

## OFFICIAL STATEMENT

NEW ISSUE – BOOK-ENTRY-ONLY

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

**\$510,275,000**

### ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE REFUNDING BONDS TAXABLE SERIES 2020

**Dated: Date of Initial Delivery**

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

The Highway Revenue Refunding Bonds, Taxable Series 2020 (the "Series 2020 Bonds") are being issued by the Arizona Transportation Board (the "Board") pursuant to the Senior Bond Resolution described below. Initially, the Series 2020 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 2020 Bonds. Purchases of beneficial interests in the Series 2020 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 2020 Bonds.

Interest on the Series 2020 Bonds is payable until maturity or prior redemption semiannually on January 1 and July 1 of each year, commencing July 1, 2020. Principal of the Series 2020 Bonds will be payable annually in accordance with the schedule set forth on the inside front cover page. So long as the Series 2020 Bonds are registered in the name of DTC, or its nominee, payments of the principal of and interest on the Series 2020 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 2020 Bonds, as described herein.

The maturities, interest rates, yields and CUSIP numbers of the Series 2020 Bonds are shown on the inside front cover page.

The Series 2020 Bonds are subject to redemption prior to maturity as more fully described herein. See "THE SERIES 2020 BONDS – Redemption Provisions" herein.

The Series 2020 Bonds are issued pursuant to a resolution adopted by the Board on May 1, 1980, as supplemented (the "Senior Bond Resolution"), on a parity as to security and source of payment with the previously issued Series 2015 Bonds and Series 2016 Bonds of the Board to be outstanding after issuance of the Series 2020 Bonds, and any additional Senior Bonds subsequently issued on a parity therewith (collectively, the "Senior Bonds").

Proceeds of the Series 2020 Bonds are intended to be used for the purposes of (i) refunding certain of the Board's Outstanding Subordinated Bonds (as defined herein) in advance of their respective maturity dates; and (ii) paying costs of issuing the Series 2020 Bonds. See "PLAN OF REFUNDING" herein.

**The Series 2020 Bonds and all other Senior Bonds are special obligations of the Board payable from and secured solely by a first lien on and pledge of the Pledged Revenues (as defined herein), which consist of a portion of the moneys derived from fees, excises, 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 that are deposited into the State Highway Fund, all as described herein. The Series 2020 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 Senior Bond Resolution.**

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law (i) interest on the Series 2020 Bonds is not excluded from gross income for federal income tax purposes, and (ii) interest on the Series 2020 Bonds is exempt from Arizona state income taxes. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

This cover page contains only a brief description of the Series 2020 Bonds and the security therefor. It is not a summary of material information with respect to the Series 2020 Bonds. Investors should read this entire Official Statement to obtain information necessary to make an informed investment decision.

*The Series 2020 Bonds are offered when, as and if issued and received by the Underwriters identified below, subject to the opinion on certain legal matters relating to their issuance by Squire Patton Boggs (US) LLP, Bond Counsel to the Board, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Ballard Spahr LLP. It is expected that the Series 2020 Bonds, in book-entry form, will be available for delivery to DTC or its agent on or about February 12, 2020.*

**J.P. MORGAN**

**Citigroup**

**Goldman Sachs & Co. LLC**

**Wells Fargo Securities**

**Loop Capital Markets**

**Stifel**

January 9, 2020

**\$510,275,000**  
**ARIZONA TRANSPORTATION BOARD**  
**HIGHWAY REVENUE REFUNDING BONDS**  
**TAXABLE SERIES 2020**

**MATURITY SCHEDULE**

<b>Year (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP<sup>(a)</sup> (040654)</b>
2020	\$5,645,000	1.683%	1.683%	XQ3
2021	7,860,000	1.783	1.783	XR1
2022	61,215,000	1.783	1.783	XS9
2023	19,905,000	1.795	1.795	XT7
2024	76,370,000	1.958	1.958	XU4
2025	67,860,000	2.058	2.058	XV2
2026	53,435,000	2.174	2.174	XW0
2027	34,785,000	2.224	2.224	XX8
2028	35,555,000	2.362	2.362	XY6
2029	36,400,000	2.412	2.412	XZ3
2030	37,280,000	2.462	2.462	YA7
2032	3,045,000	2.662	2.662	YB5
2035	16,940,000	2.912	2.912	YC3

\$53,980,000 3.166% Term Bond due July 1, 2038 at a yield of 3.166% CUSIP<sup>(a)</sup>: 040654YD1

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## STATE OF ARIZONA

Doug Ducey  
*Governor*

### ARIZONA TRANSPORTATION BOARD

	Jack Sellers* <i>Chairman</i>	
Michael S. Hammond* <i>Vice Chairman</i>	Sam Elters <i>Member</i>	Gary Knight <i>Member</i>
Steven E. Stratton <i>Member</i>	Jesse Thompson <i>Member</i>	Vacant <i>Member</i>

### STATE OF ARIZONA DEPARTMENT OF TRANSPORTATION

John S. Halikowski <i>Director</i>	Scott Omer <i>Deputy Director for Operations</i>	Kevin Biesty <i>Deputy Director for Policy</i>
Dallas Hammit, P.E. <i>Deputy Director for Transportation and State Engineer</i>	Kristine Ward <i>Chief Financial Officer</i>	Sonya Herrera <i>Assistant Director Administrative Services Division</i>
Thomas Lane <i>Assistant Director Enforcement and Compliance Division</i>	Steve Boschen, P.E. <i>Assistant Director Infrastructure Delivery and Operations</i>	Eric Jorgensen <i>Director Motor Vehicle Division</i>
Gregory D. Byres, P.E. <i>Assistant Director Multimodal Planning Division</i>	Brent Cain, P.E. <i>Division Director Transportation Systems Management and Operations</i>	Floyd Roehrich, Jr., P.E. <i>Executive Officer</i>
	Lisa Danka <i>Debt Management and Compliance Administrator</i>	

### FINANCIAL ADVISOR

RBC Capital Markets, LLC  
Phoenix, Arizona

### BOND COUNSEL

Squire Patton Boggs (US) LLP  
Phoenix, Arizona

### CONTACT PERSONS CONCERNING THIS OFFERING:

Arizona Department of Transportation  
Kristine Ward  
Lisa Danka  
(602) 712-7441

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\* Mr. Sellers' term on the Board ends on January 17, 2020, at which time Mr. Hammond will become Chairman and Mr. Stratton will become Vice Chairman. Mr. Sellers will continue to serve on the Board until a successor is appointed and confirmed.

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 contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Arizona, the Arizona Transportation Board (the “Board”), or the State of Arizona Department of Transportation (the “Department”). This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the Board’s Highway Revenue Refunding Bonds, Taxable Series 2020 (the “Series 2020 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 Board and the Department have undertaken to provide continuing disclosure with respect to the Series 2020 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 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 the Underwriters, the Financial Advisor or any of their counsel or agents, as to the accuracy or completeness of such information.

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

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.

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 2020 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 2020 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.

**INFORMATION CONCERNING OFFERING RESTRICTIONS  
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

ANY REFERENCES IN THIS OFFICIAL STATEMENT TO THE “ISSUER” MEAN ARIZONA TRANSPORTATION BOARD AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE SERIES 2020 BONDS OFFERED HEREBY.

**MINIMUM UNIT SALES**

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$5,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 30 UNITS (BEING 30 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

**NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA (“EEA”)**

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA. FOR THESE PURPOSES, A “RETAIL INVESTOR” MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE “INSURANCE DISTRIBUTION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN REGULATION (EU) 2017/1129 (THE “PROSPECTUS REGULATION”). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO. 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EEA WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 1(4) OF THE PROSPECTUS REGULATION FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE BONDS. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER IN THE EEA OF THE BONDS SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE UNDERWRITERS TO PROVIDE A PROSPECTUS FOR SUCH OFFER. NEITHER THE ISSUER NOR THE UNDERWRITERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF BONDS THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE UNDERWRITERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE BONDS CONTEMPLATED IN THIS OFFICIAL STATEMENT.

THE OFFER OF ANY BONDS WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN THE EEA, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A “QUALIFIED INVESTOR” AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN “QUALIFIED INVESTORS” AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION), SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER OR THE ISSUER FOR ANY SUCH OFFER; OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 1(4) OF THE PROSPECTUS REGULATION; PROVIDED THAT NO SUCH OFFER OF THE BONDS SHALL REQUIRE THE ISSUER OR ANY UNDERWRITER TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS REGULATION OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 23 OF THE PROSPECTUS REGULATION.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF SECURITIES TO THE PUBLIC” IN RELATION TO THE BONDS IN ANY MEMBER STATE OF THE EEA MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE BONDS OR SUBSCRIBE FOR THE BONDS.

EACH SUBSCRIBER FOR OR PURCHASER OF THE BONDS IN THE OFFERING LOCATED WITHIN A MEMBER STATE OF THE EEA WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A “QUALIFIED INVESTOR” AS DEFINED IN THE PROSPECTUS REGULATION. THE ISSUER AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FSMA) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

#### **NOTICE TO PROSPECTIVE INVESTORS IN JAPAN**

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO. 25 OF 1948, AS AMENDED, THE “FIEA”). NEITHER THE BONDS NOR ANY INTEREST THEREIN MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN (AS DEFINED UNDER ITEM 5, PARAGRAPH 1, ARTICLE 6 OF THE FOREIGN EXCHANGE AND FOREIGN TRADE ACT (ACT NO. 228 OF 1949, AS AMENDED)), OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FIEA AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

THE PRIMARY OFFERING OF THE BONDS AND THE SOLICITATION OF AN OFFER FOR ACQUISITION THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER PARAGRAPH 1, ARTICLE 4 OF THE FIEA. AS IT IS A PRIMARY OFFERING, IN JAPAN, THE BONDS MAY ONLY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY TO, OR FOR THE BENEFIT OF CERTAIN QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED IN THE FIEA (“QIIS”) IN RELIANCE ON THE QIIS-ONLY PRIVATE PLACEMENT EXEMPTION AS SET FORTH IN ITEM 2(I), PARAGRAPH 3, ARTICLE 2 OF THE FIEA. A QII WHO PURCHASED OR OTHERWISE OBTAINED THE BONDS CANNOT RESELL OR OTHERWISE TRANSFER THE BONDS IN JAPAN TO ANY PERSON EXCEPT ANOTHER QII.

#### **NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN**

THE OFFER OF THE BONDS HAS NOT BEEN AND WILL NOT BE REGISTERED OR FILED WITH, OR APPROVED BY, THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN AND/OR OTHER REGULATORY AUTHORITY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS, AND THE BONDS MAY NOT BE OFFERED, ISSUED OR SOLD IN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN THAT REQUIRES THE REGISTRATION OR FILING WITH OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN. THE BONDS MAY BE MADE AVAILABLE OUTSIDE TAIWAN FOR PURCHASE BY

INVESTORS RESIDING IN TAIWAN (EITHER DIRECTLY OR THROUGH PROPERLY LICENSED TAIWAN INTERMEDIARIES), BUT MAY NOT BE OFFERED OR SOLD IN TAIWAN EXCEPT TO QUALIFIED INVESTORS VIA A TAIWAN LICENSED INTERMEDIARY. ANY SUBSCRIPTIONS OF BONDS SHALL ONLY BECOME EFFECTIVE UPON ACCEPTANCE BY THE ISSUER OR THE RELEVANT DEALER OUTSIDE TAIWAN AND SHALL BE DEEMED A CONTRACT ENTERED INTO IN THE JURISDICTION OF INCORPORATION OF THE ISSUER OR RELEVANT DEALER, AS THE CASE MAY BE, UNLESS OTHERWISE SPECIFIED IN THE SUBSCRIPTION DOCUMENTS RELATING TO THE BONDS SIGNED BY THE INVESTORS.

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# OFFICIAL STATEMENT

relating to

**\$510,275,000**

## **Arizona Transportation Board Highway Revenue Refunding Bonds Taxable Series 2020**

### INTRODUCTION

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

This Official Statement provides certain information in connection with the original sale and issuance by the Arizona Transportation Board (the “Board”) of its Highway Revenue Refunding Bonds, Taxable Series 2020 (the “Series 2020 Bonds”).

The Series 2020 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 May 1, 1980, as supplemented to date, including by a supplemental resolution adopted on November 15, 2019 (the “2020 Resolution”) authorizing the Series 2020 Bonds (collectively, the “Senior Bond Resolution”).

Proceeds of the Series 2020 Bonds are intended to be used for the purposes of (i) refunding certain of the Board’s Outstanding Subordinated Bonds (as defined herein) in advance of their respective maturity dates as described herein (such Subordinated Bonds to be referred to herein as the “2020 Bonds to be Refunded”); and (ii) paying the costs of issuing the Series 2020 Bonds. See “PLAN OF REFUNDING” herein.

The Series 2020 Bonds are special obligations of the Board. The principal of, premium, if any, and interest on the Series 2020 Bonds, together with the Outstanding Senior Bonds (as defined herein), are payable solely from and secured solely by a first pledge of and lien on the Pledged Revenues as provided in the Senior Bond Resolution, as defined and as more fully described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS.” Additional bonds may be issued on a parity with the Board’s Outstanding Senior Bonds (“Additional Senior Bonds”) under the conditions and in the manner provided in the Senior Bond Resolution and pursuant to Arizona statutes. The Series 2020 Bonds, the Outstanding Senior Bonds and any Additional Senior Bonds are collectively referred to as the “Senior Bonds.”

**The Series 2020 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 Senior Bond Resolution.**

The Series 2020 Bonds are issued on a parity as to security and source of payment with the Board’s Outstanding Senior Bonds to be outstanding immediately after the delivery of each series of the Series 2020 Bonds, being the: Highway Revenue Refunding Bonds, Series 2015 (the “Series 2015 Bonds”) and Highway Revenue Refunding Bonds, Series 2016 (the “Series 2016 Bonds”).

The aggregate principal amount of Senior Bonds that will be outstanding immediately after delivery of the Series 2020 Bonds will be \$1,062,820,000.

In addition, the Board has outstanding bonds payable solely from and secured solely by a subordinated and junior lien on the Pledged Revenues (the “Subordinated Bonds”), which were issued under and pursuant to the Act and a resolution adopted by the Board on September 27, 1991, as supplemented (the “Subordinated Bond Resolution”). The Subordinated Bond Resolution and the Senior Bond Resolution are sometimes hereinafter referred to as the “Bond Resolutions.” Subordinated Bonds are payable solely from and secured solely by a lien on and pledge of the Pledged Revenues which is subordinate in all respects to payments required for the benefit of the Owners of the Subordinated Bonds. The aggregate principal amount of Subordinated Bonds that will be outstanding immediately after giving effect to the defeasance of the 2020 Bonds to be Refunded will be \$255,330,000.

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 delivery of the Series 2020 Bonds and after giving effect of the defeasance of the 2020 Bonds to be Refunded will be \$1,318,150,000.

Payments on the Series 2020 Bonds are not subject to annual appropriation by the Legislature of the State nor are payments on the Series 2020 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 2020 BONDS – Pledged Revenues.”

This Official Statement describes the terms of and security for the Series 2020 Bonds and the use of proceeds of the Series 2020 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 2020 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. Capitalized terms not defined herein shall have the meanings set forth in the Bond Resolutions. Copies of the Bond Resolutions may be obtained as set forth under “MISCELLANEOUS.”

## **THE SERIES 2020 BONDS**

### **General Description**

The Series 2020 Bonds are issuable as fully registered bonds. The Series 2020 Bonds will bear interest from their respective dates of initial delivery, at the rates, and 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 2020 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 2020 Bonds, all payments with respect to the Series 2020 Bonds will be made directly to DTC.

So long as Cede & Co. is the registered Owner of the Series 2020 Bonds references herein to “Owners” or registered owners of the Series 2020 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 2020 Bonds as described in APPENDIX D (the “Beneficial Owners”). When notices are given under the Senior Bond Resolution, 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 2020 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 2020 Bonds will be payable on each January 1 and July 1 (each such date is referred to herein as an “Interest Payment Date”), commencing July 1, 2020. Interest on the Series 2020 Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Series 2020 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, initially U.S. Bank National Association and its successors (the “Bond Registrar”), at the address appearing therein, at the close of business of the Bond Registrar on the 15<sup>th</sup> day next preceding such Interest Payment Date (the “Regular Record Date”). So long as the Series 2020 Bonds are registered in the name of Cede & Co., payments of the principal of and interest on the Series 2020 Bonds will be made directly by the Paying Agent to Cede & Co.

## **Redemption Provisions**

### *Optional Redemption.*

(i) Prior to July 1, 2030, the Series 2020 Bonds are subject to redemption prior to their respective maturity dates, 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 Series 2020 Bonds to be redeemed; or

(2) The sum of the present value of the remaining scheduled payments of principal and interest to the stated maturity date of such Series 2020 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020 Bonds are to be redeemed, discounted to the date on which such Series 2020 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 (described below) plus 5 basis points for Series 2020 Bonds maturing July 1, 2020 and July 1, 2024, plus 10 basis points for Series 2020 Bonds maturing July 1, 2025 through and including July 1, 2030, and plus 15 basis points for Series 2020 Bonds maturing July 1, 2032 through and including July 1, 2038.

Plus, in each case, accrued interest on such Series 2020 Bonds to be redeemed to but not including the redemption date.

The “Treasury Rate” is, with respect to any redemption date for a particular Series 2020 Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity, excluding inflation indexed securities (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, but no more than 45 calendar days, prior to the redemption date or, if such Statistical Release is no longer published, any publicly available source of similar market date) most nearly equal to the period from the redemption date to the maturity date of the bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date 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.

(ii) The Series 2020 Bonds maturing on or after July 1, 2031 are subject to optional redemption, prior to their stated maturity, at the election of the Board, in whole or in part, at any time, on or after July 1, 2030, at a redemption price equal to the principal amount of the Series 2020 Bonds to be redeemed plus accrued interest to the date fixed for redemption, but without premium.

*Mandatory Redemption.*

The Series 2020 Bonds maturing on June 1, 2038 are subject to mandatory redemption, by lot, on July 1 in the years and in the amounts set forth below, at a redemption price equal to the principal amount thereof (without premium) plus interest accrued to the date of redemption as follows:

**Term Bond Maturing July 1, 2038**

<u>Year</u>	<u>Redemption Amount</u>
2036	\$17,430,000
2037	17,990,000
2038**	18,560,000

\*\* Final Maturity

*Purchase in Lieu of Redemption.*

If any Series 2020 Bond is called for optional redemption in whole or in part, the Board may elect to have such Series 2020 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 2020 Bonds called for optional redemption. Any such direction must be in writing; if less than all of the Series 2020 Bonds called for redemption are to be purchased, identify those Series 2020 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 2020 Bonds on the date which otherwise would be the redemption date of such Series 2020 Bonds. Any of the Series 2020 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 2020 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 2020 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 2020 Bonds on the scheduled redemption date for such redemption. The Paying Agent shall not purchase the Series 2020 Bonds if by no later than the redemption date, sufficient available moneys have not been deposited with the Paying Agent.

*Selection of Series 2020 Bonds to be Redeemed.*

If less than all of the Series 2020 Bonds are to be redeemed, the particular maturities of Series 2020 Bonds to be redeemed at the election of the Board will be determined by the Board in its sole discretion.

If the Series 2020 Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of such Series 2020 Bonds, if less than all of the Series 2020 Bonds of a maturity are called for prior redemption, the particular Series 2020 Bonds or portions thereof to be redeemed shall be allocated on a *pro rata pass-through distribution of principal* basis in accordance with DTC procedures, provided that, so long as the Series 2020 Bonds are held in book-entry form, the selection for redemption of such Series 2020 Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a *pro rata pass-through distribution of principal* basis, the Series 2020 Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

The Board intends that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Board nor the Underwriters can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Series 2020 Bonds on such basis.

In connection with any repayment of principal, including payments of scheduled mandatory sinking fund payments, the Paying Agent/Registrar will direct DTC to make a pass-through distribution of principal to the holders of the Series 2020 Bonds. For purposes of calculation of the "pro rata pass-through distribution of principal," "pro rata" means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective Series 2020 Bonds where (a) the numerator of which is equal to the amount due to the respective bondholders on a payment date, and (b) the denominator of which is equal to the total original par amount of the respective Series 2020 Bonds.

If the Series 2020 Bonds are no longer registered in book-entry-only form, each owner will receive an amount of Series 2020 Bonds equal to the original face amount then beneficially held by that owner, registered in such investor's name. Thereafter, any redemption of less than all of the Series 2020 Bonds of any maturity will continue to be paid to the registered owners of such Series 2020 Bonds on a pro-rata basis, based on the portion of the original face amount of any such Series 2020 Bonds to be redeemed.

#### *Notice of Redemption.*

The Bond Registrar shall give notice by mail of the redemption of any Series 2020 Bonds, not less than 30 days prior to the redemption date, to the registered Owners of any Series 2020 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 2020 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 2020 Bonds of a maturity are to be redeemed, the particular Series 2020 Bonds or portions thereof to be redeemed. Any defect in the notice to the Owner of any Series 2020 Bond which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other Series 2020 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 2020 Bond to notify the Beneficial Owner shall not affect the validity of the redemption of such Series 2020 Bond.

So long as the Series 2020 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 2020 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 2020 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 2020 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 2020 Bonds there has not been deposited with the Paying Agent moneys or Defeasance Securities (as defined below) sufficient to redeem all the Series 2020 Bonds called for optional redemption, then such notice shall state that the optional redemption is conditional upon the deposit of moneys or Defeasance Securities 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 2020 Bonds shall not be optionally redeemed unless such moneys or Defeasance Securities are so deposited.

So long as the Series 2020 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 2020 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 2020 Bonds are not in book-entry-only form, the following paragraph will be applicable.

The registration of any Series 2020 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 2020 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 2020 Bond may be exchanged at the designated office of the Bond Registrar for new Series 2020 Bonds of any authorized denomination, aggregate principal amount and maturity as the surrendered Series 2020 Bond. The Bond Registrar will not charge an administrative fee for any new Series 2020 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 2020 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 2020 Bonds or Series 2020 Bonds of a particular maturity or a particular Series 2020 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 Senior Bond Resolution, such Series 2020 Bonds will cease to be entitled to any lien, benefit or security under the Senior Bond Resolution, and all covenants, agreements and obligations of the Board to the Owners of such Series 2020 Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Senior Bond Resolution, any Outstanding Series 2020 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 2020 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 2020 Bonds, for the purpose of paying the principal of, and interest on such Series 2020 Bonds, as the same shall mature, come due or become payable upon prior redemption. Upon such deposit, the Series 2020 Bonds so provided for shall no longer be outstanding under the Senior 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 S&P Global Ratings, a division of Standard and Poor's Financial Services LLC ("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 REFUNDING

A portion of the net proceeds received from the sale of the Series 2020 Bonds will be placed in a trust account (the “2020 Escrow Account”) with U.S. Bank National Association, as escrow trustee under an escrow agreement (the “2020 Escrow Agreement”), to be applied to the payment of the 2020 Bonds to be Refunded, as identified below, and will be used to acquire certain Defeasance Securities, the maturing principal of and interest on which, together with any other amounts in the 2020 Escrow Account, will be calculated to be sufficient to provide moneys to pay the principal and interest with respect to the 2020 Bonds to be Refunded to their redemption dates as shown in the following table. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein. Upon deposit of such moneys and such Defeasance Securities in the 2020 Escrow Account, the 2020 Bonds to be Refunded will cease to be entitled to any pledge, benefit or security under the Bond Resolution, and all covenants, agreements and obligations of the Board to the Owners of the 2020 Bonds to be Refunded will thereupon cease, terminate and be discharged and satisfied, except for payments from the 2020 Escrow Account. The remaining balance of the proceeds will be used to pay the costs of issuing the Series 2020 Bonds.

### 2020 BONDS TO BE REFUNDED

Issue Series	Maturity Date (July 1)	Coupon	Principal Amount Outstanding	Bonds to be Refunded	Redemption Date (July 1)	Redemption Price	CUSIP® <sup>(a)</sup> (040654)
Subordinated Series 2011A	2022	5.00%	\$53,210,000	\$53,210,000	2021	100%	UD5
	2023	5.00	13,475,000	13,475,000	2021	100	UE3
	2024	5.00	30,170,000	30,170,000	2021	100	TM7
	2025	5.00	30,885,000	30,885,000	2021	100	UF0
	2032	4.00	4,220,000	4,220,000	2021	100	TU9
			\$131,960,000	\$131,960,000			
Subordinated Series 2013A	2024	5.00%	\$40,080,000	\$40,080,000	2022	100%	VG7
	2025	5.00	32,880,000	32,880,000	2022	100	VH5
	2026	5.00	49,950,000	49,950,000	2022	100	VJ1
	2027	5.00	32,635,000	32,635,000	2022	100	VK8
	2028	4.00	14,500,000	14,500,000	2022	100	VL6
	2028	5.00	19,765,000	19,765,000	2022	100	VY8
	2029	4.00	2,100,000	2,100,000	2022	100	VM4
	2029	5.00	33,740,000	33,740,000	2022	100	VZ5
	2030	4.00	20,000,000	20,000,000	2022	100	VN2
	2030	5.00	17,610,000	17,610,000	2022	100	WA9
	2035	5.00	18,035,000	18,035,000	2022	100	VT9
	2036	5.00	18,935,000	18,935,000	2022	100	VU6
	2037	5.00	19,885,000	19,885,000	2022	100	VV4
	2038	5.00	20,880,000	20,880,000	2022	100	VW2
			\$340,995,000	340,995,000			
			\$472,955,000	\$472,955,000			
TOTAL							

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Board, the Department, the Underwriters, the Financial Advisor or their agents or counsel take responsibility for the accuracy of such numbers.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Concurrently with the delivery of and payment for the Series 2020 Bonds, Robert Thomas CPA, LLC, 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 the sufficiency of the anticipated receipts from the Defeasance Securities held in the 2020 Escrow Account, together with the initial cash deposit, to pay, when redeemed, the principal of and interest on the 2020 Bonds to be Refunded. Such computations will be prepared using certain information provided by the Underwriters on behalf of the Board.

The report of Robert Thomas CPA, LLC 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 Underwriters 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 2020 BONDS**

### **Legal Authority**

The Series 2020 Bonds are special obligations of the Board and are being issued by the Board pursuant to the Act and the Senior 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 2020 Bonds, the Outstanding Senior Bonds and any Additional Senior Bonds that may subsequently be issued by the Board on a parity therewith pursuant to the Senior Bond Resolution, are issued on a parity as to security and source of payment. Immediately after the delivery of the Series 2020 Bonds, there will be \$1,062,820,000 of Senior Bonds Outstanding and, after giving effect to the defeasance of the 2020 Bonds to be Refunded, \$255,330,000 of Subordinated Bonds Outstanding.

### **General**

Payments of principal of and interest on the Series 2020 Bonds and all other Senior Bonds are payable solely from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. The lien on and pledge of Pledged Revenues for Senior Bonds is in all respects senior and prior to the lien on and pledge of Pledged Revenues for the Subordinated Bonds. 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 Series 2020 Bonds and all other Senior Bonds and 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 Series 2020 Bonds and the other Outstanding Senior Bonds as described under “Additional Bonds - *Additional Senior Bonds*” herein. The Board may also issue Additional Subordinated Bonds as described under “Additional Bonds - *Additional Subordinated Bonds*” herein.

### **Special Obligations**

**The Series 2020 Bonds are special obligations of the Board and are payable solely from the sources specified in the Act and the Senior Bond Resolution. The Series 2020 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 Senior Bond Resolution.**

### **Pledged Revenues**

The Series 2020 Bonds, together with the other Outstanding Senior Bonds and any Additional Senior Bonds that may be subsequently issued, are payable from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. 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 \$400 million over the remainder of the current Five-Year Capital Program (ending fiscal year 2025) 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 \$1,062,820,000 after the issuance of the Series 2020 Bonds. 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 \$255,330,000 after the issuance of the Series 2020 Bonds, and after giving effect to the defeasance of the 2020 Bonds to be Refunded. 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 2020 Bonds and after giving effect to the defeasance of the 2020 Bonds to be Refunded, will be \$1,318,150,000. 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 2020 Resolution**

The Board may amend the 2020 Resolution pursuant to which the Series 2020 Bonds are issued or the Senior Bond Resolution 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 2020 Resolution or the Senior Bond Resolution; (2) to grant to or confer upon the Owners of the Series 2020 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 2020 Resolution or the Senior Bond Resolution in any other respect, provided such amendment or supplement is not materially adverse to the interests of the Owners of the Series 2020 Bonds.

Exclusive of the amendments described above, the 2020 Resolution or the Senior Bond Resolution, and the rights and obligations of the Board and of the Owners of the Series 2020 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 2020 Bonds; provided, however, that no such modification or amendment shall, without the express written consent of the Owner of each Series 2020 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 2020 Resolution or the Senior Bond Resolution shall be binding upon the Owners of all of the Series 2020 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 2020 Bonds at their addresses appearing on the registration books, briefly describing the proposed amendment.

## **SOURCES AND APPLICATION OF PLEDGED REVENUES**

The Series 2020 Bonds and all other Senior 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. 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

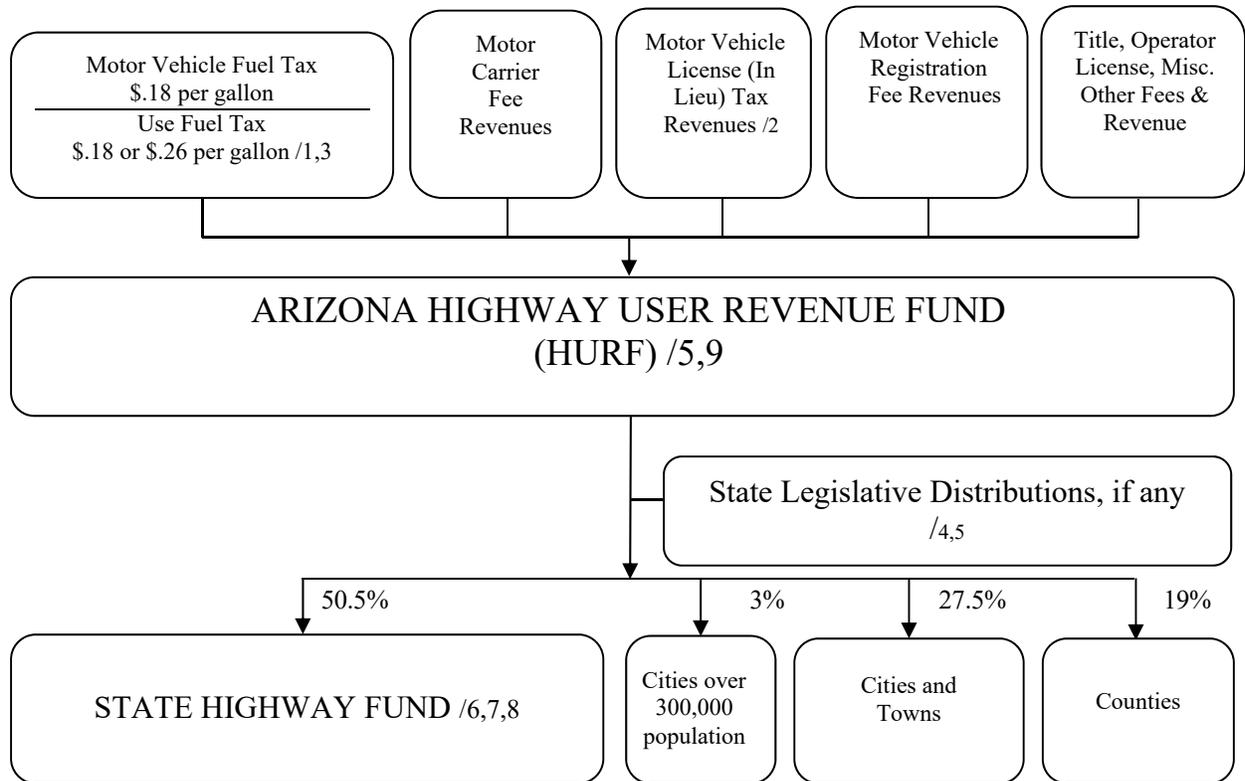
improvements and other transportation-related expenses. These taxes, fees and charges are collected by various State officers and transferred to the Department for deposit to the Arizona Highway User Revenue Fund. Each month, in accordance with statute and after certain specified distributions enacted 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 2020 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.

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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 approximately 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 Arizona Revised Statutes 28-5926 and 28-5927 transfer 1.6% of motor vehicle fuel tax revenues to the State Lake Improvement Fund and 0.55% of motor vehicle fuel tax revenues to the Off-Highway Vehicle Recreation Fund. In fiscal year 2019, a total of \$11.4 million was transferred to the above two funds. For fiscal year 2020, it is projected that \$11.5 million will be transferred to those two funds.
- /4 For fiscal year 2020, the Arizona Legislature has not authorized any distribution from the Arizona Highway User Revenue Fund (HURF) 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.
- /5 For fiscal year 2020, 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, \$0.7 million to the Motor Vehicle Division for its registration compliance program, and a \$30.0 million "special" distribution to cities, towns and counties in addition to the statutory distribution to these entities. 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.
- /6 In 2005, the Arizona Legislature authorized the transfer of 1.51% of the State Highway Fund share of HURF motor vehicle license (in lieu) tax to the Arizona Department of Public Safety Parity Compensation Fund. This transfer was codified in statute and became a permanent transfer, beginning in fiscal year 2006. The fiscal year 2019 transfer to the Parity Compensation Fund was \$3.5 million.
- /7 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. The fiscal year 2019 transfer to the State General Fund was \$6.2 million.
- /8 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. This transfer was codified in statute and became a permanent transfer, beginning in fiscal year 2012. The fiscal year 2019 transfer to the State General Fund was \$1.7 million.
- /9 For fiscal year 2019, the Arizona Legislature reduced the distribution from the HURF for the Arizona Department of Public Safety for highway patrol expenditures from \$99.4 million to \$15.5 million. The result of this change is a \$42.4 million increase to the State Highway Fund (which receives 50.5 percent of HURF revenues). The legislature also authorized a one-time transfer of \$42.4 million from the State Highway Fund share of HURF motor vehicle license (in lieu) tax revenue to the State General Fund. The result of these two actions was revenue neutral to the State Highway Fund.

## 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 2020 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, 2019.

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

<b>Fiscal Year</b>	<b>Gasoline Fuel Imported /1</b>	<b>Estimated Diesel Fuel Consumed</b>	<b>Total /2</b>	<b>Percentage Change from Previous Year</b>
2019	2,950,376	921,198	3,871,574	2.4%
2018	2,929,751	851,679	3,781,429	3.7%
2017	2,800,227	847,994	3,648,221	2.5%
2016	2,748,969	811,694	3,560,663	4.7%
2015	2,616,126	783,167	3,399,293	3.4%
2014	2,541,196	745,393	3,286,590	0.4%
2013	2,521,397	752,736	3,274,133	-0.5%
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%

Notes: /1. Beginning in fiscal year 2018, the gas tax revenue and gallonage forecast includes the distributions of the 1.6% of the motor vehicle fuel tax revenues to the State Lake Improvement Fund per Arizona Revised Statutes 28-5926 and 0.55% of the motor vehicle fuel tax revenues to the Off-Highway Vehicle Recreation Fund per Arizona Revised Statutes 28-5927. Prior to fiscal year 2018, these tax revenues and gallonages were not part of the Department’s official forecast of Arizona Highway User Revenue Fund revenues. The Gasoline Fuel Imported gallonage for fiscal years 2010-2017 does not include gallonage associated with distributions to the State Lake Improvement Fund and Off-Highway Vehicle Recreation Fund.

/2. Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning and Cash Management.

*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 generally \$8 per year and for motorcycles the fee is generally \$9 per year. The fee for commercial motor vehicles, including trucks, buses and taxis, is generally \$12 per year, 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, 2019.

**Motor Vehicle Registrations , Temporary Registration Permits and Disability Placards<sup>1</sup>**

<b>Fiscal Year</b>	<b>Passenger Vehicles</b>	<b>Trucks<sup>2</sup></b>	<b>Buses and Taxis</b>	<b>Trailers</b>	<b>Motorcycles</b>	<b>Other<sup>3</sup></b>	<b>Total</b>	<b>Percentage Change from Previous Year</b>
2019	5,852,631	647,546	759	1,000,814	361,362	958,578	8,821,690	3.56%
2018	5,704,162	613,756	1,177	961,835	354,721	883,064	8,518,715	3.29%
2017	5,539,744	589,096	2,642	921,019	342,839	852,174	8,247,514	3.47%
2016	5,375,732	572,018	4,010	883,504	331,118	804,564	7,970,946	3.60%
2015	5,195,664	539,066	4,326	848,065	319,522	787,666	7,694,309	3.20%
2014	5,037,368	520,927	4,341	815,012	301,454	773,944	7,453,046	3.79%
2013	4,899,280	492,042	4,132	784,057	277,537	723,749	7,180,797	2.94%
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%

<sup>1</sup> This table represents Motor Vehicle Division point-in-time counts of Motor Vehicle Registrations, Temporary Registration Permits and Disability Placards as of June 30<sup>th</sup> and is not limited to items that renew annually.

<sup>2</sup> Includes commercial and non-commercial.

<sup>3</sup> Not all of the items included in this category represent actual vehicles; disability placards issued to individuals are included. Temporary registration permits are also captured in this category.

Source: Arizona Department of Transportation, Office of Financial Planning and Cash Management.

*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) approximately 44.99% to the Arizona Highway User Revenue Fund, (ii) approximately 24.59% to the general fund of the county where the motor vehicle is registered, (iii) approximately 24.59% to the cities and towns of the county where the motor vehicle is registered, and (iv) approximately 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.

**Legislative Modifications**

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 beginning with the Legislature's 2015 regular session.

During the 2015 regular session, legislation was enacted (SB 1469) that distributed \$96.8 million from the Arizona Highway User Revenue Fund to the Arizona Department of Public Safety (“DPS”) in fiscal year 2016, resulting in a reduced distribution to the State Highway Fund in fiscal year 2016 of \$48.9 million. The bill also included an additional \$7.3 million distribution directly from the State Highway Fund to the DPS in fiscal year 2016.

Additional legislation enacted in the 2015 regular session (SB 1471) provided a special Arizona Highway User Revenue Fund distribution to cities, towns and counties of \$30.0 million in fiscal years 2016 and 2017, resulting in a reduced distribution to the State Highway Fund of \$15.2 million in fiscal years 2016 and 2017. Overall, the net impact to the State Highway Fund from the DPS and special Arizona Highway User Revenue Fund distributions was revenue neutral. The 2015 regular session legislation offset the DPS distribution in fiscal year 2016 by the same amount as the special distribution to cities, towns and counties (\$30.0 million) in fiscal year 2016. SB 1471 specified the distribution of the special distribution among cities, towns and counties, and further required the monies distributed to counties with a population of 800,000 persons or more to be deposited into the State Highway Fund subaccounts for Maricopa and Pima Counties.

During the 2016 regular session, legislation was enacted (HB 2695) that distributed \$96.4 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2017, resulting in a reduced distribution to the State Highway Fund in fiscal year 2017 of \$48.7 million. The bill also included an additional \$7.3 million distribution directly from the State Highway Fund to the DPS in fiscal year 2017.

Additional legislation enacted in the 2016 regular session (HB 2708) provided a one-year extension of the special Arizona Highway User Fund distribution to cities, towns and counties of \$30.0 million in fiscal year 2018 that was originally enacted in the 2014 and 2015 regular sessions for fiscal years 2015 through 2017.

During the 2017 regular session, legislation was enacted (SB 1522) that distributed \$99.4 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2018, resulting in a reduced distribution to the State Highway Fund in fiscal year 2018 of \$50.2 million. The bill also included an additional \$7.6 million distribution directly from the State Highway Fund to the DPS in fiscal year 2018.

Additional legislation enacted in the 2017 regular session (SB 1531) provided an additional two years of the Special Arizona Highway User Revenue Fund distribution to cities, towns and counties of \$30.0 million in fiscal year 2019 and \$60.0 million in fiscal year 2020. The reduced distribution to the State Highway Fund in fiscal years 2019 and 2020 as a result of SB 1531 would be \$15.2 million and \$30.3 million respectively.

During the 2017 regular session, legislation was enacted (SB 1082) that extended the termination date from June 30, 2016 to June 30, 2021 of the transfer of \$1 of each paid motorcycle registration to the Motorcycle Safety Fund.

During the 2018 regular session, legislation was enacted (SB1520) that distributed \$15.5 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2019, the result of this change from the previous year’s DPS transfer from the Arizona Highway User Revenue Fund was a \$42.4 million increase to the State Highway Fund (which receives 50.5 percent of Arizona Highway User Revenue Fund revenues). The bill also included a one-time transfer of \$42.4 million of motor vehicle license (in lieu) tax revenues from the State Highway Fund to the State General Fund. The result of these two actions was revenue neutral to the State Highway Fund. An additional distribution of \$8.2 million of motor vehicle license (in lieu) tax revenue was made from the State Highway Fund to the DPS in fiscal year 2019.

Additional legislation enacted in the 2018 session (SB1529) amended Laws 2017 (SB1531), chapter 312, chapter 9 to reduce from \$60.0 million to \$30.0 million an appropriation from Arizona Highway User Revenue Fund to cities, towns and counties in fiscal year 2020.

During the 2019 regular session, legislation was enacted (HB2747) that distributes a total of \$8.2 million from the State Highway Fund in fiscal year 2020, including \$0.3 million to be distributed to the DPS and \$7.9 million of motor vehicle license (in lieu) tax revenue to be transferred from the State Highway Fund to the State General Fund. The \$8.2 million is identical to the amount distributed to DPS in fiscal year 2019, and the result of

these two actions was revenue neutral to the State Highway Fund. In addition, \$15.5 million will be transferred from the Arizona Highway Patrol Fund to the State Highway Fund in fiscal year 2020, which will be offset by a \$15.5 million transfer from motor vehicle license (in lieu) tax revenue in the State Highway Fund to the State General Fund in fiscal year 2020. The result of these two actions is also revenue neutral to the State Highway Fund.

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 2020 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.

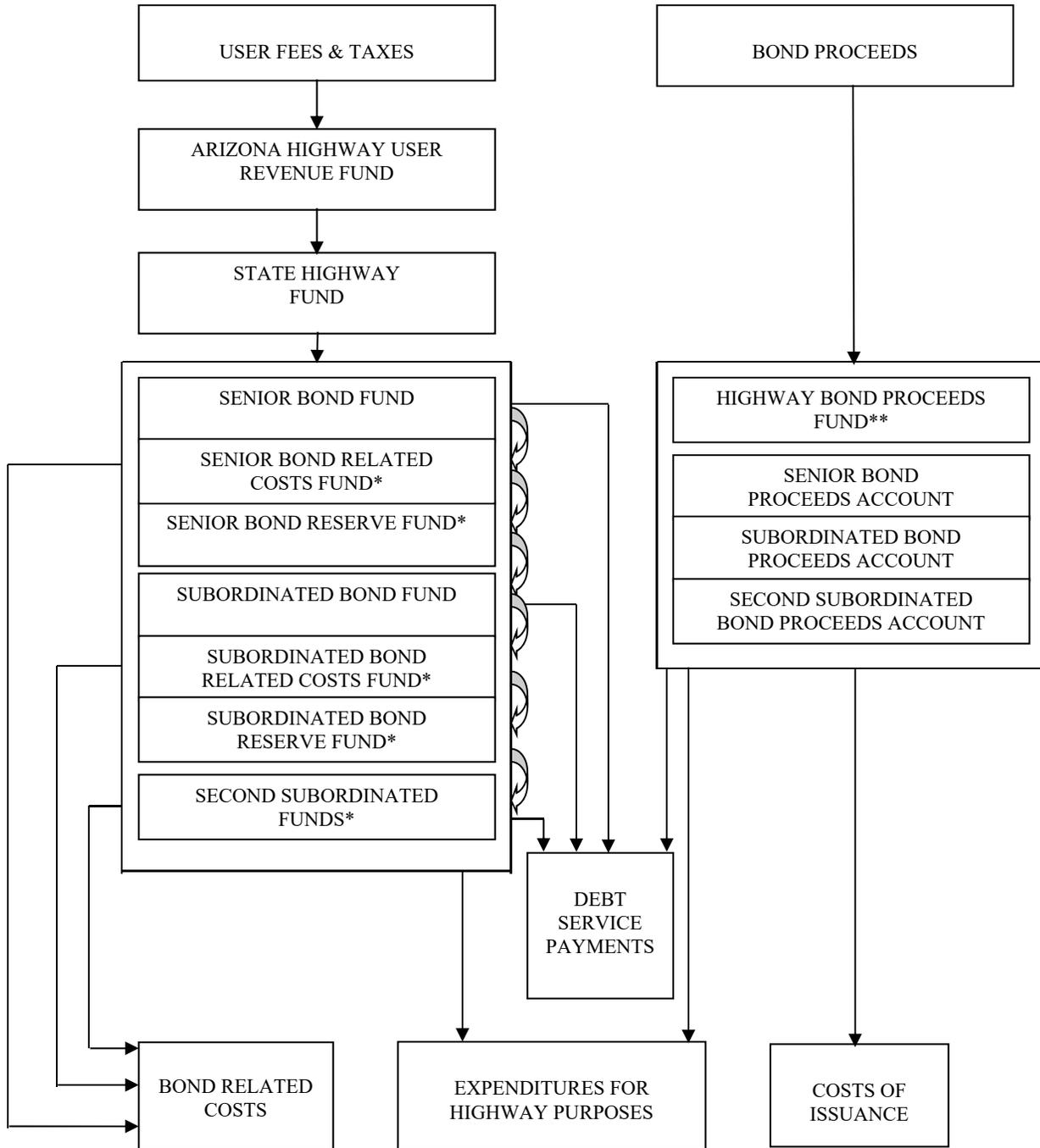
The Bond Resolutions provide that, to the extent that moneys in the Senior Bond Fund, Senior Bond Related Costs Fund and Senior Bond Reserve Fund are insufficient to pay, when due, principal of and interest on the Senior Bonds, the Senior Bonds shall have a first claim on moneys in all Subordinated Funds 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 2020 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, 2019.

**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 Fees (In Lieu) Tax Revenues	Total Deposited to Arizona Highway User Revenue Fund	Percentage Change	Total Distributed to State Highway Fund/1
2019	\$749,885	\$192,926	\$45,812	\$62,128	\$469,470	\$1,520,221	4.4%	\$656,751
2018	729,469	181,227	42,823	57,503	444,757	1,455,779	2.8%	624,919
2017	705,737	177,868	42,091	57,813	421,939	1,405,448	3.6%	610,998
2016	688,105	173,693	41,058	57,943	395,952	1,356,752	5.1%	589,476
2015	655,403	168,589	40,227	56,502	369,719	1,290,439	4.0%	566,352
2014	633,783	163,715	38,842	56,484	348,509	1,241,332	2.6%	537,768
2013	631,092	157,801	37,310	57,280	326,541	1,210,024	0.0%	524,291
2012	635,012	158,124	37,350	59,122	320,979	1,210,586	0.5%	369,826
2011	634,983	156,148	36,300	55,626	322,017	1,205,073	0.9%	504,110
2010	626,744	152,236	35,807	49,714	329,915	1,194,417	-4.3%	500,768

/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. In fiscal year 2019, \$42.4 million of the State Highway Fund's share of motor vehicle license (in lieu) tax revenue was transferred to the State General Fund. 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 2020.

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning and Cash Management.

### 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.

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, 2019, 2018 and 2017, 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 2.0%, -0.5% and -0.7%, 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 2020 through 2024. Based on the 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 2020 through 2024 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 and a “special” distribution to cities, towns and counties from the Arizona Highway User Revenue Fund totaling \$40.0 million per year (based on Arizona Revised Statutes 28-6537, which requires a \$10.0 million annual transfer for the DPS). See “SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation.”
- Funding for the DPS Parity Compensation Fund from the State Highway Fund of \$4.0 million to \$4.6 million per year.
- Transfers to the State General Fund from the State Highway Fund of \$9.0 million to \$12.2 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 MVD’s registration compliance and third party programs from the Arizona Highway User Revenue Fund of \$0.7 million per year and \$1.0 million per year to the Economic Strength Project Fund.

**Forecast of Revenues to be Deposited in the  
Arizona Highway User Revenue Fund and State Highway Fund  
Fiscal Years ending June 30, 2020 through June 30, 2024  
(000’s)**

<b>Fiscal Year</b>	<b>Motor Vehicle Fuel Tax Revenues</b>	<b>Motor Vehicle Registration Fee Revenues</b>	<b>Motor Carrier Fee Revenues</b>	<b>Motor Vehicle Operators’ License Fees and Misc. Fees and Revenues</b>	<b>Motor Vehicle License (In Lieu) Tax Revenues</b>	<b>Total Deposited to Arizona Highway User Revenue Fund</b>	<b>Total Distributed to State Highway Fund/1, 2, 3</b>
2020	\$764,800	\$196,800	\$47,000	\$64,500	\$496,300	\$1,569,400	\$731,358
2021	788,200	200,600	49,400	64,300	522,900	1,625,400	752,871
2022	808,300	204,900	50,800	66,200	548,700	1,678,900	772,749
2023	827,600	209,400	52,200	68,000	574,900	1,732,100	796,738
2024	846,400	214,100	53,700	69,900	602,700	1,786,800	820,009

/1 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. In fiscal year 2020, \$8.2 million of motor vehicle license (in lieu) tax revenues being deposited into the State Highway Fund will be transferred to the State General 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 – Legislative Modifications” herein.
- /3 Includes a direct distribution from Vehicle License (In Lieu) Tax Revenues to the State Highway Fund.

Note: Totals may not add due to rounding

Source: Arizona Department of Transportation, Office of Financial Planning and Cash Management.

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.

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### Debt Service Requirements, Forecasted Pledged Revenues and Projected Debt Service Coverage<sup>(1)</sup>

The debt service requirements of the outstanding Senior Bonds and Subordinated Bonds to be Outstanding after issuance of the Series 2020 Bonds, are set forth below. Based upon the Department’s forecast of Pledged Revenues and debt service requirements, the projected debt service coverage of the Outstanding Senior Bonds and the Series 2020 Bonds and Subordinated Bonds (assuming no issuance of Additional Senior Bonds or Additional Subordinated Bonds) is as follows:

Twelve Months Ending July 1	Pledged Revenues <sup>(2)</sup>	Outstanding Senior Bonds	Plus: Series 2020 Bonds		Total Senior Bonds Debt Service	Projected Debt Service Coverage on Senior Bonds	Outstanding Subordinated Bonds	Less: Subordinated Bonds Being Refunded <sup>(4)</sup>	Total Senior and Subordinated Debt Service Requirements	Projected Total Debt Service Coverage
			Principal Payments	Interest Payments <sup>(3)</sup>						
2020	\$723,507,000	\$27,627,250	\$5,645,000	\$4,413,271	\$37,685,521	19.19x	\$116,613,863	(\$11,619,775)	\$142,679,609	5.07x
2021	752,871,000	27,627,250	7,860,000	11,335,049	46,822,299	16.07x	116,613,800	(23,239,550)	140,196,549	5.37x
2022	772,749,000	27,627,250	61,215,000	11,194,905	100,037,155	7.72x	116,616,550	(76,449,550)	140,204,155	5.51x
2023	796,738,000	52,372,250	19,905,000	10,103,442	82,380,692	9.67x	90,155,550	(34,054,050)	138,482,192	5.75x
2024	820,009,000	52,375,000	76,370,000	9,746,147	138,491,147	5.92x	90,155,300	(90,155,300)	138,491,147	5.92x
2025		52,370,750	67,860,000	8,250,822	128,481,572		80,157,800	(80,157,800)	128,481,572	
2026		58,981,750	53,435,000	6,854,264	119,271,014		63,154,550	(63,154,550)	119,271,014	
2027		70,664,000	34,785,000	5,692,587	111,141,587		43,342,050	(43,342,050)	111,141,587	
2028		70,659,000	35,555,000	4,918,968	111,132,968		43,340,300	(43,340,300)	111,132,968	
2029		70,662,500	36,400,000	4,079,159	111,141,659		43,347,050	(43,347,050)	111,141,659	
2030		70,658,000	37,280,000	3,201,191	111,139,191		43,346,050	(43,346,050)	111,139,191	
2031		70,659,500		2,283,358	72,942,858		4,055,550	(4,055,550)	72,942,858	
2032		66,430,000	3,045,000	2,283,358	71,758,358		8,275,550	(8,275,550)	71,758,358	
2033		70,824,000		2,202,300	73,026,300		3,886,750	(3,886,750)	73,026,300	
2034		28,503,500		2,202,300	30,705,800		3,886,750	(3,886,750)	30,705,800	
2035		11,251,000	16,940,000	2,202,300	30,393,300		21,921,750	(21,921,750)	30,393,300	
2036		11,250,750	17,430,000	1,709,007	30,389,757		21,920,000	(21,920,000)	30,389,757	
2037			17,990,000	1,157,173	19,147,173		21,923,250	(21,923,250)	19,147,173	
2038			18,560,000	587,610	19,147,610		21,924,000	(21,924,000)	19,147,610	

- (1) Does not reflect debt service requirements on approximately \$400 million of bonds the Board currently anticipates issuing under the Bond Resolutions through fiscal year 2025. 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 2020 BONDS - Additional Bonds” for a further discussion of such requirements.
- (2) Reflects the Department’s forecast of Pledged Revenues for fiscal years 2020 through 2024 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 – Legislative Modifications” herein. In fiscal year 2020, \$8.2 million of the motor vehicle license (in lieu) tax revenues being deposited into the State Highway Fund will be transferred to the State General Fund.
- (3) The first interest payment on the Series 2020 Bonds is July 1, 2020.
- (4) Reflects defeasance of the 2020 Bonds to be Refunded with the issuance of the Series 2020 Bonds.

## MANAGEMENT OF STATE HIGHWAY PROGRAM

### Arizona Transportation Board

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

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

<u>Name and Transportation District Represented</u>	<u>City of Residence</u>	<u>Term Expires January</u>
Jack Sellers*, Chairman Transportation District 1 Maricopa County	Chandler	2020
Michael S. Hammond*, Vice Chairman Transportation District 2 Pima County	Tucson	2021
Sam Elters, Member Transportation District 1 Maricopa County	Phoenix	2024
Vacant Transportation District 3 Cochise, Greenlee, and Santa Cruz Counties		
Steven E. Stratton, Member Transportation District 4 Gila, Graham and Pinal Counties	Globe	2022
Jesse Thompson, Member Transportation District 5 Apache, Coconino and Navajo Counties	Window Rock	2023
Gary Knight, Member Transportation District 6 Yavapai, Yuma, Mohave and La Paz Counties	Yuma	2024

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\* Mr. Sellers' term on the Board ends on January 17, 2020, at which time Mr. Hammond will become Chairman and Mr. Stratton will become Vice Chairman. Mr. Sellers will continue to serve on the Board until a successor is appointed and confirmed.

## **Arizona Department of Transportation**

### *General.*

The Department was established by the State Legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the State Department of Aeronautics (originally established in 1952). The Department's mission is to provide a safe, efficient, and cost-effective transportation system for the State.

### *Responsibilities and Organization.*

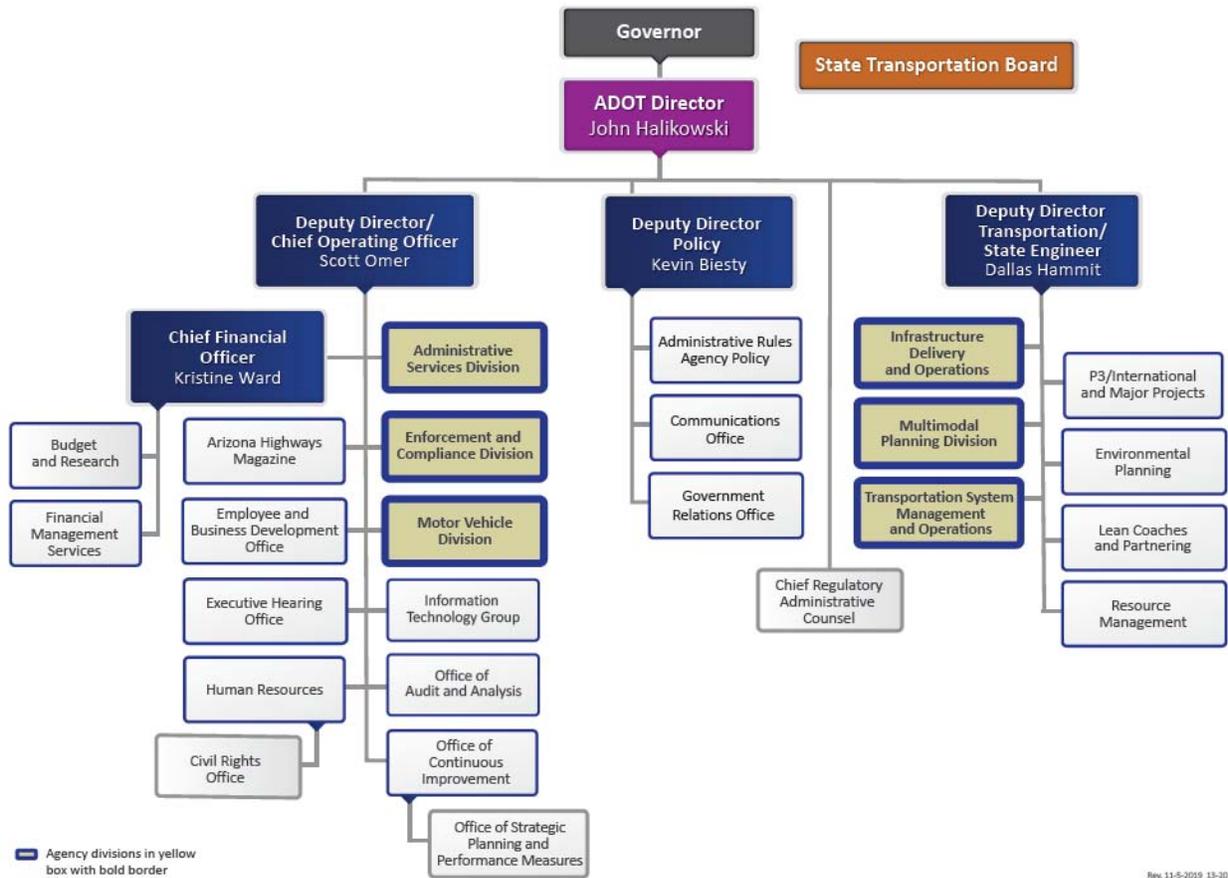
The Department administers the State highway system. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements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

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

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

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



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

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

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

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

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

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

*Staff of the Department.*

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

**JOHN HALIKOWSKI**

*Director*

Mr. Halikowski was appointed Director of the Department in February 2009, and reappointed in 2015, to lead the agency responsible for planning, building and maintaining the State's multimodal transportation system, managing transportation revenue, and providing motor vehicle title, registration and driver license services.

Prior to his appointment, Mr. Halikowski served for twelve years as the Director of Research at the Arizona House of Representatives where he was responsible for drafting, presenting, researching, and working with affected constituencies on transportation-related legislation. He was deeply involved in major legislation that included the Maricopa County Transportation plan, State Highway Construction Acceleration, Privatization, Driving Under the Influence, Transportation Finance, and Graduated Driver Licensing. He also previously spent six years at the Department serving in various capacities including Deputy Director and Operations Chief of the Department's Motor Vehicle Division.

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

**SCOTT OMER**

*Deputy Director and Chief Operating Officer*

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

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

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

**KEVIN BIESTY**

*Deputy Director for Policy*

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

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

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

**FLOYD ROEHRICH, JR., P.E.**

*Executive Officer*

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

Mr. Roehrich has been with the Department since 1989, with the exception of a two-year period where he worked for a private engineering consulting firm in the Phoenix area. During his career with the Department, Mr. Roehrich served as Deputy State Engineer of the Valley Transportation Program, overseeing the urban highway system within Maricopa County. He served as the State Engineer from 2008 to 2011 and Deputy Director of Policy from 2011-2015. In addition, Mr. Roehrich has held technical and management positions in various Department groups including Roadway Design, Local Government Engineer, Phoenix Construction District, and Valley Project Management.

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

**DALLAS HAMMIT, P.E.**

*Deputy Director for Transportation and State Engineer*

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

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

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

**KRISTINE WARD**

*Chief Financial Officer*

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

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

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

**SONYA HERRERA**

*Assistant Director, Administrative Services Division*

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

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

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

**THOMAS LANE**

*Assistant Director, Enforcement and Compliance Division*

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

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

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

**STEVE BOSCHEN, P.E.**

*Assistant Director, Infrastructure Delivery and Operations*

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

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

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

**ERIC JORGENSEN**

*Director, Motor Vehicle Division*

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

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

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

**GREGORY D. BYRES, P.E.**

*Assistant Director, Multimodal Planning Division*

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

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

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

**BRENT CAIN, P.E.**

*Division Director, Transportation Systems Management and Operations*

Mr. Cain serves as the Assistant Director for the Transportation Systems Management and Operations Division. Mr. Cain leads the Department's efforts to optimize performance of existing infrastructure by implementing multimodal, intermodal and cross-jurisdictional systems, services and projects. The functions of the division include traffic safety and traffic incident management; travel and roadway weather information services;

freeway, work-zone and freight management; connected and automated vehicles; traffic-signal systems and coordination; managed lanes; emergency management; wrong-way driver detection; adaptive ramp metering; and rapidly evolving new technologies which enhance transportation system operations and safety.

Mr. Cain was previously the Deputy State Engineer for Urban Operations, which included overseeing the Phoenix construction and maintenance districts, Traffic Operations Center, Tucson district, and statewide maintenance.

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

## **LISA DANKA**

*Debt Management and Compliance Administrator*

Ms. Danka joined the Department in November 2009, and is currently responsible for management and compliance of the Department's debt programs, including Transportation Excise Tax Revenue Bonds, Highway Revenue Bonds, Grant Anticipation Notes and the Highway Expansion and Extension Loan program. Previously, Ms. Danka oversaw the Department's federal-aid highway funding program, cash management, and the Board's Five Year Construction Program budget.

Prior to joining the Department, Ms. Danka was the Assistant Deputy Director for Finance and Investment at the Arizona Department of Commerce, and was responsible for overseeing eight business tax credit, grant and loan programs, the State's private activity bond volume cap, and served as the Executive Director of the Greater Arizona Development Authority.

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

### *Funding the Department*

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

The Five-Year Capital Program is funded from three primary sources: federal aid highway program funds, highway user revenues, and the revenues generated by the transportation excise tax deposited into the Maricopa County Regional Area Road Fund. Debt financing supplements these three sources of revenues to ensure timely and cost effective accomplishment of the Five-Year Capital Program. The Five-Year Capital Program identifies the improvements to be made by the Department to the State Highway System during the next five fiscal years and contains detailed information about each project including location, description, estimated cost, and timing. Improvements are scheduled based primarily upon funding availability, project priority, and engineering and construction considerations.

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

funding availability, changing priorities, and other considerations. The Board adopts the revised Five-Year Capital Program on or before June 30 of each year following a series of public meetings throughout the State.

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

Set forth on the following pages is a table that summarizes certain information for the five fiscal years ended June 30, 2019. Amounts shown for fiscal years 2015 through 2019 are derived from the Department's audited financial statements. The information for the fiscal year ended June 30, 2019, should be read in conjunction with the audited basic financial statements of the Department for the fiscal year ended June 30, 2019, and the notes therein included as Appendix A.

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*This information is presented as background information only. As described under “SECURITY AND SOURCES OF PAYMENTS FOR THE SERIES 2020 BONDS,” the Series 2020 Bonds are special obligations of the Board payable solely from a senior lien on Pledged Revenues, which Pledged Revenues are not segregated or identified in these tables.*

**Arizona Department of Transportation  
State Highway Fund  
Summary of Revenues, Expenditures, and Changes in Fund Balances  
Fiscal years ended June 30, 2015 through June 30, 2019**

	<b>Audited</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Revenues:</b>					
Vehicle registration, title, license and related fees	\$300,609,339	\$364,211,789	\$337,448,144	\$310,604,558	\$418,089,453
Fuel and motor carrier taxes and fees	312,543,301	282,499,056	330,095,211	408,832,093	418,318,223
Reimbursement of construction expenditures – federal aid	402,793,957	492,327,144	394,132,720	409,830,913	437,140,971
Other federal grants and reimbursements	72,166,581	20,700,502	24,239,125	-	-
Reimbursements from Arizona counties and cities	8,832,039	4,818,225	48,748,724	17,335,455	11,308,984
Distribution from other state agencies	1,338,191	743,960	963,448	27,346,623	14,908,058
Interest on loans receivable	68,766	47,593	32,616	16,927	5,119
Interest on investments	3,027,711	3,453,468	5,099,087	8,437,369	15,776,358
Sales and charges for services	-	-	-	-	7,509,033
Rental Income	5,205,268	3,388,112	2,257,066	1,362,054	2,020,096
Other	2,853,457	13,446,031	14,576,573	13,483,356	4,191,046
Total revenues	<u>\$1,109,438,610</u>	<u>\$1,185,635,880</u>	<u>\$1,157,592,714</u>	<u>\$1,197,249,348</u>	<u>\$1,329,267,341</u>
<b>Expenditures:</b>					
Current:					
Transportation:					
Administration	84,522,009	63,851,491	54,042,067	68,075,262	84,355,201
Highway	33,740,381	104,691,671	122,713,069	128,098,135	164,171,750
Highway Maintenance	130,598,543	98,652,620	93,347,503	93,301,936	113,143,943
Motor Vehicle Division	76,021,637	100,505,490	101,845,322	105,197,352	105,735,548
Total Transportation	<u>324,882,570</u>	<u>367,701,272</u>	<u>371,947,961</u>	<u>394,672,685</u>	<u>467,406,442</u>
Non-capital, including asset preservation	195,624,900	335,279,971	197,797,924	195,368,143	186,062,904
Capital Outlay					
Highway construction	310,241,082	175,863,430	275,931,704	321,468,945	316,025,121
Distributions to Arizona counties, cities and other state agencies	38,057,738	61,651,775	63,972,345	98,504,864	138,155,297
Debt Service <sup>(a)</sup>	9,538,279	11,825,409	21,098,122	23,551,656	-
Total Expenditures	<u>878,344,749</u>	<u>952,321,857</u>	<u>930,748,056</u>	<u>1,033,566,293</u>	<u>1,107,649,764</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$231,094,041</u>	<u>\$233,314,023</u>	<u>\$226,844,658</u>	<u>\$163,683,055</u>	<u>\$221,617,577</u>

**Arizona Department of Transportation  
State Highway Fund  
Summary of Revenues, Expenditures, and Changes in Fund Balances  
Fiscal years ended June 30, 2015 through June 30, 2019  
(Continued)**

	Audited				
	2015	2016	2017	2018	2019
<b>Other financing sources (uses):</b>					
Transfers in	-	-	\$17,255	-	-
Transfers out <sup>(b)</sup>	(\$137,265,202)	(\$144,111,139)	(155,935,842)	(\$130,371,894)	(\$142,912,555)
Debt Issuance	-	-	-	-	-
Other	2,934,980	6,351,700	4,521,349	8,295,889	6,712,235
Total other financing (uses)	<u>(\$134,330,222)</u>	<u>(\$137,759,439)</u>	<u>(\$151,397,238)</u>	<u>(\$122,076,005)</u>	<u>(\$136,200,320)</u>
Net change in fund balance	96,763,819	95,554,584	75,447,420	41,607,050	85,417,257
Fund balances, Beginning of year	<u>431,308,068</u>	<u>530,470,449</u>	<u>626,025,033</u>	<u>701,472,453</u>	<u>743,079,503</u>
<b>Fund balances, End of year</b>	<b><u>\$528,071,887</u></b>	<b><u>\$626,025,033</u></b>	<b><u>\$701,472,453</u></b>	<b><u>\$743,079,503</u></b>	<b><u>\$828,496,760</u></b>

- (a) Primarily reflects debt service on vehicle and equipment leases, and certain obligations internal to the Department or with other State agencies. Effective with Fiscal Year 2019, expenditures associated with vehicle and equipment leases are now included in Administrative expenditures.
- (b) Primarily reflects transfers into debt service redemption accounts; may include other transfers.

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, 2015 through June 30, 2019.

**Sunset Laws**

In order to encourage systematic legislative review of State agencies and statutes, State statutes provide for automatic termination of State agencies and statutes pursuant to a statutory schedule unless the State Legislature takes affirmative action to continue the existence of the agencies or statutes. These State statutes are commonly known as “Sunset Laws.” Under the State Sunset Laws, the Department and the Board are scheduled for termination on July 1, 2024, and Title 28, Arizona Revised Statutes, is scheduled for termination on January 1, 2025. Title 28 contains most of the transportation laws of the State, including the provisions relating to the fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes, the Arizona Highway User Revenue Fund and the State Highway Fund, the Act, as well as traffic laws of the State.

The State Sunset Laws provide a system for automatic committee and legislative review of agencies and statutes prior to their termination. Since the enactment of the Sunset Laws, the Department’s existence and authority; the Act and the statutes relating to the fees and taxes pertaining to the registration, operation, and use of motor vehicles; and the statutes related to motor vehicle fuel taxes have been reviewed and continued four times. While there can be no assurance that the State Legislature will continue the Department after July 1, 2024, the Department is not aware of any matters which would cause the State Legislature to terminate the existence of the Department or the Board or to repeal Title 28 or to amend Title 28 in a manner detrimental to the Owners of the Series 2020 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 2020 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 2020 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 2020 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 2020 Bonds or in any way contest or affect the validity of the Series 2020 Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 2020 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 Department in connection with their operations, and has reported that there are several proceedings in which the Department is either a plaintiff or defendant and which are generally incidental to the operations of the Department. The ultimate disposition of such pending legal proceedings cannot be predicted or determined at present. It is the belief of the Office of the Attorney General of the State that such pending litigation will not be finally determined so as to result, individually or in the aggregate, in a final judgment against the Department which would materially and adversely affect the Department, its ability to pay debt service on the 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 2020 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 2020 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

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law: (i) interest on the Series 2020 Bonds is not excluded from gross income for federal income tax purposes; and (ii) interest on the Series 2020 Bonds is exempt from Arizona state income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2020 Bonds. **THE LEGAL DEFEASANCE OF THE SERIES 2020 BONDS MAY RESULT IN A DEEMED SALE OR EXCHANGE OF THE SERIES 2020 BONDS UNDER CERTAIN CIRCUMSTANCES; OWNERS OF THE SERIES 2020 BONDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL INCOME TAX CONSEQUENCES OF SUCH AN EVENT. PROSPECTIVE PURCHASERS OF THE SERIES 2020 BONDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL, AND FOREIGN TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SERIES 2020 BONDS.**

The following discussion is generally limited to “U.S. owners,” meaning beneficial owners of Series 2020 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 Series 2020 Bonds, and partners in such partnerships, should consult their***

***tax advisors regarding the tax consequences of an investment in the Series 2020 Bonds (including their status as U.S. owners).***

Prospective purchasers of the Series 2020 Bonds upon their original issuance at prices other than the respective prices indicated on the inside cover of this Official Statement, and prospective purchasers of the Series 2020 Bonds at other than their original issuance, should consult their own tax advisors regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

### **Payment of Interest**

In general, interest paid or accrued on the Series 2020 Bonds, if any, will be treated as ordinary income to U.S. owners. A U.S. owner using the accrual method of accounting for U.S. federal income tax purposes must include interest paid or accrued on the Series 2020 Bonds in ordinary income as the interest accrues, while a U.S. owner using the cash receipts and disbursements method of accounting for U.S. federal income tax purposes must include interest in ordinary income when payments are received or constructively received by the owner.

### **Sale, Exchange, Retirement or Other Taxable Disposition**

Upon the sale, exchange, retirement or other taxable disposition of a Series 2020 Bond, a U.S. owner will recognize gain or loss equal to the difference between the amount realized from the sale, exchange, retirement or other disposition and the owner's adjusted basis in the Series 2020 Bond or applicable portion of the adjusted basis. The owner's adjusted basis generally will equal the cost of the Series 2020 Bond to the owner and reduced by any principal payments on the Series 2020 Bond previously received by the owner (including any other payments on the Series 2020 Bond that are not qualified stated interest payments). Any gain or loss recognized upon a sale, exchange, retirement or other disposition of a Series 2020 Bond will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. owner's holding period in the Series 2020 Bond exceeds one year. Long-term capital gains of individuals are currently eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### **Information Reporting and Backup Withholding**

General information reporting requirements will apply to payments of principal and interest made on the Series 2020 Bonds and the proceeds of the sale of Series 2020 Bonds to non-corporate holders of the Series 2020 Bonds, and "backup withholding," currently at a rate of 24%, 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 Series 2020 Bonds 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).

### **Medicare Tax Affecting U.S. Owners**

**A U.S. owner that is an individual or estate, or a trust not included in a special class of trusts that is exempt from such tax, is subject to a 3.8% Medicare tax on the lesser of (1) the U.S. owner's "net investment income" for the taxable year and (2) the excess of the U.S. owner's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. owner's net investment income generally includes interest income on, and net gains from the disposition of, Series 2020 Bonds, unless such interest income or net gains are derived in the ordinary course of a trade or business (other than a trade or business that consists of certain passive or trading activities). A U.S. owner that is an individual, estate, or trust, should consult its tax advisor regarding the applicability of the Medicare tax.**

## **Non-U.S. Owners**

Under the Code, interest on any Series 2020 Bond whose beneficial owner is not a U.S. owner is 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 Series 2020 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 Series 2020 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 tax advisors regarding the tax consequences of an investment in the Series 2020 Bonds.***

## **Foreign Account Tax Compliance Act**

The Foreign Account Tax Compliance Act (“FATCA”) generally imposes a 30% withholding tax on interest payments to (i) certain foreign financial institutions (including certain investment funds) that fail to certify their FATCA status and (ii) non-financial foreign entities if certain disclosure requirements related to direct and indirect United States shareholders are not satisfied. Proposed Treasury Regulations, which may be relied upon until final Treasury Regulations are promulgated, suspend the requirement to apply the 30% withholding tax to gross proceeds from the sale or other disposition of Series 2020 Bonds. This requirement otherwise would have applied to a sale or other disposition of Series 2020 Bonds made on or after January 1, 2019.

In the case of payments made to a “foreign financial institution” (generally including an investment fund), as a beneficial owner or as an intermediary, the FATCA withholding tax generally will be imposed, subject to certain exceptions, unless such institution (i) enters into (or is otherwise subject to) and complies with an agreement with the U.S. government (a “FATCA Agreement”) or (ii) is required by and complies with applicable foreign law enacted in connection with an intergovernmental agreement between the United States and a foreign jurisdiction (an “IGA”), in either case to, among other things, collect and provide to the U.S. or other relevant tax authorities certain information regarding U.S. account holders of such institution. In the case of payments made to a foreign entity that is not a financial institution (as a beneficial owner), the FATCA withholding tax generally will be imposed, subject to certain exceptions, unless such entity either provides the withholding agent with a certification that it does not have any “substantial” U.S. owner (generally, any specified U.S. person that directly or indirectly owns more than a specified percentage of such entity) or identifies its “substantial” U.S. owners.

If Series 2020 Bonds are held through a foreign financial institution that enters into (or is otherwise subject to) a FATCA Agreement, such foreign financial institution (or, in certain cases, a person paying amounts to such foreign financial institution) generally will be required, subject to certain exceptions, to withhold the 30% FATCA tax on payments of dividends or the items described above made to (i) a person (including an individual) that fails to comply with certain information requests or (ii) a foreign financial institution that has not entered into (and is not otherwise subject to) a FATCA Agreement and that is not required to comply with FATCA pursuant to applicable foreign law enacted in connection with an IGA. Coordinating rules may limit duplicative withholding in cases where the withholding described above in “**Non-U.S. Owners**” or “**Information Reporting and Backup Withholding**” also applies.

If any amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from payments on Series 2020 Bonds as a result of a failure by an investor (or by an institution through which an investor holds the Series 2020 Bonds) to comply with FATCA, none of the Board or the Department, any paying agent or any other person would, pursuant to the terms of the Series 2020 Bonds, be required to pay additional amounts with respect to any Series 2020 Bond as a result of the deduction or withholding of such tax. ***Non-U.S. owners should consult their tax advisors regarding the application of FATCA to the ownership and disposition of Series 2020 Bonds.***

## **INDEPENDENT AUDITORS**

The basic financial statements of the Department as of and for the year ended June 30, 2019 included in this Official Statement in Appendix A have been audited by CliftonLarsonAllen, LLP, independent auditors, as stated in their report appearing therein.

## **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 written Continuing Disclosure Undertaking, dated as of the date of closing of the Series 2020 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 2020 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 2020 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 2020 Bonds are no longer outstanding (within the meaning of the Subordinated Bond Resolution) or the Rule no longer applies to the Series 2020 Bonds. The Disclosure Undertaking may be amended or waived as provided therein.

A Beneficial Owner of a Series 2020 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 2020 Bonds under the Senior Bond Resolution.

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

## **RATINGS**

The Series 2020 Bonds have been rated “AA+” and “Aa1”, respectively, by S&P and Moody’s. Such ratings reflect only the views of the rating organizations, and any explanation of the meaning or significance of the ratings may only be obtained from the rating agency. The Board and the Department furnished to the rating agencies certain information and materials, some of which have not have been included in this Official Statement, relating to the Series 2020 Bonds and the Board and the Department. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be 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 action by a rating agency relating to its rating may have an adverse effect on the marketability or market price of the Series 2020 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 2020 Bonds.

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the issuance of the Series 2020 Bonds and with regard to the treatment of interest for federal and state tax purposes (see “TAX MATTERS”) are subject to the legal opinion of Squire Patton Boggs (US) LLP, Bond Counsel, whose legal services have been retained by the Board. The signed legal opinion, dated and premised on law in effect as of the date of original delivery of the Series 2020 Bonds, will be delivered on the date of issuance.

The proposed text of the legal opinion of Bond Counsel is set forth as Appendix B. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to their 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 2020 Bonds, the Senior Bond Resolution, the Subordinated Bond Resolution and the tax treatment of interest on the Series 2020 Bonds (except for outstanding amounts of Senior Bonds and Subordinated Bonds), contained under the captions “INTRODUCTION”, “THE SERIES 2020 BONDS”, “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS”, “SOURCES AND APPLICATION OF PLEDGED REVENUES” (excluding “—Recent Legislation” and financial data), “LEGAL INVESTMENT”, “TAX MATTERS”, “CONTINUING DISCLOSURE UNDERTAKING” (excluding the last paragraph thereunder), APPENDIX B – “PROPOSED FORM OF BOND COUNSEL OPINION” and APPENDIX C – “FORM OF CONTINUING DISCLOSURE UNDERTAKING” herein. Bond Counsel has not been retained to pass upon, and will not express any opinion upon, any other information in this Official Statement or any other information pertaining to the Series 2020 Bonds or the Board or the Department that may be made available to the prospective purchasers of the Series 2020 Bonds or to others.

In addition to rendering the legal opinion, 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, Ballard Spahr LLP.

## **FINANCIAL ADVISOR**

RBC Capital Markets, LLC is employed as the Financial Advisor to the Board in connection with the issuance of the Series 2020 Bonds. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Series 2020 Bonds.

The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of Series 2020 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 2020 Bonds from the Board at a price of \$509,457,233.21. Based upon the initial offering yields of the Series 2020 Bonds as shown on the inside front cover page hereof, the Underwriters will receive compensation of \$817,766.79.

The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2020 Bonds to dealers (including dealers depositing the Series 2020 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 2020 Bonds if any are purchased.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2020 Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2020 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2020 Bonds that such firm sells.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934. Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), one of the underwriters of the Series 2020 Bonds has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Series 2020 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2020 Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series 2020 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

## 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 Debt Management and Compliance Administrator, located at 206 South 17th Avenue, Phoenix, Arizona 85007 (telephone: 602-712-7441). All communications concerning this offering should be directed to Ms. Danka.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact 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 2020 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 2020 Bonds.

This Official Statement is submitted in connection with the original sale and issuance of the Series 2020 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/ Jack Sellers  
Jack Sellers, Chairman

ARIZONA DEPARTMENT OF TRANSPORTATION

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

**APPENDIX A**

**ARIZONA DEPARTMENT OF TRANSPORTATION  
FINANCIAL STATEMENTS FOR THE  
YEAR ENDED JUNE 30, 2019  
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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Fiscal Year 2019

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

State of Arizona | Department of Transportation



For fiscal year ended June 30, 2019



**Arizona Department of Transportation**  
**Comprehensive Annual Financial Report**  
For the Fiscal Year Ended June 30, 2019

Prepared by Financial Management Services  
State of Arizona Department of Transportation  
206 S. 17<sup>th</sup> Avenue  
Phoenix, Arizona 85007  
**azdot.gov**

**Arizona Department of Transportation  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2019  
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# Introductory Section



December 16, 2019

The Honorable Douglas A. Ducey  
Governor of the State of Arizona,  
Members of the Legislature, and  
Citizens of the State of Arizona

The Arizona Department of Transportation (Department) is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Department for the fiscal year ended June 30, 2019. The CAFR is presented in three sections: Introductory, Financial, and Statistical. The **Introductory Section** includes this Letter of Transmittal, a List of Principal Officials, and the Department's Organization Chart. The **Financial Section** includes the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information, as well as Other Supplementary Information. The **Statistical Section** includes additional financial information and transportation data presented on a multi-year comparative basis.

Arizona Revised Statutes, §41-1279.03, requires the State Auditor General to "conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the single audit act of 1984 (P.L. 98-502)." In fulfillment of this requirement, the Department prepared this CAFR, for the fiscal year ended June 30, 2019, and contracted with the independent auditing firm of CliftonLarsonAllen LLP to audit the financial statements.

The objective of the independent audit is to provide a reasonable assurance that the financial statements are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Department's financial statements for the fiscal year ended June 30, 2019, are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The independent auditors' report is presented as the first component of the Financial Section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The Department's MD&A can be found immediately following the report of the independent auditors.

The CAFR includes all funds (some of which are external to the Department) used to record the financial activity of the Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Department.

To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework that is designed both to protect the Department's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the financial statements in conformity with GAAP. The Department's internal control includes both automated controls, which are an integral component of the financial accounting system, and comprehensive policies and procedures. In addition, the Department's Office of Audit and Analysis is an independent unit that reviews accounting controls and performs operational audits of the various divisions and units of the Department. Because the cost of internal controls should not outweigh their benefits, the Department's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds. All disclosures necessary to enable the reader to gain an understanding of the Department's financial activities have been included.

## **Profile of the Department**

The Department was established by the state legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the Department of Aeronautics (originally established in 1962). The Department is not legally separate from the State of Arizona's primary government. The Department's mission is to provide a safe, efficient, cost-effective transportation system. The vision is creating a transportation system for Arizona that improves the quality of life. The Department's statutory authority for carrying out its programs is found in Arizona Revised Statutes, Titles 28, 35, and 41.

The Department receives guidance in capital planning and program development from a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) appointed by the governor and confirmed by the state senate. The Transportation Board is responsible for the annual update of the Five-Year Transportation Facilities Construction Program and awards contracts each month for highway projects. The Transportation Board also has authority for the issuance of highway revenue and transportation excise tax bonds, grant anticipation notes (GARVEE bonds), and board funding obligations.

As of June 30, 2019, the Department was organized into six major operating divisions supported by several groups, such as Human Resources, Information Technology and Financial Management Services. The six major operating divisions include: Infrastructure Delivery and Operations (IDO), Motor Vehicle Division (MVD), Enforcement and Compliance Division (ECD), Administrative Services Division (ASD), Multimodal Planning Division (MPD) and Transportation System Management and Operations (TSMO).

- The IDO 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. The goals of the IDO are to enhance the safe movement of people and products throughout Arizona, optimize efficiencies and effectiveness of the transportation system, develop and retain a high performing workforce, and promote environmental sustainability and stewardship.
- The MVD regulates motor vehicles in the state and collects motor vehicle registration fees, motor carrier fees, motor vehicle operators' license fees, and miscellaneous fees and revenues. The MVD annually processes motor vehicle registrations and records, issues certificates of title for motor vehicles, and processes drivers' license applications.
- The ECD conducts criminal and administrative investigations related to all facets of agency operations, e.g., titling, registration, and licensing; as well as providing services to the local and national law enforcement communities while enforcing transportation related laws and regulations.
- The ASD provides a wide variety of services for the Department business areas and employees. The ASD work units include Equipment Services, Facilities Maintenance & Support, Procurement, Safety & Health, and Audit & Analysis. The ASD also oversees operations of the Grand Canyon National Park Airport.
- The MPD is responsible for the planning of the statewide transportation system, including highways and airports, in coordination with local and regional planning agencies. The MPD produces the Five-Year Transportation Facilities Construction Program through which the Transportation Board establishes the priorities for highways and airports. The MPD also supports statewide public transit

planning, administers federal grants for transit planning in rural and metropolitan areas, and performs state regulatory safety oversight for the light rail system in Maricopa County.

- The TSMO is responsible for optimizing performance of existing infrastructure by implementing multimodal, intermodal, and cross-jurisdictional systems, services, and projects. The TSMO strategies improve system efficiency, enhance public safety and security, reduce traffic delays, and improve access to information to travelers. The TSMO responsibilities include traffic safety, incident management, travel information, roadway weather, freeway management, connected and automated vehicles, traffic signal systems, work zone, managed lanes, emergency response, Homeland Security, freight, and active traffic management.

Overall, the Department employs approximately 3,600 persons.

**Budgetary Controls** Upon the effective date of the operating budget appropriations bill, allocations are made to organizational levels within each division. The allocations result in a detailed operating budget that guides the divisions and programs in their financial operation. State funding for the Five-Year Transportation Facilities Construction Program is included in the capital outlay appropriations bill as a lump-sum budget without identifying individual projects. In the land, building, and improvements portion of that bill, each separate capital project is identified for control purposes. This bill also provides funding for building renewal purposes. The budgets are prepared on a cash basis except that liabilities (encumbrances) incurred before the end of the fiscal year and paid within the "administrative adjustment" period (typically one year) are charged against the prior fiscal year's budget. With a few exceptions, such as the capital budgets, highway maintenance, and special line items, state appropriations typically lapse at the end of the fiscal year.

The Department relies on the Arizona Financial Information System (AFIS) to control total expenditures by appropriation and to ensure budgetary compliance and management control. These features of AFIS include: encumbrance and pre-encumbrance capabilities, appropriation allocation and control capabilities to the expense budget/organization unit level, and management control reports from the expense budget/organizational unit level, with summary reporting capabilities by program, division, or appropriation.

### **Factors Affecting Financial Condition**

**Arizona Economy** Arizona experienced modest economic growth in FY 2019 with employment, personal income and population all posting growth over FY 2018. The growth in the major economic indicators in FY 2019 was similar to the growth posted in FY 2018. The 12-month average price of gasoline increased 11.6 percent in FY 2019. The 12-month average price of use fuel (diesel) increased 10.5 percent in FY 2019. The national economy also experienced positive economic growth in FY 2019 with employment and personal income posting modest gains. According to the Arizona Office of Economic Opportunity, the Arizona unemployment rate increased from 4.7 percent in June 2018 to 4.9 percent in June 2019. During this period, employment increased by approximately 78,700 jobs. In FY 2018, Arizona employment increased by approximately 70,700 jobs.

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax, posted positive results in fiscal year 2019. In FY 2019, the HURF revenue collections were \$1,520.2 million, 4.4 percent above FY 2018 and 2.0 percent above the forecast. The Regional Area Road Fund revenues equaled \$468.6 million, an increase of 6.8 percent over FY 2018, and 0.5 percent above the estimate. Fiscal year 2019 was the fourth consecutive year that RARF revenues surpassed the FY 2007 high, while FY 2019 was the third consecutive year that HURF revenues surpassed the FY 2007 high.

Arizona's economy is expected to outpace national growth rates over the next two years, but not as strong as Arizona's historical growth rates prior to 2007. The June 2019 University of Arizona Economic and Business Research Center Forecast Report estimates Arizona non-farm employment will grow by 2.4 and 2.1 percent in calendar years 2019 and 2020, respectively. According to the July 2019 Western Blue Chip report, personal income in Arizona is expected to increase by 5.4 percent in calendar year 2019 and 5.2 percent in calendar year 2020. According to the Arizona Office of Economic Opportunity, the Arizona population is forecasted to grow by 1.5 percent in FY 2019 and 1.4 percent in FY 2020.

The Department's FY 2020 HURF revenue estimate amounts to \$1,569.4 million, an increase of 3.2 percent over fiscal year 2019. Beginning FY 2018, ADOT changed the way HURF revenues are reported. Previously, "off-the-top" distributions from gas tax revenues to the State Lake Improvement Fund and Off-highway Vehicle Recreation Fund were not included in ADOT's published HURF revenues. Beginning in FY 2018, these two distributions are included in the reported HURF revenues. The HURF ten-year compound growth rate for fiscal years 2010 through 2019 was 2.6 percent. The distribution of HURF revenues in FY 2020 is estimated to be as follows: State Highway Fund \$774.8 million; Arizona cities and towns \$481.5 million; Arizona counties \$300.0 million; State Lake Improvement Fund and Off-highway Vehicle Recreation Fund \$11.5 million; Economic Strength Project Fund \$1.0 million; and the Motor Vehicle Division for the registration compliance/third party program \$0.658 million. An estimated \$35.4 million will be re-allocated from the State Highway Fund share of HURF vehicle license tax revenues with \$31.6 million going to the State General Fund and \$3.8 million going to the Department of Public Safety.

The Maricopa County Transportation Excise Tax revenue forecast for FY 2020 totals \$497.7 million, an increase of 6.2 percent over fiscal year 2019. The Maricopa County Transportation Excise Tax ten year compound growth rate for fiscal years 2010 through 2019 was 5.1 percent. The distribution of the Maricopa County Transportation Excise Tax revenue in FY 2020 is estimated to be as follows: Maricopa County Regional Area Road Fund \$279.7 million for highways, \$52.3 million for arterial streets, and \$165.7 million for the Public Transportation Fund.

**Long-term Financial Planning** The Department has developed a long-range forecasting model for revenues to be deposited in the Highway User Revenue Fund and the Maricopa County Regional Area Road Fund. This econometric modeling approach provides a framework that allows for the complex interaction of economic, demographic, and technological factors which influence revenue collections over the long term. Using this process, the Department updates and publishes its official forecast on an annual basis, after the close of the fiscal year, and uses this data in developing cash-flow projections for the statewide Highway Construction Program and the Regional Transportation Plan (RTP) Freeway Program, two components of the Five-Year Transportation Facilities Construction Program (the other components being the Pima Association of Governments Highway Program and the Airport Program). These cash-flow projections incorporate estimates of all funding sources available to the capital program and estimates of project-related and other expenditures.

**Planned Construction Activity** In June 2019, the Transportation Board approved a \$4.59 billion statewide Highway Construction Program as part of the Five-Year Transportation Facilities Construction Program for fiscal years 2020 through 2024. This program provides funding for highway facilities on the National Highway System and the statewide system, as well as the Maricopa County Regional Transportation Plan. Altogether (including Maricopa County), the program includes \$2.38 billion for expansion, \$1.35 billion for preservation, and \$0.40 billion for modernization.

The Five-Year Transportation Facilities Construction Program includes approximately \$2.39 billion for the RTP of freeway and expressway construction in Maricopa County, funded in large part from the Maricopa County Regional Area Road Fund. Obligations for the Regional Transportation Plan Freeway Program to date total \$9.1 billion. The Department currently has 6 major RTP Freeway Program projects under design and 6 major projects under construction. Included in these project listings is the new South Mountain Freeway.

As part of the Five-Year Transportation Facilities Construction Program, the Transportation Board also adopted a \$50.0 million (**annual** state share of \$10.0 million) Five-Year Airport Development Program that includes 65 projects at general aviation and air carrier airports located throughout the state.

### **Other Information**

**Single Audit** The Department is required to undergo an annual Single Audit in accordance with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The Department's Single Audit information is included in the Single Audit of the State of Arizona for the fiscal year ended June 30, 2019.

**Awards** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Arizona Department of Transportation for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. This accomplishment was the twenty-ninth consecutive year that the Department has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgments** We would like to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. A special note of thanks is extended to the staff of Fiscal Operations whose commitment, professionalism, and dedicated efforts contributed to the preparation of the fiscal year 2019 Comprehensive Annual Financial Report.

Respectfully Submitted,



John S. Halikowski, Director  
Arizona Department of Transportation



Kristine Ward, Chief Financial Officer  
Arizona Department of Transportation



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Arizona Department of Transportation**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morill*

Executive Director/CEO

**Arizona Department of Transportation  
List of Principal Officials**

**John S. Halikowski**

Director

**Scott Omer**

Deputy Director, Operations

**Kevin Biesty**

Deputy Director for Policy

**Dallas Hammit**

Deputy Director, Transportation

**Kristine Ward**

Chief Financial Officer

**Steve West**

Chief Information Officer

**Floyd Roehrich, Jr.**

Executive Officer

**Sonya E. Herrera**

Director, Administrative Services Division

**Tim Lane**

Director, Enforcement and Compliance Division

**Steve Boschen**

Director, Infrastructure Delivery and Operations

**Eric Jorgensen**

Director, Motor Vehicle Division

**Gregory Byres**

Director, Multimodal Planning Division

**Brent Cain**

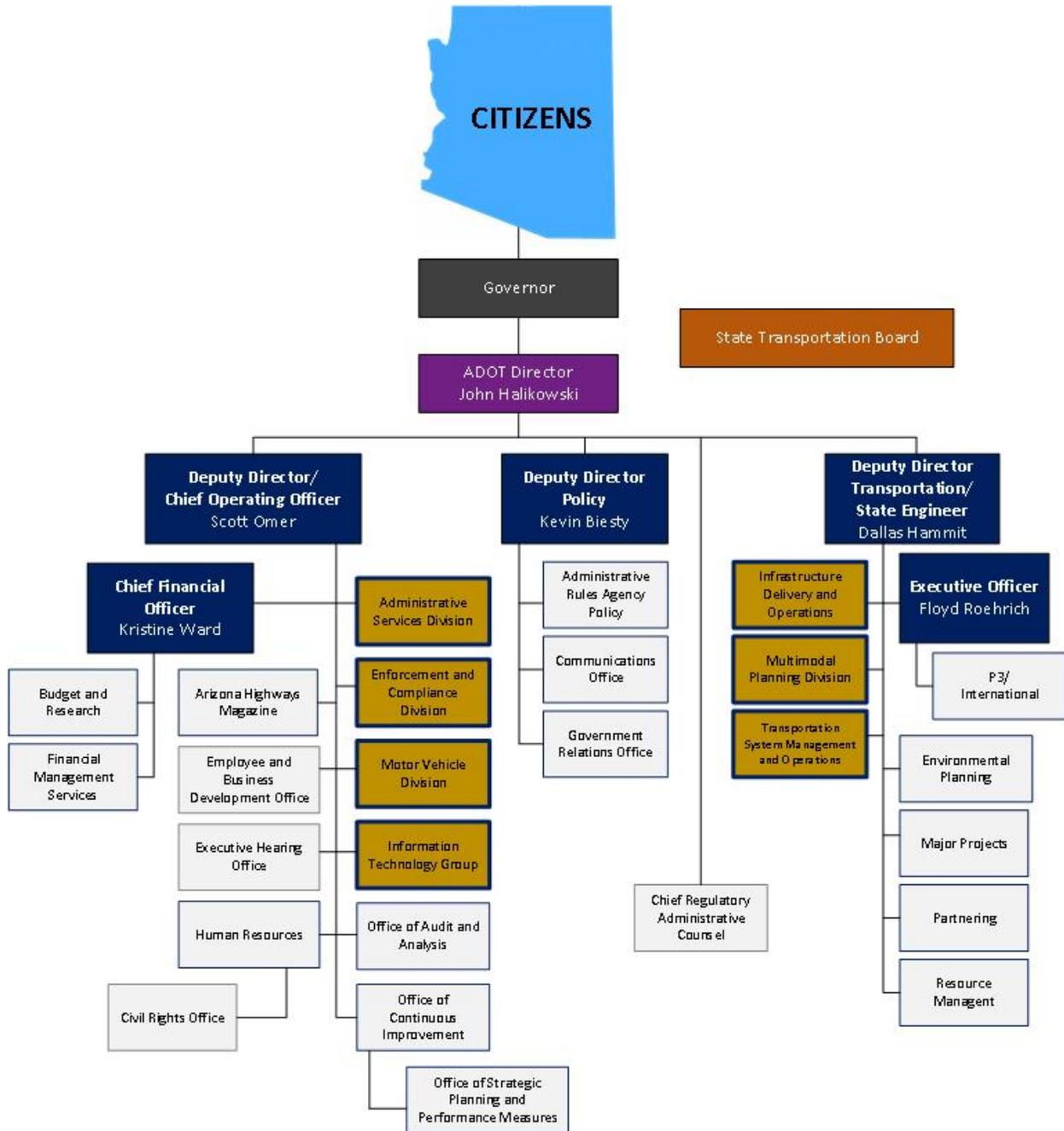
Director, Transportation Systems Management and Operations

**Arizona State Transportation Board**

<b>Member</b>	<b>Counties</b>	<b>Term Expires</b>
Jack Sellers, Chairman	District 1 (Maricopa County)	2020
Michael S. Hammond, Vice Chairman	District 2 (Pima County)	2021
Steve Stratton, Member	District 4 (Gila, Graham, and Pinal Counties)	2022
Jesse Thompson, Member	District 5 (Apache, Coconino, and Navajo Counties)	2023
Sam Elters, Member	District 1 (Maricopa County)	2024
Gary Knight, Member	District 6 (Yavapai, Yuma, Mohave, LaPaz Counties)	2024

**State of Arizona  
Department of Transportation  
Organization Chart**

June 30, 2019



Rev. 02-21-2019 15-201





CliftonLarsonAllen LLP  
CLAconnect.com

## INDEPENDENT AUDITORS' REPORT

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

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation (Department), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Members of the Arizona State Legislature  
Arizona Department of Transportation

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Arizona Department of Transportation and do not purport to, and do not present fairly the financial position of the State of Arizona as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

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

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

Members of the Arizona State Legislature  
Arizona Department of Transportation

***Supplementary and Other Information***

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

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
December 16, 2019

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2019**

As management of the Arizona Department of Transportation (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the [Letter of Transmittal](#) and the Department's [basic financial statements](#), with the accompanying [notes](#) and [Required Supplementary Information \(RSI\)](#).

## Financial Highlights

### *Government-Wide*

- The net position of the Department at the close of the fiscal year is \$21.7 billion, compared to \$20.8 billion for fiscal year 2018, an increase of \$832.6 million. Of this amount, \$98.3 million represents the *unrestricted* component as compared to \$(28.6) million at the end of 2018.
- The Department's capital assets are \$23.1 billion, compared to \$22.4 billion for fiscal year 2018, an increase of 3.3%. This increase is attributable to the results of highway construction activity. The Department's *net investment in capital assets* is \$20.6 billion, compared to \$20.0 billion for fiscal year 2018, an increase of 3.1%.
- The Department's total liabilities are \$3.3 billion, compared to \$3.2 billion in 2018. The Department had \$125.1 million more in bonds outstanding in 2019 than in 2018. During fiscal year 2019, road construction bonds of \$324.5 million were issued and \$199.4 million in bonds were retired.

### *Fund Level*

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of \$1.4 billion, as compared to \$1.2 billion in 2018.
- The total restricted fund balance is \$1.0 billion; the majority of this amount is restricted for capital projects. Inventories of \$212 thousand represent the nonspendable portion of fund balance while \$405.6 million represents the committed fund balance portion.
- The enterprise fund reported net position at year-end of \$1.2 million, as compared to \$30.5 million in 2018.

## Overview of Financial Statements

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

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

The government-wide financial statements are designed to present an overall picture of the financial position of the Department. These statements consist of the Statement of Net Position and the Statement of Activities, and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

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

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

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

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

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

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

**Arizona Department of Transportation  
Management's Discussion and Analysis  
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- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

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

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

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

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

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

*Proprietary Funds:* When the Department charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting, the same method used by most private sector businesses. Enterprise funds report activities that provide goods and services to outside customers, to other agencies, or to other divisions of the Department. The Department's enterprise fund is the Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's other programs and activities and other state agencies. The Equipment Revolving Fund is the Department's only internal service fund. Internal service fund activities are reported as governmental activities on the government-wide statements. The proprietary funds financial statements can be found within the [Basic Financial Statements](#) section of this report.

**Arizona Department of Transportation  
Management's Discussion and Analysis  
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***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the [Notes to Financial Statements](#) section of this report.

***Required Supplementary Information***

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

***Supplementary Information***

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

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the Department's financial health. The following tables, graphs, and analysis address the net position and changes to net position for the Department as a whole as of and for the fiscal years ended June 30, 2019 and 2018.

The Department's combined net position increased by \$832.6 million, or 4.0%, over the course of this fiscal year's operations. The net position of the governmental activities increased by \$861.9 million, or 4.1%; and business-type activities decreased by \$29.3 million, or (96.1)% over the previous year. The business-type activities decrease was due to a \$30.0 million legislative distribution to State General Fund from the Highway Expansion and Extension Loan Program Fund (HELP). The overall increase in the Department's net position was due primarily to an increase in the Department's infrastructure.

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Management's Discussion and Analysis  
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The following table reflects the condensed Statements of Net Position as of June 30, 2019 and 2018:

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
<b>Assets</b>						
Current and other assets	\$ 1,758,340,269	\$ 1,529,889,220	\$ 1,196,071	\$ 30,520,459	\$ 1,759,536,340	\$ 1,560,409,679
Capital Assets	<b>23,134,695,923</b>	22,385,270,388	—	—	<b>23,134,695,923</b>	22,385,270,388
Total Assets	<b>24,893,036,192</b>	23,915,159,608	<b>1,196,071</b>	30,520,459	<b>24,894,232,263</b>	23,945,680,067
<b>Deferred Outflows of Resources</b>						
	<b>112,215,781</b>	121,008,932	—	—	<b>112,215,781</b>	121,008,932
<b>Liabilities</b>						
Current liabilities	<b>331,928,778</b>	286,774,390	—	—	<b>331,928,778</b>	286,774,390
Noncurrent liabilities	<b>2,936,552,467</b>	2,891,196,625	—	—	<b>2,936,552,467</b>	2,891,196,625
Total liabilities	<b>3,268,481,245</b>	3,177,971,015	—	—	<b>3,268,481,245</b>	3,177,971,015
Deferred Inflows of Resources	<b>64,826,076</b>	48,152,381	—	—	<b>64,826,076</b>	48,152,381
<b>Net Position</b>						
Net investment in capital assets	<b>20,611,958,834</b>	19,987,899,408	—	—	<b>20,611,958,834</b>	19,987,899,408
Restricted	<b>962,898,860</b>	881,309,835	—	—	<b>962,898,860</b>	881,309,835
Unrestricted	<b>97,086,958</b>	(59,164,099)	<b>1,196,071</b>	30,520,459	<b>98,283,029</b>	(28,643,640)
Total net position	<b>\$21,671,944,652</b>	\$20,810,045,144	<b>\$ 1,196,071</b>	\$ 30,520,459	<b>\$21,673,140,723</b>	\$20,840,565,603

The total assets of the Department (excluding deferred outflows of resources) were \$24.9 billion, while total liabilities (excluding deferred inflows of resources) were \$3.3 billion, resulting in a net position balance of \$21.7 billion. The majority of the Department's net position, \$20.6 billion (95.1%), was invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

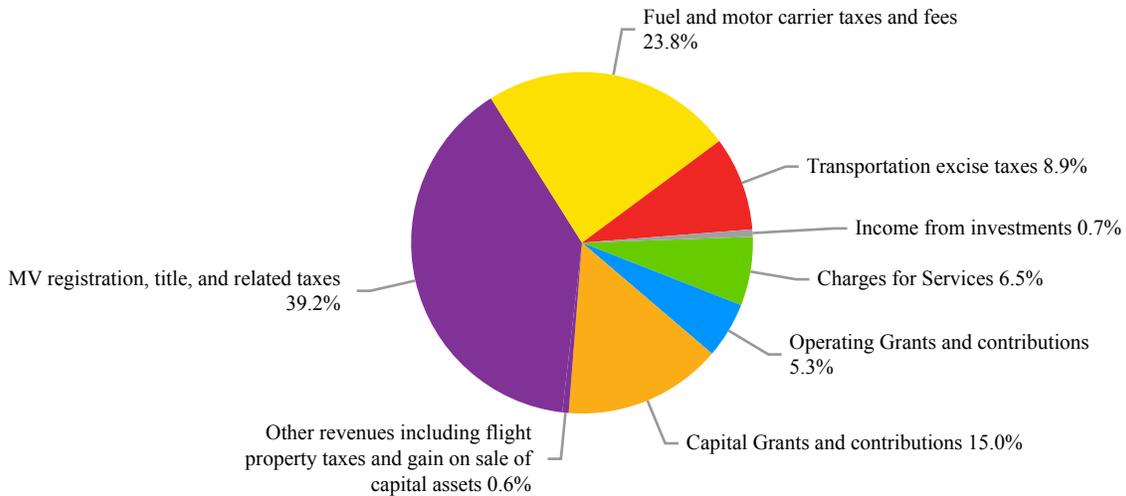
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 230,624,734	\$ 182,218,638	\$ —	\$ —	\$ 230,624,734	\$ 182,218,638
Operating grants and contributions	188,021,386	149,779,148	—	—	188,021,386	149,779,148
Capital grants and contributions	532,676,695	744,854,224	—	—	532,676,695	744,854,224
General revenues						
Motor vehicle registration, title, and related taxes	1,400,749,044	1,142,560,728	—	—	1,400,749,044	1,142,560,728
Fuel and motor carrier taxes and fees	846,289,907	838,823,494	—	—	846,289,907	838,823,494
Transportation excise taxes	316,144,353	295,100,385	—	—	316,144,353	295,100,385
Flight property taxes	10,297,142	13,011,635	—	—	10,297,142	13,011,635
Income from investments	26,135,021	17,264,216	675,612	569,661	26,810,633	17,833,877
Other	5,926,042	5,954,590	—	—	5,926,042	5,954,590
Gain (loss) on sale of capital assets	225,197	2,662,973	—	—	225,197	2,662,973
Total revenues	<u>3,557,089,521</u>	<u>3,392,230,031</u>	<u>675,612</u>	<u>569,661</u>	<u>3,557,765,133</u>	<u>3,392,799,692</u>
<b>Expenses</b>						
Distributions to Arizona counties and cities	1,427,633,847	1,307,529,826	—	—	1,427,633,847	1,307,529,826
Noncapital, including asset preservation	279,298,491	319,869,666	—	—	279,298,491	319,869,666
Distributions to other state agencies	306,615,717	224,220,584	—	—	306,615,717	224,220,584
Highway	164,751,577	133,914,884	—	—	164,751,577	133,914,884
Highway maintenance	112,939,448	97,196,657	—	—	112,939,448	97,196,657
Local governmental assistance	121,971,496	127,400,215	—	—	121,971,496	127,400,215
Motor vehicle	116,727,306	110,516,024	—	—	116,727,306	110,516,024
Interest on long-term debt	87,783,581	58,873,649	—	—	87,783,581	58,873,649
Administration	77,468,550	77,547,136	—	—	77,468,550	77,547,136
Highway Expansion and Extension Loan Program	—	—	30,000,000	30,000,000	30,000,000	30,000,000
Total expenses	<u>2,695,190,013</u>	<u>2,457,068,641</u>	<u>30,000,000</u>	<u>30,000,000</u>	<u>2,725,190,013</u>	<u>2,487,068,641</u>
Changes in net position	<u>861,899,508</u>	<u>935,161,390</u>	<u>(29,324,388)</u>	<u>(29,430,339)</u>	<u>832,575,120</u>	<u>905,731,051</u>
Net position, beginning	20,810,045,144	19,874,883,754	30,520,459	59,950,798	20,840,565,603	19,934,834,552
Net position, ending	<u>\$ 21,671,944,652</u>	<u>\$ 20,810,045,144</u>	<u>\$ 1,196,071</u>	<u>\$ 30,520,459</u>	<u>\$ 21,673,140,723</u>	<u>\$ 20,840,565,603</u>

**Arizona Department of Transportation  
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**Governmental Activities**

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2019:

**Revenues – Governmental Activities  
\$3,557,089,521**



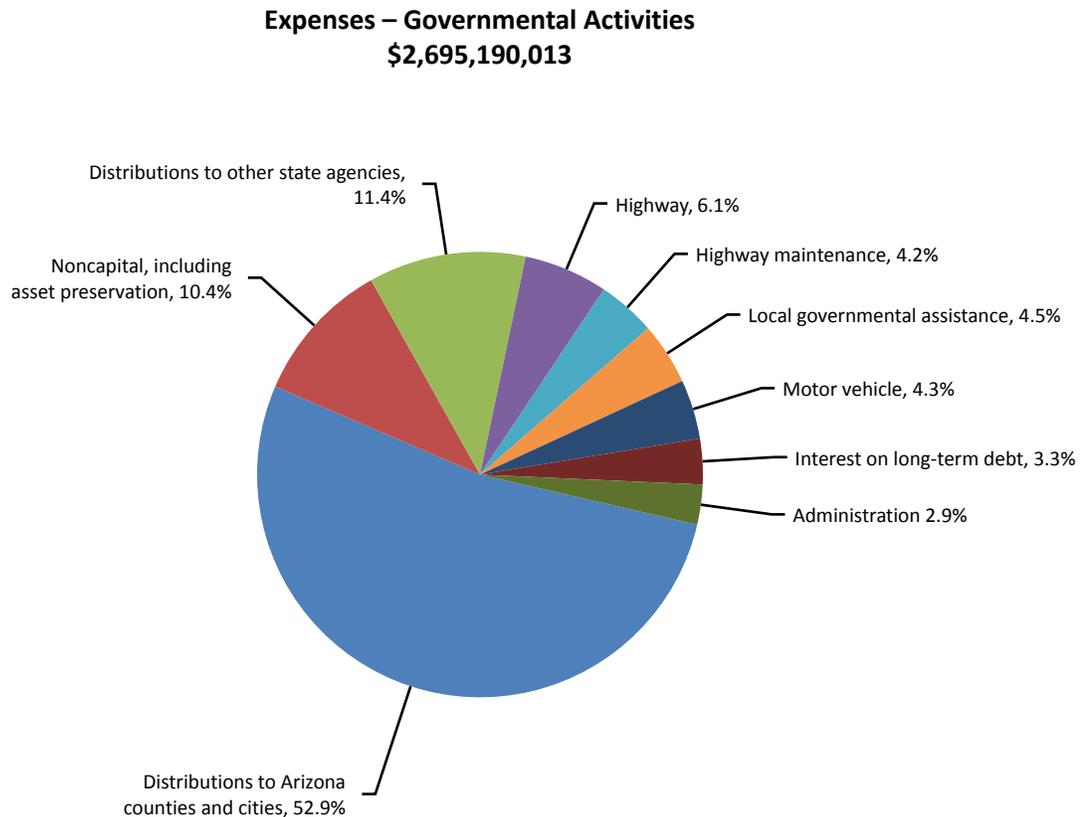
Of the Department's revenues, \$2.8 billion (or 78.1%) are from the following three revenue sources:

- Motor vehicle registration, title, license, and related taxes comprise the Department's largest revenue source of \$1.4 billion (39.2%).
- Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of \$846.3 million (23.8%).
- Capital grants and contributions represent the Department's third largest revenue source of \$532.7 million (15.0%).

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The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax, posted positive year-results in fiscal year 2019. HURF collections totaled approximately \$1.5 billion, 4.4% above fiscal year 2018 and 2.0% above the forecast. Maricopa County Transportation Excise Tax collections totaled \$468.6 million, an increase of 6.8% over fiscal year 2018 and 0.5% above the Department's estimate. The Transportation Excise Tax distribution to the Department was \$316.1 million compared to \$295.1 million for fiscal year 2018.

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2019:



Of the Department's expenses, \$2.0 billion (or 74.7%) were for the following:

- Distributions to Arizona counties and cities comprise the Department's largest expense of \$1.4 billion (52.8%).
- Noncapital, including asset preservation, represents the Department's second largest expense of \$279.3 million (10.4%).
- Distributions to other state agencies represent the Department's third largest expense of \$306.6 million (11.4%).

Distributions to Arizona counties and cities increased in fiscal year 2019 as compared to fiscal year 2018 due to an increase in vehicle license tax and gas and fuel tax revenue collections. The distributions to other

**Arizona Department of Transportation  
Management's Discussion and Analysis  
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government entities (excluding distributions from the Local Agency Deposit Fund) equal \$1.7 billion (64.3%); making up more than half of the expenditures for fiscal year 2019.

***Business-type Activities***

Net position for business-type activities decreased by \$29.3 million in fiscal year 2019. Total revenues were \$676 thousand, all of which came from income from investments. There were no operating expenses for business-type activities during the year, however, a legislative transfer of \$30.0 million was made to the State General Fund in fiscal year 2019.

The Highway Expansion and Extension Loan Program did not approve or disburse any loans in Fiscal Year 2019, and no future program loans are planned at this time.

## Financial Analysis of the Department's Funds

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

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

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$1.4 billion, an increase of \$199.8 million over the previous fiscal year. The majority of this amount is restricted for capital projects.

The General Fund (State Highway Fund) is the primary operating fund of the Department. At the end of the current fiscal year, the nonspendable fund balance was \$212 thousand; the restricted fund balance was \$464.1 million; and the committed fund balance was \$364.2 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 2019 were \$454.7 million; Transportation Excise Tax revenue of \$311.2 million (or 68.4%) was a significant revenue source. The remaining revenue was mainly federal revenue and excess land sales.

The Debt Service Fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the governmental funds. Other financing sources totaled \$310.9 million. This amount was transferred in from the General Fund (State Highway Fund) \$142.9 million, Maricopa Regional Area Road Construction Fund \$142.4 million, and Grant Anticipation Notes Fund \$25.5 million.

The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities in the governmental funds. Issuance of Transportation Excise Tax Revenue bonds and Grant Anticipation Notes produced \$365.9 million in other financing sources during the year. In fiscal year 2019, the Capital Projects Funds' expenditures were \$339.5 million. Non-capital, including asset preservation expenditures of \$39.2 million (11.6%) and Capital outlay expenditures of \$298.6 million (87.9%) accounted for the majority of the expenditures in the Capital Projects Fund. The expenditures were for

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major preservation and expansion pavement projects financed by proceeds from the Transportation Excise Tax Revenue Bonds Series 2018 and the Grant Anticipation Notes Series 2019A. Please see the [Capital Asset and Debt Administration](#) section in the MD&A for more information. Capital outlay expenditures for the acquisition and construction of new highways was converted to capital assets on the government-wide statements.

### Budget Variances

The Department's appropriated operating budget from the General Fund (State Highway Fund) increased by about \$22.9 million from fiscal year 2018 to fiscal year 2019. The increase was primarily due to the increased cost to maintain and operate new lane miles. In fiscal year 2018, the Department spent 93.1% of its budget and in fiscal year 2019 the Department spent 84.7% of its budget. Ultimately, the Department spent about \$10.9 million less in fiscal year 2019 than in fiscal year 2018 from its appropriated operating budget from the General Fund (State Highway Fund). Reference the budgetary comparison schedule in the [Required Supplementary Information](#) section of this report.

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

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to \$23.1 billion (net of accumulated depreciation), a \$682.9 million increase over the previous fiscal year.

### Capital Assets June 30, 2019

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,511,601,121	\$ 3,485,414,860	\$ —	\$ —	\$ 3,511,601,121	\$ 3,485,414,860
Infrastructure	16,450,541,973	16,301,538,413	—	—	16,450,541,973	16,301,538,413
Construction in progress	2,921,982,661	2,372,107,578	—	—	2,921,982,661	2,372,107,578
Development in progress	65,224,581	49,966,310	—	—	65,224,581	49,966,310
Buildings and improvements	92,713,073	88,431,448	—	—	92,713,073	88,431,448
Improvements other than buildings	17,020,459	15,034,868	—	—	17,020,459	15,034,868
Machinery and equipment	6,856,763	7,685,287	—	—	6,856,763	7,685,287
Mobile fleet and aircraft	68,755,292	65,091,625	—	—	68,755,292	65,091,625
Total	<u>\$23,134,695,923</u>	<u>\$22,385,270,389</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$23,134,695,923</u>	<u>\$22,385,270,389</u>

As provided by accounting principles generally accepted in the United States (GAAP), the Department has elected to record its infrastructure assets using the modified approach, as defined in GASB Statement 34, as amended. Assets accounted for under the modified approach include 6,822 center line miles of roads (21,532 travel lane miles) and 4,860 bridges that the Department is responsible for maintaining.

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

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2019**

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 3.55 was achieved for fiscal year 2019.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). To comply with Federal standards, the Department is expected to maintain its Bridges to a condition where not more than 10.0% are classified as poor. The Department's most recent assessment indicated that 1.4% of the bridges were so classified for fiscal year 2019.

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

The Department's noncurrent liabilities for its governmental and business-type activities as of June 30, 2019, amount to \$2.9 billion, an increase of \$45.4 million million from the previous fiscal year.

	2019	2018
Governmental Activities		
Bonds and notes		
Highway revenue bonds	\$ 1,280,830,000	\$ 1,359,500,000
Transportation excise tax revenue bonds	732,365,000	575,040,000
Grant anticipation notes (GARVEE bonds)	223,885,000	177,420,000
Unamortized Premium on bonds	349,554,391	344,153,009
Total bonds and notes	<u>2,586,634,391</u>	<u>2,456,113,009</u>
Capital leases	—	24,251,680
Compensated absences	17,829,377	17,783,919
Other noncurrent liabilities, including accrued relocation costs	16,008,138	29,783,142
Total governmental activities	<u>\$ 2,620,471,906</u>	<u>\$ 2,527,931,750</u>
	2019	2018
Net pension liability	\$ 248,089,762	\$ 296,900,511
Net OPEB obligation	\$ 67,990,799	\$ 66,364,364

The Department has issued revenue bonds in 39 separate issues since 2000. During 2019 the Department issued Transportation Excise Tax Revenue Bonds, Series 2018 and Grant Anticipation Notes, Series 2019A. All outstanding bonds as of June 30, 2019, are scheduled to mature on various dates with none later than July 1, 2038. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (the "Transportation Board") and are not obligations of the State of Arizona.

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

**Arizona Department of Transportation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2019**

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007, or by visiting our website at: <http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/financial-reports>.

# BASIC FINANCIAL STATEMENTS

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

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

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

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

Statement of Net Position  
June 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Unrestricted cash on deposit with State Treasurer	\$ 344,401,365	\$ 1,196,071	\$ 345,597,436
Receivables			
Taxes and fees	69,277,022	—	69,277,022
Notes and loans	2,543,640	—	2,543,640
Other, net of allowance for doubtful accounts	6,743,314	—	6,743,314
Due from U.S. government	82,800,066	—	82,800,066
Due from other state agencies	27,545,782	—	27,545,782
Inventories	2,224,202	—	2,224,202
Restricted cash on deposit with State Treasurer	1,221,014,655	—	1,221,014,655
Restricted cash with fiscal agents	1,790,223	—	1,790,223
Capital assets not subject to depreciation (Notes 5A)	22,949,350,336	—	22,949,350,336
Capital assets subject to depreciation, net of accumulated depreciation, (Notes 5A)	185,345,587	—	185,345,587
Total assets	<u>24,893,036,192</u>	<u>1,196,071</u>	<u>24,894,232,263</u>
<b>Deferred Outflows of Resources</b>			
Relating to pensions (Note 6C)	33,365,346	—	33,365,346
Relating to OPEB	2,175,059	—	2,175,059
Loss on debt refundings	76,675,376	—	76,675,376
Total deferred outflows of resources	<u>112,215,781</u>	<u>—</u>	<u>112,215,781</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	128,532,719	—	128,532,719
Accrued payroll and other accrued expenses	11,515,047	—	11,515,047
Due to other state agencies	19,370,319	—	19,370,319
Tax and refunds payable	10,949,674	—	10,949,674
Due to Arizona counties and cities	159,814,625	—	159,814,625
Unearned revenue	1,746,394	—	1,746,394
Non-current liabilities (Note 5E):			
Due within one year	262,873,519	—	262,873,519
Due in more than one year	2,357,598,387	—	2,357,598,387
Net OPEB liability	67,990,799	—	67,990,799
Net pension liability (Note 6C)	248,089,762	—	248,089,762
Total liabilities	<u>3,268,481,245</u>	<u>—</u>	<u>3,268,481,245</u>
<b>Deferred Inflows of Resources</b>			
Relating to pensions (Note 6C)	48,644,172	—	48,644,172
Relating to OPEB	16,181,904	—	16,181,904
Total deferred inflows of resources	<u>64,826,076</u>	<u>—</u>	<u>64,826,076</u>
<b>Net Position</b>			
Net investment in capital assets	20,611,958,834	—	20,611,958,834
Restricted:			
Loans and other financial assistance	8,766,112	—	8,766,112
Capital projects	954,132,748	—	954,132,748
Unrestricted	97,086,958	1,196,071	98,283,029
Total net position	<u>\$ 21,671,944,652</u>	<u>\$ 1,196,071</u>	<u>\$ 21,673,140,723</u>

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

# Arizona Department of Transportation

Exhibit 2

## Statement of Activities For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
Administration	\$ 77,468,550	\$ 8,049,211	\$ 5,178,675	\$ —	\$ (64,240,664)
Highway	164,751,577	1,848,606	44,030,599	532,676,638	413,804,266
Highway maintenance	112,939,448	6,369,465	—	—	(106,569,983)
Motor vehicle	116,727,306	180,161,965	668,267	57	64,102,983
Noncapital, including asset preservation	279,298,491	34,195,487	—	—	(245,103,004)
Distributions to other state agencies	306,615,717	—	—	—	(306,615,717)
Distributions to Arizona counties and cities	1,427,633,847	—	—	—	(1,427,633,847)
Local government assistance	121,971,496	—	138,143,845	—	16,172,349
Interest on long-term debt	87,783,581	—	—	—	(87,783,581)
Total governmental activities	\$ 2,695,190,013	\$ 230,624,734	\$ 188,021,386	\$ 532,676,695	\$ (1,743,867,198)
<b>Business-type activities</b>					
Highway Expansion and Extension Loan Program	30,000,000	—	—	—	(30,000,000)
Total business-type activities	30,000,000	—	—	—	(30,000,000)
Total primary government	\$ 2,725,190,013	\$ 230,624,734	\$ 188,021,386	\$ 532,676,695	\$ (1,773,867,198)
			Governmental Activities	Business-type Activities	Total
Net (expenses) revenues			\$ (1,743,867,198)	\$ (30,000,000)	\$ (1,773,867,198)
<b>General revenues</b>					
Transportation excise taxes			316,144,353	—	316,144,353
Motor vehicle registration, title, and related taxes			1,400,749,044	—	1,400,749,044
Fuel and motor carrier taxes and fees			846,289,907	—	846,289,907
Flight property taxes			10,297,142	—	10,297,142
Income from investments			26,135,021	675,612	26,810,633
Gain on sale of capital assets			225,197	—	225,197
Other			5,926,042	—	5,926,042
Total general revenues			2,605,766,706	675,612	2,606,442,318
Changes in net position			861,899,508	(29,324,388)	832,575,120
Beginning net position			20,810,045,144	30,520,459	20,840,565,603
Ending net position			\$ 21,671,944,652	\$ 1,196,071	\$ 21,673,140,723

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

# GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

## MAJOR FUNDS

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

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

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

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

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

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

## NONMAJOR FUNDS

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

# Arizona Department of Transportation

## Balance Sheet — Governmental Funds

June 30, 2019

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
<b>Assets</b>			
Unrestricted cash on deposit with the State Treasurer	\$ 300,888,847	\$ —	\$ —
Receivables			
Interfund	132,101,744	—	17,523,718
Taxes and fees	—	—	3,080,983
Notes and loans	—	—	—
Due from other state agencies	24,415	26,951,066	—
Due from Arizona counties and cities	—	—	—
Other, net	2,914,436	235,232	421,931
Amounts due from U.S. government	34,842,299	22,217,399	—
Inventories	212,350	—	—
Restricted cash held by fiscal agents	1,790,223	—	—
Restricted cash on deposit with the State Treasurer	462,296,516	464,810,755	89,534,498
<b>Total assets</b>	<b>\$ 935,070,830</b>	<b>\$ 514,214,452</b>	<b>\$ 110,561,130</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities			
Accounts payable	\$ 77,346,679	\$ 20,434,282	\$ 12,417
Accrued payroll and other accrued expenditures	10,259,889	243,709	135,029
Tax and refunds payable	—	—	6,030,160
Interfund payables	5,744,977	—	72,445,378
Amounts due to			
Other state agencies	2,773,701	—	15,610,727
Arizona counties and cities	8,702,430	3,490,452	24,455,842
Unearned revenue	1,746,394	—	—
<b>Total liabilities</b>	<b>106,574,070</b>	<b>24,168,443</b>	<b>118,689,553</b>
Deferred inflows of resources			
Unavailable revenue	—	8,966,174	—
Fund balances			
Unassigned	—	—	(8,128,423)
Nonspendable	212,350	—	—
Restricted	464,086,739	481,079,835	—
Committed	364,197,671	—	—
<b>Total fund balances (deficits)</b>	<b>828,496,760</b>	<b>481,079,835</b>	<b>(8,128,423)</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<b>\$ 935,070,830</b>	<b>\$ 514,214,452</b>	<b>\$ 110,561,130</b>

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

Special Revenue Funds						
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit 8)	Total Governmental Funds		
\$ —	\$ —	\$ —	\$ 37,829,319	\$ 338,718,166		
68,711,292	—	—	310,352	218,647,106		
66,196,039	—	—	—	69,277,022		
—	—	—	2,543,640	2,543,640		
—	—	—	350,618	27,326,099		
—	—	—	—	—		
—	—	—	1,790,760	5,362,359		
—	—	—	25,740,368	82,800,066		
—	—	—	—	212,350		
—	—	—	—	1,790,223		
124,700,388	876,735	66,598,306	12,197,457	1,221,014,655		
<u>\$ 259,607,719</u>	<u>\$ 876,735</u>	<u>\$ 66,598,306</u>	<u>\$ 80,762,514</u>	<u>\$ 1,967,691,686</u>		
\$ —	\$ —	\$ 12,118,144	\$ 17,538,074	\$ 127,449,596		
—	—	122,275	276,170	11,037,072		
4,919,514	—	—	—	10,949,674		
139,743,296	—	—	977	217,934,628		
985,891	—	—	—	19,370,319		
113,959,018	—	—	9,206,883	159,814,625		
—	—	—	—	1,746,394		
<u>259,607,719</u>	<u>—</u>	<u>12,240,419</u>	<u>27,022,104</u>	<u>548,302,308</u>		
—	—	—	3,560,772	12,526,946		
—	—	—	—	(8,128,423)		
—	—	—	—	212,350		
—	876,735	54,357,887	8,766,112	1,009,167,308		
—	—	—	41,413,526	405,611,197		
—	876,735	54,357,887	50,179,638	1,406,862,432		
<u>\$ 259,607,719</u>	<u>\$ 876,735</u>	<u>\$ 66,598,306</u>	<u>\$ 80,762,514</u>	<u>\$ 1,967,691,686</u>		

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

**Arizona Department of Transportation  
Reconciliation of the Balance Sheet of Governmental  
Funds to the Statement of Net Position  
June 30, 2019**

**Exhibit 3.1**

<b>Fund balances – total governmental funds (Exhibit 3)</b>	\$ 1,406,862,432
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 4 B1).	23,063,303,539
Certain receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds (Exhibit 3).	12,526,946
Internal service funds are used by management to charge the costs of equipment rentals to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position (Exhibit 5).	61,961,768
Deferred outflows of resources are not reported in the funds (Notes 4 B2).	110,508,839
OPEB liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds (Note 4 B3).	(64,645,652)
Pension liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds (Note 4 B4).	(236,950,532)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 4 B5).	(2,619,776,885)
Deferred inflows of resources are not reported in the funds (Note 4 B6).	(61,845,803)
<b>Net position of governmental activities (Exhibit 1)</b>	<u><u>\$ 21,671,944,652</u></u>

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

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**Arizona Department of Transportation**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances — Governmental Funds**  
**For the Year Ended June 30, 2019**

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
<b>Revenues</b>			
Transportation excise taxes	\$ —	\$ 311,187,957	\$ —
Vehicle registration, title, license, and related taxes and fees	418,089,453	—	791,240,806
Fuel and motor carrier taxes and fees	418,318,223	—	—
Flight property taxes	—	—	—
Reimbursement of construction expenditures – federal aid	437,140,971	78,237,446	—
Other federal grants and reimbursements	—	—	—
Reimbursements from Arizona counties and cities	11,308,984	29,199,032	—
Distributions from other state agencies	14,908,058	—	—
Interest on loans receivable	5,119	—	—
Income from investments	15,776,358	1,866,986	—
Sales and charges for services	7,509,033	34,195,487	—
Rental income	2,020,096	—	—
Other	4,191,046	—	—
Total revenues	1,329,267,341	454,686,908	791,240,806
<b>Expenditures</b>			
<b>Current</b>			
Administration	84,355,201	2,360,818	11,661,742
Highway	164,171,750	8,007,717	—
Highway maintenance	113,143,943	2,645,276	—
Motor vehicle	105,735,548	—	11,792,661
Total current expenditures	467,406,442	13,013,811	23,454,403

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

Special Revenue Funds				
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds (See Exhibit 9)	Total Governmental Funds
\$ —	\$ —	\$ —	\$ 4,956,396	\$ 316,144,353
364,731,325	—	—	6,849,425	1,580,911,009
426,624,445	—	—	1,347,239	846,289,907
—	—	—	10,297,142	10,297,142
—	—	—	26,833,971	542,212,388
—	—	—	128,044,651	128,044,651
—	—	—	10,482,742	50,990,758
100,783	—	—	—	15,008,841
—	—	—	121,894	127,013
1,656,903	2,871,734	3,512,596	450,444	26,135,021
—	—	—	—	41,704,520
—	—	—	241,675	2,261,771
1,090,586	—	—	644,410	5,926,042
<u>794,204,042</u>	<u>2,871,734</u>	<u>3,512,596</u>	<u>190,269,989</u>	<u>3,566,053,416</u>
7,717,393	—	—	1,874,912	107,970,066
—	—	—	84,937,440	257,116,907
—	—	—	437,074	116,226,293
658,687	—	—	4,207,761	122,394,657
<u>8,376,080</u>	<u>—</u>	<u>—</u>	<u>91,457,187</u>	<u>603,707,923</u>

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

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
<b>Expenditures - continued</b>			
Intergovernmental			
Distributions to other state agencies	\$ 86,908,331	\$ 268,510	\$ 189,205,593
Distributions to Arizona counties and cities	51,246,966	33,811,822	578,580,810
Debt service			
Principal	—	—	—
Interest	—	—	—
Bond issuance costs	—	—	—
Noncapital, including asset preservation	186,062,904	23,481,762	—
Capital outlay	316,025,121	183,602,210	—
Total expenditures	<u>1,107,649,764</u>	<u>254,178,115</u>	<u>791,240,806</u>
Revenues over (under) expenditures	<u>221,617,577</u>	<u>200,508,793</u>	<u>—</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	—	—	—
Transfers out	(142,912,555)	(142,449,704)	—
Proceeds from sale of capital assets	342,770	—	—
Insurance recovery	6,369,465	—	—
Proceeds from debt issuance	—	—	—
Premium from debt issuance	—	—	—
Total other financing sources (uses)	<u>(136,200,320)</u>	<u>(142,449,704)</u>	<u>—</u>
Net change in fund balances	85,417,257	58,059,089	—
Fund balances (deficits), beginning of year	743,079,503	423,020,746	(8,128,423)
<b>Fund balances (deficits), end of year</b>	<u><u>\$ 828,496,760</u></u>	<u><u>\$ 481,079,835</u></u>	<u><u>\$ (8,128,423)</u></u>

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

Special Revenue Funds				Total Nonmajor Governmental Funds (See Exhibit 9)	Total Governmental Funds
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund			
\$ 26,514,195	\$ —	\$ —	\$ 3,719,088	\$ 306,615,717	
759,313,767	—	—	42,923,770	1,465,877,135	
—	199,355,000	—	—	199,355,000	
—	114,124,561	—	—	114,124,561	
—	—	1,687,827	—	1,687,827	
—	—	39,237,651	—	248,782,317	
—	—	298,567,296	527,295	798,721,922	
794,204,042	313,479,561	339,492,774	138,627,340	3,738,872,402	
—	(310,607,827)	(335,980,178)	51,642,649	(172,818,986)	
—	310,894,015	—	—	310,894,015	
—	—	—	(25,531,756)	(310,894,015)	
—	—	—	—	342,770	
—	—	—	—	6,369,465	
—	—	324,475,000	—	324,475,000	
—	—	41,448,651	—	41,448,651	
—	310,894,015	365,923,651	(25,531,756)	372,635,886	
—	286,188	29,943,473	26,110,893	199,816,900	
—	590,547	24,414,414	24,068,745	1,207,045,532	
\$ —	\$ 876,735	\$ 54,357,887	\$ 50,179,638	\$ 1,406,862,432	

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

**Arizona Department of Transportation  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2019**

**Exhibit 4.1**

<b>Net change in fund balances – total governmental funds (Exhibit 4)</b>	\$	199,816,900
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).		746,468,811
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net position. Governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 4 C2).		(345,648,647)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position (Note 4 C2).		227,383,807
Internal services funds are used by management to charge the cost of equipment rentals to individual funds. The change in net position of the internal service funds is reported with governmental activities (Note 4 C3).		3,355,266
Pension contributions are reported as expenditures in the governmental funds (Note 4 C4).		29,960,469
OPEB Contributions are reported as expenditures in governmental funds, however, the change in net OPEB liability is reported in the Statement of Activities (Note 4 C4)		(1,590,730)
Some items reported in the statement of activities do not require the use of, or provide current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (Note 4 C5).		2,153,632
<b>Change in net position of governmental activities (Exhibit 2)</b>	<b>\$</b>	<b><u>861,899,508</u></b>

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

# PROPRIETARY FUNDS FINANCIAL STATEMENTS

## MAJOR FUND

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

## NONMAJOR FUND

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

**Arizona Department of Transportation  
Statement of Net Position  
Proprietary Funds  
June 30, 2019**

**Exhibit 5**

	Business-type Activities – Enterprise Fund		Highway Expansion and Extension Loan Program Fund	Governmental Activities- Internal Service Fund
<b>Assets</b>				
Current assets				
Unrestricted cash on deposit with the State Treasurer	\$	1,196,071	\$	5,683,199
Receivables				
Other, net allowance for doubtful accounts		—		1,380,955
Due from other State agencies				219,683
Inventories		—		2,011,852
Total current assets		<u>1,196,071</u>		<u>9,295,689</u>
Noncurrent assets				
Capital assets subject to depreciation, net of accumulated depreciation		—		71,392,384
Total noncurrent assets		<u>—</u>		<u>71,392,384</u>
Total assets		<u>1,196,071</u>		<u>80,688,073</u>
<b>Deferred Outflows of Resources</b>				
Relating to pensions		—		1,599,929
Relating to OPEB		—		107,013
Total deferred outflows of resources		<u>—</u>		<u>1,706,942</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable		—		1,083,123
Accrued payroll and other accrued expenses		—		477,975
Interfund payables (Note 5C)		—		712,478
Compensated absences		—		695,021
Total current liabilities		<u>—</u>		<u>2,968,597</u>
Noncurrent liabilities				
Net OPEB liability		—		3,345,147
Net pension liability		—		11,139,230
Total noncurrent liabilities		<u>—</u>		<u>14,484,377</u>
Total liabilities		<u>—</u>		<u>17,452,974</u>
<b>Deferred Inflows of Resources</b>				
Relating to pensions (Note 6C)		—		2,184,123
Relating to OPEB		—		796,150
Total deferred inflows of resources		<u>—</u>		<u>2,980,273</u>
<b>Net Position</b>				
Net investment in capital assets		—		70,515,257
Unrestricted		1,196,071		(8,553,489)
Total net position	\$	<u>1,196,071</u>	\$	<u>61,961,768</u>

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

**Arizona Department of Transportation**  
**Statement of Revenues, Expenses, and Changes in**  
**Fund Net Position – Proprietary Funds**  
**For the Year Ended June 30, 2019**

**Exhibit 6**

	Business-type Activities - Enterprise Fund	
	Highway Expansion and Extension Loan Program Fund	Governmental Activities- Internal Service Fund
<b>Operating Revenues</b>		
Sales and charges for services	\$ —	\$ 26,273,783
Other	—	103,909
Total operating revenues	<u>—</u>	<u>26,377,692</u>
<b>Operating Expenses</b>		
Publication and promotional cost	—	17,770
Repair and maintenance	—	3,647,216
Fuel and lubricants	—	10,644,065
Salaries and related benefits	—	11,062,464
Shipping and postage	—	18,160
Supplies	—	305,419
Equipment purchase and rental	—	261,703
Professional and outside Services	—	425,381
Travel	—	74,272
Depreciation	—	14,401,157
Other	—	582,955
Total operating expenses	<u>—</u>	<u>41,440,562</u>
Operating loss	<u>—</u>	<u>(15,062,870)</u>
<b>Nonoperating Income (Expenses)</b>		
Income from investments	675,612	119,366
Gain on sale/disposal of capital assets	—	974,359
Distributions from other State agencies	—	9,375,948
Distributions to other state agencies	(30,000,000)	—
Total nonoperating revenue (expenses)	<u>(29,324,388)</u>	<u>10,469,673</u>
Capital contributions	<u>—</u>	<u>7,948,463</u>
Change in net position	(29,324,388)	3,355,266
Net position, beginning of year	30,520,459	58,606,502
<b>Net position, end of year</b>	<u>\$ 1,196,071</u>	<u>\$ 61,961,768</u>

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

**Arizona Department of Transportation  
Statement of Cash Flows  
Proprietary Funds  
For the fiscal year ended June 30, 2019**

**Exhibit 7**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	
<b>Cash flows from operating activities:</b>		
Receipts from other Funds	\$ —	\$ 26,491,687
Payments to suppliers	—	(15,071,387)
Payments to employees	—	(12,519,842)
Other receipts	—	103,909
Net cash (used in) operating activities	—	(995,633)
<b>Cash flows from non-capital financing activities</b>		
Distributions to other state agencies	(30,000,000)	—
Distributions from other state agencies	—	16,472
Net cash used in non-capital financing activities	(30,000,000)	16,472
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from sale of capital assets	—	1,874,867
Acquisition of capital assets	—	(9,432,799)
Distributions from other state agencies	—	9,359,476
Net cash provided by capital and related financing activities	—	1,801,544
<b>Cash flows from investing activities:</b>		
Income from investments	675,612	119,366
Net cash provided by investing activities	675,612	119,366
Net increase <decrease> in cash	(29,324,388)	941,749
Cash - July 1	30,520,459	4,741,450
Cash - June 30	\$ 1,196,071	\$ 5,683,199

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

**Arizona Department of Transportation  
Statement of Cash Flows  
Proprietary Funds  
For the fiscal year ended June 30, 2019**

**Exhibit 7  
- continued**

	Business-type Activities - Enterprise Fund	
	Highway Expansion and Extension Loan Program Fund	Governmental Activities - Internal Service Fund
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities</b>		
Operating loss	\$ —	\$ (15,062,870)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	—	14,401,157
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources		
Due from other state agencies	—	(219,683)
Other receivables	—	437,587
Inventories	—	788,705
Deferred outflows of resources	—	(69,915)
Accounts payable	—	42,577
Accrued payroll and other accrued expenses	—	(22,882)
Compensated absences	—	5,967
Net OPEB liability	—	80,020
Net pension liability	—	(2,132,223)
Deferred inflows of resources	—	755,927
Total adjustments	—	14,067,237
Net cash (used in) operating activities	\$ —	\$ (995,633)
<b>Non-cash capital and financing activities:</b>		
Certain vehicles were contributed to the Equipment Revolving Fund by the General Fund		\$ 7,948,463
Certain vehicles placed in service during the year were financed with trade accounts payable		877,127
Total Noncash Capital and Financing Activities	\$ —	\$ 8,825,590

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

## Notes to Financial Statements



**Arizona Department of Transportation  
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June 30, 2019**

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**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2019**

**1) Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

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

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

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

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

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

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

*Unrestricted* consists of those assets which do not meet the definition of the two preceding categories. Unrestricted often are designated to indicate that management does not consider them to be available for general operations. The unrestricted

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2019**

component often has constraints on resources which are imposed by management, but can be removed or modified by management or the Transportation Board.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. Program revenues include: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

Separate statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds are reported in a single column with combining statements provided in the supplementary information.

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

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

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

#### Financial Statement Presentation

The Department reports the following major governmental funds:

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

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2019**

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 fuel use 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, incorporated cities, towns, counties, and other legislatively appropriated entities.

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

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

The Department reports the following major proprietary fund:

The *Highway Expansion and Extension Loan Program Fund* is an innovative financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects. See the separate Independent Audited Financial Reports for more information.

Additionally, the Department reports the following fund:

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

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.

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2019**

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

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

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

Deposits and Investments

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

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with Arizona Revised Statutes, §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2019, the State's investment pool 2, pool 3, and pool 4 were not rated. The weighted average maturity at year-end for investment pool 2 was 5.12 years while for investment pool 3 was 1.13 years, and for investment pool 4 it was 4.70 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 fair value.

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
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The Department has restricted cash for payment of capital projects for Maricopa and Pima Counties, and for future debt service payments.

At June 30, 2019, the carrying amount of the Department's cash on deposit with the State Treasurer (unrestricted and restricted) totaled \$1,566,612,091. Of this amount, \$1,333,949,470 was invested in the State Agency's pool number 2 and pool number 4. The remaining \$232,662,621 is operating cash, and was not invested in the State's pools, but was held by the State Treasurer as demand deposit accounts. These pools are valued at the pool's share price multiplied by the number of shares the Department held. The fair value of a participant's position in the pools approximate the value of that participant's shares. The funds are invested in accordance with the Investment Policy of the Arizona State Treasurer's office.

Receivables, Payables and Advances

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

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

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

Inventories

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

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

Restricted Assets

Certain proceeds of the Department's governmental revenue bonds, as well as certain resources of the General Fund (State Highway Fund) are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by applicable bond covenants, constitutional mandates, or voter initiatives. State law, in conjunction with cooperative agreements with local governments, require 12.6% of the revenues allocated each year to the General Fund (State Highway Fund) from the Highway User Revenue Fund be allocated for design,

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
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purchase of right-of-way, or construction of controlled-access highways, arterial streets, and local highways that are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). State Transportation Board policy further allocates 2.6% of the revenues for the same purpose as listed above. The debt service fund is used to report the resources set aside for payment of future debt service. Bond proceeds deposited in the capital projects fund and are restricted by bond covenants for acquisitions of right-of-way and construction of federal, state, and local highways.

Capital Assets

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

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

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

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

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.

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
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Unearned/Unavailable Revenues

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

Compensated Absences

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

Effective July 1, 1998, state employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from state service. The benefit value is calculated by taking the employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25% for 500 hours to a maximum of 50% for 1,500 hours. The maximum benefit value is \$30,000. Per Arizona Revised Statute 38-615D, the benefit shall be paid either in a lump sum or in installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Gains and losses related to refunding of debt are reported as deferred inflows of resources and deferred outflows of resources, respectively. Debt issuance costs are expensed in the current period. Other long-term obligations also include amounts that other governmental entities advance the Department for highway road construction projects. No intergovernmental advances are outstanding as of June 30, 2019.

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

Net Position/Fund Balance

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

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

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

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

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

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

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

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

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

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**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 that may be related to bonds, loans, advances, board funding obligations, or capitalized leases. Capital outlay includes expenditures for real property or infrastructure (i.e., bridges and roads).

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

Other Financing Sources (Uses)

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond issuance, sale of capital assets, capital leases where the leased asset(s) reside(s) in that fund, insurance recovery, and transfers from other funds. Other financing uses are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

**F. Interfund Activity and Balances**

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are activities between the funds reported as governmental activities and the funds reported as business-type activities (e.g., the transfer of the gain or loss from the Equipment Revolving Fund).

Interfund Balances

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

**G. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and

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assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, deferred inflows of resources, and net position, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/ expenditures during the reporting period. Actual results could differ from those estimates.

**2) Funds by Classification**

**Funds**

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

<b>FUND TYPES</b>	
<b>MAJOR FUNDS</b>	<b>NONMAJOR FUNDS</b>
<i>Governmental Funds</i>	<i>Special Revenue Funds</i>
General Fund (State Highway Fund)	State Aviation Fund
Special Revenue Funds:	Safety Enforcement and
Maricopa Regional Area Road	Transportation Infrastructure Fund
Construction Fund	Motor Vehicle Liability Insurance
Motor Vehicle Division Clearing Fund	Enforcement Fund
Highway User Revenue Fund	Motor Vehicle Inspection and Title
Debt Service Fund	Enforcement Fund
Capital Projects Fund	Motor Carrier Safety Revolving Fund
<i>Proprietary Funds</i>	Economic Strength Project Fund
Enterprise Fund:	Grant Anticipation Notes Fund
Highway Expansion and Extension	Local Agency Deposits Fund
Loan Program Fund	<i>Internal Service Fund:</i>
	Equipment Revolving 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 special line-item appropriations for highway maintenance, vehicles and construction equipment, other capital expenditures, and Attorney General legal services. Expenditure details for personal services, employee-related expenditures, and all other operating expenditures are specifically allocated within all divisions. In certain divisions, other specific programs are allocated in addition to these categories. Revenue budgets are developed internally by the Department and are not part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation, the allocation of funds between personal services, employee-related expenditures, and other operating expenditures is an internal decision. Accordingly, transfers between line items such as personal services and other operating

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expenditures within a particular program may be made by the program manager. Expenditures may not exceed appropriations in total. All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

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

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

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

**A. New Accounting Pronouncements**

For the year ended June 30, 2019, the Department implemented the provisions of the following GASB pronouncements:

- ◆ GASB Statement No. 83, *Certain Asset Retirement Obligations* – to improve accounting and financial reporting by state and local governments for certain legally enforceable asset retirement obligations and the corresponding deferred outflow of resources. The requirements of this pronouncement did not impact the Department's financial statements.
- ◆ GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - The requirements of this pronouncement did not impact the Department's financial statements.

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

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

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

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

Capital assets not subject to depreciation	\$	22,949,350,336
Capital assets subject to depreciation		185,345,587
		23,134,695,923
Less: Internal Service Fund (Equipment Revolving Fund) capital assets		(71,392,384)
	\$	23,063,303,539

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

Deferred outflows of resources related to pensions	\$	33,365,346
Less: Internal Service Fund (Equipment Revolving Fund) deferred outflows of resources related to pensions		(1,599,929)
		31,765,417
Deferred outflows of resources-loss on debt refunding		76,675,376
	\$	108,440,793

Deferred outflows of resources relating to OPEB	\$	2,175,059
Less: Internal Service Fund (Equipment Revolving Fund) deferred outflows of resources related to OPEB		(107,013)
	\$	2,068,046

3. OPEB liabilities are as follows:

Net OPEB liability	\$	(67,990,799)
Less: Internal Service Fund (Equipment Revolving Fund) net OPEB liability		3,345,147
	\$	(64,645,652)

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

Net pension liability	\$	(248,089,762)
Less: Internal Service Fund (Equipment Revolving Fund) net pension liability		11,139,230
	\$	(236,950,532)

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

Bonds payable (including unamortized premium)	\$ (2,586,634,391)
Compensated absences	(17,134,356)
Other noncurrent liabilities, including accrued relocation costs	(16,008,138)
	\$ (2,619,776,885)

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

Deferred inflows of resources related to pensions	\$ (48,644,172)
Less: Internal Service Fund (Equipment Revolving Fund) deferred inflows of resources related to pensions	2,184,123
	\$ (46,460,049)
Deferred inflows of resources related to OPEB	\$ (16,181,904)
Less: Internal Service Fund (Equipment Revolving Fund) deferred inflows of resources related to OPEB	796,150
	\$ (15,385,754)

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

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

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

Capital outlay	\$ 798,721,922
Assets removed from service, net of accumulated depreciation	(33,671,371)
Capitalized relocation costs for the South Mountain Project accrued as a long term liability	9,508,138
Less: depreciation expense - governmental funds	(7,844,360)
Less: Prior Year Relocation Costs and Condemnation Judgment - government wide	(29,783,142)
Net prior year adjustments	9,537,624
	\$ 746,468,811

2. The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Also, the government reports the effect of premiums, discounts, and similar

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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 Transportation Excise Tax Revenue Bonds	\$ (262,010,000)
Issuance of Grant Anticipation Notes	(62,465,000)
Premium on debt issued	(41,448,651)
Net Change in accrued relocation costs	20,275,004
	<u>\$ (345,648,647)</u>

Principal repayments	
Highway Revenue Refunding Bonds	\$ 78,670,000
Transportation Excise Tax Revenue Refunding Bonds	104,685,000
Grant Anticipation Notes	16,000,000
Amortization of premium and discount	36,047,269
Amortization of deferred losses on refunding	(8,018,462)
	<u>\$ 227,383,807</u>

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

Internal Service Fund (Equipment Services Revolving Fund)	
Changes in net position	<u>\$ 3,355,266</u>

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

Pension contributions	\$ 18,967,477
Pension expense	10,992,992
	<u>\$ 29,960,469</u>
OPEB expense, net of Internal Service Fund	<u>\$ (1,590,730)</u>

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

A one-time write-off of a capital lease liability does not provide current financial resources, and, therefore, is not reported in the funds.	\$ 24,251,680
Certain noncurrent liabilities do not require the use of current financial resources, and, therefore, are not reported in the funds.	(6,500,000)
Certain accruals of federal grant reimbursements do not provide current financial resources, and, therefore, are not reported in the funds.	3,560,772
Net change in accrued relocation/condemnation reimbursement revenue does not provide current financial resources, and, therefore, is not reported in the funds	(19,119,329)
Compensated absences	(39,491)
	\$ 2,153,632

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**5) Detailed Notes on All Funds and Activities**

**A. Capital Assets**

Capital assets activity for the year ended June 30, 2019, was as follows:

	July 1, 2018			June 30, 2019	
	Beginning Balance, as restated <sup>1</sup>	Increases	Decreases	Transfers	Ending Balance
<i>Governmental Activities</i>					
Capital assets, not being depreciated					
Land	\$ 3,485,414,860	\$ 59,661,636	\$ (33,475,375)	\$ —	\$ 3,511,601,121
Infrastructure	16,301,538,413	—	—	149,003,560	16,450,541,973
Construction in progress	2,372,107,578	698,878,643	—	(149,003,560)	2,921,982,661
Development in progress	49,966,310	15,258,271	—	—	65,224,581
Total capital assets, not being depreciated	<u>22,209,027,161</u>	<u>773,798,550</u>	<u>(33,475,375)</u>	<u>—</u>	<u>22,949,350,336</u>
Capital assets, being depreciated					
Buildings and improvements	208,326,207	9,139,898	(9,451)	—	217,456,654
Improvements other than buildings	33,995,989	3,782,944	—	—	37,778,933
Machinery and equipment	42,399,635	1,714,000	(1,991,342)	—	42,122,293
Mobile fleet and aircraft	187,622,207	17,807,539	(9,029,176)	—	196,400,570
Total capital assets, being depreciated	<u>472,344,038</u>	<u>32,444,381</u>	<u>(11,029,969)</u>	<u>—</u>	<u>493,758,450</u>
Less accumulated depreciation for					
Buildings and improvements	(119,894,760)	(4,926,710)	77,889	—	(124,743,581)
Improvements other than buildings	(18,961,121)	(1,797,353)	—	—	(20,758,474)
Machinery and equipment	(34,714,348)	(2,340,173)	1,788,991	—	(35,265,530)
Mobile fleet and aircraft	(122,530,582)	(13,181,281)	8,066,585	—	(127,645,278)
Total accumulated depreciated	<u>(296,100,811)</u>	<u>(22,245,517)</u>	<u>9,933,465</u>	<u>—</u>	<u>(308,412,863)</u>
Total capital assets, being depreciated, net	<u>176,243,227</u>	<u>10,198,864</u>	<u>(1,096,504)</u>	<u>—</u>	<u>185,345,587</u>
Governmental activities capital assets, net	<u>\$ 22,385,270,388</u>	<u>\$ 783,997,414</u>	<u>\$ (34,571,879)</u>	<u>\$ —</u>	<u>\$ 23,134,695,923</u>

<sup>1</sup>Accumulated development costs related to the new Motor Vehicle Division processing software was reported as construction in progress in prior fiscal years. These balances/activity should have been reported as development in progress. The beginning balances of construction in progress and development in progress were restated in fiscal year 2019 to reflect the new presentation. There is no effect on either total capital assets not being depreciated or total capital assets beginning balances.

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

Capital asset additions not subject to depreciation	\$ 773,798,550
Capital asset additions subject to depreciation	32,444,381
	806,242,931
Add: Accrued relocation costs (long-term liability) added in prior fiscal year	29,783,142
Less: Internal Service Fund (Equipment Services Fund) asset additions	(18,258,389)
Accrued relocation costs (long-term liability)	(9,508,138)
Adjustment related to capital outlay and capital asset additions timing differences	(9,537,624)
	\$ 798,721,922

Depreciation expense was charged to functions/programs as follows:

<i>Governmental activities</i>	
Administration	\$ 1,628,489
Highway	2,616,094
Highway maintenance	1,753,214
Motor vehicle	1,846,563
	7,844,360
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	14,401,157
Total depreciation expense	\$ 22,245,517

**B. Construction Commitments**

The Department's outstanding commitments for contracts at June 30, 2019, were \$2.2 billion. Commitments are first categorized by segregating between Local government assistance and State Highway construction and related phases, and then further classified by phase of construction, as presented in the following table.

	Remaining Commitment
Local government assistance	\$ 178,785,569
State highways	
Construction	1,206,122,549
Design	185,339,798
Right of way	190,904,174
Utilities	28,124,688
Planning and research	46,955,341
Other	402,136,569
	\$ 2,238,368,688

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

The balances of current interfund receivables and payables as of June 30, 2019, were:

Receivables	Payables	Amount
Governmental activities		
General Fund (State Highway Fund)	Equipment Services Fund	\$ 712,478
	Highway User Revenue Fund	124,235,804
	Motor Vehicle Division Clearing Fund	7,153,462
Motor Vehicle Division Clearing Fund	General Fund (State Highway Fund)	2,015,247
	Highway User Revenue Fund	15,507,492
	Non-major governmental funds	979
Highway User Revenue Fund	General Fund (State Highway Fund)	3,729,729
	Motor Vehicle Division Clearing Fund	64,981,563
Non-major governmental funds	Motor Vehicle Division Clearing Fund	<u>310,352</u>
		<u>\$ 218,647,106</u>

The General Fund (State Highway Fund) receivable of \$124.2 million is an accrual for fuel taxes and vehicle license tax imposed in fiscal year 2019 from the Highway User Revenue Fund that will be collected in fiscal year 2020.

The Motor Vehicle Division Clearing Fund receivable of \$15.5 million is an accrual for vehicle license taxes due in fiscal year 2019 from the Highway User Revenue Fund that will be collected in fiscal year 2020.

The Highway User Revenue Fund receivable of \$65.0 million is an accrual for vehicle license taxes due in fiscal year 2019 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2020.

Interfund transfers for the year ended June 30, 2019, consisted of the following:

		Transfers To
		Debt Service Fund
<u>Transfers from</u>		
General Fund (State Highway Fund)	\$ 142,912,555	
Maricopa Regional Area Road Fund	142,449,704	
Non-major Governmental Funds	25,531,756	
Total Debt Service Fund	<u>\$ 310,894,015</u>	

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

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**D. Leases**

Capital Leases

The Department has entered into lease agreements as lessee for financing the acquisition of various vehicles, equipment, and modular buildings. Capital leases are not material to the Department's financial statements, and, therefore, are not reported therein. Beginning net position was not restated for this change.

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**E. Noncurrent Liabilities**

**Arizona Transportation Board Highway Revenue Bonds**

The Transportation Board has issued Senior and Subordinate Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1.360 billion.

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:

**Outstanding Highway Revenue Bonds**  
As of June 30, 2019

Maturity (7/1)	Series 2011A		Series 2013A		Series 2013B		Series 2015		Series 2016	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2020	\$ 200,000	4.000%	\$ 7,000,000	3.500%	\$ 27,940,000	2.179%				
2020	33,315,000	5.000%	13,050,000	5.000%						
2021	200,000	4.000%	36,020,000	5.000%						
2021	48,465,000	5.000%								
2022	53,210,000	5.000%	35,710,000	5.000%						
2023	13,475,000	5.000%	53,430,000	5.000%			\$ 24,745,000	5.000%		
2024	30,170,000	5.000%	40,080,000	5.000%			\$ 25,985,000	5.000%		
2025	30,885,000	5.000%	32,880,000	5.000%			\$ 27,280,000	5.000%		
2026			49,950,000	5.000%			\$ 28,650,000	5.000%	\$ 6,605,000	5.000%
2027			32,635,000	5.000%			\$ 30,085,000	5.000%	18,615,000	5.000%
2028			14,500,000	4.000%			\$ 31,585,000	5.000%	19,545,000	5.000%
2028			19,765,000	5.000%						
2029			2,100,000	4.000%			\$ 33,160,000	5.000%	20,530,000	5.000%
2029			33,740,000	5.000%						
2030			20,000,000	4.000%			\$ 34,820,000	5.000%	21,550,000	5.000%
2030			17,610,000	5.000%						
2031							\$ 36,565,000	5.000%	22,625,000	5.000%
2032	4,220,000	4.000%					\$ 38,385,000	5.000%	19,535,000	5.000%
2032										
2033							\$ 40,305,000	5.000%	24,905,000	5.000%
2033										
2034									26,150,000	5.000%
2035			18,035,000	5.000%					10,205,000	5.000%
2036			18,935,000	5.000%					10,715,000	5.000%
2037			19,885,000	5.000%						
2038			20,880,000	5.000%						
<b>Totals</b>	<b>\$ 214,140,000</b>		<b>\$ 486,205,000</b>		<b>\$ 27,940,000</b>		<b>\$ 351,565,000</b>		<b>\$ 200,980,000</b>	

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

Fiscal year ending June 30,	Highway Revenue Bonds		
	Principal	Interest	Total
2020	\$ 81,505,000	\$ 62,736,113	\$ 144,241,113
2021	84,685,000	59,556,050	144,241,050
2022	88,920,000	55,323,800	144,243,800
2023	91,650,000	50,877,800	142,527,800
2024	96,235,000	46,295,300	142,530,300
2025-2029	432,510,000	164,169,750	596,679,750
2030-2034	306,670,000	63,855,650	370,525,650
2035-2038	98,655,000	11,535,750	110,190,750
	<u>\$ 1,280,830,000</u>	<u>\$ 514,350,213</u>	<u>\$ 1,795,180,213</u>

The Department has pledged future motor vehicle and related fuel fees and taxes to repay \$1.28 billion in outstanding Highway Revenue Bonds issued since 2011. Proceeds from the bonds finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program, and to refund certain maturities of outstanding Highway Revenue bond issues. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2038. The total principal and interest remaining to be paid on the bonds is \$1.8 billion. Principal and interest paid for the current year and total pledged revenues were \$144.2 million and \$656.8 million respectively. The annual principal and interest payments on the bonds required 22.0% of the pledged revenues.

**Arizona Transportation Board Transportation Excise Tax Revenue Bonds**

The Maricopa Regional Area Road Construction Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$575.040 million.

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

Maturity (7/1)	2009 Series		2010 Series		2011 Series		2014 Series		2016 Series		2018 Series	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2020	\$ 340,000	3.500%	\$ 5,250,000	4.000%	\$ 11,955,000	5.000%	\$ 20,365,000	5.000%	\$ 29,490,000	5.000%	\$33,105,000	5.000%
2020			7,445,000	5.000%								
2021					12,555,000	5.000%	53,065,000	5.000%	12,465,000	5.000%	35,205,000	5.000%
2022					13,180,000	3.000%	55,720,000	3.000%	13,085,000	5.000%	8,000,000	2.000%
2022											28,970,000	5.000%
2023							58,505,000	4.000%	26,135,000	5.000%	39,760,000	5.000%
2024							76,800,000	4.000%	13,015,000	5.000%	40,805,000	5.000%
2025					14,685,000	3.000%	63,675,000	5.000%	15,660,000	5.000%	43,130,000	5.000%
2025												
<b>Totals</b>	<u>\$ 340,000</u>		<u>\$ 12,695,000</u>		<u>\$ 52,375,000</u>		<u>\$ 328,130,000</u>		<u>\$ 109,850,000</u>		<u>\$ 228,975,000</u>	

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

Fiscal year ending June 30,	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2020	\$ 107,950,000	\$ 35,763,350	\$ 143,713,350
2021	113,290,000	30,423,450	143,713,450
2022	118,955,000	24,758,950	143,713,950
2023	124,400,000	19,314,800	143,714,800
2024	130,620,000	13,094,800	143,714,800
2025	137,150,000	6,563,800	143,713,800
	<u>\$ 732,365,000</u>	<u>\$ 129,919,150</u>	<u>\$ 862,284,150</u>

The Department has pledged future transportation excise taxes to repay \$732.4 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2009. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County and to refund certain maturities of various outstanding Transportation Excise Tax Revenue bond issues.

The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$862.3 million. Principal and interest paid for the current year and total pledged revenues were \$143.7 million and \$311.2 million, respectively. The annual principal and interest payments on the bonds required 46.2% of the pledged revenues.

**Bond Issuance**

On August 23, 2018, the Transportation Board issued \$262.0 million of Transportation Excise Tax Revenue Bonds Series 2018, with interest rates ranging from 2.0% to 5.0% and serial maturities ranging from 2020 to 2025. Net proceeds totaled \$289.2 million, after receipt of \$28.5 million of original issue premium and payment of \$1.3 million of issuance costs and underwriter's discount. Proceeds of the Series 2018 bonds are being used to pay: (i) the costs of design, right-of-way purchase, and/or construction of certain freeways and other routes within Maricopa County, Arizona, and (ii) the costs of issuing the Series 2018 bonds.

**Arizona Transportation Board Grant Anticipation Notes**

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of Grant Anticipation Notes issued in prior years and outstanding at the start of the fiscal year was \$177.420 million.

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Grant Anticipation Notes currently outstanding are as follows:

Maturity (7/1)	Series 2011A		Series 2016		Series 2017A		Series 2019A	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2020	\$ 260,000	4.000%			\$ 3,230,000	5.000%	\$ 2,890,000	5.000%
2020	13,285,000	5.000%						
2021	270,000	4.000%	13,060,000	5.000%	3,390,000	5.000%	3,040,000	5.000%
2022			14,000,000	5.000%	3,560,000	5.000%	3,195,000	5.000%
2023			14,700,000	5.000%	3,740,000	5.000%	3,360,000	5.000%
2024			15,430,000	5.000%	3,925,000	5.000%	3,520,000	5.000%
2025			16,205,000	5.000%	4,125,000	5.000%	3,690,000	5.000%
2026			17,015,000	5.000%	4,325,000	5.000%	3,880,000	5.000%
2027					4,540,000	5.000%	4,070,000	5.000%
2028					4,770,000	5.000%	4,270,000	5.000%
2029					5,010,000	5.000%	4,495,000	5.000%
2030					5,260,000	5.000%	4,715,000	5.000%
2031					5,520,000	5.000%	4,955,000	5.000%
2032					5,800,000	5.000%	5,195,000	5.000%
2033							5,455,000	5.000%
2034							5,735,000	5.000%
<b>Totals</b>	<b>\$ 13,815,000</b>		<b>\$ 90,410,000</b>		<b>\$ 57,195,000</b>		<b>\$ 62,465,000</b>	

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

Fiscal year ending June 30,	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2020	\$ 19,665,000	\$ 11,188,950	\$ 30,853,950
2021	19,760,000	10,208,300	29,968,300
2022	20,755,000	9,223,000	29,978,000
2023	21,800,000	8,185,250	29,985,250
2024	22,875,000	7,095,250	29,970,250
2025-2029	76,395,000	19,857,500	96,252,500
2030-2034	42,635,000	5,720,250	48,355,250
	<b>\$ 223,885,000</b>	<b>\$ 71,478,500</b>	<b>\$ 295,363,500</b>

The Department has pledged federal revenues to repay \$223.9 million in outstanding Grant Anticipation Notes. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona and to refund certain maturities of various outstanding Grant Anticipation Notes. The bonds are payable solely from federal revenues and are payable through 2034. The total principal and interest remaining to be paid on the bonds is \$295.4 million. Principal and interest paid for the current year and total pledged revenues were \$25.5 million and \$596.5 million, respectively. The annual principal and interest payments on the bonds required 4.3% of the pledged revenues.

**Bond Issuance**

On April 11, 2019, the Transportation Board issued \$62.5 million of Grant Anticipation Notes (GAN) Series 2019A, with an interest rate of 5.0% and serial maturities ranging from 2020 to 2034. Net proceeds totaled \$75.0 million, after receipt of \$12.9 million of original issue premium and payment of \$438 thousand of issuance costs and underwriter's discount. GAN proceeds are being used to pay: (i) a portion of the costs of certain infrastructure projects throughout the State of Arizona, and (ii) pay the costs of issuing the Series 2019A Notes.

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**Refunded Bonds Deposited with Escrow Agents**

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

**Changes in Noncurrent Liabilities**

The activity for the fiscal year ended June 30, 2019, was as follows:

	Beginning Balance July 1, 2018	Additions	Reductions	Ending Balance June 30, 2019	Due Within One Year
<i>Governmental activities</i>					
Bonds and notes					
Highway Revenue bonds	\$ 1,359,500,000	\$ —	\$ (78,670,000)	\$ 1,280,830,000	\$ 81,505,000
Transportation Excise Tax Revenue bonds	575,040,000	262,010,000	(104,685,000)	732,365,000	107,950,000
Grant Anticipation notes	177,420,000	62,465,000	(16,000,000)	223,885,000	19,665,000
Unamortized premium on bonds	344,153,009	41,448,651	(36,047,269)	349,554,391	36,047,268
Total bonds and notes	2,456,113,009	365,923,651	(235,402,269)	2,586,634,391	245,167,268
Capital leases	24,251,680	—	(24,251,680)	—	—
Compensated absences	17,783,919	11,286,175	(11,240,717)	17,829,377	11,240,717
Other noncurrent liabilities, including accrued relocation costs	29,783,142	6,500,000	(20,275,004)	16,008,138	6,465,534
Total governmental activities	<u>\$ 2,527,931,750</u>	<u>\$ 383,709,826</u>	<u>\$ (291,169,670)</u>	<u>\$ 2,620,471,906</u>	<u>\$ 262,873,519</u>

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

The Internal Service Fund predominantly serves the governmental funds. Accordingly, long-term liabilities for that fund are included as part of the above totals for governmental activities. At year-end, \$695 thousand of the Internal Service Fund's compensated absences is included in the above amounts.

Capital leases were removed from the financial statements in fiscal year 2019 due to materiality considerations.

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

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**F. Fund Balances**

The fund balance classifications of the governmental funds as of June 30, 2019, were as follows:

	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Debt Service Fund	Capital Projects Funds	Non-major Governmental Funds	Total
<b>Fund Balances</b>							
<b>Nonspendable</b>							
Inventories	\$ 212,350	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 212,350
Total nonspendable	<u>212,350</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>212,350</u>
<b>Restricted for</b>							
Highway	294,831,832	339,080,362	—	—	54,357,887	—	688,270,081
Debt Service	131,886,002	116,734,952	—	876,735	—	—	249,497,689
Aid to local governments	37,368,905	25,264,521	—	—	—	8,766,112	71,399,538
Total restricted	<u>464,086,739</u>	<u>481,079,835</u>	<u>—</u>	<u>876,735</u>	<u>54,357,887</u>	<u>8,766,112</u>	<u>1,009,167,308</u>
<b>Committed to</b>							
Administration						32,784,193	32,784,193
Highway	215,605,021	—	—	—	—	—	215,605,021
Highway maintenance	148,592,650	—	—	—	—	—	148,592,650
Motor vehicle	—	—	—	—	—	8,629,333	8,629,333
Total committed	<u>364,197,671</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>41,413,526</u>	<u>405,611,197</u>
<b>Unassigned</b>	<u>—</u>	<u>—</u>	<u>(8,128,423)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,128,423)</u>
Total fund balances	<u>\$ 828,496,760</u>	<u>\$ 481,079,835</u>	<u>\$ (8,128,423)</u>	<u>\$ 876,735</u>	<u>\$54,357,887</u>	<u>\$ 50,179,638</u>	<u>\$ 1,406,862,432</u>

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

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**6) Other Information**

**A. Loop 202 South Mountain Freeway Project**

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

Cost and Funding Sources

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

Developer Design and construction	\$	1,000,264,467
Construction Management, Other Utilities & Contingency		73,531,447
Preliminary engineering and right of way		586,408,525
Capital asset replacement (30-year Period)		128,720,443
Routine maintenance (30-year period)		208,810,234
Total anticipated cost of project	<u>\$</u>	<u>1,997,735,116</u>

Actual costs incurred by the Department through June 30, 2019 for this project is \$1,402,502,695. Anticipated funding for the Loop 202 South Mountain Freeway Project will be provided from the following sources (in millions): (\*Estimates provided below are only for the costs associated with Construction, Design, and Right of Way of the South Mountain Freeway. Since the capital replacement and routine maintenance predominantly extended outside the RTPFP lifecycle, program fund source estimates are not included).

Regional Area Road Fund (1/2 - cent sales tax)	\$	363
Federal Funds		702
Regional Area Road Fund Bonds		295
Highway User Revenue Fund Bonds		120
State Highway User Revenue Funds		180
Total funding by source	<u>\$</u>	<u>1,660</u>

Maintenance Services – 30-Year Period

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

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

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**B. Contingent Liabilities**

Risk Management Insurance Losses

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

Claims

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

Grants

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

Light Rail Transit System

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

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**C. Pension and Other Postemployment Benefits**

Arizona State Retirement System

*Plan Descriptions* – Employees of the Department participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB). The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov).

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

	Retirement Initial Membership Date	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to received benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Average monthly compensation is based on	Highest 36 consecutive months of last 120 months-termination pay excluded	Highest 60 consecutive months of last 120 months-termination pay excluded
Benefit percent multiplier	2.1% to 2.3%	2.1% to 2.3%
Benefit percent multiplier is based on years of service	0-19.99 years of service 2.10% 20-24.99 years 2.15% 25-29.99 years 2.20% 30 or more years 2.30%	0-19.99 years of service 2.10% 20-24.99 years 2.15% 25-29.99 years 2.20% 30 or more years 2.30%

\*Early retirement eligibility with actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to cost-of-living adjustments based on excess investment earnings, which are reserved for this purpose. Funds are reserved when total actuarial investment returns for each fiscal year are greater than 8%. If there are no excess investment earnings in the reserve, then no additional benefit increase is paid. As of June 30, 2018, there is a zero balance in the reserve for future cost-of-living adjustments.

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

*Contributions* – In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer

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contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.80% (11.64% for retirement and 0.16% for long-term disability) of the members' annual covered payroll, and the Department was required by statute to contribute at the actuarially determined rate of 11.80% (11.18% for retirement, 0.46% for the health insurance premium benefit, and 0.16% for long-term disability) of the active members' annual covered payroll. In addition, the Department was required by statute to contribute at the actuarially determined rate of 10.53% (10.41% for retirement, 0.06% for health insurance premium benefit, and 0.06% for long-term disability) of annual covered payroll of retired members who worked for the Department in positions that would typically be filled by an employee who contributes to the ASRS. The Department's contributions to the pension plan for the year ended June 30, 2019, were \$19,965,765.

During the fiscal year ended June 30, 2019, the Department paid for ASRS pension and OPEB contributions as follows: 90% from the General Fund (State Highway Fund), 3% from major funds, and 7% from other non-major funds.

The Department's total covered payroll for fiscal year 2019 was \$178,584,660. The System is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits, health care benefits, and long term disability benefits are obligations of the System and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2019 was \$19,965,765 each by both the employees and the Department, of which 100% was so contributed.

Presentation of Deferred Outflows and Deferred Inflows of Resources

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

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

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

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Retirement Plans

The Department contributes to the Arizona Statement Retirement System plan described below. The plan is a component unit of the State of Arizona. At June 30, 2019, the Department reported the following amounts related to the pension plan to which it contributes:

Statement of Net Position and Statement of Activities	\$	Governmental Activities
Net pension liability	\$	248,089,762
Deferred outflows of resources		33,365,346
Deferred inflows of resources		48,644,172
Pension expense		(11,433,638)

Changes in the Department's net pension liability during the fiscal year ended June 30, 2019, were as follows:

	\$	Governmental Activities
Beginning balance	\$	296,900,511
Increases		160,676,165
Decreases		(209,486,914)
Ending balance	\$	<u>248,089,762</u>

*Pension Liability* – At June 30, 2019, the Department reported a liability of \$248.1 million for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018 using generally accepted actuarial procedures.

The Department's reported liability at June 30, 2019, decreased by \$48.8 million from the prior year liability of \$296.9 million because of changes in the ASRS' net pension liability and the Department's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The Department's proportion of the net pension liability was based on the Department's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The Department's proportion measured as of June 30, 2018, was 1.78%, which was a decrease of 0.13% from its proportion measured as of June 30, 2017.

The net liability measured as of June 30, 2018 reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The ASRS Board adopted the experience study which recommended changes, and those changes were effective as of the June 30, 2017 actuarial valuation. The change in the Department's net liabilities as a result of these changes is not known.

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*Pension Expense and Deferred Outflows/Inflows of Resources* – For the year ended June 30, 2019, the Department recognized pension expense from ASRS of \$(11.4) million. This amount excludes current year contribution deferrals and the Department's internal change in proportion. At June 30, 2019, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,834,672	\$ 1,367,678
Change in Assumptions	6,564,909	—
Change in Assumptions	—	21,996,564
Difference between projected and actual earnings on pension plan investment earnings	—	5,965,972
Changes in proportion and differences between State contributions and proportionate share of contributions	—	19,313,958
Contributions subsequent to the measurement date	19,965,765	—
Total	\$ 33,365,346	\$ 48,644,172

The \$19,965,765 reported as deferred outflows of resources related to ASRS pensions resulting from the Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense
2020	\$	(9,816,864)
2021		(13,702,280)
2022		(9,049,939)
2023		(2,675,508)

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

Actuarial valuation date	6/30/2017
Actuarial roll forward date	6/30/2018
Actuarial cost method	Entry age normal
Asset valuation	Fair value
Investment rate of return (Discount Rate)	7.5%
Projected salary increases	2.7 - 7.2%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2019**

Actuarial assumptions used in the June 30, 2018, valuation was determined by an actuarial valuation as of June 30, 2017, and rolled forward using generally accepted actuarial procedures to June 30, 2018.

The long-term expected real return on ASRS pension plan investments was determined to be 5.07% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term contribution to expected real return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation Effective July 1, 2018	Real Return Geometric Basis	Long-Term Contribution to Expected Real Return
Equity	50%	5.50%	2.75%
Fixed income	30%	3.83%	1.15%
Real estate	20%	5.85%	1.17%
Total	<u>100%</u>		<u>5.07%</u>

*Discount Rate* – The discount rate used to measure the ASRS total pension liability was 7.5%, which is greater than the long-term contribution to expected real return of 5.07%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term contribution to expected real return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Department’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate* – The following table presents the Department’s proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Department’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability	\$353,657,660	\$248,089,762	\$159,889,478

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

**Arizona Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2019**

**D. Subsequent Events**

On July 25, 2019, the Department was awarded a \$90.0 million INFRA Grant by the US Department of Transportation (US DOT) to add new capacity on a rural, mountainous stretch of Interstate 17 north of Phoenix. In addition, on August 29, 2019, the Department was awarded a \$10.4 million Competitive Highway Bridge Program Grant by US DOT to replace or rehabilitate four bridges on US 191. These grant funds will be received by the Department as expenditures on the projects are incurred.

# REQUIRED SUPPLEMENTARY INFORMATION (OTHER THAN MD&A)

**Budgetary Comparison Schedule – General Fund (State Highway Fund)**

**Note to Required Supplementary Information**

**Information about Infrastructure Assets Reported Using the Modified Approach**

**Pension Liability and Pension Contributions**

**Arizona Department of Transportation  
Required Supplementary Information  
June 30, 2019**

**Budgetary Comparison Schedule  
General Fund (State Highway Fund) – Budgetary Basis  
For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance with Actual
	Original	Final	Amounts	Positive (Negative)
<b>Expenditures appropriated by State legislature in 2018 budget</b>				
Department of Transportation	\$ 381,954,200	\$ 384,073,200	\$ 325,176,836	\$ 58,896,364
Timing differences:				
Prior-year appropriation expenditures expended in current budget			17,682,216	
Basis differences:				
Net increase (decrease) from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes			8,391,913	
Entity differences:				
Funds not appropriated, but included for financial reporting purposes			75,974,483	
Perspective differences:				
Expenditures on modified accrual basis and not recognized on budgetary basis:				
Capital outlay and asset preservation			502,088,025	
Distributions to Arizona counties and cities			51,246,966	
Distributions to other state agencies			86,908,331	
3rd Party MVD fees			40,180,994	
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (General Fund) - Exhibit 4			\$ 1,107,649,764	

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

**Note to Required Supplementary Information**

**1. Budgets and Budgetary Accounting**

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

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

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

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

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

**Arizona Department of Transportation**  
**Required Supplementary Information**  
**June 30, 2019**

**Information About Infrastructure Assets Reported Using the Modified Approach**

As allowed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), as amended, the Arizona Department of Transportation (the “Department”) reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,822 center line miles (21,532 travel lane miles) of roads and 4,860 bridges that the Department is responsible to maintain.

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

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

As adopted by the Transportation Board of the State of Arizona Department of Transportation (the “Transportation Board”) on an annual basis, the Five-Year Transportation Facilities Construction Program (the “Program”) contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2019 and beyond was adopted by the Transportation Board on June 16, 2017.

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

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

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

**Arizona Department of Transportation**  
**Required Supplementary Information**  
**June 30, 2019**

**Roads**

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

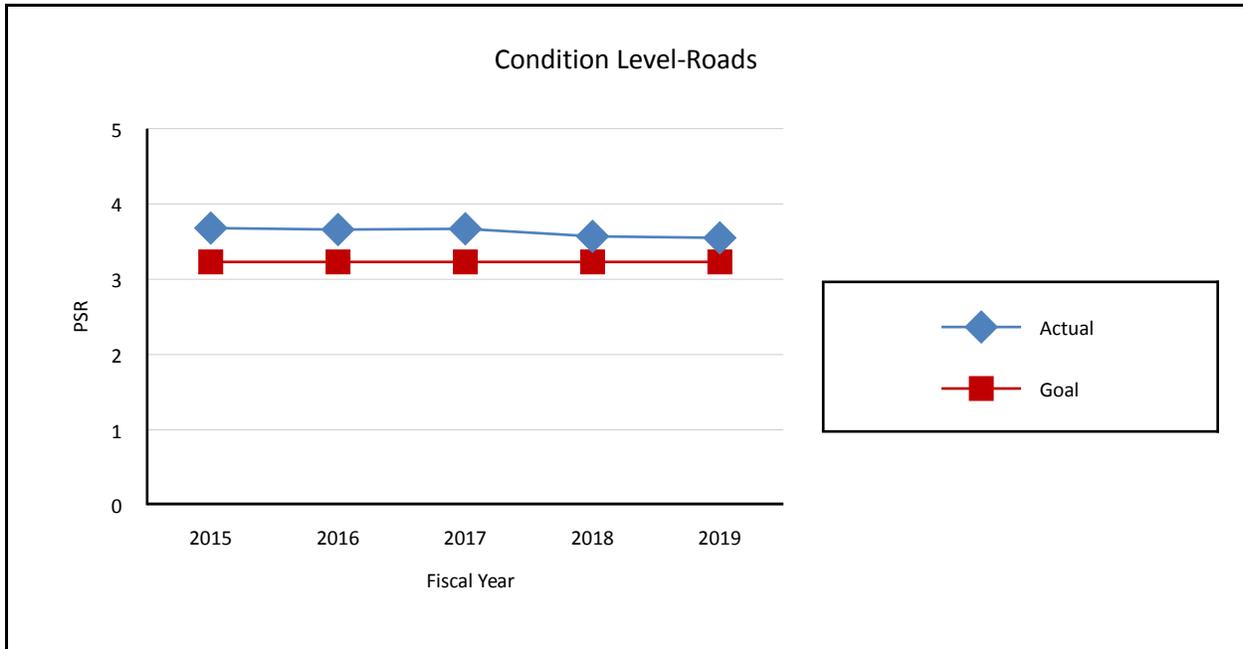
The PMS has developed performance goals for the condition level of the pavement in the state highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called “Serviceability” which can be defined as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

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

The goal of the Department is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the state highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2019, an overall rating of 3.55 was achieved, as shown in the following graph:

**Arizona Department of Transportation**  
**Required Supplementary Information**  
**June 30, 2019**

Figure 1



Preservation of the roads is accomplished through programs managed primarily by the Department's PMS, as well as other units within the Department. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2015 through 2019 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2015	\$249.5	\$300.6
2016	\$272.0	\$317.0
2017	\$322.4	\$186.4
2018	\$375.0	\$218.0
2019	\$364.6	\$231.0

**Arizona Department of Transportation**  
**Required Supplementary Information**  
**June 30, 2019**

**Bridges**

The Department's bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2019, the Department owned and maintained 4,860 bridges with an approximate total deck area of 44,286,973 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in AASHTOWare™ Bridge Management software (BrM). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, BrM is used for reporting bridge inventory and condition, on an annual basis, to the Federal Highway Administration (FHWA).

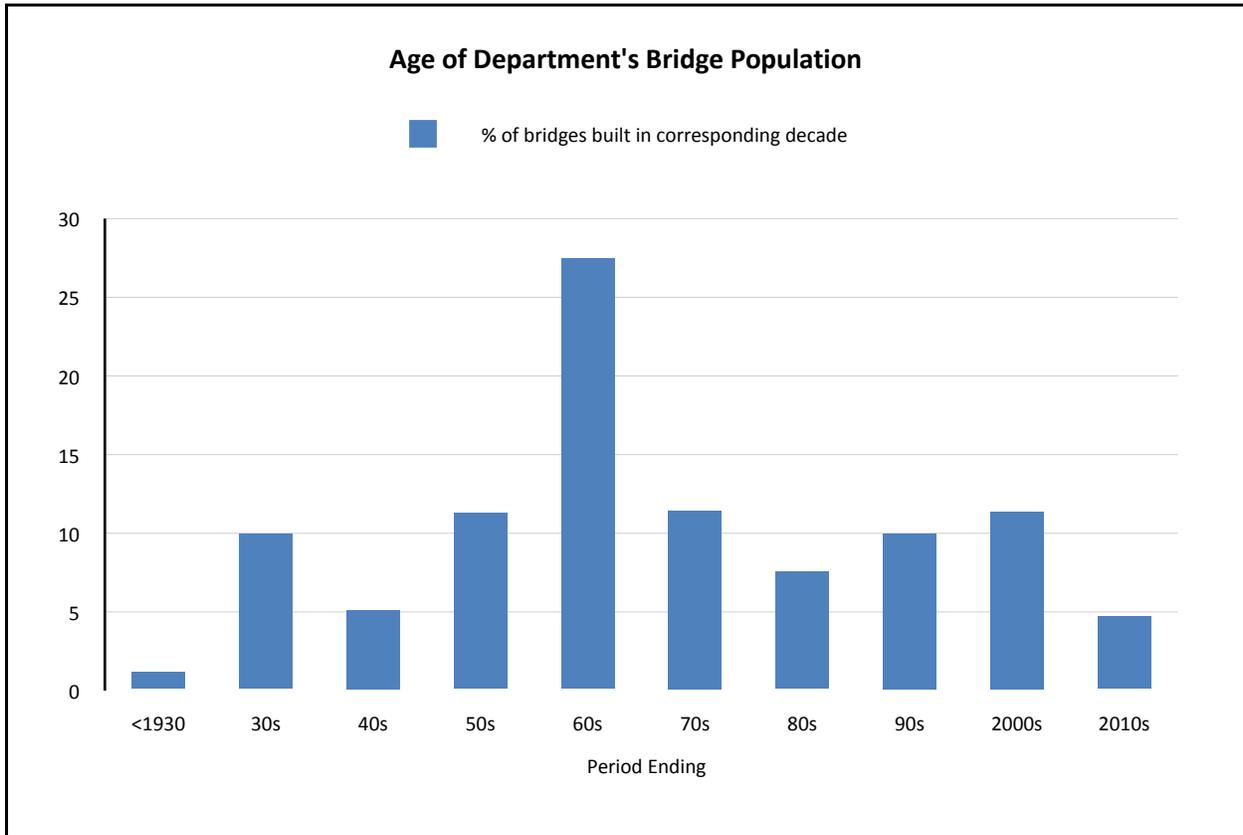
Historically, a Condition Rating Index (CRI) has been used to track the condition of the bridge network. The CRI was based on four selected bridge inspection condition ratings, which in turn were based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of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

In 2015, FHWA issued new rules which have had the effect of replacing CRI as the summary statistic for bridge condition. Instead, the Departments of Transportation of the various States are expected to maintain their bridges so that no more than 10% are classified as Poor. Financial sanctions are held against States that do not comply with this standard. Management of the bridge inventory is a major function of the Department's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. In fiscal year 2019, 0.9% of bridges maintained by the Department were classified as Poor.

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

**Arizona Department of Transportation**  
**Required Supplementary Information**  
**June 30, 2019**

Figure 2



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

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2015 through 2019 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2015	\$13.7	\$21.9
2016	\$11.6	\$39.8
2017	\$28.8	\$23.4
2018	\$26.4	\$15.3
2019	\$28.1	\$17.8

**Arizona Department of Transportation**  
**Required Supplementary Information**  
**June 30, 2019**

**Pension Liability and Pension Contributions**

Schedule of the Proportionate Share of the Net Pension Liability

For the last five fiscal years ended <sup>(1)</sup>

	Fiscal Year (Measurement Date)				
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability	1.78%	1.91%	1.99%	2.07%	2.08%
Proportion share of the net pension liability	\$248,089,762	\$296,900,511	\$321,346,418	\$322,028,132	\$307,848,006
Covered payroll	\$176,727,743	\$178,648,729	\$186,117,539	\$190,570,110	\$190,575,110
Proportion share of the net pension liability as a percentage of its covered payroll	140.38%	166.19%	172.66%	168.98%	164.15%
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%

Schedule of Pension Contributions

For the last five fiscal years ended <sup>(1)</sup>

	2019	2018	2017	2016	2015
Statutorily required contribution	\$19,965,765	\$19,263,324	\$19,258,333	\$20,193,753	\$20,753,085
Contributions in relation to the statutorily required contribution	19,965,765	19,263,324	19,258,333	20,193,753	20,753,085
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$178,584,660	\$176,727,743	\$178,648,729	\$186,117,539	\$190,570,110
Contributions as a percentage of covered payroll	11.18%	10.90%	10.78%	10.85%	10.89%

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

# SUPPLEMENTARY INFORMATION

## NONMAJOR GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

### SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

**The State Aviation Fund** is appropriated by the legislature and receives monies from aviation gasoline taxes, sale of abandoned or seized aircraft, flight property taxes, and the operation of the Grand Canyon National Park Airport. The State Aviation Fund monies are used to build and maintain airport facilities throughout Arizona.

**The Safety Enforcement and Transportation Infrastructure Fund** is appropriated by the legislature and receives monies from registration fees for non-resident vehicles and single trip and limited use fuel tax permits. Monies are used for enforcement of vehicle safety requirements, and construction and maintenance of transportation facilities within twenty-five miles of the border between Arizona and Mexico.

**The Motor Vehicle Liability Insurance Enforcement Fund** is appropriated by the legislature and receives reinstatement fees for insurance-related driver license and vehicle registration suspensions. Monies are used to administer the State's Mandatory Liability Insurance Program.

**The Motor Vehicle Inspection and Title Enforcement Fund** is appropriated by the legislature and receives monies from the fees charged for certain vehicle inspections. Monies are used to defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement, and other enforcement related issues.

**The Motor Carrier Safety Revolving Fund** receives fees to administer and enforce the rules governing the safety operations of motor carriers, shippers, and vehicles transporting hazardous materials, substances, or waste.

**The Economic Strength Project Fund** receives monies from the Highway User Revenue Fund for use on approved economic strength projects recommended by the Arizona Commerce Authority and Economic Development Commission.

**The Grant Anticipation Notes Fund** receives revenues from the Federal Highway Administration under various grant agreements for the repayment of Grant Anticipation Notes (GARVEE bonds).

**The Local Agency Deposits Fund** receives monies from the U.S. Government and local agencies for the payment of local agency sponsored county secondary road construction projects.

**Arizona Department of Transportation**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2019**

**Exhibit 8**

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Motor Vehicle Inspection and Title Enforcement Fund
<b>Assets</b>				
Unrestricted cash on deposit with State Treasurer	\$ 26,225,083	\$ 195,731	\$ 8,114,549	\$ 492,833
Receivables:				
Interfund (Note 5D)	158,718	31,016	81,268	39,350
Notes and loans	2,543,640	—	—	—
Due from other State agencies	350,618	—	—	—
Other (net)	717,056	—	—	—
Amounts due from U.S. Government	—	—	—	—
Restricted cash on deposit with the State Treasurer	—	—	—	—
<b>Total assets</b>	<b>\$ 29,995,115</b>	<b>\$ 226,747</b>	<b>\$ 8,195,817</b>	<b>\$ 532,183</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ —	\$ —	\$ —	\$ —
Accrued payroll and other accrued expenditures	46,461	39,980	50,496	53,150
Interfund payables (Note 5D)	977	—	—	—
Amounts due to				
Arizona counties and cities	146,395	—	—	—
<b>Total liabilities</b>	<b>193,833</b>	<b>39,980</b>	<b>50,496</b>	<b>53,150</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenue	—	—	—	—
<b>Fund balances</b>				
Restricted	—	—	—	—
Committed	29,801,282	186,767	8,145,321	479,033
<b>Total fund balances</b>	<b>29,801,282</b>	<b>186,767</b>	<b>8,145,321</b>	<b>479,033</b>
<b>Total liabilities and fund balances</b>	<b>\$ 29,995,115</b>	<b>\$ 226,747</b>	<b>\$ 8,195,817</b>	<b>\$ 532,183</b>

Motor Carrier Safety Revolving Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Funds	Total Nonmajor Governmental Funds
4,979.00	\$ 2,796,144	\$ —	\$ —	37,829,319
—	—	—	—	310,352
—	—	—	—	2,543,640
—	—	—	—	350,618
—	—	—	1,073,704	1,790,760
—	—	—	25,740,368	25,740,368
—	—	—	12,197,457	12,197,457
<u>4,979</u>	<u>2,796,144</u>	<u>—</u>	<u>39,011,529</u>	<u>80,762,514</u>
—	—	—	17,538,074	17,538,074
—	—	—	86,083	276,170
—	—	—	—	977
—	—	—	9,060,488	9,206,883
—	—	—	26,684,645	27,022,104
—	—	—	3,560,772	3,560,772
—	—	—	8,766,112	8,766,112
<u>4,979</u>	<u>2,796,144</u>	<u>—</u>	<u>—</u>	<u>41,413,526</u>
<u>4,979</u>	<u>2,796,144</u>	<u>—</u>	<u>8,766,112</u>	<u>50,179,638</u>
<u>\$ 4,979</u>	<u>\$ 2,796,144</u>	<u>\$ —</u>	<u>\$ 39,011,529</u>	<u>\$ 80,762,514</u>

**Arizona Department of Transportation**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances — Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2019**

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Motor Vehicle Inspection and Title Enforcement Fund
<b>Revenues</b>				
Transportation excise taxes	\$ 4,956,396	\$ —	\$ —	\$ —
Vehicle registration, title, license, and related taxes and fees	168,433	1,350,958	3,244,326	2,085,708
Fuel and motor carrier taxes and fees	347,239	—	—	—
Flight property taxes	10,297,142	—	—	—
Reimbursement of construction expenditures - federal aid	1,302,215	—	—	—
Other federal grants and reimbursements	—	—	—	—
Reimbursements from Arizona counties and cities	383,548	—	—	—
Interest on loans receivable	121,894	—	—	—
Income from investments	394,524	1,506	—	—
Rental income	241,675	—	—	—
Other	631,055	—	—	10,988
Total revenues	<u>18,844,121</u>	<u>1,352,464</u>	<u>3,244,326</u>	<u>2,096,696</u>
<b>Expenditures</b>				
Current				
Administration	1,872,693	600	700	400
Highway	1,226,501	—	—	—
Highway maintenance	—	437,074	—	—
Motor vehicle	—	965,463	1,698,727	1,515,711
Total current expenditures	<u>3,099,194</u>	<u>1,403,137</u>	<u>1,699,427</u>	<u>1,516,111</u>
Intergovernmental				
Distributions to other state agencies	—	—	1,250,000	1,128,000
Distributions to Arizona counties and cities	4,387,629	—	—	—
Capital outlay	527,295	—	—	—
Total expenditures	<u>8,014,118</u>	<u>1,403,137</u>	<u>2,949,427</u>	<u>2,644,111</u>
Revenues over (under) expenditures	<u>10,830,003</u>	<u>(50,673)</u>	<u>294,899</u>	<u>(547,415)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	—	—	—	—
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net change in fund balances	10,830,003	(50,673)	294,899	(547,415)
Fund balances, beginning of year	18,971,279	237,440	7,850,422	1,026,448
<b>Fund balances, end of year</b>	<u>\$ 29,801,282</u>	<u>\$ 186,767</u>	<u>\$ 8,145,321</u>	<u>\$ 479,033</u>

Motor Carrier Safety Revolving Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Funds	Total Nonmajor Governmental Funds
\$ —	\$ —	\$ —	\$ —	\$ 4,956,396
—	—	—	—	6,849,425
—	1,000,000	—	—	1,347,239
—	—	—	—	10,297,142
—	—	25,531,756	—	26,833,971
—	—	—	128,044,651	128,044,651
—	—	—	10,099,194	10,482,742
—	—	—	—	121,894
—	54,414	—	—	450,444
—	—	—	—	241,675
2,367	—	—	—	644,410
<u>2,367</u>	<u>1,054,414</u>	<u>25,531,756</u>	<u>138,143,845</u>	<u>190,269,989</u>
—	—	—	519	1,874,912
—	—	—	83,710,939	84,937,440
—	—	—	—	437,074
11,110	—	—	16,750	4,207,761
<u>11,110</u>	<u>—</u>	<u>—</u>	<u>83,728,208</u>	<u>91,457,187</u>
—	—	—	1,341,088	3,719,088
—	292,853	—	38,243,288	42,923,770
—	—	—	—	527,295
<u>11,110</u>	<u>292,853</u>	<u>—</u>	<u>123,312,584</u>	<u>138,627,340</u>
<u>(8,743)</u>	<u>761,561</u>	<u>25,531,756</u>	<u>14,831,261</u>	<u>51,642,649</u>
—	—	(25,531,756)	—	(25,531,756)
—	—	(25,531,756)	—	(25,531,756)
(8,743)	761,561	—	14,831,261	26,110,893
13,722	2,034,583	—	(6,065,149)	24,068,745
<u>\$ 4,979</u>	<u>\$2,796,144</u>	<u>\$ —</u>	<u>\$ 8,766,112</u>	<u>\$ 50,179,638</u>



**Arizona Department of Transportation  
Overview — Statistical Section  
For the Year Ended June 30, 2019**

This part of the Arizona Department of Transportation’s (the “Department”) Comprehensive Annual Financial Report provides detail in the form of graphs and tables intended to assist the reader of the report with understanding the information presented in the financial statements, note disclosures, and required supplementary information regarding the overall financial health of the Department.

Financial Trends

These schedules show trend information that gives an insight into the Department’s financial well-being and performance over time.

Revenue Capacity

Information about the Motor Vehicle Fuel Tax and the Highway User Revenue Fund, the Department’s most significant own-source revenues, is presented in these tables.

Debt Capacity

These tables present information to help the reader assess the affordability of the Department’s current levels of outstanding debt as well as the Department’s ability to issue additional debt in the future.

Demographic and Economic Information

The demographic and economic indicators presented in this section offer an understanding of the environment in which the Department’s financial activities take place.

Operating Information

The Department’s relationship of the financial report to the services provided as well as its activities is illustrated in these tables depicting service and infrastructure information.

*Sources: Unless otherwise stated, all information in the following tables is derived from the Comprehensive Annual Financial Reports for the years shown.*

**Arizona Department of Transportation  
Index — Statistical Section  
For the Year Ended June 30, 2019**

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# FINANCIAL TRENDS

**Arizona Department of Transportation**  
**Changes in Net Position**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

	2010	2011	2012	2013	2014
<b>Expenses</b>					
<b>Governmental Activities</b>					
Administration	\$ 65,781	\$ 93,040	\$ 94,075	\$ 101,370	\$ 106,200
Aeronautics	—	—	—	—	—
Highway	34,721	37,070	39,632	46,076	51,074
Highway maintenance	102,932	129,700	125,331	139,762	122,977
Motor vehicle	102,926	99,949	116,095	107,655	111,397
Noncapital, including asset preservation	122,747	345,590	351,116	257,126	312,519
Distributions to other state agencies	251,392	254,702	307,885	213,394	216,675
Distributions to Arizona counties and cities	1,057,720	1,024,756	1,005,114	1,074,086	1,065,798
Local government assistance	83,230	163,035	93,557	102,332	90,376
Issuance cost on long-term debt	—	—	—	—	13,554
Interest on long-term debt	129,626	128,768	164,081	187,315	114,406
Total governmental activities expenses	<u>1,951,075</u>	<u>2,276,610</u>	<u>2,296,886</u>	<u>2,229,116</u>	<u>2,204,976</u>
<b>Business-type Activities</b>					
Arizona Highways Magazine	6,288	5,664	4,979	4,637	4,821
Highway Expansion and Extension Loan Program	147	126	75	46	46
Total business-type activities expenses	<u>6,435</u>	<u>5,790</u>	<u>5,054</u>	<u>4,683</u>	<u>4,867</u>
Total primary government expenses	<u>\$ 1,957,510</u>	<u>\$ 2,282,400</u>	<u>\$ 2,301,940</u>	<u>\$ 2,233,799</u>	<u>\$ 2,209,843</u>
<b>Program Revenues</b>					
<b>Governmental Activities</b>					
Charges for services					
Administration	\$ 9,766	\$ 10,770	\$ 11,947	\$ 12,254	\$ 12,400
Aeronautics	—	—	—	—	—
Highway	1,266	2,798	1,681	842	864
Highway maintenance	1,858	2,667	2,290	1,887	2,418
Motor vehicle	111,412	117,427	111,429	119,733	122,042
Noncapital, including asset preservation	—	—	—	—	—
Local governmental assistance	5	—	—	—	—
Operating grants and contributions	146,936	220,759	161,992	168,436	157,705
Capital grants and contributions	575,448	743,718	775,976	651,798	546,680
Total governmental activities program	<u>846,691</u>	<u>1,098,139</u>	<u>1,065,315</u>	<u>954,950</u>	<u>842,109</u>
<b>Business-type activities</b>					
Charges for services					
Arizona Highways Magazine	5,975	5,619	5,581	5,188	5,164
Highway Expansion and Extension Loan	556	154	2	6	—
Total business-type activities program	<u>6,531</u>	<u>5,773</u>	<u>5,583</u>	<u>5,194</u>	<u>5,164</u>
Total primary government program	<u>\$ 853,222</u>	<u>\$ 1,103,912</u>	<u>\$ 1,070,898</u>	<u>\$ 960,144</u>	<u>\$ 847,273</u>
<b>Net (expenses)/revenues</b>					
Governmental Activities	\$ (1,104,384)	\$ (1,178,471)	\$ (1,231,571)	\$ (1,274,166)	\$ (1,362,867)
Business-type Activities	96	(17)	529	511	297
Total primary government net expense	<u>\$ (1,104,288)</u>	<u>\$ (1,178,488)</u>	<u>\$ (1,231,042)</u>	<u>\$ (1,273,655)</u>	<u>\$ (1,362,570)</u>

	2015	2016	2017	2018	2019
\$	98,855	\$ 88,899	\$ 74,516	\$ 77,547	77,469
	—	—	—	—	—
	41,836	122,025	138,400	133,915	164,752
	137,473	116,067	102,173	97,197	112,939
	92,520	113,029	112,119	110,516	116,727
	315,349	373,006	253,205	319,870	279,298
	189,517	232,905	210,333	224,221	306,616
	1,155,651	1,260,019	1,276,427	1,307,530	1,427,634
	98,371	114,650	127,028	127,400	121,971
	—	—	—	—	—
	94,956	93,840	78,481	58,874	87,784
	<u>2,224,528</u>	<u>2,514,440</u>	<u>2,372,680</u>	<u>2,457,069</u>	<u>2,695,190</u>
	4,739	—	—	—	—
	43	20,037	—	30,000	30,000
	<u>4,782</u>	<u>20,037</u>	<u>—</u>	<u>30,000</u>	<u>30,000</u>
\$	<u>2,229,310</u>	<u>2,534,477</u>	<u>2,372,680</u>	<u>2,487,069</u>	<u>2,725,190</u>
\$	8,145	\$ 13,185	\$ 13,636	\$ 12,679	\$ 8,049
	—	—	—	—	—
	2,157	2,597	2,658	2,640	1,849
	2,676	6,302	3,544	6,530	6,369
	132,837	145,899	145,035	146,720	180,162
	—	—	—	13,650	34,195
	—	—	—	—	—
	172,279	134,446	158,156	149,779	188,021
	696,877	856,434	714,608	744,854	532,677
	<u>1,014,971</u>	<u>1,158,863</u>	<u>1,037,637</u>	<u>1,076,852</u>	<u>951,323</u>
	5,073	—	—	—	—
	—	—	—	—	—
	<u>5,073</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
\$	<u>1,020,044</u>	<u>1,158,863</u>	<u>1,037,637</u>	<u>1,076,852</u>	<u>951,323</u>
\$	(1,209,557)	\$ (1,355,577)	\$ (1,335,043)	\$ (1,380,217)	\$ (1,743,867)
	291	(20,037)	—	(30,000)	(30,000)
\$	<u>(1,209,266)</u>	<u>(1,375,614)</u>	<u>(1,335,043)</u>	<u>(1,410,217)</u>	<u>(1,773,867)</u>

**Arizona Department of Transportation**  
**Changes in Net Position**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

	2010	2011	2012
<b>General Revenues and Other Changes in Net Position</b>			
Governmental activities			
Transportation excise taxes	\$ 199,672	\$ 206,545	\$ 216,281
Motor vehicle registration, title, and related taxes	893,287	874,191	899,345
Fuel and motor carrier taxes and fees	690,503	704,727	700,620
Flight property taxes	9,527	9,798	10,735
Income from investments	16,347	9,415	11,388
Other	8,966	16,095	10,442
Transfers	—	(851)	—
Total governmental activities	<u>1,818,302</u>	<u>1,819,920</u>	<u>1,848,811</u>
Business-type activities			
Income from investments	514	554	783
Other	—	—	—
Transfers	—	851	—
Total business-type activities	<u>514</u>	<u>1,405</u>	<u>783</u>
Total primary government	<u>\$ 1,818,816</u>	<u>\$ 1,821,325</u>	<u>\$ 1,849,594</u>
<b>Changes in Net Position</b>			
Governmental activities	\$ 713,918	\$ 641,449	\$ 617,240
Business-type activities	610	1,388	1,312
Total primary government	<u>\$ 714,528</u>	<u>\$ 642,837</u>	<u>\$ 618,552</u>

Table A-1 - Continued

2013	2014	2015	2016	2017	2018	2019
\$ 227,800	\$ 243,786	\$ 254,871	\$ 262,971	\$ 274,553	\$ 295,100	\$ 316,144
913,326	963,221	1,036,502	1,134,913	1,135,060	1,142,561	1,400,749
708,062	714,852	686,042	735,928	777,315	838,823	846,290
8,084	12,975	8,595	9,620	10,365	13,012	10,297
11,781	11,634	9,989	9,064	10,512	17,264	26,135
13,411	13,931	10,415	7,050	5,884	8,618	6,151
—	—	—	—	—	—	—
<u>1,882,464</u>	<u>1,960,399</u>	<u>2,006,414</u>	<u>2,159,546</u>	<u>2,213,689</u>	<u>2,315,378</u>	<u>2,605,766</u>
747	735	613	560	657,455	569,661	676
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<u>747</u>	<u>735</u>	<u>613</u>	<u>560</u>	<u>657,455</u>	<u>570</u>	<u>676</u>
<u>\$ 1,883,211</u>	<u>\$ 1,961,134</u>	<u>\$ 2,007,027</u>	<u>\$ 2,160,106</u>	<u>\$ 2,214,346</u>	<u>2,315,948</u>	<u>2,606,442</u>
\$ 608,298	\$ 597,532	\$ 796,857	\$ 803,969	\$ 878,645	\$ 935,161	\$ 861,900
1,258	1,032	904	(19,477)	657	(29,430)	(29,324)
<u>\$ 609,556</u>	<u>\$ 598,564</u>	<u>\$ 797,761</u>	<u>\$ 784,492</u>	<u>\$ 879,302</u>	<u>\$ 905,731</u>	<u>\$ 832,576</u>

**Arizona Department of Transportation**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances — Governmental Funds**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

	2010	2011	2012
<b>Revenues</b>			
Transportation excise taxes	\$ 199,672	\$ 206,545	\$ 216,281
Vehicle registration, title, license, and related taxes and fees	1,002,312	991,335	1,010,548
Fuel and motor carrier taxes and fees	692,632	704,727	700,620
Flight property taxes	9,527	9,799	10,735
Reimbursement of construction expenditures federal aid	544,498	736,803	770,900
Other federal grants and reimbursements	146,936	219,743	157,437
Reimbursements from Arizona counties and cities	31,503	10,078	9,645
Distributions from other state agencies	936	845	1,842
Interest on loans receivable	596	436	351
Income from investments	15,853	9,083	11,130
Sales and charges for services	—	—	—
Grand Canyon National Park Airport	866	798	821
Rental income	1,800	2,554	3,096
Other	6,370	9,913	8,177
Total revenues	<u>2,653,501</u>	<u>2,902,659</u>	<u>2,901,583</u>
<b>Expenditures</b>			
Current			
Transportation			
Administration	\$ 52,971	\$ 81,477	\$ 80,627
Aeronautics	—	—	—
Highway	115,061	200,216	135,908
Highway maintenance	94,014	120,716	118,230
Motor vehicle	101,142	98,115	114,327
Total transportation	<u>363,188</u>	<u>500,524</u>	<u>449,092</u>
Intergovernmental			
Distributions to other state agencies	244,836	254,210	305,218
Distributions to Arizona counties and cities	1,046,576	1,022,512	1,004,768
Debt service			
Principal	144,232	201,219	196,338
Interest	143,133	144,748	137,213
Bond issuance costs	121	2,099	3,043
Noncapital, including asset preservation	217,338	313,179	286,217
Capital outlay	998,502	709,250	701,657
Total expenditures	<u>3,157,926</u>	<u>3,147,741</u>	<u>3,083,546</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (504,425)</u>	<u>\$ (245,082)</u>	<u>\$ (181,963)</u>

Table A-2

	2013	2014	2015	2016	2017	2018	2019
\$	227,800	\$ 243,786	\$ 254,871	\$ 262,971	\$ 274,553	\$ 295,100	\$ 316,144
	1,021,441	1,085,166	1,169,339	1,280,812	1,280,095	1,289,281	1,580,911
	613,607	714,852	686,042	735,928	777,315	838,823	846,290
	—	12,975	8,595	9,620	10,365	13,012	10,297
	597,762	536,192	685,823	859,985	638,098	750,540	542,212
	66,217	148,902	162,701	106,660	138,168	106,304	128,045
	(2,380)	19,314	20,632	24,235	55,828	24,307	50,991
	989	915	1,338	744	963	27,573	15,009
	93	228	179	207	194	112	127
	11,282	11,500	9,989	9,064	10,512	17,264	26,135
	—	—	—	9,189	10,832	23,279	41,705
	—	1,170	1,295	344	647	1,015	—
	5,244	6,025	6,671	5,556	3,931	3,346	2,262
	7,779	11,959	10,264	6,990	5,880	5,955	5,926
\$	<u>2,549,834</u>	<u>\$ 2,792,984</u>	<u>\$ 3,017,739</u>	<u>\$ 3,312,305</u>	<u>\$ 3,207,381</u>	<u>\$ 3,395,910</u>	<u>\$ 3,566,053</u>
\$	80,612	\$ 92,966	\$ 93,309	\$ 81,191	\$ 71,638	\$ 79,475	\$ 107,970
	—	—	—	—	—	—	—
	42,996	128,196	136,527	163,011	218,959	235,195	257,117
	125,199	133,572	130,599	108,882	96,396	94,996	116,226
	100,993	109,553	87,296	106,030	106,461	109,592	122,395
	349,800	464,287	447,731	459,114	493,454	519,258	603,708
	132,685	216,482	189,517	232,990	211,145	224,221	306,616
	1,053,543	1,065,798	1,155,651	1,320,949	1,312,206	1,334,573	1,465,877
	160,415	216,879	272,053	194,308	174,448	204,161	199,355
	142,524	140,259	121,404	122,449	108,230	108,977	114,125
	2,455	—	3,026	—	2,125	425	1,688
	242,039	223,572	251,953	356,753	209,802	233,316	248,782
	677,236	563,428	634,303	689,613	741,658	793,955	798,722
	2,760,697	2,890,705	3,075,638	3,376,176	3,253,068	3,418,885	3,738,872
\$	<u>(210,863)</u>	<u>\$ (97,721)</u>	<u>\$ (57,899)</u>	<u>\$ (63,871)</u>	<u>\$ (45,687)</u>	<u>\$ (22,975)</u>	<u>\$ (172,819)</u>

**Arizona Department of Transportation**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances — Governmental Funds**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

	2010	2011	2012	2013	2014
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 271,408	\$ 331,547	\$ 330,856	\$ 283,066	\$ 303,030
Transfers out for debt service	(266,934)	(331,547)	(330,856)	(227,996)	(303,030)
Transfers out other	(9,013)	(2,400)	—	—	—
Sale of capital assets	3,088	3,712	1,815	1,636	900
Insurance recovery	1,765	2,529	1,818	1,679	2,328
Debt issuance	32,628	349,698	269,001	767,020	42,366
Refunding debt issuance	—	—	499,725	92,477	—
Premium from debt issuance	—	38,876	90,753	36,385	—
Payment to refunded bond escrow	—	—	(560,228)	(611,874)	—
Total other financing sources (uses)	<u>32,942</u>	<u>392,415</u>	<u>302,884</u>	<u>342,393</u>	<u>45,594</u>
Net change in fund balances before accounting change	(471,483)	147,333	120,921	131,530	(52,127)
Special item – State appropriation for Statewide Transportation Acceleration Needs	—	—	—	—	—
Net change in fund balances	<u>(471,483)</u>	<u>147,333</u>	<u>120,921</u>	<u>131,530</u>	<u>(52,127)</u>
Fund balances, beginning of year	1,410,252	938,769	1,086,102	1,169,853	1,341,636
Fund balances, end of year	<u>\$ 938,769</u>	<u>\$ 1,086,102</u>	<u>\$ 1,207,023</u>	<u>\$ 1,301,383</u>	<u>\$ 1,289,509</u>
Debt service as percentage of noncapital expenditures	13.5%	13.3%	14.1%	14.5%	15.3%
Debt service as a percentage of total revenues	12.2%	10.8%	12.1%	10.4%	12.8%

Table A-2 - Continued

	2015	2016	2017	2018	2019
\$	305,410	\$ 304,311	\$ 274,990	\$ 252,974	\$ 310,894
	(305,410)	(304,311)	(274,990)	(252,974)	(310,894)
	—	—	—	—	—
	259	60	1,294	3,524	343
	2,676	6,302	3,544	6,530	6,369
	783	—	—	62,595	324,475
	754,285	—	403,310	—	—
	149,554	—	100,305	12,839	41,449
	(900,813)	—	(501,478)	—	—
	6,744	6,362	6,975	85,488	372,636
	(51,155)	(57,509)	(38,712)	62,513	199,817
	—	—	—	—	—
	(51,155)	(57,509)	(38,712)	62,513	199,817
	1,289,508	1,240,753	1,183,244	1,144,532	1,207,046
\$	1,238,353	\$ 1,183,244	\$ 1,144,532	\$ 1,207,045	\$ 1,406,863
	16.1%	11.8%	11.3%	11.9%	10.7%
	13.0%	9.6%	8.8%	9.2%	8.8%

**Arizona Department of Transportation**  
**Fund Balances of Governmental Funds**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

	2010	2011	2012	2013	2014
<b>General Fund (State Highway Fund)</b>					
Reserved	\$ 270,550	\$ —	\$ —	\$ —	\$ —
Unreserved	80,251	—	—	—	—
Nonspendable	—	9,765	8,235	7,207	6,833
Restricted	—	229,559	240,444	267,414	295,361
Committed	—	102,350	25,229	123,662	129,115
Total general fund	<u>350,801</u>	<u>341,674</u>	<u>273,908</u>	<u>398,283</u>	<u>431,309</u>
<b>All other governmental funds</b>					
Reserved					
Debt service	1,894	—	—	—	—
Capital projects	576,331	—	—	—	—
Unreserved, reported in					
Nonmajor special revenue funds	9,743	—	—	—	—
Unassigned	—	—	(8,128)	(8,128)	(8,128)
Nonspendable	—	—	—	—	—
Restricted	—	719,996	903,891	870,678	816,591
Committed	—	24,462	37,352	40,550	49,737
Total all other governmental funds	<u>587,968</u>	<u>744,458</u>	<u>933,115</u>	<u>903,100</u>	<u>858,200</u>
Total general and other governmental funds	<u>\$ 938,769</u>	<u>\$ 1,086,132</u>	<u>\$ 1,207,023</u>	<u>\$ 1,301,383</u>	<u>\$ 1,289,509</u>

NOTES: <sup>1</sup>GASB 54 rules state that fund balances should be reported with the categories listed in the above table for years beginning in 2011. Years 2010 will continued to be reported in the old format until 10 years of information is available.

<sup>2</sup>Estimated in 2012 CAFR and have been revised for 2012 actuals.

Table A-3

	2015	2016	2017	2018	2019
\$	—	\$ —	\$ —	\$ —	\$ —
	—	—	—	—	—
	6,341	6,179	40	53	212
	344,347	337,534	428,369	430,204	464,087
	177,384	282,312	273,063	312,823	364,198
	<u>528,072</u>	<u>626,025</u>	<u>701,472</u>	<u>743,080</u>	<u>828,497</u>
	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—
	(8,128)	(8,128)	(8,128)	(14,194)	(8,128)
	6,341	—	—	—	—
	490,664	548,082	437,071	448,026	545,081
	221,404	17,265	14,117	30,134	41,414
	<u>710,281</u>	<u>557,219</u>	<u>443,060</u>	<u>463,966</u>	<u>578,366</u>
\$	<u>1,238,353</u>	<u>\$ 1,183,244</u>	<u>\$ 1,144,532</u>	<u>\$ 1,207,046</u>	<u>\$ 1,406,862</u>

**Arizona Department of Transportation  
Expenditures of Federal Awards<sup>1</sup>  
For the Last Ten Fiscal Years  
Fiscal Year Ended June 30, 2019  
(Thousands of Dollars)**

**Table A-4**

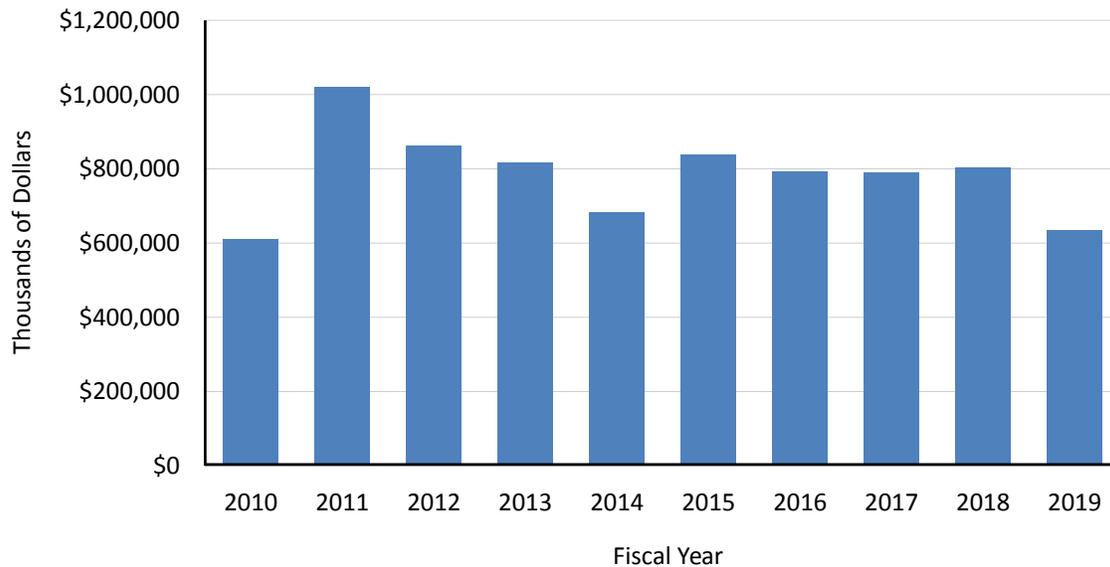
Fiscal Year	Federal Agencies <sup>(1)</sup>												Total Federal Expenditures
	BIA	BJA	BLM	FAA	FHWA	FMCSA	FRA	FTA	GSA	NHTSA	OST	USDA	
2019	\$ —	\$ —	\$ —	\$ 1,151	\$ 590,592	\$ 791	\$ —	\$ 28,577	\$ —	\$ 100	\$ 12,192	\$ —	\$ 633,403
2018	—	—	—	1,220	778,021	274	6	20,966	—	100	2,808	—	803,395
2017	—	—	—	4,313	764,482	502	120	19,830	—	117	117	—	789,481
2016	—	—	—	3,292	763,879	827	53	14,923	—	193	8,916	—	792,083
2015	—	—	—	428	807,573	2,122	48	18,644	—	103	10,417	—	839,335
2014	—	—	—	454	660,644	2,204	65	18,107	234	112	1,512	—	683,332
2013	—	13	—	198	794,912	2,747	611	19,056	—	123	344	—	818,004
2012	—	—	—	488	840,649	1,518	—	19,261	541	—	—	80	862,537
2011	—	—	1,004	3,844	988,403	3,891	—	21,451	—	1,143	—	—	1,019,736
2010	—	—	124	7,938	574,068	4,148	—	22,769	—	120	—	—	609,167

SOURCE: Arizona Department of Transportation Schedule of Expenditures of Federal Awards – fiscal years 2010 through 2019

NOTES: <sup>1</sup>Bureau of Indian Affairs (BIA); Bureau of Justice Assistance (BJA); Bureau of Land Management (BLM); Federal Aviation Administration (FAA); Federal Highway Administration (FHWA); Federal Motor Carrier Safety Administration (FMCSA); Federal Railroad Administration (FRA); Federal Transit Administration (FTA); General Services Administration (GSA); National Highway Transportation Safety Administration (NHTSA); Office of the Secretary (OST) Administration Secretariate; United States Department of Agriculture (USDA).

<sup>2</sup>Fiscal years 2016 - 2018 total federal expenditures are prepared on the other comprehensive basis of accounting using the cash basis.

**Total Expenditures of Federal Awards**



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**Arizona Department of Transportation**  
**Government-Wide Expenses by Function**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

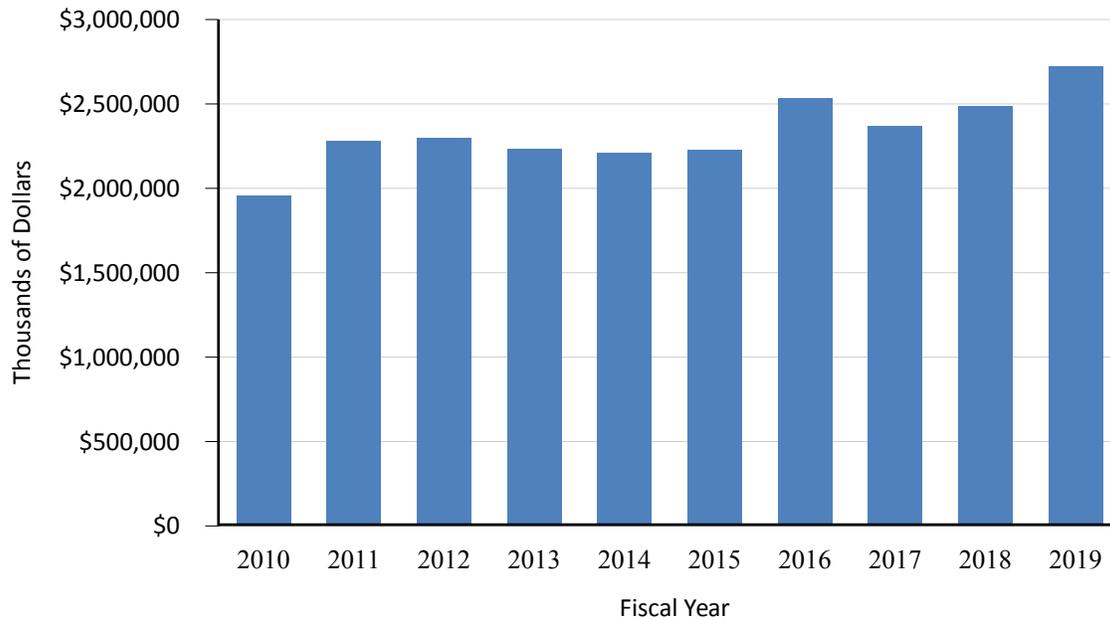
Fiscal Year	Administration	Highway	Highway Maintenance	Motor Vehicle	Distributions to Arizona Counties, Cities and Other State Agencies
2019	\$ 77,469	\$ 164,752	\$ 112,939	\$ 116,727	\$ 1,734,250
2018	77,547	133,915	97,197	110,516	1,531,750
2017	74,516	138,400	102,173	112,119	1,486,760
2016	88,899	122,025	116,067	113,029	1,492,924
2015	98,855	41,836	137,473	92,520	1,345,168
2014	106,200	51,074	122,977	111,397	1,282,473
2013	101,370	46,076	139,762	107,655	1,287,481
2012	94,075	39,632	476,447	116,095	1,312,999
2011	93,040	37,070	475,290	99,949	1,279,459
2010	65,781	34,721	225,679	102,926	1,309,112

NOTES: <sup>1</sup>Arizona Highways Magazine was included in the general fund starting in 2016

**Table A-5**

	Local Governmental Assistance	Premium on Long-Term Debt	Interest on Long-Term Debt	Other	Arizona Highways Magazine <sup>(1)</sup>	Highway Expansion and Extension Loan Program	Total
\$	121,971	\$ —	\$ 87,784	\$ 279,298	\$ —	\$ 30,000	\$ 2,725,189
	127,400	—	58,874	319,870	—	30,000	2,487,069
	127,028	—	78,481	253,205	—	—	2,372,682
	114,650	—	93,840	373,006	—	20,037	2,534,477
	98,371	—	94,956	315,349	4,739	43	2,229,310
	90,376	—	114,406	326,073	4,821	46	2,209,843
	102,332	—	187,315	257,126	4,637	46	2,233,800
	93,557	1,419	162,662	—	4,978	75	2,301,939
	163,035	—	128,768	—	5,664	126	2,282,401
	83,230	—	129,626	—	6,288	147	1,957,510

**Government-Wide Expenses**



**Arizona Department of Transportation  
Government-Wide Revenues  
For the Last Ten Fiscal Years  
Fiscal Year Ended June 30, 2019  
(Thousands of Dollars)**

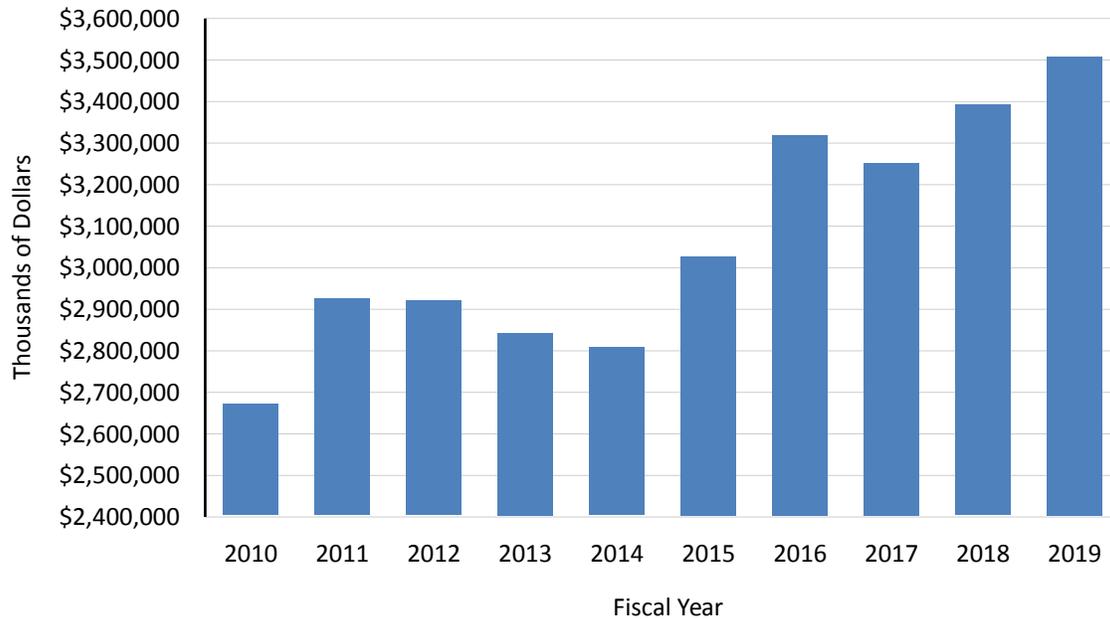
Fiscal Year	Program Revenues			
	Governmental			Business-Type
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Charges for Services
2019	\$ 230,625	\$ 188,021	\$ 532,677	—
2018	182,219	149,779	744,854	—
2017	164,873	158,156	714,608	—
2016	167,983	134,446	856,434	—
2015	145,815	172,279	696,877	5,073
2014	137,725	157,705	546,680	5,164
2013	134,716	168,436	651,798	5,194
2012	127,347	161,992	776,814	5,583
2011	133,661	220,759	743,718	5,773
2010	124,307	146,936	575,448	6,541

NOTE: <sup>1</sup>Includes transfers for multiple years.

**Table A-6**

General Revenues						Total
Governmental			Business-Type			Government-Wide Revenues
Taxes	Other Revenues <sup>(1)</sup>	Income from Investments	Other Revenues <sup>1</sup>	Income from Investments		
\$ 2,573,480	\$ 6,151	\$ 26,135	\$ —	\$ 676	\$ 3,557,765	
2,289,496	8,618	17,264	—	570	3,392,800	
2,197,293	5,884	10,512	—	657	3,251,983	
2,143,432	7,050	9,064	—	560	3,318,969	
1,986,010	10,264	9,989	151	613	3,027,071	
1,934,835	13,905	11,634	26	735	2,808,409	
1,857,273	13,290	11,781	121	747	2,843,356	
1,826,980	9,604	11,388	—	783	2,920,491	
1,795,291	16,079	9,402	851	555	2,926,089	
1,792,989	8,965	16,347	—	514	2,672,047	

### Government-Wide Revenues



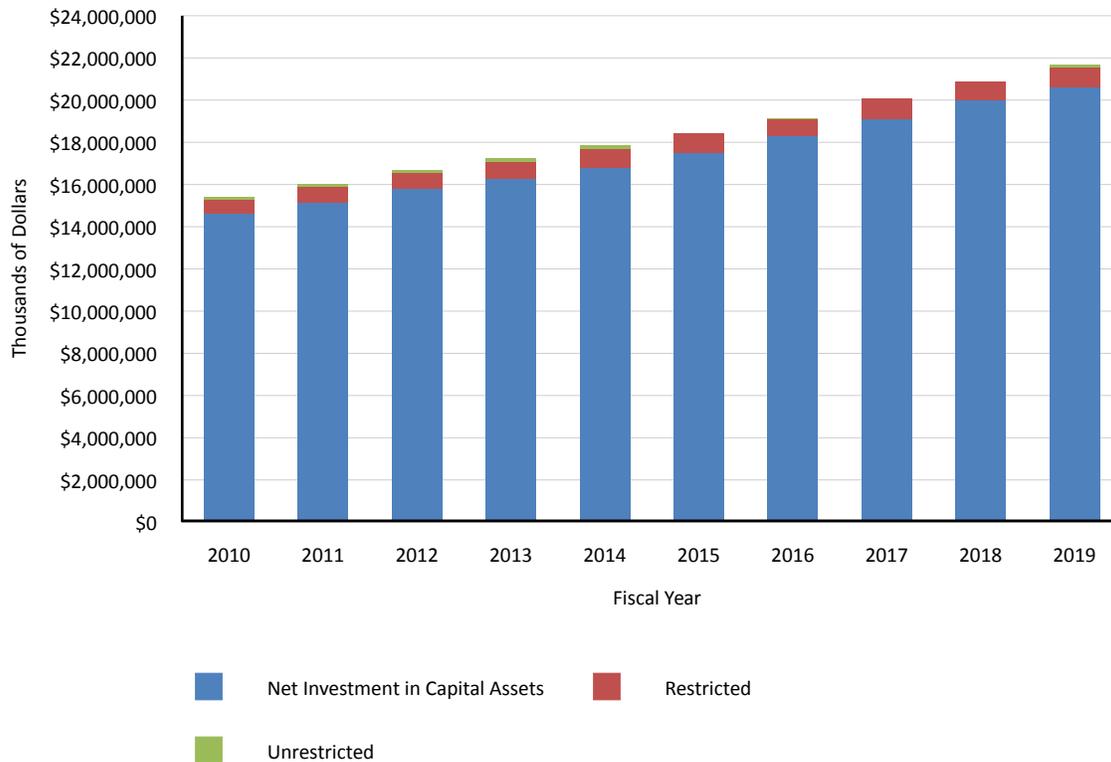
**Arizona Department of Transportation**  
**Net Position by Component**  
**As of the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

Fiscal Year	Governmental Activities				Business-Type	
	Net Investment in Capital Assets	Restricted	Unrestricted	Total	Net Investment in Capital Assets	Restricted
2019	\$ 20,611,959	\$ 962,899	\$ 97,087	\$ 21,671,945	\$ —	\$ —
2018	19,987,899	881,310	(59,164)	20,810,045	—	—
2017	19,118,586	890,204	(67,741)	19,062,404	—	59,950
2016	18,305,646	746,099	10,659	18,258,034	—	59,293
2015	17,496,122	819,446	(57,534)	17,777,828	18	78,770
2014	16,812,808	805,893	159,127	17,180,295	24	78,226
2013	16,290,605	738,969	150,721	16,591,813	30	77,564
2012	15,818,053	666,828	106,932	15,954,757	43	76,882
2011	15,159,086	669,811	125,860	15,313,308	54	76,192
2010	14,620,099	566,794	126,415	14,599,390	92	75,619

**Table A-7**

Business-Type			Primary Government			
Unrestricted	Total	Net Investment in Capital Assets	Restricted	Unrestricted	Total	
\$ 1,196	\$ 1,196	\$ 20,611,959	\$ 962,899	\$ 98,283	\$ 21,673,141	
30,520	30,520	19,987,899	881,310	(28,644)	20,840,565	
—	—	19,118,586	950,155	(67,741)	20,001,000	
—	—	18,305,646	805,392	10,659	19,121,697	
383	383	17,496,140	898,216	(57,151)	18,337,205	
1,790	1,790	16,812,832	884,119	160,917	17,857,868	
1,414	1,414	16,290,635	816,533	152,135	17,259,303	
825	825	15,818,096	743,710	107,757	16,669,563	
192	192	15,159,140	746,003	126,052	16,031,195	
(663)	(663)	14,620,191	642,413	125,752	15,388,356	

**Primary Government Net Assets by Component**



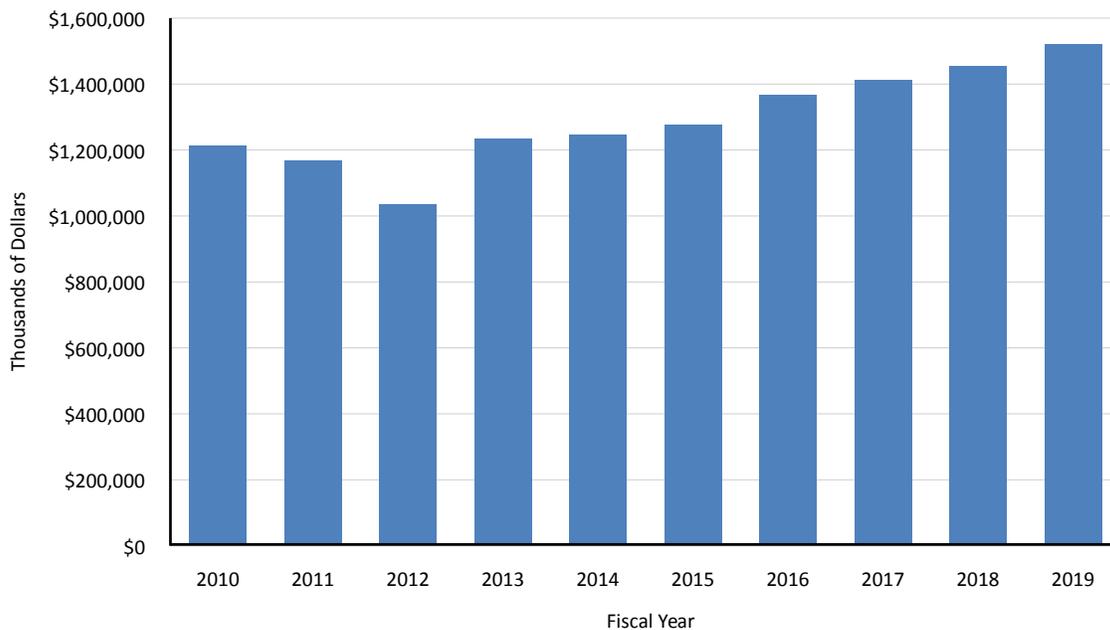
# REVENUE CAPACITY

**Arizona Department of Transportation**  
**Highway User Revenue Fund Collections**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

**Table B-1**

Fiscal Year	Motor Vehicle Fuel Tax Revenues	Motor Vehicle Reg. Fee Revenues	Motor Carrier Tax Revenues	Motor Vehicle Operators' License Fees and Other Fees	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona HURF
2019	\$ 749,885	\$ 192,926	\$ 45,812	\$ 62,128	\$ 469,470	1,520,221
2018	729,469	181,227	42,823	57,503	444,757	1,455,779
2017	705,737	184,916	42,091	57,813	421,939	1,412,496
2016	688,105	184,564	41,058	57,943	395,952	1,367,622
2015	634,245	188,793	18,623	69,245	366,607	1,277,513
2014	632,544	182,492	17,953	68,452	345,603	1,247,044
2013	647,858	180,115	17,103	67,373	321,864	1,234,313
2012	538,352	180,685	17,085	69,765	228,317	1,034,204
2011	636,507	175,179	17,466	64,361	275,132	1,168,645
2010	633,771	170,453	17,157	59,431	331,080	1,211,892

**Highway User Revenue Fund Collections**



**Arizona Department of Transportation**  
**Highway User Revenue Fund Distributions**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

**Table B-2**

Fiscal Year	State Highway Fund	Cities and Towns	Counties	Department of Public Safety	Economic Strength Project Fund	Other <sup>1</sup>	Total
2019	\$ 738,294	\$ 461,903	\$ 291,771	\$ 15,509	\$ 1,000	\$ 11,744	\$ 1,520,221
2018	663,318	416,621	263,562	99,284	1,000	11,994	1,455,779
2017	646,308	406,348	253,135	93,980	1,000	11,725	1,412,496
2016	621,182	405,169	233,712	95,035	1,000	11,524	1,367,622
2015	580,993	364,260	226,928	89,255	1,000	15,077	1,277,513
2014	559,765	340,718	212,251	119,247	1,000	14,063	1,247,044
2013	555,030	327,732	219,228	119,965	1,000	11,358	1,234,313
2012	401,172	306,376	190,857	123,211	1,000	11,588	1,034,204
2011	522,556	341,502	212,739	79,216	1,000	11,631	1,168,644
2010	520,484	399,900	211,741	78,626	1,000	60,141	1,271,892

The Highway User Revenue Fund receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed: 50.5% to the State Highway Fund, 27.5% to cities and towns, 3% to cities with population over 300,000, and 19% to counties based on Arizona Revised Statutes – Section 28-6538.

SOURCE: Cash basis HURF Distribution Report

NOTE: <sup>1</sup>An appropriation for Arizona State Parks is included. Fiscal years 2010, 2011 and 2012 include distributions to the State General Fund.

**Arizona Department of Transportation  
Fuel Tax Rates  
For the Last Ten Fiscal Years Ended  
Fiscal Year Ended June 30, 2019  
(Cents per Gallon)**

**Table B-3**

Fiscal Year	Gasoline Tax	Use Fuel Tax <sup>1</sup>
2019	\$ 0.18	\$ 0.26
2018	0.18	0.26
2017	0.18	0.26
2016	0.18	0.26
2015	0.18	0.26
2014	0.18	0.26
2013	0.18	0.26
2012	0.18	0.26
2011	0.18	0.26
2010	0.18	0.26

SOURCE: Arizona Revised Statutes §28-5606  
Imposition of Motor Fuel Taxes

NOTE: Gasohol is currently taxed at the same rate as gasoline and use fuel. Use fuel is primarily diesel.

<sup>1</sup>Light class motor vehicles with a declared vehicle weight <26,001 pounds and have less than three axles pay \$.18 per gallon.

**Arizona Department of Transportation**  
**Motor Vehicle Fuel Tax – Top Ten Suppliers**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands)**

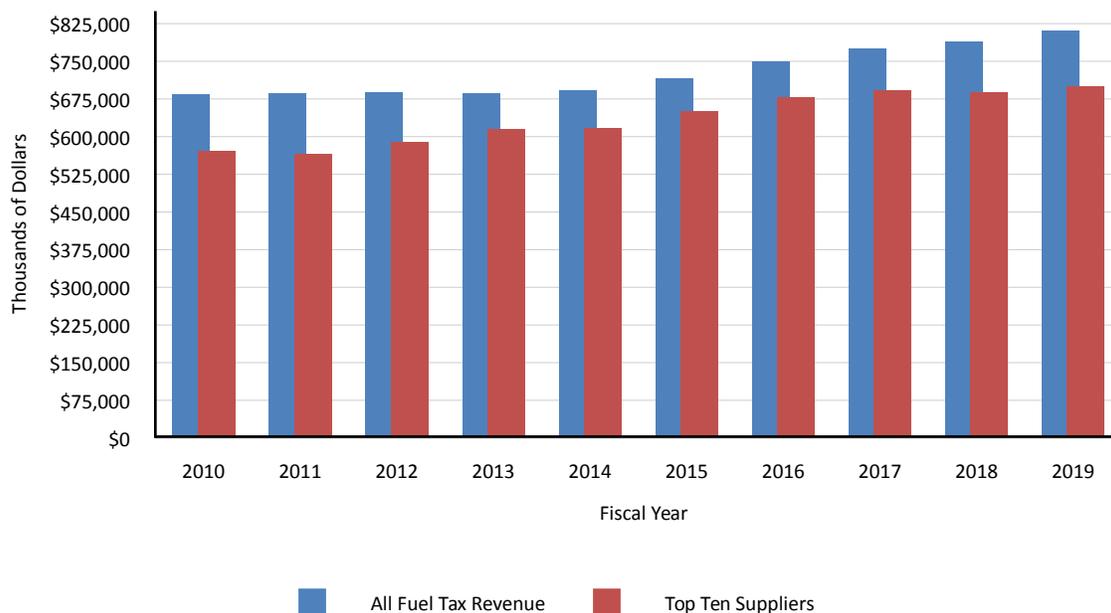
**Table B-4**

Fiscal Year	Gallons from Top Ten Suppliers	Revenue from Top Ten Suppliers	All Motor Vehicle Fuel Tax Revenue	Revenue Percentage from Top Ten Suppliers
2019	3,515,864	\$698,726	\$809,750	86.3%
2018	3,493,478	688,248	788,033	87.3%
2017	3,516,976	691,191	774,162	89.3%
2016	3,466,062	677,464	749,433	90.4%
2015	3,298,612	650,714	715,248	91.0%
2014	3,138,450	617,134	691,250	89.3%
2013	3,110,955	613,799	685,320	89.6%
2012	3,025,722	589,607	688,642	85.6%
2011	2,898,241	564,353	686,591	82.2%
2010	2,905,890	569,974	683,880	83.3%

SOURCE: Revenue & Fuel Tax Administration reporting, based on gallonage data reported by fuel suppliers

NOTE: Above data reflects a change in gasoline and use fuel gallons reported by the Revenue & Fuel Tax Administration for 2010 - 2019

**Motor Vehicle Fuel Tax Sources**



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**Arizona Department of Transportation  
Gasoline Volume Sold – Top Twenty-Five Suppliers  
For the Last Ten Fiscal Years  
Fiscal Year Ended June 30, 2019**

	2010		2011		2012		2013		2014	
Range – in Millions of Gallons	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold
< 25	7	2.7%	7	3.2%	15	5.9%	14	5.9%	13	4.8%
26–50	8	9.2%	5	4.9%	1	1.3%	2	2.4%	2	2.0%
50–100	1	1.5%	3	4.6%	1	1.8%	1	2.0%	2	4.2%
101–200	2	9.8%	3	15.3%	3	16.1%	2	10.2%	3	15.0%
201–300	3	21.7%	3	19.0%	1	7.7%	2	12.7%	1	6.2%
>300	4	51.6%	4	49.8%	4	65.3%	4	64.2%	4	65.0%
	25	96.5%	25	96.8%	25	98.1%	25	97.4%	25	97.2%
Total Gallons of Gasoline (Thousands)	2,607,660		2,616,186		2,616,570		2,612,577		2,644,667	
Gasoline % of Total	76%		75.9%		75.8%		76%		76%	
Total Gallons of Use Fuel (Diesel) (Thousands)	824,996		829,530		837,151		827,138		827,731	
Diesel % of Total	24%		24.1%		24.2%		24%		24%	

NOTE: Above data reflects a change in gasoline and use fuel gallon reported by the Revenue & Fuel Tax Administration for 20010 - 2019.

**Table B-5**

	2015		2016		2017		2018		2019	
Range – in Millions of Gallons	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold
< 25	13	3.9%	16	3.5%	15	3.4%	14	4.1%	13	3.2%
26–50	3	3.4%	0	—%	1	1.0%	1	1.2%	3	3.6%
50–100	1	1.6%	2	4.9%	2	4.9%	3	7.0%	1	2.8%
101–200	2	9.1%	2	9.8%	2	8.6%	2	8.8%	2	8.8%
201–300	2	13.7%	1	9.0%	1	9.5%	1	9.2%	2	18.6%
>300	4	66.1%	4	72.4%	4	72.5%	4	69.6%	4	63.0%
	25	97.8%	25	99.6%	25	99.9%	25	99.9%	25	100.0%
Total Gallons of										
Gasoline (Thousands)		2,745,426		2,882,788		2,925,543		2,750,706		2,692,489
Gasoline % of Total		76.0%		76.0%		76.0%		78.7%		76.6%
Total Gallons of Use Fuel										
(Diesel) (Thousands)		850,274		886,658		913,982		742,722		823,298
Diesel % of Total		24.0%		24.0%		24.0%		21.3%		23.4%

NOTE: Above data reflects a change in gasoline and use fuel gallon reported by the Revenue & Fuel Tax Administration for 20010 - 2019.

# DEBT CAPACITY

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**Arizona Department of Transportation**  
**Highway User Revenue Fund**  
**Legal Debt Margin**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

**Table C-1**

Fiscal Year	Debt Limit <sup>1</sup>	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit
2019	N/A	N/A	N/A	N/A
2018	N/A	N/A	N/A	N/A
2017	N/A	N/A	N/A	N/A
2016	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A

NOTES: <sup>1</sup> As stated in House Bill 2206 of the Second Regular Session of the Forty-seventh Legislature, the \$1.3 billion debt limit is eliminated from ARS §28-7510. The general effective date of this change was September 21, 2006.

**Arizona Department of Transportation  
Highway Revenue Bonds  
Bond Coverage  
For the Last Ten Fiscal Years  
Fiscal Year Ended June 30, 2019  
(Thousands of Dollars)**

**Table C-2**

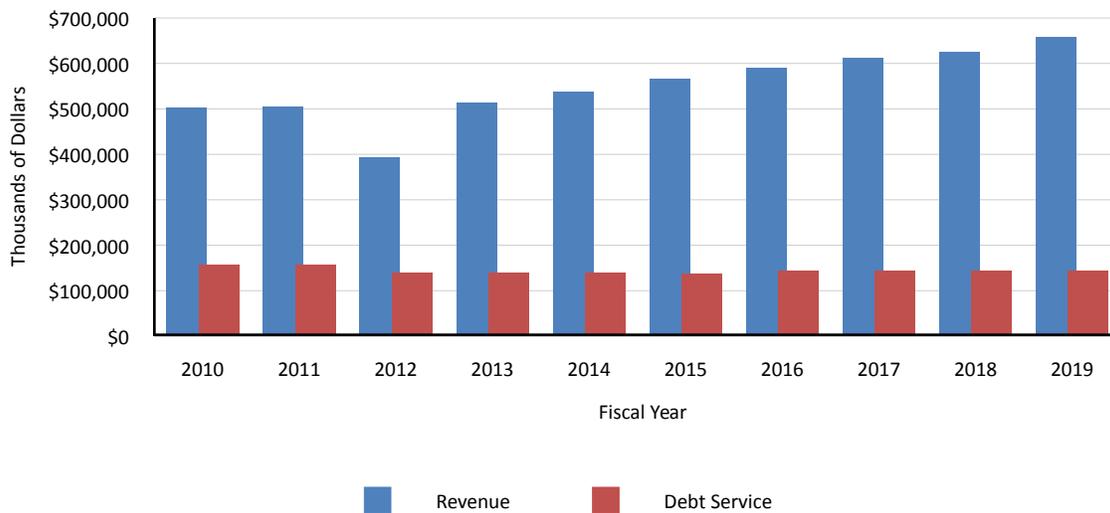
Fiscal Year	Principal	Interest	Total	Pledged Revenues <sup>1,2</sup>	Coverage
2019	\$ 78,670	\$ 65,562	\$ 144,232	\$ 656,751	4.6
2018	76,125	68,104	144,229	624,919	4.3
2017	74,855	68,419	143,274	610,998	4.3
2016	70,195	74,248	144,443	589,476	4.1
2023	61,660	75,937	137,597	566,352	4.1
2014	58,485	80,495	138,980	537,768	3.9
2013	60,540	78,198	138,738	512,971	3.7
2012	67,885	71,113	138,998	392,648	2.8
2011	71,770	83,960	155,730	504,175	3.2
2010	68,140	87,661	155,801	502,874	3.2

SOURCES: Highway User Revenue Fund Schedule fiscal years 2010 through 2019, Debt Service Funds fiscal years 2010 through 2019.

NOTES: <sup>1</sup>Includes vehicle license tax revenues distributed directly to the State Highway Fund. Fiscal year 2010 is net of \$44 million and fiscal year 2011 is net of \$45 million distribution to the State General Fund.

<sup>2</sup>The Highway Revenue Bonds are secured by a prior lien on and pledge of motor vehicle and related fuel fees and taxes.

**Highway Revenue Bonds - Bond Coverage**



**Arizona Department of Transportation**  
**Transportation Excise Tax Revenue Bonds**  
**Bond Coverage**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands of Dollars)**

**Table C-3**

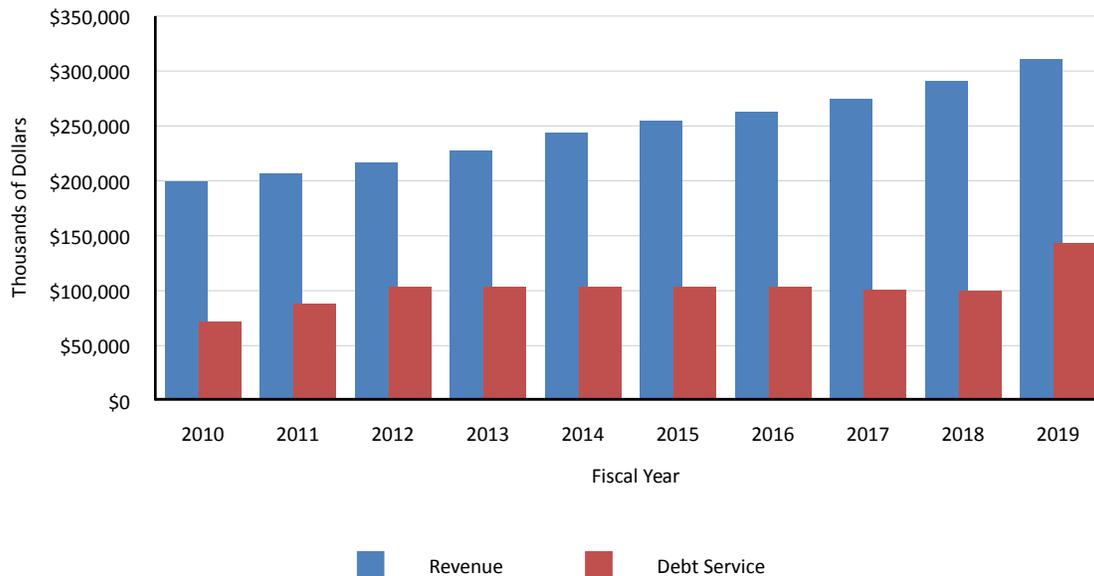
Fiscal Year	Principal	Interest	Total	Pledged Revenues <sup>1</sup>	Coverage
2019	\$ 104,685	\$ 39,031	\$ 143,716	\$ 311,188	2.2
2018	68,270	31,411	99,681	290,949	2.9
2017	67,495	33,257	100,752	274,553	2.7
2016	65,585	38,001	103,586	262,971	2.5
2015	70,940	32,652	103,592	254,871	2.5
2014	58,600	44,988	103,588	243,786	2.4
2013	55,870	47,721	103,591	227,800	2.2
2012	55,460	48,129	103,589	216,281	2.1
2011	45,970	42,496	88,466	206,545	2.3
2010	33,315	38,225	71,540	199,672	2.8

SOURCE: Maricopa County Regional Area Road Fund Report

NOTES: Bond coverage ratio is based upon total Maricopa County Transportation Excise Tax collections.

<sup>1</sup>The Transportation Excise Tax Revenue Bonds are secured by transportation excise taxes collected by the Department of Revenue on behalf of Maricopa County.

**Transportation Excise Tax Revenue Bonds - Bond Coverage**



**Arizona Department of Transportation  
 Transportation Excise Tax Revenue Bonds  
 Debt Service Revenue and Cost Per Capita  
 For the Last Ten Fiscal Years Ended June 30, 2018  
 (Thousands)**

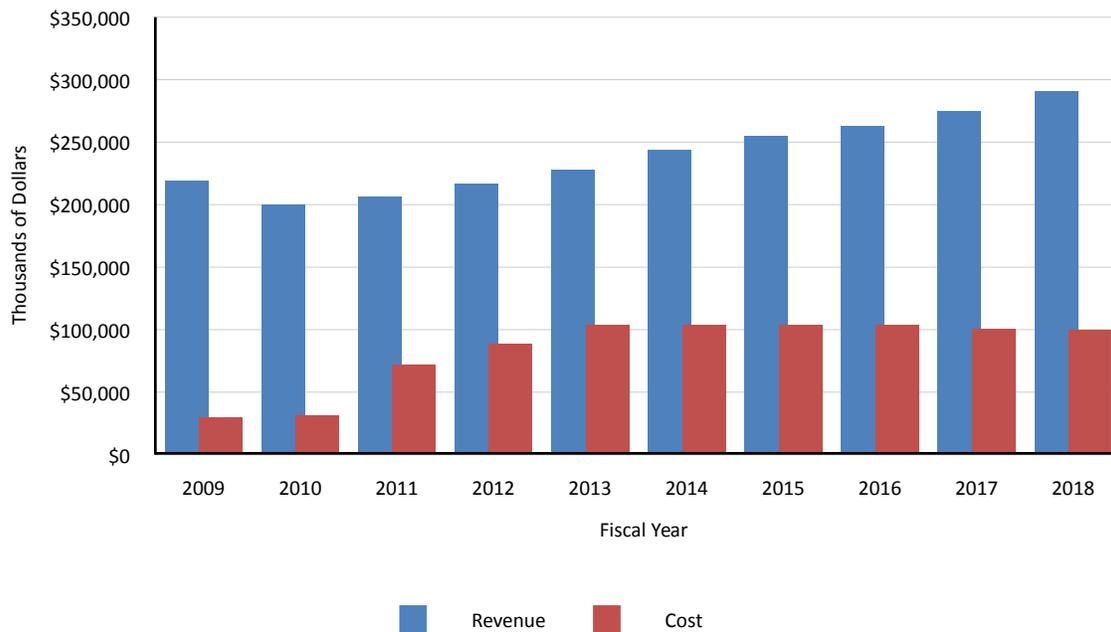
**Table C-4**

Fiscal Year	Principal	Interest	Total Cost	Revenues <sup>1</sup>	Maricopa County Population	Cost per Capita	Revenue per Capita
2018	\$ 68,270	\$ 31,411	\$ 99,681	\$ 290,949	4,411	23	66
2017	67,495	33,257	100,752	274,553	4,330	23	63
2016	65,585	38,001	103,586	262,971	4,259	24	62
2015	58,600	44,988	103,588	254,871	4,175	25	61
2014	55,870	47,721	103,591	243,786	4,096	25	60
2013	55,460	48,129	103,589	227,800	4,019	26	57
2012	45,970	42,496	88,466	216,281	3,948	22	55
2011	33,315	38,225	71,540	206,545	3,875	18	53
2010	13,825	17,193	31,018	199,672	3,825	8	52
2009	19,045	10,673	29,718	219,165	4,023	7	54

SOURCE: Maricopa County Regional Area Road Fund Report; population data from the U.S. Census Bureau available only through July 2018.

NOTE: <sup>1</sup>Based upon total Maricopa County Transportation Excise Tax collections.

**Transportation Excise Tax Revenue and Cost Per Capita**



**Arizona Department of Transportation**  
**Ratios of Outstanding Debt by Type**  
**For the Last Ten Fiscal Years Ended June 30, 2018**  
**(Thousands of Dollars)**

	2009	2010	2011 <sup>1</sup>	2012
Governmental Activities				
Highway Revenue Bonds	\$ 1,740,765	\$ 1,672,625	\$ 1,600,855	\$ 1,619,965
Transportation Excise Tax Revenue Bonds	777,130	743,815	877,845	981,845
Grant Anticipation Notes	329,650	304,480	392,495	335,230
Premium on bonds	173,313	158,601	180,225	248,892
Capital leases	4,326	1,304	4,910	10,729
Advances and notes payable	42,668	60,711	59,892	55,666
Net pension and OPEB liabilities	—	—	—	—
Other long-term liabilities	—	—	—	—
Total governmental activities	<u>3,067,852</u>	<u>2,941,536</u>	<u>3,116,222</u>	<u>3,252,327</u>
Total primary government	<u>\$ 3,067,852</u>	<u>\$ 2,941,536</u>	<u>\$ 3,116,222</u>	<u>\$ 3,252,327</u>
Debt as a Percentage of Personal Income	1.40%	1.31%	1.37%	1.38%
Amounts of Debt per Capita <sup>1</sup>	\$ 465	\$ 441	\$ 481	\$ 496

SOURCES:

U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures);

U.S. Bureau of the Census (also for population) population data only available through 2016.

NOTE:

<sup>1</sup>The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Year 2007 through 2009 have been revised to reflect revisions made by the U.S. Bureau of the Census. Per capital personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions in personal income and population estimates.

<sup>2</sup>Pension and OPEB liabilities were reported for the first time in fiscal year 2017 due to implementation of GASB 68 and allocation of OPEB from the Arizona Department of Administration beginning in fiscal year 2016.

**Table C-5**

	2013	2014	2015	2016 <sup>2</sup>	2017	2018
\$	1,733,285	\$ 1,674,800	\$ 1,589,965	\$ 1,519,770	\$ 1,435,625	\$ 1,359,500
	925,975	867,375	782,810	717,225	643,310	575,040
	296,240	247,710	194,670	147,320	129,475	177,420
	350,739	323,356	401,520	367,143	389,860	344,153
	22,271	29,324	30,944	37,745	33,791	24,252
	105,816	108,096	40,921	22,179	22,179	—
	—	—	—	331,831	338,474	363,265
	—	—	—	18,307	49,913	47,567
	<u>3,434,326</u>	<u>3,250,661</u>	<u>3,040,830</u>	<u>3,161,520</u>	<u>3,042,627</u>	<u>2,891,197</u>
\$	<u>3,434,326</u>	<u>\$ 3,250,661</u>	<u>\$ 3,040,830</u>	<u>\$ 3,161,520</u>	<u>\$ 3,042,627</u>	<u>\$ 2,891,197</u>
	1.40%	1.27%	1.14%	1.01%	1.03%	0.91%
\$	518	\$ 483	\$ 445	\$ 408	\$ 434	\$ 403

# DEMOGRAPHIC AND ECONOMIC INFORMATION

**Arizona Department of Transportation**  
**Registrations, Temporary Registration Permits and Disability Placards Per Year**  
**For the Last Ten Fiscal Years Ended June 30**  
**(Thousands)**

**Table D-1**

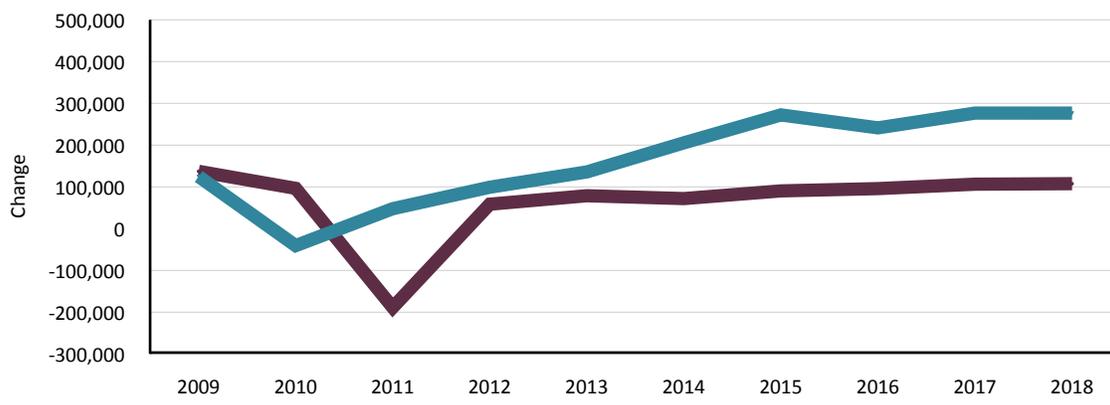
Fiscal Year	Registrations, Temporary Registration Permits and Disability Placards <sup>2</sup>	Change in Number of Registered Vehicles	Arizona Population <sup>1</sup>	Change in Population	Vehicles per Person
2018	8,519	271	7,172	123	1.188
2017	8,248	277	7,049	103	1.170
2016	7,971	277	6,945	112	1.148
2015	7,694	241	6,834	100	1.126
2014	7,453	272	6,734	99	1.107
2013	7,181	205	6,635	78	1.082
2012	6,975	136	6,557	83	1.064
2011	6,840	99	6,473	66	1.057
2010	6,741	48	6,408	(188)	1.052
2009	6,693	(41)	6,596	96	1.015

SOURCE: Arizona Department of Transportation, Motor Vehicle Division website; Bureau of the Census, Population Division, release date December, 2018

NOTE 1: The Arizona population data are July 1, 2018 population estimates of the U.S. Bureau of the Census. Year 2010 has been revised to reflect revisions made by the U.S. Bureau of the Census. Year 2012 Registrations, Population data available only through fiscal year 2017. Registration Permits, and Disability Placards has been revised to reflect changes made by MVD.

NOTE 2: Not all of the items included in this total represent actual vehicles; disability placards issued to individuals are included in this total. This is a point-in-time count and is not limited to items that renew annually.

**Change in Registrations, Temporary Registration Permits and Disability Placards Compared to Population Change**



**Arizona Department of Transportation** **Table D-2**  
**Registrations, Temporary Registration Permits and Disability Placards Per Year Compared to Fuel Sales**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**  
**(Thousands)**

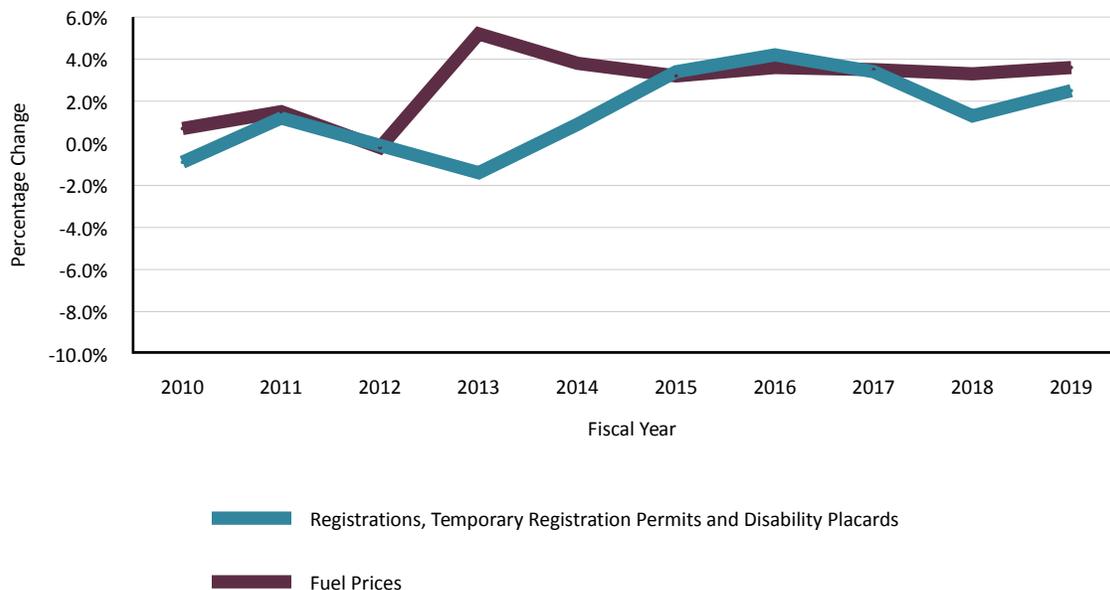
Fiscal Year	Registrations, Temporary Registration Permits and Disability Placards <sup>2</sup>	Percentage Change	Fuel Sales <sup>1</sup>	Percentage Change
2019	8,822	3.6 %	\$ 3,920,663	2.5 %
2018	8,519	3.3 %	3,825,949	1.3 %
2017	8,248	3.5 %	3,776,512	3.4 %
2016	7,971	3.6 %	3,652,363	4.2 %
2015	7,694	3.2 %	3,506,176	3.4 %
2014	7,453	3.8 %	3,389,934	0.9 %
2013	7,181	5.2 %	3,360,587	(1.4)%
2012	6,824	(0.2)%	3,409,594	(0.1)%
2011	6,840	1.5 %	3,411,652	1.2 %
2010	6,741	0.7 %	3,369,732	(0.9)%

SOURCES: Registrations, Temporary Registration Permits and Disability Placards from Motor Vehicle Division website.  
 Fuel sales from Motor Vehicle Division data reported by fuel suppliers.

NOTE 1: Fuel sales include both gasoline and use fuel (primarily diesel) sales.  
 Fuel Sales numbers for 2010 have been revised to reflect revisions made to the Motor Vehicle Division data.

NOTE 2: Not all of the items included in this total represent actual vehicles; disability placards issued to individuals are included in this total. This is a point-in-time count and is not limited to items that renew annually.

**Percentage Change in Registrations, Temporary Registration Permits, Disability Placards, and Fuel Sales**



**Arizona Department of Transportation  
Demographic and Economic Statistics  
For the Last Ten Calendar years**

**Table D-3**

Calendar Year Ended December 31	Population <sup>1</sup>	Personal Income <sup>2</sup> (in thousands)	Per Capita Personal Income <sup>3</sup>	Unemployment Rate <sup>4</sup>
2018	7,171,646	\$ 313,040,200	\$ 43,650	4.8%
2017	7,016,270	292,108,028	41,633	4.9%
2016	6,931,071	278,924,877	40,243	5.3%
2015	6,828,065	267,361,132	39,156	6.1%
2014	6,731,484	255,092,928	37,895	6.9%
2013	6,626,624	245,070,457	36,983	7.8%
2012	6,553,255	235,780,739	35,979	8.4%
2011	6,482,505	227,286,519	35,062	9.5%
2010	6,676,627	223,716,314	33,507	10.4%
2009	6,587,653	219,026,704	33,248	9.9%

SOURCES: U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures);

U.S. Bureau of the Census (also for population); Arizona Department of Administration's website, [www.workforce.az.gov](http://www.workforce.az.gov) (for unemployment rates).

NOTES: <sup>1</sup>The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions made by the U.S. Bureau of the Census.

<sup>2</sup>Personal income estimates for previous years were revised to reflect revisions made by the U.S. Bureau of the Census.

<sup>3</sup>Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions in personal income and population estimates.

<sup>4</sup>The unemployment rates were revised to reflect a revision made by the Arizona Department of Administration website, [www.workforce.az.gov](http://www.workforce.az.gov).

**Arizona Department of Transportation  
Principal Employers  
Current and Ten Years Ago**

**Table D-4**

Employer	Calendar Year Ended December 31, 2018			Calendar Year Ended December 31, 2008		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment
State of Arizona	37,655	1	1.09%	50,936	1	1.64%
Banner Health	36,213	2	1.05%	23,100	3	0.74%
Wal-Mart Stores Inc.	33,814	3	0.98%	32,814	2	1.06%
Well's Fargo & Co.	15,062	4	0.44%	14,000	6	0.45%
City of Phoenix	13,894	5	0.40%	17,068	4	0.55%
AZ State University	13,480	6	0.39%	13,005	7	0.42%
Raytheon Missile	12,000	7	0.35%	—	—	—%
Honor Health	11,308	8	0.33%	—	—	—%
Digital Health AZ	11,206	9	0.33%	—	—	—%
University of AZ	10,659	10	0.31%	—	—	—%
Maricopa County				14,014	5	0.45%
Honeywell Aerospace	0	0	—%	12,600	8	0.41%
U.S Postal Service	0	0	—%	10,545	9	0.34%
Bashas' Inc				10,460	10	0.34%
<b>Total</b>	<b>195,291</b>		<b>5.68%</b>	<b>198,542</b>		<b>6.39%</b>

SOURCES: Bizjournals.com for employers, Business Journal, Book of Lists for employers; Arizona Department of Commerce website, [www.workforce.az.gov](http://www.workforce.az.gov) (for annual State employment). The sources are those most current at the time of printing.

# OPERATING INFORMATION

**Arizona Department of Transportation**  
**Full-Time Equivalents (FTEs)**  
**For the Last Ten Fiscal Years**  
**Fiscal Year Ended June 30, 2019**

**Table E-1**

Fiscal Year	Appropriated						Non-appropriated				Total All FTEs
	Admin.	Highways	Multimodal Planning Division	Motor Vehicle Division	Enforcement & Compliance Division <sup>1</sup>	Total Appropriated FTEs	Arizona Highways Magazine	HELP	Other	Total Non-Appropriated FTEs	
2019	792	2,229	84	1,079	368	4,552	18	1	44	63	4,615
2018	792	2,229	84	1,079	368	4,552	18	1	44	63	4,615
2017	792	2,229	84	1,079	368	4,552	18	1	44	63	4,615
2016	792	2,235	78	1,075	368	4,548	18	1	44	63	4,611
2015	792	2,235	78	1,075	368	4,548	18	1	44	63	4,611
2014	792	2,235	78	1,060	383	4,548	20	1	44	65	4,613
2013	792	2,235	78	1,075	368	4,548	18	—	45	63	4,611
2012	756	2,262	87	1,075	368	4,548	23	1	44	68	4,616
2011	745	2,267	52	1,111	373	4,548	22	2	44	68	4,616
2010	692	2,153	46	1,657	—	4,548	23	2	43	68	4,616

NOTE: <sup>1</sup>ECD FTE total was included in the Motor Vehicle Division 2008-2010.

**Arizona Department of Transportation**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule by Function and Activity<sup>1</sup>**  
**June 30, 2019**  
**(Thousands of Dollars)**

**Table E-2**

Function and Activity	Land	Buildings and Improvements	Improvements Other Than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
Administration	\$ 4,151	\$ 36,572	\$ 6,796	\$ 6,267	\$ —	\$ —	\$ 53,786
Highway	3,498,275	88,809	15,957	14,714	16,450,542	2,921,983	22,990,280
Highway maintenance	4,469	45,969	7,318	6,747	—	—	64,503
Motor vehicle	4,707	45,725	7,707	7,106	—	65,225	130,470
Total governmental funds capital assets	<u>\$ 3,511,602</u>	<u>\$ 217,075</u>	<u>\$ 37,778</u>	<u>\$ 34,834</u>	<u>\$ 16,450,542</u>	<u>\$ 2,987,208</u>	<u>\$ 23,239,039</u>

NOTE:

<sup>1</sup>This schedule presents only the cost of the capital assets related to governmental funds. Accordingly, the cost of the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net position.

Reconciliation of Governmental Funds Capital Assets – acquisition cost

Capital assets not subject to depreciation – cost	\$ 22,949,350
Capital assets subject to depreciation – cost	493,758
Subtotal	<u>23,443,108</u>
Less Equipment Services Revolving Fund – cost	(204,069)
Total	<u>\$ 23,239,039</u>
Add: EQR asset cost	204,070
Less: Accumulated depreciation (Note 5A)	(308,413)
Total Capital Assets per Exhibit 1	<u>\$ 23,134,696</u>

**Arizona Department of Transportation**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule of Changes by Function and Activity<sup>1</sup>**  
**For the Year Ended June 30, 2019**  
**(Thousands of Dollars)**

Table E-3

Function and Activity	Governmental Funds Capital Assets July 1, 2018	Additions	Deductions	Governmental Funds Capital Assets June 30, 2019
Administration	\$ 43,487	\$ 10,651	\$ (352)	\$ 53,786
Highway	22,269,367	764,375	(43,462)	22,990,280
Highway maintenance	58,838	6,044	(379)	64,503
Motor vehicle	114,790	18,209	(2,529)	130,470
<b>Total governmental funds capital assets</b>	<b>\$ 22,486,482</b>	<b>\$ 799,279</b>	<b>\$ (46,722)</b>	<b>\$ 23,239,039</b>

NOTE: <sup>1</sup>This schedule presents only the capital assets related to governmental funds.

Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net position.

Reconciliation of Governmental Funds Capital Assets – acquisition cost

Capital assets not subject to depreciation – cost	\$ 22,949,350
Capital assets subject to depreciation – cost	493,758
Subtotal	23,443,108
Less Equipment Services Revolving Fund – cost	(204,069)
Total	<u>\$ 23,239,039</u>
Add: EQR asset cost	204,070
Less: Accumulated depreciation (Note 5A)	(308,413)
Total Capital Assets per Exhibit 1	<u>\$ 23,134,696</u>

**Arizona Department of Transportation**  
**Total Public Road Mileage by Highway Class and Governmental Ownership**  
**For the Last Ten Calendar Years Ended December 31**  
**(In Center Line Miles)**

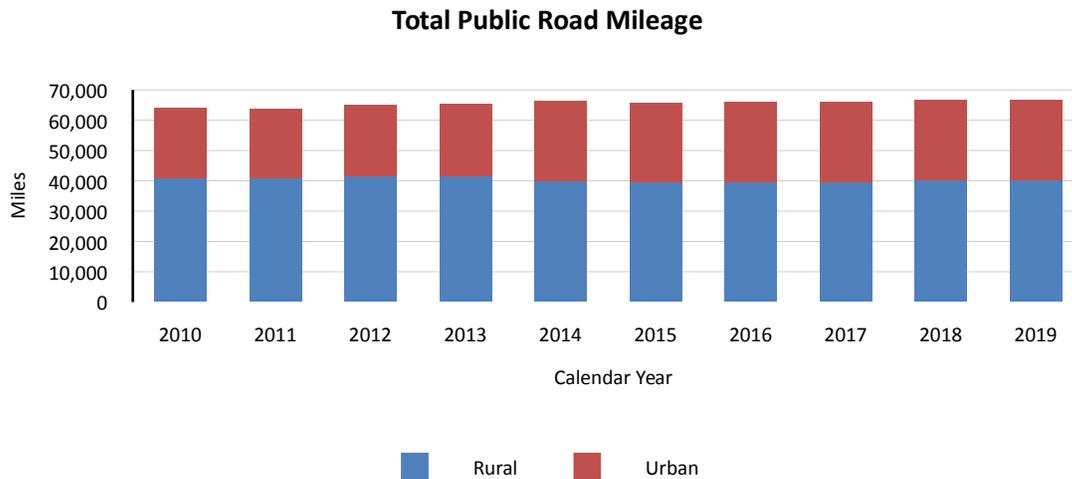
Table E-4

Functional Classification	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Rural</b>										
Interstate Freeway	980	980	980	982	921	921	917	916	916	916
<sup>1</sup> Principal Arterial Freeways & Expressways	Additional categorization beginning 2011			43	18	18	18	18	18	18
Principal Arterial	1,167	1,259	1,267	—	1,174	1,207	1,210	1,210	1,210	1,211
Minor Arterial	1,378	1,276	1,328	1,267	1,173	1,200	1,284	1,284	1,281	1,281
Major Collector	4,342	4,338	4,413	1,308	4,179	4,127	4,204	4,205	4,206	4,208
Minor Collector	2,134	1,735	2,032	6,416	1,794	1,807	1,882	1,882	1,894	1,890
Local	<u>30,845</u>	<u>31,157</u>	<u>31,548</u>	<u>31,370</u>	<u>30,870</u>	<u>30,104</u>	<u>30,285</u>	<u>30,170</u>	<u>30,675</u>	<u>30,876</u>
<b>Total Rural</b>	<u><b>40,846</b></u>	<u><b>40,745</b></u>	<u><b>41,593</b></u>	<u><b>41,386</b></u>	<u><b>40,129</b></u>	<u><b>39,384</b></u>	<u><b>39,800</b></u>	<u><b>39,685</b></u>	<u><b>40,200</b></u>	<u><b>40,400</b></u>
<b>Urban</b>										
Interstate Freeway	188	188	188	187	248	248	252	252	252	253
<sup>2</sup> Principal Arterial Freeways & Expressways	176	175	178	181	208	215	214	214	215	215
Principal Arterial	1,400	1,390	1,435	1,437	1,491	846	843	844	844	849
Minor Arterial	1,808	1,752	1,788	1,786	1,957	2,633	2,635	2,636	2,638	2,631
Urban Collector	1,649	1,631	1,653	1,642	2,100	2,103	2,159	2,145	2,156	2,153
Local	<u>17,817</u>	<u>17,806</u>	<u>18,256</u>	<u>18,645</u>	<u>20,308</u>	<u>20,165</u>	<u>20,219</u>	<u>20,258</u>	<u>20,253</u>	<u>20,281</u>
<b>Total Urban</b>	<u><b>23,038</b></u>	<u><b>22,942</b></u>	<u><b>23,498</b></u>	<u><b>23,878</b></u>	<u><b>26,312</b></u>	<u><b>26,210</b></u>	<u><b>26,322</b></u>	<u><b>26,349</b></u>	<u><b>26,358</b></u>	<u><b>26,382</b></u>
<b>Statewide composite</b>										
Freeways and expressways	1,344	1,343	1,346	1,350	1,377	1,384	1,383	1,382	1,383	1,384
Arterials	5,753	5,677	5,843	4,533	5,813	5,904	5,990	5,992	5,991	5,990
Collectors	8,125	7,704	8,098	9,366	8,073	8,037	8,245	8,232	8,256	8,251
Locals	<u>48,662</u>	<u>48,963</u>	<u>49,804</u>	<u>50,015</u>	<u>51,178</u>	<u>50,269</u>	<u>50,504</u>	<u>50,428</u>	<u>50,928</u>	<u>51,157</u>
<b>Total statewide composite</b>	<u><b>63,884</b></u>	<u><b>63,687</b></u>	<u><b>65,091</b></u>	<u><b>65,264</b></u>	<u><b>66,441</b></u>	<u><b>65,594</b></u>	<u><b>66,122</b></u>	<u><b>66,034</b></u>	<u><b>66,558</b></u>	<u><b>66,782</b></u>

SOURCE: Arizona's Highway Performance Monitoring System (HPMS).

<sup>1</sup>Additional category created for 2011 reporting.

<sup>2</sup>Before 2012 this category was titled "Urban Expressway".



**Arizona Department of Transportation**  
**Vehicle Miles Traveled With Population Data**  
**For the For the Last Ten Calendar Years Ended December 31**  
**(Thousands)**

Table E-5

Calendar <sup>1</sup> Year Ended December 31	Non-State <sup>3</sup> Highways	State <sup>3</sup> Highways	All Public Highways	Arizona <sup>3</sup> Population	Daily Miles per Capita
2019	—	—	181,218	7,172	25.3
2018	—	—	178,273	7,049	25.3
2017	—	—	179,742	6,945	25.9
2016	—	—	178,205	6,834	26.1
2015	—	—	171,591	6,834	25.1
2014	88,153	77,837	165,990	6,734	24.6
2013	85,285	79,003	164,288	6,635	24.8
2012	83,955	79,312	163,267	6,557	24.9
2011	84,427	79,699	164,126	6,473	25.4
2010	87,608	76,714	164,322	6,408	25.6

SOURCE: Arizona's Highway Performance Monitoring System (HPMS); ADOT Multimodal Planning Division office records. The Arizona population data are midyear population estimates of the U.S. Bureau of the Census.

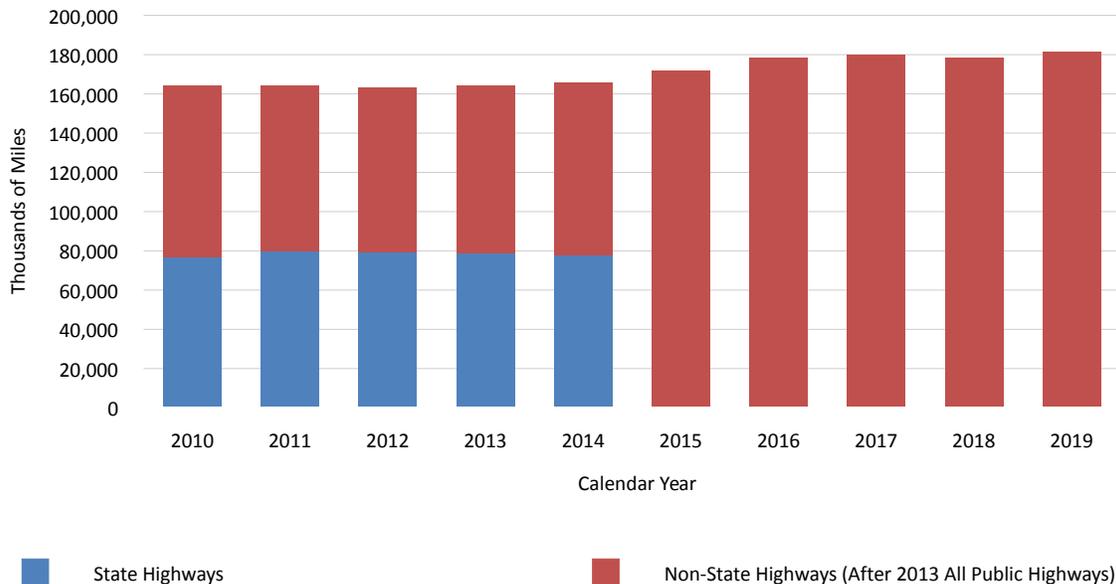
NOTES: <sup>1</sup>Year 2018 is the latest population information available at the time of publication.

<sup>2</sup>Calendar year 2011 population information has been revised to reflect revisions made by the U.S. Bureau of the Census.

<sup>3</sup>The Non-state and State highways break out is not available after 2013

<sup>4</sup>All Public Highways (non-state highway + state highway) beginning 2014

**Daily Vehicle Miles Traveled**



## ACKNOWLEDGMENTS

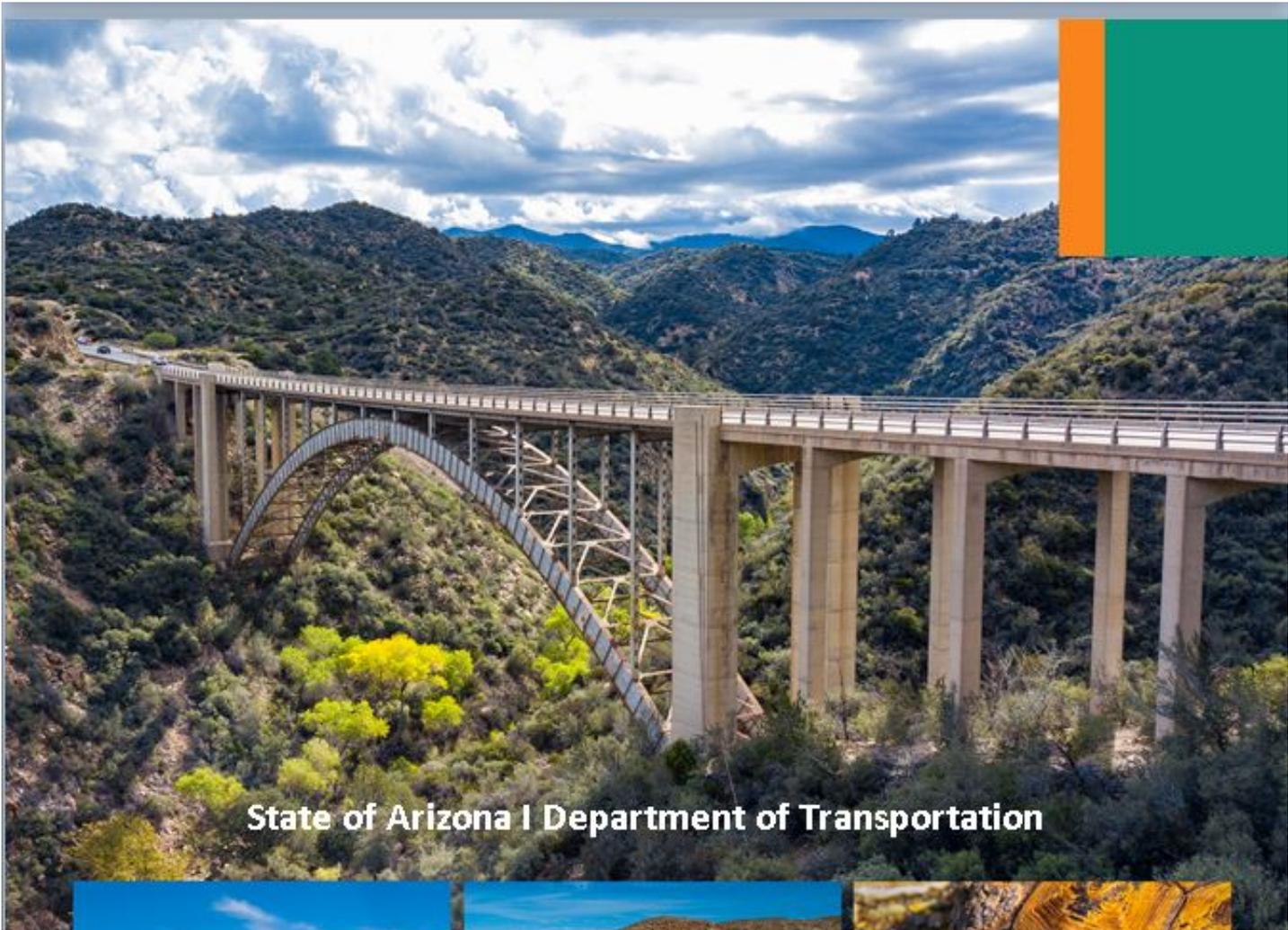
The Comprehensive Annual Financial Report was prepared by Financial Management Services, Fiscal Operations:

*Tim Newton, CPA*  
*Anita Kleinman, CPA, CGFM*  
*Christopher M. Freitag, CPA*  
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*Michael Bruder*  
*Amanda Brecht*  
*Ricardo Gonzales, CPA, CFE, MBA*

Special acknowledgment goes to:

The staff of Resource Administration, Revenue and Fuel Tax Administration, Cash Management, and Debt Administration, whose cooperation and hard work contributed to the compilation of financial information that appears in this report.

The staff of the Arizona Department of Administration, General Accounting Office, Financial Reporting Group for providing consultation on financial reporting issues and new accounting standards implementation.



State of Arizona | Department of Transportation



206 South 17<sup>th</sup> Avenue, Phoenix, Arizona

**ADOT**



## APPENDIX B

### PROPOSED FORM OF BOND COUNSEL OPINION

\_\_\_\_\_, 2020

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 \$510,275,000 aggregate principal amount of Arizona Transportation Board, Highway Revenue Refunding Bonds, Taxable Series 2020 (the “Series 2020 Bonds”), dated the date of this letter.

The Series 2020 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 May 1, 1980, as supplemented to date, including as supplemented by a supplemental resolution adopted by the Board on November 15, 2019 (collectively, the “Resolution”). Capitalized terms not otherwise defined in this letter are used as defined in the Resolution.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Series 2020 Bonds, a copy of the signed and authenticated Series 2020 Bond of the first maturity, the Resolution and such other documents, matters and law as we deem necessary to render the opinions set forth in this letter.

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

1. The Series 2020 Bonds and the Resolution are valid and binding obligations of the Board, enforceable in accordance with their respective terms.
2. The Series 2020 Bonds constitute special obligations of the Board, and the principal of and interest and any premium on (collectively, “debt service”) the Series 2020 Bonds, together with debt service on Outstanding Senior Bonds and on any Additional Senior Bonds that may subsequently be issued under the Resolution on a parity with the Outstanding Senior Bonds and the Series 2020 Bonds, as provided in the Resolution, are payable solely from and secured solely by those moneys paid into the State Highway Fund that constitute Pledged Revenues as defined in the Resolution. The payment of debt service on the Series 2020 Bonds is not secured by an obligation or pledge of any money raised by taxation other than the Pledged Revenues, and the Series 2020 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 Resolution creates a valid lien and pledge on the moneys that constitute Pledged Revenues paid into the State Highway Fund for the Senior Bonds, which lien and pledge is subject to no prior liens or pledges granted under the Act.
4. Interest on the Series 2020 Bonds is not excluded from gross income for federal income tax purposes. The interest on the Series 2020 Bonds is exempt from Arizona state income taxes. We express no opinion as to any other tax consequences regarding the Series 2020 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 2020 Bonds and the enforceability of the Series 2020 Bonds and the Resolution are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer, and other laws relating to or affecting the rights and remedies of creditors generally; to the application of equitable principles, whether considered in a proceeding at law or in equity; to the exercise of judicial discretion; and to limitations on legal remedies against public entities.

No opinions other than those expressly stated herein are implied or shall be inferred as a result of anything contained in or omitted from this letter. The opinions expressed in this letter are stated only as of the time of its delivery and we disclaim any obligation to revise or supplement this letter thereafter. Our engagement as bond counsel in connection with the original issuance and delivery of the Series 2020 Bonds is concluded upon delivery of this letter.

Respectfully submitted,

## APPENDIX C

### FORM OF CONTINUING DISCLOSURE UNDERTAKING

**\$510,275,000**  
**ARIZONA TRANSPORTATION BOARD**  
**HIGHWAY REVENUE REFUNDING BONDS**  
**TAXABLE SERIES 2020**

### CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING (“Undertaking”), dated \_\_\_\_\_, 2020, 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 \$510,275,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Highway Revenue Refunding Bonds, Taxable Series 2020 (the “Series 2020 Bonds”) dated \_\_\_\_\_, 2020.

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 2020 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 9, 2020, for the Series 2020 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 2020 Bonds including persons holding Series 2020 Bonds through nominees, depositories or other intermediaries, or (b) is treated as the owner of any Series 2020 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, 2021.

“*Financial Obligation*” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

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

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

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

“*Specified Event*” means the occurrence of any of the events with respect to the Series 2020 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 2020 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 (10) with respect to Series 2020 Bonds, in a timely manner not in excess of ten business days after the occurrence of the following events:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties<sup>1</sup>;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties<sup>2</sup>;
- (4) Substitution of credit or liquidity providers, or their failure to perform<sup>2</sup>;
- (5) Adverse tax opinions, the Issuance by the Internal Revenue Service of proposed or final determination of taxability or of Notices of Proposed Issue (IRS Form 5701 TEB)<sup>3</sup>;

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<sup>1</sup> The Series 2020 Bonds are not secured by a debt service reserve as of the date of issue.

<sup>2</sup> No credit enhancement has been obtained for the Series 2020 Bonds as of the date of issue.

<sup>3</sup> The Series 2020 Bonds are being issued as taxable bonds.

- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes;
- (9) Bankruptcy, insolvency, receivership or similar event of the Issuer; or
- (10) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.

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

(b) The Issuer agrees to provide to the MSRB, in a format and with identifying information prescribed by the MSRB, notice of the occurrence of any of the following events (11) through (18) with respect to Series 2020 Bonds, in a timely manner not in excess of ten business days after the occurrence of the following events, if material:

- (11) Unless described in subparagraph (a)(5) above, other material notices or determinations by the Internal Revenue Service with respect to the tax status of Series 2020 Bonds or other material events affecting the tax status of Series 2020 Bonds<sup>4</sup>;
- (12) Modification to rights of security holders;
- (13) Bond calls;
- (14) Release, substitution or sale of property securing repayment of Series 2020 Bonds;
- (15) Non-payment related defaults;
- (16) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (17) Appointment of a successor or additional trustee or the change of name of a trustee for the Series 2020 Bonds; or
- (18) The incurrence of a Financial Obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders, if material.

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<sup>4</sup> The Series 2020 Bonds are being issued as taxable 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)(13) 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 2020 Bonds pursuant to the Senior Bond Resolution (as defined in the Series 2020 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 2020 Bonds. Any Beneficial Owner of a Series 2020 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 2020 Bonds under the Senior Bond 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 2020 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 2020 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 followed in preparing Audited Financial Statements, (1) notice of such change shall be given in the same manner as Section 3, and (ii) the Annual Information or the Audited Financial Statement for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the Audited Financial Statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Termination of Undertaking. This Undertaking shall terminate when (a) the Series 2020 Bonds are no longer outstanding (within the meaning of the Senior Bond Resolution) or (b) the Rule no longer applies to these Series 2020 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 2020 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.

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 \_\_\_\_\_, 2020.

ARIZONA TRANSPORTATION BOARD

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: Chairman

ARIZONA DEPARTMENT OF TRANSPORTATION

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

(Signature page of Continuing Disclosure Undertaking)

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## APPENDIX D

### BOOK-ENTRY-ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

THE INFORMATION SET OUT BELOW IS SUBJECT TO ANY CHANGE IN OR REINTERPRETATION OF THE RULES, REGULATIONS AND PROCEDURES OF DTC, EUROCLEAR BANK S.A./N.V. AS OPERATOR OF THE EUROCLEAR SYSTEM (“EUROCLEAR”) OR CLEARSTREAM BANKING, S.A. (“CLEARSTREAM”) (DTC, EUROCLEAR AND CLEARSTREAM TOGETHER, THE “CLEARING SYSTEMS”) CURRENTLY IN EFFECT. THE INFORMATION IN THIS SECTION CONCERNING THE CLEARING SYSTEMS HAS BEEN OBTAINED FROM SOURCES THAT THE BOARD, THE DEPARTMENT, BOND COUNSEL, THE FINANCIAL ADVISOR OR THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT NO REPRESENTATION IS MADE BY THE BOARD, THE DEPARTMENT, BOND COUNSEL, THE FINANCIAL ADVISOR OR THE UNDERWRITERS AS TO THE ACCURACY, COMPLETENESS OR ADEQUACY OF THE INFORMATION IN THIS SECTION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. INVESTORS WISHING TO USE THE FACILITIES OF ANY OF THE CLEARING SYSTEMS ARE ADVISED TO CONFIRM THE CONTINUED APPLICABILITY OF THE RULES, REGULATIONS AND PROCEDURES OF THE RELEVANT CLEARING SYSTEM. THE BOARD, THE DEPARTMENT, BOND COUNSEL, THE FINANCIAL ADVISOR OR THE UNDERWRITERS WILL NOT HAVE ANY RESPONSIBILITY OR LIABILITY FOR ANY ASPECT OF THE RECORDS RELATING TO, OR PAYMENTS MADE ON ACCOUNT OF, BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2020 BONDS HELD THROUGH THE FACILITIES OF ANY CLEARING SYSTEM OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO SUCH BENEFICIAL OWNERSHIP INTERESTS.

#### Clearing Systems

DTC Book-Entry Only System. DTC will act as securities depository for the Series 2020 Bonds. The Series 2020 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 2020 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](http://www.dtcc.com).

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC’s records. The ownership interest of each actual

purchaser of each Series 2020 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 2020 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 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 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 2020 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 2020 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2020 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 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2020 Bond documents. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 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 2020 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 2020 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 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Series 2020 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 2020 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 2020 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 2020 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 2020 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 2020 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 2020 BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2020 BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Series 2020 Bonds, as nominee for DTC, references herein to Owner of the Series 2020 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2020 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.

Because DTC is treated as the owner of the Series 2020 Bonds for substantially all purposes, the Beneficial Owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of the Beneficial Owners is unknown to the Board, the Department, the Bond Registrar, the Paying Agent or DTC, it may be difficult to transmit information of potential interest to beneficial owners in an effective and timely manner. The Beneficial Owners should make appropriate arrangements with their broker or dealer regarding distribution of information regarding the Series 2020 Bonds that may be transmitted by or through DTC.

Prior to any discontinuation of the book entry only system hereinabove described, the Board, the Department, the Bond Registrar and the Paying Agent may treat Cede & Co. (or such other nominee of DTC) as, and deem Cede & Co. (or such other nominee) to be, the absolute registered owner of the Series 2020 Bonds for all purposes whatsoever, including, without limitation:

- the payment of principal, premium, if any, and interest on the Series 2020 Bonds;
- giving notices of redemption and other matters with respect to the Series 2020 Bonds;
- registering transfers with respect to the Series 2020 Bonds; and
- the selection of Series 2020 Bonds for redemption.

Euroclear and Clearstream. Euroclear and Clearstream have advised as follows:

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

### **Clearing and Settlement Procedures**

General. The Series 2020 Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Series 2020 Bonds, the record holder will be DTC's nominee. Clearstream and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream participant on that business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants or Euroclear participants may not deliver instructions directly to the depositories.

The Board, the Department, Bond Counsel, the Financial Advisor or the Underwriters will not impose any fees in respect of holding the Series 2020 Bonds; however, holders of book-entry interests in the Series 2020 Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the Clearing Systems.

Initial Settlement. Interests in the Series 2020 Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Series 2020 Bonds through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Series 2020 Bonds will be credited to Euroclear and Clearstream participants' securities clearance accounts on the business day following the date of delivery of the Series 2020 Bonds against payment (value as on the date of delivery of the Series 2020 Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Series 2020 Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Series 2020 Bonds following confirmation of receipt of payment to us on the date of delivery of the Series 2020 Bonds.

Secondary Market Trading. Secondary market trades in the Series 2020 Bonds will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of

the transfer within the records of Euroclear, Clearstream or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Series 2020 Bonds may be transferred within Euroclear and within Clearstream and between Euroclear and Clearstream in accordance with procedures established for these purposes by Euroclear and Clearstream. Book-entry interests in the Series 2020 Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Series 2020 Bonds between Euroclear or Clearstream and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream and DTC.

Special Timing Considerations. You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Series 2020 Bonds through Euroclear or Clearstream on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Clearstream and/or Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Series 2020 Bonds, or to receive or make a payment or delivery of 2020 Bonds, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg if Clearstream is used, or Brussels if Euroclear is used.

Clearing Information. The Board, the Department, Bond Counsel, the Financial Advisor or the Underwriters expect that the Series 2020 Bonds will be accepted for clearance through the facilities of Euroclear and Clearstream. The international securities identification numbers, common codes and CUSIP numbers, as applicable, for the Series 2020 Bonds are set out on the cover of this Official Statement.

General. None of Euroclear, Clearstream or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Neither the Board, the Department, Bond Counsel, the Financial Advisor or the Underwriters nor any of our agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

The information in this Appendix D concerning the Clearing Systems has been obtained from sources that the underwriters believe to be reliable, but the underwriters take no responsibility for the accuracy thereof.

# State Highway System



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.

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(602) 712-7333 May, 2012