OFFICIAL STATEMENT

NEW ISSUE — BOOK ENTRY ONLY

Ratings: Standard & Poor's: "AAA"
Moody's: "Aa1"
See "Ratings" herein

$151,080,000
ARIZONA TRANSPORTATION BOARD
HIGHWAY REVENUE BONDS
SERIES 1999

Dated: October 15, 1999 **Due: July 1, as shown on the inside cover page hereof**

The Highway Revenue Bonds, Series 1999 (the "Series 1999 Bonds") are being issued by the Arizona Transportation Board (the "Board") as a separate series of fully registered bonds in denominations of $5,000 or any integral multiple thereof.

Interest on the Series 1999 Bonds is payable on January 1 and July 1 of each year, commencing July 1, 2000, by check mailed on each Interest Payment Date by the paying agent, initially Bank One, Arizona, NA (the "Paying Agent"), to the registered owners thereof as of the 15th day of the month next preceding such Interest Payment Date. Principal, premium, if any, and interest may be paid by wire transfer upon request of registered owners of $1,000,000 or more in aggregate principal amount, as described herein. Principal of the Series 1999 Bonds is payable upon presentation and surrender at the designated corporate trust office of the Paying Agent.

The maturities, interest rates and prices or yields of the Series 1999 Bonds are shown on the reverse side of this cover page.

The Series 1999 Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 1999 Bonds. Purchases of beneficial interests in such Series 1999 Bonds will be made in book-entry only form. Purchasers will not receive certificates representing the ownership interest in the Series 1999 Bonds purchased by them. So long as the Series 1999 Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of the principal, interest and premium, if any, on the Series 1999 Bonds will be made directly by the Trustee to Cede & Co., as nominee of DTC. See "THE SERIES 1999 BONDS — Book-Entry-Only System" herein.

The Series 1999 Bonds, pursuant to the Board's senior bond resolution, as supplemented (the "Senior Bond Resolution"), are issued on a parity as to security and source of payment with the previously issued Series 1993 and Series 1990 Senior Bonds (as defined herein) of the Board to be outstanding after issuance of the Series 1999 Bonds in the aggregate principal amount of $295,385,000, and any additional Senior Bonds subsequently issued on a parity therewith.

The Series 1999 Bonds are being issued to (i) finance portions of the Board's Five Year Capital Program, (ii) advance refund portions of the Board's outstanding Senior Bonds and Subordinated Bonds and (iii) pay costs of issuing the Series 1999 Bonds. See "PLAN OF FINANCE" herein.

The Series 1999 Bonds are subject to optional redemption prior to maturity as more fully described herein.

The Series 1999 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 all 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, or to fuel used for the propulsion of such vehicles, deposited into the State Highway Fund. The Series 1999 Bonds are not obligations, general, special or otherwise, of the State of Arizona, do not constitute a legal debt of the State of Arizona, and are not enforceable against the State of Arizona.

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming compliance with certain covenants, interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended, and (ii) interest on the Series 1999 Bonds is exempt from Arizona state income tax. The interest may be subject to certain federal taxes imposed on certain corporations, including the corporate alternative minimum tax on a portion of that interest. (For a more complete discussion of tax aspects, see "TAX EXEMPTION" herein.)

This cover page contains only a brief description of the Series 1999 Bonds and the security therefor. It is not a summary of material information with respect to the Series 1999 Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 1999 Bonds are offered when, as and if issued and received by the underwriters, subject to the approval of legality by Squire, Sanders & Dempsey L.L.P., Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the underwriters by their counsel, Chapman and Cutler. It is expected that the Series 1999 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York, on or about November 16, 1999.

The date of this Official Statement is October 29, 1999.

Merrill Lynch & Co.

A.G. Edwards & Sons, Inc. **Salomon Smith Barney**

Bear, Stearns & Co. Inc. **Lehman Brothers** **U.S. Bancorp Piper Jaffray Inc.**

ARIZONA TRANSPORTATION BOARD
HIGHWAY REVENUE BONDS
SERIES 1999

MATURITY SCHEDULE

$151,080,000

Year (July 1)	Amount	Interest Rate	Yield	Year (July 1)	Amount	Interest Rate	Yield
2000	$ 540,000	4.500%	3.830%	2010	$ 1,605,000	5.300%	5.330%
2001	945,000	4.500	4.150	2010*	4,815,000	6.000	5.330
2001	12,510,000	5.000	SNA	2011	690,000	5.400	5.430
2002	4,450,000	4.400	4.400	2011*	6,100,000	6.000	5.430
2003	4,645,000	4.500	4.550	2012	865,000	5.500	5.520
2004	15,785,000	5.500	4.710	2012*	6,330,000	6.000	5.520
2005	5,010,000	4.800	4.840	2013*	7,625,000	6.000	5.610
2006	1,180,000	4.900	4.950	2014*	8,080,000	6.125	5.700
2006	4,075,000	5.000	4.950	2015*	8,575,000	6.250	5.790
2007	5,515,000	5.000	5.050	2016*	9,110,000	6.250	5.840
2008	1,695,000	5.100	5.140	2017	9,680,000	5.750	5.910
2008	4,095,000	5.500	5.140	2018	10,235,000	5.750	5.950
2009	6,100,000	5.200	5.230	2019	10,825,000	5.750	5.980

* Priced to the call.

(Accrued interest to be added)

STATE OF ARIZONA

Jane Dee Hull
Governor

ARIZONA TRANSPORTATION BOARD

John I. Hudson
Chairman

Jerry C. Williams
Vice Chairman

F. Rockne Arnett
Member

Katie Dusenberry
Member

Bill Jeffers
Member

Burton S. Kruglick
Member

Ingo Radiche
Member

STATE OF ARIZONA DEPARTMENT OF TRANSPORTATION

Mary E. Peters
Director

Victor Mendez
Deputy Director

Edward D. Wright
State Engineer

Sam Maroufkhani
Chief of Staff

Mary Lynn Tischer
Division Director
Transportation Planning Division

John McGee
Chief Financial Officer

Stacey Stanton
Acting Division Director
Motor Vehicle Division

Shawn Dralle
Finance Administrator

Gary Adams
Division Director
Aeronautics Division

FINANCIAL CONSULTANT

Dain Rauscher Incorporated
Phoenix, Arizona

CONTACT PERSONS CONCERNING THIS OFFERING:

John McGee
Shawn Dralle
(602) 712-7441

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Arizona, the Arizona Transportation Board (the "Board"), or the State of Arizona Department of Transportation (the "Department"). This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the securities offered hereby or an offer to sell or solicitation of offers to buy, nor shall there be any sale of the Series 1999 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 historic information and is not intended to indicate future or continuing trends. No representation is made that the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representation of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH 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 1999 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 1999 Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency has passed upon the accuracy of this Official Statement.

The Board has undertaken to provide continuing disclosure with respect to the Series 1999 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.

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Appendix A – Arizona Department of Transportation – Financial Statements Year Ended June 30, 1998 with Report of Independent Auditors

Appendix B – Form of Bond Counsel Opinion

Appendix C – Form of Continuing Disclosure Undertaking

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OFFICIAL STATEMENT

relating to

$151,080,000

Arizona Transportation Board
Highway Revenue Bonds
Series 1999

INTRODUCTION

This Official Statement (including the cover page and Appendices attached hereto) provides certain information in connection with the issuance by the Arizona Transportation Board (the "Board") of its Highway Revenue Bonds, Series 1999 (the "Series 1999 Bonds").

The Series 1999 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 a supplemental resolution adopted on October 15, 1999 (the "1999 Resolution") authorizing the Series 1999 Bonds (collectively, the "Senior Bond Resolution").

The Series 1999 Bonds are issued for the purpose of (i) financing portions of the Board's Five Year Capital Program, (ii) advance refunding portions of the Board's outstanding Senior and Subordinated Bonds in the aggregate principal amount of $20,475,000, and (iii) paying costs of issuing the Series 1999 Bonds (see "PLAN OF FINANCE").

The Series 1999 Bonds are special obligations of the Board. The principal of, premium, if any, and interest (collectively, "Debt Service") on the Series 1999 Bonds, together with the outstanding Senior Bonds not refunded, are payable from and secured solely by a first pledge of and lien on Pledged Revenues as provided in the Senior Bond Resolution, as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1999 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. The Series 1999 Bonds, the outstanding Senior Bonds and Additional Senior Bonds are collectively referred to as the "Senior Bonds".

The Series 1999 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 money pledged and otherwise available for the benefit of the registered owners ("Owners") of the Senior Bonds pursuant to the Act and the Senior Bond Resolution.

The Series 1999 Bonds are issued on a parity as to security and source of payment with the Board's outstanding State of Arizona Highway Revenue Refunding Bonds, Series 1993 (the "Series 1993 Bonds"), and State of Arizona Highway Revenue Bonds, Series 1990 (the "Series 1990 Bonds").

The aggregate principal amount of Senior Bonds that will be outstanding immediately after delivery of the Series 1999 Bonds will be $295,385,000 after giving effect to the refunding in advance of maturity of certain currently outstanding Senior Bonds, as more fully described under "PLAN OF FINANCE."

In addition, the Board has outstanding bonds payable from and secured solely by a subordinated and junior pledge of 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"). Subordinated Bonds are payable from and secured solely by a lien on and pledge of the Pledged Revenues subordinate in all respects to payments required for the benefit of the Senior Bonds. The aggregate principal amount of Subordinated Bonds that will be outstanding immediately after delivery of the Series 1999 Bonds will be $359,565,000, after giving effect to the refunding in advance of maturity of certain currently outstanding Subordinated Bonds, as more fully discussed under "PLAN OF FINANCE." No obligations other than the above-described Subordinated Bonds are outstanding under the Subordinated Bond Resolution.

The Board may finance highway projects in whole or in part by the issuance of bonds up to the limit under the Act. The current limit is a principal amount of $800,000,000, including Senior Bonds and Subordinated Bonds, outstanding at any one time, excluding refunded bonds, unless an additional amount is authorized by the Legislature. The aggregate amount of Senior Bonds and Subordinated Bonds that will be outstanding immediately after the delivery of the Series 1999 Bonds will be $654,950,000. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1999 BONDS."

Payments on the Series 1999 Bonds are not subject to annual appropriation by the Legislature of the State nor are payments on the Series 1999 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 (as defined below) 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 or any agreement made with the Owners of the Senior Bonds and 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.

This Official Statement describes the terms of and security for the Series 1999 Bonds and the use of proceeds of the Series 1999 Bonds. These descriptions do not purport to be comprehensive or definitive. All references herein to the Senior Bond Resolution and Subordinated Bond Resolution (collectively, "Bond Resolutions") are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto contained in the Bond Resolutions and is further qualified in its entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors' rights. Copies of the Bond Resolutions may be obtained as set forth under "MISCELLANEOUS."

THE SERIES 1999 BONDS

General Description

The Series 1999 Bonds are issuable as fully registered bonds. The Series 1999 Bonds will bear interest from October 15, 1999, at the rates, and will mature on the dates and in the amounts, all as set forth on the inside cover page hereof. As described below under "Book-Entry-Only-System", the Series 1999 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 1999 Bonds, all payments on the Series 1999 Bonds will be made directly to DTC.

So long as Cede & Co. is the registered Owner of the Series 1999 Bonds, as nominee for DTC, references herein to "Owners" or registered owners of the Series 1999 Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of such Series 1999 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 Paying Agent to DTC only.

The Series 1999 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 1999 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, 2000, and will accrue from such dated date. Interest on the Series 1999 Bonds will be payable by check or draft mailed on the Interest Payment Date by the Paying Agent to the Owners thereof as shown on the registration books maintained by the bond registrar, initially Bank One, Arizona, NA and its successors (the "Bond Registrar"), at the address appearing therein, at the close of business of the Bond Registrar on June 15 and December 15 of each year (the "Regular Record Date"). The principal of the Series 1999 Bonds will be payable upon presentation and surrender thereof at the designated corporate trust office of the paying agent, initially Bank One, Arizona, NA and its successors (the "Paying Agent"). However, at the written request of the Owners of $1,000,000 or more in aggregate principal amount of Series 1999 Bonds, delivered to the Bond Registrar prior to a Regular Record Date, interest, premium, if any, and principal may be paid by wire transfer at the Owner's expense to a bank account in the continental United States.

Redemption Provisions

The Series 1999 Bonds maturing on or prior to July 1, 2009, are not subject to optional redemption prior to maturity. The Series 1999 Bonds maturing on or after July 1, 2010 are subject to optional redemption, prior to maturity, at the election of the Board, in whole or in part, at any time, on or after July 1, 2009, at a redemption price equal to the principal amount of the Series 1999 Bonds to be redeemed plus accrued interest to the date fixed for redemption.

Notice of Redemption.

The Bond Registrar shall give notice by mail of the redemption of the Series 1999 Bonds, not less than 30 days prior to the redemption date, to the registered Owners (Cede & Co., so long as the book-entry-only system is in effect) of any Series 1999 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 1999 Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 1999 Bonds of like maturity are to be redeemed, the particular Series 1999 Bonds or portions thereof to be redeemed. Any defect in the notice to the Owner of any Series 1999 Bond which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other Series 1999 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 1999 Bond to notify the beneficial owner shall not affect the validity of the redemption of such Series 1999 Bond.

If on the redemption date, money for the redemption of the Series 1999 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 1999 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 1999 Bonds or portions thereof so called for redemption shall cease to accrue.

Book-Entry-Only System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 1999 Bonds. The Series 1999 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 1999 Bond certificate will be issued for each maturity of the Series 1999 Bonds, totaling in the aggregate the principal amount of the Series 1999 Bonds, and will be deposited with DTC.

DTC 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 1999 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1999 Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in a Series 1999 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, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 1999 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 1999 Bonds, except in the event that use of the book-entry system for the Series 1999 Bonds is discontinued.

To facilitate subsequent transfers, all Series 1999 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1999 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 1999 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1999 Bonds are credited, which may or may not be the Beneficial Owners. The 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 the Series 1999 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 1999 Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond Resolutions. Beneficial Owners of Series 1999 Bonds may wish to ascertain that the nominee holding the Series 1999 Bond for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or 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 by the Paying Agent to Cede & Co. If less than all of a Series 1999 Bond within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such Series 1999 Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 1999 Bonds. Under its usual procedures, DTC mails an Omnibus proxy to the Board 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium and interest payments on the Series 1999 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. 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, redemption premium and interest to DTC is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 1999 Bonds at any time by giving reasonable notice to the Board and the Board may remove or replace DTC. Under such circumstances, in the event that a successor securities depository is not obtained, Series 1999 Bond certificates are required to be printed and delivered, as provided in the Senior Bond Resolution.

DTC intends to merge with National Securities Clearing Corporation before the end of 1999. DTC has stated that this merger will not affect DTC's ability to act as a securities depository for the Series 1999 Bonds.

DTC is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and interest payments) to security holders, book-entry deliveries, and settlement of trades within DTC, continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform its services properly is also dependent upon other parties, including, but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third-party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

The above information concerning DTC and DTC's book-entry system is based solely on information provided by DTC. Accordingly, the Board takes no responsibility for the accuracy thereof. The Beneficial Owners should confirm the foregoing information with DTC or the DTC participants.

THE BOARD WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR TO INDIRECT PARTICIPANTS OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP IN THE SERIES 1999 BONDS UNDER OR THROUGH DTC OR ANY PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR AS THE REGISTERED OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 1999 BONDS UNDER THE SENIOR BOND RESOLUTION; (III) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, REDEMPTION PREMIUM OR INTEREST DUE WITH RESPECT TO THE SERIES 1999 BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 1999 BONDS; OR (V) ANY OTHER MATTERS.

Exchange and Transfer

The registration of any Series 1999 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 1999 Bond at the designated corporate trust office of the Bond Registrar accompanied by a written instrument of transfer satisfactory to the Bond Registrar and duly executed by the Owner or by his or her duly authorized attorney. Any Series 1999 Bond may be exchanged at the designated corporate trust office of the Bond Registrar for new Series 1999 Bonds of any authorized denomination, aggregate principal amount and maturity as the surrendered Series 1999 Bond. The Bond Registrar will not charge for any new Series 1999 Bond issued upon any exchange or transfer, but may require the Owner requesting such exchange or transfer to pay any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to exchange or transfer any Series 1999 Bond during the period commencing on June 15 and December 15 of each year and ending on the subsequent January 1 or July 1.

Defeasance

If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all outstanding Series 1999 Bonds or Series 1999 Bonds of a particular maturity or a particular Series 1999 Bond within a maturity, the principal, redemption premium, if any, 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 1999 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 1999 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 1999 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 the State Treasurer or with an escrow agent appointed for such purpose, money or Defeasance Securities (defined below) or both. The moneys and maturing principal and interest income on such Defeasance Securities, if any, shall be sufficient (as evidenced by a report of an independent nationally recognized CPA firm or financial consulting firm) without reinvestment, to pay the principal of, premium, if any, and interest on such Series 1999 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 1999 Bonds, for the purpose of paying the principal of, premium, if any, and interest on such Series 1999 Bonds, as the same shall mature, come due or become payable upon prior redemption. Upon such deposit, the Series 1999 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) certain certificates evidencing ownership of the right to principal or interest on obligations described in (i); and (iii) certain advance refunded municipal obligations which are rated at the time of purchase "AAA/Aaa" by Standard & Poor's Corporation and Moody's Investors Service, respectively.

PLAN OF FINANCE

Approximately $130,518,000 of the proceeds of the Series 1999 Bonds will be used to pay for portions of the cost of the Board's Five Year Capital Plan.

Approximately $21,409,000 of the proceeds of the Series 1999 Bonds will be placed in an irrevocable depository trust with Bank One, Arizona, NA, in Phoenix, Arizona (the "Escrow Trustee"), and will be used to acquire certain United States Treasury obligations (the "Treasury Obligations") the maturing principal of and interest income on which are calculated to be sufficient to pay, when due, the interest on, the principal of and redemption premiums on the following described outstanding Senior and Subordinated Bonds (the "Bonds Being Refunded") to their respective redemption dates shown below.

Issue (Dated Date)	Bond Issue	Original Principal Amount	Maturity Date to be Refunded	Principal Amount of Bonds Being Refunded	Redemption Date	Redemption Premium on Bonds Being Refunded
7-1-90	Senior Series 1990 Bonds	$179,785,000	7-1-01	$9,065,000	7-1-00	1%
9-1-91	Subordinated Series 1991A Bonds	$171,140,000	7-1-04	$11,410,000	7-1-01	1.5%

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

The remaining portion of the Series 1999 Bonds will be used for paying costs of issuing the Series 1999 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Inc., independent certified public accountants, will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them by Dain Rauscher Incorporated relating to (a) the adequacy of the maturing principal amounts of the Treasury Obligations held pursuant to the Escrow Agreement established for the payment of the Bonds Being Refunded, interest earned thereon and certain other moneys on deposit pursuant to the Escrow Agreement to pay all of the principal of, premium and interest on the Bonds Being Refunded, as such principal, premium and interest become due and payable to their redemption date and (b) the computations of yield on both the Treasury Obligations and the Series 1999 Bonds used by Bond Counsel to support its opinion that the interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes. The Arbitrage Group, Inc. will express no opinion on the assumptions provided to them nor as to the exemption from taxation of the interest on the Series 1999 Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1999 BONDS

Legal Authority

The Series 1999 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 Act provides that the Board may issue bonds, including Senior Bonds and Subordinated Bonds, up to a total principal amount of $800,000,000 outstanding at any time, excluding refunded bonds. The State Legislature has the right to increase or change the foregoing limitations and restrictions. See "Additional Bonds" below.

The Series 1999 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 1999 Bonds, and after giving effect to the refunding of the Bonds Being Refunded, there will be $295,385,000 of Senior Bonds outstanding.

General

Payments of principal, redemption premium and interest on the Series 1999 Bonds and all other Senior Bonds are payable from and secured solely by a first lien on and pledge of the Pledged Revenues. 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 Subordinated Bonds. Pledged Revenues are the moneys deposited by 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, a portion of motor vehicle license (in lieu) taxes, and motor vehicle operators' license fees and certain miscellaneous fees and revenues collected by the State of Arizona. For a discussion of the sources of the Pledged Revenues, see "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 pledge granted in the Senior Bond Resolution for the Senior Bonds without any future physical delivery or further act.

In addition to Pledged Revenues, the Series 1999 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 avoid such default, which will be applied to avoid 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 1999 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 1999 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 1999 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 money pledged and otherwise available for the benefit of the Owners of the Senior Bonds pursuant to the Act and the Senior Bond Resolution.

Pledged Revenues

The Series 1999 Bonds, together with the 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 specified in the Bond Resolutions and the Act (described below and relating generally to motor vehicles) constitutes Pledged Revenues.

Revenues are deposited into the Arizona Highway User Revenue Fund. See "SOURCES AND APPLICATION OF PLEDGED REVENUES--Arizona Highway User Revenue Fund". Each month, according to statutory allocations, 50.5% of moneys in the Arizona Highway User Revenue Fund 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. Moneys from only 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 Arizona 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, which upon such deposit become Pledged Revenues and (b) distributions to cities, towns and counties (or 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. The authority of the Arizona Legislature to make changes in use of moneys deposited into the Arizona Highway User Revenue Fund is subject to the requirement of the Arizona Constitution that revenues derived from fees or taxes related to the registration, operation or use of motor vehicles (excluding the State's vehicle license 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

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 $295,385,000 after giving effect to the refunding of the Bonds Being Refunded. The Bond Resolutions provide that any outstanding Senior Bonds, the Series 1999 Bonds and any Additional 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:

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

(b) the Pledged Revenues for the preceding 12-month period was 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 shall 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 on parity with the outstanding Senior Bonds unless the Pledged Revenues received by the State Treasurer 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 Senior Bonds to be issued but excluding any Senior Bonds or Subordinated Bonds to be refunded that shall not be outstanding immediately after the issuance of such Additional Bonds, in the then current or any future Bond Year, during the life of the outstanding Senior Bonds, including the proposed 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 by 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.

The Board currently estimates that it may issue additional bonds under the Bond Resolutions in the aggregate principal amount of up to approximately $345 million over the remainder of the current Five Year Capital Program (ending FY 2004) to fund additional highway projects. Such additional bonds may be issued as either Additional Senior Bonds, Additional Subordinated Bonds, Second Subordinated Bonds, or any combination thereof. The actual amount of Additional Senior Bonds to be issued will depend upon, among other considerations, market conditions, cash flow requirements of the Board for construction, any increase in statutory limits on principal amount of bonds and other sources of funding available to meet such requirements (including proceeds of Additional Subordinated Bonds or Second Subordinated Bonds).

Additional Subordinated Bonds. Pursuant to the Subordinated Bond Resolution, the Board has previously issued and there are outstanding Subordinated Bonds in the aggregate principal amount of $359,565,000 after giving effect to the refunding of the Bonds Being Refunded. Under the Subordinated Bond Resolution, Additional Subordinated Bonds may be issued on a parity with the outstanding Subordinated Series 1993A Bonds, Series 1993B Bonds, Series 1992A Bonds, Series 1992B Bonds, and Series 1991A Bonds (collectively the "Subordinated Bonds") only when the requirements of the Subordinated Bond Resolution have been met, including the requirement that the amount of Pledged Revenues received by the State Treasurer 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 (as defined in the Subordinated Bond Resolution) 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 shall 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 (as defined herein), 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 by 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 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 Act limits the total principal amount of bonds issued thereunder, including Senior Bonds, Subordinated Bonds and Second Subordinated Bonds, that the Board may have outstanding at any time, excluding refunded bonds, to no more than $800,000,000, unless an additional amount is authorized by the Arizona Legislature. The aggregate principal amount of Senior Bonds and Subordinated Bonds that will be outstanding immediately after the delivery of the Series 1999 Bonds will be $654,950,000. 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 twelve-month period exceed by two 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. In addition, for any additional bonds to be issued, the requirements of the applicable Bond Resolutions described above must also be met.

Amendments to 1999 Resolution

The Board may amend the 1999 Resolution pursuant to which the Series 1999 Bonds are issued or other existing Senior Bond Resolutions without notice to or consent of the Owners for any of the following purposes: (1) to cure any ambiguity, inconsistency, formal defect or omission in the 1999 Resolution or other existing Senior Bond Resolutions; (2) to grant to or confer upon the Owners of the Series 1999 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 1999 Resolution or other existing Senior Bond Resolutions in any other respect, provided such amendment or supplement is not adverse to the interests of the Owners of the Series 1999 Bonds.

Exclusive of amendments described above, the 1999 Resolution or other existing Senior Bond Resolutions, and the rights and obligations of the Board and of the Owners of the Series 1999 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 1999 Bonds; provided, however, that no such modification or amendment shall, without the express written consent of the Owner of each Series 1999 Bond affected, reduce the principal amount of or the interest rate payable thereon, advance the earliest redemption date or reduce the redemption premium, 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 1999 Resolution shall be binding upon the Owners of all of the Series 1999 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 1999 Bonds at their addresses appearing on the registration books, briefly describing the proposed amendment.

SOURCES AND APPLICATION OF PLEDGED REVENUES

The Series 1999 Bonds and all other Senior Bonds are payable from and secured solely by a first 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 moneys distributed from the Arizona Highway User Revenue 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 that constitute Pledged Revenues. The distribution of moneys to the State Highway Fund that constitute Pledged Revenues is more fully discussed below.

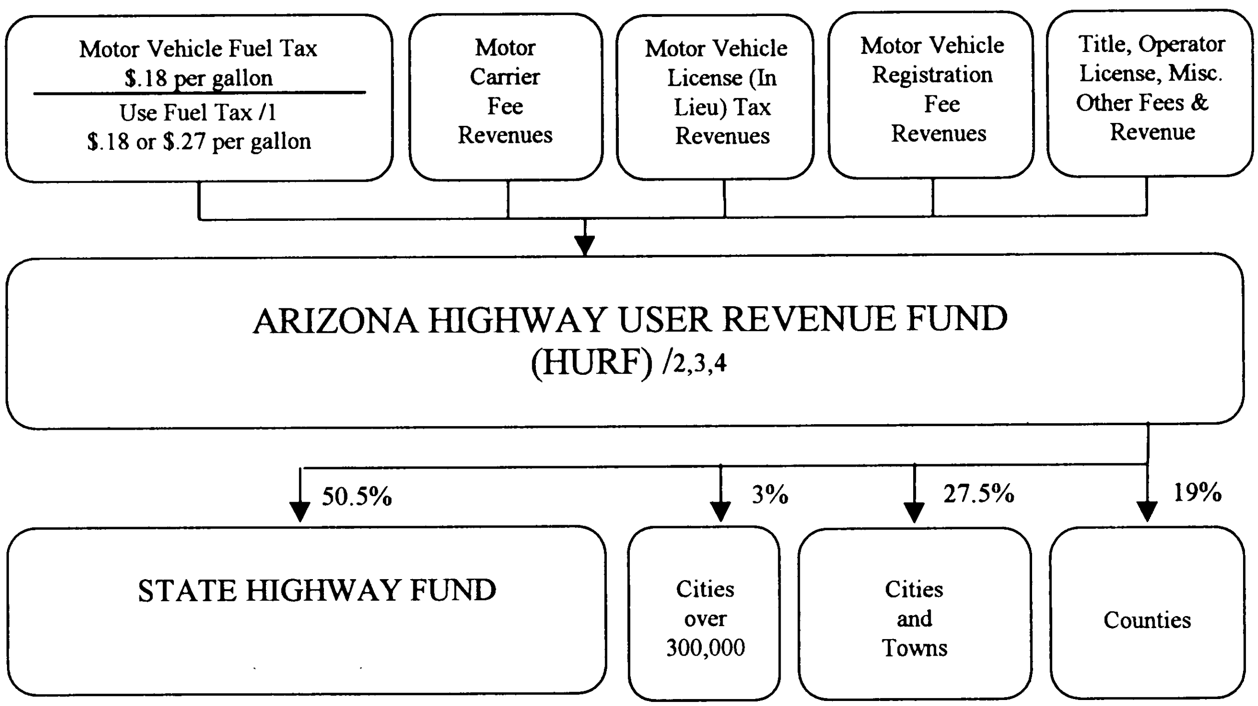
Arizona Highway User Revenue Fund

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 immediate transfer, after all exemptions and refunds, to the State Treasurer for deposit to the Arizona Highway User Revenue Fund. Each month, in accordance with statutory allocations, 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 these specified sources are deposited to the State Highway Fund do they become Pledged Revenues. See " SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1999 BONDS - Pledged Revenues" herein.

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

The following chart 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 26,000 pounds and other qualifying vehicles. The use fuel tax rate for all other vehicles is $.27 per gallon ($.26 per gallon as of July 1, 2000).
/2 The Legislature has authorized the annual transfer of $1 million to the Economic Strength Project Fund to be expended for highway projects that provide economic benefits to the State or a local jurisdiction.
/3 The Legislature has authorized a distribution of $12.5 million in FY 2000 and FY 2001 and $10 million each fiscal year thereafter to the Arizona Department of Public Safety for highway patrol expenditures.
/4 The Legislature has authorized the transfer of $.43 million in FY 2000 and $5.771 million in FY 2001 between the Arizona Department of Transportation and the Arizona Department of Public Safety for the relocation and construction of the Prescott Regional Transportation Center.

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 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 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 1999 BONDS--Pledged Revenues" 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 for vehicles under 26,000 pounds and other qualifying vehicles and $.27 per gallon for all other vehicles (which decreases to $.26 on July 1, 2000). 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 this 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, 1999.

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

Fiscal Year	Gasoline Fuel Imported (Net)	Diesel Fuel Consumed	Total	Percentage Change from Previous Year
1999	2,208,129	893,225	3,101,353	12.9%
1998	2,035,426	711,564	2,746,990	7.4
1997	2,021,962	535,821	2,557,783	2.8
1996	1,994,229	495,050	2,489,278	5.1
1995	1,901,663	466,043	2,367,706	1.3
1994	1,859,129	477,978	2,337,108	8.6
1993	1,751,264	400,219	2,151,483	4.7
1992	1,710,440	343,944	2,054,384	0.3
1991	1,679,757	369,375	2,049,132	2.7
1990	1,683,766	311,036	1,994,802	--

Note: Totals may not add due to rounding.

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

Motor Vehicle Registration Fee Revenues. Motor vehicles are required to be registered in the State on a staggered monthly registration basis. The fee for passenger vehicles and non-commercial pickup trucks is $8 and for motorcycles the fee is $9, of which $1 is paid to the motorcycle education fund. The fee for commercial motor vehicles, including trucks, buses and taxis, is $12, plus a graduated registration fee based upon the declared gross weight of the motor vehicle. Commercial motor vehicles that operate in several states may instead pay fees which are prorated based on the ratio of operating mileage in the State to the total fleet operating mileage in all states. Each motor vehicle registration fee is deposited in the Arizona Highway User Revenue Fund or the State Highway 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 nine calendar years ended December 31, 1998 and an estimate for 1999.

Motor Vehicle Registrations/1

Calendar Year	Passenger Vehicles	Trucks/2	Buses and Taxis	Trailers	Motorcycles	Total
1999/3	3,429,729	371,590	3,453	304,404	65,633	4,174,809
1998	3,433,142	335,244	2,409	173,846	69,347	4,013,987
1997	3,043,605	289,256	2,529	169,102	57,780	3,562,272
1996	2,807,928	305,493	3,018	283,638	69,070	3,469,147
1995	2,583,632	293,792	2,040	316,608	69,650	3,265,722
1994	2,428,868	289,708	2,279	294,237	67,808	3,082,900
1993	2,510,578	328,074	2,603	291,720	71,560	3,204,535
1992	2,428,350	313,655	2,881	278,710	77,728	3,101,325
1991	2,426,833	338,620	2,977	268,487	78,524	3,115,442
1990	2,401,929	344,551	2,625	269,010	77,605	3,095,720

1/ 1990 through 1998 data imputed from total number of motor vehicle registrations.

2/ Includes commercial and non-commercial.

3/ 1999 estimate based on actual data through August 31, 1999.

Note: Totals may not add due to rounding.

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

Motor Vehicle License (In Lieu) Tax Revenues. The motor vehicle license (in lieu) taxes are based upon the value of the vehicle (according to a statutory formula) and are collected with the vehicle registration fees. These license taxes are distributed as follows: (i) 39.15% to the Arizona Highway User Revenue Fund, (ii) 21.4% to the general fund of the county where the motor vehicle is registered, (iii) 21.4% to the cities and towns of the county where the motor vehicle is registered, (iv) 7.2% to the general fund of the State to aid in school financial assistance, (v) 5.07% to counties for the same use as Highway User Revenue Fund purposes, (vi) 4.26% to the State Highway Fund for registration administration, and (vii) 1.52% to the Local Transportation Assistance Fund for transit and transportation purposes. The above distribution percentages are blended since the tax rates vary between new, renewal and alternative fuel powered vehicles and are subject to change based on additional reductions in the distribution of motor vehicle license tax revenues to the State's general fund. See "Recent Legislation" below.

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

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

Recent Legislation

During the 1996 session, legislation was enacted (SB1071) which simplified the Arizona Highway User Revenue Fund distribution to the State Highway Fund, cities and towns, and counties. As a result of this legislation, the moneys deposited to the Arizona Highway User Revenue Fund are distributed according to the following percentages: (i) 50.5% to the State Highway Fund, (ii) 27.5% to cities and towns, (iii) 3% to cities over 300,000 persons, and (iv) 19% to counties. The legislation further stipulated that of the State Highway Fund's 50.5% distribution, 12.6% shall be further allocated to highway and street projects in Maricopa and Pima counties. This legislation also provided for an additional distribution of motor vehicle license (in lieu) tax revenues of 1.64% to the State Highway Fund and 4.91% to counties for highway purposes. The percentages of additional motor vehicle license tax distributions are the initial percentages stated in the legislation and will change as the distribution of motor vehicle license tax revenues to the State's general fund changes, as discussed below.

During the 1997 session, legislation was enacted (SB 1144) which eliminated the weight and distance tax charged to motor carriers and replaced it with a motor carrier fee based on weight and increased motor carrier registration use fees. Single trip permits also were increased as a result of this legislation. In addition, this legislation repealed the \$.08 per gallon use fuel surcharge and replaced it with an additional \$0.09 per gallon use fuel tax rate. The use fuel tax rate is \$.27 per gallon until July 1, 2000, when the rate will decrease to \$.26 per gallon. SB 1398 also was enacted in the 1997 legislative session. This legislation moved the collection of the tax on motor vehicle fuel and use fuel to the point where the fuel leaves the terminal rack (supplier).

During the 1998 session, legislation was enacted (SB 1007) which reduced the motor vehicle license (in lieu) tax rate by approximately 16% and increased the depreciation rate used in calculating the tax to 16.25% from 15%. The legislation provided that the reduction in vehicle license tax revenues would only impact the distribution of such revenues to the State General Fund, with the remaining recipients (State Highway Fund, counties, cities and towns) being held revenue neutral. HB 2565 also was enacted which requires the Department to transfer up to 1.64% of its share of the motor vehicle license (in lieu) tax to the Local Transportation Assistance Fund if the Department's share of surface transportation program funds exceeds \$42 million for a fiscal year. This provision of HB 2565 will expire on September 30, 2003.

During the 1999 session, legislation was enacted (HB 2007) which initially reduced the motor vehicle license (in lieu) tax by approximately 4% with the possibility of further reductions if certain forecast revenue levels are attained by the State General Fund for FY 1999 and FY 2000. The initial tax rate reduction of approximately 4% impacts only the distribution of motor vehicle license tax revenues to the State General Fund, with the remaining recipients (State Highway Fund, counties, cities and towns) being held revenue neutral. Based on actual FY 1999 State General Fund revenues, an additional tax rate reduction of approximately 6% will occur on December 1, 1999, again only impacting the State General Fund. Any further tax rate reductions will be based on the FY 2000 State General Fund actual revenues exceeding forecasted revenues. The legislation contains language that states if the distribution of motor vehicle license tax revenues to the State Highway Fund is reduced, an amount equal to such reduction would be appropriated from the State General Fund to the State Highway Fund.

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 1999 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 by the State Treasurer into the Bond Funds in the following order and manner:

(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; 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; 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; 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; and then

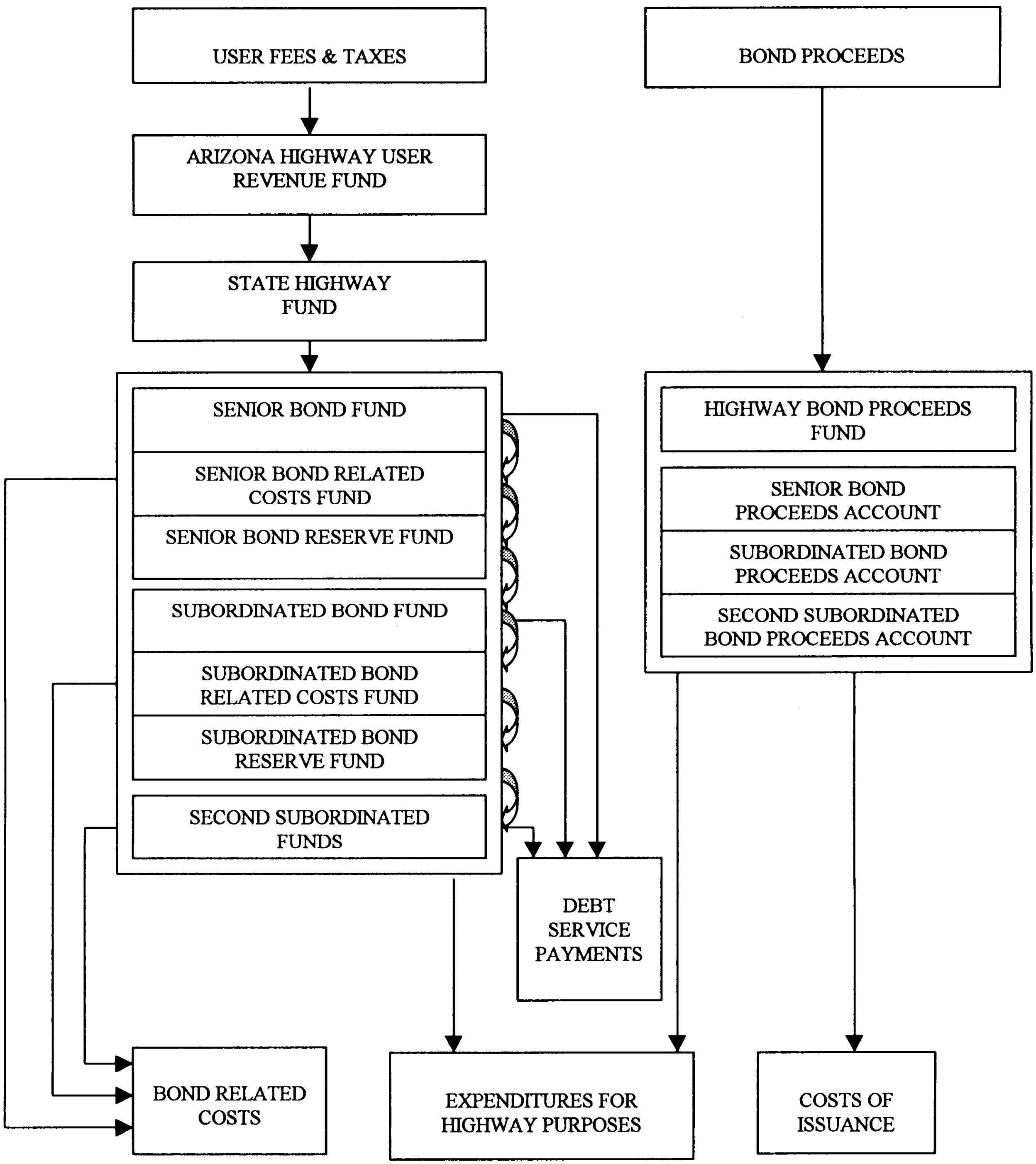
(10) into the Second Subordinated Funds, at such times and in such amounts, if any, specified pursuant to any subsequent resolution of the Board authorizing Second Subordinated Bonds for deposit therein; and then

(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.

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 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. 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.

**HIGHWAY REVENUE BONDS
FLOW OF FUNDS**



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, 1999.

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

Fiscal Year	Motor Vehicle Fuel Tax Revenues/1	Motor Vehicle Registration Fee Revenues/2	Motor Carrier Fee Revenues/3	Motor Vehicle Operators' License Fees and Misc. Fees and Revenues	Motor Vehicle License (In Lieu) Tax Revenues	Excess License and Sales Tax Revenues/4	Total Deposited to Arizona Highway User Revenue Fund	Total Distributions to State Highway Fund/5
1999	$557,775	$131,952	$ 34,150	$38,775	$220,126	$ 0	$982,779	$509,935
1998	508,543	109,445	56,123	36,426	176,950	0	887,487	468,240
1997	488,701	101,528	90,186	41,294	175,253	0	896,962	468,542
1996	473,741	97,601	85,433	42,654	160,145	0	859,575	429,825
1995	451,089	86,159	92,103	39,238	131,562	0	800,152	399,605
1994	422,556	83,826	118,530	37,161	113,990	0	776,063	385,844
1993	387,236	80,717	120,303	24,161	105,027	0	717,444	355,304
1992	369,789	74,180	109,573	25,507	96,146	0	675,195	339,807
1991	362,018	75,657	108,655	24,033	92,826	16,632	679,821	346,867
1990	339,116	88,536	104,343	25,474	91,390	15,198	664,057	329,698

/1 Reflects $.08 per gallon surcharge on use fuel from January 1, 1994 through September 30, 1997. On January 1, 1998, the use fuel tax rate increased $.09 per gallon to $.27 per gallon for certain vehicles. Effective July 1, 2000 the use fuel tax will decrease to $.26 per gallon.

/2 The implementation of SB 1144 on October 1, 1997 increased the weight and use registration fees charged to motor carriers.

/3 HB 2239 from the 1993 legislative session reduced motor carrier rates by an initial 24 percent and added an $.08 per gallon use fuel surcharge on January 1, 1994. The law also required a Use Fuel Advisory Council to review use fuel gallonage growth each year to determine whether motor carrier tax revenues were to be reduced further. On October 1, 1997, SB 1144 was implemented which eliminated the motor carrier tax based on weight and distance, and replaced it with a motor carrier fee based on weight.

/4 As of Fiscal Year 1997, no longer part of Pledged Revenues as a result of legislative amendment.

/5 For Fiscal Years 1990 through 1996, net of 7% distributed to cities with a population greater than 300,000 persons. For Fiscal Year 1997 and after, includes vehicle license tax revenues distributed directly to the State Highway Fund.

Note: Totals may not add due to rounding.

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

Projected Revenues

Recognizing the need for formal, well documented forecasts, the Department has developed a long-range forecasting model for revenues to be deposited to the Arizona Highway User Revenue Fund. 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 wage and salary employment, and (iv) Arizona vehicle fuel efficiency. 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, thereby providing a means of dealing with the uncertainty concerning future values for the critical model variables. This procedure provides information concerning the range of potential future revenues and their probability of occurrence.

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

Over the years, the model has exhibited the ability to forecast revenues with a high degree of accuracy. For the twelve-month periods ended June 30, 1999, 1998, 1997, and 1996, 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 4.6%, (4.1%), 3.3% and 5.0%, respectively, of actual collections in such periods. It should be noted during the forecast years of 1999, 1997 and 1996, the Department utilized a more conservative 60% probability forecast rather than its more traditional 50% probability forecast.

The Department's current 10-year forecast of revenues shows a steady, upward growth trend with revenues increasing at an estimated average annual rate of approximately 4.0%. The expected increase in revenues reflects anticipated growth in revenue sources related to future anticipated population and economic expansion in the State. The motor vehicle fuel tax (gasoline) component is expected to show continued growth, but at moderated rates compared to the past several years. While travel in the State is anticipated to show relatively healthy gains in response to future population growth, increased tourism and general economic expansion, these increases are expected to be offset to some extent by the increasing efficiency of the motor vehicle fleet. The Department's forecast assumes no change in fee or tax rates or sources of revenue.

The following table sets forth the Department's forecast of revenues anticipated to be deposited into the Arizona Highway User Revenue Fund and the amounts to be distributed to the State Highway Fund for each of the ten fiscal years through June 30, 2009. 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 FLUCTUATING ECONOMIC CONDITIONS, CHANGES IN LAW AND OTHER VARIABLES AFFECTING REVENUE GROWTH. SUCH VARIATIONS COULD BE MATERIAL.

Forecast of Revenues to be Deposited in the Arizona Highway User Revenue Fund and State Highway Fund Fiscal Years ending June 30, 2000 through June 30, 2009 (000's)

Fiscal Year	Motor Vehicle Fuel Tax Revenues	Motor Vehicle Registration Fee Revenues	Motor Carrier Fee Revenues	Motor Vehicle Operators' License Fees and Misc. Fees and Revenues	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona Highway User Revenue Fund/1	Total Distributions to State Highway Fund/1,2
2000	$580,900	$133,200	$34,100	$39,400	$235,100	$1,022,700	$531,800
2001	588,600	136,300	34,800	41,300	252,300	1,053,300	546,192
2002	605,600	139,300	35,700	43,200	271,800	1,095,600	573,586
2003	620,800	143,000	36,500	45,200	291,900	1,137,400	596,608
2004	639,900	147,300	37,200	47,200	318,200	1,189,800	639,447
2005	656,300	151,100	38,000	49,200	343,200	1,237,800	667,156
2006	677,000	155,500	38,700	51,300	370,000	1,292,500	698,513
2007	693,500	159,500	40,000	51,900	399,300	1,344,200	728,678
2008	709,800	163,200	40,900	53,200	430,900	1,398,000	760,225
2009	725,900	166,900	41,900	54,300	464,900	1,453,900	793,178

/1 Includes motor vehicle license tax revenues distributed directly to the State Highway Fund.

/2 Does not reflect the potential impact of adverse litigation or administrative actions. See "LITIGATION" herein.

Note: Totals may not add due to rounding.

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

Debt Service Requirements, Projected Pledged Revenues and Projected Debt Service Coverage

The debt service requirements of the outstanding Senior Bonds and Subordinated Bonds, and of the Series 1999 Bonds are set forth below. Based upon the Department's current forecasts of projected Pledged Revenues and debt service, the projected debt service coverage of the outstanding Senior Bonds and Subordinated Bonds and the Series 1999 Bonds (assuming no issuance of Additional Senior Bonds or Additional Subordinated Bonds) is as follows:

			Series 1999 Bonds							
Twelve Months Ending July 1	Projected Pledged Revenues(1)	Outstanding Senior Bonds(2)	Principal Payments	Interest Payments	Total Debt Service	Total Senior Bonds Debt Service	Projected Debt Service Coverage on Senior Bonds	Outstanding Subordinated Bonds(2)	Total Senior and Subordinated Debt Service Requirements	Projected Total Debt Service Coverage
2000	$531,800,000	$27,517,686	$ 540,000	$5,974,654	$ 6,514,654	$34,032,340	15.63	$45,560,009	$79,592,349	6.68
2001	546,192,000	17,741,423	13,455,000	8,377,558	21,832,558	39,573,981	13.80	45,583,559	85,157,540	6.41
2002	573,586,000	19,201,328	4,450,000	7,709,533	12,159,533	31,360,861	18.29	36,704,624	68,065,485	8.43
2003	596,608,000	6,179,088	4,645,000	7,513,733	12,158,733	18,337,821	32.53	49,714,554	68,052,375	8.77
2004	639,447,000	21,889,088	15,785,000	7,304,708	23,089,708	44,978,796	14.22	22,593,976	67,572,772	9.46
2005	667,156,000	21,891,088	5,010,000	6,436,533	11,446,533	33,337,621	20.01	34,720,456	68,058,077	9.80
2006	698,513,000	18,187,088	5,255,000	6,196,053	11,451,053	29,638,141	23.57	38,420,116	68,058,257	10.26
2007	728,678,000	18,194,038	5,515,000	5,934,483	11,449,483	29,643,521	24.58	38,416,756	68,060,277	10.71
2008	760,225,000	18,194,775	5,790,000	5,658,733	11,448,733	29,643,508	25.65	38,415,300	68,058,808	11.17
2009	793,178,000	18,192,463	6,100,000	5,347,063	11,447,063	29,639,526	26.76	38,423,700	68,063,226	11.65
2010			6,420,000	5,029,863	11,449,863	11,449,863		57,143,950	68,593,813	
2011			6,790,000	4,655,898	11,445,898	11,445,898		57,144,700	68,590,598	
2012			7,195,000	4,252,638	11,447,638	11,447,638			11,447,638	
2013			7,625,000	3,825,263	11,450,263	11,450,263			11,450,263	
2014			8,080,000	3,367,763	11,447,763	11,447,763			11,447,763	
2015			8,575,000	2,872,863	11,447,863	11,447,863			11,447,863	
2016			9,110,000	2,336,925	11,446,925	11,446,925			11,446,925	
2017			9,680,000	1,767,550	11,447,550	11,447,550			11,447,550	
2018			10,235,000	1,210,950	11,445,950	11,445,950			11,445,950	
2019			10,825,000	622,438	11,447,438	11,447,438			11,447,438	

(1) From Department's projections for 2000 to 2009 described under "Projected Revenues" above.

(2) Actual debt service on the outstanding Senior and Subordinated Bonds is net of debt service represented by the Bonds Being Refunded. Does not reflect debt service requirements on up to $345 million of bonds the Board currently anticipates issuing under the Bond Resolutions in the future to fund the current Five Year Capital Program. 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 1999 BONDS - Additional Bonds" for a further discussion of such requirements.

PROGRAM RESPONSIBILITY AND MANAGEMENT

Arizona Transportation Board

The Board consists of seven members, currently one from each of the six transportation districts within the State (as shown below) and one from the State at large. Effective in January 2000, the seven members will consist of two members appointed from Transportation District 1 (Maricopa County) and one member from each of the other transportation districts. 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 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, operating, relocating, altering, vacating or abandoning any portion of a State route or State highway; (v) determining priority program planning with respect to highway transportation facilities and monitoring the status of such programs; and (vi) distributing money appropriated from the State Aviation Fund for planning, design, development, acquisition of interests in land, and construction and improvement of publicly owned and operated airport facilities in the counties, cities and towns of the State.

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

Name and Transportation District Represented	City of Residence	Term Expires January
John I. Hudson, Chairman Transportation District 6 Yavapai, Yuma, Mohave and La Paz Counties	Yuma	2000
Jerry C. Williams, Vice Chairman Transportation District 3 Cochise, Greenlee and Santa Cruz Counties	Clifton	2001
Burton S. Kruglick, Member State at Large	Phoenix	2000
F. Rockne Arnett, Member Transportation District 1 Maricopa County	Mesa	2002
Katie Dusenberry, Member Transportation District 2 Pima County	Tucson	2003
Ingo Radiche, Member Transportation District 4 Gila, Graham and Pinal Counties	Globe	2004
Bill Jeffers, Member Transportation District 5 Navajo, Apache and Coconino Counties	Holbrook	2005

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 and efficient transportation system together with the means of revenue collection and licensing for Arizona.

Responsibilities and Organization.

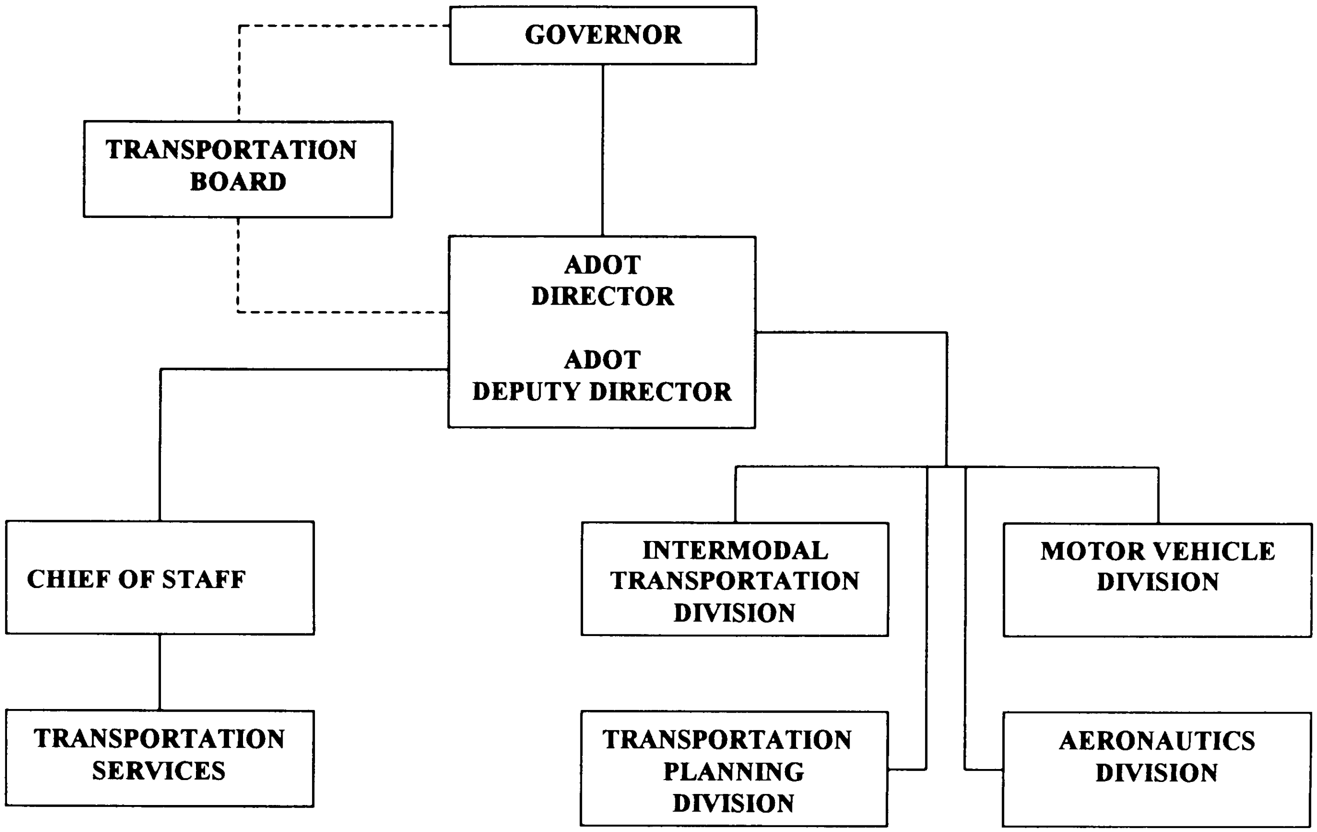
The Department administers the State highway system. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements for both highway and aviation transportation modes; (iii) design and construction of transportation facilities in accordance with a priority plan, and maintenance and operation of the State highway system; and (iv) 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 Freeway Plan is determined by the Department taking into consideration the priorities recommended by the Maricopa Association of Governments. The funds are allocated by the Board as part of the statewide Five Year Capital Program.

The Director of the Department serves as the Chief Administrative 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 three operating divisions plus a planning division: Intermodal Transportation Division, Motor Vehicle Division, Aeronautics Division and Transportation Planning Division. In addition, the Transportation Services Group under the direction of the Chief of Staff contains units for Financial Management, Information Systems, General Services, Human Resources, Community Relations, Affirmative Action, Audit and Analysis, Safety, Training and Arizona Highways Magazine. The Transportation Services Group supports the Department's operating and planning divisions.

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

ARIZONA DEPARTMENT OF TRANSPORTATION



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

Motor Vehicle Division. The Motor Vehicle Division regulates motor vehicles in the State. The Motor Vehicle Division also collects motor vehicle fuel taxes, registration fees, motor carrier fees, motor vehicle operators' license fees and miscellaneous fees and revenues. The Motor Vehicle Division annually processes motor vehicle registrations and records, issues certificates of title for motor vehicles and processes drivers' license applications. The Motor Vehicle Division also operates 23 port-of-entry stations.

Transportation Planning Division. The Transportation Planning Division is responsible for the planning of the statewide transportation system including highways and airports. Its functions include traffic and travel studies and projections, five-year construction priority studies and coordination with local and regional transportation planning agencies. The Transportation Planning Division produces an annually updated Five Year Capital Program for the Board, from which the Board establishes the priorities for highway and airport projects within the State.

Aeronautics Division. The Aeronautics Division coordinates general aviation in the State. The Aeronautics Division also is responsible for registering and licensing all general aviation aircraft, conducting the Local Airports Grant Program and representing the State at air service hearings.

Staff of the Department.

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

MARY E. PETERS
Director

Ms. Peters was appointed Director of the Department in March, 1998, and is the first female director of the agency. Prior to her appointment, she served as Deputy Director for three years and as Executive Assistant to the Director for two years. A fourteen year employee of the Department, she also served as a Contracts Administrator for the Engineer Consulting Services group.

Ms. Peters is intimately involved in transportation issues throughout Arizona and the nation. She is an active participant in AASHTO and WASHTO, and serves on several committees of each of these organizations. In addition, she is a member of the ITS America Board of Directors, working with others on issues relating to intelligent transportation systems both nationally and internationally. Ms. Peters serves on quality-based associations such as the National Quality Initiative (NQI) and is a board member with WESG (Women Executives in State Government). Ms. Peters was selected as a Toll Fellow by the Council of State Governments and served as class president in 1994. She was named the 1994 Women's Transportation Seminar Woman of the Year, and was recognized as one of the Top 100 Who's Who Arizona Women in Business. In addition, she has served on or chaired several Governor's task forces dealing with transportation issues.

Ms. Peters holds a bachelor's degree in Management from the University of Phoenix.

VICTOR MENDEZ
Deputy Director

Mr. Mendez was appointed Deputy Director of the Department in September 1999. As Deputy Director, Mr. Mendez assists the Director on the implementation of policy and coordinates each division to achieve the goals of the organization. Mr. Mendez has been with the Department since 1985. Most recently, he served as Deputy State Engineer in charge of the Valley Transportation Group, a position he held since 1997. Prior to that, Mr. Mendez was an Assistant State Engineer in charge of statewide project management.

Mr. Mendez is a civil engineer and holds a Master of Business Administration Degree from Arizona State University and a Bachelor of Science Degree from the University of Texas at El Paso.

EDWARD D. WRIGHT
State Engineer

Mr. Wright assumed the role of State Engineer in September 1999 after serving as Deputy Director of the Department since March 1998. Mr. Wright also served as the Acting State Engineer during this time. Mr. Wright began his career at the Department in 1960 and served in a variety of positions until 1985. For the next ten years he worked for a major contracting firm in Phoenix and later for a consulting engineering firm based in Los Angeles. When he returned to the Department in 1995, he served as District Engineer in Prescott and later as Deputy State Engineer over the Valley Transportation Group which oversees development of the Maricopa Freeway Program. In March 1997 he was named Deputy State Engineer for Operations, a post he held until his appointment as Deputy Director for the agency.

SAM MAROUFKHANI
Chief of Staff

Mr. Maroufkhani was appointed Chief of Staff of the Department in February 1998. In this capacity he is directly responsible for Department level budgeting activities as well as the coordination of administrative support activities for the Department. Prior to his appointment as Chief of Staff, Mr. Maroufkhani served for fourteen years in several different capacities within the Department, including two years as Manager of the General Operations Group, two years as staff Maintenance Engineer and five years as the Manager of Maintenance Planning Services. Mr. Maroufkhani holds a bachelor's degree in Civil Engineering and a master's degree in Industrial and Management Systems Engineering from Arizona State University.

JOHN MCGEE
Chief Financial Officer

Mr. McGee was named Chief Financial Officer for the Department in May 1999. Prior to assuming this position, he served as Finance Manager for the Department since December 1988. As Chief Financial Officer for the Department, he has oversight responsibility for the financial management of the Board's capital program, as well as responsibility for management of the Board's bond financing program and financial planning activities. Prior to joining the Department, he was employed for sixteen years in various financial and managerial positions with a major Phoenix-based development company. Mr. McGee holds a bachelor's degree from Brigham Young University and a master's degree in Business Administration from Arizona State University.

MARY LYNN TISCHER
Division Director, Transportation Planning Division

Ms. Tischer was appointed as the Director of the Transportation Planning Division (TPD) in September 1999. The Division is responsible for a broad range of transportation planning issues including priority programming, local government coordination, transportation safety and other related functions.

Ms. Tischer's experience in the field of transportation planning and policy is extensive. Prior to joining the Department, Ms. Tischer was the Director of the Office of System and Economic Assessment at the Volpe National Transportation Systems Center in Cambridge, Massachusetts since 1997. Prior to that, she worked for eight years as the Director of the Office of Policy Analysis, Evaluation and Intergovernmental Relations at the Virginia Department of Transportation. She has published numerous articles and papers, and has been appointed to the National Academy of Sciences.

Ms. Tischer holds a Doctorate in Political Science from the University of Maryland, a Master of Arts in Political Science from American University and a Bachelor of Arts degree from Rosemont College.

GARY ADAMS
Division Director, Aeronautics Division

Mr. Adams was appointed Division Director in September 1988. He previously served as Deputy Director of the Aeronautics Division since 1981 and has been employed within the Aeronautics Division since 1978. He is also an Adjunct Faculty member at Embry-Riddle Aeronautical University. Mr. Adams is a graduate of Arizona State University and received a master's degree in Public Administration from Golden State University.

SHAWN DRALLE
Finance Administrator

Ms. Dralle joined the Department in September 1999 as Finance Administrator. She is responsible for the day-to-day management of the Board's bond financing program in addition to being responsible for the Department's state infrastructure bank. Prior to joining the Department, Ms. Dralle was the executive director of the Greater Arizona Development Authority, which is responsible for financing infrastructure needs in Arizona. Previously, she was a public finance investment banker in Phoenix for nine years. Ms. Dralle holds a Bachelor of Arts degree from Marycrest College.

Funding the Department

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

The Board's Five Year Capital Program is funded from three primary sources: Federal Highway apportionments, highway user revenues, and the revenues generated by a one-half cent sales tax levied in Maricopa County to construct urban freeways in the greater Phoenix metropolitan area. Bond financing supplements these three sources of revenues to ensure timely and cost effective accomplishment of the Board's Five Year Capital Program.

The proceeds of the Bonds, together with certain other available funds, will be used to finance construction and other improvement projects contained in the Department's Five Year Transportation Facilities Construction Program (the "Five Year Capital Program"). The Five Year Capital Program identifies the improvements to be made by the Department to the State Highway System during the next five fiscal years and contains detailed information about each project including location, description, estimated cost and timing. Improvements are scheduled based primarily upon project priority, funding availability and engineering and construction considerations.

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

Summary of Revenues, Expenditures and Changes in Fund Balances

Set forth on the following pages is a table which summarizes certain information for the Department's last three fiscal years ended June 30, 1998, derived from its audited financial statements. The information for the fiscal year ended June 30, 1998, should be read in conjunction with the audited financial statements of the Department for the fiscal year ended June 30, 1998, and the notes therein included as Appendix A.

Arizona Department of Transportation
State Highway Fund
Summary of Revenues, Expenditures, and Changes in Fund Balances
Fiscal years ended June 30, 1996 through June 30, 1998

	1996	1997	1998
Revenues:			
Vehicle registration, title, license and related fees	$ 138,060,172	$ 162,137,172	$ 202,922,683
Fuel and motor carrier taxes and fees	290,485,886	288,377,411	273,324,962
Reimbursement of construction expenditures - federal aid	228,557,728	232,953,274	237,435,162
Other federal grants and reimbursements	6,038,929	3,791,647	5,906,042
Reimbursements from Arizona counties, cities and other state agencies	11,397,337	4,124,125	(1,282,262)
State appropriations	5,111,100	2,435,800	615,900
Distributions from agency funds	9,865,783	770,150	-
Interest	10,620,227	16,106,834	18,231,397
Other	9,864,309	8,463,850	18,252,104
Total revenues	710,001,471	719,160,263	755,405,988
Expenditures:			
Current:			
Transportation - appropriated by State legislature:			
Administration	44,764,421	43,980,838	43,913,778
Highway	36,434,739	40,230,216	41,381,128
Highway Maintenance	72,235,137	70,336,393	76,596,858
Motor Vehicle Division	33,486,350	27,703,977	59,615,121
Other	670,299	1,554,354	1,213,926
Total Transportation – appropriated by State legislature	187,590,946	183,805,778	222,720,811
Transportation - not appropriated by State legislature	5,125,328	3,496,706	11,294,362
Capital outlay:			
Highway construction	349,319,766	332,892,625	486,532,116
Land, buildings and improvements - appropriated by State legislature	9,555,604	7,871,100	12,741,927
Contracts and capital leases payable	5,366,996	169,596	537,526
Arizona Department of Public Safety distributions - appropriated by State legislature	25,000,000	19,600,000	15,000,000
Arizona Department of Emergency and Military Affairs distributions - appropriated by State legislature		574,000	800,000

Year 2000 computer projects	-	-	6,364,000
Principal	-	2,565,373	-
Distributions to Arizona counties, cities and other state agencies	38,542	280,128	-
Distributions to agency funds	-	4,358,530	-
Total expenditures	581,997,182	555,613,836	755,990,742
Excess (deficiency) of revenues over (under) expenditures	128,004,289	163,546,427	(584,754)
Other financing sources (uses):			
Proceeds from contracts and capital leases payable	5,366,996	169,596	537,526
Operating transfers in	3,236,351	3,893,208	5,067,434
Operating transfers out:			
Debt service	(74,974,384)	(77,117,549)	(72,535,839)
Other	(5,471)	(446)	488
Total other financing sources (uses)	(66,376,508)	(73,055,191)	(66,930,391)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	61,627,781	90,491,236	(67,515,145)
Fund balances, July 1	217,958,196	279,585,977	370,077,213
Fund balances, June 30	**$ 279,585,977**	**$ 370,077,213**	**$ 302,562,068**

Sunset Laws

In order to encourage systematic legislative review of State agencies and statutes, State law provides for automatic termination of State agencies and statutes pursuant to a statutory schedule unless the State Legislature takes affirmative action to continue the agencies' or statutes' existence. The Department and the Board are scheduled for termination on July 1, 2008, and Title 28, Arizona Revised Statutes, which 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, as well as traffic laws, is scheduled for termination on January 1, 2009. In addition, the Motor Vehicle Division of the Department is also scheduled for termination on October 1, 2000 and the statutory provisions related to the Motor Vehicle Division are scheduled to terminate on January 1, 2001.

The termination statutes, commonly known as 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 authority and the provisions relating to the fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes have been reviewed twice and the existence of each was continued. While it is impossible at this time to predict what action, if any, the State Legislature will take, the Department is not aware of any factual matter which would cause the State Legislature to discontinue the existence of the Department or the Board or to discontinue the effects of or to amend Title 28 in such a manner as to be detrimental to the Bondholders on or prior to their respective termination dates.

To protect holders of the outstanding Senior Bonds and Subordinated Bonds, including the Series 1999 Bonds, the Arizona statutes provide that if the Act is repealed pursuant to the sunset laws, so long as there are any debts or other obligations 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 remain in full force and effect until the 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 to take affirmative action to continue the existence of the Department and the Board or the Act, on or prior to their respective termination dates, the State would be obligated to assume and make payments on the Series 1999 Bonds from Pledged Revenues under the terms and conditions for payment contained in the Bond Resolution.

YEAR 2000 ISSUE

The Year 2000 issue is a global problem stemming from the use of two digits to represent the date in computer programs. In addition, the Year 2000 is a leap year, whereas 1900 was not. These elemental problems can undermine computer operations by causing insidious errors in data and reports, or even causing computer systems to shut down. Unless hardware, system software and applications are corrected to be Year 2000 compliant, computers and devices they control could generate miscalculations, create operational problems or shut down.

The State of Arizona has been involved in the effort to identify, prioritize and repair Year 2000 computer problems since late 1995. Since that time, each Governor of the State has indicated that addressing the Year 2000 issue is a top priority project of each State agency. Each State agency director has been given the ultimate responsibility and accountability for the successful resolution of the Year 2000 issue within their agency. In addition, the Government Information Technology Agency ("GITA") has the authority to provide strategic coordination and oversight of the Year 2000 effort, including fund management and distribution, communications, performance assessment, progress reports and contracting. GITA also provides advice and consulting to agencies to independently validate Year 2000 project progress.

Every State agency, including the Department and the Department of Revenue, has been assessed and "mission critical" systems identified for attention and action. The Arizona State Legislature has appropriated a total of $37 million to date to supplement State agency commitments to work on Year 2000 projects. The total estimated costs for repair of Year 2000 problems is now $116 million, of which nearly 70 percent will come from reallocation of existing funding and personnel within the agencies. This cost estimate includes the cost of hardware, software, personnel, system repairs and replacements and contract labor. The Department has completed the testing stage for all of its mission-critical systems and all such systems are substantially Year 2000 compliant.

Bank One, Arizona, NA, is the Bond Registrar and Paying Agent for the Series 1999 Bonds and, as part of the Bank One Corporation, has provided the following Year 2000 readiness disclosure regarding Bank One's Global Corporate Trust Services Business Unit's (the "Business Unit") Year 2000 program.

The Business Unit met the regulatory guideline for June 30, 1999 that states the testing of mission critical systems be complete and the implementation of mission critical systems be substantially complete. The Business Unit's applications, computers, systems software, telecommunications systems, security devices, desktop PCs and servers, and office equipment have undergone extensive testing and are largely Year 2000 ready. The Business Unit will continue to verify the readiness of computer applications, equipment and contingency plans by testing them throughout the remainder of 1999.

For information concerning the Year 2000 issue and DTC, see "THE SERIES 1999 BONDS - Book-Entry-Only System".

The Board and the Department can give no assurance that the contemplated actions by the State, Bank One, or DTC will be adequate or will be completed as indicated or will prevent any Year 2000 problems.

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

1999 Bonds or in any way contest or affect the validity of the Series 1999 Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 1999 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.

On August 5, 1999, in *Hurley Trucking Co., Inc. v. State*, the Tax Court of the State ruled in favor of a refund claim for motor vehicle use fuel (diesel) taxes and motor carrier taxes (based on vehicle weight and mileage) paid to the State (the "Disputed Revenues"). Several trucking companies have additionally filed refund claims. The claimants assert that the applicable statutes at the time did not permit the State to collect Disputed Revenues for certain tax years prior to 1997 relating to travel on state maintained roads crossing federal lands. The Arizona Legislature subsequently clarified the statutes in 1997. The State filed its notice of appeal to the Arizona Court of Appeals on September 3, 1999. The Department disputes the claimants' interpretation of the applicable statutes and intends to assert a vigorous defense. However, if the plaintiff in the *Hurley* case were to prevail, the maximum potential amount of the claim is difficult to predict with certainty because the amount of each claim would vary based on the nature of the actual roads used and mileage of each claimant. If the plaintiff were to prevail on both counts and all existing claimants were to receive a lump sum payment in a single fiscal year, the Department does not believe that the maximum potential payment from the Arizona Highway User Revenue Fund would reduce the amount of Pledged Revenues by more than ten percent (10%) for the single fiscal year in which such payment were made.

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

LEGAL INVESTMENT

To the extent governed by Arizona law, the Act provides that the Series 1999 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 1999 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 EXEMPTION

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations and (ii) interest on the Series 1999 Bonds is exempt from Arizona state income tax. Bond Counsel will express no opinion as to any other tax consequences regarding the Series 1999 Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and compliance with certain covenants, of the Board and the Department to be contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 1999 Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of those certifications and representations made by the Board and the Department.

The Code prescribes a number of qualifications and conditions for the interest on state and local obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Board may cause the interest on the Series 1999 Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to their date of issuance. The Board has covenanted to take all such actions that may be required of it for the interest on the Series 1999 Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

Under Code provisions applicable only to certain corporations (as defined for federal income tax purposes), a portion of the excess of adjusted current earnings (which includes interest on all tax-exempt obligations, including the Series 1999 Bonds) over other alternative minimum taxable income is included in alternative minimum taxable income that may be subject to a corporate alternative minimum tax. In addition, interest on the Series 1999 Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 1999 Bonds. Bond Counsel will express no opinion regarding those consequences.

Purchasers of the Series 1999 Bonds at other than their original issuance at the respective prices indicated on the cover should consult their own tax advisers regarding other tax considerations such as the consequences of market discount.

From time to time there are legislative proposals pending in Congress that, if enacted, could alter or amend one or more of the federal tax matters described in this Official Statement or adversely affect the market value of the Series 1999 Bonds. It cannot be predicted whether or in what form any such proposal may be enacted or whether, if enacted, it would apply to obligations (such as the Series 1999 Bonds) issued prior to enactment of such proposal.

Original Issue Discount and Original Issue Premium

The Series 1999 Bonds issued at a discount and maturing in 2003, 2005, 2006 (in the amount of $1,180,000), 2007, 2008 (in the amount of $1,695,000), 2009, 2010 (in the amount of $1,605,000), 2011 (in the amount of $690,000), 2012 (in the amount of $865,000), and 2017 through 2019 ("Discount Bonds") are being offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 1999 Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

The Series 1999 Bonds issued at a premium and maturing in 2000, 2001 (in the amounts of $945,000 and $12,510,000), 2004, 2006 (in the amount of $4,075,000), 2008 (in the amount of $4,095,000), 2010 (in the amount of $4,815,000), 2011 (in the amount of $6,100,000), 2012 (in the amount of $6,330,000) and 2013 through 2016 ("Premium Bonds") are being offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. This excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield must be determined on the basis of the earliest call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes upon the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Bond. A purchaser of a Premium Bond at its issue price in the initial offering who holds that Bond to maturity (or, in the case of a callable Premium Bond, the earliest call date that results in the lowest yield on that Bond) will realize no gain or loss upon the retirement of that Premium Bond.

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

INDEPENDENT AUDITORS

The audited financial statements of the Department as of June 30, 1998, and for the fiscal year then ended have been audited by Ernst & Young LLP, independent auditors, as indicated in their report thereto, and are included in Appendix A to this Official Statement.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the Board and the Department will execute a written Continuing Disclosure Undertaking, dated as of October 15, 1999 (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 1999 Bonds, to provide, or cause to be provided, certain annual financial information and operating data 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 1999 Bonds.

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

The obligations of the Board and the Department described in the Disclosure Undertaking will remain in effect until the Series 1999 Bonds are no longer outstanding (within the meaning of the Senior Bond Resolution) or the Rule no longer applies to the Series 1999 Bonds. The Disclosure Undertaking may be amended or waived upon receipt by the Board and the Department of an opinion of independent counsel to the effect that the amendment or waiver would not, in and of itself, cause the Disclosure Undertaking to violate the Rule.

A beneficial owner of a Series 1999 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 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 1999 Bonds under the Senior Bond Resolution.

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

RATINGS

The Series 1999 Bonds have been rated "AAA" and "Aa1", respectively, by Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc., and Moody's Investors Service. 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 1999 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 lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 1999 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 1999 Bonds.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 1999 Bonds and with regard to the exclusion of interest from gross income for Federal income tax purposes (see "TAX EXEMPTION") are subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., 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 1999 Bonds, will be delivered to the Board at the time of original delivery. The text of that opinion will be printed on the Series 1999 Bonds.

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 its date.

In its capacity as Bond Counsel, Bond Counsel has participated in the preparation of, and has reviewed those portions of, this Official Statement pertaining to the Series 1999 Bonds, the Senior Bond Resolution, the Subordinated Bond Resolution and the tax-exempt status of interest on the Series 1999 Bonds (except for outstanding amounts of Senior Bonds and Subordinated Bonds), contained under the captions "INTRODUCTION", "THE SERIES 1999 BONDS" (excluding "—Book-Entry-Only System"), "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1999 BONDS", SOURCES AND APPLICATION OF PLEDGED REVENUES" (excluding "—Recent Legislation" and financial data), "LEGAL INVESTMENT", "TAX EXEMPTION", "CONTINUING DISCLOSURE UNDERTAKING" (excluding the last sentence thereunder), "APPENDIX B – 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 1999 Bonds or the Board or the Department that may be made available to the prospective purchasers of the Series 1999 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.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 1999 Bonds from the Board at a price of $152,328,080.56 plus accrued interest. Based upon the initial offering yields of the Series 1999 Bonds as shown on the inside cover hereof, the Underwriters will receive compensation of $533,728.99. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 1999 Bonds to dealers (including dealers depositing the Series 1999 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 1999 Bonds if any are purchased.

MISCELLANEOUS

The Department and the Board have furnished the information in this Official Statement relating to the Department, the Board and the Arizona Highway User Revenue Fund.

Copies of the Senior Bond Resolution and the Subordinated Bond Resolution discussed herein may be obtained from the Department's Chief Financial Officer, located at 206 South 17th Avenue, Phoenix, Arizona 85007 (telephone: 602-712-7441). All communications concerning this offering should be directed to Mr. John McGee, Chief Financial Officer.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such opinions or the like will be realized. The agreements of the Board and the State are fully set forth in the Senior Bond Resolution in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the Board, the Department or the State, and the purchasers or Owners of any of the Series 1999 Bonds.

This Official Statement is submitted in connection with the sale of the Series 1999 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.

TRANSPORTATION BOARD OF THE
STATE OF ARIZONA DEPARTMENT
OF TRANSPORTATION

/s/ John I. Hudson
John I. Hudson, Chairman

STATE OF ARIZONA DEPARTMENT OF
TRANSPORTATION

/s/ Mary E. Peters
Mary E. Peters, Director

APPENDIX A

ARIZONA DEPARTMENT OF TRANSPORTATION
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1998
WITH REPORT OF INDEPENDENT AUDITORS

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Arizona Department of Transporation
General Purpose Financial Statements
For the fiscal year ended June 30, 1998

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Report of Independent Auditors

Transportation Board of the State of Arizona
Arizona Department of Transportation

We have audited the accompanying general purpose financial statements of the Arizona Department of Transportation (Department), a department of the state of Arizona, as listed in the table of contents, as of June 30, 1998, and for the year then ended. These general purpose financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the general purpose financial statements of the Department are intended to present the financial position and results of operations and the cash flows of its proprietary fund types of only that portion of the funds and account groups of the state of Arizona that is attributable to the transactions of the Department.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Arizona Department of Transportation at June 30, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 1998 on our consideration of the Department's internal control over financial reporting and on its compliance with laws, regulations, contracts and grants.

October 2, 1998

Ernst & Young LLP

Arizona Department of Transportation
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 1998
(With comparative totals at June 30, 1997)

	Governmental Fund Types		Proprietary Fund Types	
	Special Revenue	**Debt Service**	**Enterprise**	**Internal Service**
Assets and other debits				
Assets:				
Cash and cash equivalents on deposit with the State Treasurer	$ 413,593,153	$ 25,312,879	$ 4,480,074	$ 3,366,795
Receivables (net of allowance for uncollectibles):				
Subscriptions	-	-	185,854	-
Notes	15,335,744	-	-	-
Accrued interest	5,543,277	2,652,390	86,042	59,089
Taxes and fees	-	-	-	-
Other	6,086,061	-	410,549	127,022
Due from U.S. Government for reimbursable construction costs	28,756,975	-	-	-
Due from other Arizona Department of Transportation funds (Note 6)	79,016,288	-	-	1,963,009
Due from Arizona counties, cities and other state agencies	18,107,227	-	-	114,164
Inventories	4,249,661	-	2,771,895	2,371,219
Prepaid items	-	-	321,228	-
Land held for future highway use	-	-	-	-
Fixed assets - net of accumulated depreciation (Note 7)	-	-	2,834,434	37,001,177
Other debits:				
Amount available in debt service funds for retirement of general long-term debt	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total assets and other debits	**$ 570,688,386**	**$ 27,965,269**	**$ 11,090,076**	**$ 45,002,475**

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

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Trust and Agency	General Fixed Assets	General Long-Term Debt	1998	1997
$ 74,603,768	$ -	$ -	$ 521,356,669	$ 613,007,464
-	-	-	185,854	174,041
-	-	-	15,335,744	15,577,217
544,859	-	-	8,885,657	7,847,634
136,304,460	-	-	136,304,460	118,064,264
640,457	-	-	7,264,089	6,047,025
2,290,938	-	-	31,047,913	24,395,458
33,649,083	-	-	114,628,380	123,880,549
489,516	-	-	18,710,907	36,939,791
-	-	-	9,392,775	9,828,934
-	-	-	321,228	276,558
-	-	-	-	151,131
-	182,505,056	-	222,340,667	202,192,464
-	-	27,965,269	27,965,269	35,074,587
-	-	1,239,003,546	1,239,003,546	1,354,613,504
$ 248,523,081	**$ 182,505,056**	**$ 1,266,968,815**	**$ 2,352,743,158**	**$ 2,548,070,621**

(Continued)

Arizona Department of Transportation
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 1998
(With comparative totals at June 30, 1997)

	Governmental Fund Types		Proprietary Fund Types	
	Special Revenue	Debt Service	Enterprise	Internal Service
Liabilities, equity and other credits				
Liabilities:				
Construction contracts payable	$ 44,873,314	$ -	$ -	$ -
Accounts payable	21,194,028	-	187,687	802,088
Accrued payroll and other accrued expenditures/expenses	8,134,034	-	235,381	827,901
Due to U.S. Government	-	-	-	-
Due to other Arizona Department of Transportation funds (Note 6)	2,718,189	-	2,311	-
Due to Department of Public Safety	-	-	-	-
Due to Arizona counties, cities and other state agencies	1,849,074	-	-	-
Deferred revenue	-	-	4,366,877	-
Surety and rental deposits	-	-	-	-
Bonds payable (Note 9)	-	-	-	-
Contracts and capital leases payable (Note 9)	-	-	-	-
Long-term accrued vacation leave (Note 1)	-	-	-	-
Total liabilities	78,768,639	-	4,792,256	1,629,989
Equity and other credits:				
State Highway Fund contribution	-	-	2,038,698	6,106,640
Investment in general fixed assets	-	-	-	-
Retained earnings:				
Reserved for replacement of equipment	-	-	-	9,985,210
Unreserved	-	-	4,259,122	27,280,636
Fund balances:				
Reserved for:				
Bridge construction	-	-	-	-
Airport runway extension	-	-	-	-
Highway construction	36,455,326	-	-	-
Inventories	4,249,661	-	-	-
Land held for future highway use	-	-	-	-
Unreserved, undesignated	451,214,760	27,965,269	-	-
Total equity and other credits	491,919,747	27,965,269	6,297,820	43,372,486
Total liabilities, equity and other credits	**$ 570,688,386**	**$ 27,965,269**	**$ 11,090,076**	**$ 45,002,475**

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

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Trust and Agency	General Fixed Assets	General Long-Term Debt	1998	1997
$ 2,749,215	$ -	$ -	$ 47,622,529	$ 42,999,187
6,032,197	-	-	28,216,000	14,326,465
-	-	-	9,197,316	10,183,005
-	-	-	-	4,358,530
111,907,880	-	-	114,628,380	123,880,549
1,562,500	-	-	1,562,500	1,875,000
121,084,805	-	-	122,933,879	128,298,764
-	-	-	4,366,877	4,364,571
2,287,641	-	-	2,287,641	2,444,174
-	-	1,257,155,705	1,257,155,705	1,379,835,799
-	-	1,908,665	1,908,665	2,310,454
-	-	7,904,445	7,904,445	7,541,838
245,624,238	-	1,266,968,815	1,597,783,937	1,722,418,336
-	-	-	8,145,338	8,145,338
-	182,505,056	-	182,505,056	163,461,473
-	-	-	9,985,210	9,985,210
-	-	-	31,539,758	32,134,953
-	-	-	-	1,737,431
-	-	-	-	6,600,000
2,898,843	-	-	39,354,169	112,166,356
-	-	-	4,249,661	4,828,964
-	-	-	-	151,131
-	-	-	479,180,029	486,441,429
2,898,843	182,505,056	-	754,959,221	825,652,285
$ 248,523,081	**$ 182,505,056**	**$ 1,266,968,815**	**$ 2,352,743,158**	**$ 2,548,070,621**

Arizona Department of Transportation
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the fiscal year ended June 30, 1998
(With comparative totals for the fiscal year ended June 30, 1997)

	Governmental Fund Types			Fiduciary Fund Types	Totals (Memorandum Only)	
	Special Revenue	**Debt Service**	**Capital Projects**	**Expendable Trust**	**1998**	**1997**
Revenues:						
Transportation excise tax	$ 192,518,877	$ -	$ -	$ -	$ 192,518,877	$ 193,755,881
Vehicle registration, title, license and related fees	210,369,491	-	-	-	210,369,491	198,001,560
Fuel and motor carrier taxes and fees	273,805,897	-	-	-	273,805,897	288,878,476
Reimbursements of construction expenditures - federal aid	237,435,162	-	-	26,411,442	263,846,604	268,239,163
Other federal grants and reimbursements	20,135,794	-	-	-	20,135,794	37,198,464
Reimbursements from Arizona counties, cities and other state agencies	2,876,353	-	-	1,812,709	4,689,062	8,347,123
State appropriations	615,900	-	-	3,200,000	3,815,900	6,735,800
Distributions from agency funds	-	-	-	-	-	770,150
Interest	27,564,137	6,817,499	-	-	34,381,636	33,238,498
Other	30,915,930	-	-	51,660	30,967,590	37,266,168
Total revenues	996,237,541	6,817,499	-	31,475,811	1,034,530,851	1,072,431,283
Expenditures:						
Current:						
Transportation - appropriated by State legislature	235,571,745	-	-	-	235,571,745	187,674,263
Transportation - not appropriated by State legislature	11,294,362	-	-	-	11,294,362	43,145,597
Capital outlay:						
Highway construction	566,394,266	-	3,792,977	32,767,897	602,955,140	540,203,165
Land, buildings and improvements - appropriated by State legislature	12,810,323	-	-	-	12,810,323	7,875,823
Contracts and capital leases payable	537,526	-	-	-	537,526	169,596
Arizona Department of Public Safety distributions - appropriated by State legislature	15,000,000	-	-	-	15,000,000	19,600,000
Arizona Department of Emergency and Military Affairs distributions - appropriated by State legislature	800,000	-	-	-	800,000	574,000
Year 2000 computer projects	6,364,000	-			6,364,000	-
Debt service:						
Principal	-	126,170,000	-	-	126,170,000	129,050,373
Interest	-	73,777,474	-	-	73,777,474	81,395,372
Distributions to Arizona counties, cities and other state agencies	29,017,595	-	-	9,800,000	38,817,595	24,513,677
Distributions to agency funds	-	-	-	-	-	4,358,530
Other	-	110,843	821	-	111,664	190,486
Total expenditures	877,789,817	200,058,317	3,793,798	42,567,897	1,124,209,829	1,038,750,882
Excess <deficiency> of revenues over <under> expenditures	118,447,724	<193,240,818>	<3,793,798>	<11,092,086>	<89,678,978>	33,680,401
Other financing sources <uses>:						
Proceeds from contracts and capital leases payable	537,526	-	-	-	537,526	169,596
Operating transfers in	8,564,954	191,417,408	-	<71>	199,982,291	205,907,311
Operating transfers out:						
Debt service	<191,417,408>	-	-	-	<191,417,408>	<202,178,149>
Other	<2,831,788>	<5,285,908>	<79,536>	<367,651>	<8,564,883>	<3,729,162>
Total other financing sources <uses>	<185,146,716>	186,131,500	<79,536>	<367,722>	537,526	169,596
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	<66,698,992>	<7,109,318>	<3,873,334>	<11,459,808>	<89,141,452>	33,849,997
Fund balances, July 1	558,618,739	35,074,587	3,873,334	14,358,651	611,925,311	578,075,314
Fund balances, June 30	**$ 491,919,747**	**$ 27,965,269**	**$ -**	**$ 2,898,843**	**$ 522,783,859**	**$ 611,925,311**

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

Exhibit 3

Arizona Department of Transportation
Combined Statement of Revenues and Expenditures - Budget and Actual (Budget Basis)
Budgeted Special Revenue Funds
For the fiscal year ended June 30, 1998

	Special Revenue Funds		
	Budget	**Actual Non-GAAP**	**Variance - Favorable <Unfavorable>**
Revenues:			
Vehicle registration, title, license and related fees	$ 174,171,800	$ 190,667,476	$ 16,495,676
Fuel and motor carrier taxes and fees	298,355,500	256,653,060	<41,702,440>
Interest	2,132,800	2,690,233	557,433
Flight property tax	8,900,000	7,582,939	<1,317,061>
Grand Canyon Airport	1,661,000	1,345,633	<315,367>
Other	6,000	87,727	81,727
Total revenues	485,227,100	459,027,068	<26,200,032>
Expenditures appropriated by State legislature in 1998 budget:			
Transportation:			
Administration	43,546,100	43,196,572	349,528
Highway	40,954,000	40,776,217	177,783
Highway Maintenance	78,489,176	76,598,085	1,891,091
Motor Vehicle Division	62,682,700	62,297,819	384,881
Aeronautics Division	1,658,100	1,614,317	43,783
Air Quality Program	37,900	37,875	25
General Fund Program	78,000	76,568	1,432
Total transportation	227,445,976	224,597,453	2,848,523
Capital outlay - land, buildings and improvements:			
Highway	21,290,934	12,796,632	8,494,302
Aviation	68,869	68,396	473
Arizona Department of Public Safety transfers	15,000,000	15,000,000	-
Arizona Department of Emergency and Military Affairs transfers	800,000	800,000	-
Year 2000 Projects	6,364,000	6,364,000	-
Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets	1,937,171	1,040,279	896,892
Total expenditures	272,906,950	260,666,760	12,240,190
Excess of revenues over expenditures	**$ 212,320,150**	**$ 198,360,308**	**$ <13,959,842>**

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

Arizona Department of Transportation
Combined Statement of Revenues, Expenses and Changes in Retained Earnings
All Proprietary Fund Types
For the fiscal year ended June 30, 1998
(With comparative totals for the fiscal year ended June 30, 1997)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	**Internal Service**	**1998**	**1997**
Operating revenues:				
Equipment rentals	$ -	$ 24,246,642	$ 24,246,642	$ 23,294,346
Warehouse supply billings	-	56,555	56,555	13,992
Equipment sales	-	227,707	227,707	311,433
Magazine sales	6,041,695	-	6,041,695	6,032,128
Sales of related products	4,443,666	-	4,443,666	4,543,047
List rentals	73,258	-	73,258	67,189
Other	349,277	3,143,816	3,493,093	3,932,608
Total operating revenues	10,907,896	27,674,720	38,582,616	38,194,743
Operating expenses:				
Equipment operations	-	21,743,066	21,743,066	20,404,660
Warehouse operations	-	99,446	99,446	8,406
Cost of sales	9,664,662	-	9,664,662	9,760,534
General and administrative	1,251,233	-	1,251,233	1,500,278
Depreciation	164,547	6,584,576	6,749,123	6,394,408
Total operating expenses	11,080,442	28,427,088	39,507,530	38,068,286
Operating income <loss>	<172,546>	<752,368>	<924,914>	126,457
Non-operating revenues <expenses>:				
Interest	288,379	223,246	511,625	634,394
Loss on sale/disposal of fixed assets	<4,900>	<177,006>	<181,906>	<170,362>
Total non-operating revenues <expenses>	283,479	46,240	329,719	464,032
Income before charge related to change in the fixed asset capitalization threshold	110,933	<706,128>	<595,195>	590,489
Charge related to change in the fixed asset capitalization threshold (Note 1)	-	-	-	<1,510,599>
Net income <loss>	110,933	<706,128>	<595,195>	<920,110>
Retained earnings, July 1	4,148,189	37,971,974	42,120,163	43,040,273
Retained earnings, June 30	**$ 4,259,122**	**$ 37,265,846**	**$ 41,524,968**	**$ 42,120,163**

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

Exhibit 5

Arizona Department of Transportation
Combined Statement of Cash Flows
All Proprietary Fund Types
For the fiscal year ended June 30, 1998
(With comparative totals for the fiscal year ended June 30, 1997)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	**Internal Service**	**1998**	**1997**
Cash flows from operating activities:				
Operating income <loss>	$ <172,546>	$ <752,368>	$ <924,914>	$ 126,457
Adjustments to reconcile operating income <loss> to net cash provided by operating activities:				
Depreciation	164,547	6,584,576	6,749,123	6,394,408
Changes in assets and liabilities:				
Due from other Arizona Department of Transportation funds	-	<229,610>	<229,610>	405,280
Due from other state agencies	-	29,510	29,510	111,020
Other receivables	<117,659>	<35,906>	<153,565>	187,995
Inventories	<122,079>	<21,065>	<143,144>	143,597
Prepaid expenses	<44,670>	-	<44,670>	<19,464>
Accounts payable	<357,573>	305,204	<52,369>	291,444
Accrued payroll and other accrued expenses	21,742	29,377	51,119	65,302
Due to other Arizona Department of Transportation funds	<15,354>	<8,644>	<23,998>	<1,005>
Deferred revenue	2,306	-	2,306	<149,435>
Net cash provided by <used for> operating activities	<641,286>	5,901,074	5,259,788	7,555,599
Cash flows from capital and related financing activities:				
Acquisition of fixed assets	<934,081>	<7,538,697>	<8,472,778>	<10,323,771>
Proceeds from sale of fixed assets	-	437,129	437,129	390,329
Net cash used for capital and related financing activities	<934,081>	<7,101,568>	<8,035,649>	<9,933,442>
Cash flows from investing activities:				
Interest	288,027	215,223	503,250	634,952
Net cash provided by investing activities	288,027	215,223	503,250	634,952
Net decrease in cash and cash equivalents	<1,287,340>	<985,271>	<2,272,611>	<1,742,891>
Cash and cash equivalents, July 1	5,767,414	4,352,066	10,119,480	11,862,371
Cash and cash equivalents, June 30	**$ 4,480,074**	**$ 3,366,795**	**$ 7,846,869**	**$ 10,119,480**

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Arizona Department of Transportation (Department) is a department of the State of Arizona and is not legally separate. The Department has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of State highway routes and 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 highways. Assistance in the development of local airports, registering motor vehicles and aircraft, licensing drivers and the publishing of the *Arizona Highways Magazine* are also responsibilities of the Department.

The Division of Finance of the Arizona Department of Administration controls expenditures and adherence to annual budgets. The State Treasurer controls the cash balances of the Department.

The general purpose financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The more significant of the Department's accounting policies are described below.

Fund accounting

The accounts of the Department are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Department are grouped, in the financial statements, into six fund types and two account groups within four categories as follows:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the Department's expendable financial resources and the related current liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds (special revenue, debt service, and capital projects). All governmental funds are accounted for using a current financial resources measurement focus.

Governmental funds are, in essence, accounting segregations of financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "Fund Balance."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Special Revenue Funds - Special revenue funds, excluding the State Highway Fund, are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The State Highway Fund is used to account for all financial transactions applicable to the 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 registration, title, licenses and related fees; and Federal grants. Other special revenue funds of the Department include the State Aviation Fund, Abandoned Vehicle Fund, Dealer Enforcement Revolving Fund, Safety Enforcement and Transportation Infrastructure Fund, Maricopa Regional Area Road Construction Fund, Motor Carrier Safety Revolving Fund, Motor Vehicle Liability Insurance Enforcement Fund, and Vehicle Inspection and Title Enforcement Fund.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Debt service funds include the Highway Improvement Bond Principal Redemption and Interest Fund which accounts for the State of Arizona highway improvement bonds and revenue bonds, and the Maricopa Regional Area Road Bond Fund which accounts for the State of Arizona transportation excise tax revenue bonds.

Capital Projects Fund – The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The capital projects fund of the Department is the Maricopa Regional Area Road Bond Proceeds Fund, which accounts for the issuance and use of the proceeds from the State of Arizona transportation excise tax revenue bonds.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Department's on-going organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the Department's business and quasi-business activities, where net income and capital maintenance are measured, are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position and cash flows.

Enterprise Fund - An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Department is that the costs (including depreciation) of providing goods and/or services to the general public on a continuing basis be financed from sales or other revenues. The only enterprise fund of the Department is the Arizona Highways Magazine Fund. The fund publishes a monthly magazine, *Arizona Highways Magazine,* as well as a number of books and sells several related products.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Department, or to other governments, on a cost-reimbursement basis. Internal service funds of the Department include the Equipment

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revolving Fund and the Warehouse Revolving Fund.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Expendable trust funds are accounted for using a current financial resources measurement focus.

Trust and Agency Funds - These funds include expendable trust funds and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds and include the Bridge Construction Fund, the Davis-Monthan Runway Extension Fund and the Local Agency Deposits Fund.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds of the Department include the Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Underground Storage Tank Fund, Highway Property Rentals 24 Percent Fund, Highway Trust Right-of-Way Fund, Economic Strength Project Fund, Privilege Tax Fund and the Special Organization Plates Clearing Fund. The Special Organization Plates Clearing Fund is not disclosed as there were no activities in the current fiscal year.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the Department's general fixed assets and unmatured principal of its general long-term debt.

General Fixed Assets - Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group rather than in governmental funds.

General Long-Term Debt - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group.

Basis of accounting

The modified accrual basis of accounting is used for all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. Reimbursements of construction expenditures, due primarily from the Federal government on a percentage of costs incurred basis, are recognized when the related obligation is incurred.

Those revenues susceptible to accrual are Federal grants, reimbursable county, city and other state agency construction costs incurred by the Department. Federal grant monies are received after the incurrence of qualifying expenditures. As a result, the Federal share of all qualifying goods or services received or performed prior toyear end has been accrued.

All proprietary funds are accounted for using the accrual basis of accounting. Under this basis, revenues are recorded when they are earned and expenses are recorded when incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgets and budgetary accounting

Annual budgets for the operating expenditures and capital outlay - land, building and improvements of the State Highway Fund and the Aviation Fund and annual budgets for certain operating expenditures of the Abandoned Vehicle Fund, the Dealer Enforcement Revolving Fund and the Safety Enforcement and Transportation Infrastructure Fund are submitted to the Governor in accordance with State law. The budgets are legally enacted as appropriations after approval by the Legislature and signature by the Governor. The legal level of control is at the division level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures and other operating expenditures are specifically budgeted within most divisions. In certain divisions, other specific programs are budgeted in addition to these three categories.

Amendments to the approved appropriations require Legislative approval; however, budget transfers of personal services, employee related expenditures or other operating expenditures may be made between divisions, except for the Motor Vehicle Division. These budget transfers are requested by a division's budget staff and are approved by the Department's Budget Office. Expenditures may not legally exceed these budgeted appropriations. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the next calendar month are charged against the prior fiscal year's budget. All other State appropriations lapse at year end.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for those operations subject to legislative appropriations.

A legal limitation is not adopted for capital outlay - highway construction, capital outlay - contracts payable and certain transportation operating expenditures of the State Highway Fund and the State Aviation Fund, the other special revenue funds, the debt service funds, capital projects fund, proprietary funds and fiduciary funds. The Department monitors expenditures for such items without legal limitations through an internal budgetary process and the five-year construction program developed by the Transportation Board.

Encumbrance accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable fund balance, is used by the Department as a budgetary control mechanism. However, outstanding encumbrances lapse at year-end. Accordingly, no reserve for encumbrances is reflected in the accompanying financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in accounting policy

Effective July 1, 1996, the State of Arizona changed its fixed asset capitalization threshold from $1,000 to $5,000. In order to be consistent with the State of Arizona, the Department also changed its fixed asset capitalization policy. All fixed assets must be capitalized if the cost is greater than or equal to $5,000. The charge related to this change in capitalization threshold is recorded in the enterprise fund for $113,222 and the internal service funds for $1,397,377 in fiscal year 1997.

Application of FASB pronouncements to proprietary activities

The Department has elected, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

Cash and cash equivalents

The Department's cash and cash equivalents balance is on deposit with the State Treasurer for pooled investment purposes and is not evidenced by securities that exist in physical or book entry form in the Department's name. 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 or obligations of the U.S. Government. All investments are carried at cost, which approximates market.

State statutes require the State Treasurer to maintain separate investment accounts for the portions of the Highway Improvement Bond Principal Redemption and Interest Fund relating to the highway revenue bond issues and the Maricopa Regional Area Road Bond Fund relating to the transportation excise tax revenue bond issues. These funds may be invested in obligations of the U.S. Government.

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments (investments with original maturities of three months or less).

The Department's investments are included in the State investment pool and these investments are not shown in the Department's name. 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.*

Inventories

The State Highway Fund inventory is valued at cost, which approximates market, using the first-in, first-out (FIFO) method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

Proprietary fund inventories are stated at the lower of cost or market. Cost of enterprise fund inventories consisting of resale products and supplies are generally determined by moving average cost and specific identification methods, respectively. Costs of internal service funds' inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost methods.

Fixed assets

General fixed assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the General Fixed Assets Account Group. Land is recorded primarily at cost. If cost is not determinable based on previously

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

acquired property, estimated cost is used. Other general fixed assets are stated at either actual or estimated costs. Contributed fixed assets are recorded in the General Fixed Assets Account Group at estimated fair value on the date received. Public domain (infrastructure) general fixed assets consisting of roads and bridges are not capitalized, as these assets are immovable and of value only to the government. No depreciation is provided on general fixed assets.

Property and equipment of the proprietary funds are stated at cost, or estimated historical cost if original cost is not available; and, if donated, are stated at estimated fair value on the date received. Depreciation is provided using the straight-line method based on estimated useful lives as follows:

Buildings	40 years
Building improvements	20 years
Furniture and fixtures	5 years
Mobile equipment	3-15 years
Shop tools, office and computer equipment and software	5 years

The cost of additions, improvements, andrenewals which substantially extend the useful life of a particular asset are capitalized in the property accounts. Repairs and maintenance expenditures are charged to operations as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the property accounts and any resultant gain or loss is recognized as revenue or loss.

Bond premiums, discounts and issuance costs

Premiums or discounts on bond issuances are netted against the bond proceeds in the capital projects fund. The bonds are recorded at their face value in the General Long-Term Debt Account Group, except in the case of Capital Appreciation bonds. These bonds are initially recorded net of their discount. The discount is amortized over the life of the issue using the effective interest method. All costs related to bond issuance are recorded as expenditures under Debt Service in the appropriate fund as incurred.

Deferred revenue

Deferred revenue relates to unearned subscription income associated with the enterprise fund.Unearned subscription income is recorded when subscription orders are received and is amortized into income over the terms of the related subscriptions. Costs associated with the procurement ofsubscriptions are expensed in the year incurred.

Long-term obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group.

Compensated absences

Employees are permitted to accumulate sick leave in accordance with the policies of the State of Arizona. This policy allows a retiring employee to be paid a total of $750 for any accumulated unpaid sick leave in excess of 1,000 hours. An accrual for vested unpaid sick leave has been made and is included under the caption "Accrued payroll and other accrued expenditures/expenses." No accrual for the nonvested accumulated unpaid sick leave is reflected in the combined financial statements. As of June 30, 1998, employees had accumulated $25,111,018 of nonvested unpaid sick leave.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for exempt employees) which is paid when vacation is taken or upon termination of employment at the individual's current rate of pay. An accrual for vacation leave has been made and the current portion is included under the caption "Accrued payroll and other accrued expenditures/expenses." For governmental funds, the portion of vacation normally taken in the first sixty days of the next fiscal year is recorded as a current liability. The amount of long-term accrued vested vacation leave recorded in the General Long-Term Debt Account Group represents that portion which is not expected to be liquidated with expendable available financial resources. For proprietary funds, all of the outstanding vacation accrual is recorded as a current liability.

Fund equity

Reserves represent those portions of fund equity not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. There were no designated fund balances at June 30, 1998.

The Department has reserved $9,985,210 of the Equipment Revolving Fund retained earnings. This reserve is comprised of $7,829,167 for replacement of fleet equipment and $2,156,043 for replacement of two airplanes.

Administrative expenditures

The Department renders certain services (primarily administrative services as trustee or agent) to counties and cities of Arizona as well as to other agencies of the State of Arizona, the costs of which are accounted for in the State Highway Fund, a special revenue fund. No charges are made for these services. The Department receives certain services (primarily claims processing and treasury services) without cost from other Arizona state agencies.

The Arizona Highways Magazine Fund provides promotional magazines to other Arizona state agencies without charge.

Transactions between funds

Transactions which would be treated as revenue, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenue, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements to a fund for expenditures or expenses initially made from that fund which are applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

Nonrecurring or nonroutine transfers of equity between funds are treated as residual equity transfers and are reported as additions to or deductions from the fund balance of governmental funds. Residual equity transfers to proprietary funds are treated as contributed capital, and such transfers from proprietary funds are reported as reductions of retained earnings or contributed capital as is appropriate in the circumstances. All other transactions are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

Certain services, including accounting and investment services and claims, are furnished to certain funds by various other funds of the Department without charge.

Operations of the internal service funds are conducted in facilities recorded in the General Fixed Assets Account Group, the costs of which are accounted for in the State Highway Fund, a special revenue fund of

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the Department. The internal service fund pay the costs of repairs and maintenance of those facilities, but no rental charges are made to the funds for the use thereof.

Loan losses and revenue

Each mortgage loan is analyzed on an individual basis to determine a reserve for loan losses based on delinquency. Interest revenue is recognized when received and is included under the caption"Interest revenue."

Use of estimates

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Memorandum and comparative totals

Total columns for 1998 and 1997 included in the accompanying combined financial statements are captioned memorandum only to indicate they are presented only to facilitate financial analysis. The information in the columns is not intended to present financial position, results of operations or cash flows of its proprietary fund types in conformity with GAAP. This information is not comparable to a consolidation and interfund eliminations have not been made in the aggregation of the information.

NOTE 2. BUDGET BASIS OF ACCOUNTING

The Department prepares its annual budget on a basis which differs from GAAP. The budget and the actual results of transactions are presented in accordance with the Department's method (budget basis) in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budget Basis) - Budgeted Special Revenue Funds in order to provide a meaningful comparison of actual results with the budget. The adjustments required to convert the revenues and expenditures for the budgeted special revenue funds from the GAAP basis to the budgetary basis consist of accrual to cash basis adjustments and the exclusion of funds not budgeted through legislative appropriation.

NOTE 2. BUDGET BASIS OF ACCOUNTING (Continued)

Adjustments necessary to convert the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 1998, on a GAAP basis to budget basis is as follows:

	Special Revenue Funds
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses — GAAP basis	$ <66,698,992>
Basis differences	
Net increase in accounts payable, accrued payroll and other accruals not recognized as expenditures on budget basis	8,881,110
Net increase in receivables related to fuel and motor carrier taxes and fees , vehicle registration, title, license, and related fees not recognized as revenue on budget basis	<35,503,307>
Total basis differences	<26,622,197>
Perspective differences	
Revenues and other financing sources not recognized on budget basis:	
Motor vehicle tax	<222,144>
Motor vehicle registration	<32,384>
Motor vehicle driver's licenses	<8,832>
Other title certificates and permits	<2,298>
Reimbursements of construction expenditures - federal aid	<237,435,162>
Other federal grants and reimbursements	<8,285,562>
Reimbursements from Arizona counties, cities, and other state agencies	1,282,262
State appropriations	<615,900>
Interest	<18,231,397>
Other	<11,973,538>
Proceeds from contracts and capital leases payable	<537,526>
Operating transfers in	<11,346,000>
Expenditures and other financing uses not recognized on budget basis:	
Transportation - not appropriated by State legislature	11,294,362
Capital outlay - highway construction	490,890,429
Capital outlay - contracts and capital leases payable	537,526
Distributions to Arizona counties, cities and other state agencies	22,006,260
Other operating transfers out	68,872,251
Total perspective differences	306,192,347
Entity differences	
Deficiency of revenues under expenditures for funds for which no annual budgets are prepared	<14,510,850>
Excess of revenues over expenditures — budget basis	$ 198,360,308

NOTE 2. BUDGET BASIS OF ACCOUNTING (Continued)

Throughout the fiscal year, the Legislature may revise the budget. The following schedule reflects the original budgeted expenditures, subject to legislative limitations and cumulative revisions during the current fiscal year:

	Special Revenue Funds
Original Budget	$ 257,308,335
Cumulative Revisions	15,598,615
Revised Budget	$ 272,906,950

NOTE 3. SECURITIES HELD IN LIEU OF RETENTION

In accordance with Arizona law, a contractor may assign to the Department, in lieu of contract retention, time certificates of deposit in federally insured banks licensed by the State of Arizona or securities of the United States of America, the State of Arizona, its counties, municipalities and school districts or deposits in savings and loan institutions authorized to transact business in the State of Arizona. At June 30, 1998, the Trustee held assignment on securities aggregating $9,736,642, $6,063,693 and $284,915 in lieu of contractor retentions for construction in the special revenue funds, capital projects funds, and expendable trust funds, respectively. Additional securities aggregating $40,449 were on deposit but not assigned to a specific project. These additional securities are not reflected in the accompanying financial statements.

NOTE 4. RESTRICTION OF USE OF THE STATE HIGHWAY FUND CASH

Effective July 1, 1981, State law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the State Highway Fund (special revenue fund) from the Highway User Revenue Fund (agency fund) for the design, purchase of right-of-way or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). At June 30, 1998, approximately $36,500,000, including interest, of the fund balance was reserved representing such unspent monies.

NOTE 5. NOTES RECEIVABLE

Notes receivable represent realestate mortgage loans made to individuals purchasing homes previously owned by the Department for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables at June 30, 1998, follows:

	Interfund Receivables	Interfund Payables
Special Revenue Funds:		
State Highway Fund:		
Due from Highway User Revenue Fund for taxes and fees	$ 72,986,379	$ -
Other	5,544,854	2,005,645
Total State Highway Fund	78,531,233	2,005,645
State Aviation Fund	155,999	8,505
Abandoned Vehicle Fund	12,230	388,464
Dealer Enforcement Revolving Fund	-	306,615
Safety Enforcement and Transportation Infrastructure Fund	125,646	5,523
Motor Carrier Safety Revolving Fund	<500>	-
Motor Vehicle Liability Insurance Enforcement Fund	119,580	-
Vehicle Inspection and Title Enforcement Fund	72,100	3,437
Total Special Revenue Funds	79,016,288	2,718,189
Enterprise Fund		
Arizona Highways Magazine Fund	-	2,311
Internal Service Fund		
Equipment Revolving Fund	1,963,009	-
Agency Funds:		
Motor Vehicle Division Clearing Fund	-	38,921,501
Highway User Revenue Fund	31,294,446	72,986,379
Underground Storage Tank Fund	2,354,637	-
Total Agency Funds	33,649,083	111,907,880
Total All Funds	$114,628,380	$114,628,380

NOTE 7. FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 1997	Additions	Disposals	Balance June 30, 1998
Land	$ 8,512,113	$ 273,572	$ 128,000	$ 8,657,685
Buildings and improvements	94,167,234	8,078,918	132,759	102,113,393
Improvements other than buildings	20,433,741	9,826,513	116,980	30,143,274
Machinery and equipment	40,348,385	4,513,740	3,271,421	41,590,704
Total General Fixed Assets	**$ 163,461,473**	**$ 22,692,743**	**$ 3,649,160**	**$ 182,505,056**

A summary of proprietary fund fixed assets at June 30, 1998, follows:

	Enterprise Fund	Internal Service Funds
Land	$ 7,900	$ -
Buildings	981,157	-
Furniture and fixtures	333,020	-
Shop tools, office and computer equipment and software	1,835,244	2,053,856
Mobile equipment	10,059	94,575,796
Construction in progress	1,843,918	-
	5,011,298	96,629,652
Less accumulated depreciation	<2,176,864>	<59,628,475>
Total Proprietary Fund Fixed Assets	**$ 2,834,434**	**$ 37,001,177**

NOTE 8. FUND EQUITY

Fund equity for the proprietary funds consists of the following:

Enterprise Fund:

	Arizona Highways Magazine Fund			
	Contributed Capital	Retained Earnings	Totals 1998	Totals 1997
Balance, July 1, 1997	$ 2,038,698	$ 4,148,189	$ 6,186,887	$ 6,261,627
Net income <loss>	-	110,933	110,933	<74,740>
Balance, June 30, 1998	$ 2,038,698	$ 4,259,122	$ 6,297,820	$ 6,186,887

NOTE 8. FUND EQUITY (Continued)

Internal Service Funds:

	Equipment Revolving Fund			
	Contributed Capital	Reserved Retained Earnings	Unreserved Retained Earnings	Total Fund Equity
Balance, July 1, 1997	$ 5,793,237	$ 9,985,210	$ 28,029,650	$ 43,808,097
Net loss	-	-	<679,108>	<679,108>
Balance, June 30, 1998	$ 5,793,237	$ 9,985,210	$ 27,350,542	$ 43,128,989

	Warehouse Revolving Fund		
	Contributed Capital	Retained Earnings	Total Fund Equity
Balance, July 1, 1997	$ 313,403	$ <42,886>	$ 270,517
Net loss	-	<27,020>	<27,020>
Balance, June 30, 1998	$ 313,403	$ <69,906>	$ 243,497

	Totals Internal Service Funds	
	1998	1997
Balance, July 1, 1997	$ 44,078,614	$ 44,923,984
Net loss	<706,128>	<845,370>
Balance, June 30, 1998	$ 43,372,486	$ 44,078,614

Arizona Revised Statutes, Section 28-7315, established an Arizona Highways Magazine Fund. The Fund consists of monies appropriated by the Legislature from the State Highway Fund, a special revenue fund, not to exceed $500,000 annually, in addition to all Arizona Highways Magazine revenues received less expenses. The balance of contributed capital represents contributions from the State Highway Fund of $38,698 and $2,000,000 during 1991 and 1990, respectively. Balances remaining in the Fund at the end of the fiscal year do not revert to the State of Arizona General Fund or the State Highway Fund.

NOTE 9. GENERAL LONG-TERM DEBT

The following is a summary of changes in general long-term debt for the fiscal year ended June 30, 1998:

	Balance July 1, 1997	Additions	Retirements	Amortization of Discount	Balance June 30, 1998
Bonds:					
Highway Revenue Bonds:					
1987	$ 8,785,000	$ -	$ 8,785,000	$ -	$ -
1990	30,790,000	-	4,805,000	-	25,985,000
1991 Series A, Subordinated	21,905,000	-	-	-	21,905,000
1992 Series A, Subordinated, Refunding	72,300,000	-	905,000	-	71,395,000
1992 Series B, Subordinated	36,560,000	-	-	-	36,560,000
1993 Series, Refunding	164,160,000	-	26,880,000	-	137,280,000
1993 Series A, Subordinated, Refunding	242,055,000	-	2,030,000	-	240,025,000
1993 Series B, Subordinated, Refunding	35,000,000	-	-	-	35,000,000
Transportation Excise Tax Revenue Bonds					
1987 Series A	18,270,000	-	18,270,000	-	-
1988 Series A, Capital Appreciation	46,645,799	-	-	3,489,906	50,135,705
1989 Series A, Subordinated	98,895,000	-	22,185,000	-	76,710,000
1991 Series A	16,955,000	-	3,855,000	-	13,100,000
1992 Series A, Refunding	183,645,000	-	1,945,000	-	181,700,000
1992 Series B	20,760,000	-	2,160,000	-	18,600,000
1993 Series, Subordinated	146,695,000	-	7,900,000	-	138,795,000
1995 Series A, Subordinated	115,420,000	-	12,135,000	-	103,285,000
1995 Series B, Subordinated, Refunding	120,995,000	-	14,315,000	-	106,680,000
Total Bonds Payable	1,379,835,799	-	126,170,000	3,489,906	1,257,155,705
Other long-term liabilities:					
Contracts and capital leases payable	2,310,454	537,526	939,315	-	1,908,665
Long-term accrued vacation leave	7,541,838	362,607	-	-	7,904,445
Total General Long-Term Debt	**$1,389,688,091**	**$ 900,133**	**$ 127,109,315**	**$3,489,906**	**$1,266,968,815**

NOTE 9. GENERAL LONG-TERM DEBT (Continued)

Bonds payable

Bonds payable are due in varying annual principal amounts plus varying semiannual interest amounts, except for the 1988 Series A Capital Appreciation Bonds which are due in annual installments of $21,500,000 in 2002 through 2004 with the balance of $8,500,000 due in 2005. Bonds payable at June 30, 1998, are comprised of the following individual issues:

Issue	Interest Rates	Final Maturity Date	Balance at June 30, 1998
State of Arizona Highway Revenue Bonds:			
1990	6.8%	7/1/01	$ 25,985,000
1991 Series A, Subordinated	6.3% - 8.8%	7/1/04	21,905,000
1992 Series A, Subordinated, Refunding	5.9% - 6.1%	7/1/01	71,395,000
1992 Series B, Subordinated	6.1% - 8.0%	7/1/06	36,560,000
1993 Series, Refunding	4.5% - 5.3%	7/1/09	137,280,000
1993 Series A, Subordinated, Refunding	4.1% - 6.0%	7/1/11	240,025,000
1993 Series B, Subordinated, Refunding	5.1% - 6.0%	7/1/11	35,000,000
Total Highway Revenue Bonds			568,150,000
State of Arizona Transportation Excise Tax Revenue Bonds:			
1988 Series A Capital Appreciation Bonds (maturity value of $73,000,000)	7.3% - 7.5%	7/1/05	50,135,705
1989 Series A, Subordinated	6.9% - 7.0%	7/1/01	76,710,000
1991 Series A	6.0% - 6.1%	7/1/01	13,100,000
1992 Series A, Refunding	5.0% - 5.8%	7/1/05	181,700,000
1992 Series B	5.0% - 5.8%	7/1/05	18,600,000
1993 Series, Subordinated	4.0% - 5.6%	7/1/05	138,795,000
1995 Series A, Subordinated	4.4% - 6.5%	7/1/05	103,285,000
1995 Series B, Subordinated, Refunding	4.4% - 6.5%	7/1/05	106,680,000
Total Transportation Excise Tax Revenue Bonds			689,005,705
Total Bonds Payable			**$ 1,257,155,705.00**

The Highway Revenue Bonds are secured by a prior lien on and a first pledge of motor vehicle and related fuel fees and taxes of the State Highway Fund, a special revenue fund. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, to exceed $800,000,000 unless the additional amount is authorized by the Legislature.

The Transportation Excise Tax Revenue Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The 1989 Series A Bonds, the 1993 Series Bonds and the 1995 Series A and B Bonds are subordinate to the other senior Transportation Excise Tax Revenue Bonds. The Transportation Board may issue additional subordinated Transportation Excise Tax Revenue Bonds as long as the amount of transportation excise tax (plus any other monies deposited during the period) deposited with the Maricopa Regional Area Road Fund in any 12 consecutive months out of the 18 months prior to the issuance date of the proposed bonds is not less than 120 percent of the greatest

NOTE 9. GENERAL LONG-TERM DEBT (Continued)

Combined adjusted aggregate debt service for all senior and subordinated bonds in the current or future bond year, including any proposed bonds.

The Transportation Board may issue additional senior Transportation Excise Tax Bonds if the above condition is met and also if the amount of transportation excise tax (plus any other monies deposited during the period) deposited for the same period is not less than 200 percent of the greatest adjusted aggregate debt service for all senior bonds.

Bonds aggregating approximately $441,390,000 are subject to redemption prior to their maturity dates, at the option of the Transportation Board, in whole at any time, or in part at various interest payment dates. These bonds may be redeemed at various redemption prices ranging from 100 percent to 102 percent of principal, plus accrued interest to the date fixed for redemption. Bonds aggregating approximately $838,630,000 are not subject to redemption prior to maturity.

The Bond Resolution adopted by the Transportation Board on July 25, 1986, established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Transportation Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The policies (aggregating $70,063,698 at June 30, 1998) were issued by Financial Guaranty Insurance Company, except for the 1989 Series A Subordinated Bonds and the 1993 Series Subordinated Bonds policies, which were issued by Municipal Bond Investors Assurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies which were issued by AMBAC Indemnity Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 1998, the carrying basis was $50,135,705. At maturity on July 1, 2005, the carrying basis will equal the maturity amount of $73,000,000.

NOTE 9. GENERAL LONG-TERM DEBT (Continued)

Future debt service requirements of bonds outstanding at June 30, 1998, are as follows:

Fiscal	Highway Revenue Bonds		Transportation Excise Tax Revenue Bonds		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest
1999	$ 43,805,000	$ 31,090,116	$ 87,665,000	$ 35,625,180	$ 131,470,000	$ 66,715,296
2000	45,730,000	28,672,710	92,500,000	30,812,511	138,230,000	59,485,221
2001	47,665,000	26,049,996	97,770,000	25,554,193	145,435,000	51,604,189
2002	33,340,000	23,279,078	102,820,000	20,019,253	136,160,000	43,298,331
2003	34,950,000	21,656,768	104,270,000	15,349,893	139,220,000	37,006,661
2004	37,090,000	19,516,190	110,060,000	11,083,160	147,150,000	30,599,350
2005	39,305,000	17,306,544	116,785,000	6,147,226	156,090,000	23,453,770
2006	41,505,000	15,102,204	-	-	41,505,000	15,102,204
2007	43,840,000	12,770,796	-	-	43,840,000	12,770,796
2008	46,035,000	10,575,076	-	-	46,035,000	10,575,076
2009	48,680,000	7,936,164	-	-	48,680,000	7,936,164
2010	51,685,000	5,458,950	-	-	51,685,000	5,458,950
2011	54,520,000	2,624,700	-	-	54,520,000	2,624,700
	$ 568,150,000	$ 222,039,292	$ 711,870,000	$ 144,591,416	$ 1,280,020,000	$ 366,630,708

Refunding bonds

In prior years, the Transportation Board refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal 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 the defeased bonds are not reflected in the financial statements of the Department.

NOTE 9. GENERAL LONG-TERM DEBT (Continued)

Refunded bonds of the Department outstanding at June 30, 1998, are as follows:

Original Issue Date	Type	Balance Outstanding
1986	Highway Revenue Bonds	$ 94,360,000
1987	Highway Revenue Bonds	41,545,000
1990	Highway Revenue Bonds	141,260,000
1991 Series A, Subordinated	Highway Revenue Bonds	149,235,000
1992 Series B, Subordinated	Highway Revenue Bonds	52,350,000
1986 Series A	Transportation Excise Tax Revenue Bonds	60,220,000
1987 Series A	Transportation Excise Tax Revenue Bonds	62,915,000
1988 Series A:		
Current Interest	Transportation Excise Tax Revenue Bonds	96,290,000
Capital Appreciation	Transportation Excise Tax Revenue Bonds	7,764,354
1989 Series A, Subordinated	Transportation Excise Tax Revenue Bonds	126,465,000
1991 Series A	Transportation Excise Tax Revenue Bonds	19,645,000
Total refunded bonds outstanding		**$ 852,049,354**

Contracts and capital leases payable

Data processing and other equipment totaling $624,758 acquired through purchase contracts are recorded in the General Fixed Assets Account Group. Payments are due in monthly installments through February 2003 with interest rates ranging from 5.19 percent to 12.41 percent.

In November 1995, the Department entered into a capital lease to acquire a new central processing unit for $4.1 million. The terms of the lease provide for a three year lease with a two year lease extension. The lease obligation is recorded at the present value of minimum lease payments and is reduced by the principal portion of the monthly installments paid. At June 30, 1998, remaining annual fiscal payments for the contracts and capital lease payable were as follows:

1999	$ 974,933
2000	681,520
2001	266,978
2002	53,138
2003	36,985
Total payments	2,013,554
Less interest	<104,889>
Total outstanding	**$ 1,908,665**

NOTE 10. OPERATING LEASES

The Department leases data processing and other equipment and certain facilities from various lessors. The principal leases are for a one-year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the year ended June 30, 1998, approximated $2,418,000.

Various funds also rent mobile equipment from the Equipment Revolving Fund on an as-needed basis. Rental expense/expenditure for mobile equipment for the year ended June 30, 1998, is as follows:

State Highway Fund	$ 24,113,127
Arizona Highways Magazine Fund	28,298
Other	105,217
Total operating leases	**$ 24,246,642**

NOTE 11. RETIREMENT PLANS

The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer defined benefit pension plan, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by State statute. Substantially all employees of the Department are covered by the Plan.

The Arizona State Retirement System (System) issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P. O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Arizona Revised Statues provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the year ended June 30, 1998, was computed to be 3.54 percent of covered payroll by an actuarial valuation performed at June 30, 1996. Contributions for the years ended June 30, 1996, 1997 and 1998 were $4,550,515, $4,600,690 and $4,668,911, respectively for both the employees and the Department, which were equal to the required contributions for each year.

NOTE 12. 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 andactions 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.

NOTE 12. CONTINGENT LIABILITIES (Continued)

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.

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's fund types.

Certain customers have made claims with respect to claiming refunds for prior year taxes paid. The Department is in the process of determining the nature and extent of these claims. No litigation has commenced at this time, however, if the Department does not prevail, the amount of refunds could be significant.

Additionally, an outside contractor has sued the State for $3.5 million in unpaid billings plus future profits related to services provided in connection with the Enterprise project. The State has filed a counterclaim for $100 million, most of which represents increased tax revenue that was expected to result from the Enterprise project.

Commitments under construction contracts

The Department's outstanding commitments under contruction contracts were approximately $462,205,000 at June 30, 1998.

NOTE 13. Year 2000 (Unaudited)

The Department is working to resolve the potential impact of the Year 2000 issue as it relates to the ability of the Department's computerized information systems to accurately process information that may be date-sensitive. Any of the Department's programs that recognize a date using "00" as the year 1900 rather than the year 2000 could result in errors or system failures. The Department utilizes a number of computer programs across its entire operations. To address its Year 2000 issue, the Department has determined the following stages are necessary to complete its Year 2000 project: awareness, assessment, remediation, and validation/testing. The Department has completed the awareness and assessment stages and is close to completing the remediation stage. Most of the financial systems have completed the validation/testing stage. The Department presently believes that, with modifications to existing software and conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems.

The Department currently estimates the costs of becoming Year 2000 compliant will not be material and will not have a material adverse financial risk. To assure that this does not occur, the Department plans to devote all resources required to resolve any significant Year 2000 issue in a timely manner. The costs of the project and the timing of the Department's completion of its Year 2000 project are based on management's best estimates, which are derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be

NOTE 13. Year 2000 (Unaudited – Continued)

no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties

NOTE 14. SUBSEQUENT EVENT

On July 16, 1998, the Department issued $174,545,000 in Transportation Excise Tax Revenue Bonds (1998 Series A) to (i) advance refund portions of the Transportation Board's outstanding Subordinated Bonds, (ii) finance the acquisition of land and the design and construction of certain controlled access highways within Maricopa County, Arizona and (iii) pay costs of issuing the 1998 Series Bonds. The 1998 Series A Bonds are due July 1, 1999 through 2005.

Net proceeds totaled $177,826,259 (after receipt of $4,359,207 of reoffering premium and payment of $1,077,948 in underwriting fees). Net proceeds of $28,713,866 were used to advance refund $27,390,000 of the 1989 Series A, Subordinated Transportation Excise Tax Revenue Bonds (Refunded Bonds). State and Local Government securities were purchased with these proceeds and were deposited in an irrevocable trust with an escrow agent to provide for the partial future debt service payments on the above-referenced bonds. As a result, the Refunded Bonds will be considered defeased and the liability for these bonds will be removed from the General Long-Term Debt Account Group. The Department advance refunded the Refunded Bonds to reduce its total debt service payments over the next three years by $737,678 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $711,337.

APPENDIX B

FORM OF BOND COUNSEL OPINION

[Date of Initial Delivery]

To: Arizona Transportation Board
Phoenix, Arizona

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Arizona Transportation Board (the "Board") of its $151,080,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Highway Revenue Bonds, Series 1999 (the "Series 1999 Bonds"), dated as of October 15, 1999. The Series 1999 Bonds are issued under Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the "Act"), and pursuant to a resolution adopted by the Board on October 15, 1999, which supplemented the Resolution adopted on May 1, 1980, as supplemented to date (collectively, the "Resolutions"). The documents in the Transcript include a certified copy of the Resolutions. All capitalized terms not defined herein shall have the meanings set forth in the Resolutions. We have also examined a conformed copy of a Series 1999 Bond of the first maturity.

Based on this examination, we are of the opinion that, under existing law:

1. The Series 1999 Bonds and the Resolutions are valid, legal, binding and enforceable in accordance with their respective terms, subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Series 1999 Bonds constitute special obligations of the Board, and the principal of, premium, if any, and interest (collectively, "debt service") on the Series 1999 Bonds, together with debt service on the Outstanding Senior Bonds and on any Additional Senior Bonds that may subsequently be issued under the Resolutions on a parity with the Outstanding Senior Bonds and the Series 1999 Bonds (collectively, "Senior Bonds"), as provided in the Resolutions, are payable from and secured solely by the moneys paid into the State Highway Fund that constitute Pledged Revenues (as defined in the Resolutions). The Series 1999 Bonds and the payment of debt service thereon are not secured by an obligation or pledge of any moneys raised by taxation other than the Pledged Revenues, and the Series 1999 Bonds do not represent or constitute a general obligation or a pledge of the full faith and credit of the Board or the State of Arizona.

3. The Resolutions create 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. The interest on the Series 1999 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Series 1999 Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Series 1999 Bonds.

Under the Code, portions of the interest earned on the Series 1999 Bonds by certain corporations (as defined for federal income tax purposes) may be subject to a corporate alternative minimum tax and interest on the Series 1999 Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinions, we have assumed and relied upon compliance with the Board's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Board contained in the Transcript. The accuracy of those representations and certifications, and the compliance by the Board with those covenants, may be necessary for the interest on the Series 1999 Bonds to be and to remain excluded from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain of those covenants subsequent to issuance of the Series 1999 Bonds could cause interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 1999 Bonds.

Respectfully submitted,

[To be signed "Squire, Sanders & Dempsey L.L.P."]

APPENDIX C

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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APPENDIX C

CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING ("Undertaking"), dated as of October 15, 1999, is executed and delivered by the TRANSPORTATION BOARD OF THE STATE OF ARIZONA (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 $151,080,000 Highway Revenue Bonds, Series 1999, dated as of October 15, 1999 (the "Bonds").

The Board and the Department each covenants and agrees as follows:

Section 1. Purpose of this Undertaking. This Undertaking is executed and delivered by the Issuer, as of the date set forth above, in accordance with the Rule (defined below) for the benefit of the beneficial owners of the 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 the type of financial information and operating data set forth under the heading "REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues" in the final Official Statement, dated October 29, 1999, for the Bonds.

"*Audited Financial Statements*" means the audited financial statements of the Board of the Department, prepared in conformity with generally accepted accounting principles.

"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, 2000.

"Fiscal Year" means each fiscal year of the Department.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIRs" means, as of any date, any Nationally Recognized Municipal Securities Information Repository then recognized by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Undertaking, the NRMSIRs are:

Bloomberg Municipal Repositories
P. O. Box 840
Princeton, NJ 08542-0840
Phone: (609) 279-3225
Fax: (609) 279-5962
Internet: Munis@Bloomberg.com

Thomson NRMSIR
Attn: Municipal Disclosure
3rd Floor
395 Hudson Street
New York, NY 10014
Phone: (212) 807-5001
Fax: (212) 989-2078
Internet: Disclosure@muller.com

Standard & Poor's
J.J. Kenny Repository
55 Water Street, 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975

DPC Data, Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Internet: nrmsir@dpcdata.com

"Rule" means Rule 15c2-12, as adopted by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"SID" means any public or private repository designated by the State as the state repository and recognized as such by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Agreement, no SID exists within the State.

"Specified Event" means the occurrence of any of the events with respect to the Bonds set forth in Exhibit I hereto.

"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 Bonds. The Issuer hereby agrees to provide or cause to be provided to each NRMSIR and to any SID:

(a) Annual Information for the preceding Fiscal Year and unaudited financial statements of the Board 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.

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 such entities receive the information on or before the date specified.

Section 4. Notice of Material Specified Events and Failure to Provide Annual Information. The Issuer agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB, and to any SID:

(a) notice of the occurrence of any Specified Event with respect to the Bonds, if that Specified Event is material; and

(b) notice of its failure to provide or cause to be provided the Annual Information on or prior to the applicable Filing Date.

Notwithstanding the foregoing, (i) notice of Specified Events consisting of optional calls or defeasances need not be given under this subsection any earlier than the notice of the underlying event is given to the registered owners of the affected Bonds pursuant to the terms of the Bonds, and (ii) notice of the occurrence of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, is not required if the terms of the redemption under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Bonds will be redeemed in the case of a partial redemption (such as mandatory sinking fund redemption).

If the responsible officials of the Issuer become aware of the occurrence of a Specified Event, the Issuer shall diligently proceed to determine whether that Specified Event is material and, if so, the Issuer shall prepare and provide or cause to be provided notice of the occurrence of that material Specified Event in accordance with this Section.

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 material 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 Bonds. Any beneficial owner of a Bond may enforce the Issuer's obligation to provide or cause to be provided a filing that is due to each NRMSIR and any SID in accordance with Section 3 or to each NRMSIR or to the MSRB and any SID in accordance with Section 4 hereof by commencing an action in a court of competent jurisdiction 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 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 Bonds under the Bond Resolution (as defined in the Bonds).

Section 7. Amendments; Waiver. Notwithstanding any other provision of this Undertaking, the Issuer may amend this Undertaking, and any provision of this Undertaking may be waived, if such amendment or waiver is supported by a legal opinion, addressed to the Issuer, of an independent counsel who is expert in federal securities laws selected by the Department, to the effect that such amendment or waiver would not, in and of itself, cause this Undertaking to violate the Rule. The Annual Information prepared immediately following any amendment or waiver shall explain the reason for the amendment or waiver and the impact of the change in the type of information being provided.

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

TRANSPORTATION BOARD OF THE STATE OF ARIZONA

By ______________________________

Its Chairperson

ARIZONA DEPARTMENT OF TRANSPORTATION

By ______________________________

Its Director

EXHIBIT I

SPECIFIED EVENTS

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;*
4. Unscheduled draws on credit enhancements reflecting financial difficulties;*
5. Substitution of credit or liquidity providers, or their failure to perform;*
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities; and
11. Rating changes.

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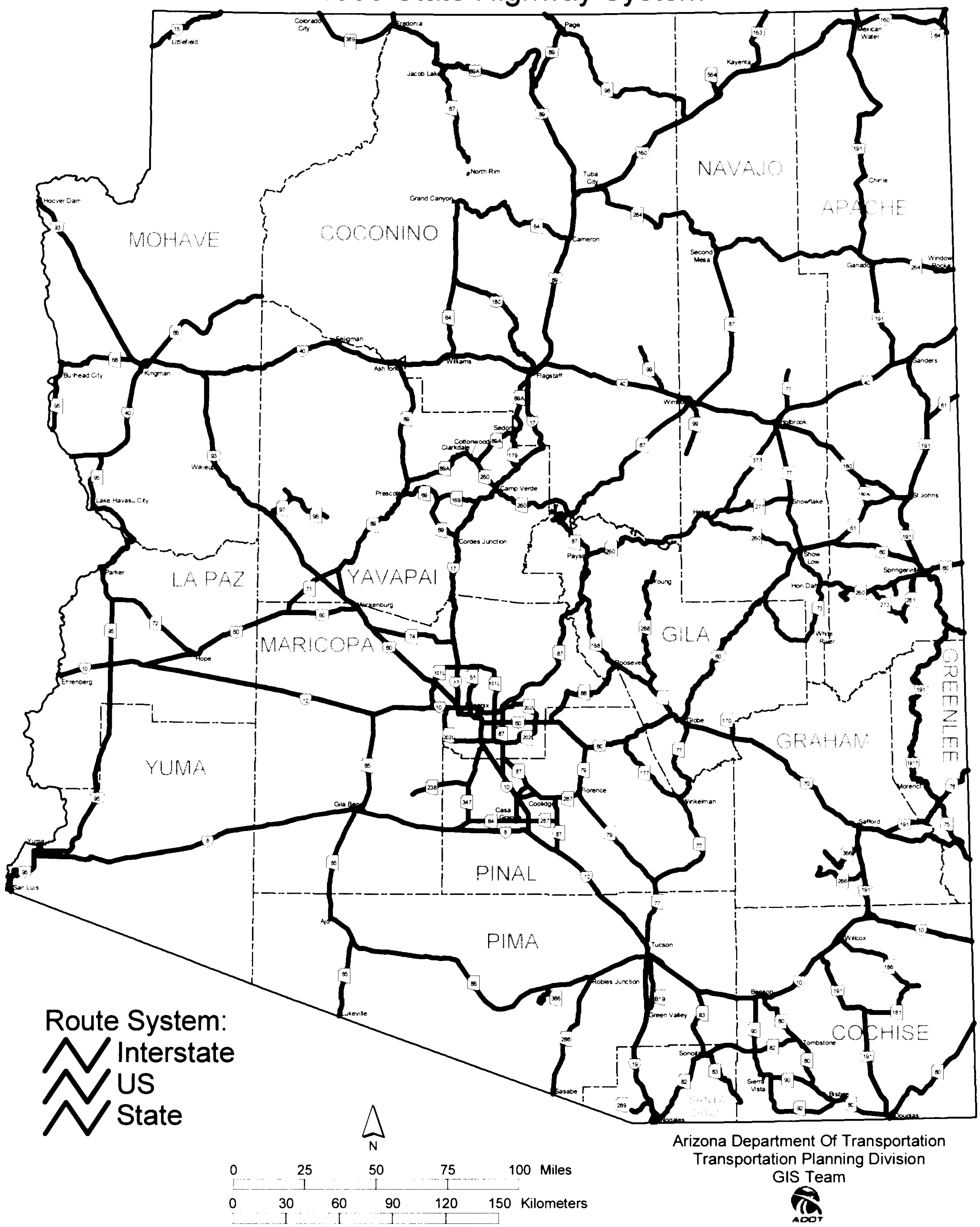
* The Issuer has not obtained or provided, and does not expect to obtain or provide, any credit enhancement or liquidity providers for the Bonds.

1999 State Highway System



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