000> |
| Issuance of Grant Anticipation Notes (GARVEE bonds) | <43,825,000> |
| Premium on bonds | <90,753,104> |
| Bond issuance costs | 2,935,593 |
| Advances and notes payable | <9,541,317> |
| | $ <856,543,828> |
| Principal repayments: | |
| Highway Revenue Bonds | $ 536,790,000 |
| Transportation Excise Tax Revenue Bonds | 55,460,000 |
| Grant Anticipation Notes (GARVEE bonds) | 101,090,000 |
| Amortization of premium and discount | 22,086,600 |
| Amortization of debt issuance costs | <1,524,843> |
| Repayment of advances and notes payable | 13,766,561 |
| Repayment of capital leases | 2,136,603 |
| | $ 729,804,921 |

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 business activity.

| | |
|---|---|
| Internal Service Fund (Equipment Revolving Fund): | |
| Changes in net assets | $ 5,206,470 |
| Business activity share of Equipment Revolving Fund <gain> loss | - |
| | $ 5,206,470 |

4. 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:

| | |
|---|---|
| Notes and loans receivables | $ <345,328> |
| Compensated absences | <104,843> |
| Assumption of lease by General Fund (State Highway Fund) | <7,955,468> |
| | $ <8,405,639> |

## 5. DETAILED NOTES ON ALL FUNDS

### A. Capital Assets

Capital assets activity for the year ended June 30, 2012, was as follows:

| Governmental Activities | July 1, 2011 Beginning Balance | Increases | Decreases Including Transfers | June 30, 2012 Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 2,619,089,147 | $ 143,345,011 | $ <15,126,409> | $ 2,747,307,749 |
| Infrastructure | 11,604,565,886 | 606,662,256 | <3,790,727> | 12,207,437,415 |
| Construction in progress | 3,561,984,731 | 546,779,362 | <649,716,708> | 3,459,047,385 |
| Total capital assets, not being depreciated | 17,785,639,764 | 1,296,786,629 | <668,633,844> | 18,413,792,549 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 190,497,045 | 2,012,724 | - | 192,509,769 |
| Improvements other than buildings | 33,788,056 | 56,548 | - | 33,844,604 |
| Machinery and equipment | 48,688,697 | 4,154,515 | <2,998,219> | 49,844,993 |
| Mobile fleet and aircraft | 140,054,475 | 13,287,238 | <6,178,640> | 147,163,073 |
| Total capital assets, being depreciated | 413,028,273 | 19,511,025 | <9,176,859> | 423,362,439 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | <79,725,867> | <4,071,589> | - | <83,797,456> |
| Improvements other than buildings | <8,255,640> | <1,113,315> | - | <9,368,955> |
| Machinery and equipment | <36,599,089> | <2,644,592> | 2,731,166 | <36,512,515> |
| Mobile fleet and aircraft | <98,133,895> | <7,369,829> | 5,598,283 | <99,905,441> |
| Total accumulated depreciation | <222,714,491> | <15,199,325> | 8,329,449 | <229,584,367> |
| Total capital assets, being depreciated, net | 190,313,782 | 4,311,700 | <847,410> | 193,778,072 |
| Governmental activities capital assets, net | $ 17,975,953,546 | $ 1,301,098,329 | $ <669,481,254> | $ 18,607,570,621 |

| Business-type Activities | July 1, 2011 Beginning Balance | Increases | Decreases | June 30, 2012 Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 7,900 | $ - | $ - | $ 7,900 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 981,157 | - | - | 981,157 |
| Machinery and equipment | 2,182,794 | 5,610 | <19,116> | 2,169,288 |
| Total capital assets, being depreciated | 3,163,951 | 5,610 | <19,116> | 3,150,445 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | <946,088> | <11,391> | - | <957,479> |
| Machinery and equipment | <2,172,105> | <2,863> | 17,204 | <2,157,764> |
| Total accumulated depreciation | <3,118,193> | <14,254> | 17,204 | <3,115,243> |
| Total capital assets, being depreciated, net | 45,758 | <8,644> | <1,912> | 35,202 |
| Business-type activities capital assets, net | $ 53,658 | $ <8,644> | $ <1,912> | $ 43,102 |

Depreciation expense was charged to functions/programs as follows:

| | | |
|---|---|---|
| Governmental Activities: | | |
| Administration | $ | 2,336,233 |
| Highway | | 2,022,235 |
| Highway Maintenance | | 1,858,172 |
| Motor Vehicle | | 1,492,802 |
| | | 7,709,442 |
| Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets | | 7,489,883 |
| Total depreciation expense - governmental activities | $ | 15,199,325 |
| Business-type Activities | | |
| Arizona Highways Magazine Fund | $ | 14,254 |

**B. Construction Commitments**

The Department's outstanding commitments for contracts at June 30, 2012, were $746,407,282.

| | Expenditures To Date | Remaining Commitments |
|---|---|---|
| Construction contracts: | | |
| Rural roadways | $1,399,277,575 | $136,565,122 |
| Small urban roadways | 420,495,868 | 29,429,253 |
| Urban roadways | 295,282,099 | 152,454,228 |
| Large urban roadways | 937,645,698 | 141,249,161 |
| General roadways | 216,738,959 | 236,354,052 |
| Sub-total | 3,269,440,199 | 696,051,816 |
| Design contracts | 852,772,536 | 5,789,314 |
| Other commitments | 63,623,625 | 44,566,152 |
| Total | $4,185,836,360 | $746,407,282 |

Area type designations for highways and roads are primarily determined by geographic location and population, as noted below:

Rural – outside of urbanized areas and urban clusters, generally long roads carrying little traffic.
Urban – interstate highways, freeways, expressways, principal arteries serving major centers of activity in metropolitan areas.
Small Urban – in areas of 5,000 to 49,999 in population.
Urban – in areas of less than 200,000 in population.
Large Urban – in areas of equal to or greater than 200,000 in population.

**C. Deferred/Unearned Revenues**

In the fund financial statements, the deferred/unearned revenues represent the amount for notes receivable for loans made to parties who purchased assets previously owned by the fund for highway construction purposes. The State Aviation Fund amount represents loans to various local governments for construction of hangars, taxiway extensions, runways, etc. These loans were made at fixed interest rates and with various maturity dates. The proprietary fund includes the amount for unearned subscriptions. The following schedule is a summary of the amounts outstanding as of June 30, 2012:

| | |
|---|---|
| Governmental funds: | |
| General Fund (State Highway Fund) | $ 1,910,694 |
| State Aviation Fund | 3,960,907 |
| | $ 5,871,601 |
| Proprietary funds: | |
| Arizona Highways Magazine Fund | $ 2,204,871 |

**D. Interfund Receivables, Payables, Advances, and Transfers**

The balances of current interfund receivables and payables as of June 30, 2012, were:

| Receivables | Payables | Amount |
|---|---|---|
| Governmental activities: | | |
| General Fund (State Highway Fund) | Highway User Revenue Fund | $ 78,334,505 |
| | Motor Vehicle Division Clearing Fund | 239,773 |
| | Capital Projects Fund | 3,829,137 |
| | Non-Major Governmental Funds | 64,828 |
| | Maricopa Area Road Fund | 274 |
| Capital Projects Fund | Maricopa Area Road Fund | 267,916 |
| Equipment Service Fund | General Fund (State Highway Fund) | 478 |
| Highway User Revenue Fund | Motor Vehicle Division Clearing Fund | 24,990,028 |
| | General Fund (State Highway Fund) | 1,514,575 |
| Non-Major Governmental Funds | Motor Vehicle Division Clearing Fund | 2,849,461 |
| | | 112,090,975 |
| Business-type acivities: | | |
| Arizona Highways Magazine | Motor Vehicle Division Clearing Fund | 26,571 |
| | | $ 112,117,546 |

The General Fund (State Highway Fund) receivable of $78,334,505 is an accrual for fuel taxes imposed in fiscal year 2012 from the Highway User Revenue Fund that will be collected in fiscal year 2013.

The Highway User Revenue Fund receivable of $24,990,028 is an accrual for vehicle license taxes due in fiscal year 2012 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2013.

Interfund transfers for the year ended June 30, 2012, consisted of the following:

| | Interfund Transfers In: | | | |
|---|---|---|---|---|
| Interfund Transfers Out: | Debt Service Fund | Internal Service Fund (Equipment Fund) | Arizona Highways Magazine Fund | Total |
| General Fund (State Highway Fund) | $ 152,687,225 | $ - | $ - | $ 152,687,225 |
| Maricopa Regional Area Road Construction Fund | 103,223,010 | - | - | 103,223,010 |
| Non-Major Governmental Funds | 74,946,221 | - | - | 74,946,221 |
| Total | $ 330,856,456 | $ - | $ - | $ 330,856,456 |

The General Fund (State Highway Fund) ($152,687,225), the Maricopa Regional Area Road Construction Fund ($103,223,010), and Non-Major Governmental Funds - Grant Anticipation Notes Fund ($74,946,221) made transfers to the Debt Service Fund to pay bond debt service.

## E. Leases

Operating Leases

The Department leases data processing equipment, other equipment, and certain facilities from various lessors. The majority of these leases are for a one-year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the fiscal year ended June 30, 2012, approximated $2.8 million.

In fiscal year 2002, the Department entered into a lease agreement with the city of Phoenix for a facility located on East Washington Street in Phoenix. During fiscal year 2010, the Department renegotiated the lease with the city. This renegotiated lease, effective July 1, 2010, will result in fewer square feet being leased by the Department than had been the case under the original lease. The future operating lease commitments are as follows:

| Year ending June 30 | Amount |
|---|---|
| 2013 | $ 535,510 |
| Future operating lease commitments | $ 535,510 |

In fiscal year 2003, the Department entered into a long-term lease to build a structure to house lab facilities in Gilbert, Arizona. The future operating lease commitments are as follows:

| Year ending June 30 | Amount |
|---|---|
| 2013 | 97,758 |
| Future operating lease commitments | $ 97,758 |

Capital Leases

The Department has entered into lease agreements as lessee for financing the acquisition of various vehicles, equipment, and modular office 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 |
|---|---|
| Assets: | |
| Machinery and equipment | $ 12,478,493 |
| Less accumulated depreciation | <1,222,464> |
| Total | $ 11,256,029 |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

| Year Ending June 30 | Governmental Activities |
|---|---|
| 2013 | 2,654,766 |
| 2014 | 2,654,769 |
| 2015 | 2,654,767 |
| 2016 | 2,604,125 |
| 2017 | 743,698 |
| Total minimum lease payments | 11,312,125 |
| Less amount representing interest | <583,300> |
| Present value of minimum lease payments | $ 10,728,825 |

## F. Non-Current 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 original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $1,600,855,000. During the year, Highway Revenue Bonds totaling $555,900,000 were issued to (i) finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program, (ii) pay interest on any bonds issued for highway purposes, (iii) pay costs of issuing the bonds, and (iv) refund of the Board's outstanding Senior Series 2001 Bonds ($19,290,000), Senior Series 2002 Bonds ($38,195,000), Senior Refunding Series 2002A Bonds ($65,625,000), Senior Series 2002B Bonds ($88,170,000), Senior Series 2003 Bonds ($89,895,000), and refund portions of the Board's outstanding Subordinated Series 2003A Bonds ($75,465,000) and Subordinated Refunding Series 2004B ($92,265,000).

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.

Highway Revenue Bonds currently outstanding are as follows:

| Purpose | Interest Rates | Amount |
|---|---|---|
| Governmental activities | 2.0% - 5.5% | $1,486,690,000 |
| Governmental activities - refunding | 5.0% - 5.25% | 133,275,000 |
| | | $1,619,965,000 |

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

| Fiscal year | Highway Revenue Bonds | | |
|---|---|---|---|
| ending June 30 | Principal | Interest | Total |
| 2013 | 60,540,000 | 78,455,334 | 138,995,334 |
| 2014 | 73,890,000 | 76,108,094 | 149,998,094 |
| 2015 | 77,190,000 | 72,806,964 | 149,996,964 |
| 2016 | 80,680,000 | 69,317,408 | 149,997,408 |
| 2017 | 84,390,000 | 65,607,448 | 149,997,448 |
| 2018-2022 | 486,145,000 | 263,838,672 | 749,983,672 |
| 2023-2027 | 442,415,000 | 135,673,890 | 578,088,890 |
| 2028-2032 | 228,990,000 | 56,932,188 | 285,922,188 |
| 2033-2036 | 85,725,000 | 7,620,500 | 93,345,500 |
| | $ 1,619,965,000 | $ 826,360,498 | $ 2,446,325,498 |

The Department has pledged future motor vehicle and related fuel fees and taxes to repay $1,619,965,000 in outstanding Highway Revenue Bonds issued since 2001. Proceeds from the bonds finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2036. The total principal and interest remaining to be paid on the bonds is $2,446.3 million. Principal and interest paid for the current year and total pledged revenues were $139.0 million and $369.8 million, respectively. The annual principal and interest payments on the bonds required 40.6 percent 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 original amounts of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $877,845,000. During the year, Transportation Excise Tax Revenue Bonds totaling $159,460,000 were issued to pay (1) costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona and (2) costs of issuing the bonds.

All Transportation Excise Tax Revenue Bonds mature no later than July 1, 2026. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

| Purpose | Interest Rates | Amount |
|---|---|---|
| Governmental activities | 2.0% - 5.25% | $ 981,845,000 |

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

| Fiscal year | Transportation Excise Tax Revenue Bonds | | |
|---|---|---|---|
| ending June 30 | Principal | Interest | Total |
| 2013 | 55,870,000 | 47,721,307 | 103,591,307 |
| 2014 | 58,600,000 | 44,988,107 | 103,588,107 |
| 2015 | 61,395,000 | 42,198,107 | 103,593,107 |
| 2016 | 64,355,000 | 39,233,431 | 103,588,431 |
| 2017 | 67,495,000 | 36,096,681 | 103,591,681 |
| 2018-2022 | 390,775,000 | 127,181,331 | 517,956,331 |
| 2023-2025 | 283,355,000 | 27,417,357 | 310,772,357 |
| | $ 981,845,000 | $364,836,321 | $1,346,681,321 |

The Department has pledged future transportation excise taxes to repay $981,845,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County. The bonds are payable solely from transportation excise taxes and are payable through 2026. The total principal and interest remaining to be paid on the bonds is $1,346.7 million. Principal and interest paid for the current year and total pledged revenues were $103.6 million and $216.2 million, respectively. The annual principal and interest payments on the bonds required 50.2 percent of the pledged revenues.

Arizona Transportation Board Grant Anticipation Notes (GARVEE)

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 original amount of Grant Anticipation Notes (GARVEE – Grant Anticipation Revenue Vehicles) issued in prior years and outstanding at the start of the fiscal year was $392,495,000. During the year, Grant Anticipation Notes (GARVEE bonds – Grant Anticipation Revenue Vehicles) totaling $43,825,000 were issued to pay (1) cost of the projects (as specified) and (2) costs of issuing the bonds.

Grant Anticipation Notes (GARVEE) currently outstanding are as follows:

| Purpose | Interest Rates | Amount |
|---|---|---|
| Governmental activities | 2.5% - 5.25% | $ 301,085,000 |
| Governmental activities - refunding | 3.625% - 5.0% | 34,145,000 |
| | | $ 335,230,000 |

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

| Fiscal year ending June 30 | Grant Anticipation Notes (GARVEE) Principal | Interest | Total |
|---|---|---|---|
| 2013 | 38,990,000 | 18,445,555 | 57,435,555 |
| 2014 | 48,530,000 | 16,436,331 | 64,966,331 |
| 2015 | 53,040,000 | 11,854,731 | 64,894,731 |
| 2016 | 47,350,000 | 9,552,631 | 56,902,631 |
| 2017 | 11,770,000 | 7,392,881 | 19,162,881 |
| 2018-2022 | 67,935,000 | 27,886,255 | 95,821,255 |
| 2023-2026 | 67,615,000 | 9,042,932 | 76,657,932 |
| | $335,230,000 | $ 100,611,316 | $435,841,316 |

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# APPENDIX B

## PROPOSED FORMS OF BOND COUNSEL OPINIONS

## (Tax-Exempt Series 2013A Subordinated Bonds)

____________, 2013

To: Arizona Transportation Board
Phoenix, Arizona

Ladies and Gentlemen:

We have served as bond counsel to our client the Arizona Transportation Board (the "Board") and not as counsel to any other person in connection with the issuance by the Board of its $602,765,000 Arizona Transportation Board, Subordinated Highway Revenue Bonds, Tax-Exempt Series 2013A (the "Tax-Exempt Series 2013A Subordinated Bonds"), dated the date of this letter.

The Tax-Exempt Series 2013A Subordinated Bonds are issued pursuant to Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the "Act"), and the resolution adopted by the Board on September 27, 1991, as supplemented to date, including as supplemented by a supplemental resolution adopted by the Board on December 14, 2012 (collectively, the "Subordinated Resolution"). Capitalized terms not otherwise defined in this letter are used as defined in the Subordinated Resolution.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Tax-Exempt Series 2013A Subordinated Bonds, a copy of the signed and authenticated Tax-Exempt Series 2013A Subordinated Bond of the first maturity, the Subordinated 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 Tax-Exempt Series 2013A Subordinated Bonds and the Subordinated Resolution are valid and binding obligations of the Board, enforceable in accordance with their respective terms.

2. The Tax-Exempt Series 2013A Subordinated Bonds constitute special obligations of the Board, and the principal of and interest and any premium on (collectively, "debt service") the Tax-Exempt Series 2013A Subordinated Bonds, together with debt service on any other obligations issued and outstanding on a parity with the Tax-Exempt Series 2013A Subordinated Bonds, as provided in the Subordinated Resolution, are payable solely from and secured solely by the pledge of amounts on deposit in the Subordinated Bond Fund and from certain other funds, all as defined and provided in the Subordinated Resolution. The payment of debt service on the Tax-Exempt Series 2013A Subordinated Bonds is not secured by an obligation or pledge of any money raised by taxation other than the funds pledged as described in the Subordinated Resolution, and the Tax-Exempt Series 2013A Subordinated Bonds do not represent or constitute a general obligation or a pledge of the faith and credit of the Board, the Department, the State of Arizona or any of its political subdivisions.

3. Interest on the Tax-Exempt Series 2013A Subordinated Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, portions of the interest on the Tax-Exempt Series 2013A Subordinated Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. The interest on the Tax-Exempt Series 2013A Subordinated Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Tax-Exempt Series 2013A Subordinated Bonds.

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

In rendering those opinions with respect to treatment of the interest on the Tax-Exempt Series 2013A Subordinated Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Board. Failure to comply with certain of those covenants subsequent to issuance of the Tax-Exempt Series 2013A Subordinated Bonds may cause interest on the Tax-Exempt Series 2013A Subordinated Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

The rights of the owners of the Tax-Exempt Series 2013A Subordinated Bonds and the enforceability of the Tax-Exempt Series 2013A Subordinated Bonds and the Subordinated Resolution are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the Tax-Exempt Series 2013A Subordinated Bonds has concluded on this date.

Respectfully submitted,

## (Taxable Series 2013B Subordinated Bonds)

___________, 2013

To: Arizona Transportation Board
Phoenix, Arizona

Ladies and Gentlemen:

We have served as bond counsel to our client the Arizona Transportation Board (the "Board") and not as counsel to any other person in connection with the issuance by the Board of its $112,705,000 Arizona Transportation Board, Subordinated Highway Revenue Bonds, Taxable Series 2013B (the "Taxable Series 2013B Subordinated Bonds"), dated the date of this letter.

The Taxable Series 2013B Subordinated Bonds are issued pursuant to Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the "Act"), and the resolution adopted by the Board on September 27, 1991, as supplemented to date, including as supplemented by a supplemental resolution adopted by the Board on December 14, 2012 (collectively, the "Subordinated Resolution"). Capitalized terms not otherwise defined in this letter are used as defined in the Subordinated Resolution.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Taxable Series 2013B Subordinated Bonds, a copy of the signed and authenticated Taxable Series 2013B Subordinated Bond of the first maturity, the Subordinated 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 Taxable Series 2013B Subordinated Bonds and the Subordinated Resolution are valid and binding obligations of the Board, enforceable in accordance with their respective terms.

2. The Taxable Series 2013B Subordinated Bonds constitute special obligations of the Board, and the principal of and interest and any premium on (collectively, "debt service") the Taxable Series 2013B Subordinated Bonds, together with debt service on any other obligations issued and outstanding on a parity with the Taxable Series 2013B Subordinated Bonds as provided in the Subordinated Resolution, are payable solely from and secured solely by the pledge of amounts on deposit in the Subordinated Bond Fund and from certain other funds, all as defined and provided in the Subordinated Resolution. The payment of debt service on the Taxable Series 2013B Subordinated Bonds is not secured by an obligation or pledge of any money raised by taxation other than the funds pledged as describe in the Subordinated Resolution, and the Taxable Series 2013B Subordinated Bonds do not represent or constitute a general obligation or a pledge of the faith and credit of the Board, the Department, the State of Arizona or any of its political subdivisions.

3. The interest on the Taxable Series 2013B Subordinated Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Taxable Series 2013B Subordinated Bonds, except as stated in this paragraph 3.

Interest on the Taxable Series 2013B Subordinated Bonds is not excluded from gross income for federal income tax purposes. No attempt has been or will be made to comply with certain requirements of the Internal Revenue Code of 1986, as amended, relating to the exclusion from gross income for federal income tax purposes of interest on the Taxable Series 2013B Subordinated Bonds.

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

The rights of the owners of the Series 2013 Subordinated Bonds and the enforceability of the Bonds and the Subordinated Resolution are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the Series 2013 Subordinated Bonds has concluded on this date.

THE FOREGOING DISCUSSION OF FEDERAL INCOME TAX MATTERS REGARDING THE TAXABLE SERIES 2013B SUBORDINATED BONDS WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS. THE FOREGOING DISCUSSION OF FEDERAL INCOME TAX MATTERS REGARDING THE TAXABLE SERIES 2013B SUBORDINATED BONDS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS. EACH PROSPECTIVE PURCHASER OF THE TAXABLE SERIES 2013B SUBORDINATED BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Respectfully submitted,

# APPENDIX C

# FORM OF CONTINUING DISCLOSURE UNDERTAKING

## $715,470,000
## ARIZONA TRANSPORTATION BOARD
## SUBORDINATED HIGHWAY REVENUE BONDS

| | |
|---|---|
| **$602,765,000**<br>**Tax-Exempt Series 2013A** | **$112,705,000**<br>**Taxable Series 2013B** |

## CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING ("Undertaking"), dated ____________, 2013, 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 $602,765,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Subordinated Highway Revenue Bonds, Tax-Exempt Series 2013A (the "Tax-Exempt Series 2013A Subordinated Bonds") and of its $112,705,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Subordinated Highway Revenue Bonds, Taxable Series 2013B (the "Taxable Series 2013B Subordinated Bonds" and, together with the Tax-Exempt Series 2013A Subordinated Bonds, the "Series 2013 Subordinated Bonds") both series dated ___________, 2013.

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 Series 2013 Subordinated Bonds.

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

"*Annual Information*" means, for the most recent Fiscal Year, the type of financial information set forth under the heading "REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues" in the final Official Statement, dated January 16, 2013, for the Series 2013 Subordinated Bonds.

"*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 Series 2013 Subordinated Bonds including persons holding Series 2013 Subordinated Bonds through nominees, depositories or other intermediaries, or (b) is treated as the owner of any Series 2013 Subordinated Bonds for federal income tax purposes.

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

"*Filing Date*" means the first day of the eighth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day), beginning February 1, 2014.

"*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 Series 2013 Subordinated Bonds set forth in Sections 4(a) and (b) below.

*"State"* means the State of Arizona.

Section 3. Filing of Annual Information and Audited Financial Statements. The Issuer is the only Obligated Person (as defined in the Rule) for the Series 2013 Subordinated Bonds. The Issuer hereby agrees to provide or cause to be provided to the MSRB, in a format and with identifying information prescribed by the MSRB:

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

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

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

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

(a) The Issuer agrees to provide to the MSRB, in a format and with identifying information prescribed by the MSRB, notice of the occurrence of any of the following events (1) through (9) with respect to Series 2013 Subordinated Bonds, in a timely manner not in excess of ten business days after the occurrence of the following events:

(1) Principal and interest payment delinquencies;

(2) Unscheduled draws on debt service reserves reflecting financial difficulties[1];

(3) Unscheduled draws on credit enhancements reflecting financial difficulties[2];

(4) Substitution of credit or liquidity providers, or their failure to perform[2];

---

[1] The Series 2013 Subordinated Bonds are not secured by a debt service reserve as of the date of issue.
[2] No credit enhancement has been obtained for the Series 2013 Subordinated Bonds as of the date of issue.

(5) Adverse tax opinions, the Issuance by the Internal Revenue Service of proposed or final determination of taxability or of Notices of Proposed Issue (IRS Form 5701 TEB);

(6) Tender offers;

(7) Defeasances;

(8) Rating changes; or

(9) Bankruptcy, insolvency, receivership or similar event of the Issuer.

*Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.*

(b) The Issuer agrees to provide to the MSRB, in a format and with identifying information prescribed by the MSRB, notice of the occurrence of any of the following events (10) through (16) with respect to Series 2013 Subordinated Bonds, in a timely manner not in excess of ten business days after the occurrence of the following events, if material:

(10) Unless described in subparagraph (a)(5) above, other material notices or determinations by the Internal Revenue Service with respect to the tax status of Series 2013 Subordinated Bonds or other material events affecting the tax status of Series 2013 Subordinated Bonds;

(11) Modification to rights of security holders;

(12) Bond calls;

(13) Release, substitution or sale of property securing repayment of Series 2013 Subordinated Bonds;

(14) Non-payment related defaults;

(15) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(16) Appointment of a successor or additional trustee or the change of name of a trustee for the Series 2013 Subordinated Bonds.

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

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

(e) Notwithstanding the foregoing, notice of the Specified Event described in subsection 4(b)(12) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2013 Subordinated Bonds pursuant to the Resolution (as defined in the Series 2013 Subordinated Bonds).

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

Section 5. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information or providing notice of the occurrence of an event, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information from any document or notice of occurrence of an event in addition to that which is specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such information or include it in any future Annual Information or notice of Specified Events.

Section 6. Failure to Perform. The Issuer agrees that its agreements set forth in Sections 3 and 4 of this Undertaking are intended to be for the benefit of the Beneficial Owners from time to time of the Series 2013 Subordinated Bonds. Any Beneficial Owner of a Series 2013 Subordinated Bond may enforce the Issuer's obligation to provide or cause to be provided a filing that is due in accordance with Section 3 or 4 hereof by commencing an action in a court of competent jurisdiction in Phoenix, Arizona to seek specific performance by court order to compel the Issuer to make such filings; provided that any Beneficial Owner seeking to require the Issuer to comply with this Undertaking shall first provide at least 30 days' prior written notice to the Board and the Department of the Issuer's failure, giving reasonable detail of such failure, following which notice the Issuer shall have 30 days to comply. The right of a Beneficial Owner to enforce any provision of this Undertaking shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder, and no person or entity shall be entitled to recover monetary damages under this Undertaking, and provided further that any failure of the Issuer to comply with any provisions of this Undertaking shall not be a default or an Event of Default with respect to the Series 2013 Subordinated Bonds under the Resolution.

Section 7. Amendments; Waiver. The Board reserves the right to amend this Undertaking, and noncompliance with any provision of this Undertaking may be waived, as may be necessary or appropriate to (a) achieve its compliance with 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 Series 2013 Subordinated Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the Board shall have received either (i) a written opinion of bond counsel or other qualified independent special counsel selected by Board that the amendment or waiver would not materially impair the interests of Holders or Beneficial Owners or (ii) the written consent to the amendment or waiver of the Holders of at least a majority of the principal amount of the Series 2013 Subordinated Bonds then outstanding.

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

Section 8. Termination of Undertaking. This Undertaking shall terminate when (a) the Series 2013 Subordinated Bonds are no longer outstanding (within the meaning of the Resolution) or (b) the Rule no longer applies to these Series 2013 Subordinated Bonds.

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

Section 10 Beneficiaries. This Undertaking shall inure solely to the benefit of the Issuer and the Beneficial Owners from time to time of the Series 2013 Subordinated Bonds and shall create no rights in any other person or entity.

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

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

(Remainder of this page left blank)

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Undertaking to be executed and delivered by their duly authorized officers as of this _____ day of ____________, 2013.

ARIZONA TRANSPORTATION BOARD

By:________________________________________________

Name: Victor Flores

Its: Chair

ARIZONA DEPARTMENT OF TRANSPORTATION

By:________________________________________________

Name: John Halikowski

Its: Director

(Signature page of Continuing Disclosure Undertaking)

# APPENDIX D

## 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 2013 Subordinated Bonds. The Series 2013 Subordinated Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2013 Subordinated Bonds 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 2013 Subordinated Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Subordinated Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 Subordinated Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Subordinated Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2013 Subordinated Bonds, except in the event that use of the book-entry system for the Series 2013 Subordinated Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 Subordinated Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013 Subordinated Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Subordinated Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Subordinated Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2013 Subordinated Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Subordinated Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2013 Subordinated Bond documents. For example, Beneficial Owners of Series 2013 Subordinated Bonds may wish to ascertain that the nominee holding the Series 2013 Subordinated Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013 Subordinated Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2013 Subordinated Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013 Subordinated Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Series 2013 Subordinated Bonds will be made by the Paying Agent to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2013 Subordinated Bonds at any time by giving reasonable notice to the Paying Agent or the Board. Under such circumstances, in the event that a successor depository is not obtained, Series 2013 Subordinated Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2013 Subordinated Bond certificates will be printed and delivered to DTC.

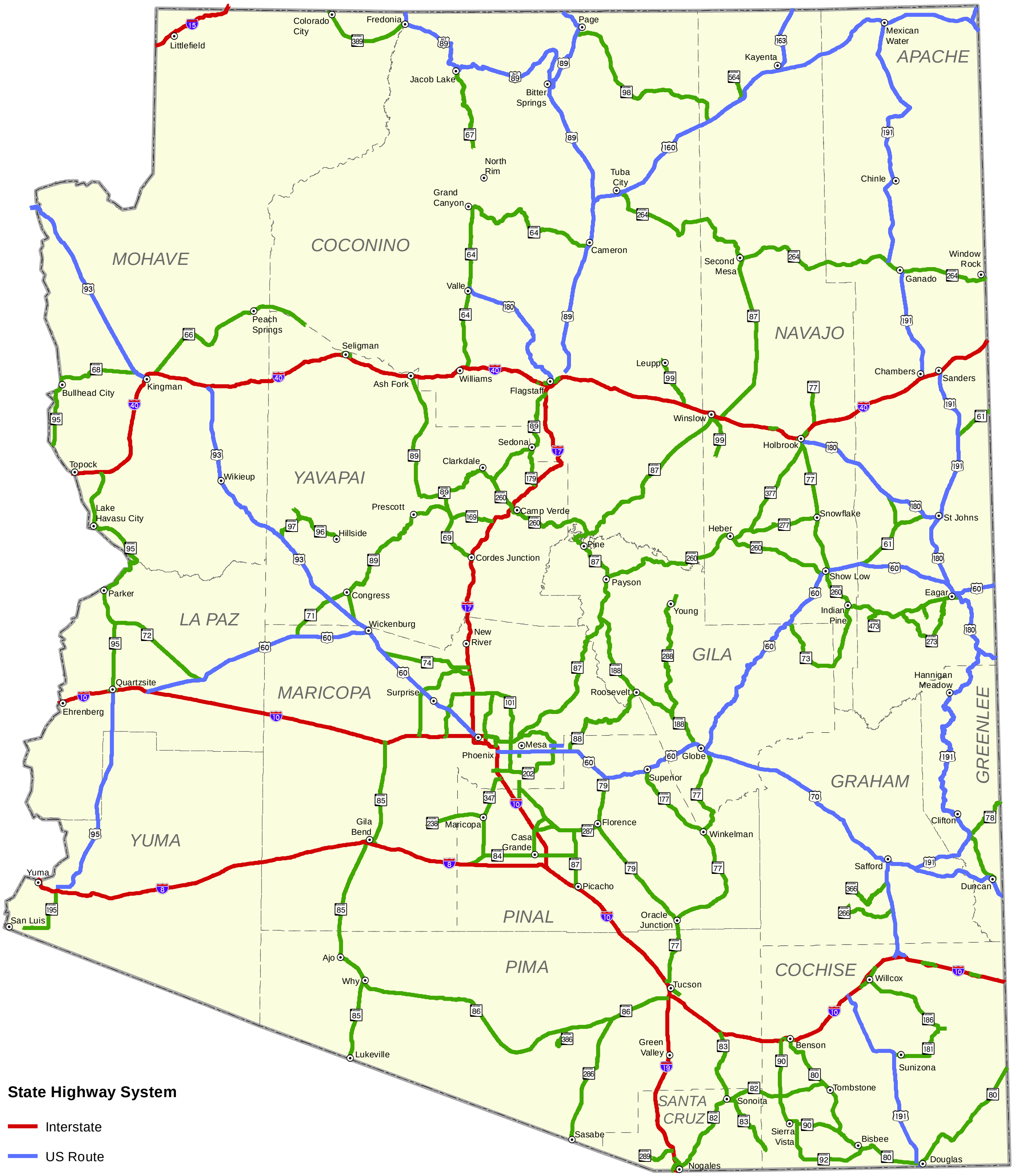
NONE OF THE BOARD, THE DEPARTMENT, THE BOND REGISTRAR AND PAYING AGENT WILL HAVE RESPONSIBILITY OR OBLIGATION TO THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2013 SUBORDINATED BONDS UNDER THE BOND RESOLUTIONS; (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 2013 SUBORDINATED BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2013 SUBORDINATED BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2013 SUBORDINATED BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Series 2013 Subordinated Bonds, as nominee for DTC, references herein to Owner of the Series 2013 Subordinated Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2013 Subordinated Bonds.

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

# State Highway System




## State Highway System

- Interstate
- US Route
- State Route

- Cities and Towns
- County Boundaries

**Note:**
**The State of Arizona makes no claims concerning the accuracy of this map nor assumes any liability resulting from the use of the information herein.**

**Prepared by:**
**Arizona Department of Transportation**
**Multimodal Planning Division**
**Transportation Analysis GIS Section**
**(602) 712-7333**
**May, 2012**

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